

Democratic Services

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18 September 2015
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To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Paul Myers, Cherry Beath and Shaun McGall

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

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

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 25th September, 2015

Please find attached a **SUPPLEMENTARY AGENDA DESPATCH** of late papers which were not available at the time the agenda was published. Please treat these papers as part of the agenda.

Papers have been included for the following items:

8. AUDITED STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE REPORT & ANNUAL REPORT - 2014/15 (Pages 3 - 152)

Members should note that in Appendix 3, The Annual Report, two figures are awaited from CIPFA to go in table 6 on page 22 and that The Auditor's Report will follow after the meeting.

Yours sincerely

Sean O'Neill
for Chief Executive

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accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

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Bath & North East Somerset Council		
MEETING:	Avon Pension Fund Committee	
MEETING DATE:	25 September 2014	AGENDA ITEM NUMBER
TITLE:	Audited Statement of Accounts, the Annual Governance Report & Annual Report – 2014/15	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 – Audited Statement of Accounts 2014/15</p> <p>Appendix 2 – Annual Governance Report 2014/15</p> <p>Appendix 3 – Draft Avon Pension Fund Annual Report 2014/15</p>		

1 THE ISSUE

- 1.1 The Audited Statement of Accounts and the Annual Governance Report are now presented to be noted.
- 1.2 The Annual Governance Report summarises the results of the Grant Thornton audit of the 2014/15 accounts. It includes the issues arising from the audit of the financial statements and those issues which they are formally required to report under the Audit Commission’s Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA (UK&I) 260) – “Communication of audit matters with those charged with governance”.
- 1.3 The Corporate Audit Committee will be recommended to approve the final audited Statement of Accounts for 2014/15 and note the issues raised in the Governance reports at its meeting on 28 September 2015.
- 1.4 The Fund’s Annual Report 2014/15 is a statutory document which the Auditor reviews as part of the Fund’s audit. The Committee is asked to approve the draft report on the basis that no substantive changes will be made following Committee approval.

2 RECOMMENDATION

That the Committee:

- 2.1 Notes the final audited Statement of Accounts for 2014/15.**
- 2.2 Notes the issues raised in the Annual Governance Report.**
- 2.3 Approves the draft Avon Pension Fund Annual Report 2014/15.**

3 FINANCIAL IMPLICATIONS

3.1 The Pension Fund's Statement of Accounts shows the Total Net Assets at 31 March 2015 as £3,835 billion.

4 THE REPORT

4.1 The draft Statement of Accounts 2014/15 is in Appendix 1.

4.2 The Committee noted the draft Statement of Accounts 2014/15 at its meeting of 26 June 2015. The only significant change to the Statement of Accounts since the June Committee meeting is the addition of a creditor of £4,524k. This creditor relates to the refund of contributions overpaid by Bristol City Council. £2,188k of the overpayment was known to the Fund at 31 March 2015 but it was believed that the payment was to be retained by the Fund as a deficit contribution. The Fund was not informed of the remaining £2,336k until after the June Committee. The inclusion of this creditor reduced the stated net value of the Fund by £4,524k.

4.3 The Annual Governance report is in Appendix 2.

4.4 The draft Avon Pension Fund Annual Report is in Appendix 3. Under the Local Government Pension Scheme (Administration) Regulations 2008 the Fund is required to publish a report annually by 1st December. As this is before the next Committee meeting, the Committee are asked to approve the 2014/15 report in draft form. No substantive changes are expected to be made following the Committee's approval. The report will be published ahead of the 1st December deadline. The report will be published on the Fund's website.

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

5 RISK MANAGEMENT

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

6 EQUALITIES

6.1 An equalities impact assessment is not necessary

7 OTHER OPTIONS CONSIDERED

7.1 None as this report is a statutory requirement.

8 CONSULTATION

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

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 No decision as this is a statutory requirement.

10 ADVICE SOUGHT

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

Contact person	Martin Phillips, Finance and Systems Manager (Pensions) (01225) 395259
Background papers	Pension Fund Committee 26 June 2015: Draft Statement of Accounts
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1

PENSION FUND ACCOUNTS 2014/15

Statement of Accounts

Introduction

- 1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2014 to 31 March 2015.
- 1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2014/15 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.
- 1.3 The accounts are set out in the following order:

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

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

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

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

Actuarial Valuation

- 1.4 As required by the Local Government Pension Scheme Regulations 2013 an actuarial valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £3,146 million. The Actuary estimated that the value of the Fund was sufficient to meet 78% of its expected future liabilities of £4,023 million in respect of service completed to 31 March 2013.
- 1.5 At the 2013 valuation the deficit recovery period for the Fund overall was set at 20 years.
- 1.6 The 2013 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions used to set employers' contributions, are set out in the table below:

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

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

1.8 The Actuary has estimated that the funding level as at 31 March 2015 has fallen to 78% from 84% at 31 March 2014. This fall in the funding level is due to the fall in real yields during the period. Investment returns contributed positively to the funding position but was not sufficient to offset the increase in the liabilities. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields, so as gilt yields fall, the value of these liabilities rises.

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

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

Statement of Investment Principles

1.11 The Fund's Statement of Investment Principles as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 can be found on the Fund's website www.avonpensionfund.org.uk (search Statement of Investment Principles).

Statement of Accounting Policies

Basis of Preparation

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

Investments

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

- i. Quoted Securities have been valued at 31 March 2015 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation. All these valuations are subject to the custodian's and fund manager's internal control reports and external auditors.

- ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
- iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2015.
- iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2015.
- v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
- vi. Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
- vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
- viii. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
- ix. The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

2.3 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. The last such valuation was at 31 March 2013. Currently employer contribution rates range from 7.0% to 30.2%. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme Regulations 2013. The employee contribution rates range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015.

2.4 Normal contributions both from members and the employer are accounted for on an accruals basis in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Benefits, Refunds of Contributions and Cash Transfer Values

2.5 From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

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

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

2.8 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year. The charges are index linked to pension's increases to ensure that the Fund receives the full value.

Investment Income

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

Investment Management & Administration

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

2.11 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. In 2014/15 a provision has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

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

Use of Accounting Estimates

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

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

Events After the Balance Sheet Date

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

Financial Instruments

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

Fund Account
For the Year Ended 31 March 2015

	Notes	2014/15	2013/14
<i>Contributions and Benefits</i>		£'000	£'000
Contributions Receivable	4	202,100	143,276
Transfers In	18	4,794	18,776
Other Income	5	496	442
		<hr/>	<hr/>
		207,390	162,494
Benefits Payable	6	157,156	149,791
Payments to and on account of Leavers	7	5,001	6,868
Administrative Expenses	8	2,804	2,883
		<hr/>	<hr/>
		164,961	159,542
<i>Net Additions from dealings with members</i>		42,429	2,952
<i>Returns on Investments</i>			
Investment Income	10	28,104	29,092
Profits and losses on disposal of investments and change in value of investments.	11	435,645	185,124
Investment Management Expenses	9	(15,795)	(11,682)
Fund Manager Performance Fees	9	(1,802)	(4,931)
		<hr/>	<hr/>
<i>Net Returns on Investments</i>		446,152	197,603
<i>Net Increase in the net assets available for benefits during the year</i>		488,581	200,555
<i>Net Assets of the Fund</i>			
<i>At 1 April</i>		3,346,211	3,145,656
<i>At 31 March</i>		<hr/> 3,834,792 <hr/>	<hr/> 3,346,211 <hr/>

Net Assets Statement at 31 March 2015

	Note	31 March 2015		31 March 2014	
		£'000	%	£'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		111,675	2.9	92,694	2.8
Equities		603,222	15.7	542,777	16.2
Diversified Growth Funds		368,177	9.6	314,340	9.4
Index Linked securities : Public Sector		238,962	6.2	189,176	5.7
Pooled investment vehicles :-					
- Property : Unit Trusts		111,753	2.9	102,865	3.1
: Unitised Insurance		57,075	1.5	46,063	1.4
: Other Managed Funds		146,839	3.8	112,058	3.3
Property Pooled Investment Vehicles		<u>315,667</u>		<u>260,986</u>	
- Non Property : Unitised Insurance		903,760	23.5	778,501	23.2
: Other Managed Funds		1,202,443	31.3	1,051,084	31.4
Non Property Pooled Investment Vehicles		<u>2,106,203</u>		<u>1,829,585</u>	
Cash deposits		94,416	2.4	85,023	2.5
Other Investment balances		4,805	0.1	9,361	0.3
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		1,874	0.1	12,199	0.4
Derivative Contracts: FTSE Futures		152	0.0	162	0.0
Other Investment balances		(5,281)	(0.1)	(5,097)	(0.2)
TOTAL INVESTMENT ASSETS	12	<u>3,839,872</u>		<u>3,331,206</u>	
Net Current Assets					
Current Assets	14	10,592	0.3	24,980	0.7
Current Liabilities	14	(15,672)	(0.2)	(9,975)	(0.2)
Net assets of the scheme available to fund benefits at the period end		<u>3,834,792</u>	100	<u>3,346,211</u>	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2015.

Notes to the Accounts - Year Ended 31 March 2015

1, GENERAL

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

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 26.

Employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary. The employees' contribution rate is payable in accordance with the Local Government Pension Scheme Regulations 2013.

2, MEMBERSHIP

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

	31 March 2015	31 March 2014
Employed Members	34,765	34,846
Pensioners	26,006	25,985
Members entitled to Deferred Benefits	35,714	35,321
TOTAL	96,485	96,152

A further estimated 900 ex-members whose membership was for up to 2 years before 1st April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

3, TAXATION

i. Value Added Tax

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

ii. Income Tax

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

iii. Capital Gains Tax

No capital gains tax is chargeable.

iv. Taxation of Overseas Investment Income

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

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		2014/15 £'000		2013/14 £'000
Employers' normal contributions				
Scheduled Bodies	58,507		55,066	
Administering Authority	7,704		6,902	
Admission Bodies	7,784	73,995	6,876	68,844
Employers' deficit Funding				
Scheduled Bodies	67,052		27,384	
Administering Authority	14,042		4,146	
Admission Bodies	3,496	<u>84,590</u>	1,571	<u>33,101</u>
Total Employer's normal & deficit funding		158,585		101,945
Employers' contributions- Augmentation				
Scheduled Bodies	5,446		4,312	
Administering Authority	489		537	
Admission Bodies	138	<u>6,073</u>	147	<u>4,996</u>
Members' normal contributions				
Scheduled Bodies	29,491		28,868	
Administering Authority	3,798		3,530	
Admission Bodies	3,313	<u>36,602</u>	3,300	<u>35,698</u>
Members' contributions towards additional benefits				
Scheduled Bodies	685		474	
Administering Authority	123		127	
Admission Bodies	32	<u>840</u>	36	<u>637</u>
Total		<u>202,100</u>		<u>143,276</u>

Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service. The deficit funding contributions in 2014/15 include £73,947k of discounted contributions that the actuary has calculated to cover the required deficit contributions for the three years commencing 2014/15.

The Members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme. Augmentation contributions are paid by employers to meet the cost of early retirements.

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

5, OTHER INCOME

	2014/15 £'000	2013/14 £'000
Recoveries for services provided	484	426
Cost recoveries	12	16
	<u>496</u>	<u>442</u>

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

6, BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2014/15 £'000	2013/14 £'000
Retirement Pensions	121,095	112,720
Commutation of pensions and		
Lump Sum Retirement Benefits	32,246	34,148
Lump Sum Death Benefits	3,815	2,923
	<u>157,156</u>	<u>149,791</u>

Analysis of Benefits Payable by Employing Body:-

	2014/15 £'000	2013/14 £'000
Scheduled & Designating Bodies	132,416	124,288
Administering Authority	14,342	14,133
Admission Bodies	10,398	11,370
	<u>157,156</u>	<u>149,791</u>

7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2014/15	2013/14
Leavers	£'000	£'000
Refunds to members leaving service	543	116
Individual Cash Transfer Values to other schemes	4,458	4,352
Group Transfers	-	2,400
	<u>5,001</u>	<u>6,868</u>

8, ADMINISTRATION EXPENSES

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

	2014/15	2013/14
	£'000	£'000
Administration and processing	1,996	1,957
Actuarial fees	372	486
Audit fees	29	27
Legal and professional fees	-	-
Central recharges from Administering Authority	407	413
	<u>2,804</u>	<u>2,883</u>

9, INVESTMENT EXPENSES

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

	2014/15	2013/14
	£'000	£'000
Fund Manager Base Fees	15,378	11,366
Fund Manager Performance Fees	1,802	4,931
Global Custody	66	94
Investment Advisors	259	123
Performance Measurement	39	37
Investment Accounting	1	4
Investment Administration	52	58
	<u>17,597</u>	<u>16,613</u>

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

10, INVESTMENT INCOME

	2014/15 £'000	2013/14 £'000
Interest from fixed interest securities	3,482	3,557
Dividends from equities	16,628	16,651
Income from Index Linked securities	3,019	5,091
Income from pooled investment vehicles	4,521	3,480
Interest on cash deposits	405	282
Other - Stock lending	49	31
	28,104	29,092

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

The value of the stock on loan as at 31 March 2015 was £14.57 million (31 March 2014 £17.27m), comprising of equities and sovereign debt. This was secured by collateral worth £15.45 million comprising equities and sovereign debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Change in				Value at 31/03/15 £'000
	Value at 31/03/14 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Market Value £'000	
Fixed Interest Securities	92,694	10,951	(13,868)	21,898	111,675
Equities	542,777	379,470	(368,729)	49,704	603,222
Index linked Securities	189,176	73,272	(65,761)	42,274	238,961
Pooled Investments -					
- Property	260,986	96,802	(66,363)	24,243	315,668
- Non Property	2,143,925	327,298	(262,842)	265,999	2,474,380
Derivatives	12,361	89,107	(109,820)	10,378	2,026
	3,241,919	976,900	(887,383)	414,496	3,745,932
Cash Deposits	85,023	691,405	(683,328)	1,316	94,416
Net Purchases & Sales Investment Debtors & Creditors	4,264	1,668,305	1,570,711)	97,594 (4,740)	(476)
<u>Total Investment Assets</u>	3,331,206				3,839,872
Current Assets	15,005			(20,085)	(5,080)
Less Net Revenue of Fund				(52,936)	
Total Net Assets	3,346,211			435,645	3,834,792

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

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

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

Change in Total Net Assets 2013/14

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

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

	2014/15				2013/14			
	Purchases £'000	Sales £'000	Other £'000	Total £'000	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	1,069	4	-	1,073	608	13	-	621
Commission	408	416	8	832	321	323	4	648
TOTAL	1,477	420	8	1,905	929	336	4	1,269

12, INVESTMENT ASSETS

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

	31 March 2015		31 March 2014	
	£'000		£'000	
UK Equities				
Quoted	320,758		301,719	
Pooled Investments	232,321		225,298	
FTSE Futures	152	553,231	162	527,179
Diversified Growth Funds				
Pooled Investments	368,177	<u>368,177</u>	314,340	<u>314,340</u>
Overseas Equities				
Quoted	282,464		241,057	
Pooled Investments	1,265,573	<u>1,548,037</u>	1,083,136	<u>1,324,193</u>
UK Fixed Interest Gilts				
Quoted	111,675		92,694	
Pooled Investments	-	<u>111,675</u>	14,226	<u>106,920</u>
UK Index Linked Gilts				
Quoted	238,961	<u>238,961</u>	189,176	<u>189,176</u>
Sterling Bonds (excluding Gilts)				
Pooled Investments	332,615	<u>332,615</u>	269,350	<u>269,350</u>
Non-Sterling Bonds				
Pooled Investments	113,325	<u>113,325</u>	74,588	<u>74,588</u>
Hedge Funds				
Pooled Investments	162,368	<u>162,368</u>	162,986	<u>162,986</u>
Property				
Pooled Investments	315,668	<u>315,668</u>	260,987	<u>260,987</u>
Cash Deposits				
Sterling	81,503		78,163	
Foreign Currencies	12,913	<u>94,416</u>	6,860	<u>85,023</u>
Investment Debtors/Creditors				
Investment Income	3,807		3,414	
Sales of Investments	998		5,948	
Foreign Exchange Hedge	1,874		12,199	
Purchases of Investments	(5,280)	<u>1,399</u>	(5,097)	<u>16,464</u>
TOTAL INVESTMENT ASSETS		<u>3,839,872</u>		<u>3,331,206</u>

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000's	Liability Value £000's
Up to one month	EUR	16,168	GBP	(19,900)	1,763	
Up to one month	JPY	22,508	GBP	(3,998,000)	94	
Up to one month	GBP	1,994,000	JPY	(11,522)		(315)
Up to one month	GBP	215,600	USD	(128,974)		16,280
Up to one month	USD	128,164	GBP	(215,600)	(17,091)	
One to six months	EUR	257,130	GBP	(327,070)	19,916	
One to six months	GBP	212,800	EUR	(169,528)		(15,184)
One to six months	GBP	28,314,000	JPY	(163,268)		(3,921)
One to six months	GBP	455,700	USD	(285,799)		21,466
One to six months	JPY	207,461	GBP	(36,290,000)	3,199	
One to six months	NOK	2,354	GBP	(27,594)	49	
One to six months	USD	283,691	GBP	(455,700)	(23,573)	
Six to twelve months	EUR	118,080	GBP	(153,800)	6,148	
Six to twelve months	GBP	46,800	EUR	(36,307)		(2,255)
Six to twelve months	GBP	18,780,000	JPY	(104,287)		1,818
Six to twelve months	GBP	680,500	USD	(445,465)		13,473
Six to twelve months	JPY	103,157	GBP	(18780,000)	(2,948)	
Six to twelve months	USD	441,893	GBP	(680,500)	(17,045)	
Total					(29,488)	31,362
Net forward currency contracts at 31 March 2015						1,874

Open forward currency contracts at 31 March 2014	37,052	(24,853)
Net forward currency contracts at 31 March 2014	12,199	

Exchange Traded Derivatives held at 31 March 2015:-

<u>Contract Type</u>	<u>Expiration</u>	<u>Book Cost</u>	<u>Unrealised Gain</u>
		<u>£'000</u>	<u>£'000</u>
FTSE equity futures	June 2015	18,836	152

Exchange Traded Derivatives held at 31 March 2014:-

FTSE equity futures	June 2014	28,433	162
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A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

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

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

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

	31 March 2015 £'000	%	31 March 2014 £'000	%
Blackrock	1,216,272	31.7	1,071,963	32.2
Standard Life	243,477	6.4	0	0
Record	20,651	0.5	28,129	0.8
Jupiter Asset Management	175,662	4.6	160,956	4.8
Genesis Investment Management	160,247	4.2	145,092	4.4
Invesco Perpetual	291,423	7.6	239,795	7.2
State Street Global Advisors	124,517	3.2	107,147	3.2
Partners Group	154,212	4.0	113,446	3.4
Royal London Asset Management	310,439	8.1	251,101	7.6
TT International	195,021	5.1	185,717	5.6
Man Investments	-	0.0	1,115	0.0
Gottex Asset Management	59,188	1.5	58,062	1.8
Stenham Asset Management	39,645	1.0	37,654	1.1
Signet Capital Management	63,535	1.7	66,155	2.0
Barings Asset Management	0	0	209,798	6.3
Pyrford International	124,700	3.2	104,542	3.1
Unigestion UK Ltd	191,725	5.0	166,687	5.0
Schroder Investment Management	434,251	11.3	365,163	11.0
Bank of New York Mellon	23,362	0.6	7,964	0.2
Treasury Management	11,545	0.3	10,720	0.3
TOTAL INVESTMENT ASSETS	3,839,872	100.0	3,331,206	100.0

13, SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	Value at 31 st March 2015 £'000	% of Net Assets	Value at 31 st March 2014 £'000	% of Net Assets
RLPPC UK Corporate Bond Fund (Royal London)	310,439	8.11%	251,101	7.54%
Invesco Perpetual Global ex UK Enhanced Index Fund	291,423	7.61%	239,795	7.20%
Standard Life Global Absolute	243,477	6.36%	-	-
Blackrock Advisors UK Ltd. (Aquila Life UK Equity Index Fund)	227,789	5.95%	220,957	6.63%
MSCI Equity Index Fund B-US (BlackRock)	219,389	5.73%	173,125	5.20%
Unigestion Uni-Global – Equity Emerging Mkt SAC GBP	191,725	5.01%	166,687	5.00%
Baring Dynamic Asset Allocation Fund	-	-	209,798	6.30%

14, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2015. Debtors and creditors included in the accounts are analysed below:-

	31 March 2015 £'000	31 March 2014 £'000
CURRENT ASSETS		
Contributions Receivable :-		
- Employers	6,431	8,490
- Members	2,968	2,919
Transfer Values Receivable	-	10,600
Discretionary Early Retirement Costs	351	1,952
Other Debtors	842	1,019
	10,592	24,980
CURRENT LIABILITIES		
Management Fees	(1,639)	(950)
Provision for Performance Fees	(5,510)	(4,373)
Transfer Values Payable	(1)	(2,400)
Lump Sum Retirement Benefits	(1,447)	(645)
Other Creditors	(7,075)	(1,607)
	(15,672)	(9,975)
NET CURRENT ASSETS	(5,080)	15,005

The provision for Performance Fees includes fees that have been incurred but are subject to phased payment or not due to be paid until the realisation of the related assets. They remain subject to variation as a result of future performance. At 31 March 2015 Other Creditors includes a £4,524k refund due to Bristol City Council for overpaid contributions.

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2015		31 March 2014
	£'000		£'000
CURRENT ASSETS			
Local Authorities	6,920		11,028
NHS Bodies	11		-
Other Public Bodies	2,794		13,211
Non Public Sector	867	<u>10,592</u>	<u>741</u>
			<u>24,980</u>
CURRENT LIABILITIES			
Local Authorities	(5,313)		(11)
Other Public Bodies	(1,512)		(3,789)
Non Public Sector	(8,847)	<u>(15,672)</u>	<u>(6,175)</u>
NET CURRENT ASSETS		<u>(5,080)</u>	<u>15,005</u>

15, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2015. (March 2014 = NIL).

16, EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2015 that require any adjustment to these accounts. Investments are valued at fair value and any gain or loss is only realised upon sale consequently any change is considered a non-adjusting event.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	3.9% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

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

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

During the year, corporate bond yields fell significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.3% per annum versus 4.5% per annum). The expected long-term rate of CPI inflation also fell during the year, resulting in a lower assumption for pension increases at the year end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £4,396 million.

The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c£718 million. Adding interest over the year increases the liabilities by a further c£198 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£3 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is £5,315 million.

18, TRANSFERS IN

During the year ending 31 March 2015 group transfers in to the fund from Strode College to Weston College and from Stroud College to South Gloucestershire and Stroud College were completed. The estimated values of these transfers were included in the 2012/13 and 2013/14 Statements of Accounts. The actual values did not vary materially from the estimated values.

19, BENEFITS RECHARGED TO EMPLOYERS

The Fund makes payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases. The Fund also pays a small number of other pension supplements. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account.

	2014/15	2013/14
	£'000	£'000
Benefits Paid and Recharged	6,312	6,240

20, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2014/15 were £274 (2013/14 - £498). Additional Voluntary Contributions received from employees and paid to Friends Life during 2014/15 were £371,799 (2013/14 - £407,897).

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

	31 March 2015	31 March 2014
	£'000	£'000
<u>Equitable Life</u>		
With Profits Retirement Benefits	417	501
Unit Linked Retirement Benefits	271	286
Building Society Benefits	195	235
	883	1,022
Death in Service Benefit	82	150
<u>Friends Life</u>		
With Profits Retirement Benefits	123	157
Unit Linked Retirement Benefits	3,762	3,625
Cash Fund	315	447
	4,200	4,229

AVC investments are not included in the Fund's financial statements in accordance with Regulation 4(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

21, RELATED PARTIES

Committee Member Related:-

In 2014/15 £37,516 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£37,238 in 2013/14). Eight voting members and no non-voting members of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2014/2015. (Six voting members and one non-voting member in 2013/2014, including five B&NES Councillor Members)

Independent Member Related:-

Two Independent Members were paid allowances of £7,532 and £13,237 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are entitled to claim reasonable expenses which are included in the above allowances. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-

During the year 2014/15 the Fund paid B&NES Council £309,649 for administrative services (£295,990 in 2013/14) and B&NES Council paid the Fund £25,341 for administrative services (£31,715 in 2013/14). Various Employers paid the fund a total of £166,848 for pension related services including pension's payroll and compiling data for submission to the actuary (£141,397 in 2013/14).

Officer and Manager Related:-

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

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

22, OUTSTANDING COMMITMENTS

As at the 31 March 2015 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £151,284,981 (31st March 2014 £61,724,899).

A further outstanding commitment of \$US300,000,000 (31st March 2014 nil) relating to investments in a pooled fund of underlying infrastructure assets will be drawn down in tranches by the Investment Managers.

23, KEY MANAGEMENT REMUNERATION

Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These consisted of:

- part of the Divisional Director Business Support's salary, fees and allowances £16,948 (2013/14 £17,360) and their employer's pension contributions £3,552 (2013/14 £3,107).
- part of the Head of Business Finance and Pensions salary, fees and allowances £33,523 (2013/14 £31,540) and their employer's pension contributions £7,017 (2013/14 £5,460).

24, FINANCIAL INSTRUMENTS

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

	31/03/2015	31/03/2014
Financial Assets	£'000	£'000
Receivables	10,592	24,980
Financial assets at fair value through profit or loss	3,839,872	3,336,303
Total Financial Assets	3,850,464	3,361,283
Financial Liabilities		
Payables	(15,672)	(15,072)
Financial liabilities at fair value through profit or loss	-	-
Total Financial Liabilities	(15,672)	(15,072)
Total Net Assets	3,834,792	3,346,211

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

Net gains and losses on financial instruments

Financial assets at fair value through profit or loss		
	2014/15	2013/14
	£'000	£'000
Losses on derecognition	3,805	4,918
Reductions in fair value	24,311	239,774
Total expense in Fund Account	28,116	244,692
Gains on derecognition	92,566	323,622
Increases in fair value	350,046	97,545
Total income in Fund Account	442,612	421,167
Net gain/(loss) for the year	414,496	176,475

25, FINANCIAL RISK MANAGEMENT DISCLOSURE

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

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

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

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

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

(a) Market Risk

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

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

Market Price Risk

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

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

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

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund's advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2015. These movements in market prices have been judged as possible for the 2014/15 reporting period. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

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

The analysis for the year ending 31 March 2015:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	527,446	10.1%	580,824	474,068
Overseas Equities	1,323,210	9.3%	1,446,401	1,200,019
Global inc. UK	250,612	9.6%	274,721	226,503
UK Bonds	444,290	7.2%	476,412	412,168
Overseas Bonds	113,325	7.3%	121,643	105,007
Index Linked Gilts	238,961	9.7%	262,092	215,830
Pooled Multi Asset	368,177	3.3%	380,400	355,954
Property	315,668	1.9%	321,634	309,702
Alternatives	162,368	2.6%	166,590	158,146
Cash	94,416	0.0%	94,425	94,407
Total Assets	3,838,473	6.1%	4,071,069	3,605,847

The analysis for the year ending 31 March 2014 is shown below:

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

Interest Rate Risk

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

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

	31 March 2015	31 March 2014
	£'000	£'000
Cash and Cash Equivalents	94,416	85,023
Fixed Interest Assets	796,576	640,034
Total	890,992	725,057

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2015 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

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

As at 31 March 2015	Value £'000	Change in net assets	
		+100 bps	-100 bps
Cash and Cash Equivalents	94,416	-	-
Fixed Interest	796,576	(110,405)	110,405
Total	890,992	(110,405)	110,405

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

The same analysis for the year ending 31 March 2014 is shown below:

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

Currency Risk

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

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

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

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2015 £'000	Asset value as at 31 March 2014 £'000
Overseas Equities	1,548,037	1,324,193
Overseas Fixed Income	113,325	74,588
Overseas Property	154,212	112,058

Currency Risk - Sensitivity Analysis

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

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2015 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,548,037	3.8%	1,606,655	1,489,419
Overseas Fixed Income	113,325	3.8%	117,616	109,034
Overseas Property	154,212	3.8%	160,051	148,373

The same analysis for the year ending 31 March 2014 is shown below:

Currency Risk by Asset Type:

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

(b) Credit Risk

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

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

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

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

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

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2015 was £34.8m. This was held with the following institutions:

	31 March 2015		31 March 2014	
	Rating	£'000	Rating	£'000
Custodian's Liquidity Fund				
Bank of New York Mellon	AAA	23,361	AAA	7,962
Bank Call Accounts				
Barclays Platinum Account		-	A	1,000
Bank of Scotland Corporate Deposit Account	A	2,950	A	2,500
Goldman Sachs Global Treasury Fund (previously RBS Global Treasury Fund)	AAA	8,230	AAA	6,090
NatWest Special Interest Bearing Account	BBB+	300	BBB+	-1,104
Bank Current Accounts				
NatWest	BBB+	6	BBB+	7

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

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

(c) Liquidity Risk

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

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2015 the value of the illiquid assets was £722m, which represented 18.8% of the total Fund assets (31 March 2014: £634m which represented 19% of the total Fund assets).

(d) Fair Value Hierarchy

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

- Level 1 - easy to price securities. Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.
- Level 2 - moderately difficult to price. Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value. Therefore Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities including the Diversified Growth Fund that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset value.
- Level 3 - difficult to price. Unobservable inputs for the asset or liability used to measure fair value that rely on the Fund's assumptions concerning the assumptions that market participants would use in pricing an asset or liability. Therefore Level 3 includes pooled funds such as the property funds, other Diversified Growth Funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2015.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	603,222			603,222
Bonds - Quoted	350,636			350,636
Pooled Investment Vehicles		1,943,834		1,943,834
Fund of Hedge Funds			162,368	162,368
Diversified Growth Funds		124,700	243,477	368,177
Property			315,668	315,668
Cash	94,416			94,416
Derivatives: Forward FX	1,874			1,874
Derivatives: Futures	152			152
Investment Debtors /Creditors	-475			-475
	<u>1,049,825</u>	<u>2,068,534</u>	<u>721,513</u>	<u>3,839,872</u>

The fair value hierarchy as at 31 March 2014 was:

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

26, EMPLOYING BODIES

As at 31 March 2015 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Principal Councils and Service Providers

Avon Fire Brigade

Bath & North East Somerset Council

Bristol City Council

North Somerset Council

South Gloucestershire Council

Further & Higher Education

Establishments

Bath Spa University College

City of Bath College

City of Bristol College

Norton Radstock College

South Gloucestershire & Stroud College

St. Brendan's College

University of the West of England

Weston College

Education Establishments

Abbeywood Community School Academy

Academy of Trinity

Ann Harris Academy Trust

Aspire Academy

Backwell School Academy

Bannerman Road Community Academy

Barton Hill Academy

Bath Community Academy

Bedminster Down School Academy

Beechen Cliff Academy

Begbrook Primary Academy

Birdwell Primary School Academy

Bradley Stoke Community School

Bridge Learning Campus Foundation

Bristol Cathedral Choir School

Bristol Free School Trust

Bristol Technology & Engineering Academy

Broadlands Academy

Broadoak Mathematics & Computing College

Cabot Learning Federation

Castle School Education Trust

Cathedral Primary School

Charborough Road Primary School

Charfield Primary School

Chew Stoke Church School

Christ Church C of E Primary School

Churchill Academy

Clevedon Learning Trust

Clevedon School Academy

Clutton Primary School Academy

Colston Girl's School Trust

Colston's Primary School Academy

Cotham School Academy

Diocese of Bristol Academies Trust

Inspirational Futures Trust

Kingshill Academy

Kings Oak Academy

Little Mead Primary School

Marlwood School

Meadow Brook Primary School

Merchant's Academy

Midsomer Norton School Partnership

Minerva Primary Academy

Nailsea School Academy

North Somerset Learning and Technology College

Oasis Academy Bank Leaze

Oasis Academy Brightstowe

Oasis Academy Connaught

Oasis Academy John Williams

Oasis Academy Long Cross

Oasis Academy New Oak

Oasis Academy Brislington Enterprise College

One World Learning Trust

Oldfield School Academy Trust

Orchard Academy

Parson Street Primary School

Patchway Community College

Priory Community School

Ralph Allen Academy

Redland Green School Academy

Redfield Educate Together Primary Academy

Severn Beach Primary School

Sir Bernard Lovell School

Steiner Academy

St Bedes School Academy

St. Nicholas of Tolentine Catholic Primary School

St. Patrick's Academy

St. Teresa's Catholic Primary School

Downend School
 Easton C of E Academy
 Elmlea Junior School Academy
 Fairfield School
 Filton Avenue Infants Academy
 Fishponds Church of England Academy
 Four Acres Primary School
 Fosseway School
 Frome Vale Academy
 Gordano School Academy
 Greenfield Primary School Academy
 Hanham High School
 Hans Price Academy
 Hareclive Academy
 Hayesfield Girls School Academy
 Henbury Court School
 Henbury School Academy
 Henleaze Junior School
 Heron's Moor Community School
 High Littleton C of E Primary
 Hotwells Primary School
 Ilminster Avenue E-ACT Academy

St. Ursula's E-ACT Academy
 Stoke Bishop C of E Primary School
 Stoke Lodge Academy
 Summerhill Academy
 The Bath Studio Academy
 The Dolphin Academy
 The Kingfisher School
 The Ridings Federation Winterbourne
 The Ridings Federation Yate
 Threeways School
 Tickenham Primary School
 Trust in Learning
 Wallscourt Farm Academy
 Waycroft School Academy
 Wellsway School Academy
 West Town Lane Primary School
 Westbury Park Primary School Academy
 Westbury-on-Trym C of E Academy
 Wicklea Academy
 Writhlington School Academy
 Yeo Moor Primary School

Designating Bodies

Almondsbury Parish Council
 Backwell Parish Council
 Bath Tourism Plus
 Bradley Stoke Town Council
 Charter Trustees of the City of Bath
 Clevedon Town Council
 Destination Bristol
 Dodington Parish Council
 Downend and Bromley Heath Parish Council
 Filton Town Council
 Frampton Cotterell Parish Council
 Hanham Abbots Parish Council
 Hanham Parish Council
 Keynsham Town Council
 Emersons Green Town Council
 Midsomer Norton Town Council
 Nailsea Town Council
 Oldland Parish Council

Patchway Town Council
 Paulton Parish Council
 Peasedown St John Parish Council
 Pill & Easton in Gordano Parish Council
 Portishead & North Weston Town Council
 Radstock Town Council
 Saltford Parish Council
 Stoke Gifford Parish Council
 Thornbury Town Council

 Vista SWP Ltd
 Westerleigh Parish Council
 Westfield Parish Council
 Weston Super Mare Town Council
 Whitchurch Parish Council
 Winterbourne Parish Council
 Yate Town Council
 Yatton Parish Council

Community Admission Bodies

Action For Children
 Alliance Homes
 Ashley House Hostel
 Bristol Disability Equality Forum
 Bristol Music Trust
 Clifton Suspension Bridge Trust
 CURO Places Ltd
 CURO Group (Albion) Ltd

Merlin Housing Society (SG)
 Merlin Housing Society Ltd
 Sirona Care & Health CIC (B&NES)
 Sirona Care & Health CIC
 Southwest Grid for Learning Trust
 The Care Quality Commission
 The Park Community Trust
 University of Bath

CURO Choice
Holburne Museum of Art
Learning Partnership West Limited

Vision North Somerset
West of England Sport Trust

Transferees Admitted Bodies

Active Community Engagement Ltd
Agilisys
Aquaterra Leisure Ltd.
ARAMARK
BAM Construct UK Ltd
Churchill Contract Services Ltd (South Gloucestershire and Stroud College)
Circadian Trust

Learning Partnership West (Lot 1)
Learning Partnership West (Lot 2)
Learning Partnership West (Lot 3)
Learning Partnership West (Lot 7)
Liberata UK Ltd
Prestige Cleaning & Maintenance Ltd

Ridge Crest Cleaning Limited

Circadian Trust No 2

Shaw Healthcare (North Somerset) Ltd (Petersfield)

Creative Youth Networks (Lot 4)

Shaw Healthcare (North Somerset) Ltd (The Granary)

Direct Cleaning (SW) Ltd - Moorlands
Eden Food Services
Fit For Sport
Fit For Sport NSC (St Peters Primary)
HCT Group
ISS Mediclean
ISS Mediclean (Bristol)
Keeping Kids Company
Kier Facilities Services

SITA Holdings UK Ltd
Skanska (Cabot Learning Federation)
Skanska Rashleigh Westerfoil
SLM Community Leisure
SLM Fitness & Health
Sodexo
The Brandon Trust
Tone Leisure (Trust) Limited



The Audit Findings for Avon Pension Fund

Year ended 31 March 2015

25 September 2015
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Members of the Avon Pension Fund
Bath and North East Somerset Council
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25 September 2015

Dear Members

Audit Findings for Avon Pension Fund for the year ending 31 March 2015

The Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Avon Pension Fund, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Barrie Morris, Director.

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Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non-audit services and independence

04. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Avon Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

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

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2015.

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

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

- completion of final specialist partner review,

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

Key issues arising from our audit Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- Working papers are generally of a high standard,
- The draft accounts were presented for audit in accordance with the agreed timetable and contained minimal errors. This demonstrates good quality.

We have identified one adjustment affecting the Fund's reported financial position. In addition, we have agreed with officers some minor adjustments to improve the presentation of the financial statements.

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

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Pension Fund and the Council as the administering authority.

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Findings

There is one area where control weaknesses have been noted. This relates to a number of manual adjustments relating to journals and the bank reconciliation. Further details can be found in the Internal Controls Section of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Pension Fund Finance and Systems Manager and the finance team.

Acknowledgment

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

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non-audit services and independence

04. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee of 27 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you.

Audit opinion

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix B.

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management, • testing of journal entries, and • review of unusual significant transactions. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
Page 47	<p>Management override of controls Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management, • testing of journal entries, and • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management override of controls. However, our review of journal controls has identified a control issue, which will be detailed in the Internal Controls section of the report.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	<p>Level 3 Investments – Valuation is incorrect. A level 3 investment is one where at least one input that could have a significant effect on the value of the investment is not based on observable market data. The most common example of which are investments in private equity, which are valued using various estimation techniques.</p>	<ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle, • reviewed the control reports from all fund managers with level 3 investments, • tested level 3 investments by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports, • reviewed the qualifications of fund managers as experts to value level 3 investments, • reviewed the nature of estimated values and the level of assurance that management has over level 3 investments. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We have been able to gain assurance over Level 3 investment balances through agreeing investment values presented in the accounts to those provided by the custodian and individual fund managers, We note that the audited financial statements of the Gottex Value Added Fund were qualified by the Gottex fund auditors. However, the qualification related to a specific fund in which Avon Pension Fund is not invested and therefore this does not affect the value of Avon Pension Fund's investment.</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Investment Income</p>	<p>Investment activity not valid. Investment income not accurate. (Accuracy)</p>	<p>We have undertaken the following work in relation to these risks:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle, undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding, and we have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. 	<p>Our audit work has not identified any significant issues in relation to the risks identified.</p>
<p>Investment values – Level 2 investments</p>	<p>Valuation is incorrect. (Valuation net)</p>	<p>We have undertaken the following work in relation to these risks:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle, undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding, We have confirmed investment market values to independent pricing sources; and we have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. 	<p>Our audit work has not identified any significant issues in relation to the risks identified.</p>

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Contributions</p>	<p>Recorded contributions not correct. (Occurrence)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding tested key controls over the contributions made to the fund, Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence, and Performed an analytical review on contributions to ensure that any unexpected trends are satisfactorily explained. 	<p>During the course of our audit the Pension Fund reached an agreement with Bristol City Council (BCC) as to the treatment of an overpayment of contributions made by BCC in 2013/14. During the audit a further contribution overpayment of £2.3m was identified in 2014/15 from BCC. Although the amounts are not material to the Pension Fund audit, the financial statements have been amended to ensure consistency between BCC and the pension fund's final accounts. Details of the adjustments made are in the adjusted misstatements table.</p> <p>Our audit work has identified one employer who was erroneously omitted from Note 26. Employing Bodies. This has now been corrected.</p> <p>Other than the issues identified above there have been no significant issues in relation to the risk identified.</p>
<p>Benefit payments</p>	<p>Benefits improperly calculated/claims liability understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding tested key controls for member to be enrolled on the scheme, Tested a sample of individual pensions in payment by reference to member files, and Rationalised pension paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Member Data</p>	<p>Member data not correct. (Rights and obligations)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested key controls over changes to the pension fund data set, and • Tested a sample of changes to member data made during the year to source documentation. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>There are two key policies in relation to revenue recognition: that for contribution income and that for investment income. Normal contributions are accounted for in the payroll month to which they relate. Investment income from equities is accounted for on the date stocks are quoted ex-dividend. Income from fixed interest and index-linked securities, cash and short term deposits is accounted for on an accruals basis, as is income from other investments.</p>	<ul style="list-style-type: none"> The policies are considered appropriate under the accounting framework in place. 	<p>● Green</p>
Estimates and judgements	<p>Because of the nature of the fund no significant accounting judgements have been made, with all judgements following the requirements set out in the Code.</p> <p>The fund has a material balance of investments with significant unobservable inputs. The valuation of these investments is subject to varying degrees of estimation uncertainty. The fund discloses the differing methods of valuation for these funds within the accounting policies. In each case the Fund chooses to rely on the valuation provided by the fund manager.</p>	<ul style="list-style-type: none"> The policies are considered appropriate under the accounting framework in place. Sufficient assurance has been provided by either the experts used for valuing the fund, or we have been able to agree valuations to third party evidence. . 	<p>● Green</p>

Assessment

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

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	<p style="text-align: center;">●</p> <p style="text-align: center;">Green</p>

Assessment

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

Other communication requirements

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


	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from all of the investment managers, banks and the custodian of the fund. Positive confirmation was received from all parties.
7.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for level 3 investment valuation, investment income, investment values, contributions, benefits payable and member data as set out on page 9 above.

The matters that we identified during the course of our audit are set out in the table below:

Assessment	Issue and risk	Recommendations
<p>1.  Amber</p>	<p>As part of our testing of journals it was not possible to extract a journals listing which contains only journals relating to the Pension Fund and does not include journals relating to B&NES Council. In order to compile a list which contains only pension fund journals, manual adjustment of the journals listing is required. This increases the risk of journals being omitted from the listing provided to audit, due to fraud or error.</p> <p>Additionally, due to the Fund being part of the Council's accounts in the ledger, the bank reconciliation is calculated from the bank balance, rather than the cash book balance as the cash book contains B&NES and Fund transactions which need to be separately identified. The difference between the cash book and bank account balance is trivial at £15k.</p>	<p>It is recommended that the Council consider separating the Pension Fund within the Agresso ledger system, in order to allow separate identification of pension fund transactions and balances.</p>

Unadjusted misstatements

The table below provides details of adjustments identified which have not been made within the final set of financial statements. The audit committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Impact on accounts	Reason for not adjusting
1 None	None	None
Overall impact	£0	

Adjusted misstatements

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

Impact of adjusted misstatements

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

Detail	Fund Account £'000	Net Asset Statement £'000	Impact on net assets carried forward £'000
<p>Bristol City Council overpaid its contributions in 2013/14 and 2014/15 totalling £4,524k. It has been agreed that these will be repaid and therefore this has reduced contributions received in the Fund account and increased creditors in the Net Asset Statement, therefore reducing net assets carried forward.</p> <p>Page 56</p>	4,524	4,524	4,524
Overall impact	£4,524	£4,524	£4,524

Misclassifications & disclosure changes

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

Adjustment type	Account balance	Impact on the financial statements
1 Presentation and disclosure	N/A	Our review of the Employing Bodies list contained within note 26 highlighted the omission of Action for Children. Management confirmed this had been omitted in error and it has now been corrected.
2 Presentation and disclosure	N/A	Admin and processing expenses in Note 8 of the accounts was misstated. The original accounts showed a figure of £1,996k. This has been amended to the correct figure of £2,804k. There was no effect on the account balances.
Presentation and disclosure	Various	Our review of the accounts highlighted some minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The proposed minor adjustments were agreed with the Fund and changes have been made to the draft accounts submitted for audit.
		Examples include including a reference to the introduction of the Career Average Revalued Earnings (CARE) under operations and membership, to update the note referring to the delay in the introduction of IFRS 13, and to update the regulations disclosed in the introduction. This is in addition to the need to tidy up formatting and some punctuation prior to publication.

Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non-audit services and independence

04. Communication of audit matters

Fees, non-audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Pension fund scale fee	30,116	30,116
Total audit fees		

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

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

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

Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non-audit services and independence

04. Communication of audit matters

Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

We have been appointed as the 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 Fund'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 issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Manual adjustments to journal reports and bank reconciliation</p> <p>It is recommended that the Council consider separating the Pension Fund within the Agresso ledger system, in order to allow separate identification of pension fund transactions and balances.</p>	M	<p>The Council will consider the options which may be available to separate the Pension Fund within the Agresso system. Any decision on this will then be based upon an appraisal of the benefits and impacts.</p>	<p>Martin Phillips - Ongoing</p>

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BATH AND NORTH EAST SOMERSET COUNCIL

We have audited the pension fund financial statements of Bath and North East Somerset Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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

Respective responsibilities of the Director of Strategic Resources and auditor

As explained more fully in the Statement of Responsibilities, the Director of Strategic Resources is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Strategic Resources; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information and the annual report to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

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

Barrie Morris
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Hartwell House
55-61 Victoria Street
Bristol B61 6FT

September 2015:



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Avon Pension Fund Annual Report 2014/2015 DRAFT

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DIRECTOR'S FOREWORD

As the Director responsible for the Avon Pension Fund, I am delighted to present the Fund's Annual Report and Financial Statement for the year ending 31 March 2015.

Before I mention the Fund's achievements over the last year, I would like to thank all those that have served on the Avon Pension Fund Committee over the last four years for their commitment and contribution to ensuring we have a successful and efficiently managed Fund for our stakeholders.

The year started with the introduction of the new scheme – LGPS 2014. Despite extremely challenging timescale and software requirements, the project to transition to the new scheme was successfully managed for members and employers alike.

The year was dominated by government consultations about the management and governance of the LGPS. As regards to governance, the government laid legislation introducing a local Pensions Board for each local LGPS scheme. Despite a tight deadline, the Avon Pension Fund Pension Board was established by 1 April 2015 and held its first meeting in July 2015. The Board's role is to provide oversight to ensure the Fund complies with its obligations under various codes and legislation as well as assist in delivering an effective and efficient scheme.

There was also consultation on potential changes in the way in which the investment portfolios are managed by local funds. Proposals were put forward to reduce investment management costs across the LGPS. These included the pooling of assets and greater use of passive investing. Although the government did not issue a response before the general election, the July 2015 budget has announced LGPS funds must pool their investments and the Fund is actively exploring options to achieve this.

The portfolio generated a strong investment return of 13.5% over the year with the value of the portfolio rising by £508m to £3,839m. In addition the Fund outperformed its investment benchmark over one, three and five years. Despite this stellar performance the funding level decreased slightly from 84% to 78% by 31 March 2015 as the yield on government bonds used to value the liabilities fell.

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

Andrew Pate
Strategic Director Resources
Bath and North East Somerset Council

BACKGROUND TO THE AVON PENSION FUND

The Avon Pension Fund (the “Fund”) is a statutory pension scheme regulated by Local Government Pension Scheme (LGPS) Regulations. Bath & North East Somerset Council administers the Fund on behalf of more than 214 employer bodies including four unitary authorities.

The Fund has approximately 96,500 members and a value, as at 31 March 2015, of £3.839 billion. In 2014/15 the Fund received £207 million in pension contributions and paid out £157 million in pension payments.

REVIEW OF THE YEAR 2014/15

INVESTMENTS

The value of the Fund’s assets rose by £508 million from £3,331 million at 31 March 2014 to £3,839 million at 31 March 2015. The assets generated an investment return of 13.5% during the year and 11.2% per annum over the last three years.

The 2014/15 investment return was primarily driven by strong returns from a diverse range of assets including equities, bonds and property. Overseas equities which account for 25% of the Fund’s assets rose strongly whereas UK equities (15% of the Fund’s assets) lagged the overall return. Having delivered negative returns in the previous year, bonds rebounded strongly on expectations that interest rates will stay low for longer. Property assets continue to attract demand from investors seeking income in an environment of low real yields.

The appointment of a manager to invest in infrastructure and the restructuring of the hedge fund portfolio completed the actions arising from the review of the investment strategy in March 2013. In addition, one of the Diversified Growth mandates was terminated following the loss of key investment personnel and appointed a new manager to manage the assets.

During the year the contracts for investment consultancy and actuarial advice were tendered under the South West LGPS Funds Advisory Framework, a collaborative initiative to reduce procurement costs. Mercer Investment Consulting was appointed to replace JLT as the Fund’s investment consultant from 1 March 2015. Mercer Limited was retained as the Fund’s actuary.

Managing the investment assets of local LGPS funds

In 2013 the Department for Communities and Local Government (DCLG) announced a review of the way the local LGPS funds are managed in order to improve efficiency, reduce costs and improve performance.

Following a “Call for Evidence” to provide provided information and data, and a report commissioned by the DCLG, a formal consultation was issued in May 2014. This consultation proposed the greater use of passive investing (which have lower

fees than for active management) and investing through collective vehicles primarily to reduce investment management fees through economies of scale.

The Fund responded to the consultation paper. A significant proportion of the Fund's assets are invested on a passive basis; however, the Fund believes that the investment strategy and structure should fully consider the risks and the potential return from active and passive management in addition to costs.

The government did not issue a response to this consultation. However, the July 2015 budget announced a further consultation on the issue later in 2015. If funds do not put forward plans to reduce investment management costs, legislation will be put forward as to how the investments must be managed.

FUNDING LEVEL

As at 31 March 2015 the funding level is estimated to have decreased over the year from 84% to 78% and the deficit to have increased from £636 million to £1,104 million.

The deterioration in the funding position is due to a fall in real gilt yields used to value the liabilities. After year-end bond yields have begun to rise slightly. As the value of the future pension liabilities is calculated using a discount rate based on UK gilt yields and the benefits are indexed to inflation, a fall in real gilt yields increases the value of the liabilities. During the year the value of the assets rose by more than expected in the funding strategy. However, this was insufficient to offset the increase in the liabilities.

PENSIONS ADMINISTRATION

Service Plan and Budget

The forward looking three year Service Plan 2015/18 sets out the key service objectives and milestones. It also reviews the achievement against the previous year's plan.

The main focus of the plan is

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

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

During the year to 31 March 2015, total administration costs (excluding governance and investment management costs) were £2.16 million, a saving of £226,000 (9%) on the budget.

Total costs including Investment Management, custody and governance costs, were £20 million, in line with the budget. Investment management fees were higher than expected due to the larger than anticipated increase in asset values during the year. Governance costs were also slightly higher than expected due to the re-tendering of investment mandates. The investment management and custody fees of £17.6 million equates to 0.44% of the Fund's assets.

GOVERNANCE

Local Pension Boards

The Public Service Pensions Act 2013 (PSPA2013) requires all public sector pension schemes to establish pension boards. The Board will have an oversight role to ensure the Fund complies with government regulations and guidelines issued by bodies such as The Pensions Regulator. In addition it will assist the administering authority in ensuring the effective and efficient governance and administration of the scheme.

The Avon Pension Fund Pension Board was established by the deadline of 1 April 2015. The Board has an independent chairperson and three employee and three employer representatives.

Scheme Advisory Board

The PSPA2013 also established a Scheme Advisory Board for the LGPS. This Board will advise the government on changes to the scheme and provide advice and assistance to administering authorities and local pension boards in relation to the effective and efficient management of the scheme and local funds.

The Board will initially collate data from the local LGPS funds to provide a national database and annual report. This will cover administration, investments and valuation metrics and will be used to monitor efficiency and costs across the national scheme.

REGULATIONS

Taxation of Pension Act 2014 and Pension Schemes Act 2015

These Acts provided the primary legislation for the Government's "Freedom and Choice" initiative announced in the 2014 Budget. The LGPS was impacted by this in connection with scheme members transferring out with a view to acquiring a right or entitlement to flexible benefits where there is now a requirement for them to obtain independent financial advice before making a decision to transfer.

The Pension Regulator Code of Practice No 14 (Governance and Administration of Public Service) was released in January 2015 and confirmed in Parliament in February 2015. The code is a reference for scheme managers and pension boards to use to inform their actions in four core areas of scheme governance and administration: governing your scheme, managing risks, administration and resolving issues

GOVERNANCE AND MANAGEMENT STRUCTURE

Management structure as at 31 March 2015

Administering Authority: Bath & North East Somerset Council

Members of the Avon Pension Fund Committee:

Voting members:

Councillor Paul Fox (Chair)	Bath & North East Somerset Council
Councillor Patrick Anketell-Jones	Bath & North East Somerset Council
Ann Berresford	Independent Member
Councillor Mary Blatchford	North Somerset Council
Councillor Lisa Brett	Bath & North East Somerset Council
Councillor Mike Drew	South Gloucestershire Council
Shirley Marsh	Independent Member
Councillor Charles Gerrish	Bath & North East Somerset Council
Councillor Ian Gilchrist	Bath & North East Somerset Council
William Liew	University of the West of England
Steve Paines	Unite the Union
Councillor Steve Pearce	Bristol City Council

Non-voting members:

Clive Fricker	Parish & Town Councils
Richard Orton	Unison
Paul Shiner	Unite the Union

Council officers:

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

Independent Investment Advisor: Tony Earnshaw

Investment Managers:

Blackrock Advisors (UK) Ltd
Genesis Investment Management LLP
Gottex Asset Management
IFM Investors
Invesco Asset Management Ltd
Jupiter Asset Management Ltd
MAN Investments Ltd
Pyrford International

Record Currency Management
Royal London Asset Management
Partners Group AG
Schroder Investment Management Ltd
Signet Capital Management Ltd
Standard Life Investments
State Street Global Advisors Ltd
Stenham Asset Management
TT International
Unigestion

Actuary:

Mercer Limited.

Investment Consultant:

JLT Benefit Solutions (contract ended 31 March 2015)

Mercer Limited (contract started 1 March 2015)

Global Custodian: BNY Mellon Asset Servicing B.V.

Bankers:

National Westminster Bank plc

Bank of New York Mellon

Legal Advisors: Osborne Clarke

AVC Providers:

Friends Provident plc

The Equitable Life Assurance Society

FUND GOVERNANCE

Avon Pension Fund Committee

As administering authority, Bath and North East Somerset Council (“the Council”), has legal responsibility for the pension fund as set out in the Local Government Pension Scheme Regulations.

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee (the “Committee”) which is the formal decision-making body for the Fund. The Committee’s role is strategic in nature, setting policy framework and monitoring implementation and compliance within that framework. Due to the wide scope of the Committee’s remit it is supported by the Investment Panel (the “Panel”) which considers the investment strategy and investment performance in greater depth. The Committee has delegated authority to the Panel for specific investment decisions.

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

Table 1 - Committee structure

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

The Committee meets formally each quarter. In addition to the quarterly meetings, the Committee held one workshop during the year to discuss the new governance arrangements for the LGPS including local pension boards.

Investment Panel

The Committee is supported by an Investment Panel which considers the investment strategy and investment performance in greater depth. The Committee has delegated authority to the Panel for specific investment decisions; strategic issues are referred to the Committee. The Panel consists of up to six voting members of the Committee and meets at least four times a year.

The Panel met formally four times during the year. Each meeting was followed by a workshop where selected investment managers present on their performance and outlook for their portfolio. In addition Panel members attended three selection panels held to appoint new managers.

Table 2 - Committee and Panel membership and attendance record (as at 31 March 2015)

	Committee Meeting	Committee workshops / training	Investment Panel Meetings & workshops
No. of Meetings during year	4	1	7
Voting Members			
Councillor Paul Fox (Chair)	3	1	n/a
Councillor Patrick Anketell-Jones	3		7
Ann Berresford	4	1	7
Councillor Mary Blatchford	4	1	7
Councillor Lisa Brett	4	1	n/a
Councillor Mike Drew	1		n/a
Councillor Charles Gerrish	4	1	7
Councillor Ian Gilchrest	4	1	7
William Liew	4	1	6
Shirley Marsh	4	1	n/a
Steve Paines	1		n/a
Councillor Steve Pearce	3	1	n/a
Non-voting members			
Clive Fricker	2		n/a
Richard Orton	4	1	n/a
Paul Shiner	0		n/a

The Committee is supported by a number of external advisors. During 2014/215 JLT Investment Consultants advised on investment strategy and manager performance. Mercer Limited advised on all actuarial aspects of the fund. In addition Osborne Clarke provided legal advice on investment and funding issues.

The Committee, Fund Officers, external advisors, fund managers and administrators all operate in accordance with the relevant regulations namely the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, CIPFA Code and the Pensions Regulator Codes of Practice.

Training

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

Specifically the administering authority must ensure:

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

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

Committee training is delivered in a variety of formats, reflecting the strategic importance of the subject matter to the Committee's agenda and the differing level of knowledge and understanding across the Committee. Much of the training is delivered through detailed committee reports and workshops where the topic is explored greater in detail.

In addition, Committee members and staff are encouraged to attend seminars and conferences which broadens their understanding of investments and topics of relevance to the LGPS. New committee members are encouraged to attend the Fundamentals Training Courses offered by the Local Government Pension Committee and induction sessions arranged by officers.

Table 3 - Training provided in 2014/15

Topic	Delivered by:
Governance <ul style="list-style-type: none"> • Legal responsibility of Committee & Officers • Governance & assurance framework • Administration Strategy • Investment Regulations 	<ul style="list-style-type: none"> • Committee reports monitoring administration performance of Fund and employers • Committee reports for audited accounts and governance • Committee reports on Fund Discretions Policy & Delegations • External conferences/training courses • Committee response to DCLG consultation on cost savings and efficiency • Committee report on proposed LGPS Cost Cap Mechanism and other regulatory changes • Reports on advisory appointments
Employer and Funding risks <ul style="list-style-type: none"> • Admitted bodies • Employer risks • Funding level/solvency 	<ul style="list-style-type: none"> • Committee reports cover funding position, employers risks and policy for recovering outstanding liabilities

Investment Strategy

- Asset Allocation
- Performance monitoring
- Investment manager monitoring
- Stewardship activities
- Responsible investing policy
- Quarterly Committee & Panel reports review investment strategy and performance
- Annual report on Responsible Investing and voting activity
- External conferences
- Clarification meetings for manager appointments

Table 3a – Training provided externally

Training	Members
LPGS Fundamentals Training Course	Patrick Anketell-Jones
National Association of Pensions Funds LGPS conference	Mary Blatchford, William Liew,
LGC LGPS Investments Summit	Mary Blatchford, Charles Gerrish, Ian Gilchrist, Shirley Marsh
LGC Trustees Conference	Mary Blatchford
Local Authority Pension Fund Forum	Mike Drew (attended 3 meetings)

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

Governance Compliance Statement

The Fund is required under the regulations to publish a Governance Compliance Statement which demonstrates the extent to which the Fund complies with best practices in pension fund governance. The Fund's latest statement was approved by the Avon Pension Fund Committee in June 2015. The statement shows a high level of compliance with best practice and is summarised below:

Principle	Compliance status	Comment
Governance structure	Compliant	The decision-making structure is clearly defined
Representation	Partial Compliance	There is broad representation of employers and scheme members on the Committee. However admitted bodies are not represented as it is difficult to have meaningful representation from such a diverse group of employers.
Selection / role of lay members	Compliant	The role and responsibilities of all members are set out in a Job Description.
Voting	Compliant	There is a clear policy on voting rights which have been extended to employer and member representatives.
Training / Facility time / Expenses	Compliant	There is a clear policy on training. The Fund pays all approved training courses for all members. The training plan reflects the needs of the committee agenda.
Meetings	Compliant	Formal meetings are held quarterly and lay members are included in the formal arrangements.
Access	Compliant	All members have equal access to meeting papers and advice.
Scope	Compliant	The terms of reference include all aspects of investments, funding, benefits administration and admissions to the Fund.
Publicity	Compliant	All statutory documents are made available to the public.

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

RISK MANAGEMENT

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

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

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

The register is reviewed regularly by the management team and is reported quarterly to the Committee. Table 4 shows the Top 10 material risks from the Risk Register.

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

During the year internal audit completed one audit of the Fund's internal processes as follows:

Audit	Assurance level
Framework of internal controls for Pensions iConnect	4 = Good

This covered the automated monthly interface of key member data from specified scheme employers to the Avon Pension Fund via a software solution (middleware) supported by Heywoods and looked at procedures and protocols developed to ensure the security of member information.

The Internal Control Report of each 3rd party suppliers is reviewed annually to ensure their operational control environment is adequate, the results of which are reported to Committee. Where the Fund invests in an investment fund, the audited accounts of the fund are also reviewed annually.

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

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

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

Investments by their very nature expose the Fund to varying degrees of risk, including market, interest rate, foreign currency, credit and liquidity risks. Such risks are managed through the diversification of assets, how the assets are invested and by managers. The Investment strategy is reviewed periodically, most recently in 2013.

In between strategic reviews, the Committee and Investment Panel monitor the performance of the investment strategy, providing flexibility to alter the strategy if required. A robust manager selection process assesses the risks of the investment approach and the manager will pose to the Fund.

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

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

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

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

A key risk for employers is that the employer contribution rate is incorrectly calculated due to inaccurate membership information held by Fund. The Data

Quality Team reconciles the membership data to identify and resolve data queries with employers.

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

6. **Benefits Administration Risk:** These risks relate mainly to the inability of the Fund to meet its obligations and pay benefits accurately and on time as agreed with employers or under statute. The main risks are:
- non- or late payment of members’ benefits
 - incorrect calculation of benefits
 - breach of Data Protection Regulations
 - non-compliance with TPR codes
 - the failure to comply with Freedom of Information Act requests and Disclosure of Information requirements.

All of the above could lead to adverse publicity, loss of reputation and ultimately statutory fines. In addition, the Fund is dependent on a sole supplier of pension administration software. There are processes in place to mitigate administration risks, as identified in the Risk Register.

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

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

Table 4: Summary of Risk Register

Risk	Management action
The Fund fails to achieve investment returns sufficient to meet its liabilities. This could affect the contribution rate paid by employers.	A Fund specific benchmark determines the appropriate risk adjusted return strategy to meet the liabilities. Fund performance and the funding level are monitored each quarter by Committee against this benchmark. This strategic benchmark is reviewed periodically.
Political pressure to direct how funds invest their assets to reduce costs. This could affect the ability	The Fund has well defined investment policies in place clearly stating the investment objectives and criteria. The Fund will continue to engage with

<p>of the Committee to make decisions in the best interest of the Fund.</p>	<p>government on this issue and collaborate with other LGPS funds to ensure the most efficient management of the fund.</p>
<p>Insolvency of Participating Employers in the Fund without sufficient monetary guarantees or bonds to make good their outstanding liability. Such liabilities will be absorbed by the Fund and spread across other employers.</p>	<p>The Fund's policy is for Transferee Admission Bodies to have a guarantee from a scheme employer. Community Admission Bodies are only admitted if they have a guarantor or failing that a bond is in place to protect the Fund.</p> <p>Covenant assessment monitoring assesses the financial standing of all employers and explores the options for obtaining greater protection through stronger guarantees, bonds, contingent assets or charges on assets.</p>
<p>Lack of continuity within Committee which arises because most members face re-election simultaneously. This could impact the effectiveness of the Committee to make decisions.</p>	<p>Wide representation on the Committee includes two independent members (independent from the administering authority, scheme employers and unions) not subject to the electoral cycle.</p> <p>Training is provided to new Committee members and there is ongoing training so that members can discharge their duties effectively.</p>
<p>The investment managers appointed by the Fund to manage its assets fail to achieve their benchmark returns. This could mean the Fund fails to achieve the strategic return required to fund the liabilities. This could negatively affect the contribution rates paid by the employers.</p>	<p>Monitoring the performance of the investment managers is delegated to the Investment Panel. A performance monitoring framework identifies managers that are underperforming and issues that could affect future performance; these are reported to the Panel who agree an action plan. The Panel reports quarterly to the Committee on the performance of the managers and any managers that are on "watch".</p>
<p>Systems failure or lack of accessibility to systems. This could result in the potential loss of data, the need to re-process data, a fall in productivity, potential corruption of data and a delay in benefits processing and the payment of pensions.</p>	<p>Policies are in place with relevant parties to ensure continuity of service issues are addressed within an agreed timeframe.</p> <p>The daily back up of the pensions system limits loss of data and reprocessing of data.</p> <p>The Fund relies on the Council's systems of control a firewalls to prevent virus attacks.</p>
<p>Dependence on electronic data from employers. This</p>	<p>Training is given to employers as to the data requirements. The Data Quality Team reviews</p>

<p>could lead to inaccurate or incomplete data.</p>	<p>the data received from employers.</p> <p>Internal audit to review the employer processes in 2015/16</p>
<p>Non-compliance with the Data Protection Act (DPA) or the Pension Regulator's codes of practice or standards. This could lead to fines, prosecutions and adverse publicity.</p>	<p>The Pensions Manager is the responsible officer for DPA. There are confidentiality agreements in place with the Fund's agents with regard to the DPA.</p> <p>The Fund complies with the Council's DPA policies.</p> <p>All personal data is transmitted from the Fund through secure portals.</p> <p>The Fund measures against TPR codes of practice and has implemented an improvement plan to address non-compliance.</p>
<p>Incorrect or late contributions from employers. This could adversely affect short term cash flow, could result in over/under funding of employer liabilities, and a breach of obligations could result in a fine.</p>	<p>Monthly contributions received are reconciled to the employer return. There is an annual reconciliation of contributions received to member records. Late payments of contributions are followed up and reported quarterly to Committee.</p>
<p>Lack of adequate resources / knowledge at the employers' level leading to a failure to comply with their obligations to their members and the fund under the regulations and codes of practice. This can result in disproportionate work and affect productivity.</p>	<p>The Fund provides timely information to and training for new employers and refresher sessions for existing employers.</p> <p>Employer bulletins and forums provide information to ensure employers comply with their obligations.</p> <p>The Administration Strategy permits the Fund to penalise employers for repetitive non-compliance that results in disproportionate work for the pension fund.</p>

PENSIONS ADMINISTRATION

Pensions Administration Strategy

The Administration Strategy sets out how the administering authority and scheme employers will work together to provide an improving quality level of service to Fund members.

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

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 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

Full details of the Pensions Admin Strategy are available on the website www.avonpensionfund.org.uk and included as Appendix G.

Greater use of technology

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

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

Employer Self-Service (ESS)

This web-based self-service access for employers was launched in October 2011 and most employers have now signed up. This facility allows employers to carry out calculations for retirement cases and, in the case of redundancy or efficiency, to calculate the Strain on the Fund costs. ESS has an interactive facility and the Fund has introduced a training programme to enable employers to input member data changes securely via ESS for automatic upload to the pension member database. This has been rolled out to existing employers and is an automatic requirement for any new employers to the Fund. By April 2015 58% of scheme employers were submitting data to the Fund electronically, representing 72% of active membership.

The number of employers continues to rise. During the year 27 new employers joined the scheme and 7 left.

Number of active employers in fund (2014/15)

	Active	Ceased	Total
Scheduled Body	159	0	159
Admission Body	56	7	63
Total	215	7	222

Member Self-Service (MSS)

This web-based member self-service facility introduced in 2010 allows members access to their personal pension information with the facility to perform "what if" calculations. It also provides an opportunity for the Fund to develop as a vehicle for electronic communication to members. At 31 March 2015 there are 7,069 registered members representing 8.45% of available membership. Development of this facility and encouraging greater take-up by members forms part of the work programme for the next year.

Number of members in fund (2011-2015)

	2015	2014	2013	2012	2011
Active	34,765	34,846	33,648	33,737	33,810
Deferred	35,714	35,321	31,754	28,812	24,858
Pensioners	26,006	25,985	24,574	23,631	22,541
Total	96,485	96,152	89,976	86,180	81,209

Electronic delivery to members

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

Active members' newsletters

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

Website

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

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

The Fund participates in the annual Pensions Administration CIPFA Benchmarking exercise where its performance and running costs are compared against its peers and against the "average fund".

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

This year's report identifies the cost per member for the Fund as £16.55 compared with £18.27 in 2013/14. This is significantly less than the cost for the average fund which is £18.68 per member. The Fund's own performance targets are set out in the SLAs it has in place with employers, covering over 80% of the active membership. In many cases these targets are more challenging than the industry standard. Regular SLA review meetings are held with these employers to review each party's performance. The Fund also publishes a Customer Charter on its website. This includes its targets (in working days) for completion of processing of member benefits. Table 5 shows the Fund's performance in meeting LGPC standard targets compared with the Club average.

Table 5: Performance Indicators 2014/15

Performance Indicator	LGPC Standard Target	Fund achieved against target %	CIPFA Club average %
Letter detailing transfer in quote	10 days	83.3	89.5
Letter detailing transfer out quote	10 days	79.2	87.9
Process and pay refund	5 days	76.1	92.2
Letter notifying estimates of retirement benefits	10 days	92.2	90.5
Letter notifying actual retirement benefits	5 days	85.5	91.6
Initial letter acknowledging death of member	5 days	90	93.8
Letter notifying amount of dependant's benefits	5 days	87.9	85.8
Calculate and notify deferred benefits	10 days	53.8	74.5

Key staffing indicators

The administration of the Fund is provided by Bath & North East Somerset Council. The pension service is split into three areas: Investment & Accounting, Benefits Administration (including Data Management & Quality Control) and Systems Support & Pension Payments. An organisation chart is available on the Fund website. The total number of staff in the pension service was 38.4 in 2014/15. Of these 20.7 are involved in benefits administration. Table 6 shows an analysis of staff-based data from the CIPFA Benchmarking Club 2015 Report.

The benefits administration team has been restructured to include a Data Management & Quality Control Team. The creation of a dedicated team reflects the increasing focus within the LGPS on disclosure of information and Data Protection and to ensure compliance with TPR Codes of Practice. The team will focus on member data, ensuring compliance to regulator standards, resolving data queries and providing management information to assist in the performance monitoring process. This will enable the remaining administration team to service members more efficiently.

Table 6: Key Staffing Indicators 2014/15

Key Staffing Indicators	2014/135	(CIPFA club average)	2013/14	(CIPFA club average)
Number of staff administering the LGPS scheme	20.7		21.7	
Fund Member / Staff ratio	5,049	3,863	4,572	4,150

PENSION COMMUNICATIONS

The Fund's 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

The Communications Policy outlines the communications we provide to various audiences (our stakeholders, audiences and interested parties). The Fund's Communications Policy was updated in 2015 and is published on its public website.

The Communications Policy is available on the website www.avonpensionfund.org.uk and included as Appendix E.

INVESTMENT REPORT

1. Investment Regulations

(a) Investment Limits

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

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

The limits relevant to the Fund are:

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

(b) Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the investment principles of the Fund and how the investments are managed in line with the principles. Key elements include:

- investment objective
- management of investment risk
- social, environmental and ethical considerations
- exercise of voting rights
- compliance with the Myners principles for effective decision making.

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

The latest revision of the Statement of Investment Principles was approved by the Avon Pension Fund Committee at its meeting in June 2015. The statement is included as Appendix D and can also be obtained from the website www.avonpensionfund.org.uk (search *Statement of Investment Principles*).

The Fund publishes a statement showing how it complies with the Financial Reporting Council (FRC) Stewardship Code. This Code is a set of best practice principles that are intended to frame both shareholder engagement with companies and the disclosure of such activity by investors. The Fund's latest statement of compliance can be found on the website www.avonpensionfund.org.uk (search *FRC Stewardship Code*).

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

Compliance with the Myners Principles

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

The Fund's current compliance with the principles is summarised in Table 7 below (a full explanation can be found in the SIP).

Table 7: How the Avon Pension Fund achieves compliance with the Myners Principles

1 Effective decision-making	Compliance
Clear governance structure for decision-making, supported by expert advisors and officers with clear responsibilities.	Tick
Job descriptions setting out the role and responsibilities of all Committee members	Tick
Committee members undertake training on ongoing basis	Tick
A forward looking three-year business plan	Tick
2 Clear Objectives	
Clear investment objective and strategy, taking into account the actuarial position and impact on scheme employers and tax payers	Tick
A customised benchmark reflecting the Fund's own liability profile	Tick
Consideration of different asset classes and their impact on return and risk	Tick
Individual performance targets for the investment managers, monitored by the Committee	Tick
Expert advice when considering its investment objective and strategy	Tick
3 Risk and Liabilities	
Investment objective and strategy reflects the specific liability profile of the scheme members	Tick

Covenant of the employer and their ability to pay contributions is taken into account	Tick
Risk management process in place to ensure risks are identified and mitigating action is taken where possible	Tick
4 Performance Assessment	
Fund's performance measured against investment objective, investment managers performance measured against their benchmarks	Tick
Contracts with advisors assessed on an ongoing basis	Tick
Performance of decision-making bodies assessed by external auditors	Tick
5 Responsible Ownership	
Managers adopt the Institutional Shareholders' Committee Statement of Principles	Tick
Policy on responsible ownership is included in Statement of Investment Principles	Tick
6 Transparency and Reporting	
Clear policy to communicate and consult with its scheme members, representatives and employers as appropriate.	Tick
All documents and statements made available, annual report contains information and data relevant to its many, diverse stakeholders.	Tick

2. Investment Strategy

The objective of the investment strategy is to achieve the investment return required to fund the pension liabilities over time and to recover any funding deficit as set out in the funding strategy. Specifically the investment strategy is designed to produce investment returns that will help stabilise and minimise employer contribution rates in the long term as well as reflecting the balance between maximising returns, protecting asset values, and matching the liabilities (to minimise investment risk).

The strategy reflects the Fund's appetite for risk and its willingness to accept short term volatility within a long term strategy. The Fund pursues a policy of managing risk through diversification by asset class and by investment managers. The Avon Pension Fund Committee periodically reviews its investment strategy in order to ensure the strategy reflects the Fund's liability profile.

During 2014/15 the Fund completed the implementation of the revised investment structure following the strategic review of 2013 with the appointment of an

infrastructure manager and a single hedge fund manager to manage the allocation to hedge fund strategies.

Table 8 shows the Fund's actual asset allocation at 31 March 2015 against the strategic allocation benchmark. The allocation to infrastructure has yet to be invested. The Fund is currently overweight in equities which will be used to fund the investment in infrastructure. The table also shows the returns from each asset class over one and three years to 31 March 2015.

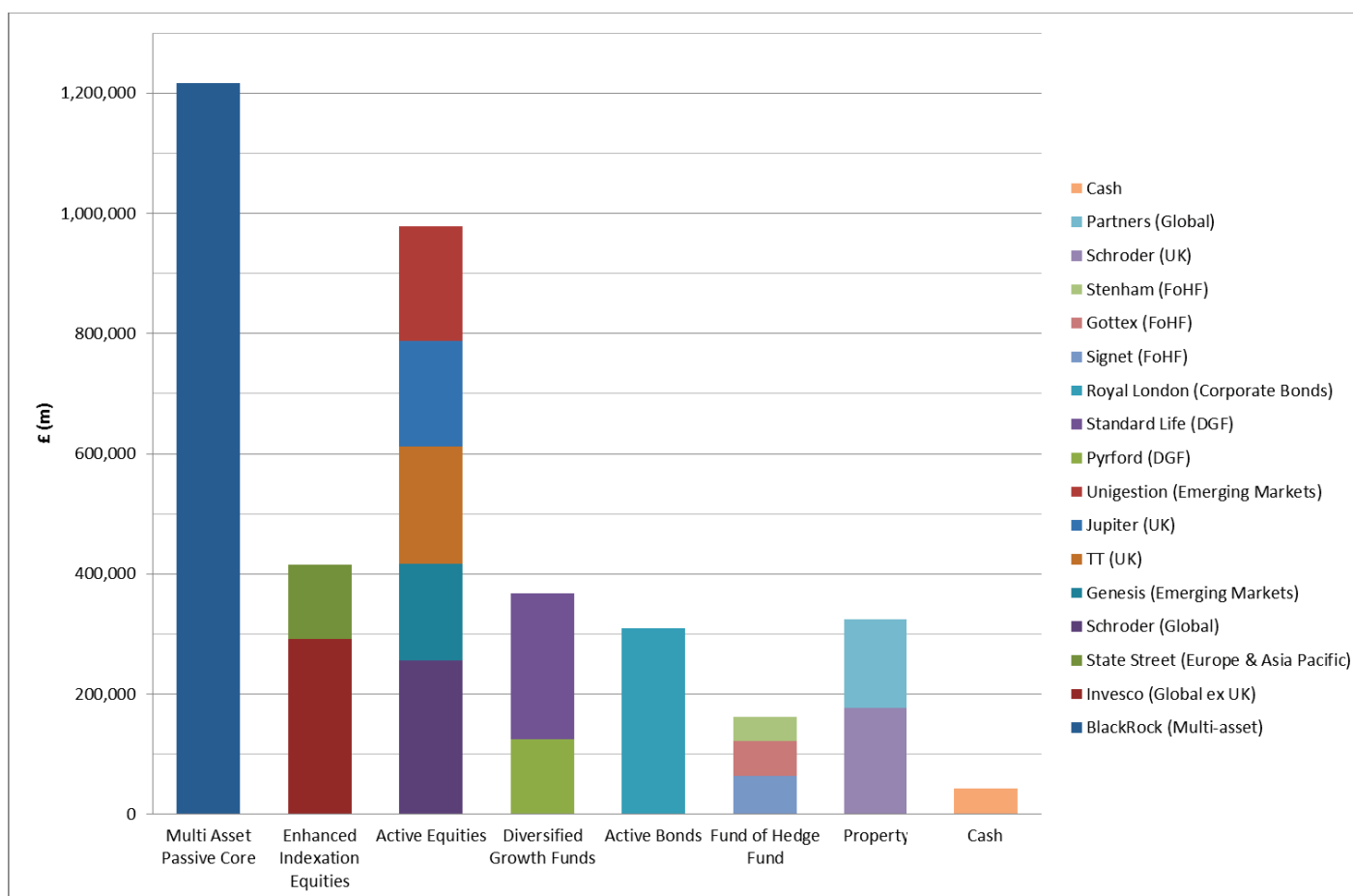
Table 8 - Strategic Asset Allocation and Actual Asset Allocation

Asset Class	31 March 2015 Allocation	Strategic Allocation	Asset Class Returns	
			1 year	3 years
UK Equities	16.0%	15%	6.6%	10.6%
Developed Overseas Equities	29.6%	25%	20.3%	15.5%
Emerging Market Equities	9.7%	10%	12.8%	3.2%
Diversified Growth Fund	9.6%	10%	4.6%	4.6%
Infrastructure	-	5%	-	-
Index-Linked Gilts	6.3%	6%	21.0%	8.9%
Fixed Interest Gilts	2.9%	3%	26.9%	10.0%
UK Corporate Bonds	8.6%	8%	13.1%	8.8%
Other Bonds	3.0%	3%	7.6%	1.0%
Fund of Hedge Funds	4.2%	5%	4.6%	4.6%
Property	8.2%	10%	16.6%	9.4%
Short term deposits / Other	1.9%	0%	-	-

Source: Mercer

The Fund's assets are managed by external investment managers. The investment management structure and amount of assets managed by each manager as at 31 March 2015 is set out in Table 9. During the year the Diversified Growth Fund mandate with Barings Asset Management was terminated following the departure of key investment staff. The mandate was re-tendered and Standard Life was appointed. IFM was appointed to manage the allocation to infrastructure. This portfolio is expected to begin investing during 2015/16. JPMorgan has been appointed to manage the hedge fund allocation replacing the three incumbent hedge fund managers. The funds will be transitioned to JPMorgan during 2015/16.

Table 9: Asset allocation by investment manager 31 March 2015



Responsible Investing

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

The fund sought to manage Responsible Investment (RI) and Environmental, Social and Corporate Governance (ESG) risks during the year as follows:

- Embedded Environmental, Social and Governance and Responsible Investment criteria into the evaluation of the tenders for the Diversified Growth Fund mandate.
- Promoted Responsible Investment / Environmental, Social and Governance by:
 - Following through with issues identified throughout the year by the Fund's Committee and Investment Panel.
 - Holding managers to account and querying Responsible Investment / Environmental, Social and Governance factors in their investment process where appropriate.
 - Reviewing whether engagement activity of managers was in line with their stated policies.

- Publicly supported the shareholder resolutions for greater disclosure on carbon management strategies at BP and Shell.
- The Fund continued its participation in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage Responsible Investment (RI) risks. Officers and committee members attended four business meetings during the year.

The analysis by Manifest of the trends in voting by investors suggests that there is a gradual improvement in governance standards with a lower level of governance concerns identified in 2014. In the UK the introduction in 2014 of the vote on Remuneration Policy has had an impact in that where opposition was expressed by shareholders, it was often at a very high level, suggesting a targeted approach on the part of investors.

3. Investment Performance

(i) 2014/15 performance

The value of the Fund's assets rose by £508 million during the year to £3.84 billion at 31 March 2015. The investment return of 13.5% was driven primarily by the strong returns from overseas equities (c.29.6% of the assets) and bonds (c.20.8% of assets), where the Fund was overweight, and property. The Fund outperformed its strategic benchmark of 13.2% by 0.3%. Currency hedging added 0.2% to the fund's return; asset allocation contributed 0.7% and active portfolio management detracted 0.6%.

The Fund outperformed the average WM Local Authority Fund universe return over the year by 0.3% (the average local authority pension fund return as calculated by WM Company).

The strategic benchmark return (which assumes the investment achieve index returns) of 13.2% outperformed the long term return expectations for the underlying assets of c. 7.1%. This was due to the significant returns from overseas equities, bonds and property above their long term expectations. UK equities and hedge fund returns were below their long term expectations. As gilts are used as a proxy for valuing the liabilities, the strategic benchmark represents a portfolio that, using the long term return expectations, should generate a return of +2.7% above the yield from gilts (the "gilt-based benchmark"). In 2014/15 despite the good outturn from the investment portfolio, given a return from index linked gilts of c. 21%, the strategic benchmark underperformed the gilt based benchmark which will have led to deterioration in the funding position, everything else being equal.

Developed equity market returns were influenced by larger than expected quantitative easing by the ECB in Europe and signs of tentative economic growth and recovery in the USA and Japan. Emerging market returns were less positive due to the effect of a stronger US dollar on their economies and concerns over moves in the USA to raise interest rates. In addition they were affected by the decline in commodity prices by c. 30% in sterling terms over the year with oil leading the way. With global inflation remaining subdued and very low interest rates during the year, government and corporate bonds continued to rally. Central bankers have

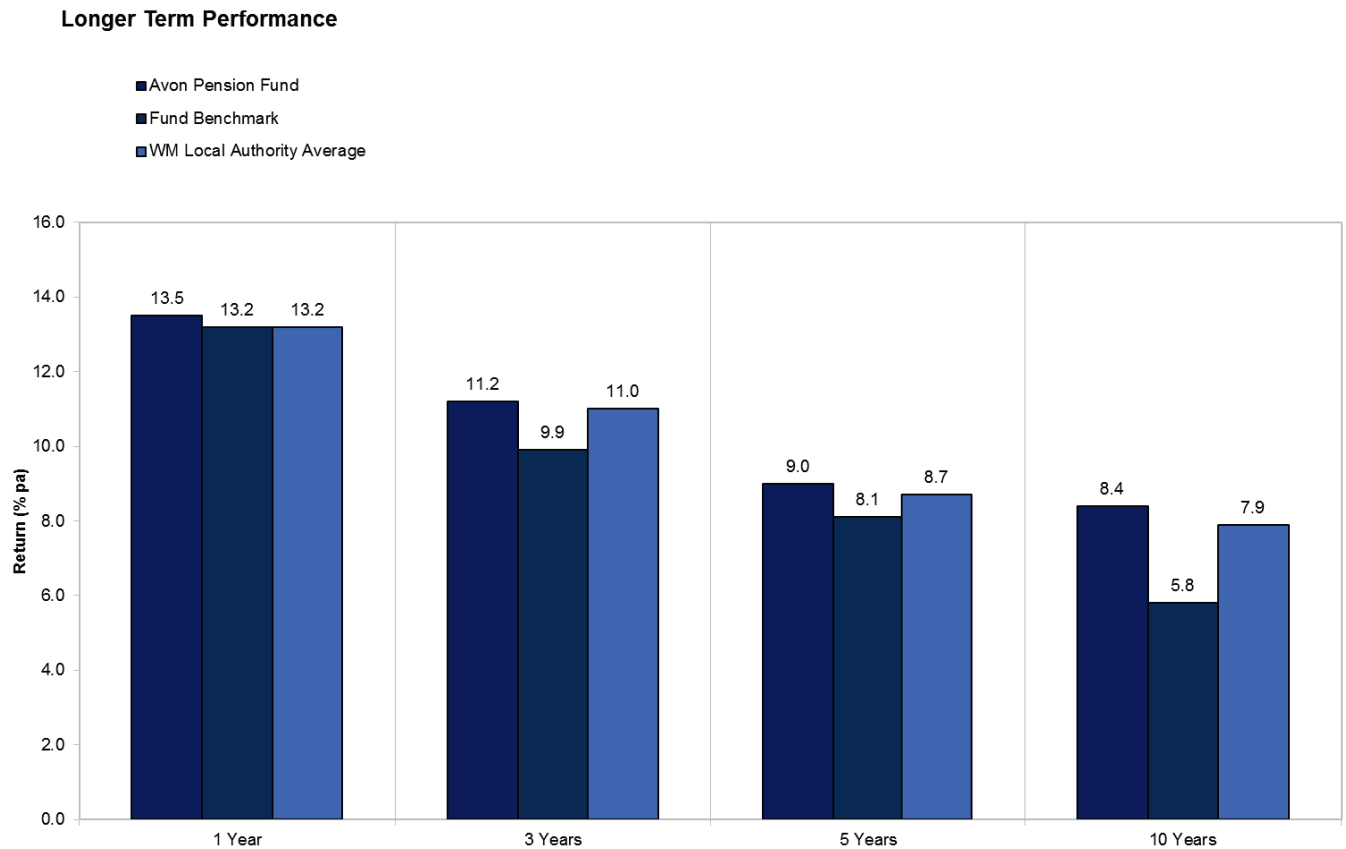
positioned markets for a gradual increase in interest rates over the next economic cycle.

(ii) Longer term performance

The longer term performance of the Fund is shown in Table 10 (the returns are annualised). The Fund’s benchmark return is included in the chart together with the return of the WM Local Authority Fund Average. The Fund return is inclusive of currency hedging whereas the benchmark return excludes currency hedging.

Over the last 3 years the investment return is 11.2% per annum falling to 9.0% per annum when viewed over the last 5 years. Currency hedging has added 0.2% per annum to the Fund’s return over the last three years.

Table 10 - Long Term Performance



Over three years the Fund’s return is ahead of the strategic benchmark return of 9.9% per annum with active portfolio management added 0.3% and asset allocation adding 0.7% per annum. However, the Fund marginally underperformed the gilts based benchmark as index linked gilts returned c.9% per annum.

Over the three years, returns from developed equities, UK bonds and property were ahead of the long term return expectations whilst emerging market equities, overseas bonds and hedge funds all lagged their long term expected returns.

As sterling has strengthened against the Euro and Yen over the last three years the dynamic currency hedge has increased overall return, whilst sterling weakened against the USD over the same period.

The annualised contribution to performance by asset class and stock selection over longer periods can be seen in Table 11.

Table 11: Attribution to performance from asset allocation and stock selection

Asset Class	Asset Allocation Impact p.a.		Stock Selection Impact p.a.	
	3 Years	5 Years	3 Years	5 Years
Equities	0.3%	0.1%	0.4%	0.4%
Bonds	0.0%	0.1%	0.1%	0.1%
Multi-asset	0.0%		0.0%	
Property	0.1%		0.0%	-0.1%
Hedge Funds	0.2%	0.2%	-0.1%	
Cash	-0.2%	-0.1%	-0.1%	
	0.7%	0.3%	0.3%	0.3%

Table 12 shows how each of the investment managers have contributed to performance. It shows their performance against their specific benchmarks over one year, three years and five years. Jupiter, Unigestion, Invesco, and State Street had strong performances relative to their benchmarks during 2014/15; Signet and Partners lagged their target. The performance of the global property portfolio managed by Partners is impacted by the dilution effect of investing monies during the investment phase of the portfolio. Over three years, ten of the fourteen managers in place for three years or more have met their performance targets.

In 2014/15 the managers in aggregate performed in line with their benchmarks whilst over three and five years they have added 0.3% and 0.1% respectively to overall return.

Table 12 - Contribution to performance – relative returns of investment managers

	1 Year Relative Return	3 Years Relative Return p.a	5 Years Relative Return p.a
BlackRock	-0.1%	0.1%	0.1%
Jupiter	1.9%	3.7%	4.4%
TT	-1.5%	2.3%	0.9%
Invesco	1.0%	1.0%	0.9%
SSgA - Europe	0.6%	1.3%	1.3%
SSgA - Asia Pacific	1.5%	1.5%	1.1%
Schroder Equity	0.0%	0.0%	N/A
Pyrford	1.2%	N/A	N/A
Genesis	-2.4%	1.2%	1.6%
Unigestion	2.2%	N/A	N/A
RLAM	0.2%	2.0%	1.7%
Partners	-8.6%	-2.9%	-0.3%
Schroder Property	0.6%	1.4%	1.2%
Stenham	1.7%	2.4%	-0.4%
Signet	-7.4%	-3.9%	-3.7%
Gottex	-1.7%	0.2%	-0.8%

4. Largest Holdings

The ten largest investment holdings of the Fund at 31 March 2015 are shown below:

Table 13 - Ten Largest Investment Holdings at 31 March 2015

Top 10 Largest Investment	£'s	% of Fund
ROYAL LONDON AM UK CORPORATE	310,439,429.88	8.11%
INV PERP GBL ENH IND FUND-A	291,422,823.62	7.61%
STANDARD LIFE GLOBAL ABSOLUTE	243,477,257.76	6.36%
BLACKROCK AQUILA LIFE UK EQUITY INDEX S1	227,788,633.34	5.95%
MSCI EQ INDEX FUND B-US	219,388,986.24	5.73%
UNI-GLOBAL-EQ EM MKT-SAC GBP	191,724,586.15	5.01%
BLACKROCK EUROPE EX-UK FD-A	171,061,805.64	4.47%
GENESIS EMERGING MKTS INV -B	160,246,739.81	4.19%
PYRFORD GLOBAL TOTAL RETURN	124,699,787.52	3.26%
BARCLAYS GLOBAL IN AQUILA LIFE	113,325,398.71	2.96%

5. Investment Administration

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

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

ACTUARIAL REPORT

Funding Position

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

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

The funding level is estimated at 78% at 31 March 2015, unchanged from 2013 valuation but a 6% decline from the estimated 84% at 31 March 2014. The deficit has increased to £1.1 billion at 31 March 2015 from £636 million a year earlier. This position reflects the fall in real gilt yields which are used to value the liabilities over the year. This fall in real yields was not offset by the rise in the value of assets despite strong investment performance of the Fund over the year.

The historical funding level and asset allocation for the last five valuations is shown in the table below:

Valuation result	2001	2004	2007	2010	2013
Value of Assets £m	1,563	1,474	2,184	2,459	3,146
Value of Liabilities £m	1,572	1,841	2,643	3,011	4,023
Funding level	99%	80%	83%	82%	78%
Asset Allocation %	2001	2004	2007	2010	2013
Equities	75%	74%	77%	63%	63%
Bonds	25%	24%	21%	22%	20%
Property	-	-	-	4%	7%
Hedge Funds	-	-	-	9%	7%
Cash	-	2%	2%	2%	3%

The funding level will vary over time. The value of the assets and liabilities will vary due to changes in market prices. The non-financial assumptions that determine the liabilities will also change over time, such as longevity or the length of time it is assumed pensions will be paid over the retirement age.

Between the triennial valuations the Committee monitors the funding position each quarter. An interim valuation will be undertaken as at 31 March 2015 to provide employers with an indication of the potential impact of the 2016 valuation on their budget to help them plan accordingly.

The pension fund is maturing gradually and the investment and funding strategies takes this into account. As monthly pensions paid to pensioners exceed contributions received from employers and members, the Fund uses investment income to pay the pensions. The cash flow forecast is included in the Fund's Service Plan which is revised annually. Actual cash flow is monitored against the forecast to manage cash requirements on a monthly basis.

Funding Strategy Statement (FSS)

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

The regulations provide that the FSS must

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

Using the flexibility provided within this framework, in 2013 the Fund kept increases in employer contribution rates to a minimum. The fall in gilt yields translated into a lower discount rate used to value both past service and future service pension liabilities and this led to increases in contribution rates for most employers. However, as the driver of the higher costs was the fall in gilt yields, the Actuary took into account an improvement in gilt yields in the period following the valuation when setting deficit recovery payment plans with individual employers in order to address affordability.

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

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

The 2013 triennial valuation incorporated the changes arising from the new LGPS scheme, effective from 1 April 2014. Overall for the Fund there were savings to future service pension costs of around 1.7%, mainly due to an increase in the retirement age for benefits accruing post April 2014 (where the retirement will rise in line with the state pension age). However, for some smaller employers these

savings were more than offset by the extra cost of protections under the old scheme (determined by the age profile of the membership).

The number of employers in the Fund continued to increase due to the creation of academies and the outsourcing of services by scheme employers. As schedule bodies, academies have an automatic right to join the scheme. Employers outsourcing services to an admitted body are required to guarantee the liabilities of the admitted body.

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

STATEMENT OF CONSULTING ACTUARY

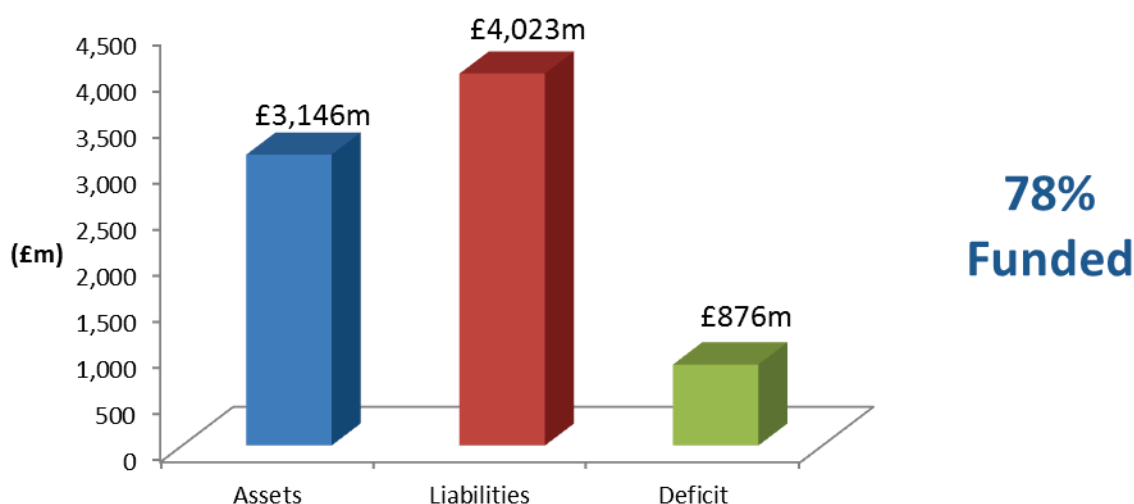
AVON PENSION FUND

Accounts for the year ended 31 March 2015 - Statement by the Consulting Actuary

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

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

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



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

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

annum (equivalent to approximately 6.0% of projected Pensionable Pay at the valuation date) for 20 years if all assumptions are borne out in practice.

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

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

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

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

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

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

The assets were assessed at market value.

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

Paul Middleman

Fellow of the Institute and Faculty of Actuaries

**Mercer Limited
June 2015**

EMPLOYERS' CONTRIBUTION RATES

Participating Employers	Contribution Rates			
	2014-15		2013-14	
Year Ended 31 March 2015	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Scheduled Bodies				
Principal Councils and Service Providers				
Avon Fire Brigade	11.8	£272,800	10.9	£241,900
Bath & North East Somerset Council	13.2	£14,042,300	12.2	£4,127,500
Bristol City Council	12.5	£41,493,600	11.8	£12,745,800
North Somerset Council	13.0	£4,992,800	11.8	£4,370,700
South Gloucestershire Council	12.9	£16,533,800	11.9	£4,840,600
Further & Higher Education Establishments				
Bath Spa University College	12.0	£457,300	11.2	£399,600
City of Bath College	11.9	£81,600	11.2	£72,700
City of Bristol College	12.4	£475,600	11.4	£452,700
Norton Radstock College	13.6	£37,500	12.3	£34,900
South Gloucestershire & Stroud College	11.2	£383,300	10.5	£312,000
St. Brendan's College	12.2	£30,400	11.4	£26,500
University of the West of England	12.0	£1,748,175	11.0	£1,620,800
Weston College	11.1	£194,900	10.4	£160,800
Education Establishments				
Abbeywood Community School Academy	12.7	£38,700	11.8	£36,400
Academy of Trinity	13.0	£6,500	12.5	£5,900
Ann Harris Academy Trust	16.2	£19,400	13.9	£6,400
Aspire Academy	14.6	£34,400		
Backwell School Academy	14.5	£89,200	13.7	£74,200
Bannerman Road Community Academy	10.7	£19,200	9.7	£29,500
Barton Hill Academy	11.9	£13,100		
Bath Community Academy	12.9	£18,600	12.4	£15,000
Bedminster Down School Academy	14.3	£30,300	13.5	£29,300
Beechen Cliff Academy	13.3	£31,400	12.4	£27,800
Begbrook Primary Academy	13.5	£18,000	12.5	£17,500
Birdwell Primary School Academy	13.7	£14,700	12.6	£12,200
Bradley Stoke Community School	11.6	£55,400	10.9	£48,600
Bridge Learning Campus Foundation	12.3	£57,400	11.7	£54,000
Bristol Cathedral Choir School	13.9		13.2	-£5,200
Bristol Free School Trust	14.2	£100	13.4	
Bristol Technology & Engineering Academy	13.4		13.4	
Broadlands Academy	12.1	£36,800	11.1	£36,100
Broadoak Mathematics & Computing College	12.6	£64,000	11.6	£60,300
Cabot Learning Federation	11.6	£10,800	10.8	
Castle School Education Trust	14.0	£68,900	13.0	£67,800
Cathedral Primary School	14.8		13.6	
Charborough Road Primary School	15.5	£4,500		
Charfield Primary School	15.4	£5,600	14.2	£2,700
Chew Stoke Church School	13.1	£5,200	12.0	£5,100
Christ Church C of E Primary School	13.2	£10,300	12.2	£9,800
Churchill Academy	13.6	£84,900	13.0	£77,300

Clevedon Learning Trust	20.0			
Clevedon School Academy	12.7	£52,600	12.1	£50,400
Clutton Primary School Academy	22.9	£500		
Colston Girl's School Trust	15.2	-£900	14.2	-£710
Colston's Primary School Academy	11.4	£6,100	10.9	£5,600
Cotham School Academy	12.4	£59,400	11.8	£51,100
Diocese of Bristol Academies Trust	21.3			
Downend School	13.3	£40,100	12.3	£39,900
Easton C of E Academy	14.8	£25,600		
Elmlea Junior School Academy	13.4	£9,700	12.4	£8,400
Fairfield School	15.4	£9,400		
Filton Avenue Infants Academy	11.5	£17,800	10.7	£17,000
Fishponds Church of England Academy	12.9	£22,000	12.0	£21,300
Four Acres Primary School	13.4	£4,400		
Fosseway School	11.0	£49,000	10.2	£42,100
Frome Vale Academy	11.8	£10,700	11.0	£10,300
Gordano School Academy	13.5	£94,100	12.5	£82,200
Greenfield Primary School Academy	13.3	£14,500	12.3	£13,300
Hanham High School	17.3	£34,600		
Hans Price Academy	12.6	£61,700	12.1	£51,400
Hareclive Academy	12.2	£18,200	11.5	£16,600
Hayesfield Girls School Academy	13.7	£33,400	12.9	£30,600
Henbury Court School	12.3	£18,700	11.5	£15,700
Henbury School Academy	12.7	£32,000	11.9	£30,700
Henleaze Junior School	13.2	£9,500	12.2	£7,900
Heron's Moor Community School	12.1	£21,500	11.5	£20,600
High Littleton C of E Primary	18.7	£4,800		
Hotwells Primary School	15.2	£13,100		
Ilminster Avenue E-ACT Academy	14.4	£8,900	15.0	£7,200
Inspirational Futures Trust	20.0			
Kingshill Academy	12.9	£11,100	12.3	£9,900
Kings Oak Academy	14.2	£29,700	13.2	£26,200
Little Mead Primary School	11.2	£17,500	10.7	£16,500
Marlwood School	16.4	£18,400		
Meadow Brook Primary School	15.2	£6,200		
Merchant's Academy	12.2	£4,000	11.2	
Midsomer Norton School Partnership	13.1	£89,400	12.1	£79,700
Minerva Primary Academy	13.5	£10,600	12.6	£10,300
Nailsea School Academy	14.4	£53,100	13.4	£51,600
North Somerset Learning and Technology College	20.0			
Oasis Academy Bank Leaze	10.4	£10,700	9.8	£10,400
Oasis Academy Brightstowe	12.1	£3,300	11.5	
Oasis Academy Connaught	13.2	£10,400	12.4	£8,900
Oasis Academy John Williams	12.6	£1,300	12.1	
Oasis Academy Long Cross	15.0	£36,800		
Oasis Academy New Oak	10.9	£15,300	10.1	£14,500
Oasis Academy Brislington Enterprise College	20.0			
Oldfield School Academy Trust	14.4	£13,300	13.9	£11,500
One World Learning Trust (City Academy)	11.3	£17,900	10.4	£14,600
Orchard Academy	13.1	£44,900	12.1	£43,700
Parson Street Primary School	14.4	£20,100	13.2	£20,200
Patchway Community College	15.1	£42,600	13.9	£14,583
Priory Community School	12.6	£94,500	11.9	£83,300
Ralph Allen Academy	14.4	£41,200	13.4	£40,600

Redland Green School Academy	11.1	£71,600	10.5	£68,300
Redfield Educate Together Primary Academy	9.8			
Severn Beach Primary School	21.1	£4,300		
Sir Bernard Lovell School	20.0			
Steiner Academy	13.0			
St Bedes School Academy	12.5	£30,600	11.9	£26,500
St. Nicholas of Tolentine Catholic Primary School	13.5	£11,600	12.7	£11,100
St. Patrick's Academy	14.5	£9,700	13.4	£9,300
St. Teresa's Catholic Primary School	12.7	£11,700	11.9	£11,200
St. Ursula's E-ACT Academy	13.2	-£100	11.8	
Stoke Bishop C of E Primary School	14.5	£17,300	13.4	£14,700
Stoke Lodge Academy	13.8	£16,900	12.9	£7,000
Summerhill Academy	14.1	£8,900	13.1	£8,300
The Bath Studio Academy	20.0			
The Dolphin Academy	8.9	£100	9.6	£100
The Kingfisher School	13.0	£9,200	12.1	£7,800
The Ridings Federation Winterbourne	12.8	-£17,200	11.8	-£21,300
The Ridings Federation Yate	12.4		11.4	-£9,500
Threeways School	10.1	£46,500	9.7	£24,000
Tickenham Primary School	9.7	£200		
Trust in Learning	20.7	£3,500	19.7	£3,100
Wallscourt Farm Academy	16.9	-	20.0	
Waycroft School Academy	13.9	£23,600	12.9	£21,500
Wellsway School Academy	13.0	£41,700	12.0	£38,700
West Town Lane Primary School	14.8	£17,300	14.0	£13,700
Westbury Park Primary School Academy	15.1	£14,700	13.8	£14,000
Westbury-on-Trym C of E Academy	13.3	£16,700	12.3	£15,700
Wicklea Academy	17.0	£900		
Writhlington School Academy	11.5	£59,400	11.0	£52,300
Yeo Moor Primary School	18.2	£4,600		
Designating Bodies				
Almondsbury Parish Council	14.5	£100	14.0	£0
Backwell Parish Council	15.3	£1,400	14.0	£1,200
Bath Tourism Plus	15.1	£2,500	14.1	£0
Bradley Stoke Town Council	14.7	£7,600	13.4	£7,000
Charter Trustees of the City of Bath	16.3	£3,700	14.3	£3,500
Clevedon Town Council	14.7	£100	13.2	£0
Destination Bristol	12.0	£12,500	12.5	£7,700
Dodington Parish Council	15.9	£1,200	14.8	£1,100
Downend and Bromley Heath Parish Council	12.5	£105	11.5	£100
Filton Town Council	11.2	£1,400	10.2	£1,200
Frampton Cotterell Parish Council	16.0	£1,300	14.0	£1,100
Hanham Abbots Parish Council	10.8	£100	10.0	£0
Hanham Parish Council	14.0	£3,100	12.9	£3,000
Keynsham Town Council	15.4	£12,700	14.5	£11,900
Emersons Green Town Council	12.4	£1,800	10.7	£1,700
Midsomer Norton Town Council	11.8	£7,600	10.8	£7,200
Nailsea Town Council	15.8	£3,800	14.0	£3,400
Oldland Parish Council	12.8	£400	11.7	£300
Patchway Town Council	13.0	£6,500	12.0	£6,200
Paulton Parish Council	14.4	£1,800	13.4	£1,700

Peasedown St John Parish Council	11.3	£500	14.0	£0
Pill & Easton in Gordano Parish Council	13.9	£100	12.9	£0
Portishead & North Weston Town Council	14.8	£3,200	16.2	£2,700
Radstock Town Council	8.5	£3,600	7.5	£3,400
Saltford Parish Council	15.8	£400	13.9	£400
Stoke Gifford Parish Council	15.4	£6,500	14.9	£6,200
Thornbury Town Council	18.1	£12,200	17.1	£11,500
Vista SWP Ltd	11.8	£500	11.3	
Westerleigh Parish Council	13.0	-£800	11.9	
Westfield Parish Council	19.5	£4,200	18.4	£3,600
Weston Super Mare Town Council	11.6	£5,700	10.6	£4,800
Whitchurch Parish Council	13.5	£105	12.3	£100
Winterbourne Parish Council	19.6	£400	17.3	£300
Yate Town Council	12.3	£10,500	11.3	£9,800
Yatton Parish Council	16.2	£200	14.0	
Community Admission Bodies				
Alliance Homes	14.7	£78,400	13.6	£72,000
Ashley House Hostel	17.1	£6,000	14.6	£4,500
Bristol Disability Equality Forum	19.4	-£100	17.5	
Bristol Music Trust	15.7	£3,000	14.7	
Clifton Suspension Bridge Trust	17.1	£3,300	15.9	£2,600
CURO Places Ltd	15.0	£244,800	14.6	£230,700
CURO Group (Albion) Ltd	15.0	£31,500	12.4	£26,600
CURO Choice	15.0		14.6	
Holburne Museum of Art	11.7	£16,700	10.0	£15,300
Learning Partnership West Limited	26.3	£225,000	11.1	£230,700
Merlin Housing Society (SG)	15.2	£9,900	14.2	
Merlin Housing Society Ltd	18.1	£18,700	15.9	
Sirona Care & Health (BANES)	16.0		14.8	
Sirona Care & Health	20.0			
Southwest Grid for Learning Trust	11.2	£25,900	11.2	£25,000
The Care Quality Commission	17.8	£42,300	16.7	£36,000
The Park Community Trust	15.2	-£600	14.2	
University of Bath	12.6	£1,835,600	11.6	£541,800
Vision North Somerset	16.2	£10,400	15.5	£9,100
West of England Sport Trust	15.0	£20,200	13.8	£13,500
Transferees Admitted Bodies				
Action for Children	15.1		12.1	
Active Community Engagement Ltd	19.0	-£5,600	13.7	-£3,600
Agilisys	18.0	-£900	14.3	
Aquaterra Leisure Ltd.	10.6	£31,300	8.8	£28,400
ARAMARK	15.6		15.6	
BAM Construct UK Ltd	22.4	-£2,800	16.6	£9,500
Churchill Contract Services Ltd (South Gloucestershire and Stroud College)	21.3			
Circadian Trust	11.1	£44,900	9.5	£31,500
Circadian Trust No 2	10.4	£100	9.2	
Creative Youth Networks (Lot 4)	16.5	-£2,400	14.6	-£2,000
Direct Cleaning (SW) Moorlands	20.0			
Eden Food Services	18.7	£100,800	13.8	£82,400
Fit For Sport	15.7		12.1	

Fit For Sport NSC (St Peters Primary)	18.5			
HCT Group	23.5	-£20,100	17.6	
ISS Mediclean	23.8	-£300	16.8	£900
ISS Mediclean (Bristol)	16.5	-£700	13.9	
Keeping Kids Company	16.3	-£1,300	13.3	
Kier Facilities Services	19.3	-£1,900	14.6	
Learning Partnership West (Lot 1)	24.8	-£10,000	16.4	
Learning Partnership West (Lot 2)	12.5	-£8,900	12.0	
Learning Partnership West (Lot 3)	17.5	-£11,600	11.7	
Learning Partnership West (Lot 7)	7.0	-£1,100	7.3	
Liberata UK Ltd	19.5	£32,200	14.3	
Prestige Cleaning & Maintenance Ltd	21.3			
Ridge Crest Cleaning Limited	19.1	£600		
Shaw Healthcare (North Somerset) Ltd (Petersfield)	16.8	£24,300		
Shaw Healthcare (North Somerset) Ltd (The Granary)	17.3	£7,900	15.5	£17,500
SITA Holdings UK Ltd	30.2	£61,000	21.9	£53,100
Skanska (Cabot Learning Federation)	26.7	-£5,600	27.3	-£1,800
Skanska Rashleigh Westerfoil	15.9	£300	12.7	£500
SLM Community Leisure	17.5	£6,600	13.8	£5,000
SLM Fitness & Health	15.5	£5,700	12.4	£4,700
Sodexo	22.6	-£7,800	17.1	
The Brandon Trust	16.5	£14,000	15.2	£24,000
Tone Leisure (Trust) Limited	18.4	£9,200	13.4	

STATEMENT OF ACCOUNTS 2014/15

Introduction

- 1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2014 to 31 March 2015.
- 1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2014/15 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.
- 1.3 The accounts are set out in the following order:

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

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

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

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

Actuarial Valuation

- 1.4 As required by the Local Government Pension Scheme Regulations 2013 an actuarial valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £3,146 million. The Actuary estimated that the value of the Fund was sufficient to meet 78% of its expected future liabilities of £4,023 million in respect of service completed to 31 March 2013.
- 1.5 At the 2013 valuation the deficit recovery period for the Fund overall was set at 20 years.
- 1.6 The 2013 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions used to set employers' contributions, are set out in the table below:

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

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

1.8 The Actuary has estimated that the funding level as at 31 March 2015 has fallen to 78% from 84% at 31 March 2014. This fall in the funding level is due to the fall in real yields during the period. Investment returns contributed positively to the funding position but was not sufficient to offset the increase in the liabilities. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields, so as gilt yields fall, the value of these liabilities rises.

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

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

Statement of Investment Principles

1.11 The Fund's Statement of Investment Principles as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 can be found on the Fund's website www.avonpensionfund.org.uk (search Statement of Investment Principles).

Statement of Accounting Policies

Basis of Preparation

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

Investments

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

- i. Quoted Securities have been valued at 31 March 2015 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last

trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation. All these valuations are subject to the custodian's and fund manager's internal control reports and external auditors.

- ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
- iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2015.
- iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2015.
- v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
- vi. Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
- vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
- viii. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
- ix. The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

2.3 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. The last such valuation was at 31 March 2013. Currently employer contribution rates range from 7.0% to 30.2%. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme Regulations 2013. The employee contribution rates range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015.

2.4 Normal contributions both from members and the employer are accounted for on an accruals basis in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Benefits, Refunds of Contributions and Cash Transfer Values

2.5 From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

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

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

2.8 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year. The charges are index linked to pension's increases to ensure that the Fund receives the full value.

Investment Income

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

Investment Management & Administration

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

2.11 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. In 2014/15 a provision has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

2.12 The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to UK income tax on investment income or to capital gains tax. As Bath & North East Somerset Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund

activities including expenditure on investment expenses. For taxation of overseas investment income please see note 3 iv. in the Notes to the Accounts.

Use of Accounting Estimates

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

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

Events After the Balance Sheet Date

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

Financial Instruments

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

Fund Account
For the Year Ended 31 March 2015

	Notes	2014/15	2013/14
		£'000	£'000
<i>Contributions and Benefits</i>			
Contributions Receivable	4	202,100	143,276
Transfers In	18	4,794	18,776
Other Income	5	496	442
		<hr/>	<hr/>
		207,390	162,494
Benefits Payable	6	157,156	149,791
Payments to and on account of Leavers	7	5,001	6,868
Administrative Expenses	8	2,804	2,883
		<hr/>	<hr/>
		164,961	159,542
<i>Net Additions from dealings with members</i>		42,429	2,952
<i>Returns on Investments</i>			
Investment Income	10	28,104	29,092
Profits and losses on disposal of investments and change in value of investments.	11	435,645	185,124
Investment Management Expenses	9	(15,795)	(11,682)
Fund Manager Performance Fees	9	(1,802)	(4,931)
		<hr/>	<hr/>
<i>Net Returns on Investments</i>		446,152	197,603
		<hr/>	<hr/>
<i>Net Increase in the net assets available for benefits during the year</i>		488,581	200,555
<i>Net Assets of the Fund</i>			
<i>At 1 April</i>		3,346,211	3,145,656
<i>At 31 March</i>		<hr/>	<hr/>
		3,834,792	3,346,211
		<hr/>	<hr/>

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2015.

Notes to the Accounts - Year Ended 31 March 2015

1, GENERAL

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

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 26.

Employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary. The employees' contribution rate is payable in accordance with the Local Government Pension Scheme Regulations 2013.

2, MEMBERSHIP

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

	31 March 2015	31 March 2014
Employed Members	34,765	34,846
Pensioners	26,006	25,985
Members entitled to Deferred Benefits	35,714	35,321
TOTAL	96,485	96,152

A further estimated 900 ex-members whose membership was for up to 2 years before 1st April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

3, TAXATION

i. Value Added Tax

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

ii. Income Tax

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

iii. Capital Gains Tax

No capital gains tax is chargeable.

iv. Taxation of Overseas Investment Income

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

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		2014/15		2013/14
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	58,507		55,066	
Administering Authority	7,704		6,902	
Admission Bodies	7,784	73,995	6,876	68,844
Employers' deficit Funding				
Scheduled Bodies	67,052		27,384	
Administering Authority	14,042		4,146	
Admission Bodies	3,496	84,590	1,571	33,101
Total Employer's normal & deficit funding		158,585		101,945
Employers' contributions- Augmentation				
Scheduled Bodies	5,446		4,312	
Administering Authority	489		537	
Admission Bodies	138	6,073	147	4,996
Members' normal contributions				
Scheduled Bodies	29,491		28,868	
Administering Authority	3,798		3,530	
Admission Bodies	3,313	36,602	3,300	35,698

Members' contributions towards additional benefits

Scheduled Bodies	685	474
Administering Authority	123	127
Admission Bodies	32	36
	<u>840</u>	<u>637</u>
Total	<u>202,100</u>	<u>143,276</u>

Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service. The deficit funding contributions in 2014/15 include £73,947k of discounted contributions that the actuary has calculated to cover the required deficit contributions for the three years commencing 2014/15.

The Members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme. Augmentation contributions are paid by employers to meet the cost of early retirements.

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

5, OTHER INCOME

	2014/15	2013/14
	£'000	£'000
Recoveries for services provided	484	426
Cost recoveries	12	16
	<u>496</u>	<u>442</u>

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

6, BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2014/15	2013/14
	£'000	£'000
Retirement Pensions	121,095	112,720
Commutation of pensions and		
Lump Sum Retirement Benefits	32,246	34,148
Lump Sum Death Benefits	3,815	2,923
	<u>157,156</u>	<u>149,791</u>

Analysis of Benefits Payable by Employing Body:-

	2014/15 £'000	2013/14 £'000
Scheduled & Designating Bodies	132,416	124,288
Administering Authority	14,342	14,133
Admission Bodies	10,398	11,370
	<u>157,156</u>	<u>149,791</u>

7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2014/15 £'000	2013/14 £'000
Leavers		
Refunds to members leaving service	543	116
Individual Cash Transfer Values to other schemes	4,458	4,352
Group Transfers	-	2,400
	<u>5,001</u>	<u>6,868</u>

8, ADMINISTRATION EXPENSES

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

	2014/15 £'000	2013/14 £'000
Administration and processing	1,996	1,957
Actuarial fees	372	486
Audit fees	29	27
Legal and professional fees	-	-
Central recharges from Administering Authority	407	413
	<u>2,804</u>	<u>2,883</u>

9, INVESTMENT EXPENSES

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

	2014/15	2013/14
	£'000	£'000
Fund Manager Base Fees	15,378	11,366
Fund Manager Performance Fees	1,802	4,931
Global Custody	66	94
Investment Advisors	259	123
Performance Measurement	39	37
Investment Accounting	1	4
Investment Administration	52	58
	<u>17,597</u>	<u>16,613</u>

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

10, INVESTMENT INCOME

	2014/15	2013/14
	£'000	£'000
Interest from fixed interest securities	3,482	3,557
Dividends from equities	16,628	16,651
Income from Index Linked securities	3,019	5,091
Income from pooled investment vehicles	4,521	3,480
Interest on cash deposits	405	282
Other - Stock lending	49	31
	<u>28,104</u>	<u>29,092</u>

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

The value of the stock on loan as at 31 March 2015 was £14.57 million (31 March 2014 £17.27m), comprising of equities and sovereign debt. This was secured by collateral worth £15.45 million comprising equities and sovereign debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at	Purchases	Sales	Change in	Value at
	31/03/14	at Cost	Proceeds	Market	31/03/15
	£'000	£'000	£'000	Value	£'000
				£'000	
Fixed Interest Securities	92,694	10,951	(13,868)	21,898	111,675
Equities	542,777	379,470	(368,729)	49,704	603,222
Index linked Securities	189,176	73,272	(65,761)	42,274	238,961
Pooled Investments -					
- Property	260,986	96,802	(66,363)	24,243	315,668
- Non Property	2,143,925	327,298	(262,842)	265,999	2,474,380
Derivatives	12,361	89,107	(109,820)	10,378	2,026
	3,241,919	976,900	(887,383)	414,496	3,745,932
Cash Deposits	85,023	691,405	(683,328)	1,316	94,416
Net Purchases & Sales		1,668,305	1,570,711)	97,594	
Investment Debtors & Creditors	4,264			(4,740)	(476)
<u>Total Investment Assets</u>	3,331,206				3,839,872
Current Assets	15,005			(20,085)	(5,080)
Less Net Revenue of Fund				(52,936)	
Total Net Assets	3,346,211			435,645	3,834,792

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

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

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

Change in Total Net Assets 2013/14

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

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

	2014/15				2013/14			
	Purchases £'000	Sales £'000	Other £'000	Total £'000	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	1,069	4	-	1,073	608	13	-	621
Commission	408	416	8	832	321	323	4	648
TOTAL	1,477	420	8	1,905	929	336	4	1,269

12, INVESTMENT ASSETS

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

	31 March 2015		31 March 2014	
	£'000		£'000	
UK Equities				
Quoted	320,758		301,719	
Pooled Investments	232,321		225,298	
FTSE Futures	152	553,231	162	527,179
Diversified Growth Funds				
Pooled Investments	368,177	<u>368,177</u>	314,340	<u>314,340</u>
Overseas Equities				
Quoted	282,464		241,057	
Pooled Investments	1,265,573	<u>1,548,037</u>	1,083,136	<u>1,324,193</u>
UK Fixed Interest Gilts				
Quoted	111,675		92,694	
Pooled Investments	-	<u>111,675</u>	14,226	<u>106,920</u>
UK Index Linked Gilts				
Quoted	238,961	<u>238,961</u>	189,176	<u>189,176</u>
Sterling Bonds (excluding Gilts)				
Pooled Investments	332,615	<u>332,615</u>	269,350	<u>269,350</u>
Non-Sterling Bonds				
Pooled Investments	113,325	<u>113,325</u>	74,588	<u>74,588</u>
Hedge Funds				
Pooled Investments	162,368	<u>162,368</u>	162,986	<u>162,986</u>
Property				
Pooled Investments	315,668	<u>315,668</u>	260,987	<u>260,987</u>
Cash Deposits				
Sterling	81,503		78,163	
Foreign Currencies	12,913	<u>94,416</u>	6,860	<u>85,023</u>
Investment Debtors/Creditors				
Investment Income	3,807		3,414	
Sales of Investments	998		5,948	
Foreign Exchange Hedge	1,874		12,199	
Purchases of Investments	(5,280)	<u>1,399</u>	(5,097)	<u>16,464</u>
TOTAL INVESTMENT ASSETS		<u>3,839,872</u>		<u>3,331,206</u>

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000's	Liability Value £000's
Up to one month	EUR	16,168	GBP	(19,900)	1,763	
Up to one month	JPY	22,508	GBP	(3,998,000)	94	
Up to one month	GBP	1,994,000	JPY	(11,522)		(315)
Up to one month	GBP	215,600	USD	(128,974)		16,280
Up to one month	USD	128,164	GBP	(215,600)	(17,091)	
One to six months	EUR	257,130	GBP	(327,070)	19,916	
One to six months	GBP	212,800	EUR	(169,528)		(15,184)
One to six months	GBP	28,314,000	JPY	(163,268)		(3,921)
One to six months	GBP	455,700	USD	(285,799)		21,466
One to six months	JPY	207,461	GBP	(36,290,000)	3,199	
One to six months	NOK	2,354	GBP	(27,594)	49	
One to six months	USD	283,691	GBP	(455,700)	(23,573)	
Six to twelve months	EUR	118,080	GBP	(153,800)	6,148	
Six to twelve months	GBP	46,800	EUR	(36,307)		(2,255)
Six to twelve months	GBP	18,780,000	JPY	(104,287)		1,818
Six to twelve months	GBP	680,500	USD	(445,465)		13,473
Six to twelve months	JPY	103,157	GBP	(18,780,000)	(2,948)	
Six to twelve months	USD	441,893	GBP	(680,500)	(17,045)	
Total					(29,488)	31,362
Net forward currency contracts at 31 March 2015						1,874

Open forward currency contracts at 31 March 2014	37,052	(24,853)
Net forward currency contracts at 31 March 2014		12,199

Exchange Traded Derivatives held at 31 March 2015:-

<u>Contract Type</u>	<u>Expiration</u>	<u>Book Cost</u>	<u>Unrealised Gain</u>
		<u>£'000</u>	<u>£'000</u>
FTSE equity futures	June 2015	18,836	152

Exchange Traded Derivatives held at 31 March 2014:-

FTSE equity futures	June 2014	28,433	162
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A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

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

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

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

	31 March 2015 £'000	%	31 March 2014 £'000	%
Blackrock	1,216,272	31.7	1,071,963	32.2
Standard Life	243,477	6.4	0	0
Record	20,651	0.5	28,129	0.8
Jupiter Asset Management	175,662	4.6	160,956	4.8
Genesis Investment Management	160,247	4.2	145,092	4.4
Invesco Perpetual	291,423	7.6	239,795	7.2
State Street Global Advisors	124,517	3.2	107,147	3.2
Partners Group	154,212	4.0	113,446	3.4
Royal London Asset Management	310,439	8.1	251,101	7.6
TT International	195,021	5.1	185,717	5.6
Man Investments	-	0.0	1,115	0.0
Gottex Asset Management	59,188	1.5	58,062	1.8
Stenham Asset Management	39,645	1.0	37,654	1.1
Signet Capital Management	63,535	1.7	66,155	2.0
Barings Asset Management	0	0	209,798	6.3
Pyrford International	124,700	3.2	104,542	3.1
Unigestion UK Ltd	191,725	5.0	166,687	5.0
Schroder Investment Management	434,251	11.3	365,163	11.0
Bank of New York Mellon	23,362	0.6	7,964	0.2
Treasury Management	11,545	0.3	10,720	0.3
TOTAL INVESTMENT ASSETS	3,839,872	100.0	3,331,206	100.0

13, SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	Value at 31 st March 2015 £'000	% of Net Assets	Value at 31 st March 2014 £'000	% of Net Assets
RLPPC UK Corporate Bond Fund (Royal London)	310,439	8.11%	251,101	7.54%
Invesco Perpetual Global ex UK Enhanced Index Fund	291,423	7.61%	239,795	7.20%
Standard Life Global Absolute	243,477	6.36%	-	-
Blackrock Advisors UK Ltd. (Aquila Life UK Equity Index Fund)	227,789	5.95%	220,957	6.63%
MSCI Equity Index Fund B-US (BlackRock)	219,389	5.73%	173,125	5.20%
Unigestion Uni-Global – Equity Emerging Mkt SAC.GBP	191,725	5.01%	166,687	5.00%
Baring Dynamic Asset Allocation Fund	-	-	209,798	6.30%

14, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2015. Debtors and creditors included in the accounts are analysed below:-

	31 March 2015 £'000	31 March 2014 £'000
CURRENT ASSETS		
Contributions Receivable :-		
- Employers	6,431	8,490
- Members	2,968	2,919
Transfer Values Receivable	-	10,600
Discretionary Early Retirement Costs	351	1,952
Other Debtors	842	1,019
	<u>10,592</u>	<u>24,980</u>
CURRENT LIABILITIES		
Management Fees	(1,639)	(950)
Provision for Performance Fees	(5,510)	(4,373)
Transfer Values Payable	(1)	(2,400)
Lump Sum Retirement Benefits	(1,447)	(645)
Other Creditors	(7,075)	(1,607)
	<u>(15,672)</u>	<u>(9,975)</u>
NET CURRENT ASSETS	<u>(5,080)</u>	<u>15,005</u>

The provision for Performance Fees includes fees that have been incurred but are subject to phased payment or not due to be paid until the realisation of the related assets. They remain

subject to variation as a result of future performance. At 31 March 2015 Other Creditors includes a £4,524k refund due to Bristol City Council for overpaid contributions.

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2015		31 March 2014
	£'000		£'000
CURRENT ASSETS			
Local Authorities	6,920		11,028
NHS Bodies	11		-
Other Public Bodies	2,794		13,211
Non Public Sector	867	<u>10,592</u>	<u>741</u>
			<u>24,980</u>
CURRENT LIABILITIES			
Local Authorities	(5,313)		(11)
Other Public Bodies	(1,512)		(3,789)
Non Public Sector	(8,847)	<u>(15,672)</u>	<u>(6,175)</u>
NET CURRENT ASSETS		<u>(5,080)</u>	<u>15,005</u>

15, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2015. (March 2014 = NIL).

16, EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2015 that require any adjustment to these accounts. Investments are valued at fair value and any gain or loss is only realised upon sale consequently any change is considered a non-adjusting event.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	3.9% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

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

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

During the year, corporate bond yields fell significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.3% per annum versus 4.5% per annum). The expected long-term rate of CPI inflation also fell during the year, resulting in a lower assumption for pension increases at the year end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £4,396 million.

The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c£718 million. Adding interest over the year increases the liabilities by a further c£198 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£3 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is £5,315 million.

18, TRANSFERS IN

During the year ending 31 March 2015 group transfers in to the fund from Strode College to Weston College and from Stroud College to South Gloucestershire and Stroud College were completed. The estimated values of these transfers were included in the 2012/13 and 2013/14 Statements of Accounts. The actual values did not vary materially from the estimated values.

19, BENEFITS RECHARGED TO EMPLOYERS

The Fund makes payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases. The Fund also pays a small number of other pension supplements. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account.

	2014/15	2013/14
	£'000	£'000
Benefits Paid and Recharged	6,312	6,240

20, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the

Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2014/15 were £274 (2013/14 - £498). Additional Voluntary Contributions received from employees and paid to Friends Life during 2014/15 were £371,799 (2013/14 - £407,897)
The total value of the assets invested, on a money purchase basis, with these AVC providers was:-

	31 March 2015	31 March 2014
	£'000	£'000
<u>Equitable Life</u>		
With Profits Retirement Benefits	417	501
Unit Linked Retirement Benefits	271	286
Building Society Benefits	195	235
	<u>883</u>	<u>1,022</u>
Death in Service Benefit	<u>82</u>	<u>150</u>
<u>Friends Life</u>		
With Profits Retirement Benefits	123	157
Unit Linked Retirement Benefits	3,762	3,625
Cash Fund	315	447
	<u>4,200</u>	<u>4,229</u>

AVC investments are not included in the Fund's financial statements in accordance with Regulation 4(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

21, RELATED PARTIES

Committee Member Related:-

In 2014/15 £37,516 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£37,238 in 2013/14). Eight voting members and no non-voting members of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2014/2015. (Six voting members and one non-voting member in 2013/2014, including five B&NES Councillor Members)

Independent Member Related:-

Two Independent Members were paid allowances of £7,532 and £13,237 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are entitled to claim reasonable expenses which are included in the above allowances. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-

During the year 2014/15 the Fund paid B&NES Council £309,649 for administrative services (£295,990 in 2013/14) and B&NES Council paid the Fund £25,341 for administrative services (£31,715 in 2013/14). Various Employers paid the fund a total of £166,848 for pension related services including pension's payroll and compiling data for submission to the actuary (£141,397 in 2013/14).

Officer and Manager Related:-

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

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

22, OUTSTANDING COMMITMENTS

As at the 31 March 2015 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £151,284,981 (31st March 2014 £61,724,899).

A further outstanding commitment of \$US300,000,000 (31st March 2014 nil) relating to investments in a pooled fund of underlying infrastructure assets will be drawn down in tranches by the Investment Managers.

23, KEY MANAGEMENT REMUNERATION

Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These consisted of:

- part of the Divisional Director Business Support's salary, fees and allowances £16,948 (2013/14 £17,360) and their employer's pension contributions £3,552 (2013/14 £3,107).

- part of the Head of Business Finance and Pensions salary, fees and allowances £33,523 (2013/14 £31,540) and their employer's pension contributions £7,017 (2013/14 £5,460).

24, FINANCIAL INSTRUMENTS

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

	31/03/2015	31/03/2014
Financial Assets	£'000	£'000
Receivables	10,592	24,980
Financial assets at fair value through profit or loss	3,839,872	3,336,303
Total Financial Assets	3,850,464	3,361,283
Financial Liabilities		
Payables	(15,672)	(15,072)
Financial liabilities at fair value through profit or loss	-	-
Total Financial Liabilities	(15,672)	(15,072)
Total Net Assets	3,834,792	3,346,211
All investments are disclosed at fair value. Carrying value and fair value are therefore the same. Payables and Receivables are valued at amortised cost. The carrying value has not been amortised and therefore is the same as the fair value. The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows:-		

Net gains and losses on financial instruments

	Financial assets at fair value through profit or loss	
	2014/15	2013/14
	£'000	£'000
Losses on derecognition	3,805	4,918
Reductions in fair value	24,311	239,774
Total expense in Fund Account	28,116	244,692
Gains on derecognition	92,566	323,622
Increases in fair value	350,046	97,545
Total income in Fund Account	442,612	421,167
Net gain/(loss) for the year	414,496	176,475

25, FINANCIAL RISK MANAGEMENT DISCLOSURE

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

To achieve its investment objective the Fund invests across a diverse range of assets such as equities, bonds, property and other alternative investments. As a

result the Fund is exposed to a variety of financial risks including market risk (price, interest rate and currency risk), credit risk and liquidity risk.

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

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

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

(a) Market Risk

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

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

Market Price Risk

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

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

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

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund's advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2015. These movements in market prices have been judged as possible for the 2014/15 reporting period. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

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

The analysis for the year ending 31 March 2015:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	527,446	10.1%	580,824	474,068
Overseas Equities	1,323,210	9.3%	1,446,401	1,200,019
Global inc. UK	250,612	9.6%	274,721	226,503
UK Bonds	444,290	7.2%	476,412	412,168
Overseas Bonds	113,325	7.3%	121,643	105,007
Index Linked Gilts	238,961	9.7%	262,092	215,830
Pooled Multi Asset	368,177	3.3%	380,400	355,954
Property	315,668	1.9%	321,634	309,702
Alternatives	162,368	2.6%	166,590	158,146
Cash	94,416	0.0%	94,425	94,407
Total Assets	3,838,473	6.1%	4,071,069	3,605,847

The analysis for the year ending 31 March 2014 is shown below:

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

Interest Rate Risk

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

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

	31 March 2015	31 March 2014
	£'000	£'000
Cash and Cash Equivalents	94,416	85,023
Fixed Interest Assets	796,576	640,034
Total	890,992	725,057

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2015 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

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

As at 31 March 2015	Value	Change in net assets	
	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	94,416	-	-
Fixed Interest	796,576	(110,405)	110,405
Total	890,992	(110,405)	110,405

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

The same analysis for the year ending 31 March 2014 is shown below:

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

Currency Risk

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

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

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

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2015 £'000	Asset value as at 31 March 2014 £'000
Overseas Equities	1,548,037	1,324,193
Overseas Fixed Income	113,325	74,588
Overseas Property	154,212	112,058

Currency Risk - Sensitivity Analysis

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

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2015 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,548,037	3.8%	1,606,655	1,489,419
Overseas Fixed Income	113,325	3.8%	117,616	109,034
Overseas Property	154,212	3.8%	160,051	148,373

The same analysis for the year ending 31 March 2014 is shown below:

Currency Risk by Asset Type:

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

(b) Credit Risk

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

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

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

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

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the

probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2015 was £34.8m. This was held with the following institutions:

	31 March 2015		31 March 2014	
	Rating	£'000	Rating	£'000
Custodian's Liquidity Fund				
Bank of New York Mellon	AAA	23,361	AAA	7,962
Bank Call Accounts				
Barclays Platinum Account		-	A	1,000
Bank of Scotland Corporate Deposit Account	A	2,950	A	2,500
Goldman Sachs Global Treasury Fund (previously RBS Global Treasury Fund)	AAA	8,230	AAA	6,090
NatWest Special Interest Bearing Account	BBB+	300	BBB+	-1,104
Bank Current Accounts				
NatWest	BBB+	6	BBB+	7

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

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

(c) Liquidity Risk

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

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2015 the value of the illiquid assets was £722m, which represented 18.8% of the total Fund assets (31 March 2014: £634m which represented 19% of the total Fund assets).

(d) Fair Value Hierarchy

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

- Level 1 - easy to price securities. Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.
- Level 2 - moderately difficult to price. Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value. Therefore Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities including the Diversified Growth Fund that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset value.
- Level 3 - difficult to price. Unobservable inputs for the asset or liability used to measure fair value that rely on the Fund's assumptions concerning the assumptions that market participants would use in pricing an asset or liability. Therefore Level 3 includes pooled funds such as the property funds, other Diversified Growth Funds and Fund of Hedge Funds where the net asset value is

derived from unobservable inputs and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2015.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	603,222			603,222
Bonds - Quoted	350,636			350,636
Pooled Investment Vehicles		1,943,834		1,943,834
Fund of Hedge Funds			162,368	162,368
Diversified Growth Funds		124,700	243,477	368,177
Property			315,668	315,668
Cash	94,416			94,416
Derivatives: Forward FX	1,874			1,874
Derivatives: Futures	152			152
Investment Debtors /Creditors	-475			-475
	<u>1,049,825</u>	<u>2,068,534</u>	<u>721,513</u>	<u>3,839,872</u>

The fair value hierarchy as at 31 March 2014 was:

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

26, EMPLOYING BODIES

As at 31 March 2015 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Principal Councils and Service Providers

Avon Fire Brigade	North Somerset Council
Bath & North East Somerset Council	South Gloucestershire Council
Bristol City Council	

Further & Higher Education Establishments

Bath Spa University College	South Gloucestershire & Stroud College
City of Bath College	St. Brendan's College
City of Bristol College	University of the West of England
Norton Radstock College	Weston College

Education Establishments

Abbeywood Community School Academy	Inspirational Futures Trust
Academy of Trinity	Kingshill Academy
Ann Harris Academy Trust	Kings Oak Academy
Aspire Academy	Little Mead Primary School
Backwell School Academy	Marlwood School
Bannerman Road Community Academy	Meadow Brook Primary School
Barton Hill Academy	Merchant's Academy
Bath Community Academy	Midsomer Norton School Partnership
Bedminster Down School Academy	Minerva Primary Academy
Beechen Cliff Academy	Nailsea School Academy
Begbrook Primary Academy	North Somerset Learning and Technology College
Birdwell Primary School Academy	Oasis Academy Bank Leaze
Bradley Stoke Community School	Oasis Academy Brightstowe
Bridge Learning Campus Foundation	Oasis Academy Connaught
Bristol Cathedral Choir School	Oasis Academy John Williams
Bristol Free School Trust	Oasis Academy Long Cross
Bristol Technology & Engineering Academy	Oasis Academy New Oak
Broadlands Academy	Oasis Academy Brislington Enterprise College
Broadoak Mathematics & Computing College	One World Learning Trust
Cabot Learning Federation	Oldfield School Academy Trust
Castle School Education Trust	Orchard Academy
Cathedral Primary School	Parson Street Primary School
Charborough Road Primary School	Patchway Community College
Charfield Primary School	Priory Community School
Chew Stoke Church School	Ralph Allen Academy
Christ Church C of E Primary School	Redland Green School Academy
Churchill Academy	Redfield Educate Together Primary Academy
Clevedon Learning Trust	Severn Beach Primary School
Clevedon School Academy	Sir Bernard Lovell School
Clutton Primary School Academy	Steiner Academy
Colston Girl's School Trust	St Bedes School Academy
Colston's Primary School Academy	St. Nicholas of Tolentine Catholic Primary School

Cotham School Academy
 Diocese of Bristol Academies Trust
 Downend School
 Easton C of E Academy
 Elmlea Junior School Academy
 Fairfield School
 Filton Avenue Infants Academy
 Fishponds Church of England Academy
 Four Acres Primary School
 Fosseyway School
 Frome Vale Academy
 Gordano School Academy
 Greenfield Primary School Academy
 Hanham High School
 Hans Price Academy
 Hareclive Academy
 Hayesfield Girls School Academy
 Henbury Court School
 Henbury School Academy
 Henleaze Junior School
 Heron's Moor Community School
 High Littleton C of E Primary
 Hotwells Primary School
 Ilminster Avenue E-ACT Academy

St. Patrick's Academy
 St. Teresa's Catholic Primary School
 St. Ursula's E-ACT Academy
 Stoke Bishop C of E Primary School
 Stoke Lodge Academy
 Summerhill Academy
 The Bath Studio Academy
 The Dolphin Academy
 The Kingfisher School
 The Ridings Federation Winterbourne
 The Ridings Federation Yate
 Threeways School
 Tickenham Primary School
 Trust in Learning
 Wallscourt Farm Academy
 Waycroft School Academy
 Wellsway School Academy
 West Town Lane Primary School
 Westbury Park Primary School Academy
 Westbury-on-Trym C of E Academy
 Wicklea Academy
 Writhlington School Academy
 Yeo Moor Primary School

Designating Bodies

Almondsbury Parish Council
 Backwell Parish Council
 Bath Tourism Plus
 Bradley Stoke Town Council
 Charter Trustees of the City of Bath
 Clevedon Town Council
 Destination Bristol
 Dodington Parish Council
 Downend and Bromley Heath Parish Council
 Filton Town Council
 Frampton Cotterell Parish Council
 Hanham Abbots Parish Council
 Hanham Parish Council
 Keynsham Town Council
 Emersons Green Town Council
 Midsomer Norton Town Council
 Nailsea Town Council
 Oldland Parish Council

Patchway Town Council
 Paulton Parish Council
 Peasedown St John Parish Council
 Pill & Easton in Gordano Parish Council
 Portishead & North Weston Town Council
 Radstock Town Council
 Saltford Parish Council
 Stoke Gifford Parish Council
 Thornbury Town Council
 Vista SWP Ltd
 Westerleigh Parish Council
 Westfield Parish Council
 Weston Super Mare Town Council
 Whitchurch Parish Council
 Winterbourne Parish Council
 Yate Town Council
 Yatton Parish Council

Community Admission Bodies

Action For Children
 Alliance Homes
 Ashley House Hostel

Merlin Housing Society (SG)
 Merlin Housing Society Ltd
 Sirona Care & Health CIC (B&NES)

Bristol Disability Equality Forum
Bristol Music Trust
Clifton Suspension Bridge Trust
CURO Places Ltd
CURO Group (Albion) Ltd
CURO Choice
Holburne Museum of Art
Learning Partnership West Limited

Sirona Care & Health CIC
Southwest Grid for Learning Trust
The Care Quality Commission
The Park Community Trust
University of Bath
Vision North Somerset
West of England Sport Trust

Transferees Admitted Bodies

Active Community Engagement Ltd
Agilisys
Aquaterra Leisure Ltd.
ARAMARK
BAM Construct UK Ltd
Churchill Contract Services Ltd (South
Gloucestershire and Stroud College)
Circadian Trust

Learning Partnership West (Lot 1)
Learning Partnership West (Lot 2)
Learning Partnership West (Lot 3)
Learning Partnership West (Lot 7)
Liberata UK Ltd
Prestige Cleaning & Maintenance Ltd

Ridge Crest Cleaning Limited

Circadian Trust No 2

Shaw Healthcare (North Somerset) Ltd
(Petersfield)

Creative Youth Networks (Lot 4)

Shaw Healthcare (North Somerset) Ltd (The
Granary)

Direct Cleaning (SW) Ltd - Moorlands
Eden Food Services
Fit For Sport
Fit For Sport NSC (St Peters Primary)
HCT Group
ISS Mediclean
ISS Mediclean (Bristol)
Keeping Kids Company
Kier Facilities Services

SITA Holdings UK Ltd
Skanska (Cabot Learning Federation)
Skanska Rashleigh Westerfoil
SLM Community Leisure
SLM Fitness & Health
Sodexo
The Brandon Trust
Tone Leisure (Trust) Limited

STATEMENT OF RESPONSIBILITIES FOR AVON PENSION FUND ACCOUNT

Bath & North East Somerset Council's responsibilities

The Council is required to:

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

Divisional Director of Finance responsibilities

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

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

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

The Divisional Director of Finance has also:

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

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Avon Pension Fund at the accounting date and the income and expenditure for the year ended 31 March 2015.

Tim Richens

Divisional Director of Finance
(S151 Officer)
September 2015

AUDITOR'S REPORT TO FOLLOW

SUMMARY OF FINANCIAL STATISTICS

Year Ended 31 March Revenue Account Income	2015 £m	2014 £'m	2013 £'m	2012 £'m	2011 £'m
Net Contributions	202.1	143.2	134.9	138.0	139.5
Investment Income	28.1	29.1	29.0	27.7	22.6
Net Cash Transfer	- 0.2	11.9	2.1	1.7	0.5
Total	230.0	184.2	166.0	167.4	162.6
Expenditure					
Pension & Benefits	157.1	149.8	136.7	129.2	121.7
Investment Management Expenses	17.6	16.6	10.1	9.2	7.2
Administration Costs	2.3	2.4	2.1	2.0	2.1
Total	177.0	168.8	148.9	140.4	131.0
Surplus for the Year	53.0	15.4	17.1	27.0	31.6
Revaluation of Investments	435.6	185.1	362.3	71.2	177.9
Change in Fund Value	488.6	200.5	379.4	98.2	209.5
Total Fund Value	3,834.8	3,346.2	3,145.7	2,766.3	2,668.1

Note: In 2014 and 2015 Investment Management Expenses include provisions for performance fees that were not included in previous years.

Analysis of Fund's Assets

	UK £m	Non-UK £m	Global £m	Total £m
Equities	553.2	1,006.1	542.0	2,101.3
Bonds	683.3		113.3	796.6
Property (direct holdings)	168.8		146.9	315.7
Alternatives			532.4	532.4
Cash	81.0	12.9		93.9
Total	1,486.3	1,019.0	1,334.6	3,839.9

Analysis of investment Income accrued during the reporting period

	UK £m	Non-UK £m	Global £m	Total £m
Equities	11.2		3.9	15.1
Bonds	6.5			6.5
Property (direct holdings)	6.0			6.0
Alternatives				-
Cash	0.4			0.4
Total	24.2	-	3.9	28.1

PENSION INCREASE

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

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

The table below shows the rate of increases that have applied during the last ten years.

Year Beginning April	Rate of Increase %	Index
2006	2.7	RPI
2007	3.6	RPI
2008	3.9	RPI
2009	5.0	RPI
2010	0.0	RPI
2011	3.1	CPI
2012	5.2	CPI
2013	2.2	CPI
2014	2.7	CPI
2015	1.2	CPI

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

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

The increases shown above also apply to deferred pensions.

As a result of the new Single State Pension, from April 2016 there will no longer be a second state pension and contracting-out will cease. How this is to be achieved and the implications, for the LGPS, have not been fully decided. There are two working parties covering all public sector pension schemes currently involved with HM Treasury to decide on the way forward.

CONTACTS

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

Or you can write to us at:
Avon Pension Fund,
Bath and North East Somerset Council
Lewis House
Manvers Street
Bath
BA1 1JG

Telephone: 01225 477000
Fax: 01225 395258

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

GLOSSARY OF TERMS

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

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

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

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

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

Cohabiting Partner: To be eligible to receive a survivor's pension in the event of a member's death, a cohabiting partner of the member, providing that for a continuous period of at least two years prior to the date of death -
they have been able to marry or form a civil partnership;
they have lived together as if they were husband and wife or civil partners;
neither the member or their cohabiting partner have been living with someone else as if they were husband and wife or civil partners;
their financial affairs have been interdependent (or the cohabiting partner has been financially dependent upon the scheme member).

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

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

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

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

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

Discretionary Compensatory Added Years Until 1 April 2007, employers could award an additional period of service under discretionary regulations up to a maximum of 10 added years. Since this date, this provision has been withdrawn. Employers who have awarded additional service are recharged for any payments made in respect of them exercising such a discretion.

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

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

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

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

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

Independent Members Voting members of the Avon Pension Fund Committee who are not councillors and who have no political attachments. There are two such members on the Committee, appointed principally because of the

financial/investment expertise which they have acquired in the course of their professional careers.

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

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

Myners Principles A set of recommendations relating to the investment of pension funds which were prepared by Paul Myners in 2001 at the request of the Chancellor of the Exchequer and which were subsequently endorsed by Government. Their significance is that pension funds are expected to follow these principles or, if they do not, provide an explanation as to why they have decided not to do so.

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

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

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

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

Rule of 85 Set up under the 1997 Regulations to determine whether benefits are subject to any actuarial reduction where a member elects to receive benefits before age 65. If the sum of the member's age and Scheme membership, both in whole years, is 85 or more then the benefits were payable unreduced. However, this rule was removed from the Regulations in 2006 and does not apply to new Scheme members from 1 October 2006. Members in the LGPS before this date may have acquired certain protections that apply in respect of this rule. The rule of 85 does not apply where the member is retired on grounds of redundancy, efficiency or ill-health, where benefits are paid without reduction.

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

Unlisted Securities Holdings in companies which do not form part of the main stock market. They may be developing companies or smaller companies whose shares are not frequently traded. Unlisted securities are usually less liquid than those traded in the main markets.

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

APPENDICES

Appendix A - Terms of Reference for the Avon Pension Fund Committee and Investment Panel

<http://www.avonpensionfund.org.uk/financeandinvestments/annualreport/AppendixA-TermsOfReference.pdf>

Appendix B - How the Local Government Pension Scheme works

<http://www.avonpensionfund.org.uk/financeandinvestments/annualreport/AppendixB-HowtheLGPSworks.pdf>

Appendix C - Governance Compliance Statement

<http://www.avonpensionfund.org.uk/governance/GovernanceComplianceStatement-20130621.pdf>

Appendix D - Statement of Investment principles

<http://www.avonpensionfund.org.uk/financeandinvestments/principles.htm>

Appendix E - Communications Policy

<http://www.avonpensionfund.org.uk/governance/Communications-Policy-Statement-20150601.pdf>

Appendix F - Funding Strategy Statement

<http://www.avonpensionfund.org.uk/financeandinvestments/fss.htm>

Appendix G – Administration Strategy 2015

<http://www.avonpensionfund.org.uk/governance/AS-20150601.pdf>

Appendix H - Service Plan

<http://www.avonpensionfund.org.uk/governance/ServicePlan2014-2017.pdf>