

**Democratic Services**

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20 March 2015

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**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), Councillor Steve Pearce (Bristol City Council) and Richard Orton (Trade Unions)

**Co-opted Non-voting Members:** Steve Paines (Trade Unions), Clive Fricker (Town and Parish Councils) and Wendy Weston (Trade Unions)

Chief Executive and other appropriate officers  
Press and Public

Dear Member

**Avon Pension Fund Committee: Friday, 27th March, 2015**

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 27th March, 2015** at **2.00 pm** in the **Kaposvar Room - Guildhall, Bath**

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.**

**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](http://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** - Reception: Civic Centre - Keynsham,- 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, 27th March, 2015**

**at 2.00 pm in the Kaposvar Room - 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

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

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: 12TH DECEMBER 2014 (Pages 7 - 14)

8. AUDIT PLAN 2015/16 (Pages 15 - 32)

9. UPDATE OF REGULATIONS, CODES OF PRACTICE AFFECTING LFPS & GMP RECONCILIATION (Pages 33 - 44)

10. ADMINISTRATION STRATEGY (Pages 45 - 90)

11. BUDGET AND SERVICE PLAN 2015/18 (Pages 91 - 114)
12. TREASURY MANAGEMENT POLICY (Pages 115 - 122)
13. DISCRETIONS AND DELEGATIONS (Pages 123 - 138)
14. SCHEME EMPLOYERS AND ADMISSION BODIES UPDATE (Pages 139 - 152)
15. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 153 - 168)
16. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 31 DECEMBER 2014 (Pages 169 - 206)
17. LOCAL AUTHORITY PENSION FUND FORUM ENGAGEMENT REPORT 4TH QUARTER 2014 (Pages 207 - 220)
18. PENSION FUND ADMINISTRATION - BUDGET MONITORING 2014/15, PERFORMANCE INDICATORS FOR QUARTER ENDING 31 DECEMBER 2014 AND RISK REGISTER (Pages 221 - 246)
19. LGPS COST CAP MECHANISM (Pages 247 - 254)
20. INVESTMENT AND ACTUARIAL ADVISORY CONTRACTS (Pages 255 - 262)
21. WORKPLANS (Pages 263 - 274)

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, 12th December, 2014, 2.00 pm

**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), William Liew (HFE Employers), Shirley Marsh (Independent Member) and Richard Orton (Trade Unions)

**Co-opted Non-voting Members:** Clive Fricker (Town and Parish Councils)

**Advisors:** Tony Earnshaw (Independent Advisor) and Jignesh Sheth (JLT Employee Solutions)

**Also in attendance:** Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Geoff Cleak (Pensions Benefits Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

### **32 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer read out the procedure.

### **33 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies were received from Councillor Mike Drew, Steve Paines and Wendy Weston.

### **34 DECLARATIONS OF INTEREST**

There were none.

### **35 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

### **36 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS**

There were none.

### **37 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

### **38 MINUTES: 26 SEPTEMBER 2014**

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

A Member asked about progress on resolving the overpayment by Bristol City Council and implementing the audit recommendation relating to the automatic notification of staff leavers to IT (previous Minute 25). The Finance & Systems Manager (Pensions) reported that BCC had verbally told him that they had decided not to seek repayment, and that the overpayment would in effect reduce the outstanding deficit. The Chair asked for written confirmation of this to be obtained from BCC. The Head of Business, Finance and Pensions said that the IT issue concerned only agency staff, who at present were not recorded on the Council's payroll system. When their contracts terminated, it was the responsibility of individual service managers to notify IT, so that their access to Council computer systems could be withdrawn. The Council was introducing a new payroll system from April 2015, which would record everyone working for the Council, including agency staff. The issue did not affect Pensions Administration, which did not employ agency staff.

### **39 REQUEST BY ADMISSION BODY TO EXIT SCHEME**

The Investment Manager introduced this item. She said that the Fund's Termination Policy was set out in the report. She introduced two guests from Curo, Donna Baddeley, Executive Director of Corporate Services, and Jane Jones, Head of Human Resources.

Ms Baddeley addressed the Committee. She said she wished to state Curo's current position and update Members on the consultation process that had been undertaken in relation to the proposed exit. She said that Curo was a long-term business, which was under pressure from its own regulator to manage and reduce risk in its external environment. Curo needed to consider how it managed external risk, so that it could continue to deliver a viable business in future. Curo also wished to ensure equity between its employees, who at present were covered by several different pension schemes. About two thirds of employees were in the Group Pension scheme provided by Aviva. As part of the review of pensions provision by Curo advice had been taken from KPMG and Curo's solicitors. Advice had also been taken on consultations with employees. Discussions had taken place with Unison and Unite. Curo had a good relationship with the unions, who had worked closely with Curo on this proposal. Group presentations and one-to-one meetings had been available to employees. Representatives of the Avon Pension Fund and from Aviva had given presentations to employees. Email groups had been established and a set of FAQs had been issued. The Curo Board was determined that the alternative offer to employees through the Group Plan should be a good one. It was proposed that Curo's current contribution offer for all employees would be improved, and the upper level raised from 8% to 10%, with employees increasing their contributions from 4% to 5%. Curo was also offering to pay an additional 4% for the next two years to the affected staff. The Group Pension plan would be included in the flexible benefits offer, so that a salary sacrifice option would also be available. The unions would not advise their members to leave the Avon Pension Fund, but did feel that what was on



offer from Curo was very good. 75% of employees had accepted the offer unconditionally.

In reply to a question from a Member, she confirmed that consultations with employees were now complete. Those who had not consented to the new arrangements would be offered re-engagement on the new terms from 1<sup>st</sup> April 2015.

A Member asked whether the Pensions Benefits team had received enquiries from Curo staff as a result of these proposals. The Pensions Benefits Manager said that members of the team had met Curo staff as part of the consultation process, but he was not aware that the proposals had otherwise generated a higher level of enquiries from Curo staff.

A Member noted that Curo had not stated that their business would not be viable if they remained in the Fund, and asked how Curo was significantly different from other organisations who were not withdrawing from the Fund. After all, it was the aim of the new LGPS to cap employers' costs overall. As for the current inequity between employees, Curo had created that situation when it had decided in 2007 that new employees would not be able to join the Avon Pension Fund. Ms Baddeley said that she could not speak for other organisations. Curo's aim was to secure its financial security for the future, to find the best ways of managing external risk and to maximise its opportunities for investment in social housing, which required keeping costs under control.

The Chair drew attention to paragraph 4.4 of the report, which set out the Exit Policy agreed by the Committee at the meeting of 28 March 2014. He said it was not the role of the Committee to second guess the decisions of the management, but to consider the application from Curo in relation to the policy. He asked whether, having met Curo, officers were able to provide assurance that the policy was being complied with. The Head of Business, Finance and Pensions said that officers had been quite explicit about what was required in terms of consultation and that payment of the debt was required in full. The assets would be invested in corporate bonds following exit. Advice had also been taken from the Fund's actuary. Officers were able to assure the Committee that Curo was meeting the terms of the Exit Policy.

A Member asked whether any other member body was contemplating leaving the Fund. The Investment Manager replied that officers were not currently in discussions with other member bodies about their possible exit from the Fund on this basis.

The Investment Manager referred to section 5 of the report, and reminded Members that at the September meeting they had asked for advice on whether the existence of a payment plan could impact on the seniority of debt, and thereby affect the probability of repayment in the event of insolvency after the plan was agreed. Advice had been obtained from the Fund's solicitors and the Fund's actuary and was as set out in sections 5.2-5.4 of the report.

## **RESOLVED**

1. To agree that Curo has effectively managed the employment issues relating to their exit from the scheme, and that the proposal from Curo meets the terms of the Exit and Termination Policies, subject to the payment of the outstanding debt in full on exit.

2. To note the advice regarding the seniority of an admission body's pension debt once a deficit plan is agreed on exiting the scheme.

#### **40 REPORT ON INVESTMENT PANEL ACTIVITY**

The Investment Manager presented the report. The Panel had met once since the previous Committee meeting. There were no recommendations to the Committee. After the meeting, the Panel had met two of the Fund's investment managers. A clarification meeting on the appointment of a Diversified Growth Manager to replace Baring's had taken place on 5 December. It had been decided to appoint Standard Life.

**RESOLVED** to note:

1. The draft minutes of the Investment Panel meetings held on 21 November 2014.
2. The recommendations and decisions made by the Panel since the last quarterly activity report, as set out in 4.1.

#### **41 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 SEPTEMBER 2014**

The Investment Manager presented the report. A key point was that the funding level had fallen from 87% to 83% since June 2014 (compared with 78% at the March valuation), because bond yields had fallen, increasing the Fund's liabilities. Lower inflation was having a positive impact. The improvement in the funding level since March 2013 was mainly due to investment returns being above expectation, but also to the receipt of the lump sum deficit contributions from the Unitary Authorities in April. The one-year investment return was 9.4%. The performance against the Benchmark was +0.6%, with asset allocation contributing 0.8% to outperformance and currency hedging 0.5%. Manager performance had detracted 0.7% over the year, relative to the strategic benchmark. Two managers had been upgraded from amber to green as reported in Exempt Appendix 3. The Panel would meet Schroder Global Equity Manager, whose performance has caused concern and is being closely monitored, again in March. The performance of Partners is being clarified with WM to confirm whether WM are analysing the data correctly. JLT had confirmed that Partners internal rates of return are in line with expectations.

Mr Sheth commented on the market background and manager performance. There had been positive returns from most equity regions. There were continuing concerns about economic performance in the EU. The outstanding equity region in the last quarter had been the US. The strengthening of the US dollar against Sterling meant that the overall impact of currency hedging had been negative, because the majority of hedging was in US dollars. Gilts and corporate bonds had given positive returns. Inflation was below long-term trends and the price of oil had been falling. The fall in the oil price was explained by lack of demand, partly due to the availability of shale oil in the US, and by the fact that the producers had not responded by cutting supply. Recently there had been some uncertainty in markets, which had caused greater volatility. The aggregate manager performance chart (agenda page 57) showed that Signet and Schroder were below their targets. There had been a significant fall in

returns on longer-term (over 15 years) government bonds from 3% at the end of September to 2.5% the previous day.

A Member said that he did not think that a lower oil price would necessarily lead to a higher level of economic activity. Mr Sheth agreed that the oil price was also a reflection of weakness in the world economy.

The Chair noted that the fall in bond yields had a significant impact on the Fund and that the offsetting effect of low inflation was very small.

The Chair noted that he had received a letter from campaigners urging the Fund to disinvest from oil and gas. He had replied in terms similar to the previous reply to the Bristol City Council motion urging disinvestment from tobacco. He would make his reply available to any Member who requested it.

**RESOLVED** to note the information set out in the report.

#### 41.1 LOCAL AUTHORITY PENSION FUND FORUM ENGAGEMENT REPORT Q3 2014

The Investments Manager presented the report. She said that officers and councillors usually attended the LAPFF meeting and that in future a note from officers about each meeting of LAPFF would be included with this item.

The report covered the period July to September. Since then an issue had arisen in relation to the remuneration package for the incoming Chief Executive at British Gas. Because of investor feedback, British Gas had reconsidered and brought the package into line with their existing remuneration policy. This seemed to have satisfied most investors, but one of the Fund's managers had said that the way British Gas had dealt with this issue had not been good, which may influence their voting at the next AGM.

A Member asked about the palm oil issue (agenda page 86). He wondered whether LAPFF asked companies to observe higher standards than those of the jurisdictions in which they operated. The Investments Manager said she thought LAPFF would apply the standards applicable in the UK when considering the activities of companies in other countries. LAPFF requested a list of investments from each LA pension fund annually and based their activities on these companies.

The Vice-Chair noted that the Chinese press had referred to comments made by LAPFF, which clearly showed that attention was paid to its views.

**RESOLVED** to note the LAPFF Quarterly Engagement Report.

#### 42 PENSION FUND ADMINISTRATION

The Finance & Systems Manager (Pensions) presented the financial report. He said that the full-year budget forecast, excluding investment manager fees, was £61,000 below budget. This was partly due to the salary savings from the temporary partial secondment of the payroll manager to the Council's payroll section while they undertake a major project. Further forecast savings were due to the secondment of the Projects Officer to Bristol City Council to assist their payroll team on pensions issues. There had also been savings on communications arising from changes in the

methods of delivery. Investment managers' fees were forecast to be £410,000 under budget, mainly because the budget included the full year fees for the infrastructure mandate, the appointment for which was not made till late in the year. Cash flow was £60.5 million in excess of the forecast made in the 2013/14 service plan because of the lump sum deficit recovery payments covering up to three years received in April. The full year forecast is £40.9m over budget as the advance payments unwind during the year. The only late payer (Appendix 7) was Filton Town Council. This late payment followed a change of staff at the Town Council. They had been reminded of their obligation to pay by the legal deadline.

The Pensions Benefits Manager presented the performance report. He said that there had been an 86% increase in case workload compared with the previous period. Cases processed within agreed timescales had fallen marginally in the latest quarter as a result, but remained within target. The one area where performance had dropped was in the provision of transfer-out information. This was because of a change in internal procedure for issuing quotes, following the receipt of advice from HMRC about an increase in pension scams. Performance by employers was generally good, except for receipt of early leavers from Bristol City Council. Meetings had taken place with BCC, which identified issues of concern. A member of APF staff had been seconded to BCC to help with support and resolve problems.

The Chair noted that the four Unitary Authorities performance was not compared against the other employers in the Fund. The Pensions Manager confirmed that other medium-size employers could be reported as a collective whole for comparison.

The Pensions Benefits Manager reported that 81% of active membership in the Fund were now covered by electronic delivery of data from employers. The last outstanding unitary, South Gloucestershire, would be going live within the next few months. He commented on the CIPFA benchmarking data (paragraph 11.8 of the report). The Avon Pension Fund spent more on IT than the comparator group, but other funds would be increasing their IT spending in future. The costs of communication per member were reducing because of electronic delivery, but remained higher than the comparator group. He referred to the information about administration cost per member over the last five years given on agenda page 127, which showed that in general the Fund compared favourably with other LA pension funds.

A Member asked about the theoretical upper limit of electronic delivery. The Pensions Benefits Manager replied that 100% would be difficult to achieve, since smaller employers, such as Parish and Town Councils, might have only one or two members in the Fund, and delivery of information would probably only be necessary when an employee left. He hoped that 85-90% could be achieved.

The Vice-Chair noted that the cost of communications per member was not higher than that of other funds, but that the cost per employer was significantly higher. He wondered whether this was because of the number of employers in the Fund, or whether there were other drivers of cost that should be reviewed. Officers thought that this might be due to the provision of pension clinics. The Pensions Benefits Manager said that had been an increase in employer contact in the last three years. However, he thought a better breakdown of employer costs was required. The Chair felt that a higher level of communication costs would be justified, if it resulted in lower

costs in other areas. The Pensions Benefits Manager thought that the higher level of contact was improving employer performance.

Members noted that overheads outside of the control of Pensions administration, i.e. those due to Bath and North East Somerset Council, appeared to be relatively high.

**RESOLVED** to note:

1. Administration and management expenditure for 7 months to 31 October 2014.
2. Performance indicators and customer satisfaction feedback for 3 months to 30 September 2014.
3. Summary performance report for period 1 April 2011 to 30 September 2014.
4. The Risk Register.

#### **43 VERBAL UPDATE OF CURRENT POSITION OF FORTHCOMING REGULATIONS AND CODES OF PRACTICE AFFECTING LGPS**

The Investments Manager updated Members.

##### Pensions Board

The final Regulations were currently expected to be issued in January 2015. The latest draft regulations allowed councillors, other than those already involved in pensions administration, to be members of a Pensions Board. The Pensions Advisory Board had issued draft guidance, which did not fully clarify a number of issues, probably because they were issues on which employers and the unions were still not in agreement. Local Pensions Boards have to be established by 1<sup>st</sup> April 2015 and hold their first meeting by 31<sup>st</sup> July 2015. The draft terms of reference and constitution of the Avon Pension Board will be considered by B&NES Council at its January meeting, after which the appointment process will begin. The establishment of the Board is being managed by B&NES' Strategic Director of Resources.

A Member asked whether the unions could be given a copy of the papers that will be going to B&NES Council, since it was a legitimate matter of interest for them as there would be union representatives on the Board. The Head of Business, Finance and Pensions said that it was up to the Strategic Director of Resources whether the papers could be provided to the unions. The regulations allowed some flexibility in the way Pensions Boards were constituted and he understood that funds were taking different approaches to employee representation; some might not involve the unions. The Chair suggested that the unions write to the Strategic Director of Resources requesting the papers. The Vice-Chair suggested that the unions could also register to make a statement at the January Council meeting.

##### LGPS Investment Arrangements

Nothing had been heard about collective investment vehicles (CIVs). The latest information was that the DCLG was not in favour of compulsory use of CIVs. The

decision rested with the Cabinet Office, and no decisions were expected before the General Election.

### Budget Changes

The Budget allows increased flexibility for employees to transfer their pension pots. Advice from the Government Actuary was awaited as to how this would happen in LGPS. There would be guidance on pension fund members having to take appropriate advice about transferring their pensions. The Fund would have to make a judgment about whether a member requesting a transfer had received advice from an approved body, but there is still uncertainty as to the Fund's responsibility as to whether the member received correct advice or not.

The Vice-Chair said he was concerned about how the Fund would be able to judge whether advice provided to members in such circumstances was independent and sound. There was a possibility that more vulnerable employees could be the victims of less scrupulous advisors. The Investments Manager said the requirement would actually not specify "advice", but that certain bodies would be authorised to provide this "guidance". The government has appointed a number of organisations, including the CABx, to provide pensions guidance. Kite marks will be issued to bodies approved to issue pensions guidance. If approved guidance had not been obtained, the Fund would not be able to allow the transfer. The Chair asked for a report to be made to the Committee proposing a procedure that the Fund would follow in such cases.

### Amendments to LGPS 2014

The Pensions Benefits Manager reported that the DCLG had recently issued draft regulations tidying up details of the LGPS 2014. The Fund would be responding. The Code of Practice from the Pensions Regulator was still awaited.

**RESOLVED** to note the update.

## **44 WORKPLANS**

**RESOLVED** to note the workplans.

The meeting ended at 3.38 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>27 MARCH 2015</b>	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>AUDIT PLAN FOR THE YEAR ENDING 31 MARCH 2015</b>	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Appendix 1 Audit Plan</b>		

**1. THE ISSUE**

1.1. The Pension Fund Audit Plan, attached as **Appendix 1** was prepared by the external auditors Grant Thornton.

1.2. A representative of the audit team will be present to answer any questions regarding the plan at the meeting.

**2. RECOMMENDATION**

**That the Committee notes**

**2.1 The Audit Plan for the accounts for the year ended 31 March 2015.**

### **3. FINANCIAL IMPLICATIONS**

3.1. The financial implications of the audit report are primarily related to the fees for the external audit.

### **5. AUDIT PLAN**

5.1 The audit plan sets out the work which Grant Thornton intend to carry out for the 2014/15 audit of the Pension Fund accounts. The Plan is compiled from a risk based approach to audit planning and the document sets out the key risks which may potentially impact on the auditors work and the dates for its completion.

5.2 The indicative fee for the 2014/15 audit is £30,116. The indicative rate for the 2013/14 audit was £30,116 but was partly offset by a rebate from the Audit Commission of £3,285.

### **6. RISK MANAGEMENT**

6.1 The external audit is concerned with identifying the most significant risks associated with the management of the Pension Fund and assessing the effectiveness of how those risks are being managed.

### **7. EQUALITIES**

7.1 An equalities impact assessment is not necessary.

### **8. CONSULTATION**

8.1 N/a

### **9. ISSUES TO CONSIDER IN REACHING THE DECISION**

9.1 Are contained in the report.

### **10. ADVICE SOUGHT**

10.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Martin Phillips Finance & Systems Manager (Pensions) Tel: 01225 395369.
<b>Background papers</b>	Various Accounting Records
<b>Please contact the report author if you need to access this report in an alternative format</b>	





# The Audit Plan for Avon Pension Fund

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

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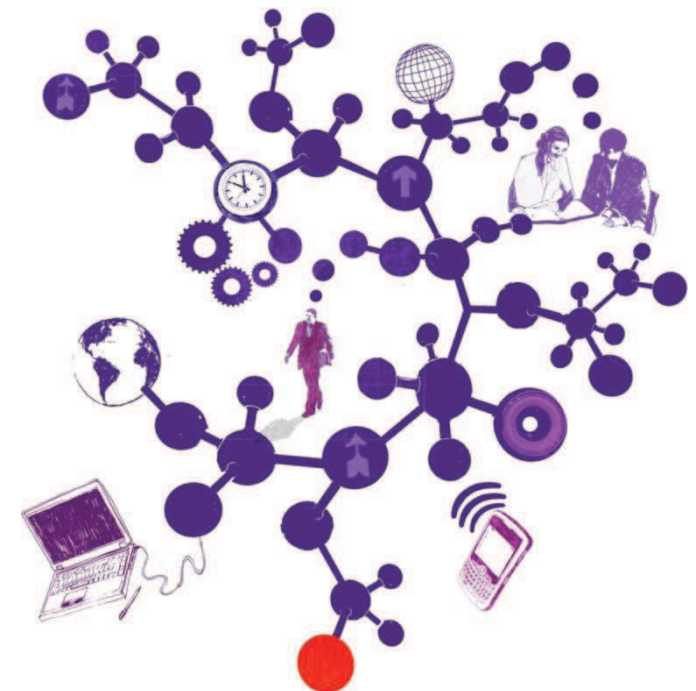
**Year ended 31 March 2015**

12 Feb 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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## **Section**

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. Significant risks identified
5. Other risks
6. Results of interim work
7. Key dates
8. Fees and independence
9. Communication of audit matters with those charged with governance

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. New governance arrangements

- The new governance regulations have introduced further changes for LGPS which take effect from April 2015. These introduce a Local Pension Board for each fund. These Boards will work with the administering authority to help ensure compliance and effective governance of the scheme. In addition the regulations also establish a National Scheme Advisory Board and a funding cap.
- There is a potential for overlap for many schemes between existing Pension Committees and the new Local Pension Boards, with a real challenge for administering authorities to meet the statutory requirements, but in a way which delivers visible improvements in the governance of the funds.

### 2. Pensions Regulator

- The Public Services Pension Act also provides for the extension of the work of The Pensions Regulator to the LGPS from 1 April 2015.
- The Fund will need to monitor compliance with requirements set by the regulator.

### 3. Future structural reform

- In May 2014 DCLG consulted on the opportunities for collaboration, cost savings and efficiencies in the management of LGPS funds. While the outcome of this is still awaited there is clearly a growing momentum for structural change.
- In the meantime the growing use of shared arrangements is delivering real benefits to funds through reduced costs, increasing access to relevant expertise and improved quality.

### 4. Local government outsourcing

- We must consider the effect on the LGPS fund from the growth in the number of academy schools and the outsourcing of functions by existing member bodies as a more cost effective way to provide services.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.



## Our response

- We will continue our on-going dialogue with officers around their governance arrangements, identifying potential risks to the Pension Fund and ensuring they are properly managed.
- We will share good practice that is emerging with officers.

- We will share our experience of working with The Pensions Regulator.
- We will discuss with officers any changes that have been made to existing practices for the fund to demonstrate compliance.

- We will share good practice in reducing administration costs through collaboration or other initiatives.
- We will discuss any proposals for structural change and their impact on the Pension Fund with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the Pension Fund.

# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

## Developments and other requirements

### 1. LGPS 2014

- During 2013/14 funds have implemented LGPS 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

### 2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2015, however the Pension Fund needs to ensure on-going compliance with the Code .

### 3. Financial Pressures

- Managing pensions administration where contributing bodies are offering early retirement and redundancies place additional workload on the staff administering pension fund in dealing with severance arrangements.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets.

### 4. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

## Our response

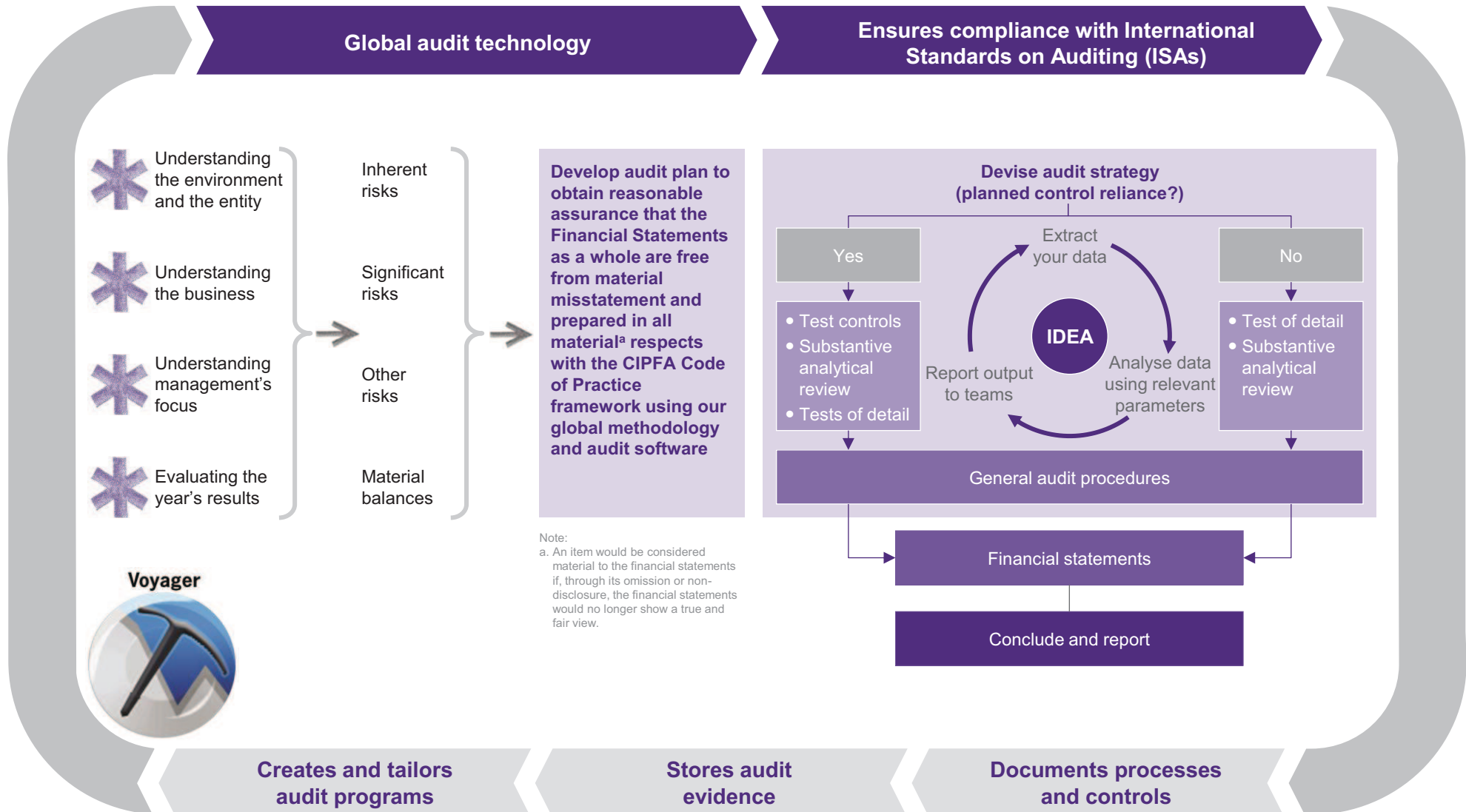
- We will consider changes made to the pensions administration control environment in response to LGPS data requirements.

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.
- Any items which require discussion will be identified and taken to officers for response during the course of our audit.

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will undertake on-going discussions with officers throughout the course of our audit to reflect the CIPFA guidance.
- We will discuss with officers any planned changes to the financial statements in response to this guidance.

# Our audit approach



# Significant risks identified

'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 outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Avon Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Bath &amp; North East Somerset Council who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Testing of journal entries</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Review of unusual significant transactions</li> </ul>
Level 3 Investments – Valuation is incorrect	<p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgmental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Request to management to obtain audited accounts at latest date for individual investments.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• For a sample of investments, test valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31<sup>st</sup> March with reference to known movements in the intervening period.</li> <li>• To review the nature and basis of estimated values.</li> </ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	<p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances.</li> <li>We will test a sample of sales and disposals during the year back to detailed information provided by the custodian and fund managers.</li> </ul>
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances.</li> <li>We will select a sample of the individual investments held by the Scheme at the year end and then test the valuation of the sample by 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). The existence of investments will be confirmed directly with independent custodians or by agreement to legal documentation.</li> </ul>



## Other risks identified continued

Other risks	Description	Audit Approach
Member Data	Member data not correct. (Rights and Obligations)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Understanding the controls surrounding member data and quality of data in preparation for walkthrough.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Sample testing of changes to member data made during the year to source documentation</li> </ul>
Contributions	Recorded contributions not correct (Occurrence)	<p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Test a sample of contributions to source data to gain assurance over their accuracy and occurrence.</li> <li>Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</li> </ul>
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Test a sample of individual pensions in payment by reference to member files.</li> <li>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> </ul>

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

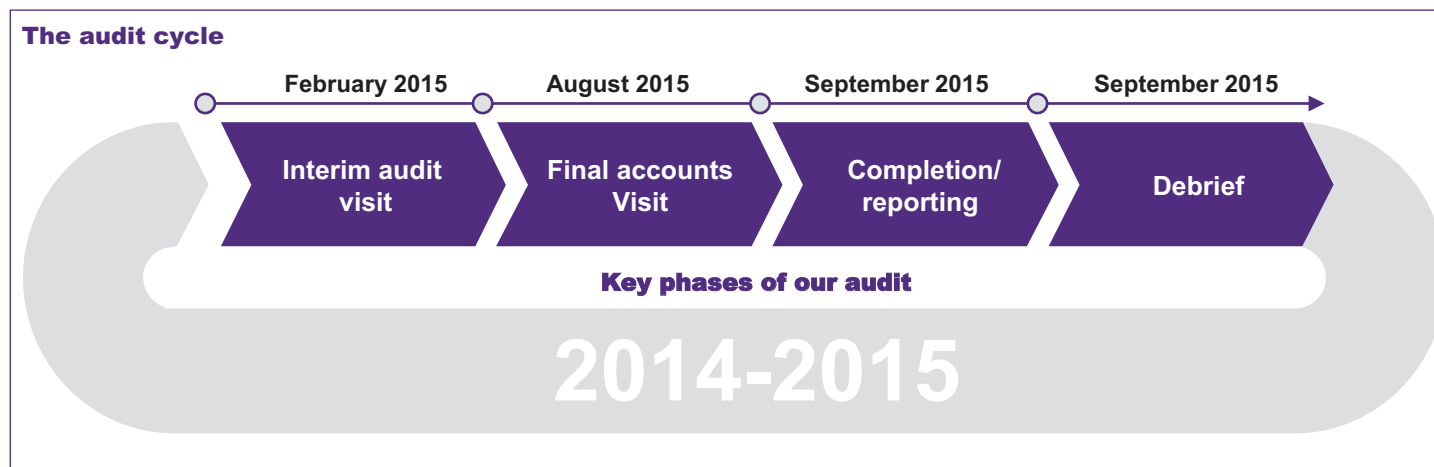
	Work performed and findings	Conclusion
<b>Internal audit</b>	<p>We have reviewed internal audit's overall arrangements against the Public Sector Internal Audit Standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Fund's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Fund and that internal audit work contributes to an effective internal control environment at the Administering Authority.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements</p>

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## Results of interim audit work cont'd

	<b>Work performed</b>	<b>Conclusion</b>
<b>Journal entry controls</b>	<p>We have reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.</p> <p>We are currently undertaking detailed testing on journal transactions recorded for the first ten months of the financial year, by extracting 'unusual' entries for further review.</p>	<p>At the final accounts stage we will test journals for the remaining part of the year and year-end controls.</p>

# Key dates



Date	Activity
February 2015	Planning
February 2015	Interim site visit
March 2015	Presentation of audit plan to Audit Committee
August 2015	Year end fieldwork
September 2015	Report audit findings to those charged with governance (Audit Committee/Pensions Committee)
September 2015	Sign financial statements opinion

# Fees and independence

## Fees

	£
Pension Fund Scale Fee	30,116
<b>Total fees (excluding VAT)</b>	<b>30,116</b>

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, the Fund, and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations

## Fees for other services

Service	Fees £
None	Nil

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### 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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

# Communication of audit matters with 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

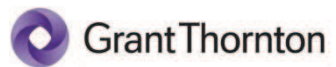
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council'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 Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council 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 Council 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 issue 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		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>27 March 2015</b>	AGENDA ITEM NUMBER <b>9</b>
TITLE:	<b>LGPS Update: Regulations, Consultations and Codes of Practice</b>	
WARD:	<b>ALL</b>	
<b>AN OPEN PUBLIC ITEM</b>		
<p>List of attachments to this report:</p> <p>Appendix 1 – Update LGPS: Regulations and Guidance</p> <p>Appendix 2 – Consultation: Technical Amendment Regulations: Response Letter</p>		

## **1 THE ISSUES**

- 1.1 The purpose of this report is to update the Committee on the latest position concerning the new Local Government Pension Scheme [LGPS]
- 1.2 Whilst the new scheme is operational there are several areas with implications for the LGPS and the way its administration is carried out. Some of these are as a direct result of the Public Sector Pensions Act 2013. Others are external matters that will impact on the Scheme.
- 1.3 In December 2014, DCLG issued a consultation on technical amendments required as a result of inconsistencies within the initial regulations for the LGPS 2014. A response from Avon Pension Fund on this consultation was made in January 2015.

## **2 RECOMMENDATION**

**That the Committee:**

- 2.1 Notes the current position regarding certain matters that have implications for the LGPS**
- 2.2 Notes that some of the issues in this report do have implications for the administration of the Scheme which has been reflected in the Service Plan and Budget.**
- 2.3 Notes the information regarding the consultation**

### 3 FINANCIAL IMPLICATIONS

- 3.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates
- 3.2 The specific areas within this report have been assessed and any impact concerning the administration of the Scheme has been considered and incorporated within the Service Plan and Budget.

### 4 LGPS 2014: Other Regulations and Guidance

- 4.1 Whilst the LGPS benefit regulations were completed, outside overriding legislation has or will affect the LGPS and how we administer the regulations
- 4.2 Some areas are covered separately in this Committee but others have not fully shown their impact on the Scheme.
- 4.3 Appendix 1 sets out a summary of following areas which have important implications for the LGPS going forward :-

<b>Areas with implications for LGPS Administration</b>	<b>Section in Appendix 1</b>	<b>Implications</b>
Public Service Pension Act 2013 [PSPA ] The Pension Regulator Code of Practice	Part A	Change in Administration practices
DCLG: Consultation on Best Value [Local Government equivalent to Fair Deal]	Part B	Change in application of Pensions for outsourced Scheme members
Budget 2014: Flexibility for Pensions Taxation of Pensions Act 2014 Pension Scheme Act 2015	Part C	Potential increases in transferring benefits and Fund implications
Abolition of Contracted-Out Employment in April 2016	Part D	Records must be reconciled to prevent incorrect payments as no HMRC backup as now

### 5 LGPS 2014: Technical Regulations Consultation

- 5.1 DCLG issued a consultation on some technical amendments required either to correct a reference error or to provide greater clarity. Views were also sought on a couple of other regulatory matters
- 5.2 A copy of the response sent is included as Appendix 2

### 6 RISK MANAGEMENT

- 6.1 No specific issues to consider.

### 7 EQUALITIES

- 7.1 None as this report is primarily for information only.

## 8 CONSULTATION

8.1 This report is primarily for information and therefore consultation is not necessary.

## 9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

## 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.

<b>Contact person</b>	Alan South Technical Manager (Tel: 01225 395283)
<b>Background papers</b>	<i>Regulations and accompanying notes; Public Sector Pensions Act 2013 The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014  TPR Code of Practice  Taxation of Pensions Act 2014 Pensions Scheme Act 2015</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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<b>A</b>	<b>Public Service Pension Act 2013 [PSPA] The Pension Regulator Guidance</b>
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The PSPA laid down the provisions regarding governance and administration within the Public Sector Pension Schemes this included an extended regulatory oversight is to be provided by the Pension Regulator [TPR].

### **The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014**

This is the secondary legislation outlining the requirements on certain matters such as

Records of member and beneficiary information that schemes will need to keep on individuals. Information relating to the rights that each member has to different types of pension benefits in these schemes.

Records of transactions that must be kept in order to account for the finances of these schemes. This includes the following

- Employers and Member Contributions
- Payments of pensions and benefits
- Receipt or payment of money or assets in respect of transfer of members into or out of the scheme
- Payments made to employers participating in the scheme

Records that must be kept in respect of meetings of and decisions made by, each pension board and any committees or sub-committee of that board

### **The Pensions Regulator: Code of Practice No.14 Governance and administration of public service pension schemes.**

In conjunction with this legislation, on 12 January 2015, TPR issued their Code of Practice No 14. This code enables the TPR to meet its statutory objectives by providing practical guidance in relation to the exercise of functions under relevant pension legislation and sets out the standards of conduct and practice expected from those who exercise those functions. This Code of Practice is operative from 1 April 2015 [SI 2015/456]

<b>Governing your scheme</b>	Knowledge and understanding required by pension board members Conflicts of interest and representation, and Publishing information about schemes
<b>Managing risks</b>	Internal controls
<b>Administration</b>	Scheme record-keeping Maintaining contributions Providing information to members
<b>Resolving issues</b>	Internal disputes resolution, and Reporting breaches of the law

<b>B</b>	<b>DCLG: Consultation on Best Value</b>
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Initially the Hutton Report indicated that contractors should not be allowed to participate in public sector pension schemes. However Lord Hutton did subsequently change his views and as a result in December 2011 the Heads of Agreement for the new public sector pension schemes allowed for members being subjected to an outsourced contract be allowed to remain in their existing pension arrangement.

This option could not be included in the original LGPS 2014 regulations as the PPA2013 is not operative until 1 April 2015.

The other public sector schemes all have their new schemes effective from this date and the Government has also issued guidance on the Fair Deal arrangements connected with this.

The LGPS is subject to DCLG guidance on Best Value and a consultation document on this, similar to the Best Value guidance, has been expected over the past year but has yet to appear. It is expected that regulation changes will be made to reflect this guidance. It is unlikely that a consultation will be released before the General Election in May 2015.

Some educational employers within the LGPS, such as Academies, are subject to Fair Deal but until the LGPS regulations have been amended the GAD advice has been to continue the current process on TUPE transfers which allows the new contractor to either apply to become an admission body within the APF or to provide a broadly comparable pension scheme as certified by the Government Actuary.

<b>C</b>	<b>Budget 2014: Flexibility for Pensions Taxation of Pensions Act 2014 and Pension Scheme Act 2015</b>
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These are primary legislation that set out the changes outlined in last year's budget allowing greater flexibility for individuals in defined contribution schemes LGPS members will have to transfer to such a scheme to avail themselves of this flexibility.

The Taxation of Pensions Act 2014 received its royal assent on 17 December 2014, and the Pension Scheme Act 2015 not until 3 March 2015 after a number of amendments made by the Lords had to be debated in the commons.

Full details of the effect on the LGPS are still unknown. It has however been confirmed that although all other public sector schemes will be prevented from transferring to a Contribution Defined Scheme, the LGPS will still have that provision. A Scheme Member wishing to transfer will be required, at their own expense, to have received suitable advice from an independent financial advisor. They can still transfer even if that is contrary to the advice!

Funds can delay a transfer up to a year whilst considering whether there is a need to reduce the transfer amount because of funding issues. The funding position taken will be at Fund level not employer level.

<b>D</b>	<b>Abolition of Contracting-out in 2016 Guaranteed Minimum Pension Reconciliation</b>
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As the LGPS is a contracted-out pension scheme Avon Pension Fund has incurred obligations as to certain pension provisions connected with the State Second Pension. From April 1978 to March 1997 pensions paid had to cover the equivalent pension that the member would have accrued if they had been receiving the State Second Pension. This pension is known as the Guaranteed Minimum Pension [GMP]. APF is also responsible for certain elements with regards to pension increases on this element.

With the introduction of the Single State Pension in April 2016, contracted-out status will cease. HMRC will phase out its contracted-out section by April 2018. Following the end of contracting out in April 2016, HMRC will be sending a statement to all individuals affected stating the amount of GMP they will receive and who is responsible for paying it. Ahead of this, schemes should reconcile the GMP values they hold for members with those calculated by HMRC or face making overpayments to existing members and even individuals for whom they believe they have no liability.

Until 2018 schemes will be able to challenge the figures where they believe discrepancies are the result of errors on HMRC's part, but past this point no further challenges will be accepted. With exercises frequently taking up to three years to complete, this gives schemes a limited window to make sure their own records tally with HMRC's

APF have registered with HMRC for them to provide a list of all members that they have on their records as belonging to us. This list will then be compared with our records to ensure that all GMP liabilities are correct. From April 2018 there will be nowhere to challenge any GMP going forward. In the past notifications have been received from HMRC that refer to other employers such as members of the Teachers' Pension Scheme so it is important that our records match with HMRC so that no unnecessary liabilities remain.

Errors in GMP values can lead to potentially significant pension overpayments. Based on findings from the National Audit Office's enquiry into five public sector schemes, it has been estimated that the total overpayment on existing deferred and pensioner members within a small pension fund could be around £550,000. The initial reconciliation will cover deferred and pensioners with HMRC supplying information for active members in 2017.

The project will need to

- Identify the member records affected, including those records where the fund and HMRC differ over responsibility for the liability.
- Assess impact of varying the matching tolerance.
- Reconcile member data, including service, held by the fund to records provided by HMRC.
- Calculate any GMP liability that is not currently held on the record, e.g. at date of death where applicable.
- Update records that match or are within a given tolerance.
- Accelerate the investigation process by indicating likely causes of any mismatch

The actual size of this project will be unknown until the HMRC list is received and compared but other LGPS administrators are allocating resources for the next two years, some are creating temporary posts. There are several companies willing to provide assistance but it is doubtful whether the costs involved would be justified as it would appear that whilst the initial population check would be done the work on specific reconciliations of amounts would either still require in house input or costs would be high.

Heywoods our administration software provider is offering a possible solution on a cost per member basis.

Discussions are in progress with HMRC regarding our list of the records and once this list is received we will be able to assess the overall task involved along with the potential costs involved.

Taking a worst case scenario for the first phase [deferred pensioners and pensioners] by using the Heywood package and additional resources, the additional cost over the next two would be around £80,000. The additional resources in the first year 2015/16 have been estimated at around £34,000.

Provision for this has been included within the Service Plan and Budget.



Robert Ellis  
Department of Communities and Local Government  
Workforce Pay and Pensions  
2<sup>nd</sup> Floor  
Fry Building  
2 Marcham Street  
London SW1P 4DF

Ask for: Alan South  
Telephone: 01225 395283  
Email: alan\_south@bathnes.gov.uk  
Our ref.: Pens/AGS  
Date: 30 January 2015

Dear Robert

**Draft LGPS (Amendment) Regulations 2015  
Avon Pension Fund submission on the consultation**

The Avon Pension Fund [APF] has considered these draft regulations from a technical and administrative viewpoint and this letter sets out our formal response to the proposals set out in the consultation.

Whilst many of the changes proposed deal with small operational changes and wording issues which have been covered by LGA in their excellent response and which we endorse, there are several of the issues that require a more direct response from this authority.

Our comments for these issues are set out in Annex A

It is essential that if any amendments are made they improve the administration and understanding of the LGPS not just for the funds and employers but also the scheme members.

Yours sincerely

Alan South  
Technical and Compliance Manager  
Avon Pension Fund

## Avon Pension Fund Response to Consultation

## Annex A

Draft Regs	Subject	Comment
7	<p><b>Additional Pension Contributions</b> Extending the 30 day period to elect to pay APC following break</p>	<p>This authority supports this amendment as it is essential to allow scheme employers some flexibility to prevent them having to do numerous calculations and adjustments over a short period</p> <p>There may be some logic in adding this discretion into the employers discretion policy so as to set out how an employer will operate any extension and ensuring that cases are not overlooked. Alternatively employers could be regulated to review all such cases once a year.</p>
11	<p><b>Automatic aggregation</b> Either update record immediately, or Wait 12 months and then action <b>This authority totally supports any considerations to revert back to 2008 regulations of benefits being kept separate unless members opt to transfer within first 12 months.</b></p>	<p>Whilst the recent letter from DCLG to LGA on final salary link was well received it is only part of the transfer problem.</p> <p>The automatic aggregation of service with 12 month option is causing serious administrative problems at a time when the Pensions Regulator is becoming more involved in the quality of information held on records.</p> <p>If acted on immediately then if the member subsequently elects for separate benefits the record has to be unpicked. Whereas wait until the 12 month period has elapsed and there are issues of records not being accurate for calculations [annual allowance / redundancy ]</p> <p>There are disagreements between funds operating differently</p>

Draft Regs	Subject	Comment
32	<p><b>Employer contribution and no active contributing members</b></p> <p><b>Arrangements for exit payments</b></p> <p>Regulation 64 states:-</p> <p>“If a person –</p> <p>(a) ceases to be a Scheme employer (including ceasing to be an admission body participating in the Scheme), or</p> <p>(b) was a Scheme employer, but no longer has an active member contributing to a fund, that person becomes “an exiting employer” for the purposes of this regulation and is liable to pay an exit payment”.</p> <p><b>If we are not to ignore the Regulations, we need this particular regulation amended. One way to achieve this would be to have a proviso attached to the regulation, as long as we could be sure that the proviso covered all</b></p>	<p>With regards to exit payments the regulations must ensure that funds recover any unmet pension liabilities. There must however be some discretion for the administering authority. A town or parish council may have resolved for employees to be eligible to be in the LGPS. However if all eligible employees opt out the employer could fall under this proposed amendment and be subject to an exit payment although active membership could occur at any time. The definition of “Scheme employer” means a body listed in Schedule 2 employing an employee who is eligible to be a member and includes an admission body;</p> <p>There is definitely scope here for Administering authorities to manage such situations without having to impose an immediate exit payment</p> <p>Admitted bodies throw up a different type of problem. If an admission agreement is open, it is clearly possible to have periods where there are no members in the LGPS. In these circumstances the admission agreement should remain open. In the case of transferee admission agreements where best value authorities are involved which are not open, it may be necessary to keep the admission agreement open to allow for transferees who are not members of the LGPS at the date of transfer to join the scheme at any point before the contract ends.</p> <p>Any change to the regulations that simplify entities controlled or connected with a Part 1 of Schedule 2 employer would be supported and it would certainly assist if such bodies were listed in Part 1 of Schedule 2.</p>

	the circumstances where you wouldn't want a final valuation
<p><b>N.B.</b> With the increasing number of contract arrangements that Scheme Employers set up and participate in it is essential that the regulations regarding Part 2 Schedule 2 bodies and Admission bodies are fit for purpose. The regulations should be clear from the outset which regulation covers the arrangement and specifically set out from the start who if the body ceases to exist pays any pension liability. This issue was raised when the 2014 scheme was introduced but there is still uncertainty and a review on this whole issue would be most welcome if not with these amendments then in conjunction with DCLG guidance for Best Value due out later this year</p>	
<b>Issues not covered by Draft Regulations For Comments</b>	
<b>Para.</b>	<b>Subject</b>
<p>25</p>	<p><b>AVC: transfer of rights accrued</b></p> <p>To provide protection where member transfers to another LGPS by allowing new fund to continue with existing AVC provider</p> <p><b>APF would support any move to protect position of member on a compulsory transfer but would prefer any protection being covered by a protected rights basis rather than setting up individual AVC arrangements</b></p> <p><b>This concurs with the last paragraph of the LGA response.</b></p>
<p>27</p>	<p><b>Final Salary Link</b></p> <p>DCLG letter to LGA has nullified this issue</p>
	<p><b>Comments</b></p> <p>The response as to whether this is feasible will differ from fund to fund. Most funds use one particular AVC provider and it would therefore be easier to facilitate such an arrangement. However the AVC provider for the Avon Pension Fund, only has one LGPS client and therefore the fund would be required to set up such an arrangement more times than not.</p> <p>Support would be given if there was some way the AVC protections could be continued even if the AVC provider changed. This should only be allowable if the transfer to the new fund was as a result of a compulsory transfer of employment. Where the individual has chosen to transfer themselves then the AVC position is no different to any other consideration when changing employment voluntarily.</p>
	<p><b>However, as stated above under Reg 11, this is only part of the current problem and it is important to stress the importance of reviewing the position of aggregation and to streamline the process so that all stakeholders can operate together with some certainty.</b></p>

<b>Bath &amp; North East Somerset Council</b>			
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	AGENDA ITEM NUMBER	<b>10</b>
MEETING DATE:	<b>27 MARCH 2015</b>		
TITLE:	<b>PENSIONS ADMINISTRATION STRATEGY</b>		
WARD:	'ALL'		
<b>AN OPEN PUBLIC ITEM</b>			
<b>List of attachments to this report:</b>			
<b>Appendix 1 - Draft Pensions Administration Strategy</b>			
<b>Annex 1</b>	<b>Legislative Framework</b>		
<b>Annex 2</b>	<b>Communications Policy Statement</b>		
<b>Annex 3</b>	<b>ICT Strategy</b>		
<b>Annex 4</b>	<b>Performance Standards</b>		
<b>Annex 5</b>	<b>Customer Service Charter</b>		
<b>Annex 6</b>	<b>Schedule of Additional Admin Charges</b>		

## **1 THE ISSUE**

The Avon Pension Fund (“the Fund”) has revised its 2011 Administration Strategy to include a more detailed ICT Strategy and also to ensure the Governance and administration requirements of the Pension Regulator are properly addressed as they fall to the Fund and Employers.

The Strategy will need to be formally consulted upon with Employers as required by the Regulations and it is proposed to do this in the first quarter of the 2015 financial year. The Committee is asked to approve the Strategy to become effective from June 2015.

### **RECOMMENDATION**

- 1.1 That the Committee approves the following:-
- 1.2 The draft Communications Policy Statement
- 1.3 The draft ICT Strategy
- 1.4 The draft Performance Standards
- 1.5 The draft Customer Service Charter
- 1.6 The draft Schedule of Additional Admin Charges
- 1.7 That the Committee approves the draft Pensions Administration Strategy and annexes for the Avon Pension Fund for consultation with Employers
- 1.8 The Committee delegates responsibility for responding to the consultation responses to Officers to enable effective implementation of the Strategy from 1<sup>st</sup> June 2015

## 2. FINANCIAL IMPLICATIONS

- 2.1 Employers who participate in the Avon Pension Fund are charged for the cost of administration of the Fund by an allowance of 0.4% in their pension contribution rate. This is a flat-rate amount and takes no account of the amount of administration work necessary for each Employer which is impacted upon its level of performance. The Strategy will allow the Fund to make an additional monetary charge to Employers to cover its costs where the amount of administrative work carried out is disproportionate to other employers.
- 2.2 Any statutory fine levied on the Fund for a breach of its responsibilities which is a direct result of poor administration by an Employer will be passed on to that Employer.

## 3. THE ISSUE: THE REVISED PENSIONS ADMINISTRATION STRATEGY DOCUMENT

- 3.1 The purpose of the revised Administration Strategy is to continue progress towards a seamless pension service, employing appropriate technology and best practice which both significantly improve the quality of information and the speed with which it is processed, to provide better information for Employers and stakeholders and a more efficient service to Fund members.
- 3.2 The Strategy recognises that significant work will need to be undertaken in achieving the Pension Regulator's compliance requirements and both the Fund and its Employers will need to work in partnership to meet this challenge.
- 3.3 A consultation process will be undertaken with Employer's over the next two months inviting comments on the draft Strategy. It is recommended that officers determine any subsequently amendments and report any changes to the Committee at its next meeting in June 2015.
- 3.5 Key to the success of the Strategy are the IT Strategy proposals which will deliver high quality, efficient and integrated digital services to employers and members in an increasingly regulated and financially complex environment. In addition, significant development to the website will broaden service access across a range of social media applications and devices.
- 3.6 Performance targets for both Employers and the Fund reflecting the Pensions Regulator's requirements will be set out in revised Service Level Agreements and agreed with Employers. Performance reporting will be revised and continue to be discussed with Employers at regular Performance / SLA review meetings and similarly reported to this Committee.
- 3.7 Poor performance by an employer would be flagged up by these reports and the Review meetings will enable Employers and the Fund to work together to resolve any problem areas and to improve performance. Where the Fund identifies poor quality or missing data it will put a data improvement plan in place to address these issues.
- 3.8 If however poor performance continues the Fund, under legislation, has the opportunity to charge an Employer additional costs, if the work carried out for it is disproportionate to that for other Fund Employers. This will be used only as a last resort following an Employer's *continuing failure* to improve. Also If the Fund is *fined* for any breach of its legal responsibilities which is as a direct result of an employer's poor performance (e.g.

not providing information or providing incorrect information) the Fund has the power to and does intend to pass on any such fine to the Employer concerned.

3.9 The Committee is asked to approve the revised Pension Administration Strategy which will then be consulted on with Fund Employers in April 2015 to become effective from 1<sup>st</sup> June 2015.

#### **4 RISK MANAGEMENT**

4.1 This report contains only recommendations to note - no risk assessment is therefore necessary.

#### **5 EQUALITIES**

5.1 No equalities impact assessment is required.

#### **6 CONSULTATION**

6.1 Consultation has taken place with all Fund Employers as described in this report.

#### **7 ISSUES TO CONSIDER IN REACHING THE DECISION**

7.1 The issues to consider are contained in the report.

#### **8 ADVICE SOUGHT**

8.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

<b>Contact person</b>	Geoff Cleak, Acting Pensions Manager Tel: 01225 395254

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## **Avon Pension Fund**

# **Administration Strategy Statement 2015**

Prepared XX XXXXXXXX 2015

# Administration Strategy Statement 2015

## Contents

Introduction

1. Aims
  2. Legislative Framework
  3. Key Objectives for the Fund and Scheme Employers
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- Annex 3 ICT Strategy
- Annex 4 Performance Standards
- Annex 5 Customer Service Charter
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# **Pensions Administration Strategy Statement 2015**

## **INTRODUCTION**

The 1<sup>st</sup> April 2015 represents a key milestone in the governance arrangements of Local Government Pension Scheme's. From this date the Pensions Regulator takes responsibility for setting standards of administration and governance on all administrative aspects of the scheme, whilst newly established Local Pensions Boards will play an independent scrutiny role to 'assist' the Fund with its 'regulatory compliance, effective and efficient administration and governance'.

The Local Government Pension Scheme (LGPS) Regulations 2013 allows Pension Fund Administering Authorities to prepare a Pensions Administration Strategy ("the Strategy") for the sole purpose of improving the administrative processes within their LGPS Fund. These regulations are quite specific regarding the disclosure of information and performance statistics as part of this process but provide less guidance in terms of strategy.

The Avon Pension Fund ("the Fund") has revised its 2011 Strategy Statement to ensure the Governance and administration requirements of the Pension Regulator are properly addressed as they fall to the Fund and Employers.

### **1. AIMS**

The aim of this Strategy is to continue progress towards a seamless, automated pension service, employing appropriate technology and best practice which both significantly improves the quality of information overall and the speed with which it is processed to provide better information for Employers and stakeholders and a more efficient service to members. The Strategy recognises that significant work will need to be undertaken in achieving the Pension Regulator's compliance requirements and both the Fund and its Employers will need to work in partnership to meet this challenge.

### **2. LEGISLATIVE FRAMEWORK**

The Fund and its Employers must have regard to this Strategy when carrying out their Scheme functions. The Strategy is made in accordance with Regulation 59 of LGPS Regulations 2013 which allows administering authorities to prepare a Pension Administration Strategy following consultation with its Employers to facilitate best practices and efficient customer service in respect of the following:

- the establishment of levels of performance which the administering authority and its Employers are expected to achieve in carrying out their Scheme functions
- ensuring the Fund and its Employers comply with statutory requirements in respect of those functions

- improving the communication between the administering authority and its Employers of information relating to those functions.

The Strategy can also set out circumstances in which the Fund may consider giving written notice to any of its Employers under regulation 70 for additional costs on account of that Employer's unsatisfactory performance in carrying out its Scheme function.

Levels of performance achieved must be included within the Fund's Annual Report along with other matters arising from the Strategy that are considered appropriate.

All relevant regulations are set out fully in **Annex 1**.

### **3. KEY OBJECTIVES**

The key objectives of this Strategy are to ensure that:

- The Fund and Employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions (largely defined in Service Level Agreements)
- The Fund operates in accordance with LGPS regulations and is aligned with The Pension Regulator in demonstrating compliance and scheme governance.
- Communication processes are in place to enable both the Fund and Employers to proactively and responsively engage with each other and other partners.
- Accurate records are maintained for the purpose of calculating pensions entitlements and Employer liabilities, ensuring all information and data is communicated accurately, timely and in a secure and compliant manner
- The Fund and Employers have appropriate skills and that training is in place to deliver a high quality service and effectively contribute to the changing pensions agenda
- Standards are set and monitored for the delivery of specified activities in accordance with Regulations and minimum standards as set out in each Employer's Service Level Agreement
- Administrative services are developed and delivered digitally as outlined in the ICT Strategy, in order to streamline processes and maintain costs at below or average levels

## 4. ACHIEVING THE OBJECTIVES

There are presently over 215 employers in the Fund differing in size, structure and capability which represents a significant logistical challenge to the management of information, processes and services within the Fund. It is clear that because of these differences a “one size fits all approach” would be unlikely to deliver workable solutions; however standard ways of operating applicable to different employer groups would bring benefits. The number of employers within the scheme continues to grow as does the demand for more accurate and timely information, needed to improve liability management at both the local and national level. Furthermore, the Pensions Regulator has introduced higher levels of compliance and the Fund will be required to demonstrate heightened governance and administrative efficiency.

There are four key elements necessary to achieving the Fund’s administrative objectives:

- A Communications Policy that:
  - (i) Ensures members have accessible and timely information on all aspects of their pensions benefits and informs and enables decisions in respect of their pensions
  - (ii) Enables Employers to make effective decisions in the management of risks and liabilities as well as facilitates engagement in the wider pensions debate
- A training plan that will offer direct engagement and support to employers and continue to enhance staff knowledge and skills to ensure efficient administration compliant with the Pensions Regulator requirements.
- An IT Strategy which will deliver high quality, efficient and integrated digital services to employers and members in an increasingly regulated and financially complex environment.
- A performance framework which will support the effective working of the Fund and enable both the Fund and Employers to deliver continuous improvement and move towards a higher standard of service.

### (a) Communications

The Fund aims to provide clear, relevant, accurate, accessible and timely information to all stakeholders. To this end, the Funds’ communications strategy is already well developed providing a wide range of solutions for all parties. However, with the increasing number of scheme employers and membership creating an increased need for information, the Fund is aiming to develop it’s communications strategy, embracing technology in a number of key areas.

Significant development to the website will provide stakeholders with a single secure access point to relevant services and a range of tools to help streamline and improve efficiency, support good governance and be cost effective. Access will be enabled across a range of social media applications and devices.

The Communication Policy Statement is attached as **Annex 2**

## **(b) Training and Engagement**

The objectives of the Fund have always been to keep stakeholders informed of new developments providing training courses and workshops for Employers and the Fund's staff alike when new Regulations are implemented or are under consideration. Additionally training is offered on an ongoing basis to new scheme employers or relevant new HR/Payroll staff.

With this in mind, it is important that both Employers and the Fund ensure that their staff have the right level of skills and knowledge to support any changes, starting with a sound foundation of existing regulations and administrative processes.

Notwithstanding future changes, there is an ongoing need to continuously maintain the quality of member records and the administrative processes by improving the quality of information received from Employers.

The aims of the training strategy are therefore:-

- To maintain a high standard of customer service for members and Employers
- To ensure that relevant staff within each Employer have sufficient knowledge and skills to effectively discharge administrative processes
- To ensure that Employers are fully aware of the risks involved in poor administration and maintenance of member pension records and if they fail to discharge of their discretionary functions
- Recognising the continued growth in employer portfolio – provide ongoing training platform on relevant employer responsibility
- Develop new chargeable resource package to offer direct engagement/support to employers to ensure meet TPR requirements.
- To support the implementation of new technology within the Fund enabling greater self service for the Employer and streamlined administration
- To continually develop the technical skills and competencies of the Fund's staff and retain knowledge in the application of historic regulations
- To identify and develop staff to become the future managers and professionals of the Fund as part of a workforce development plan
- To ensure that members of the Committee also receive adequate training to properly discharge their function.

To achieve this:

- the Fund will work with Employers' Human Resources, Payroll and other staff to identify relevant skills and knowledge gaps and develop an appropriate training programme
- Organise workshops and forums for Employers to debate new issues as they emerge
- Continue to invest in specific technical training and professional development of Fund staff
- Promote an ongoing programme of Committee member training and participation in national events to support governance arrangements

This training strategy will ensure that both the Fund and Employers have a common understanding of their obligations under their Local Government Pension Scheme, and that administrative processes are designed to maximise efficiency and effectively manage risk.

The Fund will provide training for Employers' relevant staff, to build up and maintain a level of professional expertise which together with the Employer's own systems and processes will enable Employers to deliver information required by the Fund to efficiently administer the Scheme.

### **(c) IT Strategy**

As part of the 2011 Strategy the Fund indicated it would be 'embracing technology' and that investment in upgraded software systems would enable the Fund to achieve fully integrated self-service applications for employers and members with the Fund and ultimately it proposed a programme to achieve full electronic data submission from employers by October 2012. At January 2015 approximately 75% of active scheme membership is covered by automated data submission. That these aspirations were not fully met can be attributed to a number of factors:

- The inability of software suppliers to focus on support and development of the relevant tools
- The introduction of the new 2014 LGPS CARE scheme
- Insufficient core skills to address technology requirements
- The continued growth in employer portfolio.

As part of the Pensions Administration Strategy 2015 the Fund proposes to develop and implement an IT Strategy designed to achieve the digital step change in service delivery. To achieve this the Fund has identified a number of key workstream developments to be implemented over the next three years.

Full details of the ICT Strategy are contained separately in **Annex 3**.

### **(d) Performance**

The Administration Strategy has a statutory obligation to set performance standards and publish both the targets and achievement against those targets. The purpose of doing so is to secure monitor continuous improvement of the administration function. **Annex 4** details the performance measures and proposed targets which will be monitored. The outcomes will be subject to external scrutiny by The Pensions Regulator, the Local Pensions Board and the Pensions Committee. Information is also published in the Pensions Fund' Annual Report. It should be noted that many of these targets are set to ensure compliance with *statutory* requirements that already exist.

New Service Level Agreements ("SLAs") will be agreed with Employers to set and monitor performance at the local level and will include all the targets for both the Fund and the Employer and will include areas relating to TPR compliance. The aggregated performance will be reported to the Avon Pension Fund Committee on a quarterly basis.



## Reporting on Performance

The Pensions Regulator codes of practice require scheme managers to keep records of information pertaining to member data across all membership categories. The Pensions Board will play an independent scrutiny role to 'assist' the Fund with its regulatory compliance and has the authority to report any serious concerns to the Pensions Regulator.

Assessment of the levels of administrative performance requires that agreed performance standards are continuously monitored and the results fed back to Employers. This will be achieved by the production of a Performance Report for each Employer to keep them fully informed of the efficiency of service delivery to the Scheme Members. The Performance Report will contain the key areas of performance and will be a working document. Reports will also take into account any TPR compliance issues and where the Fund identifies poor quality or missing data it will put a data improvement plan in place to address these issues.

The Performance Report will measure the efficiency of service processes covering early leavers, retirements, estimates and deaths in service between the Employer and the Fund to enable effective benefit processing and payment. The Report will also include, if appropriate, details of any complaints from members or employers and discretions not exercised or kept up-to-date by employers.

Review meetings to consider the findings will be held regularly with Employers and will identify problem areas and devise an action plan to improve service delivery. Information from the Performance Report will be made available to the Avon Pension Fund Committee and details of performance review will be included in the Fund's Annual Report.

### (i) Performance failures

As stated at the outset, the purpose of this Strategy is to secure improvement across the Administrative processes of the Fund. Both the Fund and each Employer need to play their part in ensuring this. However in areas of continuous poor performance the Fund has the ability to apply financial penalties and will ultimately do so but only as a matter of "last resort".

Where in the opinion of the Fund, it incurs additional costs because of an Employer's poor performance in carrying out its functions, the Fund will:

- a) give written notice to the Employer that it will be invoiced for an extra monetary amount in respect of these costs (in addition to its standard pension contributions)
- b) specify the basis on which the extra amount is calculated and the provisions of the Strategy which are relevant.

If an Employer feels that an additional allocation of costs is not warranted it would have access to the Avon Pension Fund Committee on which Employers have an Employer representative.



- c) The Pension Regulator imposes a statutory obligation to scheme managers and to the Local Pensions Board to report failures which are likely to be of material significance.

(ii) Opportunity to improve

It is the Fund's intention that a poorly-performing Employer will be given the opportunity to improve its poor performance before additional costs are imposed upon it.

However, if in the opinion of the Fund, that Employer fails to improve, the Fund will after consultation with the Employer issue an invoice payable by the Employer within 30 days of issue. The amount of the invoice will represent the cost to the Fund of the Employer's poor performance, plus any additional work by the Fund's officers charged at a staff charge out rate of £50 per hour (*subject to annual review at the start of each new financial year*).

(iii) Passing on "Statutory" Fines and charges

Where the Fund incurs a fine or charge for a breach of its statutory duties which is as a result of the Employer's performance failure (such as failing to provide the Fund with a change in a member's circumstances or supplying inaccurate or inadequate information for an employee member), the Fund reserves the right to require the Employer to reimburse it within 28 working days of the payment of the fine or charge. A list of charges is enclosed at Appendix 6.

## **Role of the Committee**

The Avon Pension Fund Committee is representative of all the Employers in the Fund (reflecting best practice) and as such has a duty to ensure that the Administration of the Fund is carried out efficiently and cost effectively. Its roles and responsibilities are set out in its *Terms of Reference* which form part of the Fund's Governance and Compliance Statement which is available on the Fund's website.

The Committee already receives quarterly reports in respect of the Fund and Employers administrative processes and this will be enhanced with information regarding matters of compliance required by the Pensions Regulator in respect of data. The summary results reported will be scrutinised by the Committee who will take action where appropriate.

The Committee annually reviews all Administrative targets and the costs of service delivery and will continue to do so in order to inform future changes to the Administration Strategy.

## **5. IMPLEMENTATION AND REVIEW**

The Strategy sets out the key objectives of all the major areas of pension administration within the Fund and takes effect from 01 June 2015. Prior to implementation a full consultation exercise will be undertaken with Scheme Employers. The Strategy will be further reviewed in 2017.



**Legislative Framework for the Statement****Local Government Pension Regulations 2013****Pension Administration Strategy**

**59.** —(1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are—

- (a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");
- (b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by—
  - (i) the setting of performance targets,
  - (ii) the making of agreements about levels of performance and associated matters, or
  - (iii) such other means as the administering authority considers appropriate;
- (c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
- (d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;
- (e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);
- (f) the publication by the administering authority of annual reports dealing with—
  - (i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
  - (ii) such other matters arising from its pension administration strategy as it considers appropriate; and
- (g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

(3) An administering authority must—

- (a) keep its pension administration strategy under review; and
- (b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

(5) An administering authority must publish—

- (a) its pension administration strategy; and
- (b) where revisions are made to it, the strategy as revised.

(6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer.

#### **Additional costs arising from Scheme employer's level of performance**

**70.** —(1) This regulation applies where, in the opinion of an administering authority, it has incurred additional costs which should be recovered from a Scheme employer because of that employer's level of performance in carrying out its functions under these Regulations.

(2) The administering authority may give written notice to the Scheme employer stating—

- (a) the administering authority's reasons for forming the opinion mentioned in paragraph (1);
- (b) the amount the authority has determined the Scheme employer should pay under regulation 69(1)(d) (payments by Scheme employers to administering authorities) in respect of those costs and the basis on which the specified amount is calculated; and
- (c) where the administering authority has prepared a pension administration strategy under regulation 59, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraphs (a) or (b).

### **Statements of policy about exercise of discretionary functions**

**60.** —(1) A Scheme employer must prepare a written statement of its policy in relation to the exercise of its functions under regulations—

- (a) 16(2)(e) and 16(4)(d) (funding of additional pension);
- (b) 30(6) (flexible retirement);
- (c) 30(8) (waiving of actuarial reduction); and
- (d) 31 (award of additional pension),

and an administering authority must prepare such a statement in relation to the exercise of its functions under regulation 30(8) in cases where a former employer has ceased to be a Scheme employer.

(2) Each Scheme employer must send a copy of its statement to each relevant administering authority before 1st July 2014 and must publish its statement.

(3) A body required to prepare a statement under paragraph (1) must—

- (a) keep its statement under review; and
- (b) make such revisions as are appropriate following a change in its policy.

(4) Before the expiry of a month beginning with the date any such revisions are made, each Scheme employer must send a copy of its revised statement to each relevant administering authority, and must publish its statement as revised.

(5) In preparing, or reviewing and making revisions to its statement, a body required to prepare a statement under paragraph (1) must have regard to the extent to which the exercise of the functions mentioned in paragraph (1) in accordance with its policy could lead to a serious loss of confidence in the public service.

(6) In this regulation a relevant administering authority in relation to a Scheme employer, is any authority which is an appropriate administering authority for that employer's employees.

### **Statements of policy concerning communications with members and Scheme employers**

**61.** —(1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with—

- (a) members;
- (b) representatives of members;

- (c) prospective members; and
- (d) Scheme employers.

(2) In particular the statement must set out its policy on—

- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

### **Pension fund annual report**

**57.** —(1) An administering authority must, in relation to each year beginning on 1st April 2014 and each subsequent year, prepare a document ("the pension fund annual report") which contains—

- (a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;
- (b) a report explaining the authority's investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;
- (c) a report of the arrangements made during the year for the administration of each of those funds;
- (d) for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 62 (actuarial valuations of pension funds), of the level of funding disclosed by that valuation;
- (e) the current version of the statement under regulation 55 (governance compliance statement);
- (f) for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;
- (g) an annual report dealing with—
  - (i) the extent to which the authority and the Scheme employers in relation to which it is the administering authority have achieved any levels of performance set out in a pension administration strategy in accordance with regulation 59 (pension administration strategy), and

- (ii) such other matters arising from a pension administration strategy as it considers appropriate;
- (h) the current version of the statement referred to in regulation 58 (funding strategy statement);
- (i) the current version of the statement under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (statement of investment principles)
- (j) the current version of the statement under regulation 61 (statements of policy concerning communications with members and Scheme employers); and
- (k) any other material which the authority considers appropriate.

### **Public Service Pensions Act 2013**

[2013 c. 25](#) [Administration](#)

#### **17 Regulatory oversight**

- (1) Schedule 4 contains provision relating to the regulation of schemes under section 1, new public body pension schemes and connected schemes.
- (2) The Secretary of State may by order make—
  - (a) provision consequential on Schedule 4, and
  - (b) further provision for, or in connection with, the regulation of public service pension schemes within the meaning of the Pensions Act 2004 (as amended by that Schedule).
- (3) The provision referred to in subsection (2) includes provision made by amending any legislation (including this Act).
- (4) An order under this section may make different provision for different purposes.
- (5) An order under this section is subject to—
  - (a) the affirmative procedure, if it amends primary legislation, and
  - (b) the negative procedure, in any other case.

#### **SCHEDULE 4 Regulatory oversight [section 17]**

Amends the Pensions Act 2004 to cover Public Service Pensions and the Pension Regulator involvement



## **Section 16**

### **Records**

- (1) The scheme manager for a scheme under section 1 and any statutory pension scheme that is connected with it must keep such records as may be specified in regulations made by the Secretary of State.

### **The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014**

#### **Records**

3. For the purposes of section 16 of the 2013 Act, the scheme manager for a public service pension scheme must keep the records which are specified in regulations 4 to 6.

#### **Records of member and beneficiary information**

4.—(1) In respect of member and beneficiary information, the records which are specified are—

- (a) the name of each member and of each beneficiary;
  - (b) the date of birth of each member and of each beneficiary;
  - (c) the gender of each member and of each beneficiary;
  - (d) the last known postal address of each member and of each beneficiary;
  - (e) each member's identification number in respect of the scheme;
  - (f) the national insurance number of each member who has been allocated such a number; and
  - (g) in respect of each active member, deferred member and pensioner member—
    - (i) the dates on which such member joins and leaves the scheme;
    - (ii) details of such member's employment with any employer participating in the scheme including—
      - (aa) the period of pensionable service in that employment; and
      - (bb) the amount of pensionable earnings in each year of that employment.
- (2) In respect of each member's rights and, where applicable, of each beneficiary's entitlement, to any benefits which are not money purchase benefits, injury benefits or compensation benefits under the scheme, the records which are specified are—



- (a) any formula or formulas used for calculating the member's or beneficiary's pension or benefit;
  - (b) the percentage to be applied in respect of revaluation for each year to the member's accrued rights to benefits under the scheme; and.
  - (c) any increase to be applied to the pensioner member's or beneficiary's pension or benefit in payment in each year..
- (3) In respect of each member's rights to any money purchase benefits under the scheme, the records which are specified are—
- (a) any investment decisions taken by, or in relation to, the member;
  - (b) any investments held on behalf of the member; and.
  - (c) any anticipated date of retirement notified by the member..
- (4) In respect of pension credits under section 29(1)(b) of the Welfare Reform and Pensions Act 1999(1) (creation of pension debits and credits) or under article 26(1)(b) of the Welfare Reform and Pensions (Northern Ireland) Order 1999(2) (creation of pension debits and credits), the records which are specified are records of any information relevant to calculating each member's rights under the scheme which are attributable (directly or indirectly) to a pension credit.
- (5) In respect of pension debits under section 29(1)(a) of the Welfare Reform and Pensions Act 1999 or under article 26(1)(a) of the Welfare Reform and Pensions (Northern Ireland) Order 1999, the records which are specified are records of any information relevant to calculating any reduction in each member's rights under the scheme which are attributable to a pension debit.

## **Records of transactions**

- 5.** In respect of transactions, the records which are specified are—
- (a) any employer contribution or member contribution paid in relation to each active member;
  - (b) payments of pensions and benefits including the date of the payment;
  - (c) except where the payment is a payment under paragraph (b) or (f), payments made by, or on behalf of, the scheme manager to any person including—
    - (i) the name and address of the person to whom payment was made; and
    - (ii) the reason for that payment;
  - (d) any movement or transfer of assets from the scheme to any person including—

- (i) the name and address of the person to whom the assets were moved or transferred; and
  - (ii) the reason for that transaction;
- (e) the receipt or payment of money or assets in respect of the transfer of members into or out of the scheme including—
- (i) the name of that member;
  - (ii) the terms of the transfer;
  - (iii) the name of the scheme into or out of which the member has been transferred;
  - (iv) the date of the transfer; and
  - (v) the date of receipt or payment of money or assets;
- (f) payments made to any member who leaves the scheme, other than on a transfer, including—
- (i) the name of that member;
  - (ii) the date of leaving;
  - (iii) the member's entitlement at that date;
  - (iv) the method used for calculating any entitlement under the scheme; and
  - (v) how that entitlement was discharged;
- (g) payments made to any employer participating in the scheme;
- (h) any amount due to the scheme which has been written off in the scheme's accounts; and
- (i) any other payment to the scheme including the name and address of the person from whom it is received and, where a payment is made in respect of a member, the name of the member in respect of whom it is made.

### **Records of pension board meetings and decisions**

**6.—(1)** In relation to any pension board meetings, the records which are specified are records relating to any such meeting including—

- (a) the date, time and place of the meeting;
- (b) the names of all the members of the pension board invited to the meeting;

(c) the name of any person who attended the meeting and the capacity in which each attended; and

(d) any decisions made at the meeting.

(2) In relation to any other decision made by the members of the pension board in the exercise of their functions as members of the pension board, the records which are specified are records relating to any such decision including—

(a) the date, time and place of the decision; and

(b) the names of the members of the pension board who participated in making the decision.

(3) In relation to any decision made by a committee or sub-committee of the pension board which has not been ratified by the pension board, the records which are specified are records relating to any such decision including—

(a) the date, time and place of the decision; and

(b) the names of the members of the committee or sub-committee who participated in making the decision.

### **Amendment of the Occupational Pension Schemes (Scheme Administration) Regulations 1996**

7. For regulation 16A of the Occupational Pension Schemes (Scheme Administration) Regulations 1996) (exemptions from the requirement to notify the Authority or the member of a late contribution payment) substitute—

#### **“Exemptions from the requirement to notify the Authority or the member of a late contribution payment**

**16A.**—(1) Subject to paragraph (3), where an amount corresponding to any contribution payable on behalf of an active member of an occupational pension scheme—

(a) is deducted from that member’s earnings in respect of any employment; and

(b) is not paid to the trustees or managers of the scheme within the period of 19 days beginning on the first day of the month after which the deduction is made,

the trustees or managers do not need to give notice of the failure to pay that amount within that period to the Authority or member in the circumstances specified in paragraph (2).

(2) The specified circumstances are where the trustees or managers of the scheme are exempt from the requirement—

(a) to secure the preparation, maintenance and revision of a payment schedule for the purposes of section 87(1) of the 1995 Act (schedules of payments to money purchase schemes), by virtue of regulation 17; or

(b) to prepare, review and if necessary revise a schedule of contributions under section 227 of the 2004 Act (schedule of contributions), by virtue of any of subparagraphs (a) to (i) and (k) to (m) of regulation 17(1) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005.

(3) Paragraph (1) does not apply in circumstances where the scheme is a public service pension scheme.

(4) For the purposes of this regulation—

“the 2013 Act” means the Public Service Pensions Act 2013;

“connected”, “new public body pension scheme” and “statutory pension scheme” have the meanings given in section 37 of the 2013 Act (general interpretation);

“public service pension scheme” means—

(a) a scheme established under section 1 of the 2013 Act (schemes for persons in public service);

(b) a new public body pension scheme;

(c) any statutory pension scheme which is connected with a scheme referred to in para (a) or (b).

#### **Explanatory note for this amendment**

Under section 49 of the Pensions Act [1995 \(c. 26\)](#) trustees or managers must notify the Pensions Regulator and the member where there is a late payment of a contribution where such late payment is likely to be of material significance to the Pensions Regulator’s functions. Regulation 16A of the Scheme Administration Regulations sets out exceptions to that duty. The amendments mean that managers of public service pension schemes under the 2013 Act cannot benefit from the exception and will now be subject to the duty to notify.

## **Avon Pension Fund Communications Policy Statement 2015**

### **Avon Pension Fund vision statement:**

***“Avon Pension Fund delivers high quality, efficient and integrated services to members and employers at the forefront of innovation. We are renowned for high performance and effectively managing investments in a transparent and responsible way”***

### **Avon Pension Fund aims:**

- We work closely with members and employers to deliver better, more efficient and effective joined-up services
- We are recognised by members as integral to their life planning and financial well being
- We are recognised by employers as key partners supporting workforce and organisational developments
- Our staff are empowered, motivated and confident to re-design services to meet future demands
- We are committed to ongoing staff training and development
- We have a strong track record of leading the pensions sector with agility, creativity and innovation
- We have strong governance and are recognised for our transparency and consultative approach
- We deliver clear strategies to enhance the performance of the fund and our services and we continuously strive to improve.

### **Our communication aims:**

We are committed to delivering a consistently high level of performance and customer service. Effective communication is core to this commitment.

Our communication aims are to:

- provide clear, relevant, accurate, accessible and timely information to all our audiences and stakeholders
- listen and respond appropriately to feedback we receive
- use plain language and avoid unnecessary jargon
- use communication channels which best fit the audience and the information being passed on
- be a more electronic communication-based Fund, utilising new communication technology (web, email, social media)
- support members to enable them to make informed decisions about their pensions by making information available
- be compliant with all legislative requirements with regard to communicating with members, such as the Pensions Regulator and Pensions Board

### **What the policy statement covers**

The policy outlines the communications we provide to various audiences (our stakeholders, audiences and interested parties). A communications matrix shows an

at-a-glance overview of this (Appendix 1). Detailed information about the Fund's methods of communications is outlined in Appendix 2.

### **How do we communicate?**

When deciding how to communicate we take into consideration our audience and the cost to the Fund. We aim to use the most appropriate and effective means of communication for the audiences receiving the information.

Our aim is to conduct the majority of communication with members in electronic format (via our website, online member self-service, email) as we become a more electronic Fund. However we will follow Disclosure regulations, which say that we should write to members about changes to their pension and that they can request in writing for continued use of paper-based communications, even if the Fund conducts the majority of its communications digitally.

The IT strategy outlines the work streams to move the Fund to more digital communications.

### **Access to communication**

We want to ensure that all members can access our services, whatever their needs. All print and electronic communications are designed with consideration for those with additional needs. Our communications media is measured against accessibility standards and we can arrange large print, audio or Braille versions of all printed literature.

Increasingly we are using electronic forms of communication, but we will always offer members the opportunity to receive paper copies by post. Face-to-face and telephone communications will continue to be important channels for members to interact with the Fund and vice-versa.

### **Who we regularly communicate with:**

- Scheme members (active, deferred and pensioners)
- Employing authorities (referred to as "Employers")
- Prospective scheme members
- Prospective employers
- Representatives of scheme members (trade unions)
- Avon Pension Fund Committee
- Avon Pension Fund Board Board
- Other bodies / organisations – such as:
  - Media
  - Investment managers
  - Actuary
  - Other funds
  - Department for Communities and Local Government (DCLG)
  - Local Government Association (LGA)
  - The Pensions Regulator
  - Advisers / consultants

## Appendix 1 - Fund communications matrix

This outlines the current (as of March 2015) communication channels, their target audience and frequency

Communication material	Audience	Electronic	Paper based	Website	Face-to-face	Frequency	Reviewed
Avon Pension News	Active	✓	✓	✓		Twice a year	Ongoing
Avon Pensioner News	Pensioners	✓	✓	✓		Once a year	Ongoing
www.avonpensionfund.org.uk	All members / public	✓		✓		Ongoing	6 monthly
literature/publications/guides	All members	✓	✓	✓		Ongoing	Ongoing
“my pension online” (member self-service)	All members	✓	✓	✓		Ongoing	Ongoing
Pension clinics and seminars	All members				✓	Ongoing	
Personal appointments	All members				✓	Ongoing	
Benefit estimates	Active members	✓	✓			Ongoing	
Annual Benefit Statements	Active & Deferred	✓	✓	✓		Annual	Annually
Telephone and email contacts	All members/employers/public						
New starter packs	Active members	✓	✓	✓		Ongoing	Annually
www.apfemployers.gov.uk	Employers	✓		✓		Ongoing	6 monthly
Employer self-service (ESS) / iConnect	Employers	✓		✓		Ongoing	
Annual Report and Accounts	All members/employers/public	✓		✓		Annual	Annually
Employers' newsletter	Employers	✓		✓		4 times a year	Ongoing
Employer email updates and bulletins	Employers	✓		✓		Ongoing	Ongoing
Employer training and workshops	Employers	✓		✓		Ongoing	
Employers' Conference	Employers				✓	Once a year	
Employer Forum	Employers				✓	Twice a year	
Investment Forum	Employers				✓	Once a year	



## Appendix 2 - Methods of communication

### 1. What the Fund provides for *scheme members*

It is essential that scheme members are provided with appropriate information regarding the pension scheme and their own benefits, to enable them to make informed choices and decisions.

Scheme members cover:

- **Active members** (people who are currently in the employment of a participating employer - 34,846 members\*)
- **Deferred members** (people who have left the employment of a participating employer, but who have not yet retired - 35,321 members\*)
- **Pensioners** (people who are in receipt of a pension from the Fund - 25,985 members\*)

\*membership figures as of 31 March 2014

- ***Scheme literature/publications/guides***

The Fund produces all paper-based and electronic communications, such as brochures, guides or individual letters in a corporate and branded style. A guide to the Local Government Pension Scheme and a fuller more detailed guide are available to active members (and prospective members). These guides are also available electronically on the Fund's website, and in hard copy format (also available in Braille and audio versions). Forms and factsheets are also available from the website or upon request in hard copy. Often these are sent as part of correspondence with members.

- ***Internet***

The Avon Pension Fund has two websites, one of which is aimed at members. [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) is the Fund's public website for members, prospective members and the wider population. It's the Fund's main information resource for these different audience types. As well as an information resource on the LGPS the website contains downloadable forms and factsheets for members as well as being the portal for "my pension online" (see below for more details).

This website is currently (as of autumn 2014) being developed to provide a more customer-focussed content platform, with information relevant to the various audiences and member life stages. The site will have more self-service functionality such as online forms and closer integration with "my pension online", as well as being accessible on mobile platforms (tablets and smart phones).

- ***"my pension online" (member self-service)***

Through the Fund's public website, scheme members can securely access their pension details held on the Fund's pension database. This facility allows members to check their personal details and advise the Fund of changes and produce estimates of their potential LGPS benefits.

Pensioner members have the facility to view and/or print their Pensions Payment Advice slips and/or P60s.



- **Newsletters**

For active and deferred members the Fund produces its newsletter *Avon Pension News* at least twice a year. The newsletter contains articles on changes to the LGPS regulations, summary of the Fund's Annual Report and Accounts and any relevant information and promotional messages for members. The newsletter is currently posted to members, but it is also available electronically on the Fund's public website and through "my pension online".

For pensioner members, *Avon Pensioner Newsletter*, is produced at least once a year and is posted out to members along with their pay slip (usually in April). The newsletter includes information about pensions increase, pay day dates and reminders about changes of address or bank details. The newsletter is also available electronically online and through "my pension online".

- **Pension clinics and seminars**

Pension clinics for members are often held at the request of employers. This involves pension officers visiting employers' sites to discuss benefits on a 'one-to-one' basis with active members. Pension officers are also available to participate in pre-retirement seminars organised by employers.

- **Personal appointments**

Members can make appointments to visit the Fund to discuss their benefits on a "one-to-one" basis. The Fund's office opening hours are Monday to Thursday 8.30am to 5pm and Friday 8.30am to 4.30pm.

- **Annual Pension Benefit Statements**

Each year all active and deferred members are sent an Annual Pension Benefit Statement. Statements are sent by post to the home address or, alternatively, can be viewed on "my pension online".

The statement summarises the basic information we hold about them such as date of birth, hours of work, pay for pension purposes and gives estimates of the current and future value of the member's benefits. It also shows an estimate of the survivors' pension benefits.

Members may also request an estimate of benefits at any time, by phone, letter or email.

- **Pay advice slips and P60**

The Fund issues payslips to scheme pensioners in March, April and May each year. The April advice shows the effect of the annual pension increase and the May advice shows any tax changes. We do not send pensioners a pay slip during the rest of the financial year unless their pension amount changes by £5 or more. Early in the financial year pensioners also receive a P60 advice.

- **Telephone and email contacts**

The Fund has a dedicated telephone number (01225 477 000) and a free phone number for pensioners (0800 0644 155).

The fund has a generic email address for all enquiries:  
[avonpensionfund@bathnes.gov.uk](mailto:avonpensionfund@bathnes.gov.uk)

## **2. What the Fund provides for new / prospective members**

- ***New starter packs***

Each member joining the scheme receives a new starter pack, issued along with their contract of employment. This pack contains a scheme guide that explains rights, benefits and options for the new employee, as well as information on transferring previous pension benefits. In most instances this pack is sent electronically via a web link to the Fund's website. Hard copies of the pack are available upon request from the employer.

- ***Website***

The Fund's website (under the 'Thinking of joining' section) contains information on joining the LGPS and the benefits of the scheme.

- ***Other employer communications***

The Fund actively works with employers to utilise their existing communication channels, such as intranets and noticeboards, to promote the pension scheme and its benefits to employees, where appropriate.

## **3. What the Fund provides for employers**

To assist employers participating in the scheme, the Fund has a range of communication materials and methods to help increase their understanding of pension issues and to fulfil their responsibilities as scheme employers. By continuing to work in partnership we are all able to provide a better service to our members.

- ***Internet***

[www.apfemployers.gov.uk](http://www.apfemployers.gov.uk) is the website specifically dedicated to employers. The site is username and password protected and holds details specific to individual employer organisations, which only they can access (with the Fund having administrator rights). This is a popular and well-received resource as provides a wealth of information and guidance for employers. There are downloadable forms and factsheets, online bookable training system and links to the Employer Self Service facility (see below).

- ***Employer self-service (ESS)***

This enables employers to transfer and update data electronically to the Fund. This includes uploading new starters, pay changes and changes of member details. This links directly to the Fund's pension database system.

- ***iConnect***

The larger employers are now using this middleware software system to link transfer bulk member data from their payroll system to the Fund.

- **Annual Report and Accounts**

Our annual report, which contains the Fund's statement of accounts is available on both websites and a link is emailed to the employers.

- **Email updates and bulletins**

Ad hoc email messages and updates are sent employers with information about issues and training opportunities.

- **Employers' newsletter**

A branded electronic newsletter is sent to employers four times a year.

- **Employers' Conference**

All employers are invited to this annual event which includes presentations on topical pension issues including regulation changes.

- **Employer training and workshops**

The Fund offers a programme of training to all employers on the LGPS and their role in administering the scheme. Training covers the full range of administrative and regulatory activities, as well as ESS training. Workshops are also offered on specific topics, for example discretionary policies. Training and workshops are advertised on the employers' website, through email bulletins and newsletters, and are bookable online.

- **Employer Forum**

These forums keep employers up-to-date with LGPS developments and provide a forum to discuss common issues and share good practice. These are held twice a year.

- **Investment Forum**

The Investments Forum focuses on the investment strategy and actuarial developments. This is held once a year.

#### **4. What the Fund provides for prospective employers**

The Fund provides information to prospective employers to ensure they understand the LGPS Regulations, their implications and the role of a scheme employer.

The Fund will provide information which facilitates a smooth transition in respect of prospective employers to which LGPS members may TUPE transfer, such as schools which become academies and contractors providing a service to a scheme employer. Information is available on the APF employers' website.

#### **5. What the Fund provides for its staff**

Regular email bulletins are sent to staff to keep them updated with the activities of the fund. Training events and briefings on specific topics are held. All newsletters and other communications to members are shared with staff to ensure they are familiar with what the Fund is saying.

## **6. What the Fund provides for *Avon Pension Fund Committee***

The Avon Pension Fund Committee meets quarterly to monitor activities of the Fund and its administration and takes decisions as necessary. It gives the Fund its strategic direction.

The Committee exercises a wide range of powers over Fund administration under its Terms of Reference. The Investment Sub Committee meets more regularly to review investment performance and examine opportunities for improvement in investment strategy.

Reports of these bodies are made available to the public in advance on request and at meetings. The reports and minutes of these meeting are also available on the website.

## **7. What the Fund provides for *Avon Pension Fund Board***

- A dedicated website page on the council's public website
- Ad hoc articles in Avon Pension News

## **8. Liaison with other organisations**

The Fund maintains regular and ad hoc communications with the following organisations, providing information and responses where necessary:

- Trade Unions
- The media
- South West Area Pensions Officers Group (SWAPOG)
- South West Investment Managers (SWIM)
- Local Government Association (LGA)
- CIPFA Pensions Panel

## ICT Strategy

The ICT vision for Pensions Administration is to be able to “deliver high quality, efficient and integrated digital services to employers and members” in an increasingly regulated and financially complex environment.

This inevitably requires a step change in the way that the Fund and Employers work together and utilise technology for the benefit of all stakeholders. Specifically designed solutions are needed to achieve a significant degree of self-service, bringing greater efficiency in the wake of growing demand, releasing resources to support the control framework of the digital model and support employers directly at the front end and with higher value service.

### Drivers for change

Whilst many of the drivers for change have been known and emerging for some time, demand growth and the financial climate are now the catalysts for greater focus on IT as the Fund and Employers grapple with a number of significant pension changes.

- There has been significant growth in employers and membership bringing with it a commensurate growth in demand, fuelled by the need for information about the Care Scheme and the ongoing downsizing and reorganising of public sector service provision
- The Care scheme itself requires far more data to be maintained about employees, compounded by the necessity to regularly auto enrol opted out members and the data management requirements of the Pensions Regulator
- The membership structure is highly complex with alternative working patterns created almost daily as employers look for increasing flexibility across the workforce.
- The Government Actuaries department will also demand greater granularity of data as its cost sharing mechanism comes into force for future valuations from 2016
- Giving people greater freedoms over their pensions is a new ethos in the private sector and the impacts for public sector schemes are still to be understood.
- In the current financial climate, there is a need to operate as efficiently as possible and reduce the strain on the public purse and the Fund must play its part.
- The needs of employers are changing with many unaware of their complex pensions obligations and requiring the Fund to vary its service offer.
- Finally technology has taken major steps forward over the past decade in particular and the digital economy is now accessible to a wider community through mobile applications development, changing clients expectations about the way they want to engage with the Fund and want the Fund to engage with them

## **ICT Service Delivery Objectives**

ICT is now critical to the daily operations of the Fund Administration and is a key enabler of service improvement, sustainability and good governance. Its objectives can therefore be stated as;

- A. To manage control and make available accurate and timely member data to inform decision making and inform members and stakeholders about their respective benefits and liabilities
- B. To maintain a high level of compliance and Governance standards in the Funds transactional and information management arrangements.
- C. To make this information available via multimedia channels in a secure way to ensure that members and employers are able to access information and services through all available technology
- D. To enable self-service in all communications and transactions between the Fund, its members and Employers
- E. To enable a fully digitised operating environment where all casework is electronically managed and processed
- F. To enable services to be delivered at any location, at any time from any device
- G. To manage technology risk and provide business continuity
- H. To ensure that technology skills are continuously developed and refreshed
- I. To ensure that ICT support arrangements are capable of supporting a highly digitised operating environment and continuously developing efficiency and improvement opportunities
- J. To establish meaningful partnerships with software providers enabling the fund to realise its service delivery ambitions
- K. To establish effective partnerships with stakeholders, employers and other agencies and organisations delivering innovation and service excellence

## **ICT Improvement Strategy**

Whilst the Fund has invested significantly in ICT over the years there is further work that needs to be undertaken in order to enhance service provision and strengthen governance and development of this important area. The ICT Strategy therefor has several strands;

- Maximising the use of existing technology
- Developing new facilities and services
- Building effective partnerships with key partners
- Developing the ICT support function
- Developing Management information
- Investing in core skills
- Ensuring services are tailored to customer needs



## **Maximising the use of Existing Technology**

This has thus far is proved difficult for three reasons; the resourcing difficulties within employers, the priority and resourcing allocated to this within the Fund and the inability of suppliers to focus on support due to the developments required of the CARE scheme. Now that the Care Scheme has been established improving our existing functionality will now take priority, in particular mobilising case management automation, integrating existing work a-rounds into core product, data transfer to and from employers and extending self-service facilities.

## **Developing new facilities and services**

The Fund has identified a number of developments which will enable improved interaction with customers and employers. These include enhancements to the website and its functionality; building connectivity with related service providers (eg AVC) to provide a one stop shop for pensions; improving access channels to better reflect modern communication tools; Implementing a document management system either in conjunction with the Councils own development or with an external supplier; introduce an online actuarial tool enabling employers to better manage their funding position; improving mobility of staff to enable improved localised services; improved sign posting of services and a greater emphasis on self- service.

## **Building effective business partnerships with Suppliers**

A legacy of the way the ICT market has developed in the LGPS world is that there are very few providers and one with a dominant market share. Development when not driven by legislation is by means of consensus forcing a one paced response to demands. If the Fund is to manage its demand pressures effectively, a different relationship needs to be established whereby the Fund can advance its ideas and innovations in partnership with a committed supplier. This may mean that the Fund engages in more development and testing but will be rewarded with a more bespoke product rather than one which is designed by someone else. However it may also mean that the Fund will test the market to ensure that its suppliers are delivering value for money and the innovative solutions demanded of the future

## **Developing an ICT support function to support ongoing delivery and improvement**

ICT is supported in the Fund by a small team whose skills have developed as the system itself has developed. The core team of 3 FTE's is insufficient to support the step change in technology required and to effectively manage supplier relationships a more robust solution is sought. One option would be to grow the team, enhancing it with the necessary skills a further option would be to integrate with the Councils own Finance systems team which would provide wider access to skills and greater resilience. It may be that a combination of both is required

## **Developing management information**

As the fund continues its transformation journey the need for timely and useful management information is a necessity in ensuring effective and relevant service delivery and effective governance in the digital age. Such information in respect of performance, quality and accuracy, permeates all aspects of our service whilst information on demand growth is important in shaping services going forward. Compliance plays an increasingly important part in the need to develop good quality data sets particularly as the The Pensions Regulator sets out its agenda and the cap and collar mechanism has a bigger influence on contribution rates and benefits. Understanding more about the membership structure and performance is key to effectively managing it. The implementation of a fully automated TASK management system will enable comprehensive reporting on Fund and employer performance and revised reporting suites will be devised in line with TPR requirements for presentation to Pension Fund Committee and for Service Level meetings with employers.

## **Investing in core skills**

It is expected that over the next five years the focus of administration will move away from processing data to controlling information flows and customer engagement, requiring a change in some roles and an increase of ICT infrastructure support as systems grow in use and complexity. The Fund will need to continue to invest in these emerging core skills and will need to consider how it can maintain its resilience possibly through greater collaboration and partnership

## **Ensuring services are tailored to customer needs**

Pensions are hugely complex to the extent that most people will need some financial advice at some point in order to maximise their benefit or run the risk of not doing so. Government freedoms also mean that individuals need to consider the totality of their pensions together and this may even impact on career choices, opting in or out and personal relationships. Whilst not overtly stated the direction is clear in that we need to work more closely with other agencies if we are to help individuals navigate this complex path. More importantly though our communication strategies and the tools we use will be crucial to getting that message across.

## **Key Delivery Stages**

The APF is in a strong starting position from which to make further improvements but nevertheless the developments will require a programmed approach over a period of three or more years

The most effective way of delivering the strategy is through a number of structured workstreams as follows

### **Workstream 1:-**

#### **Phase 1 - Putting in place the necessary ICT support structure (April to December 2015)**

This will enable all project developments to be properly governed and managed and the emerging operating environment to have the appropriate



control infrastructure; and will include putting in place localised staffing support, contractual review and delivery arrangements

### **Phase 2 – Investing in Core skills (current & ongoing)**

This will primarily support Phase 1 to ensure sufficient system knowledge to support the activities of the administration. There will be ongoing user training as part of the Funds on training programme or project implementations for specific stakeholder groups. It is anticipated that embedded working can take place with our suppliers to enhance systems knowledge.

### **Workstream 2: – Creating a shared development Agenda with Software Suppliers (current to end 2015)**

This will focus on a number of critical areas

- Improving processes within the system administration in particular automating those process which still require excessive intervention (ie; known error list)
- Consolidating the Employer entry portals to a single access channel which caters for all categories of employer and transaction
- Developing the self-service agenda for employers effectively automating processes and removing Fund intervention
- Implementing Document Management System
- Developing online Actuarial tool kit.

### **Workstream 3: Electronic Delivery of Employer Data (current to end 2016/17)**

This will enable the automated transfer of pension's data and facilitate other transactional activity between most employers and the Fund, to update member records on a continuous basis with minimum intervention – currently at 75% expected to achieve 99%

### **Workstream 4: Developing Website and Members Services (Ongoing to March 2017)**

This will involve both enhancements to systems and website to provide a suite of information and functionality delivering more relevant information to users, targeted where possible, greater use of nationally available material such as video and training suites, and greater self-service functionality.

### **Workstream 5: Developing Operational Processes and Management Reporting (current – Sept 2015)**

This workstream will

- Prioritise the Pensions Regulator Improvement plan requirements and then develop reporting data to enable better understanding of the membership mix, workload generation, performance and employer profiling.
- Streamline workflow and Task Management with the aim of guiding Administrators through processes

- Introduce Process Automation
- Remove paper trail
- Redesign and automate management & employer reporting.

A high level implementation roadmap is attached for information showing the key stages of delivery. More information will be made available to employers and members as the workstreams are implemented.

DRAFT

## Our performance standards of service to members

This outlines service standards and response times that you can expect from us. Service standards for employers are covered in Service Level Agreements.

Who	Service	Actions / triggers	Timescale
New active members	Transfers in	Acknowledge the member's request for transfer details, calculate the estimated benefits that a transfer value will buy for the member and issue a quotation, following receipt from the member's previous scheme and any additional essential information required from Her Majesty's Revenue and Customs (HMRC)	Within <b>10 working days</b>
		Request payment of the transfer value, following confirmation from the member that the transfer is to be made	Within <b>10 working days</b>
		Confirm the actual benefits purchased by the transfer value to the member, following receipt of payment from the member's previous scheme and confirmation (where necessary) of the member's accrued guaranteed minimum pension (GMP) from HMRC	Within <b>10 working days</b>
Existing active members	Benefit estimates	Issue a quotation, following request	Within <b>10 working days</b>
	Annual Pension Benefit Statement	Send member statement, provided pay details are received from employers promptly after the close of each financial year and that we hold all of the relevant information  Statement sent to the member, either by post (to their last known address) or electronically through "my pension online" via the Fund's website	<b>Annually</b> (by 31 August)

		<p>The statement will show:</p> <ul style="list-style-type: none"> <li>• the estimated current value of their accrued benefits</li> <li>• the value of their prospective benefits at normal pension age</li> <li>• the estimated current value of their death-in-service benefits</li> </ul>	
	<b>Paying extra contributions</b>	Provide information to member wishing to pay extra contributions to buy additional pension benefits (Additional Pension Contributions) following request	Within <b>10 working days</b>
	<b>Retirements</b>	Send details of the benefits payable and pay the member's tax-free cash lump-sum, following receipt of the information required from the member's employer and/or the member	Within <b>20 working days</b>
	<b>Deaths</b>	<p>Send initial letter acknowledging death, following receipt of the information required from the late member's employer</p> <p>Pay the lump-sum death grant, following receipt of Grant of Probate (or other appropriate documentation) or authorisation from two delegated officers</p>	<p>Within <b>5 working days</b></p> <p>Within <b>5 working days</b></p>
	<b>Early leavers</b>	We will send details of the benefit options available, following receipt of information required from the employer	Within <b>20 working days</b>
	<b>Refunds</b>	Pay a refund following member's request for payment	Within <b>10 working days</b>
	<b>Transfers out</b>	<p>Issue a quotation (guaranteed for three months) following member's request and confirmation of the member's accrued GMP/State Second Pension from HMRC</p> <p>Pay the transfer value, once confirmation from the member that the transfer is to be made and all of the information we require to make payment is received</p>	<p>Within <b>10 working days</b></p> <p>Within <b>10 working days</b></p>
	<b>Newsletters</b>	Send, either electronically or by post, a newsletter (Avon Pension News) to members	At least <b>twice a year</b>

<b>Deferred members</b>	<b>Benefit statements</b>	Provide a benefit statement following deferred member's request for details of the current value of their deferred benefits	<b>Within 10 working days</b>
	<b>Annual Pension Benefit Statement</b>	Provide each deferred member with a benefit statement, showing the current value of their preserved benefits, provided we have a current address	<b>Annually (by 31 August)</b>
	<b>Deferred Benefits into Payment</b>	Provided we hold a confirmed address we will write to the deferred member requesting an original birth certificate plus the member's National Insurance number before we send details of the benefits that are due and any options that may be available. If we cannot confirm the address we will make every effort to trace the deferred member	<b>Within 1 month prior to NPA</b>
<b>Pensioner members</b>	<b>Changes in personal details</b>	Update a pensioner's payroll record with any changes to personal details following receiving written notification (by post or email)  Due to the nature of payroll administration, such changes may not take effect until a subsequent payroll has been run. Confirmation of changes to bank details will be advised on the next available pay advice	<b>Within five working days</b>
	<b>Newsletter</b>	We will send, either electronically or by post, a newsletter (Avon Pensioner News) to pensioners. This will be sent out with the pension pay advice slips	<b>At least once a year</b>
	<b>Deaths</b>	Acknowledge receipt of a notification of the death of a pensioner and start action to put into payment any dependants' benefits, following notification	<b>Within four working days</b>

## Avon Pension Fund Customer Service Charter

The Avon Pension Fund aims to give a consistent level of service to customers, in an efficient, effective and courteous way, no matter how customers contact us.

Our **Customer Standards** apply to all our services and mean that customers can get the responses they need, consistently across the entire Fund. When dealing with enquiries, we will:

- Be helpful, polite and accessible, identifying and addressing any specific needs with sensitivity, tact and diplomacy
- Aim to deal with things as quickly as possible and follow through to deliver what we promise, dealing with any problems that arise
- Ensure that the information we give is timely, accurate and comprehensive
- Ensure we treat our customers fairly
- Use appropriate technology to manage and fulfil our customer requests , recording contact details accurately and securely, and treating communications confidentially
- Where appropriate, provide enquiry references so that details can quickly be recalled, if needed
- Regularly ask for feedback about our customer service – and use this feedback to help shape the services we deliver
- Ensure our services are easy to access, no matter which way we are in contact, as detailed in the table below.

### **In return we need you, our customer, to:**

- tell us clearly and succinctly the nature of your enquiry
- give us the correct information at the right time
- let us know if you no longer require a service, or wish to cancel an appointment we have previously made for you
- inform us of any change to circumstances such as address, status and contact details
- tell us if we exceed your expectations or don't deliver a service to your satisfaction
- treat our staff courteously and politely

<b>When we are in contact</b>	<b>Our Customer Standard</b>
<p><b>In Person</b></p> <p>Whenever we meet, whether you visit us at any of our offices and facilities or if we arrange to come to you.</p>	<p><b>We will:</b></p> <ul style="list-style-type: none"> <li>• Offer a welcoming efficient service</li> <li>• Ensure our identity badges are visible at all times</li> <li>• Display opening times and be open when we say (our office opening hours are Monday to Thursday 8.30am to 5pm and Friday 8.30am to 4.30pm)</li> <li>• Provide a safe, tidy and clean environment for you to visit and use</li> <li>• See you on time when you have made an appointment at our offices. If we have to cancel appointments, we will let you know and re-book a mutually agreeable time</li> <li>• Aim to minimise the amount of time you wait to see someone, and;</li> <li>• Keep you informed of current waiting times</li> </ul>
<p><b>By Phone</b></p> <p>When we need to use the phone.</p>	<p><b>We will:</b></p> <ul style="list-style-type: none"> <li>• Publish our contact phone numbers to allow easy access to our most frequently requested services and aim to answer 80% of calls within 45 seconds (15 rings) during service opening hours.</li> <li>• Route enquiries and requests to the most appropriate trained and knowledgeable person/team to deal with your enquiry</li> <li>• Always answer the phone giving our name and department</li> <li>• We will take a message and ensure the right person calls you back if we cannot respond immediately</li> </ul>
<p><b>In Writing (email or letter)</b></p> <p>Whether you write to us by email, letter or via our online webpage forms.</p>	<p><b>We aim to:</b></p> <ul style="list-style-type: none"> <li>• Respond to all written enquiries within 10 working days. This means either: <ul style="list-style-type: none"> <li>○ A full response to your enquiry, or;</li> <li>○ If we need to take longer to give a fuller response, we'll tell you why and what the next steps are, or;</li> <li>○ Some email or web-based requests may be automatically acknowledged immediately and provide information about next steps</li> </ul> </li> <li>• Write clearly and concisely, so that information is easy to read and understand</li> <li>• Include a named contact person and phone numbers in our correspondence when appropriate</li> <li>• Use email wherever possible but use another method if it's your preference or a statutory requirement</li> </ul>
<p><b>By web and web-self service</b></p> <p>We provide many self-serve online services, available to use 24/7.</p>	<p><b>We will:</b></p> <ul style="list-style-type: none"> <li>• Make more of our services available online, to use at a time that suits you</li> <li>• Ensure our online services can easily be found on our website, are clear and easy to use</li> <li>• Operate secure online services, where your personal data is safe</li> <li>• Explain clearly how to contact us in other ways if you need support</li> </ul>

<p><b>However you contact us</b></p> <p>For some specific types of customer request we work to defined business processes or statutory timescales.</p>	<p><b>Comments, compliments and complaints</b></p> <p>We welcome feedback about any aspect of the service we provide. You can make a comment, compliment or a complaint by contacting:</p> <p style="padding-left: 40px;">Geoff Cleak Pensions Manager <b>Avon Pension Fund</b> <b>Bath and North East Somerset Council</b> <b>Lewis House</b> <b>Manvers Street</b> <b>Bath</b> <b>BA1 1JG</b></p> <p><b>Email:</b> <a href="mailto:avonpensionfund@bathnes.gov.uk">avonpensionfund@bathnes.gov.uk</a></p> <p><b>What if your complaint has not been resolved or you're not satisfied with the outcome?</b></p> <p>If you are not satisfied with any decision affecting you, you have the right to ask for it to be looked at again under the formal complaint procedure, known as the <b>Internal dispute Resolution Procedure (IDRP)</b>. More information can be found on our website at: <a href="http://www.avonpensionfund.org.uk/customerservice/complaintsprocedure.htm">http://www.avonpensionfund.org.uk/customerservice/complaintsprocedure.htm</a></p> <p><b>Freedom of Information (Fol) requests</b></p> <ul style="list-style-type: none"> <li>• We are required to respond within 20 working days</li> </ul>
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### Schedule of Additional Administration Charges

#### Avon Pension Fund Schedule of additional charge to employers for Non-Compliance

Most Employers submit accurate data and pay correct pension contributions on time. However when there is **late or inaccurate submission of data or late payment of contributions** the consequent costs to the Fund are met from *all* Employer's contributions which is unfair.

In order to promote efficiency, reduce costs and better target the costs of non-compliance, the following **additional** charges will be made.

Item	Trigger	Additional Charge
Monthly contributions LGPS50 forms	Late submission	£50 per occasion
Monthly Contributions	Late Payment	Interest at base rate plus 1% as per the 2013 LGPS regulations
Year End LGPS51 form and Pensionable Pay data	Late submission or incomplete or poor quality	£250 per occasion plus £100 per month or part <i>thereof</i>
Starter Forms	Submission later than SLA target	£50 per month per electronic notification
Leaver Forms	Submission later than SLA target	£50 per month per electronic notification
Disproportionate work	Any data submissions or actions that create a disproportionate amount of work (*also see below)	£50 per hour of additional work

*Avon Pension Fund is committed to implementing <b>electronic processing and delivery</b> . As these facilities become available and are introduced to Employers, the Fund reserves the right to make additional charges for disproportionate work to those Employers who fail or refuse to adopt them.	£50 per hour of additional work
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*It is currently estimated (for indicative purposes) that the additional work undertaken as a consequence of chasing / processing late submissions of the year end data will be <b>one hour for each month that data is late</b> .
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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>27 MARCH 2015</b>	AGENDA ITEM NUMBER <b>11</b>
TITLE:	<b>2015 - 18 SERVICE PLAN AND BUDGET</b>	
WARD:	<b>'ALL'</b>	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Annex 1: 2015 – 18 Service Plan and Budget (including 4 Appendices)</b>		

## **1 THE ISSUE**

- 1.1 The purpose of this report is to present to Committee the 3 Year Service Plan and Budget for the period 1 April 2015 to 31 March 2018.
- 1.2 The Service Plan (Appendix 1) details development proposals that are planned to be undertaken during the next 3 financial years. These are designed to respond to known legislative changes and Committee initiatives as well as to take the Service forward by improving performance and overall quality of service to its stakeholders.

## **2 RECOMMENDATION**

- 2.1 That the Committee approves the 3 Year Service Plan and Budget for 2015-18 for the Avon Pension Fund.**

### **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.
- 3.3 Financial implications are contained within the body of the Report.

### **4 SERVICE PLAN 2015-18**

4.1 The Service Plan sets out the Pension Fund's objectives for the next three years. The three year budget supports the objectives and actions arising from the plan including work relating to the investment strategy and improvements in the administration of the Fund.

4.2 The main focus of this plan is as follows:

- (i) to ensure the Fund complies with The Pension Regulator requirements;
- (ii) develop and implement an IT strategy to achieve a digital step change in service delivery and to mitigate service demand growth;
- (iii) to develop a medium term funding strategy
- (iv) to explore the options for more effective matching of liabilities
- (v) support the introduction of Pension Boards

The later years will focus on consolidation, realising efficiencies and embedding partnership working with stakeholders.

4.3 Full details of the 2015-18 Service Plan are included in the Annex. Appendix 3 of the Service Plan shows the new medium term targets for 2015-18

### **5 BUDGET FOR 2015-18**

5.1 The Service Plan includes details of the proposed budget and cash flow forecast over this period. The three-year budget and cash flow forecast commencing 1 April 2015 are included as **APPENDIX 4A** to the Service Plan. A commentary on the budget is given in **APPENDIX 4B**.

5.2 The budget is split between those areas that relate to the administration of the Fund in terms of providing the administration service to members and employers, and those areas where there is less scope to directly control the costs. The latter areas include Investment Management and Custody costs where the fee structure is agreed by the Fund but the actual costs incurred are dependent upon investment performance and the volume of transactions. They also include governance and compliance expenses which are a consequence of the Fund's policy response to regulations and investment strategy. The budget also includes the estimated costs of the pension board. The LGPS regulations require the costs of local pension boards to be met by the local fund.

5.3 The budget approved for Administration, in 2014/15 was £2,383,600. In the proposed budget for 2015/16 this has been reduced to £2,378,600. The budget includes gross savings of £224,000 that have been made through changes in working arrangements and the greater adoption of digital technology. £71,400 of

these savings have had to be used to meet the costs of additional responsibilities, regulations and inflation. It is proposed that a further £147,600 of the savings will be invested in the IT Strategy that will make further use of digital technology resulting in further future reductions in costs. Wherever possible inflation has been absorbed. The Service Plan includes an analysis of the difference between the administration budget for 2014/15 and the administration budget for 2015/16.

5.4 The inclusion of the three year cash flow forecast reflects the need to monitor the Fund's cash flow since it ceased to be continuously cash flow positive. The close monitoring of the Fund's cash flow position is a vital tool in the management of the cash flow that is achieved through its investment strategy.

## 6 RISK MANAGEMENT

6.1 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

## 7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

## 8 CONSULTATION

8.1 N/a

## 9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Are detailed in the report.

## 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.

<b>Contact persons</b>	<p><b>Budget</b> – Martin Phillips, Finance &amp; Systems Manager (Pensions) (01225 395259)</p> <p><b>Service Plan</b> – Tony Bartlett, Head of Business, Finance and Pensions (01225 477302), Geoff Cleak, Pensions Manager (01225 395277), Liz Woodyard, Investments Manager (01225 395306)</p>
<b>Background papers</b>	Various Accounting Records

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**THE AVON PENSION FUND**

**SERVICE PLAN**

**2015 - 2018**

**PREPARED BY:**

**TONY BARTLETT, GEOFF CLEAK, MARTIN PHILLIPS and LIZ WOODYARD**

**MARCH 2015**

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### 1. INTRODUCTION

The 1<sup>st</sup> of April 2015 represents a key milestone in the governance arrangements of Local Government Pension Scheme's. From this date the Pensions Regulator takes responsibility for setting standards of administration and governance on all aspects of the scheme, whilst newly established Pensions Boards will play an independent scrutiny role to "assist" the Fund with its "regulatory compliance, effective and efficient administration and governance". Nationally the Local Government Scheme Advisory Board moves from shadow to live status and it too will impact on governance requirements and scheme benefits going forward.

With Pensions Administration certainly under the spotlight, there has been a slight abatement of pressure on Investment structures whilst the Election plays out in May 2015. The present government, keen to prescribe investment strategy at a national level, has expressed a preference specifically for collective investment vehicles and more collaborative arrangements between funds but has not dismissed the wholesale merger of pension funds.

The economic environment remains uncertain and it is clear that employers within the fund will continue to face financial challenges over the period of the next parliament with austerity measures set to continue until the end of the decade. The employers for their part and particularly Local Government will continue to seek cheaper alternative service delivery models giving rise to more staff transfers and staff reductions. The period will also include two valuations and for the first time the Government's cost sharing mechanism is likely to come into play when the valuation is struck for April 2016. Considering the Government's powers available within the new scheme regulations to change the benefits structure and contribution rates, continuing low bond yields and slow economic recovery globally would seem to make scheme changes inevitable at one or both valuations.

As expected, the number of employers within the scheme continues to increase and has reached 215 (at 31 January 2015) including 115 academies, with more staff transfers to commercial operators (3) and academies (13) in the pipeline, whilst membership is at an all-time high of 102,595, no doubt aided by auto enrolment. The Administration team continues to absorb this growth and has implemented all the necessary changes to administer the new 2014 CARE Scheme but this is not a sustainable position without further operational changes. It is becoming clearer that the growth in employers requires service changes to cope with the continuing diversity of employers, not only in supporting them through the transition to independence, but also on the ongoing management and administration of their pension responsibilities. It is also clear that further work is required on the automation of processes to maximise the efficiencies of the increasingly digital administration environment if the Fund is to continue effectively manage and communicate with the volume of employers. Perhaps the most critical area which will need attention - though is not necessarily anything to do with the LGPS - is the ability of members to take their pension funds early as cash. This is strongly seen as the next great miss-selling misadventure and will require a proactive response from the Fund and additional investment in communications to ensure Fund members properly understand the issues and are informed of the benefits and pitfalls

The Fund continues to maintain a highly diversified portfolio and for the most part, its investments continue to perform well, adding value with little change envisaged to Investment Strategy. The changes to the Investment Strategy made following 2013 review will all be in place by the time this document is published as will new contracts for Investment Consultancy advice and Actuarial Advice. The challenge now will be to improve investment returns and reduce investment risk further, whilst on the funding side employer covenant, small employer risk and taking a more strategic approach to the next two valuations will be essential

## Service Plan 2015-18

The Fund however, remains in a strong position to meet the challenges ahead with both the Administration and Investment areas having undergone evolutionary change in response to changing circumstances over recent years; its funding position remains relatively stable and funding strategy is on target. Administration costs remain below average and automation continues to press ahead thanks to the forward resource planning and investment made by Fund.

Moving forward, the challenge for the Fund now is to build upon and consolidate these changes and not get distracted by those things outside its control. In doing so, the Administration section will focus on improving the use of technology and the efficiency of operation, both of which recognise the role of the Pensions Regulator and the Pensions Board. A key plank of this IT Strategy will be the transition to a self-service environment for employers and members which will require a renewed relationship with the Fund's software supplier and continued development of key skills. The needs of employers will also be carefully considered and a revised "service offer" may be required as part of a revised Administration Strategy, all of which will require some changes to resourcing, but it is expected that this will be contained within the overall financial envelope. There will be significant work to be undertaken in achieving the Pensions Regulator's compliance requirements which is already in progress and there is a further significant project in reconciling the Guaranteed Minimum Pension requirements which has arisen from the DWP's own data cleanse.

The Investments function as stated will continue its focus of managing risk with attention focused on reducing investment risks through exploration of Liability Driven Investments, employer covenants and given the maturity of the Fund, carefully monitoring cash flow and divestment strategies. Some of the Fund's smaller employers continue to face financial difficulties and the Fund will continue to work with them to find affordable solutions. Importantly preparatory work for the 2016 and 2019 valuations will begin this year as it is expected to be a difficult challenge to balance funding, liquidity and affordability given the current economic circumstances.

Finally, training is expected to be a key feature in 2015, not only in supporting the development of the Pensions Board but also potentially new members of the Avon Pension Fund Committee; and to be added to training demand will be that of The Fire Service Pension Board for which the Fund holds the current administration contract.

## 2. KEY OBJECTIVES 2015 -18

The Fund's three core strategies, Investment, Funding and Administration are designed to maximise the efficiency and sustainability of the Fund and the success of these is critical. In particular diversification of investments has been a key strength in recent turbulent times but is resource and governance intensive with the Investment Panel taking on a greater workload; the Funding Strategy has been developed to ensure there is flexibility to manage affordability but not reduce the solvency of the Fund however, this will remain extremely challenging in the continued period of austerity; the Administration Strategy has set a direction of travel which is perfectly aligned to the developing operating environment but now needs to reflect the greater governance requirements of the Pensions Regulator and digital service delivery. **Appendix 2** sets out progress made against the key objectives in the 2014-17 service plan.

The **Key Objectives** for the Fund during the Service Plan period will be as follows:

### **Administration Strategy:**

1. To review the Administration Strategy to ensure the requirements of the Pensions Regulator are properly addressed in respect of both the Fund and Employers responsibilities in accordance with drafted codes of practice.

## Service Plan 2015-18

2. To develop and implement an IT Strategy designed to achieve a digital step change in service delivery and mitigate service demand growth.
3. To implement and embed the new Fire-fighters Pension Scheme in 2015, including systems enhancements and manage the ongoing exit of members of the Councillors Pension Scheme.
4. To undertake a review of the charging basis for Fire Scheme Pension. Current charge does not reflect complexity of Fire Schemes administration or volume of work and resource involved in supporting the service.
5. To provide “as required” support to the local LGPS and Fire Service Pension Boards.
6. To continue to redesign development of web services and information for employers and employees which is fully integrated with self-service provision.
7. To complete the rollout of Employer self-service and i-Connect to achieve 99% pension data receipt in 2015.
8. Develop online facilities for receipt of contribution payment information from employers.
9. To undertake a GMP data cleanse as required by DWP to ensure the fund is not at risk of pension overpayment.
10. Implement ‘auto task assignment’ software and realign processing functions with the administration teams.
11. To progress the move towards electronic delivery of Scheme communications to active members.
12. To improve the quality of member data held to meet The Pension Regulator’s minimum legal requirements as agreed within the required Improvement Plan.
13. To review support service arrangements to ensure the fund receives value for money services
14. To put in place the necessary structural changes to support the evolving operating arrangements and the growing need of employers within the fund

### **Funding Strategy:**

15. To further develop the covenant assessment monitoring process to support the funding position and valuations.
16. To investigate options for insuring ill-health retirement costs for smaller employers or employer clusters within the Fund.
17. To continue to mitigate the risks to small employers of funding variations.
18. To undertake an interim valuation during 2015/16 to assess how the funding position has evolved at the whole fund level.
19. To utilise the interim valuation to develop a medium term funding strategy to cover the next two triennial valuations that determine the contributions payable from 2017 and 2020.

### **Investment Strategy:**

20. To implement any changes to the Investment Strategy in line with the principles set out in the Statement of Investment Principles.
21. To develop the tactical asset allocation opportunities available within strategic benchmark parameters as they arise within global asset markets.
22. To examine the risks and benefits of Liability Driven Investment as a mechanism for reducing future liabilities.
23. To review the benefits of active currency hedging as a risk mitigation tool and determine the future direction of this mandate.

### **Governance:**

24. To implement the requirements of the Pensions Regulator code of practice and ensure the Committee is fully apprised of the requirements including the Improvement Plan.

## Service Plan 2015-18

25. To ensure the relationship between the Committee and the Pensions Board operates effectively and in the best interests of the Fund.
26. To ensure the new committee and the Pensions Board is fully briefed on current strategies and operations and in position to scrutinise and make decisions effectively.

**Appendix 3** sets out the Key Objectives and targets in the 2015-18 plan.

### 3. RESOURCE IMPLICATIONS

The Fund has invested additional resources in IT in recent years in anticipation of demand growth, new and emerging legislation and the reality of operating in a digital economy. Whilst still in a transition phase, it is clear that the pace at which Employer numbers and membership is growing is not sustainable without further investment particularly as public sector service delivery becomes increasingly diluted adding layers of complexity to data management.

The proposals contained within the IT Strategy are designed to achieve a step change in service delivery and provisional sums of £147,600 (2015/16), £155,500 (2016/17) and £86,300 (2017/18) have been included in the budget over the 3 years. It is proposed that these costs will be funded from savings made elsewhere in the budget. This investment will enable the fund to develop its self-service offer, enable the administration to respond more readily to key employer issues, ensure regulatory compliance whilst maintaining ongoing revenue cost levels at 0.04% of future service contributions. As these proposals are still under discussion with the Fund's key software supplier, firmer proposals will be brought to the committee in due course

Some structural changes are proposed to strengthen support for the Fund's IT solutions and recognise the project work necessary to achieve this step change. Further minor changes in the administration structure will reflect the TPR requirements and employer management issues but will be contained within the existing cost envelope. This also includes reviewing support service arrangements to maximise economies and efficiency following the insourcing of key suppliers.

There are a number of savings being pursued which will mitigate some of the temporary cost increases which are described below. However, it needs to be recognised that demand and complexity will give rise to an ongoing demand for investment or resource reallocation as the Fund transitions into greater use of digital services but that wherever possible, mitigating savings will always be sought in an effort to maintain unit costs in the lower quartile per capita (against other LGPS funds) and balance economy with efficiency and statutory obligations

### 5. BUDGET & CASHFLOW FORECAST 2015 – 18

#### **Budget:**

The three year budget plan is a continuation of the 2014-15 budget building on the developments that were incorporated within it. One off items for 2014-15 budget have been removed and additional one off items for 2015-16 have been included where necessary in order to maintain the level of service. Savings have been made across the budget through changing working arrangements and increasing use of technology. Wherever possible the effect of inflation has been absorbed. In the areas of Governance and Compliance and Investment Management, where expenditure cannot be directly controlled the budget reflects the expected volumes of work and fees.

Within the directly controlled budget for Administration there is a proposed gross saving of £224,000 made through efficiency savings. £71,000 of these savings have been used to

## Service Plan 2015-18

meet inflation and pay pressures and unavoidable growth, particularly in the matter of Guaranteed Minimum Pension reconciliation. A further £147,000 is being invested in the IT Strategy leaving a small net saving in 2015/16. This overall net saving is expected to increase in future years as a result of the IT strategy.

The Investments budget reflects the anticipated 6% growth in asset values and the consequent increase in Investment management fees. Actual expenditure will clearly be lower if this is not the case. The Investments budget also includes the net additional fees of the Diversified Growth Fund managers (for the full year) and the Infrastructure Fund manager (new investment).

The Pension Fund is required to meet the costs of Pensions Board that is expected to become operational by July 2015. These costs have been estimated and added to the overall cost to the Fund for the three year budget. Once the Board has been established it will be possible to make a more informed estimate of its cost.

### **Cash flow:**

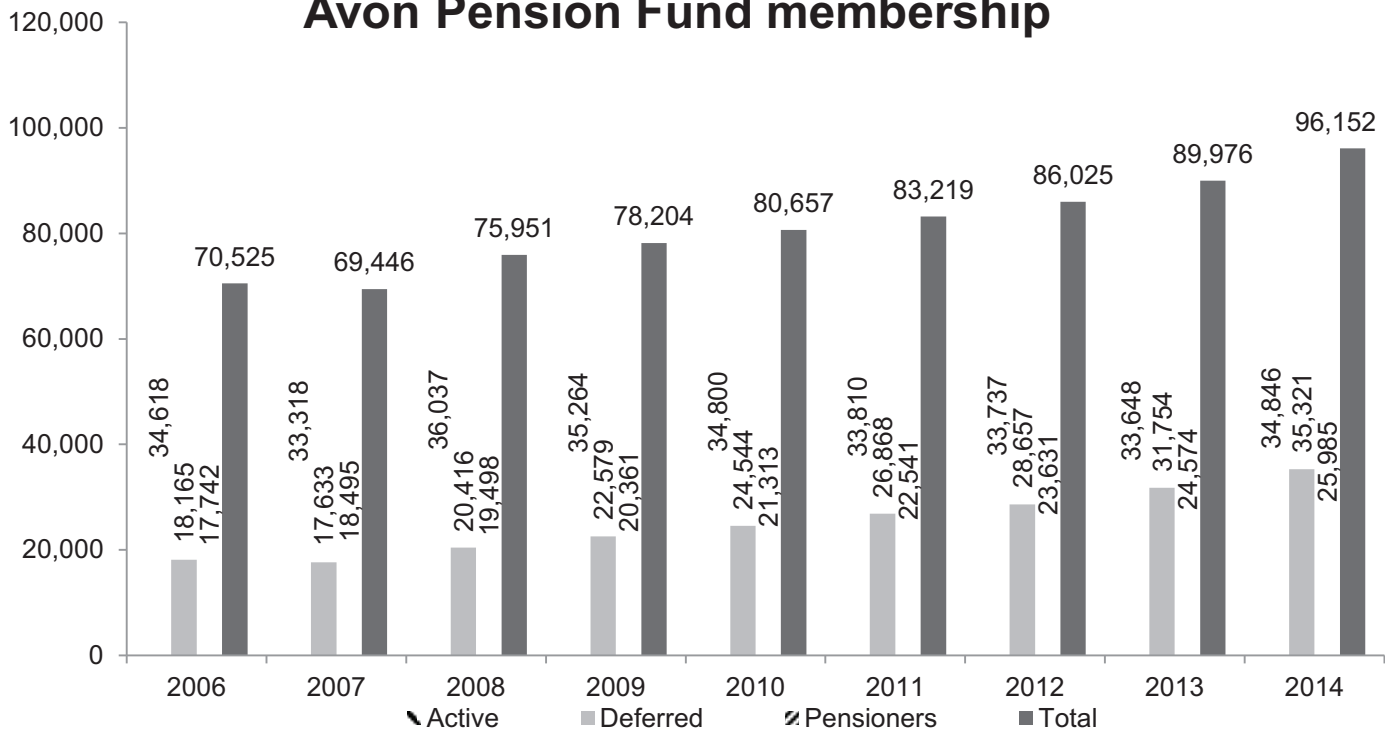
In recognition of the increasing importance of cash flow monitoring the Fund prepares a three year cash flow forecast. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The cash flow is currently monitored on a monthly basis and reported quarterly to Committee. As a result of the advance lump sum deficit payments made by the major employers in April 2014 the Fund had large cash in-flows (which were not anticipated when the cashflow forecast for 2014/15 was prepared). However the consequent absence of the deficit payments throughout 2014/15 to 2016/17 has exacerbated the negative annual cash flows. The negative cash flows will be managed by using income from the investment portfolio and divestments (of the lump sums already invested) if required.

Full details of the budget movements between 2015-16 and 2017-18 together with a cash flow forecast for the whole Fund are given in **Appendix 4A**. A commentary on the budget changes between 2014 -15 and 2015-16 is given in **Appendix 4B**.

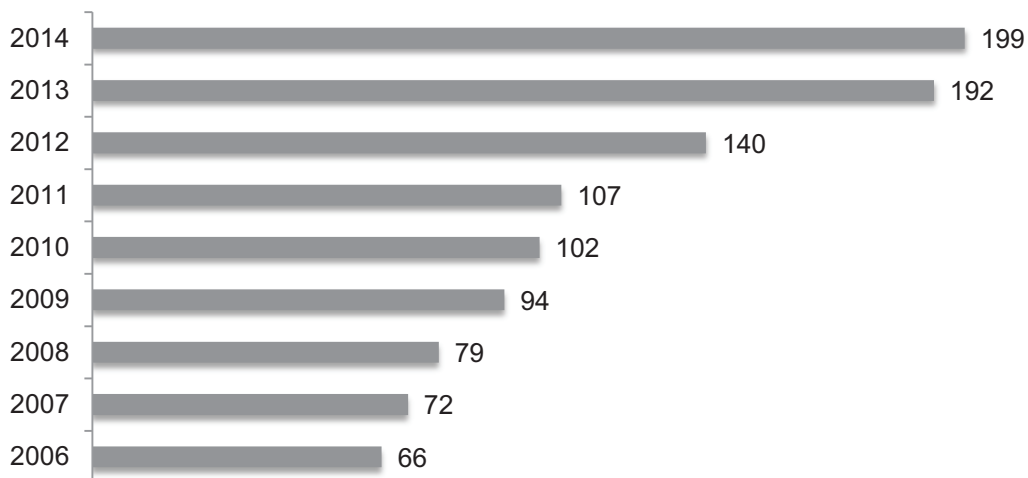


**Appendix 1 – Scope of Avon Pension Fund**  
(at 31 March 2014)

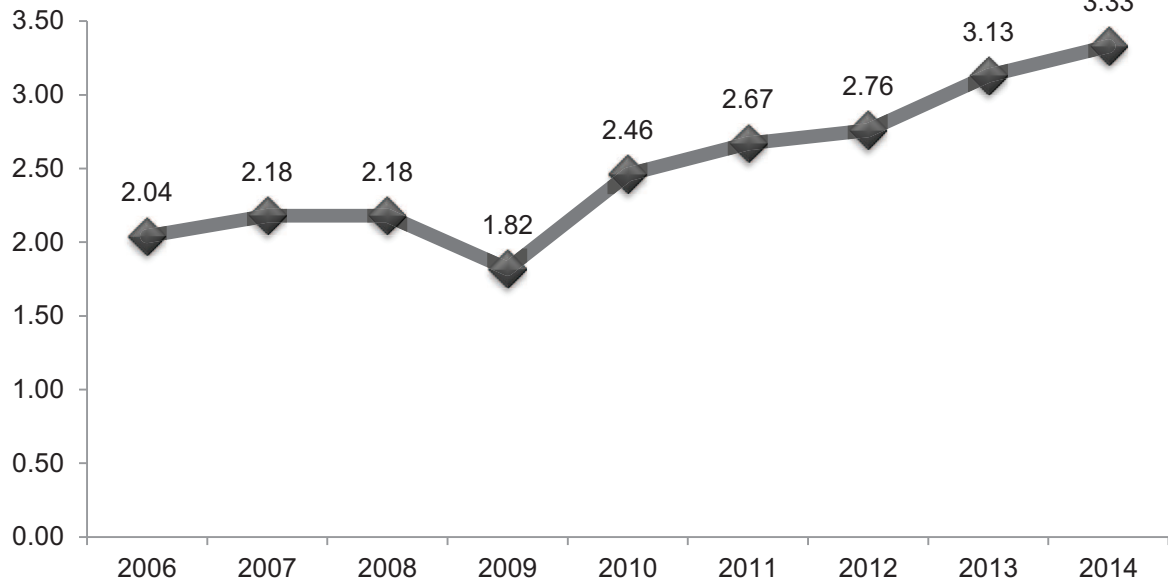
**Avon Pension Fund membership**



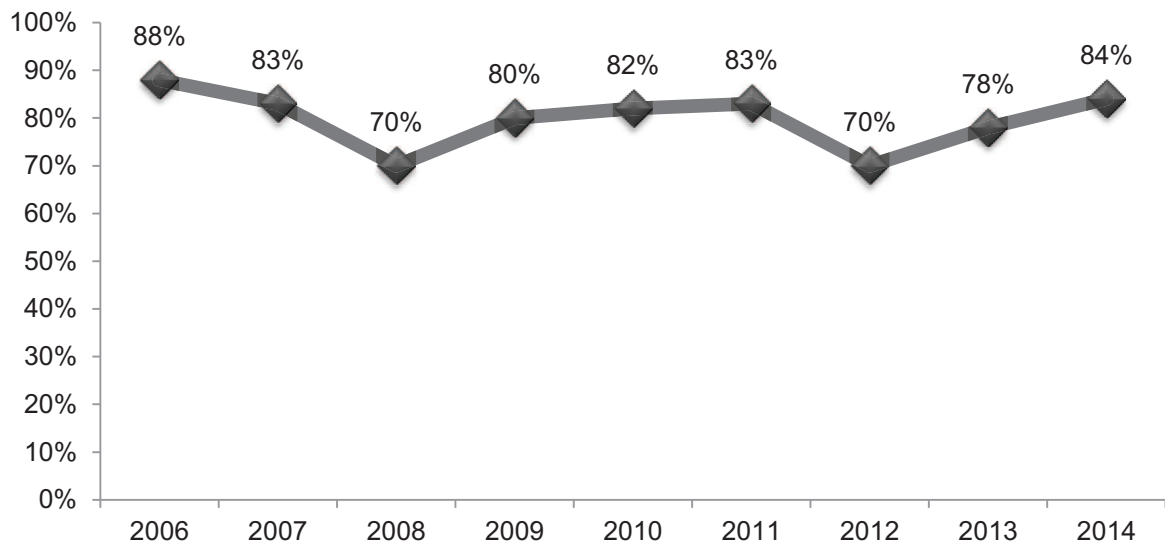
**Participating employers**



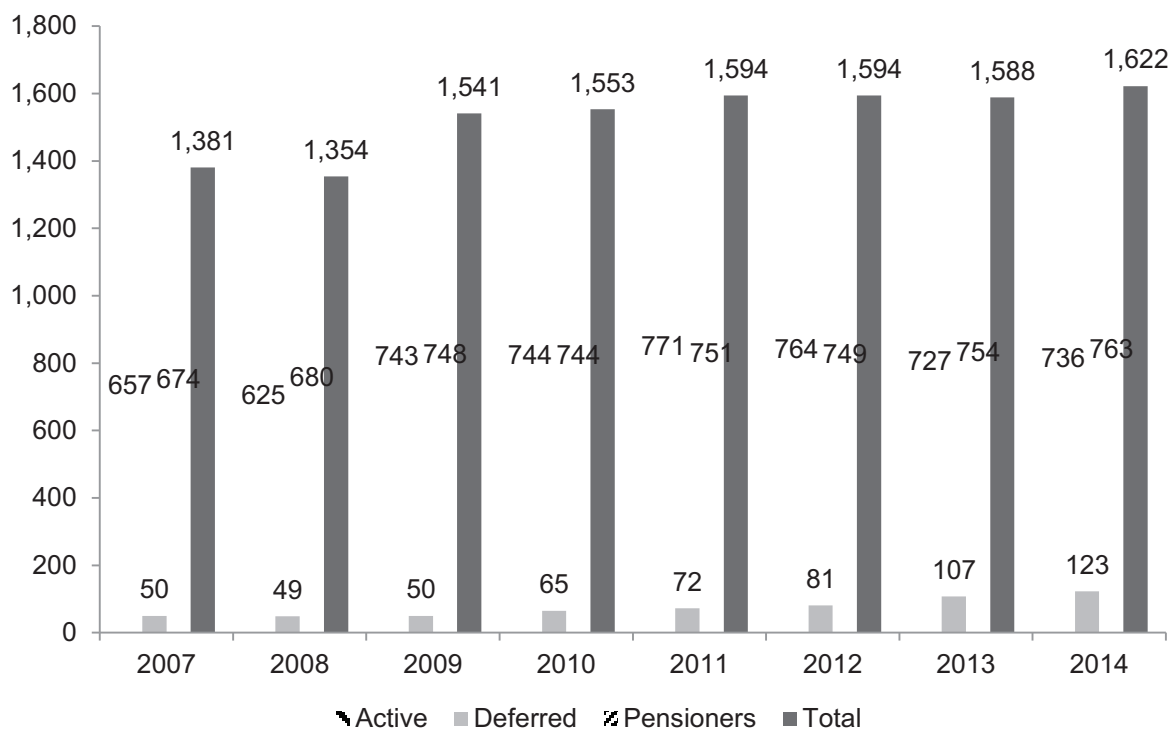
## Fund assets (£billion)



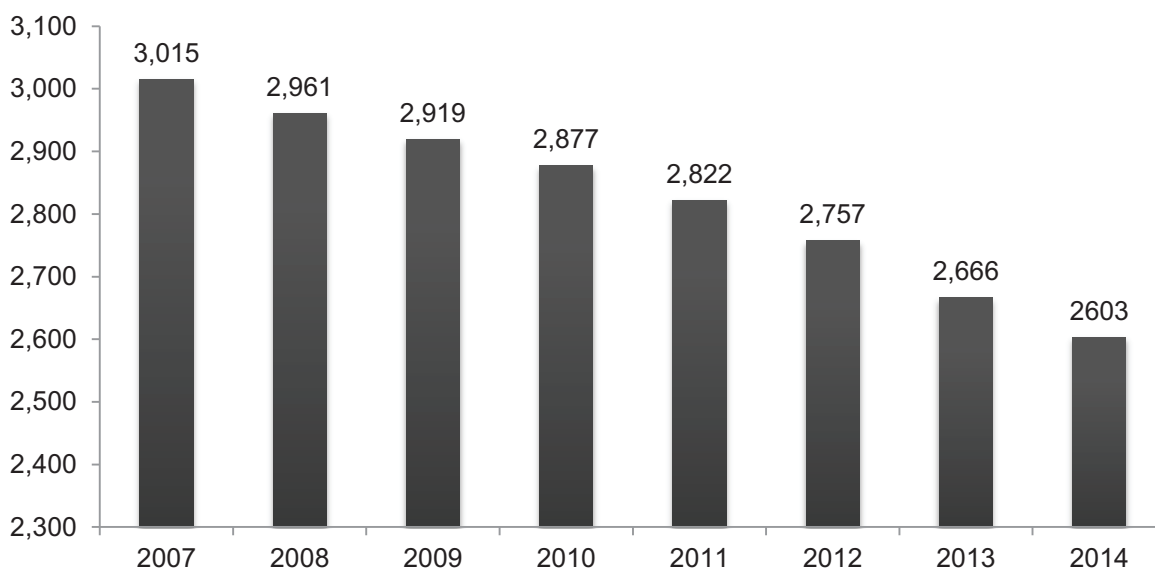
## Funding level



## Fire Fighters' Scheme - membership



## Teachers Compensatory Added Years - number of pensions in payment





## Progress against Key Objectives &amp; Targets in 2014-2017 Plan

	Key Objective	Tasks	Progress
1	Potential changes to structure of LGPS funds	<ul style="list-style-type: none"> <li>Assess implications for Fund of consultation and DCLG "Direction of Travel"</li> <li>Consultation from Government</li> <li>Direction of Travel (expected by June 2014)</li> </ul>	GREEN Consultations completed
2	To review the Governance arrangements for the Committee in view of the emerging changes	<ul style="list-style-type: none"> <li>Review the appointment of Independent Investment Advisor (awaiting governance arrangements from DCLG)</li> <li>Identify changes to governance arrangements as result of DCLG regulations</li> <li>Training for new members</li> <li>Committee Training (in-house provision) <ul style="list-style-type: none"> <li>New scheme</li> <li>Governance arrangements: implications of new public sector scheme requirements</li> </ul> </li> </ul>	AMBER Awaiting Pension Board arrangements  Pension Board will be established by 1 /4/15 Completed  Completed Completed
3	Review The Pension Regulators Code of Practice for Public Sector schemes	<ul style="list-style-type: none"> <li>Identify areas that need developing e.g. policy documentation</li> <li>Identify areas of non-compliance</li> </ul>	GREEN December 2014  (Workshop 3Q14)
4	Implement changes to the Investment Strategy maintaining compliance with the Funds Investment Principles and Policy	<ul style="list-style-type: none"> <li>Projects arising and Implementation process <ul style="list-style-type: none"> <li>Infrastructure</li> <li>Liability Driven Investing</li> </ul> </li> <li>Review hedge fund portfolio</li> </ul>	GREEN  Completed Planned for 2015/16 In progress
5	Investigate options for insuring ill-health risks	<ul style="list-style-type: none"> <li>Commission actuary report on options, costs and funding implications</li> </ul>	AMBER Planned for 2015/16
6	Develop a central document management system for storing financial, legal and actuarial information of individual employers	<ul style="list-style-type: none"> <li>Select appropriate software or set up new system to enable central storing of financial /actuarial data and correspondence</li> </ul>	AMBER Planned for 2015/16
7	Re-tender advisory contracts	<ul style="list-style-type: none"> <li>Tender actuarial and investment consultancy contracts under the South West LGPS Advisory Services Framework</li> </ul>	GREEN Completed

8	2015 Interim Valuation	<ul style="list-style-type: none"> <li>Inter-valuation assessment of funding position at whole fund level only as at 31 March 2015</li> </ul>	GREEN Outcome in 4Q15
9	Consolidate the Pension Section organisation structure to build resilience for the future, reduce risk and ensure fitness for purpose	<ul style="list-style-type: none"> <li>Develop the Data Quality team to improve data management to comply with the stringent requirements of the Pensions Regulator effective from April 2015.</li> <li>To assess the quality of existing data and identify errors/omissions and remedy by 2015</li> <li>Implement auto task assignment. Redesign Benefits team processing procedures</li> </ul>	GREEN Completed  Completed Ongoing reporting  AMBER Planned for 2015/16
10	Seamless introduction of New <b>LGPS</b> Scheme 2014 adapting to new pension software and successfully communicating with employers and members on changes	<ul style="list-style-type: none"> <li>Dealing with the extra administration and complexity of a new CARE Scheme <i>and</i> 50/50 Scheme</li> <li>Adapting to new and radically different pensions software</li> <li>Communication campaign with members and employers to successfully explain the changes – requiring member &amp; employer roadshow presentation events, Scheme newsletters, and replacement Scheme literature.</li> </ul>	GREEN Completed  Completed  Completed
11	Seamless introduction of New <b>Fire fighters</b> new Scheme in 2015 adapting to new pension software and successfully communicating with employers and members on changes	<ul style="list-style-type: none"> <li>Adapting to new pensions software</li> <li>Working with Avon Fire Service to put in place a successful communication campaign to explain changes to fire-fighters.</li> </ul>	GREEN Ongoing Ongoing Completion due 2015/16
12	To strengthen the working relationship and process efficiency with employers by moving to full electronic delivery of change in member data and other information through ESS and/or i-Connect	<ul style="list-style-type: none"> <li>Complete roll out of Employer Self Service (ESS): <ul style="list-style-type: none"> <li>- to larger employees</li> <li>- to medium AND smaller employers</li> </ul> </li> </ul>	AMBER 75+% of active membership achieved to date  4Q15 4Q15

		<ul style="list-style-type: none"> <li>• Complete installation of i-Connect software for 1 outstanding unitary and support the process</li> <li>• Market i-Connect to other participating employers in the Fund</li> <li>• Implement employer staff training programme</li> <li>• Develop online forms for receipt of monthly contributions data from employers</li> <li>• Roll out to all employers</li> <li>• Consider developing further to incorporate with monthly membership data changes</li> </ul>	<p>Due completion 1Q2015</p> <p>During 15/16</p> <p>Completed &amp; ongoing</p> <p>Completed</p> <p>Completed</p> <p>Review 2015/16</p>
13	To progress to electronic delivery to members as a cost saving measure	<ul style="list-style-type: none"> <li>• To progress to electronic delivery to active members of both personal and generic Scheme communications</li> <li>• Promotion of Member Self-Service to sign up members to enable this</li> </ul>	<p>AMBER</p> <p>Ongoing development</p> <p>Due completion 2016/17</p>
14	To redesign and launch new Member Website.	<ul style="list-style-type: none"> <li>• To compliment new employers website – allowing members greater flexibility and access to APF and related sites</li> </ul>	<p>AMBER</p> <p>Ongoing</p> <p>Due completion 2015/16</p>
15	To embrace partnership opportunities as they arise at both a local and regional level.	<ul style="list-style-type: none"> <li>• Pilot communications opportunities within region to support new scheme implementation</li> </ul>	<p>GREEN</p> <p>On-going</p>
16	Review AVC arrangements	<ul style="list-style-type: none"> <li>• Review range of investment choices for members</li> </ul>	<p>AMBER</p> <p>2/3Q15 delay due to Corporate changes at Friends Life</p>

RAG progress against key objectives/targets: Green (completed) = 63%  
Amber (Ongoing – due completion) = 37%

## Key Objectives &amp; Targets in 2015-2018 Plan

	Key Objective	Tasks	Target Date
Administration Strategy			
1	Implement IT Strategy to increase efficiency of ...	Workstreams: <ol style="list-style-type: none"> <li>1. Recruitment of ICT Support Team</li> <li>2. Create Shared Dev'ment Agenda               <ul style="list-style-type: none"> <li>• Use the actuary's online valuation modelling tools</li> <li>• Develop Document Management System</li> </ul> </li> <li>3. Progress employer electronic data delivery</li> <li>4. Develop website and member services</li> </ol>	September 2015 Ongoing  June 2015  March 2016  Ongoing  Ongoing
2	Review and revise Fire Service charging model	<ul style="list-style-type: none"> <li>• Review of cost basis</li> <li>• Undertake consultation exercise with Fire Service</li> <li>• Develop revised service offer and SLA</li> </ul>	September 2015
3	Embrace partnership and collaborative opportunities as they arise at both regional and national level	<ul style="list-style-type: none"> <li>• Pilot communications opportunities within region</li> <li>• Use of national and regional frameworks for services</li> </ul>	Ongoing  Ongoing
4	Implement new SLAs	<ul style="list-style-type: none"> <li>• Revise employer SLA document and reporting suite incorporating TPR Improvement Plan</li> </ul>	September 2015
5	Revise Administration Performance reporting and TPR Improvement plan	<ul style="list-style-type: none"> <li>• Develop reporting data to reflect membership mix, workload, performance and employer profiling</li> </ul>	September 2015
6	GMP data reconciliation project	<ul style="list-style-type: none"> <li>• Data match exercise with DWP to mitigate risk of pension overpayment</li> </ul>	2015/16 for upto two years
7	Trivial Commutation	<ul style="list-style-type: none"> <li>• Review pensioner member pension pots to identify potential commutation opportunity following 2014 Gov't Budget announcement.</li> </ul>	March 2016
Funding Strategy			
8	Further development of covenant assessment process to support valuations	<ul style="list-style-type: none"> <li>• Review current process and develop further using input from advisors</li> <li>• Agree framework for ongoing monitoring by employer/ groups of employers</li> </ul>	Commence April 2015 15  By end 2015
9	Investigate ill –health insurance options	<ul style="list-style-type: none"> <li>• Commission actuary report on options, costs and funding implications</li> </ul>	Commence June 2015

10	Interim Valuation 2015	<ul style="list-style-type: none"> <li>• Commission inter-valuation assessment of funding position at whole fund level as at 31/3/15</li> <li>• Use outcome to develop medium term funding strategy for 2016 &amp; 2019 valuations</li> </ul>	Commence April 2015  From November 2015
11	Review AVC arrangements	<ul style="list-style-type: none"> <li>• Review range of investment choices for members</li> </ul>	Commence once corporate changes at Friends Life finalised (merging with Aviva)
12	2016 Triennial Valuation	<ul style="list-style-type: none"> <li>• Initial outcome at Fund level</li> <li>• Disseminate individual outcomes to employers</li> </ul>	4Q16 4Q16/1Q17
Investment Strategy			
13	Implement changes to the Investment strategy maintaining compliance with the Fund's Investment Principles and Policies	<p>Potential projects</p> <ul style="list-style-type: none"> <li>• Liability Driven Investing</li> <li>• Use of tactical allocation ranges</li> <li>• Review decision to hedge foreign exchange exposure</li> </ul>	Start 2Q15 Start 3Q15 Start 2Q15
14	Retender Vote Monitoring contract	<ul style="list-style-type: none"> <li>• Re-tender contract for start 1 Feb 2016</li> </ul>	Start 3Q15
Governance			
15	Review governance arrangements following creation of Pension Board	<ul style="list-style-type: none"> <li>• Review appointment of Independent Investment Advisor</li> </ul>	2015/16
16	Ensure Committee members have knowledge and skills required	<ul style="list-style-type: none"> <li>• Training for new members</li> <li>• Committee training <ul style="list-style-type: none"> <li>○ Liability driven investing</li> <li>○ Interim valuation</li> <li>○ TPR Codes of Practice &amp; Improvement Plan</li> </ul> </li> </ul>	Start after May 2015  1Q16 4Q15 2Q15
17	Potential changes to the structure of LGPS funds	<ul style="list-style-type: none"> <li>• Engage in any consultations</li> <li>• Assess implications for the Fund if any proposals put forward</li> </ul>	ongoing
18	Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board	<ul style="list-style-type: none"> <li>• Determine reporting requirement for both boards</li> <li>• Support education and training needs as required</li> </ul>	2015/16
19	Independent Members on Committee	<ul style="list-style-type: none"> <li>• Current term of the two Independent Members ends 31 May 2017</li> <li>• Appoint at least one new independent member</li> </ul>	Start October 2016

## Three Year Budget

	Budget for 2014/15 £	Forecast 2014/15 £	Budget 2015/16 per 2014/15 3 year budget £	Budget 2015/16 £	Budget 2016/17 £	Budget 2017/18 £
Investment Expenses	69,400	69,400	70,800	68,400	68,800	70,200
Administration Costs	78,500	78,500	77,000	68,400	66,700	68,100
Communication Costs	90,100	46,400	72,200	67,800	69,100	70,500
Payroll Communication Costs	81,100	81,100	82,700	76,600	78,100	79,600
Information Systems	255,800	255,800	242,000	268,200	255,100	260,200
Salaries	1,525,300	1,450,300	1,555,900	1,501,300	1,493,000	1,522,800
Central Allocated Costs	425,900	425,900	432,000	402,100	410,200	418,400
IT Strategy	-	-	-	147,600	155,500	86,300
Recharges Admin	(142,500)	(142,500)	(145,400)	(221,800)	(226,600)	(222,300)
<b>Total Administration</b>	<b>2,383,600</b>	<b>2,264,900</b>	<b>2,387,200</b>	<b>2,378,600</b>	<b>2,369,900</b>	<b>2,353,800</b>
Governance Costs	252,600	277,600	186,000	270,500	205,700	209,800
- Members' Allowances	39,100	39,100	39,900	40,000	40,800	41,600
- Independent Members' Costs	18,900	18,900	19,300	19,300	19,600	20,000
Compliance Costs	331,100	331,100	337,700	428,000	531,300	414,500
Compliance Costs recharged	(191,000)	(191,000)	(194,800)	(250,000)	(255,000)	(260,100)
<b>Governance &amp; Compliance</b>	<b>450,700</b>	<b>475,700</b>	<b>388,100</b>	<b>507,800</b>	<b>542,400</b>	<b>425,800</b>
Global Custodian Fees	82,500	82,500	84,100	84,100	85,800	87,500
Investment Manager Fees	15,978,700	15,513,000	17,447,600	18,532,300	18,902,900	19,281,000
<b>Investment Fees</b>	<b>16,061,200</b>	<b>15,595,500</b>	<b>17,531,700</b>	<b>18,616,400</b>	<b>18,988,700</b>	<b>19,368,500</b>
<b>NET COST OF FUND</b>	<b>18,895,500</b>	<b>18,336,100</b>	<b>20,307,000</b>	<b>21,502,800</b>	<b>21,901,000</b>	<b>22,148,100</b>
<b>Pensions Board</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37,400</b>	<b>37,500</b>	<b>37,800</b>
<b>TOTAL COST TO FUND</b>	<b>18,895,500</b>	<b>18,336,100</b>	<b>20,307,000</b>	<b>21,540,200</b>	<b>21,938,500</b>	<b>22,185,900</b>

## Cash Flow Forecast

		Estimated Out-turn 2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Cash Balance 1st April		19,701	38,000	13,780	1,916
<b>Outflows</b>					
Benefits	Pensions	(120,765)	(123,869)	(129,664)	(135,654)
	Lump sums	(36,238)	(33,890)	(34,568)	(35,260)
Administration costs & Management Fees		(7,404)	(5,765)	(6,006)	(6,259)
Total Outflows		(164,407)	(163,524)	(170,238)	(177,173)
<b>Inflows</b>					
Deficit recovery		84,198	7,278	10,259	46,272
Future service Contributions		117,137	116,784	122,871	124,100
Total Contributions		201,335	124,062	133,131	170,372
Net Cash Flow (excluding Investment income)		36,928	(39,462)	(37,107)	(6,800)
Investment income received as cash		15,243	15,243	15,243	15,243
<b>Net Cash Flow (Out-Flow)</b>		<b>52,170</b>	<b>(24,220)</b>	<b>(21,864)</b>	<b>8,442</b>
Transfer to / from non cash investments		(33,871)		10,000	
Cash balance at 31st March		38,000	13,780	1,916	10,358
Note : Transfers in and out assumed to net to zero					
: Administration costs include administration expenses plus Investment Management Fees that are invoiced					

-224000  
71400  
147700

**SERVICE PLAN 2015 – 2018**

A three year budget for 2015 to 2018 is included as Appendix 4A.

The budget is split between those areas that relate to the administration of the Fund in terms of providing the administration service to members and employers, and those areas where there is less scope to directly control the costs. The latter areas include Investment Management and Custody costs where the fee structure is agreed by the Fund but the actual costs incurred are dependent upon investment performance and the volume of transactions. They also include compliance and governance expenses which are a consequence of the Fund's policy response to regulations and investment strategy.

The proposed budget is a continuation of the 2014/15 budget with savings made through increased efficiency without compromising service delivery. The cost of inflation has been absorbed wherever possible. Some of the savings have been reinvested in the IT Strategy to achieve further efficiencies in the future.

**Administration Budget**

The table below shows the change from the Administration Budget for 2014/15 to the Administration budgets for 2015/16 to 2017/18.

	2015/16	2016/17	2017/18
<b>2014/15 Administration Budget</b>	<b>2,383,600</b>	<b>2,383,600</b>	<b>2,383,600</b>
<b>Changes to 2014/15 Administration Budget :</b>			
<b>Additional responsibilities &amp; Regulation</b>			
GMP reconciliation	34,300	-	-
LGPS Advisory Board Levy and increased subs	3,100	3,200	3,200
<b>Inflation and pay pressures</b>			
Pay	20,900	61,900	93,700
non pay assume 1% (exc man' fees)	13,100	13,400	13,600
Central Charges	-	8,200	16,500
<b>Efficiency savings</b>			
Communications	- 26,900	- 24,700	- 22,400
Training	- 29,000	- 28,700	- 28,300
Staff secondments and retirement	- 130,300	- 145,900	- 148,800
Recharges	- 28,600	- 32,500	- 27,100
Absorption of inflation and other savings	- 9,200	- 24,200	- 16,500
<b>Net saving on existing administration costs</b>	<b>- 152,600</b>	<b>- 169,300</b>	<b>- 116,100</b>
<b>IT Strategy</b>			
Training	5,000	10,000	5,000
Systems & website development	50,000	80,000	27,000
Consultancy and Set Up	54,100	5,000	5,000
Support and Maintenance	18,000	19,500	7,500
Salaries	20,500	41,000	41,800
	<b>147,600</b>	<b>155,500</b>	<b>86,300</b>
<b>Net change in Administration Budget after IT Strategy</b>	<b>- 5,000</b>	<b>- 13,800</b>	<b>- 29,800</b>
<b>Total Administration Budget</b>	<b>2,378,600</b>	<b>2,369,800</b>	<b>2,353,800</b>

The 2015/16 savings have been made through changes in working arrangements and the adoption of digital technology to promote efficiency while maintaining the level of service. Savings have been found across the budget, including, where possible, the absorption of the effect of inflation. This has resulted in gross savings of £224,000. Some



of these savings have been used to meet new demands particularly on pay pressures and the need for Guaranteed Minimum Pension reconciliation. Most of the remaining savings made in 2015/16 are recommended to be invested in the IT Strategy that will realise further savings and or mitigate cost pressures in future years.

## **Scheme Administration**

### **1. Salaries**

There is a net reduction in salary costs of £88,900 (including some salaries within the IT Strategy). A gross saving of £130,300 is the result of partially seconding the Payments, Communications and Systems Manager to People Services and by not directly replacing the Pensions Manager after their anticipated retirement. (The internal secondment results in reduced costs as opposed to increased recharges). These savings have partially been offset by the cost of the pay award, increments, changes in National Insurance and Pension contributions, and the staffing requirements of the IT Strategy.

The 2014/15 increase in pay rates is followed by an assumed 1% increase in 2016/17 and 2% in 2017/18. These will be reviewed in the preparation of the next three year budget.

### **2. Investment Expenses and Administration**

Savings in the training budget have been achieved by bringing the management of training within the Fund and by making greater use of the Council's in house courses. This has been possible following the successful completion of external courses and the greater availability of courses available from the Council. Part of the savings on the training budget will be used to provide the necessary training relating to the IT Strategy.

There have also been savings on printing costs following the establishment of new arrangements with the Council. These savings have been partially offset by increases in the budget for subscriptions. There is also an additional £3,000 budget in 2015/16 for AVC Monitoring.

### **3. Communications and Payroll Communications**

The increased use of electronic means of delivery has allowed savings of £22,300 to be made in Communications. In Payroll Communications new arrangements around the use of Postal services will produce savings of £4,500.

### **4. Information Systems**

The Information Systems budget has been increased to meet additional IT costs. However part of this will be recharged to Avon Fire and Rescue as it relates specifically to Fire Fighters pensions.

### **5. Central Allocated Costs**

Central Allocated Costs for Accommodation, IT, Financial Management etc. have been reduced by £5,800 when compared with the 2014/15 budget level. Further savings have been made following new arrangements for more closely sharing the management and provision of training with the Council. There will be an ongoing review of central charges through 2015 to ensure the Fund receives value for money.

### **6. IT Strategy**

Over the three years the IT Strategy is proposed to be funded from savings in the existing budget. The projected costs, indicative at this stage, include the initial use of



consultants, systems set up, development support and maintenance, training, and the cost of additional support staff salaries.

## **7. Administration Recharges**

The budget for income has been increased by £79,300. This is largely due to the recharging of the salary costs for a Senior Projects officer seconded to Bristol City Council. There is also £10,100 due to increases in recharges for administrative services that are calculated on agreed formulae that include the rate of inflation and £6,000 as a result of a forecast increase in the number of recharges of pension sharing costs.

## **Governance and Compliance**

### **8. Governance**

The budget has been increased by £19,200 partly to provide the necessary training for new members of the Committee who will be joining after May. The provision for consultants advising on the Hedge Fund review has been removed and the provision for consultants assisting with tendering has been reduced. These savings have been offset by the provision for advice on Liability Driven Investments and other ad hoc consultants reports.

### **9. Compliance costs and Compliance costs recharged**

The budget includes an additional £30,000 to meet the actuarial costs of the interim valuation. Legal fees are incurred as they are required. The budget has been increased by £10,000 to reflect the increased requirement for legal work that was experienced during the current year.

The budget also includes provision for any other Actuarial Fees incurred either for the Fund or for the benefit of specific employers. Wherever these fees can be recharged the recharges include an allowance for the time spent by the Fund in preparing data for the actuarial work. The budget reflects the forecast that the volume of non-rechargeable work will increase. Increased expenditure on actuarial fees relating to FRS17 / IAS19 disclosures will be recovered through recharges to those employers that require the statements.

## **Investment Fees**

### **10. Investments fees**

Expenditure on investment management is subject to the performance of the investment assets. The investment management fees budget is based on the assumption that there will be a 6% increase in asset values during 2015/16, i.e. the investment objective will be achieved; conversely if this is not the case then fee levels will be lower.

The increase in fees over the 2014/15 budget is due to a number of changes in the investment structure some of which are as a result of decisions made by the Committee and Panel. The fees for one of the Diversified Growth Funds (DGF) increased following the appointment of a new manager. The assets under the currency hedging programme have increased more than 6% so the fee base is higher than the current budget. The rate of investment in the overseas property portfolio has significantly increased over the year from £113m to £151m and now that the portfolio is more fully invested, future fees can be estimated more accurately. These additional fees are partly offset by the reduction in fees relating to the former managers (low cost passive portfolios) from whom the funding for these investments is being taken.

There is also a provision for performance fees where they are expected to be incurred during the year.

### **The Pensions Board**

The Pension Fund is required to fund the costs of the Pensions Board. The Board is expected to become operational by July 2015. An initial budget for the operation of the Board is set out below. The budget has been prepared on the assumption that the Board will have six members plus a chair person and will meet four times in the first year. The members will require training in the specialised areas over which they will be presiding.

### **Pensions Board**

	<b>2015/16</b>
Chairman's Allowance & Member's Expenses	11,600
Training	6,000
Meetings	6,000
Officer Support	12,800
Communications	1,000
	<b>37,400</b>

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	AGENDA ITEM NUMBER
MEETING DATE:	<b>27 MARCH 2015</b>	
TITLE: <b>TREASURY MANAGEMENT POLICY</b>		
WARD: <b>'ALL'</b>		
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Appendix 1</b> The proposed Treasury Management		

**THE ISSUE**

- 1.1 The Fund's Treasury Management policy was approved in March 2014. The policy closely mirrors the Council's policy set out in the Councils' Annual Investment Strategy.
- 1.2 The Committee are asked to approve the Treasury Management policy each year.
- 1.3 The policy proposed for 2015/16 differs from the policy approved in March 2014 in that it removes the restriction of approved counterparties to only those based in the UK. All the required credit ratings and investment limits remain unchanged. The proposed policy is set out in Appendix 1.

**2. RECOMMENDATION**

- 2.1 That the Committee approves the Treasury Management Policy as set out in Appendix 1**

### **3 FINANCIAL IMPLICATIONS**

- 3.1 The Fund requires accessibility to short term cash investments to meet its day to day operating requirements. Cash received in contributions needs to be invested for periods from a few days to less than three weeks before being used to meet the payment of pensions. This short term investment of up to £25m earns interest and incurs transfer costs. However the significance of an efficient means of short term investment is to ensure that the payment of pensions can be achieved on time and without incurring unplanned borrowing costs.

### **4 THE REPORT**

- 4.1 The proposed Treasury Management policy closely mirrors the policy set out in the Councils' Annual Investment Strategy. The Pension Fund's Treasury Management is managed by the Council's Treasury Management team. The Pension Fund and Council have a similar attitude to Treasury Management risk. The use of similarly formatted policies reduces the risk of error. Where the policy limits differ, it is a reflection of the different cash flow requirements and the amounts of cash that need to be invested.
- 4.2 The Fund has previously made extensive use of Barclays Platinum Call account. The rules of access to this account particularly suited the Fund's cash flow requirements. Barclays have announced their intention to withdraw this account. In order to use an equivalent alternative without increasing the limits on existing accounts, it will be necessary to use a bank outside the UK. It is therefore proposed that the Fund's restriction to UK banks be lifted. The required credit ratings and investment limits remain unchanged and all potential counterparties are continuously monitored using the advice of external consultants.
- 4.3 The Pension Fund's Treasury Management Policy was originally restricted to UK banks because it was not expected that the Fund would require many counterparties. Extending the Policy to non UK banks brings the Fund in to line with the Council's Treasury Management Policy. The credit ratings of non UK banks reflect any issues around the regulations and jurisdiction governing those banks. Consequently there is no difference in the level of risk between UK banks and non UK banks with equal credit ratings.

### **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 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.

### **6. EQUALITIES**

- 6.1 This report provides recommendations about the Fund's Treasury Management Policy and no specific equalities impact assessment was carried out.

### **7. CONSULTATION**

- 7.1 None appropriate.

### **8. ISSUES TO CONSIDER IN REACHING THE DECISION**

- 8.1 The issues are detailed in the report.

## 9. ADVICE SOUGHT

1.1 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.

<b>Contact person</b>	Martin Phillips Finance & Systems Manager (Pensions)) ( <i>Budgets</i> ) Tel: 01225 395259.
<b>Background papers</b>	Various Accounting and Statistical Records

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## AVON PENSION FUND

### – DRAFT TREASURY MANAGEMENT POLICY 2015

- 1 The management of the pension fund cash will be delegated to B&NES Council Treasury Management team.
- 2 The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back in to the Pension Fund bank account.
- 3 The Pension Fund's limits are in addition to the Council's limit in any single counterparty.
- 4 The Fund will invest its short term cash balances in bank call accounts and Money Market Funds (with maximum notice requirements of three days) that fall within the credit rating criteria stated below.
- 5 In the event that call accounts and Money Market Funds are not available the Fund will invest its short term balances with counterparties meeting the same ratings criteria.
- 6 In the absence of alternative or more preferred counter parties the Fund will invest its short term balances with the Government's Debt Management Office.
- 7 The criteria for acceptable counter parties and their limits are:-

	<b>Maximum Monetary limit</b>	<b>Time limit</b>
Banks and building societies holding long-term credit ratings no lower than A- or equivalent and a Fitch Support Rating (where given) no lower than 3. (see note 1)	£10m each	2 months
Money market funds (see note 2) holding the highest possible credit ratings (AAA) or equivalent.	£10m each	3 months
NatWest Bank (as the Council / Pension Fund's Banker), rating and limits as other UK banks or, if rating below that, but no lower than BBB-	£10m	To next working day.

Where the above counterparties are considered unavailable for any reason:-

UK Local Authorities (see note 3) (irrespective of ratings)	£5m each	2 months
UK Central Government (Including Debt Management Agency Deposit Facility)	no limit	no limit

- 1, Banks within the same group ownership are treated as one bank for limit purposes.
- 2, as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003
- 3, as defined in the Local Government Act 2003

- 8 The cash retained as a working balance will target £10 million.
- 9 The Treasury Manager will inform the pension Fund of any changes to the counterparty credit ratings.
- 10 All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.
- 11 A guide to the rating agencies equivalent ratings and to the credit ratings themselves is given below.

<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;P</b>
Long term	Long term	Long term
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-

There are a further three levels of C ratings.

<b>Rating</b>	<b>Details</b>
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

12, The current credit ratings of counter-parties that would be accepted under the proposed policy are given below.



**Proposed Counterparty List - Unsecured Bank Investments  
2015/16**

	FITCH RATINGS			Moody's Ratings		S&P Ratings	
	S/Term	L/Term	Support	S/Term	L/Term	S/Term	L/Term
<b>UK Banks</b>		<b>Sovereign Rating</b>	<b>AA+</b>		<b>Aa1</b>		<b>AAA</b>
Barclays Bank plc	F1	A	1	P-1	A2	A-1	A
Goldman Sachs International	F1	A		P-1	A2	A-1	A
HSBC Bank plc	F1+	AA-	1	P-1	Aa3	A-1+	AA-
<b>Lloyds Banking Group</b>							
Lloyds Bank plc	F1	A	1	P-1	A1	A-1	A
Bank of Scotland plc	F1	A	1	P-1	A1	A-1	A
<b>Royal Bank of Scotland Group</b>							
National Westminster Bank plc	F1	A	1	P-2	Baa1	A-2	A-
Royal Bank of Scotland plc	F1	A	1	P-2	Baa1	A-2	A-
Santander UK plc ( <b>domiciled in UK</b> )	F1	A	1	P-1	A2	A-1	A
Standard Chartered Bank	F1+	AA-	1	P-1	A1	A-1	A+
<b>UK Building Societies</b>							
Nationwide	F1	A	1	P-1	A2	A-1	A
Yorkshire	F1	A-	5	P-2	Baa1	-	-
Coventry	F1	A	5	P-2	A3	-	-
Leeds	F1	A-	5	P-2	A3	-	-
<b>Foreign Banks</b>							
<b>Australia</b>		<b>Sovereign Rating</b>	<b>AAA</b>		<b>Aaa</b>		<b>AAA</b>
Australia & New Zealand Banking Group	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Commonwealth Bank of Australia	F1+	AA-	1	P-1	Aa2	A-1+	AA-
<b>National Australia Bank Group</b>							
National Australia Bank Ltd	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Westpac Banking Corporation	F1+	AA-	1	P-1	Aa2	A-1+	AA-
<b>Canada</b>		<b>Sovereign Rating</b>	<b>AAA</b>		<b>Aaa</b>		<b>AAA</b>
Bank of Montreal	F1+	AA-	1	P-1	Aa3	A-1	A+
Bank of Nova Scotia	F1+	AA-	1	P-1	Aa2	A-1	A+
Canadian Imperial Bank of Commerce	F1+	AA-	1	P-1	Aa3	A-1	A+
Royal Bank of Canada	F1+	AA	1	P-1	Aa3	A-1+	AA-
Toronto-Dominion Bank	10	AA-	1	P-1	Aa1	A-1+	AA-
<b>Finland</b>		<b>Sovereign Rating</b>	<b>AAA</b>		<b>Aaa</b>		<b>AA+</b>
Nordea Bank Finland ABP	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Pohjola Bank plc	F1	A+	1	P-1	Aa3	A-1+	AA-
<b>Germany</b>		<b>Sovereign Rating</b>	<b>AAA</b>		<b>Aaa</b>		<b>AAA</b>
Deutsche Bank AG	F1+	A+	1	P-2	A3	A-1	A
Landesbank Hessen-Thuringen	F1+	A+	1	P-1	A2	A-1	A
<b>Netherlands</b>		<b>Sovereign Rating</b>	<b>AAA</b>		<b>Aaa</b>		<b>AA+</b>
Bank Nederlandse Gemeenten	F1+	AAA	1	P-1	Aaa	A-1+	AA+
Coöperatieve Centrale Raiffe	F1+	AA-	1	P-1	Aa2	A-1	A+
ING Bank NV	F1+	A+	1	P-1	A2	A-1	A
<b>Singapore</b>		<b>Sovereign Rating</b>	<b>AAA</b>		<b>Aaa</b>		<b>AAA</b>
Development Bank of Singapore Ltd	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp	F1+	AA-	1	P-1	Aa1	A-1+	AA-
United Overseas Bank Ltd	F1+	AA-	1	P-1	Aa1	A-1+	AA-
<b>Sweden</b>		<b>Sovereign Rating</b>	<b>AAA</b>		<b>Aaa</b>		<b>AAA</b>
Svenska Handelsbanken	F1+	AA-	1	P-1	Aa3	A-1+	AA-
<b>Switzerland</b>		<b>Sovereign Rating</b>	<b>AAA</b>		<b>Aaa</b>		<b>AAA</b>
Credit Suisse AG	F1	A	1	P-1	A1	A-1	A
<b>USA</b>		<b>Sovereign Rating</b>	<b>AAA</b>		<b>Aaa</b>		<b>AA+</b>
J P Morgan Chase Bank NA	F1	A+	1	P-1	Aa3	A-1	A+
<b>Supernational</b>							
Council of Europe Development	F1+	AA+	-	P-1	Aa1	A-1+	AA+
European Bank for Reconstruction & Dev	F1+	AAA	-	P-1	Aaa	A-1+	AAA
European Investment Bank	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Inter-American Development Bank	F1+	AAA	-	P-1	Aaa	A-1+	AAA
IBRD (World Bank)	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Kreditanstalt Fuer Wiefrauf	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Nordic Investment Bank	-	-	-	P-1	Aaa	A-1+	AAA

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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>27 March 2015</b>	AGENDA ITEM NUMBER <b>13</b>
TITLE:	<b>LGPS 2014: Delegated Powers on discretionary decisions</b>	
WARD:	<b>ALL</b>	
<b>AN OPEN PUBLIC ITEM</b>		
<p>List of attachments to this report:</p> <p>Appendix 1 - Change in procedure for setting up admission agreements within the Avon Pension Fund</p> <p>Appendix 2 – Revised list of Delegated Powers on discretions : March 2015</p>		

## **1 THE ISSUES**

- 1.1 The purpose of this report is to update the Committee on any changes required in respect of the delegation of discretions. Appendix 1 explains the change in procedure required when entering into an admission agreement.
- 1.2 Appendix 2 updates the list held on discretions that are delegated to officers. This list was last approved by Committee in June 2008 after the previous scheme changes and now needs to reflect the current position under the LGPS 2014 scheme.

## **2 RECOMMENDATION**

- 2.1 That the Committee approve the change in procedure for setting up admission agreements as set out in Appendix 1
- 2.2 That the Committee approve the updated list of discretions requiring delegations as set out in Appendix 2

### **3 FINANCIAL IMPLICATIONS**

3.1 The administrative and management costs incurred by Avon Pension Fund are recovered from the employing bodies through the employer's contribution rates

3.2 There are no specific financial implications.

### **4 DELEGATED DISCRETIONS**

4.1 The Local Government Pension Scheme [LGPS] Regulations include a number of areas where the administering authority is required to make discretionary decisions in certain circumstances but where a specific policy is not required.

4.2 A review is required on these delegations to take into account regulation changes and ensures the correct references are in place.

4.3 Most of these discretions are operational and the delegations required relate to the way in which the Council exercises discretionary powers within a statutory framework. As a general principle it is proposed that these powers be exercised by the Divisional Director – Business Support on the Committee's behalf. With the majority of the delegations the Committee will simply be confirming delegations already granted.

4.4 Appendix 1 sets out details for Admission Bodies where a change in procedure is required as a result of the regulations changes..

4.5 The delegations for discretions were initially brought before the Committee in December 2000 and were further ratified in June 2004 when further discretions were added. A review of the delegations was put to the Committee in 2005 to demonstrate that it was necessary to sub-delegate many of these duties for practical operational reasons to the Head of Pensions and pension fund managers.

4.6 Another update was made to bring them in line with the 2008 regulations.

4.7 The revised list is set out in Appendix 2.

### **5 RISK MANAGEMENT**

5.1 No specific issues to consider.

### **6 EQUALITIES**

6.1 None as this 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.

<b>Contact person</b>	Alan South Technical Manager (Tel: 01225 395283) Liz Woodyard, Investments Manager (Tel: 01225 395306)
<b>Background papers</b>	<i>Avon Pension Fund Committees Dec 2000 , June 2004 June 2005, and June 2008</i> <i>The Local Government Pension Scheme Regulations 2013</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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## Admission Bodies

### Procedural change required as a result of change in regulations

There are two distinctive types of admission body that are able to join the Avon Pension Fund.

A Community Admission Body [CAB]	As set out in regulations below
A Transferee Admission Body [TAB]	

The new regulations no longer use the terms “community admission body” and “transferee admission body” but in reality the distinction between the two remains and for convenience the Avon Pension Fund will continue to use these terms.

As the pension liabilities of a TAB have to be guaranteed by the outsourcing employer, Committee approval is not required. In these cases the Committee receives a periodic report detailing those which have joined the Fund over the relevant period. There is no change under the new regulations in that the automatic guarantee remains.

However for a CAB, the new regulations require that, if a bond is not provided, a guarantee be provided by a “person who funds the admission body or who owns, or controls the exercise of the functions of, the admission body”. In most cases, it is not feasible for a CAB to provide a bond and, in any event, a guarantee is preferable to a bond from the Fund’s standpoint.

The Committee’s policy is that, in the case of CAB, a guarantee must be provided, or failing that a bond. Under the regulations a bond is permissible provided that it is not deemed to be “undesirable”. A bond could arguably be deemed “undesirable” if the amount proposed is insufficient or if the bond provider is considered to be of insufficient substance. However, as already noted, a bond is less satisfactory from the Fund’s standpoint, the reason being that, unlike a guarantee, it is finite and therefore limited in the protection that it offers.

It should be noted that, under the Funding Strategy Statement, where a Scheme employer elects to take the pension liabilities and associated assets of the community admission body onto its own account with the Fund when the admission agreement ceases, this is tantamount to a guarantee and Committee approval would not be necessary. In this case any bond would simply be protecting the Scheme employer. However, where on termination a Scheme employer elects to leave the pension liabilities and associated assets of the community admission body with the Fund, there is effectively no fool-proof guarantee if a bond or indemnity is offered.

**Given the new regulations, it is proposed that all applications to become an admitted body should be accepted if a guarantee or indemnity is provided in accordance with the regulations by a Scheme employer. Where a bond is offered or the guarantee is from a person other than a Scheme employer, it is proposed that the application be subject to Committee approval.**

## Regulations for Admission Bodies

Regulation 3 (1) (c) states “Subject to Regulation 4, a person is eligible to be an active member of the Scheme in an employment - if employed by an admission body and is designated or belongs to a class of employees that is designated by the body under the terms of an admission agreement, as being eligible for membership of the Scheme.

Regulation 3 (5) states “Where an administering authority enters into an admission agreement with an admission body –

- (a) The admission agreement must comply with the requirements specified in paragraphs 3 to 12 of Part 3 of Schedule 2; and
- (b) these Regulations apply to the admission body and to employment with the admission body in the same way as if the admission body were a Scheme employer listed in Part 2 of Schedule 2.”

***The bodies covered by (a), (b) and (c) below are “community admission bodies” and those covered by (d) and (e) below are “transferee admission bodies”.***

Part 3 (1) of Schedule 2 states:-

The following bodies are admission bodies with whom an administering authority may make an admission agreement-

- (a) a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the (body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);
- (b) a body, to the funds of which a Scheme employer contributes;
- (c) a body representative of—
  - (i) any Scheme employers, or
  - (ii) local authorities or officers of local authorities;
- (d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—
  - (i) the transfer of the service or assets by means of a contract or other arrangement,
  - (ii) a direction made under section 15 of the Local Government Act 1999 (a) (Secretary of State’s powers),
  - (iii) directions made under section 497A of the Education Act 1996 (b);
- (e) a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.



## **Local Government Pension Scheme Regulations 2013 Delegations for Administering Authority Discretions**

The Local Government Pension Scheme Regulations include some provisions where the Administering Authority has to make a decision. For operational reasons, these decisions have been delegated to Officers responsible for the management of the Fund.

Following the introduction of LGPS 2014, a review of these delegations has been made and is set out in the following table.

Whilst most of the changes deal with the changes to regulation references and officer designations there are some delegations no longer required and another where the regulation has been changed and so the responsibility is now different. These are highlighted in the shaded areas.

There are also a couple of provisions that still remain under previous legislation and these are included for completeness.

The recommendation is for the Committee to approve the delegations in the table below.

## Local Government Pension Scheme Regulations 1997 Administering Authority Discretions

Regulation	Discretion / Decision	Delegated Officer(s)
<b>Regulation 23:</b> Certificates of Protection of Benefits	<p>A Certificate of Protection of Pension Benefits allows a member to elect for a final pay period of one of the last 5 years of membership or an average of any 3 consecutive years in the last 13 years.</p> <p><i>Where a member has died without making such an election, the Divisional Director: Business Support is authorised to determine the final pay period that should be used to calculate benefits payable in respect of a deceased member (whether or not the election period has expired). Regulation 23(9).</i></p>	Pensions Manager
<b>Regulation 83 (5):</b> Extension of Time Limit for Capitalisation of Added Years Contract	<p>The Council may extend the 3 month period within which a member retiring on redundancy / efficiency grounds may opt to capitalise a whole cost added years contract.</p> <p><i>The Divisional Director: Business Support- be authorised to extend the 3 month period within which a member retiring by reason of redundancy or in the interests of efficiency, may elect to make a lump sum payment where notification of retirement benefits occurs after retirement date. (In such a case the three-month period would normally commence from the date of notification)</i></p>	Pensions Manager

## Local Government Pension Scheme Regulations 2013

### Delegations for Administering Authority Discretions

Regulation	Discretion / Decision	Delegated Officer(s)
<p><b>Schedule 2 Part 3</b></p> <p>Admission Agreements for Employees of non-Scheme employers:</p> <p><i>[Supersedes Regulations 5 and 6 of 2008 Admin Regulations]</i></p> <p><i>Change in Procedure as approved in Appendix 1 to this report</i></p>	<p>The regulations set out conditions to allow entrance to the Fund under an Admission Agreement</p> <p>At the present time, as the pension liabilities of a body eligible under Schedule 2 Part 3(1) (d) or (e), known as a “transferee admission body” has to be guaranteed by the outsourcing employer, Committee approval is not required. In these cases the Committee receives a periodic report detailing those which have joined the Fund over the relevant period. There is no change under the new regulations in that the automatic guarantee remains</p> <p>For a body eligible under Schedule 2 Part 3(1)(a) (b) or (c), known as a “community admission body”, the new regulations require that, if a bond is not provided, a guarantee be provided by a “person who funds the admission body or who owns, or controls the exercise of the functions of, the admission body”. In most cases, it is not feasible for a community admission body to provide a bond and, in any event, a guarantee is preferable to a bond from the Fund’s standpoint.</p> <p><b><i>The Divisional Director: Business Support be authorised to enter into an admission agreement with</i></b></p> <p><b><i>(a) a community admission body only if an application for admitted body status is accompanied by a guarantee or indemnity from a Scheme employer, otherwise Committee approval will be required; the Pension Committee be informed retrospectively of any action taken by the Divisional Director under this delegation.</i></b></p> <p><b><i>(b) private contractors under the provisions of the Local Government Pension Scheme Regulations 2013 (as amended); the Pension Committee be informed retrospectively of any action taken by the Divisional Director under this delegation; and the Divisional Director: Business Support be authorised to recover directly from transferor Scheme employers all outsourcing-related costs, whether external (e.g. actuarial) or in-house.</i></b></p>	<p>Head of Business Finance and Pensions or Investments Manager</p>

<p><b>Regulation 16 (10):</b> Medical report for the payment of additional pension</p> <p><i>Replacing Regulation 23 (3) of 2008 Admin Regulations]</i></p>	<p>An administering authority may require an active member to produce a report by a registered medical practitioner of the results of a medical examination, undertaken at the member's own expense. If the authority is not satisfied that the member is in reasonably good health, it may refuse the request to buy additional pension.</p> <p><b><i>The Divisional Director: Business Support be authorised to require the member to provide a statement confirming that he/she is in reasonable good health.</i></b></p>	<p>Pensions Manager</p>
<p><b>Regulation 34:</b> Commutation: small pensions</p> <p><i>[Replacing Regulation 39) of 2007 Benefits Regulations]</i></p>	<p>Regulation 34 allows the administering authority to commute an annual pension to a lump sum providing the lump sum is:</p> <ol style="list-style-type: none"> <li>1. a trivial commutation lump sum within the meaning of section 166 of the Finance Act 2004, or</li> <li>2. a trivial commutation lump sum death benefit within the meaning of section 168 of the Finance Act 2004, and</li> <li>3. a commutation payment under regulations 6 (payment after relevant accretion), 11 (de minimis rule for pension schemes) or 12 (payments by larger pension schemes) of the Registered Pension Schemes (Authorised Payments) Regulations 2009 (b).</li> </ol> <p><b><i>The Divisional Director: Business Support be authorised to commute a small pension for a one off lump sum within the guidelines issued by the Government Actuary where there is a request to do so from a member / surviving spouse / nominated cohabiting partner or civil partner.</i></b></p>	<p>Pensions Manager</p>
<p><b>Regulation 36 (3):</b> Approval of Medical Advisors</p> <p><i>Replacing Regulation 56(2) of 2008 Admin Regulations]</i></p>	<p>If the Scheme employer is not the member's appropriate administering authority, it must first obtain that authority's approval to its choice of IRMP.</p> <p><b><i>The Divisional Director: Business Support be authorised to approve an employer's choice of a registered medical practitioner providing that practitioner is qualified in accordance with Regulation 20 of the Benefit Regulations</i></b></p>	<p>Pensions Manager</p>

<p><b>Regulation 40:</b> Death grants: active members</p> <p><i>[Replacing Regulation 23(2) of 2007 Benefits Regulations]</i></p> <p><b>Regulation 43:</b> Death grants: deferred members, pension credit members and deferred pensioner members</p> <p><i>[Replacing Regulation 32(2) of 2007 Benefits Regulations]</i></p> <p><b>Regulation 46:</b> Death grants: pensioner member</p> <p><i>[Replacing Regulation 35(2)) of 2007 Benefits Regulations]</i></p>	<p>If an active or deferred member dies or a pensioner member dies before the age of 75, the administering authority at their absolute discretion may make payments in respect of the death grant to or for the benefit of the member's nominee or personal representative or any person appearing to the authority to have been his relative or dependant at any time.</p> <p><b><i>The Divisional Director: Business Support be authorised to make payments by way of death grant, subject to individual cases being referred to the Committee in the event that an interested party declines to accept the decision of the Director.</i></b></p>	<p>Two of three officers to approve from Divisional Director: Business Support or Head of Business Finance and Pensions or Pensions Manager</p>
<p><b>Regulation 68 (2):</b> Employer's further payments</p> <p><i>[Replacing Regulation 41 of 2008 Admin Regulations]</i></p>	<p>The administering authority may require an employer to make additional payments to the Fund in respect of any extra charge on the Fund resulting from retirement benefits becoming immediately payable to a member under Regulation 30 (6) (flexible retirement) or (7) (early leavers on the grounds of redundancy or business efficiency) including the cost, as calculated by the Fund's actuary, of an employer's decision in the case of voluntary retirement Regulation 30(5) or flexible retirement regulation 30(6) to waive the reduction under Regulation 30 (8).</p> <p><b><i>The Divisional Director: Business Support be authorised to recover the cost of all early retirements as a lump sum or over a maximum period of three years.</i></b></p>	<p>Head of Business Finance and Pensions or Pensions Manager</p>

<p><b>Regulation 64 (4):</b> Revision of Employer's Contribution Rate</p> <p><i>[Replacing Regulation 38(3) of 2008 Admin Regulations]</i></p>	<p>64(4) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme Employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the amount by which the contribution rate should be adjusted, with a view to ensuring that assets equivalent to the exit payment are provided to the Fund by the likely exit date or, where the employer is unable to meet the liability by that date, over such period of time thereafter as the administering authority considers reasonable.</p> <p><b><i>The Divisional Director: Business Support be authorised to obtain a revision of an employer's contribution rate if, having considered all relevant factors, this is considered appropriate. In some circumstances this may involve collecting contributions from bodies which have or are about to exit the Fund and consideration will be given in these circumstances to materiality as to whether the matter should be reported to Committee. However, this Regulation is also intended to allow administering authorities to eliminate or reduce a surplus prior to exit, given that there is no power for administering authorities to refund a surplus to exiting employers.</i></b></p>	<p>Head of Business Finance and Pensions or Investments Manager</p>
<p><b>Regulation 69 (1):</b> Payment by employing authorities</p> <p><i>[Replacing Regulation 42 of 2008 Admin Regulations]</i></p>	<p>Every employing authority must pay to the appropriate administering authority on or before such dates falling at intervals of not more than 12 months as the appropriate administering authority may determine—</p> <ul style="list-style-type: none"> <li>a) all amounts from time to time deducted from the pay of its employees under these Regulations;</li> <li>b) any amount payable under Regulation 68 (employer's further payments) of which it has been notified by the administering authority during the interval; and</li> <li>c) any amount payable as a result of an award made under Regulation 31 (award of additional pension) during the interval.</li> </ul> <p><b><i>The Divisional Director: Business Support be authorised to require employing bodies in the Avon Pension Fund to pay to the Fund all contributions specified in Regulation 69(1) no later than the date specified in Section 49(8) Pensions Act 1995 (currently 19th day of the month following the deduction of contributions from pay) and to pay over contributions under Regulations 68 and 31 within a month of being notified of the sum due by the Administering Authority.</i></b></p>	<p>Head of Business Finance and Pensions or Investments Manager</p>

<p><b>Regulation 69 (3) &amp; (4):</b> Statements to be provided by Employers in respect of employee and employer contributions</p> <p><i>[Replacing Regulation 42(3) &amp; (4) of 2008 Admin Regulations]</i></p>	<p>(3) Every payment under paragraph (1)(a) (payment of employees contributions) of Regulation 69 must be accompanied by a statement showing—</p> <ul style="list-style-type: none"> <li>a) the total pensionable pay received by members during the period covered by the statement (including “assumed pensionable pay” where applicable), distinguishing between those members who were paying full contributions and those who were paying 50%,</li> <li>b) the total employee contributions deducted from pensionable pay, again distinguishing between those members who were paying full contributions and those who were paying 50%,</li> <li>c) the total employer contributions in respect of pensionable pay,</li> <li>d) the total “additional pension” contributions paid by members during the period covered by the statement, and</li> <li>e) the total “additional pension” contributions paid by employers during the period of the statement.</li> </ul> <p>(4) An administering authority may direct that the information mentioned in paragraph (3) shall be given to the authority in such form and at such intervals (not exceeding 12 months) as it specifies in the direction.</p> <p><b><i>The Divisional Director: Business Support be authorised to determine the form of the pension returns which must be sent to the Fund and the intervals at which they should be sent</i></b></p> <p>.</p>	<p>Head of Business Finance and Pensions or Investments Manager</p>
<p><b>Regulation 71(1):</b> Interest on late payments</p> <p><i>[Replacing Regulation 44(1) of 2008 Admin Regulations]</i></p>	<p>An administering authority may require an authority from which any payment due under regulations 67 to 70 (employer’s contributions or payments) is overdue to pay interest on that amount.</p> <p><b><i>The Divisional Director: Business Support be authorised to require employing bodies to pay interest in accordance with Regulation 71 where they make late payments to the Avon Pension Fund in respect of their pension liabilities.</i></b></p>	<p>Investments Manager</p>



<p><b>Regulation 98: Bulk Transfers</b></p> <p><i>[Replacing Regulation 81 of 2008 Admin Regulations]</i></p>	<p>(1) The bulk transfer provision applies where two or more members' active membership ends on their joining a registered non-local government scheme and it is agreed by:</p> <ul style="list-style-type: none"> <li>(i) the members' appropriate administering authority,</li> <li>(ii) the members' employing body (if different), and</li> <li>(iii) the trustees or managers of the new scheme,</li> </ul> <p>that a payment should be made under this regulation and the members—</p> <ul style="list-style-type: none"> <li>(a) agree in writing that that payment should be made instead of any payment which they otherwise might require to be made under Chapter 4 or 5 of Part 4 of the Pension Schemes Act 1993, and</li> <li>(b) waive any rights they might have under those Chapters by virtue of the cessation of their active membership.</li> </ul> <p>(2) The administering authority <b>must not</b> give its agreement unless it is satisfied that the rights that each of the members will acquire under the new scheme are at least equivalent to those which the member would have obtained if an individual transfer value had been paid to the same scheme under Chapter 4 o5 5 of Part 4 of the Pension Schemes Act 1993.</p> <p>(3) The administering authority must provide each member with sufficient information in writing to enable the member to check that he or she is not being disadvantaged, before the member’s agreement as signified in paragraph 1 is valid.</p> <p>Regulation 99(4) requires the employer to bear the costs of determining the appropriate part of the fund and apportioning the fund.</p> <p><b><i>The Divisional Director: Business Support be authorised to determine all requests for use of the bulk transfer facility and to grant the necessary consent provided that all the requirements of Regulation 98 have been satisfied.</i></b></p>	<p>Head of Business Finance and Pensions or Investments Manager</p>
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**Item 13 Appendix 2 [Delegations]**

<p><b>Regulation 100</b> Inward transfers of pension rights</p> <p><i>[Replacing Regulation 83(1) &amp;(9) of 2008 Admin Regulations]</i></p>	<p>If a person who becomes an active member has relevant pension rights, he may request his fund authority to accept a transfer value for some or all of those rights from the relevant transferor. Where a request is made the fund authority may accept the transfer value.</p> <p><b><i>The Divisional Director: Business Support be authorised to accept a transfer value subject to no adverse funding issues</i></b></p>	<p>Pensions Manager</p>
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The 2008 Admin Regulations had 2 provisions where a delegated discretion was in place previously but these are no longer required as explained below

<p><b>Regulation 28(2):</b> Charging Member for Estimate of Membership Credit for AVC Transfer</p>	<p>New regulation removes this requirement as member must elect at time benefits payable</p>	
<p><b>Regulation 80(1)(b), (4) &amp; (5):</b> Retention of contracted out liability when a member transfers to a non -contracted out registered pension scheme</p>	<p><b><i>Provision no longer exists</i></b></p>	

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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>27 MARCH 2015</b>	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>SCHEME EMPLOYERS &amp; ADMISSION BODIES UPDATE</b>	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
<p>List of attachments to this report:</p> <p>Exempt Appendix 1 – Community Admission Bodies</p> <p>Exempt Appendix 2 – Transferee Admission Bodies</p> <p>Appendix 3 – List of new Academies</p>		

## **1 THE ISSUE**

- 1.1 The funding pressure facing scheme employers and the creation of academies is increasingly fragmenting the employer base within the Fund. This report provides information about the changes in scheme employers and admission bodies during 2014/15.
- 1.2 It also provides an update on the Transferee Admission Bodies (TABs) and Community Admission Bodies (CABs) in the Fund. Given the significant pressure on their financial position, the admitted bodies, though small in number and in monetary terms, pose a risk to the Fund in terms of recovering the pension liabilities. This report updates the Committee on the admitted bodies and the Fund's policy to managing the risk and recovering outstanding debts in respect of these bodies.

## **2 RECOMMENDATIONS**

### **That the Committee:-**

- 2.1 Notes the information in this report

### 3 FINANCIAL IMPLICATIONS

- 3.1 There is a significant risk that a few of the CABs may not be able to meet their full liability especially as many of these bodies are primarily funded by local authorities and central government. Where an employer cannot meet their full liability the Regulations allow for the outstanding sum to be recovered from the other bodies in the Fund.
- 3.2 To put this into perspective, the aggregate deficit of the CABs at the 2013 actuarial valuation was £27.3m or 3.1% of the total deficit. Most of this (£21m) relates to one relatively secure entity and a number of the other larger CABs have relatively secure income streams underpinning the deficit.
- 3.3 The pension liabilities of the TABs are guaranteed by the outsourcing scheme employer (which are typically the unitary authorities) so pose no direct funding risk to the Fund.
- 3.4 When an employer exits the scheme and the outstanding debt is paid, the Fund resumes responsibility for any deterioration in the funding position at exit. There is no recourse to the former scheme employer.

### 4 NEW EMPLOYERS AND EMPLOYER EXITS

- 4.1 The number of employers has increased from 196 at 31 March 2014 to over 215 currently.
- 4.2 **Academies:** The main increase was in academies (which are scheduled bodies and therefore have the right to join the scheme). Appendix 3 lists the academies that have joined during the year. There are now 115 academies in the scheme.
- 4.3 **Transferee Admission Bodies:** Two new TABs joined the scheme during the year. TABs are usually private sector companies where there is a commercial contract in place between them and the outsourcing employer and the pension liabilities are guaranteed by the outsourcing scheme employer. Some outsourcing employers require a TAB to have a bond in place to protect themselves if the TAB becomes insolvent.
- 4.4 Five TABs will have left the scheme during the year as their commercial contracts have expired. In each case the service has been taken back in-house by the outsourcing employer. Exempt Appendix 2 lists the 38 TABs currently in the Fund and those that have left during the year.
- 4.5 **Community Admission Bodies:** A number of CABs have left the scheme or are in the process of leaving. When an employer leaves the scheme any deficit must be paid in full if there is no guarantee from a scheme employer. If the immediate repayment of the deficit will put the financial viability of the organisation at risk, a payment plan is agreed in line with the LGPS Regulations.
- 4.6 During the year the following CABS left, or are in the process of leaving the Fund as they have no active membership:  
Southern Brooks Community Partnership  
CURO Group (expected exit effective 31/3/15)  
CURO Places (expected exit effective 31/3/15)

## **5 ADMISSION BODIES UPDATE**

- 5.1 There are presently 17 CABs plus 3 controlled entities in the Fund. These bodies can take various forms but one common feature is that their funding generally comes from the public sector and they provide services for the public sector. The security of the funding sources varies which means that, in terms of being able to meet their pension liabilities, some bodies pose a greater risk to the Fund than others.
- 5.2 Since December 2005 the Fund has required all CAB admissions have a guarantee or bond in place and be approved by the Committee. The LGPS Regulations 2013 now require all new admission bodies to be guaranteed or have a bond in place to protect the Fund so they are now in line with the Fund's existing policy.
- 5.3 The Fund has a process in place to monitor the financial strength of the admitted bodies. This process feeds into the valuation in determining the level of contributions set. The reduction in funding from public sector bodies has exacerbated the financial situation for many of these bodies, making it more difficult for them to manage increases in contributions in a sustainable way. Exempt Appendix 1 summarises the key financial and valuation data for the CABs.

## **6 RISK MANAGEMENT**

- 6.1 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. Assessing the strength of an employing body's covenant is a crucial component in managing the potential risk of default to the Fund. Accordingly, a formal covenant assessment process has been prepared. 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 risk.
- 6.2 The overriding concern of the Fund is that these organisations maintain their financial sustainability in order to contribute to their pension obligations over the long term. To support this, the Fund explores a number of options in consultation with the individual bodies to obtain greater security for the liabilities e.g. through a charge on any assets the organisation may have. The aim is to maximise the employer contributions having taken into account the employer's financial situation and at the same time, not unnecessarily increase the financial risk to the organisation represented by the pension liabilities. However, each body is treated on a case-by-case basis as their particular circumstances vary significantly, the relationship with their main funder (usually a local authority or government agency) being a major factor.
- In recognition of the risk posed by the liabilities to the Fund, the on-going dialogue with all employers about the risk posed to their operations by the pension deficit has increased.

## **7 EQUALITIES**

7.1 An equalities impact assessment is not necessary.

## **8 CONSULTATION**

8.1 N/a

## **9 ISSUES TO CONSIDER IN REACHING THE DECISION**

9.1 Are contained in the report.

## **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.

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

**Access to Information Arrangements**

**Exclusion of access by the public to Council meetings**

Information Compliance Ref: LGA-382/15

Meeting / Decision: Avon Pension Fund Committee

Date: 27 March 2015

Author: Liz Woodyard

Report Title: SCHEME EMPLOYERS & ADMISSION BODIES UPDATE

Exempt Appendix Title:

Exempt Appendix 1 – Community Admission Bodies

Exempt Appendix 2 – Transferee Admission Bodies

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 appendices contain financial information about the organisations which is commercially sensitive and could prejudice the commercial interests of the organisations if released. The exempt appendices also include the observations and opinions of officers on the financial strength of these organisations.

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.

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 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 performance of the fund has been made available on these issues – 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 and that any reporting on the meeting is prevented in accordance with Section 100A(5A)



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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**Academies that have joined the Fund in 2014/15**

<b>Employer</b>	<b>Date of admission</b>
<b>Formerly B&amp;NES</b>	
The Link School (Aspire Academy)	01/04/2014
High Littleton Primary School	01/07/2014
Bath Studio Academy	01/09/2014
Sir Bernard Lovell School	01/02/2015
Clutton Primary School	01/03/2015
<b>Formerly BCC</b>	
Hotwells Primary School	01/04/2014
St Pius X (St Bedes Multi Academy Trust)	01/07/2014
Headley Park Primary School	01/09/2014
Steiner Academy	01/09/2014
Easton Primary School	01/09/2014
Redfield Educate Together Primary Academy	01/09/2014
Barton Hill Primary	01/09/2014
Wallscourt Farm Academy	01/09/2014
Four Acres Primary	01/02/2015
Fairfield High School	01/02/2015
Oasis Brislington Enterprise College	01/02/2015
Wicklea Academy (St. Anne's Junior School)	01/03/2015
<b>Formerly NSC</b>	
North Somerset Enterprise & Technology College	01/09/2014
Tickenham	01/12/2014
Yeo Moor	01/12/2014
Clevedon Learning Trust	01/12/2014
<b>Formerly SGC</b>	
Hanham Woods Academy (Hanham High School)	01/09/2014
Severn Beach	01/09/2014
Marlwood	01/11/2014
Meadow Brook Primary School Academy	01/01/2015
Charborough Road Primary School	01/01/2015

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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>27 MARCH 2015</b>	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>INVESTMENT PANEL ACTIVITY</b>	
WARD:	<b>ALL</b>	
<b>AN OPEN PUBLIC ITEM</b>		
<p>List of attachments to this report:</p> <p>Appendix 1 – Minutes from Investment Panel meeting held 4 March 2015</p> <p>EXEMPT Appendix 2 – Summaries of Investment Panel meetings with Investment Managers</p> <p>EXEMPT Appendix 3 – Diversified Growth Selection Decision</p>		

## **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 December 2014 committee meeting, on 4 March 2015. 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. The Panel also held a Meet the Managers Workshop on 4 March 2015. In addition, the Panel held a Clarification meeting on the Diversified Growth mandate tender on 5 December 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 4 March 2015**

**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) Diversified Growth Tender - Clarification meeting 5 December 2014:
    - a) The Panel appointed Standard Life GARS fund for the Diversified Growth mandate. Exempt Appendix 3 provides a brief summary of the decision.
  - (2) Investment Panel Meeting, 4 March 2015:
    - a) No recommendations.
  - (3) Meet the Manager Workshop, 4 March 2015:
    - a) The Panel met with Schroder (Global Equity Mandate) and Partners Group (Global Property Mandate). The Panel requested the officers continue to monitor Schroder Global Equity portfolio closely and report any areas of concern to the Panel as a matter of priority.

A summary of the meetings is provided at Exempt Appendix 2.

### **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.

<b>Contact person</b>	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
<b>Background papers</b>	
<b>Please contact the report author if you need to access this report in an alternative format</b>	

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**AVON PENSION FUND COMMITTEE - INVESTMENT PANEL**

**Minutes of the Meeting held**

Wednesday, 4th March, 2015, 11.00 am

**Members:** Councillor Charles Gerrish (Chair), Councillor Patrick Anketell-Jones, Ann Berresford, Councillor Mary Blatchford, Roger Broughton and Councillor Ian Gilchrist

**Advisors:** John Finch; Tony Earnshaw (Independent Advisor)

**Also in attendance:** Tony Bartlett, Head of Business, Finance and Pensions; and Liz Woodyard, Investments Manager

**32 EMERGENCY EVACUATION PROCEDURE**

The Senior Democratic Services Officer drew attention to the emergency evacuation procedure

**33 DECLARATIONS OF INTEREST**

There was none

**34 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

There was none

**35 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

There was none.

The Chair stated that this would be the last meeting of the Panel to be attended by John Finch. On behalf of the Panel, he extended his thanks to John for his past services and advice.

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

There was none

**37 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There was none

## **38 MINUTES: 21 NOVEMBER 2014**

The Minutes of the previous meeting held on 21<sup>st</sup> November 2014 were approved as a correct record and were signed by the Chair

## **39 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 DEC 2014**

The Panel considered a report on the performance of the Fund's Investment Managers for the period ending 31<sup>st</sup> December 2014 and updated the Panel on routine aspects of the Fund's investments.

The Investments Manager outlined the report. Members discussed the performance monitoring report by JLT (Appendix 2). John Finch stated that there was significant volatility in UK Gilts – there had been a collapse in commodity prices and the Frontier Markets were down in the last quarter. However, the Equity Markets remained positive and good returns were expected after the Quarter. He commented generally on world markets and the healthy UK economic growth although there was concern about the Euro.

He continued by reporting on the performance of managers stating that 10 of the 18 managers had outperformed over the Quarter and 14 out of 16 over the 3 year period. Schroders had made some changes and had outperformed in the last Quarter. He drew attention to some managers not meeting their 3 year targets including Partners. The Investments Manager suggested that this was partially due to the impact of the Foreign Exchange. In addition, the figures calculated by WM use a time weighted return to measure return and this is not so appropriate for investments in closed funds. Consideration may need to be given to setting an appropriate benchmark to monitor Partners.

The Investments Manager commented that Pyrford had made a poor start in 2014 but had improved in the last Quarter. The Chairman stated it should be recorded that the Panel had received a presentation by representatives of Schroders Global Equity portfolio team, namely, Simon Webber, Alex Tedder and Lyndon Bolton. It was apparent that the influence of Alex Tedder had produced a more consistent performance and had strengthened the team. The Panel requested that Officers monitor their performance closely to ensure performance continued to improve and any areas of concern reported to the Panel as a matter of priority.

**RESOLVED** (1) to note the information set out in the report; and (2) identified issues to be notified to the Avon Pension Fund Committee

## **40 WORKPLAN**

The Investments Manager circulated an updated Workplan which was discussed by the Panel.

**RESOLVED** to note (1) the Workplan; and (2) the proposed manager meeting schedule for the Panel

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**Access to Information Arrangements**

**Exclusion of access by the public to Council meetings**

Information Compliance Ref: LGA-420/15

Meeting / Decision: AVON PENSION FUND COMMITTEE

Date: 27 March 2015

Author: Matt Betts

Report Title: Item - Investment Panel Activity

EXEMPT Appendix 2 – Summaries of Investment Panel meetings with  
Investment Managers

EXEMPT Appendix 3 – Diversified Growth Selection 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.

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 appendices also contain detail 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 and that any reporting on the meeting is prevented in accordance with Section 100A(5A)



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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of the Local Government Act 1972.

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>27 MARCH 2015</b>
TITLE:	<b>REVIEW OF INVESTMENT PERFORMANCE (for periods ending 31 December 2014)</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<b>List of attachments to this report:</b>	
Appendix 1 – Fund Valuation	
Appendix 2 – JLT Performance 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 31 December 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. Voting Update

## **2 RECOMMENDATION**

**The Avon Pension Fund Committee is asked to:**

- 2.1 Note the information set out in the report**

### 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) The funding level has fallen 6% to 77% during the quarter and compares to 78% at the March 2013 valuation.
- (2) Asset returns were positive over the quarter but they could not offset the fall in the discount rate from 4.7% to 4.1%. Gilt yields fell to 2.5% from 3.1% the previous quarter end. This compares to a bond yield of 3.2% at the March 2013 valuation. A slight fall in the long term CPI from 2.4% to 2.3% was a small positive but there was still a significant increase in the value of the liabilities.
- (3) Since the 2013 valuation the discount rate has negatively affected the funding position which has only been partially offset by investment returns exceeding expectations.

### 5 INVESTMENT PERFORMANCE

#### A – Fund Performance

5.1 The Fund's assets increased by £102m (a return of 3.1%) in the quarter, giving a value for the investment Fund of £3,642m at 31 December 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 31 Dec 2014

	3 months	12 months	3 years (p.a.)
<b>Avon Pension Fund</b> (incl. currency hedging)	3.1%	8.4%	11.1%
<b>Avon Pension Fund</b> (excl. currency hedging)	3.1%	8.4%	10.8%
<b>Strategic benchmark</b> (no currency hedging) <i>(Fund incl hedging, relative to benchmark)</i>	3.4% <i>(-0.3%)</i>	9.5% <i>(-1.0%)</i>	10.1% <i>(+0.9%)</i>
<b>Local Authority Average Fund</b> <i>(Fund incl hedging, relative to benchmark)</i>	3.1% <i>(=)</i>	8.1% <i>(+0.3)</i>	11.1% <i>(=)</i>

5.2 **Fund Investment Return:** All Equity markets achieved positive returns over the quarter with the exception of the Europe (-1.4%) and Frontier markets (-9.0%) whilst the USA (+8.9%) was the strongest returning market. Bond yields again fell

over the quarter leading to strong positive returns from Gilts (+11.2%) and Corporate Bonds (+6.7%) over the quarter.

5.3 Over the one year period, of the equity markets only North America and Asia Pacific outperformed the strategic return assumptions. Of the other asset classes, property and UK bonds (gilts corporates and index linked) all outperformed. 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: -1.0% over 12 months, attributed to

(1) **Asset Allocation:** The contribution to outperformance from asset allocation was **0.3%** over the 12 months. This was due to an underweight to emerging markets equities and hedge funds and an overweight in developed market overseas equities. The currency hedging programme did impact performance over the 1 year period.

(2) **Manager Performance:** In aggregate, manager performance detracted **-1.3%** over the 12 month period, relative to the strategic benchmark. The main impacts were that the small outperformance by UK corporate bond manager was offset by the underperformance of the global equity manager and property managers.

5.5 **Versus Local Authority Average Fund:** Over one year, the Fund outperformed the average fund, and over three years performance is in line with the average local authority 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 had marginal impact on the Fund's total return over the quarter and year, but added 0.3% over the 3 year period.

## B – Investment Manager Performance

5.7 In aggregate over the three year period the managers' performance is marginally ahead of the benchmark (+0.2%). Twelve mandates met or exceeded their three year performance benchmark, which offset underperformance by Schroder Global Equity, Signet and Partners Group. RLAM, Jupiter and Stenham performed 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 Partners Group (Global property mandate) on 4 March 2015. 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 there has been no change to the rating of any managers and 2 managers remain amber rated.**

5.10 The reported performance data of the Partners property portfolio by WM and Partners was discussed at the Investment Panel meeting and the workshop meeting with Partners. Officers have also investigated the issue with both Partners and WM. The performance data reported by both parties is an accurate

reflection of performance but they use different methodology. Partners use money weighted returns which is the most appropriate calculation given the way the money is invested. WM use time weighted returns which is consistent with the way they measure performance of the Fund as a whole. As the portfolio matures, the differences in returns calculated by the two approaches should reduce. Officers will continue to reconcile the two returns and will also explore whether there is a more appropriate way to include Partners' performance within the WM returns.

## **6 INVESTMENT STRATEGY**

- 6.1 Diversified Growth Mandate: Standard Life GARS fund was selected to manage the Fund's second diversified growth mandate, replacing Barings. The funds were invested with Standard Life in early February.
- 6.2 Fund of Hedge Funds: Following a review of the Fund of Hedge Funds portfolio, the Fund is currently tendering for a manager to manage a bespoke portfolio of hedge fund investments (as notified in last quarter's Committee meeting).
- 6.3 Infrastructure: The Fund's investments in infrastructure are awaiting drawdown by the selected manager IFM who anticipate the funds being drawn down over the next 18 months to 2 years.

## **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 Following the investments in Standard Life, the Equity:Bond allocation is estimated to be 76.4: 23.6 at the end of February. This remains within the tactical range for rebalancing.

### **Cash Management**

- 7.1 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.
- 7.2 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).
- 7.3 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.
- 7.4 Following the lump sum deficit recovery payments in April it was forecast that there would be an average cash outflow of c. £3m each month during the year to



31 March 2015. In the quarter ending 31 December the cash outflow averaged just under £4.5m. This was a greater outflow than originally forecast due to the absence of the major deficit recovery payments and the £2.5m payment to Gloucestershire Pension Fund relating to the transfer of Prospects Services. Excluding this transfer the average monthly out-flow is just over £3.6m. To fund the cash flow shortfall £15m of cash was transferred back from the custodian during the quarter. The increase in future service contributions since the commencement of the new rates on 1 April has been offset by the increase in pension payments following Bristol City Council's bulk redundancy exercise.

## **8 VOTING UPDATE**

8.1 During the quarter, the Fund's external managers undertook the following voting activity on behalf of the Fund:

Companies Meetings Voted:	130
Resolutions voted:	1,374
Votes For:	1,322
Votes Against:	40
Abstained:	8
Withheld* vote:	9

*\* 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 RISK MANAGEMENT**

9.1 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.

## **10 EQUALITIES**

10.1 An Equality Impact Assessment has not been completed as this report is for information only.

## **11 CONSULTATION**

11.1 This report is for information and therefore consultation is not necessary.

## **12 ISSUES TO CONSIDER IN REACHING THE DECISION**

12.1 The issues to consider are contained in the report.

## **13 ADVICE SOUGHT**

13.1 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.

<b>Contact person</b>	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
<b>Background papers</b>	LAPPF Member Bulletins, Data supplied by The WM Company
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## AVON PENSION FUND VALUATION - 31 DECEMBER 2014

All figures in £m	Passive Multi-Asset		Active Equities					Enhanced Indexation		Active Bonds	Funds of Hedge Funds	DGFs	Property		In House Cash	TOTAL	Avon Asset Mix %
	BlackRock	BlackRock #2	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	Invesco	SSgA	Royal London		Pyrford	Schroder UK	Partners Overseas	Currency Hedging		
<b>EQUITIES</b>																	
UK	218.9	6.1	178.4	156.6			20.3									580.3	15.9%
North America	206.0						129.7									335.8	9.2%
Europe	153.9						37.2	39.9								231.0	6.3%
Japan	42.8						20.8	40.3								103.9	2.9%
Pacific Rim	51.8						6.9	30.8								89.6	2.5%
Emerging Markets					152.3	179.8	16.0							0.0		348.1	9.6%
Global ex-UK								269.4								269.4	7.4%
Global inc-UK	149.7													31.0		180.7	5.0%
<b>Total Overseas</b>	<b>604.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>152.3</b>	<b>179.8</b>	<b>210.7</b>	<b>269.4</b>	<b>110.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>31.0</b>	<b>1558.4</b>	<b>42.8%</b>
<b>Total Equities</b>	<b>823.2</b>	<b>6.1</b>	<b>178.4</b>	<b>156.6</b>	<b>152.3</b>	<b>179.8</b>	<b>230.9</b>	<b>269.4</b>	<b>110.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>31.0</b>	<b>2138.7</b>	<b>58.7%</b>
<b>DGFs</b>												<b>121.3</b>				<b>121.3</b>	<b>3.3%</b>
<b>BONDS</b>																	
Index Linked Gilts	275.2															275.2	7.6%
Conventional Gilts	115.7	8.3														124.0	3.4%
Corporate Bonds	21.1									299.1						320.2	8.8%
Overseas Bonds	109.8															109.8	3.0%
<b>Total Bonds</b>	<b>521.8</b>	<b>8.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>299.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>829.1</b>	<b>22.8%</b>
<b>Hedge Funds</b>											160.2					<b>160.2</b>	<b>4.4%</b>
<b>Property</b>												167.2	137.6			<b>304.8</b>	<b>8.4%</b>
<b>Cash</b>	5.1	1.3	8.7	9.6			5.0					6.1		51.7		<b>87.5</b>	<b>2.4%</b>
<b>TOTAL</b>	<b>1350.0</b>	<b>15.7</b>	<b>187.1</b>	<b>166.2</b>	<b>152.3</b>	<b>179.8</b>	<b>236.0</b>	<b>269.4</b>	<b>110.9</b>	<b>299.1</b>	<b>160.2</b>	<b>121.3</b>	<b>173.3</b>	<b>137.6</b>	<b>82.7</b>	<b>3641.6</b>	<b>100.0%</b>

- 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.

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## Avon Pension Fund

Review for period to 31 December 2014



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# 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 a decrease in the funding level by around 6% over the fourth quarter of 2014.
- The drivers of this were:
  - » A negative effect from the liabilities, as the valuation interest rate has decreased, increasing the value placed on liabilities. This was partially offset by a fall in inflation expectations.
  - » A modest positive asset return, which did not offset the estimated rise in liabilities.

## Fund performance

- The value of the Fund's assets increased by £102m over the fourth quarter of 2014 to £3,642m. The total Fund returned 3.1% (also 3.1% excluding Record currency hedging). This was behind the benchmark return of 3.4%.

## Strategy

- Global equities continued to generally rise over the quarter. As last quarter, the best region was the US (+8.9%), partly driven by a strengthening of the US Dollar relative to Sterling, and European equities fell (-1.4%) as the annual inflation rate in the Eurozone turned negative in December 2014.
- The fall in the oil price and commodity prices affected Emerging Market equities, which returned 0.4%. Frontier Markets were the worst performing equity region (-9.0%), which could be seen as a part correction of the returns earlier in the year, as despite this fall their one-year return was 13.9%.
- The twelve month equity returns in each of the major regions were all positive apart from European equities (-1.4%). Other developed equity returns were quite disperse, ranging from 20.3% from the US down to 1.2% from the UK.
- Three year developed equity returns have remained reasonably stable, as the equity market rebound of Q4 2011 has been replaced by positive returns over the last quarter, and returns remain ahead of the assumed strategic return.
- The three-year emerging market equity return fell to 4.3% p.a., remaining below the assumed strategic return.
- Gilts produced a positive return, as yields fell sharply. Corporate bonds were also positive, but with a lower return than gilts as the yield gap widened. Three-year gilt and corporate bond returns remained ahead of the assumed strategic return.
- The Overseas Fixed Interest return remains negative at -1.4% p.a. over three years, affected by rising US yields.
- Hedge funds returns continue to steadily improve but 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 to stand at 10.6% p.a.

- The strengthening of the US dollar against Sterling meant that the overall impact of currency hedging the dollar has had a detrimental impact, offsetting some of the positive impact of the Dollar movement. Currency hedging was beneficial in Euros and Yen, which both weakened against Sterling.
- A 50% hedge on each currency would have had an overall detrimental impact because the US Dollar strengthened and the positive effect of this movement would be offset. However, Record maintained a low Dollar hedge ratio and a high Yen hedge ratio which meant that they outperformed against a 50% hedge and also produced a small positive return in absolute terms.

## Managers

- Over the quarter, absolute manager returns were all positive, apart from SSga Europe and Genesis in equities, which were affected by their respective markets (although Genesis also underperformed their benchmark over the quarter), and hedge funds Signet and Gottex.
- The developed equity managers, Schroder and Invesco, produced the highest returns (both 5.8%). RLAM's return was 4.2% as yields continued to fall, and property continued to perform well as the Schroder property return was 4.1%.
- Over one-year, the highest return came from Schroder Property (18.0%). In line with markets, most funds produced a positive return over one year, the exceptions being except SSgA Europe and Signet. Only TT, Schroder Equity, Stenham and the hedge funds underperformed their one-year benchmarks.
- Over three years, all funds produced a positive return and only Schroder Equity and Signet underperformed their benchmark, albeit marginally for Schroder (0.1%). Each of the outperforming managers also met their outperformance target, apart from TT which was 0.2% below.
- The three year performance of Genesis was below its strategic assumed returns – this was mainly market-related as they outperformed their target. In hedge funds, Stenham's three year performance has improved to just over the assumed strategic return, with Gottex just below and Signet significantly below.

## Key points for consideration

- The price of a barrel of oil fell from over \$100 in June to \$57 at the end of the year.
  - » This was the result of weakness in demand worldwide combined with some oil producers refusing to cut supply for geo-political reasons.
  - » Lower oil prices are the equivalent of a tax cut for many countries and a boost to growth, but also adds to the falling inflation being seen almost everywhere in the developed world.
  - » Some companies will benefit from lower oil prices (eg lower transportation costs) whereas others lose out, particularly energy and commodity-related stocks and those in the emerging and frontier markets which are more reliant on commodities/equities.
  - » The direct effect on the Fund was mixed, as TT benefited from being underweight in energy stocks whereas Schroders were overweight, and the Fund's emerging market equity managers were affected. The overall effect on the Fund is difficult to quantify as many stocks will have indirectly benefited from the lower oil price.
  - » The impact going forward will be more related to the uncertainty of the oil price rather than the absolute price, as companies re-negotiate their terms. In this environment we strongly advocate an active approach to equities, particularly in emerging markets.
- The Fund's asset allocation is currently overweight in equities and underweight in DGF and Infrastructure. The Fund agreed to appoint the Standard Life Global Absolute Return Strategies Fund as its second DGF manager. The Fund has appointed IFM as infrastructure manager, whose



allocation is expected to be met from equities over time, thus reducing the current overweight position.

- The recent election result in Greece brings to a head the fact that the current austerity programme has either failed or, at best, that it is not fit to restore a sustainable economy in Greece.
- At present the ECB, Germany (as the main driver of Eurozone growth) and the new Greek government appear determined to find a solution whereby Greece remains in the Euro, or so markets are currently pricing in:
  - » But the risk of sovereign default and expulsion from the Euro remain real possibilities;
  - » This has led to somewhat of a return to risk on / risk off characteristics to equity markets;
  - » Bond yields have plunged and could fall further in “safe havens” such as the UK and Germany.
- The massive stimulus announced in January by the ECB has further led to falling bond yields in the Eurozone and the UK (where the announcement impacts considerations on short term interest rates).

## 2 Market Background

The figures below cover the three months, 1 year and 3 years to the end of December 2014.

### Market Statistics

Yields as at 31 December 2014	% p.a.
UK Equities	3.37
UK Gilts (>15 yrs)	2.42
Real Yield (>5 yrs ILG)	-0.77
Corporate Bonds (>15 yrs AA)	3.41
Non-Gilts (>15 yrs)	3.74

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	0.03	0.09	-0.15
UK Gilts (>15 yrs)	-0.56	-1.16	-0.52
Index-Linked Gilts (>5 yrs)	-0.40	-0.80	-0.52
Corporate Bonds (>15 yrs AA)	-0.42	-1.01	-1.27
Non-Gilts (>15 yrs)	-0.41	-0.89	-1.08

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	11.2	26.1	6.9
Index-Linked Gilts (>5 yrs)	9.4	21.4	7.1
Corporate Bonds (>15 yrs AA)	6.7	18.9	9.3
Non-Gilts (>15 yrs)	6.6	19.0	10.2

\* Subject to 1 month lag

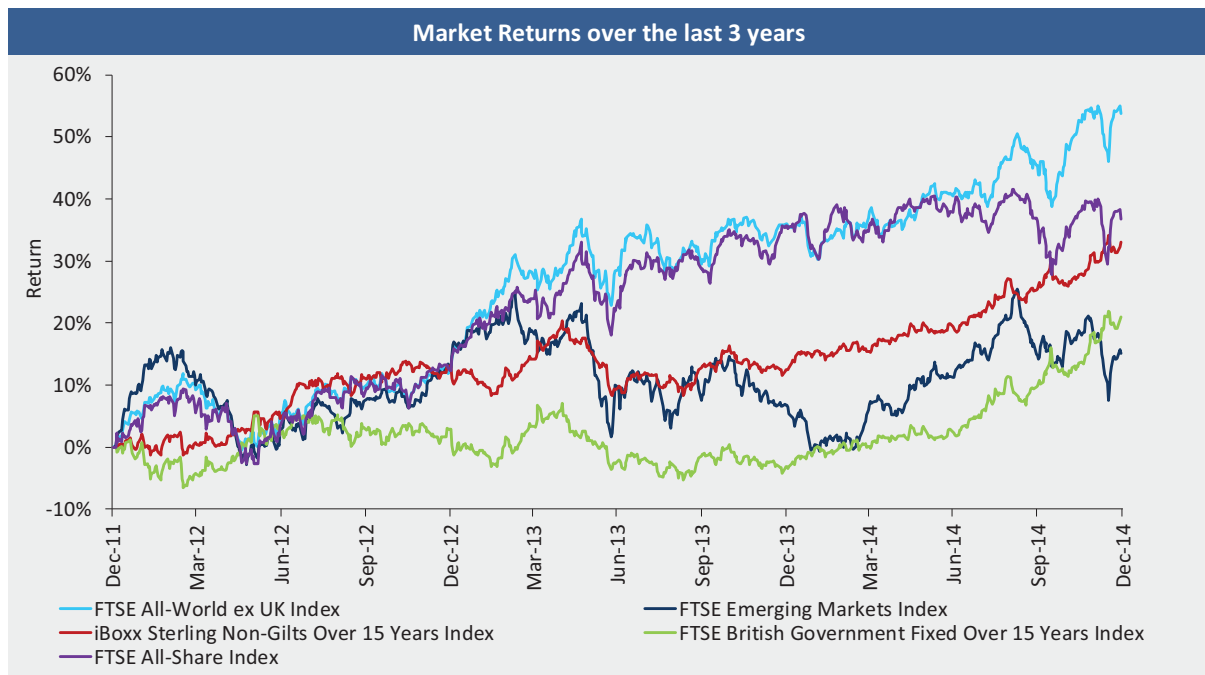
Source: Thomson Reuters and Bloomberg

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.6	1.2	11.1
Overseas Equities	4.9	12.2	15.1
USA	8.9	20.3	20.4
Europe	-1.4	-1.4	12.8
Japan	1.6	2.7	9.9
Asia Pacific (ex Japan)	3.2	10.0	9.4
Emerging Markets	0.4	7.9	4.3
Frontier Markets	-9.0	13.9	13.8
Property	4.5	19.9	10.2
Hedge Funds	0.8	5.7	7.4
Commodities	-24.8	-28.9	-13.0
High Yield	1.5	6.1	8.7
Emerging Market Debt	-0.6	7.4	6.1
Senior Secured Loans	-0.1	2.3	7.4
Cash	0.1	0.5	0.5

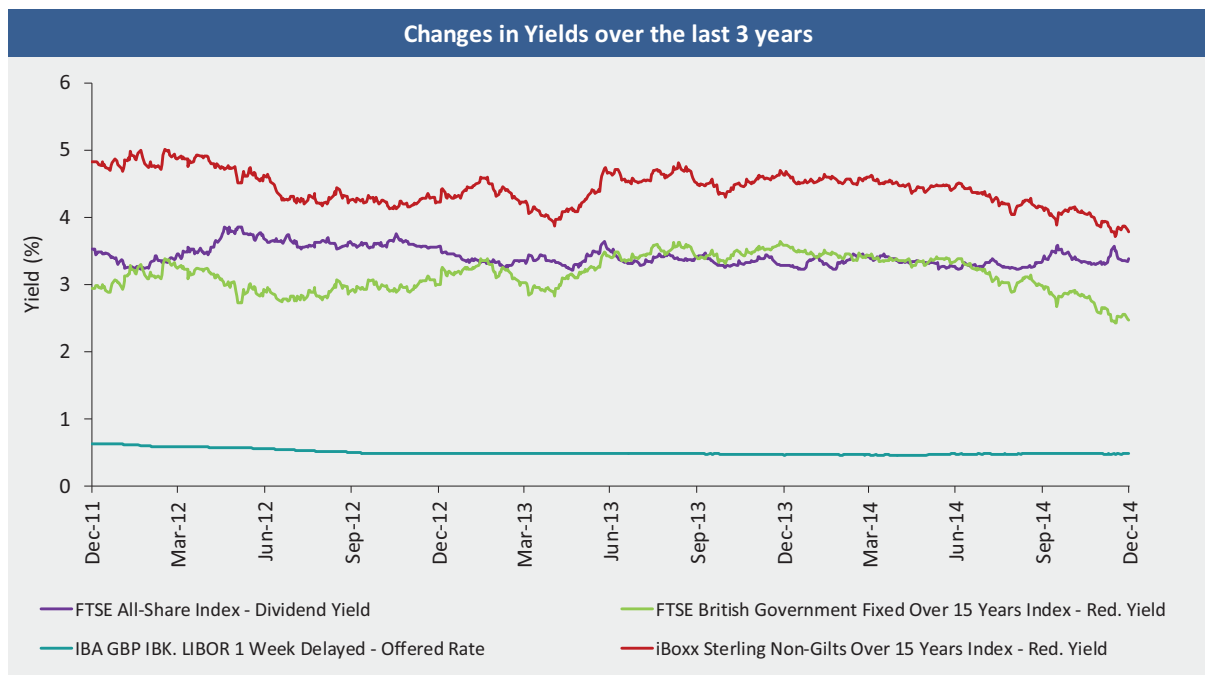
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-3.8	-5.9	0.1
Against Euro	0.4	7.2	2.5
Against Yen	5.1	7.4	16.1

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.0	1.6	2.5
Price Inflation – CPI	-0.2	0.5	1.7
Earnings Inflation *	0.4	1.6	1.2

## Market Summary Charts



The graph above shows the market returns for the last three years; both the medium term trend and short term volatility.



The trend between December 2011 and April 2013 shows falling corporate bond yields whilst the dividend yield and gilt yield remained at similar levels, albeit these yields fluctuate in the period between these two dates. Bond yields rose in the second half of 2013 but declined through the year 2014 whilst the dividend yield has remained relatively flat since April 2013.

The table below compares general market returns (i.e. not achieved Fund returns) to 31 December 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	15.8	Significantly ahead of the assumed strategic return, as returns have been strong throughout the three year period. This return is slightly lower than that reported last quarter (16.9% p.a.) as the very strong equity market rebound of Q4 2011 has fallen out of the analysis.
Emerging Market Equities	8.75	4.3	The 3-year return from emerging market equities has improved over the last year but has fallen from 6.1% p.a. to 4.3% p.a. over the last quarter. The fall in the oil price resulted in a small negative Emerging Market Equity return in the latest quarter, whereas, as with Developed Equities, the quarter falling out of the analysis was one where markets rebounded.
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 equity assumed strategic return.
UK Gilts	4.5	6.9	Bond returns remain above the long term strategic assumed return. Yields have fallen sharply over the last quarter, leading to strong positive returns, and increasing the three year gilt and corporate bond returns.
Index Linked Gilts	4.25	7.0	
UK Corporate Bonds	5.5	8.6	
Overseas Fixed Interest	5.5	-1.4	Well behind the assumed strategic return and remaining negative due to increases in US yields, however a positive return in the latest quarter has improved the three year return from -2.2% p.a. reported last quarter.
Fund of Hedge Funds	6.0	5.1	Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. Returns continue to steadily improve as hedge funds increase equity exposure and credit markets have provided some positives.
Property	7.0	10.6	Property returns continue to increase above the expected returns, driven by the economic recovery in the US and the UK.

Source: Statement of Investment Principles, Thomson Reuters.

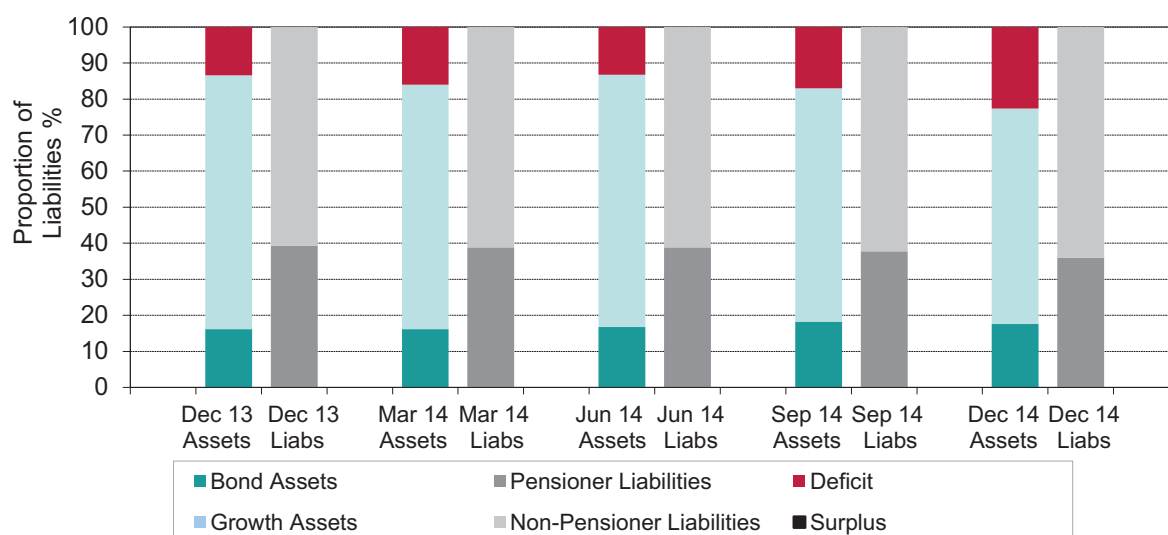
See appendix 1 for economic data and commentary.

### 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

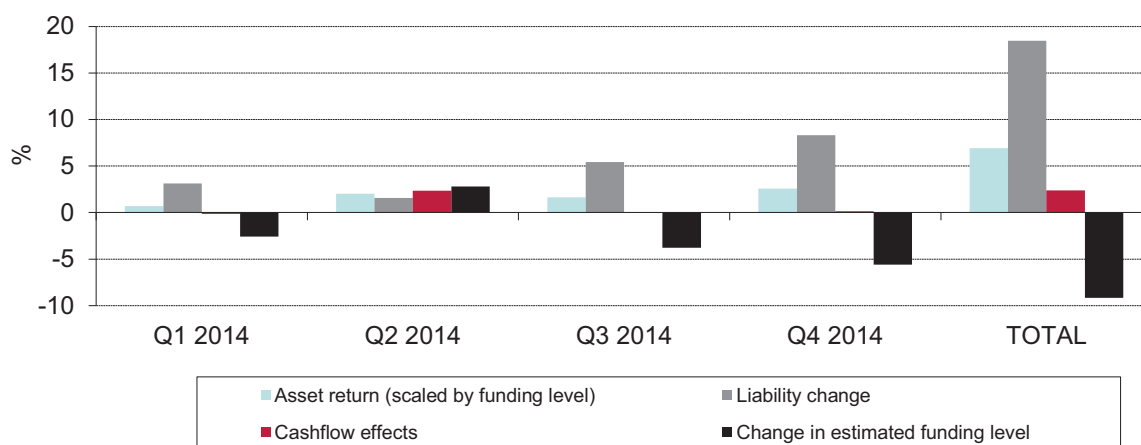
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix 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 decreased by circa 6% over the fourth quarter of 2014, all else being equal. This was driven by:
  - » A negative effect from the liabilities, as the valuation interest rate has decreased, increasing the value placed on liabilities. This was partially offset by a fall in inflation-linked liabilities.
  - » A modest positive asset return, which did not offset the estimated rise in liabilities.
- 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 decreased the overall funding level to 77%. Whilst there have been generally positive asset returns over the period, the decrease is mainly due to the fall in long gilt yields over the last six months which has increased the value of liabilities.

## 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.

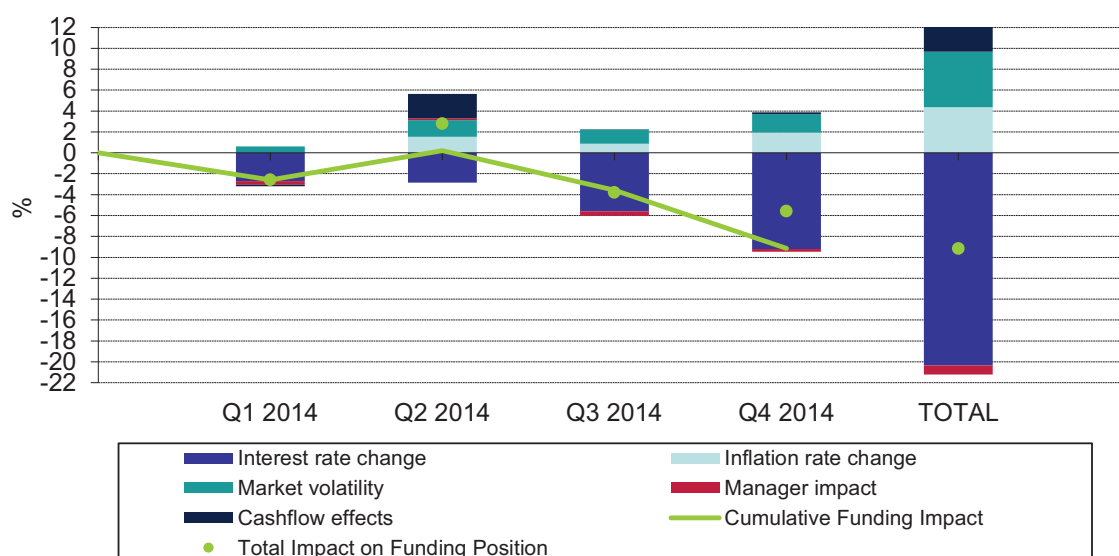


Note : A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of 2.6%, over the last quarter.
- The value placed on the liabilities increased by 8.3% due to a fall in the discount rate, offset to some extent by a smaller decrease in the inflation assumption used to value inflation-linked liabilities.
- The 'cashflow effect' was negligible this quarter – the 2.3% in Q2 2014 represents several employing bodies paying their deficit payments in advance.
- Overall, the combined effect has led to a decrease in the estimated funding level to 77% (from 83% at 30 September 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. When yields fall, as they have over the last year, it has a negative impact, as the liabilities have a longer duration than the assets.
- 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 projected 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 negative over the last quarter as the total fund returned 0.3% below the benchmark.
- The 'cashflow effects' reflect factors such as pension payments, contributions and disinvestments.
- Overall the investment factors have had a negative impact on the estimated funding level of the Fund over the last quarter.
- Over the last year, investment factors have had a negative effect due to a fall in the discount rate assumption, which increases the value placed on the liabilities ('interest rate change'). This was offset to some extent by the positive asset returns ('market volatility') and the decrease in the inflation assumption ('inflation rate change'), all else being equal.

## 4 Fund Valuations

The table below shows the asset allocation of the Fund as at 31 December 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	30 September 2014		31 December 2014		Strategic Benchmark Weight %
	Value £'000	Proportion of Total %	Value £'000	Proportion of Total %	
Developed Market Equities	1,740,605	49.2	1,806,587	49.6	40.0
Emerging Market Equities	339,745	9.6	332,124	9.1	10.0
Diversified Growth Funds	118,799	3.4	121,263	3.3	10.0
Bonds	778,076	22.0	829,133	22.8	20.0
Fund of Hedge Funds	163,610	4.6	160,243	4.4	5.0
Infrastructure	-	-	-	-	5.0
Cash (including currency instruments)	103,242	2.9	87,515	2.4	-
Property	295,202	8.3	304,782	8.4	10.0
<b>TOTAL FUND VALUE</b>	<b>3,539,279</b>	<b>100.0</b>	<b>3,641,647</b>	<b>100.0</b>	<b>100.0</b>

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £102m over the fourth quarter of 2014 to £3,642m.
- The changes in asset allocation over the quarter are predominantly due to market movements, as there have only been relatively small investments/disinvestments.
- Bonds and Developed Market Equities produced the highest returns over the quarter, with their allocations increasing by 0.8% and 0.4% respectively. The Emerging Market Equity allocation reduced by 0.5%, similarly mainly due to the performance of the market.
- The positions continue to reflect the decision to fully disinvest from the Barings Dynamic Asset Allocation Fund in Q3 2014 following the departure of the lead fund managers. Almost all proceeds from this sale were invested in the BlackRock Multi Asset portfolio, and the remainder in Cash.
- The Fund has appointed IFM as infrastructure manager, whose allocation is expected to be met from equities over time, thus reducing the current overweight position.
- The allocation to equities and bonds is expected to fall and the allocation to DGF increase as the Standard Life Global Absolute Return Strategies Fund investment is initiated over Q1 2015.



Manager	Asset Class	30 September 2014		Net new money £'000	31 December 2014	
		Value	Proportion of Total		Value	Proportion of Total
		£'000	%		£'000	%
Jupiter	UK Equities	163,669	4.6	-	166,170	4.6
TT International	UK Equities	183,858	5.2	-	187,070	5.1
Schroder	Global Equities	222,855	6.3	-	235,975	6.5
Genesis	Emerging Market Equities	154,408	4.4	-	152,336	4.2
Unigestion	Emerging Market Equities	185,337	5.2	-	179,789	4.9
Invesco	Global ex-UK Equities	254,766	7.2	-	269,440	7.4
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	110,065	3.1	-	110,939	3.0
Pyrford	DGF	118,799	3.4	-	121,263	3.3
Barings	DGF	0	0.0	-	0	0.0
MAN	Fund of Hedge Funds	706	0.0	-	587	0.0
Signet	Fund of Hedge Funds	65,940	1.9	-	63,082	1.8
Stenham	Fund of Hedge Funds	38,038	1.1	-	38,225	1.0
Gottex	Fund of Hedge Funds	58,926	1.7	-	58,349	1.6
BlackRock	Passive Multi- asset	1,288,341	36.4	-4,363	1,350,008	37.1
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	14,913	0.4	-	15,728	0.4
RLAM	Bonds	287,071	8.1	-	299,072	8.2
Schroder	UK Property	166,655	4.7	-	173,341	4.8
Partners	Property	139,147	3.9	-	137,559	3.8
Record Currency Mgmt	Dynamic Currency Hedging	1,130	0.0	-	353	0.0
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	30,851	0.9	-	32,369	0.9
Internal Cash	Cash	53,805	1.5	4,363	49,992	1.4
Rounding		0	0.0	-	0	0.0
<b>TOTAL</b>		<b>3,539,279</b>	<b>100.0</b>	<b>0</b>	<b>3,641,647</b>	<b>100.0</b>

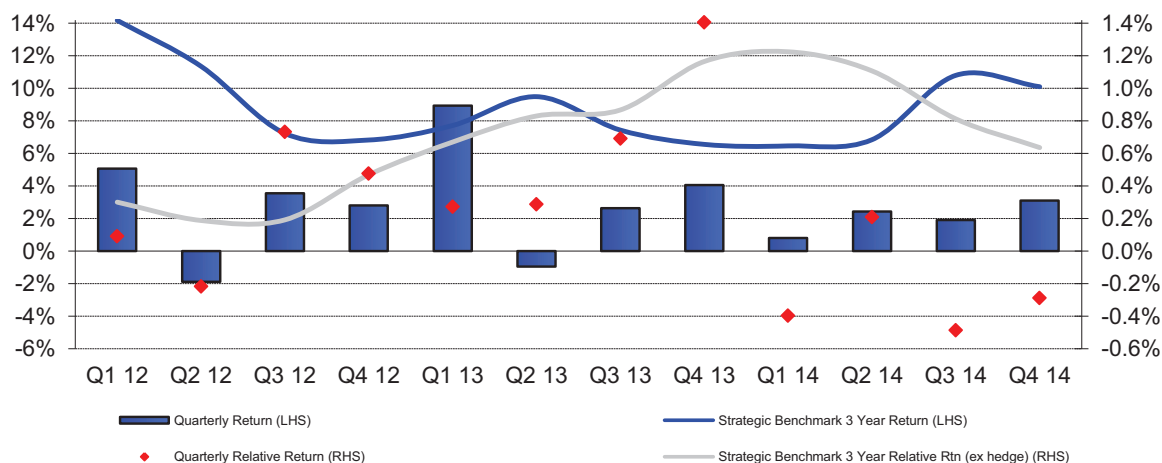
Source: Avon Pension Fund Data provided by WM Performance Services

## 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)	3.1	8.4	11.1
Total Fund (ex currency hedge)	3.1	8.4	10.8
Strategic Benchmark (no currency hedge)	3.4	9.5	10.1
Relative (inc currency hedge)	-0.3	-1.0	+0.9

Source: Data provided by WM Performance Services

- The largest component of the quarter's underperformance was stock selection in overseas developed equities. This was partially offset by an overweight allocation to overseas equities during a quarter in which they performed relatively well.

## 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 31 December 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
		Q4 2014	(quarter)	1 year	(1 year)
UK Equities	15%	0.6%	0.1%	1.2%	0.2%
Overseas Equities	25%	5.5%	1.4%	12.5%	3.1%
Emerging Market Equities	10%	-0.7%	-0.1%	3.9%	0.4%
Diversified Growth Funds	10%	1.1%	0.1%	4.5%	0.4%
UK Government Bonds	3%	11.2%	0.3%	26.1%	0.8%
UK Corporate Bonds	8%	4.3%	0.3%	12.2%	1.0%
Index Linked Gilts	6%	9.4%	0.6%	21.4%	1.3%
Overseas Fixed Interest	3%	2.8%	0.1%	6.4%	0.2%
Fund of Hedge Funds	10%	1.1%	0.1%	4.5%	0.4%
Property	10%	4.6%	0.5%	17.2%	1.7%
<b>Total Fund</b>	<b>100%</b>		<b>3.4%</b>		<b>9.5%</b>

Source: Returns data provided by WM Performance Services

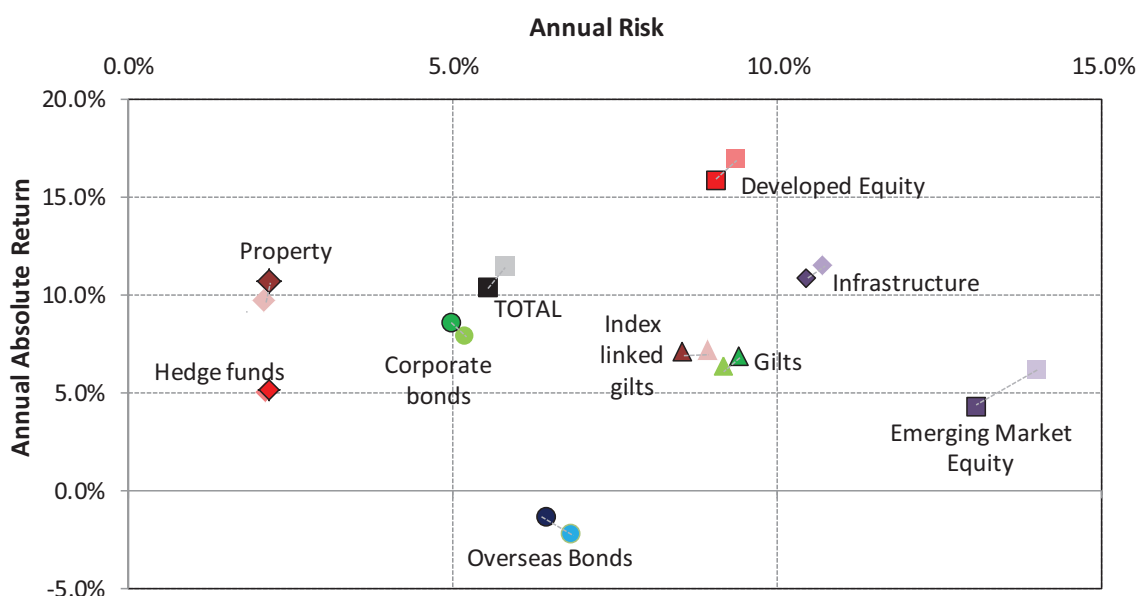
- The benchmark weights above are those held by WM to partly reflect the changes to the investment strategy, agreed in 2013, whilst they are implemented.
- Over the quarter, the benchmark was 3.4%. This was driven by contributions from most asset classes, in particular overseas equities, property and UK bonds (government, corporate and index-linked).
- Over the last twelve months, the benchmark was 9.5%. The main contributing asset classes were the same as over the quarter.
- 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 one-year benchmark return was 2.2% p.a. ahead of this.
  - » The one-year Overseas Fixed Interest return has increased from -0.2% on 30 September 2014 to 6.4%, which is ahead of its assumed strategic return of 5.5%.
  - » The one-year benchmark return for overseas equities was ahead of its assumed strategic return. Property and UK bonds were also well ahead.
  - » UK equities, Emerging market equities and Fund of Hedge Funds were below their assumed strategic returns over the year.

## 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 December 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 17.

**3 Year Risk v 3 Year Return to 31 December 2014**

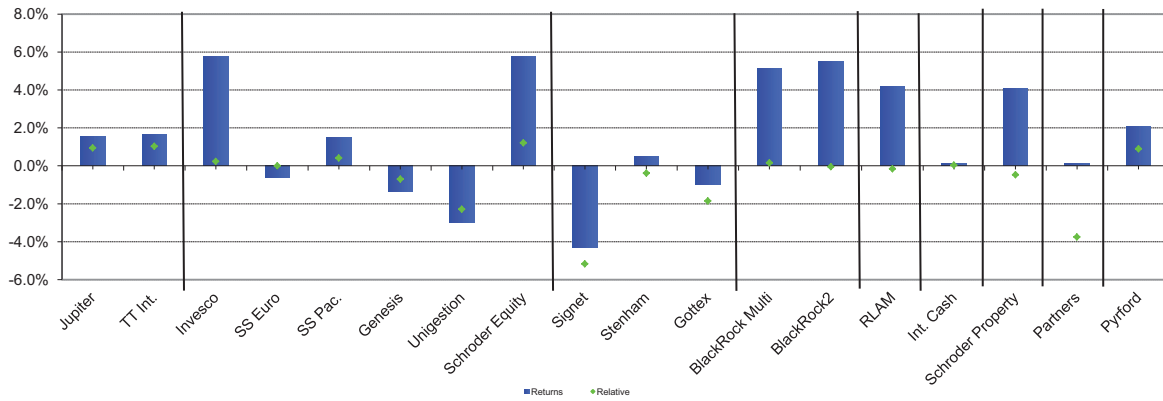


- Overall there has been little change in the three-year risk/return characteristics over the last quarter compared to the previous quarter, other than in Emerging Market Equity.
- Developed equity produced the best 3-year return, of 15.8% p.a. This is slightly lower than as at September 2014 because a very strong quarter has fallen out of the analysis as equity markets rebounded at the end of 2011.
- The next highest returns were Infrastructure (10.8% p.a.) and Property (10.6% p.a.), the same asset classes as last quarter.
- The three year bond returns (Gilts, Index-linked and Corporates) appear stable, however the underlying story is of falling yields and high returns in both the last quarter and Q4 2011.
- The three-year Overseas Bond return has improved, although the absolute return remains negative.
- The falling oil price has affected Emerging Market Equity returns this quarter and hence the three-year return is down from 6.1% p.a. to 4.3% p.a.
- In terms of risk, the three-year volatility has fallen slightly each asset class in the above chart apart from Gilts and Property.
- 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 emerging market equities and overseas bonds well below.

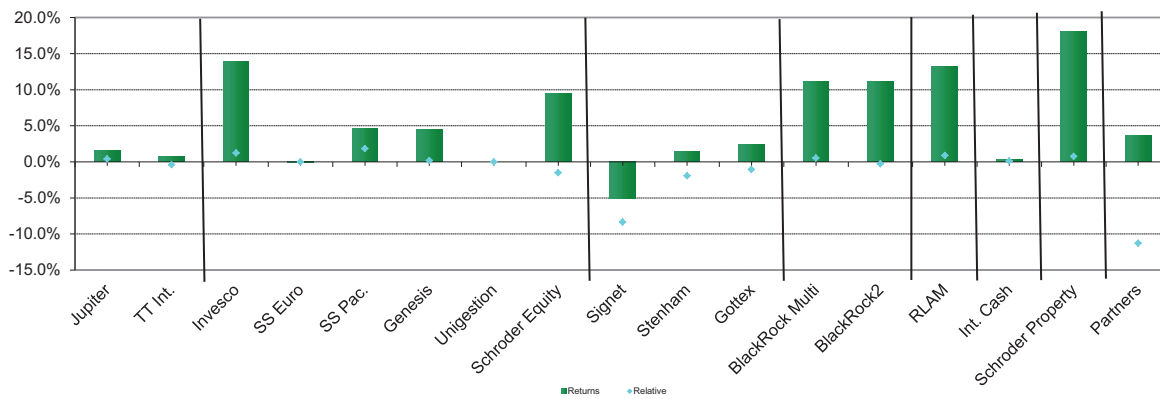
## Aggregate manager performance

The charts below show the absolute return for each manager over the quarter, one year and three years to the end of December 2014. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

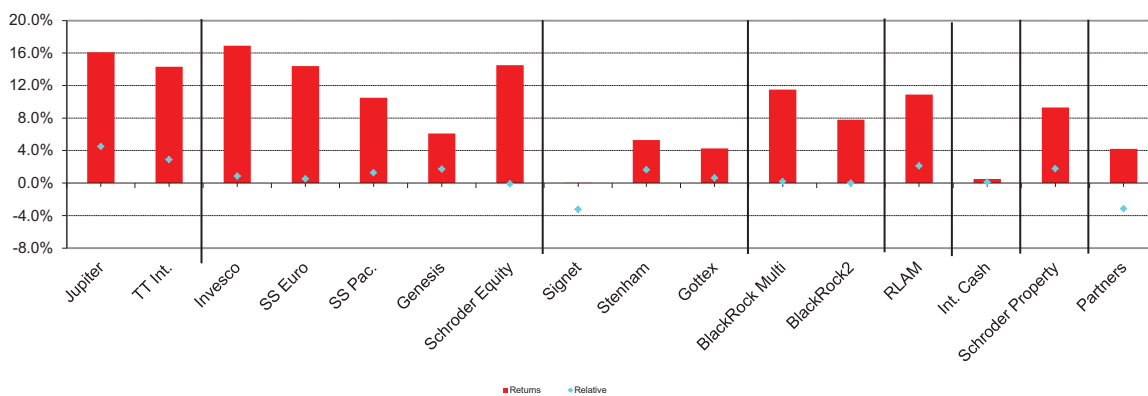
Absolute and relative performance - Quarter to 31 December 2014



Absolute and relative performance - Year to 31 December 2014



Absolute and relative performance - 3 years to 31 December 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 December 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.

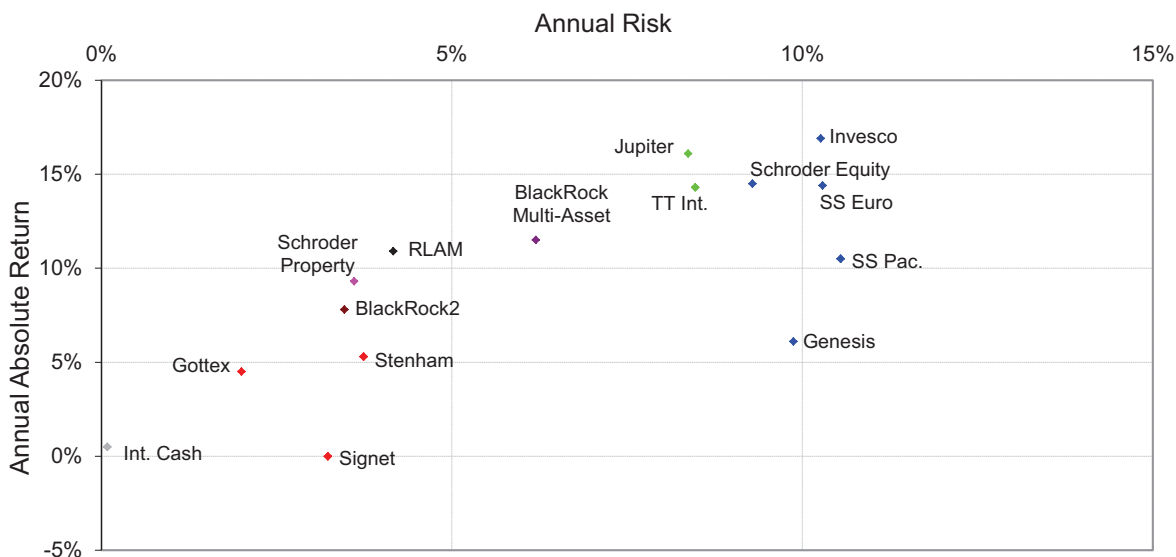
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+0.9	+0.4	+4.5	Target met
TT International	+1.0	-0.6	+2.8	Target not met
Invesco	+0.2	+1.2	+0.9	Target met
SSgA Europe	+0.0	+0.5	+0.5	Target met
SsgA Pacific	+0.4	+1.9	+1.3	Target met
Genesis	-0.7	+0.2	+1.7	Target met
Unigestion	-2.3	N/A	N/A	N/A
Schroder Equity	+1.2	-2.0	-0.1	Target not met
Signet	-5.2	-8.4	-3.5	Target not met
Stenham	-0.4	-1.9	+1.6	Target met
Gottex	-1.8	-1.1	+0.6	Target met
BlackRock Multi - Asset	+0.1	+0.3	+0.2	Target met
BlackRock 2	0.0	+0.1	+0.1	Target met
RLAM	-0.2	+0.9	+2.1	Target met
Internal Cash	0.0	+0.1	+0.1	N/A
Schroder Property	-0.5	+0.7	+1.5	Target met
Partners Property	-3.7	-11.2	-3.2	Target not met
Pyrford	+0.9	-2.1	NA	N/A

Source: Data provided by WM Performance Services

### Manager and Total Fund risk v return

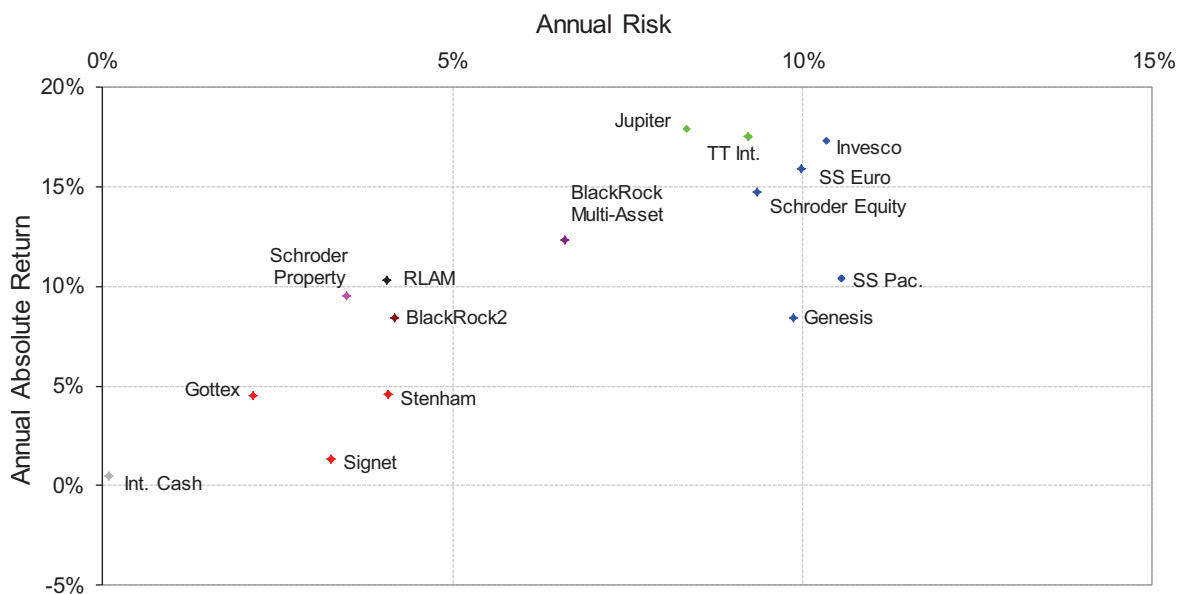
The chart below shows the 3 year absolute return (“Annual Absolute Return”) against the 3 year volatility of absolute returns (“Annual Risk”), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2014 of each of the funds. We also show the same chart, but with data to 30 September 2014 for comparison.

**3 Year Risk v 3 Year Return to 31 December 2014**



Source: Data provided by WM Performance Services

**3 Year Risk v 3 Year Return to 30 September 2014**



Source: Data provided by WM Performance Services

The managers are colour coded by asset class, as follows:

- » Green: UK equities
- » Red: fund of hedge funds
- » Maroon: multi-asset
- » Grey: internally managed cash
- » Green Square: total Fund
- Blue: overseas equities
- Black: bonds
- Brown: BlackRock No. 2 portfolio
- Pink: Property

- As with the markets' risk/return chart on page 14, overall there has been little change in the three-year risk/return characteristics of the funds over the last quarter compared to the previous quarter.
- The Developed Equity managers continue to produce the highest three-year returns, with each manager producing a double-digit return; the highest returns were from Invesco (16.9% p.a.) and Jupiter (16.1% p.a.). Genesis' three-year return has fallen from 8.4% p.a. to 6.1% p.a., but this is market-driven and they remain ahead of their benchmark and target.
- A double-digit three-year return was also seen from RLAM bonds, increasing from 10.3% p.a. to 10.9% p.a.
- The three-year risk figures have generally fallen slightly over the fourth quarter, with largest decrease from TT (-0.8%). The SSgA risk figure increased slightly (by 0.3%) but remains similar to the Fund's other equity managers. As would be expected, the equity-based funds have the highest volatility and hedge funds, property and fixed interest the lowest.
- Jupiter, TT, Invesco, the two SSgA funds, Schroder Property and RLAM bonds have all outperformed the assumed strategic return and also outperformed their benchmarks. Apart from TT (who are only 0.2% behind), all have also outperformed their targets.
- Schroder Equity has outperformed the assumed strategic return, but is below its individual benchmark and target.
- Stenham's three-year return has improved so that it now has also outperformed the assumed strategic return for hedge funds and also outperformed its benchmark. Gottex are slightly behind the assumed strategic return but ahead of benchmark, and Signet are well behind with a return close to zero over three years.



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# Appendix 1: Market Events

Asset Class	What happened?	
	Positive Factors	Negative Factors
<b>UK Equities</b>	<ul style="list-style-type: none"> <li>■ According to the Office of National Statistics (ONS), the annual GDP growth was revised down to 2.6% in Q3 2014 from the prior estimate of 3%. Despite the downward revision, the UK is still one of the fastest growing economies in the G7.</li> <li>■ The number of people in the UK claiming unemployment benefits fell by 26,900 in November, while the UK unemployment rate remained unchanged at 6% over the three months to October. Also, figures from the Office for National Statistics (ONS) indicate that wage growth in the UK is picking up, as average earnings excluding bonuses in the August-to-October 2014 period were up 1.6% from the year earlier.</li> </ul>	<ul style="list-style-type: none"> <li>■ The uncertainty around the outcome of the general election scheduled for May 2015 is likely to be a headwind for the equity market in the near term. The rise of the UK Independence, Scottish Nationalist and, to a lesser extent, Green parties has increased the range of possible election outcomes.</li> <li>■ The ONS figures indicate that the country's current account deficit further widened from 5.5% of GDP in Q2 2014 to 6.0% in Q3 2014.</li> </ul>
<b>Overseas Equities:</b>		
<b>North America</b>	<ul style="list-style-type: none"> <li>■ The US economy expanded at an annualised rate of 5% in Q3 2014, the fastest pace since 2003. This strong growth follows a 4.6% annualised expansion in Q2 2014. The US GDP has grown at an annualised pace of 3.5% or higher in four of the last five quarters.</li> <li>■ The US job market added 252,000 jobs in December, marking 2014 as the best year for employment growth since 1999. The unemployment rate stood at 5.6% as at the end of December 2014.</li> </ul>	<ul style="list-style-type: none"> <li>■ The Federal Reserve ended the latest round of quantitative easing in October 2014 citing improvement in the labour market and a strengthening economy. The uncertainty around the timing of the first interest rate rise remains a headwind for the equity markets in the near term.</li> </ul>

Asset Class	What happened?	
	Positive Factors	Negative Factors
<b>Europe</b>	<ul style="list-style-type: none"> <li>■ Mario Draghi's briefing in December 2014 indicated that the European Central Bank (ECB) has stepped up preparations to undertake additional stimulus measures to help revive growth in the fragile Eurozone economy. Drawing cues from the recent remarks by Mario Draghi, the market is now anticipating a full-fledged bond-buying program to be announced in Q1 2014.</li> </ul>	<ul style="list-style-type: none"> <li>■ The tail end of Q4 2014 witnessed the resurfacing of talks about Greece leaving the Eurozone as the Greek parliament failed to elect a president, forcing an early election to take place at the end of January 2014.</li> <li>■ Inflation in the Eurozone turned negative in December 2014, as prices fell 0.2% year-on-year, marking the first time since 2009 that prices have dipped into negative territory. The slide into deflation, driven mainly by lower energy costs due to the plunging oil prices, is likely to intensify pressure on the ECB to take further action to stimulate the Eurozone's economy.</li> </ul>
<b>Japan</b>	<ul style="list-style-type: none"> <li>■ The Bank of Japan (BOJ), in a surprise move in October 2014, announced an increase in its asset purchase program from Yen 60-70 trillion per annum to Yen 80 trillion annually. The BOJ would also triple its annual purchase of exchange-traded funds and domestic real estate investment trusts. This was the first policy change since the program started in 2013.</li> <li>■ In October 2014, the government approved the revised asset allocation target for the Government Pension Investment Fund (GPIF). The new allocation would now target domestic and international equities of 25% each, up from 12% each earlier.</li> <li>■ Shinzo Abe's ruling Liberal Democratic Party (LDP) won the snap elections held in December 2014. After retaining a two-thirds majority, Mr Abe now plans to push through reform measures. The Prime Minister had dissolved the lower house of Parliament in November, a day after the data showed that the economy shrank in Q3 2014. The second round of tax increases was also delayed by 18 months to April 2017.</li> </ul>	<ul style="list-style-type: none"> <li>■ In Q3 2014, the Japanese economy contracted by 1.9% on an annualised basis, following a 7.3% contraction in Q2 2014, pushing the economy into a technical recession. The economy has been battling the negative impacts of the sales-tax hike for the last two quarters. Private consumption, which accounts for nearly 60% of the economy, has been particularly hit.</li> </ul>

Asset Class	What happened?	
	Positive Factors	Negative Factors
<b>Asia Pacific</b>	<ul style="list-style-type: none"> <li>■ Asia Pacific (excluding Japan) equities ended Q4 2014 with a return of 3.2%, owing to strong performance by the Chinese equities and hopes of further stimulus measures by the ECB.</li> <li>■ South Korea recorded its 35th consecutive month of trade surplus owing to strong exports, which grew by 3.7% year-on-year in December 2014.</li> </ul>	<ul style="list-style-type: none"> <li>■ The Australian economy grew at a slower-than-expected pace of 0.3% quarter-on-quarter in Q3 2014, missing analysts' estimates of 0.7%. Impact of falling commodity prices and decline in mining investments were the biggest detractors to growth.</li> </ul>
<b>Emerging Markets</b>	<ul style="list-style-type: none"> <li>■ Chinese equities surged nearly 37% (in local currency terms) in Q4 2014 backed by growing expectations of a further policy stimulus. The launch of the Shanghai-Hong Kong Stock Connect program, allowing greater access of Chinese shares to foreigners, also contributed to this boost.</li> <li>■ Indian equities rallied 3.3% (in local currency terms) in Q4 2014 as expectations of falling inflation, driven by falling oil prices, raised hopes of interest rate cuts by the Reserve Bank of India.</li> </ul>	<ul style="list-style-type: none"> <li>■ Russian stocks plunged a little over 30% (in local currency terms) in Q4 2014 amidst fears of an economic collapse triggered by falling oil prices. With Russian oil and gas accounting for 70% of exports and 50% of tax receipts, a continued price slump could indicate big budget cuts for the energy-dependent nation. Moreover, the Russian parliament approved the 2015 budget in December 2014 assuming oil prices at \$100 a barrel.</li> <li>■ In December 2014, the Brazilian central bank sharply revised down its growth forecast for the year 2014 to 0.2% from 0.7% earlier. The central bank also raised the benchmark interest rate to 11.75% in December 2014 from 11.25% earlier amidst rising inflation and a weakening currency.</li> </ul>

Asset Class	What happened?	
	Positive Factors	Negative Factors
<b>Gilts</b>	<ul style="list-style-type: none"> <li>A slowdown in the pace of growth in the UK economy contributed to strong gilts performance over Q4 2014. The average reading for UK Markit/CIPS manufacturing purchasing managers' index (PMI) fell marginally from 53.1 in Q3 2014 to 53.0 in Q4 2014, the weakest reading since Q2 2013. Also, the PMI for service sector, which accounts for nearly 78% of the British economy, fell to 55.8 in December from 58.6 in November. Moreover, a reduction in global growth forecast by the International Monetary Fund (IMF) in October 2014 further boosted gilt prices.</li> </ul>	<ul style="list-style-type: none"> <li>UK Labour Productivity, as measured by output per hour, increased in Q3 2014 by 0.6% and 0.3% when compared to Q2 2014 and Q3 2013 respectively. Output per hour increased in all of the main industrial groupings in the Q3 2014, by 0.5% in the manufacturing sector and 0.6% in the services sector.</li> </ul>
<b>Index Linked Gilts</b>	<ul style="list-style-type: none"> <li>Limited issuance of new index-linked gilts compared with their demand drivers, i.e. pension liabilities, contributed to limited returns in the asset class in Q4 2014.</li> </ul>	<ul style="list-style-type: none"> <li>Performance of index-linked gilts was muted as compared with conventional gilts in Q4 2014. The decelerating pace of UK inflation resulted in subdued performance. The consumer price index (measure of inflation) grew by 1% in November 2014, down from 2% in December 2013, significantly below the Bank of England (BOE) target of 2%.</li> <li>Yields rose in the beginning of November as UK Debt Management Office auctioned £800 million worth of index-linked bonds in the first week of the month.</li> </ul>
<b>Corporate Bonds</b>	<ul style="list-style-type: none"> <li>Investment grade credit continues to be an attractive asset class. Central bank policies remain supportive, while regulatory action is forcing banks to improve their creditworthiness. Also, bond defaults remain low as corporates are increasingly reporting improved operational performance.</li> </ul>	<ul style="list-style-type: none"> <li>The downward revision of global growth forecast by the IMF and reduction in credit spreads over the past few months has left little room for any further contraction of spreads.</li> </ul>
<b>Property</b>	<ul style="list-style-type: none"> <li>UK commercial property values rose by 4.5% for three months ending November 2014 impacting property yields which continue to fall across all sectors. Industrials continue to outpace offices, while retail continues to lag behind.</li> </ul>	<ul style="list-style-type: none"> <li>Mortgage approvals fell to 59,030 in November 2014 from 59,510 in October 2014, showing signs of an impact of tough new affordability tests.</li> <li>Construction PMI fell to 57.6 in December 2014 from 59.4 in November 2014. Although the reading remains above its long-run average of 54.5, it is well below economists' forecasts of 59.0.</li> </ul>

## Economic statistics

	Quarter to 31 December 2014			Year to 31 December 2014		
	UK	Europe <sup>(1)</sup>	US	UK	Europe <sup>(1)</sup>	US
Real GDP growth	0.5%	n/a	0.7%	2.7%	n/a	2.5%
Unemployment rate	6.0%	11.5%	5.6%	6.0%	11.5%	5.6%
Previous	6.3%	11.5%	5.9%	7.1%	11.1%	6.7%
Inflation change <sup>(2)</sup>	-0.2%	-0.3%	-1.4%	0.5%	-0.2%	0.8%
Manufacturing Purchasing Managers' Index	52.5	50.6	53.9	52.5	50.6	53.9
Previous	51.6	50.3	56.6	57.3	52.7	57.0

Source: Thomson Reuters, Markit, 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	<p>The following indices are used for asset returns:</p> <p>UK Equities: FTSE All-Share Index</p> <p>Overseas Equities: FTSE AW All-World ex UK</p> <p>UK Gilts (&gt;15 yrs or &gt;20 yrs): FTSE Brit Govt Fixed Over 15 (or 20) Years Index</p> <p>Corporate Bonds(&gt;15 yrs AA): iBoxx £ Corp 15+ Years AA Index</p> <p>Non-Gilts (&gt;15 yrs): iBoxx £ Non-Gilts 15+ Years Index</p> <p>Index Linked Gilts (&gt;5yrs): FTSE Brit Govt Index Link Over 5 Years Index</p> <p>Hedge Funds: CS/Tremont Hedge Fund Index</p> <p>Commodities: S&amp;P GSCI Commodity GBP Total Return Index</p> <p>High Yield: Bank Of America Merrill Lynch Global High Yield Index</p> <p>Property: IPD Property Index (Monthly)</p> <p>Infrastructure: FTSE MACQ Global Infrastructure Index</p> <p>Cash: 7 day London Interbank Middle Rate</p> <p>Price Inflation: All Items Retail Price Index</p> <p>Earnings Inflation: UK Average Weekly Earnings Index - Whole Economy excluding Bonuses</p>
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
Merger 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%	-
Cash	Internally Managed	7 day LIBID	-



### **JLT Employee Benefits**

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Registered Office: The St Botolph Building, 138 Houndsditch, London EC3A 7AW.  
Registered in England Number 02240496. VAT No. 244 2321 96

<b>Bath &amp; North East Somerset Council</b>	
<b>MEETING:</b>	<b>AVON PENSION FUND COMMITTEE</b>
<b>MEETING DATE:</b>	<b>27 MARCH 2015</b>
<b>TITLE:</b>	<b>LOCAL AUTHORITY PENSION FUND FORUM ENGAGEMENT REPORT 4Q14</b>
<b>WARD:</b>	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<b>List of attachments to this report:</b>	
Appendix 1 - LAPFF Quarterly Engagement Monitoring Report	

## **1 THE ISSUE**

- 1.1 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF publishes a Quarterly Engagement Report highlighting its activities during the quarter.
- 1.2 The quarterly engagement report for the period ending 31 December 2014 can be found in Appendix 1.

## **2 RECOMMENDATION**

**The Avon Pension Fund Committee is asked to:**

- 2.1 Note LAPFF Quarterly Engagement Report at Appendix 1**

### 3 FINANCIAL IMPLICATIONS

3.1 The subscription for LAPFF is provided for in the annual budget.

### 4 LAPFF QUARTERLY ENGAGEMENT REPORT

4.1 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.

4.2 The Fund recognises that collaboration with other investors is a powerful tool to influence corporate behaviour, both in terms of corporate governance and to ensure non-traditional investment risks are brought to the attention of company boards so they can be addressed and managed more effectively by the company.

4.3 Fund members and/or officers regularly attend LAPFF meetings and conferences. The work of LAPFF supports the officers and Investment Panel members in their discussions with the investment managers.

4.4 LAPFF's activity in the quarter is summarised in their Quarterly Engagement Report at Appendix 1.

#### 4.5 Highlights from the engagement report include:

(1) LAPFF held engagement meetings with the Chairman of both Shell and BP to discuss their company's approach to carbon management.

(2) LAPFF issued a draft voting alert to members on the proposed executive remuneration for incoming CEO at BG Group, Mr Lund. LAPFF along with several institutional shareholders had publicly shared concern that offering remuneration terms outside of the policy approved by a binding shareholder vote would've been seriously undermining for the UK's new executive pay regime. The subsequent withdrawal of the conditional share offer by BG brought the deal offered to Mr Lund for accepting the job of CEO back within the terms of the policy approved by BG shareholders at its most recent AGM.

(3) Reliable Accounts – LAPFF sent a letter to the Financial Reporting Council concerned that Afren plc's company practices did not comply with the Listing Rules or with the s410A of the Companies Act 2006. Defective accounts have implications not only for the appointment of directors, but also for the approval of remuneration policy. As a result, LAPFF has asked the FRC to address this issue with some urgency. This is part of a wider LAPFF campaign focussing on the legality and effectiveness of current accounting standards.

4.6 **Shareholder Resolutions:** At the quarterly LAPFF business meeting held in January, it was noted that LAPFF along with 13 other pension funds filed shareholder resolutions at both upcoming Shell and BP AGMs. The resolutions call for routine annual reporting from 2016 to include further information about certain activities related to climate change, including ongoing operational emissions management, asset portfolio resilience to the International Energy Agency's scenarios, and public policy positions relating to climate change. It has since been reported that Shell management is recommending shareholders vote for the motion, which is very rare for a shareholder proposed resolution.

**5 SHAREHOLDER ACTION BENCHMARKING SURVEY**

- 5.1 The report, published by independent responsible investment charity ‘ShareAction’, ranked 33 of the largest asset managers in the UK on transparency, corporate governance, ESG.
- 5.2 The study examined the 33 asset managers on the basis of publicly available information and a survey that 24 of the firms completed. It found that all 33 firms are now publicly committed to stewardship and RI: 100% are signed up to the Code and all but 2 (Artemis Investment Management and Santander Asset Management UK Limited) are signatories to the PRI. 96% of survey respondents state that they conduct stewardship because they believe it affects investment returns. However the quality of RI and stewardship policies, practices and disclosures vary considerably between asset managers, and quality is not contingent on the size of the firm, or whether they are mainly active or passive managers.
- 5.3 The report makes individual recommendations for each asset manager based on the publicly available information examined and private recommendations based on confidential responses to a survey.
- 5.4 The Fund is invested with 7 of the managers included in the report, Jupiter (ranked 3<sup>rd</sup>), Standard Life (6<sup>th</sup>), Schroder (10<sup>th</sup>), RLAM (11<sup>th</sup>), SSgA (12<sup>th</sup>), BlackRock (13<sup>th</sup>) and Invesco (24<sup>th</sup>).
- 5.5 The Report is available in full at <http://shareaction.org/research>.

**6 RISK MANAGEMENT**

- 6.1 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 a diverse investment strategy structured to manage financial and other investment risks including environmental social and governance (ESG) risks. The engagement activity of LAPFF on behalf of the Fund is a key way of managing these ESG risks.

**7 EQUALITIES**

- 7.1 An Equality Impact Assessment has not been completed as this report is for information only.

**8 CONSULTATION**

- 8.1 This report is for information and therefore consultation is not necessary.

**9 ISSUES TO CONSIDER IN REACHING THE DECISION**

- 9.1 The issues to consider are contained 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.

<b>Contact person</b>	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
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**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**

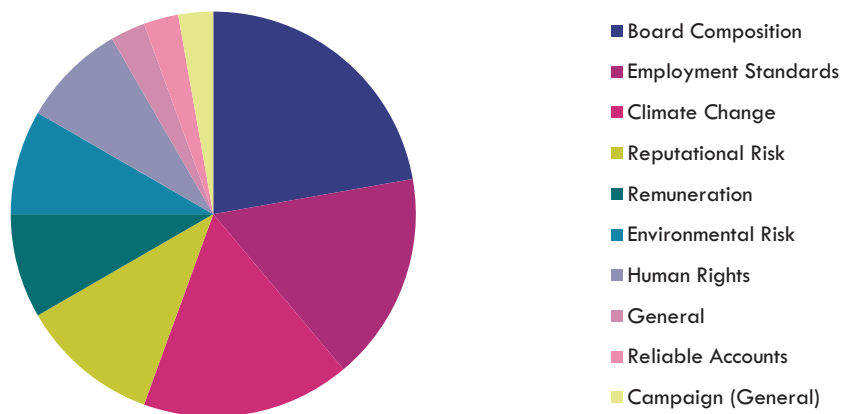


# ENGAGEMENT SUMMARY

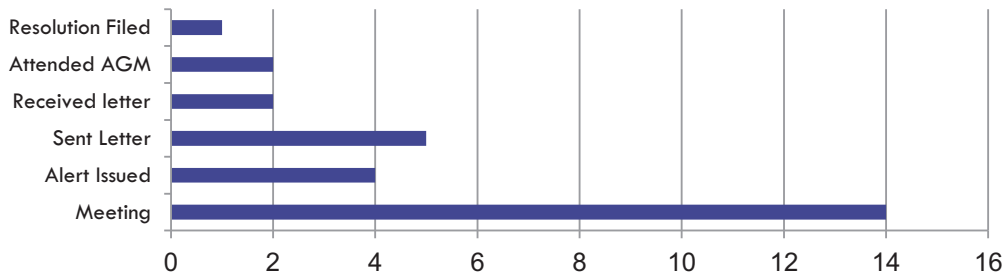
OCTOBER TO DECEMBER 2014

The Forum engaged with **19 companies** over the period

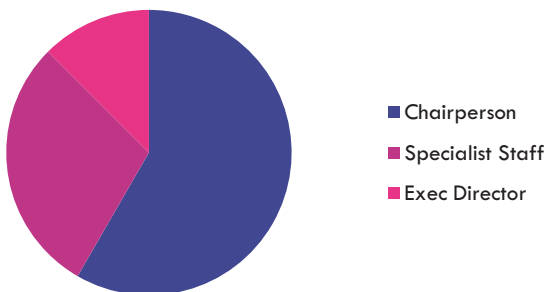
## Topics



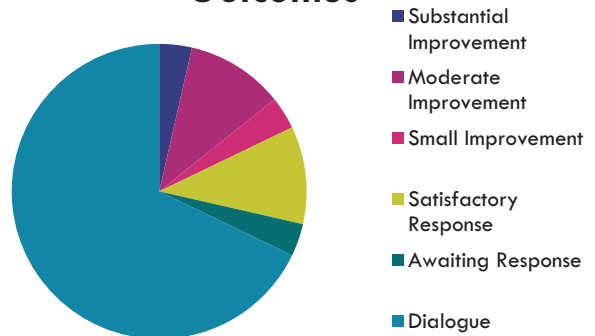
## Activities



## Company Contact



## Outcomes





## ACHIEVEMENTS

During the Quarter, LAPFF met with fourteen companies on issues ranging from phone hacking to carbon management. Eight of these meetings were with company Chairmen.

- Met with **Shell** to discuss the company's approach to carbon management. LAPFF met the Chairman, Jorma Ollila for the first time. Ian Greenwood and Cllr Cameron Rose spoke to Mr Ollila about strategy and carbon management, including the proposed shareholder resolution calling on Shell to disclose a longer-term carbon strategy. This resolution has now been filed for the 2015 AGM next year. LAPFF representatives also attended a shareholder roundtable with the company.
- 
- Shell AGM
- Met with the **BP** chairman, also to discuss the company's carbon management strategy and proposed shareholder resolution. Worked with the company to file a shareholder resolution regarding carbon management that has now reached the necessary threshold of co-filers to go to a vote.
  - Following up on member concern about companies involved in the production and sale of cluster munitions, LAPFF held conference calls with **Singapore Technologies** (Singapore), **Textron** (US) and **Lockheed Martin** (US) that clarified the position of these companies in relation to cluster munitions. A call was also held with **Deutsche Telekom** (Germany) on labour rights at its US subsidiary.
  - Cllr John Gray and West Midlands Pension Fund representative, Leanne Clements met with construction firms, **Kier** and **Carillion**, to discuss labour relations in light of assertions that these companies engaged in blacklisting of trade union employees. Kier Chairman, Phil White, spent nearly two hours speaking to LAPFF and is keen to engage further.
  - LAPFF Chairman, Cllr Kieran Quinn, and LAPFF Executive Member, Cllr Richard Greening, met with the **National Express** Chairman and CEO to continue dialogue around concerns that the company's US unit, Durham School Services, engages in poor labour practices at some of its US sites. LAPFF has engaged extensively with National Express in the past, and the fact that the company continues to meet with LAPFF is encouraging.
- 
- Cllr Quinn also met with **Trinity Mirror**, another company with which LAPFF has engaged extensively. Discussions are continuing in relation to the company's role in the hacking scandal, but there are signs that Trinity Mirror is responding to engagement.
  - Issued a draft voting alert to **BG Group** over the company's proposed executive remuneration package for incoming CEO, Helge Lund. Along with other investor groups, LAPFF voiced concern to the company about the excessiveness of the package and its potential to undermine the new binding remuneration vote. The company eventually capitulated and re-worked Mr Lund's package to fit within the company's remuneration policy.

# 2014 LAPFF ANNUAL CONFERENCE

LAPFF held its 19<sup>th</sup> Annual Conference in Bournemouth from 3-5 December, 2014. As with prior annual conferences, this one was extremely well-attended with around 120 local councillors present. Cllrs Quinn, Rose and Greening provided highlights of LAPFF company engagement over the year at the opening session of the conference.

Featured speakers included Cherie Blair and Michael Heseltine. Cherie Blair spoke about the importance of human rights to investors, not just from a moral perspective but also from a business perspective. She cited growing evidence that a failure to consider adequately human rights concerns can lead to negative returns for investors. Michael Heseltine spoke to localism and the need for local authorities to ensure that they are promoting investment and development within their authorities. Other speakers included Fiona Reynolds, head of the UN Principles for Responsible Investment, and Jim O'Neill, former economist with Goldman Sachs.

Topics covered included more traditional corporate governance concerns, such as executive pay and gender diversity on boards. However, some newer topics, such as the potential for infrastructure as a possible investment opportunity for local authority pension funds and labour rights (continuing on from Cherie Blair's speech) were also discussed.



# COMPANY ENGAGEMENT

## LEADERSHIP ON KEY CAMPAIGNS

In line with the LAPFF Executive's authorisation to engage with certain aerospace and defence companies over possible involvement with the production and sale of cluster munitions, LAPFF Vice Chair Cameron Rose and West Midlands LAPFF representative, Leanne Clements, held teleconferences with **Singapore Technologies**, **Textron** and **Lockheed Martin**. The concern is that cluster munitions kill people indiscriminately and that they continue to be dangerous after conflicts have ended. These companies were identified for engagement on the basis of their presence on investor exclusion lists or other publicly available materials suggesting that they might be involved in the production or sale of these munitions. The abovementioned companies also provided responses to an initial letter of inquiry from LAPFF regarding cluster munitions and offered to engage.

The LAPFF line of inquiry focused on the companies' awareness of and adherence to the Oslo Convention banning cluster munitions. This Convention provides a definition of cluster munitions and activities banned in relation to these munitions. While the companies were all aware of the Convention and its definition of these weapons, they are all based in countries that have failed to ratify or accede to the Convention – Singapore and the US. The companies have contracts with these governments as well, so although two companies provided reasonable assurances that they no longer produce or sell cluster munitions, one company could not offer such assurances. Furthermore, some government contracts require contracting companies to maintain cluster munitions or produce components that facilitate the use of cluster munitions. Because the companies are not in countries that have ratified the Oslo Convention, they are not in breach of any law in relation to cluster munitions. However, their practices might meet the exclusion criteria threshold for certain investors.

## PROMOTING GOOD GOVERNANCE

### Holdings Based Engagement and Executive Pay



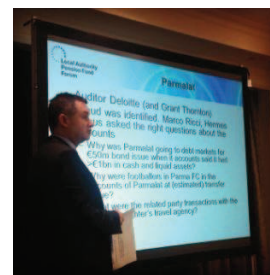
Following on from its attendance at the **Vodafone** AGM, LAPFF Vice Chair Ian Greenwood met with Chairman Gerard Kleisterlee to discuss a range of governance issues at the company, including tax avoidance. Mr Kleisterlee responded that the company has issued a detailed tax report and has fully complied with all of its tax obligations. He further outlined in detail his philosophy on succession planning for the company.

Ian Greenwood also met with the Chairman of **Severn Trent**, Andrew Duff, to discuss remuneration arrangements at the company, as a follow-up to LAPFF attendance at the AGM.



## Reliable Accounts

LAPFF sent a letter to the Financial Reporting Council in relation to **Afren** Plc. This letter expressed a concern about the company's accounts, specifically the failure to disclose certain transactions entered in 2012 and 2013. Among other things, LAPFF is concerned that the company's practices did not comply with the Listing Rules or with the s410A of the Companies Act 2006. The latter provision requires disclosure of 'off balance sheet arrangements.' Defective accounts have implications not only for the appointment of directors, but also for the approval of remuneration policy. As a result, LAPFF has asked the FRC to address this issue with some urgency.



## MANAGING ENVIRONMENTAL RISK

### Energy and Environmental Risk



LAPFF has continued to pursue its strategy of engagement with the top UK corporate carbon emitters on business strategies for emission reductions and management of carbon asset risk. **Shell** and **BP** are the two highest emitters in the UK, and LAPFF met with chairmen of both companies to discuss planned shareholder resolutions to encourage these companies to provide more focussed disclosure on their longer-term carbon management plans. LAPFF is part of an investor coalition, working to file these resolutions, the coalition also including the largest members of the £15bn Church Investors Group and Rathbone Greenbank. The resolutions have been designed to be supportive but stretching and articulate the need to balance the short-term and longer-term aspects of shareholder value creation and investment risk concerns.

The meeting with the Shell chairman, Jorma Ollila, followed up on issues discussed at a meeting in 2013 with the company and in 2012, namely on carbon management and the environmental and community concerns in Nigeria. Other areas covered included potential exploration in the Arctic and fracking in the US. 13 LAPFF funds were co-filers to the Shell resolution alongside 136 other shareholders filing, representing 52 million shares. Other filers, apart from the investor coalition bodies, included three Swedish funds, a Canadian fund, an Australian fund and a number of US bodies.

The meeting with Carl-Henric Svanberg, the BP chairman, following meetings in previous years, also covered a range of issues; health and safety management; the Rosneft investment and the situation in Russia; the effect of variations in the oil price, the company's views on fracking as well as carbon management in the context of the proposed resolution.

## TARGETING SOCIAL ISSUES

### Employment Standards and Practices

LAPFF continued its engagement with companies in relation to employment standards and practices. This engagement has taken two main forms over the quarter: an inquiry into allegations of blacklisting and questions about the labour practices at US subsidiaries. The companies engaged on the blacklisting issue tended to be more forthcoming, possibly because the UK law is stronger in this area.



In relation to blacklisting, both **Kier** and **Carillion** pointed to measures they had taken in response to allegations they used the Consulting Association's list to blacklist trade union members. Since the issue broke in 2009, the UK has passed legislation prohibiting blacklisting, and councils such as Islington have issued procurement requirements that contractors not use blacklists. However, there is a group litigation order (GLO) working its way through the court system which alleges that Kier, Carillion and other companies are responsible for a greater level of blacklisting than they have admitted to so far. It is unclear what the likelihood of success is for this litigation, or what the cost implications are for these companies if the litigation succeeds. As a result, LAPFF will be tracking this litigation to determine how it could impact long-term investors.



In relation to labour practices at US subsidiaries, LAPFF engaged with **Deutsche Telekom** and **National Express**. Both companies have been targeted publicly for US subsidiaries alleged to be flouting US labour laws on collective bargaining and freedom of association. Both companies have said that they have no concerns in this regard. However, some trade unions have alleged that poor labour practices are threatening existing and future contracts, which could be a concern for investors.

### Social and Reputational Risks

For a number of years, LAPFF has voiced concern about the level of control the Murdoch family holds over the **News Corp**, **BSkyB** and **21<sup>st</sup> Century Fox** boards. In November 2014, LAPFF issued voting alerts in relation to these three companies calling for, respectively, more independence on the board and to oppose the election of James Murdoch. Board independence is a particular concern in light of a separation agreement that allows for 21<sup>st</sup> Century Fox to 'control the defence of civil claims' in relation to phone hacking claims arising at News International. If News International chooses not to comply with the stipulations established by 21<sup>st</sup> Century Fox in relation to hacking claims, it might not benefit from an established indemnification arrangement. This arrangement could cost investors a lot of money, depending on how future hacking inquiries play out. LAPFF has also continued to engage with **Trinity Mirror** on hacking. Trinity Mirror also faces a number of future hacking claims and has worried some investors by refusing to join a recognised industry regulator.

## NETWORKS & EVENTS

- **Climate Change Investor Coalition 'Aiming for A'** – met to discuss the wording and roll out of resolutions for Shell and BP
- **All Party Parliamentary Group on Climate Change** – event to discuss the threat of stranded assets
- **UKSIF AGM and annual lecture** – Lucinda Bell, Finance Director of British Land, gave the annual lecture
- **Access to Medicines Index** – investor event hosted by Aviva to disclose the latest company rankings on the Index
- **Land grabs, human rights and the UK** – law firm Leigh Day hosted an event to examine the impact of land grabs on local communities

## THE FORUM IN THE NEWS

BP and Shell shareholder resolutions  
[Financial Times](#), [Investments & Pensions Europe](#), [Reuters](#)

BSkyB  
[City AM](#), [The Guardian](#), [Reuters](#), [Times of India](#), [Financial Times](#), [Yahoo Finance UK & Ireland](#), [Euronews](#), [HITC Business](#)

LAPFF G20 tax transparency  
[Financial Times](#), [Investment & Pensions Europe](#), [Corporate Governance](#),  
[Responsible Investor](#), [Top 1000 Funds](#), [Investor Weekly Australia](#)

Infrastructure and Investment Governance Reform  
[Financial Times](#)

***Investment governance reform is the key to infrastructure funding writes LAPFF Chair Kieran Quinn:*** read London Mayor Boris Johnson's opinion piece first published in the *Telegraph* in October and then the Forum response from Cllr Quinn advocating a long term investment culture published in the *Financial Times* in November in a special feature article ([www.lapfforum.org/news/investment-governance-reform-is-the-key-to-infrastructure-funding](http://www.lapfforum.org/news/investment-governance-reform-is-the-key-to-infrastructure-funding))

# COMPANY PROGRESS REPORT

Company	Topics	Outcome	Domicile
BP	Carbon management	Dialogue	United Kingdom
Deutsche Telekom	Employment Standards	Dialogue	Germany
Vodafone	Remuneration	Moderate Improvement	United Kingdom
Trinity Mirror	Phone Hacking	Dialogue	United Kingdom
Severn Trent	Remuneration	Moderate Improvement	United Kingdom
Shell	Carbon Management	Dialogue	UK/Netherlands
Kier Group	Employment Standards	Small Improvement	United Kingdom
Twenty-First Century Fox	Board Composition	Dialogue	United States
News Corporation	Board Composition	Dialogue	United States
<b>Carillion</b>	Employment Standards	Moderate Improvement	United Kingdom
National Express	Employment Standards	Dialogue	United Kingdom
BSkyB	Board Composition	Dialogue	United Kingdom
Afren	Reliable Accounts	Dialogue	United Kingdom
<b>Textron</b>	Reputational Risk/Human Rights	Satisfactory Response	United States
Associated British Foods	Diversity	Dialogue	United Kingdom
<b>Singapore Technologies</b>	Reputational Risk/Human Rights	Dialogue	Singapore
<b>Lockheed Martin</b>	Reputational Risk/Human Rights	Satisfactory Response	United States
BG Group	Remuneration	Dialogue	United Kingdom
Bellway	Corporate Governance/Diversity	Dialogue	United Kingdom

Companies LAPFF has not previously engaged with individually are indicated in bold.

## Local Authority Pension Fund Forum Members

Avon Pension Fund  
Barking and Dagenham LB  
Bedfordshire Pension Fund  
Camden LB  
Cardiff and Vale of Glamorgan Pension Fund  
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 LB  
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  
Wandsworth Borough Council Pension Fund  
Warwickshire Pension Fund  
West Midlands ITA Pension Fund  
West Midlands Pension Fund  
West Yorkshire Pension Fund  
Wiltshire CC  
Worcestershire CC



<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>27 March 2015</b>
TITLE:	<b>PENSION FUND ADMINISTRATION</b> <b>(1) EXPENDITURE FOR YEAR TO 31 JANUARY 2015;</b> <b>(2) PERFORMANCE INDICATORS 3 MONTHS TO 31 December 2014;</b> <b>(3) SUMMARY PERFORMANCE REPORT TO 31 December 2014</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<b>List of attachments to this report:</b>	
Appendix 1	Summary Financial Accounts: Ten months to 31 January 2015
Appendix 1A	Summary Budget Variances: Ten months to 31 January 2015
Appendix 2	Cash flow forecast to 31 March 2015
Appendix 3A	Balanced Scorecard : 3 months to 31 December 2014 (narrative)
Appendix 3B	Balanced Scorecard in 3A: Graphs only for <i>selected</i> items
Appendix 4	Customer Satisfaction Feedback in the 3 months to 31 December 2014 ( <i>Retirements from ACTIVE and DEFFERED status</i> )
Appendix 5	Active membership statistics over 42 months to 31 December 2014
Appendix 6	Joiners & Leavers statistics over 14 months to 31 December 2014
Appendix 7	Retirement & Deferred Summary Performance Report on Scheme Employer/APF for the period to 31 December 2014 (including late payers). Annex 1 current quarter, Annex 2 timeline
Appendix 8	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 10 months to 31 January 2015 and of the cash flow forecast to 31<sup>st</sup> March 2015. This information is set out in Appendices 1 and 2.
- 1.2 This report also contains Performance Indicators and Customer Satisfaction feedback for 3 months to 31 December 2014 and Summary Performance Reports on Employer and APF performance from 1 April 2011 to 31 December 2014 as well as the Risk Register.

## **2 RECOMMENDATION**

That the Committee notes:

- 2.1 Administration and management expenditure for 10 months to 31 January 2015
- 2.2 Performance Indicators & Customer Satisfaction feedback for 3 months to 31 December 2014
- 2.3 Summary Performance Report for period from 1 April 2011 to 31 December 2014,
- 2.4 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 10 months to 31 January 2015 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 £120,000. This is partly due to savings on salaries resulting from the temporary partial secondment of the payroll manager and support officer to the Council's payroll section to provide support while they undertake a major project. Those parts of their roles that they no longer cover are being temporarily covered by other members of the management team. Further forecast savings on salaries are due to the temporary secondment of the Projects Officer to Bristol City Council to assist their payroll team on pension matters. There are also forecast savings in communication costs through the greater use of digital technology. In that part of the budget that is not directly controlled, expenditure is forecast to be under budget by £440,000. The increase in compliance cost is due to the additional actuarial costs of responding to the circumstances of particular employers. These costs have been recharged to employers wherever possible, offsetting the increased expenditure. The reduced spending against budget on Investment management fees is largely because it is unlikely that any fees will be payable on the infrastructure mandate during 2014/15.
- 4.3 Explanations of the most significant variances are contained in **Appendix 1A** to this Report.

### **5 CASH FLOW FORECAST**

- 5.1 Since September the Pension Fund Administration report has included 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 advance payments of deficit contributions (for 2014/15 to 2016/17 of c. £80m) were confirmed. The forecast assumed a lower level of advance payments for 2014/15 to be paid in April. The receipt of a greater level of advance payments, some covering the 3 years, has resulted in a net cash in-flow to 31 January of £52.5m above the forecast. The net in-flow above forecast for the full year to 31 March 2015 falls to £43.8m as the advance payments unwind during the year.
- 5.3 In addition to the increased receipts of deficit contributions (following the 2013 valuation) there has also been a small increase in future service contributions but this has been largely offset by an increase in retirement lump sums and regular pensions paid. These were partly a result of the high level of redundancy retirements at the end of March. The above forecast outflow on Administration costs is due to an

increase in the Investment Manager fees paid by cash as opposed to being deducted by the Manager. The increased inflow from Investment income has been arranged to meet the demands of the Fund becoming cash flow negative.

## **6 BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS FOR THE 3 MONTHS TO 31 December 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 7682 new cases were received and 6920 were cleared. As a snapshot, at 31 December 2014 there were 3372 cases outstanding of which 26% represents actual workable cases and 74% represents cases that are part complete, pending a third party response.

## **7.2 CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 December 2014 - Retirements**

**Appendix 4** reports on the customer satisfaction based on 84 questionnaires returned from members retiring from both active and deferred status (out of a total of 209 questionnaires issued in respect of the reporting period). 96% reported that the information provided by the Fund was both clear and concise with 90% rating the service as good or excellent.

## **8 LEVEL OF OPT OUTS FROM THE SCHEME**

8.1 Reports indicate that 0.14% of active membership with more than 3 months service opted out over the period to 31 December 2014.

8.2 The position on opt outs will continue to be monitored. A report will also be developed to report on the number of members electing for the 50/50 scheme. Early indications are that the 50/50 option has had little take up to date. The exact figures should be available at the next Committee.

## **9 TRENDS IN MEMBERSHIP/JOINERS AND LEAVERS**

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**

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 a requirement of the Pensions Administration Strategy. The Report for the period to 31 December 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

10.4 **Appendix 7** contains:

10.5 Bar charts for APF and each of the four Unitary Authorities and collectively 'Other' employers reporting an event during the period. Performance against retirements and early leavers is measured against agreed SLA targets. **Annex 1** shows achievement within target over the current quartile. **Annexes 2 and 3** are comparator reports over the previous 4 year period.

10.6 Report on any late pension contributions by employers to the Fund due for the 3 months to 31<sup>st</sup> January 2015.

## **11 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT**

- The introduction of a new way of allocating work using 'Work Buckets'. This enables managers to better target specific types of work, to cope with peaks and troughs and make better use of the staff resources available
- Calculation of survivor benefits have been passed from Pensions Payroll to Benefits Administration
- Following the introduction of the CARE scheme new procedures have been introduced for linking and aggregation of membership within the Fund. Some further amendments are now needed due to CLG recent confirmation that the final salary link will not be retained if benefits are not linked.
- Year End project is under way to guide the Fund and scheme employers through the first year end process for the CARE scheme
- Training sessions have been held for employers to explain the new process for year end. 113 employers have attended over 5 separate sessions. Feedback has been very good about the sessions
- Initial reports and plans have been put in place to demonstrate that we are working towards compliance with The Pension Regulator requirements effective from April 2015.

The Fund is continuing to progress towards complete digital receipt of member data

### **11.1 Employer Self Service: Update**

As at 30<sup>th</sup> December 2014 60% of employers had received full training on ESS data submission – representing approx. 75% of total scheme membership.

### **11.2 *i-Connect***

11.3 Considerable work has been undertaken by APF to ensure that thei-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. All four unitary authorities have signed agreements to use i-Connect and currently two are sending monthly returns. A further two medium sized employers are currently in discussion. For the two authorities not currently sending returns:-

11.4 **South Gloucester Council** is in the final stages of data extract testing and is expected to go 'live' in April 2015.

11.5 **Bath & North East Somerset Council** is in the final stages of replacing its HR & Payroll service. Due to in-house staff expertise required to support this exercise a decision was made to suspend i-Connect for the relevant period until the new system is in operation and required extract reports have been re-written. Avon Pension Fund is in discussion with B&NES regarding a probable timeframe to return to i-Connect and this will be reported at the next Committee. Key member data will continue to be supplied via an alternative EDI process during the interim period.

## 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 Register has been updated this quarter to reflect The Pension Regulator's compliance requirements and the changes allowing members to access their pension "pot" after age 55 years. The Register is reviewed regularly by the management team and reported to Committee annually or when there is a change in significant risks.

12.5 The top 10 risks, including their likelihood, financial impact and mitigating actions are set out in **Appendix 8**.

## 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.

<b>Contact person</b>	Martin Phillips Finance & Systems Manager (Pensions) ( <i>Budgets</i> ) Tel: 01225 395259.  Geoff Cleak, Acting Pensions Manager ( <i>All except budgets</i> ) Tel: 01225 395277
<b>Background papers</b>	Various Accounting and Statistical Records
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## APPENDIX 1

### AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2015

	10 MONTHS TO JANUARY 2015			FULL YEAR 2014/15		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
<b>Administration</b>						
Investment Expenses	57,854	62,862	5,008	69,425	69,425	0
Administration Costs	65,446	39,036	(26,409)	78,535	78,535	0
Communication Costs	75,111	41,956	(33,155)	90,133	46,418	(45,000)
Payroll Communication Costs	39,102	49,883	10,780	46,923	46,923	0
Information Systems	241,571	253,093	11,522	289,886	289,886	0
Salaries	1,271,117	1,210,634	(60,483)	1,525,341	1,450,341	(75,000)
Central Allocated Costs	354,876	354,876	0	425,851	425,851	0
Miscellaneous Recoveries/Income	(118,780)	(147,967)	(29,188)	(142,536)	(142,536)	0
<b>Total Administration</b>	<b>1,986,298</b>	<b>1,864,372</b>	<b>(121,925)</b>	<b>2,383,557</b>	<b>2,264,842</b>	<b>(120,000)</b>
<b>Governance &amp; Compliance</b>						
Investment Governance & Member Training	210,525	186,049	(24,476)	252,630	277,630	25,000
Members' Allowances	32,588	4,694	(27,894)	39,105	39,105	0
Independent Members' Costs	15,738	15,580	(158)	18,886	18,886	0
Compliance Costs	275,939	311,489	35,550	331,127	398,627	67,500
Compliance Costs recharged	(159,167)	(129,922)	29,245	(191,000)	(258,500)	(67,500)
<b>Total Governance &amp; Compliance</b>	<b>375,623</b>	<b>387,890</b>	<b>12,267</b>	<b>450,748</b>	<b>475,748</b>	<b>25,000</b>
<b>Investment Fees</b>						
Global Custodian Fees	68,750	23,947	(44,803)	82,500	82,500	0
Investment Manager Fees	13,315,617	12,308,273	(1,007,344)	15,978,740	15,512,989	(465,000)
<b>Total Investment Fees</b>	<b>13,384,367</b>	<b>12,332,220</b>	<b>- 1,052,146</b>	<b>16,061,240</b>	<b>15,595,489</b>	<b>(465,000)</b>
<b>NET TOTAL COSTS</b>	<b>15,746,288</b>	<b>14,584,483</b>	<b>(1,161,805)</b>	<b>18,895,545</b>	<b>18,336,079</b>	<b>(560,000)</b>

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## APPENDIX 1A

### Summary of main budget variances: Forecast for full year at 31 January 2015

Variations Analysis of the full year forecast expenditure or income, against budget to the year end.

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(75,000)	Reduced salaries expenditure due to:- - the partial and temporary secondment of the Payroll Manager and Support Officer to the Council's Payroll section to provide support during a major project. (Those parts of their roles that they no longer cover are being temporarily covered by members of the management team). - the secondment of Project Officer to Bristol City Council to assist with pension matters.
Communications	(45,000)	Savings were achieved by including the Change in Scheme Booklet within the Avon Pension News Summer edition, sending out At Ease with pensioner's payslips, producing the Annual Report in electronic format and reducing costs on the Employer's Conference. There were also savings in the development of the Website by carrying it out "in house".

**Administration (120,000)**

Investment Governance	25,000	The forecast spend on investment advisory fees has increased by £25,000 to reflect the costs of retendering the DGF mandate.
Compliance Costs	67,500	The increase in expenditure on Actuarial fees has been offset by increased recharges of actuarial fees to employers.
Compliance Costs Recharged	(67,500)	
Investment Manager Fees	(465,000)	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 now it is not expected that there will any fees payable on this mandate this year. The termination of the mandate with Barings will also lead to a reduction in fees until a new manager is appointed. The forecast of performance related fees has been updated to reflect the performance of managers. This offsets part of the savings on the infrastructure mandate.

**Expenditure (440,000)**

**Outside Direct Control**

**Total Forecast (560,000)**

**Underspend**

\*() variance represents an under-spend, or recovery of income over budget  
+ve variance represents an over-spend, or recovery of income below budget

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## AVON PENSION FUND

Cash Flow Forecast

	TEN MONTHS TO JANUARY 2015			FULL YEAR 2014/15		
	Forecast Per			Forecast Per	Out-turn	
	Service Plan	Actual	Variance	Service Plan	Forecast	Variance
	£'000	£'000	£'000	£'000	£'000	£'000
Outflows						
Benefits						
Pensions	(97,872)	(100,787)	(2,915)	(117,447)	(120,945)	(3,498)
Lump sums	(27,688)	(30,701)	(3,013)	(33,226)	(36,841)	(3,615)
Administration costs	(4,614)	(6,481)	(1,867)	(5,537)	(7,777)	(2,240)
<b>Total Outflows</b>	<b>(130,175)</b>	<b>(137,969)</b>	<b>(7,794)</b>	<b>(156,210)</b>	<b>(165,563)</b>	<b>(9,353)</b>
Inflows						
Deficit recovery (allowing for a lump sum in 2014/15)	40,118	87,826	47,709	48,141	88,596	40,455
Future service Employers	61,348	67,912	6,564	73,618	81,495	7,877
Future service Employees	31,098	30,795	(303)	37,318	36,954	(364)
<b>Total Contributions</b>	<b>132,564</b>	<b>186,533</b>	<b>53,969</b>	<b>159,077</b>	<b>207,045</b>	<b>47,968</b>
<b>Net Cash Flow (excluding Investment Income)</b>	<b>2,389</b>	<b>48,564</b>	<b>46,175</b>	<b>2,867</b>	<b>41,482</b>	<b>38,615</b>
Investment income received as cash	8,464	14,868	6,405	10,156	15,343	5,187
<b>Net Cash In-Flow (Out-Flow)</b>	<b>10,853</b>	<b>63,433</b>	<b>52,580</b>	<b>13,023</b>	<b>56,825</b>	<b>43,802</b>

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## PENSIONS SECTION ADMINISTRATION

### Key Performance Indicators

APPENDIX 3A to Pension Fund Administration Report at 31 Dec 2014

INDICATOR	Red Amber Green	2013/14 Actual	Target for 2014/15	Actual 3 months to 31/12/2014	Comments
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#### A Customer Perspective

1	General Satisfaction with Service - retirees' feedback	G	97%	97%	96%	84 out of 209 responses received from retirees in reporting period	<b>Appendix 4</b>
2a	Service Standards - Processing tasks within internal targets (SLA)			0%			
	Deaths [12 days]	G	91%	92%	95%	20 of 21 Tasks were completed within target	
	Retirements [15 days]	G	89%	90%	89%	381 of 428 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	G	81%	75%	80%	735 of 922 Tasks were completed within target	
	Refunds [5 days]	G	82%	80%	80%	184 of 230 Tasks were completed within target	
	Transfers In [20 days]	G	74%	75%	76%	32 of 42 Tasks were completed within target	
	Transfers Out [15 days]	G	77%	75%	81%	101 of 125 Tasks were completed within target	
	Estimates [10 days]	G	95%	90%	88%	757 of 860 Tasks were completed within target	
2b	Service Standards Processing tasks within statutory limits	G	100%	100%	100%		
3	Number of complaints	G			Nil	No complaints received in the period	
4	Pensions paid on time	G		100%	100%	All paid on time	
5	Statutory Returns sent in on time (SF3/CIPFA)				n/a	None due this quarter	
6	Number of hits per period on APF website	G	51511 (4292 p/m)	4000	13,208	4402 per calendar month for reporting period	<b>Appendix 3b Graph 1</b>
7	Visiting members of Reg Changes within 3 months of implementation			0	n/a	none this quarter	
8	Issue of Newsletter (Active & Pensioners)	G		0	Yes	Member Newsletter Issued December 2014	
9	Annual Benefit Statements distributed by year end			0	n/a	2014/15 due by 31 August 2015	

#### B People Perspective

1	% of new staff leaving within 3 months of joining				0%		
2	% Sickness Absence						<b>Appendix 3b Graph 2</b>
	a) Short Term	G	1.3%	3%	2%	Ahead of APF target and well ahead of corporate target of 5%	
	b) Long Term	G	0%	2%	0%		

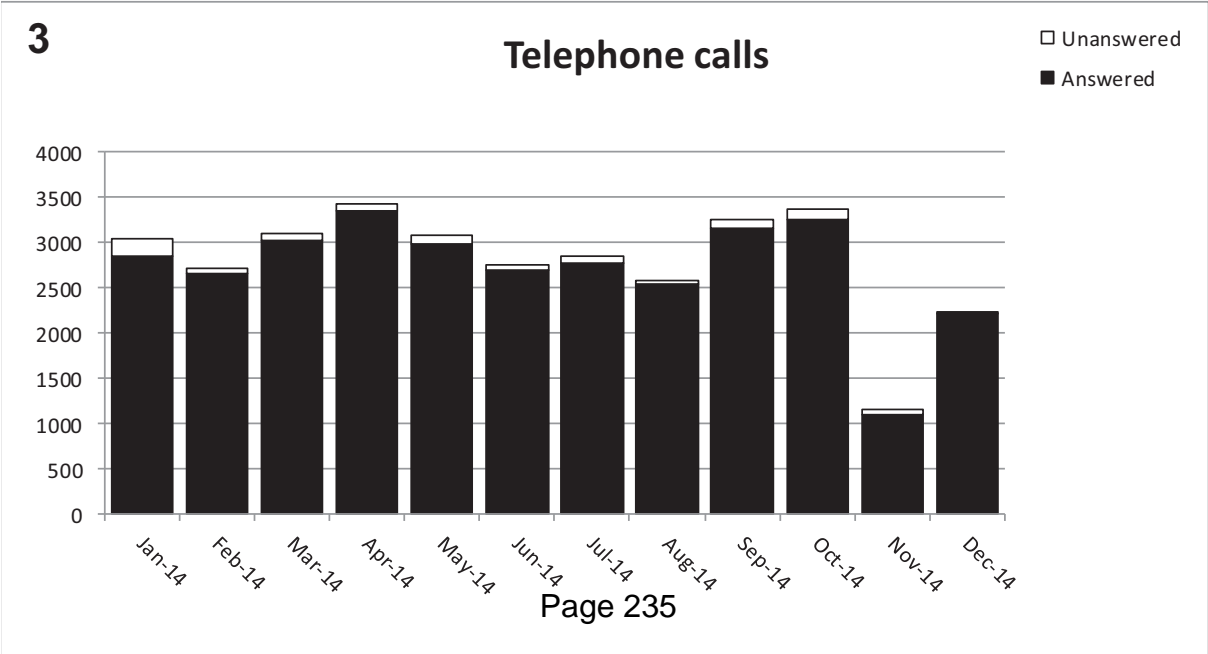
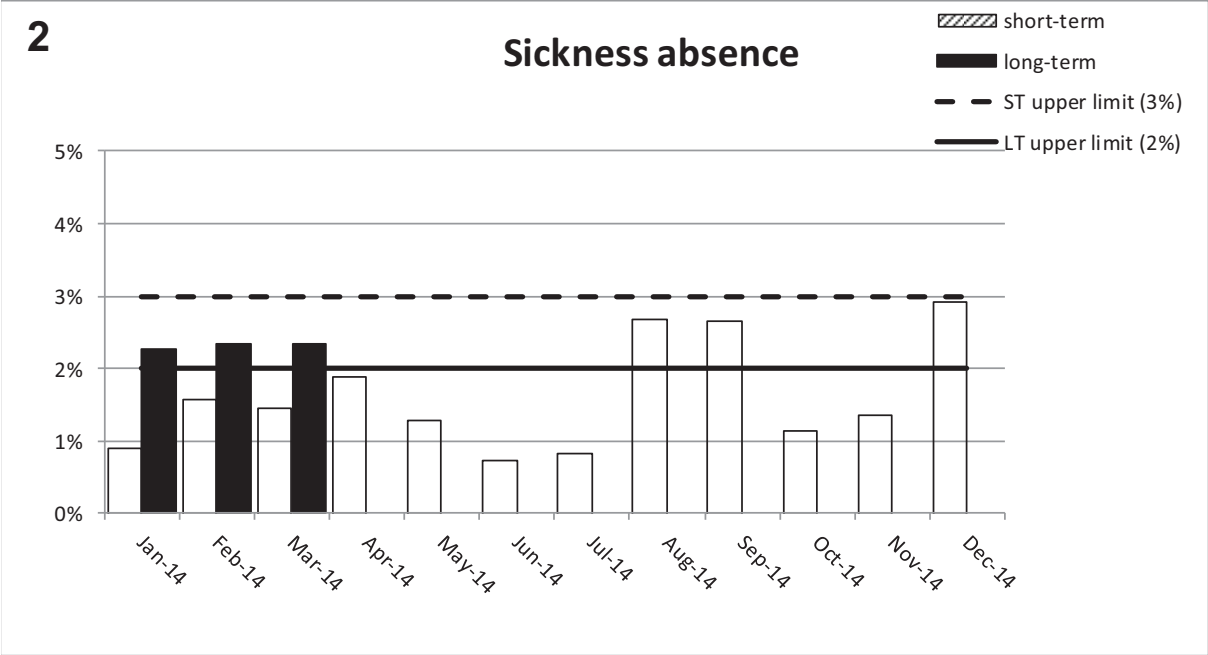
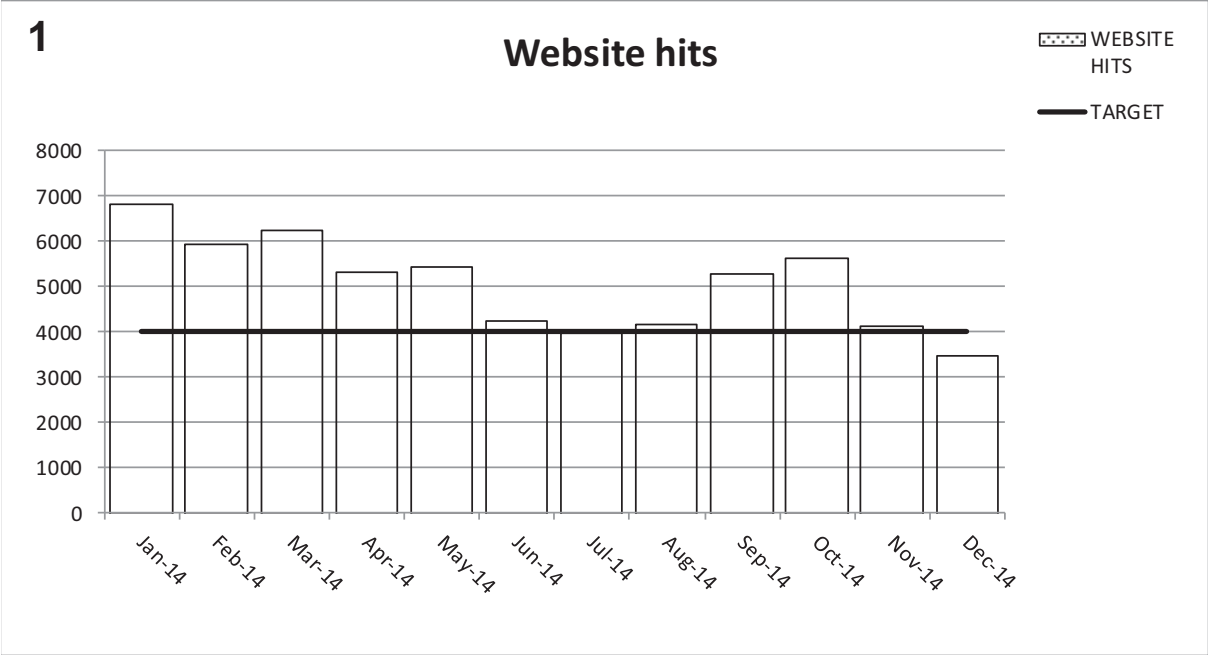
#### C Process Perspective

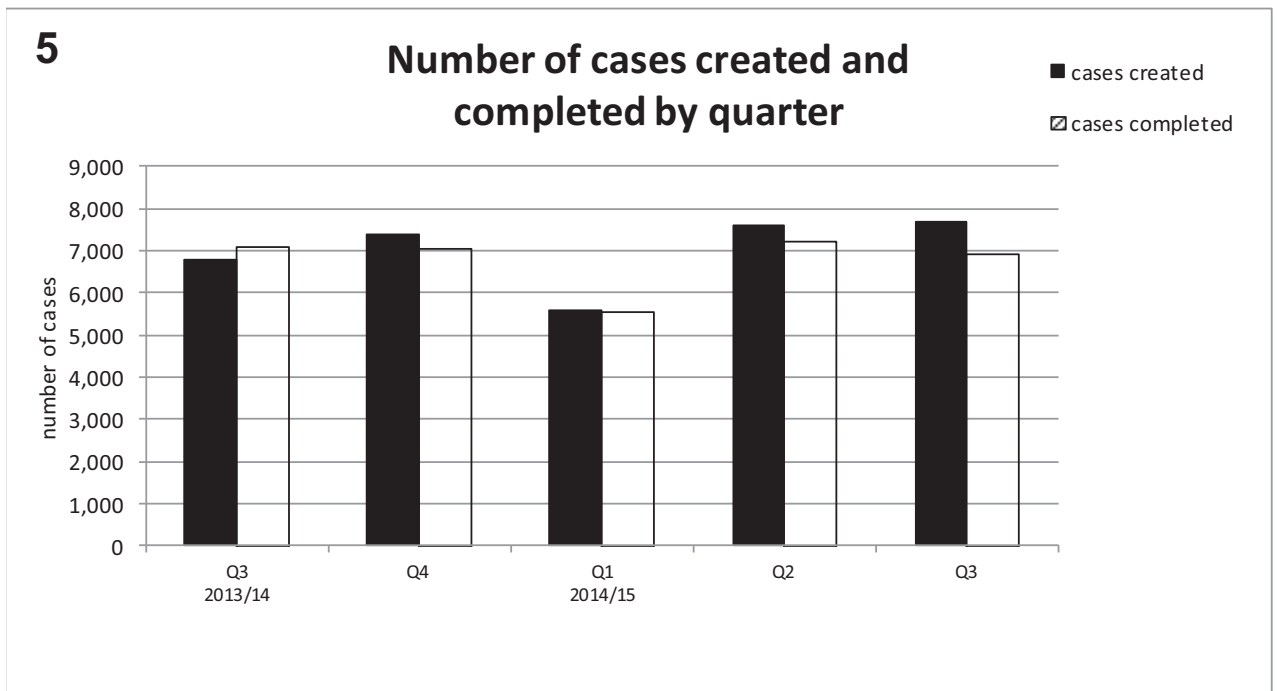
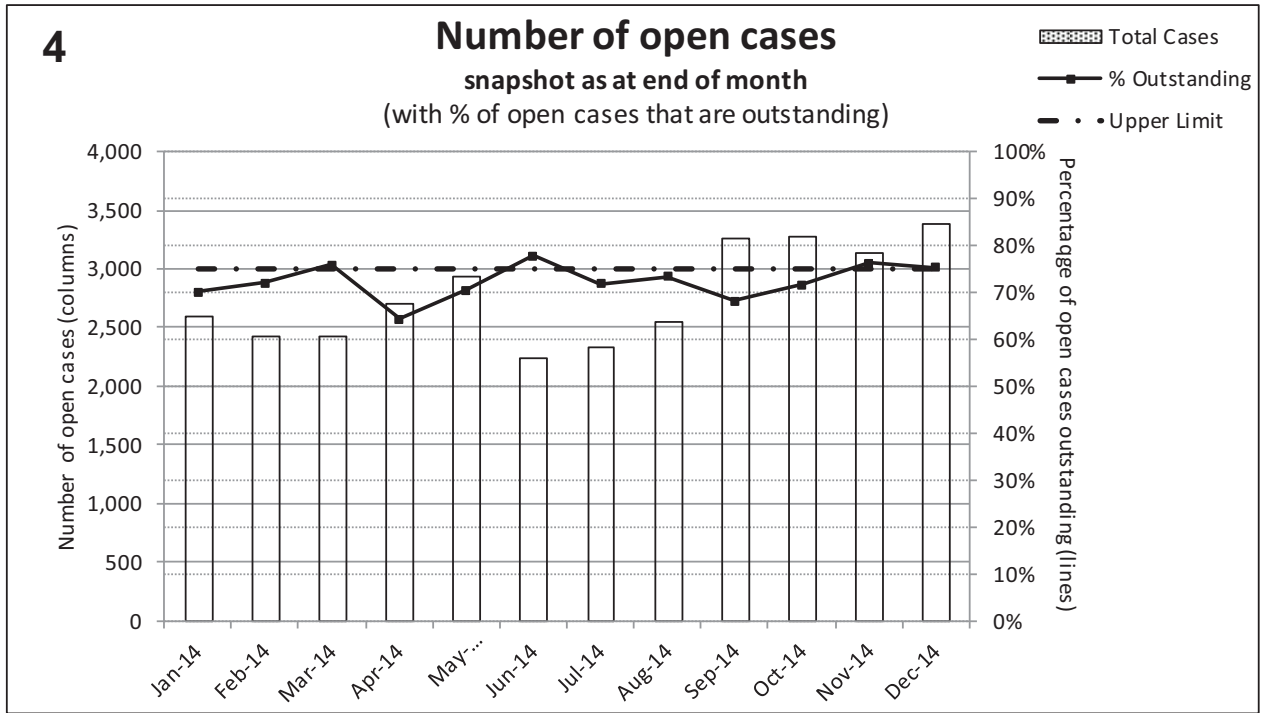
1	Services actually delivered electronically	A			7.1%	7.1% represents eligible users who have signed up to My Pension Online. Internet access means that over 5,700 members now have electronic access.	
2	a) Active membership covered by employer EDI	A	72%	90%	81%		
	b) % of employers submitting data electronically	A	58%	70%	60%		
3	% Telephone calls answered within 20 seconds	G	97%	95%	97.6%	6744 calls, 6581 answered within 20 seconds	<b>Appendix 3b Graph 3</b>
4	Maintain work outstanding at below 75%	G	20658 created 20892 cleared	75%	74%	7682 created, 6920 cleared	<b>Appendix 3b Graphs 4 &amp; 5</b>
5	Year End data receipt			100%		2014/15 due by 30 April 2015	
6	No. of errors (due to incomplete member data from employers)	G		3%	2%	Acceptable error level	

#### D Resource Perspective

1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	89%	90%	91%	Business Financial Services (inc Pensions).
2	Temp Staff levels (% of workforce)	G	0.74%		2.2%	Within target

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## Pension Fund Administration report: Appendix 4

### Customer satisfaction (Oct - Dec 2014)

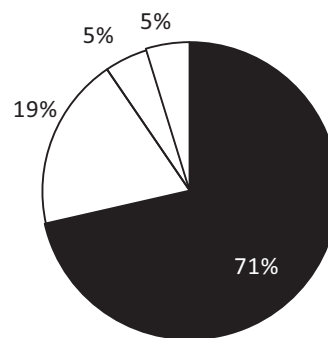
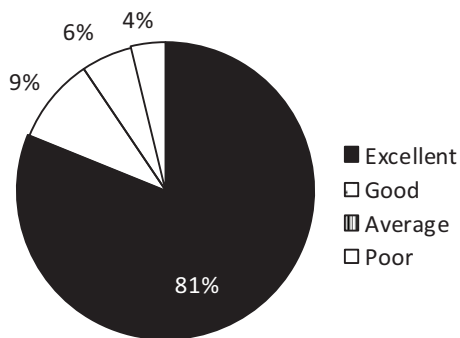
Responses to the question "Overall, how would you rate the service you received from Avon Pension Fund?"

#### Active members

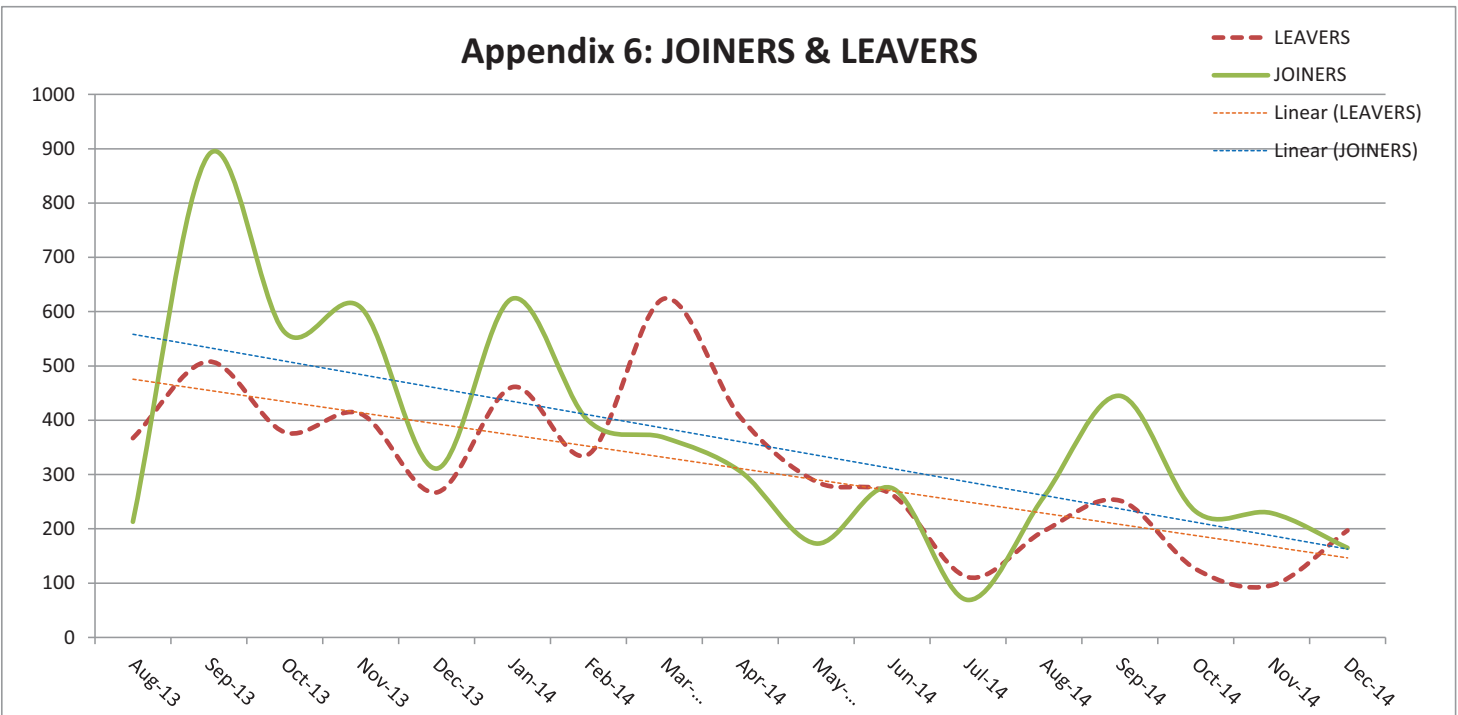
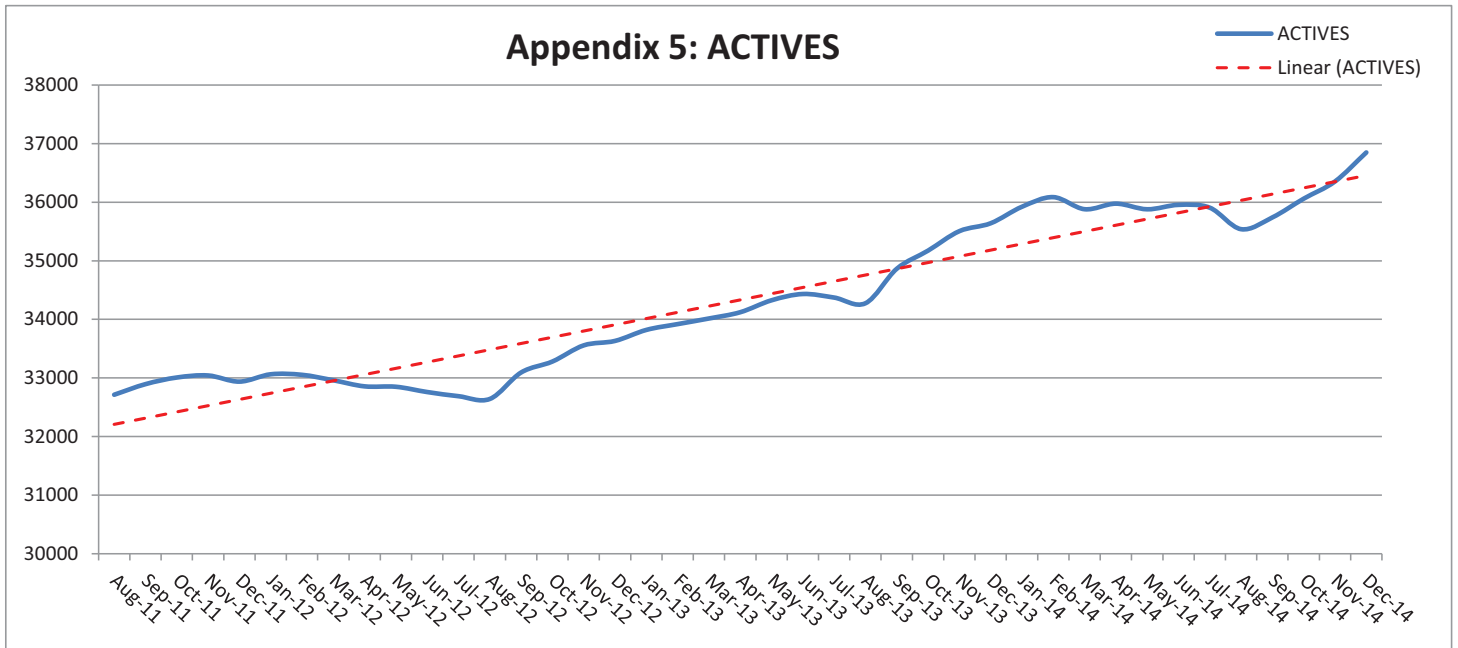
Number retiring	123
Questionnaires received	63
Response rate	51%

#### Deferred members

Number retiring	86
Questionnaires received	21
Response rate	24%



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## COMMITTEE SUMMARY PERFORMANCE REPORT

This is the Thirteenth report on the performance of Fund employers and the Avon Pension Fund staff following the Pensions Administration Strategy coming into effect on 1<sup>st</sup> April 2011.

Included in the Report are the following:

1. Graphs for each of the four Unitary Authorities and collectively all 'Other' reporting employers showing performance on processing leavers (retirements and early leavers). **Annex 1** details current reporting quartile, Annexes 2 & 3 display the trend expressed annually from 1<sup>st</sup> April 2011 to 31<sup>st</sup> December 2014.
2. Report of late payers of pension contributions (employers ) in the period to 31<sup>st</sup> January 2015

### 2. Late payers of Pension contributions

#### Late payment of contributions due in 3 months to 31<sup>st</sup> January 2015:

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.

<u>Employer</u>	<u>Payroll month</u>	<u>Days late</u>	<u>Payment</u>
Filton Town Council	December	14	£3,097

Filton Town Council were previously late payers in September. These late payments have been the result of staffing problems at the Town Council. The Fund has been in regular contact with the Town Council in regard to this matter. The responsibility for their payroll and contribution payments has now been passed to South Gloucestershire Council's Payroll department who have a good record in this area.

Total number of employers = 210

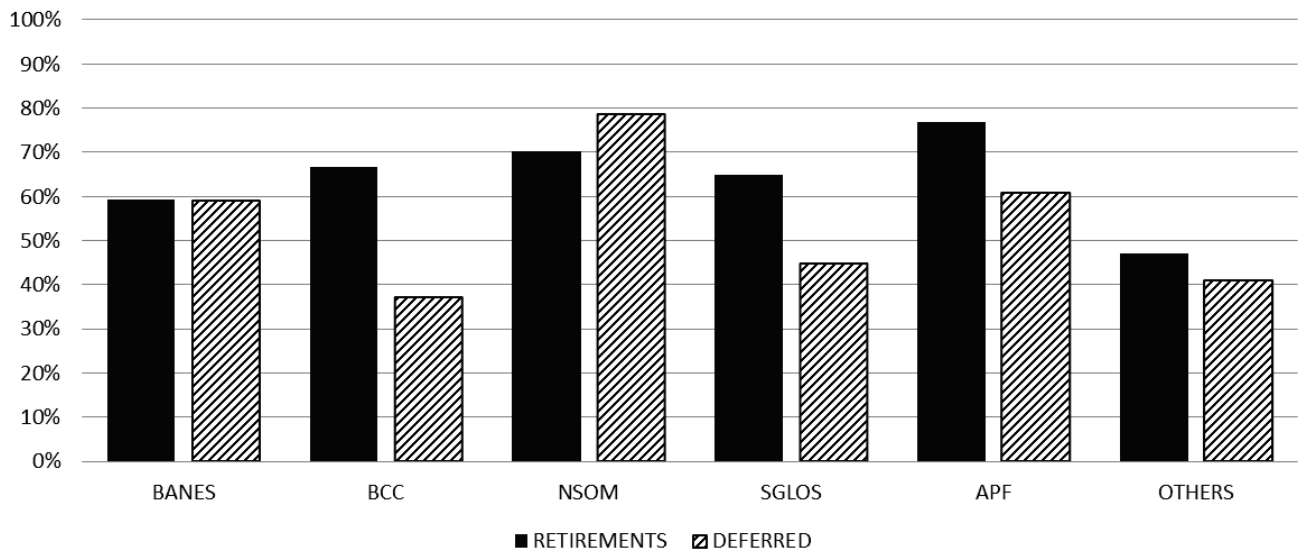
Total contributions received in period = £31,923,000

Total late contributions including those below reporting threshold = £8,060 (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.

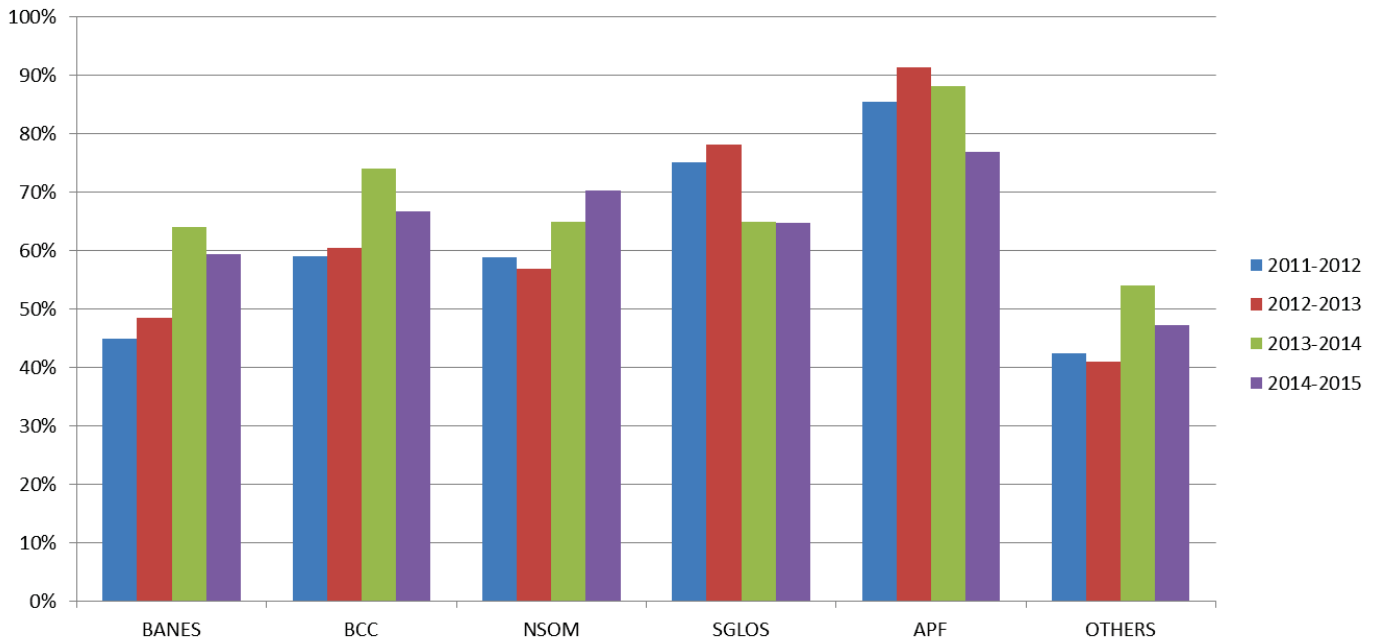
Where material, interest will be charged on late payments at Base rate plus 1% in accordance with the 2013 regulations.

Percentage of cases completed within target timescales  
(Q3 2014/15)



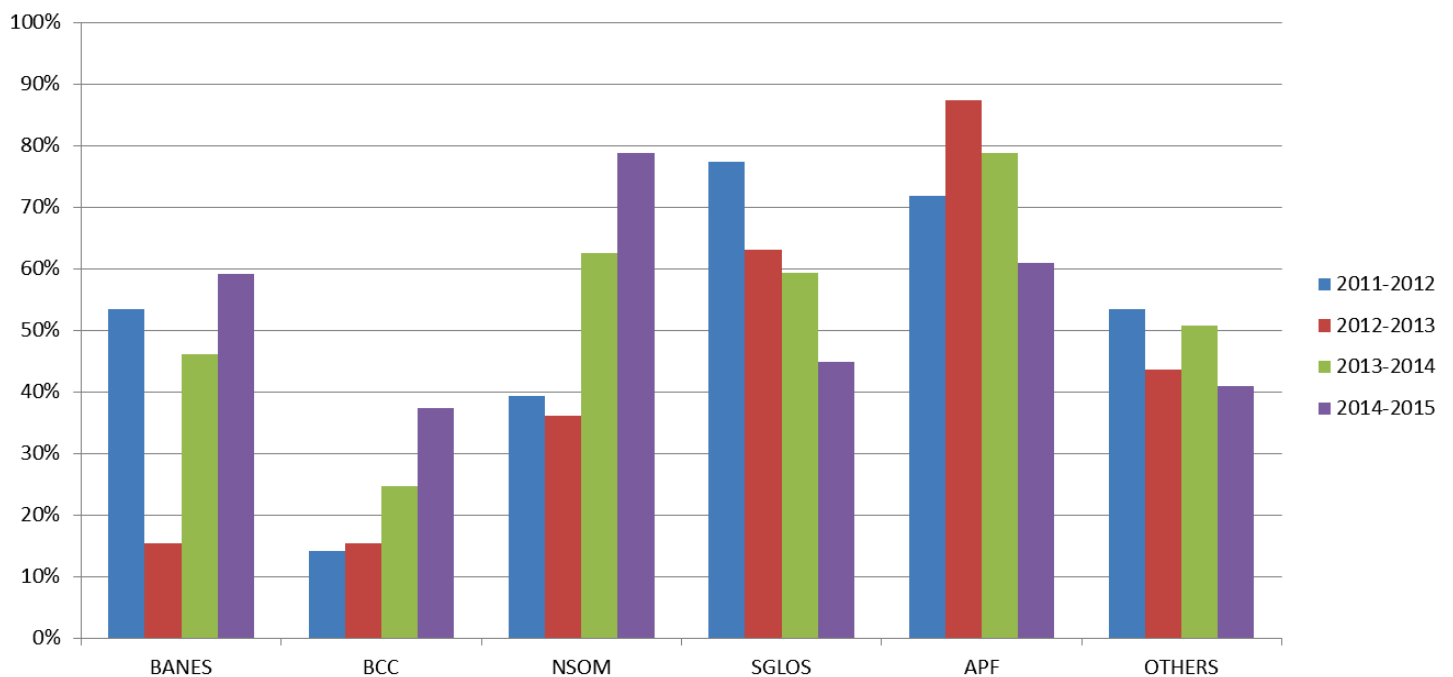
**Annex 2**

Percentage of retirement cases completed within target timescale



**Annex 3**

Percentage of deferred cases completed within target timescale







6	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.																Increases in Employer contribution
7	Non compliance with the Data Protection Act and the Pensions Regulator's codes of practice and standards. This could lead to fines being imposed, criminal/civil prosecutions, data processing suspended, or 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.																Annual budget
8	Contributions from Employing bodies to the Fund are incorrect in value or late. This could adversely affect short term cash flow, could mean under/over funding of liabilities, breach of obligations which 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.																Fines, penalties recharged to employer
9	For the cash invested by the Council on behalf of Pension Fund that the counterparties fail / delay the return of principle and /or investment income to pension fund as requested.	The Committee annually approves the Fund's Treasury management Policy which sets out maximum limits and maturity terms for each counterparty. Monthly monitoring of compliance with the policy through review of Investment activity report.																Increases in Employer contribution
10	The pension fund cashflow profile is maturing. Risk there is not have enough cash to pay pensions on a monthly basis due to a reduction in contributions paid into the Fund. This will result in the bank account being overdrawn and possibly non payment of pensions.	The cash balance is monitored during the monthly cycle to identify if there is a cash shortfall. Investment strategy addresses need to use income from investment portfolio and/ or divestment of assets as required.																Increase in employer contribution, investment income and divestment of assets

<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>27 MARCH 2015</b>	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>LGPS COST CAP MECHANISM</b>	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report:		
Appendix 1 – Explanation of the LGPS Cost Control Mechanism		

## **1 THE ISSUE**

- 1.1 Under the new public service pension scheme framework, the costs of the pension schemes must be periodically assessed to ensure that the reforms are affordable and sustainable.
- 1.2 In the LGPS in England & Wales, there will be two mechanisms used to do this:
- a) the employer cost cap process as operated by HM Treasury, and
  - b) the future service cost process as operated by the LGPS Scheme Advisory Board.
- 1.3 Both processes could lead to changes to the scheme design or to the level of members' contributions if the costs of the LGPS are shown to have moved sufficiently from the target.
- 1.4 This report is to inform the Committee as to how the cost control mechanism will work and how it will relate to the Fund's own valuation process. The mechanism will be applied across the LGPS nationally; local funds will only be consulted during the process and will be responsible for implementing any changes that arise from the process. Local funds have no discretion within the process.

## **2 RECOMMENDATIONS**

### **That the Committee:-**

- 2.1 Notes the information in this report.

### **3 FINANCIAL IMPLICATIONS**

- 3.1 The LGPS regulations require that an actuarial valuation is commissioned every three years to assess the liabilities of the benefits accrued and set the contribution rates required to fund any shortfall in assets and the ongoing cost of future service.

### **4 COST CONTROL MECHANISM**

- 4.1 Under the new public service pension scheme framework implemented by the Public Service Pensions Act 2013, the costs of the reformed pension schemes must be periodically assessed to ensure that the reforms are affordable and sustainable.
- 4.2 There are two mechanisms for the LGPS; one from the Treasury who want to demonstrate consistency in managing costs across all the public service pension schemes, and one from the LGPS Scheme Advisory Board (SAB) which has been set up to reflect the specifics of the LGPS experience in assessing the costs of the pension scheme reforms.
- 4.3 Both processes could lead to changes to the scheme design or to the level of members' contributions if the mechanisms demonstrate that the cost of the LGPS has moved +/- 2% from the declared targets.
- 4.4 The Government Actuaries' Department will be responsible for assessing the costs under each mechanism.
- 4.5 Appendix 1 provides a full explanation of the two mechanisms and process for implementation.
- 4.6 The cost control processes will estimate the cost of the new scheme across the LGPS in aggregate, thus the results are highly unlikely to correlate with the contribution rates payable by individual employers. There are two main reasons for this:
- (i) Local funding valuations are based on individual fund and employer experience and assumptions are made based on this experience. The cost control processes will be looking at Scheme experience nationally and consequentially making assumptions on this basis.
  - (ii) Local funding valuations will include consideration of all the benefits payable by each fund and employer in their participation in the Scheme - including costs relating to the pre-April 2014 final salary benefits structure
- 4.7 The cost control process will be undertaken every three years in tandem with the local triennial valuations and will first be effective at the 2016 valuations using the data produced and submitted for the 2016 valuation.
- 4.8 Any revisions to contribution rates or the benefits structure as a result of the cost cap mechanism will not be effective until three years after the valuation; therefore for the valuation at 31 March 2016 the changes would be effective 1 April 2019. The delay is due to the need to consult with members on prospective changes.
- 4.9 As part of the process, local LGPS funds will be consulted on the outcomes of the cost cap calculations and the options for changing the benefits structure.

Local funds will then have to incorporate the changes in their valuation results.

4.10 The challenge for the Fund will be to communicate the information on the two cost control mechanisms to employers and members and explain how it impacts the Fund's valuation and contribution rates.

4.11 Mercer's initial analysis of the SAB mechanism is that the cost calculation that may emerge at the 2016 valuation will be higher than 13% of pensionable pay that their mechanism targets. This is because the post 2014 LGPS benefits have been improved since the 13% figure was first calculated and because the take up of the 50/50 option has been lower than originally assumed. It is too early to ascertain whether the increase over 13% of pensionable pay will be sufficient to trigger action under the cost cap process at this stage. This issue will be explored further as part of the Interim valuation due later in 2015.

## **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 appropriate investment and funding strategies in place that are regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

## **6 EQUALITIES**

6.1 An equalities impact assessment is not necessary.

## **7 CONSULTATION**

7.1 N/a

## **8 ISSUES TO CONSIDER IN REACHING THE DECISION**

8.1 No decision is required.

## **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.

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

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## LGPS Cost Control Mechanism

1. There are two mechanisms for in the LGPS in England & Wales
  - a. the Employer Cost Cap (**ECC**) process of the Treasury
  - b. the Future service Cost (**FSC**) process, which has been set up to reflect the specifics of the LGPS experience in assessing the costs of the pension scheme reforms, such as the take up of the 50/50 option or the rate of commutation assumed.
2. Both processes could lead to changes to the scheme design or to the level of members' contributions if the mechanisms demonstrate that the cost of the LGPS has moved sufficiently from the individual targets.
3. The Government Actuaries' Department (GAD) will be responsible to assessing the costs under each mechanism.
4. This cost control mechanism is determined and decided at the national level for LGPS funds. The local funds have no discretion within the process. They will be consulted as part of the process and will have to implement any changes that arise by incorporating the changes to the benefits structure in their valuation process.

### 5. Target Costs:

The cost cap mechanisms calculate the cost of providing benefits that have been accrued since the career average reforms took effect in April 2014. The total employer contributions targeted are therefore *notional* figures, and most employers will find they pay contributions that are different to these notional rates. The mechanisms do not take account of the costs of benefits that have accrued pre 1 April 2014.

The target costs are:

- a. **For the FSC** is 19.5% as a total of employer and member contributions at a 2:1 ratio (**13% relating to employers' contributions** and 6.5% relating to members').
- b. **For the ECC** process is **14.6% of employer contributions alone**.

### 6. Triggers for adjusting scheme structure:

- a. There are some differences between the mechanisms in how the changes to the Scheme are triggered, but under either process, a movement of 2% or more in either direction will require changes to be made to bring the Scheme cost back to the target.
- b. If either of the processes demonstrate that the cost of the Scheme has increased or decreased to a point that a requirement for reform is triggered, the Scheme must be brought back to its target cost via one of the below two means:
  - i. Changes to the design of members' benefits (for example, by changing the accrual rate or the normal pension age), or
  - ii. Changes to the member contribution rate.

- c. The results of the cost control process could therefore lead to either, changes in the employee contributions which need to be paid into the LGPS, or to changes in the pension benefits eventually payable by the LGPS.
  - d. The FSC process is designed to be more gradual to take account of the trend in costs over time rather than wait for the ECC's 2% trigger to be breached.
  - e. For the FSC process the following will trigger adjustments:
    - i. A movement of between 0% and 1% from the target in either direction *may* result in agreed recommendations for action to move back to the target.
    - ii. A movement of between 1% and 2% from the target in either direction *should* result in agreed recommendations for action to move back to the target.
    - iii. A movement of 2% or more from the target in either direction *must* result in agreed recommendations for action to move back to the target.
  - f. In contrast, no corrective action will be required to move the Scheme back to the target by the ECC process unless there is a movement of 2% or more from the target in either direction.
  - g. If the ECC process indicates corrective action needs to be taken to bring the Scheme back to its target cost, but the FSC process indicates that no action needs to be taken, **the ECC process takes precedence and changes would need to be made to the Scheme**. In the event that a design change cannot be agreed between the Government and the Scheme Advisory Board to bring the Scheme back to its target cost, an adjustment to the accrual rate for future benefits must be made by DCLG (as the default action).
7. As the cost control processes will estimate the cost of the new scheme across the LGPS, the results are highly unlikely to correlate with the employer contribution rates payable by individual employers. There are two main reasons for this:
- a. Local funding valuations are based on individual fund and employer experience and assumptions are made based on this experience. The cost control processes will be looking at Scheme experience nationally and consequentially making assumptions on that basis.
  - b. Local funding valuations will include consideration of all the benefits payable by each fund and employer in their participation in the Scheme - including costs relating to the pre-April 2014 final salary benefits structure.
8. **Process & Timescales:**
- a. The cost control process will be undertaken in tandem with the local triennial valuations and will first impact the scheme (in terms of changes to accrual rates or employee contribution rates) at the 2016 valuation. This means that the first ECC and FSC figures will be based on the same data produced and submitted by funds for the 2016 valuation.



- b. Any revisions to contribution rates or the benefits structure as a result of the cost cap mechanism will not be effective until **three years after the valuation**; therefore for the valuation at 31 March 2016 any changes would be effective 1 April 2019. The delay is due to the need to consult with members on prospective changes.

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<b>Bath &amp; North East Somerset Council</b>		
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>	
MEETING DATE:	<b>27 MARCH 2015</b>	<b>AGENDA ITEM NUMBER</b>
TITLE:	<b>INVESTMENT AND ACTUARIAL ADVISORY CONTRACTS</b>	
WARD:	ALL	
<b>AN OPEN PUBLIC ITEM</b>		
List of attachments to this report: Exempt Appendix 1 – Summary of Appointment Decisions		

## **1 THE ISSUE**

- 1.1 The Fund has separate contracts for actuarial and investment consultancy advice. Both these contracts expire 31 March 2015.
- 1.2 The South West funds set up a collaborative Actuarial and Investment Advice Framework in 2011 and the Fund has tendered under this framework.
- 1.3 The government is keen for LGPS funds to collaborate on procurement and use of framework agreements is becoming more common as funds seek to manage costs.

## **2 RECOMMENDATIONS**

### **That the Committee:-**

- 2.1 Notes the following appointments
  - (1) Mercer Investment Consulting as the Fund's Investment Consultant
  - (2) Mercer Limited as the Fund's actuary

### **3 FINANCIAL IMPLICATIONS**

- 3.1 The provision of these services will incur charges that are provided for in the annual budget. The costs for investment advice will be determined by the strategic work required by the Committee as well as ongoing monitoring of the investment portfolio and managers. The costs for actuarial work will depend on the actuarial cycle and the work required to support officers and employers during the cycle. Significant employer specific work is also undertaken by the actuary, the majority of which is rechargeable to the employer.

### **4 TENDER PROCESS**

- 4.1 The South West framework contract for actuarial, benefits and investment services was tendered under OJEU process in 2011. The Framework is divided into 3 “lots”, one for investment consultancy services, one for actuarial services and one for benefits. The Fund used the investment lot and combined the actuarial and benefits lots for the actuarial tender.
- 4.2 Under the framework, the Fund has the facility to appoint other consultants from the “lots” as and when they wish to. None of the contracts the Fund enters into with its advisors will restrict the Fund’s use of other providers.
- 4.3 Given the time that has passed since the South West Framework was established, all the eligible participants on the framework were invited to tender under a mini-competition so that the Fund could re-assess each firm’s capabilities and resources available to deliver the service required. In addition the tender enabled the evaluation to focus on aspects of service delivery most relevant to the Fund at this point in time.
- 4.4 Officers initially evaluated the tender responses. Each firm that tendered was invited to a clarification meeting following which the appointment decision was made.
- 4.5 The contracts will be for five years with maximum two year extension.
- 4.6 Exempt Appendix 1 provides a brief summary of the decisions.

### **5 RISK MANAGEMENT**

- 5.1 A key risk to the Fund is that the investment and funding strategies fail to deliver the outcome required to meet the Fund’s future liabilities. The ability of the Committee and officers to access expert advice is part of the process to manage this risk

### **6 EQUALITIES**

- 6.1 An equalities impact assessment is not necessary.

### **7 CONSULTATION**

- 7.1 N/a

- 7.2

## **8 ISSUES TO CONSIDER IN REACHING THE DECISION**

8.1 For information only.

## **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.

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

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**Access to Information Arrangements**

**Exclusion of access by the public to Council meetings**

Information Compliance Ref: LGA-338/15

Meeting / Decision: Avon Pension Fund Committee

Date: 27 March 2015

Author: Liz Woodyard

Report Title: INVESTMENT AND ACTUARIAL ADVISORY CONTRACTS

Exempt Appendix Title:

Exempt Appendix 1 – Summary of Appointment Decisions

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 appendix contains observations and opinions of officers on the performance of these advisors.

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.

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 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 performance of the fund advisors has been made available on these issues – 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 and that any reporting on the meeting is prevented in accordance with Section 100A(5A)



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>AVON PENSION FUND COMMITTEE</b>
MEETING DATE:	<b>27 MARCH 2015</b>
TITLE:	<b>WORKPLANS</b>
WARD:	<b>ALL</b>
<b>AN OPEN PUBLIC ITEM</b>	
<p><b>List of attachments to this report:</b></p> <p><b>Appendix 1 – Investments Workplan to 31 December 2015</b></p> <p><b>Appendix 2 – Pensions Benefits Workplan to 31 December 2015</b></p> <p><b>Appendix 3 – Committee Workplan to 31 December 2015</b></p> <p><b>Appendix 4 – Investments Panel Workplan to 30 September 2015</b></p> <p><b>Appendix 5 – Training Programme 2014 - 2016</b></p>	

## **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 through 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 December 2015 is included as Appendix 5. This will be reviewed once the new committee is formed post 2015 elections.
- 1.4 The workplans are consistent with the 2015/18 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 2015/16 is also included so that Members are aware of intended training sessions. This plan will be updated quarterly and will be reviewed for general training when the new committee is formed after May 2015.

### **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.

<b>Contact person</b>	Liz Woodyard, Investments Manager; 01225 395306 Geoff Cleak, Pensions Manager, 01225 395277
<b>Background papers</b>	None
<b>Please contact the report author if you need to access this report in an alternative format</b>	

## INVESTMENTS TEAM WORKPLAN TO DECEMBER 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
Investment strategy & projects	Projects delegated to Panel for implementation or further investigation further. <ul style="list-style-type: none"> <li>• Review of FX hedging programme – start 2Q15</li> <li>• Liability hedging – preliminary work to start in late 2014/2015</li> </ul>	Ongoing
Monitoring of employer covenants	Annual monitoring of changes in employers financial position	On-going
Set up actuarial modelling online tool	Set up web based tool following once new actuarial contract in place	From 2Q15
Review AVC arrangements	Review choice of investment funds offered for members	3Q15
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	Annually 3 <sup>rd</sup> quarter
Investment Forum	To discuss funding and investment strategies and issues	Next due 4Q15
Ill health insurance options	Investigate options for insuring ill-health pension costs for smaller employers – start once new actuarial contract in place	Commence 2Q15
Establish Pensions Board	Agree structure (Resources Director) Appointment process Training plan	March 2015 March - June From April 2015
DMS	Create structure for document management system ready for using Council solution or alternative provider	Commence June 2015 (dependent on corporate solution)
Develop online form	Develop online form for employers to send	Project commenced;

for receipt of contributions	contribution information (LGPS50 form). Roll out during year with aim of only accepting online forms from 1/4/15.	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 2 <sup>nd</sup> quarter
2015 Interim Valuation	As at 31 March 2015; preparatory work 2Q15	Commence 2Q15

## PENSION ADMINISTRATION TEAM WORKPLAN TO 31 MARCH 2015

Project	Proposed Action	Report
Employer Self Service rollout	Employer Self Service roll-out and training of all remaining employers to enable full electronic data delivery. Due completion March 2016	Ongoing
i-Connect software - to update member data on ALTAIR pension database automatically monthly	All Unitary Authorities Live  Onboarding and set up of Avon Fire & UWE  Market to other employers during 2015/16 once complete.	1Q15/16  3Q15/16  Commence 2Q15
Move to Electronic Delivery of generic information to members	Continue 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 ( <i>My Pension on line</i> ) to allow electronic access to documents	Complete 3/4 Q15  Ongoing
Successfully Implement New Fire Scheme Pension Reform	To follow through Project Plan to effectively implement and communicate the New Fire Scheme. Including staff training & member presentation sessions	Ongoing  Completion due 2Q15/16
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.	Ongoing Completion due 4Q 15
TPR Requirements	Data Quality Management Control – ensure processes and reporting in place to reflect TPR compliance	September 2015
Guaranteed Minimum Pension (GMP) Data Reconciliation Exercise Following cessation of Contracting out section in April 2016	Carry out full reconciliation with HMRC records to mitigate risk from holding incorrect GMP liability	Ongoing
2014/15 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 01/09/2015	Due Completion August 2015
Review Workflow & Data Processing	Implement new Task Workflow Arrangements. Introducing new software - Process Automation.	Completion due July 2015

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## Committee Workplan to 31 December 2015

<b>JUNE 2015</b>
Roles & Responsibilities of the Committee
Review of Investment Performance for Quarter Ending 31 March 2015
Pension Fund Administration – Budget Outturn 2014/15, Performance Indicators for Quarter Ending 31 March 2015 and Risk Register Action Plan
Annual Review of Investment Strategy
Report on Investment Panel Activity
Annual Responsible Investing Report
Approval of draft Accounts 2014/15 and noting of audit plan
Approval of Committee's Annual Report to council
Workplans
<b>Planned Workshops:</b>
<b>SEPTEMBER 2015</b>
Review of Investment Performance for Quarter Ending 30 June 2015
Pension Fund Administration – Budget Monitoring 2015/16, Performance Indicators for Quarter Ending 30 June 2015 and Risk Register Action Plan
Report on Investment Panel Activity
Approval of Final Accounts 2014/15
Review of AVC arrangements
Workplans
<b>Planned Workshops:</b>
<b>DECEMBER 2015</b>
Review of Investment Performance for Quarter Ending 30 September 2015
Pension Fund Administration – Budget Monitoring 2015/16, Performance Indicators for Quarter Ending 30 September 2015 and Risk Register Action Plan
Report on Investment Panel Activity
Interim Actuarial Valuation 2015
Review options for Ill health insurance for smaller employing bodies
Workplans
<b>Planned Workshops:</b> Interim Valuation

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## INVESTMENT PANEL WORKPLAN to 30 November 2015

Panel meeting / workshop	Proposed reports
Formal Panel Meeting 4 March 2015	<ul style="list-style-type: none"> <li>• Review managers performance to December 2014</li> <li>• Meet the managers workshop (Schroders Global Equity, Partners)</li> </ul>
Clarification Meeting w/b 23 March	<ul style="list-style-type: none"> <li>• Fund of Hedge Fund mandate</li> </ul>
Formal Panel Meeting 7 July 2015	<ul style="list-style-type: none"> <li>• Review managers performance to March 2015</li> <li>• Introduction training session</li> </ul>
Formal Panel Meeting 8 September 2015	<ul style="list-style-type: none"> <li>• Bond portfolio / LDI training</li> <li>• Review managers performance to June 2015</li> <li>• Meet the managers workshop (Genesis, Pyrford)</li> </ul>
Formal Panel Meeting 18 November 2015	<ul style="list-style-type: none"> <li>• Bond portfolio / LDI training</li> <li>• AVC Review</li> <li>• Review managers performance to September 2015</li> <li>• Meet the managers workshop (BlackRock and Unigestion)</li> </ul>

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## Avon Pension Fund Committee Training Programme 2014 - 2016

## General Topics

Topic	Content	Timing
<p><b>Fund Governance and Assurance</b>  <i>(relates to CIPFA Knowledge &amp; Skills Framework areas: Legislative &amp; Governance, Auditing &amp; Accounting Standards, Procurement &amp; Relationship Management)</i></p> <p>Page 273</p>	<ul style="list-style-type: none"> <li>• Role of the administering authority               <ul style="list-style-type: none"> <li>- How AA exercises its powers (delegation, role of statutory 151 Officer)</li> <li>- Governance Policy Statement</li> </ul> </li> <li>• Members duties and responsibilities               <ul style="list-style-type: none"> <li>- LGPS specific – duties under regulatory framework                   <ul style="list-style-type: none"> <li>○ Admin regulations (including discretions), admin strategy, communications strategy</li> <li>○ Investment regulations</li> <li>○ Statutory documents - Statement of Investment Principles, Myners compliance, Funding Strategy Statement, Annual Report</li> </ul> </li> <li>- Wider Pensions context</li> </ul> </li> <li>• Assurance framework               <ul style="list-style-type: none"> <li>- S 151 Officer</li> <li>- Council Solicitor</li> <li>- Freedom of Information Officer/Data Protection</li> <li>- Internal Audit</li> <li>- External Audit</li> <li>- Risk Register</li> </ul> </li> </ul>	<p>June 2015</p> <p>(through committee paper on responsibilities and new committee training)</p>
<p><b>Manager selection and monitoring</b>  <i>(relates to CIPFA Knowledge &amp; Skills Framework areas: Investment Performance &amp; Risk Management)</i></p>	<ul style="list-style-type: none"> <li>• What look for in a manager – people, philosophy and process</li> <li>• How to select the right manager – roles of officers &amp; members, procurement, selection criteria, evaluation</li> <li>• Monitoring performance &amp; de-selection</li> <li>• Fees</li> </ul>	<p>Ongoing by Panel in quarterly monitoring of manager performance</p> <p>Annual report to Committee by Investment Consultant (June 2015)</p>

<p><b>Asset Allocation</b>  <i>(relates to CIPFA Knowledge &amp; Skills Framework areas: Investment Performance &amp; Risk Management, Financial Markets &amp; Products)</i></p>	<ul style="list-style-type: none"> <li>• Basic concepts – Expected Return, Risk Budget, efficient markets</li> <li>• Why is asset allocation important – correlations, strategic vs. tactical allocation</li> <li>• Implementation of strategy – active/passive investing, large/mid/small cap, UK/overseas, relative/absolute return, quantitative/fundamental investment approaches</li> </ul>	<p>On-going through monitoring of strategy</p> <p>Workshops on investing in different assets e.g. Infrastructure, Liability investing</p>
<p><b>Actuarial valuation and practices</b>  <i>(relates to CIPFA Knowledge &amp; Skills Framework areas: Actuarial Methods, Standards and Practices)</i></p>	<ul style="list-style-type: none"> <li>• Understanding the valuation process <ul style="list-style-type: none"> <li>- Future and past service contributions</li> <li>- Financial Assumptions</li> <li>- Demographic Assumptions including longevity</li> </ul> </li> <li>• Importance of Funding Strategy Statement</li> <li>• Inter-valuation monitoring</li> <li>• Managing Admissions/cessations</li> <li>• Managing Outsourcings/bulk transfers</li> </ul>	<p>Funding update reports quarterly to Committee</p> <p>2015 interim valuation &amp; workshop</p>