Democratic Services
Guildhall, High Street, Bath BA1 5AW
Telephone: (01225) 477000 *main switchboard*
Direct Lines - Tel: 01225 395090
Web-site - http://www.bathnes.gov.uk

19 September 2014
Democratic_Services@bathnes.gov.uk

To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: Paul Fox (Chair), Patrick Anketell-Jones, Lisa Brett, Charles Gerrish (Vice-Chair) and Ian Gilchrist

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), William Liew (HFE Employers), Shirley Marsh (Independent Member), Steve Paines (Trade Unions) and Councillor Steve Pearce (Bristol City Council)

Co-opted Non-voting Members: Clive Fricker (Town and Parish Councils), Rowena Hayward (Trade Unions) and Richard Orton (Trade Unions)

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 26th September, 2014

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 26th September, 2014** at **2.00 pm** in the **Council Chamber - Guildhall, Bath**

<u>Members are reminded that the meeting will be preceded by a workshop in the Council Chamber commencing at 12 noon. A buffet lunch for Members will be served at 1.15pm.</u>

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

1. **Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Guildhall Bath (during normal office hours).

2. **Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

   The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

3. **Recording at Meetings**:-

   The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

   Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

   To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator

   The Council will broadcast the images and sound live via the internet www.bathnes.gov.uk/webcast An archived recording of the proceedings will also be available for viewing after the meeting. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

   Appendices to reports are available for inspection as follows:-

Public Access points - Riverside - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

5. **Attendance Register:** Members should sign the Register which will be circulated at the meeting.

6. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.

7. **Emergency Evacuation Procedure**

   When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

   Arrangements are in place for the safe evacuation of disabled people.

Avon Pension Fund Committee - Friday, 26th September, 2014

at 2.00 pm in the Council Chamber - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

   The Chair will ask the Committee Administrator to draw attention to the emergency evacuation procedure as set out under Note 8.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

   Members who have an interest to declare are asked to state:

   (a) the Item No in which they have an interest;
   (b) the nature of the interest; and
   (c) whether the interest is personal or personal and prejudicial.

   Any Member who is unsure about the above should seek the advice of the Monitoring Officer prior to the meeting in order to expedite matters at the meeting itself.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

   To deal with any petitions or questions from Councillors and where appropriate co-opted and added members.

7. MINUTES: 27 JUNE 2014 (Pages 7 - 14)

8. AUDITED STATEMENT OF ACCOUNTS 2013/14 AND GOVERNANCE REPORT (Pages 15 - 122)

9. PENSION BOARDS (Pages 123 - 150)

10. TERMINATION POLICY (Pages 151 - 158)

11. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 159 - 184)

    Before discussing Appendices 2, 3, 4 and 5 to this item, Members are invited to pass the following resolution:

    Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee **RESOLVES,** in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, that the public be excluded from the meeting during the discussion of Appendices 2, 3, 4 and 5 to this item, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

12. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 JUNE 2014 (INCLUDING REVIEW OF INTERNAL CONTROL REPORTS) (Pages 185 - 236)

Before discussing Appendix 3 to this item, Members are invited to pass the following resolution:

Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee **RESOLVES,** in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, that the public be excluded from the meeting during the discussion of Appendix 3 to this item, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

13. PENSION FUND ADMINISTRATION, BUDGET MONITORING, PERFORMANCE INDICATORS FOR QUARTER ENDING 30 JUNE 2014 AND RISK REGISTER ACTION PLAN (Pages 237 - 268)

14. WORKPLANS (Pages 269 - 280)

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

Protocol for Decision-making

Guidance for Members when making decisions

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations
- Risk Management considerations
- Crime and Disorder considerations

- Sustainability considerations
- Natural Environment considerations
- Planning Act 2008 considerations
- Human Rights Act 1998 considerations
- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council's Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 27th June, 2014, 2.00 pm

Bath and North East Somerset Councillors: Charles Gerrish (Vice-Chair in the Chair), Patrick Anketell-Jones, Lisa Brett and Ian Gilchrist

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), William Liew (HFE Employers), Shirley Marsh (Independent Member) and Councillor Steve Pearce (Bristol City Council)

Co-opted Non-voting Members: Clive Fricker (Town and Parish Councils) and Richard Orton (Trade Unions)

Advisors: Tasnim Choudhury (Grant Thornton) and John Finch (JLT Benefit Solutions)

Also in attendance: Tim Richens (Divisional Director- Business Support), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Steve Makin (Communication and Public Relations Manager), Martin Phillips (Finance & Systems Manager (Pensions)) and Alan South (Technical and Development Manager)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Paul Fox.

Apologies were also received from Tony Earnshaw, the Independent Investment Advisor.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

5 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 28 MARCH 2014

These were approved as a correct record and signed by the Chair.

8 ROLES AND RESPONSIBILITIES OF THE COMMITTEE

The Investments Manager presented the report. She said that a DCLG consultation document about the requirement to establish a local pensions board had been received. Pensions Officers would be meeting the B&NES Monitoring Officer about the establishment of the pension board in July. A workshop about it would be held before the next meeting in September and a recommendation would be put to the November meeting of B&NES Council.

A Member noted that “education bodies” at the top of agenda page 18 should be “further and higher education bodies”.

RESOLVED

1. To note:

    a. the roles and responsibilities of the members, advisors and officers;

    b. the Terms of Reference of the Committee and Investment Panel;

    c. the requirement to establish a local pensions board.

2. To approve the Governance Compliance Statement.

3. To agree that Councillor Patrick Anketell-Jones, Ann Berresford, Councillor Mary Blatchford, Councillor Ian Gilchrist, William Liew will remain Members of the Investment Panel.

4. To agree that Councillor Mike Drew will remain the Committee’s nominee to the Local Authority Pension Fund Forum (LAPFF).

The Investments Manager advised that any Member could attend meetings of LAPFF. Councillor Pearce requested to be notified of the dates of meetings.

9 APPROVAL OF DRAFT ACCOUNTS 2013/14

The Finance & Systems Manager (Pensions) presented the draft accounts. He gave details of several small amendments made to the draft accounts since the publication of the agenda. He said that the draft accounts had to be signed off by the

Section 151 Officer by 30 June and that the final accounts would be laid before the Committee for approval at its meeting on 26th September.

A Member noted a large increase in transfers in recorded on page 35. The Finance & Systems Manager (Pensions) explained that this was the result of the merger of Filton and Stroud Colleges into South Gloucestershire and Stroud College. The Investments Manager explained that the figures given for transfers in were the actuarial values.

A Member noted that the net return on investment was half that of the previous year. The Investments Manager explained that this was because of a lower rise in the value of investments; the previous year the markets had been up strongly, whereas in 2013/14 they had only risen by 6%.

Ms Choudhury gave a presentation on the external audit plan 2014.

RESOLVED to note:

1. the Draft Statement of Accounts for the year to 31 March 2014 for audit;

2. the Audit Plan for the accounts for the year ended 31 March 2014.

10 DCLG CONSULTATION ON COLLABORATION, COST SAVINGS AND EFFICIENCIES

The Investments Manager presented the report. She said that the Fund's response to the consultation emphasised that costs could not be considered in isolation apart from risk and investment objectives. The key points of the response were summarised in section 5 of the report. The deadline for submission of the response was 11 July 2014.

The following points were made in discussion:

- the use of joint investment vehicles would result in lower administrative costs
- restructuring might not lead to the savings envisaged by the Government and in any case would take some time to realise
- there were other ways of saving money apart from structural reform; the response should give examples of other ways of reducing costs
- the main issue was liabilities not costs; a 1% increase in bond yields would result in a 20% reduction in liabilities
- higher returns resulted in higher investment costs because of the contracts that funds had with most investment managers
- there was a need for hard evidence and that a better result would be achieved if consultees provided the Government with as much detailed evidence as possible

RESOLVED to approve the draft response the draft response to the consultation *LGPS: opportunities for collaboration, cost savings and efficiencies* subject to the Committee's comments.

11 ANNUAL RESPONSIBLE INVESTING REPORT

The Investments Manager presented the report and introduced Mr Paul Hewitt of Manifest.

Mr Hewitt gave a presentation on the monitoring of proxy voting. A Member asked how investment managers expressed their disapproval of companies which had incurred fines for breaches of financial regulations. Mr Hewitt suggested this could be like shutting the door after the horse had bolted. The key issue was whether there was evidence of malfeasance or lack of internal control. If there was, investment managers would have to consider whether they wished to continue to invest in that company. A Member asked how we could be sure that our managers were genuinely independent, given the mobility of directors. Mr Hewitt replied that investment managers had to operate within a professional framework. The Chair noted that Manifest could only report on resolutions actually put to the vote; it could be difficult for shareholders to group together to put a resolution. A Member suggested that this was the core problem: many issues never actually got to a vote. A Member said that the Panel's meetings with managers gave an opportunity for their approach to corporate governance to be discussed with them.

RESOLVED to approve the annual Responsible Investment Report for 2013/14.

12 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report. He informed the Committee that at its last meeting the Panel had begun the review of the hedge fund portfolio and had met two managers. No concerns about the managers had been identified.

RESOLVED to note:

1. the draft minutes of the Investment Panel meetings held on 4 June 2014.

2. the recommendations and decisions made by the Panel since the last quarterly activity report, as set out in 4.1 of the report.

13 DISCRETIONS POLICY

The Technical and Compliance Manager presented the report. He explained that it was a requirement under the LGPS regulations 2014 for the Fund to have and to publish discretionary policies and procedures in relation to specified matters. The proposed discretionary policies and procedures were set out in Appendix 1. It was also proposed to maintain the current policy on abatement of pension, as explained in section 5 of the report.

A Member asked whether discretions had been exercised in the past. The Divisional Director – Business Support said that it had, but cases were few and the sums were small. A Member suggested that an annual report on discretions should be presented to the Committee. The Technical and Compliance Manager said that he would take this suggestion on board.

RESOLVED to agree:

1. the three proposed discretionary policies and the delegated powers as set out in Appendix 1;

2. to maintain the current policy on abatement pending a future review;

3. to agree that a minimum regular contribution level of £10 per month be set for purchasing addition pension under Regulation 16, LGPS Regulations 2013.

14 APPROVAL OF COMMITTEE'S ANNUAL REPORT TO COUNCIL

It was noted that "education bodies" under the heading "Committee Membership" on page 1 should be "further and higher education bodies".

RESOLVED to approve the 2014 Annual Report to Bath and North East Somerset Council.

15 REVIEW OF INVESTMENT FOR YEAR ENDING 31 MARCH 2014

The Assistant Investments Manager presented the report and highlighted the key figures. The funding level had increased from 78% to 84% since March 2013 because of an increase in gilt yields and investment returns. He reported that two managers (Stenham and TT) previously rated amber had been upgraded to green. Several minor changes were proposed to the Statement of Investment Principles as set out on a separate sheet. He drew attention to the changed format of the JLT investment report, which for this meeting included an annual review which focussed on whether the revised strategic investment strategy had been successful.

Mr Finch presented the JLT investment report. He drew attention to one-year attribution table on agenda page 251, which demonstrated that the return of 5.8% would have been 4.5% under passive management and to the three-year attribution table on page 252, which showed that the Fund had outperformed by 1.3% compared with what the return would have been under passive management.

RESOLVED

1. to note the information set out in the report;

2. to note LAPFF Quarterly Engagement Report at Appendix 4;

3. to agree minor updates to the Statement of Investment Principles as explained in Section 10.

16 PENSION FUND ADMINISTRATION - BUDGET OUTTURN 2013/14, PERFORMANCE INDICATORS AND RISK REGISTER ACTION PLAN

The Finance & Systems Manager (Pensions) presented the budget report. Net expenditure had been £1.542m under budget and directly-controlled administration expenditure had been £347,000 under budget for the reasons set out in paragraph 4.2 of the report. There had been an underspend on communications because of the Government's delay in bringing the new scheme regulations, but the costs of additional communications this year could be contained through increased use of electronic communication.

A Member asked about late payers. Officers explained that some small employers were filling in forms incorrectly and continuing to calculate contributions at the old rate.

The Communication and Public Relations Manager presented the performance report. There had been a 48% increase in workload because of enquiries relating to the new LGPS scheme and the ongoing severance programme at Bristol City Council. The roadshow programme had continued, and 1,500 members had attended by the end of May. A number of training events had also been held. The staff time consumed by roadshows and training events would impact on performance. He drew attention to the progress towards full electronic self-service (ESS) given in section 10 of the report. 72% of the Fund's membership was now covered by ESS.

RESOLVED to note:

1. administration and management expenditure incurred for 12 months to 31 March 2014;
2. Performance Indicators & Customer Satisfaction feedback for 3 months to 30 April 2014;
3. Summary Performance Report for period from 1 April 2011 to 30 April 2014;
4. member roadshow events and employer training sessions undertaken to communicate the New LGPS 2014, including sample customer feedback;
5. the Risk Register.

17 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 3.55 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

This page is intentionally left blank

Bath & North East Somerset Council		
MEETING:	Avon Pension Fund Committee	
MEETING DATE:	26 September 2014	**AGENDA ITEM NUMBER**
TITLE:	**Audited Statement of Accounts, the Annual Governance Report & Annual Report – 2013/14**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – Audited Statement of Accounts 2013/14** **Appendix 2 – Annual Governance Report 2013/14** **Appendix 3 – Draft Avon Pension Fund Annual Report 2013/14**		

1 THE ISSUE

1.1 The Audited Statement of Accounts and the Annual Governance Report are now presented to be noted.

1.2 The Annual Governance Report summarises the results of the Grant Thornton audit of the 2013/14 accounts. It includes the issues arising from the audit of the financial statements and those issues which they are formally required to report under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA (UK&I) 260) – "Communication of audit matters with those charged with governance".

1.3 The Corporate Audit Committee was recommended to approve the final audited Statement of Accounts for 2013/14 and note the issues raised in the Governance reports at its meeting on 25 September 2014.

1.4 The Fund's Annual Report 2013/14 is a statutory document which the Auditor reviews as part of the Fund's audit. The Committee is asked to approve the draft report on the basis that no substantive changes will be made following Committee approval.

2 RECOMMENDATION

That the Committee:

2.1 Notes the final audited Statement of Accounts for 2013/14.

2.2 Notes the issues raised in the Annual Governance Report.

2.3 Approves the draft Avon Pension Fund Annual Report 2013/14.

3 FINANCIAL IMPLICATIONS

3.1 The Pension Fund's Statement of Accounts shows the Total Net Assets at 31 March 2014 as £3.346 billion.

4 THE REPORT

4.1 The Committee noted the draft Statement of Accounts 2013/14 at its meeting of 27 June 2014. There have not been any subsequent changes to the Statement of Accounts.

4.2 The 2013/14 Statement of Accounts was prepared on the same basis as the Statement of Accounts for 2012/13. The only significant difference is the inclusion of a provision of £4,373,000 for investment manager fees that have been accrued but are subject to phased payment or not due to be paid until the realisation of the related assets. These fees remain subject to variation as a result of future performance. £1,127,000 of these performance fees relate to 2013/14 and £3,246,000 relate to previous years.

4.3 The Annual Governance report is in Appendix 2.

4.4 The draft Avon Pension Fund Annual Report is in Appendix 3. Under the Local Government Pension Scheme (Administration) Regulations 2008 the Fund is required to publish a report annually by 1 December. As this is before the next Committee meeting, the Committee are asked to approve the 2013/14 report in draft form. No substantive changes are expected to be made following the Committee's approval. The report will be published ahead of the 1 December deadline. The report will be published on the Fund's website.

4.5 The external auditor has reviewed the annual report as part of the audit.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment and funding strategy that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The work in relation to this year's audit has not identified any new corporate risks or significant changes.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary

7 OTHER OPTIONS CONSIDERED

7.1 None as this report is a statutory requirement.

8 CONSULTATION

8.1 Consultation has been carried out with the Section 151 Finance Officer.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 No decision as this is a statutory requirement.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Martin Phillips, Finance and Systems Manager (Pensions) (01225) 395259
Background papers	Pension Fund Committee 27 June 2014: Draft Statement of Accounts
Please contact the report author if you need to access this report in an alternative format	

This page is intentionally left blank

APPENDIX 1

PENSION FUND ACCOUNTS 2013/14

Statement of Accounts

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2013 to 31 March 2014.

1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2013/14 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 The accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice.

1.4 The accounts are set out in the following order:

Statement of Accounting Policies which explains the basis of the figures in the accounts.

Fund Account which discloses the size and nature of financial additions to and withdrawals from the Fund during the accounting period and reconciles the movements in the net assets to the Fund Account.

Net Assets Statement which discloses the size and disposition of the net assets of the Fund at the end of the accounting period.

Notes to the Accounts which give supporting details and analysis concerning the contents of the accounts, together with information on the establishment of the Fund, its membership and actuarial position.

Actuarial Valuation

1.5 As required by the Local Government Pension Scheme Regulations 2008 an actuarial valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £3,146 million. The Actuary estimated that the value of the Fund was sufficient to meet 78% of its expected future liabilities of £4,023 million in respect of service completed to 31 March 2013.

1.6 The deficit recovery period for the Fund overall is 20 years.

1.7 The 2013 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions used to set employers' contributions, are set out in the table below:

	Past service liabilities	Future service liabilities
Rate of Discount	4.8% per annum	5.6% per annum
Rate of pensionable pay inflation	4.1% per annum	4.1% per annum
Rate of price inflation	2.6% per annum	2.6% per annum

1.8 The 2013 triennial valuation was completed during 2013/14 using market prices and membership data as at 31 March 2013. The 2013 valuation set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2014.

1.9 The Actuary has estimated that the funding level as at 31 March 2014 has risen to 84% from 78% at 31 March 2013. This rise in the funding level is due to the rise in real yields since the valuation. Investment returns have also positively contributed to the improvement in the funding level. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields, so as gilt yields rise, the value of these liabilities falls.

1.10 Note 17 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS19 using the assumptions and methodology of IAS 19. The discount rate referenced for IAS19 is the Corporate Bond yield. The discount rate used for the Actuarial Valuation references the Fund's investment strategy.

1.11 The Fund's Funding Strategy Statement can be found on the Fund's website www.avonpensionfund.org.uk

Statement of Investment Principles

1.12 The Fund's Statement of Investment Principles as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 can be found on the Fund's website www.avonpensionfund.org.uk or supplied on request from Liz Woodyard, Investments Manager.

Statement of Accounting Policies

Basis of Preparation

2.1 Except where otherwise stated, the accounts have been prepared on an accruals basis, i.e. income and expenditure is recognised as it is earned or incurred, not as it is received or paid. The accounts have been prepared on a going concern basis.

Investments

2.2 Investments are shown in the accounts at market value, which has been determined as follows:

i. Quoted Securities have been valued at 31 March 2014 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation.

ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.

iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2014.

iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2014.
v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
vi. Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
viii. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
ix. The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

2.3 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 as amended.

Benefits, Refunds of Contributions and Cash Transfer Values

2.4 Benefits payable and refunds of contributions have been brought into the accounts as they fall due.

2.5 Cash Transfer Values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. Cash Transfer Values have been included in the accounts on the basis of the cheque payment date or "Bath & North East Somerset Council cash office received" date. Accruals are only made when it is certain that a transfer is to take place.

2.6 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year.

Investment Income

2.7 Dividends and interest have been accounted for on an accruals basis. Some of the income on pooled investments is accumulated and reflected in the valuation of the units. Some of the income on pooled investments (mainly property) is distributed.

Investment Management & Administration

2.8 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit Bath & North East Somerset Council to charge administration costs to the Fund. A proportion of relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business.

2.9 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. In 2013/14 a provision has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

2.10 The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to UK income tax on investment income or to capital gains tax. As Bath & North East Somerset Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. For taxation of overseas investment income please see note 3 iv. in the Notes to the Accounts.

Use of Accounting Estimates

2.11 The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates.

A number of Group Transfers in to the Fund and out of the Fund are subject to final agreement by the actuary. Estimated values have been accrued as debtors and creditors (see 2.5 and note 18).

Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 17) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 25d.

Events After the Balance Sheet Date

2.12 The Statement of Accounts is adjusted to reflect events that occur after the end of the reporting period that provide evidence of conditions that existed at the end of the reporting period, should they occur. The Statement of Accounts is not adjusted to reflect events that are indicative of conditions that arose after the reporting period, but where material, disclosure is made in the notes of the nature and estimated financial effect of such events.

Financial Instruments

2.13 Financial Assets and Liabilities are recognised on the Balance Sheet when the Fund becomes a party to the contractual provisions of a financial instrument and are measured at fair value or amortised cost.

Fund Account
For the Year Ended 31 March 2014

	Notes	2013/14	2012/13
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	**143,276**	134,858
Transfers In		**18,776**	7,255
Other Income	5	**442**	500
		162,494	142,613
Benefits Payable	6	**149,791**	136,655
Payments to and on account of Leavers	7	**6,868**	5,173
Administrative Expenses	8	**2,883**	2,585
		159,542	144,413
Net Additions from dealings with members		**2,952**	(1,800)
Returns on Investments			
Investment Income	10	**29,092**	29,025
Profits and losses on disposal of investments and change in value of investments.	11	**185,124**	362,285
Investment Management Expenses	9	**(11,682)**	(10,148)
Fund Manager Performance Fees	9	**(4,931)**	-
Net Returns on Investments		**197,603**	381,162
Net Increase in the net assets available for benefits during the year		**200,555**	379,362
Net Assets of the Fund			
At 1 April		**3,145,656**	2,766,294
At 31 March		**3,346,211**	3,145,656

Net Assets Statement at 31 March 2014

	Note	31 March 2014 £'000	%	31 March 2013 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		**92,694**	**2.8**	109,674	3.5
Equities		**542,777**	**16.2**	495,980	15.8
Diversified Growth Funds		**314,340**	**9.4**	-	0.0
Index Linked securities : Public Sector		**189,176**	**5.7**	209,876	6.7
Pooled investment vehicles :-					
- Property : Unit Trusts		**102,865**	**3.1**	78,749	2.5
: Unitised Insurance Policies		**46,063**	**1.4**	47,863	1.5
: Other Managed Funds		**112,058**	**3.3**	95,729	3.0
Property Pooled Investment Vehicles		**260,986**		222,341	
- Non Property : Unitised Insurance Policies		**778,501**	**23.2**	811,938	25.8
: Other Managed Funds		**1,051,084**	**31.4**	1,203,448	38.3
Non Property Pooled Investment Vehicles		**1,829,585**		2,015,386	
Cash deposits		**85,023**	**2.5**	85,895	2.7
Other Investment balances		**9,361**	**0.3**	12,864	0.4
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		**12,199**	**0.4**	(2,912)	(0.1)
Derivative Contracts: FTSE Futures		**162**	**0.0**	(226)	0.0
Other Investment balances		**(5,097)**	**(0.2)**	(13,502)	(0.4)
TOTAL INVESTMENT ASSETS	12	**3,331,206**		3,135,376	
Net Current Assets					
Current Assets	14	**24,980**	**0.7**	13,283	0.4
Current Liabilities	14	**(9,975)**	**(0.2)**	(3,003)	(0.1)
Net assets of the scheme available to fund benefits at the period end		**3,346,211**	**100**	3,145,656	100

The Fund’s financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2014.

Notes to the Accounts - Year Ended 31 March 2014

1, GENERAL
The Fund is administered by Bath & North East Somerset Council under arrangements made following the abolition of the former Avon County Council on 31 March 1996.

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 26.

Employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary. The employees' contribution rate is payable in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

2, MEMBERSHIP
Membership of the Fund at the year-end was as follows:-

	31 March 2014	31 March 2013
Employed Members	**34,846**	33,648
Pensioners	**25,985**	24,574
Members entitled to Deferred Benefits	**35,321**	31,754
TOTAL	**96,152**	89,976

A further 1,181 ex-members whose membership was for up to 2 years before 1st April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

3, TAXATION

i. **Value Added Tax**
The Fund's administering authority Bath & North East Somerset Council is reimbursed VAT by H. M. Revenue and Customs and the accounts are shown exclusive of VAT.

ii. **Income Tax**
The Fund is a wholly exempt fund and some UK income tax is recoverable from HM Revenue and Customs. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax.

iii. **Capital Gains Tax**
No capital gains tax is chargeable.

iv. Taxation of Overseas Investment Income

The Fund receives interest on its overseas government bond portfolio gross, but a variety of arrangements apply to the taxation of interest on corporate bonds and dividends on overseas equities.

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		2013/14		2012/13
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	**55,066**		52,129	
Administering Authority	**6,902**		6,566	
Admission Bodies	**6,876**	**68,844**	5,787	64,482
Employers' deficit Funding				
Scheduled Bodies	27,384		26,598	
Administering Authority	**4,146**		4,021	
Admission Bodies	**1,571**	**33,101**	1,082	31,701
Total Employer's normal & deficit funding		**101,945**		96,183
Employers' contributions- Augmentation				
Scheduled Bodies	**4,312**		2,697	
Administering Authority	**537**		224	
Admission Bodies	**147**	**4,996**	457	3,378
Members' normal contributions				
Scheduled Bodies	**28,868**		28,617	
Administering Authority	**3,530**		3,495	
Admission Bodies	**3,300**	**35,698**	2,649	34,761
Members' contributions towards additional benefits				
Scheduled Bodies	**474**		418	
Administering Authority	**127**		97	
Admission Bodies	**36**	**637**	21	536
Total		**143,276**		134,858

The Members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme. Augmentation contributions are paid by employers to meet the cost of early retirements. Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service.

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 20.

5, OTHER INCOME

	2013/14	2012/13
	£'000	£'000
Recoveries for services provided	**426**	492
Cost recoveries	**16**	8
	442	500

'Recoveries for services provided refers to administrative and accounting services provided to employing bodies. Cost recoveries are the recovery of the cost of calculating Pension Sharing on divorce

6, BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2013/14	2012/13
	£'000	£'000
Retirement Pensions	**112,720**	106,097
Commutation of pensions and		
Lump Sum Retirement Benefits	**34,148**	27,815
Lump Sum Death Benefits	**2,923**	2,743
	149,791	136,655

Analysis of Benefits Payable by Employing Body:-

	2013/14	2012/13
	£'000	£'000
Scheduled & Designating Bodies	**124,288**	114,704
Administering Authority	**14,133**	11,938
Admission Bodies	**11,370**	10,013
	149,791	136,655

7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2013/14	2012/13
Leavers	**£'000**	£'000
Refunds to members leaving service	**116**	17
Individual Cash Transfer Values to other schemes	**4,352**	5,028
Group Transfers	**2,400**	128
	6,868	5,173

8, ADMINISTRATION EXPENSES

Costs incurred in the management and administration of the Fund are set out below.

	2013/14 £'000	2012/13 £'000
Administration and processing	**1,957**	**1,808**
Actuarial fees	**486**	**356**
Audit fees	**27**	**29**
Legal and professional fees	**-**	**-**
Central recharges from Administering Authority	**413**	**392**
	2,883	**2,585**

9, INVESTMENT EXPENSES

Expenses incurred in the management of the Fund are set out below.

	2013/14 £'000	2012/13 £'000
Fund Manager Base Fees	11,366	9,827
Fund Manager Performance Fees	4,931	-
Global Custody	94	64
Investment Advisors	123	167
Performance Measurement	37	34
Investment Accounting	4	3
Investment Administration	58	53
	16,613	10,148

Fund Manager Performance Fees includes £558k fees paid during the year and a provision for fees that have been accrued but are subject to phased payment or not due to be paid until the realisation of the related assets. Unpaid fees remain subject to variation as a result of future performance. £1,127k of the performance fees relates to 2013/14 and £3,804k relates to previous years. Total fund manager fees include management charges for pooled investments that are settled directly within the pooled vehicles in accordance with the investment management agreement.

10, INVESTMENT INCOME

	2013/14	2012/13
	£'000	£'000
Interest from fixed interest securities	**3,557**	3,898
Dividends from equities	**16,651**	15,070
Income from Index Linked securities	**5,091**	5,703
Income from pooled investment vehicles	**3,480**	4,002
Interest on cash deposits	**282**	335
Other - Stock lending	**31**	17
	29,092	29,025

The Fund has an arrangement with its custodian (BNY Mellon) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. This stock lending programme was introduced with effect from July 2004. The Fund may terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.
The value of the stock on loan as at 31 March 2014 was £17.27 million (31 March 2013 £3.01 m), comprising of equities and sovereign debt. This was secured by collateral worth £18.06 million comprising OECD sovereign and supra national debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at 31/03/13 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Value at 31/03/14 £'000**
Fixed Interest Securities	109,674	12,836	(22,360)	(7,456)	**92,694**
Equities	495,980	305,283	(302,104)	43,618	**542,777**
Index linked Securities	209,876	24,385	(30,469)	(14,616)	**189,176**
Pooled Investments -					
- Property	222,341	81,108	(61,176)	18,713	**260,986**
- Non Property	2,015,386	1,087,681	(1,070,788)	111,646	**2,143,925**
Derivatives	(3,138)	190,891	(199,962)	24,570	**12,361**
	3,050,119	1,702,184	(1,686,859)	176,475	**3,241,919**
Cash Deposits	85,895	558,772	(558,751)	(893)	**85,023**
Net Purchases & Sales		2,260,956	(2,245,610)	15,346	
Investment Debtors & Creditors	(638)			4,902	**4,264**
Total Investment Assets	3,135,376			-	**3,331,206**
Current Assets	10,280			4,725	**15,005**
Less Net Revenue of Fund				(15,431)	
Total Net Assets	3,145,656			**185,124**	**3,346,211**

The **Change in Market Value** of investments comprises all gains and losses on Fund investments during the year, whether realised or unrealised.

The **Change in Market Value** for cash deposits represents net gains on foreign currency deposits and foreign exchange transactions during the year.

Derivatives. The purchases and sales of derivatives are shown at the values of the realised profits and losses of the net derivatives transactions.

Change in Total Net Assets 2012/13

Change in Market Value of Investments	Value at 31/03/12 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31/03/13 £'000
Fixed Interest Securities	104,920	18,268	(18,096)	4,582	109,674
Equities	390,014	294,637	(251,080)	62,409	495,980
Index linked Securities	189,659	35,415	(31,467)	16,269	209,876
Pooled Investments -					
- Property	196,951	36,144	(18,841)	8,087	222,341
- Non Property	1,796,213	47,414	(96,172)	267,931	2,015,386
Derivatives	(73)	2,860	(5,522)	(403)	(3,138)
	2,677,684	434,738	(421,178)	358,875	3,050,119
Cash Deposits	76,595	235,134	(225,911)	77	85,895
Net Purchases & Sales		669,872	(647,089)	22,783	
Investment Debtors & Creditors	3,086			(3,724)	(638)
Total Investment Assets	2,757,365			-	3,135,376
Current Assets	8,929			1,351	10,280
Less Net Revenue of Fund				(17,077)	
Total Net Assets	2,766,294			**362,285**	**3,145,656**

Investment Transaction Costs. The following transactions costs are included in the above tables:

	2013/14				2012/13			
	Purchases £'000	**Sales £'000**	**Other £'000**	**Total £'000**	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	**608**	**13**	**-**	**621**	644	21	-	665
Commission	**321**	**323**	**4**	**648**	320	304	5	629
TOTAL	**929**	**336**	**4**	**1,269**	964	325	5	1,294

12, INVESTMENT ASSETS

Further analysis of the market value of investments as set out in the Net Assets Statement is given below:-

		31 March 2014		31 March 2013
UK Equities		**£'000**		£'000
Quoted	**301,719**		258,957	
Pooled Investments	**225,298**		318,640	
FTSE Futures	**162**	**527,179**	(226)	577,371
Diversified Growth Funds				
Pooled Investments	**314,340**	**314,340**		-
Overseas Equities				
Quoted	**241,057**		237,022	
Pooled Investments	**1,083,136**	**1,324,193**	1,185,894	1,422,916
UK Fixed Interest Gilts				
Quoted	**92,694**		109,674	
Pooled Investments	**14,226**	**106,920**	14,668	124,342
UK Index Linked Gilts				
Quoted	**189,176**	**189,176**	209,876	209,876
Sterling Bonds (excluding Gilts)				
Pooled Investments	**269,350**	**269,350**	193,549	193,549
Non-Sterling Bonds				
Pooled Investments	**74,588**	**74,588**	81,488	81,488
Hedge Funds				
Pooled Investments	**162,986**	**162,986**	221,147	221,147
Property				
Pooled Investments	**260,987**	**260,987**	222,341	222,341
Cash Deposits				
Sterling	**78,163**		81,806	
Foreign Currencies	**6,860**	**85,023**	4,089	85,895
Investment Debtors/Creditors				
Investment Income	**3,414**		3,671	
Sales of Investments	**5,948**		9,194	
Foreign Exchange Hedge	**12,199**		(2,912)	
Purchases of Investments	**(5,097)**	**16,464**	(13,502)	(3,549)
TOTAL INVESTMENT ASSETS		**3,331,206**		3,135,376

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000's	Liability Value £000's
Up to one month	EUR	68,400	GBP	(57,876)		(1,321)
Up to one month	JPY	3,871,000	GBP	(25,479)		(2,924)
Up to one month	GBP	73,311	EUR	(87,100)	1,294	
Up to one month	GBP	35,729	JPY	(5,478,000)	3,811	
One to six months	EUR	154,300	GBP	(131,820)		(4,175)
One to six months	JPY	13,900,000	GBP	(88,506)		(7,451)
One to six months	USD	202,300	GBP	(126,194)		(4,709)
One to six months	GBP	1,918	CHF	(2,800)	15	
One to six months	GBP	184,238	EUR	(217,182)	4,578	
One to six months	GBP	139,278	JPY	(21,935,000)	11,351	
One to six months	GBP	255,038	USD	(404,600)	12,102	
Six to twelve months	EUR	136,700	GBP	(113,600)		(392)
Six to twelve months	JPY	13,287,000	GBP	(78,825)		(1,108)
Six to twelve months	USD	263,100	GBP	(160,929)		(2,773)
Six to twelve months	GBP	144,259	EUR	(174,400)	(178)	
Six to twelve months	GBP	116,548	JPY	(19,715,000)	1,249	
Six to twelve months	GBP	250,003	USD	(411,200)	2,830	
Total					**37,052**	**(24,853)**
					Net forward currency contracts at 31 March 2014	**12,199**

Open forward currency contracts at 31 March 2013	74,499	(77,411)
Net forward currency contracts at 31 March 2013		**(2,912)**

<u>Exchange Traded Derivatives held at 31 March 2014:-</u>

Contract Type	Expiration	Book Cost £'000	Unrealised Gain £'000
FTSE equity futures	**June 2014**	**28,433**	**162**

<u>Exchange Traded Derivatives held at 31 March 2013:-</u>

FTSE equity futures	June 2013	25,186	(226)

A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

The UK Equity futures contracts are held to facilitate efficient portfolio management for a passively managed investment where the costs of investing directly in UK equities would be significant.

Forward "over the counter" foreign exchange contracts are held to reduce the impact of fluctuations in the exchange rate between sterling and the other currency.

The proportion of the market value of investment assets managed by each external manager and in house Treasury Management at the end of the financial year was:-

	31 March 2014 £'000	**%**	31 March 2013 £'000	%
Blackrock	**1,071,963**	**32.2**	1,506,620	48.0
Transition	**0**	**0**	9	0
Record	**28,129**	**0.8**	4,893	0.2
Jupiter Asset Management	**160,956**	**4.8**	139,898	4.5
Genesis Investment Management	**145,092**	**4.4**	158,548	5.1
Invesco Perpetual	**239,795**	**7.2**	218,121	7.0
State Street Global Advisors	**107,147**	**3.2**	103,009	3.3
Partners Group	**113,446**	**3.4**	97,395	3.1
Royal London Asset Management	**251,101**	**7.6**	176,526	5.6
TT International	**185,717**	**5.6**	163,186	5.2
Man Investments	**1,115**	**0.0**	63,955	2.0
Gottex Asset Management	**58,062**	**1.8**	55,059	1.8
Stenham Asset Management	**37,654**	**1.1**	34,936	1.1
Signet Capital Management	**66,155**	**2.0**	67,197	2.1
Barings Asset Management	**209,798**	**6.3**	-	0.0
Pyrford International	**104,542**	**3.1**	-	0.0
Unigestion UK Ltd	**166,687**	**5.0**	-	0.0
Schroder Investment Management	**365,163**	**11.0**	327,563	10.4
Bank of New York Mellon	**7,964**	**0.2**	10,059	0.3
Treasury Management	**10,720**	**0.3**	8,402	0.3
TOTAL INVESTMENT ASSETS	**3,331,206**	**100.0**	3,135,376	100.0

13, SINGLE INVESTMENTS OVER 5% OF THE FUND

The following investments represent more than 5% of the net assets of the fund.

Investments	**Value at 31st March 2014 £'000**	**% of Net Assets**	Value at 31st March 2013	% of Net Assets
RLPPC UK Corporate Bond Fund (Royal London)	**251,101**	**7.54%**	176,526	5.63%
Invesco Perpetual Global ex UK Enhanced Index Fund	**239,795**	**7.20%**	218,121	6.96%
Aquila Life UK Equity Index Fund (BlackRock)	**220,957**	**6.63%**	315,092	10.05%
Baring Dynamic Asset Allocation Fund	**209,798**	**6.30%**	-	-
MSCI Equity Index Fund B-US (BlackRock)	**173,125**	**5.20%**	155,736	4.97%
BlackRock World Index Fund	-	-	310,707	9.91%
Genesis Emerging Markets Investment Fund	-	-	158,549	5.06%

14, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2014. Debtors and creditors included in the accounts are analysed below:-

		31 March 2014		31 March 2013
CURRENT ASSETS		**£'000**		£'000
Contributions Receivable :-				
- Employers	**8,490**		7,736	
- Members	**2,919**		2,817	
Transfer Values Receivable	**10,600**		1,640	
Discretionary Early Retirement Costs	**1,952**		585	
Other Debtors	**1,019**	**24,980**	505	13,283
CURRENT LIABILITIES				
Management Fees	**(950)**		(911)	
Provision for Performance Fees	**(4,373)**		-	
Transfer Values Payable	**(2,400)**		-	
Lump Sum Retirement Benefits	**(645)**		(547)	
Other Creditors	**(1,607)**	**(9,975)**	(1,545)	(3,003)
NET CURRENT ASSETS		**15,005**		10,280

The provision for Performance Fees includes fees that have been incurred but are subject to phased payment or not due to be paid until the realisation of the related assets. They remain subject to variation as a result of future performance. Of these £1,127k relates to 2013/14 and £3,246k relates to previous years.

Analysis of Debtors and Creditors by public sector bodies:-

		31 March 2014		31 March 2013
CURRENT ASSETS		**£'000**		£'000
Local Authorities	**11,028**		8,050	
NHS Bodies	**-**		6	
Other Public Bodies	**13,211**		4,338	
Non Public Sector	**741**	**24,980**	889	13,283
CURRENT LIABILITIES				
Local Authorities	**(11)**		-	
Other Public Bodies	**(3,789)**		(1,310)	
Non Public Sector	**(6,175)**	**(9,975)**	(1,693)	(3,003)
NET CURRENT ASSETS		**15,005**		10,280

15, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2014. (March 2013 = NIL).

16, EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2014 that require any adjustment to these accounts.

17, ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS 26

The following statement is by the Fund's actuary:

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	**31 March 2014**
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	3.9% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% per annum versus 4.2% per annum). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation formal report.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £4,519 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£278 million. Adding interest over the year increases the liabilities by a further c£190 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£35 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£70 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is £4,396 million.

18, TRANSFERS IN

During the year ending 31 March 2013 there was a group transfer in to the fund from Strode College to Weston College. An estimated amount was included in the 2012/13 Statement of Accounts. The transfer value has not yet been confirmed. The estimate has now been increased and the additional amount included in the Fund account. The full estimate is included as part of the Fund's 2013/14 Current Assets.

During the year ending 31st March 2014 there was a group transfer in to the Fund from Stroud College to South Gloucestershire and Stroud College. The transfer value has not yet been confirmed. An estimated value has been included in the Fund account and as part of the Fund's Current Assets.

19, BENEFITS RECHARGED TO EMPLOYERS

The Fund makes payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases, and pension increases in respect of certain bodies with no pensionable employees in the Fund. The Fund also pays a small number of other pension supplements. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account or related notes.

	2013/14	2012/13
	£'000	£'000
Benefits Paid and Recharged	**6,240**	6,225

20, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2013/14 were £498 (2012/13 - £953). Additional Voluntary Contributions received from employees and paid to Friends Life during 2013/14 were £407,897 (2012/13 - £418,478).

The total value of the assets invested, on a money purchase basis, with these AVC providers was:-

	31 March 2014	31 March 2013
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**501**	582
Unit Linked Retirement Benefits	**286**	306
Building Society Benefits	**235**	264
	1,022	1,152
Death in Service Benefit	**150**	150
Friends Life		
With Profits Retirement Benefits	**157**	197
Unit Linked Retirement Benefits	**3,625**	3,775
Cash Fund	**447**	402
	4,229	4,374

AVC investments are not included in the Fund's financial statements in accordance with Regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

21, RELATED PARTIES

Committee Member Related:-

In 2013/14 £37,238 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee *(£37,071 in 2012/13)*. Six voting members and one non- voting member of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2013/2014. *(Seven voting members and one non-voting member in 2012/2013, including five B&NES Councillor Members*)

Independent Member Related:-
Two Independent Members were paid allowances of £6,469 and £12,877 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-
During the year 2013/14 the Fund paid B&NES Council £295,990 for administrative services *(£275,215 in 2012/13*) and B&NES Council paid the Fund £31,715 for administrative services (*£40,157 in 2012/13*). Various Employers paid the fund a total of £141,397 for pension related services including pension's payroll and compiling data for submission to the actuary *(£177,346 in 2012/13)*.

Officer and Manager Related:-
The officers administering the Avon Pension Fund are all eligible to be members of the Avon Pension Fund.

The Fund is governed by Central Government regulation. There are no other related party transactions except as already disclosed elsewhere.

22, OUTSTANDING COMMITMENTS
As at the 31 March 2014 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £61,724,899 (31st March 2013 £46,798,161).

23, KEY MANAGEMENT REMUNERATION
Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These consisted of:
- part of the Divisional Director Business Support's salary, fees and allowances £17,360 and their employers' pension contributions £3,107. (In 2012/13 the recharge was part of the Strategic Director of Resources salary, fees and allowances £17,393 and employers' pension contributions £3,107)
- part of the Head of Business Finance and Pensions salary, fees and allowances £31,540 (2012/13 £31,540) and their employers' pension contributions £5,460 (2012/13 £5,460).

24, FINANCIAL INSTRUMENTS

The net assets of the Fund are made up of the following categories of Financial Instruments:

	31/03/2014	31/03/2013
Financial Assets	**£'000**	£'000
Receivables	**24,980**	13,283
Financial assets at fair value through profit or loss	**3,336,303**	3,149,104
Total Financial Assets	**3,361,283**	3,162,387
Financial Liabilities		
Payables	**15,072**	16,505
Financial liabilities at fair value through profit or loss	**-**	226
Total Financial Liabilities	**15,072**	16,731
Total Net Assets	**3,346,211**	3,145,656

All investments are disclosed at fair value. Carrying value and fair value are therefore the same. Payables and Receivables are valued at amortised cost. The carrying value has not been amortised and therefore is the same as the fair value. The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows:-

Net gains and losses on financial instruments

	Financial assets at fair value through profit or loss	
	2013/14	2012/13
	£'000	£'000
Losses on derecognition	**4,918**	9,302
Reductions in fair value	**239,774**	10,079
Total expense in Fund Account	**244,692**	19,381
Gains on derecognition	**323,622**	53,216
Increases in fair value	**97,545**	325,040
Total income in Fund Account	**421,167**	378,256
Net gain/(loss) for the year	**176,475**	358,875

25, FINANCIAL RISK MANAGEMENT DISCLOSURE

The primary objective of the Avon Pension Fund is to generate positive real investment return above the rate of inflation for a given level of risk to meet the liabilities as they fall due over time. The aim of the investment strategy and management structure is to minimise the risk of a reduction in the value of the assets and maximise the opportunity for asset gains across the Fund.

To achieve its investment objective the Fund invests across a diverse range of assets such as equities, bonds, property and other alternative investments. As a result the Fund is exposed to a variety of financial risks including market risk (price, interest rate and currency risk), credit risk and liquidity risk.

The Fund's investments are managed by external Investment Managers. Each manager is required to invest in accordance with the terms of the agreed investment guidelines that sets out the relevant benchmark, performance target, asset allocation ranges and any restrictions. The Avon Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager and its Investment Consultant advises on the nature of the investments made and associated risks.

The Fund's investments are held by BNY Mellon Asset Servicing, who act as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio. The risk management process identifies and mitigates the risks arising from the Fund's investment strategy and policies which are reviewed regularly to reflect changes in market conditions.

(a) Market Risk

Market risk is the risk of loss from fluctuations in market prices, interest rates or currencies. The Fund is exposed through its investments portfolio to all these market risks. The objective of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return.

Volatility in market risk is primarily managed through diversification across asset class and investment managers

Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other than interest rates or currencies. These changes can be caused by factors specific to the individual instrument, its issuer or factors affecting the market in general and will affect the assets held by the Fund in different ways.

All investments present a risk of loss of capital. By diversifying its investments across asset classes, geography and industry sectors, investment mandate guidelines and Investment Managers the Fund aims to reduce its exposure to price risk. Diversification seeks to reduce the correlation of price movements. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

The Fund has a high allocation to equities and therefore the fluctuation in equity prices is the largest market risk within the portfolio. The maturity profile of the Fund and strong underlying covenant underpins the allocation to equities which are expected to deliver higher returns over the long term.

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund’s advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2014. These movements in market prices have been judged as possible for the 2013/14 reporting period. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. However, the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund. Only assets affected by market prices have been included. The volatility figure at Total Assets level incorporates the impact of correlation across the asset classes; therefore the Total Assets increase /decrease is not the sum of the parts.

The analysis for the year ending 31 March 2014:

Asset Type	**Value (£’000)**	**% Change**	**Value on Increase**	**Value on Decrease**
UK Equities	509,345	12.3%	571,892	446,797
Overseas Equities	1,134,606	12.1%	1,271,553	997,659
Global inc UK	207,422	11.0%	230,176	184,668
UK Bonds	376,270	6.5%	400,727	351,812
Overseas Bonds	74,588	7.4%	80,078	69,099
Index Linked Gilts	189,176	8.8%	205,862	172,491
Property	260,987	1.6%	265,137	256,838
Alternatives	477,326	3.2%	492,601	462,052
Total Assets	**3,229,720**	**7.3%**	**3,464,198**	**2,995,243**

The analysis for the year ending 31 March 2013 is shown below:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	560,825	13.1%	634,293	487,357
Overseas Equities	1,243,081	12.9%	1,403,438	1,082,723
Global inc UK	196,608	12.6%	221,341	171,875
UK Bonds	317,892	6.7%	339,032	296,752
Overseas Bonds	81,487	7.6%	87,680	75,294
Index Linked Gilts	209,876	8.3%	227,317	192,435
Property	222,341	1.4%	225,521	219,162
Alternatives	221,147	3.6%	229,042	213,252
Total Assets	**3,053,257**	**7.6%**	**3,284,083**	**2,822,431**

Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities.

The Fund's exposure to interest rate movements on these investments is provided below. Cash includes the cash deposits held against futures contracts.

	31 March 2014 £'000	31 March 2013 £'000
Cash and Cash Equivalents	85,023	85,895
Fixed Interest Assets	640,034	609,255
Total	**725,057**	**695,150**

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2014 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

An increase or decrease of 100 basis points (bps) in interest rates would have increased or decreased the net assets by the amount shown below.

	Value	Change in net assets	
As at 31 March 2014	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	85,023	-	-
Fixed Interest	640,034	(83,332)	83,332
Total	**725,057**	**(83,332)**	**83,332**

A 1% rise in interest rates will reduce the fair value of the relevant net assets and vice versa. Changes in interest rates do not impact the value of cash balances but they will affect the interest income received on those balances.

The same analysis for the year ending 31 March 2013 is shown below:

		Change in net assets	
	Value	+100 bps	-100 bps
As at 31 March 2013	£'000	£'000	£'000
Cash and Cash Equivalents	85,895	-	-
Fixed Interest	609,255	(83,651)	83,651
Total	695,150	(83,651)	83,651

Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund's equity portfolio is invested in overseas stocks. When sterling depreciates the sterling value of foreign currency denominated investments will rise and when sterling appreciates the sterling value for foreign denominated investments will fall. The Fund has a dynamic hedging arrangement In place which reduces the volatility of returns over the longer term (the hedging programme hedges the exposure to the US Dollar, Yen and Euro).

Where an investment manager chooses to hedge against foreign currency movements forward foreign exchange contracts are used.

The following tables summarise the Fund's currency exposures within the portfolio. For the global property funds the share class of the pooled funds held has been used. The funds of hedge funds and Diversified Growth Funds are not included in this analysis given the share classes held are either in Sterling or hedged back to Sterling.

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2014 £'000	Asset value as at 31 March 2013 £'000
Overseas Equities	1,324,193	1,384,728
Overseas Fixed Income	74,588	81,487
Overseas Property	112,058	95,729

Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency rates has been analysed using the volatility which is broadly consistent with a one-standard deviation movement in the currency and incorporates the impact of correlation across currencies. The analysis assumes a 50% hedge ratio on the equity and bond assets to reflect the dynamic hedging strategy.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2014 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,324,193	3.3%	1,367,307	1,281,080
Overseas Fixed Income	74,588	3.3%	77,017	72,160
Overseas Property	112,058	3.3%	115,707	108,410

The same analysis for the year ending 31 March 2013 is shown below:

Currency Risk by Asset Type:

Asset Type	Value (£)	% Change	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	1,384,728	2.6%	1,420,836	1,348,620
Overseas Fixed Interest	81,487	2.7%	83,655	79,319
Overseas Property	95,729	5.5%	101,005	90,453

(b) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument or transaction will fail to meet an obligation and cause the Fund to incur a financial loss. In addition, the market values of investments will reflect an assessment of creditworthiness in their pricing and therefore the risk of loss is implicitly provided for in the carrying value of the assets and liabilities.

The entire Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur though the failure to settle transactions in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. Credit risk on over-the-counter derivative contracts is minimised by the various insurance policies held by exchanges to cover defaulting counterparties.

Forward currency contracts are entered into by the Fund's managers, especially the currency hedging manager, Record. These contracts are subject to credit risk in relation to the counterparties of the contracts. The responsibility for managing these contracts and counterparty risk rests with the managers. Counterparty management is evaluated as part of the due diligence process prior to appointing a manager.

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the Fund's behalf by the Council's Treasury Management Team in line with the Fund's Treasury Management Policy which sets out the permitted counterparties and limits. Cash held by the Fund and managers is invested with the custodian in diversified money market funds rated AAA.

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2014 was £18.7m. This was held with the following institutions:

	31 March 2014		31 March 2013	
	Rating	£'000	Rating	£'000
Custodian's Liquidity Fund				
Bank of New York Mellon	AAA	7,962	AA-	10,058
Bank Call Accounts				
Barclays Platinum Account	A	1,000	A	1,000
Bank of Scotland Corporate Deposit Account	A	2,500	A	2,500
RBS Global Treasury Fund	AAA	6,090	AAA	4,880
NatWest Special Interest Bearing Account	BBB+	1,104	A-	-
Bank Current Accounts				
NatWest	BBB+	7	A-	17

The RBS Global Treasury Fund was taken over by Goldman Sachs International on 14th April 2014. The credit rating remained at AAA. NatWest is the Fund's banker.

A securities lending programme is managed by the Fund's custodian BNY Mellon who manage and monitor the counterparty risk, collateral risk and the overall lending programme. Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. The current collateral the Avon Pension Fund accepts is AAA rated supranational debt, AA rated sovereign debt and FTSE Equity DBV. Cash collateral is not permitted. Securities lending is capped by investment regulations and statutory limits ensure no more than 25% of eligible assets can be on loan at any time.

(c) Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's investment strategy and cash management policy ensure that the pension fund has adequate cash to meet its working requirements. Cash flow forecasts are prepared to manage the timing of and changes to the Fund's cash flows.

The Fund has access to an overdraft facility for short term cash needs which was not drawn on during the year.

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2014 the value of the illiquid assets was £634m, which represented 19.0% of the total Fund assets (31 March 2013: £443m which represented 14.1% of the total Fund assets). The increase is due to the investment during the year in a Diversified Growth Fund.

(d) Fair Value Hierarchy

Fair value is the value at which the investments could be realised within a reasonable timeframe. The Fund measures fair values using the following fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. The hierarchy has the following levels:

• Level 1 - easy to price securities. Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.

• Level 2 - moderately difficult to price. Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value. Therefore Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities including the Diversified Growth Fund that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset value.

• Level 3 - difficult to price. Unobservable inputs for the asset or liability used to measure fair value that rely on the Fund’s assumptions concerning the assumptions that market participants would use in pricing an asset or liability. Therefore Level 3 includes pooled funds such as the property funds, other Diversified Growth Funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2014.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	536,850			536,850
Bonds - Quoted	281,870			281,870
Pooled Investment Vehicles		1,672,523		1,672,523
Fund of Hedge Funds			162,986	162,986
Diversified Growth Funds		104,542	209,798	314,340
Property			260,988	260,988
Cash	85,023			85,023
Derivatives: Forward FX	12,199			12,199
Derivatives: Futures	162			162
Investment Debtors /Creditors	4,265			4,265
	920,369	1,777,065	633,772	3,331,206

The fair value hierarchy as at 31 March 2013 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	495,979			495,979
Bonds - Quoted	319,550			319,550
Pooled Investment Vehicles		1,794,239		1,794,239
Fund of Hedge Funds			221,147	221,147
Diversified Growth Funds				-
Property			222,341	222,341
Cash	85,895			85,895
Derivatives: Forward FX	-2,911			-2,911
Derivatives: Futures	-226			-226
Investment Debtors /Creditors	-638			-638
	897,649	1,794,239	443,488	3,135,376

26, EMPLOYING BODIES
As at 31 March 2014 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Principal Councils and Service Providers	
Avon Fire Brigade	North Somerset Council
Bath & North East Somerset Council	South Gloucestershire Council
City of Bristol Council	
Further & Higher Education Establishments	
Bath Spa University College	St. Brendan's College
City of Bath College	University of Bath
City of Bristol College	University of the West of England
Norton Radstock College	Weston College
South Gloucestershire & Stroud College (formerly Filton College)	
Academies and Schools	
Abbeywood Community School Academy	Ilminster Avenue E-ACT Academy
Academy of Trinity Cof E	Kingshill Academy
Ann Harris Academy Trust (formerly St. John's Primary)	Kings Oak Academy
Backwell School	Little Mead Primary School
Bannerman Road Community Academy	Merchant's Academy
Bath Community Academy	Midsomer Norton School Partnership
Bedminster Down School Academy	Minerva Primary Academy
Beechen Cliff School Academy	Nailsea School Academy
Begbrook Primary Academy	Oasis Academy Bank Leaze
Birdwell Primary School Academy	Oasis Academy Brightstowe
Bradley Stoke Community School	Oasis Academy Connaught
Bridge Learning Campus Foundation	Oasis Academy John Williams
Bristol Cathedral Choir School	Oasis Academy Long Cross
Bristol Free School Trust	Oasis Academy New Oak
Bristol Technology & Engineering Academy	Oldfield School Academy Trust
Broadlands Academy	One World Learning Trust
Broadoak Mathematics & Computing College	Orchard Academy
Cabot Learning Federation	Parson Street Primary School
Castle School Education Trust	Patchway Community College
Cathedral Primary School	Priory Community School Academy
Charfield Primary School	Ralph Allen Academy
Chew Stoke Church School	Redland Green School Academy
Christ Church C of E Primary School	St Bedes School Academy
Churchill Academy	St. Nicholas of Tolentine Catholic Primary schl
Clevedon School Academy	St. Patrick’s Academy
Colston Girl's School Trust	St. Teresa’s Catholic Primary School
Colston’s Primary School Academy	St. Ursula's E-ACT Academy
Cotham School Academy	Stoke Bishop C of E Primary School
Downend School	Stoke Lodge Academy
Elmlea Junior School Academy	Summerhill Academy
Fishponds Church of England Academy (Bristol Church Academies Trust)	The Dolphin Academy

Filton Avenue Infants Academy	The Kingfisher School
Fosseway School	The Ridings Federation Winterbourne
Frome Vale Academy	The Ridings Federation Yate
Gordano School Academy	Threeways School
Greenfield Primary School Academy	Trust in Learning
Hans Price Academy	Wallscourt Farm Academy
Hareclive Academy	Waycroft School Academy
Hayesfield Girls School Academy	Wellsway School Academy
Henbury Court School	West Town Lane Primary School
Henbury School Academy	Westbury Park Primary School Academy
Henleaze Junior School Academy	Westbury-on-Trym C of E Academy
Heron’s Moor Community School	Writhlington School Academy
Designating Bodies	
Almondsbury Parish Council	Patchway Town Council
Backwell Parish Council	Paulton Parish Council
Bath Tourism Plus	Peasedown St John Parish Council
Bradley Stoke Town Council	Pill & Easton in Gordano Parish Council
Charter Trustees of the City of Bath	Portishead & North Weston Town Council
Clevedon Town Council	Radstock Town Council
Destination Bristol	Saltford Parish Council
Dodington Parish Council	Stoke Gifford Parish Council
Downend and Bromley Heath Parish Council	Thornbury Town Council
Filton Town Council	Vista SWP Ltd
Frampton Cotterell Parish Council	Westerleigh Parish Council
Hanham Abbots Parish Council	Westfield Parish Council
Hanham Parish Council	Weston Super Mare Town Council
Keynsham Town Council	Whitchurch Parish Council
Mangotsfield Rural Parish Council	Winterbourne Parish Council
Midsomer Norton Town Council	Yate Town Council
Nailsea Town Council	Yatton Parish Council
Oldland Parish Council	
Community Admission Bodies	
Alliance Homes	Merlin Housing Society (SG)
Ashley House Hostel	Merlin Housing Society Ltd
Bristol Disability Equality Forum	Off the Record Bath & North East Somerset Cnl
Bristol Music Trust	Sirona Care & Health CIC
Centre For Deaf People	Southern Brooks Community Partnership
Clifton Suspension Bridge Trust	Southwest Grid for Learning Trust
CURO Places Ltd	The Care Quality Commission
CURO Group (Albion) Ltd	The Park Community Trust
CURO Choice	Vision North Somerset
Holburne Museum of Art	West of England Sport Trust
Learning Partnership West Limited (CAB)	
Transferees Admitted Bodies	
Action For Children	ISS Mediclean (Bristol City Council)
Active Community Engagement Ltd	Keeping Kids Company
Agilisys	Kier Facilities Services
Aquaterra Leisure Ltd.	Learning Partnership West (Lot 1)

ARAMARK	Learning Partnership West (Lot 2)
BAM Construct UK Ltd	Learning Partnership West (Lot 3)
Barnardos	Learning Partnership West (Lot 7)
Bespoke Cleaning Services	Liberata UK Ltd
Bristol Drugs Project	Mouchel Business Services Ltd (Nailsea IT)
Churchill Contract Services	Quadron Services
Churchill Contract Services Ltd (Team Clean)	Shaw Healthcare (North Somerset) Ltd
Circadian Trust	SITA
Circadian Trust No 2	Skanska (Cabot Learning Federation)
Creative Youth Networks (Lot 4)	Skanska Rashleigh Westerfoil
Direct Cleaning (SW) Ltd	SLM Community Leisure
Eden Food Services	SLM Fitness & Health
English Landscapes	Sodexo
Fit For Sport	The Brandon Trust
HCT Group (CT Plus) (CIC)	Tone Leisure (Trust) Limited
ISS Mediclean (CLF)	

This page is intentionally left blank

Grant Thornton

The Audit Findings Report for Avon Pension fund

Year ended 31 March 2014

14 September 2014

Barrie Morris
Director
T 0117 305 7708
E barrie.morris@uk.gt.com

Tasnim Choudhury
Manager
T 0117 305 7891
E tasnim.Choudhury@uk.gt.com

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of Avon Pension Fund's ('the Fund') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the Fund during the year and whether they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 10 June 2014.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the Fund's financial statements.

We have identified no material adjustments affecting the Fund's reported financial position with the draft financial statements recorded net assets/liabilities carried forward unchanged at £3,346,211,000.

Further details are set out in section 2 of this report.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

01. Executive summary
02. Audit findings
03. Fees, non audit services and independence
04. Future developments
05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Avon Pension Fund Committee on 27 June 2014. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 27 June 2014.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition.	The presumed risk of fraud within revenue recognition has been rebutted as the most significant income stream (contributions) has been identified as a key risk and has been tested extensively. The second income stream is investment income, and while not a key risk,, it is being tested as part of the investments testing. Our audit testing in these areas is designed to detect material fraud & error, and therefore covers the risk of fraud regarding revenue recognition.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	Investments not valid Investments activity not valid Fair value measurement not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • testing of investments including: - review of the reconciliation between information provided by the fund managers, the custodian and the pension fund's own records; - selecting a sample of the individual investments held by the Scheme at the year end and agreeing prices to third party sources where published (quoted investments) or by critically assessing the assumptions used in the valuation (unquoted investments and direct property investments); - confirming existence of investments directly with independent custodians; - testing a sample of sales and disposals during the year by agreeing to supporting documentation provided by the custodian and fund managers.	Our audit work has not identified any significant issues to report to you.

Audit findings against other risks (cont.)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefit Payments	Benefits improperly computed / claims liability understated	Agreement on a sample basis of the following to supporting documentation and calculations from the pensions administration team or the actuary where applicable: - individual transfers in/ out; - pensions in payment (new /existing),; - lump sum benefits and refunds.	For the sample selected for detailed testing, the appropriate documentation was correctly filed. We noted no instances where internal control procedures operated by Avon Pension Fund were not followed.
		We have compared pensions paid to our expectations, factoring in changes in pensioner numbers and increases applied in the year to identify any unusual trends. The movements on membership statistics were also compared to transactions in the accounting records.	There were no significant differences or unusual trends noted regarding pensions paid. Our testing did not identify significant errors in membership numbers, but a detailed reconciliation is not performed by Grant Thornton as part of the audit.
Contributions	Recorded contributions not correct	We tested that the appropriate controls are implemented to ensure that the fund receives all expected contributions from member bodies. We rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends were satisfactorily explained. During contributions rationalisation testing, one difference was noted regarding £2.2m overpayment of employers augmented contributions by Bristol City Council.	We agreed contributions to signed returns from admitted bodies confirming contributions, LGPS 50 forms. As overpayments of deficit funding are permissible under the schedule of contributions, the contributions made are still in accordance with the schedule of contributions. It has yet to be confirmed by Bristol City Council and the Fund whether they wish to treat the overpayment as a prepayment against 2014-15 deficit contributions, or whether they wish it to remain as a voluntary overpayment. I f Bristol City Council request a refund of the overpayment, or if they request it to be offset against 2014-15 augmented contributions, an adjustment will be made to recognise the overpayment as a creditor or as deferred income for the fund. This matter is expected to be concluded before the Audit Committee date.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Investment income: dividends and interest have been accounted for on an accruals basis. Income on pooled investments is accumulated and reflected in the valuation of units. • Except where otherwise stated the account are prepared on an accruals basis. Contributions are therefore on an accruals basis.	• The policies are in line with expectations and adequately explained. • The application of the accounting policies requires limited judgement.	●
Judgements and estimates	• Key estimates and judgements include: – pension fund valuations; and – investment valuation are at bid price or net asset value quoted by the fund manager.	• The policies are in line with expectations and adequately explained. • We have reviewed the work of the Fund's actuary by reference to the work of an independent expert and concluded their assumptions are reasonable. We note the actuary has changed some of his estimates, although this is not recorded in the accounts.	●
Other accounting policies	• The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting	• We have reviewed the Fund's policies against the requirements of the Code of Practice on Local Authority Accounting and do not have any comments to make.	●

Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the financial statements.

Detail	Fund Account £'000	Net Asset Statement £'000	Impact on net assets carried forward £000
None noted			
Overall impact	**£nil**	**£nil**	**£nil**

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	None			

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which we request be processed, but which have not been made within the final set of financial statements. The Avon Pension Fund Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Fund Account £'000	Net Asset Statement £'000	Reason for not adjusting
1	The NatWest Bank cash balance in the Accounts are based on the bank statement values, and not the value on the cash book (which includes cash in transit). This results in a cash understatement by a trivial amount £22k, and B&NES creditor is overstatement by £22k.	-	-	Trivial reclassification between cash and creditors.
	Overall impact	**£nil**	**£nil**	

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1	●	***Weak Payroll system password controls*** Password policies and controls are in place for the network and applications. Each employee is assigned a unique user ID and a password; both are required for access to the network and applications. Our review has identified that the payroll system does not enforce the use of complex passwords and minimum password length can be as low as four characters. The absence of robust password controls may result in an increased risk of the payroll system being accessed by unauthorised individuals, leading to unauthorised changes or access to sensitive payroll data.	We recommend that complex passwords containing lower, upper case, alphanumeric and special characters be enforced for the payroll application users with a minimum password length of 8 characters

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Internal controls (cont.)

	Assessment	Issue and risk	Recommendations
2.	Deficiency	**No automatic notification of leavers** A leaver form is completed by line management and a list of leavers is sent out periodically from HR to system administrators to enable the removal of leaver accounts. We noted however that the IT department still do not receive automatic leaver notifications to enable timely removal/deactivation of leaver accounts from the network and application systems. This was previously raised in the 2012/13 review. There is a risk of leavers continuing to have access to the network and applications for at least 30 days, if processes are not in place to remove all leavers access promptly, especially where line manager notification is not received. Active leaver accounts may also be used by current staff to conceal inappropriate activity.	Management should introduce a procedure to ensure the IT department is informed of leavers at the earliest opportunity and enable timely account removal.
3.	Deficiency	**Lack of Segregation of Duties in Payroll system management** We noted that at least one member of the Payroll functional management team has administrative access to the system. There is a risk that a user with elevated privileges could bypass system-enforced internal control mechanisms through inappropriate use of administrative functionality and make unauthorised changes to system configuration parameters, create unauthorised accounts, remove audit logs or give themselves elevated privileges to carry out fraudulent actions.	We recommend that administrative access is removed from Payroll management staff to maintain appropriate segregation of duties within the system.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Avon Pension Fund Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Fund.
4.	**Disclosures**	• Our review found no material omissions in the financial statements
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Fund audit	30,116	30,116
Total audit fees	**30,116**	**30,116**

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Future developments

Future developments relevant to your Pension Fund and the audit

Political	Environmental	Social	Technological
Developments relevant to the next financial year			
1. Financial reporting CIPFA has published best practice guidance relating to the identification and disclosure of administrative and investment management expenditure. This applies from 2014/15 and will enable consistent reporting across the LGPS facilitating more meaningful comparisons in this area. The definition is separated into three distinct categories of costs.	**2. Legislation** Under the Local Government Pension Scheme (LGPS 2014), pensions will be calculated on Career Average Revalued Earnings (CARE) rather than a final salary basis from 1 April 2014. Administering authorities will need to ensure their updated administration systems are calculating new pensions accruals correctly from 1 April 2014; dealing effectively with more complex data requirements and that new contribution rates are being correctly applied by employers.	**3. Actuarial valuation** Following the 31 March 2013 actuarial valuation all employers will need to consider the level of additional employer deficit contributions required and how to fund them.	**4. Other issues** The number of LGPS employers continues to grow as local authorities outsource services. Affected funds need to consider the impact this has on its exposure to risks and reflect on the impact this has for their investment strategies.
Developments relevant to future periods			
1. Financial reporting Changes to the Pension SORP may affect the investment disclosures in the Net Asset Statement and Fair Value determination (changing the classification from level 1, 2 & 3 to A, B & C). A revised SORP will be issued in 2014 and may find its way into the LG code in 2015/16.	**2. Legislation** From April 1 2015 The Pensions Regulator will have formal powers and responsibilities for oversight of the LGPS. This will include monitoring implementation of new governance arrangements, which require the creation of a scheme manager and pension board for each LGPS. The Administering Authority will need to determine how it will meet the requirement to have a pension board and the consequent changes it will need to make to its general governance arrangements.	**3. Structural reform** DCLG is consulting on the potential use of Collective Investment Vehicles and passive management of funds. The outcome of this consultation may lead to a change in administration of some schemes and significant changes in investment strategies.	**4. Other issues** The Pensions Regulator, Financial Conduct Authority and HMRC continue to commit resources to combat pension liberation schemes. More guidance and potential changes to HMRC registration of new schemes is likely.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	**Weak Payroll system password controls** We recommend that complex passwords containing lower, upper case, alphanumeric and special characters be enforced for the payroll application users with a minimum password length of 8 characters.	M	Agreed will implement in the background.	1st October 2014
2	**No automatic notification of leavers** Management should introduce a procedure to ensure the IT department is informed of leavers at the earliest opportunity and enable timely account removal.	M	TBC	TBC
3	**Lack of Segregation of Duties in Payroll system management** We recommend that administrative access is removed from Payroll management staff to maintain appropriate segregation of duties within the system.	M	New profile for Managers to exclude system admin rights	1st October 2014

Appendix B: Audit opinion

We anticipate that we will provide the Fund with an unmodified audit report

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Avon Pension Fund for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Divisional Director of Finance and auditor
As explained more fully in the Statement of the Divisional Director Finance's Responsibilities, the Divisional Director Finance is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Divisional Director Finance; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on other matters

In our opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Opinion on accounting statements

In our opinion the pension fund's financial statements:
• give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; and
• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Barrie Morris
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
55-61 Victoria Street
Bristol
BS1 6FT
XX September 2014

Grant Thornton

grant-thornton.co.uk

This page is intentionally left blank

AVON PENSION FUND

Annual Report 2013/14

Text version

Contents

CHAIRMAN'S FOREWORD

As Chairman of the Avon Pension Fund Committee, I am pleased to present the Fund's Annual Report and Financial Statement for the year ended 31 March 2014.

The Fund is responding well to challenging times. The introduction of the New LGPS 2014 from 1st April represents a significant change in administration from Final Salary to a Career Average Revalued Earnings (CARE) scheme. A major project to deliver the new scheme to all stakeholders was implemented at the end of 2013.

Following the Strategic review in March 2013 the Fund has implemented changes to the investment management structure.

The 2013 triennial valuation exercise was completed and employers notified of new contribution rates from 2014.

The funding level has increased by 6% over the year from 78% to c. 84% and the deficit contracted from £876m to c. £636m. The value of the Fund rose by £195 million (or 6.6%) during the year to £3.3 billion at 31 March 2014. The Fund outperformed its investment benchmark over one, three and five years.

In May 2013 the DCLG announced a consultation on the way the local LGPS funds are managed in order to improve efficiency, reduce costs and improve performance. The focus was on the use of passive management and collective vehicles to reduce investment management fees across the LGPS. The Fund's view is that the decision as to how the investment portfolio is structured should be formed having fully considered the risks and the potential return from all approaches to managing assets in addition to costs. The government's response to this consultation is expected in late 2014.

From April 2015 The Pensions Regulator will implement new governance arrangements providing explicit regulatory oversight of Public Service Pensions. Additionally, The Public Service Pensions Act 2013 legislates all public sector pension schemes to establish pension boards. This means each locally administered fund will need to have a pension board established by 1 April 2015. We look forward to a busy period bedding in the new scheme and ensuring compliance with new statutory requirements.

After many years as a member of the Avon Pension Fund Committee, it is with sadness that I have to report that Councillor Gabriel Batt passed away in March 2014 following a short illness. His contribution to the Fund over the years was much appreciated by Committee members and officers alike.

Finally, on behalf of the Committee members I would like to thank the staff at the Avon Pension Fund for their contribution towards delivering an excellent service throughout the year.

Cllr Paul Fox
Chairman of the Avon Pension Fund Committee
Bath and North East Somerset Council

BACKGROUND TO THE AVON PENSION FUND

The Avon Pension Fund (APF) is a statutory pension scheme regulated by Local Government Pension Scheme (LGPS) Regulations. Bath & North East Somerset Council administers the Fund on behalf of more than 190 employer bodies including four unitary authorities.

The Fund has about 96,000 members and a value, as at 31 March 2014, of £3.3 billion. In 2013/14 the Fund received £143 million in pension contributions and paid out £150 million in pension payments.

REVIEW OF THE YEAR - 2013/14

NEW LGPS 2014

- A project plan was developed to manage the implementation and rollout of the new pension scheme. This covered:
  - New regulations.
  - Introduction and testing of new pensions software.
  - Training internal staff and staff at employing bodies – 10 presentation and workshop sessions arranged with Fund employers.
  - Forums to explain changes to members – 103 presentation events arranged with Fund employers over a six month period covering in excess of 1,800 members.
  - Committee workshop to give overview of scheme changes and discuss the Fund's LGPS 2014 project plan.
  - Review and update of APF website and all associated communication documents.
  - Two member newsletters issued and regular communications with employers (e-newsletters and bulletins).
  - Feedback questionnaire covering employer responsibilities issued to identify further training requirements.
- Administration teams restructured to address the need for greater focus on accuracy of member records and data quality control in accordance with forthcoming regulator standards.

FUNDING LEVEL

- As at 31 March 2014 the Actuary estimated that the funding level has increased 6% over the year from 78% to c. 84% and the deficit has contracted from £876m to c. £636m.
- The improvement in the funding level was initially due to a rise in real gilt yields used to value the liabilities. However, as the year progressed and bond yields fell back slightly, the improvement has been driven by investment returns exceeding expectations.

- The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields and the benefits are indexed to inflation. Thus an increase in real gilt yields reduces the value of the liabilities.
- The triennial valuation as at March 2013 was completed during the year and this set the employer contribution rates for the three years from April 2014 to March 2017.

PENSIONS ADMINISTRATION

Service Plan and Budget

- The Fund's forward looking three-year Service Plan sets out the key service objectives and milestones. It also reviews the achievement against the previous year's plan. The main objectives of the 2013/14 plan were:
  - To undertake the Fund's triennial valuation as at 31 March 2013.
  - The seamless introduction of the new LGPS 2014.
  - Implement changes to the Investment Strategy maintaining compliance with the Fund's investment Principles and Policy.
- Full details of key service objectives and targets in the 2013/14 plan are shown at Appendix G.

  The 2014/15 Service Plan includes a cash flow forecast which is monitored by the Committee. This will be included in future annual reports.
- During the year to 31 March 2014, total administration costs (excluding governance and investment management costs) were £2.2 million - a saving of £170,000 (7%) on the budget.
- The investment management, advisory and custody fees were £16.6 million including £4.4 million of performance fees that have accrued but not yet paid. The annual investment management fees of £11.4m equate to 0.35% of the Fund's assets.

Chartered Institute of Public Finance & Accountancy (CIPFA) Benchmarking (Benefits Administration)

- The Fund participates in the annual Pensions Administration CIPFA Benchmarking exercise where its performance and running costs are compared against its peers and against the "average fund".
- In 2013/2014 the Fund's overall costs at £18.27 p.a. per member were less than the average of £21.11. Staffing costs (excluding payroll) were significantly less at £5.99 per member compared with £9.29. Payroll costs per pensioner member of £1.88 compares favourably with the average of £3.41.
- The Fund invests heavily in communications with communication costs at £1.87 per member compared with the average of £0.84. Although significantly higher, the Committee has prioritised resources to this area as it strongly believes in the importance of providing members with timely, accurate information. This is delivered by specific newsletters to active and pensioner members, a high quality website, provision of member access to their "account" via the website and the facility for scheme employers to send information via the website's secure portal.

Savings are being realised through the increased use of electronic delivery for employer 'ESS' and 'i-Connect' and through the introduction and promotion of the member self-service facility 'MSS'.

Pensions Administration Strategy

- The Administration Strategy sets out how the administering authority and scheme employers will work together to provide an improving quality level of service to Fund members.
- Performance of both the Fund and employers is closely monitored by officers and the Committee. The Strategy provides a transparent and robust operating and performance framework which improves accountability and has successfully focussed attention on the need for both parties to invest in and make use of electronic data provision to improve efficiency.
- The Strategy is due to be reviewed during 2014/15.

INVESTMENTS

Fund Performance and Investment Strategy

The value of the Fund rose by £195 million (or 6.6%) during the year to £3.3 billion at 31 March 2014. Performance was driven predominately by strong returns across developed market equities. The Fund outperformed its benchmark over one, three and five years due to both asset allocation and the investment managers outperforming their respective benchmarks in aggregate.

Over the past year, market returns have been driven by increasing optimism over the developed market economic recovery. Positive economic news from the US, UK and, albeit to a lesser extent, Europe, has seen risk assets in general provide positive returns, particularly in developed market equities whilst equity markets in Asia Pacific, Japan and Emerging Markets have suffered. Bond returns have been negative or subdued as the market brought forward its expectations of interest rate rises. Gilt yields continued to rise from their 2012 lows, which resulted in negative returns from UK government bonds.

Following the strategic review in March 2013 the Fund implemented part of the revised strategy, namely appointing two new Diversified Growth Fund managers and increasing the allocation to Emerging Market Equities through the appointment of an additional manager. The allocation to Infrastructure is still outstanding and will be implemented in 2014.

Restructuring the local LGPS funds

In May 2013 the Department for Communities and Local Government (DCLG) announced a review of the way the local LGPS funds are managed in order to improve efficiency, reduce costs and improve performance. A "Call for Evidence" provided information and data, together with a more detailed report commissioned by the DCLG, to inform the debate prior to a formal consultation issued in May 2014.

The 2014 consultation proposed the greater use of passive investing and investing through collective vehicles primarily to reduce investment management fees.

Passive fees are lower than the fees for actively managed portfolios given the nature of the investment approach. The pooling of investment assets through the use of collective investment vehicles should enable economies of scale to be achieved for fees and reduce overall procurement costs across the LGPS funds.

The Fund responded to both the initial Call for Evidence report and the consultation paper. A significant proportion of the Fund's assets is already invested on a passive basis; however, the Fund believes that the decision as to how the investment portfolio is structured should be formed having fully considered the risks and the potential return from active management in addition to costs. The government's response to this consultation is expected in late 2014.

GOVERNANCE

Introduction of Pension Boards

The Public Service Pensions Act 2013 requires all public sector pension schemes to establish pension boards. For the LGPS this means each locally administered fund will have a pension board. The Board will have an oversight role to ensure the Fund complies with government regulations and guidelines issued by bodies such as The Pensions Regulator. In addition it will assist the administering authority in ensuring the effective and efficient governance and administration of the scheme. The Fund responded to the draft regulations in August 2014. Further guidance is expected ahead of establishing these boards by 1 April 2015.

The Act also establishes a Scheme Advisory Board for the LGPS. This Board will advise the government on changes to the scheme and provide advice and assistance to administering authorities and local pension boards in relation to the effective and efficient management of the scheme and local funds.

GOVERNANCE AND MANAGEMENT STRUCTURE

Management structure as at 31 March 2014

Administering Authority: Bath & North East Somerset Council

Members of the Avon Pension Fund Committee:

Voting members:

Councillor Paul Fox (Chair)	Bath & North East Somerset Council
Councillor Gabriel Batt	Bath & North East Somerset Council
Ann Berresford	Independent Member
Councillor Mary Blatchford	North Somerset Council
Councillor Lisa Brett [1]	Bath & North East Somerset Council
Councillor Nicholas Coombes [2]	Bath & North East Somerset Council
Councillor Mike Drew	South Gloucestershire Council
Shirley Marsh [3]	Independent Member
Councillor Charles Gerrish	Bath & North East Somerset Council
Councillor Katie Hall [4]	Bath & North East Somerset Council
Councillor Ian Gilchrist [5]	Bath & North East Somerset Council
Richard Orton	Unison
William Liew	University of the West of England
Councillor Steve Pearce [6]	Bristol City Council

Non-voting members:

Clive Fricker	Parish & Town Councils
Rowena Hayward	GMB
Steve Paines	Unite the Union
Paul Shiner	Unite the Union

Council officers:

Tim Richens	Divisional Director – Business Support
Tony Bartlett	Head of Business, Finance & Pensions
Liz Woodyard	Investments Manager
Geoff Cleak	Pensions Manager
Vernon Hitchman	Divisional Director (Legal and Democratic Services)

Notes:
[1] Lisa Brett joined in June 2013
[2] Nick Coombes left in June 2013
[3] Shirley Marsh joined in June 2013
[4] Katie Hall left in August 2013
[5] Ian Gilchrist joined in September 2013
[6] Steve Pearce joined in June 2013

Independent Investment Advisor: Tony Earnshaw

Investment Managers:
Barings Asset Management Ltd
Blackrock Advisors (UK) Ltd
Genesis Investment Management LLP
Gottex Asset Management
Invesco Asset Management Ltd
Jupiter Asset Management Ltd
MAN Investments Ltd
Pyrford International
Record Currency Management
Royal London Asset Management
Partners Group AG
Schroder Investment Management Ltd
Signet Capital Management Ltd
State Street Global Advisors Ltd
Stenham Asset Management
TT International
Unigestion

Actuary: Mercer Limited.

Investment Consultant: JLT Benefit Solutions

Global Custodian: BNY Mellon Asset Servicing B.V.

Bankers:
National Westminster Bank plc
Bank of New York Mellon

Legal Advisors: Osborne Clarke

AVC Providers:
Friends Provident plc
The Equitable Life Assurance Society

FUND GOVERNANCE

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee, which is the formal decision-making body for the Fund.

The Committee's role is strategic in nature, setting policy framework and monitoring implementation and compliance within that framework. It is supported by the Investment Panel which considers the Investment Strategy and investment performance in greater depth. The Committee has delegated authority to the Panel for specific investment decisions.

Committee and Panel members are required to maintain their Declaration of Interests form and declare any potential conflict of interest at each meeting.

The Terms of Reference for the Committee and Panel are set out in Appendix A.

Committee structure

Voting members (12)	5 elected members from Bath & North East Somerset Council 2 independent members 3 elected members nominated from the other West of England unitary councils 1 nominated from the Higher/Further education bodies 1 nominated by the Trades Unions
Non-voting members (4)	1 nominated from the Parish Councils Up to 3 nominated from the Trades Unions

The Committee meets formally each quarter. In addition to the quarterly meetings, the Committee held three workshops during the year to discuss:

- the Funding Strategy Statement
- the implementation project for the new scheme: LGPS 2014
- the opportunities for investing in infrastructure.

Investment Panel

The Investment Panel considers the Investment Strategy and investment performance in greater depth and consists of up to six voting members of the Committee and meets at least four times a year.

The Panel met formally five times during the year. Each meeting was followed by a workshop where selected investment managers presented on their performance and outlook for their portfolio. In addition Panel members attended two extra meetings held as part of the process to appoint new managers.

Committee and Panel membership and attendance record *(as at 31 March 2014)*

	Committee meeting	Committee workshops / training	Investment Panel meetings & workshops
Number of meetings during year	4	3	5
Voting members (12)			
Councillor Paul Fox (Chair)	4	3	n/a
Councillor Gabriel Batt	0	0	0
Ann Berresford	4	2	5
Councillor Mary Blatchford	4	2	4
Councillor Lisa Brett [1]	4	2	n/a
Councillor Nicholas Coombes [2]	n/a	0	1
Councillor Mike Drew	2	2	n/a
Councillor Charles Gerrish	4	3	5
Councillor Ian Gilchrest [5]	2	1	3
Councillor Katie Hall [4]	1	1	n/a
William Liew	4	3	4
Shirley Marsh [3]	3	1	n/a
Steve Paines	4	2	n/a
Councillor Steve Pearce [6]	4	3	n/a
Non-voting members			
Clive Fricker	3	2	n/a
Rowena Hayward	1	0	n/a
Richard Orton	3	2	n/a
Paul Shiner	3	2	n/a

Notes:
[1] Lisa Brett joined in June 2013
[2] Nick Coombes left in June 2013
[3] Shirley Marsh joined in June 2013
[4] Katie Hall left in August 2013
[5] Ian Gilchrist joined in September 2013
[6] Steve Pearce joined in June 2013

Training

The administering authority recognises the importance of training, both for Committee members and pension fund staff responsible for financial management and decision making within the Fund. Training is provided to ensure that committee members and staff possess the knowledge, skills and understanding to carry out their duties.

Specifically the administering authority must ensure:

- that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effective and monitor implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

The Fund has in place a formal training framework which is based on CIPFA's Knowledge and Skills Framework for LGPS funds. This framework is used to assess the training needs and draw up the annual training plan. The Divisional Director - Business Support is responsible for ensuring that training is implemented.

Committee training is delivered through detailed committee reports and workshops where topics are explored in greater detail.

Committee members and staff also attend seminars and conferences which broaden their understanding of investments, actuarial issues and the LGPS. Induction sessions are arranged by officers for new Committee members who are also encouraged to attend the Fundamentals Training Course offered by the Local Government Pension Committee.

The training provided in 2013/14

Topic	Delivered by:
Governance • Legal responsibility of Committee and Officers • Governance and assurance framework • Administration Strategy • Investment Regulations	• Committee reports monitoring administration performance of Fund and employers • Committee reports for audited accounts and governance • Committee reports and workshop to monitor implementation project for new scheme: LGPS 2014 • External conferences/training courses • Committee response to DCLG consultation on changes to local LGPS fund governance
Employer and Funding risks • Admitted bodies • Employer risks • Funding level/solvency	• Committee reports covering funding position, employers' risks and policy for recovering outstanding liabilities • Funding Strategy workshop • Assurance report to Committee on application of Funding Strategy in 2013 Valuation
Investment Strategy • Asset Allocation • Performance monitoring • Investment manager monitoring • Stewardship activities • Responsible investing policy	• Quarterly Committee and Panel reports reviewing Investment Strategy and performance • Workshop on investment opportunities in infrastructure • Annual report on Responsible Investing and voting activity • External conferences

During the year members undertook the following training provided externally:

Training	Members
LGPS Fundamentals Training Course	Lisa Brett, Ian Gilchrest, Shirley Marsh, William Liew
CIPFA Introduction to the LGPS	Lisa Brett
National Association of Pension Funds LGPS conference	Ann Berresford, Mary Blatchford
LGC LGPS Investment Summit	Ann Berresford, Mary Blatchford, Charles Gerrish
Infrastructure Training Day	Lisa Brett, Mary Blatchford, Charles Gerrish
Local Authority Pension Fund Forum	Mike Drew (attended four meetings)

The officers' annual performance review identifies any training needs as well as monitoring individual performance against objectives.

Governance Compliance Statement

The Fund is required under the regulations to publish a Governance Compliance Statement which demonstrates the extent to which the Fund complies with best practices in pension fund governance. The Fund's latest statement was approved by the Avon Pension Fund Committee in June 2014. The statement shows a high level of compliance with best practice and is summarised below:

Principle	Compliance status	Comment
Governance structure	Compliant	The decision-making structure is clearly defined
Representation	Partial Compliance	There is broad representation of employers and scheme members on the Committee. However admitted bodies are not represented as it is difficult to have meaningful representation from such a diverse group of employers.
Selection / role of lay members	Compliant	The role and responsibilities of all members are set out in a Job Description.
Voting	Compliant	There is a clear policy on voting rights which have been extended to employer and member representatives.
Training / facility time / expenses	Compliant	There is a clear policy on training. The Fund pays for all approved training courses for all members. The training plan reflects the needs of the committee agenda.
Meetings	Compliant	Formal meetings are held quarterly and lay members are included in the formal arrangements.
Access	Compliant	All members have equal access to

		meeting papers and advice.
Scope	Compliant	The terms of reference include all aspects of investments, funding, benefits administration and admissions to the Fund.
Publicity	Compliant	All statutory documents are made available to the public.

The latest Governance Compliance Statement is included as Appendix C and can also be obtained from the Fund's website www.avonpensionfund.org.uk (search *Governance Compliance Statement*).

RISK MANAGEMENT

The Avon Pension Fund Committee is responsible for ensuring there is an adequate risk management framework in place to ensure compliance with the regulations and to address the risks faced by the Fund. The Investment Panel strengthens the risk management process with regard to investment issues.

The Fund's approach to risk management is to manage risk rather than eliminate it entirely. Risk is identified and managed as follows:

1. **The Risk Register:** The Fund's Risk Register identifies the risks that the Fund is exposed to and, having evaluated the financial and operational impact of the risk on the Fund's objectives, states the actions taken to mitigate and manage the risk effectively.

   The register is reviewed regularly by the management team and is reported quarterly to the Committee. Table 1 on page 17 shows the Top 10 material risks from the Risk Register.

2. **Internal Control Framework:** Internal controls and processes are in place to manage administration, financial and other operational risks. The Council's Internal Audit assesses the Fund's internal control processes in order to provide independent assurance that adequate controls are in place. The findings of all internal audits are reported to the Committee.

   During the year Internal Audit completed two audits of the Fund's internal processes as follows:

Audit	Assurance Level
Framework of internal control for investments This covered cash transfers, independent monitoring of investments, review of the decision making process and compliance with the Statement of Investment Principles and Myners.	5 = Excellent
Framework of internal control for pensions payments This covered the payment and recording of pensions and lump sums, the reconciliation of payments to the Financial Management System, the provision of information and making of payments to external organisations including government departments and the management reporting related to these processes.	4 = Good

The operational risks of third party suppliers are monitored through the annual review of the Internal Control Report of each service provider, the results of which are reported to Committee. Where the Fund invests in an investment fund, the audited accounts of the fund are always reviewed.

3. **Financial Management Risk:** The Fund operates within Bath & North East Somerset Council's financial framework with segregation of duties to ensure an effective control structure. A key financial risk is the non-payment of contributions by employers. The regulations provide a sanction for late payments. Processes are in place to ensure that contributions are reconciled regularly and late payers are reported to the Committee.

   The Fund has a separate bank account from the Council's to ensure transparency and accountability of the banking arrangements. Investment of the Fund's cash balance is delegated to the Council's Treasury Management Team who manage the cash separately from the Council's cash. The Fund has its own Treasury Management Policy.

4. **Investment Risk:** The investment decision-making process, supported by expert advice, is designed to identify investment risks and act in a timely manner to ensure that these risks are kept to the minimum necessary to achieve the Fund's long term investment objectives. The Statement of Investment Principles sets out the Investment Strategy and how investment risks are considered and managed. The Statement of Accounts includes a disclosure on Financial Risk Management with particular reference to the Investment Strategy.

   Investments by their very nature expose the Fund to varying degrees of risk, including market, interest rate, foreign currency, credit and liquidity risks. Such risks are managed through the diversification of assets, approaches to investment (for example passive, active or absolute return investing) and managers. The Investment Strategy is reviewed by the Committee periodically, most recently in 2012/13.

   In between strategic reviews, the Committee monitors the performance of the Investment Strategy each quarter, providing flexibility to alter the strategy if required. The Investment Panel supports the Committee by reviewing in greater detail the investment managers' performance. A robust manager selection process is undertaken in which the risks of the investment approach, and therefore the potential risk the manager will pose to the Fund, are determined at the outset.

   The provision of expert advice is a key element of the risk management process. The Fund has appointed investment consultants to provide strategic investment advice as well as advising on managers' performance and manager selection. Other expert or specialist advice, such as tax or legal advice, is commissioned as required.

   Much of the investment management process is outsourced to investment managers and the global custodian. This arrangement provides a clear segregation of duties within the Fund, with the in-house Investments Team closely monitoring performance and compliance with regulations and mandates.

5. **Funding Risk:** The Funding Strategy Statement sets out the funding strategy and policies for the Fund and it is reviewed at least every three years as it forms the basis for the actuarial valuation.

   The potential insolvency of scheme employers, leaving outstanding liabilities in the Fund, is a significant risk. The Fund requires all admission bodies that wish to join the Fund to be guaranteed by a scheme employer(s) or to provide a bond to protect the Fund in the event of insolvency. The Fund monitors the financial sustainability of the scheme employers and takes this into account in the valuation exercise.

   A key risk for employers is that the employer contribution rate can be incorrectly calculated due to inaccurate membership information held by Fund. The Data Quality Team reconciles the membership data to identify and resolve data queries with employers.

   Some funding risks can be mitigated by the Investment Strategy. The funding and investment strategies focus on the expected real returns from the assets, thus mitigating the effect of inflation on the value of the pension liabilities.

6. **Benefits Administration Risk:** These risks relate mainly to the inability of the Fund to meet its obligations and pay benefits accurately and on time as agreed with employers or under statute. The main risks are non- or late payment of members' benefits, incorrect calculation of benefits, breach of Data Protection Regulations and the failure to comply with Freedom of Information Act requests or Disclosure of Information requirements. All of the above could lead to adverse publicity, loss of reputation and ultimately statutory fines. In addition, the Fund is dependent on a sole supplier of pension administration software. There are processes in place to mitigate administration risks, as identified in the Risk Register.

7. **Training:** As the body responsible for the Fund, Committee members are required to attain a level of knowledge about pensions, investment and funding strategies sufficient to discharge their duties. Specifically they must be able to challenge and understand the advice provided when making decisions or scrutinising processes. To facilitate this, training is provided to members based on the Committee's workplan. An Independent Advisor supports the Committee and Investment Panel members on investment issues.

8. **Business Continuity:** A Business Continuity Plan is in place primarily to deal with "disaster recovery" and includes contingency measures. The plan identifies critical activities whose failure would lead to an unacceptable loss of service and member records. It sets out measures to minimise the risk of disruption to service and specifies what triggers the contingency measures coming into effect. The Disaster Recovery process is tested annually.

Table 1: Summary of Risk Register

Risk	Management action
The Fund fails to achieve investment returns sufficient to meet its liabilities. This could negatively affect the contribution rates paid by the employing bodies.	Set a Fund specific benchmark which determines the appropriate risk adjusted return strategy to meet the liabilities. Fund performance and funding level monitored each quarter by Committee. Strategic benchmark reviewed periodically.
Increasing political pressure to reform scheme structure, governance framework and direct investment decisions. This could affect the ability of the Committee to make decisions in the best interest of the Fund.	Have well defined investment policies in place clearly stating the investment objectives and criteria. Engage with government throughout consultation process.
Insolvency of participating employers in the Fund without sufficient monetary guarantees or bonds to make good their outstanding liability. Such liabilities will be absorbed by the Fund and spread across other employers.	Policy is to only admit Transferee and Community Admission bodies where the pension liabilities are guaranteed by a scheme employer(s). Covenant assessment monitoring in place to assess financial standing of all employers and to explore options for obtaining stronger guarantee or greater protection through use of guarantees, bonds or contingent assets
Lack of continuity within Committee which arises because most members face re-election simultaneously.	Wide representation on the Committee includes two independent members (independent from the administering authority, scheme employers and unions) not subject to electoral cycle. Training provided for new Committee members and ongoing training so that they can discharge their duties effectively.
The investment managers appointed by the Fund to manage the assets fail to achieve their benchmarks. The Fund could fail to achieve the investment returns required to fund the liabilities. This could negatively affect the contribution rates paid by the employing bodies.	Monitoring the performance of the managers is delegated to the Investment Panel. A performance monitoring framework is used to identify managers that are underperforming and issues that could impact future performance. Issues and underperformance are reported to the Panel who agree an action plan. The Panel reports quarterly to Committee on the performance of the managers and any managers on "watch".
Systems failure or lack of accessibility to systems.	Policies in place with relevant parties to ensure continuity of service issues are addressed within

This could result in potential loss of data, need to re-process data, fall in productivity, potential corruption of data, delay in payment of pensions.	an agreed timeframe. Daily back up of pensions system limits loss of data and reprocessing of data. Rely on Council's systems of control and firewalls to prevent virus attacks.
Dependence on electronic data from scheme employers. This could lead to inaccurate or incomplete data.	Internal audit to review the employer processes. Training is given to employers as to data requirements.
Non-compliance with the Data Protection Act (DPA) or the Pensions Regulator's codes of practice or standards. This could lead to fines, prosecutions and adverse publicity.	Pensions Manager is responsible officer for DPA. Have confidentiality agreements in place with the Fund's agents. The Fund complies with the Council's DPA policies. All personal data is transmitted from the Fund by secure portals.
Incorrect or late contributions from employers. This could adversely affect short term cash flow, could mean under/over funding of liabilities, breach of obligations could lead to fines.	Monthly contributions received are reconciled to employer return (and authorisation is verified). Annual reconciliation of contributions received to member records. Late payers followed up and included in quarterly monitoring report to Committee.
Lack of adequate resources / knowledge at scheme employers' level leading to a failure to comply with obligations to the pension fund and staff members leading to disproportionate work and adverse impact on productivity.	Provision of timely information and training for new employers and refresher sessions for existing employers. Enforce the penalties allowed in administration strategy for repetitive non-compliance with obligations resulting in disproportionate work.

PENSIONS ADMINISTRATION STRATEGY

The Pension Administration Strategy came into effect from 1 April 2011. It sets out the Fund's policy for administering the Fund, the standard of service to be delivered and the Fund's requirements of the employers. It identifies milestones for service delivery and improvements required by all parties.

The introduction of the strategy ensures the Fund can continue to deliver a high quality pension service at a time when the operating environment is becoming more complex: the employer base has fragmented, especially with the creation of academies, furthermore the increase in the number of third party HR and payroll providers (favoured by a number of local education authority (LEA) schools) has added a further layer to the process and provision of data. Table 2 overleaf shows how the Fund's employer and membership base has changed over time.

The primary objective of the strategy is to promote more effective working arrangements between the Fund and employers in order to meet future challenges and deliver a high quality level of service to members. Key elements are the improvement of communications between employers and the Fund, training of both Fund and employer staff and the utilisation of technology as effectively as possible to capture and process data. The strategy incorporates performance targets for both the Fund and employers which are set out in Service Level Agreements (SLAs). Performance against targets is published in quarterly Stewardship Reports which are considered at regular review meetings with employers. In addition, performance is monitored quarterly by the Committee.

Implementation of the strategy is evidenced by a continued improvement in compliance with agreed deadlines by both the Fund and employers. The strategy will be reviewed in 2014/15 to evaluate its impact and revise the forward looking objectives.

Greater use of technology

The Fund utilises technology to improve the accuracy and flow of data across all aspects of the Fund and to improve communications with members. One of the administration strategy's objectives is for all data to be received and sent electronically between the Fund and employers.

Pensions software developments: The pensions software provided by Heywood has self-service modules which have been introduced for both members and employers as follows:

Employer Self-Service (ESS)

This web-based self-service access for employers was launched in October 2011 and most employers have now signed up. This facility allows employers to carry out calculations for retirement cases and, in the case of redundancy or efficiency, to calculate the Strain on the Fund costs. ESS has an interactive facility and the Fund has introduced a training programme to enable employers to input member data changes securely via ESS for automatic upload to the pension member database. This has been rolled out to existing employers and is an automatic requirement for any new

employers to the Fund. By April 2014 58% of scheme employers were submitting data to the Fund electronically, representing 72% of active membership.

Member Self-Service (MSS)

This web-based member self-service facility introduced in 2010 allows members access to their personal pension information with the facility to perform "*what if*" calculations. It also provides an opportunity for the Fund to develop as a vehicle for electronic communication to members. At 31 March 2014 there are 5,220 registered members representing 6.4% of available membership. Development of this facility and encouraging greater take-up by members forms part of the work programme for the next year.

Table 2: Employer and Membership size

Number of employers in fund (2013/14)

	Active	Ceased	Total
Scheduled body	134	0	134
Admitted body	61	1	62
Total	195	1	196

Number of members in fund (2010-2014)

	2014	2013	2012	2011	2010
Active	34,846	33,648	33,737	33,810	34,700
Deferred	35,321	31,754	28,812	24,858	24,800
Pensioners	25,985	24,574	23,631	22,541	21,312
Total	96,152	89,976	86,180	81,209	80,812

Auto-enrolment / i-Connect

In 2011 the government introduced "*Workplace Pensions*" which requires employers to auto-enrol eligible employees into a qualifying pension scheme. The LGPS is a qualifying scheme for auto-enrolment. Under the regulations employees who have contracts of employment are already automatically contractually enrolled into the LGPS so there will be fewer employees that will need to be auto-enrolled. Auto-enrolment is the employer's responsibility. They need to monitor their work force to identify employees who must be auto-enrolled. Each employer has a staging (or start date) according to its size. The first employers in the Fund started this process in early 2013.

The Fund has introduced a payroll software package i-Connect to assist with auto-enrolment. i-Connect will monitor the employer's payroll, identifying employees who need to be auto-enrolled into the LGPS in each pay period and create a payroll extract. i-Connect has been developed by Heywood and the payroll extract will automatically update the pensions administration system on a monthly basis. i-Connect has only been made available to the largest employers within the Fund as the cost of developing the required interface with the employer's payroll system is prohibitive for smaller employers. This represents a major advance for the Fund. As well as assisting with auto-enrolment, it will provide more timely and accurate member information from employers representing the majority of the Fund's active members. In addition ESS will enable a more efficient flow of data from the medium and smaller employers. The introduction of i-Connect and ESS support the Fund's strategic aim of requiring all employers to send member data files electronically.

Electronic delivery to members
Costs of production and postal delivery of hard-copy documents sent to members have been rising steeply in recent years. Greater use of technology can reduce these costs significantly. The Fund's main communication costs arise from the active and pensioner member newsletters (normally twice a year) and Annual Benefit Statements which, in total, requires sending circa 150,000 printed documents at a significant annual cost.

Table 3: Performance Indicators 2013/14

Performance Indicator	LGPC Standard Target	Fund achieved against target %	CIPFA Club average %
Letter detailing transfer in quote	10 days	91	89
Letter detailing transfer out quote	10 days	91	92
Process and pay refund	5 days	81	87
Letter notifying estimates of retirement benefits	10 days	97	91
Letter notifying actual retirement benefits	5 days	99	93
Initial letter acknowledging death of member	5 days	100	93
Letter notifying amount of dependant's benefits	5 days	93	91
Calculate and notify deferred benefits	10 days	72	76

Active members' newsletters
Newsletters are still posted to individual members. With the MSS facility now available, in the future the Fund intends to distribute newsletters electronically where possible. As legislation allows information to be distributed electronically, a project plan is being developed for 2014/15 to promote MSS as the preferred channel of communication. This will result in significant cost savings to the Fund going forward.

Website
The Fund has had its own dedicated pension website (www.avonpensionfund.org.uk) for over 10 years and this is now the key access point for information for members and employers. The site has been significantly improved in recent years and has separate sections for each category of membership. A separate employers' website (www.apfemployers.org.uk) was launched in 2013, providing interactive facilities. The number of website hits increased during the year demonstrating members' and media interest in pensions, prompted largely by the announcement of the new scheme from April 2014. Similarly, a new employee website is currently under development and will be launched early in 2015.

Performance Indicators
The Fund takes part in the annual CIPFA Pensions Administration Benchmarking Club. This compares administration costs and performance indicators against other participating LGPS funds (49 of the 99 local funds) and against a group of funds of similar size. The results are used to identify areas for improvement in the Service Plan, to understand the specific service pressures that the Fund faces and to help the Fund operate as efficiently and effectively as possible. In addition it provides an indication of relative operational costs.

This year's report identifies the cost per member for the Fund as £18.27 compared with £17.34 in 2012/13. Despite the increase in costs compared with the previous year this is significantly less than the cost for the average fund which is £21.11 per member. The Fund's own performance targets are set out in the SLAs it has in place with employers, covering over 80% of the active membership. In many cases these targets are more challenging than the industry standard. Regular SLA review meetings are held with these employers to review each party's performance. The Fund also publishes a Customer Charter on its website. This includes its targets (in working days) for completion of processing of member benefits. Table 3 shows the Fund's performance in meeting LGPC standard targets compared with the Club average.

Key staffing indicators
The administration of the Fund is provided by Bath & North East Somerset Council. The pensions service is split into three areas: Investment & Accounting, Benefits Administration (including Data Management & Quality Control) and Systems Support & Pension Payments. An organisation chart is available on the Fund website. The total number of staff in the pensions service was 43.7 in 2013/14. Of these 21.7 are involved in benefits administration - an increase in the previous year. Table 4 overleaf is an analysis of staff-based data from the CIPFA Benchmarking Club 2014 Report. This shows that the average number of members dealt with by each of the Benefits Team staff is 9% higher than the average.

In 2013 the benefits administration team was restructured to include a Data Management & Quality Control Team. The creation of a dedicated team reflects the increasing focus within the LGPS on disclosure of information and Data Protection. From April 2015 new national governance arrangements will be introduced for the LGPS and The Pensions Regulator will have a role in monitoring standards and promoting best practice in relation to disclosure of information to members. The new team will focus on member data, ensuring compliance to regulator standards, resolving data queries and providing management information to assist in the performance monitoring process. This will enable the remaining administration team to service members more efficiently.

Table 4: Key Staffing Indicators 2013/14

Key Staffing Indicators	2012/13	(CIPFA club average)	2013/14	(CIPFA club average)
Number of staff administering the LGPS scheme	17.7		21.7	
Fund Member / Staff ratio	5,189	3,863	4,572	4,150

Contributions and Pension Payments

During the year the Fund received £162 million in pensions contributions and pensions transfers and paid out £157m in pensions and pension transfers. The receipt of contributions from employers is monitored monthly to ensure both timeliness and accuracy of payment. Late payers and the amount of contributions received late are reported to the Committee. Interest is charged on late payments in line with the regulations. During the year there were just three occasions when employers were reported to the Committee for making late payments of contributions. These late contributions totalled £11,000 and the average delay was 31 days.

2013/14 Service Plan and Budget
Each year the Committee approves a forward looking three-year Service Plan and budget. The Committee reviews the Plan annually and monitors the budget each quarter with any additional spend during the year approved by the Committee.

In 2013/14 the administration costs excluding investment-related expenses of £2.2 million represented an underspend of £170,000. Investment costs of £11.4 million payable during the year were £1.2 million under budget. This underspend was due to later than budgeted appointment of new managers and less investment advice being commissioned. The annual investment management fees are about 0.35% of the Fund's asset value. In addition to annual management fees, the Fund accrues performance-related fees if certain performance targets are met. These are only payable if targets are met in the future. In 2013/14 performance related fees of £4.4 million accrued and £0.5 million were paid.

PENSION COMMUNICATIONS

The Fund publishes its Communication Policy on its website. It forms an integral part of the Administration Strategy. The Communications Policy is included as Appendix E.

Member satisfaction
The Fund places considerable importance on the feedback it receives from members on the service provided. The information gathered feeds the service development programme and is published to members in the Fund's newsletters.

Pension Clinics/Roadshows
The Fund offers to hold pension clinics for members at employers' sites where queries from individual members are addressed on a one-to-one basis. During the calendar year 2013, three clinics were held. To support the new LGPS 2014 a significant programme of member roadshow events and employer training workshops were held to inform stakeholders about the new scheme. The Fund held over 110 training events.

Retirements
Following their retirement, members are sent questionnaires to obtain feedback on the quality and timeliness of the service they received from the Fund in dealing with their retirement. The Fund maintained its overall rating with good or excellent in excess of 95% as in previous years.

Complaints
The Fund received no complaints about its service during the year.

Disagreements Procedure
The Fund operates a Disagreements Procedure, the terms of which are defined by statute, to be used in cases where a member disagrees with the pension benefits awarded or is in disagreement with a decision made by their employer that affects the pension benefits awarded. The Procedure is shown in detail on the Fund's web-site. At the start of the year there were no outstanding cases. During the year there have been two applications under Stage 1. In the first the initial decision was upheld. Stage 2 was still ongoing at end of year, as was the Stage 1 review for the other case, which was lodged on the 28 March 2014.

Communications Strategy
Communications is at the heart of the Fund's strategy to deliver a seamless pensions service to stakeholders. The Communications Strategy's objective is to have the resources in place to improve communication between the Fund and employers. The Fund has also published a Customer Charter which lays out service standards within which information will be sent to scheme members at key milestones. The Fund aims to give stakeholders timely and clear key messages, using a variety of media appropriate to their needs. The ultimate aim is that stakeholders will have the information and understanding to make informed decisions. All feedback from employers and members is used to help improve Communications Strategy. The Fund keeps abreast of best practice through

participating in collaborative groups such as the Local Government Association's pension communication group and the South West Pension Officers Communications group. These offer the opportunity to discuss topical pension issues and to share best-practice and innovations.

Members
The Fund communicates with its members using a variety of media. These include newsletters, annual statements and pre-retirement benefit statements. The Fund's website is an important method of publicising the latest news about pensions to members quickly and to direct members to more in-depth information on specific topics. The strategy to promote the take-up of the MSS facility is in line with the Occupational Pension Scheme (Disclosure of Information) Regulations 2010 which increased the scope for pension schemes to communicate with members by electronic means. The Fund is currently developing a new member website that can be accessed via smartphones and tablet devices. This is intended to increase accessibility to the Fund's website.

Employers
The Fund uses electronic communications with employers wherever possible in order to increase efficiency, speed and cost-effectiveness. The new employers' website was launched in 2013 and tailors information to meet employer needs. This website is becoming their primary source of information based around a series of Employer Factsheets. The Fund frequently meets with employers individually and hosts events during the year including an annual Employers' Conference, Investments Forum and several Employers' Forums. The Investments Forum focuses on finance and investment issues. Topical pension matters are discussed at the Employers' Conference and Forums, including statutory consultations and the impact of regulatory changes. The Fund offers training on the employer role and administrative procedures to all new employers joining the Fund, and refresher training for officers of existing employers.

INVESTMENT REPORT

1. Investment Regulations

(a) Investment Limits

The Avon Pension Fund is a funded scheme which means that the contributions and fund monies not currently needed to meet pension and benefit payments are invested and the Fund receives income from these investments. The Fund's objective is to meet the future pension payments of both past and current members.

The LGPS regulations provide a framework for the Investment Strategy. A wide range of investments are permitted but certain limits are set to ensure diversification and reduce risk.

The limits relevant to the Fund are:

- no more than 25% may be invested in unit trusts managed by any one body;
- no more than 10% of the Fund may be invested in unlisted securities;
- no more than 10% of the Fund may be invested in a single investment holding;
- no more than 10% of the Fund may be deposited with any one bank;
- no more than 35% of the Fund may be invested in any one insurance contract;
- no more than 2% of the Fund may be invested in a single partnership;
- no more than 15% of the Fund may be invested in partnerships

(b) Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the investment principles of the Fund and how the investments are managed in line with the principles. Key elements include: investment objective; management of investment risk; social, environmental and ethical considerations; exercise of voting rights; stock lending policy; and compliance with the Myners principles.

The SIP was revised during the year to reflect the new investment managers appointed and the revised allocations between investment mandates.

The latest version of the SIP was approved by the Avon Pension Fund Committee at its meeting in June 2014. A copy of the statement is included as Appendix D and can also be obtained from the website www.avonpensionfund.org.uk (search *Statement of Investment Principles*).

The Fund publishes a statement showing how it complies with the Financial Reporting Council (FRC) Stewardship Code. This Code is a set of best practice principles that are intended to frame both shareholder engagement with companies and the disclosure of such activity by investors. The Fund published its updated statement of compliance in June 2013 following the revision of the Code in September 2012. A copy of the statement can be obtained from the website www.avonpensionfund.org.uk (search *FRC Stewardship Code*).

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds.

Compliance with the Myners Principles

The Myners Principles codify a model of best practice for investors. As part of the SIP, funds are required to state how they comply with each principle and explain where they do not comply.

The Fund's current compliance with the principles is summarised in Table 5 below (a full explanation can be found in the SIP).

Table 5: How the Avon Pension Fund achieved compliance with the Myners Principles

1. Effective decision-making	**Compliance**
Clear governance structure for decision-making, supported by expert advisors and officers with clear responsibilities	✓
Job descriptions setting out the role and responsibilities of all Committee members	✓
Committee members undertake training on ongoing basis	✓
A forward looking three-year business plan	✓
2. Clear objectives	
Clear investment objective and strategy, taking into account the actuarial position and impact on scheme employers and tax payers	✓
A customised benchmark reflecting the Fund's own liability profile	✓
Consideration of different asset classes and their impact on return and risk	✓
Individual performance targets for the investment managers, monitored by the Committee	✓
Expert advice when considering its investment objective and strategy	✓
3. Risk and liabilities	
Investment objective and strategy reflects the specific liability profile of the scheme members	✓
Covenant of the employer and their ability to pay contributions is taken into account	✓
Risk management process in place to ensure risks are identified and mitigating action is taken where possible	✓
4. Performance assessment	
Fund's performance measured against investment objective, investment managers' performance measured against their benchmarks	✓
Contracts with advisors assessed on an ongoing basis	✓
Performance of decision-making bodies assessed by external auditors	✓
5. Responsible ownership	
Managers adopt the Institutional Shareholders' Committee Statement of Principles	✓
Policy on responsible ownership is included in Statement of Investment Principles	✓
6. Transparency and reporting	
Clear policy to communicate and consult with its scheme members, representatives and employers as appropriate	✓
All documents and statements made available, annual report contains information and data relevant to its many, diverse stakeholders	✓

2. Investment Strategy

The objective of the strategy is to achieve the investment return required by the funding strategy in order to meet the Fund's liabilities over time and to recover any funding deficit. The strategy must produce investment returns that will help stabilise and minimise employer contribution rates in the long term as well as reflecting the balance between maximising returns, protecting asset values, and matching the liabilities (to minimise investment risk).

The strategy will reflect the Fund's appetite for risk and its willingness to accept short term volatility within a long term strategy. The Fund pursues a policy of managing risk through diversification by asset class and by investment managers. The Avon Pension Fund Committee periodically reviews its Investment Strategy in order to ensure the strategy reflects the Fund's liability profile. The Fund is in the process of implementing the revised strategy following its strategic review in 2013. As at March 2014 the Fund has appointed two new Diversified Growth Fund managers and an additional manager for the increased allocation to Emerging Market Equities. The appointment of an Infrastructure manager will be completed in 2014.

Table 6 shows the Fund's actual asset allocation at 31 March 2014 against the strategic allocation targets. Note that as at 31 March 2014, the Fund's overseas property investment manager was still in the process of investing the monies allocated to property. The Fund is currently overweight in equities which will be used to fund the investment in infrastructure in the future. Table 3 also shows the market returns generated by each asset class over one and three years.

Table 6: Strategic, Actual Asset Allocation and Market Returns

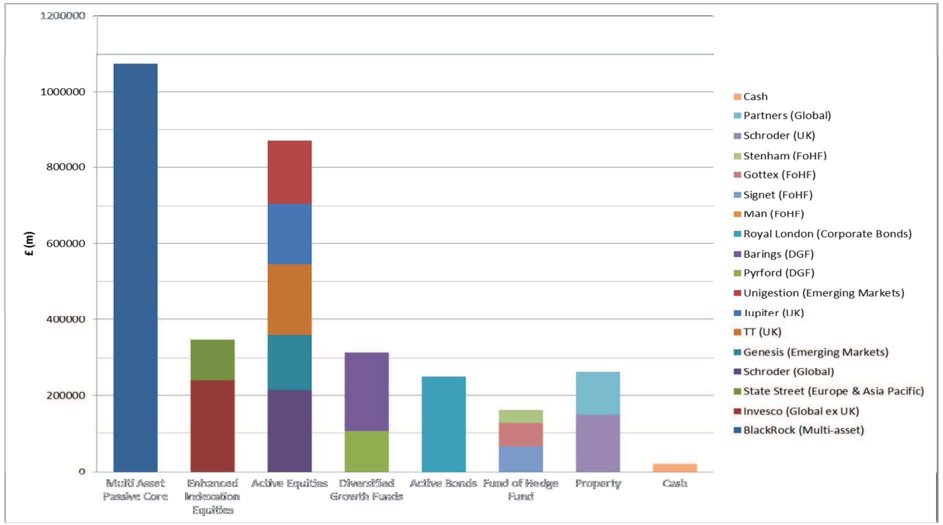
Asset Class	31 March 2014 Allocation	Strategic Allocation (in implementation phase)	Asset Class Market Returns	
			1 year	3 year (p.a.)
UK Equities	17.6%	15%	8.8%	8.8%
Overseas Equities	38.9%	35%	7.3%	7.1%
Total Equities	*56.5%*	*50%*		
Index-Linked Gilts	5.7%	6%	-4.4%	8.9%
Fixed Interest Gilts	3.2%	3%	-3.1%	8.7
UK Corporate Bonds	8.1%	8%	1.5%	7.4%
Overseas Bonds	2.2%	3%	-8.5%	0.3%
Total Bonds	*19.2%*	*20%*		
Infrastructure	-	5%	-	-
Diversified Growth Fund	9.4%	10%	4.5%	4.8%
Fund of Hedge Funds	4.9%	5%	3.2%	-0.4%
Property	7.8%	10%	11.9%	6.1%
Short term deposits / Other	2.2%	0%	-	-

Source of market returns: JLT Employee Benefits

The Fund's Investment Strategy is managed by external investment managers. The investment management structure and the amount of assets each manager manages on behalf of the Fund as at 31 March 2014 is set out in Chart 1.

Chart 1: Asset allocation by Manager 31 March 2014

Page 93



Responsible Investing

The Fund seeks to integrate a Responsible Investment (RI) approach across the entire investments portfolio, recognising the differing characteristics of asset classes. A copy of the RI policy can be obtained from the website www.avonpensionfund.org.uk (search *Responsible Investment Policy*).

The Fund sought to manage RI / Environmental, Social and Corporate Governance (ESG) risks during the year by the following actions:

- Embedded Environmental, Social and Governance and Responsible Investment criteria into the evaluation and implementation of the new Investment Strategy for the new Diversified Growth Fund and Emerging Markets Equity mandates and manager appointment decisions.

- Promoted RI / ESG by:
    - Following through with the governance issues identified last year by the Committee such as remuneration and board diversity
    - Holding managers to account and querying RI / ESG factors in their investment process where appropriate
    - Reviewing whether engagement activity of managers was in line with their stated policies
    - Engaging directly with the Fund's investment managers to:
        - Promote board diversity for the 2014 proxy season
        - Obtain feedback from investment managers on remuneration voting policies and related engagement activity.

- Increased the Fund's participation in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage RI risks.
- The Fund's managers voted at 1,940 company meetings during the year, covering 21,785 individual resolutions. They opposed management on 5% of the resolutions. The most contentious issues where managers voted against management were resolutions concerning board governance, independence of non-executive directors, board diversity and remuneration for executives.

3. Investment Performance

(i) 2013/14 performance

The value of the Fund rose by £195 million (+6.6%) during the year to £3.3 billion at 31 March 2014, outperforming its benchmark return of 4.5%. Performance was driven predominately by strong returns across developed market equities' where the Fund was overweight and property. Asset allocation contributed 1.0% and active portfolio management added 0.3% over the benchmark return. The Fund dynamically hedges some of the foreign currency held which added a further 0.7% to the return.

The Fund outperformed the average WM Local Authority Fund universe return over the year *(the average local authority pension fund return as calculated by WM Company)*.

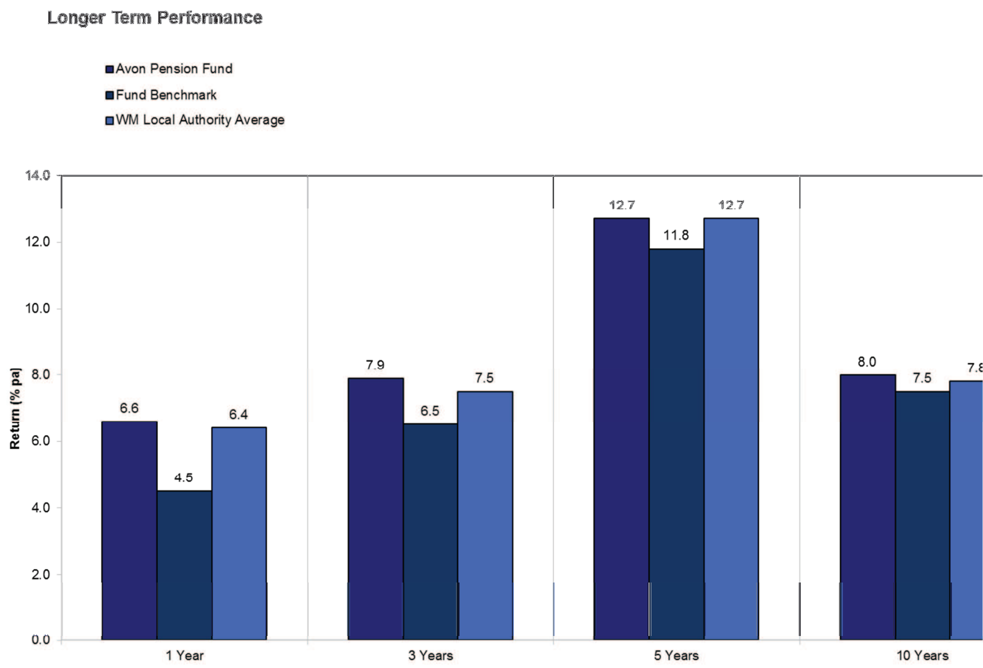
The strategic benchmark return (which assumes the investments achieve index returns) of 4.5% underperformed its long term return expectations provided by JLT. This was due to the (negative) returns from the government bond portfolio and Emerging Market equities over the year being far below long term expectations. As gilts are used as a proxy for valuing the liabilities, the strategic benchmark represents a portfolio that, using long term return expectations, should generate an annual return of +2.7% above the return from gilts (the "gilt-based benchmark"). In 2013/14 the strategic benchmark outperformed this gilt-based benchmark meaning that the funding position should have improved, everything else being equal.

Market returns were driven by increasing optimism over economic recovery across developed markets. Positive economic news has seen riskier assets, such as developed market equities, generate positive returns. In contrast bond returns were negative or subdued as the market brought forward its expectations of interest rate rises. Gilt yields continued to rise from their 2012 lows, which resulted in negative returns from UK government bonds. Optimism over the developed market recovery saw investors reallocate from emerging markets, which along with concerns over slowing growth in emerging markets, particularly in China, generated negative returns.

(ii) Longer term performance

The longer term performance of the Fund is shown in Chart 2 (the returns are annualised). The Fund's benchmark return is included in the chart together with the return of the WM Local Authority Fund Average. Within the chart the Fund return is inclusive of currency hedging whilst the benchmark return excludes currency hedging.

Chart 2: Long Term Performance



Over the last three years the investment return was 7.9% per annum increasing to 12.7% over five years and 8% over ten years. Currency hedging added 0.1% to the Fund's return over the three years the programme has been in place.

Over three years the Fund's return is ahead of its strategic benchmark return of 6.5% per annum with active portfolio management adding 0.8% and asset allocation 0.5% per annum. However, the Fund underperformed its gilt-based benchmark as gilts produced an unusually high return of 8.7% per annum.

The returns from UK equities, UK government and corporate bonds were ahead of the long term expectations for these asset classes whilst Emerging Market equities, overseas fixed interest and hedge funds were significantly behind the long term expected returns.

As Sterling has strengthened against the Euro, US dollar and Japanese Yen over both one and three years, the dynamic currency hedge has marginally increased overall returns.

The annualised attribution of performance by asset class and stock selection can be seen in Table 7.

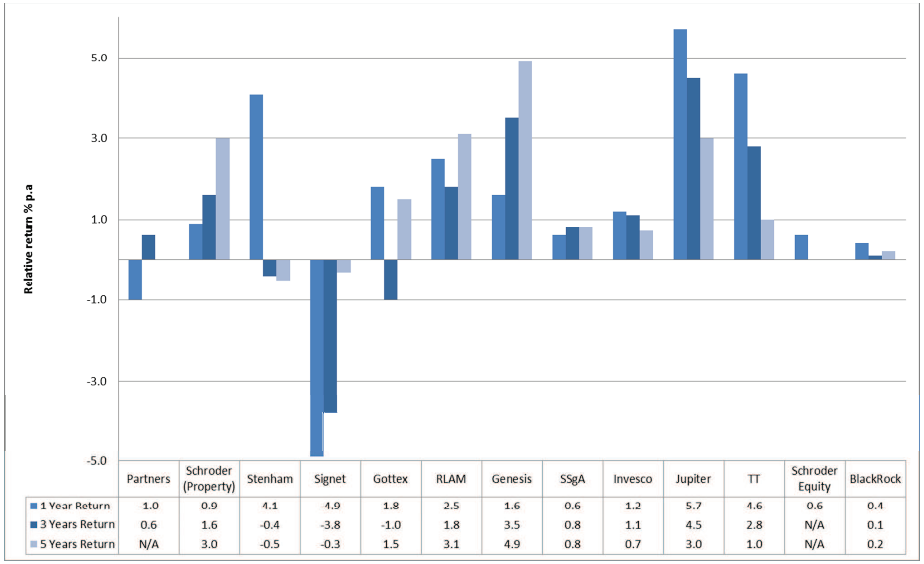
Table 7: Attribution to performance from asset allocation and stock selection

	Asset Allocation Impact		Stock Selection Impact	
Asset Class	**1 Year (%)**	**3 Years (% p.a)**	**1 Year (%)**	**3 Years (% p.a)**
Equities	0.6	0.0	0.7	0.7
Bonds	0.1	0.1	0.2	0.1
Multi-asset	0.2	0.0	-0.2	0.0
Property	0.1	0.1	-0.4	0.0
Hedge Funds	0.0	0.1	-0.1	0.1
Cash	0.0	0.0	0.0	0.0
	1.0	**0.5**	**0.3**	**0.8**

Source: The WM Company. Note: Columns do not add due to rounding.

Chart 3 shows how each of the investment managers have contributed to performance. It shows their performance against their specific benchmarks over one year, three years and five years. Jupiter, TT International, Stenham and Royal London had strong performances relative to their benchmarks during 2013/14 with only Signet and Partners detracting from overall performance. The performance of the global property portfolio managed by Partners is impacted by the dilution effect of new monies being invested during the investment phase of the portfolio. During the year the Fund terminated the mandate with MAN following a period of underperformance. In 2013/14 the managers outperformed their benchmarks by 0.3% in aggregate and by 0.8% over three years.

Chart 3: Contribution to performance – relative returns of investment managers



4. Largest Holdings

The ten largest investment holdings of the Fund at 31 March 2014 are shown in the Table 8.

Table 8: The ten largest investment holdings

Top 10 Largest Investment	**£'s**	**% of Fund**
RLPPC UK Corporate Bond Fund (Royal London)	251,100,832.49	7.54%
Invesco Perpetual Global ex UK Enhanced Index Fund	239,795,048.85	7.20%
Aquila Life UK Equity Index Fund (BlackRock)	220,957,487.99	6.63%
Baring Dynamic Asset Allocation Fund	209,797,537.30	6.30%
MSCI Equity Index Fund B-US (BlackRock)	173,124,790.26	5.20%
Uni-Global Equity Emerging Markets Fund (Unigestion)	166,687,432.11	5.00%
BlackRock Europe ex-UK Index Fund	159,056,769.91	4.77%
Genesis Emerging Markets Investment Fund	145,092,481.29	4.36%
Pyrford Global Total Return (Sterling) Fund	104,542,399.07	3.14%
Aquila Life Overseas Bond Index Fund (BlackRock)	74,588,354.25	2.24%

5. Investment Administration

The Fund's custodian is responsible for the safe-keeping of the Fund's assets and acts as the Fund's bank, settling transactions and collecting income. In addition they provide a range of support services including stock lending and investment accounting.

The Fund has a separate bank account which provides transparency and accountability of the Fund's and Council's banking arrangements. The Fund has a separate Treasury Management Policy which ensures the investment of the Fund's cash is consistent with the risk parameters of the Fund. The management of the pension fund's investment cash is delegated to the Council.

ACTUARIAL REPORT

Actuarial Position

In line with the LGPS regulations, the Fund's actuarial position is reviewed every three years. The latest triennial valuation, based on membership data and asset values as at 31 March 2013, has set the employer contribution rates for the period from 1 April 2014 to 31 March 2017. The 2016 valuation using data at 31 March 2016 will set the contribution rates from 1 April 2017 onwards.

The 2013 valuation produced a funding level (the coverage of liabilities by the assets) of 78% which was slightly lower than the funding level of 82% at the previous valuation in 2010. In monetary terms the deficit increased from £552 million in 2010 to £876 million in 2013. The fall in the funding level and rise in the deficit since 2010 was due to the fall in gilt yields to near historic lows in March 2013. As the future value of the pension liabilities are calculated using a discount rate based on gilt yields, if gilt yields fall, the value of the liabilities will rise.

By 31 March 2014, the funding level is estimated to have improved to 84% and the deficit is estimated to have fallen to £636 million. This improvement is due to slightly higher gilt yields and investment returns being ahead of expectations.

During the intra-valuation period quarterly funding updates from the Actuary are monitored by the Committee. An interim valuation will be undertaken in 2015. This will ensure employers are fully aware of the potential impact of the next valuation on their budget and enable them to plan accordingly.

As the monthly pensions paid now exceed the contributions received, the Fund needs to use its investment income to pay pensions. A cashflow forecast of contributions, pension payments and investment income forms part of the 2014/15 Service Plan. Actual cashflow is monitored against the forecast to manage the cash requirements on a monthly basis.

Funding Strategy Statement (FSS)

The FSS was updated in 2013 in order to set the parameters for the 2013 valuation. As the 2013 valuation was completed during a particularly difficult time for public sector bodies with public sector funding continuing to contract, the FSS for the 2013 valuation reflected the need to balance the long term solvency of the Fund with cashflow pressures faced by the scheme employers over the three year valuation period (to 2016/17).

The regulations provide that the Funding Strategy Statement must:

- establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory requirement to maintain as near constant employer contribution rates as possible; and
- take a prudent longer-term view of funding those liabilities.

Using the flexibility provided within this framework, the Fund kept increases in employer contribution rates to a minimum. The fall in gilt yields translated into a lower discount rate used to value both past service and future service pension liabilities and this led to increases in contribution rates for most employers. However, as the driver of the higher costs was the fall in gilt yields, the Actuary took into account an improvement in gilt yields in the period following the valuation when setting deficit recovery payment plans with individual employers in order to address affordability.

The period over which the deficit is recovered from each employer was reduced in the FSS to a maximum of 27 years from 30 years (in the 2010 FSS). For most employers the deficit recovery period contracted by three years and, overall, the Fund's deficit recovery period decreased from 23 years to 20 years. When setting contribution rates and deficit recovery periods for individual employers or groups of employers, the Actuary takes into account an assessment of the financial strength and funding sources undertaken by the Fund.

The Future Service Contribution Rate (the on-going cost of one year's pension accrual) is expressed as a percentage of pensionable pay. However, to ensure there is no significant underpayment of deficit recovery contributions should payrolls contract during the valuation period, deficit recovery contributions (or past service contributions) are expressed in annual monetary amounts.

The 2013 triennial valuation incorporated the changes arising from the new LGPS scheme, effective from April 2014. Overall for the Fund there were savings to future service pension costs of about 1.7%, mainly due to an increase in the retirement age for benefits accruing post April 2014 (where the retirement age will rise in line with the state pension age). However, for some smaller employers, these savings were more than offset by the extra cost of protections under the old scheme (determined by the age profile of the membership).

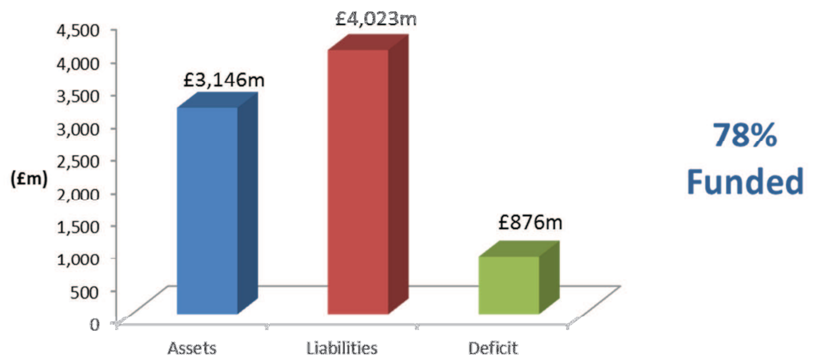
The number of scheme employers continued to increase due to the creation of academies and outsourcing of services by scheme employers. Academies are scheduled bodies with an automatic right to join the scheme. Admitted bodies are required to have a guarantee from the outsourcing employer or to provide an indemnity bond to protect the Fund in the event of default or insolvency.

The 2013 Funding Strategy Statement is in Appendix F and can also be obtained from the website www.avonpensionfund.org.uk (search *Funding Strategy Statement).*

STATEMENT OF THE CONSULTING ACTUARY

An actuarial valuation of the Avon Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period from 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £3,146 million represented 78% of the Fund's past service liabilities of £4,023 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £876 million.



The valuation also showed that a common rate of contribution of 13.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 83% with a resulting deficit of £650 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £34m per annum increasing at 4.1% per annum (equivalent to approximately 6.0% of projected Pensionable Pay at the valuation date) for 20 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to bespoke funding strategies, the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2014

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

EMPLOYERS' CONTRIBUTION RATES

Year Ended 31 March 2014	2013/14 %	2013/14 Deficit / Surplus Recovery	2012/13 %	2012/13 Deficit / Surplus Recovery
Scheduled Bodies				
Principal Councils and Service Providers				
Avon Fire Brigade	10.9	£241,900	10.9	£231,500
Bath & North East Somerset Council	12.2	£4,127,500	12.2	£4,333,200
City of Bristol Council	11.8	£12,745,800	11.8	£12,660,600
North Somerset Council	11.8	£4,370,700	11.8	£4,710,000
South Gloucestershire Council	11.9	£4,840,600	11.9	£4,888,000
Further & Higher Education Establishments				
Bath Spa University College	11.2	£399,600	11.2	£382,400
City of Bath College	11.2	£72,700	11.2	£69,600
City of Bristol College	11.4	£452,700	11.4	£433,200
Norton Radstock College	12.3	£34,900	12.3	£33,400
South Gloucestershire & Stroud College (formerly Filton College)	10.5	£312,000	10.4	£181,000
St. Brendan's College	11.4	£26,500	11.4	£25,400
University of Bath	11.6	£541,800	11.6	£518,500
University of the West of England	11.0	£1,620,800	11.0	£1,551,100
Weston College	10.4	£160,800	10.4	£153,900
Academies and Schools				
Abbeywood Community School Academy	11.8	£36,400	11.8	£8,700
Academy of Trinity C of E	12.5	£5,900	12.5	£5,600
Ann Harris Academy Trust (formerly St. John's Primary)	13.9	£6,400	-	-
Backwell School	13.7	£74,200	13.7	£71,000
Bannerman Road Community Academy	9.7	£29,500	9.7	£7,100
Bath Community Academy	12.4	£15,000	12.4	£8,400
Bedminster Down School Academy	13.5	£29,300	13.5	£23,583
Beechen Cliff School Academy	12.4	£27,800	12.4	£26,600
Begbrook Primary Academy	12.5	£17,500	12.5	£9,800
Birdwell Primary School Academy	12.6	£12,200	-	-
Bradley Stoke Community School	10.9	£48,600	10.9	£46,600
Bridge Learning Campus Foundation	11.7	£54,000	11.7	£30,200

Bristol Cathedral Choir School	13.2	-£5,200	13.2	-£5,000
Bristol Free School Trust	13.4	-	13.4	-
Bristol Technology & Engineering Academy	20.0	-	-	-
Broadlands Academy	11.1	£36,100	11.1	£11,500
Broadoak Mathematics & Computing College	11.6	£60,300	11.6	£57,700
Cabot Learning Federation	10.8	-	10.8	-
Castle School Education Trust	13.0	£67,800	13.0	£5,400
Cathedral Primary School	13.6	-	-	-
Charfield Primary School	14.2	£2,700	-	-
Chew Stoke Church School	12.0	£5,100	12.0	£2,900
Christ Church C of E Primary School	12.2	£9,800	12.2	£7,800
Churchill Academy	13.0	£77,300	13.0	£74,000
Clevedon School Academy	12.1	£50,400	12.1	£48,300
Colston Girl's School Trust	14.2	-£710	14.2	-£680
Colston's Primary School Academy	10.9	£5,600	10.9	£3,100
Cotham School Academy	11.8	£51,100	11.8	£48,900
Downend School	12.3	£39,900	12.3	£3,200
Elmlea Junior School Academy	12.4	£8,400	12.4	£8,100
Filton Avenue Infants Academy	10.7	£17,000	10.7	£9,500
Fishponds Church of England Academy (Bristol Church Academies Trust)	12.0	£21,300	12.0	£11,900
Fosseway School	10.2	£42,100	10.2	£40,300
Frome Vale Academy	11.0	£10,300	11.0	£5,800
Gordano School Academy	12.5	£82,200	12.5	£78,700
Greenfield Primary School Academy	12.3	£13,300	12.3	£7,400
Hans Price Academy	12.1	£51,400	12.1	£49,200
Hareclive Academy	11.5	£16,600	11.5	£10,600
Hayesfield Girls School Academy	12.9	£30,600	12.9	£29,200
Henbury Court School	11.5	£15,700	-	-
Henbury School Academy	11.9	£30,700	11.9	£29,400
Henleaze Junior School Academy	12.2	£7,900	12.2	£7,500
Heron's Moor Community School	11.5	£20,600	11.5	£11,500
Ilminster Avenue E-ACT Academy	15.0	£7,200	15.0	£6,900
Kingshill Academy	12.3	£9,900	-	-
Kings Oak Academy		£26,200		£25,100

	13.2		13.2	
Little Mead Primary School	10.7	£16,500	10.7	£6,600
Merchant's Academy	11.2	-	11.2	-
Midsomer Norton School Partnership	12.1	£79,700	12.1	£76,300
Minerva Primary Academy	12.6	£10,300	12.6	£5,800
Nailsea School Academy	13.4	£51,600	13.4	£32,900
Oasis Academy Bank Leaze	9.8	£10,400	9.8	£5,800
Oasis Academy Brightstowe	11.5	-	11.5	-
Oasis Academy Connaught	12.4	£8,900	12.4	£5,000
Oasis Academy John Williams	12.1	-	12.1	-
Oasis Academy Long Cross	15.0	£36,800	-	-
Oasis Academy New Oak	10.1	£14,500	10.1	£8,100
Oldfield School Academy Trust	13.9	£11,500	13.9	£11,000
One World Learning Trust	10.4	£14,600	10.4	£14,000
Orchard Academy	12.1	£43,700	12.1	£24,400
Parson Street Primary School	13.2	£20,200	13.2	£8,100
Patchway Community College	13.9	£42,600	-	-
Priory Community School Academy	11.9	£83,300	11.9	£79,700
Ralph Allen Academy	13.4	£40,600	13.4	£25,900
Redland Green School Academy	10.5	£68,300	10.5	£32,700
St. Bedes School Academy	11.9	£26,500	11.9	£24,500
St. Nicholas of Tolentine Catholic Primary School	12.7	£11,100	12.7	£3,500
St. Patrick's Academy	13.4	£9,300	13.4	£5,900
St. Teresa's Catholic Primary School	11.9	£11,200	11.9	£3,600
St. Ursula's E-ACT Academy	11.8	-	11.8	-
Stoke Bishop C of E Primary School	13.4	£14,700	-	-
Stoke Lodge Academy	12.9	£16,900	-	-
Summerhill Academy	13.1	£8,300	13.1	£4,600
The Dolphin Academy	9.6	£100	9.6	£100
The Kingfisher School	12.1	£7,800	-	-
The Ridings Federation Winterbourne	11.8	-£21,300	11.8	-£20,400
The Ridings Federation Yate	11.4	-£9,500	11.4	-£9,100
Threeways School	9.7	£24,000	-	-
Trust in Learning	19.7	£3,100	19.7	£1,700

Wallscourt Farm Academy	20.0	-	-	-
Waycroft School Academy	12.9	£21,500	12.9	£20,600
Wellsway School Academy	12.0	£38,700	12.0	£37,000
West Town Lane Primary School	14.0	£13,700	14.0	£13,100
Westbury Park Primary School Academy	13.8	£14,000	13.8	£8,900
Westbury-on-Trym C of E Academy	12.3	£15,700	12.3	£15,000
Writhlington School Academy	11.0	£52,300	11.0	£50,000
Designating Bodies				
Almondsbury Parish Council	14.0	-	14.0	-
Backwell Parish Council	14.0	£1,200	14.0	£1,200
Bath Tourism Plus	14.1	-	14.1	-
Bradley Stoke Town Council	13.4	£7,000	13.4	£6,700
Charter Trustees of the City of Bath	14.3	£3,500	14.3	£3,200
Clevedon Town Council	13.2	-	13.2	-
Destination Bristol	12.5	£7,700	12.5	£7,400
Dodington Parish Council	14.8	£1,100	14.8	£1,100
Downend and Bromley Heath Parish Council	11.5	£100	11.5	£100
Filton Town Council	10.2	£1,200	10.2	£1,100
Frampton Cotterell Parish Council	14.0	£1,100	14.0	£1,000
Hanham Abbots Parish Council	10.0	-	10.0	-
Hanham Parish Council	12.9	£3,000	12.9	£2,900
Keynsham Town Council	14.5	£11,900	14.5	£11,390
Mangotsfield Rural Parish Council	10.7	£1,700	10.7	£1,600
Midsomer Norton Town Council	10.8	£7,200	10.8	£6,900
Nailsea Town Council	14.0	£3,400	14.0	£3,200
Oldland Parish Council	11.7	£300	11.7	£300
Patchway Town Council	12.0	£6,200	12.0	£5,900
Paulton Parish Council	13.4	£1,700	13.4	£1,600
Peasedown St. John Parish Council	14.0	-	14.0	-
Pill & Easton in Gordano Parish Council	12.9	-	12.9	-
Portishead Town Council (formerly Portishead & North Weston Town Council)	16.2	£2,700	16.2	£2,600
Radstock Town Council	7.5	£3,400	7.5	£3,200
Saltford Parish Council	13.9	£400	13.9	£300

Stoke Gifford Parish Council	14.9	£6,200	14.9	£5,900
Thornbury Town Council	17.1	£11,500	17.1	£11,000
Vista SWP Ltd	11.3	-	11.3	-
Westerleigh Parish Council	11.9	-	11.9	-
Westfield Parish Council	18.4	£3,600	18.4	£3,500
Weston Super Mare Town Council	10.6	£4,800	10.6	£4,600
Whitchurch Parish Council	12.3	£100	12.3	£100
Winterbourne Parish Council	17.3	£300	17.3	£300
Yate Town Council	11.3	£9,800	11.3	£9,400
Yatton Parish Council	14.0	-	14.0	-
Community Admission Bodies				
Alliance Homes	13.6	£72,000	13.6	£68,900
Ashley House Hostel	14.6	£4,500	14.6	£4,300
Bristol Disability Equality Forum	17.5	-	17.5	-
Bristol Music Trust	14.7	-	14.7	-
Centre For Deaf People	14.9	£21,300	14.9	£20,400
Clifton Suspension Bridge Trust	15.9	£2,600	15.9	£2,500
CURO Places Ltd	14.6	£230,700	14.6	£220,700
CURO Group (Albion) Ltd	12.4	£26,600	12.4	£25,400
CURO Choice	14.6	-	-	-
Holburne Museum of Art	10.0	£15,300	10.0	£14,700
Learning Partnership West Limited (CAB)	11.1	£230,700	11.1	£220,800
Merlin Housing Society (SG)	14.2	-	14.2	-
Merlin Housing Society Ltd	15.9	-	15.9	-
Off the Record Bath & North East Somerset Council	8.9	£11,500	8.9	£11,000
Sirona Care & Health CIC	14.8	-	14.8	-
Southern Brooks Community Partnership	11.0	£4,900	11.0	£4,700
Southwest Grid for Learning Trust	11.2	£25,000	11.2	£23,900
The Care Quality Commission	16.7	£36,000	16.7	£34,400
The Park Community Trust	14.2	-	14.2	-
Vision North Somerset	15.5	£9,100	15.5	£8,700
West of England Sport Trust	13.8	£13,500	13.8	£12,900

Transferees Admitted Bodies				
Action For Children	12.1	-	-	-
Active Community Engagement Ltd	13.7	-£3,600	13.7	-£3,400
Agilisys	14.3	-	14.3	-
Aquaterra Leisure Ltd.	8.8	£28,400	8.8	£28,400
ARAMARK	15.6	-	15.6	-
BAM Construct UK Ltd	16.6	£9,500	16.6	£9,200
Barnardos	13.0	-	-	-
Bespoke Cleaning Services	15.7	-	15.7	-
Bristol Drugs Project	11.3	-	11.3	-
Churchill Contract Services	15.6	-	15.6	-
Churchill Contract Services Ltd (Team Clean)	13.6	£200	13.6	£200
Circadian Trust	9.5	£31,500	9.5	£30,100
Circadian Trust No 2	9.2	-	9.2	-
Creative Youth Networks (Lot 4)	14.7	-	14.7	-
Direct Cleaning (SW) Ltd	12.4	-	12.4	£1,300
Eden Food Services	13.8	£82,400	13.8	£78,800
English Landscapes	16.1	£1,600	16.1	£1,500
Fit For Sport	12.1	-	-	
HCT Group (CT Plus) (CIC)	17.6	-	17.6	-
ISS Mediclean (CLF)	16.8	£900	16.8	£800
ISS Mediclean (Bristol City Council)	13.9	-	13.9	-
Keeping Kids Company	13.3	-	13.3	-
Kier Facilities Services	14.6	-	14.6	-
Learning Partnership West (Lot 1)	16.4	-	16.4	-
Learning Partnership West (Lot 2)	12.0	-	12.0	-
Learning Partnership West (Lot 3)	11.7	`	11.7	-
Learning Partnership West (Lot 7)	7.3	-	7.3	-
Liberata UK Ltd	14.3	-	14.3	-
Mouchel Business Services Ltd (Nailsea IT)	15.4	-	15.4	-
Quadron Services	15.3	-£4,000	15.3	-£3,800
Shaw Healthcare (North Somerset) Ltd	15.5	£17,500	15.5	£16,800
SITA	21.9	£53,100	21.9	50,800
Skanska (Cabot Learning Federation)		-£1,800		-£1,700

	27.3		27.3	
Skanska Rashleigh Westerfoil	12.7	£500	12.7	£500
SLM Community Leisure	13.8	£5,000	13.8	£4,800
SLM Fitness & Health	12.4	£4,700	12.4	£4,500
Sodexo	17.1	-	17.1	-
The Brandon Trust	15.2	£24,000	15.2	£23,000
Tone Leisure (Trust) Limited	13.4	-	13.4	-

STATEMENT OF ACCOUNTS 2013/14

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2013 to 31 March 2014.

1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2013/14 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 The accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice.

1.4 The accounts are set out in the following order:

Statement of Accounting Policies which explains the basis of the figures in the accounts.

Fund Account which discloses the size and nature of financial additions to and withdrawals from the Fund during the accounting period and reconciles the movements in the net assets to the Fund Account.

Net Assets Statement which discloses the size and disposition of the net assets of the Fund at the end of the accounting period.

Notes to the Accounts which give supporting details and analysis concerning the contents of the accounts, together with information on the establishment of the Fund, its membership and actuarial position.

Actuarial Valuation

1.5 As required by the Local Government Pension Scheme Regulations 2008 an actuarial valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £3,146 million. The Actuary estimated that the value of the Fund was sufficient to meet 78% of its expected future liabilities of £4,023 million in respect of service completed to 31 March 2013.

1.6 The deficit recovery period for the Fund overall is 20 years.

1.7 The 2013 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions used to set employers' contributions are set out in the table below:

	Past service liabilities	**Future service liabilities**
Rate of discount	4.8% per annum	5.6% per annum
Rate of pensionable pay inflation	4.1% per annum	4.1% per annum
Rate of price inflation	2.6% per annum	2.6% per annum

1.8 The 2013 triennial valuation was completed during 2013/14 using market prices and membership data as at 31 March 2013. The 2013 valuation set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2014.

1.9 The Actuary has estimated that the funding level as at 31 March 2014 has risen to 84% from 78% at 31 March 2013. This rise in the funding level is due to the rise in real yields since the valuation. Investment returns have also positively contributed to the improvement in the funding level. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields, so as gilt yields rise, the value of these liabilities falls.

1.10 Note 17 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS19 using the assumptions and methodology of IAS19. The discount rate referenced for IAS19 is the Corporate Bond yield. The discount rate used for the Actuarial Valuation references the Fund's Investment Strategy.

1.11 The Fund's Funding Strategy Statement can be found on the Fund's website www.avonpensionfund.org.uk (*search Funding Strategy Statement*).

Statement of Investment Principles

1.12 The Fund's Statement of Investment Principles as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 can be found on the Fund's website www.avonpensionfund.org.uk (*search Statement of Investment Principles*) or supplied on request from Liz Woodyard, Investments Manager.

Statement of Accounting Policies

Basis of Preparation

2.1 Except where otherwise stated, the accounts have been prepared on an accruals basis, i.e. income and expenditure is recognised as it is earned or incurred, not as it is received or paid. The accounts have been prepared on a going concern basis.

Investments

2.2 Investments are shown in the accounts at market value, which has been determined as follows:

i. Quoted Securities have been valued at 31 March 2014 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation.
ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2014.
iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into Sterling at the exchange rates ruling as at 31 March 2014.
v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market-quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
vi. Forward foreign exchange contracts outstanding at the year-end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
viii. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
ix. The Fund's surplus cash is managed separately from the surplus cash of Bath & North East Somerset Council and is treated as an investment asset.

Contributions

2.3 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 as amended.

Benefits, Refunds of Contributions and Cash Transfer Values

2.4 Benefits payable and refunds of contributions have been brought into the accounts as they fall due.

2.5 Cash Transfer Values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. Cash Transfer Values have been included in the accounts on the basis of the cheque payment date or "Bath & North East Somerset Council cash office received" date. Accruals are only made when it is certain that a transfer is to take place.

2.6 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year.

Investment Income

2.7 Dividends and interest have been accounted for on an accruals basis. Some of the income on pooled investments is accumulated and reflected in the valuation of the units. Some of the income on pooled investments (mainly property) is distributed.

Investment Management & Administration

2.8 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit Bath & North East Somerset Council to charge administration costs to the Fund. A proportion of relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business.

2.9 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. In 2013/14 a provision has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

2.10 The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to UK income tax on investment income or to capital gains tax. As Bath & North East Somerset Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. For taxation of overseas investment income please see note 3 iv. in the Notes to the Accounts.

Use of Accounting Estimates

2.11 The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

A number of Group Transfers in to the Fund and out of the Fund are subject to final agreement by the Actuary. Estimated values have been accrued as debtors and creditors (see 2.5 and note 18).

Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 17) in which the

actuarial calculation of the liability is subject to the professional judgement of the Actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 25d.

Events After the Balance Sheet Date

2.12 The Statement of Accounts is adjusted to reflect events that occur after the end of the reporting period that provide evidence of conditions that existed at the end of the reporting period, should they occur. The Statement of Accounts is not adjusted to reflect events that are indicative of conditions that arose after the reporting period but, where material, disclosure is made in the notes of the nature and estimated financial effect of such events.

Financial Instruments

2.13 Financial Assets and Liabilities are recognised on the Balance Sheet when the Fund becomes a party to the contractual provisions of a financial instrument and are measured at fair value or amortised cost.

Fund Account
For the Year Ended 31 March 2014

	Notes	2013/14	2012/13
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	**143,276**	134,858
Transfers In		**18,776**	7,255
Other Income	5	**442**	500
		162,494	142,613
Benefits Payable	6	**149,791**	136,655
Payments to and on account of Leavers	7	**6,868**	5,173
Administrative Expenses	8	**2,883**	2,585
		159,542	144,413
Net Additions from dealings with members		**2,952**	(1,800)
Returns on Investments			
Investment Income	10	**29,092**	29,025
Profits and losses on disposal of investments and change in value of investments.	11	**185,124**	362,285
Investment Management Expenses	9	**(11,682)**	(10,148)
Fund Manager Performance Fees	9	**(4,931)**	-
Net Returns on Investments		**197,603**	381,162

Net Increase in the net assets available for benefits during the year	**200,555**	379,362
Net Assets of the Fund		
At 1 April	**3,145,656**	2,766,294
At 31 March	**3,346,211**	3,145,656

Net Assets Statement at 31 March 2014

	Note	31 March 2014 £'000	%	31 March 2013 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		**92,694**	**2.8**	109,674	3.5
Equities		**542,777**	**16.2**	495,980	15.8
Diversified Growth Funds		**314,340**	**9.4**	-	0.0
Index Linked securities : Public Sector		**189,176**	**5.7**	209,876	6.7
Pooled investment vehicles :-					
- Property : Unit Trusts		**102,865**	**3.1**	78,749	2.5
: Unitised Insurance Policies		**46,063**	**1.4**	47,863	1.5
: Other Managed Funds		**112,058**	**3.3**	95,729	3.0
Property Pooled Investment Vehicles		**260,986**		222,341	
- Non Property : Unitised Insurance Policies		**778,501**	**23.2**	811,938	25.8
: Other Managed Funds		**1,051,084**	**31.4**	1,203,448	38.3
Non Property Pooled Investment Vehicles		**1,829,585**		2,015,386	
Cash deposits		**85,023**	**2.5**	85,895	2.7
Other Investment balances		**9,361**	**0.3**	12,864	0.4
INVESTMENT LIABILITIES					

Derivative contracts (Foreign Exchange hedge)		**12,199**	**0.4**	(2,912)	(0.1)
Derivative Contracts: FTSE Futures		**162**	**0.0**	(226)	0.0
Other Investment balances		**(5,097)**	**(0.2)**	(13,502)	(0.4)
TOTAL INVESTMENT ASSETS	12	**3,331,206**		3,135,376	
Net Current Assets					
Current Assets	14	**24,980**	**0.7**	13,283	0.4
Current Liabilities	14	**(9,975)**	**(0.2)**	(3,003)	(0.1)
Net assets of the scheme available to fund benefits at the period end		**3,346,211**	**100**	3,145,656	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2014.

Notes to the Accounts - Year Ended 31 March 2014

1 GENERAL

The Fund is administered by Bath & North East Somerset Council under arrangements made following the abolition of the former Avon County Council on 31 March 1996.

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 26.

Employers' contributions are payable at the rate specified for each employing authority by the Fund's Actuary. The employees' contribution rate is payable in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

2 MEMBERSHIP

Membership of the Fund at the year-end was as follows:-

	31 March 2014	31 March 2013
Employed Members	**34,846**	33,648
Pensioners	**25,985**	24,574
Members entitled to Deferred Benefits	**35,321**	31,754

TOTAL		**96,152**		89,976

A further 1,181 ex-members whose membership was for up to two years before 1 April 2004 or up to three months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

3 TAXATION

i. Value Added Tax

The Fund's administering authority Bath & North East Somerset Council is reimbursed VAT by H. M. Revenue and Customs and the accounts are shown exclusive of VAT.

ii. Income Tax

The Fund is a wholly exempt fund and some UK income tax is recoverable from HM Revenue and Customs. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax.

iii. Capital Gains Tax

No capital gains tax is chargeable.

iv. Taxation of Overseas Investment Income

The Fund receives interest on its overseas government bond portfolio gross, but a variety of arrangements apply to the taxation of interest on corporate bonds and dividends on overseas equities.

4 CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		2013/14 £'000		2012/13 £'000
Employers' normal contributions				
Scheduled Bodies	**55,066**		52,129	
Administering Authority	**6,902**		6,566	
Admission Bodies	**6,876**	**68,844**	5,787	64,482
Employers' deficit funding				
Scheduled Bodies	27,384		26,598	
Administering Authority	**4,146**		4,021	
Admission Bodies	**1,571**	**33,101**	1,082	31,701
Total Employers' normal and deficit funding		**101,945**		96,183

Employers' contributions- Augmentation				
Scheduled Bodies	**4,312**		2,697	
Administering Authority	**537**		224	
Admission Bodies	**147**	**4,996**	457	3,378
Members' normal contributions				
Scheduled Bodies	**28,868**		28,617	
Administering Authority	**3,530**		3,495	
Admission Bodies	**3,300**	**35,698**	2,649	34,761
Members' contributions towards additional benefits				
Scheduled Bodies	**474**		418	
Administering Authority	**127**		97	
Admission Bodies	**36**	**637**	21	536
Total		**143,276**		134,858

The members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme. Augmentation contributions are paid by employers to meet the cost of early retirements. Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service.

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 20.

5 OTHER INCOME

	2013/14 £'000	2012/13 £'000
Recoveries for services provided	**426**	492
Cost recoveries	**16**	8
	442	500

Recoveries for services provided refers to administrative and accounting services provided to employing bodies. Cost recoveries are the recovery of the cost of calculating Pension Sharing on divorce

6 BENEFITS PAYABLE

Analysis of Benefits Payable by type:-

	2013/14 £'000	2012/13 £'000
Retirement Pensions	**112,720**	106,097
Commutation of pensions and		
Lump Sum Retirement Benefits	**34,148**	27,815
Lump Sum Death Benefits	**2,923**	2,743
	149,791	136,655

Analysis of Benefits Payable by employing body:-

	2013/14 £'000	2012/13 £'000
Scheduled and Designating Bodies	**124,288**	114,704
Administering Authority	**14,133**	11,938
Admission Bodies	**11,370**	10,013
	149,791	136,655

7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2013/14	2012/13
Leavers	**£'000**	£'000
Refunds to members leaving service	**116**	17
Individual Cash Transfer Values to other schemes	**4,352**	5,028
Group Transfers	**2,400**	128
	6,868	5,173

8 ADMINISTRATION EXPENSES

Costs incurred in the management and administration of the Fund are set out below:

	2013/14 £'000	2012/13 £'000
Administration and processing	**1,957**	**1,808**
Actuarial fees	**486**	**356**
Audit fees	**27**	**29**
Legal and professional fees	**-**	**-**
Central recharges from Administering Authority	**413**	**392**
	2,883	**2,585**

9 INVESTMENT EXPENSES

Expenses incurred in the management of the Fund are set out below:

	2013/14 £'000	2012/13 £'000
Fund Manager Base Fees	11,366	9,827
Fund Manager Performance Fees	4,931	-
Global Custody	94	64
Investment Advisors	123	167
Performance Measurement	37	34
Investment Accounting	4	3
Investment Administration	58	53
	16,613	10,148

Fund Manager Performance Fees includes £558k fees paid during the year and a provision for fees that have been accrued but are subject to phased payment or not due to be paid until the realisation of the related assets. Unpaid fees remain subject to variation as a result of future performance. £1,127k of the performance fees relates to 2013/14 and £3,804k relates to previous years. Total fund manager fees include management charges for pooled investments that are settled directly within the pooled vehicles in accordance with the investment management agreement.

10 INVESTMENT INCOME

	2013/14 £'000	2012/13 £'000
Interest from fixed interest securities	**3,557**	3,898
Dividends from equities	**16,651**	15,070
Income from Index Linked securities	**5,091**	5,703
Income from pooled investment vehicles	**3,480**	4,002
Interest on cash deposits	**282**	335
Other - Stock lending	**31**	17

29,092	29,025

The Fund has an arrangement with its custodian (BNY Mellon) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. This stock lending programme was introduced with effect from July 2004. The Fund may terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.

The value of the stock on loan as at 31 March 2014 was £17.27 million (31 March 2013 £3.01 m), comprising of equities and sovereign debt. This was secured by collateral worth £18.06 million comprising OECD sovereign and supra national debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11 CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at 31/03/13 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Value at 31/03/14 £'000**
Fixed Interest Securities	109,674	12,836	(22,360)	(7,456)	**92,694**
Equities	495,980	305,283	(302,104)	43,618	**542,777**
Index linked Securities	209,876	24,385	(30,469)	(14,616)	**189,176**
Pooled Investments -					
- Property	222,341	81,108	(61,176)	18,713	**260,986**
- Non Property	2,015,386	1,087,681	(1,070,788)	111,646	**2,143,925**
Derivatives	(3,138)	190,891	(199,962)	24,570	**12,361**
	3,050,119	1,702,184	(1,686,859)	176,475	**3,241,919**
Cash Deposits	85,895	558,772	(558,751)	(893)	**85,023**
Net Purchases and Sales		2,260,956	(2,245,610)	15,346	
Investment Debtors & Creditors	(638)			4,902	**4,264**
Total Investment Assets	3,135,376			-	**3,331,206**
Current Assets	10,280			4,725	**15,005**
Less Net Revenue of Fund				(15,431)	
Total Net Assets	3,145,656			**185,124**	**3,346,211**

The **Change in Market Value** of investments comprises all gains and losses on Fund investments during the year, whether realised or unrealised.

The **Change in Market Value** for cash deposits represents net gains on foreign currency deposits and foreign exchange transactions during the year.

Derivatives. The purchases and sales of derivatives are shown at the values of the realised profits and losses of the net derivatives transactions.

Change in Total Net Assets 2012/13

Change in Market Value of Investments	Value at 31/03/12 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31/03/13 £'000
Fixed Interest Securities	104,920	18,268	(18,096)	4,582	109,674
Equities	390,014	294,637	(251,080)	62,409	495,980
Index linked Securities	189,659	35,415	(31,467)	16,269	209,876
Pooled Investments -					
- Property	196,951	36,144	(18,841)	8,087	222,341
- Non Property	1,796,213	47,414	(96,172)	267,931	2,015,386
Derivatives	(73)	2,860	(5,522)	(403)	(3,138)
	2,677,684	434,738	(421,178)	358,875	3,050,119
Cash Deposits	76,595	235,134	(225,911)	77	85,895
Net Purchases & Sales		669,872	(647,089)	22,783	
Investment Debtors & Creditors	3,086			(3,724)	(638)
Total Investment Assets	2,757,365			-	3,135,376
Current Assets	8,929			1,351	10,280
Less Net Revenue of Fund				(17,077)	
Total Net Assets	2,766,294			**362,285**	**3,145,656**

Investment Transaction Costs. The following transactions costs are included in the above tables:

	2013/14				2012/13			
	Purchases £'000	**Sales £'000**	**Other £'000**	**Total £'000**	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	**608**	**13**	**-**	**621**	644	21	-	665
Commission	**321**	**323**	**4**	**648**	320	304	5	629
TOTAL	**929**	**336**	**4**	**1,269**	964	325	5	1,294

12 INVESTMENT ASSETS

Further analysis of the market value of investments as set out in the Net Assets Statement is given below:-

	31 March 2014	31 March 2013
UK Equities	**£'000**	£'000

Quoted	**301,719**		258,957	
Pooled Investments	**225,298**		318,640	
FTSE Futures	**162**	**527,179**	(226)	577,371
Diversified Growth Funds				
Pooled Investments	**314,340**	**314,340**		-
Overseas Equities				
Quoted	**241,057**		237,022	
Pooled Investments	**1,083,136**	**1,324,193**	1,185,894	1,422,916
UK Fixed Interest Gilts				
Quoted	**92,694**		109,674	
Pooled Investments	**14,226**	**106,920**	14,668	124,342
UK Index Linked Gilts				
Quoted	**189,176**	**189,176**	209,876	209,876
Sterling Bonds (excluding Gilts)				
Pooled Investments	**269,350**	**269,350**	193,549	193,549
Non-Sterling Bonds				
Pooled Investments	**74,588**	**74,588**	81,488	81,488
Hedge Funds				
Pooled Investments	**162,986**	**162,986**	221,147	221,147
Property				
Pooled Investments	**260,987**	**260,987**	222,341	222,341
Cash Deposits				
Sterling	**78,163**		81,806	
Foreign Currencies	**6,860**	**85,023**	4,089	85,895
Investment Debtors/Creditors				
Investment Income	**3,414**		3,671	
Sales of Investments	**5,948**		9,194	
Foreign Exchange Hedge	**12,199**		(2,912)	
Purchases of Investments	**(5,097)**	**16,464**	(13,502)	(3,549)
TOTAL INVESTMENT ASSETS		**3,331,206**		3,135,376

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000s	Liability Value £000s
Up to one month	EUR	68,400	GBP	(57,876)		(1,321)
Up to one month	JPY	3,871,000	GBP	(25,479)		(2,924)
Up to one month	GBP	73,311	EUR	(87,100)	1,294	
Up to one month	GBP	35,729	JPY	(5,478,000)	3,811	
One to six months	EUR	154,300	GBP	(131,820)		(4,175)
One to six months	JPY	13,900,000	GBP	(88,506)		(7,451)
One to six months	USD	202,300	GBP	(126,194)		(4,709)
One to six months	GBP	1,918	CHF	(2,800)	15	
One to six months	GBP	184,238	EUR	(217,182)	4,578	
One to six months	GBP	139,278	JPY	(21,935,000)	11,351	
One to six months	GBP	255,038	USD	(404,600)	12,102	
Six to twelve months	EUR	136,700	GBP	(113,600)		(392)
Six to twelve months	JPY	13,287,000	GBP	(78,825)		(1,108)
Six to twelve months	USD	263,100	GBP	(160,929)		(2,773)
Six to twelve months	GBP	144,259	EUR	(174,400)	(178)	
Six to twelve months	GBP	116,548	JPY	(19,715,000)	1,249	
Six to twelve months	GBP	250,003	USD	(411,200)	2,830	
Total					**37,052**	**(24,853)**
Net forward currency contracts at 31 March 2014						**12,199**

Open forward currency contracts at 31 March 2013	74,499	(77,411)
Net forward currency contracts at 31 March 2013		**(2,912)**

Exchange Traded Derivatives held at 31 March 2014:-

Contract Type	Expiration	Book Cost	Unrealised Gain
		£'000	**£'000**
FTSE equity futures	**June 2014**	**28,433**	**162**

Exchange Traded Derivatives held at 31 March 2013:-

FTSE equity futures	June 2013	25,186	(226)

A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

The UK Equity futures contracts are held to facilitate efficient portfolio management for a passively managed investment where the costs of investing directly in UK equities would be significant.

Forward "over the counter" foreign exchange contracts are held to reduce the impact of fluctuations in the exchange rate between Sterling and the other currency.

The proportion of the market value of investment assets managed by each external manager and in house Treasury Management at the end of the financial year was:

	31 March 2014 £'000	**%**	31 March 2013 £'000	%
Blackrock	**1,071,963**	**32.2**	1,506,620	48.0
Transition	**0**	**0**	9	0
Record	**28,129**	**0.8**	4,893	0.2
Jupiter Asset Management	**160,956**	**4.8**	139,898	4.5
Genesis Investment Management	**145,092**	**4.4**	158,548	5.1
Invesco Perpetual	**239,795**	**7.2**	218,121	7.0
State Street Global Advisors	**107,147**	**3.2**	103,009	3.3
Partners Group	**113,446**	**3.4**	97,395	3.1
Royal London Asset Management	**251,101**	**7.6**	176,526	5.6
TT International	**185,717**	**5.6**	163,186	5.2
Man Investments	**1,115**	**0.0**	63,955	2.0
Gottex Asset Management	**58,062**	**1.8**	55,059	1.8
Stenham Asset Management	**37,654**	**1.1**	34,936	1.1
Signet Capital Management	**66,155**	**2.0**	67,197	2.1
Barings Asset Management	**209,798**	**6.3**	-	0.0
Pyrford International	**104,542**	**3.1**	-	0.0
Unigestion UK Ltd	**166,687**	**5.0**	-	0.0
Schroder Investment Management	**365,163**	**11.0**	327,563	10.4
Bank of New York Mellon	**7,964**	**0.2**	10,059	0.3
Treasury Management	**10,720**	**0.3**	8,402	0.3
TOTAL INVESTMENT ASSETS	**3,331,206**	**100.0**	3,135,376	100.0

13 SINGLE INVESTMENTS OVER 5% OF THE FUND

The following investments represent more than 5% of the net assets of the fund.

Investments	**Value at 31 March 2014 £'000**	**% of Net Assets**	Value at 31 March 2013	% of Net Assets
RLPPC UK Corporate Bond Fund (Royal London)	**251,101**	**7.54%**	176,526	5.63%
Invesco Perpetual Global ex UK Enhanced Index Fund	**239,795**	**7.20%**	218,121	6.96%
Aquila Life UK Equity Index Fund (BlackRock)	**220,957**	**6.63%**	315,092	10.05%
Baring Dynamic Asset Allocation Fund	**209,798**	**6.30%**	-	-
MSCI Equity Index Fund B-US (BlackRock)	**173,125**	**5.20%**	155,736	4.97%
BlackRock World Index Fund	**-**	**-**	310,707	9.91%
Genesis Emerging Markets Investment Fund	**-**	**-**	158,549	5.06%

14 CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2014. Debtors and creditors included in the accounts are analysed below:-

		31 March 2014 £'000		31 March 2013 £'000
CURRENT ASSETS				
Contributions Receivable :-				
- Employers	**8,490**		7,736	
- Members	**2,919**		2,817	
Transfer Values Receivable	**10,600**		1,640	
Discretionary Early Retirement Costs	**1,952**		585	
Other Debtors	**1,019**	**24,980**	505	13,283
CURRENT LIABILITIES				
Management Fees	**(950)**		(911)	
Provision for Performance Fees	**(4,373)**		-	
Transfer Values Payable	**(2,400)**		-	
Lump Sum Retirement Benefits	**(645)**		(547)	
Other Creditors	**(1,607)**	**(9,975)**	(1,545)	(3,003)
NET CURRENT ASSETS		**15,005**		10,280

The provision for Performance Fees includes fees that have been incurred but are subject to phased payment or not due to be paid until the realisation of the related assets. They remain subject to variation as a result of future performance. Of these £1,127k relates to 2013/14 and £3,246k relates to previous years.

Analysis of Debtors and Creditors by public sector bodies:-

		31 March 2014 £'000		31 March 2013 £'000
CURRENT ASSETS				
Local Authorities	**11,028**		8,050	
NHS Bodies	**-**		6	
Other Public Bodies	**13,211**		4,338	
Non Public Sector	**741**	**24,980**	889	13,283
CURRENT LIABILITIES				
Local Authorities	**(11)**		-	
Other Public Bodies	**(3,789)**		(1,310)	
Non Public Sector	**(6,175)**	**(9,975)**	(1,693)	(3,003)
NET CURRENT ASSETS		**15,005**		10,280

15 CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2014. (March 2013 = NIL).

16 EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2014 that require any adjustment to these accounts.

17 ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS26

The following statement is by the Fund's Actuary:

IAS26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	3.9% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (4.5% per annum versus 4.2% per annum). The pay increase assumption at the year-end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation formal report.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £4,519 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£278 million. Adding interest over the year increases the liabilities by a further c£190 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£35 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual versus expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£70 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is £4,396 million.

18 TRANSFERS IN

During the year ending 31 March 2013 there was a group transfer in to the fund from Strode College to Weston College. An estimated amount was included in the 2012/13 Statement of Accounts. The transfer value has not yet been confirmed. The estimate has now been increased and the additional amount included in the Fund account. The full estimate is included as part of the Fund's 2013/14 Current Assets.

During the year ending 31 March 2014 there was a group transfer in to the Fund from Stroud College to South Gloucestershire and Stroud College. The transfer value has not yet been confirmed. An estimated value has been included in the Fund account and as part of the Fund's Current Assets.

19 BENEFITS RECHARGED TO EMPLOYERS

The Fund makes payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases, and pension increases in respect of certain bodies with no pensionable employees in the Fund. The Fund also pays a small number of other pension supplements. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account or related notes.

	2013/14	2012/13
	£'000	£'000
Benefits Paid and Recharged	**6,240**	6,225

20 ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make AVCs that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2013/14 were £498 (2012/13 - £953). AVCs received from employees and paid to Friends Life during 2013/14 were £407,897 (2012/13 - £418,478).

The total value of the assets invested, on a money purchase basis, with these AVC providers was:-

	31 March 2014	31 March 2013
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**501**	582
Unit Linked Retirement Benefits	**286**	306
Building Society Benefits	**235**	264
	1,022	1,152
Death in Service Benefit	**150**	150
Friends Life		
With Profits Retirement Benefits	**157**	197
Unit Linked Retirement Benefits	**3,625**	3,775
Cash Fund	**447**	402
	4,229	4,374

AVC investments are not included in the Fund's financial statements in accordance with Regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

21 RELATED PARTIES

Committee Member related:

In 2013/14 £37,238 was charged to the Fund in respect of allowances paid to the voting members of the Avon Pension Fund Committee (£37,071 in 2012/13). Six voting members and one non-voting member of the Avon Pension Fund Committee (including five B&NES Councillor members) were members of the Local Government Pension Scheme during the financial year 2013/2014. (Seven voting members and one non-voting member in 2012/2013, including five B&NES Councillor members)

Independent Member related:

Two Independent Members were paid allowances of £6,469 and £12,877 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer related:

During the year 2013/14 the Fund paid B&NES Council £295,990 for administrative services (£275,215 in 2012/13) and B&NES Council paid the Fund £31,715 for administrative services (£40,157 in 2012/13). Various Employers paid the fund a total of £141,397 for pension related services including pension's payroll and compiling data for submission to the Actuary (£177,346 in 2012/13).

Officer and Manager related:

The officers administering the Avon Pension Fund are all eligible to be members of the Avon Pension Fund.

The Fund is governed by Central Government regulation. There are no other related party transactions except as already disclosed elsewhere.

22 OUTSTANDING COMMITMENTS

As at the 31 March 2014 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £61,724,899 (31 March 2013: £46,798,161).

23 KEY MANAGEMENT REMUNERATION

Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These consisted of:
- part of the Divisional Director Business Support's salary, fees and allowances £17,360 and their employers' pension contributions £3,107. (In 2012/13 the recharge was part of the Strategic Director of Resources salary, fees and allowances £17,393 and employers' pension contributions £3,107)
- part of the Head of Business Finance and Pensions salary, fees and allowances £31,540 (2012/13 £31,540) and their employers' pension contributions £5,460 (2012/13 £5,460).

24 FINANCIAL INSTRUMENTS

The net assets of the Fund are made up of the following categories of Financial Instruments:

	31/03/2014	31/03/2013
Financial Assets	**£'000**	£'000
Receivables	**24,980**	13,283
Financial assets at fair value through profit or loss	**3,336,303**	3,149,104
Total Financial Assets	**3,361,283**	3,162,387
Financial Liabilities		
Payables	**15,072**	16,505
Financial liabilities at fair value through profit or loss	**-**	226
Total Financial Liabilities	**15,072**	16,731
Total Net Assets	**3,346,211**	3,145,656

All investments are disclosed at fair value. Carrying value and fair value are therefore the same. Payables and Receivables are valued at amortised cost. The carrying value has not been amortised and therefore is the same as the fair value. The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows:-

Net gains and losses on financial instruments

	Financial assets at fair value through profit or loss	
	2013/14	2012/13
	£'000	£'000
Losses on derecognition	**4,918**	9,302
Reductions in fair value	**239,774**	10,079
Total expense in Fund Account	**244,692**	19,381
Gains on derecognition	**323,622**	53,216
Increases in fair value	**97,545**	325,040
Total income in Fund Account	**421,167**	378,256
Net gain/(loss) for the year	**176,475**	358,875

25 FINANCIAL RISK MANAGEMENT DISCLOSURE

The primary objective of the Avon Pension Fund is to generate positive real investment return above the rate of inflation for a given level of risk to meet the liabilities as they fall due over time. The aim of the Investment Strategy and management structure is to minimise the risk of a reduction in the value of the assets and maximise the opportunity for asset gains across the Fund.

To achieve its investment objective the Fund invests across a diverse range of assets such as equities, bonds, property and other alternative investments. As a result the Fund is exposed to a variety of financial risks including market risk (price, interest rate and currency risk), credit risk and liquidity risk.

The Fund's investments are managed by external Investment Managers. Each manager is required to invest in accordance with the terms of the agreed investment guidelines that sets out the relevant benchmark, performance target, asset allocation ranges and any restrictions. The Avon Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its Investment Strategy. The Committee regularly monitors each investment manager and its Investment Consultant advises on the nature of the investments made and associated risks.

The Fund's investments are held by BNY Mellon Asset Servicing, who act as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio. The risk management process identifies and mitigates the risks arising from the Fund's investment strategy and policies which are reviewed regularly to reflect changes in market conditions.

(a) Market Risk

Market risk is the risk of loss from fluctuations in market prices, interest rates or currencies. The Fund is exposed through its investments portfolio to all these market risks. The objective of the Investment Strategy is to manage and control market risk within acceptable parameters, while optimising the return.

Volatility in market risk is primarily managed through diversification across asset class and investment managers.

Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other than interest rates or currencies. These changes can be caused by factors specific to the individual instrument, its issuer or factors affecting the market in general and will affect the assets held by the Fund in different ways.

All investments present a risk of loss of capital. By diversifying its investments across asset classes, geography and industry sectors, investment mandate guidelines and Investment Managers the Fund aims to reduce its exposure to price risk. Diversification seeks to reduce the correlation of price movements. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

The Fund has a high allocation to equities and therefore the fluctuation in equity prices is the largest market risk within the portfolio. The maturity profile of the Fund and strong underlying covenant underpins the allocation to equities which are expected to deliver higher returns over the long term.

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund's advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2014. These movements in market prices have been judged as possible for the 2013/14 reporting period. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. However, the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund. Only assets affected by market prices have been included. The volatility figure at Total Assets level incorporates the impact of correlation across the asset classes; therefore the Total Assets increase /decrease is not the sum of the parts.

The analysis for the year ending 31 March 2014:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	509,345	12.3%	571,892	446,797
Overseas Equities	1,134,606	12.1%	1,271,553	997,659
Global inc UK	207,422	11.0%	230,176	184,668
UK Bonds	376,270	6.5%	400,727	351,812
Overseas Bonds	74,588	7.4%	80,078	69,099
Index Linked Gilts	189,176	8.8%	205,862	172,491
Property	260,987	1.6%	265,137	256,838
Alternatives	477,326	3.2%	492,601	462,052
Total Assets	**3,229,720**	**7.3%**	**3,464,198**	**2,995,243**

The analysis for the year ending 31 March 2013 is shown below:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	560,825	13.1%	634,293	487,357
Overseas Equities	1,243,081	12.9%	1,403,438	1,082,723
Global inc UK	196,608	12.6%	221,341	171,875
UK Bonds	317,892	6.7%	339,032	296,752
Overseas Bonds	81,487	7.6%	87,680	75,294
Index Linked Gilts	209,876	8.3%	227,317	192,435
Property	222,341	1.4%	225,521	219,162
Alternatives	221,147	3.6%	229,042	213,252
Total Assets	**3,053,257**	**7.6%**	**3,284,083**	**2,822,431**

Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index-linked securities.

The Fund's exposure to interest rate movements on these investments is provided below. Cash includes the cash deposits held against futures contracts.

	31 March 2014 £'000	31 March 2013 £'000
Cash and Cash Equivalents	85,023	85,895
Fixed Interest Assets	640,034	609,255
Total	**725,057**	**695,150**

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2014 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

An increase or decrease of 100 basis points (bps) in interest rates would have increased or decreased the net assets by the amount shown below.

As at 31 March 2014	Value £'000	Change in net assets +100 bps	-100 bps

Cash and Cash Equivalents	85,023	-	-
Fixed Interest	640,034	(83,332)	83,332
Total	**725,057**	**(83,332)**	**83,332**

A 1% rise in interest rates will reduce the fair value of the relevant net assets and vice versa. Changes in interest rates do not impact the value of cash balances but they will affect the interest income received on those balances.

The same analysis for the year ending 31 March 2013 is shown below:

		Change in net assets	
As at 31 March 2013	Value £'000	+100 bps £'000	-100 bps £'000
Cash and Cash Equivalents	85,895	-	-
Fixed Interest	609,255	(83,651)	83,651
Total	695,150	(83,651)	83,651

Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund's equity portfolio is invested in overseas stocks. When Sterling appreciates the sterling value of foreign currency denominated investments will rise and when sterling depreciates the Sterling value for foreign denominated investments will fall. The Fund has a dynamic hedging arrangement in place which reduces the volatility of returns over the longer term (the hedging programme hedges the exposure to the US Dollar, Yen and Euro).

Where an investment manager chooses to hedge against foreign currency movements, forward foreign exchange contracts are used.

The following tables summarise the Fund's currency exposures within the portfolio. For the global property funds the share class of the pooled funds held has been used. The funds of hedge funds and Diversified Growth Funds are not included in this analysis given the share classes held are either in Sterling or hedged back to Sterling.

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2014 £'000	Asset value as at 31 March 2013 £'000
Overseas Equities	1,324,193	1,384,728
Overseas Fixed Income	74,588	81,487
Overseas Property	112,058	95,729

Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency rates has been analysed using the volatility which is broadly consistent with a one standard deviation movement in the currency and incorporates the impact of correlation across currencies. The analysis assumes a 50% hedge ratio on the equity and bond assets to reflect the dynamic hedging strategy.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2014 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	**Value (£'000)**	**% Change**	**Value on Increase**	**Value on Decrease**
Overseas Equities	1,324,193	3.3%	1,367,307	1,281,080
Overseas Fixed Income	74,588	3.3%	77,017	72,160
Overseas Property	112,058	3.3%	115,707	108,410

The same analysis for the year ending 31 March 2013 is shown below:

Currency Risk by Asset Type:

Asset Type	**Value (£)**	**% Change**	**Value on Increase £'000**	**Value on Decrease £'000**
Overseas Equities	1,384,728	2.6%	1,420,836	1,348,620
Overseas Fixed Interest	81,487	2.7%	83,655	79,319
Overseas Property	95,729	5.5%	101,005	90,453

(b) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument or transaction will fail to meet an obligation and cause the Fund to incur a financial loss. In addition, the market values of investments will reflect an assessment of creditworthiness in their pricing and therefore the risk of loss is implicitly provided for in the carrying value of the assets and liabilities.

The entire Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, the custodian and investment managers minimises credit risk that may occur though the failure to settle transactions in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. Credit risk on over-the-counter derivative contracts is minimised by the various insurance policies held by exchanges to cover defaulting counterparties.

Forward currency contracts are entered into by the Fund's managers, especially the currency hedging manager, Record. These contracts are subject to credit risk in relation to the counterparties of the contracts. The responsibility for managing these contracts and counterparty risk rests with the managers. Counterparty management is evaluated as part of the due diligence process prior to appointing a manager.

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally-held cash is managed on the Fund's behalf by the Council's Treasury Management Team in line with the Fund's Treasury Management Policy which sets out the permitted counterparties and limits. Cash held by the Fund and managers is invested with the custodian in diversified money market funds rated AAA.

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2014 was £18.7m. This was held with the following institutions:

	31 March 2014		31 March 2013	
	Rating	**£'000**	**Rating**	**£'000**
Custodian's Liquidity Fund				
Bank of New York Mellon	AAA	7,962	AA-	10,058
Bank Call Accounts				
Barclays Platinum Account	A	1,000	A	1,000
Bank of Scotland Corporate Deposit Account	A	2,500	A	2,500
RBS Global Treasury Fund	AAA	6,090	AAA	4,880
NatWest Special Interest Bearing Account	BBB+	1,104	A-	-
Bank Current Accounts				
NatWest	BBB+	7	A-	17

The RBS Global Treasury Fund was taken over by Goldman Sachs International on 14 April 2014. The credit rating remained at AAA. NatWest is the Fund's banker.

A securities lending programme is managed by the Fund's custodian BNY Mellon who manage and monitor the counterparty risk, collateral risk and the overall lending programme. Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. The current collateral the Avon Pension Fund accepts is AAA rated supranational debt, AA rated sovereign debt and FTSE Equity DBV. Cash collateral is not permitted. Securities lending is capped by investment regulations and statutory limits ensure no more than 25% of eligible assets can be on loan at any time.

(c) Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's Investment Strategy and cash management policy ensure that the pension fund has adequate cash to meet its working requirements. Cash flow forecasts are prepared to manage the timing of and changes to the Fund's cash flows. The Fund has access to an overdraft facility for short term cash needs which was not drawn on during the year.

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within three months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the Investment Strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and Fund of Hedge Funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2014 the value of the illiquid assets was £634m, which represented 19.0% of the total Fund assets (31 March 2013: £443m which represented 14.1% of the total Fund assets). The increase is due to the investment during the year in a Diversified Growth Fund.

(d) Fair Value Hierarchy

Fair value is the value at which the investments could be realised within a reasonable timeframe. The Fund measures fair values using the following fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. The hierarchy has the following levels:

• Level 1 - easy to price securities. Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.

• Level 2 - moderately difficult to price. Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value. Therefore Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities including the Diversified Growth Fund that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset value.

• Level 3 - difficult to price. Unobservable inputs for the asset or liability used to measure fair value that rely on the Fund's assumptions concerning the assumptions that market participants would use in pricing an asset or liability. Therefore Level 3 includes pooled funds such as the property funds, other Diversified Growth Funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2014.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	536,850			536,850
Bonds - Quoted	281,870			281,870
Pooled Investment Vehicles		1,672,523		1,672,523
Fund of Hedge Funds			162,986	162,986
Diversified Growth Funds		104,542	209,798	314,340
Property			260,988	260,988
Cash	85,023			85,023
Derivatives: Forward FX	12,199			12,199
Derivatives: Futures	162			162
Investment Debtors /Creditors	4,265			4,265
	920,369	1,777,065	633,772	3,331,206

The fair value hierarchy as at 31 March 2013 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	495,979			495,979
Bonds - Quoted	319,550			319,550
Pooled Investment Vehicles		1,794,239		1,794,239
Fund of Hedge Funds			221,147	221,147
Diversified Growth Funds				-
Property			222,341	222,341
Cash	85,895			85,895
Derivatives: Forward FX	-2,911			-2,911
Derivatives: Futures	-226			-226
Investment Debtors /Creditors	-638			-638
	897,649	1,794,239	443,488	3,135,376

26 EMPLOYING BODIES

As at 31 March 2014 the following 195 employing bodies had contributing scheme members in the Avon Pension Fund:

Principal Councils and Service Providers (5)	
Avon Fire Brigade	North Somerset Council
Bath & North East Somerset Council	South Gloucestershire Council
City of Bristol Council	
Further & Higher Education Establishments (9)	
Bath Spa University College	St. Brendan's College
City of Bath College	University of Bath
City of Bristol College	University of the West of England
Norton Radstock College	Weston College
South Gloucestershire & Stroud College (formerly Filton College)	
Academies and Schools (86)	
Abbeywood Community School Academy	Ilminster Avenue E-ACT Academy
Academy of Trinity C of E	Kingshill Academy
Ann Harris Academy Trust (formerly St. John's Primary)	Kings Oak Academy
Backwell School	Little Mead Primary School
Bannerman Road Community Academy	Merchant's Academy
Bath Community Academy	Midsomer Norton School Partnership
Bedminster Down School Academy	Minerva Primary Academy
Beechen Cliff School Academy	Nailsea School Academy
Begbrook Primary Academy	Oasis Academy Bank Leaze
Birdwell Primary School Academy	Oasis Academy Brightstowe
Bradley Stoke Community School	Oasis Academy Connaught
Bridge Learning Campus Foundation	Oasis Academy John Williams
Bristol Cathedral Choir School	Oasis Academy Long Cross
Bristol Free School Trust	Oasis Academy New Oak
Bristol Technology & Engineering Academy	Oldfield School Academy Trust
Broadlands Academy	One World Learning Trust
Broadoak Mathematics & Computing College	Orchard Academy
Cabot Learning Federation	Parson Street Primary School
Castle School Education Trust	Patchway Community College
Cathedral Primary School	Priory Community School Academy
Charfield Primary School	Ralph Allen Academy
Chew Stoke Church School	Redland Green School Academy
Christ Church C of E Primary School	St Bedes School Academy
Churchill Academy	St. Nicholas of Tolentine Catholic Primary schl

Clevedon School Academy	St. Patrick's Academy
Colston Girl's School Trust	St. Teresa's Catholic Primary School
Colston's Primary School Academy	St. Ursula's E-ACT Academy
Cotham School Academy	Stoke Bishop C of E Primary School
Downend School	Stoke Lodge Academy
Elmlea Junior School Academy	Summerhill Academy
Fishponds Church of England Academy (Bristol Church Academies Trust)	The Dolphin Academy
Filton Avenue Infants Academy	The Kingfisher School
Fosseway School	The Ridings Federation Winterbourne
Frome Vale Academy	The Ridings Federation Yate
Gordano School Academy	Threeways School
Greenfield Primary School Academy	Trust in Learning
Hans Price Academy	Wallscourt Farm Academy
Hareclive Academy	Waycroft School Academy
Hayesfield Girls School Academy	Wellsway School Academy
Henbury Court School	West Town Lane Primary School
Henbury School Academy	Westbury Park Primary School Academy
Henleaze Junior School Academy	Westbury-on-Trym C of E Academy
Heron's Moor Community School	Writhlington School Academy
Designating Bodies (35)	
Almondsbury Parish Council	Patchway Town Council
Backwell Parish Council	Paulton Parish Council
Bath Tourism Plus	Peasedown St. John Parish Council
Bradley Stoke Town Council	Pill & Easton in Gordano Parish Council
Charter Trustees of the City of Bath	Portishead & North Weston Town Council
Clevedon Town Council	Radstock Town Council
Destination Bristol	Saltford Parish Council
Dodington Parish Council	Stoke Gifford Parish Council
Downend and Bromley Heath Parish Council	Thornbury Town Council
Filton Town Council	Vista SWP Ltd
Frampton Cotterell Parish Council	Westerleigh Parish Council
Hanham Abbots Parish Council	Westfield Parish Council
Hanham Parish Council	Weston Super Mare Town Council
Keynsham Town Council	Whitchurch Parish Council
Mangotsfield Rural Parish Council	Winterbourne Parish Council
Midsomer Norton Town Council	Yate Town Council
Nailsea Town Council	Yatton Parish Council
Oldland Parish Council	
Community Admission Bodies (21)	
Alliance Homes	Merlin Housing Society (SG)
Ashley House Hostel	Merlin Housing Society Ltd
Bristol Disability Equality Forum	Off the Record Bath & North East Somerset Cnl
Bristol Music Trust	Sirona Care & Health CIC
Centre For Deaf People	Southern Brooks Community Partnership
Clifton Suspension Bridge Trust	Southwest Grid for Learning Trust

CURO Places Ltd	The Care Quality Commission
CURO Group (Albion) Ltd	The Park Community Trust
CURO Choice	Vision North Somerset
Holburne Museum of Art	West of England Sport Trust
Learning Partnership West Limited (CAB)	
Transferees Admitted Bodies (39)	
Action For Children	ISS Mediclean (Bristol City Council)
Active Community Engagement Ltd	Keeping Kids Company
Agilisys	Kier Facilities Services
Aquaterra Leisure Ltd.	Learning Partnership West (Lot 1)
ARAMARK	Learning Partnership West (Lot 2)
BAM Construct UK Ltd	Learning Partnership West (Lot 3)
Barnardos	Learning Partnership West (Lot 7)
Bespoke Cleaning Services	Liberata UK Ltd
Bristol Drugs Project	Mouchel Business Services Ltd (Nailsea IT)
Churchill Contract Services	Quadron Services
Churchill Contract Services Ltd (Team Clean)	Shaw Healthcare (North Somerset) Ltd
Circadian Trust	SITA
Circadian Trust No 2	Skanska (Cabot Learning Federation)
Creative Youth Networks (Lot 4)	Skanska Rashleigh Westerfoil
Direct Cleaning (SW) Ltd	SLM Community Leisure
Eden Food Services	SLM Fitness & Health
English Landscapes	Sodexo
Fit For Sport	The Brandon Trust
HCT Group (CT Plus) (CIC)	Tone Leisure (Trust) Limited
ISS Mediclean (CLF)	

STATEMENT OF RESPONSIBILITIES FOR THE AVON PENSION FUND ACCOUNTS

Bath & North East Somerset Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Avon Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. The Council has made the Divisional Director of Finance responsible for financial administration.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts for the year.

Divisional Director of Finance's responsibilities

The Divisional Director of Finance is responsible for the preparation of the Avon Pension Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing this Statement of Accounts, the Divisional Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements which were reasonable and prudent;
- complied with the Code of Practice.

The Divisional Director of Finance has also:

- kept proper and up-to-date accounting records;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Avon Pension Fund at the accounting date and the income and expenditure for the year ended 31 March 2014.

Tim Richens
Divisional Director of Finance
(S151 Officer)
September 2014

Audit Opinion on the Accounts of the Avon Pension Fund

The auditors of local authorities are appointed by the Audit Commission under section 2 of the Audit Commission Act 1998 to audit the accounts of a local authority as a whole, including the accounts of the local authority's pension fund.
The audit opinion on the Avon Pension Fund provided by the Audit Commission can be found on page XX. (**AUDITORS REPORT – to follow**)

SUMMARY OF FINANCIAL STATISTICS

Year Ended 31 March	2010	2011	2012	2013	2014
Revenue Account	£m	£m	£m	£m	£m
Income					
Net Contributions	134.7	139.5	138.0	134.9	143.2
Investment Income	16.0	22.6	27.7	29.0	29.1
Net Cash Transfer	0.3	0.5	1.7	2.1	11.9
Total	151.0	162.6	167.4	166.0	184.2
Expenditure					
Pension & Benefits	115.1	121.7	129.2	136.7	149.8
Investment Management Expenses	6.9	7.2	9.2	10.1	16.6
Administration Costs	1.9	2.1	2.0	2.1	2.4
Total	123.9	131.0	140.4	148.9	168.8
Surplus for the Year	**27.1**	**31.6**	**27.0**	**17.1**	**15.4**
Revaluation of Investments	**612.4**	**177.9**	**71.2**	**362.3**	**185.1**
Change in Fund Value	639.5	209.5	98.2	379.4	200.5
Total Fund Value	2,458.6	2,668.1	2,766.3	3,145.7	3,346.2

Note : In 2014 Investment Management Expenses includes a provision of £4.4m for performance fees. Such a provision has not been included in previous years.

Analysis of the Fund's assets

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	527.2	894.8	429.4	1,851.4
Bonds	565.4		74.6	640.0
Property (direct holdings)	148.9		112.0	260.9
Alternatives			489.5	489.5
Cash	89.4			89.4
Total	1330.9	894.8	1105.5	3331.2

Analysis of investment income accrued during the reporting date

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	11.7		4.5	16.2
Bonds	8.7			8.7
Property (direct holdings)	4.1			4.1
Alternatives				0
Cash	0.1			0.1
Total	24.6	0	4.5	29.1

PENSION INCREASE

Increases in pensions (excluding the State Guaranteed Minimum Pension) are based on the change in the published Consumer Price Index (CPI) for the 12 months to 30 September of the previous year. Prior to April 2011, these increases were based on the change to the published Retail Price Index (RPI). Pensions awarded after the date of the last increase receive an apportioned increase related to the date the pension began.

All pensions are subject to the increase with the exception of those pensions awarded for non ill-health retirements where the recipient is under the age of 55 years. These pensions are subject to the accrued increase rate payable from the recipient's 55th birthday.

The table below shows the rates of increase that have applied during the past ten years.

Year beginning April	Rate of increase %	Index
2005	3.1	RPI
2006	2.7	RPI
2007	3.6	RPI
2008	3.9	RPI
2009	5.0	RPI
2010	0.0	RPI
2011	3.1	CPI
2012	5.2	CPI
2013	2.2	CPI
2014	2.7	CPI

The Fund is not responsible for any increases in the State Guaranteed Minimum Pension accrued before April 1988; these increases are paid by the State as part of the State Pension.

The Fund is responsible for increases in the State Guaranteed Minimum Pension accrued between April 1988 and March 1997 up to a maximum of 3% per annum (or the rate of inflation if less). Any increase above 3% is the responsibility of the State.

The increases shown above also apply to deferred pensions.

CONTACTS

For further information on investments, accounts, benefits and administration of the Avon Pension Fund email us at: avonpensionfund@bathnes.gov.uk

Or you can write to us at: Avon Pension Fund, Floor 3 South, Riverside, Temple Street, Keynsham, BS31 1LA

Telephone: 01225 477000
Fax: 01225 395258

General information about the Avon Pension Fund can be found at: www.avonpensionfund.org.uk

GLOSSARY OF TERMS

Actuary
An independent consultant who advises the Fund and reviews the financial position of the Fund every three years. The Actuary produces a report, known as the actuarial valuation report, which compares the Fund's assets with its liabilities and prescribes the rates at which the employing bodies must contribute.

Active Investing
An investment strategy whereby the manager deviates from an index or benchmark through stock selection or asset allocation in order to generate a rate of return in excess of the index or benchmark.

Assumed Pensionable Pay
An average pay figure used to calculate pension in cases of reduced contractual pay or no pay as a result of sickness or injury, during relevant child-related leave or whilst on reserve forces service leave.

Career Average Revalued Earnings (CARE) Pension Scheme
A pension scheme that provides a pension calculated as a proportion of a member's average pay depending on the length of membership in the scheme. In CARE schemes such as the LGPS, pension is built up each year based on a member's actual earnings in that year and is revalued so that the pension keeps up with the cost of living.

Civil Partnership
A civil partnership is a relationship between two people of the same sex which is formed when they register as civil partners of each other.

Cohabiting Partner
To be eligible to receive a survivor's pension in the event of a member's death, a cohabiting partner of the member, providing that for a continuous period of at least two years prior to the date of death -

- they have been able to marry or form a civil partnership;
- they have lived together as if they were husband and wife or civil partners;
- neither the member or their cohabiting partner have been living with someone else as if they were husband and wife or civil partners;
- their financial affairs have been interdependent (or the cohabiting partner has been financially dependent upon the scheme member).

Consumer Price Index (CPI)
CPI is an alternative measure of inflation also based on the change in the price of a fixed basket of goods and services. The difference between CPI and Retail Price Index (RPI) is that CPI excludes some items used in RPI such as mortgage interest payments and Council Tax, and includes other items not used in RPI.

Community Admission Bodies
Bodies, which either have sufficient links with a Scheme employer, and provides a public service in the United Kingdom otherwise than for the purposes of gain or are approved by the Secretary of State for the purposes of admission to the Scheme; a body, other than the governors or managers of a voluntary school, to the funds of which a Scheme employer contributes. Such a body can become a member of the Avon Pension Fund subject to Pension Committee approval.

Corporate Bonds
Fixed interest securities and index-linked securities issued by companies registered either in the UK or overseas. They represent 'loans' to the companies which are repayable on a stated future date (for definitions of "fixed interest" and "index-linked" see 'Fixed Interest Government Securities' and 'Index-linked Government Securities'). In the annual accounts, these are included in 'Sterling Bonds' and 'Non-Sterling Bonds'.

Deferred Pension
The pension benefit held in the Fund for a member who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before retirement age. A deferred pension may be claimed at any time between the ages of 55 and 75, but will be reduced if paid before the member's Normal Pension Age or increased if paid after.

Designation Body
A body, listed in Part 2 of Schedule 2 of the LGPS Regulations 2013, whose employees can only be eligible for membership of the Scheme, if designated by that body.

Discretionary Compensatory Added Years
Until 1 April 2007, employers could award an additional period of service under discretionary regulations up to a maximum of 10 added years. Since this date, this

provision has been withdrawn. Employers who have awarded additional service are recharged for any payments made in respect of them exercising such a discretion.

Equities
Ordinary shares in UK and Overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Final Salary Scheme
A pension scheme that provides a pension and in some cases a lump sum benefit, calculated as a proportion of a member's pay in their last year of membership depending on the length of membership in the scheme.

Fixed Interest Government Securities
Investments in government stocks, which guarantee a fixed rate of interest. Investments in government stocks represent 'loans' to Government which are repayable on a stated future date.

Fund Benchmark
The Fund benchmark reflects the asset mix determined by the Fund. It is expressed in terms of asset proportions and market indices (e.g. 45% UK Equities invested in the FTSE-Actuaries All Share Index). On this basis a benchmark return can be calculated. The significance of this benchmark is that it represents "normal fund policy".

Hedge Funds
Otherwise known as "absolute return funds', these funds have as their objective a performance target expressed as a margin above the return which can be achieved on cash deposits. The advantage of these funds is that they should achieve a positive return even if the stock market falls.

Independent Members
Voting members of the Avon Pension Fund Committee who are not councillors and who have no political attachments. There are two such members on the Committee, appointed principally because of the financial/investment expertise which they have acquired in the course of their professional careers.

Indexed-Linked Government Securities
Investments in government stocks (UK and overseas) where both the annual interest payment and the capital sum repayable by the government are adjusted to allow for inflation. Investments in government which are repayable on a stated future date.

Market Value
The price at which an investment can be bought or sold at a given date.

Myners Principles
A set of recommendations relating to the investment of pension funds which were prepared by Paul Myners in 2001 at the request of the Chancellor of the Exchequer and which were subsequently endorsed by Government. Their significance is that

pension funds are expected to follow these principles or, if they do not, provide an explanation as to why they have decided not to do so.

Normal Pension Age (NPA)
A member's NPA for pension benefits accrued after 31 March 2014 is now linked to their individual State Pension Age or age 65, whichever is later. For benefits accrued up to 31 March 2014 NPA is still age 65 for both men and women but a small number of members who retain Rule of 85 protections may retire earlier with no actuarial reduction.

Passive Investing (Indexation)
An investment strategy whereby the manager replicates an index in order to generate a rate of return in line with the index. The manager has no discretion over stock selection within the index. If it is a multi-asset portfolio, the asset proportions are prescribed within the mandate.

Pooled Funds
Pooled Funds are funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units. These include Managed Funds which are a form of unit trust whereby the Fund makes payments under an insurance policy and is allocated units in an Investment Fund by way of benefits. In certain circumstances this form of unit trust can have tax advantages compared with a conventional unit trust.

Retail Price Index (RPI)
A measure of the general level of inflation based on the change in the price of a fixed basket of goods and services, such as food, energy, petrol, travelling costs, mortgage interest payments and Council Tax.

Rule of 85
Set up under the 1997 Regulations to determine whether benefits are subject to any actuarial reduction where a member elects to receive benefits before age 65. If the sum of the member's age and Scheme membership, both in whole years, is 85 or more then the benefits were payable unreduced.

However, this rule was removed from the Regulations in 2006 and does not apply to new Scheme members from 1 October 2006. Members in the LGPS before this date may have acquired certain protections that apply in respect of this rule. The rule of 85 does not apply where the member is retired on grounds of redundancy, efficiency or ill-health, where benefits are paid without reduction.

Transferee Admission Bodies (Scope Body)
A body that provides, by means of a contract, a service in connection with the exercise of a function of a Scheme employer, can become an admitted body within the Avon Pension Fund. The Scheme Employer transferring, must act as guarantor for such bodies.

Unlisted Securities
Holdings in companies which do not form part of the main stock market. They may

be developing companies or smaller companies whose shares are not frequently traded. Unlisted securities are usually less liquid than those traded in the main markets.

WM Local Authority Average
The average local authority pension fund investment return as calculated by The WM Company. The universe comprises approximately 100 local authority funds.

APPENDICES

This page is intentionally left blank

<table>
<tr><th colspan="3">Bath & North East Somerset Council</th></tr>
<tr><td>MEETING:</td><td colspan="2">AVON PENSION FUND COMMITTEE</td></tr>
<tr><td>MEETING DATE:</td><td>27 JUNE 2014</td><td>AGENDA ITEM NUMBER</td></tr>
<tr><td>TITLE:</td><td colspan="2">PENSION BOARD & DRAFT REGULATIONS ON SCHEME GOVERNANCE</td></tr>
<tr><td>WARD:</td><td colspan="2">ALL</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3">List of attachments to this report:
Appendix 1 – Draft Regulations on Scheme Governance
Appendix 2 – Avon Pension Fund Response</td></tr>
</table>

1 THE ISSUE

1.1 The Public Service Pensions Act 2013 requires LGPS funds to establish a local pension board to assist administering authorities with effective and efficient management and administration of the Scheme. The costs of establishing and supporting the the board are to be met by the local fund.

1.2 In addition, the Act requires that a national Scheme Advisory Board is established to advise the DCLG on changes to the scheme. The cost of this board is also to be met by local LGPS funds.

1.3 These costs will be provided for in the 2015/16 budget.

1.4 The DCLG issued draft regulations for scheme governance in June 2014. As the deadline for responses was 15 August 2014, committee members were consulted on the response before it was submitted to the DCLG. The response is included for information only.

2 RECOMMENDATION

The Committee notes:

2.1 That the budget for the pension board will be determined by the Committee during 2015/16 as the Board's role and workplan is confirmed by the regulations.

2.2 The Fund's response to the draft regulations for scheme governance.

3 FINANCIAL IMPLICATIONS

3.1 There will be costs in establishing and supporting the local pension board. These will be provided for in the 2015/16 budget, based on the work agenda of the Board. The levy for the Scheme Advisory Board will also be included in the 2015/16 budget.

4 LOCAL PENSION BOARD & SCHEME ADVISORY BOARD

4.1 The Public Service Pensions Act 2013 requires LGPS funds to establish a local pension board to assist administering authorities with effective and efficient management and administration of the Scheme.

4.2 The draft regulations state that the costs of establishing and supporting this board will be met by the local fund. The on-going costs of the board will be determined by the scope and size of the board and will include the officer resources required to support the board as well as advisory services. Once the regulations and guidance confirm the Board's role and scope of work, a provision will be included in the 2015/16 budget. When established, the Board will put forward a budget based on the work agenda for the Committee to agree.

4.3 In addition, the Act requires that a national Scheme Advisory Board (SAB) is established to advise the DCLG on changes to the scheme. The cost of this board will also be met by the local LGPS funds. However, the LGPC already levies local funds to cover the support provided to the DCLG and local funds. This expense is included in the budget. It may be that this levy will be adjusted (or even abolished) when the levy for the SAB is introduced.

4.4 The costs of supporting the pension board and the SAB levy will be included in the 2015/16 budget.

5 DRAFT REGULATIONS ON SCHEME GOVERNANCE

5.1 The DCLG issued the draft regulations in June 2014 with a deadline for responses of 15 August 2014. The response was circulated to the committee for comments and is included in Appendix 2 for information only.

5.2 It is anticipated that guidance (or draft guidance) on the regulations from the Shadow SAB will be issued in October. If the regulations or guidance do not materialise in October, the Fund will petition the DCLG to delay the introduction of pension boards and to confirm that there will not be any consequence for local funds that do not establish a board by 1 April 2015 due to the DCLG's failure to issue the regualtions in a timely manner.

6 RISK MANAGEMENT

6.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

7 EQUALITIES

7.1 Not relevant.

8 CONSULTATION

8.1 Set out in report.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The relevant information is set out in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

This page is intentionally left blank

Department for
Communities and
Local Government

The Local Government Pension Scheme (Amendment) Regulations 2014

Draft Regulations on Scheme Governance

Consultation

This document/publication is also available on our website at www.gov.uk

Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

ISBN : 978-1-4098-4254-5

The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	The Local Government Pension Scheme (Amendment) Regulations 2014
Scope of this consultation:	This consultation seeks responses from interested parties on draft scheme governance regulations for the new Local Government Pension Scheme which came into force on 1 April 2014.
Geographical scope:	England and Wales.
Impact Assessment:	These Regulations have no impact on business or the voluntary sector.

Basic Information

To:	This consultation is aimed at all Local Government Pension Scheme interested parties.
Body responsible for the consultation:	The Secretary of State for Communities and Local Government is responsible for policy and the consultation exercise.
Duration:	8 weeks. As timing allows, account will be taken of representations made after the close of the consultation.
Compliance with the Code of Practice on Consultation:	This consultation complies with the Code and it will be for 8 weeks. The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted

Background

Getting to this stage:	The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. Lord Hutton's final report was published on 10 March 2011. In that report he made clear that change is needed to "make public service pension schemes simpler and more transparent, fairer to those on low and

	moderate earnings”. The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013. The Act included a requirement for DCLG as a responsible authority to make regulations establishing a national scheme advisory board and enabling each LGPS administering authority to establish local pension boards. In June 2013, the Department published an informal discussion paper inviting comment from a wide range of interested parties on how the requirements of the 2013 Act should be taken forward into the new 2014 Scheme. The outcome of that exercise and comments from the Shadow Scheme Advisory Board has been fully taken into account in the preparation of the draft regulations. These draft regulations carry forward these requirements into the 2014 Scheme

How to respond

1. You should respond to this consultation by **15 August 2014**.

2. You can respond by email to Sandra.layne@communities.gsi.gov.uk.
When responding, please ensure you have the words “LGPS Governance Regulations 2014” in the email subject line.

Alternately you can write to:

LGPS Governance Regulations 2014
Department for Communities and Local Government
Zone 5/F5 Eland House
Bressenden Place
LONDON SW1E 5DU

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at: https://www.gov.uk/government/organisations/department-for-communities-and-local-government

Confidentiality and data protection

5. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

6. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the department.

7. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

8. Questions about the policy issues raised in the document can be sent to the address given at paragraph 2 above.

9. A copy of the consultation criteria from the Code of Practice on Consultation is at http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator, Zone 8/J6, Eland House, Bressenden Place London SW1E 5DU.

Contents

Chapter 1

Introduction

1.1 This document commences a period of statutory consultation on the new governance arrangements for the 2014 Local Government Pension Scheme ("LGPS") which came into effect on 1 April 2014. Your comments are invited on the set of draft regulations at **Annex A**. and also on the separate policy issues included at Chapter 3 below.

1.2 **The closing date for responses is 15 August 2014**.

Background and context

1.3 This consultation on the Local Government Pension Scheme (Amendment) Regulations 2014 represents a key step in the process of reform that began with the commitment given in the Coalition Government's programme to review the efficiency, effectiveness and sustainability of public service pension schemes.

1.4 A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

1.5 The Public Service Pensions Act 2013 included two main provisions to achieve this policy objective. Firstly, a requirement for responsible authorities such as DCLG to establish at national level a Scheme Advisory Board with responsibility to provide advice to the Department on the desirability of changes to the Scheme. And secondly, in cases where schemes like the Local Government Pension Scheme are subject to local administration, for scheme regulations to provide for the establishment of local pension boards to assist administering authorities with the effective and efficient management and administration of the Scheme.

Consultation responses

1.6 In view of the need to give administering authorities and other interested parties sufficient lead-in time to establish local pension boards, Ministers have agreed to a consultation period of 8 weeks.

1.7 To allow for the fullest response to proposed Scheme regulations, every attempt will be made to include any late submissions.

1.8 Your comments should therefore be sent by 15 August 2014 to LGPS Governance Regulations 2014, Department for Communities and Local Government, Zone 5/G6, Eland House, Bressenden Place, London SW1E 5DU. Electronic responses can be sent to Sandra.layne@communities.gsi.gov.uk.

Chapter 2

Proposals for consultation

2.1. The Regulations are being made under the powers conferred by the Public Service Pensions Act 2013. Under Section 3(5) of the 2013 Act, the Regulations require the consent of Treasury before being made.

Preliminary Provisions

2.2 **Regulation 1** covers the citation, commencement, interpretation and extent of the Regulations. The Regulations will apply to the Scheme in England and Wales and, for the most part, will come into operation on 1 October 2014 to allow sufficient time for the new Scheme Advisory Board and local pension boards to become operational on 1 April 2015.

2.3 **Regulation 2** amends the Principal 2013 Regulations in accordance with regulations 3 to 5.

2.4 **Regulation 3** deletes Regulation 53(4) from the Principal 2013 Regulations because that provision becomes obsolete in view of the amendments introduced by these Regulations.

2.5 **Regulation 4** amends Schedule 1 to the Principal 2013 Regulations to include definitions of “Local Government Pensions Scheme Advisory Board” and “local pension board”.

2.6 **Regulation 5** inserts new regulations 105, 106,107, 108, 109, 110, 111, 112 and 113 into the Principal 2013 Regulations. These provisions are described in detail immediately below.

Main Provisions

2.7 **New Regulation 105** confers power on the Secretary of State to delegate functions under the Principal 2013 Regulations and administering authorities to delegate their functions. It also allows for any delegated function by an administering authority to be sub-delegated.

Local pension boards : establishment

2.8 **New Regulation 106** concerns the establishment of local pension boards.

2.9. **Regulation 106(1)** provides that each administering authority must establish a local pension board no later than 1 April 2015. This would not prevent a board being established before that date.

2.10 **Regulation 106(1)(a) and (b)** sets out the role of a local pension board as being to assist the administering authority in securing compliance with (i) the Principal 2013 Regulations, (ii) any other legislation, and (iii) requirements imposed by the Pensions Regulator in relation to the Scheme. The role is further extended by **Regulation 106(1)(b)** to assist the administering authority in ensuring the effective and efficient governance and administration of the Scheme. These provisions mirror those set out in section 5(2) and (3) of the Public Service Pensions Act 2013.

2.11**. Regulation 106(2)** carries forward into the Principal 2013 Regulations, section 5(7) of the Public Service Pensions Act 2013. This provides that where the scheme manager of a Scheme under section 1 of the Act is a committee of a local authority, the scheme regulations may provide for that committee also to be the board for the purposes of this section. This is discussed in more detail in Chapter 3.

To ensure that any proposal to combine the committee and local pension board into a single, dual-function body is appropriate and practicable, **Regulation 106(2)** requires such proposals to be approved by the Secretary of State. Where appropriate, the Department may seek advice from relevant interested parties, in particular, the Scheme Advisory Board and Pensions Regulator.

2.12 **Regulation 106(3)** provides that the Secretary of State may, in giving such approval, impose any such conditions that he thinks fit.

2.13 **Regulation 106(4)** enables the Secretary of State to withdraw any approval given under Regulation 106(2) if any of the conditions given under Regulation 106(3) are not met or, more generally, that there is evidence to suggest that the combined body is no longer working as intended.

2.14 **Regulation 106(5)** sets out the means by which an administering authority establishes its local pension board but the draft offers two different alternatives of the regulations as described later in Chapter 3 (Other connected policy issues). Consultees are specifically invited to indicate and comment on their preference.

2.15. **Regulation 106(6)** provides that the costs of local pension boards are to be regarded as administration costs charged to the fund.

Local pension boards : membership

2.16. **Regulation 107(1) –** requires each administering authority to determine the membership of the local pension board; the manner in which such members may be appointed and removed and the terms of their appointment.

2.17**. Regulation 107(2)** provides that in determining membership of their local pension board, an administering authority must include employer representatives and member representatives in equal numbers, the total of which cannot be less than four.

2.18**. Regulation 107(2(a)** prevents a councillor member of a local authority being included either as an employer or member representative, but this does not prevent an administering authority from appointing councillor members of a local authority (or any other person) to the local pension board over and above the required equal number of employer and member representatives.

2.19**. Regulation 107(2)(b)** requires an administering authority to be satisfied that employer and member representatives appointed to a local pension board have the relevant experience and the capacity to perform their respective roles. There is a risk that could act as an unhelpful barrier to people putting themselves up as pension board nominees but we believe that this pre-condition is necessary to ensure that appointees to the board have the background and capacity to undertake the duties and responsibilities required of pension board members. The Department will work closely with all relevant interested parties in preparing and publishing guidance on the experience and capacity required of local pension board nominees.

(It is important to note that Regulation 107(2)(b) and the pre-condition of "relevant experience and capacity" is not to be confused with the requirement for pension boards members to acquire "knowledge and understanding" under section 248A of the Pensions Act 2004 as introduced by paragraph 19 of Schedule 4 (Regulatory oversight) to the Public Service Pensions Act 2013.

2.20**. Regulation 107(3)** ensures that the number of employer and member representatives appointed to a local board must represent a majority of total members.

Local pension boards : conflict of interest

2.21. **Regulation 108(1)** carries forward section 5(4) of the Public Service Pensions Act 2013 and requires each administering authority to be satisfied that any person appointed to a local pension board does not have a conflict of interest as defined in section 5(5) of that Act.

2.22**. Regulation 108(2)** requires an administering authority to monitor conflict of interests over time.

2.23**. Regulations 108(3) and (4)** impose requirements on persons to provide relevant information to the administering authority on nomination as a member of a local pension board and, if appointed, during membership.

<u>Local pension boards : guidance</u>

2.24**. Regulation 109** requires an administering authority to have regard to guidance issued by the Secretary of State in relation to local pension boards. In formulating such guidance, the Department will work closely with all relevant interested parties, including the Scheme Advisory Board and the Pensions Regulator.

<u>Scheme advisory board : establishment</u>

2.25**. Regulation 110(1)** provides that a scheme advisory board is established.

2.26**. Regulation 110(2)** sets out the responsibility of the scheme advisory board to provide advice to the Secretary of State on the desirability of making changes to the Scheme in accordance with section 7(1) of the Public Service Pensions Act 2013. But note that we are not proposing to carry forward the provision in the Act that such advice is to be at the Secretary of State's request. We believe that the interaction between the Department and the scheme advisory board should be open and transparent and that scheme regulations should not prevent the scheme advisory board from initiating its own advice or recommendations to the Secretary of State.

2.27**. Regulation 110(3)** extends the scope of the scheme advisory board to include advice and assistance to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

2.28**. Regulation 110(4)** permits the scheme advisory board to establish its own procedures.

<u>Scheme advisory board : membership</u>

2.29**. Regulation 111(1)** sets out the membership requirements of the scheme advisory board. The Chair of the scheme advisory board is to be appointed by the Secretary of State and the Department will work closely with the Shadow scheme advisory board in formulating and organising the nomination and appointment process. Membership of the board must comprise at least 2 and no more than 12 persons appointed by the Chair with the approval of the Secretary of State.

2.30**. Regulation 111(2)** confers a duty on the Secretary of State to ensure that approval under Regulation 111(1)(b) is subject to consideration of how fair the Chair has been in nominating employer and scheme members to the board for approval.

2.31**. Regulation 111(3)** requires the constitution of the scheme advisory board to include details of the terms and conditions of members' appointments.

2.32. **Regulation 111(4)** permits persons who are not members of the scheme advisory board to be appointed as members of any sub-committee to the board.

2.33**. Regulation 111(5)** applies the same provision in Regulation 111(3) to members of any sub-committee to the board.

Scheme advisory board : conflict of interest

2.34**. Regulation 112** applies the provision in sections 7(4) and (5) of the Public Service Pensions Act regarding conflict of interest to nominees and members of the scheme advisory board.

Scheme advisory board : funding

2.35**. Regulation 113(1)** provides that the expenses of the scheme advisory board are to be treated as administration costs to the Scheme and recharged to administering authorities in such proportions as are determined by the board.

2.36**. Regulation 113(2)** ensures that safeguards are in place to ensure value for money. Before any monies can be levied on administering authorities by the scheme advisory board, the board's annual budget must first have been approved by the Secretary of State.

2.37**. Regulation 113(3)** requires an administering authority to pay the amount determined by the scheme advisory board under Regulation 113(2).

Chapter 3

Other connected policy issues

Combined Section 101 committee and local pension board (Regulation 106(2)).

3.1. Draft **Regulation 106(2**) enables a single, dual function body to carry out the functions of both a section 101 committee established by the administering authority to manage and administer the Scheme and those of a local pension board.

3.2. In practice, a combined body would be subject to two separate legal codes under both the Local Government Act 1972 and associated legislation, and the Public Service Pensions Act 2013. A combined body might also have difficulty in ensuring that all members had both knowledge and understanding that is currently expected of elected members and the experience and capacity required of local pension board members. There could also be difficult and different issues about conferring voting rights and compliance with local government law on the political composition of committees.

3.3. The Public Service Pensions Act 2013 does allow for this facility in scheme regulations but we are not compelled to introduce it. Comments are therefore invited on whether the Regulations should include such provision.

Establishment of local pension boards (Regulation 106(5)}

3.4. The draft regulations offer two alternatives to the way in which an administering authority could establish their local pension board.

3.5. The first version of **Regulation 106(5)** offers a simple solution by proposing that establishment of a local board should be undertaken as if it was a committee under section 101 of the Local Government Act 1972. This would automatically apply the section 101 regime to the way in which local boards are to be established. Although this option would provide administering authorities with a ready-made set of provisions to help them establish local pension boards, it is arguable that local pension boards should be established on a bespoke basis best suited to their own role and responsibilities.

3.6. The alternative version of **Regulation 106(5)** confers a wide discretion on administering authorities to establish the procedures applicable to a local pension board such as voting rights, the establishment of sub-committees, the formation of joint committees and payment of expenses. This list is not exhaustive, and could include some of the features of the section 101 regime, such as voting rights, political composition, etc. Although this option would represent more of a burden to administering authorities, it would allow greater flexibility and choice at local level in the way that local pension boards are established.

3.7. Consultees are therefore invited to state their preference for option 1, option 2, or any other proposal. Where option 2 is preferred, it would be helpful if the response could also set out those elements which should either be specifically excluded or included from the wide discretion afforded by the second version of Regulation 106(5).

Funding of the Scheme Advisory Board (Regulation 113)

3.8. It is accepted that funding the Scheme Advisory Board will be a complex and difficult matter. **Regulation 113** has been drafted on the basis of informal discussions with interested parties but we acknowledge that more work needs to be done to both ensure that the board is adequately funded to enable them to carry out their agreed work plans and that the cost of the board to each administering authority is fair and represents value for money.

3.9. Comments are therefore invited on what additional provision we need to make to Regulation 113 to achieve both objectives and regarding any other aspect of the scheme advisory board's funding.

Joint pension boards

3.10. As currently drafted, these Regulations require each administering authority to establish a local pension board. However, the extent to which administering authorities are either already sharing, or planning to share, their administration with other administrating authorities, suggests that provision ought to be made in these Regulations for a single pension board to serve more than the one administering authority.

3.11. On the other hand, it would run counter to the spirit of the primary legislation if a single board ended up serving a significant number of administering authorities. We believe therefore, that the default position must be one local pension board for each administering authority, but that exceptions where administration and management is mainly or wholly shared between two or more administering authorities should be catered for. This could be demonstrated by the management and administration being undertaken by a joint committee of the participating administering authorities.

3.12. Comments are invited on whether the Regulations need to provide for shared local pension boards and, if so, what test, if any, should be applied. For example, should provision be made for either the scheme advisory board or the Secretary of State to approve any proposal for a shared pension board?

Annual general meetings, Employer forums, etc

3.13. The staging of AGMs, employer forums, etc, is currently a recommendation in the Department's statutory guidance on governance compliance. There is evidence to suggest that a significant minority of administering authorities do neither and also that those that do, receive positive feedback from employers and scheme members alike.

3.14. Comments are invited on whether the Regulations should require administering authorities to facilitate a forum for both employers and employees on at least an annual basis.

Public Sector Equality Duty

3.15. The Equality Duty is a duty on all public bodies and others carrying out public functions to ensure that public bodies consider the needs of all individuals in their day to day work. It also encourages public bodies to ensure that their policies and services are appropriate and accessible to all and meet different people's needs.

3.16. This raises the question of whether these Regulations should extend the role of the scheme advisory board to have regard to the Equality Duty in making recommendations to the Secretary of State on the desirability of making scheme changes and extending the scrutiny/.compliance role of local pension boards to include the Equality Duty.

3.17. Comments are invited on the appropriateness and practicality of this proposal.

Knowledge and Understanding

3.18. These regulations would require members of local pension boards to have the knowledge and capacity to undertake that role. This contrasts with members of committees established by the administering authority to discharge its pension functions who, although recommended to have regard to the Knowledge and Skills Framework published by CIPFA, are under no regulatory requirement to do so. Whilst recognising that the knowledge and training needs of section 101 and local pension boards are not identical, it is open to question whether the same level of regulatory requirement ought to apply to both bodies.

3.19. Comments are invited on whether either in these Regulations or at some stage in the future, provision should be made in the Principal 2013 Regulations to require members of committees established by the administering authority to discharge its pension functions to comply with the Knowledge and Understanding Framework and other relevant training.

Annex A

STATUTORY INSTRUMENTS

2014 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2014

Made - - - -	*2014*
Laid before Parliament	*2014*
Coming into force - -	*2015*

These Regulations are made in exercise of the powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013(**1**).

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, commencement interpretation and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2014.

(2) In these Regulations "the Principal Regulations" means the Local Government Pension Scheme Regulations 2013(**2**)

(3) These Regulations come in to force as follows—

(a) on 1st October 2014, regulations 2, 4 and 5—

(i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

(**1**) 2013 c. 25
(**2**) S.I. 2013/2356.

(ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraph (2) of that regulation, and

(iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 111 (scheme advisory board: membership) and 112 (scheme advisory board: conflict of interest) for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and

(b) on 1st January 2015—

(i) regulations 2, 4 and 5 so far as not already commenced, and

(ii) the remainder of these Regulations.

(4) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Principal Regulations 2013 are amended in accordance with regulations 3 to 5.

3. Omit regulation 53(4) (scheme managers: establishment of pension board).

4. In Schedule 1 (interpretation) after the entry for "local government service" insert—

""Local Government Pensions Scheme Advisory Board" means a board established under regulation 110 (Scheme advisory board: establishment);

"local pension board" means a board established under regulation 106 (local pension boards: establishment);"

5. After regulation 104(**3**) insert—

"PART 3

Governance

Delegation

105.—(1) The Secretary of State may delegate any functions under these Regulations.

(2) Administering authorities may delegate any functions under these Regulations including this power to delegate.

Local pension boards: establishment

106.—(1) Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

(a) to secure compliance with—

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme, and

(iii) requirements imposed by the Pensions Regulator in relation to the Scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme.

(2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

(3) Approval under paragraph (2) may be given subject to such conditions as the Secretary of State thinks fit.

(**3**) Regulation 104 was inserted by S.I. 2014/1146.

(4) The Secretary of State may withdraw an approval if such conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the local pension board to be the same committee.

(5) [Where a local pension board is established by a local authority within the meaning of section 270 of the Local Government Act 1972(**4**), Part 6 of that Act applies to the board as if it were a committee established under section 101 of that Act].

(5) [An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses].

(6) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

Local pension boards: membership

107.—(1) Subject to paragraphs (2) and (3) each administering authority shall determine—

(a) the membership of the local pension board;

(b) the manner in which members of the local pension board may be appointed and removed;

(c) the terms of appointment of members of the local pension board.

(2) A local pension board must include an equal number, which is no less than 4 in total, of employer representatives and member representatives (**5**) and for these purposes—

(a) a member of a local authority is not to be appointed as an employer or member representative; and

(b) the administering authority must be satisfied that—

(i) a person to be appointed as an employer representative has relevant experience and the capacity to represent employers on the local pension board; and

(ii) a person to be appointed as a member representative has relevant experience and the capacity to represent members on the local pension board.

(3) The number of members appointed under paragraph (2) must exceed the number of members otherwise appointed to a local pension board.

Local pension boards: conflict of interest

108.—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest(**6**).

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

(**4**) 1972 c. 70.
(**5**) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.
(**6**) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

Scheme advisory board: establishment

110.—(1) A scheme advisory board ("the Local Government Pension Scheme Advisory Board") is established.

(2) The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board is also responsible for providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

Scheme advisory board: membership

111.—(1) The Local Government Pension Scheme Advisory Board is to consist of the following members—

(a) the Chair appointed by the Secretary of State; and

(b) at least 2, and no more than 12, persons appointed by the Chair with the approval of the Secretary of State.

(2) When deciding whether to give or withhold approval to appointments under paragraph (1)(b) the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

(4) The Chair of the Local Government Pension Scheme Advisory Board may appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(5) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

Scheme advisory board: conflict of interest

112.—(1) Before appointing, or approving the appointment of any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest(**7**).

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

Scheme advisory board: funding

113.—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as are determined by the Board.

(**7**) See section 7(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

(a) its annual budget approved by the Secretary of State; and

(b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.".

We consent to the making of these Regulations

Names

Date — Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Name

Parliamentary Under Secretary of State

Date — Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 1st January 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 and 4 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 5 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pensions board. Local pensions boards must have equal representation of employer representatives and member representatives who must not be councillors of the administering authority and who must constitute the majority of members of the board.

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

Avon Pension Fund

LOCAL GOVERNMENT PENSION SCHEME

Bath & North East Somerset Council
Floor 3 South, Riverside, Temple Street, Keynsham, Bristol, BS31 1LA
Tel: 01225 477000
Email: avonpensionfund@bathnes.gov.uk
Web: www.avonpensionfund.org.uk

LGPS Governance Regulations 2014
Department for Communities & Local Government
Zone 5/F5, Eland Place
London SW1E 5DU

Telephone: 01225 395306

Email: liz_woodyard@bathnes.gov.uk

Date: 12 August 2014

Dear Ms. Layne

Draft Regulations on Scheme Governance

Thank you for the opportunity to respond to the consultation on the Draft Regulations on Scheme Governance. Our comments focus on the need for clarification of definitions and process to ensure that funds can establish an effective Board that complies with the regulations.

Regulation	Comment
106 (1)	Establishment: Clarity is required as to what "no later than 1st April 2015 establish" means. Does it mean that appointments must have been made by 1 April 2015? This is a challenging timescale. What would be the consequence if an administering authority failed to meet this requirement? What would be the implications if a fund had not completed its appointment process by 1 April 2015?
106 (1b)	Establishment: Further guidance as to the role and scope of the Board would be helpful given the existence of local authority pension committees which already monitor compliance with legislation and processes. We understand the role to be one of oversight rather than developing policy or decision making. It would also be helpful to understand expectations regarding who the Board should report to; the LA pensions committee, the Administering Authority, the Audit Committee, the Pensions Regulator? It would also be helpful to clarify whether the scope of the Board extends to oversight of scheme employers in the Fund when considering pensions matters and particularly compliance especially given the increasing fragmentation of the employer base. Following from this, clarification is required as to whether a responsibility of the administering authority could be delegated to the Board under the

	regulations.
106 (2-4)	Establishment: Combined Boards It would be preferable if the regulations enable a single, dual function body to carry out the functions of both the section 101 Committee and the Board, but only if the criteria and conditions required to getting SoS approval, and the process by which the SoS will make an informed decision, are set out at a minimum in guidance. Without clarification of the circumstances in which this will be permitted it will be difficult for an administering authority to consider the option fully, therefore making the option irrelevant.
106 (5)	Establishment: We prefer option 2, conferring wide discretion on administering authorities to establish the Board. The LG Act 1972 may be too restrictive to establish the Board especially given the membership restriction under these regulations. Specifically there could be issues around political proportionality, councillor and employee members. The regulations should only require the administering authority to ensure public access to the Term of Reference, Board papers and meetings. All other decisions about the Board constitution, including term of office, payment of expenses, sub-committees, voting rights and frequency of meetings should be at the discretion of the administering authority. Under this approach, administering authorities would be able to use parts of the LG Act 1972 they think are appropriate, by cross referencing to it in the Board's Terms of Reference.
106 (6)	Pension Board costs: The costs associated with the Board will be met by the local fund. However, it should be noted that it will increase costs at a time when funds and scheme employers are under pressure to reduce costs.
107 (2a)	Membership: It would be helpful to understand the justification of why a member of a local authority cannot be appointed as an employer or employee representative as this exclusion is not provided for in the PSPA 2013. In addition a member of a local authority needs to be defined. Does it refer to councillors from the administering authorities or all councils from county to town and parish councils? Do the members just refer to those from the local authorities in the local fund?
107 (2b)	Relevant experience: Guidance is required as to what "relevant experience and capacity" means in order that appointments are not decided on an arbitrary and subjective basis. It is too narrow a criterion and could have the unintended consequence of ruling out suitable candidates especially in terms of "experience". Although not making decisions, members will need to acquire a significant level of knowledge if they are responsible for ensuring processes are appropriate and effective, thus they should have the

	“capacity” and commitment to acquire the level of knowledge to fully execute the role.
108 (1)	Conflicts of Interest: The wording of conflicts of interest needs clarity. Our understanding is that if the Board is not a decision making body then the members cannot prejudice or influence decisions but can only comment and make recommendations about processes. Therefore, even though employer officers and members will have conflicts, they can still be appointed as “other” members. In local government including pension committees, conflicts are effectively managed. There is no reason why this should not be the case for the Board. It would be helpful if the guidance clarified whether being part of an employer is not a conflict in the same way as being a scheme member is not a conflict. Can existing S101 committee members be appointed to the Board especially those that do not have voting rights? It would also be helpful to provide guidance on who should advise the Board as administering authority officers advising pension committees are inherently conflicted.
109	Guidance: It is imperative guidance is provided in advance of the boards being established.
111 (4)	Scheme Advisory Board: The nomination process to sub-committees of the Advisory Board must be transparent to ensure all interested parties can participate in the nomination and appointment process.
113 (2)	Scheme Advisory Board – Funding: There must be a requirement for the Board to give total transparency on costs and forward business plans to ensure fairness to funds that will be meeting the costs. 2(b) the regulation should refer to equality across all funds when determining fee base

In addition to the regulations we have the following comments:

1. Liability Insurance for Board members:

   Can you confirm that the Board members would be covered by the administering authorities’ insurance policy?

2. Officer conflicts:

   Has any consideration been given to whether it is good practice for the same officers to support both the Pension Committee and the Pension Board?

3. Joint Pension Boards:

   It would be preferable if the regulations did permit joint Pension Boards to be established where it can be demonstrated there is joint working arrangements and decision making in place. This would ensure no ambiguity as to whether joint boards can be established and it would be consistent with the government's objective of having greater collaboration within the LGPS funds.

4. Employer/employee forums:

   The regulations should not stipulate the frequency or format of employer or employee forums. Such events should be at the discretion of the scheme manager to ensure they are held when appropriate and as often as needed. In addition, the increasing fragmentation of the employer base often requires forums to be tailored to employer groups or groups of staff within employers.

   For example, over the last year the Fund has held a number of employer and employee forums tailored specifically to the new scheme and we hold new employer training forums for academies. Pension clinics for individual members are well attended.

   The Fund holds Investment Forums for employers to discuss investment and funding issues with finance managers, specifically to help with budgeting for pension costs.

   Our experience is that employee forums are often poorly attended.

5. Equality Duty

   It is not clear what the perceived gap is to make this a specific requirement as it should be expected that LGPS Board is able to make recommendations on all aspects of the scheme. The local authority already has a duty to comply with all aspects of the Equalities Acts but this is embedded in existing processes which can be demonstrated but monitoring compliance would require an audit review at additional costs – which we are not clear is what is intended.

6. Knowledge and Understanding framework

   The regulations require Board members to have knowledge and capacity to undertake that role but there is no such requirement placed on the Administering Authority Pension Committee members except that the Knowledge and Skills Framework published by CIPFA is recommended. It would be helpful to heave a common requirement placed on both the Administering Authority and Pension Board and is indeed more critical for the former.

Yours sincerely,

for Tony Bartlett
Head of Business Finance and Pensions

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**26 SEPTEMBER 2014**	**AGENDA ITEM NUMBER**
TITLE:	**TERMINATION POLICY FOR SCHEME EMPLOYER EXITS**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Mercer paper on Termination Policy		

1 THE ISSUE

1.1 The Funding Strategy Statement sets out the basis for valuing assets and liabilities in the event of a scheme employer terminating its participation in the fund. The policy is designed to be equitable to both the exiting employer and the continuing employers within the Fund.

1.2 Mercer have provided advice to the Administering Authority following recent changes in the LGPS Regulations governing the options and treatment available to Administering Authorities either at termination, or prior to an expected termination at some point in the future. Mercer's advice is contained in Appendix 1.

1.3 The main changes relate to how a termination assessment can be triggered and the repayment plan to be set by the Administering Authority. This has implications for the basis on which the termination value is assessed.

1.4 In addition to the Actuary's advice, the Fund has obtained legal advice on the recent changes to the regulations. The legal advice is in line with that from the actuary.

2 RECOMMENDATION

The Committee:

2.1 Approves the recommended changes to the termination policy with regard to:

i. Repayment plans as set out in paragraph 5.2

ii. The margin for adverse demographic risk factors as set out in paragraph 5.7.

3 FINANCIAL IMPLICATIONS

3.1 When an employer leaves the Fund, there is no further recourse to that body if the accumulated assets notionally allocated to that body at the exit date prove to be inadequate in meeting future benefit payments. As the body supporting these liabilities will have no ongoing responsibility in respect of these liabilities once they have left the Fund, the residual liabilities will then become the responsibility of any existing guarantor in the Fund or by the Fund as a whole (i.e. all participating employers), in which case they become known as "orphan liabilities".

3.2 Therefore an exit contribution payment will be requested from the outgoing employer (unless the deficit passes to the guarantor within the Fund). The exit payment is assessed on the exit or termination basis which values the liabilities using corporate bond yields. This more prudent basis is used to provide protection to the other scheme employers from adverse movements in the financial markets after the exployer exits the Fund.

4 CURRENT TERMINATION POLICY

4.1 As set out in the Funding Strategy Statement, the termination deficit is assessed using market conditions at the exit date i.e. based on corporate bond yields and market implied inflation expectations applying at that date. The use of corporate bond yields as the basis for determining the termination deficit provides a contingency margin against adverse changes in market conditions.

4.2 The termination basis uses the other non-financial assumptions from the latest triennial valuation to value the liabilities. The Fund does not make any adjustment to these (mainly demographic) assumptions.

4.3 The Fund agrees a payment plan with the exiting employer. If an instalment plan is agreed, the plan can be reassessed at subsequent valuations until it has be repaid.

5 CHANGES TO LGPS REGULATIONS AND REVISED FUND POLICY

Termination Payment Plans:

5.1 The Regulations have been amended so that termination calculations are triggered for any employer when the last active member leaves. The regulations give power to the Fund to set a payment plan to recover the outstanding debt at its discretion. However, under the new regulations, once set this plan is fixed it cannot be adjusted at subsequent valuations.

5.2 The Fund's recommended policy for termination payment plans will be as follows:

i. The default position is for exit payments to be paid immediately in full.

ii. Instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.

5.3 The Fund consulted its legal advisor about the changes to the regulations and the operational impact on the setting of repayment plans. Their advice concurred with that of the actuary.

Funding Basis:

5.4 The Actuary has advised that the use of the corporate bond funding basis is appropriate for assessing liabilities on termination. This basis mitigates against financial market risks as an investment strategy to run off these liabiltiies could be constructed to minimise fluctuations due to market shifts. We do not do this at the current time due to the relatively small exposure which was c. 1.8% of liabilities at the 2013 valuation. We would review this overtime if the exposure increased markedly but this is unlikely given the nature of the Fund. To put this into context the liabilities of the community admission bodies, including those with guarantees, were 5.7% of total liabilities (or £229m) at the 2013 valuation.

5.5 However, it does not provide against future adverse demographic experience relative to the assumptions which could emerge at future triennial valuations. Historically, there have been few large scheme employers that have left the scheme (and where this has happened, it was mainly been due to service reorganisations). However, with the advent of autoenrolment and a difficult funding environment, more admission bodies are reconsidering their participation in the scheme In this environment there is a increased risk that adverse movements in the funding assumptions could have a more significant impact on the remaining participating employers over time if demographic experience turns out worse than expected. Therefore the Actuary feels it is appropriate to include a higher level of prudence in the demographic assumptions on termination to further protect the remaining employers.

5.6 The Actuary advises a reasonable adjustment is made to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. in relation to the termination assessement for an outgoing employer from 1.5% used in the 2013 valuation for ongoing funding and contribution purposes.

5.7 The Fund's recommended policy for the termination funding basis will be as follows:

i. Use a 2% p.a. long term rate for longevity improvement.

5.8 The Actuary's advice is in Appendix 1. Any changes to policy will be incorporated in the next review of the FSS.

6 RISK MANAGEMENT

7 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. The assessment of termination liabilities that is equitable to all scheme employers is crucial part of the risk management process. Ongoing assessment of the strength of an employing body's covenant is another component in managing the potential risk of default to the Fund. Within the Investments Team there are officers with responsibility for monitoring the employers' financial position and to support the Investments Manager in managing the financial and liability risks, both on-going and at termination.

8 EQUALITIES

8.1 Not relevant as regarding the implementation of policy.

9 CONSULTATION

9.1 Not relevant as regarding the implementation of policy.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 The relevant information is set out in the report.

11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	Correspondence with legal advisor
Please contact the report author if you need to access this report in an alternative format	

MERCER

AVON PENSION FUND

BRIEFING NOTE TO SUPPORT ADJUSTMENT TO THE TERMINATION POLICY PROCESS

Introduction

1. This briefing note has been produced at the request of the Administering Authority of the Avon Pension Fund (“the Fund”). This briefing note is intended to clarify and support the Fund’s policy, as set out in the Appendix to the Funding Strategy Statement (“the FSS”), applicable in the event of an employer terminating its participation within the Fund. In time the FSS will be updated but we do not feel a formal update or consultation with employers is necessary at this stage as it relates to a change in operational process and an update of the actuarial advice.

2. This clarification note has become necessary as a result of a change in the LGPS Regulations governing the options and treatment available to Administering Authorities either at termination, or prior to an expected termination at some point in the future.

3. The Regulations have been amended such that termination assessments are now automatically triggered for any employer in the Fund when the last active member leaves service (i.e. the employer becomes an “exiting employer”). The amended Regulations now provide a power for the Administering Authority to use its discretion to agree an instalment plan to recover any outstanding debt over a pre-determined period. Separate legal opinion obtained by the Administering Authority has concluded that any instalment plan entered into would be a non-reviewable payment plan once certified by the Fund Actuary and this is the Fund Actuary’s view also.

4. The termination policy including the aspects outlined in this note, along with all other Fund policies will continue to be monitored for appropriateness. The FSS will also be formally reviewed next in 2015 in conjunction with the interim valuation.

Existing Policy

5. When an employer leaves the Fund, there is no further recourse to that body if the accumulated assets notionally allocated to that body prove to be inadequate in meeting future benefit payments. As the body supporting these liabilities will have no ongoing responsibility in respect of these liabilities once they have left the Fund, the residual liabilities will then become the responsibility of any existing guarantor in the Fund or by the Fund as a whole (i.e. all participating employers), in which case they become known as “orphan liabilities”. The

orphan liabilities at the 2013 valuation were 1.8% of the total liabilities so relatively small and given the ongoing nature of the Fund they are never likely to become too significant.

6. Therefore, unless any deficit is subsumed by the guarantor within the Fund, an exit contribution payment will be requested from the outgoing employer. As set out in the FSS, the deficit will be assessed using market conditions as at the exit date i.e. based on the market yields at that point and assessed market value of the assets relating to that employer. Given that the assessment uses corporate bond yields as a basis for determining the termination deficit (unless another employer in the Fund assumes responsibility for the liabilities), this provides a contingency margin against adverse changes in market conditions. It could be possible to introduce further margins for the financial assumptions but we do not feel that this is appropriate at the current time given the relative size of the liabilities. I also feel that using this approach is fair and equitable in the long term given that if the orphan liabilities became a more significant proportion of the Fund it is highly likely a bespoke investment strategy would be implemented which would involve a significant proportion of corporate bonds and other instruments to provide a cashflow matching profile which runs off these liabilities. This would more than support the current approach in terms of the financial assumptions.

Margin for adverse demographic risk factors

7. Given that certain employers (some of which are quite large) are potentially seeking to exit the Fund due to their own financial circumstances, we have advised Fund Officers that there is justification for introducing a further adjustment when assessing final termination contributions. This is to further protect the other participating employers in the Fund against the risk of adverse future demographic experience especially in relation to improving life expectancy as this is not easily matched by any investment strategy excluding insurance via a “buy-in” or a longevity swap – both of which would likely not be an option given the relatively small scale of liabilities being covered. The existing approach does mitigate the financial risks in relation to market factors by introducing prudence in the assumptions and is supportable for the reasons given above. However, it does not incorporate any *further* prudential margin relative to the ongoing valuation funding assumptions in order to reduce the risk of future adverse demographic experience. For example, this could include further increases in life expectancies and/or the impact of potential future ill-health retirements, although the likelihood is that potential increases in longevity will pose the greatest risk.

8. We therefore recommend that in order to build in a sufficient margin for adverse demographic experience, modified longevity assumptions should be used when assessing the liabilities as described in paragraph 6. We have advised the Fund Officers that with immediate effect, a higher improvement rate in life expectancies than that incorporated in the 2013 valuation funding assumptions should be adopted for assessing the exit payment due when an employer terminates participation.

9. The actuarial assumptions adopted at the most recent triennial valuation are based on industry-wide standard tables published by The Continuous Mortality Investigation (CMI), and are then adjusted to reflect the actual experience of the Fund membership. These assumptions also build in an allowance for longevity ‘improvement’ year-on-year in line with the CMI projections subject to a long-term trend of 1.5% per annum. We have advised the Fund Officers that increasing the improvement allowance to a long-term trend of 2.0% per

annum is reasonable and proportionate at this stage. However, the precise application of this may be refined further (e.g. for larger cases), having regard to advice provided by the Fund Actuary on a case by case basis.

Operational changes & flexible recovery plans

10. As stated in paragraph 3, the amended Regulations now enable the Administering Authority to agree to an instalment plan at its own discretion, in advance of an employer's exit, to recover any outstanding debt over a pre-determined period.

11. The Administering Authority's default position is for the exit payment to be paid immediately; however it is appreciated that this is not always possible on the grounds of affordability and it may be in the interests of the Fund to agree an instalment plan to maximise the monies recovered where the employer has little resources available. Therefore, the Administering Authority will monitor and engage with all the relevant employers as they naturally approach the end of their participation, or because of some other reason (e.g. a small number of active members, insecure funding streams etc.).

12. The Administering Authority may therefore use its discretion, in conjunction with advice received from the Fund Actuary, in managing debt repayment plans for employers approaching their exit from the Fund. This will be driven by each employer's own affordability constraints and this will be balanced against the overall covenant strength/future business plans and funding streams.

13. Legal opinion obtained by the Administering Authority has confirmed that any instalment plan entered into would be a fixed, non-reviewable one. Therefore, the Fund Actuary will construct the final certification such that it affords the flexibility to the Fund Officers to adjust the fixed plan over the agreed recovery period to recover monies due in an efficient and effective manner. In addition the Administering Authority reserves the right to enter into a separate agreement on a case by case basis in order to formalise any pledges and undertakings made by the employer to support the required termination funding plan.

Mercer Limited
September 2014

g:\eworking\ret\nw\lg - bath & north east somerset district council\pension scheme\wind ups\termination policy\140815_ots_nt_001_policy-note.docx

This page is intentionally left blank

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**26 SEPTEMBER 2014**	**AGENDA ITEM NUMBER**
TITLE:	**INVESTMENT PANEL ACTIVITY**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Minutes from Investment Panel meeting held 3 September 2014

EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 3 September 2014

EXEMPT Appendix 3 – Summary of decisions taken in Exempt session at Investment Panel meeting held 3 September 2014

EXEMPT Appendix 4 – Summaries of Investment Panel meetings with Investment Managers

EXEMPT Appendix 5 – Infrastructure mandate: Appointment decision

1 THE ISSUE

1.1 The Investment Panel is responsible for addressing investment issues including the investment management arrangements and the performance of the investment managers. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.

1.2 The Panel has held one formal Investment Panel meeting since the June 2014 committee meeting, on 3 September 2014. The draft minutes of the Investment Panel meeting provides a record of the Panel's debate before reaching any decisions or recommendations. These draft minutes can be found in Appendix 1 and Exempt Appendix 2. The Panel also held a Meet the Managers Workshop on 3 September 2014. In addition, the Panel held a Clarification meeting on the Infrastructure mandate tender on 8 July 2014. The recommendations and decisions arising from these meetings are set out in paragraph 4.1.

2 RECOMMENDATION

That the Committee notes:

2.1 the draft minutes of the Investment Panel meetings held on 3 September 2014

2.2 the recommendations and decisions made by the Panel since the last quarterly activity report, as set out in 4.1

3 FINANCIAL IMPLICATIONS

3.1 In general the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.

3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for in the budget.

4 RECOMMENDATIONS AND DECISIONS

4.1 The following decisions and recommendations were made by the Panel since the last quarterly activity report:

(1) Investment Panel Meeting, 3 September 2014:

a) Decision on Hedge Fund portfolio structure, see Exempt Appendix 3.

b) Decision to terminate an investment management mandate following significant loss of key investment personnel, see Exempt Appendix 3 for explanation.

The Panel also wished to notify the Committee that the termination of the mandate and temporary placement of the proceeds in the passive portfolio (whilst another manager is selected) will result in the Fund's allocation to equities being temporarily above the strategic range (estimated that it will be 59% versus the upper limit of the range of 55%)

(2) Meet the Manager Workshop, 3 September 2014:

a) The Panel met with Schroder (Global Equity Mandate) and Record Currency Management. [to follow]

A summary of the meetings is provided at Exempt Appendix 4. [to follow]

(3) Infrastructure Tender - Clarification meeting 8 July 2014: The Panel appointed a manager for the infrastructure mandate subject to completion of legal documentation (still in progress). Exempt Appendix 5 provides a brief summary of the decision.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. An Investment Panel has been established to consider in greater detail investment performance and related matters, and to carry out responsibilities delegated by the Committee.

5.2 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary as the report is primarily for information only.

7 CONSULTATION

7.1 This report is primarily for information and therefore consultation is not necessary.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues to consider are contained in the report.

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

This page is intentionally left blank

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 3rd September, 2014, 10.30 am

Members: Councillor Charles Gerrish (Chair), Councillor Patrick Anketell-Jones, Ann Berresford, Councillor Mary Blatchford, Roger Broughton and Councillor Ian Gilchrist
Advisors: Tony Earnshaw (Independent Advisor), Jignesh Sheth (JLT Benefit Solutions) and Guy Hopgood (JLT)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager) and Matthew Clapton (Investments Officer)

11 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

12 DECLARATIONS OF INTEREST

There were none.

13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

14 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

15 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

16 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

17 MINUTES: 4TH JUNE 2014

The public and exempt minutes of the meeting of the 4th June 2014 were approved as a correct record and signed by the Chair.

18 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2014

The Assistant Investment Manager summarised the headline information in the report. The Fund's assets had increased by 2.4% in the quarter ending 30 June 2014. 10 mandates were rated green in the RAG report (Exempt Appendix 3), including Stenham, who were now exceeding their target. Two managers had been downgraded to amber, namely TT and Barings. There were now five managers rated amber.

Mr Sheth gave a market summary and commented on the JLT report (Appendix 2). He said that the bull market that had commenced in August 2012 had continued. Jobs were being created in the US and there had been a reduction in unemployment in the UK. The UK was seen as a safe haven by many investors and UK bonds were doing well. Sterling had strengthened, which might eventually have a negative impact on exports. The worst performance was in Europe, where it was expected that the ECB would introduce some form of QE. The expectation was that even if interest rates began to rise, they would remain below their historic average.

RESOLVED that, the Panel having been satisfied that the public interest would be better served by not disclosing relevant information and in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the discussion of Appendix 3, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

The Panel discussed issues arising from Exempt Appendix 3.

After the Panel returned to open session, it was **RESOLVED**

1. To note the information as set out in the report.

2. To delegate to officers the implementation of the actions agreed in the exempt session.

19 HEDGE FUND IMPLEMENTATION

RESOLVED that, the Panel having been satisfied that the public interest would be better served by not disclosing relevant information and in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for this item of business because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

The Investment Manager introduced this item. Mr Sheth and Mr Hopgood commented on the JLT report (Exempt Appendix 1).

After discussion, it was **RESOLVED** to accept the first of the alternative recommendations contained in the report.

20 WORKPLAN

RESOLVED to note the workplan.

The meeting ended at 12.35 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

This page is intentionally left blank

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1624-14

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 26 September 2014

Author: Matt Betts
Report Title: Item 11 – Investment Panel Activity EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 3 September 2014 EXEMPT Appendix 3 – Summary of decisions taken in Exempt session at Investment Panel meeting held 3 September 2014 EXEMPT Appendix 4 – Summaries of Investment Panel meetings with Investment Managers EXEMPT Appendix 5 – Infrastructure mandate: Appointment decision

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Bath & North East Somerset Council

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

Weighed against this is the fact that the exempt report and appendix contains the opinions of Council officers and Panel members. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available.

The exempt appendix also contain details of the investment processes/strategies of the investment managers. The information to be discussed is commercially sensitive and if disclosed could prejudice the commercial interests of the investment managers.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion relating to the investment managers in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Investment Panel Activity has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**26 SEPTEMBER 2014**
TITLE:	**REVIEW OF INVESTMENT PERFORMANCE (for periods ending 30 June 2014)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT Performance Monitoring Report Exempt Appendix 3 – Changes in RAG status of Managers Appendix 4 – LAPFF Quarterly Engagement Monitoring Report	

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 30 June 2014.

1.2 The main body of the report comprises the following sections:

Section 4. Funding Level Update

Section 5. Investment Performance: A - Fund, B - Investment Managers

Section 6. Investment Strategy

Section 7. Portfolio Rebalancing and Cash Management

Section 8. Annual Assurance on Control Environment of 3rd Party Suppliers

Section 9. Corporate Governance and Responsible Investment (RI) Update

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1 **Note the information set out in the report**

2.2 **Note LAPFF Quarterly Engagement Report at Appendix 4**

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund from 1 April 2013 will affect the next triennial valuation in 2016. Section 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 FUNDING LEVEL

4.1 Using information provided by the Actuary, JLT has analysed the funding position as part of the quarterly report at Appendix 2 (section 3). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. ***It should be noted that this is just a snapshot of the funding level at a particular point in time.***

4.2 Key points from the analysis are:

(1) In the quarter the funding level increased by 3% to c. 87% due mainly to the advance lump sum deficit payments (c. +2% on the funding level) and investment returns. The impact of bond yields and inflation was slightly negative.

(2) Since the March 2013 valuation, the funding level has increased 9% from 78% to c. 87% and the deficit has contracted to c. £532m from £876m. Real yields have improved slightly and investment returns are ahead of expectations. The advanced deficit payments will unwind over time.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £156m (c.2.4%) in the quarter, giving a value for the investment Fund of £3,486m at 30 June 2014. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers. Manager performance is monitored in detail by the Panel. The Fund's investment return and performance relative to benchmarks is summarised in Table 1.

Table 1: Fund Investment Returns
Periods to 30 June 2014

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	2.4%	10.3%	8.3%
Avon Pension Fund (excl. currency hedging)	2.2%	9.2%	8.0%
Strategic benchmark (no currency hedging) *(Fund incl hedging, relative to benchmark)*	2.2% *(+0.2%)*	8.2% ***(+1.9%)***	6.8% *(+1.4%)*
Local Authority Average Fund *(Fund incl hedging, relative to benchmark)*	1.9% *(+0.5%)*	9.2% ***(+1.1%)***	8.0% *(+0.3%)*

5.2 **Fund Investment Return:** All Equity markets achieved positive if only modest returns over the quarter with emerging markets (+5%) outperforming developed markets, of which Europe was the weakest performing region at +0.3% for the quarter. Bond yields fell over the quarter leading to positive returns from Gilts (+2.3%) and corporate bonds (+2.8%) over the quarter.

5.3 Over the one year period UK, European and US equities outperformed their strategic return assumptions as did property, hedge funds and UK bonds (gilts corporates and index linked). Over 3 years developed market equities, UK bonds (gilts, corporates and index-linked) and property all outperformed their strategic return assumption, whilst emerging market equities and hedge funds underperformed their strategic return assumption.

5.4 **Fund Performance versus Benchmark: +1.9% over 12 months, attributed to**

(1) **Asset Allocation:** The contribution to outperformance from asset allocation was **1.1%** over the 12 months. This was due to the underweight to fixed income gilts within the bond portfolio; underweight to hedge funds; overweight in developed equities and underweight to emerging markets in final quarter. The currency hedging programme contributed **1.1%** over 1 year.

(2) **Manager Performance:** In aggregate, manager performance detracted -**0.3%** over the 12 month period, relative to the strategic benchmark.

5.5 **Versus Local Authority Average Fund:** Over one year, the Fund significantly outperformed the average fund.

5.6 **Currency Hedging:** The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme has contributed 0.2% to the total Fund return over the quarter and added 1.1% over the year.

B – Investment Manager Performance

5.7 In aggregate over the three year period the managers' performance is marginally ahead of the benchmark. Twelve mandates met or exceeded their three year performance benchmark, which offset underperformance by Schroder Equity, Gottex and Signet. Genesis, RLAM, and Jupiter all continue to perform particularly well against their three year performance targets.

5.8 As part of the 'Meet the Managers' programme, the Panel met with Schroder (global equity mandate) and Record (currency hedging mandate) on 3 September 2014. The summary of the Panel's conclusions can be found in Exempt Appendix 3 to the Investment Panel Activity Report.

5.9 Under the Red Amber Green (RAG) framework for monitoring manager performance, the Panel consider updates on all managers not currently achieving Green status including progress on action points. Any change in the RAG status of any manager is reported to Committee with an explanation of the change. **This quarter 2 green rated managers (TT and Barings) have been downgraded to an Amber rating (explained in Exempt Appendix 3).** Currently 5 managers are amber rated.

6 INVESTMENT STRATEGY

6.1 Changes to the Investment Strategy agreed in March 2013 that are still in the process of being implemented are as follows:

Project	Progress
Infrastructure	On Track: Manager selected, implementation underway with a view to completing subscription process during the next quarter. Note that funds will be drawn down over a period of up to 2 years.

6.2 The Investment Panel is reviewing how best to structure the Fund's exposure to hedge funds. This issue is addressed in another item on the meeting agenda.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 The rebalancing policy requires automatic rebalancing between the allocations to Liquid Growth (equities and diversified growth funds) and Stabilising (Bonds) assets when the liquid growth portion deviates from 75% by +/- 5%. Tactical rebalancing is allowed between deviations of +/- 2 to +/- 5%, on advice from the Investment Consultant. The implementation of this policy is delegated to Officers.

7.2 At 13 August 2014 the Equity:Bond allocation was 77.8:22.2. In April/May the Fund received lump sum deficit contribution payments from some employers which was invested to maintain allocation targets, resulting in a small reduction in the Equity:Bond ratio. Monies were invested in the following portfolios: Royal London, Pyrford and Barings. The remainder is held as cash as monthly contributions will be lower as a result of the lump sum payments. Officers will continue to incorporate any rebalancing considerations as the new strategy is implemented.

Cash Management

7.3 Cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.

7.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies and during the quarter were invested in line with the Fund's Treasury Management Policy (latest approved on 28 March 2014).

7.5 The Fund continues to deposit internally managed cash on call with NatWest, Barclays and Bank of Scotland. The Fund deposits cash with the Goldman Sachs Asset Management Global Treasury Fund (AAA rated) and another AAA rated fund with Deutsche Bank is available for deposits if required. The Fund also has access to the Government's Debt Management Office; however the interest paid currently may not cover the transfer and administration costs incurred.

7.6 During the quarter the net cash flow was boosted by lump sum advance deficit recovery payments of £80m and the bulk transfer in of £10m relating to South Gloucestershire and Stroud College. Excluding these abnormal factors the Fund's cash flow in the quarter was close to neutral with benefits paid and costs incurred approximately equalling contributions and cash income received (including Investment Income). The cash flow model now forecasts an average monthly outflow of c. £3m for the last three quarters of the year to 31 March 2015. This is an increase on the previous level as a result of the reduction in monthly deficit recovery payments that followed the lump sum payments in advance.

8 ANNUAL ASSURANCE ON CONTROL ENVIRONMENT OF 3RD PARTY SUPPLIERS

8.1 As part of the risk management process the Fund annually reviews the internal control reports (ICR) of the custodian and investment managers (and their administrators where relevant), and reports the findings to Committee. These reports are often designated SSAE16 or ISAE3402 reports (previously AAF 01/06 and SAS70 reports), that states which set of standards are being reported against.

8.2 ICR reports describe the internal control environment of an organisation. The management of the organisation are responsible for identifying the control procedures which they consider appropriate to enable certain control objectives to be met. External auditors verify that the controls identified are in place and comment on whether the controls will achieve the stated objectives or not.

8.3 For the reports reviewed in 2013/14, in each case the external auditor's report stated that the controls were in place and achieved the control objective and there are no issues to bring to the attention of the Committee. As part of the process, officers discuss the significance of the internal control reports with investment managers and custodian on an on-going basis and follow-up any issues flagged in the reports.

8.4 The ICRs of the pooled funds (and their administrators/custodian) and the Fund's custodian are also audited by the Fund's external auditor as part of the annual audit.

9 CORPORATE GOVERNANCE UPDATE

9.1 During the quarter, the Fund's external managers undertook the following voting activity on behalf of the Fund:

Companies Meetings Voted:	705
Resolutions voted:	10,523
Votes For:	10,137
Votes Against:	397
Abstained:	16
Withheld* vote:	43

** A withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for or against a resolution. Although the use of 'abstain' or 'withheld' reflects the different terms used in different jurisdictions, a 'withheld' vote can often be interpreted as a more explicit vote against management. Both votes may be counted as votes against management, where a minimum threshold of support is required.*

9.2 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report at Appendix 4.

10 RISK MANAGEMENT

10.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors (i) the strategic policy and funding level in terms of whether the strategy is on course to fund the pension liabilities as required by the funding plan and (ii) the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

11 EQUALITIES

11.1 An Equality Impact Assessment has not been completed as this report is for information only.

12 CONSULTATION

12.1 This report is for information and therefore consultation is not necessary.

13 ISSUES TO CONSIDER IN REACHING THE DECISION

13.1 The issues to consider are contained in the report.

14 ADVICE SOUGHT

14.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	LAPPF Member Bulletins, Data supplied by The WM Company
Please contact the report author if you need to access this report in an alternative format	

AVON PENSION FUND VALUATION - 30 JUNE 2014

	Passive Multi-Asset		Active Equities					Enhanced Indexation		Active Bonds	Funds of Hedge Funds	DGFs		Property		In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	BlackRock	BlackRock #2	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	Invesco	SSgA	Royal London		Barings	Pyrford	Schroder - UK	Partners - Overseas	Currency Hedging		
EQUITIES																		
UK	223.8	13.0	175.9	152.1			15.3										580.0	16.6%
North America	177.6	6.1					126.8										310.4	8.9%
Europe	158.7						33.3		41.0								233.0	6.7%
Japan	41.3						22.0		37.9								101.1	2.9%
Pacific Rim	52.9						6.8		30.6								90.3	2.6%
Emerging Markets					152.9	175.0	9.9										337.7	9.7%
Global ex-UK								245.0									245.0	7.0%
Global inc-UK																23.0	23.0	0.7%
Total Overseas	***430.4***	***6.1***	***0.0***	***0.0***	***152.9***	***175.0***	***198.9***	***245.0***	***109.5***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***23.0***	***1340.6***	**38.4%**
Total Equities	**654.3**	**19.0**	**175.9**	**152.1**	**152.9**	**175.0**	**214.1**	**245.0**	**109.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**23.0**	**1920.5**	**55.1%**
DGFs												**228.4**	**117.9**				**346.3**	**9.9%**
BONDS																		
Index Linked Gilts	191.7																191.7	5.5%
Conventional Gilts	94.7	14.6															109.3	3.1%
Corporate Bonds	18.9									279.3							298.2	8.6%
Overseas Bonds	74.3																74.3	2.1%
Total Bonds	**379.6**	**14.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**279.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**673.5**	**19.3%**
Hedge Funds											164.6						**164.6**	**4.7%**
Property														155.8	109.6		**265.4**	**7.6%**
Cash	5.0	10.9	7.5	11.5			5.3							3.7		72.7	**116.6**	**3.3%**
TOTAL	**1038.8**	**44.5**	**183.4**	**163.6**	**152.9**	**175.0**	**219.5**	**245.0**	**109.5**	**279.3**	**164.6**	**228.4**	**117.9**	**159.5**	**109.6**	**95.6**	**3486.9**	**100.0%**

N.B.
(i) Valued at BID (where appropriate)
(ii) In-house cash = short term deposits at NatWest managed on our behalf by B&NES plus general cash held at Custodian
(iii) BlackRock 2 = represents the assets to be invested in property, temporarily managed by BlackRock

NOTE Due to rounding the figures on this document may not appear to add up exactly.

This page is intentionally left blank

Avon Pension Fund

Review for period to 30 June 2014

Contents

David Harrup

Consultant

St James's House, 7 Charlotte Street
Manchester, M1 4DZ

Phone: 0161 253 1161
Email: david_harrup@jltgroup.com

Jignesh Sheth

Director

St James's House, 7 Charlotte Street
Manchester, M1 4DZ

Phone: 0161 253 1154
Email: jignesh_sheth@jltgroup.com

1 Executive summary

This report is produced by JLT Employee Benefits ("JLT") to assess the performance and risks of the investment managers of the Avon Pension Fund (the "Fund"), and of the Fund as a whole.

Funding level

- There is expected to have been an improvement in the funding level by around 3% over the second quarter of 2014.
- The drivers of the improvement were:
  - A positive asset return, following positive returns from most managers.
  - The receipt of advance deficit payments.
  - A smaller negative effect from the liabilities, as the valuation interest rate was slightly decreased, increasing the value placed on liabilities. This was partially offset by a fall in inflation linked liabilities due to lower inflation expectations.

Fund Performance

- The value of the Fund's assets increased by £156m over the second quarter of 2014 to £3,486m. The total Fund returned 2.4%, which was a result of modest positive returns from most funds. The Fund return was ahead of the benchmark of 2.2%. Excluding Record, the Fund return was in line at 2.2%.

Strategy

- The three-year volatility of each asset class (as measured by the standard deviation of returns) has remained broadly stable compared to the same measure last quarter. There has been a small rise in the volatility of property as returns have recently picked up.
- The impact of currency movements adds to the volatility of the Fund's assets. The dynamic currency hedge has reduced this volatility and added value compared to having an unhedged portfolio.
- Equities rose over the quarter as economic data improved, although developed equities fell back slightly towards the end of the quarter following some indicators of a slower growing economy for the remainder of 2014. The best performing region was the emerging markets, which returned 5.0% over the quarter, more than making up its lost ground from Q1 2014. UK equities returned 2.2%, whilst the worst performing equity region was Europe at 0.3%.
- Over the last twelve months, European equities produced the best return of 15.5%; the UK and USA also produced double-digit returns. Eastern markets lagged, with a negative one-year return from Japanese equities.
- The three year developed market equity returns remained ahead of the assumed strategic return but the emerging market equity return is significantly behind its assumed strategic return over three years.
- Gilts produced modest positive returns, as yields fell slightly. Corporate bonds produced a higher return over the quarter as the yield gap narrowed. Over the three year period returns remain ahead of the assumed strategic return. However, note that the next two quarters to fall out of the analysis

(Q3 2011 and Q4 2011) were very high returns and so the rolling three year return is expected to fall, all else being equal.

- The Overseas Fixed Interest return has fallen back to -0.9% p.a. over three years, as US yields rose.
- Hedge funds remain below the assumed strategic returns although the three year return showed further improvement this quarter. The Property return has moved further ahead of the assumed strategic return – over the last 12 months the return was 17.6%.
- The strengthening of Sterling against the US dollar, Euro and Yen meant that the impact of currency hedging has had a beneficial impact, reducing the negative effect of currency movements.

Managers

- At the quarter end, ten managers had met their three year performance target; TT International were short of the target but had outperformed the benchmark; Schroder global equity, Signet and Gottex all underperformed the benchmark over the three year period. Partners also outperformed the benchmark but do not have a formal outperformance target.
- Absolute returns from the managers were mixed over the last quarter. The highest returns were from the two emerging market equity funds and Schroder Property, which all produced returns of approximately 5%. The only two portfolios with a negative absolute return were TT (-1.0%) and SSgA Europe (-0.3%) - the TT portfolio was significantly below the FTSE All-Share Index of 2.2% whereas the SSgA Europe fund outperformed its benchmark.
- Over one-year, the highest return came from SSgA Europe (17.2%), closely followed by Schroder Property (16.9%). Jupiter, TT and Invesco also had double-digit one-year returns.
- The negative markets earlier in the year continued to affect the one-year SSgA Pacific and Genesis returns, although both managers outperformed their benchmarks over one year.
- Over three years, similarly developed equities produced the best absolute returns. Each equity manager apart from Schroder exceeded their benchmark over three years, and all except TT and Schroder also met their targets.
- The Schroder Global Equity Portfolio has now been in place for three years and has underperformed its target over this period by 1.9% p.a.
- Stenham met its three-year target (albeit with a return of 4.4% p.a.); Gottex outperformed over one-year but remain below their three year benchmark; Signet remain significantly below their three-year target.

Key points for consideration

- The increase in the allocation to emerging market equities over Q1 has proved beneficial given the recent market performance.
  - However, it is important to note that this allocation is a long term position and, over the short term, is likely to exhibit more volatility than developed market equities.
  - The new manager used for the increase in the allocation, Unigestion, is expected to provide a lower volatility than the benchmark and have a contrasting style to the existing emerging market manager, Genesis.
    - It is therefore pleasing that both have outperformed a rising market over the quarter.
- Allocations to infrastructure are expected to begin over the remainder of 2014 and into 2015, expected to be funded from the overweight allocations to developed market equities.

- Pyrford are particularly defensively positioned, echoing some market commentators' concerns that equity markets are showing too little volatility given certain geopolitical events and whether developed market economic growth will continue its momentum.
  - The introduction of the DGF managers who are expected to provide active asset allocation, as well as the introduction of a further diversifying asset class, infrastructure, provides some protection for the Fund against these concerns.
- Credit spreads (the additional yield on corporate bonds relative to gilts) have continued to tighten, leading some market commentators to become concerned over whether a correction is due.
  - Active management within corporate bonds, undertaken by RLAM for the Fund, means that these risks are considered individually for each bond held, providing some protection.
  - The Fund has increased its allocation to corporate bonds but it remains at a modest level. It should be noted that the allocation to high yield bonds has decreased as a result of action taken within the Barings Dynamic Asset Allocation Fund.
- The Avon Pension Fund is currently reviewing its hedge fund portfolio.
  - Stenham and Gottex in particular are showing improving trends in performance, albeit equity related strategies are amongst the main contributors to this performance.
- In August 2014, Barings announced that Percival Stanion, Andrew Cole and Shaniel Ramjee are to leave Barings. Percival is the head of the Barings Multi-Asset team, lead fund manager of the Dynamic Asset Allocation Fund and chairs the strategic policy committee; Andrew is one of the founding members of the multi-asset team and a co-manager of the Dynamic Asset Allocation Fund; Shaniel is a junior member of the multi-asset team.

2 Market Background

The figures below cover the three months, 1 year and 3 years to the end of June 2014.

Market Statistics

Yields as at 30 June 2014	% p.a.
UK Equities	3.27
UK Gilts (>15 yrs)	3.34
Real Yield (>5 yrs ILG)	-0.12
Corporate Bonds (>15 yrs AA)	4.17
Non-Gilts (>15 yrs)	4.44

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	-0.14	-0.26	0.28
UK Gilts (>15 yrs)	-0.09	-0.09	-0.88
Index-Linked Gilts (>5 yrs)	-0.02	-0.09	-0.60
Corporate Bonds (>15 yrs AA)	-0.13	-0.35	-1.37
Non-Gilts (>15 yrs)	-0.16	-0.24	-1.09

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	2.3	5.3	8.7
Index-Linked Gilts (>5 yrs)	1.1	4.3	7.8
Corporate Bonds (>15 yrs AA)	2.8	9.2	9.4
Non-Gilts (>15 yrs)	3.4	9.3	9.6

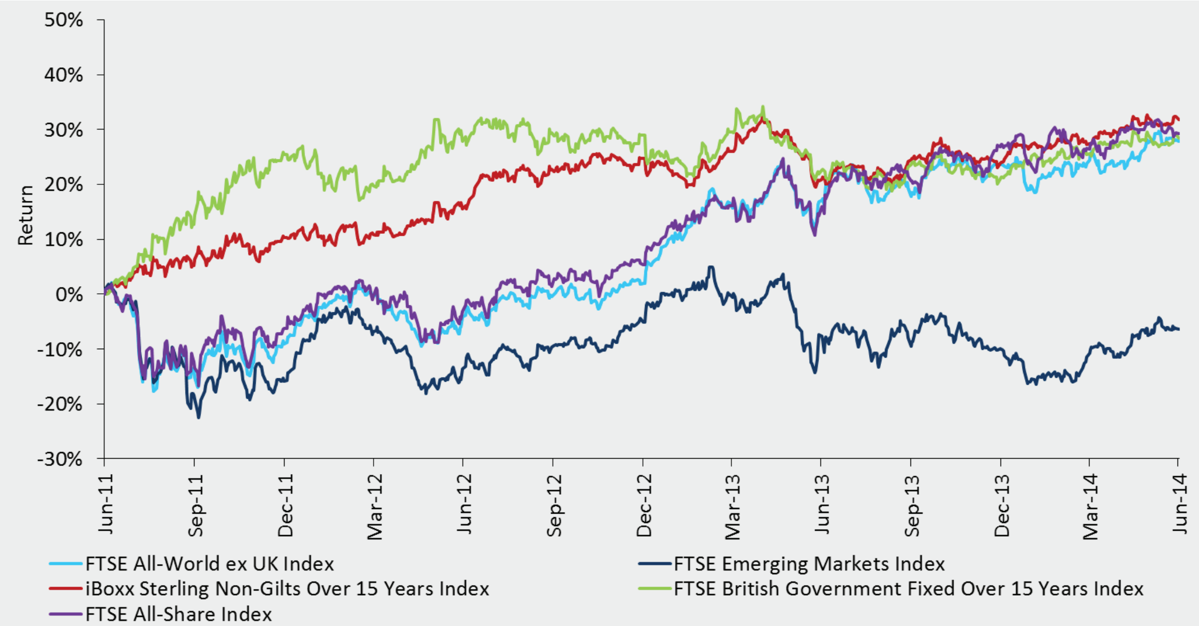
Source: Thomson Reuters and Bloomberg

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	2.2	13.1	8.9
Overseas Equities	2.6	9.4	8.5
USA	2.6	10.9	14.3
Europe	0.3	15.6	5.3
Japan	4.3	-1.7	5.7
Asia Pacific (ex Japan)	3.6	4.6	2.0
Emerging Markets	5.0	1.2	-2.2
Property	5.1	17.6	8.6
Hedge Funds	2.0	9.1	5.6
Commodities	0.1	-2.1	-1.9
High Yield	0.3	0.8	7.4
Emerging Market Debt	4.8	11.6	7.4
Senior Secured Loans	1.4	7.0	5.6
Cash	0.1	0.4	0.5

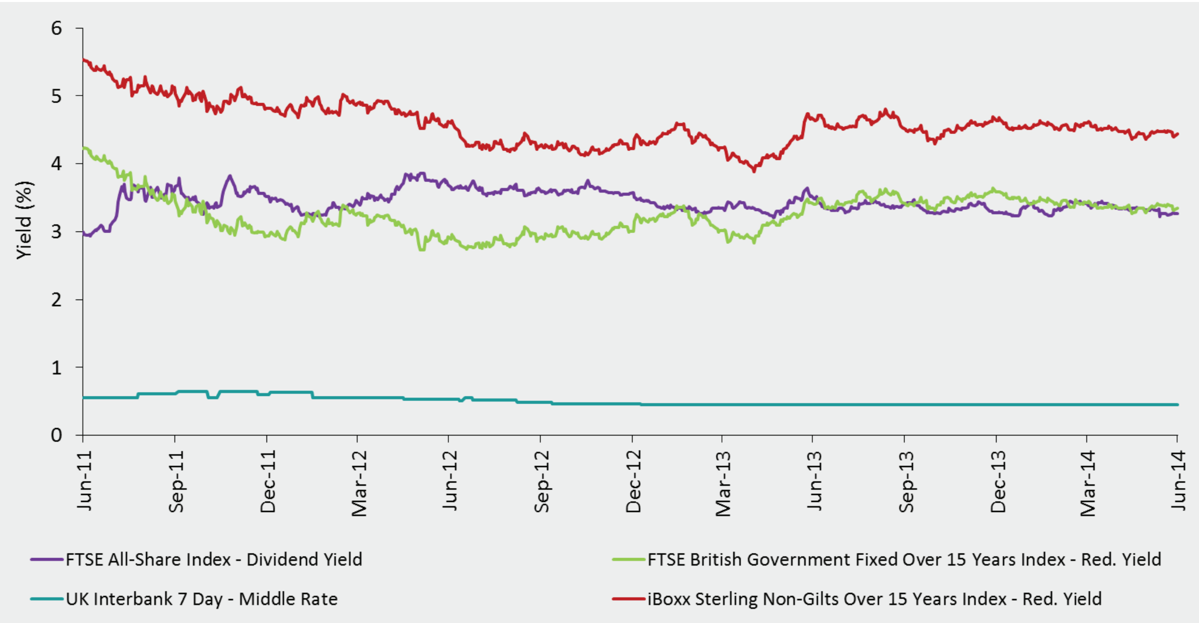
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	2.6	12.7	2.1
Against Euro	3.2	7.0	4.1
Against Yen	0.9	15.0	10.1

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.6	2.6	2.9
Price Inflation – CPI	0.5	1.9	2.4
Earnings Inflation	0.7	0.7	1.2

Market Summary charts



The graph above shows market returns for the last three years; both the medium-term trend and the short-term volatility.



The trend over the last 3 years until the end of April 2013 shows falling UK gilts and the corporate bond yields whilst the dividend yield on the FTSE All-Share Index has risen. Bond yields were more stable in the second half of 2013 but have fallen over the first six months of 2014, whilst the dividend yield has remained relatively flat over the last one year.

The table below compares general market returns (i.e. not achieved Fund returns) to 30 June 2014, with assumptions about returns made in the Investment Strategy agreed in 2013.

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities	8.25	9.8	Ahead of the assumed strategic return despite the negative quarterly return at the start of the 3 year period. In Q3 2011, uncertainty about the global economic outlook, the banking system and Eurozone debt produced a return of -14.4%. Excluding this, the developed equity return for the last 2¾ years is 17.2% p.a.
Emerging Market Equities	8.75	-2.1	The 3-year return from emerging market equities remains negative although has improved over the most recent quarter. As with developed equities, excluding Q3 2011 gives a very different picture, with the return over the last 2¾ years being 6.0% p.a.
Diversified Growth	Libor + 4% / RPI + 5%	4.7 / 7.6	DGFs are expected to produce an equity like return over the long term – this is the basis for the Libor and RPI based benchmarks. Low cash rates means that the Libor based benchmark has significantly underperformed the inflation (RPI) based benchmark and the long term expected return from equity. During periods of very strong equity returns, such as the recent three year period, we would expect DGF to underperform equities but deliver a return close to the long term assumed strategic return from equity.
UK Gilts	4.5	8.7	Ahead of the assumed strategic return mainly as a result of the fall in gilt yields during the second half of 2011. Returns have been positive during 2014 as gilts have been seen as a 'safe haven', particularly during the events in Ukraine.
Index Linked Gilts	4.25	7.8	
UK Corporate Bonds	5.5	7.4	
Overseas Fixed Interest	5.5	-0.9	Well behind the assumed strategic return and has fallen back into negative territory as strong growth and potential inflation acceleration in the US increased yields.
Fund of Hedge Funds	6.0	3.4	Behind the assumed strategic return following negative returns in 2011 and early 2012. More recently returns have been improving. Over the last two years returns have been steady at around 1% to 3% per quarter, which would meet the assumed strategic return.
Property	7.0	8.6	This has moved further ahead of the assumed strategic return as returns have escalated over the last year.

Source: Statement of Investment Principles, Thomson Reuters.

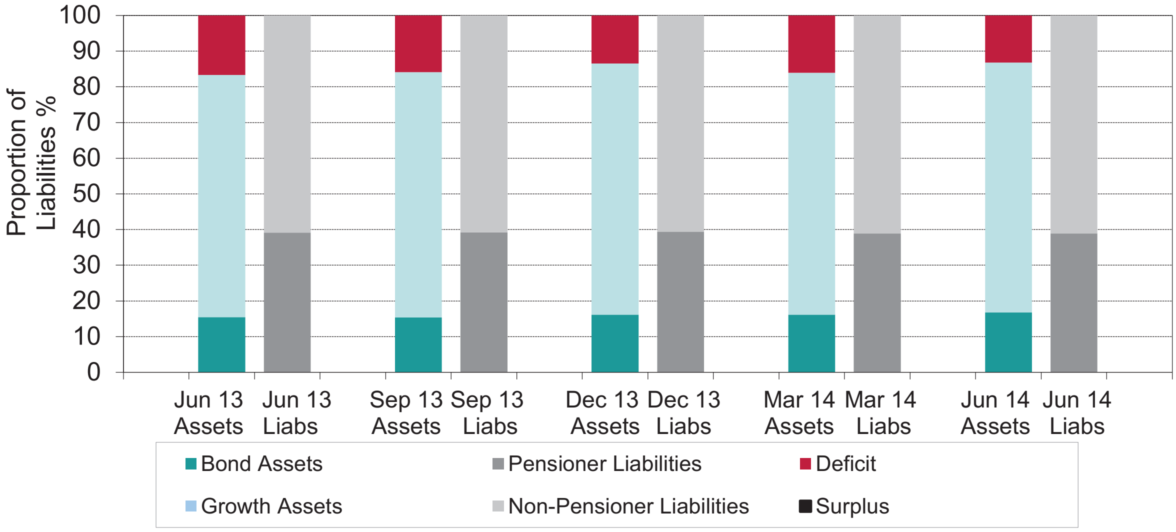
See appendix A for economic data and commentary.

3 Consideration of Funding Level

This section of the report considers the estimated funding level of the Fund. Firstly, it looks at the Fund asset allocation relative to its liabilities. Then it looks at market movements, as they have an impact on both the assets and the estimated value placed on the liabilities.

Asset allocation and liability split

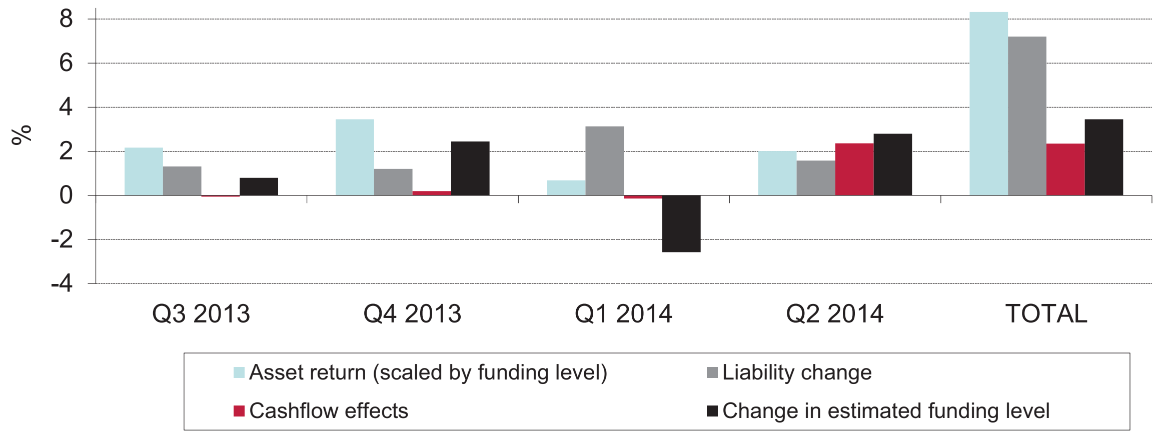
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix for definition). The liability benchmark is based on the valuation results from 31 March 2013.
- These calculations do not take account of any unexpected changes to the Fund membership or changes to the demographic assumptions and should not be construed as an actuarial valuation.



- Based on financial market values, investment returns and cashflows into the Fund, the estimated funding level increased by circa 3% over the second quarter of 2014, all else being equal. This was driven by:
  - A positive asset return following positive returns from most managers.
  - The receipt of advance deficit payments.
  - A smaller negative effect from the liabilities, as the valuation interest rate was slightly decreased, increasing the value placed on liabilities. This was partially offset by a fall in inflation-linked liabilities due to lower inflation expectations.
- At the valuation date, 31 March 2013, the Scheme was 78% funded. Since then financial market movements, actual cashflows, and investment returns are expected to have increased the overall funding level to 87%. This improvement has come mainly from positive asset returns over the period.

Scheme performance relative to estimated liabilities

- The chart below shows, quarter by quarter, the return on the assets and the impact on the liabilities due to changes in financial market values and expected member movements.
- As detailed above, such movements in liabilities are based upon the bond yield underlying the Scheme Actuary's calculation of liabilities.

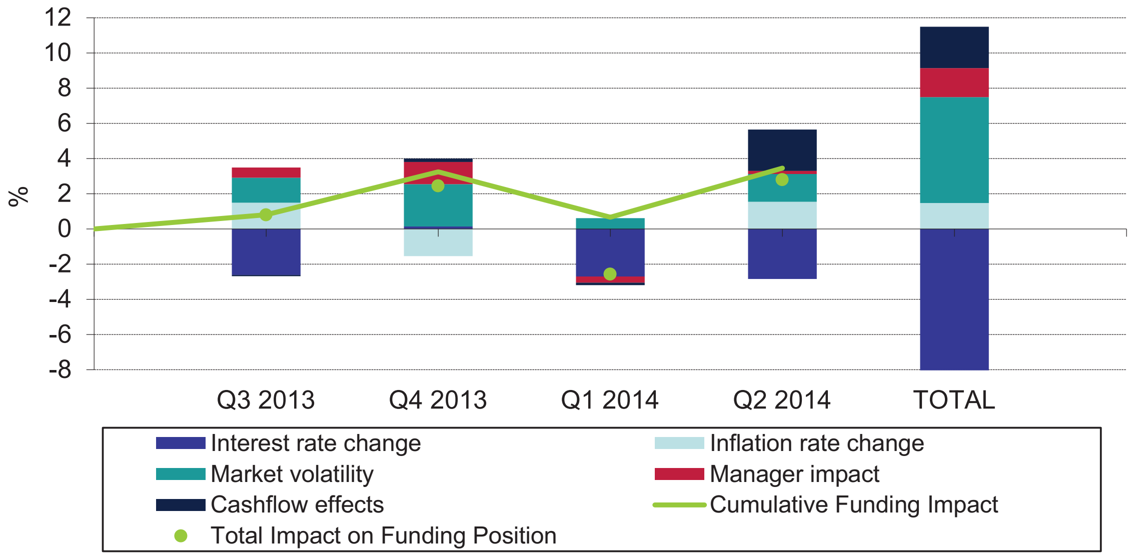


Note : A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of 2.0%, over the last quarter.
- The value placed on the liabilities increased by 1.0% due to a small fall in the discount rate, offset to some extent by a decrease in the inflation assumption used to value inflation-linked liabilities.
- The 'cashflow effect' of 2.3% represents several employing bodies paying their deficit payments in advance over the quarter.
- Overall, the combined effect has led to an increase in the estimated funding level to 87% (from 84% at 31 March 2014).

Key drivers of performance against the estimated liabilities

- The chart below shows the main contributors to the change in the estimated funding level. For reference, please note that the underlying calculations are based on the Mercer gilt yield.



- 'Interest rate change' reflects the impact caused by the difference in the duration of the liabilities compared to the assets. As the liabilities have a longer duration than the assets, when yields fall, this has a negative impact, as in Q2 2014.
- The Market Implied (RPI) inflation assumption fell by 0.1% p.a. over the quarter. This gives a positive contribution as future inflation-linked payments are lower.
- For Growth assets, 'Market volatility' is simply the (benchmark) return on the assets; for Bond assets it is the return less the return that would be expected given the changes in bond yields. This has had a positive impact over the quarter as Growth assets posted positive returns.
- 'Manager impact' is the investment performance compared to the strategic benchmark. This was marginally positive over the last quarter as the total fund returned 0.2% above the benchmark.
- The 'cashflow effects' reflect factors such as pension payments, contributions and disinvestments. The positive over the last quarter reflects the deficit payments.
- Overall the investment factors have had a positive impact on the estimated funding level of the Fund over the last quarter.
- Over the last year, investment factors have had a positive effect due to asset returns from both markets ('market volatility') and manager outperformance ('manager impact').
- This effect was reduced due to a fall in the discount rate assumption which increases the value placed on the liabilities ('interest rate change') together with the unwinding of the liabilities.

4 Fund Valuations

The table below shows the asset allocation of the Fund as at 30 June 2014, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets “ring fenced” for investment in property) split between the relevant asset classes.

Asset Class	31 March 2014 Value £'000	31 March 2014 Proportion of Total %	30 June 2014 Value £'000	30 June 2014 Proportion of Total %	Strategic Benchmark Weight %
Developed Market Equities	1,567,935	47.1	1,592,727	45.7	40.0
Emerging Market Equities	311,776	9.4	327,819	9.4	10.0
Diversified Growth Funds	314,340	9.4	346,321	9.9	10.0
Bonds	640,599	19.2	673,456	19.3	20.0
Fund of Hedge Funds	162,986	4.9	164,589	4.7	5.0
Infrastructure	-	-	-	-	5.0
Cash (including currency instruments)	71,739	2.2	116,595	3.4	-
Property	260,987	7.8	264,693	7.6	10.0
TOTAL FUND VALUE	**3,330,362**	**100.0**	**3,486,200**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £156m over the second quarter of 2014 to £3,486m.
- The amount invested in DGF’s has increased towards the benchmark weight as cash was invested with both Barings and Pyrford.
- In addition, several employing bodies paid their deficit payments in advance, some of which was invested with the two DGF managers and Royal London. The remainder of the deficit payments remained in Cash at the quarter-end, hence the relatively high Cash allocation as seen within the following table.
- The allocation to Developed Market Equities decreased from 47.1% to 45.7% due to cashflows being directed elsewhere, as described above. This takes its exposure closer to the strategic benchmark weight.
- Deviations from the strategic benchmark weight will continue during the period that changes to the investment strategy, agreed in 2013, are implemented.
- In particular, it is expected that the allocation to developed market equities will begin to fall over 2014 and 2015 towards its benchmark weight, as investments in infrastructure are made.

Manager	Asset Class	31 March 2014 Value £'000	31 March 2014 Proportion of Total %	Net new money £'000	30 June 2014 Value £'000	30 June 2014 Proportion of Total %
Jupiter	UK Equities	160,880	4.8	-	163,584	4.7
TT International	UK Equities	185,267	5.6	-	183,391	5.3
Schroder	Global Equities	214,480	6.4	-	219,456	6.3
Genesis	Emerging Market Equities	145,088	4.4	-	152,851	4.4
Unigestion	Emerging Market Equities	166,687	5.0	-	174,969	5.0
Invesco	Global ex-UK Equities	239,795	7.2	-	244,970	7.0
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	107,146	3.2	-	109,464	3.2
Pyrford	DGF	104,542	3.1	12,000	117,921	3.4
Barings	DGF	209,798	6.3	15,000	228,400	6.6
MAN	Fund of Hedge Funds	1,115	0.0	-	890	0.0
Signet	Fund of Hedge Funds	66,155	2.0	-	67,005	1.9
Stenham	Fund of Hedge Funds	37,654	1.1	-	38,056	1.1
Gottex	Fund of Hedge Funds	58,062	1.7	-	58,639	1.7
BlackRock	Passive Multi-asset	1,026,945	30.9	-	1,038,803	29.8
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	45,643	1.4	-1,000	44,470	1.3
RLAM	Bonds	249,851	7.5	23,000	279,336	8.0
Schroder	UK Property	150,249	4.5		159,480	4.6
Partners	Property	112,058	3.4	1,000	108,905	3.1
Record Currency Mgmt	Dynamic Currency Hedging	12,044	0.4	-	14,069	0.4
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	15,988	0.5	-	22,858	0.7
Internal Cash	Cash	20,915	0.6	31,400	58,685	1.7
Rounding		-	-	-	-2	-0.2
TOTAL		**3,330,362**	**100.0**	**81,400**	**3,486,200**	**100.0**

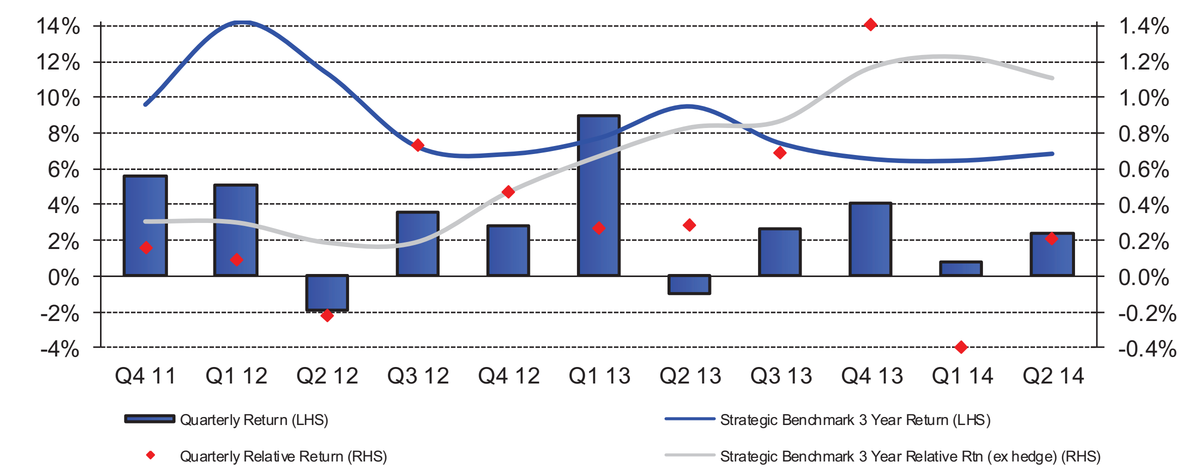
Source: Avon Pension Fund Data provided by WM Performance Services

5 Performance Summary

Total Fund performance

The chart below shows the absolute performance of the total Fund's assets over the last 3 years.

Total Fund absolute and relative performance



fund	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	2.4	10.3	8.3
Total Fund (ex currency hedge)	2.2	9.2	8.0
Strategic Benchmark (no currency hedge)	2.2	8.2	6.8
Relative (inc currency hedge)	+0.2	+1.9	+1.4

Source: Data provided by WM Performance Services

Benchmark allocation

The table below shows the strategic allocation to each of the major asset classes and the benchmark returns over the quarter and 1 year to 30 June 2014, and thereby analyses what we would expect the strategy to return if all assets had been invested passively and met their benchmark returns.

Asset Class	Weight in Strategic Benchmark		Index returns	Contribution to total benchmark	Index returns	Contribution to total benchmark
	Sep 13	Jun 14	Q2 2014	(quarter)	1 year	(1 year)
UK Equities	18%	15%	2.2%	0.3%	13.1%	2.2%
Overseas Equities	42%	25%	2.1%	0.5%	10.7%	2.9%
Emerging Market Equities	-	10%	3.9%	0.4%	1.5%	0.2%
Diversified Growth Funds	-	10%	1.1%	0.1%	5.6%	0.4%
UK Government Bonds	6%	3%	2.3%	0.1%	5.3%	0.2%
UK Corporate Bonds	5%	8%	2.0%	0.2%	6.7%	0.5%
Index Linked Gilts	6%	6%	1.1%	0.1%	4.3%	0.3%
Overseas Fixed Interest	3%	3%	-0.4%	-0.0%	-6.1%	-0.2%
Fund of Hedge Funds	10%	10%	1.1%	0.1%	2.2%	0.2%
Property	10%	10%	4.3%	0.4%	15.1%	1.5%
Total Fund	**100%**	**100%**		**2.2%**		**8.2%**

Source: Returns data provided by WM Performance Services

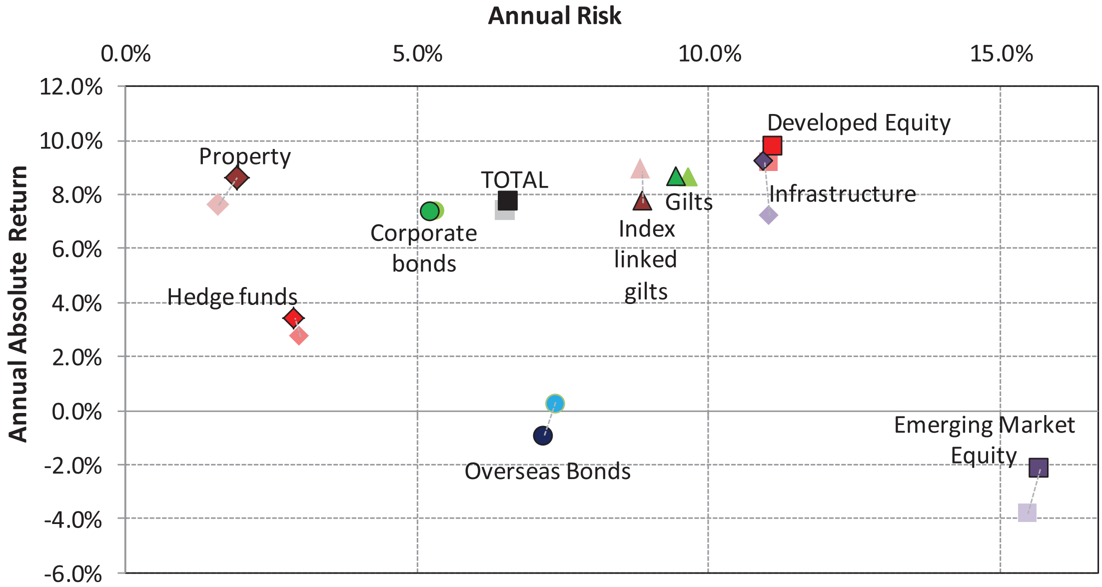
- The benchmark weights above are those held by WM to partly reflect the changes to the investment strategy, agreed in 2013, whilst they are implemented.
- Over the quarter, the benchmark was 2.2%, which was mainly driven by the contributions from equities, which represented 60% of the index at the start of the year, and property.
- Over the last twelve months, the benchmark was 8.2% p.a. All asset classes except Overseas Fixed Interest gave a positive contribution, with equities the main contributor.
- The assumed strategic return for the Fund as a whole, weighted by the strategic benchmark allocation over the last year, is 7.3% p.a. Hence the actual three-year benchmark return was 0.9% p.a. ahead of this.
  - The 1 year benchmark for UK equities (13.1%) and overseas equities (10.7%) were ahead of their assumed strategic return of 8.25%. The property benchmark of 15.1% was also well ahead of its assumed strategic return of 7%.
  - Emerging market equities, Overseas Fixed Interest and Fund of Hedge Funds were below their assumed strategic returns over the year. The DGF return is below mainly because of current low LIBOR levels in the Barings (LIBOR+4%) part of this benchmark.

Risk Return Analysis

The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2014 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark. We also show the position as at last quarter, as shadow points.

This chart can be compared to the 3 year risk vs return managers' chart on page 11DAH.

3 Year Risk v 3 Year Return to 30 June 2014

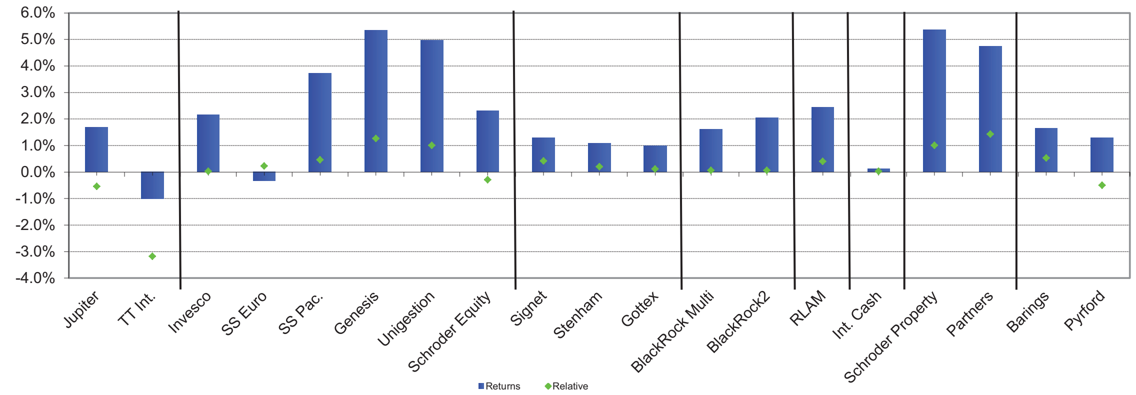


- Overall there has been little change in the three-year risk/return characteristics over the last quarter compared to the previous quarter.
- Developed equity produced the best 3-year return, of 9.8% p.a. Returns of between 7% and 9% p.a. were also produced by gilts, index linked gilts, property, infrastructure and corporate bonds.
- The hedge fund index continues to produce steady improving returns, increasing the three-year return to 3.4% p.a.
- The emerging market equity return improved but remains negative at -2.1% p.a.
- Overseas bonds moved back into negative territory as US bond yields rose.
- In terms of risk, the three-year volatility has remained broadly stable for each asset class in the above chart. The only notable change was on property, increasing from 1.6% p.a. to 1.9% p.a.
- The three-year return on developed equities, property, gilts, index-linked gilts and corporate bonds remain above their assumed strategic return. Hedge funds remain below their assumed strategic return, with overseas bonds and emerging market equities well below.

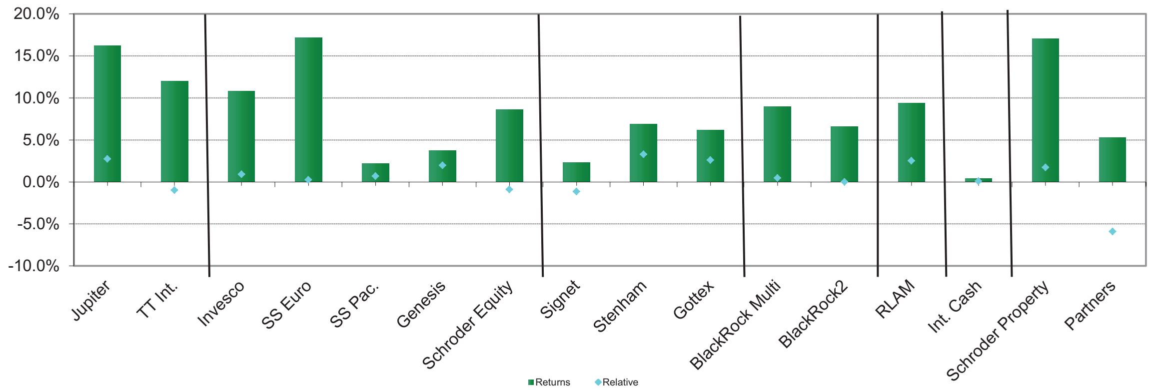
Aggregate manager performance

The charts below show the absolute return for each manager over the quarter, one year and three years to the end of June 2014. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

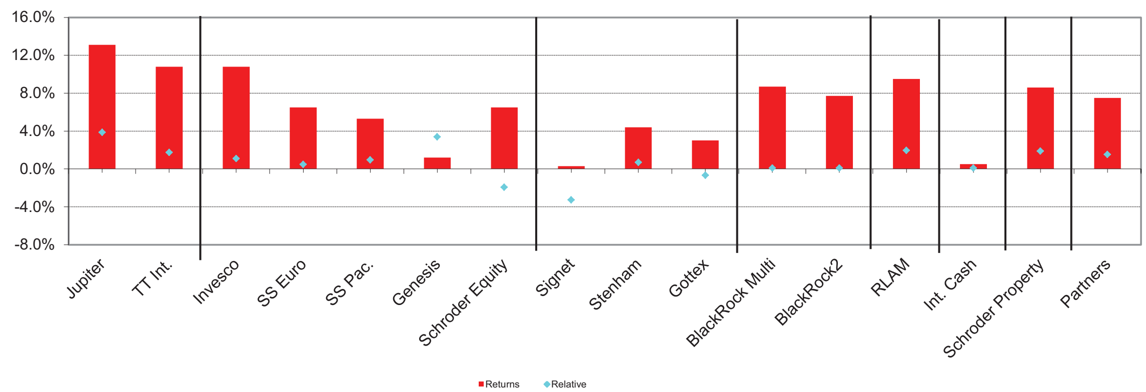
Absolute and relative performance - **Quarter to 30 June 2014**



Absolute and relative performance - **Year to 30 June 2014**



Absolute and relative performance - **3 years to 30 June 2014**



Source: Data provided by WM Performance Services

The table below shows the relative returns of each of the funds over the quarter, one year and three years to the end of June 2014. Returns in blue text are returns which outperformed the respective benchmarks, red text shows an underperformance, and black text represents performance in line with the benchmark.

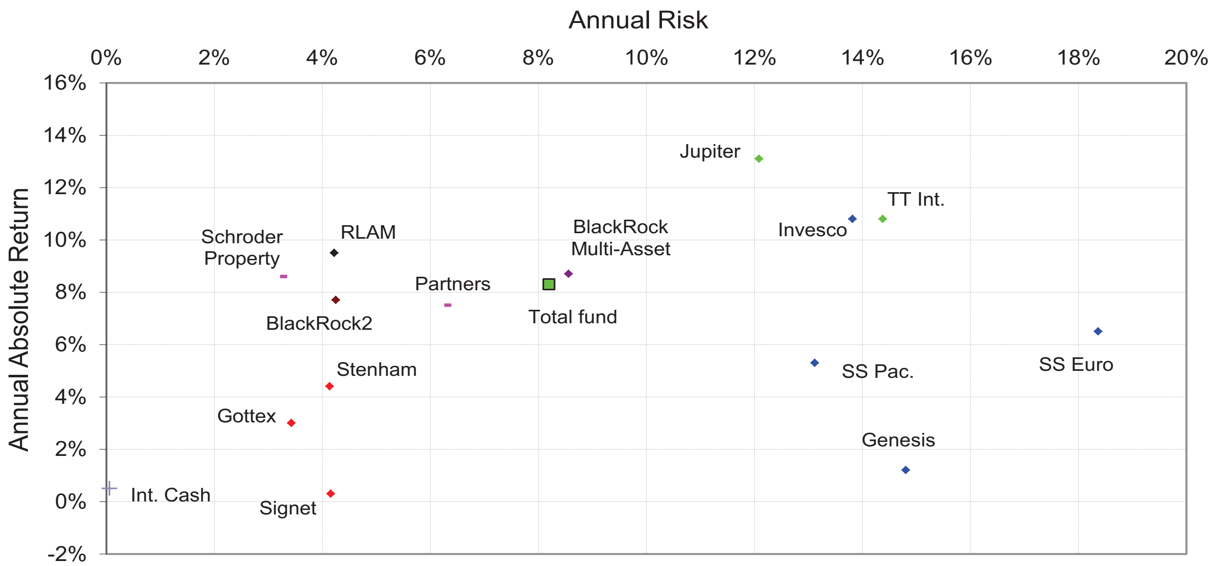
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	-0.5	+2.7	+3.9	Target met
TT International	-3.2	-1.0	+1.7	Target not met
Invesco	0.0	+0.9	+1.1	Target met
SSgA Europe	+0.2	+0.3	+0.5	Target met
SsgA Pacific	+0.5	+0.7	+1.0	Target met
Genesis	+1.3	+2.0	+3.4	Target met
Unigestion	+1.0	N/A	N/A	N/A
Schroder Equity	-0.3	-0.9	-1.9	Target not met
Signet	+0.4	-1.2	-3.3	Target not met
Stenham	+0.2	+3.3	+0.7	Target met
Gottex	+0.1	+2.6	-0.7	Target not met
BlackRock Multi - Asset	+0.1	+0.5	+0.1	Target met
BlackRock 2	+0.1	0.0	+0.1	Target met
RLAM	+0.4	+2.5	+2.0	Target met
Internal Cash	0.0	+0.1	+0.1	N/A
Schroder Property	+1.0	+1.7	+1.9	Target met
Partners Property	+1.4	-5.9	+1.5	N/A
Barings	+0.5	NA	NA	N/A
Pyrford	-0.5	NA	NA	N/A

Source: Data provided by WM Performance Services

Manager and Total Fund risk v return

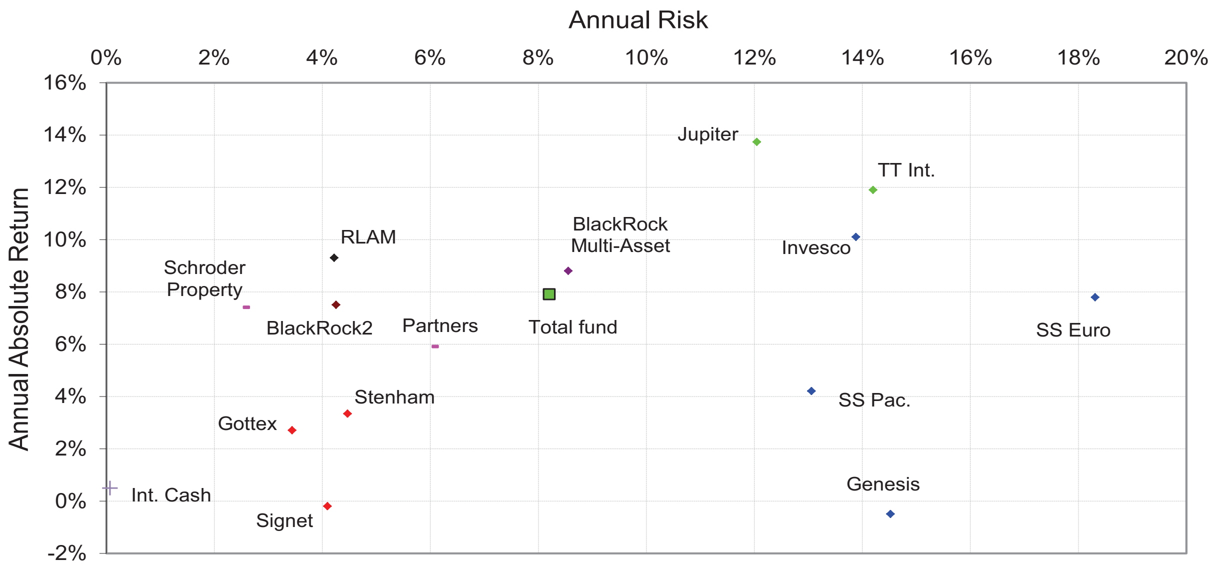
The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2014 of each of the funds. We also show the same chart, but with data to 31 March 2014 for comparison.

3 Year Risk v 3 Year Return to 30 June 2014



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 31 March 2014



Source: Data provided by WM Performance Services

The managers are colour coded by asset class, as follows:

- Green: UK equities — Blue: overseas equities
- Red: fund of hedge funds — Black: bonds
- Maroon: multi-asset — Brown: BlackRock No. 2 portfolio
- Grey: internally managed cash — Pink: Property
- Green Square: total Fund

- The three-year returns have remained reasonably stable for all funds.
- The UK equity managers' returns fell slightly (Jupiter from 13.7% p.a. to 13.1% p.a. and TT from 11.9% p.a. to 10.8% p.a.) but they remain the best performing funds in absolute terms over three years.
- The other main shifts in the equity funds' three year returns were SSgA Pacific (up from 4.2% p.a. to 5.3% p.a.) and SSgA Euro (down from 7.8% p.a. to 6.5% p.a.).
- The hedge fund managers' thee-year returns all improved over the quarter, in particular Stenham, and Signet, the latter of which moved into positive territory.
- The three-year risk figures remained very stable, with the largest change being 0.7% p.a. (from Schroder Property). Otherwise the risk figures have changed by 0.3% p.a. or less since last quarter. As would be expected, the equity-based funds have the highest volatility and hedge funds, property and fixed interest the lowest, in line with the market returns chart on page 8.
- Over the longer three year period, the three fund of hedge fund managers have underperformed our asset class assumed strategic return.
- Jupiter, TT, Invesco and RLAM bonds have all outperformed our assumed strategic return and also outperformed their benchmarks (although TT are slightly below target).
- Genesis and the two SSgA funds have underperformed our assumed strategic return, but outperformed their individual targets.
- Schroder Equity is now included on the June chart as the Fund has invested for just over three years; this fund underperformed both our assumed strategic return and its individual target.

 This analysis has been based on information supplied by our data provider Thomson Reuters and by investment managers. While every reasonable effort is made to ensure the accuracy of the data JLT Employee Benefits cannot retain responsibility for any errors or omissions in the data supplied.
It is important to understand that this is a snapshot, based on market conditions and gives an indication of how we view the entire investment landscape at the time of writing. Not only can these views change quickly at times, but they are, necessarily, generic in nature. As such, these views do not constitute advice as individual client circumstances have not been taken into account. Please also note that comparative historical investment performance is not necessarily a guide to future performance and the value of investments and the income from them may fall as well as rise. Changes in rates of exchange may also cause the value of investments to go up or down. Details of our assumptions and calculation methods are available on request.

Appendix 1: Market Events

Asset Class	What happened? Positive Factors	Negative Factors
UK Equities	■ According to the National Institute of Economic and Social Research, Britain's economy witnessed its strongest calendar quarter in four years in Q2 2014, growing by an estimated 0.9%. ■ Data released in July showed that the labour market continues to strengthen. Unemployment fell by 121,000 to 2.12 million in the three months to May (an unemployment rate of 6.5%). This marks the lowest unemployment level since December 2008. ■ UK economic growth has been driven by increases in household spending and, more recently, business investments. The pick-up in household spending is reflected by the latest GfK consumer confidence survey, which in May reached levels not seen since 2005.	■ Office for National Statistics' figures indicate that the trade deficit grew to an estimated GBP 9.6 billion in April from GBP 8.3 billion in March. Weak demand in the Eurozone (the UK's largest trading partner) has hindered the government's efforts to support stronger manufacturing exports. ■ June's report on the housing market from the Financial Policy Committee addressed evidences that less prudent lending standards were reaching pre-crisis peaks. UK house prices increased by 1% in June, taking the annual rate of increase to 11.8%. ■ The strength of the Pound has continued to impact the profits of many UK companies with international exposure.
Overseas Equities:		
North America	■ Dovish comments from the Fed chair Janet Yellen both dismissing rising inflationary pressures as "noise", and noting that the market valuations were within the historical norms, helped US equities surge to record highs. ■ A series of upbeat economic data pointed to a pick-up in the growth momentum for the rest of the year. The unemployment rate fell to 6.1% amidst a strengthening labour market while inflation showed signs of a pickup, moving closer to the Fed's target of 2%.	■ The US economy shrank in the first quarter with an annualised rate of 2.9%, much worse than the Bureau of Economic Analysis's second estimate of 1% contraction. This was the largest contraction since the first quarter of 2009. The weak number was mainly due to a smaller increase in the personal consumption than previously estimated. ■ After reaching record highs for nearly two years, corporate profits declined in the first quarter. Earnings before taxes fell by 10% while profits after taxes plunged nearly 14%.

Asset Class	What happened? Positive Factors	Negative Factors
Europe	■ Despite disappointing corporate earnings, European equities managed to eke out marginal positive return over the second quarter. They were supported by expectations that the European Central Bank (ECB) would take steps to ease monetary policy in order to stimulate growth and fend off the spectre of deflation. The ECB launched a raft of measures to fight low inflation and boost the euro zone economy. It lowered the deposit rate to -0.1%, meaning it will effectively charge banks for holding their money overnight. It cut its main refinancing rate to 0.15% and the marginal lending rate to 0.40%.	■ Eurozone GDP growth for the first quarter was below expectations at 0.2%. Germany led the way with a growth rate of 0.8% while France saw no growth and the Italian economy contracted by 0.1%. ■ The Eurozone composite purchasing managers' index (PMI) hit a 35-month high of 54.0 in April but eased back to 53.5 in May and 52.8 in June, indicating a slowdown in growth over the quarter.
Japan	■ Consumer price inflation surged to an annualised rate of 3.4% in May. This is the highest reading in nearly 32 years for an economy that has been battling deflation for better part of the last two decades. A rise in the inflation levels for 12 months in a row indicates that the effects of lose monetary policy adopted by the Bank of Japan (BoJ) has started to yield results. However, a significant portion of this rise is due to the recent hike in the sales tax from 5% to 8%. ■ Prime Minister Shinzo Abe unveiled a package of reform proposals, including changes in labour laws, increasing corporate governance standards, and reducing corporate taxes, among others. A poll by Reuters suggests that the reforms could boost the country's growth rate by 0.2% to 1.5% in the long term.	■ In April, the BoJ's governor put an end to the speculation of further quantitative easing by keeping monetary policy unchanged with the money supply maintaining its current annual expansion rate of 60-70 trillion Yen. This led to a strengthening of the Yen over the quarter and had a negative impact on the investor sentiment.
Asia Pacific	■ South Korea recorded its 29th consecutive month of trade surplus owing to strong exports, which grew by 2.5% year-on-year in June. Taiwan's exports rose 1.2% year-on-year, the fifth consecutive month of growth, bolstered by strong demand for consumer goods. ■ S&P upgraded Philippines sovereign rating by one notch to BBB in May, citing the country's strong external liquidity, investment climate and effective monetary policy framework.	■ MSCI removed the South Korean and Taiwanese equity markets from consideration for an upgrade to developed market status from their current standing of Emerging market status. The index provider cited absence of any significant improvements in market accessibility and currency liquidity. ■ Indonesia's GDP growth slowed to a 5-Year low of 5.2% in Q1 2014 primarily due to weakening exports. The country also reported an unexpectedly large trade deficit of nearly USD 2 billion in April.

Asset Class	What happened? Positive Factors	Negative Factors
Emerging Markets	▪ The official Chinese PMI rose to a six-month high of 51.0 in June, up from 50.8 in May. This improvement suggests that the government's mini-stimulus is filtering through to the real economy. The Chinese government has made efforts to boost official spending and to let banks lend more of their deposits. ▪ Investors have poured USD 221.7 billion into Emerging market assets over the past 11 months based on expectations that interest rates in most developed economies will remain low at least until 2015. A survey by Bank of America Merrill Lynch for June shows a net overweight position held by fund managers on Emerging market equities for the first time since November 2013.	▪ MSCI chose not to include China's A-shares (Renminbi-denominated mainland shares) in its benchmark Emerging market equity index during its annual index review in June. Strict quota limits within the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme and concerns over the tax regime were the primary reasons for the non-inclusion of the A-shares in the index. ▪ Argentina technically defaulted on its debt payment after it failed to reach a settlement with a group of US based hedge funds. In June, the US Supreme Court refused to hear Argentina's appeal to pay only the restructured bondholders and not others. The dispute between Argentina and its bond holders has been ongoing since the Argentine debt restructuring in 2005.
Gilts	▪ Growth expectations in the UK are very strong owing to a surge in the construction and manufacturing sector. However, the UK's dominant sector, the services industry, has been a drag over the quarter. The monthly Markit/CIPS purchasing managers' index (PMI) for services sector dropped to 57.7 in June from 58.6 in May, marking a three-month low. ▪ Modest Inflation and more than estimated spare capacity in labour market (stated by the Bank of England (BOE) in the June monetary policy meeting) are hindering the ability of the BOE to undertake interest hikes.	▪ The BOE governor Mark Carney hinted at a rise in interest rates later this year during the monetary policy committee meeting in June. The reasons behind an early rate hike is that they want to avoid the chances that a stronger than expected economic growth in the second half of 2014 would reduce spare capacity in the economy. This could cause unemployment to fall faster, but also put upward pressure on wages, requiring a tighter monetary policy.
Index Linked Gilts	▪ With limited issuance of new Index-linked gilts and investors continuing to seek inflation protection, demand for index-linked gilts remains high, thus supporting prices.	▪ The UK consumer price index of inflation grew by a modest 1.5% in May 2014, down from 2% in December 2013. ▪ In an environment where central banks are able to control inflation within a target range, there is limited upside to the return expectations on these instruments.
Corporate Bonds	▪ Corporations continue to maintain healthy balance sheets as deleveraging continues in expectations of rising interest rates.	▪ The corporate bond market still suffers from liquidity constraints and the reduction in credit spreads over the past few months leaves little room for any further contraction.

Asset Class	What happened?	
	Positive Factors	**Negative Factors**
Property	■ Property values rose by 1.1% in May, marking the highest rise in 2014. UK Commercial property values have now risen by 8.5% over 13 months of consecutive growth. ■ Residential prices in London are around 30% above their 2007 highs, while in the UK as a whole, prices are less than 1% above their pre-crisis peak. ■ The Construction PMI rose to 62.6 in June from 60.0 in May, the highest reading since February.	■ The new affordability tests (MMR) introduced in April for house buyers are having an effect, leading to the number of mortgage approvals falling to an 11 month low, totalling 61,707 in May. ■ In June, the Bank of England imposed constraints on lenders to limit the proportion of mortgages at a loan-to-income ratio of 4.5 times and above to no more than 15% of their mortgage portfolios.

Economic statistics

	Quarter to 30 June 2014			Year to 30 June 2014		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	0.8%	n/a	1.0%	3.1%	n/a	2.4%
Unemployment rate	6.5%	11.6%	6.1%	6.5%	11.6%	6.1%
Previous	*6.9%*	*11.8%*	*6.7%*	*7.8%*	*11.2%*	*7.6%*
Inflation change[2]	0.5%	0.2%	0.9%	1.9%	0.5%	2.1%
Manufacturing Purchasing Managers' Index	57.5	51.8	55.3	57.5	51.8	55.3
Previous	*55.3*	*53.0*	*54.9*	*52.5*	*48.8*	*50.9*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. "Previous" relates to data as at the previous quarter or year end.

(1) EU changing composition area; (2) CPI inflation measure

Appendix 2: Glossary of Terms

Term	Definition
Absolute Return	The actual return, as opposed to the return relative to a benchmark.
Annualised	Figures expressed as applying to 1 year.
Bond Assets	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Growth Assets	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the Growth assets may not.
Duration	The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Funded Liabilities	The value of benefits payable to members that can be paid from the existing assets of the plan (i.e. those liabilities that have assets available to meet them).
High Yield	A type of bond which has a lower credit rating than traditional investment grade corporate bonds or government bonds. These bonds pay a higher yield than investment grade bonds.
Market Statistics Indices	The following indices are used for asset returns: UK Equities: FTSE All-Share Index Overseas Equities: FTSE AW All-World ex UK UK Gilts (>15 yrs or >20 yrs): FTSE Brit Govt Fixed Over 15 (or 20) Years Index Corporate Bonds(>15 yrs AA): iBoxx £ Corp 15+ Years AA Index Non-Gilts (>15 yrs): iBoxx £ Non-Gilts 15+ Years Index Index Linked Gilts (>5yrs): FTSE Brit Govt Index Link Over 5 Years Index Hedge Funds: CS/Tremont Hedge Fund Index Commodities: S&P GSCI Commodity GBP Total Return Index High Yield: Bank Of America Merrill Lynch Global High Yield Index Property: IPD Property Index (Monthly) Infrastructure: FTSE MACQ Global Infrastructure Index Cash: 7 day London Interbank Middle Rate Price Inflation: All Items Retail Price Index Earnings Inflation: UK Average Weekly Earnings Index - Whole Economy excluding Bonuses
Market Volatility	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.

Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and timing of cashflows.
Non-Pensioner Liability	The value of benefits payable to those who are yet to retire, including active and deferred members.
Pensioner Liability	The value of benefits payable to those who have already retired, irrespective of their age.
Relative Return	The return on a fund compared to the return on another fund, index or benchmark. For IMAGE purposes this is defined as: Return on Fund less Return on Index or Benchmark.
Scheme Investments	Refers only to the invested assets, including cash, held by your investment managers.
Surplus/Deficit	The estimated funding position of the Scheme. This is not an actuarial valuation and is based on estimated changes in liabilities as a result of bond yield changes, asset movements and, if carried out, output from an asset liability investigation (ALI). If no ALI has been undertaken the estimate is less robust.
Three-Year Return	The total return on the fund over a three year period expressed in percent per annum.
Time-Weighted Rate of Return	The rate of return on an investment removing the effect of the amount and timing of cashflows.
Unfunded Liabilities	The value of benefits payable to members that cannot be paid from the existing assets of the Scheme (i.e. those liabilities that have no physical assets available to meet them). These liabilities are effectively the deficit of the Scheme.
Yield (Gross Redemption Yield)	The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

Appendix 3: Summary of Mandates

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Invesco	Global ex-UK Equities Enhanced (En. Indexation)	MSCI World ex UK NDR	+0.5%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Signet	Fund of Hedge Funds	3M LIBOR + 3%	-
Stenham	Fund of Hedge Funds	3M LIBOR + 3%	-
Gottex	Fund of Hedge Funds	3M LIBOR + 3%	-
BlackRock	Passive Multi-asset	In line with customised benchmarks using monthly mean fund weights	0%
BlackRock	Overseas Property	Customised benchmarks using monthly mean fund weights	0%
RLAM	UK Corporate Bond Fund	iBoxx £ non-Gilts all maturities	+0.8%
Schroder	UK Property	IPD UK pooled	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Pyrford	DGF	RPI + 5%	-
Barings	DGF	3 Month Libor + 4%	-
Cash	Internally Managed	7 day LIBID	

JLT Employee Benefits

St James's House
7 Charlotte Street
Manchester M1 4DZ
Tel: +44 (0)161 957 8000
Fax: +44 (0)161 957 8040

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1625-14

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 26 September 2014

Author: Matt Betts
Report Title: Item 12 – Review of Investment Performance Report Exempt Appendix 3 to the Review of Investment Performance Report

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

Weighed against this is the fact that the exempt report and appendix contains the opinions of Council officers and Panel members. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available.

The exempt appendix also contain details of the investment processes/strategies of the investment managers. The information to be discussed is commercially sensitive and if disclosed could prejudice the commercial interests of the investment managers.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion relating to the investment managers in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Investment Performance Report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

QUARTERLY ENGAGEMENT REPORT

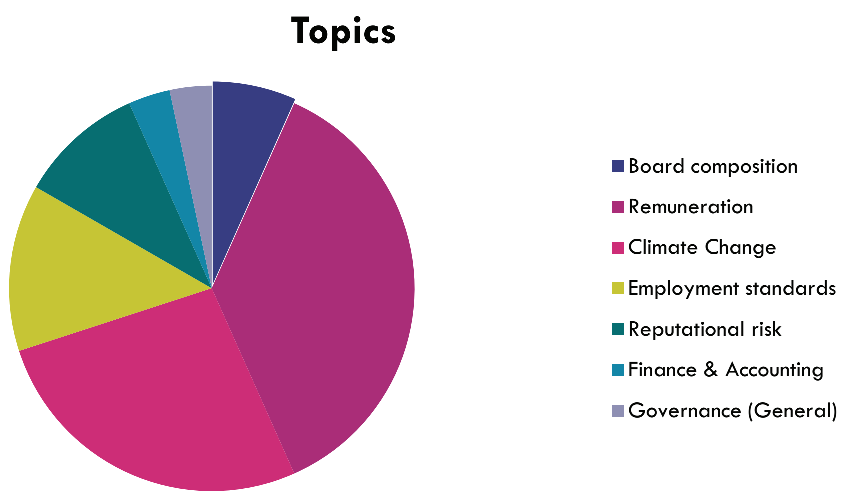
APRIL TO JUNE 2014

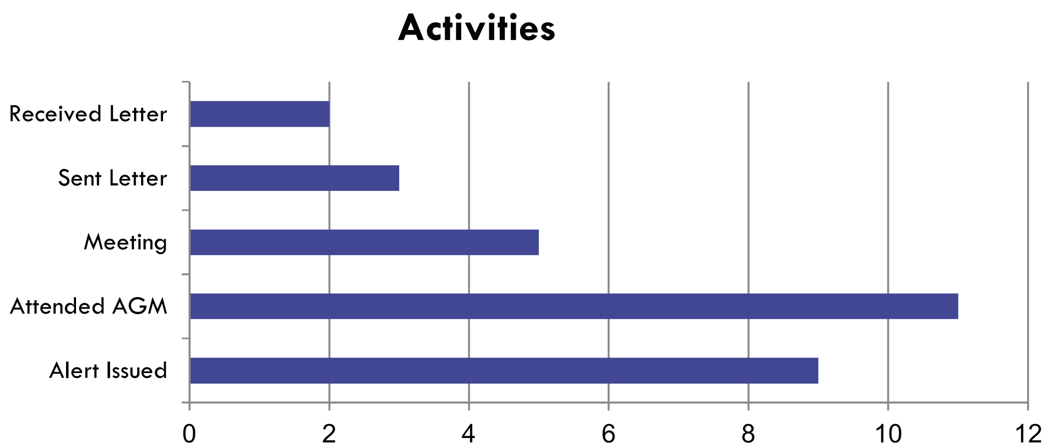
Local Authority Pension Fund Forum

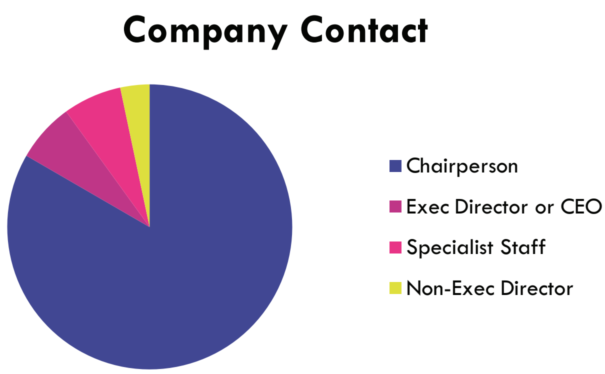
The Local Authority Pension Fund Forum (LAPFF or the Forum) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of local authority pension funds in the UK with combined assets of over £125 billion.

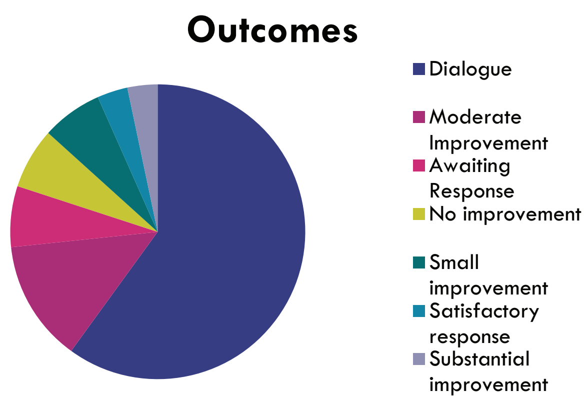
ENGAGEMENT SUMMARY

APRIL TO JUNE 2014









ACHIEVEMENTS

- Attended **Barclays** Annual General Meeting (AGM) to challenge the company over governance and executive remuneration. Executive remuneration was also a focus in questions posed at the AGMs of **Glaxosmithkline, G4S, WPP** and **Smith & Nephew**.
- Spoke in support of the resolution co-filed at the **National Express** AGM on human capital management at US operations.
- Met with **BP** and **Glencore** to discuss carbon management and carbon asset risk. Addressed the BP chair on diversification into low carbon energy sources at the company's AGM.
- Questioned the chair of **Rio Tinto** at the company AGM on business strategy regarding the risk of thermal coal becoming a stranded asset and the chair at **Royal Dutch Shell's** AGM on approach to carbon asset risk management.
- Asked the chair of **Anglo-American** at the AGM about social, economic and community risk management moving from labour intensive mining operations to surface operations.
- Issued voting alerts on **Glencore** and **Travis Perkins** due to lack of board diversity. Other alerts in the quarter focussed on executive remuneration and carbon mitigation.
- Met with Stephen Hester of **RSA Insurance Group** to discuss the accounting irregularities in Ireland and company proposals for strategy going forward
- Met with the **UK Listing Authority** regarding Essar Energy's proposal to delist from a premium listing and the implications for governance compliance.

NETWORKS & EVENTS

- **Investor meeting** – for larger shareholders in Trinity Mirror
- **30% Club Investor Group** –Denise Wilson, Chief Executive of the Davies Review steering group, Women on Boards
- **Christine Figueres** - highlighting the importance of collective action on climate change, hosted by St Paul's/CCLA.
- **Treaty on Business and Human Rights** – hosted by Business and Human Rights Resource Centre
- **Rio Tinto workshop on sustainable development** –updating investors on the Company's sustainable development activities
- **Due Diligence:** From Rhetoric to Reality – what human rights means for companies' due diligence efforts

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

LAPFF continues to engage with companies on the issue of board diversity. After Antofagasta appointed Vivianne Blanlot to the board, **Glencore** was the sole FTSE 100 company with an all-male board. LAPFF had written to the company on this issue and raised this with a board member at an investor meeting. However, it appeared progress had stalled and the Forum issued a voting alert to flag up concern. Finally the first female board director, Patrice Merrin was appointed in late June. A voting alert was also issued for **Travis Perkins** which has only one woman board member and does not disclose any targets for further appointments.

Member funds have also been raising board diversity issues with their investment managers, with member funds communicating with Capital Group, LGIM, State Street Global Advisors and UBS asking them to promote board diversity in their engagement and voting activities. Not all managers had a specific voting policy on gender diversity at board level, but one noted they were considering doing so.

A meeting was held with the chair of **Trinity Mirror** over issues of media standards and ethics. This explored developments in relation to phone hacking, particularly regarding the extent of potential claims and the merits of the different regulatory options open to the company and the possibility these might offer for limiting financial risk. The Forum remained concerned over the failure to report on regulatory issues, and to properly 'bottom out' potential exposure to claims relating to phone hacking and issued a voting alert recommending voting against the report and accounts. Subsequently, LAPFF attended the AGM and since then it has been reported that a new group of high-profile alleged hacking victims have filed civil claims.

PROMOTING GOOD GOVERNANCE

Reliable Accounts

A meeting was held with Stephen Hester, the new Chief Executive of **RSA Insurance Group**. The company has had to announce large losses in its Irish Republic subsidiary after it transpired there were accounting irregularities on claims and provisioning, which have led to a £773m Rights Issue. The discussion also ranged over the changing of company auditors from Deloitte to KPMG, due to the acceptance of a large new consultancy contract by Deloitte.

Executive Pay

The Forum took an increasingly public approach to tackling complexity in directors remuneration schemes and frequently high levels of payout. The LAPFF chair attended the **Barclays** AGM, where a new director, Crawford Gillies is due to take over as chair of the remuneration committee from Sir John Sunderland. Cllr Quinn noted that this was the right thing for the board to have done, but stated *"it was a shame that it had taken pressure from investors for this to happen.*" LAPFF had formed a key part of this pressure having issued a voting alert recommending members oppose the remuneration policy and Sir John's re-election due to concerns over the level of executive pay and staff bonuses primarily in the investment bank.

In line with its increased focus on company AGMs, LAPFF executive member David Murphy attended the AGM of **Smith & Nephew** and asked for more detail on factors taken into account in bonus payments. Sir John Buchanan, the chair, responded that both financial and non-financial issues were reflected in the bonus calculations. The remuneration chair, Jo Papa, added that the score-card used took account not only of business objectives, but also had a measure of risk/return.

The Forum issued a voting alert for the second year running for **WPP.** At the AGM, a LAPFF representative asked if the Company would commit to simplifying its variable remuneration package for executives, as well as increasing transparency around the numerous schemes within the package. The board acknowledged that the variable pay package was complicated but stated it had adopted the existing arrangements in response to shareholder requests for variable pay to reflect more effectively executive performance and felt that there was sufficient transparency in conveying information regarding executive pay packages. At the **G4S** AGM, the Forum questioned the Company's use of adjusted metrics for its long term incentive scheme.

The Forum also entered into discussions with **Glaxosmithkline** on 'clawback procedures' in alliance with a group of US investors as part of a focus on global pharmaceutical sector companies. As a result of a question raised by the Forum at the company annual meeting, a positive conference call with chairman, Sir Christopher Gent, has been held to establish the basis for further dialogue on the issue.

'Our objective is clear: General Mills will source 100 per cent of our palm oil from responsible and sustainable sources by 2015'

GM's statement on responsible palm oil sourcing

MANAGING ENVIRONMENTAL RISK

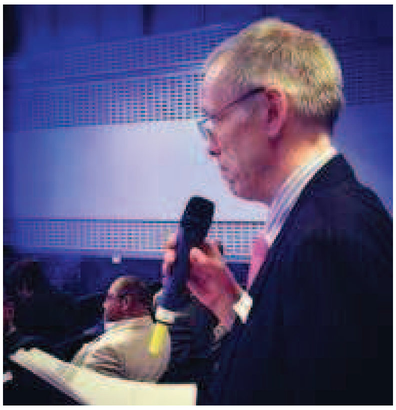
Palm Oil

Following its participation in collaborative engagement with a number of US companies on sustainable palm oil, LAPFF was pleased to note at the beginning of April that

General Mills joined the growing number of companies that have pledged to only source from suppliers that provide fully traceable, deforestation-free palm oil. In its revised palm oil sourcing commitment, General Mills announced that it will only source from suppliers that can trace their palm oil back to operations verified as not contributing to deforestation or peat land development, activities which destroy the habitats for endangered species or contribute to climate change.

Energy and Environmental Risk

Engagement with **BP** has continued with a collaborative meeting on the company's approach to carbon asset risk focussing on the potential disruptions of technology and policy to BP's 2035 Energy Outlook and how the company is building resilience into its strategy for these. The company was also pressed on the wider role BP is playing in low carbon technology development and the climate policy debates. At the **BP** AGM, Cllr Greening asked the chair about business sustainability and company's plans to diversify into low carbon energy sources. Carl Svanberg responded that the company recognises that all fossil fuel that is available cannot be burned and that energy efficiency will be crucial. A meeting with Peter Coates, Non-Executive Director of **Glencore,** followed an investor briefing the previous day attended by the chair, Tony Hayward and Chief Executive, Ivan Glasenberg.



Following on from a meeting in 2013 with **Rio Tinto**, LAPFF was again represented by Cllr Greening at the AGM asking the board about ensuring future business viability in the context of thermal coal being likely to be a stranded asset. The chairman's response noted the company's belief that there is a place for thermal coal into the future but also the hope that in the long term friendlier energy solutions can be found.

In April, **Shell** released a detailed formal response to investor concerns over carbon asset risk management. LAPFF was represented at the London AGM and challenged the chair to continue to actively participate in the debate over likely future energy policy and pricing as this was a key concern of mainstream investors.

TARGETING SOCIAL ISSUES

Employment Standards

At the **Ango-American** AGM, Cllr Rose asked the chair about the company's longer term investment strategy in the platinum division and in particular the socio-economic risks inherent in shifting from the labour intensive deep mining operations at Rustenberg to new low cost surface operations. The chair responded that they were very aware of the potential local

impact of job losses and that they would continue in discussions on the company's longer term investment direction in South African platinum operations.

LAPFF has engaged with **National Express** since 2012 regarding the company's approach to health and safety concerns and unionisation issues in the US. At the most recent meeting in 2014 with the Chief Executive, it was evident that the company had not implemented previous commitments. Some LAPFF member funds had co-filed a shareholder resolution requesting the company to implement a mechanism to ensure appropriate board oversight, and to develop and implement a comprehensive policy based on the ILO Declaration on Fundamental Principles and Rights at Work. At the May AGM, Cllr Greening supported the resolution noting the board's willingness to engage, but noting the need to deal with problems in North America. Including the board's holdings, the combined for and abstain votes were not far off one fifth of independent shareholders. This was a significant result considering most resolutions of this type struggle to reach a support vote in double figures.

CONSULTATIONS & PUBLIC POLICY

ENGAGING WITH POLICY-MAKERS

One issue that LAPFF has continued to pursue is companies proposing to delist from premium listings in order that they have less stringent requirements on governance compliance. When the Forum became aware of **Essar Energy's** plans to take the company private, a letter was written to the company noting that this proposal for a forced sale overall would have a predominantly negative impact both in terms of governance best practice and in terms of company prospects for raising future capital in London. A collaborative investor meeting was also held with the UK listing authority to outline concerns that minority shareholders were put in the position of having to accept the given offer, or face owning a non-liquid stake in a company that would no longer be in the FTSE indices.

CONSULTATION RESPONSES

The proposed restructuring of the Local Government Pension Scheme continues to occupy member attention after the announcement at the beginning of May that previous merger plans were not to be pursued. The latest consultation from the Department of Communities and Local Government asks for submissions on 'opportunities for collaboration, cost savings and efficiencies': Consultation on LGPS Structural Reform.

The Forum also responded to the FRC consultation changes to the Corporate Governance Code. The Forum's recommended focus was on those aspects which impact shareholder rights and the going concern statements at the heart of the LAPFF position on the weaknesses of International Financial Reporting Standards. In addition, weaknesses were highlighted in proposed revisions on certain remuneration concerns. All published LAPFF consultation responses can be viewed at: http://www.lapfforum.org/consultations.

A short report was submitted to the Local Government Association Leadership Board describing the Forum's activities and outcomes during the year.

LAPFF IN THE NEWS

LAPFF has been regularly featured in the media with coverage generated via a combination of media releases and active liaison and availability of the chair for direct comment. A snapshot of recent print and online coverage is below.

LAPFF pushes on board diversity and pressures Glencore
Reuters, The Wall Street Journal, CNBC, Yahoo Channel 7 News, The Independent, Money Web, The Guardian, Investment & Pensions Europe, Shares Magazine, Bloomberg

LAPFF presses WPP on Martin Sorrell's pay
Evening Standard, Telegraph, Irish Times, Wall Street Journal, The Australian

Barclays called out over excessive bonuses
Reuters, Daily Mail, Financial Times, Daily Mail, Bloomberg, Daily Telegraph, IPE Europe, Financial News

LAPFF targets Barclays and National Express in Governance Driver
Professional Pensions

Trinity Mirror Shareholders Call for Transparency on Phone Hacking Costs
The Guardian

LAPFF pushes to reject Mike Ashley's Proposed Bonus Scheme at SportsDirect
Shields Gazette

COMPANY PROGRESS REPORT

Company	Topics	Outcome	Domicile
Afren	Remuneration	Moderate Improvement	UK
Anglo American	Employment standards	Moderate Improvement	UK
Barclays	Remuneration	Dialogue	UK
BP plc	Climate Change	Dialogue	UK
Essar Energy	Governance (General)	Dialogue	Mauritius
Exxon Mobil	Climate Change	Dialogue	US
G4S	Remuneration	Dialogue	UK
General Mills	Sustainable palm oil	Substantial improvement	US
Glaxo Smithkline	Remuneration	Moderate Improvement	UK
Glencore	Board diversity/carbon management	Small improvement	Switzerland
National Express	Employment standards	Dialogue	UK
Rio Tinto	Climate Change	Dialogue	UK
Royal Dutch Shell	Climate Change	Dialogue	UK
RSA	Finance & Accounting	Small improvement	UK
Smith & Nephew	Remuneration	Satisfactory response	UK
Sports Direct	Remuneration	Dialogue	UK
Travis Perkins	Board Composition	Dialogue	UK
Trinity Mirror	Reputational risk	Dialogue	UK
WPP	Remuneration	Dialogue	Jersey

Companies LAPFF has not previously engaged with individually are indicated in bold.

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum was established in 1991 and is a voluntary association of local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's members currently have combined assets of over £125 billion.

Aberdeen City Council
Avon Pension Fund
Barking and Dagenham LB
Bedfordshire Pension Fund
Camden LB
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Cumbria Pension Scheme
Derbyshire CC
Devon CC
Dorset County Pension Fund
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
East Sussex Pension Fund
Enfield
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
Hampshire Pension Fund
Haringey LB
Harrow LB
Hounslow LB
Islington LB
Lancashire County Pension Fund
Lambeth LB
Lewisham LB
Lincolnshire CC
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Newham LB
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire CC Pension Fund
Northamptonshire CC
NILGOSC
Nottinghamshire CC
Rhondda Cynon Taf
Sheffield City Region Combined Authority
Shropshire Council
Somerset CC
South Yorkshire Pensions Authority
Southwark LB
Staffordshire Pension Fund
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

Report prepared by PIRC Ltd. for the
Local Authority Pension Fund Forum

PIRC

www.lapfforum.org

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**26 SEPTEMBER 2014**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE FOR YEAR TO 31 JULY 2014;** **(2) PERFORMANCE INDICATORS 3 MONTHS TO 31 July 2014;** **(3) SUMMARY PERFORMANCE REPORT (1 APR 2011 TO 31 July 2014)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 Summary Financial Accounts: Four months to 31 July 2014
Appendix 1A Summary Budget Variances: Four months to 31 July 2014
Appendix 2 Cash flow forecast to 31 March 2015
Appendix 3A Balanced Scorecard : 3 months to 31 July 2014 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs only for *selected* items
Appendix 4 Customer Satisfaction Feedback in the 3 months to 31 July 2014 *(Retirements from ACTIVE and DEFFERED status)*
Appendix 5 Active membership statistics over 40 months to 31 July 2014
Appendix 6 Joiners & Leavers statistics over 12 months to 31 July 2014 2014
Appendix 7 Summary Performance Report on Scheme Employers/APF performance for the period to 31 July 2014 (including late payers) – Annex 1 *Retirements* & Annex 2 *Deferred cases*
Appendix 8 New LGPS 2014 Engagement Activity
Appendix 9 Risk Register

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 4 months to 31 July 2014. This information is set out in Appendices1 and 2**.**

2.1 This report also contains Performance Indicators and Customer Satisfaction feedback for 3 months to 31 July 2014 and Summary Performance Reports on Employer and APF performance from 1 April 2011 to 31 July 2014 as well as the Risk Register. In addition, this report also includes a summary of engagement activity with stakeholders on the communication of the New LGPSA 2014.

2 RECOMMENDATION

That the Committee notes:

2.2 Administration and management expenditure incurred for 4 months to 31 July 2014

2.3 Performance Indicators & Customer Satisfaction feedback for 3 months to 31 July 2014

2.4 Summary Performance Report for period from 1 April 2011 to 31 July 2014, 2.5 Member roadshow events and employer training sessions undertaken to communicate the New LGPS 2014, including sample customer feedback.

2.6 Risk Register.

3 FINANCIAL IMPLICATIONS

3.1 The administrative and management costs incurred by the Avon Pension Fund are recovered from the employing bodies through the employers' contribution rates.

3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

4 COMMENT ON BUDGET

4.1 The summary Financial Accounts for the 4 months to 31 July 2014 are contained in **Appendix 1.**

4.2 The forecast for the year to 31 March 2015 is for net expenditure to be under budget. Within the directly controlled Administration budget the forecast is for expenditure to be below budget by £50,000 due to the partial secondment of the payroll manager to the Council's payroll section and of the secondment of the Projects Officer to Bristol City Council to assist on their payroll team. In that part of the budget that is not directly controlled, expenditure is forecast to be under budget by £1.5 million as it is unlikely that any fees will be payable on the infrastructure mandate during 2014/15. In addition, expected performance related fees are lower due to a tailing off in a manager's performance between setting the budget and the date at which the performance fee crystallises.

4.3 Explanations of the most significant variances are contained in **Appendix 1A** to this Report.

5 CASH FLOW FORECAST

5.1 For the first time the Pension Fund Administration report includes a cash flow forecast for the year. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecasting of cash flows. Negative cash flows will be managed by taking more income from the investment portfolio and possibly divestments. Details of the cash flow forecast for the whole Fund are given in **Appendix 2.**

5.2 The original cash flow forecast included in the 2014-2017 Service Plan was prepared before all the lump sum advance deficit recovery payments (for 2014/15 to 2016/17) were confirmed. The receipt of these advance payments in April has resulted in a net cash in-flow to 31 July of £64.5m above the original forecast. The net in-flow above forecast for the full year to 31 March 2015 is only £38.6m because the original forecast assumed the lump sum payments for 2014/15, but not for the later years.

5.3 In addition to the increased receipts of deficit contributions there has also been a small increase in future service contributions (following the 2013 valuation) partly offset by an increase in pensions paid. The increased pension payments were partly a result of the high level of redundancy retirements at the end of March.

6 BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS ("PIs") FOR THE 3 MONTHS TO 31 July 2014

6.1 The information provided in this report is consistent with the methodology applied to the Council generally but has been customised to reflect the special circumstances of the Avon Pension Fund. Full details of *performance against target,* in tabular and graph format, are shown in **Appendices 3A and 3B.**

7 ADMINISTRATION PERFORMANCE

7.1 The level of work outstanding from tasks set up in the period (Item C4 and graphs 4-6 of **Appendix 3A and 3B**) in the 3 month period is reported by showing what *percentage* of the work is outstanding. In this period 6310 new cases were received and 6432 were cleared representing 101.93% of outstanding cases. This shows an increase in performance over the previous quarter (96.45%). As a snapshot, at 31st July 2014 there were 1693 cases outstanding of which 38% represents actual workable cases and 62% represents cases that are part complete; pending a response from a third party.

7.2 Graph 4 shows a reduction of 16.25% in the number of outstanding workable cases at the end of the reporting period compared with the previous period. The total for the 12 months to 31 July 2014 shows 26981 new cases being received and 26992 cleared representing 100.04% clearance of outstanding cases over the year.

7.3 Other areas shown in selected **Graphs** the Fund:

7.4 Complaints: There were **no** complaints received in the period.

7.5 **CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 July 2014**

7.5.1 ***Retirement Questionnaires***

Appendix 4 reports on the customer satisfaction based on 73 questionnaires returned from members retiring from both active and deferred status (out of a total of 253 questionnaires issued in respect of the reporting period). 98.5% reported that the information provided by the Fund was both clear and concise with 94% rating the service as good or excellent.

8 LEVEL OF OPT OUTS FROM THE SCHEME

8.1 The Committee has asked that the level of opt outs from the Scheme be monitored in view of recent events affecting public pensions and the trend reported back to each Committee meeting.

8.2 APF's administration processes were amended in 2010 to identify opt outs in a reportable field. Reports indicate that 0.19% of active membership with more than 3 months service opted out over the period to 31 July 2014.

8.3 The additional introduction of an alternative 50/50 scheme will also give members a cheaper option for '*when times are tough*'. This bodes well for retention of members in the Scheme.

8.4 The position on opt outs will continue to be monitored and reported to the Committee at each meeting. A report will also be developed to report to the committee on the number of members electing for the 50/50 scheme.

9 TRENDS IN MEMBERSHIP/JOINERS AND LEAVERS (monitoring Opt Out trends) – EFFECT ON MEMBERSHIP OF THE START OF AUTO ENROLMENT

9.1 Active Membership figures in graph format are included as a standard item for Committee meetings to monitor the trend in member movements at this volatile time when higher than normal level of 1) redundancies and 2) potential opt-outs by members concerned about scheme changes.

9.2 The active membership statistics are shown in graph format in **Appendix 5** and the numbers of joiners and leavers feeding into this also in graph format in **Appendix 6.** Figures of the current active membership for a cumulative 63 months period from 1 May 2009 to 31 July 2014 are shown in a graph format in **Appendix 5**.

9.3 The Committee will be kept informed of the on-going changes and the effect it is having on Scheme membership. In the event that the funding position of the Scheme is significantly affected this will also be reported.

10 SUMMARY AVON PENSION FUND & EMPLOYER PERFORMANCE

10.1 As part of the Pensions Administration Strategy which came into effect in April 2011 a **Performance Report** is sent monthly to each of the four unitary authorities to report on their own and APF's administration performance against agreed targets set in the SLA.

10.2 A Summary report to the Committee is now a requirement of the Pensions Administration Strategy. The Report for the period from 1 April 2011 to 31 July 2014 is included as **Appendix 7**.

10.3 The Report discloses any poor performing employers which need to improve. It is important that the Committee are made aware of these going forward and the steps taken to assist these employers in improving their performance to avoid the imposition of additional charges. **Annex 1** shows B&NES retirement performance dip to 49% over the last quarter. This was due to late notification of retirement for 3 members during the period. The cause of the delay was as a result of the responsible departmental line managers failing to notify HR or Payroll of the member retirement. B&NES HR issue periodic notices to managers requesting that notification of leavers is actioned on a timely basis.

10.4 **Appendix 7** contains:

- Trend graphs for each of the largest employers *(viz. 4 unitaries) showing performance on supplying the Avon Pension Fund with accurate leaver forms (Retirements (Annex 1) and Deferreds (Annex 2)) for *cumulative* period from 1 April 2011 to 31 July 2014.
- Report on any late pension contributions by employers to the Fund due for the 4 months to 31st July 2014.

11 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

11.1 The Fund is continuing to progress towards electronic receipt of all member data change information:

11.2 **Employer Self Service: Update**

Employers were advised that *Employer Self Service* will be the only acceptable way to send the Fund member data (starters/leavers/changes). For less large employers to ease implementation of ESS and due to the much smaller number of transaction submissions, these employers will be phased in and will only go on line when changes arise. Following this and having received appropriate training on usage those employers who continue to send in changes in paper format will be charged additional administration costs. As at 31 July 2014 60% of employers had received full training on ESS data submission – representing 81% of total scheme membership.

11.3 ***i-Connect***

Following approval to proceed by the Pensions Committee in September 2012, the Avon Pension Fund purchased additional middleware from *i-Connect* (a sister company of Heywood- supplier of the Fund's pension administration hardware).

The Fund's four unitary authorities signed contracts in December 2012 to take *i-Connect* which is necessary for the APF database monthly updating to operate. Bristol City Council, B&NES and North Somerset are all live users of the product.

10.4 Considerable work has been undertaken by APF to ensure that the i-Connect product is fit for purpose. With technical changes brought about by the introduction of New LGPS 2014 and on-going work required to resolve historic issues with employer data extracts a temporary project team has been set up to work with both employers and the soft-ware provider to ensure a robust process and set of procedures is signed off and operational. An audit of the i-Connect process was undertaken in July and the results will be reported at the next Pensions Committee in December.

10.5 South Gloucestershire Council: has requested deferment on going live on i-Connect pending revised extract specification requirements needed to incorporate the new LGPS 2014. The Payroll software provider is due to meet with clients on 18th September to undertake work on providing relevant data extract work. It is expected that the service will go live in the near future.

10.6 **LGPS 2014 Engagement Activity**

- **Member Roadshow Events**: in July Avon Pension Fund concluded it's project to deliver member presentations about the new LGPS 2014. Member Self Service (MSS) is also promoted. A summary of the impact on APF available staff resource during this time is reported in **Appendix 8**.

12 RISK REGISTER

12.1 The Risk Register follows the format of the Council's risk register for each service. It identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk.

12.2 The Risk Register is reviewed regularly by the pension management team. The risks identified fell into the following general categories:

(i) Fund administration & control of operational processes and strategic governance processes – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information

(ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance

(iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence

(iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team

(v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process

12.3 The Fund has invested significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews.

12.4 The top 10 risks, including their likelihood, financial impact and mitigating actions are set out in **Appendix 9.**

12.5 The Risk Register is updated regularly by officers and reported to Committee annually or when there is a change in significant risks.

13 RISK MANAGEMENT

13.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition, it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

14 EQUALITIES

14.1 No items in this Report give rise to the need to have an equalities impact assessment.

15 CONSULTATION

15.1 None appropriate.

16 ISSUES TO CONSIDER IN REACHING THE DECISION

16.1 There are no other issues to consider not mentioned in this Report

17 ADVICE SOUGHT

17.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Martin Phillips Finance & Systems Manager (Pensions)) (*Budgets*) Tel: 01225 395259. Geoff Cleak, Acting Pensions Manager (*All except budgets*) Tel: 01225 395277
Background papers	Various Accounting and Statistical Records
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2015

	FOUR MONTHS TO JULY 2014			FULL YEAR 2014/15		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
Administration						
Investment Expenses	23,142	23,891	749	69,425	69,425	0
Administration Costs	26,178	13,622	(12,557)	78,535	78,535	0
Communication Costs	30,044	15,983	(14,061)	90,133	90,133	0
Payroll Communication Costs	15,641	208	(9,265)	46,923	46,923	0
Information Systems	96,629	122,432	37,182	289,886	289,886	0
Salaries	508,447	498,754	(6,668)	1,525,341	1,475,341	(50,000)
Central Allocated Costs	141,950	27,229	(114,721)	425,851	425,851	0
Miscellaneous Recoveries/Income	(47,512)	(25,556)	21,956	(142,536)	(142,536)	0
Total Administration	**794,519**	**676,563**	**(97,384)**	**2,383,557**	**2,333,557**	**(50,000)**
Governance & Compliance						
Investment Governance & Member Training	84,210	25,638	(58,572)	252,630	252,630	0
Members' Allowances	13,035	(10,737)	(23,772)	39,105	39,105	0
Independent Members' Costs	6,295	5,092	(1,204)	18,886	18,886	0
Compliance Costs	110,376	108,557	(1,819)	331,127	331,127	0
Compliance Costs recharged	(63,667)	(36,036)	27,631	(191,000)	(191,000)	0
Total Governance & Compliance	**150,249**	**92,514**	**(57,735)**	**450,748**	**450,748**	**0**
Investment Fees						
Global Custodian Fees	27,500	11,950	(15,550)	82,500	82,500	0
Investment Manager Fees	5,326,247	4,907,013	0	15,978,740	14,520,740	(1,458,000)
Total Investment Fees	**5,353,747**	**4,918,963**	**- 15,550**	**16,061,240**	**16,061,240**	**0**
NET TOTAL COSTS	**6,298,515**	**5,688,040**	**(170,670)**	**18,895,545**	**18,845,545**	**(1,508,000)**

This page is intentionally left blank

APPENDIX 1A

Summary of main budget variances: Forecast for full year at 31 July 2014

Variances Analysis of the full year forecast expenditure or income, against budget to the year end.

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(50,000)	Reduced expenditure following partial secondment of Payroll Manager to Council's Payroll section and secondment of Project Officer to Bristol City Council.
Administration	**(50,000)**	
Investment Manager Fees	(1,458,000)	Investment Manager fees are forecast to be below budget. This is largely because the budget provided for the full year fees on the infrastructure mandate although the appointment was not made until after the start of the year. It was also assumed, at the time that the budget was set, that performance related fees would be higher than is now likely to be the case.
Expenditure Outside Direct Control	**(1,458,000)**	
Total Forecast Overspend	**(1,508,000)**	

***() variance represents an under-spend, or recovery of income over budget**
+ve variance represents an over-spend, or recovery of income below budget

This page is intentionally left blank

APPENDIX 2

AVON PENSION FUND

Cash Flow Forecast

	FOUR MONTHS TO JULY 2014			FULL YEAR 2014/15		
	Forecast Per Service Plan £'000	Actual £'000	Variance £'000	Forecast Per Service Plan £'000	Out-turn Forecast £'000	Variance £'000
Outflows						
Benefits Pensions	(39,149)	(39,833)	(684)	(117,447)	(119,499)	(2,052)
Lump sums	(11,075)	(11,702)	(627)	(33,226)	(33,226)	0
Administration costs	(1,846)	(2,857)	(1,011)	(5,537)	(5,537)	0
Total Outflows	(52,070)	(54,392)	(2,322)	(156,210)	(158,262)	(2,052)
Inflows						
Deficit recovery (allowing for a lump sum in 2014/15)	16,047	82,162	66,115	48,141	85,516	37,375
Future service Employers	24,539	25,939	1,400	73,618	77,817	4,199
Future service Employees	12,439	12,136	(303)	37,318	36,408	(910)
Total Contributions	53,026	120,237	67,211	159,077	199,741	40,664
Net Cash Flow (excluding Investment Income)	**956**	**65,845**	**64,889**	**2,867**	**41,479**	38,612
Investment income received as cash	10,156	9,803	(353)	10,156	10,156	0
Net Cash In-Flow (Out-Flow)	**11,112**	**75,648**	**64,536**	**13,023**	**51,635**	**38,612**

Notes : Individual Transfers in and out are assumed to net to zero
Administration costs include administration expenses plus Investment Management Fees that are invoiced

This page is intentionally left blank

PENSIONS SECTION ADMINISTRATION

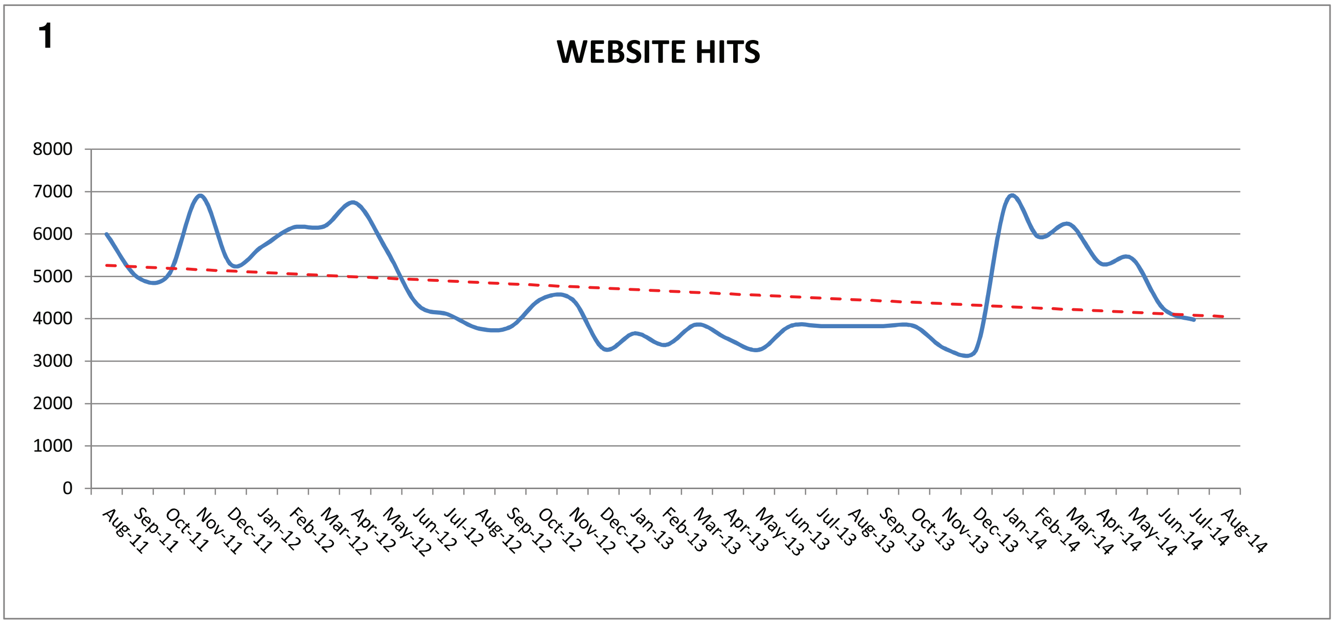
Key Performance Indicators

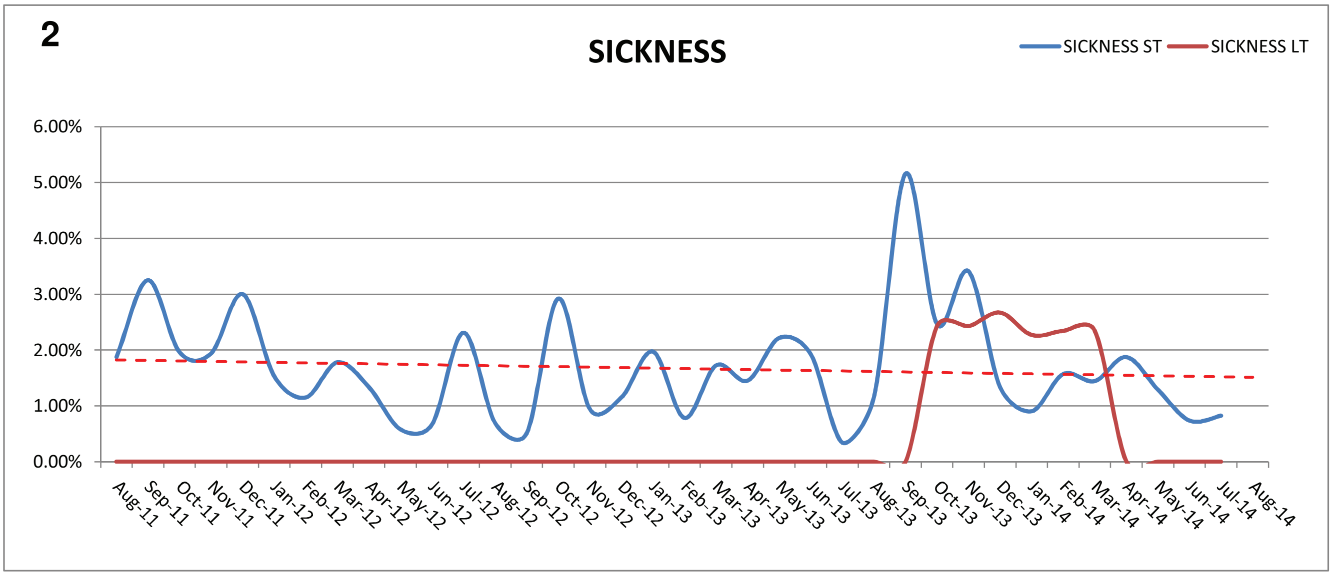
APPENDIX 3A to Pension Fund Administration Report at 31 July 2014

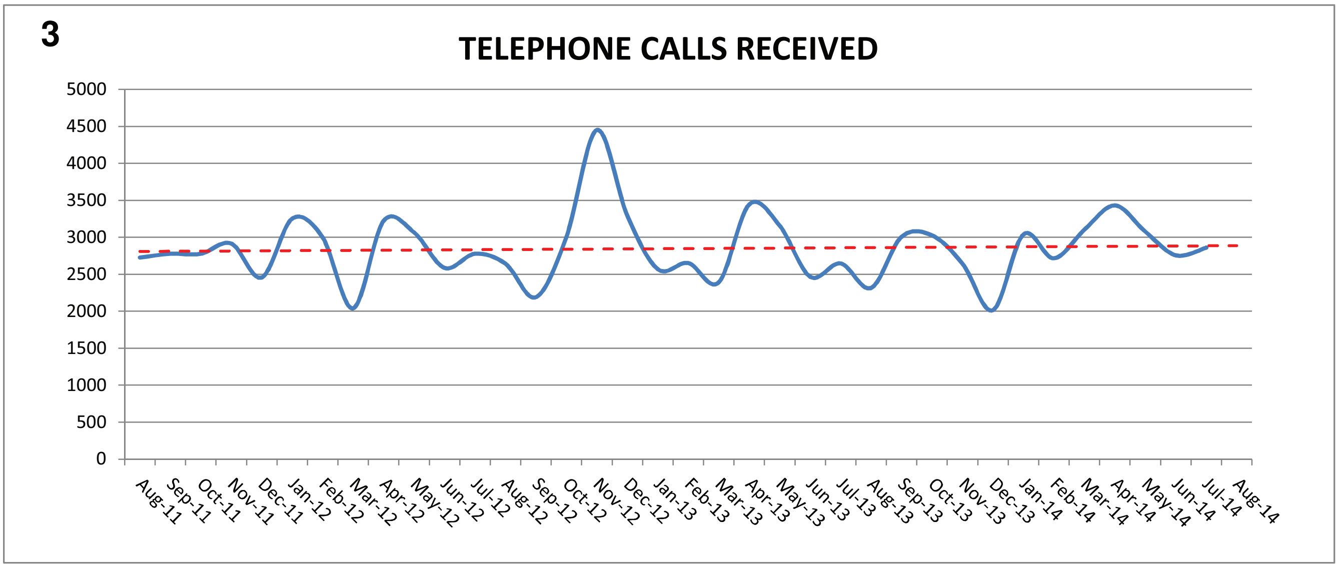
	INDICATOR	Green Red Amber	2013/14 Actual	Target for 2014/15	Actual 3 months to 31/07/2014	Comments	
A	**Customer Perspective**						
1	General Satisfaction with Service - retirees feedback	G	96%	97%	98.50%	72 out of 73 responses received from retirees in reporting period	Appendix 4
2a	Service Standards - Processing tasks within internal targets (SLA)						
	Deaths [12 days]	G	91%	92%	90.63%	29 of 32 Tasks were completed within target	
	Retirements [15 days]	G	89%	90%	83.30%	464 of 557 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	G	81%	75%	71.57%	705 of 985 Tasks were completed within target	
	Refunds [5 days]	G	82%	80%	76.92%	310 of 403 Tasks were completed within target	
	Transfer Ins [20 days]	G	74%	75%	78.60%	92 of 117 Tasks were completed within target	
	Transfer Outs [15 days]	G	77%	75%	73.62%	120 of 163 Tasks were completed within target	
	Estimates [10 days]	G	95%	90%	84.50%	807 of 955 Tasks were completed within target	
2b	Service Standards Processing tasks within statutory limits	G	100%	100%	100%		
3	Number of complaints	G			0	No complaints received in the period	
4	Pensions paid on time	G			100%	All paid on time	
5	Statutory Returns sent in on time (SF3/CIPFA)	G			100%	SF3 & CIPFA both submitted by deadline	
6	Number of hits per period on APF website	G	55572 (4631 p/m)	4000p/m	13,656	4552 per calendar month for reporting period	3B Graph 1
7	Advising members of Reg Changes within 3 months of implementation	G			n/a	none this quarter	
8	Issue of Newsletter (Active & Pensioners)	G			100%	Active member news letter issued July 2014	
9	Annual Benefit Statements distributed by year end	G			N/A	On target for release next quarter	
B	**People Perspective**						
1	% of new staff leaving within 3 months of joining	G			0%		
2	% Sickness Absence — a) Short Term — b) Long Term	G			a) 1.95% b) 0.00%	Ahead of APF target and well ahead of corporate target of 5%	3B Graph 2
C	**Process Perspective**						
1	a) Services actually delivered electronically — b) Services *capable* of delivery to members	A			a) 0.3% b) 100%	a) 7.093% represents eligible users who have signed up to Member Self Service. Internet Access means that over 5,700 members now have electronic access b) Section able to deliver all targeted services electronically	
2	a) Active membership covered by employer EDI — b) % of employers submitting data electronically	G	a) 72% b) 58%		a) 81% b) 60%		
3	% Telephone calls answered within 20 seconds	G	97%		97.8%	8694 calls, 8469 answered within 20 seconds	3B Graph 3
4	Maintain work in progress/outstanding at **below 10%**	G	25811 created, 27925 cleared		101.93%	6310 Created, 6432 cleared	3B Graphs (4,5,6)
5	Year End data receipt	G			100%	All year end data received and reconciled	
5	No. of errors (due to incomplete member data from employers)	G			2%	Acceptable error level	
D	**Resource Perspective**						
1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	89%	90%	89.00%	Business Financial Services (inc Pensions)	
2	Temp Staff levels (% of workforce)	G	0.74%		4.00%	Within target	

This page is intentionally left blank

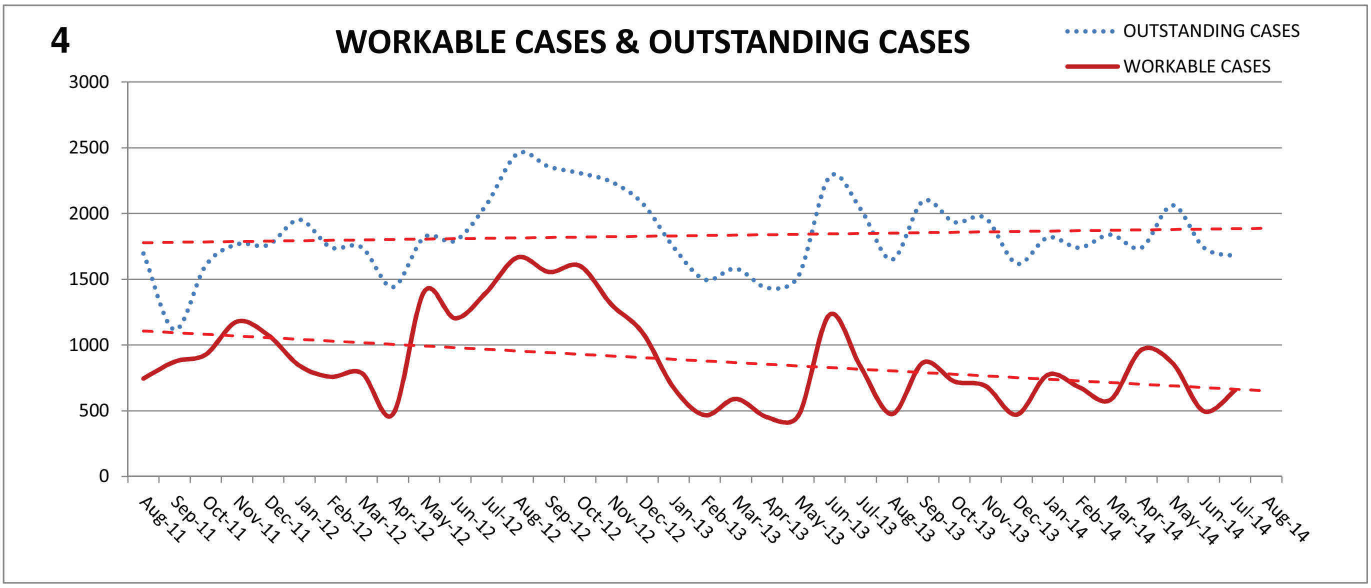
Pensions Admin Report Balanced Scorecard Appendix 3B - GRAPHS only @31st July 2014

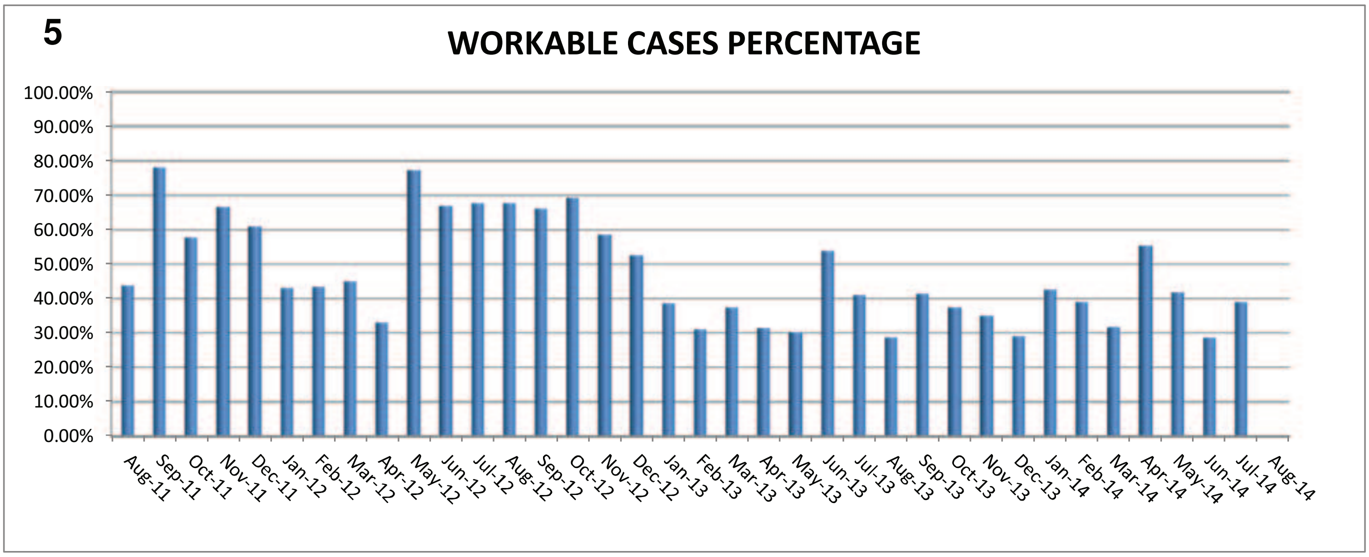


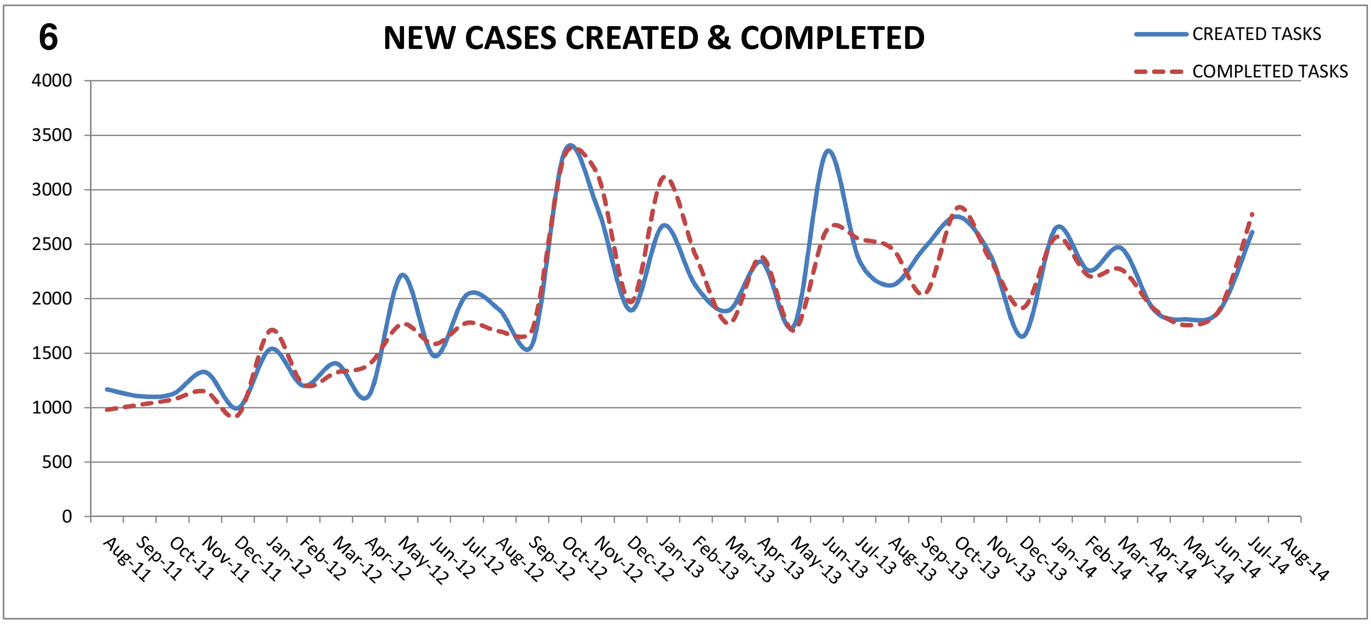




Pensions Admin Report Balanced Scorecard Appendix 3B - GRAPHS only @31st July 2014

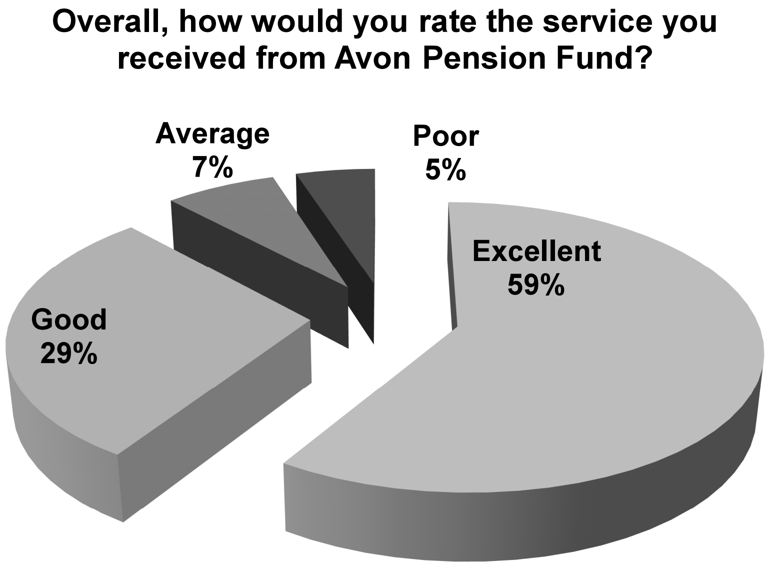




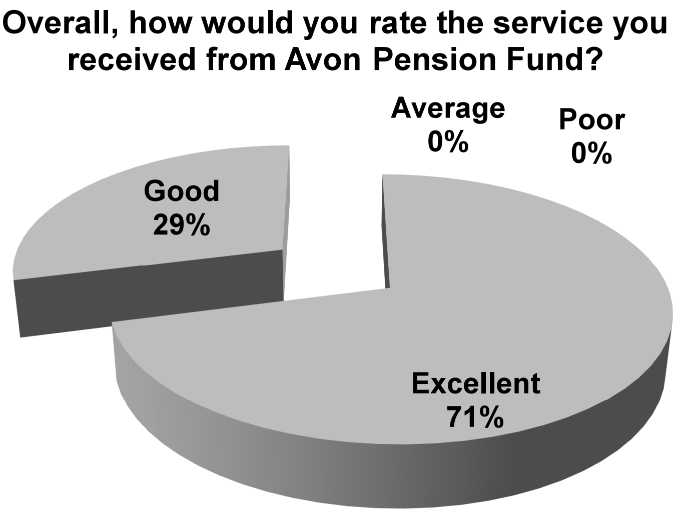


Responses to customer feedback **Agenda Item 13** **APPENDIX 4**
May 2014 – July 2014

Retirement from Active status
145 members
59 responses
40% response rate

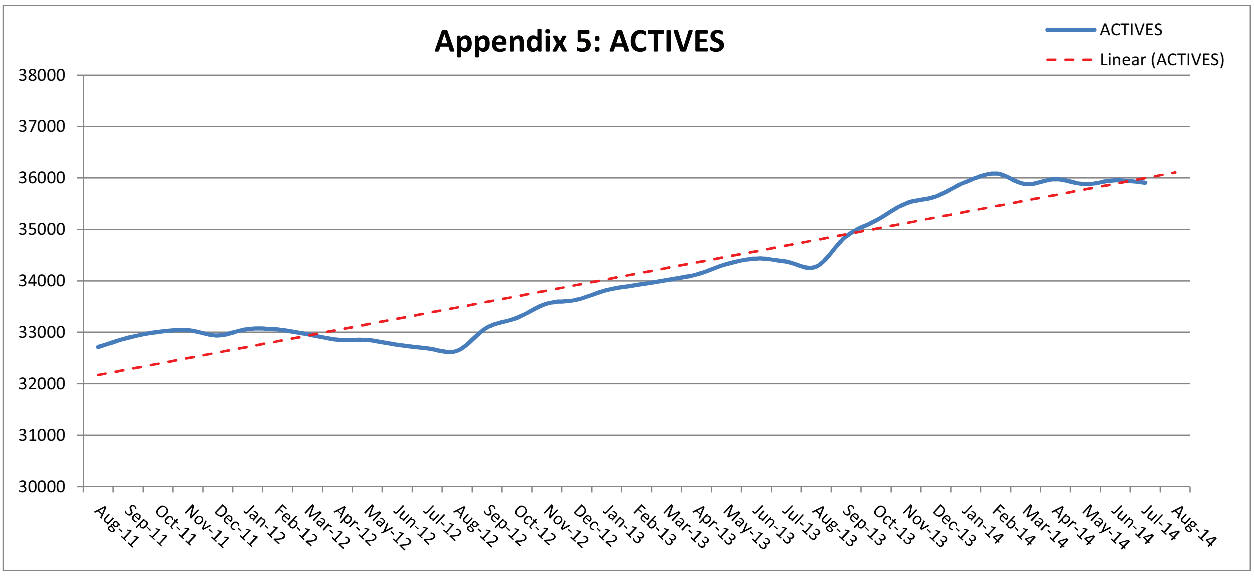


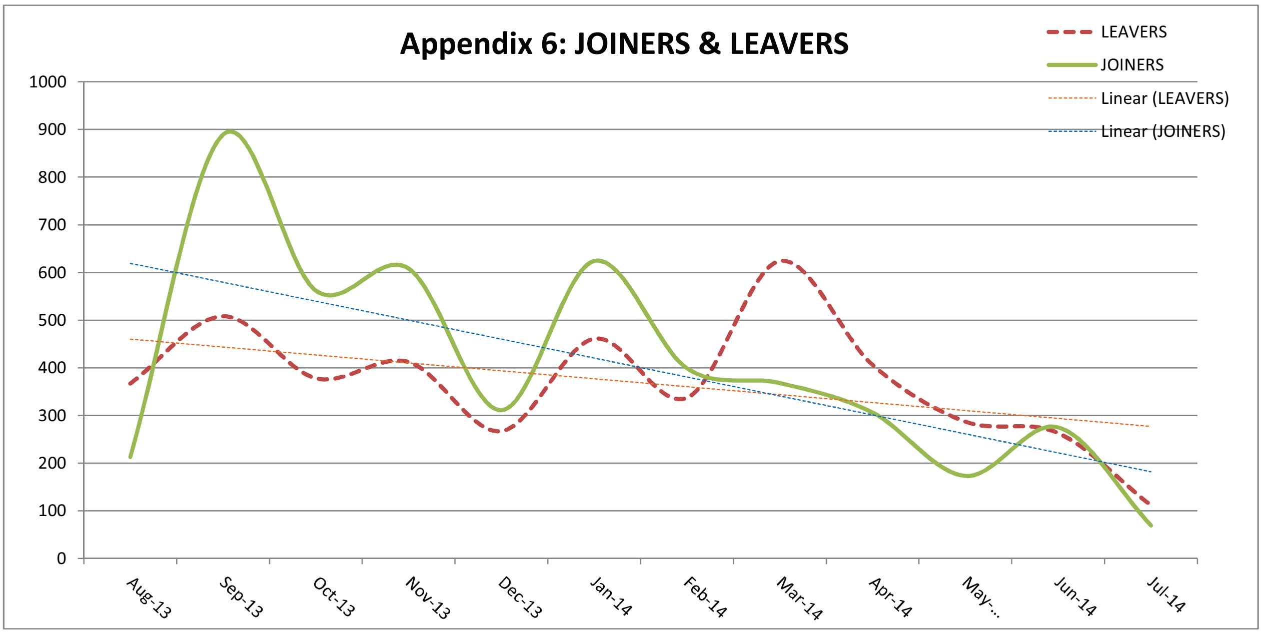
Deferred into payment
108 members
14 responses
13% response rate



This page is intentionally left blank

Admin Reports - Appendices 5 and 6. Actives, Joiners and Leavers to 31st July 2014





This page is intentionally left blank

APPENDIX 7 (to Pension Fund Administration Report Agenda Item 13)

COMMITTEE SUMMARY PERFORMANCE REPORT

This is the eleventh report on the performance of Fund employers and the Avon Pension Fund staff following the Pensions Administration Strategy coming into effect on 1st April 2011.

Included in the Report are the following:

1. Graphs for each of the largest employers* (viz. 4 unitaries) showing performance on processing leavers (retirements and early leavers). (Annexes 1 & 2) expressed annually from 1st April 2011 to 31st July 2014.

2. Report of late payers of pension contributions (employers) in the period to 31st July 2014

*** Smaller Employers:** Performance of the remaining employers is not included in this report at this time. Any particular smaller employer's performance against target where there is cause for concern will be specifically reported to the Committee. None need to be reported this period.

2. Late payers of Pension contributions

Late payment of contributions due in 4 months to 31st July 2014:

This report gives details of all payments (now paid or still outstanding) during the period, that relate to employers whose total aggregate late days during the period exceeded nine and whose value of one month's contributions exceeded £3,000. Late payments are not netted down by early payments. The report does not include new employers making their first payments who may experience delays in setting up their systems.

Employer	Payroll month	Days late	Payment
Aquaterra	April	31	£11,622

This late payment followed the payee making an error when entering the bank sort code. The payee did not recognise that the payment had automatically been returned by the bank until the Fund notified them after it was picked up in the Fund's reconciliations. The payee has corrected this error.

Total number of employers = 201
Total contributions received in period = £38,460,000 (excluding lump sum advance deficit recovery payments).
Total late contributions = £11,622 (0.03% of total contributions in period)
All late payers are contacted and reminded of their obligations regarding the timing of payments. Where appropriate they are advised on alternative, more efficient methods of payment.

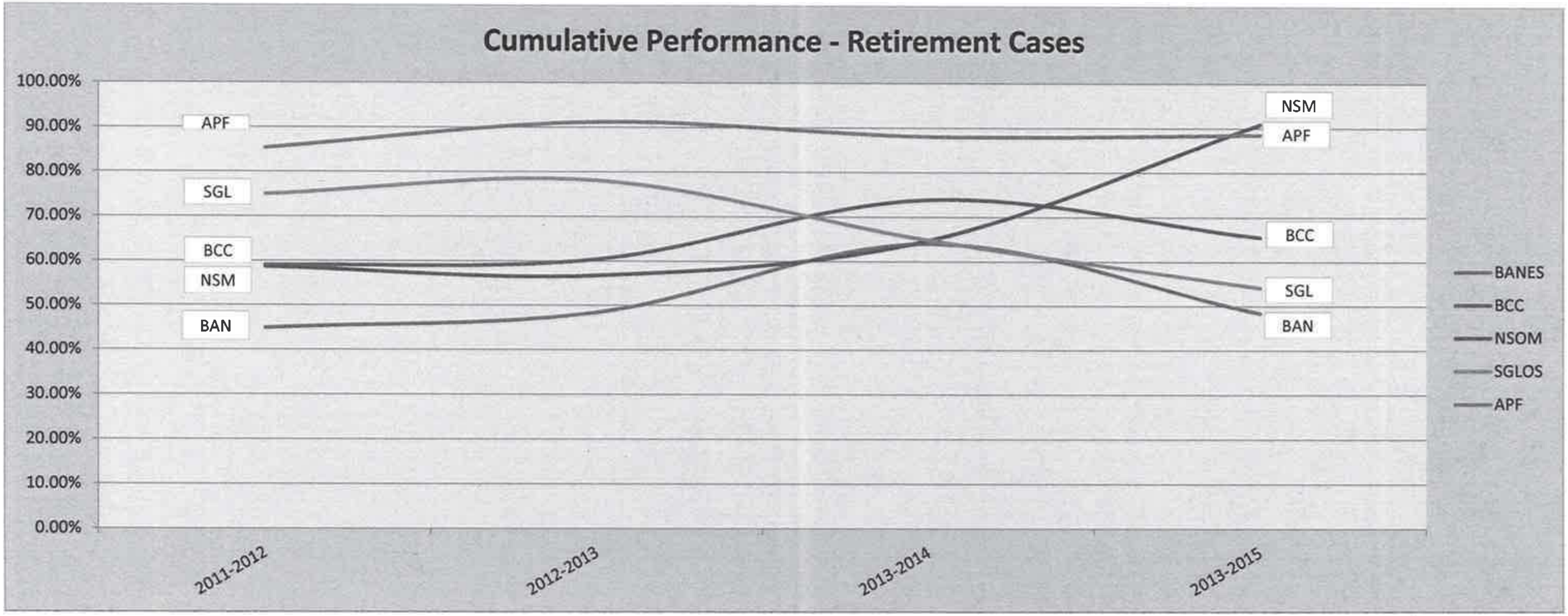
Where material, interest will be charged on late payments at Base rate plus 1% in accordance with the 2008 regulations.

3. **2013/14 Year end Returns –Annual Benefit Statements**

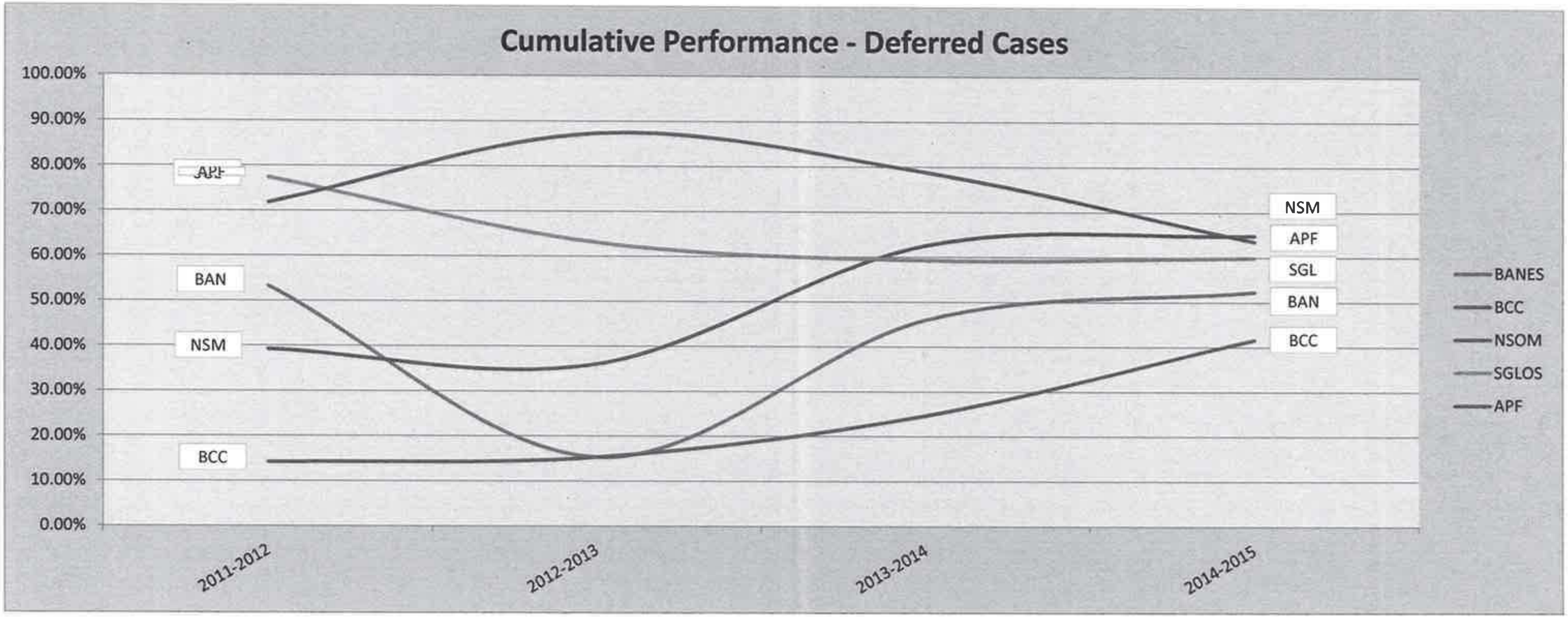
Details of the data requirements for year end 2013/14 were issued electronically to all employer lead officers on 14th February 2014. All requested information has now been received and reconciled. Annual Benefit Statements will be issued during September 2014 ahead of the statutory deadline of 30th September 2014.

.

------------END--------------


Cumulative Performance - Retirement Cases
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
APF
SGL
BCC
NSM
BAN
NSM
APF
BCC
SGL
BAN
2011-2012
2012-2013
2013-2014
2013-2015
BANES
BCC
NSOM
SGLOS
APF

This page is intentionally left blank


Cumulative Performance - Deferred Cases
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
APF
BAN
NSM
BCC
NSM
APF
SGL
BAN
BCC
2011-2012
2012-2013
2013-2014
2014-2015
BANES
BCC
NSOM
SGLOS
APF

This page is intentionally left blank

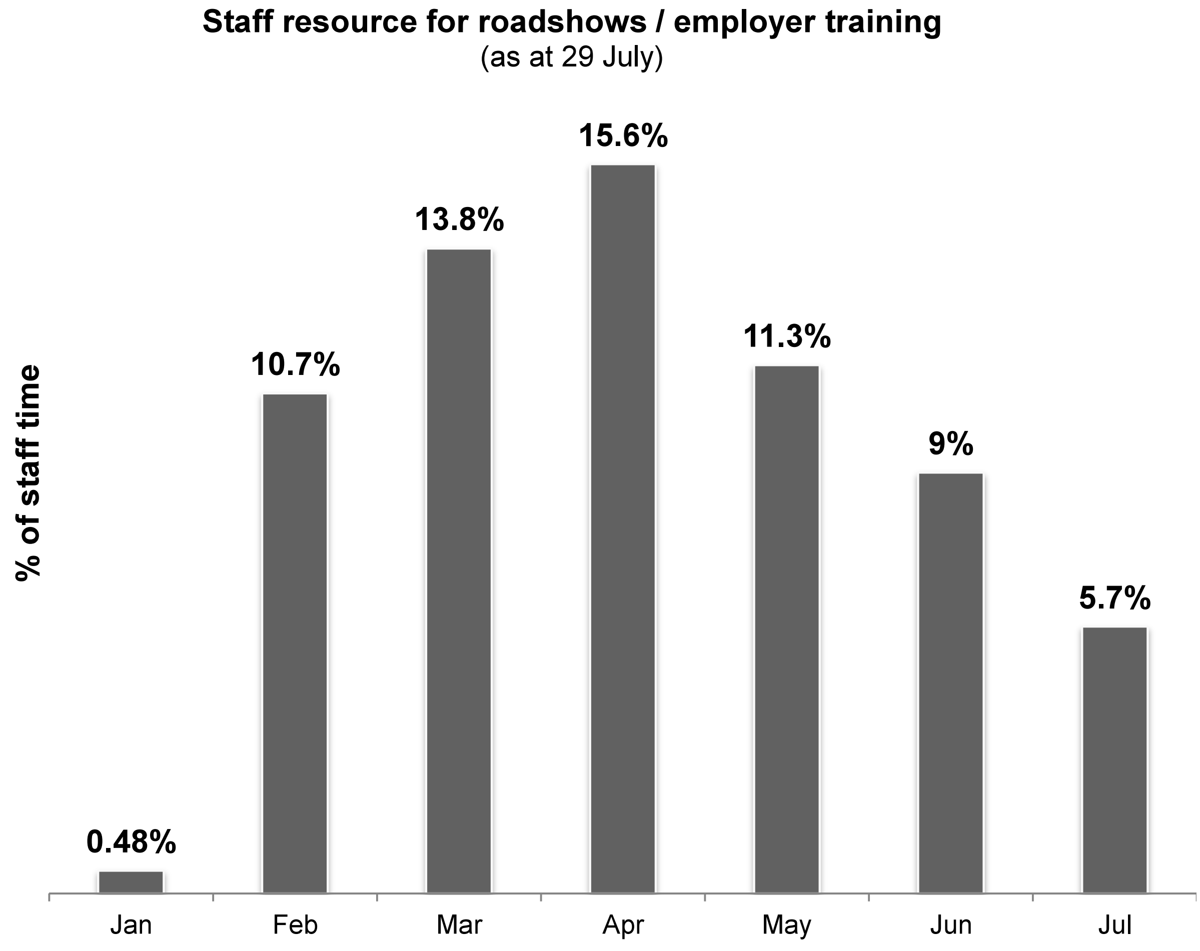
LGPS 2014 engagement activity **Agenda Item 13** **APPENDIX 8**

Member roadshows

All figures quoted below are as of 29 July.

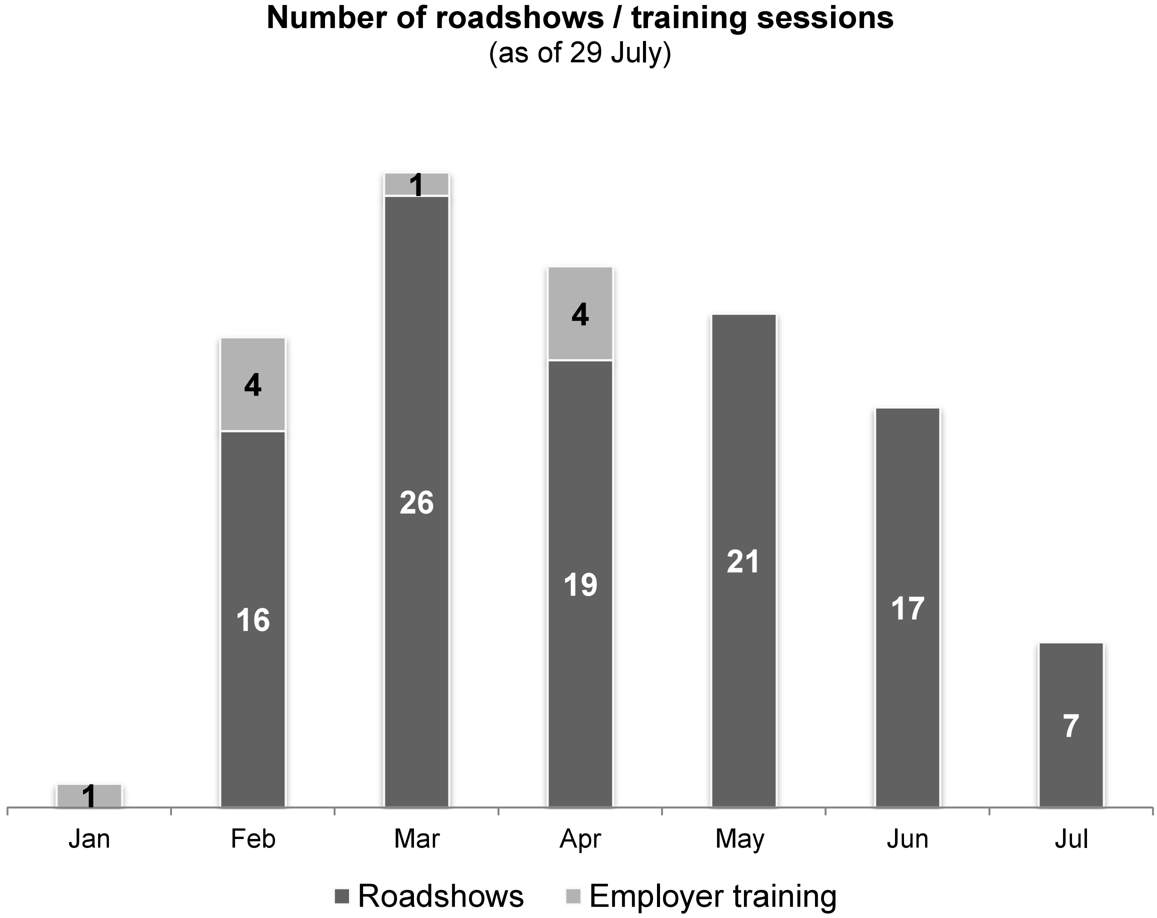
Number of roadshows booked	103
Number of roadshows held	103
Number of employers booking roadshows	67
Number of attendees	1820

Staff resource for roadshows and employer training sessions



The above is based on available working days for each month / number of events each month / APF resource / average event duration.

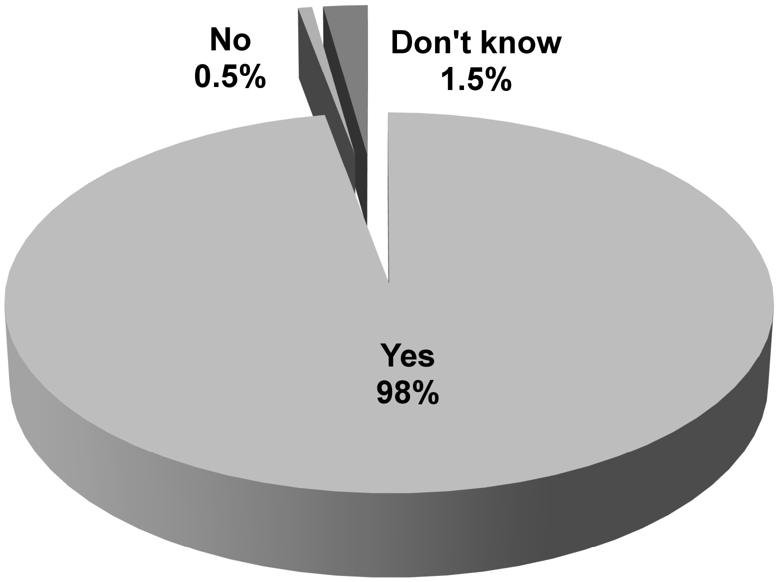
Roadshows and employer training sessions



Roadshow feedback

Feedback forms are distributed at the events. 1030 have been completed (response rate of 56%)

Do you feel we have provided you with a good overview of the 2014 scheme?



Some comments include:

"Very useful, informative and helpful. Q&A session especially good = decent length of time for asking questions and the presenter answered everything clearly and addressed all the questions (unlike politicians) in a direct fashion."

"Really clear and simple. Presenting officer very professional. Glad I came and will recommend."

"An excellent informative session. Much easier to understand than reading a leaflet."

"Great presentation with knowledgeable and friendly presenters. Now feel more at ease about how the changes will affect me."

This page is intentionally left blank

AVON PENSION FUND RISK REGISTER - TOP 10 RISKS **APPENDIX 9**

			Likelihood					Impact					Risk	RAG	Scale of	Funded by
			1	2	3	4	5	1	2	3	4	5	Score		Financial	
	Risk	Management Actions	L		M	H		L		M	H				Impact	
1	The Fund fails to achieve investment returns sufficient to fund its liabilities. This could negative affect the contributions paid by the employing bodies.	Periodic reviews of investment strategy. Annual and quarterly monitoring of strategic allocation, investment returns and tactical opportunities. Periodic reviews of investment strategy. Annual and quarterly monitoring of strategic allocation, investment returns and tactical opportunities.			3						4		12	A	>£1m	Increases in Employer contribution
2	Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions. This could result in the committee not making decisions in the best interest of the Fund or being unable to make decisions.	Have well defined investment policies in place setting out investment objectives and criteria. Engaging with the government through the consultation process, giving a consistent message.				4				3			12	A	>£1m	Unclear but potentially increases in employer contribution
3	Insolvency of Participating Employers in the Fund without sufficient monetary guarantees or bonds to make good their outstanding liability. Any liability will be absorbed by the Fund and spread across other employers, increasing overall liabilities and employer contribution rate and reduce the funding level.	Fund policy is to only admit Transferee and Community Admission bodies where the pension liabilities are guaranteed by a scheme employer. Covenant assessment monitoring process in place to annually assess financial standing of all employers in Fund, including review of all employers to identify whether guarantee arrangements are adequate and explore options for obtaining guarantee, bond or contingent assets if appropriate			3					3			9	A	>£1m	Increases in Employer contribution
4	Lack of continuity within the Avon Pension Fund Committee. Until new members fully trained this could delay decision making.	Wide representation on Committee including 2 Independent Members not subject to electoral cycle. Training made available to new members.			3					3			9	A	>£1m	Annual budget
5	The investment managers appointed by the Fund to manage the assets fail to achieve their benchmarks. This could cause the Fund to underperform its strategic benchmark and thus fail to achieve the investment returns required to fund the liabilities. This could negatively affect the contribution rates paid by the employing bodies.	Monitoring the performance of the managers is delegated to the Panel. The RAG performance monitoring framework in place to identify managers that are underperforming and issues that could impact future performance. Issues and changes in RAG ratings are reported to the Panel who agree an action plan to address the issue. The Panel reports quarterly to committee on the performance of the managers and changes in RAG ratings.			3					3			9	A	>£1m	Increases in Employer contribution

6	Systems failure or lack of accessibility to systems. This could result in potential loss of data, need to re-process data, fall in productivity, potential corruption of data, delay in payment of pensions.	Policies in place with relevant parties to ensure continuity of service issues are addressed within an agreed timeframe. Daily back up of pensions system limits loss of data, re-processing of data. Rely on B&NES systems of control and firewalls to prevent virus attacks.		**2**							**4**		**8**	**A**	**£10,000 to 100,000**	**Annual budget**
7	Dependence on electronic data from scheme employers. This could lead to inaccurate or incomplete data.	Internal audit to review the employer processes. Training is given to employers as to data requirements.		**2**							**4**		**8**	**A**	**£10,000 to 100,000**	**Annual budget**
8	Non compliance with the data protection act or the Pensions Regulator's codes of practice or standards. This could lead to fines, prosecutions and adverse publicity.	Pensions Manager is responsible officer for DPA. Have confidentiality agreements in place with the Fund's agents. The Fund complies with the Council's DPA policies. All personal data is transmitted from the Fund by secure portals.		**2**						**3**			**6**	**G**	**£100,000 to £1m**	**Annual budget**
9	Incorrect or late contributions from employers. This could adversely affect short term cash flow, could mean under/over funding of liabilities, breach of obligations could lead to fines.	Monthly contributions received are reconciled to employer return (and authorisation is verified). Annual reconciliation of contributions received to member records. Late payers followed up and included in quarterly monitoring report to Committee.		**2**						**3**			**6**	**G**	**£100,000 to £1m**	**Fines, penalties recharged to employer**
10	Lack of adequate resources / knowledge at scheme employers leading to a failure to comply with obligations to the pension fund and staff members leading to disproportionate work and adverse impact on productivity.	Provision of timely information and training for new employers and refresher sessions for existing employers. Enforce the penalties allowed in administration strategy for repetitive non-compliance with obligations resulting in disproportionate work.		**2**						**3**			**6**	**G**	**< £10,000**	**Annual budget. Penalties charged to employers.**

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**26 SEPTEMBER 2014**
TITLE:	**WORKPLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Investments Workplan to 31 March 2015** **Appendix 2 – Pensions Benefits Workplan to 31 March 2015** **Appendix 3 – Committee Workplan to 31 March 2015** **Appendix 4 – Investments Panel Workplan to 30 June 2015** **Appendix 5 – Training Programme 2014/2015**	

1 THE ISSUE

1.1 Attached to this report are updated workplans for the Investments and Pensions Benefit teams which set out the various issues on which work will be undertaken in the period to 31 March 2015 and which may result in reports being brought to Committee. In addition there is a Committee workplan which sets out provisional agendas for the Committee's forthcoming meetings.

1.2 The workplan for the Investment Panel is also included for the Committee to review and amend as appropriate.

1.3 The provisional training programme to June 2015 is included as Appendix 5.

1.4 The workplans are consistent with the 2014/17 Service Plan but also include a number of items of lesser significance which are not in the Service Plan.

1.5 The workplans are updated quarterly.

2 RECOMMENDATION

2.1 That the workplans and training plan for the relevant periods be noted.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations to consider.

4 THE REPORT

4.1 The purpose of the workplans is to enable members to have a better appreciation of their future workload and the associated timetable. In effect they represent an on-going review of the Service Plan while including a little more detail. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets.

4.2 The workplans and training plan will be updated with projects arising when these are agreed.

4.3 The provisional training plan for 2014/15 and 2015/16 is also included so that Members are aware of intended training sessions. This plan will be updated quarterly.

5 RISK MANAGEMENT

5.1 Forward planning and training plans form part of the risk management framework.

6 EQUALITIES

6.1 An Equalities Impact Assessment has not been completed as the report is for information only.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager; 01225 395306 Geoff Cleak, Pensions Manager, 01225 395277
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

INVESTMENTS TEAM WORKPLAN TO 31 MARCH 2015

Project	Proposed Action	Committee Report
Member Training	Implement training policy for members (and then officers) in line with CIPFA Knowledge and Skills Framework and Toolkit (when issued). Arrange training sessions as necessary to ensure that all Committee members stay abreast of the latest developments in the world of local government pensions by being given the opportunity to attend seminars Set out training programme for new members post May 2015	On-going
Review manager performance	Officers to formally meet managers as part of monitoring process See IP workplan for Panel meetings	Ongoing
Review of investment strategy & projects	Projects arising from review delegated to Panel for implementation or further investigation further. • Review of hedge funds – ongoing • Review of FX hedging programme – start 3Q14 • Liability hedging – preliminary work to start in late 2014/2015	Ongoing
Re-tender actuarial and investment advisory contracts	Separate contracts; both will be re-tendered under the SW LGPS funds advisory framework	Commence 3Q14
Monitoring of employer covenants	Annual monitoring of changes in employers financial position	On-going
Review AVC arrangements	Review choice of investment funds offered for members	4Q14
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	Annually 3rd quarter
Investment Forum	To discuss funding and investment strategies and issues	Next due 4Q14
Ill health insurance options	Investigate options for insuring ill-health pension costs for smaller employers – delay until after actuary contract tendered	Commence 1Q14
Establish Pensions Board	Agree structure Appointment process Training plan	November 2014 December – March From April 2015
Employer Database	Create structure for document management	Commence March 2015 (dependent on

	system ready for using Council solution or Altair	corporate solution)
Develop online form for receipt of contributions	Develop online form for employers to send contribution information (LGPS50 form). Roll out during year with aim of only accepting online forms from 1/4/15.	Project commenced; roll out during year
Statement of Investment Principles	Revise following any change in Fund strategy/policies.	On-going
IAS 19	Liaise with the Fund’s actuary in the production of IAS 19 disclosures for employing bodies	No report
Final Accounts	Preparation of Annual Accounts	Annually 2nd quarter
2015 Interim Valuation	As at 31 March 2015; preparatory work 1Q15	Commence 1Q15

PENSION ADMINISTRATION TEAM WORKPLAN TO 31 MARCH 2015

Project	Proposed Action	Report
Employer Self Service rollout	Employer Self Service rolling out of all remaining employers to enable full electronic data delivery by the end of Q4 2014/5 including employer training	4 Q 14
i-Connect software – to update member data on ALTAIR pension database automatically monthly	*i-Connect* middleware to provide monthly update to APF pension database purchased by the Fund and four unitary authorities. Remaining project to admit final unitary authority and then assess requirements for on-going support. Market to other employers during 2014/15 once complete.	2/3 Q14
Move to Electronic Delivery of generic information to members	Implement the 3 year Strategy to move to electronic delivery to all members (other than those who choose to remain with paper). Campaign to increase the sign up of members to Member Self Service (*My Pension on line)* to allow electronic access to documents	2/3 Q14
Successfully Communicate proposed government changes to LGPS benefits	To follow through the project plan to effectively communicate the New LGPS 2014 and what it will mean for members/employers utilising electronic (website), paper and face to face meetings with employers' and their staff.	Compl-eted 2Q 14/15
Historic Status 9 Cases (Old member leaver cases with no pension entitlement. Previously untraced)	Identify cases and contact former members (tracing agent) concerning pension refund payment.	Report quarter ly from 3Q 14
2013/14 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 6.10.2014	Compl-eted 2Q 14/15
Review Workflow & Data Processing	Implement new Task Management procedure and Workflow Arrangements. Introducing new software – Auto Task assignment.	4Q 14
TPR Requirements	Data Quality Management Control – ensure processes & procedures in place to satisfy TPR minimum requirements.	3 /4 Q 14

This page is intentionally left blank

Appendix 3

Committee Workplan to 31 March 2015

DECEMBER 2014
Review of Investment Performance for Quarter Ending 30 September 2014
Pension Fund Administration – Budget Monitoring 2014/15, Performance Indicators for Quarter Ending 30 September 2014 and Risk Register Action Plan
Report on Investment Panel Activity
Review of AVC arrangements
Workplans
Planned Workshops

MARCH 2014
Review of Investment Performance for Quarter Ending 31 December 2014
Pension Fund Administration – Budget Monitoring 2014/15, Performance Indicators for Quarter Ending 31 December 2014 and Risk Register Action Plan
Budget and Service Plan 2015/18
Report on Investment Panel Activity
Audit Plan 2014/15
Workplans
Planned Workshops

This page is intentionally left blank

Appendix 4

INVESTMENT PANEL WORKPLAN to 30 June 2015

Panel meeting / workshop	Proposed reports
21 November 2014	• Review managers performance to September 2014 • Review of Currency Hedging programme • Meet the managers workshop (Jupiter, TT, Partners)
Extra meeting	• Clarification meeting for DGF tender
February 2015 (TBA)	• Review managers performance to December 2014 • Bond portfolio / LDI training • Review of AVC funds • Meet the managers workshop (Genesis, Royal London)
June 2015 (date to be confirmed)	• Review managers performance to March 2015 • Meet the managers workshop (Invesco, SSgA)

This page is intentionally left blank

Appendix 5

Avon Pension Fund Committee Training Programme 2014/2015

General Topics

Topic	Content	Timing

Fund Governance and Assurance *(relates to CIPFA Knowledge & Skills Framework areas: Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management)*	• Role of the administering authority
	  - How AA exercises its powers (delegation, role of statutory 151 Officer)
	  - Governance Policy Statement
	• Members duties and responsibilities
	  - LGPS specific – duties under regulatory framework
	    o Admin regulations (including discretions), admin strategy, communications strategy
	    o Investment regulations
	    o Statutory documents - Statement of Investment Principles, Myners compliance, Funding Strategy Statement, Annual Report
	  - Wider Pensions context
	• Assurance framework
	  - S 151 Officer
	  - Council Solicitor
	  - Freedom of Information Officer/Data Protection
	  - Internal Audit
	  - External Audit
	  - Risk Register
		June 2015
		
		Workshop on Pension Boards (September 2014)

Manager selection and monitoring *(relates to CIPFA Knowledge & Skills Framework areas: Investment Performance & Risk Management)*	• What look for in a manager – people, philosophy and process • How to select the right manager – roles of officers & members, procurement, selection criteria, evaluation • Monitoring performance & de-selection • Fees	Ongoing by Panel in quarterly monitoring of manager performance Annual report to Committee by Investment Consultant (June 2015)

Asset Allocation *(relates to CIPFA Knowledge & Skills Framework areas: Investment Performance & Risk Management, Financial Markets & Products)*	• Basic concepts – Expected Return, Risk Budget, efficient markets • Why is asset allocation important – correlations, strategic vs. tactical allocation • Implementation of strategy – active/passive investing, large/mid/small cap, UK/overseas, relative/absolute return, quantitative/fundamental investment approaches	On-going through monitoring of strategy Workshops on investing in different assets e.g. Infrastructure, Liability investing
Actuarial valuation and practices *(relates to CIPFA Knowledge & Skills Framework areas: Actuarial Methods, Standards and Practices)*	• Understanding the valuation process - Future and past service contributions - Financial Assumptions - Demographic Assumptions including longevity • Importance of Funding Strategy Statement • Inter-valuation monitoring • Managing Admissions/cessations • Managing Outsourcings/bulk transfers	Funding update reports quarterly to Committee 2015 interim valuation