Bath & North East Somerset Council

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Date: 17 September 2010
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To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: Gordon Wood (Chair), David Bellotti (Vice-Chair), Tim Ball, Gabriel Batt and Victor Clarke

Co-opted Voting Members: Ann Berresford (Independent Member), Carolan Dobson (Independent Member), Councillor M Drew (South Gloucestershire Council), Councillor Mary Blatchford (North Somerset Council), Councillor Tim Kent (Bristol City Council), Bill Marshall (HFE Sector) and Steve Paines (Trade Unions)

Co-opted Non-voting Members: Richard Orton (Trade Unions), Rowena Hayward (Trade Unions), P Shiner (Trade Unions) and Keith Kirwan (Parish and Town Councils)

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 24th September, 2010

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 24th September, 2010** at **2.00 pm** in the **Council Chamber - Keynsham Town Hall.**

A buffet lunch for Members will be available at 1.30pm.

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

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

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

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

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

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

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

   Appendices to reports are available for inspection as follows:-

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

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

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

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

6. **Emergency Evacuation Procedure**

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

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

Avon Pension Fund Committee - Friday, 24th September, 2010

at 2.00 pm in the Council Chamber - Keynsham Town Hall

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

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

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

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

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

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

7. MINUTES (Pages 1 - 8)

8. AUDITED STATEMENT OF ACCOUNTS AND THE ANNUAL GOVERNANCE STATEMENT 2009/10 (Pages 9 - 30)

   The Auditors will be present to answer questions.

9. ANNUAL REPORT AND ACCOUNTS 2009/10 (Pages 31 - 100)

10. OVERVIEW OF THE LGPS FUNDS - PRESENTATION BY WM PERFORMANCE SERVICES

11. FUNDING STRATEGY STATEMENT 2010 (Pages 101 - 124)

12. PENSION FUND ADMINISTRATION - EXPENDITURE FOR 4 MONTHS TO 31ST JULY 2010 AND PERFORMANCE INDICATORS FOR THE 3 MONTHS ENDING

31ST JULY 2010 (Pages 125 - 150)

13. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 JUNE 2010 (Pages 151 - 206)

14. RECOMMENDATIONS FROM THE INVESTMENT PANEL (Pages 207 - 220)

    Members are requested to note the recommendation that appendices 1 and 2 be taken in exempt session.

15. ADMITTED BODIES REPORT - VERBAL UPDATE

16. WORKPLANS (Pages 221 - 230)

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

BATH AND NORTH EAST SOMERSET COUNCIL

AVON PENSION FUND COMMITTEE

DRAFT MINUTES OF THE MEETING OF 25TH JUNE 2010

Present:-

Voting Members: Cllr Gordon Wood (Chair), Cllr Tim Ball, Cllr Gabriel Batt, Cllr David Bellotti, Ann Berresford Cllr Mary Blatchford, Cllr Vic Clarke, Cllr Tim Kent, Steve Paines

Non-voting Members: Rowena Hayward, Richard Orton, Paul Shiner

Also in attendance: Andrew Pate (Director of Resources and Support Services), Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager), Matt Betts (Assistant Investments Manager), Steve McMillan (Pensions Manager), Martin Phillips (Finance & Systems Manager (Pensions)), Tony Earnshaw (Independent Adviser), Chris Hackett (Audit Commission)

1 EMERGENCY EVACUATION PROCEDURE

The Clerk read out the procedure.

2 ELECTION OF VICE-CHAIR

Cllr Bellotti was elected Vice-Chair for the Municipal Year 2010-2011

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Carolan Dobson, Cllr Mike Drew, Cllr Keith Kirwan, Bill Marshall.

Apologies were also received from Dave Lyons (JLT Benefit Solutions)

4 DECLARATIONS OF INTEREST

There were none.

5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair welcomed Cllr Tim Kent to his first meeting.

He announced that the unions had informed him that Steve Paines would be the union-nominated voting member for 2010-2011.

6 ITEMS FROM THE PUBLIC – TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

7 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

8 MINUTES: 26 MARCH 2010

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

9 DRAFT STATEMENT OF ACCOUNTS FOR THE AVON PENSION FUND 2009/10

The Finance & Systems Manager (Pensions) presented the report. He tabled an amendment to note 6 on page 8 of the Statement of Accounts. He said that the Statement of Accounts would be presented to the Corporate Audit Committee on 29 June 2010.

A Member noted that the information on page 4 of the accounts indicated a large increase in investment management expenses; the percentage increase in these was greater than the percentage increase in investment income. The Investments Manager explained that a large proportion of these expenses was based on the market-value of the assets managed and that as equity markets had witnessed large rises over the year, higher expenses were expected. Also, as the Fund has significant holdings in pooled funds, the majority of income from investments is retained and reinvested by the various funds, and not itemised as income in the accounts. Therefore page 10 of the Accounts understates the income earned by the Fund. Another Member suggested that it would be helpful to have the investment management expenses split into the market-related and performance-related components. A Member noted that there was an apparent discrepancy between the figure for £1,712,000 stated for lump sum retirement benefits in the Accounts and the figure of £1,502,000 given in the note. The Finance & Systems Manager (Pensions) replied that apparent variance arose from the requirements of recommended accounting practice. The Director of Resources and Support Services said that the note would be expanded and clarified so that the figure given in the note did not appear to be a mistake.

A Member noted the statement in the Audit Commission’s audit fee letter that the indicative fee for 2010/11 would be 8.5% above the scale because working papers supporting figures in the accounts were below minimum standards, the 2008/09 accounts contained many presentational errors, and there were weaknesses relating to the control of journals. The Head of Business, Finance and Pensions responded that the Audit Commission had pointed out a number of areas where the Accounts fell below best practice last year. This year the working papers have been prepared in line with best practice following advice from the Auditor. Mr Hackett said that the audit fee would be kept under review and would be reduced if there was significant improvement in these areas.

RESOLVED

1. To note the Draft Statement of Accounts for the year to 31 March 2010.

2. To note the Audit Fee Letter for 2010/2011 and revision to 2009/10.

10 ROLES AND RESPONSIBILITIES OF MEMBERS, ADVISORS AND OFFICERS

The Investments Manager presented the report.

A Member commented on the number of advisers attending meetings of the Investment Panel. There had, on occasion, been 4 Members and 7 advisers at meetings. He was not suggesting this should change immediately, but he thought it should be kept under review. Another Member thought that the number of advisors was reasonable in the light of the Panel’s main objective, which was to look at issues in detail and to make informed recommendations to the main committee. The Director of Resources and Support Services said that in his view the Panel was engaging with real issues and adding value to the work of the Committee.

Members noted the rules about substitution in the Panel's Terms of Reference. They agreed that it was beneficial at this stage to have continuity in the membership of the Investment Panel.

RESOLVED

1. To note the roles and responsibilities of the members, advisors and officers.

2. To re-appoint Cllr Wood, Cllr Batt, Cllr Bellotti, Cllr Blatchford, and Ann Berresford as members of the Investment Panel for the year 2010-11, to get confirmation from Bill Marshall that he is willing to be re-appointed and to report back at a future meeting regarding substitutions.

11 PENSION FUND ADMINISTRATION – BUDGET MONITORING 2009/10, PERFORMANCE INDICATORS FOR QUARTER ENDING 31 MARCH 2010 AND RISK REGISTER ACTION PLAN

The Finance & Systems Manager (Pensions) summarised the accounts. The bottom line was that there had been variance for the year of £996,000 over budget, mainly due to an increase in investment management and custody fees. Excluding these there was an underspend of £324,000. Salaries had been underspent because of unfilled vacancies.

The Pensions Manager introduced the performance indicators for the two months to April 2010. He drew attention to the addition of a trend line to the graphs dealing with "completed and created", "new case created and completed" and "outstanding cases", which he thought would help put the monthly figures into context. He described past two months as being ones of "business as usual". The team was keeping pace with work as it came in, despite major peaks and troughs. The backlog of transfers had been cleared following the receipt of the delayed advice from the Government Actuary's Department, and clearance of transfers was above the target of 75%. The data cleansing exercise had identified leavers not notified by employers, resulting in a higher than normal number of cases needing to be processed. Sickness absence had been well below target. No complaints had been received.

A Member asked whether Bath and North East Somerset had improved in the provision of information about employees to the Fund. The Pensions Manager replied that they had, and had provided additional staff to the Benefits Team to help them bring records up to date.

A Member asked what the difference was between Appendix 4a and Appendix 4b, which were both headed "Responses to Retirement Questionnaire", but gave different figures. The Pensions Manager replied that some questions in the questionnaires had options and that there was a need to relate the responses to the individual options. The presentation of this information was under review with the aim of getting it all onto a single sheet. The Member said that in his view all retirees should receive their lump sum and pension within one month of retirement. The Pensions Manager replied that this would be possible if employers were prompt at supplying information to the Benefits Team. The Member suggested that pressure needed to be maintained on Bath and North East Somerset to improve its performance in this area.

A Member asked how it was possible for graph 5 in Appendix 3b to show a figure in excess of 100% for cases completed and created. The Pensions Manager replied that the straight line showed the trend, whereas the wavy line showed the number of cases dealt with. If more cases were dealt with than received, the wavy line would go above 100%. This happened when the backlog of transfers was being cleared.

A Member noted the trend line on graph 7 of Appendix 3b was moving upwards and asked whether there was any relation between this and the underspend on staff salaries. The Pensions Manager replied that the target was to clear 90% of new cases in the month received and performance was on target. Outstanding cases were going up because new cases were going up. There had also been additional work for the actuarial valuation of the Fund and for the testing of new upgrade software. The Member asked whether the vacant posts would be filled or deleted. The Head of Business, Finance and Pensions said that in the 2010/11 Service Plan there was a reduction in the overall number of posts, but no reductions in posts in the Benefits Team. The number of cases had increased over the past 5-6 years in line with the increase in the number of employers in the Fund. There were now 106 employers in the Fund, an increase of over 30 in the last three years. Benchmark comparisons with other local authority funds showed that the Fund was reasonably efficient compared with the average.

RESOLVED

1. To note the expenditure for administration and management expenses incurred for the year ending 31st March 2010.

2. To note the performance indicators for 2 months to 30th April 2010.

12 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER AND YEAR ENDING 31 MARCH 2010

The Assistant Investments Manager presented the report and drew attention to the headline figures. Asset values had increased by £152m, or 6.1%, in the quarter. During the year the Fund had outperformed the strategic benchmark, but underperformed the customised benchmark because of underperformance by Jupiter. The Fund had underperformed the average of the WM Local Authority Fund universe because of its slight underweight in equities and overweight in bonds and its overweight position in hedge funds relative to the average fund. The value of the Fund was £2.36bn at the end of May. The funding level now covered 73% of liabilities. He said that the meetings with investment managers had not raised any concerns about individual managers, but had thrown up a number of generic issues, such as the split between active and passive mandates. He said that next quarter the report from JLT would include a qualitative report on each of the property managers.

He tabled a briefing note on BP regarding the oil spill in the Gulf of Mexico. A Member raised two concerns in relation to this. He thought the proportion of the Fund (52%) invested through BlackRock was possibly too high in terms of operational risks with one manager. He requested officers to bring a paper about this to a future meeting. He noted that as BlackRock mirror the index they had a significant holding in BP (c. £18m), so that if the proportion of Fund invested through BlackRock had been capped at 30%, there would have been less exposure to BP. Secondly, he was surprised that although TT had come across at the recent Investment Panel workshop as a manager who were really concerned about risk, in May they had increased their holdings in BP; this might indicate that they had not assessed the implications of the environmental crisis correctly. He suggested that they should be asked for a written statement setting out the rationale for their action. A Member said that it was easy to be wise after the event; all equities involved risk and the Committee should not be selective in its concern, but it was quite in order to ask them to give their reasons for particular decisions. The Independent Adviser suggested that it might be better for them to present to the Committee so that they could respond to supplementary questions. He said that some investors would consider that the fall in the share price was an opportunity and that this was a value judgement and did not necessarily mean TT were taking a more risky approach than their mandate intended. The Chair noted that US investors owned 44% of BP and that it was not in their interests to allow BP to fail. The Investments Manager said that she would request a statement from TT and invite them to attend a meeting of the Investment Panel. The Director of Resources and Support Services noted that the holdings in BP formed only a very small proportion of the assets of the Fund. A Member responded that it was a higher proportion before the current crisis, and pointed out that all oil stocks had been affected by the fall out from the Gulf of Mexico and needed to be kept under review. Another Member referred to the decision of the Committee in March to reject the proposal to amend Jupiter's mandate to allow them to invest in the UK extractives sector. He said that many extractive industries caused environmental damage, but poorer countries need the investment and few governments were able to apply the degree of pressure on the companies that the US had applied to BP. The Investments Manager said that the review of the Fund's SRI policy would give more opportunity to discuss these issues in greater depth.

RESOLVED to note the Fund's return on investments and details of manager performance as set out in the report.

13 INVESTMENT PANEL MINUTES

RESOLVED to note the draft minutes of the meeting of the Investment Panel of 27 May 2010.

14 RECOMMENDATIONS FROM INVESTMENT PANEL

A Member queried the cost of the intended active currency hedging mandate versus the returns it was estimated to produce. The Investments Manager explained that it was impossible to forecast returns accurately because the mandate would make returns when currency markets were against sterling, but when currency markets were in sterling's favour and no hedge was required the Fund would incur base management fees. It was noted that during times when the currency markets were in sterling's favour, the fund's assets would benefit from the additional currency return, offsetting any fees during that period.

After discussion, it was **RESOLVED**

1.1 To appoint a specialist manager to implement an active currency hedging mandate over all US Dollar, Euro and Yen denominated equity assets (excluding those in emerging markets).

1.2 That the manager to be appointed adopts a non-discretionary quantitative approach to active currency hedging.

1.3 To delegate the appointment process to Officers in consultation with the Chair of the Committee and Members of the Investment Panel.

2.1 To agree the proposed tender process for the global equity manager as set out in paragraphs 6.1-6.3 of the report.

2.2 To delegate the appointment of the global equity manager to the Investment Panel (the selection panel meeting will be open to other members of the Committee).

3. To agree the framework for the review of the hedge fund portfolio as set out in paragraph 7.1 of the report.

15 ANNUAL REPORT OF THE COMMITTEE TO COUNCIL

The Investments Manager presented the report. She said that the Annual Report would be presented to Council at its September meeting and for the first time copies would be sent to all the employers in the Fund. She invited Members to suggest additions or amendments to the Annual Report.

A Member suggested that the statement about the Members nominated to the Committee by the Trade Unions needed to make clear that there were three different unions involved.

A Member suggested that it should be explained that the improved performance of the Fund over the past three years was due to the diversification strategy the Fund had adopted.

RESOLVED to approve the Annual Report of the Committee to Council, subject to the recommended changes.

16 COMMUNITY ADMISSION BODIES

The Head of Business, Finance and Pensions presented the report. He said that it had been prepared in response to a request from a Member at the previous meeting. The key issue was that certain bodies were not guaranteed or underwritten. The exempt appendix to the report listed these bodies and gave details of their current deficit within the Fund. Officers were striving to protect the position of the Fund and were in active dialogue with these bodies. The steps being taken were acknowledged by the Committee

The Director of Resources and Support Services advised that if Members wished to discuss the details of any of the bodies listed in the report they should consider the Public Interest Test and resolve to go into exempt session.

A Member predicted that the Government's austerity measures would result in the winding up of many organisations dependent on grants from the public sector, and suggested that the Committee should have a general strategy to address this. He did not wish to see the Fund spending large sums of money on legal fees to fight individual cases. A Member noted that it was Government policy that more public services should be provided by voluntary bodies and co-operatives. The Chair recalled that the Committee had set up a working party to consider the case of a community body that had become insolvent. A Member suggested a new working group should be kept informed and consulted before officers took action in relation to any of the community bodies.

A Member said that the original working party had received in-house legal advice that the Fund was obliged to pursue every outstanding liability through the courts.

However, the working party had responded that community bodies varied widely and that the circumstances of any insolvency needed to be addressed on a case by case basis They discussed the policy and whether the decision to pursue or not should be taken by the Committee or Council's Section 151 Officer having done a cost benefit analysis. A progress report will be brought to the next committee meeting. The Head of Business, Finance and Pensions reported that the Department of Communities and Local Government had recently issued a consultation paper to LGPS funds on the issue of admitted bodies.

The Investments Manager said that this was a legacy issue, because bodies now had to give a guarantee or a bond before they were admitted to the Fund. The employer relationship team was spending a lot of time talking to the bodies listed in the appendix and advising them on how to manage their cash flow.

RESOLVED to note the information set out in the report and to receive a further report at the next meeting of the Committee.

17 WORKPLANS

RESOLVED to note the workplans.

The meeting finished at 4.10pm.

Chair…………………………….

Date confirmed and signed…………………………

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Bath & North East Somerset Council		
MEETING:	Avon Pension Fund Committee	
MEETING DATE:	24 September 2010	AGENDA ITEM NUMBER 8
TITLE:	**Audited Statement of Accounts & the Annual Governance Report – 2009/10**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – 2009/10 Audited Statement of Accounts – subject to any further issues raised by the Auditor** **Appendix 2 – Draft Annual Governance Report 2009/10 – to follow**		

1 THE ISSUE

1.1 The Annual Governance Report summarises the results of the Audit Commission's audit of the 2009/10 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".

1.2 The Audited Statement of Accounts is now presented for final approval. They remain subject to any issues raised by the Auditors prior to this meeting. If there are any such issues they will be discussed at this meeting.

1.3 The Corporate Audit Committee will be recommended to approve the final audited Statement of Accounts for 2009/10 and note the issues raised in the Governance reports at its meeting on 30 September 2010, subject to any recommendations from the Avon Pension Fund Committee.

2 RECOMMENDATION

That the Committee:

2.1 Approves the final audited Statement of Accounts for 2009/10.

2.2 Notes the issues raised in the Annual Governance Report.

3 FINANCIAL IMPLICATIONS

3.1 The Pension Fund's Statement of Accounts shows the Total Net Assets at 31 March 2010 as £2,458 million. This is unchanged from the figure in the draft accounts prior to the external audit.

4 THE REPORT

4.1 The Audit Committee approved the draft Statement of Accounts 2009/10 at its meeting of 29th June 2010.

4.2 Since then there have been several presentational and technical changes to the accounts which require us to re-present the accounts.

4.3 The main changes are:-

1) The insertion of a note to the Net Assets Statement regarding a Non Adjusting Post Balance Sheet Event, being the announcement in the Budget of 22nd June that Pensions Increases will be based on the CPI instead of RPI. This will reduce the Fund's pension obligations by an estimated 5 to 8%.

2) The re-wording of paragraph 1.7 and insertion of 1.8 regarding the Actuary's estimation of the funding level, in recognition of the announcement in the budget of 22nd June concerning the use of CPI in place of RPI.

3) The re-wording of the explanation regarding Lump Sum Retirement Benefits beneath Note 13. Following comments by the Committee in June this explanation has been revised to clarify that these benefits were not accrued for in the 2008/09 accounts.

4) The addition of Note 18 disclosing the Fund's outstanding commitments at 31st March 2010 relating to future draw downs of £73m in property investments.

4.4 In late July during a review of the invoicing process for Strain on the Fund costs, it was discovered that approximately £1m of Strain on the Fund costs were rechargeable at 31st March, but had not been included as debtors in the accounts. This matter was brought to the attention of the Auditors. They agreed that this was not material and did not require an amendment to the accounts.

4.5 A discrepancy of £152k between the Creditor held on the B&NES balance sheet relating to the Pension Fund and the Debtor held on the Pension Fund balance sheet relating to B&NES has now been resolved. The discrepancy related to dividends and tax recoveries from former investment managers received in 2008/09 that had been paid direct to the B&NES bank account rather than via the custodian. This was partly offset by differences in the recording of the value of cash injections in 2007/08 as a result of currency fluctuations. The net balance of these had been omitted from the initial transfer of cash on the setting up of the Pension Fund's separate bank account.

5 RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. Management of the Avon Pension Fund remains a key risk although the work in relation to this years 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 and Section 151 Officer (Divisional Director - Finance) 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	Corporate Audit Committee – 29th June – Draft Statement of Accounts
Please contact the report author if you need to access this report in an alternative format	

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PENSION FUND ACCOUNTS 2009/10

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 2009 to 31 March 2010.

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 2009: A Statement of Recommended Practice as published by the Chartered Institute of Public Finance and Accountancy. As required by the Code of Practice the Pension Fund accounts have been prepared in accordance with the provisions of the Statement of Recommended Practice of the pension SORP 2009). 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 2008 an actuarial valuation of the Fund was carried out as at 31 March 2007. The market value of the Fund's assets at the valuation date was £2,184 million. The actuary has estimated that the value of the Fund was sufficient to meet 83% of its expected future liabilities in respect of service completed to March 2007.

1.5 The deficit recovery period is currently set at a maximum of 20 years.

1.6 The actuarial valuation was carried out using the projected unit actuarial method. The main assumptions, on the basis of which the employer's contributions are set, are as set out below:

	Past Service	Future Service
Rate of Discount	6.75% per annum (pre retirement) 5.6% per annum (post retirement)	6.5% per annum
Rate of pensionable pay inflation	4.35% per annum	4.0% per annum
Rate of price inflation	3.1% per annum	2.8% per annum

1.7 The Actuary has estimated that the funding level as at 31 March 2010 is around 80%. This estimate takes into account the announcement in the 22 June 2010 Emergency Budget that public sector pension payments will be linked to the Consumer Price Index rather than the Retail Price Index in the future. This change reduces the Fund's liabilities which offset, to some extent, the impact on the funding level of lower than expected investment returns since the 2007 valuation.

1.8 The 2010 triennial valuation is currently being undertaken and will be calculated using values and membership data as at 31 March 2010. This will set the employer contribution rates with effect from 1 April 2011.

1.9 The Fund's Funding Strategy Statement can be found on the Fund's website (www.avonpensionfund.org.uk) or supplied on request from Liz Feinstein, Investments Officer.

Statement of Investment Principles

1.10The Fund's Statement of Investment Principles as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 can be found on the Fund's website (www.avonpensionfund.org.uk) or supplied on request from Liz Feinstein, Investments Officer.

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 2010 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.
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 2010.
iv. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2010.
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.

vii. Acquisition costs of investments (e.g. stamp duty) are treated as part of the investment cost.

viii. Additional Voluntary Contributions used to acquire money purchase benefits by scheme members are not included in the Fund's financial statements.

ix. Investment debtors and creditors at the year end are included in investment assets in accordance with the Pensions SORP.

Contributions

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

Benefits, Refunds of Contributions and Cash Transfer Values

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

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

Investment Income

2.6 Dividends and interest have been accounted for on an accruals basis. Income on pooled investments is accumulated and reflected in the valuation of the units.

Investment Management & Administration

2.7 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.

2.8 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. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

2.9 The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to certain 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 Accounts.

Fund Account

For the Year Ended 31 March 2010

	Notes	2009/10	2008/09
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	134,681	125,349
Transfers In		14,934	14,118
Other Income	5	361	272
		149,976	139,739
Gross Benefits Payable	6	121,232	111,161
Less Benefits Recharged to Employers	7	(6,131)	(5,957)
		115,101	105,204
Payments to and on account of Leavers	7	14,618	9,259
Administrative Expenses	8	2,340	2,254
		132,059	116,717
Net Additions from dealings with members		**17,917**	23,022
Returns on Investments			
Investment Income	10	16,014	19,847
Change in Market Value of Investments	11	612,435	(396,433)
Investment Management Expenses	9	(6,860)	(5,020)
Net Returns on Investments		**621,589**	(381,606)
Net Increase in the Fund during the year		**639,506**	(358,584)
Net Assets of the Fund			
At 1 April		**1,819,082**	2,177,666
At 31 March		**2,458,588**	1,819,082

Net Assets Statement at 31 March 2010

	Notes	**31 March 2010** **£'000**	**%**	31 March 2009 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		**134,999**	**5.5**	96,356	5.3
Equities		**241,264**	**9.8**	167,867	9.2
Index Linked securities : Public Sector		**147,483**	**6.0**	107,086	5.9
Pooled investment vehicles :-					
- Property		**102,713**	**4.2**	-	0.0
- Other (Including Hedge Funds)		**1,746,573**	**71.0**	1,273,801	70.0
Derivative Contracts: FTSE Futures		**152**	**0.0**	723	0.0
Cash deposits		**63,042**	**2.5**	131,231	7.2
Other Investment balances		**4,150**	**0.2**	3,455	0.2
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		**0**	**0.0**	(56)	0.0
Other Investment balances		**(738)**	**0.0**	(1,130)	(0.0)
TOTAL INVESTMENT ASSETS	12	**2,439,639**		1,779,333	
Net Current Assets					
Current Assets	13	**21,149**	**0.9**	40,285	2.2
Current Liabilities	13	**(2,200)**	**(0.1)**	(536)	0.0
TOTAL NET ASSETS		**2,458,588**	**100**	1,819,082	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2010.

Non-adjusting post balance sheet events: It was announced in the Budget on 22 June 2010 that from April 2011 the Government intends to adopt the Consumer Price Index (CPI) in place of the retail price index (RPI), for the indexation of public service pensions. Consequently future pensions increases under the Avon Pension Fund are expected to be slightly lower. This change is estimated to reduce benefit obligations by between 5% and 8%.

Notes to Accounts - Year Ended 31 March 2010

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

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of admitted bodies, a list of which can be found in note 18.

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

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

	31 March 2010	31 March 2009
Employed Members	**34,800**	35,264
Pensioners	**21,313**	20,361
Members entitled to Deferred Benefits	**24,544**	22,579
TOTAL	**80,657**	78,204

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 the Inland Revenue. 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:-

		31 March 2010		31 March 2009
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	**84,394**		78,342	
Admitted Bodies	**7,564**	**91,958**	7,271	85,613
Employers' contributions- Augmentation				
Scheduled Bodies	**3,548**		2,106	
Admitted Bodies	**814**	**4,362**	468	2,574
Employers' Deficit Funding				
Admitted Bodies	**241**	**241**	453	453
Members' normal contributions				
Scheduled Bodies	**33,582**		32,382	
Admitted Bodies	**3,595**	**37,177**	3,485	35,867
Members' added years contributions				
Scheduled Bodies	**901**		801	
Admitted Bodies	**42**	**943**	41	842
Total		**134,681**		125,349

The added years contributions above represent members' purchase of added years or additional benefits under the Scheme.

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 Provident 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 16.

5, OTHER INCOME

	31 March 2010	31 March 2009
	£'000	£'000
Recoveries for services provided	**356**	269
Cost recoveries	**5**	3
	361	272

'Recoveries for services provided' refers to administrative and accounting services provided to employing bodies.

6, BENEFITS PAYABLE

Analysis of Gross Benefits Payable by Type:-

		31 March 2010 £'000		31 March 2009 £'000
Retirement Pensions	86,016		79,879	
Unfunded Pensions	6,131	**92,147**	5,957	85,836
Commutation of pensions and Lump Sum Retirement Benefits	26,536		22,248	
Lump Sum Death Benefits	2,549	**29,085**	3,077	25,325
		121,232		111,161

Analysis of Gross Benefits Payable by Employing Body:-

	31 March 2010 £'000	31 March 2009 £'000
Scheduled & Resolution Bodies	**113,126**	104,249
Admitted Bodies	**8,106**	6,912
	121,232	111,161

7, BENEFITS RECHARGED TO EMPLOYERS

Benefits recharged include all pension payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases, and pension increases in respect of certain bodies with no pensionable employees in the Fund. There are also a small number of other pension supplements which are recharged and included in the figures below.

	31 March 2010	31 March 2009
	£'000	£'000
Benefits Recharged	**6,131**	5,957

	31 March 2010	31 March 2009
Leavers	**£'000**	£'000
Refunds to members leaving service	**77**	118
Individual Cash Transfer Values to other schemes	**14,541**	9,141
Bulk Cash Transfers	**-**	-
	14,618	9,259

There have been no bulk transfers during the year.

8, ADMINISTRATION EXPENSES

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

	31 March 2010	31 March 2009
	£'000	£'000
Administration and processing	**1,680**	1,641
Actuarial fees	**178**	243
Audit fees	**71**	70
Legal and professional fees	**1**	1
Central recharges from Administering Authority	**410**	299
	2,340	2,254

9, INVESTMENT EXPENSES

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

	31st March 2010	31 March 2009
	£'000	£'000
Portfolio management	**6,469**	4,818
Global custody	**74**	68
Investment advisors	**171**	31
Performance measurement	**33**	32
Investment accounting	**22**	24
Other advisory fees	**91**	47
	6,860	5,020

10, INVESTMENT INCOME

	31 March 2010	31 March 2009
	£'000	£'000
Interest from fixed interest securities	**4,135**	4,731
Dividends from equities	**6,275**	5,686
Income from Index Linked securities	**3,840**	2,282
Income from pooled investment vehicles	**1,574**	1,114
Interest on cash deposits	**172**	6,012
Other - Stock lending	**18**	22
	16,014	19,847

The Fund has an arrangement with its custodian (ABN AMRO 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 value of the stock on loan as at 31 March 2010 was £9.42 million (31 March 2009 £62.16m). This was secured by collateral worth £9.73 million comprising OECD sovereign debt.

11, INVESTMENTS

	Value at 01/04/09 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change In Market Value £'000	**Value at 31/03/10 £'000**
UK Fixed Interest Gilts	**150,878**	121,202	(82,901)	(4,767)	**184,412**
UK Index Linked Gilts	**107,086**	53,164	(19,800)	7,033	**147,483**
Sterling Bonds	**96,156**	41,103	(48,000)	35,168	**124,427**
Non-Sterling Bonds	**58,642**	13,000	0	707	**72,349**
Equities	**1,040,142**	307,817	(365,004)	545,873	**1,528,828**
Hedge Funds	**192,928**	311	0	19,734	**212,973**
Property	**0**	132,224	(32,327)	2,816	**102,713**
	1,645,832	668,821	(548,032)	606,564	**2,373,185**
Cash Deposits	**131,231**		(68,719)	530	**63,042**
Investment Debtors/Creditors	**2,270**			1,142	**3,412**
Total Investment Assets	**1,779,333**	668,821	(616,751)	608,236	**2,439,639**
				660,306	
Adjustments for Revenue, Debtors & Creditors	39,749			(47,871)	18,949
Total Net Assets	**1,819,082**			**612,435**	**2,458,588**

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 gains on foreign currency deposits and foreign exchange transactions during the year.

Investment Transaction Costs totalling £831,338 are included in the above. These consist of any fees, commissions or taxes due in regard to transactions.

12, INVESTMENT ASSETS

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

		31 March 2010		31 March 2009
UK Equities		**£'000**		£'000
Quoted	**191,718**		124,288	
Pooled Investments	**456,708**		441,712	
FTSE Futures	**152**	**648,578**	723	566,723
Overseas Equities				
Quoted	**49,546**		43,579	
Pooled Investments	**830,704**	**880,250**	429,840	473,419
UK Fixed Interest Gilts				
Quoted	**134,999**		96,356	
Pooled Investments	**49,413**	**184,412**	54,522	150,878
UK Index Linked Gilts				
Quoted	**147,483**		107,086	
Pooled Investments	**-**	**147,483**	-	107,086
Sterling Bonds (excluding Gilts)				
Pooled Investments	**124,427**	**124,427**	96,156	96,156
Non-Sterling Bonds				
Pooled Investments	**72,348**	**72,348**	58,642	58,642
Hedge Funds				
Pooled Investments	**212,973**	**212,973**	192,928	192,928
Property				
Pooled Investments	**102,713**	**102,713**	-	-
Cash Deposits				
Sterling	**52,627**		130,953	
Foreign Currencies	**10,415**	**63,042**	278	131,231
Investment Debtors/Creditors				
Investment Income	**3,231**		2,617	
Sales of Investments	**919**		839	
Foreign Exchange Hedge	**-**		(56)	
Purchases of Investments	**(737)**	**3,413**	(1,130)	2,270
TOTAL INVESTMENT ASSETS		**2,439,639**		1,779,333

POOLED INVESTMENTS ANALYSIS	31 March 2010 £'000
Property	
Unit Trusts	**43,608**
Unitised Insurance Policies	**33,034**
Other Managed Funds	**26,071**
Non Property	
Unitised Insurance Policies	**873,040**
Other Managed Funds	**873,533**
TOTAL POOLED INVESTMENT ASSETS	**1,849,286**

DERIVATIVES ANALYSIS	31 March 2010 £'000
"Over The Counter"	**-**

Exchange Traded

Contract Type	Expiration	Book Cost	Unrealised Gain
FTSE Futures	Less than 3 months	20,887,180	152,195

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 short term passively managed investment where the costs of investing directly in UK equities would be significant.
Forward "over the counter" foreign exchange contracts are sometimes held by one of the investment managers to eliminate the impact of the currency on the sterling return.

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

	31 March 2010		31 March 2009	
	£'000	**%**	£'000	%
Barclays Global Investors	**1,402,836**	**57.5**	1,121,178	63.0
Capital International	**57**	**0.0**	130	0
Threadneedle Pensions	**4**	**0.0**	38	0
Wellington Management International	**18**	**0.0**	22	0
Jupiter Asset Management	**94,451**	**3.9**	65,064	3.6
Genesis	**130,211**	**5.3**	51,923	2.9
Invesco	**158,223**	**6.5**	109,894	6.2
State Street	**85,675**	**3.5**	58,061	3.3
Partners	**26,100**	**1.1**	-	0
Royal London Asset Management	**122,185**	**5.0**	96,156	5.4
TT International	**124,756**	**5.1**	82,937	4.7
Man Investments	**95,047**	**3.9**	88,409	5.0
Gottex Asset Management	**51,280**	**2.1**	44,799	2.5
Stenham Asset Management	**11,544**	**0.5**	11,006	0.6
Signet Capital Management	**45,279**	**1.9**	39,708	2.2
Lyster Watson Management	**9,823**	**0.4**	9,006	0.5
Schroder Investment Management	**76,798**	**3.1**	1,002	0.1
Bank of New York Mellon	**5,352**	**0.2**	-	0.00
TOTAL INVESTMENT ASSETS	**2,439,639**	**100.00**	1,779,333	100.0

Residual values held by former Managers Capital International, Threadneedle Pensions and Wellington Management International relate to reclaimable tax.

13, DEBTORS AND CREDITORS

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2010.

Debtors and creditors included in the accounts are analysed below:-

		31 March 2010		31 March 2009
		£'000		£'000
DEBTORS				
Bath & North East Somerset Council	**10,027**		29,480	
Contributions Receivable				
- Employers	**7,267**		6,152	
- Members	**2,985**		2,593	
Discretionary Early Retirement Costs	**498**		8	
Other Debtors	**372**	**21,149**	2,052	40,285
CREDITORS				
Management Fees	**(393)**		(454)	
Lump Sum Retirement Benefits	**(1,712)**		0	
Other Creditors	**(95)**	**(2,200)**	(82)	(536)
NET CURRENT ASSETS		**18,949**		39,749

The debtor with Bath & North East Somerset Council represents monies held by the Administering Authority and is the surplus of contributions over pensions. This variance was high at 31 March 2009 pending the review of investment strategy in 2009. A normal commercial rate of interest is paid on this money.

Lump Sum Retirement Benefits due as at 31st March 2010 but not paid have been accrued in accordance with recommended practise. In the year ending 31st March 2009 Lump Sum Retirement Benefits were accounted for on a payments basis. Lump Sum Retirement Benefits due as at 31st March 2009 but not accrued as debtors, amounted to £1,502,000.

14, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2010. (March 2009 – NIL)

15, TRANSFERS IN

Transfers In during the year were all in relation to individuals. There were no group transfers in to the fund during the year ending 31 March 2010.

16, 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 Provident, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2009/10 were £7,319 (2008/09 - £6,785). Additional Voluntary Contributions received from employees and paid to Friends Provident during 2009/10 were £527,655 (2008/09 - £416,269).

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

	31 March 2010	31 March 2009
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**917**	1,067
Unit Linked Retirement Benefits	**449**	333
Building Society Benefits	**327**	378
	1,693	1,778
Death in Service Benefit	**296**	297
Friends Provident		
With Profits Retirement Benefits	**263**	284
Unit Linked Retirement Benefits	**3,227**	2,590
Cash Fund	**482**	501
	3,972	3,375

AVC investments are not included in the Fund's financial statements.

17, RELATED PARTIES

In 2009/10 £36,893 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£18,422 in 2008/09). The increase reflects the greater number of Members entitled to vote on the Committee.

Two Independent Trustees were paid allowances of £4,726 and £10,332 respectively during the year for their work in relation to the Pension Fund Committee and the Investment panel. They are also entitled to claim reasonable expenses.

Five voting members and three non voting members of the Avon Pension Fund Committee (including three B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2009/2010. (*Three in 2008/2009, all B&NES Councillor Members*). The increase reflects the widening of the entitlement to vote on the Avon Pension Fund Committee. The Independent Trustees are not eligible to join the Local Government Pension Scheme.

There are no other related party transactions except as already disclosed elsewhere.

18, OUTSTANDING COMMITMENTS

As at the 31st March 2010 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £73,034,402.

19, EMPLOYING BODIES

As at 31 March 2010 the following employing bodies had scheme members in the Avon Pension Fund:

Scheduled Bodies

Principal Councils and Service Providers

Avon County Council
Avon Fire Brigade
Avon Magistrates' Courts Committee
Avon Probation Service
Bath & North East Somerset Council
Bristol City Council
North Somerset Council
South Gloucestershire Council

Education Establishments

Bath Spa University College
Beechen Cliff School
Bristol Cathedral Choir School
Cabot Learning Federation
City Academy Bristol
City of Bath College
City of Bristol College
Colston Girl's School Academy
Filton College
Hayesfield School
Merchant's Academy
Norton Radstock College
Oldfield School
Oasis Academy Brightstowe
Oasis Academy Bristol
St. Brendan's College
The Ridings Federation Winterbourne
The Ridings Federation Yate
University of the West of England
Weston College

Designating Bodies

Bath Tourism Plus
Backwell Parish Council
Bradley Stoke Town Council
Charter Trustees of the City of Bath
Clevedon Town Council
Destination Bristol
Dodington Parish Council
Downend & Bromley Heath Parish Council
Easton in Gordano Parish Council
Filton Town Council
Frampton Cotterell Parish Council
Hanham Parish Council
Hanham Abbots Parish Council
Keynsham Town Council
Long Ashton Parish Council
Mangotsfield Parish Council
Nailsea Town Council
Norton Radstock Town Council
Oldland Parish Council
Patchway Town Council
Paulton Parish Council
Portishead & North Weston Town Council
Saltford Parish Council
Stoke Gifford Parish Council
Thornbury Town Council
Westerleigh Parish Council
Weston Super Mare Town Council
Whitchurch Parish Council
Winterbourne Parish Council
Yate Town Council

Admitted Bodies

Active Community Engagement Ltd
Agincare Ltd. *
Aquaterra Leisure Ltd. *
Aramark Ltd *
Ashley House Hostel
BAM Construct UK Ltd (Henbury School) *
Bath &NE Somerset Racial Equality Council
Bespoke Cleaning *
Brislington Neighbourhood Centre
The Care Quality Commission
Centre For Deaf People
Churchill Contract Services
Clifton Suspension Bridge Trust
Community Action
Eden Food Services *
English Landscapes*
Holburne Museum of Art
ISS Mediclean (Bristol)*
ISS Mediclean Cabot Learning Federation*
Learning Partnership West
Mama Bears Baby Nursery Ltd
Merlin Housing Society Ltd
Merlin Housing Society (SG)
MLA South West
Mouchel *
Mouchel Business Services *
Mouchel Business Srvices Ltd (Nailsea IT)*
Northgate Information Solutions *
North Somerset Housing
Off The Record Bath & Nrth East Somerset
Prospect Services Ltd *
RM Data Solutions
Shaw Healthcare (North Somerset) Ltd*
SITA Holdings UK Ltd. *
Skanska (Cabot Learning Federation)*
SLM Community Leisure *
SLM Fitness and Health *
Somer Community Housing Trust
Somer Housing Group Ltd.
South Gloucestershire Leisure Trust *
Southern Brooks Community Partnership
Southwest Grid for Learning Trust
STA Travel *
Team Clean Ltd *
The Brandon Trust *
Quadron Services*
University of Bath
Vision North Somerset
West of England Sports Trust
Yes Dining Ltd *

*Scope bodies: A body that provides, by means of contract, a service in a connection with the exercise of a function of a scheme employer.

Annual Governance Report

Avon Pension Fund

Audit 2009/10

Date **September 2010**

Contents

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Divisional Director of Financial Services on 17 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- agree to adjust the misstatements in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the misstatements; (Appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Yours faithfully

Wayne Rickard
District Auditor

30 September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of the pension fund accounting statements included within your financial statements.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Pension fund accounting statements free from material error	Yes	7
Adequate internal control environment	Yes	7

Audit opinion

1 Subject to the satisfactory clearance of outstanding issues I intend to issue an unqualified opinion on the accounts of Bath and North East Somerset Council including the Pension Fund by my deadline of 30 September 2010. Appendix 1 contains my draft report. I identified two non-trivial misstatements in the pension fund accounting statements. Management have not amended the financial statements.

2 I identified one disclosure issue affecting the investments note 11 to the accounting statements. This has not been amended.

Financial statements

3 The Council approved the draft financial statements and annual governance statement before the statutory deadline of 30 June 2010. Electronic working papers were available at the start of the audit providing a clear audit trail.

Audit fees

4 On 15 April 2009 I notified you of my proposed fee of £70,900, in my audit fee letter, for 2009/10 for the audit of the pension fund accounting statements. In January 2010 I issued my opinion plan for 2009/10 and said that I would keep the audit fee under review. On 15 June 2010 I notified you that I would reduce the fee for the 2009/10 audit to £47,000 because of changes to the way the Audit Commission calculates fees.

5 I have revisited the fee after completing the audit and I can confirm the revised fee of £47,000 remains appropriate.

Independence

I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my opinion on the pension fund's accounts, which forms part of my report on the Council's financial statements. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

6 This report was taken to the Pension Fund Audit Committee on 24 September for information. I ask the Corporate Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 9);
- agree to adjust the misstatements in the pension fund accounting statements I have identified that management has declined to amend or set out the reasons for not amending the misstatements (Appendix 2); and
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3).

Financial statements

The Pension Fund's accounts are important means by which the Fund accounts for its stewardship of public funds. The Council has a final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

7 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

8 I found the Pension Fund accounts to be free of material misstatement.

9 The Pension Fund has an adequate control environment.

Outstanding matters

10 My work on the financial statements is largely complete. I have outstanding queries in respect of debtors and audit closure procedures to complete. The latter includes our internal quality review procedures, updating the post balance sheet events review to the date of signing the opinion, and receipt and consideration of the letter of representation.

Misstatements in the financial statements

11 I report all misstatements identified during the course of the audit that are above a trivial threshold. For this audit the threshold is £122,920. I have identified two misstatements that require reporting, these are set out at Appendix 2. Management have not adjusted the financial statements.

Important weaknesses in internal control

12 I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

Letter of representation

13 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

Key areas of judgement and audit risk

14 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
Introduction of a separate bank account for the pension fund: we reviewed controls.	Separate bank account set up during 2009/10. Separate treasury management function introduced 1 April 2010. Bank reconciliation processes and controls are in place at the year end. Bank reconciliations were not countersigned during the year.
Changes in the Committee structure: we considered any risks for the accounts.	Review of changes did not raise any additional risks.
Changes to the accounting regulations: we considered any issues for the 2009/10 accounts.	The financial statements were substantially prepared in accordance with Pensions Statement of Recommended accounting Practice.
Working papers: we liaised with officers over the quality of working papers.	Electronic working papers available at the start of the audit providing a clear audit trail.
We considered the issue, first raised in 2008/09, of the co-mingling of pension fund and Council investments to ensure the Pension Fund was receiving appropriate returns.	Officers provided an analysis of short term cash investments showing the interest earned and paid to the pension fund. This confirmed the pension fund was receiving the correct interest income.

Unadjusted misstatements

15 Two misstatements were identified during my audit, one of which was drawn to my attention by officers. These are listed in appendix two and relate to the inclusion of debtors.

Accounting practice and financial reporting

16 I review the accounts as a whole ensuring the information across all the notes to the accounts is consistent and follows accounting guidance. I consider also the non-numeric content of your financial reporting.

Table 2 Matters arising

Issue	Finding
Reconciliation of investments and the disclosure of derivatives.	Recommended accounting practice is that the table in note 11 should show cash flows relating to derivatives, and the note should disclose that cash receipts and payments arising under derivatives contracts do not represent traditional purchases and sales

Glossary

Annual governance statement

17 A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

18 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

19 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Qualified

20 The auditor has some reservations or concerns.

Unqualified

21 The auditor does not have any reservations.

Appendix 1 – Independent auditor's report to Members of Bath and North East Somerset Council

Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of Bath and North East Somerset Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Divisional Director Finance and auditor

The Divisional Director Finance is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.
I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Appendix 1 – Independent auditor's report to Members of Bath and North East Somerset Council

Respective responsibilities of the Divisional Director Finance and auditor

The Divisional Director Finance is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In my opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Bath and North East Somerset Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Appendix 1 – Independent auditor’s report to Members of Bath and North East Somerset Council

Wayne Rickard

District Auditor

Audit Commission

3- 4 Blenheim Court

Matford Business Park

Lustleigh Close

Exeter

EX2 8PW

30 September 2010

Audit Report to go with the Pension Fund Annual Report

Independent auditor's report to the Members of Bath and North East Somerset Council

I have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies. This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Divisional Director Finance and auditor

The Divisional Director Finance is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the Divisional Director Finance is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises [list elements as appropriate][i],

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the remaining elements of the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In my opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Wayne Rickard

District Auditor

Audit Commission

3- 4 Blenheim Court

Matford Business Park

Lustleigh Close

Exeter

EX2 8PW

30 September 2010

Appendix 2 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, (one of which relating to the strain on the fund, was drawn to my attention by officers) but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell me why in the representation letter. If you believe the affect of the uncorrected misstatements, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected misstatements to the representation letter.

Table 3

Description of misstatement	Accounts affected	Value of misstatement £000s
Strain on the Fund costs relating to 2009/10 not invoiced.	Debtors understated and contributions receivable understated.	1,074
Error on amount due from B&NES Council	Debtors understated and fund account understated	152

Appendix 3 – Draft letter of representation

To: Wayne Rickard
District Auditor
Audit Commission
3- 4 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter
EX2 8PW

Bath and North East Somerset - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors, officers and Members of Bath and North East Somerset Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended, which give a true and fair view the financial position and financial performance of the Bath and North East Somerset Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

reason 1 etc;
reason 2

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.
-

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
-

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.
The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the material assumptions used in the preparation of the accounts such as the method of calculating depreciation, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework that estimates are not used;

- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.
-

Group entities
The are no interests in companies or joint ventures other than those disclosed in the statement of accounts.

Financial instruments
There are no financial liabilities other than those disclosed in the statement of accounts.

Assets
The following have been properly recorded and, where appropriate, adequately and completely disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold;
- completeness of disposals;
- impairment of fixed assets; and
- assets pledged as collateral.

Compensating arrangements
There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Provisions
Provisions have been fully and completely disclosed in the statement of accounts.

Contingent liabilities
There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Contingent assets
There are no contingent assets other than those disclosed in the statement of accounts.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements, other than the additional disclosure made in respect of pension fund liabilities.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations

I make the following specific representations. I confirm that:

- all unfunded liabilities e.g. discretionary added years awarded to staff in the LGPS and discretionary benefits awarded to teachers under the Teachers Pension scheme are included within the FRS17 liability figures;
- there are no matters to include in the statement of accounts arising from plans to reorganise schools;
- there are no matters to report in the accounts arising from the cancellation of capital schemes linked to changes in grant funding;
- I have reviewed the Council’s contracts with the private sector and confirm that other than those disclosed in the financial statement there are no public to private service concession arrangements;
- I have disclosed to you all contracts with the private sector involving infrastructure for public services and have provided you with all legal and financial advice received by the Council in relation to those contracts; and
- all creditor payments are correctly initiated in the correct financial year.

Signed on behalf of Bath and North East Somerset Council
I confirm that the this letter has been discussed and agreed by the Corporate Audit Committee on 30 September 2010

Signed

Name T R Richens

Position Director of Financial Services (Section 151 Officer)

Date 30 September 2010

Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**		
MEETING DATE:	**24 September 2010**	**AGENDA ITEM NUMBER**	9
TITLE:	**ANNUAL REPORT & ACCOUNTS 2009/10**		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report: Appendix 1 - Avon Pension Fund Annual Report & Accounts 2009/10 (draft)			

1 THE ISSUE

1.1 The Avon Pension Fund Annual Report 2009/10 has been drafted and is now formally presented to the Committee.

1.2 The annual report is a statutory document and as such the Committee is asked to approve the draft annual report, on the basis that no substantive changes will be made to it following Committee approval.

1.3 The report will be published ahead of the deadline of 1 December 2010

2 RECOMMENDATION

That the Committee

2.1 **approves the draft Avon Pension Fund Annual Report 2009/10**

2.2 **notes the arrangements for distribution of the Avon Pension Fund Report 2009/10**

3 FINANCIAL IMPLICATIONS

3.1 The cost of producing the 2009/10 Annual Report of £3,000 is provided for in the budget.

4 REPORT

4.1 Under the Local Government Pension Scheme (Administration) Regulations 2008, the annual report has become a statutory document, with all funds required to publish a report by 1 December 2010 for the 2009/10 reporting period. As this is before the next committee meeting, the Committee are asked to approve the report in draft form. No substantive changes will be made following the Committee's approval.

4.2 The 2009/10 Avon Pension Fund accounts will be approved as part of the Council's accounts at a meeting of the Corporate Audit Committee on 30 September 2010.

4.3 A copy of the 2009/10 Annual Report will been sent to all employing bodies in the Avon Pension Fund (with a request that at least one copy be made available to their pension scheme members for reference purposes).

6.2 Scheme members will be able to most easily access a copy of the Annual Report either via their employer, on the Avon Pension Fund website or at any of the clinics organised by the Fund. In addition, newsletters will include a synopsis of the Annual Report.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a.

9 ADVICE SOUGHT

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

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

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Bath & North East Somerset Council

lgps look forward with confidence

Awarded for excellence

INVESTOR IN PEOPLE

AVON PENSION FUND

Avon Pension Fund

Annual Report 2009/2010

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Contents

The Avon Pension Fund would like to thank all the Scheme Employers who contributed their images of success used throughout this years Annual Report 2009/10.

Cover photograph Courtesy of Nic Delves Broughton, University of Bath

Forward from the Chairman

Investment markets in the last twelve months have given less cause for concern than in the previous two years but unfortunately significant challenges now lie ahead for the public sector and thus many of the Fund's employing bodies.

From the depths of despair in March 2009, described by some at the time as the worst economic downturn in 60 years, global equity markets recovered as they began to anticipate that central bank intervention to stimulate the global economy would be successful in averting a prolonged recession. As a result the Fund posted a strong investment return, a welcome outcome following the previous two years.

It was a relatively quiet year for benefits administration as there were only a few new regulations to implement. Fund Membership rose 3% and the number of employers rose 5%, mainly due to outsourcing by scheme employers, a trend which is anticipated to continue. To manage the increasingly diverse collection of employing bodies, we have created a team to liaise with the employers and hope that this will enhance the service we deliver.

2010/11 will be a very busy year with the 2010 triennial valuation already underway. Despite the significant rebound in the Fund's value, the valuation is taking place against a background of severe cost pressures and a still fragile global economy. The Fund acknowledges the difficulties this will put on employers and has already begun to work with employers and the actuary to address the funding deficit in a risk managed way.

I am pleased to welcome Tony Earnshaw who was appointed Independent Investment Advisor to the Fund.

Finally, on behalf of the Committee, I would like to thank all the staff for their contribution to the high standard of service provided by the Fund to all its stakeholders during the year.

Gordon Wood

Review of the Year

Investment Markets and Fund Performance

When the financial year ended a year ago the sentiment in equity markets could not have been more negative, with the fear of global recession if not depression winning out. The twelve months to 31 March 2010 have seen a remarkable rebound in equities across the world, reflecting with hindsight, that investors were perhaps over pessimistic then. However, the recovery remains fragile at best and the next twelve months could prove more difficult for markets.

Following the quite unprecedented global banking crisis of 2008/09, investors regained confidence in 2009 as the extraordinary level of central bank and government action to re-ignite economic growth succeeded in avoiding a prolonged recession.

The outlook for corporate earnings was poor but companies began to report better than expected results throughout the year, due to aggressive cost cutting and debt reduction. As a result equity markets rebounded strongly. Government bond markets did less well as interest rates and bond yields were already low reflecting the high level of liquidity being pumped into the lending system by central banks. However, bonds issued by corporate entities (as opposed to those issued by governments) recovered and rallied strongly. Credit risk diminished as signs that corporate earnings were stabilising and there were “green shoots” of economic growth.

However, the rebound in equity and corporate bond markets did not mean the crisis was over. Very high levels of government debt and huge fiscal deficits across much of the western world meant that any recovery would be fragile. Although over the year sterling actually appreciated, it depreciated against the US Dollar and Yen in the last three months of the year, reflecting investors’ growing concerns over the fiscal deficit in the UK. Against the Euro, with its own significant fiscal (and political) problems, sterling was relatively stable.

During the year the Fund’s assets rose £648 million or 34.5% to £2,454 million. This compares to the WM Local Authority Average Fund Return of 35.1%. The asset mix at the year end was 63% in equities, 22% in bonds, 9% in hedge funds, 4% in property and 2% in cash.

Investment Strategy

During 2009/10 the Fund embarked on a strategic review of its investment strategy. The review concluded to maintain the strategic allocation of 60% to equities, 20% to bonds, 10% to property and 10% to hedge funds. However, the proportions invested in UK and overseas equities were altered in favour of overseas equities where there are superior growth prospects in the long term. To implement this switch of about 6% of the Fund’s assets, the allocation to the Fund’s emerging markets manager, Genesis Asset Management, was marginally increased and within the passive equity portfolio, UK equities were switched into a global equity fund.

During the year there were a number of tactical opportunities where the Fund could take advantage of assets that had been oversold but were fundamentally secure. For example the Fund increased its allocation to corporate bonds by selling UK government bonds when it was felt that the corporate bonds were unjustly oversold compared to government bonds. This position was reversed later in the year, having generated a better return, net of fees, than would have been obtained from holding government bonds.

Actuarial update

At the last triennial valuation in 2007, the funding level was 83% leaving a deficit of 17% or £459 million. Despite the strong recovery in markets in 2009/10, with the fund’s asset value rising 34.5% to £2,454 million, the deficit has widened due to the investment returns since 2007 being below expectations. However, the estimated 2010 funding level is not as low as initially anticipated because of the announcement in the Chancellor's Emergency Budget of 22 June 2010 that all public sector pension payments will be linked to the Consumer Price Index (CPI) rather than the Retail Price index (RPI) in the future. As the CPI has historically been lower than RPI, this change means the inflation assumption used for valuing the Fund's liabilities will be lower. As a result, the deterioration in the funding level and deficit is not as bad as initially anticipated and the funding level at 31 March 2010 is estimated to be around 80%.

Lucy Collins receiving 'Special Recognition Award' from Steve Chalke at the Oasis Community Learning Annual Awards ceremony

However, this will still put upward pressure on employer contribution rates, and given the adverse public spending backdrop and taking into account affordability of the employers, the focus of the valuation will be on stabilising contribution rates. Stable rates will be achieved by extending the deficit recovery period where possible. The 2010 valuation will set employer contribution rates for the three years beginning 1 April 2011.

The cost of public sector pensions is at the forefront of national politics and we expect further changes to the scheme to make it more affordable during the next 3 year valuation period. There is a possibility that some further changes will be announced before the current valuation is finalised. Potential changes may include raising the retirement age from 65, a reduction in the accrual rate of benefits earned and higher employee contributions. In addition, the Local Government Pension Scheme regulations already allow certain costs, such as increases in longevity, to be shared between employers and employees in the future. However, this is not expected to have a significant impact on the 2010 valuation.

Governance

Ensuring that the Fund's governance structure reflects all the various stakeholders in the Fund and that it is accountable and transparent to stakeholders, is of significant importance to the administering authority as it discharges its responsibility for the Fund. With this in mind, during the year the Committee reviewed its governance arrangements, in particular the voting rights on the Avon Pension Fund Committee.

Following a consultation with scheme employers and member representatives, a new governance structure was created which extended voting rights on the Committee. In addition, recognising the more complex nature of investments, an Investment Panel was established to support the Committee on investment and related issues. The new arrangements came into force in May 2009. These are discussed in more detail in the section "Governance" (see page 8).

As a consequence of these changes the Fund revised its Governance Compliance Statement. The Fund's compliance with the guidance on governance issued by the government is high but a number of areas have been identified for strengthening over the next twelve months, specifically members' training and self assessment of the

Committee's decision-making process.

Changes to Scheme Regulations in 2009/10

Following the introduction of the 'New Look Scheme' in April 2008, the Avon Pension Fund has seen a number of further amendments and refinements to the Regulations by Communities and Local Government (CLG) in 2009/2010.

The most significant of the amendments introduced by the Local Government Pension Scheme (Miscellaneous) Regulations 2009 concerned survivor benefits for civil partners and nominated cohabiting partners which had previously only been calculated on membership accrued after 5th April 1988.

Civil partners' survivor benefits now include all service prior to the 6 April 1988 and so would be based on the member's entire length of scheme membership; this makes these benefits comparable with that of married scheme members.

Also, new provisions allow members, who had nominated their cohabiting partner to receive survivor benefits, to pay additional contributions so that any period of membership before 6th April 1988 could be taken into account in the calculation of the survivor's benefit.

These amendments also allow employers currently being recharged each month for pension payments due as a result of awarding "compensatory added years" under discretionary compensation regulations, to pre-fund these additional pension rights so that they are paid from the Pension Fund. This provision is limited to resolutions made before 1st April 2011 and the employer is required to make a one-off payment determined by the Fund Actuary to pass the liability to the Fund.

The Learning and Skills Council (LSC) was dissolved on 31 March 2010 and over 700 staff transferred to local authorities with effect from 1 April 2010 (this affected 12 staff within the Avon Pension Fund). The Local Government Pension Scheme (Amendment) Regulations 2010 enabled the ex-LSC employees to join the LGPS and retain the protections of their previous scheme (the Principal Civil Service Pension Scheme) of a normal retirement age of 60 and an earliest voluntary retirement age of 50.

Yate Town Council's annual Music Festival in Kingsgate Park

Governance & Management Structure

Administering Authority:	Bath & North East Somerset Council

Pension Fund Committee Voting Members:

Councillor Gordon Wood (Chair)	Bath & North East Somerset Council
Councillor Tim Ball	Bath & North East Somerset Council
Councillor Gabriel Batt	Bath & North East Somerset Council
Councillor John Bees	Bristol City Council
Councillor David Bellotti	Bath & North East Somerset Council
Ann Berresford	Independent Trustee
Councillor Mary Blatchford	North Somerset Council
Councillor Victor Clarke	Bath & North East Somerset Council
Carolan Dobson	Independent Trustee
Councillor Mike Drew	South Gloucestershire Council
Bill Marshall	University of the West of England
Richard Orton	Unison

Non - Voting Members:

Rowena Hayward	GMB
Keith Kirwan	Parish & Town Councils (from 30/9/09)
Steve Paines	Unite the Union
Paul Shiner	Unite the Union

Council Officers:

Andrew Pate	Director of Resources & Support Services
Tony Bartlett	Head of Business Finance & Pensions
Liz Feinstein	Investments Manager
Steve McMillan	Pensions Manager
Vernon Hitchman	Solicitor to the Council

Independent Investment Advisor:

Tony Earnshaw

Investment Managers:

Actuary:

Investment Consultant:

Global Custodian:

Bankers:

Legal Advisors:

AVC Providers:

Fund Governance

Avon Pension Fund Committee

As administering authority, Bath and North East Somerset Council, has legal responsibility for the pension fund as set out in the Local Government Pension Scheme Regulations. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee, which is the formal decision making body for the Fund. The Terms of Reference for the Avon Pension Fund Committee are as follows:

"To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of investment policy objectives, ensuring appropriate investment management arrangements are in place including the appointment of investment managers and monitoring investment performance; commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations; considering requests from organisations wishing to join the Fund as admitted bodies; making representations to Government as appropriate concerning any proposed changes to the Local Government Pension Scheme; and all aspects of benefit administration. At all times, the Committee must discharge its responsibility in the best interests of the Avon Pension Fund."

Graduates receiving their awards from the University of Bath

The Committee membership as at 31 March 2010 is set out on page 6. The Committee meets formally each quarter and attendance at these meetings during the year was 89% for the voting members and 71% for the non voting members. The attendance record for each Committee member is set out in Table 2 on page 10. In addition to the quarterly meetings, the Committee held one workshop in 2009/10 to review the strategic investment policy in detail.

In 2009 following a consultation with scheme employers and member representatives, changes were made to the governance structure. From May 2009, the voting franchise on the Committee was extended to other scheme employers and

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
	3 nominated from the Trades Unions

members' representatives. The new structure is shown in Table 1.

Investment Panel

Given the increase in the size of the Committee, an Investment Panel has been established to consider investment issues in greater depth. The Panel has no delegated powers, but makes recommendations to the Avon Pension Fund Committee.

The Panel consists of up to six voting members of the Committee and meets at least four times a year. The Terms of Reference for the Panel are:

"The role of the Avon Pension Fund Committee (APFC) Investment Panel shall be to consider, in greater detail than the APFC is able, matters relating to the management and investment of the assets of the Avon Pension Fund and to advise the APFC on such matters."

Among other things, the Panel shall:

- recommend strategic investment objectives, policy and strategic asset allocation
- regularly review in detail and assess the performance of the investment managers, investment advisors, custodian and actuary
- recommend appointment and termination of investment managers and professional service providers as required
- review the Statement of Investment Principles and submit to APFC for approval
- make recommendations to the APFC on matters relating to investment strategy and management as the Panel considers appropriate. This will include issues of a more urgent nature, where the view of the Panel would be taken into consideration. (The section 151 Officer has delegated powers regarding urgent actions, and these would be exercised having consulted the Chair of the Panel).
- review any legislative changes which have implications for investment governance and make recommendations to the APFC as appropriate.

During the year the Panel held four meetings and attendance over the year was 83%. In addition the Panel held one workshop as part of a programme to review each investment manager over a twelve month period.

Bristol Skills Academy

Table 2 shows the attendance of each member at Committee and Panel meetings during the year.

Training

The Fund requires all Committee members to undertake formal training on an ongoing basis. During the year three committee members attended the Fundamentals Training Course run by the Local Government Pension Committee. Members are encouraged to attend seminars and conferences to increase their understanding of investments. In addition workshops are organised to explore more complex issues in greater detail than is possible at a Committee meeting.

During the next twelve months the framework for member training is to be developed further. This will ensure members' knowledge is maintained at a satisfactory level on an ongoing basis in order that they are able to discharge their responsibilities as required.

Photograph courtesy of Quadron Services Limited

Mike Abnett of Quadron Services, maintaining a roundabout in Bristol

Table 2: Committee Attendance Record

	Committee	Investment Panel
Number of Meetings during year	4	4
Voting Members		
Councillor Gordon Wood (Chair)	3	4
Councillor Tim Ball	4	N/A
Councillor Gabriel Batt	4	2
Councillor John Bees	4	N/A
Councillor David Bellotti	3	4
Ann Berresford	3	4
Councillor Mary Blatchford	4	3
Councillor Vic Clarke	4	N/A
Carolan Dobson	2	N/A
Councillor Mike Drew	4	N/A
Bill Marshall	4	3
Richard Orton	4	N/A
Non-voting members		
Rowena Hayward	3	N/A
Keith Kirwan *	2	N/A
Steve Paines	4	N/A
Paul Shiner	1	N/A

* Joined the Committee with effect from 30 September 2009

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, approved by the Avon Pension Fund Committee in December 2009, shows a high level of compliance with best practice and is summarised in Table 3.

Copies of the latest Governance Compliance Statement approved in December 2009 can be obtained either from the Fund's website www.avonpensionfund.org.uk or from avon_pension@bathnes.gov.uk

Table 3: Governance Compliance

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 Committee Members	Compliant	The role and responsibilities of all members are set out in a Job Description and circulated prior to appointments.
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 all 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 benefits administration and admissions to the Fund. The Committee reviews the risk register, the internal control reports of key 3rd party suppliers and all statutory policy statements.
Publicity	Compliant	All statutory documents are made available to the public.

Communications

The Avon Pension Fund is fully committed to providing Scheme Members and Scheme Employers with as much information as possible concerning the operation of the Local Government Pension Scheme (LGPS).

The Fund's Communications policy will be a fundamental part of the Pensions Administration Strategy that is being developed in conjunction with the Scheme Employers and will be published in 2010. The Pensions Administration Strategy will set out the aims, objectives and methods of delivering the pension service to stakeholders.

The Employer Relationship and Communications Team

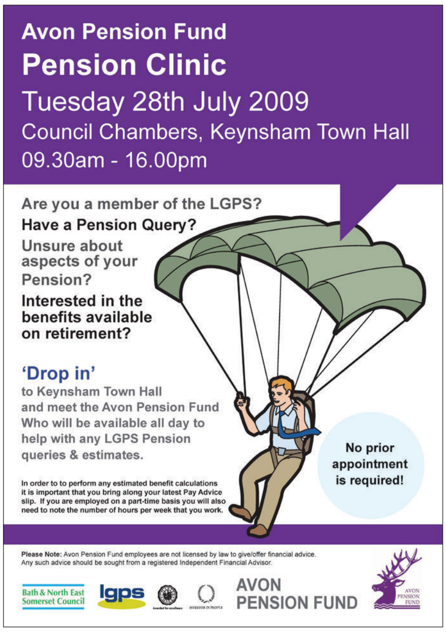
In November 2009, the Fund introduced a dedicated team to act as the primary liaison between the Fund and the growing number of Scheme Employers participating in the Fund.

This Employer Relationship and Communications Team trains the officers of new Scheme Employers joining the Fund, and ensures that Scheme Employers are kept informed about the LGPS and any changes to the Scheme, including funding and actuarial matters.

Website

The Fund's website is continually updated to reflect changes to the LGPS and present information to stakeholders in the most effective way possible. The website currently has:

- Four separate sections containing information tailored to meet the needs of the different categories of Scheme Members: Active, Deferred, Pensioner and Councillor Members, including Scheme Guides, downloadable forms and a simple benefits calculator.
- A 'Contacts' page with quick links allowing Scheme Members to get in touch with the relevant Avon Pension Fund staff member.
- The facility for Scheme Members to log-in and view details of their own personal LGPS benefits, with data securely encrypted to internet banking standards.
- A section for Scheme Employers, including employer guides and downloadable forms.
- The facility for Scheme Employers to log-in and view a summary of their members' data and to upload confidential data to the Fund via a secure portal.
- Sections for Finance & Investments, and Governance and Reports, which includes copies of recent annual report and accounts and actuarial reports.



Workplace Pension Clinics

The Avon Pension Fund holds workplace pension clinics for Active Members, when invited to do so by Scheme Employers. At pension clinics our experienced staff answer the individual queries of Active Members in a confidential environment.

In 2009 the Fund held 8 pension clinics at the workplaces of Active Members and the feedback from those attending was positive with satisfaction levels generally very high. During 2010 a further 15 pension clinics have been planned.

Newsletters

The Avon Pension Fund produces newsletters for Active and Pensioner Members twice a year:

- **Avon Pension News** (for active contributing members) contains topical items about the LGPS; and also up-to-date information about any changes there may have been to the LGPS Regulations affecting those paying into the Scheme.
- ***atease*** (for pensioner members) contains relevant information about the LGPS, pieces written by Pensioner Members themselves, and also informative topical articles.

Annual Benefit Statements

The Avon Pension Fund issued an Annual Benefit Statement in 2008/09 to each Active and Deferred Member for whom we hold a current address.

Annual Report (including a Shortened Version)

Avon Pension Fund's 2009/10 Annual Report will be issued to each Scheme Employer. Copies will also be available via the Library Services of the Unitary Authorities in the Avon area. The Annual Report will also be available to download from the Avon Pension Fund website.

A shortened version of the 2009/10 Annual Report will be issued to all Active Members in the next edition of Avon Pension News.

Risk Management

Bath & North East Somerset Council is responsible for the administration of the Avon Pension Fund. The Council has delegated this responsibility to the Avon Pension Fund Committee who is responsible for the risk management process and compliance with regulations.

In establishing this governance structure, the Council is satisfied that there are adequate risk management processes in place to address the risks faced by the Fund. The creation of the Investment Panel in 2009 has strengthened 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. The investment decision-making process, supported by expert advice, is designed to identify investment risks and act in a timely manner to ensure that these risks are kept to the minimum necessary to achieve the Fund's long term investment objectives. Internal controls and processes are in place to manage administration, financial and other operational risks.

The Committee annually reviews the Fund's Risk Register which is drawn up in accordance with Bath & North East Somerset Council's risk management policy. The register identifies the key risks that the Fund is exposed to and, having evaluated the impact of the risk on the Fund's objectives, states the actions taken to mitigate and effectively manage the risk. The Council's Internal Audit annually assess the processes in place within the pension fund in order to provide independent assurance that adequate controls are in place.

The Committee is subject to the Council's Standing Orders and financial regulations as well as the Code of Conduct.

Investment Risks

Investments by their very nature expose the Fund to varying degrees of risk. The main tool for controlling these investment risks is the Strategic Investment Policy. One of the principal ways in which the Fund manages risk is through diversification of assets, the approaches to investing (for example passive investing or active investing) and managers.

The provision of expert advice is crucial to the decision-making and risk management process. The Fund has appointed JLT Actuaries and Consultants to provide ongoing investment advice. This will include advising on managers' performance as well as strategic advice. The Fund's appointed actuary, Mercer, provides actuarial advice. Other expert or specialist advice (including tax and legal advice) is commissioned as required.

In addition, the Committee's level of knowledge of investments must be sufficient for advice to be challenged and understood. To facilitate this, the Fund is committed to training and the Committee members are required to attend external training courses and internal workshops in order to discharge their duties. In addition, the Fund has appointed an Independent Investment Advisor to support the Committee and Investment Panel members. The role of the advisor is to ensure that all the relevant advice has been presented to the members and that the issues have been fully considered and debated by the Committee and/or Panel.

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 compliance with regulations and mandates. The risks of the 3rd party suppliers are monitored by the Fund and the Internal Control Reports of all the service providers are reviewed annually by the Committee.

The Committee monitors both the performance of the Fund and the managers on a quarterly basis. The Investment Panel supports the Committee by reviewing in greater detail the investment managers' performance and raising any issues with the Committee. A robust manager selection process is undertaken in which the risks of the investment approach, and therefore the risk a manager will pose to the Fund, are determined at the outset.

Actuarial Risks

The Funding Strategy Statement sets out the funding strategy for the Fund. It is reviewed at least every three years as it forms the basis for the triennial valuation. A key risk for employers is that the employer contribution rate is incorrectly calculated due to the membership information held by Fund not being accurate. The Fund regularly reconciles the membership data to identify and resolve data queries with employers.

The potential insolvency of scheme employers, leaving outstanding liabilities in the Fund, is a significant risk to the Fund and other employers. The Fund requires 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.

Some actuarial risks can be mitigated by the investment strategy. The funding and investment strategies focus on the expected real returns from the assets, thus mitigating the affect of inflation which affects the value of the pension liabilities. In addition, the allocation to index-linked bonds reduces some of the risk of inflation being higher than expected.

Financial Risks

The Fund operates within the Council's financial management framework. The budget, which is set annually as part of the three-year forward looking service plan, is monitored by the Committee. The financial accounting system is integrated with the Council's and the segregation of duties and control structure is agreed with and annually reviewed by Internal Audit.

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.

Since 1 April 2009 the pension fund has operated a separate bank account from the Council's to improve the transparency and accountability of the Fund's banking arrangements. The Fund's cash balance is managed by the Council's Treasury Management Team. In anticipation of regulatory changes to prohibit the co-mingling of the pension fund's and Council's investment cash, a separate Treasury Management Policy for the Fund was adopted from December 2009.

Benefits Administration Risks

The administration risks relate mainly to the inability of the Administrator to meet its obligations to administer the Fund and pay benefits accurately and on time as agreed with employers or under statute. The main areas of risks are non-payment or late payment of members' benefits, incorrect calculation of benefits, breach of Data Protection Regulations or failure to comply with Freedom of Information Act requests and Disclosure of Information requirements. All of the above could lead to adverse publicity and loss of reputation and ultimately statutory fines. These are addressed in the Business Continuity Plan (see below) and mitigated in the Risk Register.

Business Continuity Plan

An up-to-date Business Continuity Plan is in place mainly to deal with "disaster recovery" and includes contingency measures. The Plan identifies critical activities whose failure would lead to an unacceptable loss of service, documents and put in place measures to minimise the risk of disruption to service and specifies what "triggers" the contingency measures coming into effect.

Risk Register

A summary of the key risks identified in the pension fund's Risk Register are found in Table 4.

Table 4: Key Risks

Risk	Management action
The Fund fails to achieve investment returns sufficient to meet its liabilities.	Set a Fund specific benchmark which determines the appropriate risk adjusted return strategy to meet the liabilities. Fund performance and funding level monitored each quarter by Committee.
Information Security: virus attack damaging data causing serious retrieval problems and Service failure issues.	The Administration Authority maintains solid systems of control - robust virus checkers and firewall in place (constantly monitored).
Offices and/or systems at Riverside are not accessible. Implications: Failure would cause disruption to benefit calculations and delay benefit payments plus a build up of backlog of cases and documents to be scanned.	Business continuity / disaster recovery policy and plans are in place. These consider the different scenarios of buildings, hardware and systems not being available and specify the circumstances in which disaster recovery measures triggered.
Non compliance with Data Protection Act. Implications: Fines imposed; criminal / civil prosecutions; data processing suspended; adverse publicity.	1. The Fund is DP registered through the Administration Authority 2. Confidentiality Agreements obtained from third parties on restrictions on use of confidential member data.
Lack of continuity within Committee which arises because most members face re-election simultaneously.	Appointed two independent trustees to the Committee.

Pensions Administration Report

1. Performance Indicators

The Fund participates in the CIPFA Pension Administration Benchmarking Club and submits information on its performance and workload annually. The following is taken from the 2010 Report which compares the data and performance of local authority pension funds in the club (over 40 out of 94 LGPS funds). It shows performance against industry standard targets.

In most areas the Avon Pension Fund has exceeded the industry standard targets. The Fund's own targets are determined by the Service Level Agreements ("SLAs") it has in place with its large to medium employers covering over 90% of the active members. In many cases these targets are more challenging than the industry standard. Regular SLA review meetings are held with medium to large employers.

The Fund also publishes a Service Charter which is on its website. This includes its targets (in working days) for completion of each type of member benefit.

Table 5: Performance Indicators 2009-10

Performance Indicator	LGPC Standard Target	Fund achieved against target %	CIPFA club average
Letter detailing transfer in quote	10 days	99.3%	85.6%
Letter detailing transfer out quote	10 days	98.5%	83.7%
Process refund and issue payment voucher	5 days	93.5%	90.1%
Letter notifying retirement benefit amount – **estimates**	10 days	98.0%	91.2%
Letter notifying **actual** retirement benefits	5 days	99.8%	93.2%
Letter acknowledging death of member	5 days	76.1%	93.8%
Letter notifying amount of dependant's benefits	5 days	95.7%	90.0%
Calculate and notify deferred benefits	10 days	95.4%	80.6%

2. Member Satisfaction

The Fund places much importance on feedback from members on the service it provides to them.

Questionnaires are therefore obtained as follows:

Pension Clinics
The Fund offers to hold pension clinics for all employers at least once a year. During the calendar year 2009, 8 clinics were held and 224 members were seen on an individual basis. These members were asked to complete satisfaction questionnaires rating the adequacy of our response, the helpfulness of our staff, the suitability of the venue and its location and the privacy afforded them. Ratings ranged from 88% to 99% with an average rating of 94%.

Retirements
At the time of retirement, questionnaires are sent to members for feedback on the quality and timeliness of the service they received from the Avon Pension Fund in dealing with their retirement. An overall rating of 91% as good or excellent was received on the quality of service received.

3. Complaints

The Fund received no complaints during the year.

4. Internal Dispute Resolution Procedure

The Fund operates an Internal Dispute Resolution Procedure, the terms of which are defined by statute. This procedure is used in cases where a member disagrees with the benefits he/she has been awarded or is in disagreement with a decision made by his/her employer that affects the benefits he/she is awarded. The Procedure is shown in detail on the Fund's website.

During the year there were no Stage 1 cases (appeals against a decision of the administering authority).

There was 1 case in progress under Stage 2 (further appeal where stage 1 completed by employer).

5. Key Staffing Indicators

The Avon Pension Fund is administered by Bath & North East Somerset Council and the administration of the scheme benefits is undertaken "in house" by employees of the Council. The Pensions Service is split into 3 sections, namely, Investment and Accounting, Benefits Administration and the Systems Support and Payments Team. A detailed ***Organisation Chart*** is available on the Avon Pension Fund website: www.avonpensionfund.org.uk

The total number of staff in the Pensions Service administering the Scheme was 38.5 in 2009/10 (40.3 in 2008/09) and of these, 18.4 are involved in benefits administration.

The following is an analysis from the CIPFA Benchmarking Club 2010 Report (see previous section 1 above). This shows the average number of pension members dealt with by each of the benefits staff and the average number of cases processed per member of staff.

Table 6: Key Staffing Indicators 2009-10

Key Staffing Indicators	2010	(CIPFA club average)	2009	(CIPFA club average)
Number of staff administering the LGPS scheme	18.4		18.4	
Fund Member / Staff ratio	4,502	(3,404)	4,401	(3358)
Average number of cases dealt with by benefits staff	382		440	

The Fund Member/Staff ratio has improved by 2.3% while the number of cases dealt with by each member of benefits staff has decreased by 13.2% reflecting the slowdown in leavers from the Fund, and associated transfers in and out.

6. Membership Trends

The number of members in total is increasing, reflecting higher employer staff levels, an increase in the number of new employers and in recent years a higher take up rate by new employees joining the Scheme. Reductions in active membership in 2007, 2009 and 2010 are as a result of the ongoing data cleansing exercise which removes members who have left employers or opted out of the Scheme following late notifications.

Norton Radstock College's Rendevous Training Cafe wins a Healthy Eating Award from Bath & North East Somerset Council

Table 7: Five Year Membership Trend

As at 31st March	2010	2009	2008	2007	2006
Active	34,700	35,264	36,037	33,318	34,618
Deferred	24,533	22,579	20,416	17,633	18,165
Pensioners	21,312	20,361	19,498	18,495	17,743
Total	80,545	78,204	75,951	69,446	70,526

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 Local Government Pension Scheme regulations provide a framework for the investment strategy. A wide range of investments are permitted but certain limits are set to ensure diversification of assets 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;
- loans from the Fund may not exceed 10% of the value of the Fund;
- no more than 35% may be invested in any one insurance contract;
- no more than 5% may be invested in any single partnership;
- investments in partnerships may not exceed 5% of the value of the Fund.

(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.

The SIP was revised during the year to reflect the following changes:

- A change in the strategic asset allocation from UK equities to Overseas equities
- Inclusion of the Fund's policy on stock lending
- Updated statement on the Fund's compliance with the revised Myners principles (see below for more details)

Key excerpts of the latest SIP that are not discussed further in the investment commentary are in Box 1.

Box 1: Key excerpts of the SIP:

Social, Environmental and Ethical Considerations

The Avon Pension Fund has a fiduciary duty to invest Fund monies in order to achieve the best possible financial return consistent with an acceptable level of risk. Operating within this framework, the Fund appointed Jupiter in 2001 to manage a UK equity portfolio (5% of the Fund's assets) in accordance with Socially Responsible Investment (SRI) criteria. The SRI portfolio includes companies providing products which solve environmental and social problems and those which minimise the environmental and social impacts of their processes. The categories of stock which the portfolio would exclude are for example, tobacco, armaments, nuclear power and animal testing of cosmetics and toiletry products.

Exercise of Voting Rights

The Avon Pension Fund recognises its responsibility as a shareholder to actively encourage good corporate governance standards in the companies in which it invests. In order to fulfil this responsibility, the Fund requires its managers to vote their UK company shares in line with their internal voting policy and explain any votes that do not comply with the Combined Code. The managers' voting activity is monitored by the Committee on a quarterly basis. For overseas markets voting is left to the discretion of the managers but they are encouraged to exercise voting rights where practical.

Stock Lending Policy

The Fund allows stock held by the Fund within its segregated portfolios to be lent out to market participants. The Fund's custodian acts as the Fund's lending agent and the Fund receives income from the lending activities. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason. The stock lending policy on pooled funds is determined by the individual investment managers. Any income is incorporated in the net asset values of each pooled fund.

The latest SIP was approved by the Avon Pension Fund Committee at its meeting in December 2009. A copy of the statement can be obtained either from the website www.avonpensionfund.org.uk or by email from avon_pension@bathnes.gov.uk

In addition to the SRI policy stated in Box 1 the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds.

Compliance with the Myners Principles

As part of the SIP, administering authorities are required to state how they comply with the Myners Principles and explain where they do not comply.

The original Myners Principles were published in October 2001 following a government review in response to concerns that the behaviour of investment institutions was distorting economic decision making to the detriment of small and medium sized enterprises. The review set out 10 investment principles codifying a model of best practice for investors.

Following a review in October 2008 an updated set of 6 Principles were published with the intention of having greater 'industry ownership' of the principles and to place the onus on trustees or their equivalent to report their own practices. It is intended that a smaller number of higher level principles provides greater flexibility for pension schemes.

The Fund's current compliance with the Myners' principles is found in Table 8.

Table 8: How the Avon Pension Fund achieved Compliance with Myners Principles

1 Effective decision-making	**Compliant**
Clear governance structure for decision-making, supported by expert advisors and officers with clear responsibilities.	
Job descriptions setting out the role and responsibilities of all Committee members.	
Committee members undertake training on ongoing basis.	
A forward looking three-year business plan.	

2 Clear Objectives	**Compliant**
Clear investment objective and strategy, taking into account the actuarial position and impact on scheme employers and tax payers.	
A customised benchmark reflecting the Fund's own liability profile.	
Consideration of different asset classes and their impact on return and risk.	
Individual performance targets for the investment managers, monitored by the Committee.	
Expert advice when considering its investment objective and strategy.	

3 Risk and Liabilities	**Compliant**
Investment objective and strategy reflects the specific liability profile of the scheme members.	
Covenant of the employer and their ability to pay contributions is taken into account.	
Risk management process in place to ensure risks are identified and mitigating action is taken where possible.	

4 Performance Assessment	**Compliant**
Fund's performance measured against investment objective, investment managers performance measured against their benchmarks.	
Contracts with advisors assessed on an ongoing basis.	
Performance of decision-making bodies assessed by external auditors.	

5 Responsible Ownership	**Compliant**
Managers adopt the Institutional Shareholders' Committee Statement of Principles.	
Policy on responsible ownership is included in Statement of Investment Principles.	

6 Transparency and Reporting	**Compliant**
Clear policy to communicate and consult with its scheme members, representatives and employers as appropriate.	
All documents and statements made available, annual report contains information and data relevant to its many, diverse stakeholders.	

2. Investment Strategy

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

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

In 2007 the Fund adopted a more diversified investment strategy by investing in property and hedge funds. This strategy was reviewed by the Committee in 2009 following the market turmoil of 2007/08. The Committee concluded that the asset allocation remained appropriate but highlighted areas where the Fund may be able to enhance returns without significantly increasing risk. In particular, the Fund was advised to reduce its allocation to UK equities and increase its allocation to overseas equities. This was implemented in the first quarter of 2010.

Strategic Asset Allocation

The strategic asset allocation at 31 March 2010 is set out in Table 9.

Table 9: Strategic Asset Allocation

Asset Class	% of Fund
UK Equities	27%
Overseas Equities	33%
Total Equities	**60%**
Index-Linked Gilts	6%
Fixed Interest Gilts	6%
UK Corporate Bonds	5%
Overseas Fixed Interest	3%
Total Bonds	**20%**
Fund of Hedge Funds	**10%**
Property	**10%**

Official opening of the University of Bath's new West Building by Sir James Dyson

As at 31 March 2010, the Fund's property investment managers, Schroders and Partners Group, are still in the process of investing the funds that have been allocated to property. The asset allocation at year end, pending completion of the investment in property, is shown in Chart 1.

During the year the fund deviated from the strategic benchmark, increasing its exposure to corporate bonds on a tactical basis. This tactical position took advantage of the perceived value of corporate bonds relative to UK government bonds. The tactical position was reversed in the first quarter of 2010 delivering a net benefit to the Fund.

Chart 1: Asset Distribution 2009-10

Investment Management Structure

The Fund's investment management structure and the amount of assets they manage on behalf of the Fund as at 31 March 2010 is set out in Table 10.

During the year, Barclays Global Investors (BGI) was sold to BlackRock Asset Management.

Table 10: Investment Management Structure

Asset Class	Manager	Value of assets held (£m)	Percentage of Fund
Multi Asset -Passive	BlackRock (formerly BGI)	1,402.8	57.5
UK Equities	TT International	124.8	5.1
	Jupiter Asset Management (Socially Responsible Mandate)	94.5	3.9
Overseas Equities	Invesco Perpetual	158.2	6.5
	State Street Global Advisors	85.7	3.5
Emerging Market equities	Genesis Investment Management	130.2	5.3
UK Corporate Bonds	Royal London Asset Management	122.2	5.0
Fund of Hedge Funds	MAN plc	95.0	3.9
	Gottex Asset Management	51.3	2.1
	Signet Capital Management	45.3	1.9
	Stenham Asset Management	11.5	0.5
	Lyster Watson	9.8	0.4
UK Property	Schroders Investment Management	76.8	3.1
Overseas Property	Partners Group	26.1	1.1

3. Market Background

Following the extraordinary events of the previous year, 2009/10 will be viewed as a year in which markets recovered strongly but never fully escaped fundamental anxiety surrounding future growth prospects. By the end of the year concerns about debt, this time government debt, had returned to dampen market returns.

The year began with many equity markets at their lowest level since March 2003, and the UK Government having commenced their 'quantitative easing' programme, playing their part in unprecedented policy interventions by global governments. These actions were successful to the extent that they prevented a complete collapse in the financial system; however they failed to solve the issues of excessive borrowing and global imbalances which were the cause of the financial crisis. Rather, over the year, the issues of indebtedness and over spending have shifted from the private and corporate sector to the government sector.

Given where investment markets began the year, strong absolute returns were achieved during the year in almost every asset class except cash.

The returns for the individual markets in 2009/10 are set out in Chart 2 along with the three year returns in sterling.

Equity Markets performed very strongly over the twelve months as companies sought to repair balance sheets and restore profitability, and investor's appetite for risk returned after fears about corporate defaults and economic growth failed to materialise. UK equities delivered 52% growth and emerging markets an astonishing 72% return in sterling. However, this followed returns of -29% and -26% respectively in the previous year. Volatility remained

Chart 2: Performance by Asset Class (Return % p.a.)

in the markets and there were two periods of market retrenchment, one in summer 2009 and then again in the first quarter of 2010. The latter was prompted by fears of a double dip recession and increasing concerns about sovereign debt default in Europe.

Greater confidence about the global recovery encouraged investors to switch from the 'safe haven' of government bonds into corporate bonds given their higher yields. Towards the end of the year the sell off in government bonds due to fears about the state of public finances resulted in a relatively poor year for government bonds compared to corporate bonds.

Property disappointed in the first half of the year due to the uncertainty of the economic outlook but subsequently experienced strong demand from retail and institutional investors prompted by signs of economic recovery.

Meanwhile, hedge funds had a positive year outperforming their cash based benchmarks but underperforming equity markets in aggregate. In periods of strong equity market rallies hedge funds which 'hedge' out market exposure are expected to underperform equity markets.

Despite considerable volatility, commodities produced positive returns over the year as global industrial demand showed signs of improving, largely as a result of resilient emerging economies such as China and Brazil. Due to its characteristics as a hedge against inflation and

South Gloucestershire Leisure project called studio:Tech based at Bradley Stoke Leisure Centre

a 'safe haven', gold achieved a record high of $1,200 an ounce before falling back slightly to end the year at $1,100 per ounce.

During 2009/10 sterling strengthened against both the US Dollar and the Euro although concerns about the level of UK borrowing caused sterling to depreciate against most major currencies in the first quarter of 2010. Official interest rates in the US, Europe and the UK have remained at historic lows due mainly to the central banks' measures to stimulate economic growth. Global inflation remained low throughout the year although in the UK it spiked in the first quarter of 2010 when the Retail Price Index rose to 4.4%. However, due to the fragility of the economic recovery in the developed world, global inflation is expected to remain subdued.

As the year drew to a close the global economy was growing again, with the UK being the last of the G20 economies to emerge from recession. However the risk of sovereign default is higher than usual and the fundamental financial imbalances that preceded the recent crises remain unresolved.

Markets remain vulnerable to the risks of policy error and market shock as seen recently with Greek bonds and the Euro. The risk of contagion remains high. There is uncertainty around the pace of withdrawal of the liquidity that has underpinned asset values during the last year or so, and the ability of the authorities to handle potential sovereign debt problems. The outlook is that interest rates are expected to stay low in the face of excess capacity and the stringent fiscal tightening being implemented across most of the developed world.

4. Investment Performance

(a) The Fund

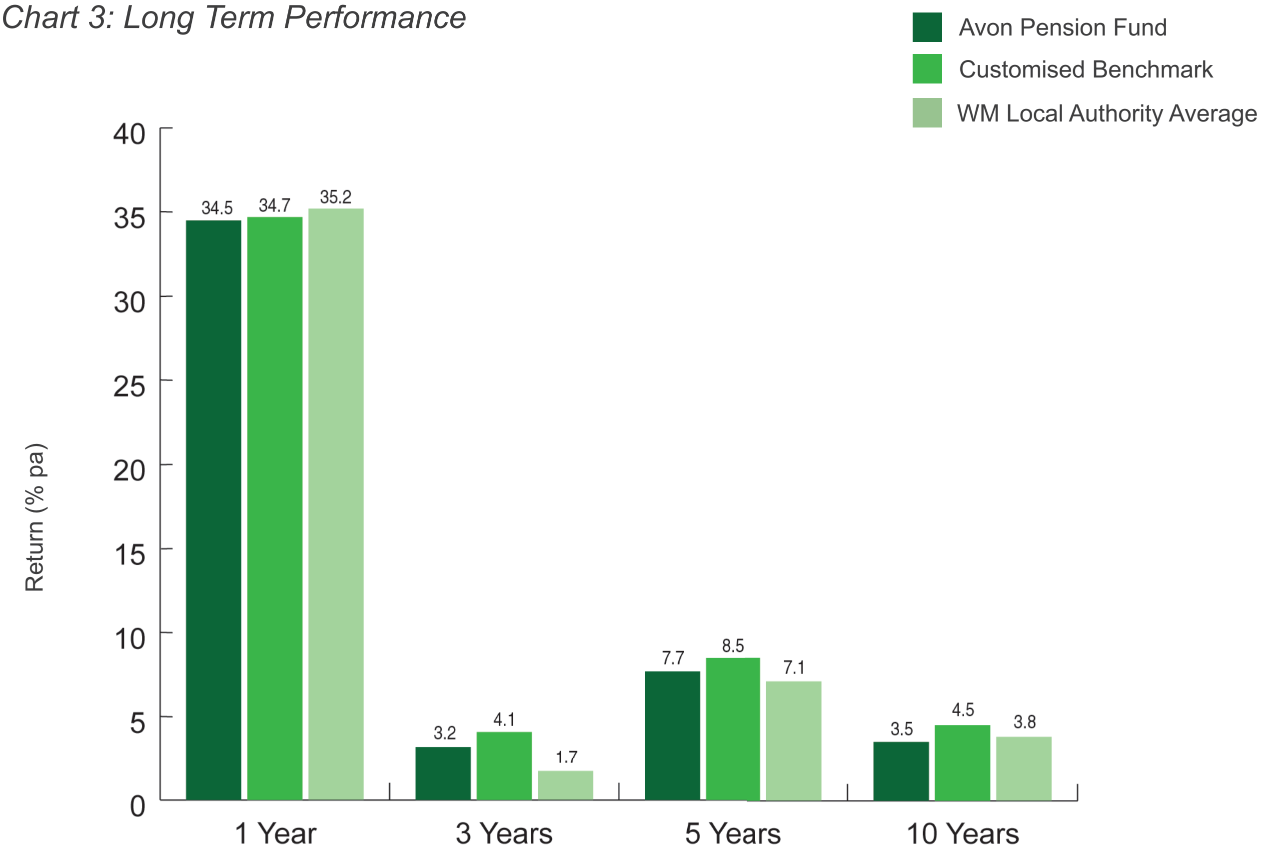
Following a difficult 2008/09 where the value of the Fund's assets decreased by 17.3%, during 2009/10 the value of the Fund rose by £648 million (or 34%) to £2.45 billion at 31 March 2010. This was driven by positive returns across all asset classes and portfolios, in particular the equity portfolios. Over the last three years the Fund's return is 3.2% per annum rising to 7.7% per annum when viewed over the last five years. However, over ten years the Fund's return of 3.5% per annum is below that required to maintain a satisfactory funding level.

The recent and longer term performance of the Fund is shown in Chart 3 below (the returns are annualised). The Fund has a customised benchmark, the return for which is included in Chart 5 as well as the WM Local Authority Fund Average return.

Compared to the **WM Local Authority Fund universe**, the Fund underperformed the average fund over the year. This was due to the Fund's slight underweight in equities and overweight in bonds relative to the average fund and the overweight position in hedge funds (which lagged equities in absolute returns). However, over three years the Fund's return of 3.2% per annum is ahead of the average fund return of 1.7% per annum This is due to the Fund's higher allocation to bonds and a lower allocation to property than the average fund.

The diversification into hedge funds and property that provided protection for the Fund from the market falls in 2008/09, did not significantly hamper the Fund's ability to enjoy the strong market returns of 2009/10.

Chart 3: Long Term Performance



(b) The Investment Managers

In general, most asset classes delivered returns well above long term expectations as they rebounded from last years falls. The Fund matched or outperformed market benchmarks in all asset classes except hedge funds. However, the hedge fund managers outperformed their specific performance targets.

Chart 4 shows the performance of each asset class against the market benchmarks during the year.

Against its customised benchmark (which measures the relative performance of the managers), the Fund marginally underperformed over the year, mainly due to the underperformance of Jupiter and TT International versus their benchmarks. Royal London and Genesis achieved particularly good returns against target, with 8.9% and 24% above their respective benchmarks, as did the hedge fund managers. BlackRock manage passive portfolios for the Fund and therefore the return on these portfolios is very similar to the return of the underlying index.

Chart 5 shows the performance of the managers against their benchmark during 2008/09. Note that the performance of Partners and Schroders reflects the fact that they are still part way through investing their portfolios.

Chart 4: Avon Pension Fund - Performance by Asset Class 2009-10

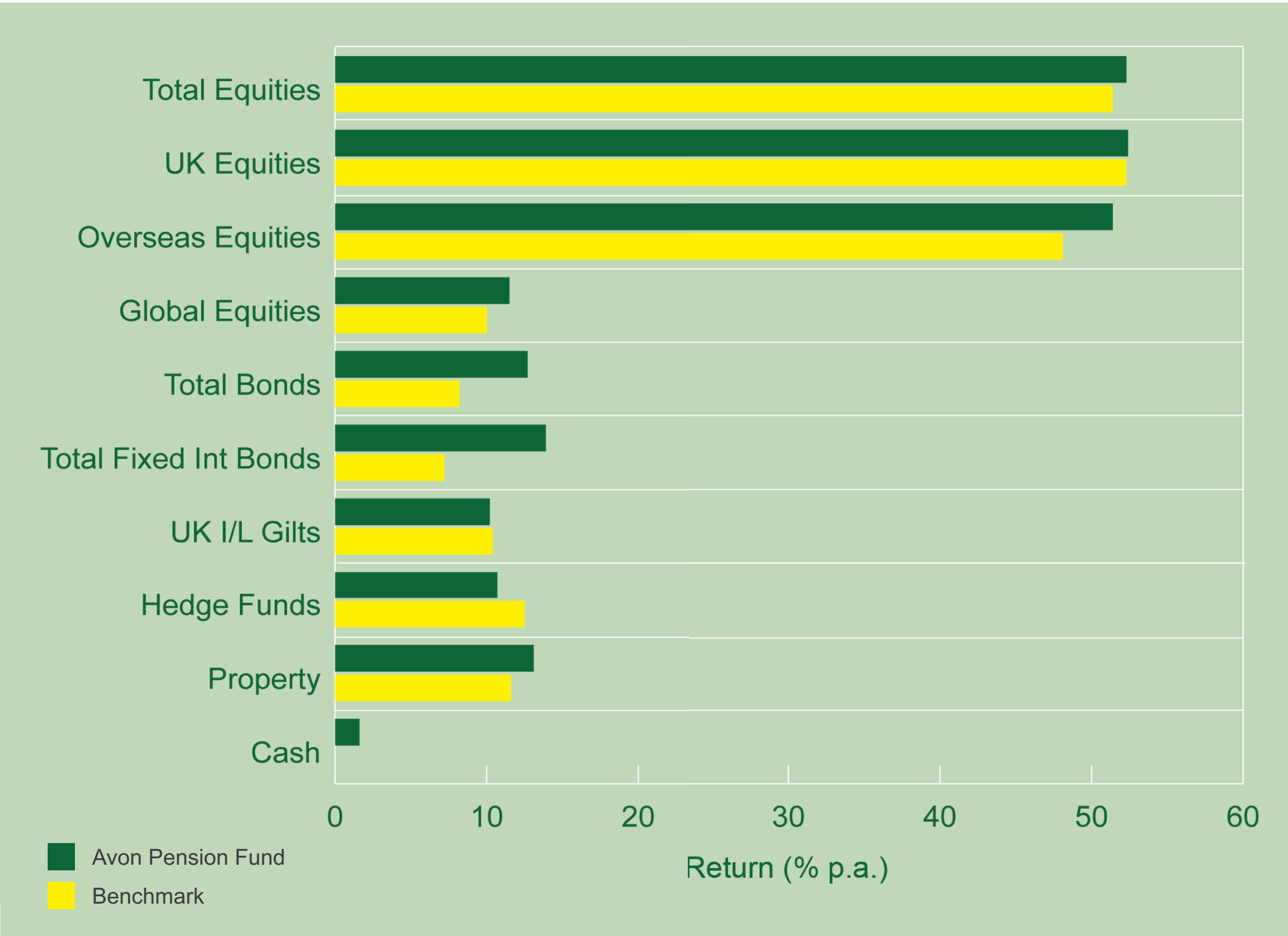
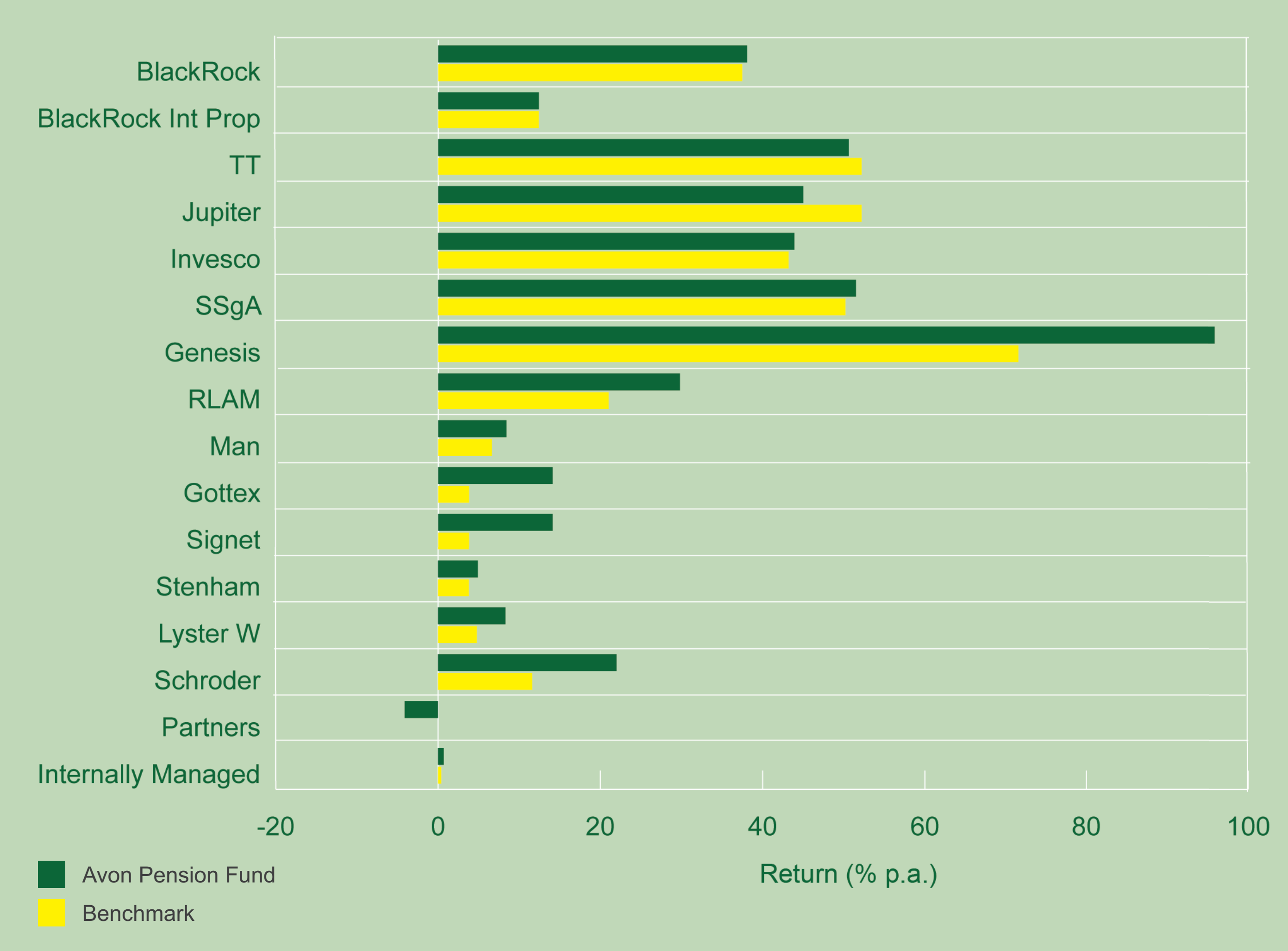


Chart 5: Fund Manager Performance 2009-10



Investment Managers' Voting Record

Table 11 summarises the activity undertaken by the Fund's external investment managers to vote the company shares they hold on the Fund's behalf.

Table 11: Voting Summary 2009-10

Manager	Number of meetings voted at	Voted with management	Abstained	Voted against management
Jupiter Asset Management	93	83%	7%	10%
TT International	53	83%	0%	17%
Genesis Investment Management	91	70%	9%	21%
BlackRock	2,459	65%	5%	30%
State Street Global Advisors	773	91%	0%	9%
Invesco Perpetual	75	86%	1%	13%

5. Largest Holdings

The 10 largest investments and the top 10 largest direct equity holdings of the Fund at 31 March 2010 are shown in Tables 12 & 13.

Table 12: Top 10 Largest Investment Holdings

Top 10 Largest Investment Holdings		% of Fund
Aquila Life UK Equity Index Fund (BlackRock)	£454,546,653.26	18.56%
Invesco Pertual Global ex UK Enhanced Index Fund	£158,222,982.66	6.46%
BlackRock World Index Fund	£145,421,768.14	5.94%
Genesis Emerging Markets Investment Fund	£130,210,784.99	5.32%
RLPPC UK Corporate Bond Fund (Royal London)	£122,185,131.76	4.99%
BlackRock Europe ex-UK Index Fund	£121,353,811.14	4.95%
MSCI Equity Index Fund B-US (BlackRock)	£103,190,206.68	4.21%
RMF Investment Strategies SPC (MAN)	£95,046,878.54	3.88%
Aquila Life Overseas Bond Index Fund (BlackRock)	£72,348,414.63	2.95%
MPF Pacific Enhanced Equity Index Fund (SSgA)	£55,348,863.55	2.26%

Table 13: Top 10 Largest Direct Equity Holdings

Top 10 Largest Direct Equity Holdings		% of Fund
HSBC	£13,890,109.25	0.57%
Royal Dutch Shell	£10,041,048.47	0.41%
BG Group	£7,942,950.00	0.32%
Astrazeneca	£7,488,914.18	0.31%
Tesco	£6,867,664.34	0.28%
GlaxoSmithKline	£6,611,547.80	0.27%
Rio Tinto	£6,572,366.76	0.27%
Barclays	£6,519,685.62	0.27%
Vodafone Group	£6,277,297.62	0.26%
Imperial Tobacco	£5,395,671.75	0.22%

6. 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.

In September 2008 the Committee agreed to establish a separate bank account for the pension fund to improve the transparency and accountability of the Fund's and Council's banking arrangements. The separate bank account was operational from 1 April 2009.

In anticipation of regulatory changes to prohibit the co-mingling of the pension fund's and Council's investment cash, the Committee adopted a separate Treasury Management Policy for the Fund in December 2009. As a result the Fund already complies with regulatory changes which will take effect from 1 April 2011.

Actuarial Report and Funding Strategy Statement

In line with the LGPS regulations the Fund's actuarial position is reviewed every three years. The next triennial valuation will take place as at 31 March 2010 which will set the employer contribution rates for the period 1 April 2011 to 31 March 2014.

At the last actuarial valuation based on membership data and asset values at 31 March 2007, the funding level was 83% leaving a deficit of 17%.

In March 2009 an interim valuation calculated that the funding level had fallen to 60% due mainly to the significant fall in asset values at that date. The subsequent recovery in asset values in 2009/10 meant that the funding level at 31 March 2010, estimated using the same assumptions as in 2007, was approximately 73% leaving a deficit of 27%.

However, in June 2010 the government announced that all LGPS pension benefits are to be linked to CPI rather than RPI. Because CPI has historically been lower than RPI by between 0.5 - 1.0% per annum, the effect is to reduce the Fund's liabilities by an estimated 5 - 8% and as a consequence the deficit at 31 March 2010 is estimated to be approximately 80%, compared to 83% in 2007.

Despite the estimated 2010 funding level being similar to that in 2007, the actual deficit will have increased. This means that there will still be pressure for employer contribution rates to rise and this will need to be managed by the Fund and its actuary in order to minimise the impact on employers.

The regulations provide that the Funding Strategy Statement must

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

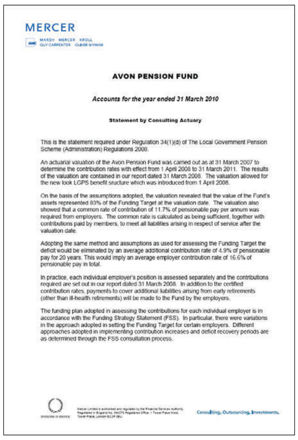
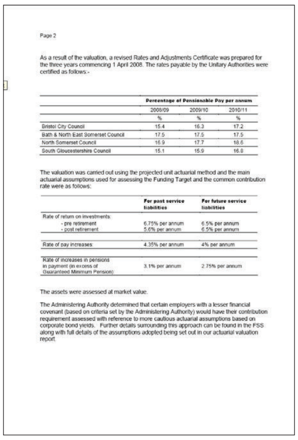
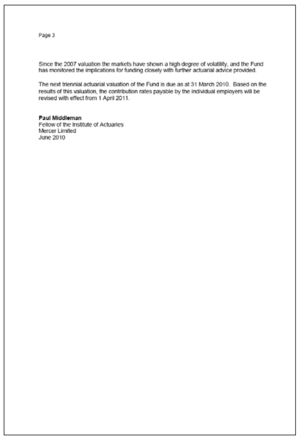
Using the flexibility provided within this framework, the Fund will need to balance the immediate cashflow pressures on the individual employers with the longer term risk the liabilities pose to the Fund, and thus all the employers. Where possible, the deficit recovery period will be extended beyond the current 20 years to maintain stable contribution rates.

There is a possibility that during the year some further changes may be made to public sector pension schemes, including the LGPS, to reduce the cost of benefits which may be incorporated into the valuation exercise. In addition, the regulations allow for cost-sharing between employers and employees. This could come into effect during this 2010-13 valuation cycle if the costs of future service increase significantly. However, the cost-sharing mechanism is not expected to radically reduce employer costs in the short term.

The new government has announced an independent commission, The Hutton Commission, to review the long term affordability of public sector pensions, while protecting accrued rights. Therefore it is highly probable that significant changes to the LGPS structure will be introduced at the 2013 valuation, if not before.

A copy of the Funding Strategy Statement can be obtained either from the website www.avonpensionfund.org.uk or from avon_pension@bathnes.gov.uk

Statement of Consulting Actuary

An actuarial valuation of the Avon Pension Fund was carried out as at 31 March 2007 to determine the contribution rates with effect from 1 April 2008 to 31 March 2011. The results of the valuation are contained in our report dated 31 March 2008. The valuation allowed for the new look LGPS benefit structure which was introduced from 1 April 2008.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 83% of the Funding Target at the valuation date. The valuation also showed that a common rate of contribution of 11.7% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 4.9% of pensionable pay for 20 years. This would imply an average employer contribution rate of 16.6% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2008. 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 employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). In particular, there were variations in the approach adopted in setting the Funding Target for certain employers. Different approaches adopted in implementing contribution increases and deficit recovery periods are determined through the FSS consultation process.

As a result of the valuation, a revised Rates and Adjustments Certificate was prepared for the three years commencing 1 April 2008. The rates payable by the Unitary Authorities were certified as follows:

	Percentage of Pensionable Pay per annum		
	2008/09	2009/10	2010/11
	%	%	%
Bristol City Council	15.4	16.3	17.2
Bath & North East Somerset Council	17.5	17.5	17.5
North Somerset Council	16.9	17.7	18.6
South Gloucestershire Council	15.1	15.9	16.8

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	For future service liabilities
Rate of return on investments:		
- pre retirement	6.75% per annum	6.5% per annum
- post retirement	5.6% per annum	6.5% per annum
Rate of pay increases:	4.35% per annum	4% per annum
Rate if increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.1% per annum	2.75% per annum

The assets were assessed at market value.

The Administering Authority determined that certain employers with a lesser financial covenant (based on critical set by the Administering Authority) would have their contribution requirement assessed with reference to more cautious actuarial assumptions based on corporate bond yields. Further details surrounding this approach can be found in the FSS along with full details of the assumptions adopted being set out in our actuarial valuation report.

Since the 2007 valuation the markets have shown a high degree of volatility, and the Fund has monitored the implications for funding closely with further actuarial advice provided.

The next triennial actuarial valuation of the Fund is due as at 31 March 2010. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2011.

Paul Middleman
Fellow of the Institute of Actuaries
Mercer Limited
June 2010

Employers' Contribution Rates

Participating Employers	Contribution Rates	
Year Ended 31st March	2010	2009
	%	%
Scheduled Bodies		
Principal Councils and Service Providers		
Avon Fire & Rescue	15.4	15.4
Bath & North East Somerset Council	17.5	17.5
Bristol City Council	16.3	15.4
North Somerset Council	17.7	16.9
South Gloucestershire Council	15.9	15.1
Further & Higher Education Establishments		
Bath Spa University College	15.9	15.9
City of Bath College	13.0	12.6
City of Bristol College	14.2	13.7
Filton College	13.1	11.9
Norton Radstock College	12.9	11.7
St. Brendan's College	13.8	13.8
University of the West of England	14.5	14.5
Weston College	14.0	13.3
Other Education Establishments		
Beechen Cliff School	17.5	17.5
Bristol Cathedral Choir School Academy	11.7	11.7
Cabot Learning Federation of Academies	12.0	-
City Academy Bristol	10.6	10.1
Colston Girl's School Academy	14.0	13.0
Hayesfield School	17.5	17.5
Merchant's Academy	13.7	13.7
Oasis Academy Brightstowe	12.6	12.6
Oasis Academy Bristol	13.2	13.2
Oldfield School	17.5	17.5

The Ridings Federation of Academies Winterbourne	13.0	-
The Ridings Federation of Academies Yate	11.8	-

Designating Bodies		
Bath Tourism Plus	14.0	14.0
Backwell Parish Council	16.4	15.9
Bradley Stoke Town Council	16.6	11.4
Charter Trustees of the City of Bath	13.8	12.2
Clevedon Town Council	14.0	14.0
Destination Bristol	11.3	8.7
Dodington Parish Council	14.8	14.8
Downend and Bromley Heath Parish Council	9.8	8.7
Easton in Gordano Parish Council	14.0	-
Filton Town Council	9.2	8.7
Frampton Cotterell Parish Council	14.0	11.4
Hanham Parish Council	24.8	18.4
Hanham Abbots Parish Council	14.0	-
Keynsham Town Council	20.0	14.7
Long Ashton Parish Council	24.6	24.6
Mangotsfield Rural Parish Council	14.3	14.3
Nailsea Town Council	16.6	16.6
Norton Radstock Town Council	19.6	17.8
Oldland Parish Council	10.5	9.8
Patchway Town Council	15.6	15.6
Paulton Parish Council	14.1	12.2
Portishead & North Weston Town Council	18.8	16.2
Saltford Parish Council	14.0	13.0
Stoke Gifford Parish Council	17.9	16.6
Thornbury Town Council	21.0	20.2
Westerleigh Parish Council	12.5	12.5
Weston Super Mare Town Council	10.3	9.6
Whitchurch Parish Council	10.5	10.5
Winterbourne Parish Council	15.8	13.9
Yate Town Council	15.9	15.9

Community Admission Bodies		
Ashley House Hostel	16.1	13.3
Bath & North East Somerset Racial Equality Council	14.5	12.9
Brislington Neighbourhood Centre	8.4	7.6
Centre For Deaf People	17% + £16,140	17% + £5,390
Clifton Suspension Bridge Trust	13.5	12.9
The Care Quality Commission	16.9	15.8
Learning Partnership West Limited (Connexions West of England)	14.6	14.6

Holburne Museum of Art	11.6	9.7
Merlin Housing Society (SG)	12.5	12.5
Merlin Housing Society Ltd	14.8	12.5
MLA South West	17.1	17.1
North Somerset Housing	10.8	10.3
Off the Record Bath & North East Somerset	10.8	9.5
Somer Community Housing Trust	15.0	15.0
Somer Housing Group Ltd	9.4	9.4
Southern Brooks Community Partnership	10.8	9.5
Southwest Grid for Learning Trust	12.0	12.0
University of Bath	14.3	14.3
West of England Sport Trust	14.6	14.6
Vision North Somerset	24.2	21.6

Transferees Admitted Bodies (Scope)		
Active Community Engagement Ltd	10.2	10.2
Agincare	16.6	16.6
Aquaterra Leisure Ltd.	10.5	10.5
ARAMARK	14.4	14.4
BAM Construct UK Ltd (for Henbury School)	15.4	15.4
Bespoke Cleaning	16.5	-
Churchill Contract Services	17.0	-
Eden Food Services (Initial Catering)	13.7	13.7
English Landscapes	16.0	-
RM Data Solutions Ltd	20.0	20.0
ISS Mediclean	11.9	11.9
ISS Mediclean (Bristol)	12.6	12.6
Mama Bears Day Nursery Ltd	15.1	-
Mouchel Business Services Ltd	18.6	16.7
Mouchel Business Services Ltd (Nailsea IT)	15.1	-
Northgate Information Solutions	9.1	9.1
Prospect Services Ltd	13.7% + £119,100	13.7% + £119,100
Quadron Services	13.7	13.7
Shaw Healthcare (North Somerset) Ltd	21.5	20.4
SITA Holdings UK Ltd	15.7% + £53,760	15.7% + £53,760
Skanska (Cabot Learning Federation)	9.5	9.5
SLM Community Leisure	10.9	10.9
SLM Fitness & Health	8.7	8.7
South Gloucestershire Leisure Trust	7.5	6.5
Team Clean Ltd	13.3	13.3
The Brandon Trust	16.9	16.5
Yes Dining Ltd	12.2	12.2

Statement of Accounts 2009/10

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 2009 to 31 March 2010.

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 2009: A Statement of Recommended Practice as published by the Chartered Institute of Public Finance and Accountancy. As required by the Code of Practice the Pension Fund accounts have been prepared in accordance with the provisions of the Statement of Recommended Practice of the pension SORP 2009. 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 2008 an actuarial valuation of the Fund was carried out as at 31 March 2007. The market value of the Fund's assets at the valuation date was £2,184 million. The actuary has estimated that the value of the Fund was sufficient to meet 83% of its expected future liabilities in respect of service completed to March 2007.

1.5 The deficit recovery period is currently set at a maximum of 20 years.

1.6 The 2007 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions, on the basis of which the employer's contributions are set, are as set out below:

	Past Service	Future Service
Rate of Discount	6.75% per annum (pre retirement) 5.6% per annum (post retirement)	6.5% per annum
Rate of pensionable pay inflation	4.35% per annum	4.0% per annum
Rate of price inflation	3.1% per annum	2.8% per annum

1.7 The Actuary has estimated that the funding level as at 31 March 2010 is around 80%. This estimate takes into account the announcement in the 22 June 2010 Emergency Budget that public sector pension payments will be linked to the Consumer Price Index rather than the Retail Price Index in the future. This change reduces the Fund's liabilities by an estimated 5 - 8% which offset, to some extent, the negative impact on the funding level of lower than expected investment returns since the 2007 valuation.

The 2010 triennial valuation is currently being undertaken and will be calculated using values and membership data as at 31 March 2010. This will set the employer contribution rates with effect from 1 April 2011.

1.8 The Fund's Funding Strategy Statement can be found on the Fund's website (www.avonpensionfund.org.uk) or supplied on request from Liz Feinstein, Investments Officer.

Statement of Investment Principles

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

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 2010 by the Fund's custodian using internationally recognised 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.

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 2010.

iv. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2010.

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.

vii. Acquisition costs of investments (e.g. stamp duty) are treated as part of the investment cost.

viii. Additional Voluntary Contributions used to acquire money purchase benefits by scheme members are not included in the Fund's financial statements.

ix. Investment debtors and creditors at the year end are included in investment assets in accordance with the Pensions SORP.

Contributions

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

Benefits, Refunds of Contributions and Cash Transfer Values

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

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

Investment Income

2.6 Dividends and interest have been accounted for on an accruals basis. Income on pooled investments is accumulated and reflected in the valuation of the units.

Investment Management & Administration

2.7 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.

2.8 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. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

2.9 The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to certain 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 Accounts.

Fund Account For Year Ended 31 March 2010

	Notes	**2009/10**	2008/09
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	134,681	125,349
Transfers In		14,934	14,118
Other Income	5	361	272
		149,976	139,739
Gross Benefits Payable	6	121,232	111,161
Less Benefits Recharged to Employers	7	(6,131)	(5,957)
		115,101	105,204
Payments to and on account of Leavers	7	14,618	9,259
Administrative Expenses	8	2,340	2,254
		132,059	116,717
Net Additions from dealings with members		**17,917**	23,022
Returns on Investments			
Investment Income	10	16,014	19,847
Change in Market Value of Investments	11	612,435	(396,433)
Investment Management Expenses	9	(6,860)	(5,020)
Net Returns on Investments		**621,589**	(381,606)
Net Increase in the Fund during the year		**639,506**	(358,584)
Net Assets of the Fund			
At 1 April		**1,819,082**	2,177,666
At 31 March		**2,458,588**	1,819,082

Net Assets Statement at 31 March 2010

	Notes	31 March 2010		31 March 2009	
INVESTMENT ASSETS		**£'000**	**%**	£'000	%
Fixed interest securities : Public Sector		**134,999**	**5.5**	96,356	5.3
Equities		**241,264**	**9.8**	167,867	9.2
Index Linked securities : Public Sector		**147,483**	**6.0**	107,086	5.9
Pooled investment vehicles :-					
Property		**102,713**	**4.2**	-	0.0
Other (Including Hedge Funds)		**1,746,573**	**71.0**	1,273,801	70.0
Derivative Contracts: FTSE Futures		**152**	**0.0**	723	0.0
Cash deposits		**63,042**	**2.5**	131,231	7.2
Other Investment balances		**4,150**	**0.2**	3,455	0.2
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		**0**	**0.0**	(56)	0.0
Other Investment balances		**(738)**	**0.0**	(1,130)	(0.0)
TOTAL INVESTMENT ASSETS	12	**2,439,639**		1,779,333	
Net Current Assets					
Current Assets	13	**21,149**	**0.9**	40,285	2.2
Current Liabilities	13	**(2,200)**	**(0.1)**	(536)	0.0
TOTAL NET ASSETS		**2,458,588**	**100**	1,819,082	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2010.

Non-adjusting post balance sheet events

It was announced in the Budget on 22 June 2010 that from April 2011 the Government intends to adopt the Consumer Price Index (CPI) in place of the retail price index (RPI), for the indexation of public service pensions. Consequently future pensions increases under the Avon Pension Fund are expected to be slightly lower. This change is estimated to reduce benefit obligations by between 5% and 8%.

Notes to Accounts - Year Ended 31 March 2010

1, GENERAL

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

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of admitted bodies, a list of which can be found in note 18.

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

2, MEMBERSHIP

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

	31 March 2010	31 March 2009
Employed Members	**34,800**	35,264
Pensioners	**21,313**	20,361
Members entitled to Deferred Benefits	**24,544**	22,579
TOTAL	**80,657**	78,204

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 the Inland Revenue. 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:-

	31 March 2010		31 March 2009	
Employers' normal contributions		£'000		£'000
Scheduled Bodies	84,394		78,342	
Admitted Bodies	7,564	91,958	7,271	85,613
Employers' contributions - Augmentation				
Scheduled Bodies	3,548		2,106	
Admitted Bodies	814	4,362	468	2,574
Employers' Deficit Funding				
Admitted Bodies	241	241	453	453
Members' normal contributions				
Scheduled Bodies	33,582		32,382	
Admitted Bodies	3,595	37,177	3,485	35,867
Members' added years contributions				
Scheduled Bodies	901		801	
Admitted Bodies	42	943	41	842
Total		134,681		125,349

The added years contributions above represent members' purchase of added years or additional benefits under the Scheme.

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 Provident 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 16.

5, OTHER INCOME

	31 March 2010	31 March 2009
	£'000	£'000
Recoveries for services provided	356	269
Cost recoveries	5	3
	361	272

'Recoveries for services provided' refers to administrative and accounting services provided to employing bodies.

6, BENEFITS PAYABLE

Analysis of Gross Benefits Payable by Type:-

	31 March 2010		31 March 2009	
		£'000		£'000
Retirement Pensions	86,016		79,879	
Unfunded Pensions	6,131	**92,147**	5,957	85,836
Commutation of pensions and Lump Sum Retirement Benefits	26,536		22,248	
Lump Sum Death Benefits	2,549		3,077	
		29,085		25,325
		121,232		111,161

Analysis of Gross Benefits Payable by Employing Body:-

	31 March 2010	31 March 2009
	£'000	£'000
Scheduled & Resolution Bodies	**113,126**	104,249
Admitted Bodies	**8,106**	6,912
	121,232	111,161

7, BENEFITS RECHARGED TO EMPLOYERS

Benefits recharged include all pension payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases, and pension increases in respect of certain bodies with no pensionable employees in the Fund. There are also a small number of other pension supplements which are recharged and included in the figures below.

	31 March 2010	31 March 2009
	£'000	£'000
Benefits Recharged	**6,131**	5,957

	31 March 2010	31 March 2009
Leavers	**£'000**	£'000
Refunds to members leaving service	**77**	118
Individual Cash Transfer Values to other schemes	**14,541**	9,141
Bulk Cash Transfers	**-**	-
	14,618	9,259

There have been no bulk transfers during the year.

8, ADMINISTRATION EXPENSES

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

	31 March 2010	31 March 2009
	£'000	£'000
Administration and processing	**1,680**	1,641
Actuarial fees	**178**	243
Audit fees	**71**	70
Legal and professional fees	**1**	1
Central recharges from Administering Authority	**410**	299
	2,340	2,254

9, INVESTMENT EXPENSES

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

	31 March 2010	31 March 2009
	£'000	£'000
Portfolio management	**6,469**	4,818
Global custody	**74**	68
Investment advisors	**171**	31
Performance measurement	**33**	32
Investment accounting	**22**	24
Other advisory fees	**91**	47
	6,860	5,020

10, INVESTMENT INCOME

	31 March 2010	31 March 2009
	£'000	£'000
Interest from fixed interest securities	**4,135**	4,731
Dividends from equities	**6,275**	5,686
Income from Index Linked securities	**3,840**	2,282
Income from pooled investment vehicles	**1,574**	1,114
Interest on cash deposits	**172**	6,012
Other - Stock lending	**18**	22
TOTAL	**16,014**	19,847

The Fund has an arrangement with its custodian (ABN AMRO 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 value of the stock on loan as at 31 March 2010 was £9.42 million (31 March 2009 £62.16 million). This was secured by collateral worth £9.73 million comprising OECD sovereign debt.

11, INVESTMENTS

	Value at 01/04/09	Purchases at Cost	Sales Proceeds	Change in Market Value	**Value at 31/03/10**
	£'000	£'000	£'000	£'000	**£'000**
UK Fixed Interest Gilts	**150,878**	121,202	(82,901)	(4,767)	**184,412**
UK Index Linked Gilts	**107,086**	53,164	(19,800)	7,033	**147,483**
Sterling Bonds	**96,156**	41,103	(48,000)	35,168	**124,427**
Non-Sterling Bonds	**58,642**	13,000	0	707	**72,349**
Equities	**1,040,142**	307,817	(365,004)	545,873	**1,528,828**
Hedge Funds	**192,928**	311	0	19,734	**212,973**
Property	**0**	132,224	(32,327)	2,816	**102,713**
	1,645,832	668,821	(548,032)	606,564	**2,373,185**
Cash Deposits	**131,231**		(68,719)	530	**63,042**
Investment Debtors/ Creditors	**2,270**			1,142	**3,412**
Total Investment Assets	**1,779,333**	668,821	(616,751)	608,236	**2,439,639**
				660,306	
Adjustments for Revenue, Debtors & Creditors	39,749			(47,871)	18,949
Total Net Assets	**1,819,082**			612,435	**2,458,588**

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 gains on foreign currency deposits and foreign exchange transactions during the year.

Investment Transaction Costs totalling £831,338 are included in the above. These consist of any fees, commissions or taxes due in regard to transactions.

12, INVESTMENT ASSETS

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

	31 March 2010		31 March 2009	
UK Equities		£'000		£'000
Quoted	**191,718**		124,288	
Pooled Investments	**456,708**		441,712	
FTSE Futures	**152**	**648,578**	723	566,723
Overseas Equities				
Quoted	**49,546**		43,579	
Pooled Investments	**830,704**	**880,250**	429,840	473,419
UK Fixed Interest Gilts				
Quoted	**134,999**		96,356	
Pooled Investments	**49,413**	**184,412**	54,522	150,878
UK Index Linked Gilts				
Quoted	**147,483**		107,086	
Pooled Investments	**-**	**147,483**	-	107,086
Sterling Bonds (excluding Gilts)				
Pooled Investments	**124,427**	**124,427**	96,156	96,156
Non-Sterling Bonds				
Pooled Investments	**72,348**	**72,348**	58,642	58,642
Hedge Funds				
Pooled Investments	**212,973**	**212,973**	192,928	192,928
Property				
Pooled Investments	**102,713**	**102,713**	-	-
Cash Deposits				
Sterling	**52,627**		130,953	
Foreign Currencies	**10,415**	**63,042**	278	131,231
Investment Debtors/Creditors				
Investment Income	**3,231**		2,617	
Sales of Investments	**919**		839	
Foreign Exchange Hedge	**-**		(56)	
Purchases of Investments	**(737)**	**3,413**	(1,130)	2,270
TOTAL INVESTMENT ASSETS		**2,439,639**		1,779,333

POOLED INVESTMENTS ANALYSIS	31 March 2010
	£'000
Property	
Unit Trusts	**43,608**
Unitised Insurance Policies	**33,034**
Other Managed Funds	**26,071**
Non Property	
Unitised Insurance Policies	**873,040**
Other Managed Funds	**873,533**
TOTAL POOLED INVESTMENT ASSETS	**1,849,286**

DERIVATIVES ANALYSIS	31 March 2010
	£'000
"Over The Counter"	-

Exchange Traded			
Contract Type	Expiration	Book Cost	Unrealised Gain
FTSE Futures	Less than 3 months	20,887,180	152,195

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 short term passively managed investment where the costs of investing directly in UK equities would be significant.

Forward "over the counter" foreign exchange contracts are sometimes held by one of the investment managers to eliminate the impact of the currency on the sterling return.

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

	31 March 2010		31 March 2009	
	£'000	**%**	£'000	%
Barclays Global Investors	**1,402,836**	**57.5**	1,121,178	63.0
Capital International	**57**	**0.0**	130	0
Threadneedle Pensions	**4**	**0.0**	38	0
Wellington Management International	**18**	**0.0**	22	0
Jupiter Asset Management	**94,451**	**3.9**	65,064	3.6
Genesis	**130,211**	**5.3**	51,923	2.9
Invesco	**158,223**	**6.5**	109,894	6.2
State Street	**85,675**	**3.5**	58,061	3.3
Partners	**26,100**	**1.1**	-	0
Royal London Asset Management	**122,185**	**5.0**	96,156	5.4
TT International	**124,756**	**5.1**	82,937	4.7
Man Investments	**95,047**	**3.9**	88,409	5.0
Gottex Asset Management	**51,280**	**2.1**	44,799	2.5
Stenham Asset Management	**11,544**	**0.5**	11,006	0.6
Signet Capital Management	**45,279**	**1.9**	39,708	2.2
Lyster Watson Management	**9,823**	**0.4**	9,006	0.5
Schroder Investment Management	**76,798**	**3.1**	1,002	0.1
Bank of New York Mellon	**5,352**	**0.2**	-	0.00
TOTAL INVESTMENT ASSETS	**2,439,639**	**100.0**	1,779,333	100.0

Residual values held by former Managers Capital International, Threadneedle Pensions and Wellington Management International relate to reclaimable tax.

13, DEBTORS AND CREDITORS

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2010.

Debtors and creditors included in the accounts are analysed below:-

	31 March 2010		31 March 2009	
DEBTORS		**£'000**		£'000
Bath & North East Somerset Council	**10,027**		29,480	
Contributions Receivable				
- Employers	**7,267**		6,152	
- Members	**2,985**		2,593	
Discretionary Early Retirement Costs	**498**		8	
Other Debtors	**372**	**21,149**	2,052	40,285
CREDITORS				
Management Fees	**(393)**		(454)	
Lump Sum Retirement Benefits	**(1,712)**		0	
Other Creditors	**(95)**	**(2,200)**	(82)	(536)
NET CURRENT ASSETS		**18,949**		39,749

The debtor with Bath & North East Somerset Council represents monies held by the Administering Authority and is the surplus of contributions over pensions. This variance was high at 31 March 2009 pending the review of investment strategy in 2009. A normal commercial rate of interest is paid on this money.

Lump Sum Retirement Benefits due as at 31st March 2010 but not paid have been accrued in accordance with recommended practise. In the year ending 31st March 2009 Lump Sum Retirement Benefits were accounted for on a payments basis. Lump Sum Retirement Benefits due as at 31st March 2009 but not accrued as debtors, amounted to £1,502,000.

14, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2010. (March 2009 – NIL)

15, TRANSFERS IN

Transfers In during the year were all in relation to individuals. There were no group transfers in to the fund during the year ending 31 March 2010.

16, 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 Provident, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2009/10 were £7,319 (2008/09 - £6,785). Additional Voluntary Contributions received from employees and paid to Friends Provident during 2009/10 were £527,655 (2008/09 - £416,269).

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

	31 March 2010	31 March 2009
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**917**	1,067
Unit Linked Retirement Benefits	**449**	333
Building Society Benefits	**327**	378
	1,693	1,778
Death in Service Benefit	**296**	297
Friends Provident		
With Profits Retirement Benefits	**263**	284
Unit Linked Retirement Benefits	**3,227**	2,590
Cash Fund	**482**	501
	3,972	3,375

AVC investments are not included in the Fund's financial statements.

17, RELATED PARTIES

In 2009/10 £36,893 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£18,422 in 2008/09). The increase reflects the greater number of Members entitled to vote on the Committee.

Two Independent Trustees were paid allowances of £4,726 and £10,332 respectively during the year for their work in relation to the Pension Fund Committee and the Investment panel. They are also entitled to claim reasonable expenses.

Five voting members and three non voting members of the Avon Pension Fund Committee (including three B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2009/2010. (*Three in 2008/2009, all B&NES Councillor Members*). The increase reflects the widening of the entitlement to vote on the Avon Pension Fund Committee. The Independent Trustees are not eligible to join the Local Government Pension Scheme.

There are no other related party transactions except as already disclosed elsewhere.

18, OUTSTANDING COMMITMENTS

As at the 31st March 2010 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £73,034,402.

19, EMPLOYING BODIES

As at 31 March 2010 the following employing bodies had scheme members in the Avon Pension Fund:

Scheduled Bodies	
Principal Councils and Service Providers	**Education Establishments**
Avon County Council	Bath Spa University College
Avon Fire Brigade	Bristol Cathedral Choir School
Avon Magistrates' Courts Committee	Cabot Learning Federation
Avon Probation Service	City Academy Bristol
Bath & North East Somerset Council	City of Bath College
Bristol City Council	City of Bristol College
North Somerset Council	Colston Girl's School Academy
South Gloucestershire Council	Filton College
	Merchant's Academy
	Oasis Academy Brightstowe
Foundation Schools	Oasis Academy Bristol
Beechen Cliff School	Norton Radstock College
Hayesfield School	St. Brendan's College
Oldfield School	The Ridings Federation Winterbourne
	The Ridings Federation Yate
	University of the West of England
	Weston College

Designating Bodies	
Bath Tourism Plus	Mangotsfield Parish Council
Backwell Parish Council	Nailsea Town Council
Bradley Stoke Town Council	Norton Radstock Town Council
Charter Trustees of the City of Bath	Oldland Parish Council
Clevedon Town Council	Patchway Town Council
Destination Bristol	Paulton Parish Council
Dodington Parish Council	Portishead & North Weston Town Council
Downend & Bromley Heath Parish Council	Saltford Parish Council
Easton in Gordano Parish Council	Stoke Gifford Parish Council
Filton Town Council	Thornbury Town Council
Frampton Cotterell Parish Council	Westerleigh Parish Council
Hanham Parish Council	Weston Super Mare Town Council
Hanham Abbots Parish Council	Whitchurch Parish Council
Keynsham Town Council	Winterbourne Parish Council
Long Ashton Parish Council	Yate Town Council

Admission Bodies	
Active Community Engagement Ltd	Mouchel Business Services *
Agincare Ltd *	Mouchel Business Services Ltd (Nailsea IT) *
Aquaterra Leisure Ltd *	Northgate Information Solutions *
Aramark Ltd *	North Somerset Housing
Ashley House Hostel	Off The Record Bath & North East Somerset
BAM Construct UK Ltd (for Henbury School) *	Prospect Services Ltd *
Bath &NE Somerset Racial Equality Council	RM Data Solutions
Bespoke Cleaning *	Shaw Healthcare (North Somerset) Ltd *
Brislington Neighbourhood Centre	SITA Holdings UK Ltd *
The Care Quality Commission	Skanska (Cabot Learning Federation) *
Centre For Deaf People	SLM Community Leisure *
Churchill Contract Services	SLM Fitness and Health *
Clifton Suspension Bridge Trust	Somer Community Housing Trust
Community Action	Somer Housing Group Ltd
Eden Food Services *	South Gloucestershire Leisure Trust *
English Landscapes *	Southern Brooks Community Partnership
Holburne Museum of Art	Southwest Grid for Learning Trust
ISS Mediclean (Bristol) *	STA Travel *
ISS Mediclean (Cabot Learning Federation) *	Team Clean Ltd *
Learning Partnership West Limited	The Brandon Trust *
Mama Bears Baby Nursery Ltd	Quadron Services *
Merlin Housing Society Ltd	University of Bath
Merlin Housing Society (SG)	Vision North Somerset
MLA South West	West of England Sports Trust
Mouchel *	Yes Dining Ltd *

*Scope bodies: A body that provides, by means of contract, a service in a connection with the exercise of a function of a scheme employer.

The Statement of Responsibilities for the Avon Pension Fund Accounts

Bath & North East Somerset Council's responsibilities

The Council is required:

i) to make arrangements for the proper administration of the financial affairs of the Avon Pension Fund and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Strategic Director of Resources and Support Services responsible for financial administration.
ii) to manage the affairs of the Avon Pension Fund in order to secure economic, efficient and effective use of resources and safeguard its assets.
iii) Approve the statement of accounts for the year

The Strategic Director of Resources and Support Services responsibilities

The Strategic Director of Resources and Support Services is responsible for the preparation of the Avon Pension Fund accounts which, in compliance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in Great Britain, are required to present fairly the financial position of the Avon Pension Fund at the balance sheet date 31 March 2009 and its income and expenditure for the financial year ended 31 March 2009.

In preparing this Statement of Accounts, the Strategic Director of Resources and Support Services has:-

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

The Strategic Director of Resources and Support Services has also:-

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

Audit Opinion on the Accounts of the Avon Pension Fund

The auditors of local authorities are appointed by the Audit Commission under section 2 of the Audit Commission Act 1998 to audit the accounts of a local authority as a whole, including the accounts of the local authority's pension fund.

The audit opinion on the Avon Pension Fund provided by the Audit Commission can be found on page 52.

Statement of the Strategic Director of Resources and Support Services

I hereby certify that this statement of accounts presents fairly the financial position of the Avon Pension Fund as at the accounting date and its income and expenditure for the year ended 31 March 2009.

Tim Richens

Director of Resources and Support Services,
(SI51 Officer)
Bath & North East Somerset Council
SEPTEMBER 2010

Auditors Report

Independent auditor's report to the Members of (name of authority)

I have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of [name of authority] in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the [Responsible Financial Officer] and auditor

The [Responsible Financial Officer] is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the [Responsible Financial Officer] is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises [list elements as appropriate] ,

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the remaining elements of the Pension Fund Annual Report . I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In my opinion:

- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

[Name]

Officer of the Audit Commission

[Address]
[Address]
[Address]
[Address]
[Address]

[Date]

Five Year Summary of Financial Statistics

Year Ended 31 March	2006	2007	2008	2009	2010
Revenue Account	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Income					
Net Contributions	93.4	105.1	112.4	125.3	134.7
Investment Income	31.6	44.2	32.6	19.9	16.0
Net Cash Transfer	4.0	5.7	5.5	4.8	0.3
	129.0	**155.0**	**150.5**	**150.0**	**151.0**
Expenditure					
Pension & Benefits	75.6	88.1	95.0	105.2	115.1
Management Expenses	5.6	6.1	6.6	7.0	8.8
	81.2	**94.2**	**101.6**	**112.2**	**123.9**
Surplus for the Year	47.8	60.8	48.9	37.8	27.1
Revaluation of Investments	370.6	79.7	(55.0)	(396.4)	612.4
Change in Fund Value	**418.4**	**140.5**	**(6.1)**	**(358.6)**	**639.5**
Total Fund Value	**2,043.3**	**2,183.8**	**2,177.7**	**1,819.1**	**2,458.6**

Pension Increase

Increases in pensions (excluding the State Guaranteed Minimum Pension) are based on the change in the published Retail Price Index (RPI) for the 12 months to 30 September of each year and are paid the following year from the first Monday in the new financial year. 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.

Table 14 shows the rate of increases that have applied during the last ten years.

As expected the change in the RPI for 12 months to 30 September 2009 was below zero at -1.4% and as a result there was no increase to members' pensions in April 2010. Members should note that there is no provision in the current regulations to reduce pensions in the event of a negative RPI.

Table 14: Pension Increase

Year Begining April	Rate of Increase %
2000	1.1
2001	3.3
2002	1.7
2003	1.7
2004	2.8
2005	3.1
2006	2.7
2007	3.6
2008	3.9
2009	5.0
2010	0.0

The Fund is responsible for increases in the State Guaranteed Minimum Pension accrued since April 1988 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. There was also no increase on these pensions in April 2010.

The increases shown above also apply to deferred pensions.

Change In Pension Increase Basis

From April 2011 increases in pensions (excluding the State Guaranteed Minimum Pension) will be based on the Consumer Price Index (CPI). The Government are expected to announce shortly how this will be applied.

This increase will apply to both deferred pensions and pensions in payment.

Contact Names

For further information on issues relating to the Fund's Investments and the Accounts please contact:

Martin Phillips
Pension Fund Accountant

Liz Feinstein
Investments Manager

If you have any queries on the benefits or administration of the Avon Pension Fund please contact:

Steve McMillan
Pensions Manager

Or you can write to us at:

Avon Pension Fund
Floor 3 South
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Keynsham,
BS31 1LA

Fax: 01225 395258
Tel: 01225 47 7000

Alternatively, email us at avon_pension@bathnes.gov.uk
Further general information regarding the Avon Pension Fund can be found at: www.avonpensionfund.org.uk

Glossary

ACCRUAL RATE
The percentage of final salary which is payable as pension for each year of service accrued. For example, under the new scheme effective from 1 April 2008, each year of service will generate 1/60th of final salary.

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.

CIVIL PARTNER
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.

CONSUMER PRICE INDEX (CPI)
Similar to RPI, 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 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 U.K. 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'.

CUSTOMISED BENCHMARK
A customised 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 a customised benchmark is that it represents "normal fund policy".

DEFERRED PENSION
The pension benefit payable from Normal Retirement Age (or earlier if the Rule of 85 is satisfied) to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before retirement age.

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.

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 TRUSTEES

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. It is convenient to refer to these members as "independent trustees" even though they are not trustees in the strict legal sense (the Pension Fund is not constituted as a trust). Administration of the Avon Pension Fund is a statutory responsibility of Bath & North East Somerset Council and the Avon Pension Fund Committee has been established by the Council to discharge this function on its behalf. The voting members of the Committee perform a role that is similar to that of trustees in the private sector in that they act in the interests of the Fund's stakeholders' rather than the Council itself.

INDEX-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 stocks represent 'loans' to the 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.

NOMINATED CO-HABITING PARTNER

Someone you have nominated to receive a survivor's pension in the event of your death. The nominee must be someone you are living with as if you are married or are in a civil partnership, and your relationship has to meet certain conditions laid down by the LGPS. The nomination must be submitted on a 'Nomination of a Cohabiting Partner' form.

NORMAL RETIREMENT AGE

Age 65 for both men and women but certain protected members whose age and membership, when combined, total 85 or more can retire at any time from age 60 without actuarial reduction (see Rule of 85).

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
The rule of 85 was abolished and does not apply to New Scheme members from 1 October 2006, however certain protections can apply to scheme members in the scheme before 1 October 2006.

When a member elects to retire before age 65, the Rule of 85 test is used to find out whether the member retires on full or reduced benefits. The agreement of the employer is required for employees who wish to retire before the age of 60. If the sum of the member's age and the number of whole years of Scheme membership is 85 or more, benefits are paid in full; if the total is less than 85, the benefits will be reduced. The employer does, however, have the power to waive any reduction on compassionate grounds and to pay the benefits in full.
The Rule of 85 is not relevant where a member is made redundant, retired on grounds of efficiency or receives an ill health pension.

SCOPE BODIES (TRANSFEREE ADMISSION 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 transfering, 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.

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Alternative Formats

This document can be made available in a range of community languages, large print, Braille, on tape, electronic and accessible formats, to request an alternative version please contact the Avon Pension Fund using the details provided.

AVON PENSION FUND

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Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**		
MEETING DATE:	**24 SEPTEMBER 2010**	**AGENDA ITEM NUMBER**	10
TITLE:	**FUNDING STRATEGY STATEMENT 2010**		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report: Appendix 1 – Funding Strategy Statement Appendix 2 – Comments from Employing Bodies			

1 THE ISSUE

1.1 The Local Government Pension Scheme (LGPS) regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The FSS sets out the key assumptions which the actuary has used in preparing the actuarial valuation and, in those cases where the Administering Authority has some discretion, the policies adopted by the Administering Authority. A Committee workshop was held on 23 July 2010 to discuss the FSS prior to it being circulated to the employing bodies for comment. The deadline for receipt of comments was 31 August 2010.

1.2 The FSS is attached as Appendix 1 and the comments from the employing bodies following the consultation period are summarised in Appendix 2.

2 RECOMMENDATION

2.1 That, subject to the insertion of information which can only be included when the actuarial valuation is complete, the Committee approves the Funding Strategy Statement as set out in Appendix 1 for general publication and distribution to the Fund's employing bodies.

3 FINANCIAL IMPLICATIONS

3.1 The actuarial costs for reviewing the FSS is included in the 2010 actuarial valuation fee and is provided for in the 2009/10 budget.

4 BACKGROUND

4.1 The LGPS regulations require each administering authority to prepare and publish a FSS. The key points of the regulation for the FSS are as follows:-

- After consultation with all employing bodies, the administering authority must prepare and publish their funding strategy
- In preparing the FSS, the administering authority must have regard to:
- The CIPFA guidance (published in 2004)
- The Statement of Investment Principles
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.
- The Fund's actuary must have regard to the FSS as part of the valuation process.

4.2 The FSS sets out all the key assumptions which the actuary has used in preparing the actuarial valuation, together with the Administering Authority's policies in the areas where the Administering Authority has discretion.

4.3 Procedurally, the Fund's actuary cannot finalise the valuation until the FSS has been approved by the Committee.

4.4 It is not anticipated that, unless there is a significant change in the Fund's investment policy or to the structure of the LGPS, the FSS will be revised until the next actuarial valuation in 2013.

4.5 The FSS attached as Appendix 1, estimates certain information that can only be confirmed once the valuation has been completed.

5 COMMITTEE WORKSHOP AND CONSULTATION WITH EMPLOYING BODIES

5.1 At the Committee workshop on the 23 July 2010, the actuary gave a presentation on the actuarial valuation process and the basis for the assumptions to be used in the valuation. Following the presentation, the Committee agreed the draft FSS.

5.2 The draft FSS was circulated to the employing bodies on 3 August 2010, with comments required by 31 August 2010. Those comments which have been received are summarised in Appendix 2.

5.3 The comments received from the employing bodies were not such as to prompt any change to the FSS as agreed at the Committee workshop. However, a number of points were made which are relevant to the way in which the actuary applies the FSS in practice and there is one particular issue which will need to be considered in conjunction with a number of the employing bodies. Details are set out in the next section.

6 RESPONSES FROM EMPLOYING BODIES

6.1 The following action has been taken in respect of the responses received:

(i) Where there was a request for more information this has been supplied. Where there appeared to be an implied criticism of the approach adopted by the Fund – either in actuarial or investment terms – an explanation has been provided.

(ii) Bristol City Council's request for an assurance that a 30 year maximum deficit recovery period is consistent with rate stability stems from a presentation given to the unitary councils by the actuary on 21 June. At that time it appeared that a 35 year deficit recovery period might be necessary. However, the Chancellor's announcement on 22 June that public sector pension increases would be index-linked to the CPI rather than the RPI meant that a 30 year limit was judged to be sufficient. In the unlikely event that this did not achieve the objective, the FSS would need to be reviewed. Bristol City Council has been informed accordingly.

(iii) For those bodies who have indicated that they might struggle with the practical implications of expressing the deficit recovery element as a cash sum, an undertaking has been given that this matter will be investigated further. The expectation is that a solution can be found without compromising the principle of making deficit recovery payments independent of the size of the payroll.

6.2 In the light of the responses, discussions will need to take place with the actuary as to the manner in which the short term pay adjustment should be applied.

6.3 Otherwise there was universal support for the Fund's policy of prioritising rate stability in the short term subject to reverting to a more normal deficit recovery period when the prospective Hutton review savings become available.

6.4 A meeting has already taken place with Somer and agreement reached on the range of deficit recovery periods which will be considered. However, there are two other issues which they raised – firstly, concerning the Fund's investment policy and, secondly, the use of assets to underwrite a deficit – where further discussions between the Fund and Somer might be beneficial.

7 RISK MANAGEMENT

7.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

8 EQUALITIES

8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

9.1 This is reporting the outcome of a consultation process.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 Are contained in the report.

11 ADVICE SOUGHT

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

Contact person	Liz Feinstein, Investments Manager 01225 395306
Background papers	CIPFA Pensions Panel (guidance on preparing FSS) Correspondence with actuary Responses to FSS from employing bodies
Please contact the report author if you need to access this report in an alternative format	

AVON PENSION FUND

FUNDING STRATEGY STATEMENT (FSS)

This Statement has been prepared by Bath and North East Somerset Council (the Administering Authority for the Local Government Pension Scheme in the area formerly known as Avon) to set out the funding strategy for the Avon Pension Fund ("the Fund"), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (the "Administration Regulations") replaced the Local Government Pension Scheme Regulations 1997 (as amended) providing the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- **After consultation with all relevant interested parties involved with the Scheme the Administering Authority will prepare and publish their funding strategy;**
- **In preparing the FSS, the Administering Authority must have regard to:-**
  - **(i) the guidance issued by CIPFA for this purpose; and**
  - **(ii) the Statement of Investment Principles (SIP) for the Scheme published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);**
- **The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the Statement of Investment Principles.**

Benefits payable under the Scheme are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the “BMC Regulations”). The required level of employee contributions are also specified in the BMC Regulations.

Employer contributions are determined in accordance with the Regulations (principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Scheme should be set so as to “secure its solvency”, whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

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

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. Aims and purpose of the Pension Fund

The aims of the fund are to:

- ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept as nearly constant as possible and at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies
- support the employers so that they can manage their liabilities effectively, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses

(all the above items as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)).

4. Responsibilities of the key parties

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with underlying legislation
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the Scheme's performance and funding, amending the FSS/SIP as necessary.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with BMC Regulation 3)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding, before the event.

The Fund Actuary should:

- prepare valuations including the setting of employers' contribution rates after consulting the Administering Authority and having regard to their FSS, and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the SIP.

5. Solvency issues and target levels

To meet the requirements of the Administration Regulations the Administering Authority's long-term funding objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay.

The financial assumptions making up the funding strategy in respect of past service and as adopted for the 2010 valuation are:

Rate of discount	[6.85]% per annum (pre-retirement) 5.70% per annum (post-retirement)
Rate of Pensionable Pay Inflation	[4.50]% per annum
Rate of pension increase inflation	[3.00]% per annum

The key financial assumptions for Past Service are as follows:

- the extent to which the Fund's investments are expected to outperform a portfolio of Government bonds ("asset outperformance assumption" – AOA). An AOA of 2.35% per annum has been assumed in respect of pre-retirement liabilities and 1.2% per annum in respect of post-retirement liabilities.

- the expected rate of Pensionable Pay increase above CPI price inflation ("real Pensionable Pay growth"). This has been assumed to be 1.50% per annum in the long term (see further comments below).

The AOA represents the advance allowance which, for valuation purposes, the actuary is making for the return which will be achieved on the Fund's assets over and above Government bonds. This reflects the liability profile of the Fund and the fact that the Fund is invested predominantly in higher return assets as detailed in Section 7. If the return actually achieved is higher than this the Fund deficit will be reduced; if the return is lower then the Fund deficit will increase (provided that all the other assumptions remain valid).

The rate of pensionable pay inflation relates to pay increases for scheme members during their period of employment (this will determine the level of their final salaries, on which the pension is based). If the actual rate of pensionable pay inflation is greater than the actuary's assumption the Fund deficit will increase; if it is lower then the Fund deficit will be reduced (again, provided that all the other assumptions remain valid).

There are special circumstances relating to this valuation such as the government's announcement that all public sector employees earning over a whole time equivalent of £21,000 per annum, would not receive any pay increases for at least two years whilst other employees would receive a flat increase. Given this, the Administering Authority will, on the advice of the Fund Actuary, make an adjustment to the valuation results to reflect this short term pay progression as far as it relates to those employers affected by the change.

The rate of price inflation applies primarily to pensions in payment and the assumption incorporates an adjustment to allow for supply/demand distortions in the bond market which is used to derive the market implied rate as at the valuation date. The rate of price inflation is important as retirement pensions are increased each April by the Consumer Price Index applying in the previous September. This is a departure from the historic approach based on the Retail Price Index and was announced by the Chancellor in his Emergency Budget in June 2010 and will apply from April 2011. The above assumptions make due allowance for this revised basis of indexation as advised by the Actuary.

In testing whether actual experience has been in line with the actuary's assumptions (which are intended to be long term allowances rather than predictive of rates in the three year period between valuations), any monitoring exercise would need to focus on their aggregate effect.

For calculating the cost of future accruals (the future service basis) a non-market related basis is adopted. This focuses on stability in the future service contribution rate, rather than linking it directly to variable gilt yields at each valuation, with the object of introducing an element of smoothing into the costs falling on employers. The use of a different basis for future service also reflects the fact that market conditions at time of payment of future contributions are at present unknown.

The future service basis for the 2010 valuation assumes a real rate of discount in excess of price inflation of 3.75% per annum (pre and post retirement).

The 2010 valuation takes into account modified longevity, ill health and proportions married assumptions compared to that adopted at the previous valuation following an analysis of Fund experience carried out by the Fund Actuary. It also assumes that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, builds in a minimum level of longevity 'improvement' year on year in the future.

The following two tenets underpin the 2010 valuation:

- that the Fund and the major employers are expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable part in achieving adequate funding over the longer term.

The current actuarial valuation of the Fund is effective as at 31 March 2010. The results indicate that overall the assets of the Fund represented [83]% of projected accrued liabilities at the valuation date.

Historically, any shortfall of assets relative to liabilities has been recovered over a period of 15 years. At the 2004 valuation, the administering authority for the Avon Pension Fund, Bath & North East Somerset Council agreed to consider requests from employing bodies to increase their recovery periods from 15 to 20 years and this position remained unchanged at the 2007 valuation At this valuation the Administering Authority is recognising the pressures on public sector finances by extending the recovery period for Scheduled and Designating Bodies with the aim of maintaining a stable rate of contribution, subject to an employer's strength of financial covenant. The Actuary has drawn the Fund's attention to the uncertain position regarding the willingness of the government to guarantee the outstanding pension liabilities of a scheduled body, in particular, a college or academy. Because there are no immediate concerns about the financial covenant over the next three years, the same maximum deficit recovery period applied to the scheduled bodies will be applied to the collages and academies. The financial risks of the colleges and academies will be monitored during the valuation period and, on the basis of this, different treatment may be necessary at the next valuation. In addition, special arrangements continued to apply so far as the admitted bodies are concerned, these being subject to the outcome of the Fund's review (see Appendix 1).

Therefore the administering authority proposes to introduce the option for employing bodies to extend the maximum deficit recovery period to those shown in the table below, **subject to there being no reduction in the employer contribution rate**. Employers will be able to select any shorter deficit recovery period than the maximum periods stated below.

Employer Category	**Maximum Deficit Recovery Period**
Scheduled and Designating Bodies (except Bath Tourism Plus and Destination Bristol	[30] years subject to no reduction in the employer rate
Community Admission Bodies (guaranteed by another Scheme Employer within the Fund)	[30] years subject to agreement with Guarantor
Community Admission Bodies (with no guarantee), Bath Tourism Plus and Destination Bristol	Determined on a case by case basis
Transferee Admission Bodies (guaranteed by the letting Scheme Employers)	Deficit recovery period to be agreed with the letting scheme employer

Ideally, the Fund would have been seeking to move back to a lower deficit recovery period at this stage but, in view of the continuing funding pressures it has not proved practicable. **Any savings arising as a result of scheme changes or any improvement in the funding position at the next valuation will be used to reduce the deficit recovery period to at least the 2007 position** and therefore reduce the overall cost of the scheme. Only after this has been achieved, will any reductions in employer contribution rates be considered.

Similarly, any increase in contribution rates necessary to restore full funding and again after discussion with the actuary, the Fund will consider allowing employing bodies to phase in the increase over a period not normally exceeding [three] years. However, it should be noted that it may not be possible to extend this facility to all admitted bodies.

Notwithstanding the above, the Fund, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

In exercising their discretion within the maximum deficit recovery period, the employing bodies will be given detailed advice by the Avon Pension Fund.

6. Admitted Bodies, Destination Bristol and Bath Tourism Plus

There are particular issues which need to be addressed in this Statement regarding the way in which the liabilities of admitted bodies are funded. The essential issues are (i) what valuation basis should be used when an admitted body leaves the Fund, (ii) what steps can reasonably be taken to protect employing bodies generally from the financial risk of an admitted body becoming insolvent and (iii) what level of contribution rate is affordable. These issues are addressed in detail in Appendix 1.

The main item of policy set out in Appendix 1 is that, unless the liabilities of an admitted body are transferred on closure to another employing body, the residual liabilities will be valued using either:

- **an "ongoing" valuation basis; consistent with the 2010 actuarial valuation assumptions but updated for market yields/inflation applying at the cessation date, or**

- **a "corporate bond yield" basis; consistent with the 2010 actuarial valuation assumptions, updated for market yields/inflation applying at the cessation date <u>but</u> with a discount rate based on the long dated Sterling AA Corporate Bond yield**,

whichever produces the higher liability value.

(It should be noted that this principle would apply to any employing body which leaves the Fund. Although the number of occasions when this is likely to occur are few, the bodies involved can be quite sizable. These events are normally triggered by restructurings initiated by government). Additionally, where an admitted body becomes insolvent and leaves a deficit with the Fund, there is a change in the way in which this deficit will be funded in future.

Although Destination Bristol and Bath Tourism Plus are resolution bodies, these have the same characteristics as some of the Fund's admitted bodies and must be considered in the same way.

Since the Fund's policy on admitted bodies will have implications for every employing body in the Fund, this Appendix should be regarded as an integral part of the Funding Strategy Statement and be read as such.

7. Link to investment policy as set out in the Statement of Investment Principles (SIP)

The results of the 2010 valuation show the liabilities to be [83]% covered by the current assets, with the funding deficit of [17]% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for out-performance of the investments or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. On this basis of assessment, the assessed value of the Fund's liabilities at the 2010 valuation would have been significantly higher.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The target position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, and expected long-term returns, as set out in the SIP are:

Asset Class	% of Fund	Expected Return (long term, p.a.)
UK Equities	27%	8.4%
Overseas Equities	33%	8.4%
Index-Linked Gilts	6%	5.1%
Fixed Coupon Gilts	6%	4.7%
UK Corporate Bonds	5%	5.6%
Overseas Fixed Interest	3%	5.6%
Fund of Hedge Funds	10%	6.6%
Property	10%	7.4%

As documented in the SIP, the investment strategy and return expectations set out above equate to an overall expected return of 2.8% per annum in excess of long-dated gilt returns. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of [2.35%] in respect of liabilities pre-retirement and [1.2%] in respect of post-retirement liabilities. Based on the liability profile of the Scheme at valuation, this equates to an overall average asset out-performance allowance of [1.6]% per annum in the short term to keep pace with the liabilities. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy set out in the SIP.

8. Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Scheme is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

The chart below illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a [10] year period from the valuation date assuming no change in contribution rates, investment strategy or the benefits of the Scheme. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower.)

CHART TO BE CONSIDERED - TBC

Financial

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated

To the extent that employer contribution rates need to increase as a result of these risks, there will in turn be an impact on service delivery and the financial position of admitted/scheduled bodies.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

Demographic

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

Regulatory

The regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or Inland Revenue Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer costs.

Governance

The Avon Pension Fund Committee has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it will be circulating copies of the first draft to all employing bodies for their comments and will also place a copy on the Fund's website. The first draft is being released after consultation with Members of the Avon Pension Fund Committee; the final version will be approved at the Committee's meeting in September after the Fund has received feedback from the employing bodies.

Governance risks are as follows:-

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Bond arrangements are strictly controlled and monitored, but in most cases the outsourcing employer, rather than the Fund, bears the risk.

9. Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Scheme membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

Avon Pension Fund
[to be updated]

FUNDING STRATEGY STATEMENT – APPENDIX 1

ADMITTED BODIES including DESTINATION BRISTOL AND BATH TOURISM PLUS

Introduction

1. An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the administering authority, it will then have an “admission agreement”. In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

2. There are basically two types of admitted body, as follows:-

   Transferee admission bodies – An employer which participates in the Fund for the benefit of employees involved with delivery of a specific function or service for a Scheme Employer (the “transferor scheme employer”). An example is where a local authority outsources a specific service (e.g. waste management) to a private sector employer. In these cases the Scheme Employer acts as ultimate guarantor and would be a party to the admission agreement in addition to the admitted body itself.

   Community admission bodies – These are the traditional type of admitted body, i.e. those which provide some form of public service and whose funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are “not for profit” organisations.

   Destination Bristol and Bath Tourism Plus – These bodies are companies limited by guarantee in which the outsourcing Scheme Employer has a controlling interest. Although they are “Designating Bodies”, they have similar characteristics to admitted bodies (viz. they are similar to transferee admission bodies in that there is an “outsourcing employer” and they are similar to most of the Fund’s community admission bodies in that there is no guarantee). For the purpose of the Funding Strategy Statement they will be treated as if they are community admission bodies.

3. As mentioned above, community admission bodies in the Avon Pension Fund are a diverse group. Some are financially very secure in that they receive funding from either the government or local authorities on a quasi permanent basis. Others either have short-term funding contracts with local authorities, which may not be renewed when they expire, or depend heavily on various forms of fund raising. Most of the recently admitted bodies are backed by a guarantee; however, those which were admitted more than eight years ago will have no such backing and, as such, will constitute a potential risk to the Fund. This is because they may cease

operations with insufficient residual assets to meet their pension liabilities.

4. The risks associated with admitted bodies have always existed but these risks have assumed a higher profile recently because most Funds – and, by extension, most employing bodies – now have a deficit of assets relative to liabilities. It is important that, in the interests of the other employing bodies, as much as possible is done to manage the risks associated with the admitted bodies. There is also the question of the basis on which the liabilities of the admitted bodies are valued by the actuary when the admitted body leaves the Fund. These have always been valued on a stronger basis (= more highly valued) than that used for the triennial valuation.

Valuation Basis

5. When the actuary prepares the triennial valuation, the rate at which he discounts future pension payments back to a present value reflects the return which he expects, or "assumes", that the Fund will earn on its investments over the long term. If this return is not achieved, either in the short term or the long term, all other things being equal, contribution rates would have to be increased at subsequent valuations.

6. When an admitted body leaves the Fund, there is no facility to revert to that body if the contributions paid by that body to meet future pension payments prove to be inadequate. Because the body responsible for generating these liabilities has no ongoing obligation to meet any future increase in liabilities relative to assets, the liabilities left with the Fund are known as "orphan liabilities".

7. **Therefore, unless the liabilities of an admitted body are transferred on closure to another employing body, the residual liabilities will be valued by the actuary using either**

   - **an "ongoing" valuation basis consistent with the 2010 actuarial valuation assumptions but updated for market yields/inflation applying at the cessation date,**

   or

   - **a "corporate bond yield" basis consistent with the 2010 valuation assumptions, updated for market yields/inflation applying at the cessation date but with a discount rate based on the long dated Sterling AA Corporate Bond yield,**

   whichever produces the higher liability value.

   The theory is that, if the assets left by the admitted body are invested in corporate bonds, the Fund can be assured of achieving a return which would approximate to the underlying liabilities and thereby eliminate most of the investment risk arising from "orphan liabilities". The Sterling AA Corporate Bond yield is, of course, the discount rate currently used for

FRS 17 purposes, albeit over a range of durations appropriate to the underlying liabilities.

8. For the purposes of the actuarial valuation, there is arguably a case for using the Sterling AA Corporate Bond yield to discount the liabilities of a substantial number of admitted bodies. This would have a twofold benefit in that (i) it would achieve consistency between the triennial valuation and the valuation basis used on closure and (ii) the higher contributions would provide greater protection for the other employing bodies in the Fund who, by default, would have to meet any deficit left by an admitted body which became insolvent.

9. Ahead of the 2010 valuation only a small number of admitted bodies are in the position of having their liabilities valued on the Sterling AA Corporate Bond basis. Had financial circumstances been more favourable at the last valuation, there would have been more.

10. However, for the benefit of the admitted bodies, additional information will be provided showing the past service deficit which would have resulted if the Sterling AA Corporate Bond yield had been used as the discount rate. Employers will then have input as to whether they wish to reduce investment risk and volatility by investing in corporate bonds with the liabilities being valued accordingly. However, this reduction in volatility will come at an increase in the contribution rate.

Transferee Admission Bodies

11. As at 31 March 2010 the transferee admission bodies in the Avon Pension Fund, with the outsourcing Scheme Employer in brackets, were as follows:-

Active Community Engagement Ltd (Bristol City Council)
Agincare (Bath & North East Somerset Council)
Aquaterra Leisure Ltd. (Bath & North East Somerset Council)
Aramark Ltd (City of Bristol College)
BAM Construction UK Ltd (Bristol City Council)
Bespoke Cleaning Services Ltd (Filton College)
Churchill Contract Services Ltd (Bristol City Council)
Eden Food Services (Bristol City Council)
English Landscapes (Bristol City Council)
ISS Mediclean (Bristol City Council)
Mama Bears (City of Bristol College)
Mouchel Business Services Ltd (Bath & North East Somerset Council)
Northgate Information Systems (Bristol City Council)
Prospect Services Limited (Gloucestershire County Council)
Quadron Services Ltd (Bristol City Council)
Shaw Healthcare (North Somerset) Ltd. (North Somerset Council)
SITA Holdings UK Ltd. (South Gloucestershire Council)
Skanska Rashleigh Weatherfoil (Bristol City Council)
SLM Community Leisure (Bristol City Council)
SLM Fitness and Health (Bristol City Council)

South Gloucestershire Leisure Trust (South Gloucestershire Council)
The Brandon Trust (North Somerset Council)
Yes Dining Ltd (Bristol City Council)

The Fund's actuary has advised that, if the outsourcing employer is willing to take over the liabilities of the admitted body when the admission agreement is terminated, the existing valuation basis can continue to be used (this does not preclude the possibility of the admitted body compensating the outsourcing employer for any deficit which may exist on closure). If, however, the outsourcing employer is not willing to take over the liabilities, the admitted body's liabilities would become "orphan liabilities" and the stronger valuation basis would apply.

12. **The information which the Fund will be seeking in respect of these admitted bodies is the policy stance of the outsourcing Scheme Employer with regard to the treatment of the transferee admission body's liabilities on closure. It will also be looking for guidance from these employers with regard to ongoing deficit management.**

Community Admission Bodies (with guarantee)

13. In 2002 new legislation was introduced which made it possible for the Fund to seek guarantees from local authorities in support of applications made by potential community admission bodies wishing to participate in the Fund. **The current policy of the Avon Pension Fund is that any such applications must, with few exceptions, be accompanied by a guarantee or, failing that, a bond.**

14. As at 31 March 2010 the community admission bodies in the Avon Pension Fund supported by a guarantee were as follows:-

Merlin Housing Society Ltd. (Transferred Staff Only)
North Somerset Housing
Southwest Grid for Learning Trust
West of England Sport Trust (Wesport)

15. The guarantors for Merlin Housing Society Ltd and North Somerset Housing are South Gloucestershire Council and North Somerset Council respectively. In this case the relationship between the community admission bodies and the "outsourcing" employer is, from the Fund's standpoint, much the same as for transferee admission bodies. The Fund will accordingly seek to establish the policy stance of the outsourcing employer with regard to the treatment of the community admission body's liabilities both on an ongoing basis and on closure.

16. The admission agreement for Southwest Grid for Learning Trust involves multiple guarantors, many of whom are not employers in the Avon Pension Fund. In this case it is not practical for any deficit on closure to be transferred to another employer in the Fund. The Sterling AA Corporate Bond valuation basis would therefore apply on closure and the

Fund will be discussing with Southwest Grid for Learning Trust the feasibility of adopting this valuation basis at the 2010 valuation.

17. Wesport was admitted to the Fund with effect from 1/1/2007. In this case the guarantors are the four unitary councils. It was agreed with these Councils that the Sterling AA Corporate Bond valuation basis should apply from the outset.

Community Admission Bodies (without guarantee)

18. The majority of community admission bodies in the Fund are, for historical reasons, not supported by a guarantee. Some were admitted prior to 1974, the year in which Avon County Council became the administering authority for the Avon Pension Fund. Some were admitted during the Avon County Council era (1974 to 1996). Others were admitted during the first five years of Bath & North East Somerset Council's administration of the Fund when there was no provision in law for local authorities to provide guarantees to underpin an admission agreement.

19. As at 31 March 2010 the community admission bodies in the Avon Pension Fund without a guarantee were as follows:-

Ashley House Hostel
Bath & North East Somerset Racial Equality Council
Brislington Neighbourhood Centre
Bristol Council for Racial Equality
Care Quality Commission
Centre for Deaf People
Clifton Suspension Bridge Trust
Connexions West of England
Direxions for Success Ltd
Holburne Museum of Art
Learning Partnership West Ltd
Off The Record Bath & North East Somerset
Somer Community Housing Trust
Somer Housing Group Ltd
Southern Brooks Community Partnership
University of Bath
West Mendip Internal Drainage Board
Woodspring Association for Blind People

20. Some of these organisations provide a service which, because it is supported by a particular employing body, can be regarded as providing the service on behalf of that employing body. In the event that an organisation of this sort goes into liquidation and leaves the Fund with an excess of liabilities relative to assets (using the Sterling AA Corporate Bond valuation basis) the most equitable solution, after utilising any legal remedies which may exist to obtain the necessary funds from the defunct body itself, would be to transfer the deficit to the relevant (i.e. "linked")

employing body. (Alternatively, the employing body might choose to take over both the liabilities and assets of the defunct body).

21. The test which would be applied to establish whether a "link" exists is taken from the regulations themselves, viz, whether the defunct body "has sufficient links with a Scheme Employer for the body and the Scheme Employer to be regarded as having a community of interest, whether because the operations of the body are dependent on the operations of the Scheme Employer or otherwise." The alternative to this solution would be for the deficit to be shared among all employing bodies in the Fund in accordance with the Regulations, something which has been normal practice for the Avon Pension Fund but which clearly has shortcomings from the standpoint of equity.

22. **Since there is no regulatory backing to support this approach, it can only be adopted by agreement. To date it has not been possible to secure this agreement. However, if the employers in the Fund were willing to agree to this approach, it would also be possible to reflect the stronger covenant when calculating the contribution rate for such bodies (in particular, this could affect the deficit recovery period).**

23. **In more general terms, the question of whether the valuation basis should be changed for community admission bodies without a guarantee will depend very much on individual circumstances.** For example, some of these bodies may intend to remain with the Fund indefinitely and, in the hypothetical event of closure, would have sufficient resources to meet the closure cost. In these cases it will be sufficient to simply draw the body's attention to the Fund's policy on closure as set out in this Statement. Otherwise the desirability of moving to a Sterling AA Corporate Bond basis of valuation has to be weighed against the ability of that body to pay higher contribution rates.

Destination Bristol and Bath Tourism Plus

24. The Fund remains concerned that there is no provision in the Regulations for the Scheme Employers which "control" Bath Tourism Plus and Destination Bristol to underwrite the liabilities of those bodies and has brought this matter to the attention of the Government. Given the present situation where there is no guarantee in place the case for moving to a Sterling AA Corporate bond basis remains and will be explored as part of the 2010 valuation.

Valuation 2010

25. The Fund's officers will, prior to the setting of new contribution rates, meet representatives of each of the admitted bodies, firstly, to explain the background to the 2010 valuation and, secondly, to establish, if possible, the extent to which they can accommodate any contribution rate increases. It is anticipated that on this occasion affordability

considerations will be paramount and that action to accelerate deficit recovery will need to await future valuations.

Appendix 2

Responses to Funding Strategy Statement 2010

Employing Body	Comments
Bath & North East Somerset Council	• Supportive of the key elements of the FSS, in particular rate stability and the use of prospective Hutton review savings to reduce the deficit recovery period in future. Request to explore the practical implications, from an accounting perspective, of expressing the deficit recovery element of the contribution rate as a cash sum
Bradley Stoke TC	• Content with a maximum 30 year deficit recovery period provided that they have the option to reduce it following calculation of the new rates. Favour short term pay adjustment but Town Council is not directly linked to local government pay scales
Bristol City Council	• Request assurance that maximum 30 year deficit recovery period is consistent with rate stability. May wish to discuss practicalities of expressing deficit recovery element of the contribution rate as a cash sum
Downend & Bromley Heath PC	• No comment (presumed in favour)
ISS Mediclean	• Queries re projected investment returns and request for more information about demographic assumptions
North Somerset Council	• Support the extension of the deficit recovery period. Stress the importance of factoring in the short term pay adjustment.
Somer Housing Group	• Query as to what the effect of determining the deficit recovery period for community admission bodies on an individual basis will mean for Somer. Query re investment policy (is it too risky?) and request for more information about demographic assumptions. Supportive of short term pay adjustment but believe long term pay assumption of 4.5% may be "too high"
South Gloucestershire Council	• In broad agreement with the thrust of the FSS
University of Bath	• Supportive of increase in maximum deficit recovery period, subject to the Hutton review savings being used to reduce it again in the future. Argue forcefully that short-term pay adjustment would be appropriate in their case
UWE	• Appreciate the emphasis on rate stability in the short run but stress importance of using the prospective Hutton review savings to reduce the deficit recovery period as soon as possible. Argue that they should be considered as part of the public sector in terms of pay constraint
Yate TC	• No comment (presumed in favour)

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Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**	**AGENDA ITEM NUMBER**	**12**
MEETING DATE:	**24 SEPTEMBER 2010**		
TITLE:	**PENSION FUND ADMINISTRATION - EXPENDITURE FOR 4 MONTHS TO 31st JULY 2010 AND PERFORMANCE INDICATORS FOR THE 3 MONTHS ENDING 31ST JULY 2010**		
WARD:	**'ALL'**		
AN OPEN PUBLIC ITEM			

List of attachments to this report:

Appendix 1 **Summary Financial Account: current financial year to 31st July 2010**
Appendix 2 **Summary of Budget Variances: 4 months ending 31st July 2010**
Appendix 3A **Balanced Scorecard : 3 months to 31st July 2010**
Appendix 3B **Balanced Scorecard : Graphs for *selected* items**
Appendix 4A ***Customer Satisfaction Feedback in* 3 months to 31st July 2010 *(Retirements from ACTIVE status)***
Appendix 4B **Customer Satisfaction Feedback in 3 months to 31st July 2010 *(Retirements from DEFERRED status)***
Appendix 5 **Customer Satisfaction Feedback in 3 months to 31st July 2010 for members attending Pension Clinics**

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the current financial year to 31st July 2010. This information is set out in Appendices 1 and 2**.**

1.2 This report also contains Performance Indicators (Appendix 3) and Customer Satisfaction Feedback for 3 months to 31stJuly 2010 recently retired members and from members attending Pension Clinics. (Appendices 4 and 5).

2 RECOMMENDATION

2.1 **That the Committee:-**

(i) Notes the expenditure for administration and management expenses incurred for the 4 months ending 31st July 2010.

(ii) Notes the Performance Indicators and Customer Satisfaction feedback for 3 months to 31st July 2010.

3 FINANCIAL IMPLICATIONS

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

3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.

4. COMMENT ON BUDGET

4.1 The summary Financial Accounts have been prepared to cover the period 1 April to 31st July 2010 and are contained in **Appendix 1**.

4.2 The forecast variance for the full year to 31 March 2011 is £392,000 under budget. Excluding Investment Management and custody fees a net under-spend of £8,000 is forecast. The total forecast variance is mainly due to a reduction in fees payable to the Fund's investment managers and to the external auditors.

4.3 The forecast under-spend on investment management fees for the full year is a result of the appointment of the Global Equity Manager not being made as early as was assumed in the preparation of the budget. This is also the basis of the forecast small reduction in expenditure on Custodian's fees. Within investment manager fees £127,000 of the budget relates to performance related fees.

4.4 Communications costs for the full year are forecast to be £12,000 over-spent. This is largely due to £32,000 of the one off initial costs of Heywood's Member Self Services system occurring in the current year. The cost of this system is expected to be recouped through the savings it generates over the next two years. The additional expenditure is forecast to be partly offset in the current year by savings in the cost of Guides and Leaflets.

4.5 Salaries costs for the full year are forecast to be on budget.

4.6 Compliance Costs for the full year are forecast to be £23,000 under-spent. This is entirely as a result of the forecast reduction in fees from the Audit Commission that was included in the Annual Audit Fee Letter presented to the Committee in June.

4.7 A summary of variances to 31st July 2010 and forecast for the full year is contained in **Appendix 2** to this Report.

5. BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS ("PIs") FOR 3 MONTHS TO 31ST JULY 2010 (APPENDIX 3A (STATISTICAL) AND APPENDIX 3B (GRAPHICAL) FORMATS

5.1 The information provided in this report is consistent with the methodology applied to the Council generally but has been customised to reflect the special circumstances of the Avon Pension Fund. **Full details of *performance against target,* in tabular and graph format, are shown in Appendices 3A and 3B**

5.2 **Data Cleansing: The effect on work**. This period saw a final assault on cleansing member data before the due date to send to the Scheme's actuary on 15th July for the Actuarial triennial valuation. As a result many "old" unprocessed leavers needed to be cleared, in many cases with limited or missing information. Death cases revealed by the *Data Cleansing Exercise* proved in many cases to be complex and time-consuming resulting in performance dropping to below 60% against the usual 90% target. This is not seen as a cause for concern as this is an *exceptional* circumstance, unlikely to be repeated for some time. In general the data cleansing increased the number and difficulty of cases to be processed.

Nevertheless in the 3 month period, over 95% of cases set up were cleared resulting in outstanding cases below 5% - considerably ahead of the 10% target. This is commendable as this was during the *Data Cleansing Exercise*,

5.3 **Transfers:** Both transfers in and out back on track and above target of 75% having now cleared the backlog following receipt of GAD guidance in September 2009. However a further revision and publication of transfer factors is needed following the government's recent move to increasing pensions in the future by *CPI (Consumer Price Index)* instead of *RPI(Retail Price Index).* This has meant that "Club Transfers" in and out (viz. mainly Public Sector) are having to be stockpiled until revised factors are received from GAD. This is expected to be within the next few months.

5.4 **Complaints:** There were **no** complaints received in the period

5.5 **APF Website: Visits to** APF Website averaged more than ***double*** the monthly 1500 target. As the hit rate has been above 3,000 for over a year now the target going forward will be increased to 3,000 per calendar month. The increased activity indicates the growing interest in pensions

5.6 **Sickness absence:** APF had an excellent record in the period with no long-term sickness and only 1.18% short- term sickness both well ahead of the APF 3% target and the Administering Authority's 5% target.

6. CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31ST JULY 2010

6.1 ***RETIREMENT QUESTIONNAIRES*** **(**Details are in **Appendices 4A & 4B)**

On average over 80% of ***active*** members retiring from service received their lump sum and 76% their first pension payments within 10 days of the selected time measure.

On average 90% of f*ormer* active members retiring from ***deferred*** status received their lump sum and 87% their first pension payments within "10 day" target.

Good/excellent responses were received from members on the service received from Avon Pension Fund staff handling their retirement. Overall service rating as *good or excellent* from *both* actives and deferreds was 91% (Item 5 on both graphs).

6.2 **CLINICS FEEDBACK**

6.2.1 **Pension C*linics:*** Four clinics were held in this period – one at Bath Spa University, two for civilians at the Avon Fire & Rescue and one at Weston College. From the questionnaire responses (reported on in detail in **Appendix 5**) it can be seen that ratings in the high 90%s were given, except for the venue which was rated only 81% of attendees as good or above. The Fund has little control over this: however employers are made aware of members' comments and we would expect the suitability of venues to improve.

6.2.2 **Redundancy Clinics:** In addition to the “regular” clinics, during the period Avon Pension Staff were asked to attend special Redundancy Clinics at two South Gloucestershire care homes where a total of 23 staff at risk of redundancy were provided with estimated pension figures on redundancy. *It is not felt appropriate to ask attendees to complete feedback forms in these circumstances.*

FUTURE Redundancy Clinics: *It is expected that during the remainder of 2010, and in 2011 and 2012, more redundancy clinics will be requested particularly by the four unitary employing authorities who are expected to be significantly downsizing their workforces.*

7. OTHER OPTIONS CONSIDERED

7.1 None appropriate.

8. RISK MANAGEMENT

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

9. EQUALITIES

9.1 No equalities impact assessment is required as the Report contains only recommendations to note.

10. ADVICE SOUGHT

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

.Contact person	Martin Phillips, Finance & Systems Manager (Pensions) (*Budgets*) Tel: 01225 395369 Steve McMillan, Pensions Manager (*Performance Indicators and Customer Feedback*) Tel: 01225 395254
Background papers	Various Accounting and Statistical Records

APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : FOUR MONTHS ENDING 31 JULY 2010

	FOUR MONTHS TO JULY 2010			FULL YEAR 2010/2011		
	ACTUAL £	BUDGET £	VARIANCE £	FORECAST £	BUDGET £	VARIANCE £
Investment Expenses	45,202	37,672	7,530	113,016	113,016	0
Administration Costs	16,876	30,000	-13,124	90,883	89,999	884
Communication Costs	55,881	84,281	-28,401	265,097	252,844	12,253
Information Systems	93,962	52,906	41,056	158,719	158,719	0
Salaries	413,152	421,831	-8,679	1,265,493	1,265,493	0
Central Allocated Costs	84,059	131,573	-47,514	396,718	394,718	2,000
Miscellaneous Recoveries/Income	-5,090	-44,900	39,810	-134,700	-134,700	0
Total Administration	**704,042**	**713,363**	**-9,321**	**2,155,226**	**2,140,090**	**15,137**
Global Custodian Fees	26,082	29,280	-3,198	83,282	87,840	-4,558
Investment Manager Fees	2,252,062	2,368,911	-101,205	6,727,420	7,106,733	-379,313
Governance Costs	42,919	88,731	-45,812	266,192	266,192	0
Members' Allowances	-7,110	15,403	-22,513	46,210	46,210	0
Independent Members' Costs	4,818	6,253	-1,435	18,758	18,758	0
Compliance Costs	42,336	70,800	-28,464	189,400	212,400	-23,000
Compliance Costs recharged	-22,268	-17,333	-4,935	-52,000	-52,000	0
Investment Governance & Compliance	**2,338,839**	**2,562,044**	**-207,562**	**7,279,262**	**7,686,133**	**-406,871**
NET TOTAL COSTS	**3,042,881**	**3,275,408**	**-216,883**	**9,434,489**	**9,826,223**	**-391,734**

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Summary of Budget Variances: Forecast for year, as at 31st July 2010 APPENDIX 2

Variances Analysis of the full year budget against forecasted outturn to the year end

Expenditure Heading	**Amount of Variance ***	**Most Significant Reasons for Variance**
Communications Costs	12,000	The initial one off costs of the Heywood's Member Self Services system (£50,000) will all be charged to the current year. The savings generated by this system are expected to recoup its cost over the next two years. This additional expenditure in the current year will be partially offset by savings in the cost of Guides and Leaflets.
Custody Fees	-4,000	A small reduction in custody fees is expected as a result of the appointment of a Global Equity Manager taking place later than was assumed in the preparation of the budget.
Investment Manager Fees:	-379,000	A reduction in ad valorem fees is expected as a result of the appointment of a Global Equity Manager taking place later than was assumed in the preparation of the budget. Note: £127,000 of the budgeted fees is due to performance related fees.
Compliance Costs	-23,000	Compliance costs are expected to be reduced by £23,000 as a result of reduced audit fees announced in the Audit Fee letter presented to the Committee in June. Compliance costs recharged relate mainly to actuarial costs.

-ve variance represents an under-spend or recovery of income over budget
+ve variance represents an over-spend or recovery of income below budget

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PENSIONS SECTION ADMINISTRATION

APPENDIX 3A to Budget Monitoring Report at 31st July 2010

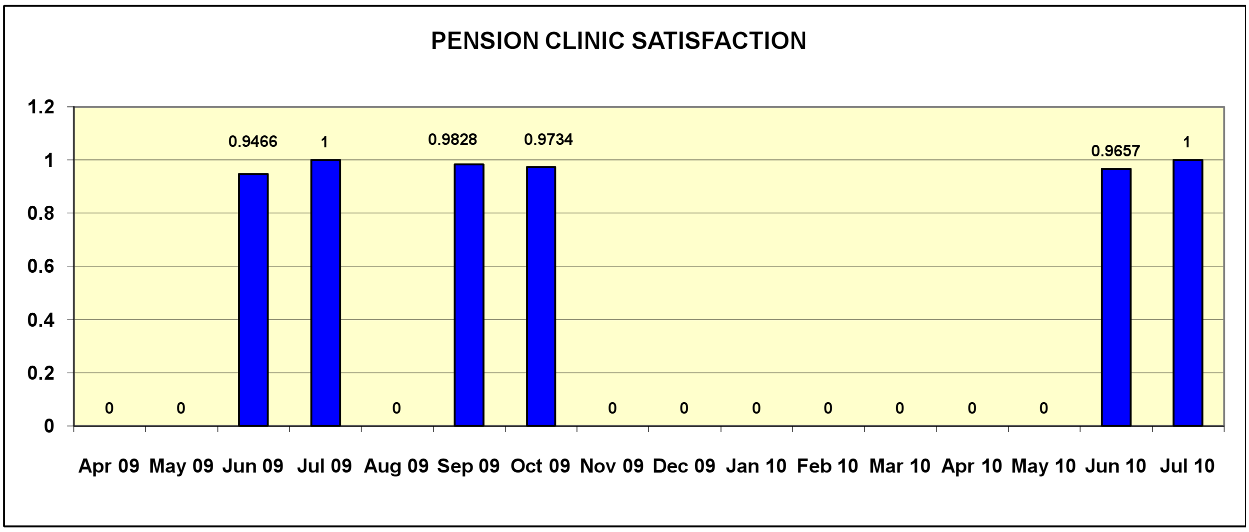
Key Performance Indicators

	INDICATOR	Green Red Amber	Reporting Dept	2009/10 Actual	Target for 2010/11	Actual - 3 months to 31/07/2010	Comment	
A	**Customer Perspective**							
1a	General Satisfaction with Service - clinic feedback	G	Admin	97%	95%	99%	4 clinics held during period.	Graph 1
1b	General Satisfaction with Service - retirees feedback	G	Admin	95%	95%	90%+	Generally good from response from retirees	
2	Percentage Compliance with Charter Mark criteria	G	Admin	90%	95%	97%	Chartermark Accreditation obtained as part of B&NES Finance in 2008 - re-assessment is due in 2011	
3	Level of Equalities Standard for Local Government	G	Admin	100%	100%	100%	Level 3 obtained by B&NES in June 2010	
4a	Service Standards - Processing tasks within internal targets (SLA)							
	Deaths [12 days]	A	Admin	89%	90%	57.58%	19 of 33 tasks were completed within target.	
	Retirements [15 days]	A	Admin	70%	90%	86.47%	390 of 451 tasks were completed within target.	
	Leavers (Deferreds) [20 days]	R	Admin	82%	75%	43.33%	510 of 1177 tasks were completed within target.	
	Refunds [5 days]	G	Admin	62%	60%	93.33%	84 of 90 tasks were completed within target.	
	Transfer Ins [20 days]	A	Admin	65%	75%	79.50%	128 of 161 tasks were completed within target.	
	Transfer Outs [15 days]	A	Admin	50%	75%	85.42%	82 of 96 tasks were completed within target.	
	Estimates [10 days]	G	Admin	91%	90%	94.16%	677 of 719 tasks were completed within target.	
4b	Service Standards Processing tasks within statutory limits	G	Admin	100%	100%	100%	Should always be 100%	
5	Number of complaints	G	Admin	22	0	0	No complaints received in the period	
6	Pensions paid on time	G	Admin	100%	100%	100%	All paid on time	
7	Statutory Returns sent in on time (SF3/CIPFA)	G	Admin	n/a	100%	100%	Should always be 100%	
8	Number of hits per period on APF website	G	Admin	44743	18000p/a 1500p/m	11375	3791 per calendar month . More than double target	Graph 2
9	Advising members of Reg Changes within 3 months of implementation	G	Admin	100%	100%	100%	Should always be 100%	
10	Issue of Newsletter (Active & Pensioners)	G	Admin	100%	100%	100%	Should always be 100%	
11	Annual Benefit Statements distributed by year end	G	Admin	70%	100%	100%	All sent by year end	

	INDICATOR	Green Red Amber	Reporting Dept	2009/10 Actual	Target for 2010/11	Actual - 3 months to 31/07/2010	Comment	
B	**People Perspective**							
1	Health & Safety Compliance	G	All	100%	100%	100%	Should always be 100%	
2	% of staff with Investor in People Award (IIP)	G	All	0%	100%	100%	n/a - reassessment due late Summer 2010	
3	% of new staff leaving within 3 months of joining	G	All	0%	4%	0%	Well within target	
4	% of staff with up to date Performance Reviews	G	All	97%	100%	n/a	None due in this period	
5	% Sickness Absence a) Short Term b) Long Term	G	All	2.50%	a) 3% b) 3%	a) 1.4% b) 0%	Ahead of APF target and well ahead of corporate target of 5%	**Chart 3**
6	% of staff with an up to date training plan	G	All	100%	100%	100%	Each person has a Personal Development Plan Folder. Program of courses (internal & external) in place for 2009/10. Training needs identified at performance reviews.	
C	**Process Perspective**							
1	a) 5 Services actually delivered & b) electronically & services capable of delivery to members	A	Admin	a) 0.3% b) 100%	a) 4% b) 100%	a) 0.3% b) 100%	a)0.03% represents the members who agreed receive the Newsletter electronically. Gandlake initiative means that over 1500 members are happy to receive info electronically b) Section able to deliver all targeted services electronically	
2	% Telephone answered within 20 seconds	G	Admin	99%	98%	99.45%	9172 calls, 9120 answered within 20 seconds	**Graph 4**
3	% Complaints dealt with within Corporate Standards	G	Admin	100%	100%	100%	Should never be less than 100%	
4	Letters answered within corporate standard	G	Admin	95%	95%	100%	Ahead of target	
5	Maintain work in progress/outstanding at **below 10%**	G	Admin	10.59%	10%	4.65%	5121 Created, 4883 cleared (95.35.% leaving 4.65% of workload outstanding) Ahead of target	**Graphs 5 6 & 7)**
6	Collection of Pension Contributions:- a) % Received late b) Total Value of late contributions	G	Accounts	a) 6% b) 0.05%	a) 0% b) 0%	a) 1.4% b) 0.005%	Over the 3 month period only 2 small employers out of 108 employers remitted their contributions late. **No persistent late-payers. Average delay of late payers 5 days.** Employers are reminded regularly of their legal obligations to pay on time and the possibility (under the 2007 Admin Regs) of billing them for extra charges if unnecessary additional work is created for APF.	
7	Year End update procedures (conts & salaries received by 31/08/2010)	G	Admin	81%	100%	100%	Returns from Employers of member contributionss for 2009/10 and Pen Rems at 31.03.2010 were due in by mid May 2010 and most were received by that date - all were received and updated by the target date of 31.08.2010. Records updated and sent to Actuary for tri-enniel valuation in July. APF are preparing 2010 Annual Benefit Statements to go out starting in October 2010.	
8	No. of customer errors (due to incomplete data)	G	Admin	2%	3%	2%	Acceptable error level	
D	**Resource Perspective**							
1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	Admin	91%	94%	94.05%	Business Financial Services (inc Pensions) figure is for 2 months *(July figure not available yet)* On target.	
2	Temp Staff levels (% of workforce)	G	All	0.40%	3%	2.54%	Below target - temporary admin assistant post from September 2009 as a result of acting ups on staff maternity absence.	
3	% of IT plan achieved against target	R	Tech & Dev	24%	100% (25% p/q)	20%	EDI progressing slow. The new Admin Strategy will be used to encourage employers to provide information electronically as the norm by April 2012. A promotional campaign will start in 2011.	
4	% of Training Plan achieved against target	G	Tech & Dev	100%	100%	100%	Staff training requirements for all staff identified from 2009 annual performance reviews. A programme of courses (internal & external) is in place for 2010 to meet these needs.	

1

APPENDIX 3B to Budget Monitoring Report at at 31st July 2010: selected items in GRAPH format



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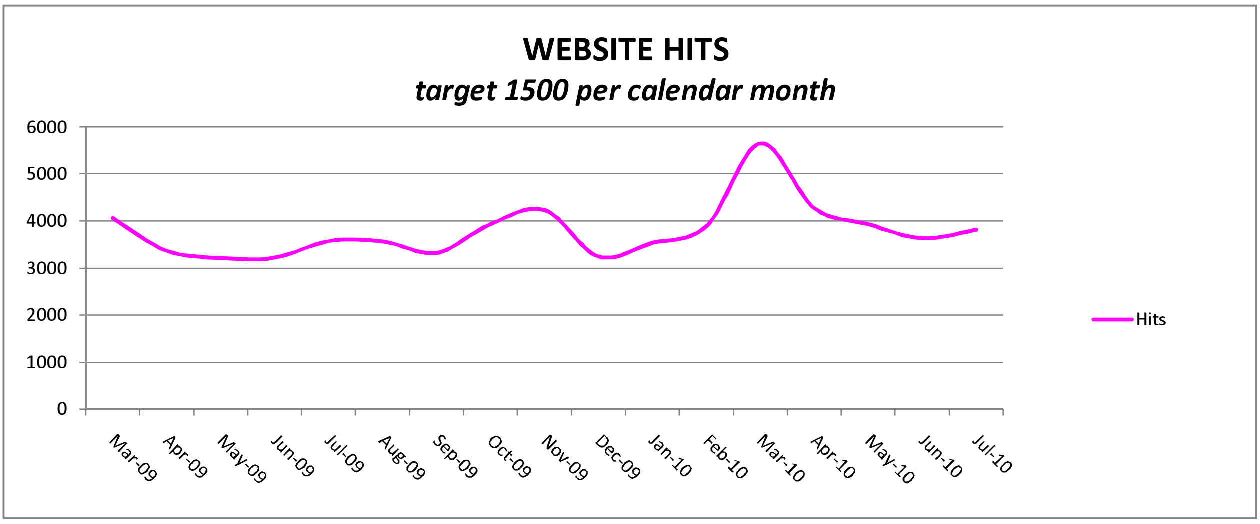

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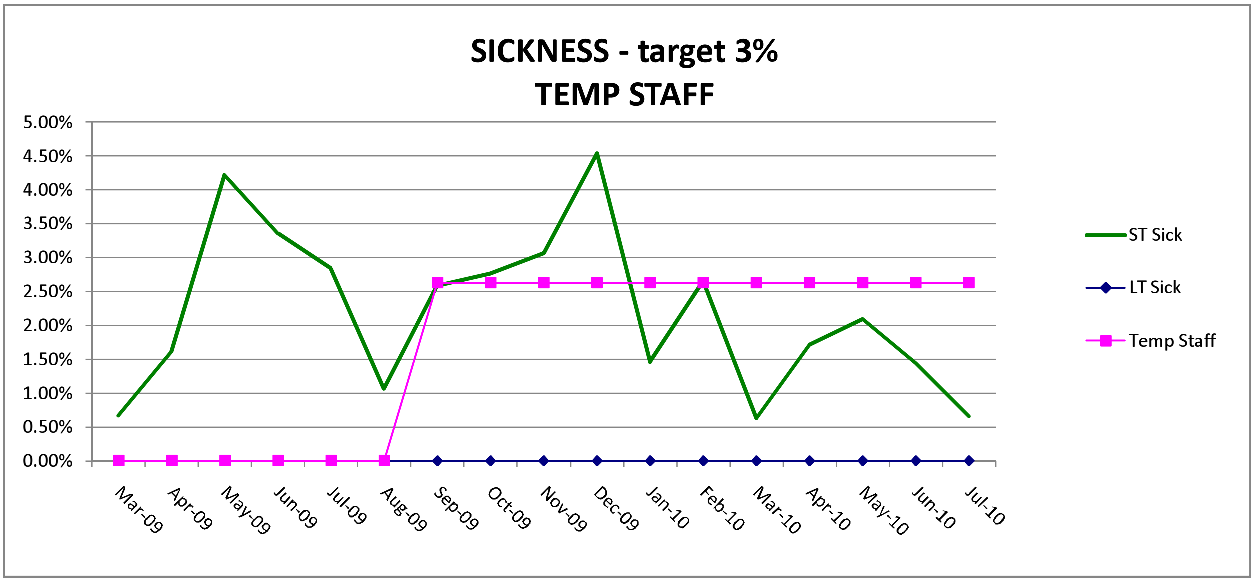

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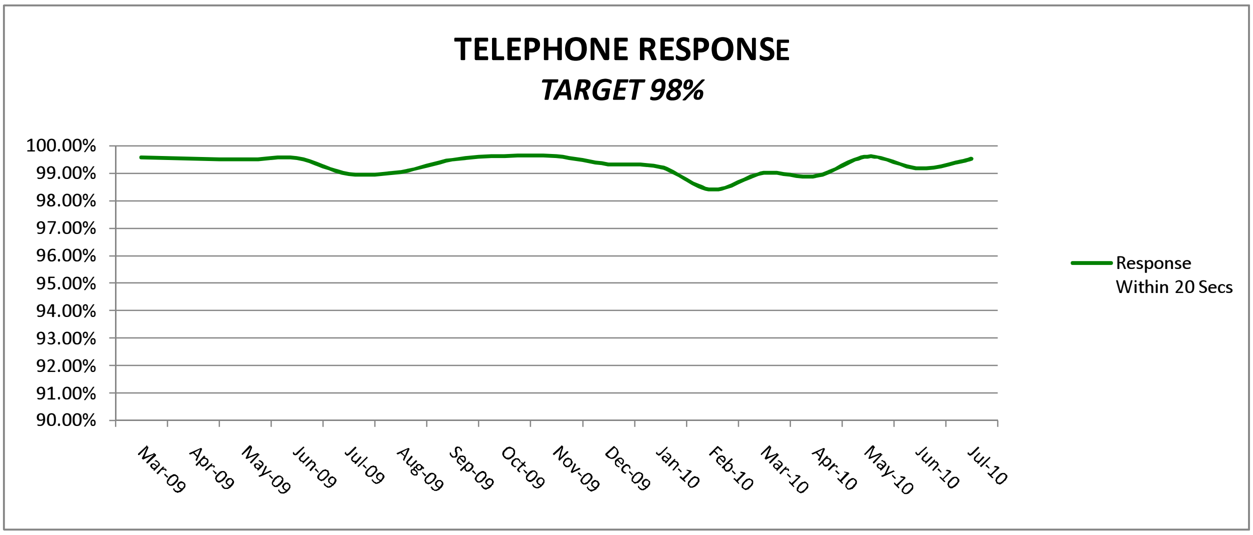
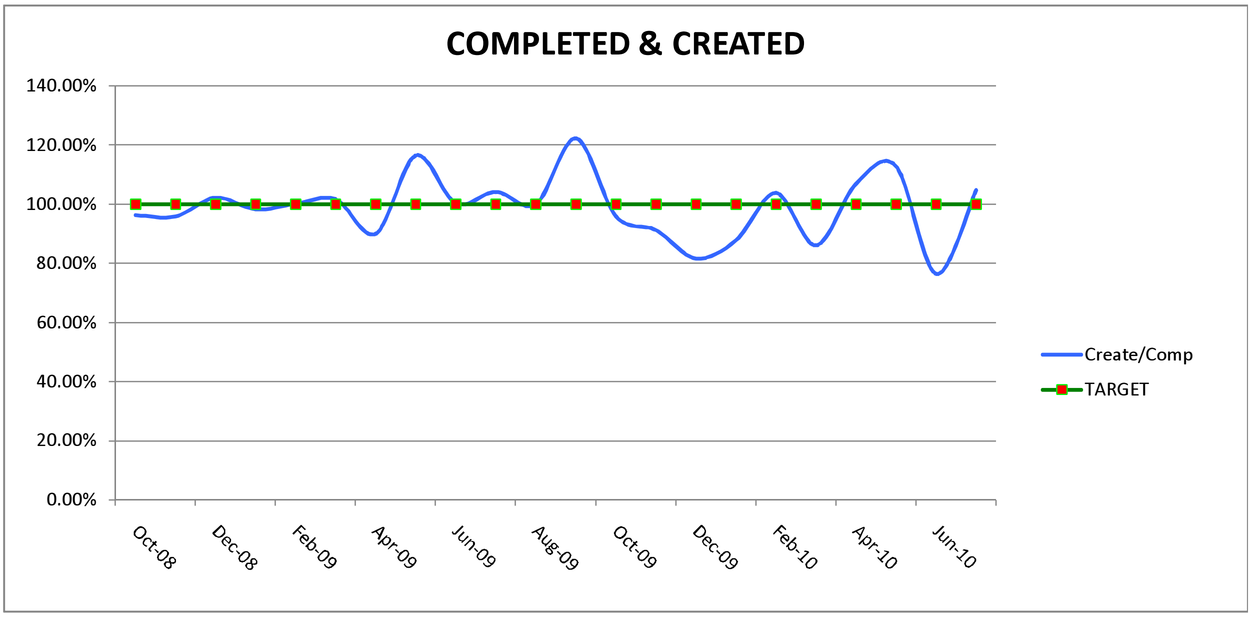


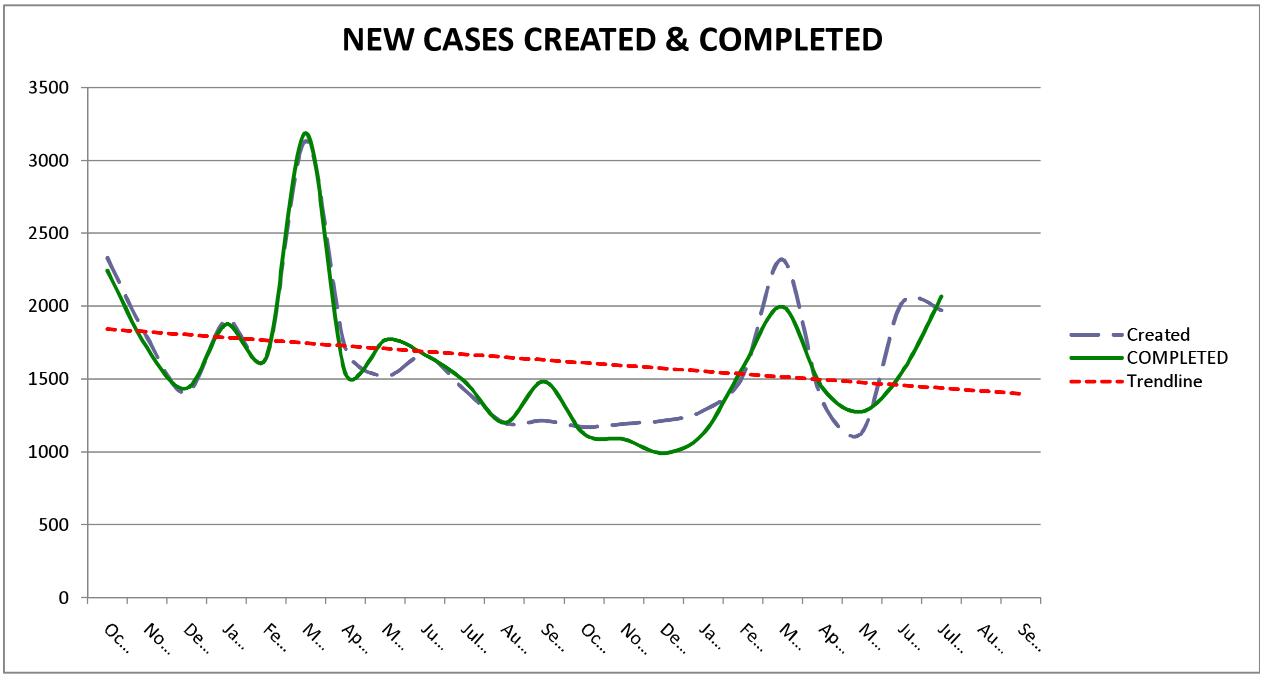
TELEPHONE RESPONSE
TARGET 98%
100.00%
99.00%
98.00%
97.00%
96.00%
95.00%
94.00%
93.00%
92.00%
91.00%
90.00%
Mar-09 Apr-09 May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10
Response Within 20 Secs

5



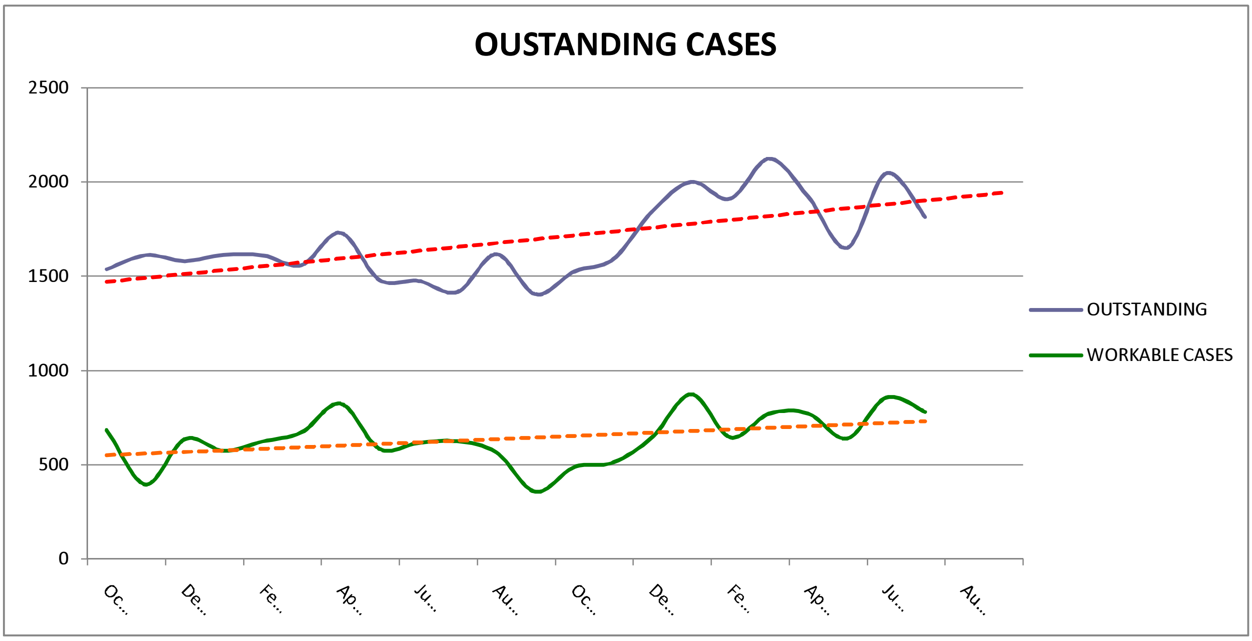
COMPLETED & CREATED
140.00%
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
Oct-08 Dec-08 Feb-09 Apr-09 Jun-09 Aug-09 Oct-09 Dec-09 Feb-10 Apr-10 Jun-10
Create/Comp
TARGET

6



NEW CASES CREATED & COMPLETED
3500
3000
2500
2000
1500
1000
500
0
Oc... No... De... Ja... Fe... M... Ap... M... Ju... Jul... Au... Se... Oc... No... De... Ja... Fe... M... Ap... M... Ju... Jul... Au... Se...
Created
COMPLETED
Trendline

7


OUSTANDING CASES
2500
2000
1500
1000
500
0
Oc...
De...
Fe...
Ap...
Ju...
Au...
Oc...
De...
Fe...
Ap...
Ju...
Au...
OUTSTANDING
WORKABLE CASES

	MONTH1			MONTH2			MONTH3			MONTH4						
DEATHS	5	5	10	10	2	12	4	7	11				19	14	33	57.58%
DEFERREDS	66	194	260	92	204	296	352	269	621				510	667	1177	43.33%
ESTIMATES	210	11	221	209	9	218	258	22	280				677	42	719	94.16%
REFUNDS	27	1	28	23	3	26	34	2	36				84	6	90	93.33%
RETIREMENTS	131	20	151	127	7	134	132	34	166				390	61	451	86.47%
TV INS	54	9	63	48	11	59	26	13	39				128	33	161	79.50%
TV OUTS	43	10	47	22	4	26	17	6	23				82	20	96	85.42%
													1890	843	2727	69.31%

Data Taken from 3 month performance tab on Monthly Stats spreadsheet

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Responses to Retirement Questionnaire

1 May 2010 - 31 July 2010

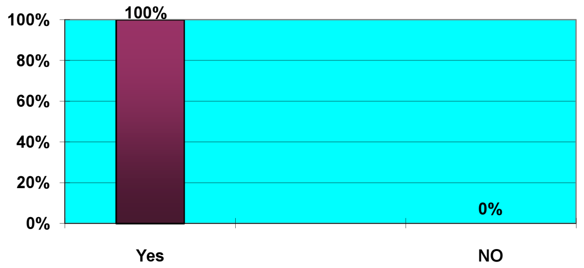
Number of Questionnaires in this period	63

No.	Question		Response	Number	%
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	63	100%
			NO		0%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	32	51%
		B	Within 10 working days after R'ment date	11	17%
		C	Later than 10 days after R'ment date	20	32%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	30	94%
			Later than 10 days after R'ment date	2	6%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	10	91%
			Later than 10 days after returning Opt Form	1	9%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	11	55%
			Later than 10 days after returning Opt Form	9	45%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	48	76%
			Later than 1 month after R'ment date	15	24%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	42	67%
			Good	17	27%
			Average	3	5%
			Poor	1	1%
6	Is there anything we could have done to improve the service we provided?		Yes	9	14%
			No	54	86%
7	Were you treated with sensitivity & fairness?		Yes	63	100%
			No		0%

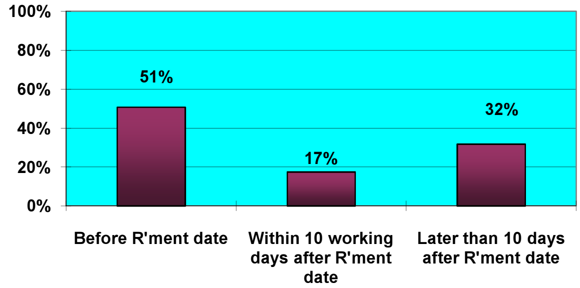
1 May 2010 - 31 July 2010

Appendix 4B

1. Was the information provided to you by the Avon Pension Fund both clear & concise?

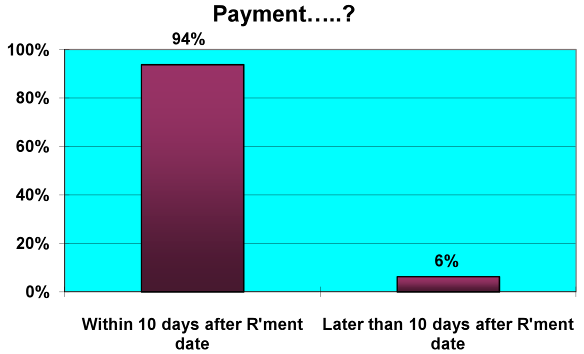


2. Did you receive your LGPS Retirement Benefits Option Form......?

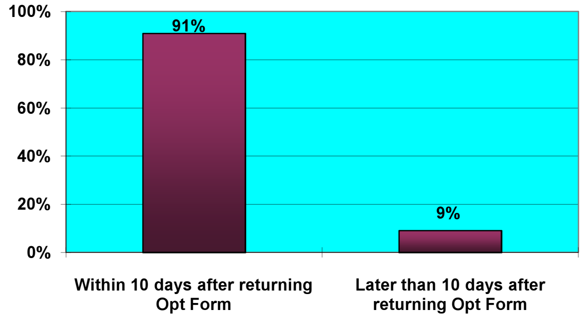


From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

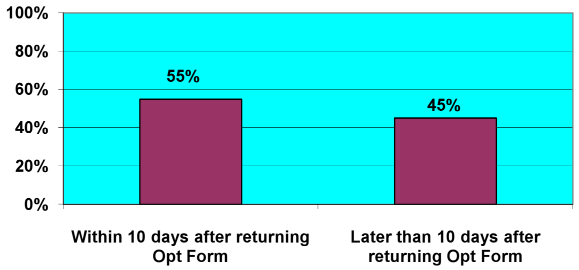
3A. Did you receive your Lump Sum Payment.....?



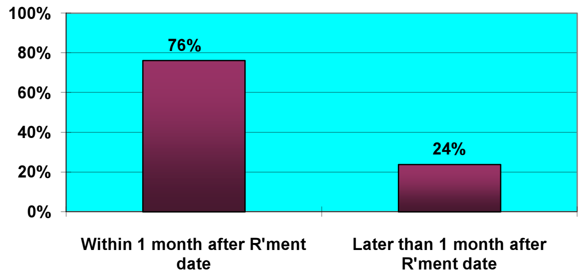
3B. Did you receive your Lump Sum Payment...?



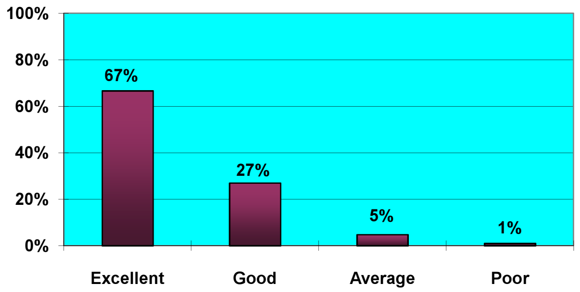
3C. Did you receive your Lump Sum Payment....?



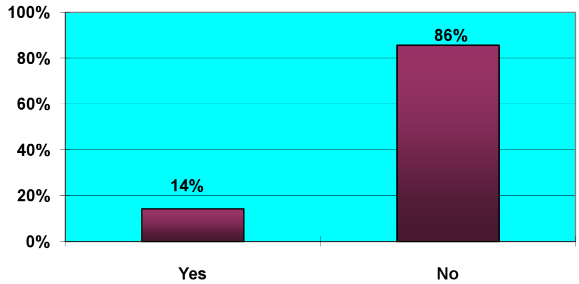
4. Did you receive your first Pension Payment...?



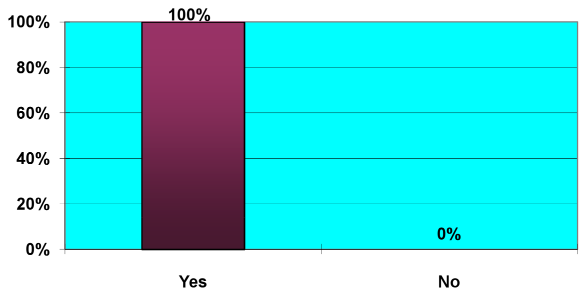
5. Overall, how would you rate the service you received from Avon Pension Fund?



6. Is there anything we could have done to improve the service we provided?



7. Were you treated with sensitivity & fairness?



Responses to Retirement Questionnaire

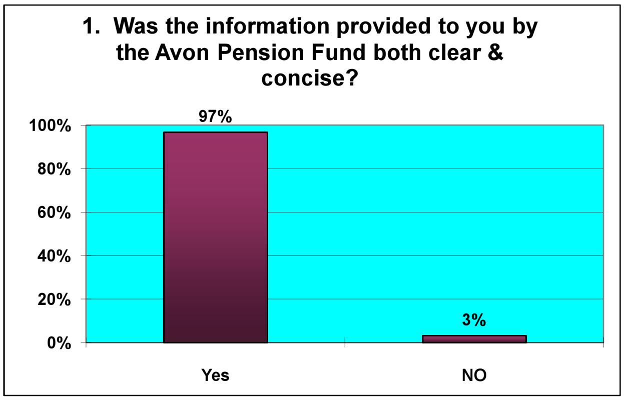
1 May 2010 - 31 July 2010

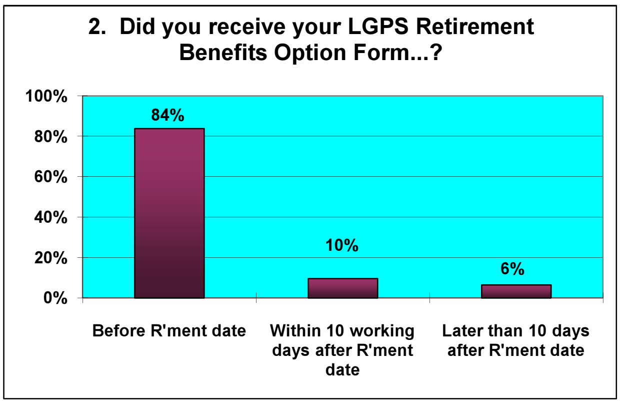
Number of Questionnaires in this period	31

No.	Question		Response	Count	%
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	30	97%
			NO	1	3%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	26	84%
		B	Within 10 working days after R'ment date	3	10%
		C	Later than 10 days after R'ment date	2	6%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	25	96%
			Later than 10 days after R'ment date	1	4%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	2	67%
			Later than 10 days after returning Opt Form	1	33%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	1	50%
			Later than 10 days after returning Opt Form	1	50%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	27	87%
			Later than 1 month after R'ment date	4	13%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	20	65%
			Good	11	35%
			Average		0%
			Poor		0%
6	Is there anything we could have done to improve the service we provided?		Yes	2	6%
			No	29	94%
7	Were you treated with sensitivity & fairness?		Yes	31	100%
			No		0%

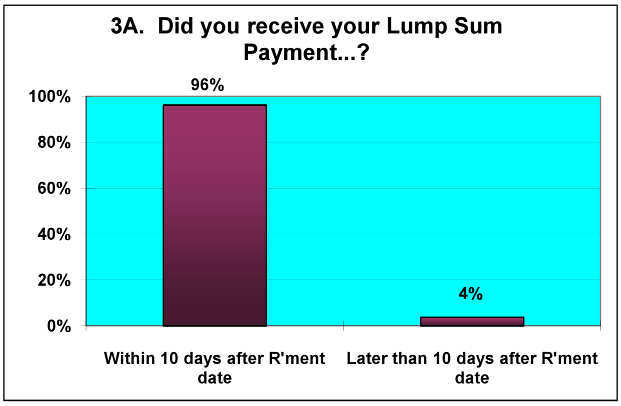
Appendix 4B

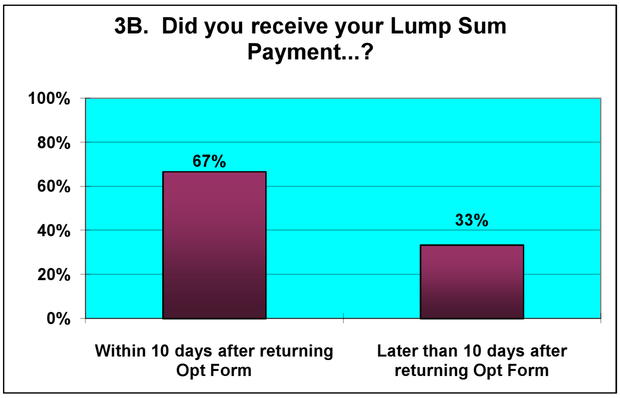
1 May 2010 - 31 July 2010

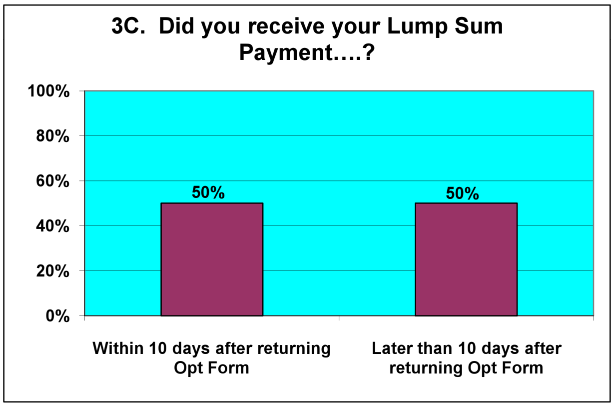


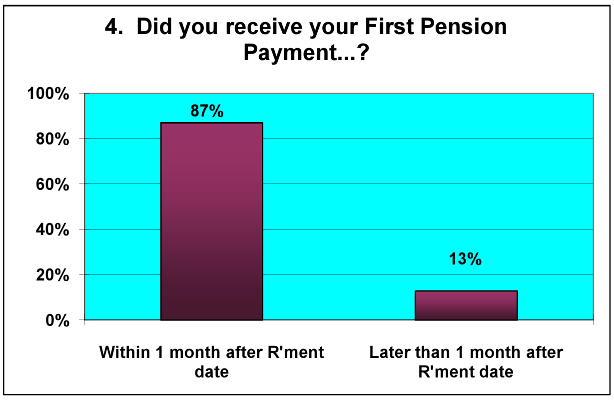


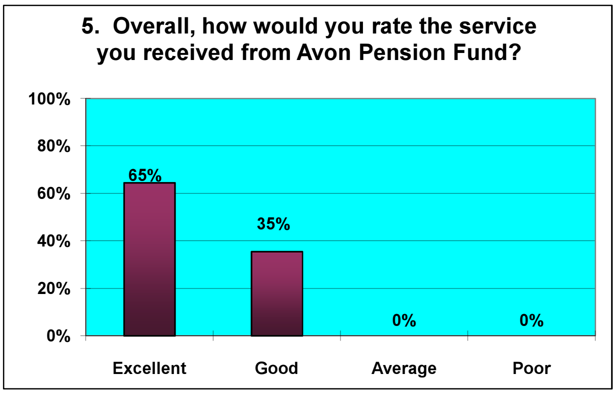
From Question 2 above (column 1)	From Question 2 above (column 2 & 3))

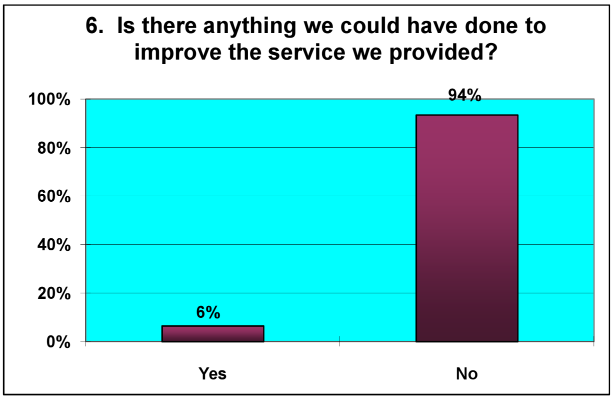


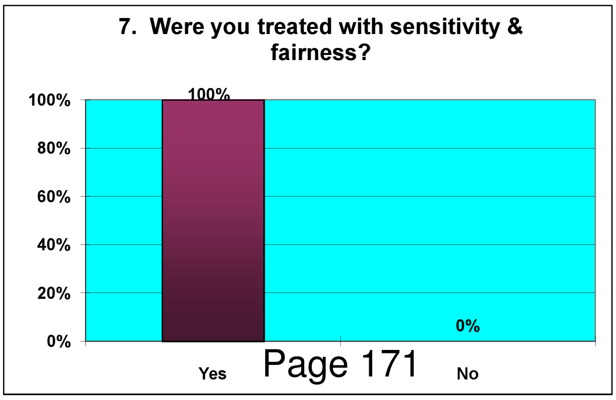












Clinic Feedback Results (1st May to 31st July 2010)

Appendix 5

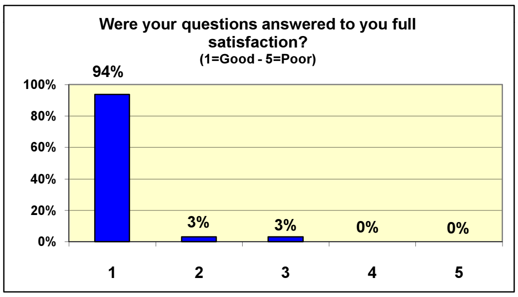
Bath Spa University 16.6.2010

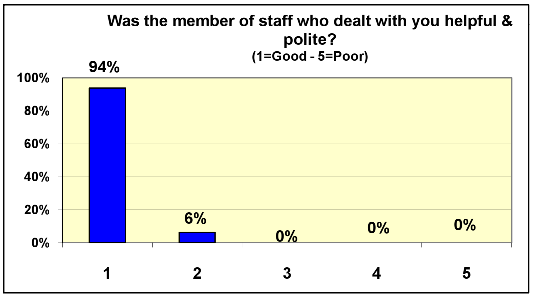
Avon Fire Brigade Temple Back 13.7.2010 & 21.7.2010

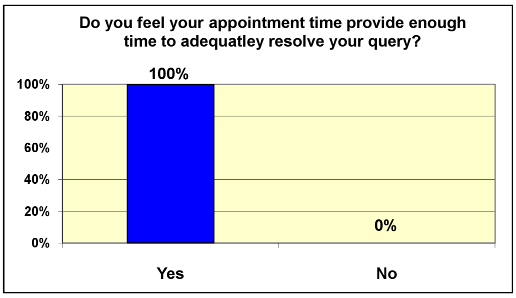
Weston College 01.07.2010

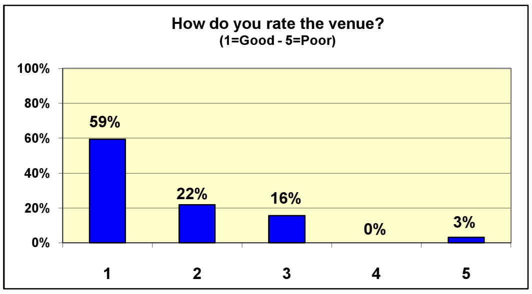
Number of questionnaires: 32

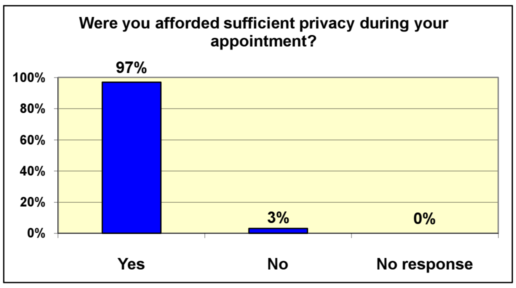
Question		No.	%
Were your questions answered to your full satisfaction?	5	30	94%
	4	1	3%
	3	1	3%
	2		0%
	1		0%
Was the member of staff who dealt with you helpful and polite?	5	30	94%
	4	2	6%
	3		0%
	2		0%
	1		0%
Do you feel your appointment provided enough time to adequately resolve your query?	Yes	32	100%
	No		0%
How do you rate the venue?	5	19	59%
	4	7	22%
	3	5	16%
	2		0%
	1	1	3%
Were you afforded sufficient privacy during your appointment?	Yes	31	97%
	No	1	3%
	No response		0%
If you had further questions and we held a Clinic at this venue again would you attend?	Yes	32	100%
	No		0%
	No response		0%
Was this location convenient for you?	Yes	31	97%
	No	1	3%

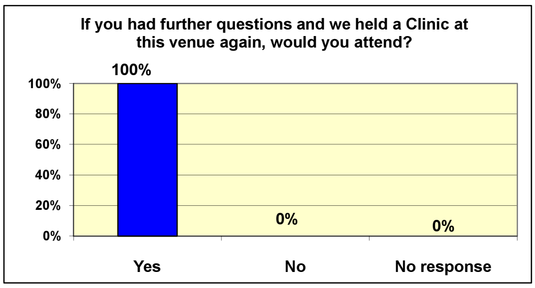


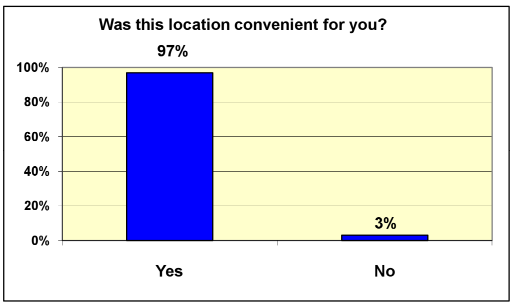












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Bath & North East Somerset Council		
MEETING:	**Avon Pension Fund Committee**	
MEETING DATE:	**24 September 2010**	AGENDA ITEM NUMBER **13**
TITLE:	**Review Of Investment Performance For Quarter Ending 30 June 2010**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report		

1 THE ISSUE

1.1 This report contains performance statistics for the quarter ending 30 June 2010. The report focuses on the strategic investment policy, the managers' performance to date, a valuation update, portfolio rebalancing and the property portfolio.

1.2 Most of the detail is contained in the appendices. The Fund's investment consultant, JLT, have prepared a report (Appendix 2) covering the performance of the investment strategy, the performance of the investment managers and the market commentary.

2 RECOMMENDATION

That the Avon Pension Fund Committee:

2.1 notes the information as set out in the report.

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund for the three years from 1 April 2010 to 31 March 2013 will impact the actuarial valuation which will be struck as at 31 March 2013.

3.2 Section 6 of this report discusses the Fund's liabilities and the funding level.

4 INVESTMENT PERFORMANCE

4.1 Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

4.2 JLT's report in Appendix 2 provides a full commentary on the performance of the strategic benchmark (pages 12-16), the investment managers (pages 17-40) and a commentary on investment markets (pages 5-11). In the section on the Fund (page 14), three year rolling returns are included to provide a longer term perspective. Qualitative summaries for the property managers are included for the first time.

4.3 The Fund's investment return and performance relative to benchmarks is summarised in the following table for the periods to 30 June 2010:

	3 months	**12 months**	**3 years (p.a.)**
Avon Pension Fund	-6.1%	18.6%	0.1%
Strategic benchmark *(Fund relative to benchmark)*	-6.0% *(-0.1%)*	18.7% *(-0.1%)*	n/a
Customised benchmark *(Fund relative to benchmark)*	-6.2% *(+0.1%)*	18.4% *(+0.2%)*	1.0% *(-0.9%)*
WM Local Authority Average Fund *(Fund relative to universe)*	-6.8% *(0.7%)*	18.6% *(0.0%)*	-1.7% *(1.8%)*

4.4 The Fund's assets fell in value by £149m (-6.1%) in the quarter giving a value for the Fund of £2,305m at 30 June 2010. This investment return was driven mainly by the falls in equity markets caused by concerns that the austerity measures in Europe and a slowdown in the pace of economic recovery in the US could lead to a double dip recession. Sterling depreciated against the US$ and Yen but it appreciated against the Euro.

4.5 More importantly over the last twelve months the Fund's assets rose by £377m or 18.6%, driven by positive returns across all asset classes, in particular equities and corporate bonds. Hedge funds lagged the rally in equities but generated positive returns.

4.6 The initial estimate for the Fund's return in July is +2.5%. However equity markets have retreated again in August.

4.7 **Against its strategic benchmark** (60% equities, 20% bonds, 10% property, 10% hedge funds) the Fund marginally underperformed over the year. The high cash balance early in the year detracted value whereas the tactical switch from gilts into corporate bonds added value.

4.8 **Against its customised benchmark** (which measures the relative performance of the managers), the Fund marginally outperformed in the quarter. Jupiter had a strong quarter given its lack of exposure to oil stocks. Most of the other managers added value against their benchmark except TT Int'l and the hedge funds.

4.9 Over the year the Fund marginally outperformed the customised benchmark mainly due to the outperformance of Jupiter, Royal London, Genesis and two of the hedge funds.

4.10 Over the last three years the Fund has generated a return of 0.1% p.a. underperforming the customised benchmark return by -0.9%. This is attributable to manager performance. Asset allocation has been a positive contributor.

4.11 **Compared to the WM Local Authority Fund universe**, the Fund is in line with the average fund over the year. Over three years the Fund's return of 0.1% p.a. is ahead of the average fund return of -1.7% p.a.

4.12 The report by JLT identifies no areas of significant concern regarding the managers, but did note that despite a good quarter the SRI constraints on Jupiter may be at the cost of significant volatility relative to the benchmark. The continued underperformance of MAN, although slight last quarter, should be considered when the fund of hedge fund investments are reviewed in 1Q11.

4.13 The Investment Panel has a workshop on 16 September 2010 to review the property portfolios. The purpose of the workshop is to understand the manager's investment process and how it is applied to our portfolios, review the outlook for the property market and discuss future investment strategy. The Panel will identify any particular performance or operational concerns to raise with the Committee.

4.14 In May MAN announced the acquisition of GLG, a global multi-strategy manager. GLG manages a range of funds and managed accounts across equity and bond markets. GLG investment products will complement and broaden the range of products offered by the enlarged group. GLG will operate as an independent investment unit within MAN Group. GLG do not manage fund of hedge funds and therefore will not directly impact the team that manages our investment. Shareholders will vote on the proposal with the outcome of the vote expected 1 September 2010. The acquisition is expected to complete in September 2010.

4.15 Jupiter became a public company in June following its flotation on the London Stock Exchange. The officers will monitor the company closely especially in relation to key man risk. Until the Fund is satisfied that the full impact from this corporate restructuring is known, no new monies should be allocated to Jupiter.

4.16 The search for the new global equity manager is progressing and submissions are currently being evaluated. The process is on schedule to appoint early in 2011.

5 INVESTMENT STRATEGY

5.1 JLT's report did not highlight any new strategy issues for consideration. The report does highlight the risk return profile of the Fund on pages 18 & 19 and the impact on risk/return by each of the managers. In particular JLT conclude that the volatility of the various portfolios/funds is in line with expectations and that the Fund has benefited from diversification by asset classes as the Fund volatility is lower than the equity managers and passive Blackrock portfolio which comprise c.75% of the total Fund.

6 ACTUARIAL VALUATION UPDATE

6.1 At the 31 March 2007 valuation the funding level was 83% (the assets were sufficient to meet 83% of the projected liabilities at that date given the existing investment and funding strategies).

6.2 The full triennial actuarial valuation is being undertaken as at 31 March 2010 which will set the employer rates for the three years commencing 1 April 2011. **The funding level at 31 March 2010 incorporating the revised assumptions discussed below is estimated to be around 80%.**

6.3 For the 2010 valuation, the Actuary will review the assumptions to be used and will also incorporate the government's recent announcement of changing the inflation rate used to value pension benefits. As part of the valuation process, the Committee will approve the Funding Strategy Statement (FSS) which sets out the parameters for the valuation. The FSS was discussed in depth at the Committee workshop held on 23 July 2010 and is included elsewhere on this agenda.

6.4 The effect of changing the basis of valuing pension benefits from the Retail Price Index (RPI) to the Consumer Price Index (CPI) is to reduce liabilities by between 5-8% (depending on the employer profile) as CPI is normally lower than RPI. (historically CPI has been c. 0.5% lower than the RPI). This difference arises due to the composition of the basket of goods and services used for each index and the method of calculation. The main difference in the underlying baskets is that the CPI does not include housing costs such as mortgage costs or council tax.

6.5 In addition the Actuary is introducing an inflation risk premium (IRP) adjustment to the market derived inflation rate used in the valuation. This adjustment allows for supply/demand distortions in the bond market which is used to derive the implied inflation rate.

6.6 The changes in the Fund's funding level to 31 March 2010 are summarised below:

	Triennial valuation March 2007	Interim valuation March 2008	Interim valuation March 2009	Estimated Mar-10	% change since 2007
Assets (£m)	2,184	2,175	1,819	2,505	15%
Liabilities (£m)	2,643	3,099	3,017	3,126	18%
Deficit (£m)	-459	-924	-1,198	-621	
Funding Level	83%	70%	60%	80%	

6.7 The funding level and increase in the deficit means there is still some pressure on employer contribution rates to rise. However, where possible this will be managed by extending the deficit recovery period beyond the current 15-20 years. Any future reduction in employer costs will first of all be used to reduce this recovery period back to 15-20 years. The Fund's officers have met with outsourcing employers and community admission bodies to discuss their specific situation with regard to the valuation.

6.8 Before the 2010 valuation is completed the government may adopt recommendations from the Independent Commission on Public Service pensions (Hutton Commission). This may result in further changes to the 2010 valuation.

6.9 It is anticipated that the total Fund valuation results will be completed by early October. Individual employer contribution rates will be available late October/early November. Officers will be meeting with employers to discuss the outcome of the valuation.

7 CASH MANAGEMENT

7.1 Cash is not included in the strategic benchmark. However, cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The segregated portfolios, TT, Jupiter and BlackRock utilise money market funds offered by the custodian, BNY Mellon. The cash within the pooled funds is managed internally by the manager. The cash managed by BlackRock in the property portfolio is invested in the BlackRock Sterling Liquidity Fund. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.

7.2 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies and are invested in line with the Fund's Treasury Management Policy which was approved on 18 December 2009.

8 REBALANCING POLICY

8.1 The rebalancing policy requires rebalancing of the Equity/Bond allocation to occur when the equity portion deviates from 75% by +/- 2%, and the valuation metric, in this case the equity gilt yield ratio, confirms that the relative valuation between equities and bonds is favourable. The implementation of this policy is delegated to officers.

8.2 There was no rebalancing undertaken this quarter. As at 4 August 2010 the Equity:Bond allocation was estimated at 74.5:25.6.

9 LAPFF ACTIVITY

9.1 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.

9.2 LAPFF's current activity includes:

(1) BP - The Forum will continue to engage with BP, having built a good relationship with the company in the recent past. LAPFF is planning to seek a meeting with the company to learn more about the company's response to the crisis. Forum members will be updated as soon possible.

(2) The Financial Reporting Council (FRC) has published the first Stewardship Code for institutional investors. This Code will replace the Combined Code. The purpose of the Code is to improve the quality of corporate governance through promoting better dialogue between shareholders and company boards, and more transparency about the way in which investors oversee companies they own. The Code includes principles on:-

- The monitoring of investee companies;
- The escalation of activities taken to protect or enhance shareholder value;
- Collective engagement;
- Voting policy;
- Managing conflicts of interest; and
- Public reporting and reporting to clients.

It is intended that a paper on the FRC Stewardship Code will be brought to the December committee meeting. LAPFF will be providing guidance on how funds can apply the Code.

10 RISK MANAGEMENT

10.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors the return of the strategic benchmark and the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

11 EQUALITIES

11.1 This report is primarily for information and therefore an equalities impact assessment is not necessary.

12 CONSULTATION

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

13 ISSUES TO CONSIDER IN REACHING THE DECISION

13.1 The issues to consider are contained in the report.

14 ADVICE SOUGHT

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

Contact person	Liz Feinstein, Investments Manager (Tel: 01225 395306)
Background papers	Investment manager reports for quarter ending 31 December 2009 LAPPF Member Bulletins Data supplied by The WM Company
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1

AVON PENSION FUND VALUATION – 30 JUNE 2010													
	Passive Multi-Asset		**Active Equities**			**Enhanced Indexation**		**Active Bonds**	**Funds of Hedge Funds**	**Property**	**In House Cash**	**TOTAL**	**Avon Asset Mix %**
All figures in £m	Black-Rock	Black-Rock 2*	TT Int'l	Jupiter (SRI)	Genesis	Invesco	State Street	Royal London		Schroder Partners			
EQUITIES													
UK	401.0	18.3	106.6	89.3								615.2	26.7%
North America	98.5	10.1										108.6	4.7%
Europe	103.8	6.8					26.2					136.8	5.9%
Japan	33.5	7.2					26.4					67.1	2.9%
Pacific Rim	38.8						23.9					62.7	2.7%
Emerging Markets					123.1							123.1	5.3%
Global ex-UK						140.4						140.4	6.1%
Global inc-UK	128.8											128.8	5.5%
Total Overseas	***403.4***	***24.1***			***123.1***	***140.4***	***76.5***					***767.5***	***33.3%***
Total Equities	**804.4**	**42.4**	**106.6**	**89.3**	**123.1**	**140.4**	**76.5**					**1382.7**	**60.0%**
BONDS													
Index Linked Gilts	151.5											151.5	6.6%
Conventional Gilts	143.6	52.6										196.2	8.5%
Sterling Corporate	3.6							124.5				128.1	5.6%
Overseas Bonds	74.3											74.3	3.2%
Total Bonds	**373.0**	**52.6**						**124.5**				550.1	**23.9%**
Hedge Funds									208.7			208.7	9.1%
Property										112.6		112.6	4.8%
Cash	3.5	25.3	1.7	2.3						1.3	16.7	50.8	2.2%
TOTAL	**1180.9**	**120.3**	**108.3**	**91.6**	**123.1**	**140.4**	**76.5**	**124.5**	**208.7**	**113.9**	**16.7**	**2304.9**	**100.0%**

N.B. (i) Valued at BID (where appropriate)

(ii) In-house cash = short term deposits at NatWest managed on our behalf by B&NES plus general cash held at Custodian

(iii) BlackRock 2 * = represents the assets to be invested in property, temporarily managed by BlackRock

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Review
for period to 30 June 2010
Avon Pension Fund

JLT BENEFIT SOLUTIONS

Avon Pension Fund

Contents

Bekki Jones, BSc (Hons), IMC
Investment Consultancy Analyst

Dave Lyons, BA (Hons), IMC
Divisional Director

August 2010

Section One - Executive Summary

- This report is produced by JLT Benefit Solutions to assess the performance and risks of the investment managers of the Avon Pension Fund (the "Fund"), and of the Fund as a whole.

Highlights

- The total Fund's assets fell in value by £149m over the second quarter of 2010, to £2,305m as at the end of June 2010.
- Over the last quarter the total Fund's assets produced a negative absolute investment return of -6.1%, outperforming the customised benchmark by 0.1%. Over the last year, the Fund produced a return of 18.6%, which was ahead of the customised benchmark return of 18.4%. Over 3 years, the Fund has produced a return of 0.1% p.a., underperforming the customised benchmark by 0.9% p.a.
- The absolute performance over the quarter was driven by the majority of managers producing negative absolute returns, in particular the equity and hedge fund managers. The returns from the equity funds were the most disappointing, as equity markets were unsettled by fears of a double dip recession. The assets invested in bonds and property produced positive absolute returns.
- Over the year performance remains positive, however the one year return has reduced following the negative return witnessed over the last quarter.
- The small relative outperformance over the quarter resulted from the outperformance of a number of the managers, in particular Jupiter, Genesis, SSgA (Europe and Pacific Rim) and Schroder. The assets with BlackRock, Invesco and RLAM performed broadly in line with their benchmarks. The overall outperformance was achieved despite underperformance from TT, Gottex, Lyster Watson, MAN, Signet, Stenham and Partners.
- There were no significant changes to the Fund's asset allocation during the quarter besides those driven by market movements.
- In May 2010 Jupiter successfully listed on the London Stock Exchange, valuing the firm at £755million.
- In May 2010 GLG Partners announced that it had agreed to be acquired by Man Group plc, through a cash and share exchange, subject to Board and regulatory approval. Shareholders are now invited to vote on the proposal with the outcome of the vote expected 1 September 2010. The acquisition is expected to complete in September 2010. Further news also emerged over the quarter when it was announced that Luke Ellis, a managing director at fund of funds firm Financial Risk Management ("FRM"), also a non-executive chairman of GLG Partners, will join Man Group plc when the proposed acquisition of GLG by MAN either closes or terminates.

Conclusion

- **Strategic allocation:** The Fund's strategic allocation remains well diversified in terms of asset class and regional exposure. We have identified no causes for concern with this strategy outside of the areas that are currently being discussed and progressed by the Investment Panel. We note that the Invitation to Tender stage of the Fund's search for a global equity investment manager closed on 11 August 2010, and the assessment of submissions received is currently underway.
- **Manager Performance:** We have identified no areas of significant concern regarding the managers. However, we note that the SRI constraints on Jupiter may be at the cost of continued underperformance relative to the benchmark (notwithstanding that their performance over the last quarter has been very strong in relative terms) and continued volatility from this investment. This links in to wider considerations regarding the Fund's approach to Socially Responsible Investment which will be reviewed in the near future. The continued underperformance of MAN, although not of significant magnitude on a quarterly basis, should be considered when the fund of hedge fund investments are reviewed later this year. Besides these concerns, we see no reason not to invest with any of the active managers during any rebalancing process, although given that the SRI policy is to be reviewed, this would imply that no new investment should be made with Jupiter until firmer conclusions have been drawn as to future policy.
- While we have no immediate concerns over the changes to Jupiter and proposed changes to MAN's ownership structures and the impact on the management of the funds, we recommend that further investment is not made into these funds until the impact of these changes is clear.

Section Two – Market Background

- The tables below summarise the various market returns to 30 June 2010, which relate the analysis of the Fund's performance to the global economic and market background.

Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	-11.8	21.1
Overseas Equities	-10.5	24.1
USA	-10.4	26.0
Europe	-14.2	17.0
Japan	-8.7	10.5
Asia Pacific (ex Japan)	-6.9	34.6
Emerging Markets	-6.5	37.7
Property	3.6	23.9
Hedge Funds	-2.3	11.6
Commodities	-9.2	4.1
High Yield	-0.7	38.9
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	6.4	8.0
Index-Linked Gilts (>5 yrs)	1.6	8.4
Corporate Bonds (>15 yrs AA)	3.6	17.3
Non-Gilts (>15 yrs)	3.1	17.6
Inflation Indices	**3 Mths %**	**1 Year %**
Price Inflation (RPI)	1.5	5.0
Earnings Inflation	-1.9	1.9
Consumer Price Index (CPI)		

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-1.4	-9.2
Against Euro	9.0	4.0
Against Yen	-6.6	-16.7
Yields as at 30 June 2010	**% p.a.**	
UK Equities	3.34	
UK Gilts (>15 yrs)	4.14	
Real Yield (>5 yrs ILG)	0.67	
Corporate Bonds (>15 yrs AA)	5.31	
Non-Gilts (>15 yrs)	5.40	
Absolute Change in Yields	**3 Mths**	**1 Year**
UK Gilts (>15 yrs)	-0.3	-0.2
Index-Linked Gilts (>5 yrs)	0.0	-0.2
Corporate Bonds (>15 yrs AA)	-0.2	-0.9
Non-Gilts (>15 yrs)	-0.2	-0.8

Statistical highlights

- In the UK, the General Election resulted in a hung parliament and the formation of a coalition government. The new government has quickly taken action to allay concerns about the high budget deficit and, in the emergency budget, increased VAT, imposed a levy on banks and announced that most government departments would have to reduce spending by 25% by 2014/15.
- Short term factors, such as the restoration of the standard rate of VAT to 17.5%, higher oil prices and the past depreciation of sterling have led to a rise in the rate of RPI inflation to 5%.

- The crisis of confidence in the Eurozone sovereign debt markets has led to a significant rise in the spread between yields on most government bonds within the region and German bunds, and, over the quarter, the rating agencies downgraded Greece, Spain and Portugal. With uncertainty as to how the Eurozone problems would be solved, the government bond markets in the UK and the United States both benefited from a 'flight to quality'.
- Against this background, global equity markets performed poorly over the quarter on concerns that the imposition of austerity measures in Europe and a slowdown in the pace of economic recovery in the US could lead to a double dip recession.
- Over the quarter, sterling strengthened against the euro owing to the crisis of confidence in the single currency, although sterling depreciated against the US dollar and the Japanese yen.

UK market events – Q2 2010

- **Quantitative Easing:** The Bank of England has kept its £200 billion quantitative easing programme on hold.
- **General Election:** The results of the General Election in May gave the nation's first hung parliament since February 1974. The Conservative Party led by David Cameron won the largest amount votes and seats, however this was still short of an outright majority win. Following this, the Conservative party joined forces with the Liberal Democrat Party led by Nick Clegg; forming a coalition government (something which had not been seen in the UK for over 60 years). David Cameron promptly named his cabinet and the newly appoint Chancellor of the Exchequer, George Osborne, announced the 2010 Budget on 22 June 2010 which contained severe fiscal tightening.
- **Government Debt:** In mid August 2010 (latest available) UK national debt stood at £939 billion, or 63.7% of GDP.
- **Unemployment:** The unemployment rate in the UK fell by 49,000 to 2.46 million during the three months to June 2010. The rate of unemployment fell by 0.2% to 7.8%, according to the Office for National Statistics. This was the second month in succession where the jobless number has fallen and is the biggest such drop in three years. The number of people employed increased by 184,000, the largest quarterly rise since 1989.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey fell from 54.6 in March 2010 to 54.4 in June 2010 (the 50-level being the point at which 'contraction' is deemed to become 'growth').
- **Inflation:** CPI annual inflation fell from 3.4% at the start of the quarter to 3.2% at the end of June 2010. RPI annual inflation rose from 4.4% at the start of the quarter, to 5.0% at the end (RPIX inflation, which excludes mortgage interest payments remains unchanged at 5.0%). The equivalent annualised EU CPI figure was 1.9%. The Governor of the Bank of England, Mervyn King, was forced to write a letter to the Chancellor of the Exchequer, George Osbourne, explaining why the CPI was more than one percentage point above the 2% target, warning he would write similar letters in the short term as prices are expected to continue to rise. Short term factors, such as the restoration of the standard rate of VAT to 17.5%, higher oil prices and the past depreciation of sterling have led to a rise in the rate of inflation.
- **Gross Domestic Product:** In the second quarter of 2010 GDP grew by 1.1%, compared with (an adjusted) 0.3% in the previous quarter. This is the third successive quarter of economic expansion, which was mainly attributed to growth across the board for example in services, construction and production. Manufacturing made the largest contribution to the growth, where output rose 1.6%.

- **Interest Rate:** Despite the fact inflation remains well above the Bank of England's target of 2.0%, the Bank's Monetary Policy Committee maintained interest rates at a record low of 0.5%, which has been in place since March 2009. The economic recovery continued in the UK, with output growth across the first half of 2010, close to historical levels. However, the level of economic activity remained well below its pre-crisis peak and the revival of the economy remains fragile with significant downside risks and spare capacity is likely to persist. Economists have largely welcomed the Bank of England's decision arguing low interest rates are needed to aid the recovery in the economy, particularly with cuts in public sector spending expected to have a detrimental effect on growth prospects.

Europe market events – Q2 2010

- **European sovereign debt crisis:** The European sovereign debt crisis dominated markets, with the strength of the euro falling against major currencies. Investors become increasingly risk averse leading to a large scale sell-off of southern European government bonds in a so-called 'flight to quality', with investors switching to (perceived safer) German and UK government bonds. As a result bond yields fell for German and UK government bonds and rose for the so-called "Club Med", Southern European countries of Greece, Italy, Spain and Portugal.
- **Greece:** The Greek economy remains deep in economic crisis after being forced to adopt harsh austerity measures to reduce the national debt. Public spending has been severely cut and the government has raised the level of taxation in an effort to halt the country's rising budget deficit. The Greek economy shrank by 1.5% in the second quarter and unemployment increased to 12%, pointing to a deep recession as the country battles its debt crisis. The disappointing official GDP figures have increased the cost of protecting Greek government debt against default. The cost of insuring exposure to €10m of Greek government bonds now stands at €795,000 a year, according to CDS monitor Markit.
- **Spain:** The Spanish economy remains fragile against a backdrop of volatile financial markets and an acute crisis of confidence, following the spread of the effects of the Greek fiscal crisis to other European economies. GDP rose by 0.2% during the second quarter despite the Spanish government's austerity measures designed to reduce the national debt. Unemployment rose to a decade high of 20.1% and there are fears the economy will slip back into recession as fiscal tightening implies the economy will have to fend for itself.
- **Germany:** The German economy expanded at its fastest pace in nearly 20 years during the second quarter, which saw a 2.2% expansion with the economy showing signs of improvement where the services and industrial sectors provided strong return figures and the stress test results in the banking sector largely restored confidence in markets.
- **Unemployment:** Unemployment in the EU 27 remained at 9.6% over the second quarter. The lowest unemployment levels were in Austria (3.9%) and the Netherlands (4.4%), and the highest in Latvia (20.0% estimated) and Spain (20.0%).
- **Services and Manufacturing Sectors:** The Eurozone's services sector PMI expanded over the 3 months in the second quarter of 2010 to 56.0 in June 2010 (again, the 50-level separating growth from contraction), and continued to rise to 56.7 in July 2010. Manufacturing output has shown signs of improving with the PMI increasing to 55.6 in June 2010.
- **Inflation:** Annual inflation in the Eurozone remained unchanged at 1.4% in June 2010.
- **Gross Domestic Product:** GDP increased by 1.0% in both the Eurozone and the EU 27 during the first quarter of 2010.

- **Interest Rate:** The European Central Bank has maintained its decision to keep the base rate at a record low of 1.0% since May 2009.

US market events – Q2 2010

- **Unemployment:** The rate of unemployment in the US rose from 9.3% in May 2010 to 9.6% in June 2010.
- **Manufacturing and Industrial Production:** The growth in manufacturing production fell over Q2 2010, leading commentators to suggest production could actually tip into negative territory.
- **Inflation:** The Consumer Price Index annual change fell to 1.1% p.a. in June 2010 from 2.3% p.a. as at 31 March 2010. The weak global outlook dampened inflation expectations, with recent economic data suggesting growth in the US economy was stuttering, with investors switching to so-called safe heaven assets such as government bonds.
- **Gross Domestic Product:** US GDP increased by 2.4% over the second quarter of 2010, which has slowed from the previous quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.
- **US Housing Market:** Sales of existing homes in the US have plunged to their lowest level in more than 10 years, caused by the end of tax credits for home buyers hitting the housing market. The figures have added to fears about the US economic recovery.

Emerging Markets market events – Q2 2010

- Emerging Markets produced negative returns over the second quarter of 2010. However, the Chinese economy only produced a return of -2.5% and India achieved a slight positive return of 0.2%. Emerging Markets are seen by many commentators as being the most resilient markets in the face of a potential double-dip recession in the developed Western economies.
- Policy makers in Brazil and China have been fretting about the excessive pace of expansion and in recent months have applied the policy brakes on their economies. Questions remain whether the Emerging Market nations can sustain their recoveries given the economic uncertainties returning to the developed world.

Market events – Global summary – 1 year

- Over the past year the global economy has continued to recover and all the major economies have emerged from recession, with many of the less developed countries growing strongly. Indeed, in China there is speculation of imminent policy tightening to curb inflation, whilst Australia's central bank raised interest rates for the fifth time in seven months in April 2010 to prevent the economy from overheating. However, towards the end of the period, there were signs that the pace of the recovery in both the US and Europe was beginning to slow.

- The sovereign debt crisis affecting mainly the so-called “Club Med” economies and Ireland in the Eurozone has had a major influence on the financial markets over the past few months and has led to fears that the Eurozone economic recovery might stall. As the crisis unfolded in Greece, the Portuguese, Spanish and Irish economies came under the spotlight and the euro depreciated against all the major currencies, with some debate regarding a possible ‘break-up’ of the euro. Initially Germany and France refused to intervene on behalf of Greece, citing the no bail-out clause in the Maastricht Treaty, but market pressures eventually forced the EU, in conjunction with the International Monetary Fund, to provide a €750 bn liquidity package. The package provides a short-term financing facility that enables governments to rollover maturing debt at favourable rates. This reduces the likelihood of a sovereign default, which potentially could lead to a default of a major European bank, many of which have significant exposure to government debt in these countries. Fiscal tightening measures are now being implemented in most Eurozone countries in order to head off a worsening of the debt crisis, although this has led to demonstrations in both Greece and Spain.
- The Bank of England spent £200bn under its policy of quantitative easing (“QE”) by purchasing gilts in order to improve liquidity in the markets and to stimulate the economy. Although the UK economy has emerged from recession, it remains fragile, growing by just 0.3% in the first quarter of 2010, and the newly created Office for Budgetary Responsibility forecasts that the economy will grow by 1.2% in 2009/10 and 2.3% in 2010/11 notwithstanding the figure of 1.1% for GDP growth in Q2 2010.
- In the latter part of 2009 and during the run up to the General Election, there was increasing concern about the spiralling level of government debt and a rapid rise in the rate of both RPI and CPI rates of inflation, albeit from a very low level. In the UK, the prospect of a hung parliament also led to uncertainty in the UK financial markets. The General Election resulted in a hung parliament and the formation of a coalition government. However the new coalition government has quickly taken action to allay concerns about the high budget deficit and, in the emergency budget, increased VAT, imposed a levy on banks and announced that most government departments would have to reduce spending by 25% by 2014/15. Against this background, the Monetary Policy Committee of the Bank of England (MPC) has maintained interest rates at 0.5% throughout the period. Most analysts now believe that interest rates will remain at a lower level for longer than had previously been forecast, despite the recent increase in the rate of inflation. Some analysts still remain concerned that the scale of the cutback in government spending could lead to a double dip recession.
- Interest rates in the US and the Eurozone were also unchanged over the year at 0.25% and 1.0% respectively.

Equities

- Amid increasing evidence that the global economy was emerging from recession, the recovery in the global equity markets from the low point in March 2009 gained momentum during the remainder of the 2009. The markets continued to rally during Q1 2010, but during Q2 2010 they performed poorly as the pace of the economic recoveries in the United States and Europe moderated. Nevertheless, the return on the UK equity market over the year was 21.1% and that on overseas equity markets was 24.1%. During the period, the FTSE All-Share Index rose to a level above that last seen prior to the collapse of Lehman Brothers.
- More recently, the European debt crisis has dominated the headlines, leading to major falls in share prices, particularly those of the Southern European banks. In local currency terms the worst performing equity market over the last quarter was in Japan, which fell by 14.7% but the US, UK, Europe ex UK, Emerging Markets and Asia Pacific fell by 11.6%, 11.8%, 8.2%, 6.0%, and 4.7% respectively.
- The optimism in the UK equity market that had emerged since last June quickly evaporated during Q2 2010 as it emerged that the UK economic recovery was not gaining momentum. The BP oil spill in the Gulf of Mexico dominated the headlines over the quarter and has led to strained relations between the US and UK governments. At one stage, BP comprised almost 7% of the FTSE All-Share Index but its share price has more than halved and, at one stage, it comprised only around 4% of the index. Following pressure from the US government, the company is suspending dividend payments. The impact of the suspension in dividend payments on UK pension schemes is severe, because roughly speaking £1 in every £7 of dividend income from the FTSE 100 companies comes from BP. The disaster has damaged the reputation of BP, is likely to lead to punitive fines and has also had an adverse impact on the valuation of other energy companies.
- Over the period as a whole, the equity markets in the developed and emerging markets of the Pacific Basin produced the best returns as their economies were growing rapidly, their banking systems were not subject to the same pressures as those in the West and there was not a large overhang of government debt.

Bonds & credit

- At the start of the 12 month period, the spread of long-dated AA rated corporate bond yields over long-dated gilt yields stood at approximately 1.9% and over the period it fell to around 1.2%.
- The recovery in the corporate bond market from the low point in March 2009 had begun when it became apparent that investors' worst fears regarding the length and depth of the recession were not being realised and corporate defaults were at a much lower level than had been priced into the market. Despite a high level of new issuance, during the review period there was significant demand from investors as they recognised that corporate bonds offered an equity like long-term rate of return for a much lower level of risk.
- Spreads have widened slightly over the last few weeks because of the flight to quality to gilts rather than any particular concern about corporate bonds and the yields on corporate bonds are still attractive on a longer term view.
- Index-linked gilt yields also fell over the 12 months as fears about the outlook for inflation kept demand at a high level relative to supply.

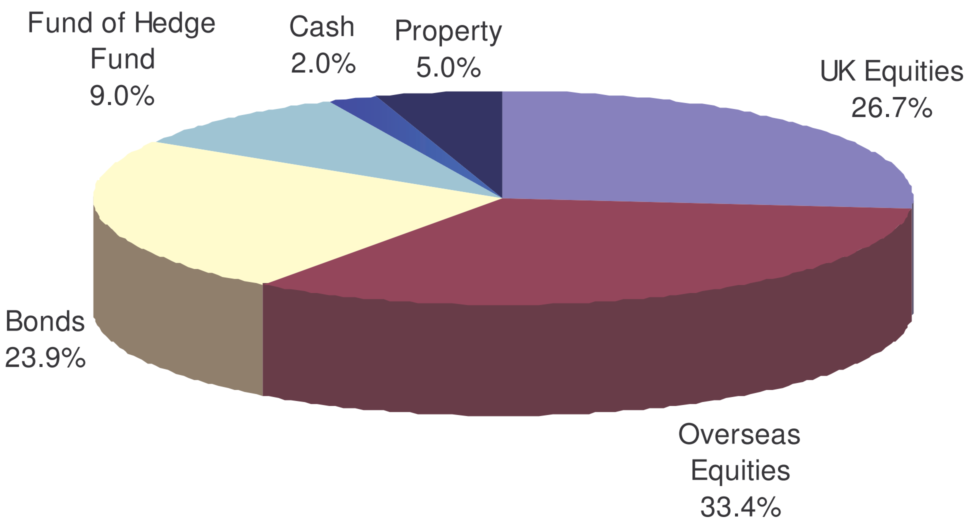
Alternative asset classes

- From mid-2009 onwards, property staged something of a bounce-back as investors began to believe that the market had reached the bottom and started to invest their capital. Indeed, towards the end of 2009 and in early in 2010, high demand for property from retail, institutional and foreign investors caused some pooled funds to close to new investment, or to introduce a waiting period. This is the reverse of the situation observed as recently as late 2007 / 2008, when funds closed in order to manage requests for disinvestments.
- Hedge funds on the whole had a positive year, although they have tended to underperform the equity markets. In some cases this resulted from a decision by some funds to lock in their profits for 2009 rather than continue to be exposed to market movements in the latter part of 2009. Perhaps surprisingly, hedge funds produced a negative return over the last quarter despite the volatility in the financial markets. Distressed debt and long / short equity funds were among the better performing hedge fund strategies over the period.
- For most of the period under review, commodities performed well, benefitting from the strength of the global economic recovery. Although commodity prices fell by more than 9% during the last quarter as the pace of the global recovery slowed, commodities have produced a return of 4.1% over the year.
- Mirroring the events in the corporate bond market, high yield bonds performed strongly with spreads relative to government bonds falling substantially.

Section Three – Fund Valuations

- The chart and table below show the asset allocation of the Fund as at 30 June 2010, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.

Asset class allocation as at 30 June 2010



Asset Class	30 June 2010 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	615,013	26.7	27.0
Overseas Equities	770,987	33.4	33.0
Bonds	550,230	23.9	20.0
Fund of Hedge Funds	208,668	9.0	10.0
Cash	45,842	2.0	-
Property	114,484	5.0	10.0
Reconciling differences and rounding	-337	0.0	-
TOTAL FUND VALUE	**2,304,887**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets fell by £149m over the second quarter of 2010 to £2,305m, mainly as a result of negative absolute investment performance from asset classes such as UK and overseas equities, as well as hedge funds. These assets comprise approximately 69% of the Fund's assets.
- There has been no significant change to the asset allocation, which has largely drifted with investment market movements over the quarter. There were some investments during the quarter, which included the funding of property investments.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	31 March 2010 Value £'000	31 March 2010 Proportion of Total %	Net New Money £'000	30 June 2010 Value £'000	30 June 2010 Proportion of Total %
Jupiter	UK Equities	94,241	3.8	-	91,647	4.0
TT International	UK Equities	124,756	5.1	-	108,259	4.7
Invesco	Global ex-UK Equities	158,223	6.4	-	140,403	6.1
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	86,044	3.5	-	76,444	3.3
Genesis	Emerging Market Equities	130,121	5.3	-	123,064	5.3
Lyster Watson	Fund of Hedge Funds	9,823	0.4	-	9,530	0.4
MAN	Fund of Hedge Funds	95,047	3.9	-	92,143	4.0
Signet	Fund of Hedge Funds	45,279	1.8	-	45,059	2.0
Stenham	Fund of Hedge Funds	11,544	0.5	-	11,225	0.5
Gottex	Fund of Hedge Funds	51,280	2.1	-	50,712	2.2
BlackRock	Passive Multi-asset	1,273,197	51.9	1,300	1,180,980	51.2
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	130,355	5.3	-7,130	120,337	5.2
RLAM	Bonds	122,185	5.0	-	124,456	5.4
Schroder	UK Property	76,786	3.1	1,630	81,125	3.5
Partners	Property	30,116	1.2	5,500	32,825	1.4
Internal Cash	Cash	15,161	0.6	-1,300	16,676	0.7
Rounding		1	0.1	-	2	0.1
TOTAL		**2,454,159**	**100.0**	**-**	**2,304,887**	**100.0**

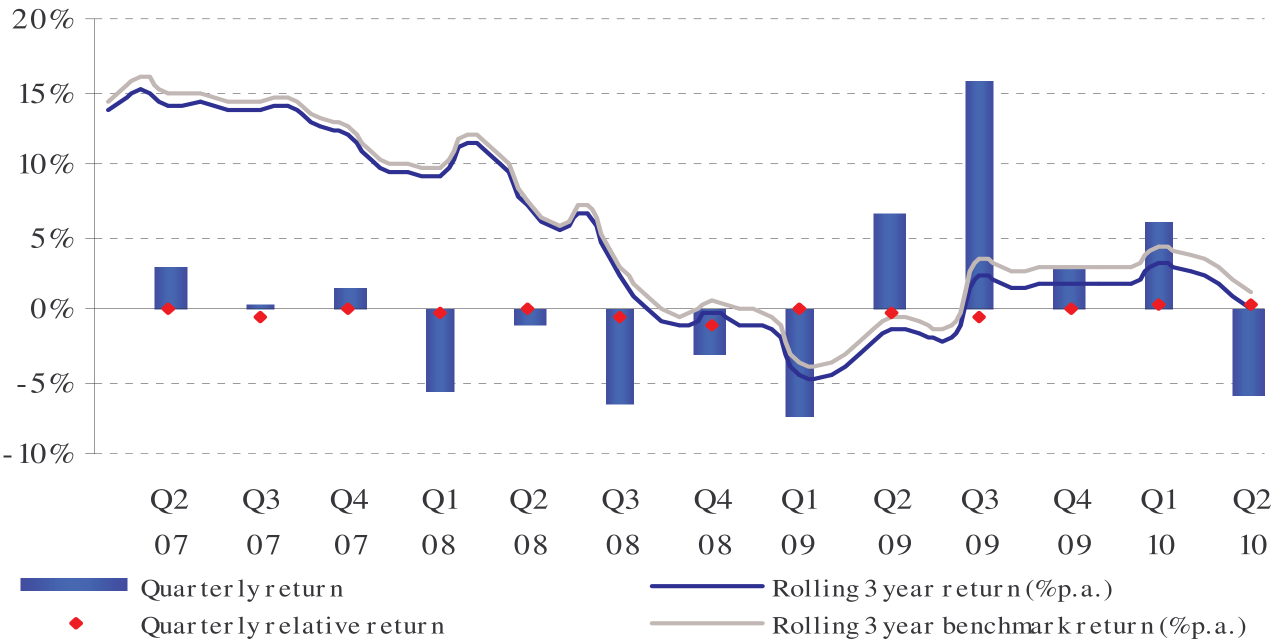
Source: Data provided by WM Performance Services

Section Four – Performance Summary

Total Fund performance

- The chart below shows the absolute performance of the total Fund's assets over the last 3 years.

Total Fund absolute and relative performance



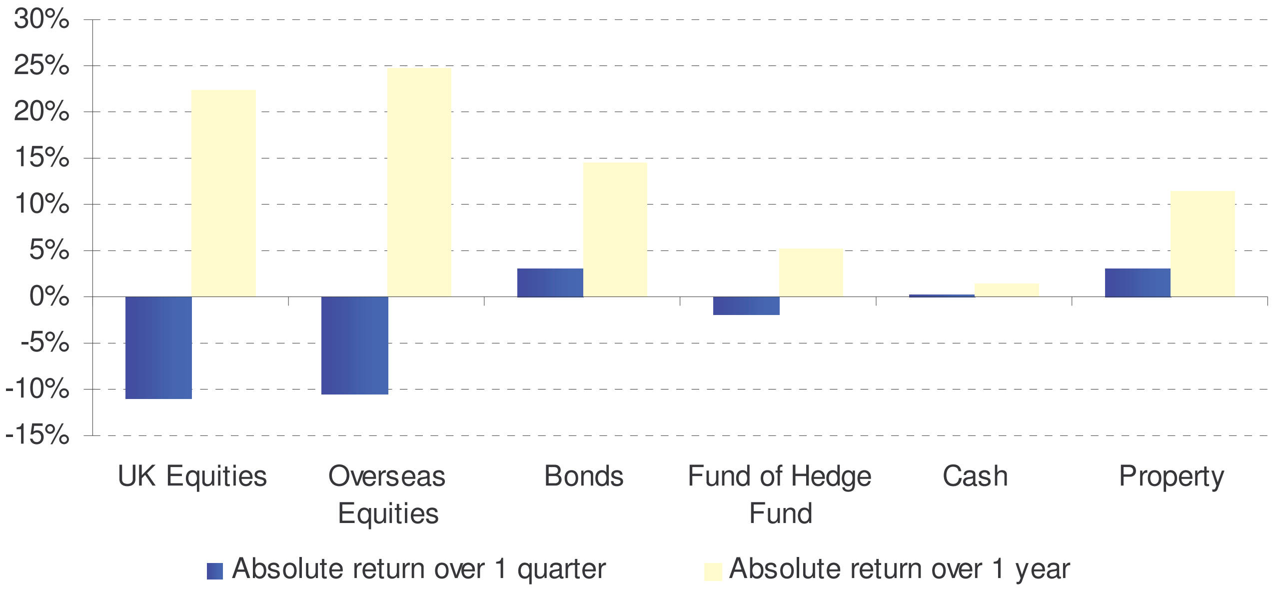
Source: Data provided by WM Performance Services

- Please note that the rolling 3 year return has been included in place of the rolling 1 year returns in previous quarters, to provide a longer term view of investment performance.
- Over the last quarter (blue bars) the total Fund's assets produced a return of -6.1%, outperforming the customised benchmark by 0.1%.
- Over the last year (not shown above) the total Fund's assets produced a positive return of 18.6%, outperforming the customised benchmark by 0.2%.
- Over the last 3 years (blue versus grey line) the total Fund's assets produced a positive return of 0.1% p.a., underperforming the customised benchmark by 0.9% p.a.
- The driver of negative absolute performance over the last quarter was the negative absolute returns from the majority of the Fund's managers across the asset classes (see page 17), in particular those within equities (both UK and overseas) and hedge funds.
- The slight outperformance over the quarter arose from positive relative returns from a number of the managers, most notably Jupiter, Genesis, SSgA and Schroder. BlackRock (multi asset), Invesco and RLAM performed broadly in line with their benchmarks. There were some underperforming managers (namely TT and the hedge fund managers) however these were outweighed by the positive relative returns.

Asset classes performance

- The chart and table below show the absolute performance of the Fund's assets by asset class over the quarter and year to 30 June 2010. Note that the returns from the BGI Multi-Asset portfolio and the second BGI portfolio (now under the name of BlackRock), which hold a combination of asset classes, are aggregated within the relevant asset class returns.

Asset class absolute performance to 30 June 2010



Source: Data provided by WM Performance Services

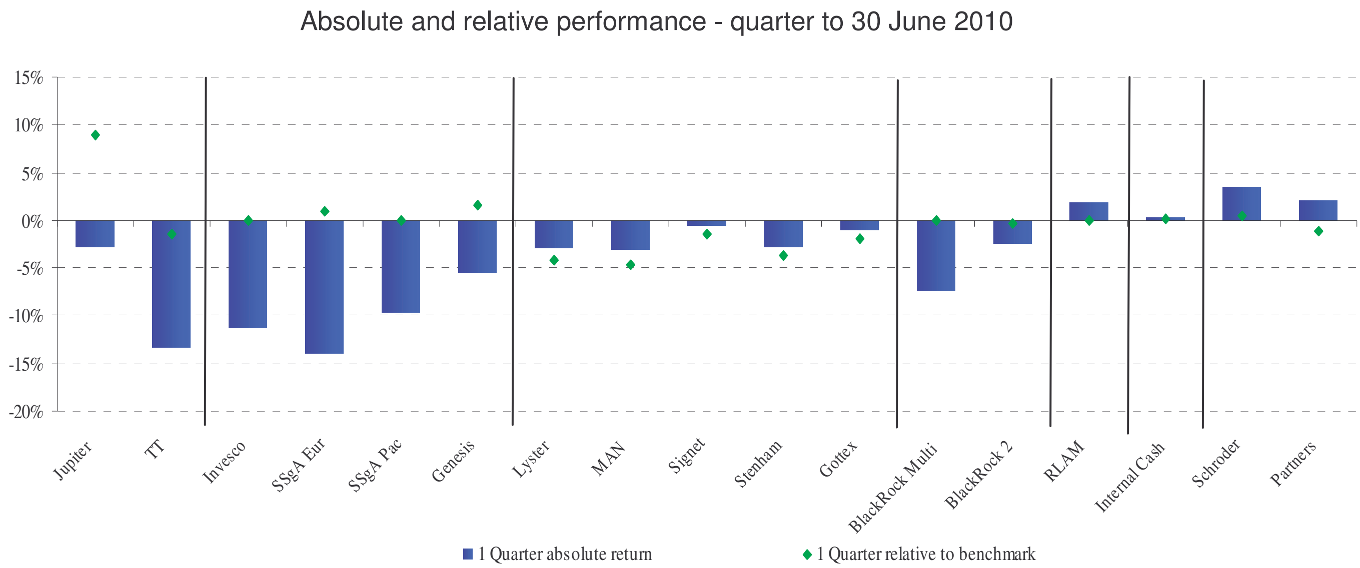
- Over the second quarter of 2010, UK equities, overseas equities and fund of hedge funds all produced negative returns; bonds produced positive returns, as did cash and property, albeit small.
- The key drivers of absolute performance are:
- UK and overseas equity markets had a turbulent quarter and produced disappointing returns of -10.8% and -10.4% respectively.
- Sterling depreciated against the dollar and yen over the quarter, meaning a higher return on the dollar and yen denominated overseas equities in sterling terms. Sterling appreciated against the euro, meaning a lower return on the euro denominated overseas equities in sterling terms. All major markets produced negative returns for the quarter in local currency terms. The highest local currency return came from the Asia Pacific region, and the lowest from the Japan region.
- Bonds produced reasonable returns over the quarter, with the highest bond returns being produced by UK government bonds.
- The fund of hedge fund portfolio produced negative returns of -2.0%.
- The table overleaf shows the returns from major asset class indices over the quarter and year to 30 June 2010:

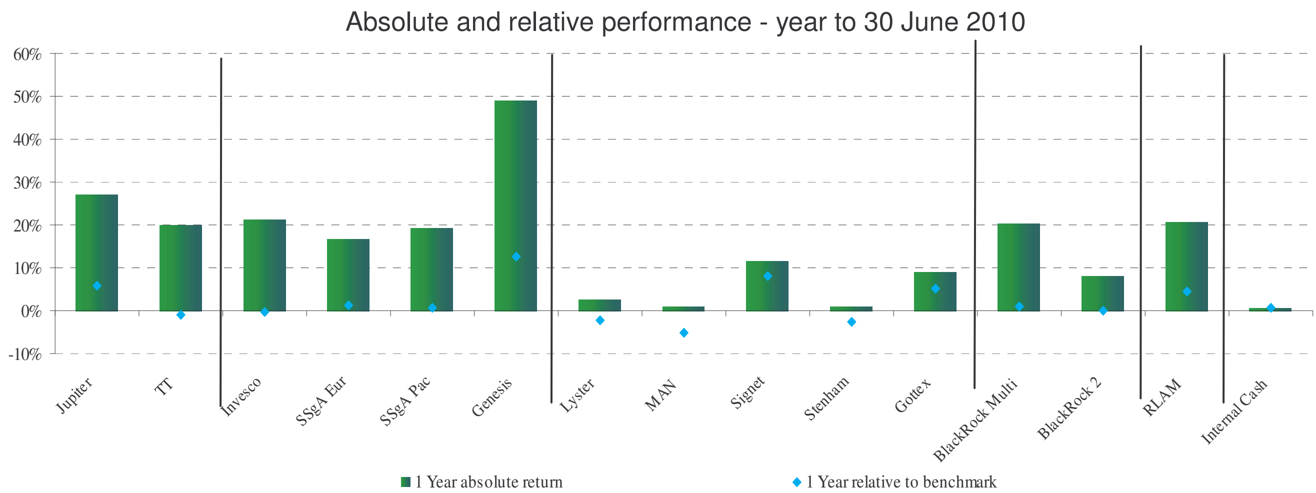
Asset Class	Weight in Strategic Benchmark	Q2 2010 (index returns)	1 year (index returns)
UK Equities	27%	-11.8%	21.1%
Overseas Equities	33%	-10.5%	24.1%
Index Linked Bonds *	6%	1.7%	9.0%
Gov Bonds – Fixed *	14%	4.5%	6.7%
Corporate Bonds *		1.0%	19.0%
Hedge Funds	10%	-2.3%	11.6%
Property	10%	3.6%	23.9%
Total Fund	**100%**		

*Please note that these are 'all maturities' index returns and so differ from the 'long maturities' index returns shown on the Market Background page in Section Two.

Manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of June 2010. The relative quarter and one year returns are marked with green and blue dots respectively.





Source: Data provided by WM Performance Services

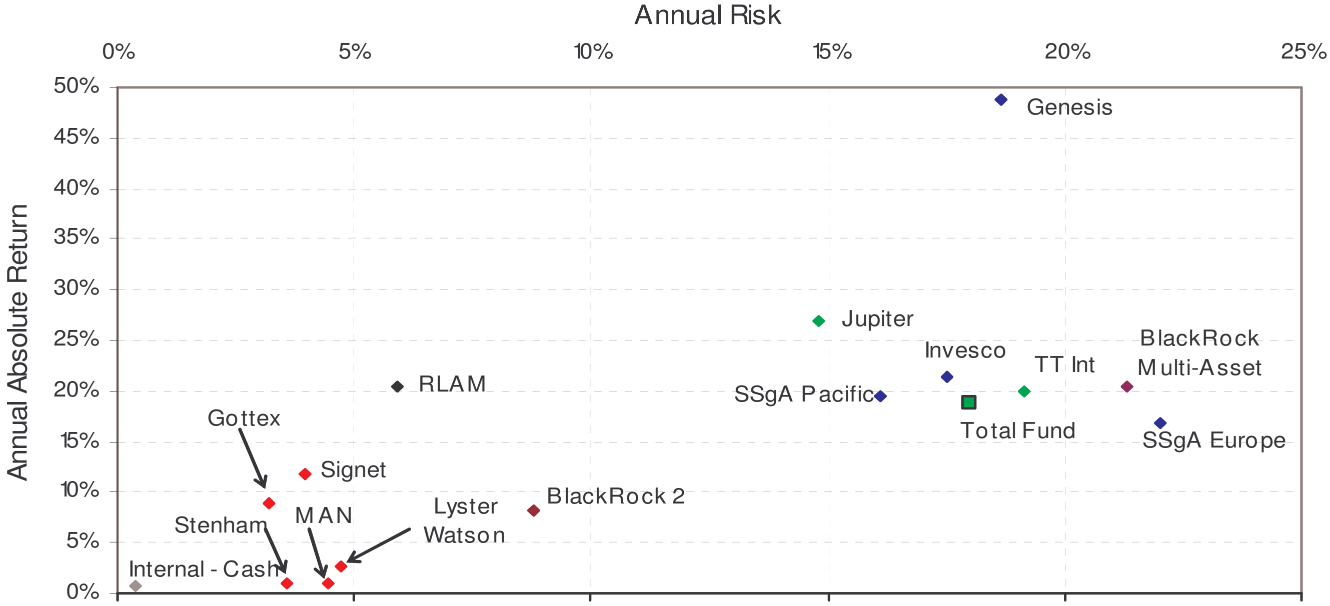
- The Fund invested with Partners for the first time in late Q3 2009 and as such their performance is now shown in the quarterly chart. One year performance data is not yet available for Schroders or Partners.
- Nearly all of the Fund's investment managers produced negative absolute returns over the quarter, the exceptions to this were RLAM, the internally managed cash and the two property funds with Schroder and Partners.
- Over the quarter, the strongest absolute performance came from the Schroder property fund. In relative terms Jupiter performed the best over the quarter, outperforming their benchmark by an impressive 9.1%.

- Over the year, all absolute returns were positive. Of note is the one year return achieved by the Genesis Emerging Markets equity portfolio, which was 48.9%, well ahead of its benchmark return of 36.2%.

Manager and total Fund risk v return

- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2010 of each of the funds, along with the total Fund.

1 Year Risk v 1 Year Return to 30 June 2010



Source: Data provided by WM Performance Services

- The managers are colour coded by asset class, as follows:
  - Green: UK equities
  - Blue: overseas equities
  - Red: fund of hedge funds
  - Black: bonds
  - Maroon: multi-asset
  - Brown: BlackRock No. 2 portfolio
  - Grey: internally managed cash
  - Green Square: total Fund
- Note: the property funds have invested for less than 1 year so are not shown in the chart above.
- The volatility of returns over the year has overall risen compared to last quarter. This is unsurprising given the returns which were witnessed over the last quarter. The funds where volatility increased notably compared with last quarter were Invesco, BlackRock Multi-Asset, SSgA Pacific and BlackRock No. 2. Jupiter decreased in volatility over the last quarter. Overall the changes to the volatility in the hedge funds were marginal.

- There has again been a shift downwards in the annual returns compared to last quarter, particularly the equity funds. This was driven by the fact that these funds produced negative returns over the last quarter particularly for the equity funds.
- The returns from the fund of hedge funds are again at a lower level (lower down on chart) than most of the other managers, but at significantly lower volatility (to the extreme left).
- The very strong absolute return from Genesis over the last year has provided a very good risk adjusted absolute return, when compared with its annualised volatility and other funds.
- The volatility of all of the various funds is broadly in line with expectation. The total Fund has benefited from diversification by asset classes, as Fund volatility is lower than the equity managers and the BlackRock multi-asset portfolio, despite these making up a large proportion of the total assets.

Section Five - Manager Performance

- This section provides a one page summary of the key risk and return characteristics for each investment manager. An explanatory summary of each of the charts is included in the Glossary in Appendix A, with a reference for each chart in the chart title (e.g. #1). A summary of mandates is included in Appendix B, which shows the benchmark and outperformance target for each fund.

Summary of conclusions

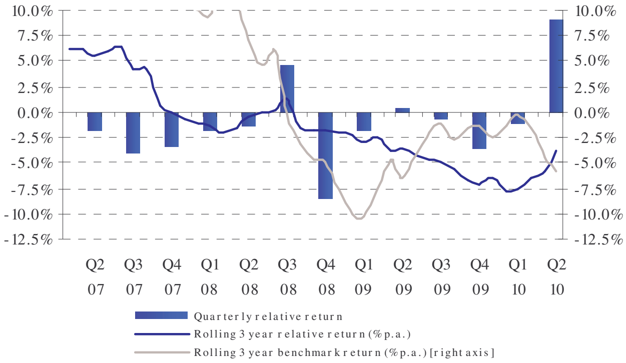
- We have not identified any significant issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. However, we do note that SRI remains under ongoing consideration by the Investment Panel and Committee, which would imply that any new investment with Jupiter should be at least subject to discussion until firm conclusions as to the practical implications of this review are reached.
- UK Equity Funds:
  - Jupiter significantly outperformed over the quarter, with their current SRI restrictions continuing to drive their relative returns, and impacting on the longer term performance. Previously, Jupiter had suffered from their very underweight allocation to the mining and Oil and Gas sectors; these sectors were the worst performers over the quarter, as such this position contributed strongly to the relative returns over the period.
  - In May Jupiter announced that they intended to list on the London Stock Exchange, this took place in June 2010 with the firm being valued at £755million. This will give a cash windfall to existing employees (although they will have lock-in periods). Any cash raised from the initial public offering is expected to be used to pay off debt dating from a private equity backed management buyout in 2007.
  - TT International underperformed their benchmark over the quarter, with the overweight positions in Oil & Gas, and underweights in Telecommunication and Technology detrimental to the relative returns.
- Non-UK Enhanced Indexation Funds: Both SSgA Enhanced Indexation funds produced modest outperformance relative to the benchmarks over the quarter. Invesco performed in line with their benchmark over the quarter, although, as has been noted in previous reports, their performance can be affected by the 'timing' of the pricing of the fund compared to the benchmark index, particularly in more volatile market conditions.
- Emerging Market: Genesis outperformed their benchmark over the quarter, and produced a negative absolute return. The absolute return was driven by equity markets themselves, which overall produced negative returns over the quarter; the relative return was driven by Emerging Market equity returns and stock selection. The latest quarter of outperformance was the fifth consecutive quarter of outperformance from the manager.
- Fund of Hedge Funds:
  - In May GLG Partners announced that it had agreed to be acquired by Man Group plc, through a cash and share exchange. The shareholders are invited to vote on the proposed acquisition, with the results from this expected 1 September 2010. Provided approval is received, the acquisition is due for completion in September 2010.
  - It was announced over the quarter that Luke Ellis, a managing director at fund of funds firm Financial Risk Management ("FRM"), also non-executive Chairman of GLG Partners, will join Man Group plc when the proposed acquisition of GLG by MAN either closes or terminates.
  - Hedge Funds had a difficult quarter, which was driven by market movements; however, Hedge Funds outperformed equity markets.

- All the Hedge Fund managers underperformed their benchmarks this quarter, and all the managers produced negative absolute returns. The best performing manager in both absolute and relative terms was Signet and the bottom performer was MAN.
- Over the year to 30 June 2010, only Signet and Gottex are ahead of their objectives.
- The continued, underperformance of MAN should be considered in conjunction with the further review of the fund of hedge fund investments agreed for the second half of 2010.

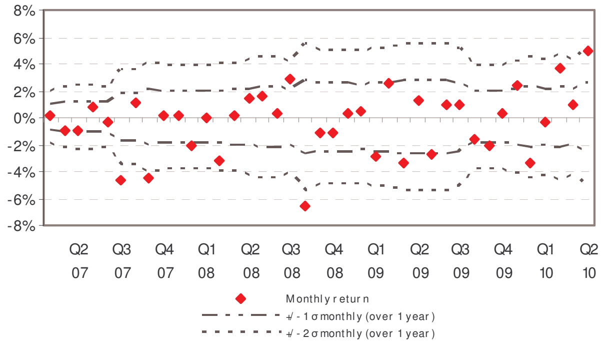
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive funds.
- Fixed Interest: RLAM have performed in line with their benchmark. There are no notable changes in the risk profile of their fund.
- Property: performance of the property funds over the quarter was positive in absolute terms. Schroder outperformed their benchmark, whilst Partners underperformed. Due to the short period since investment in the property funds, details are not provided in the charts following. These will be included in the future, once sufficient performance history is available. For the time being, a qualitative assessment is included for each of these two managers.
- While we have no immediate concerns over the changes to Jupiter and proposed changes to MAN's ownership structures and the impact on the management of the funds, we recommend that further investment is not made into these funds until the impact of these changes is clear.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

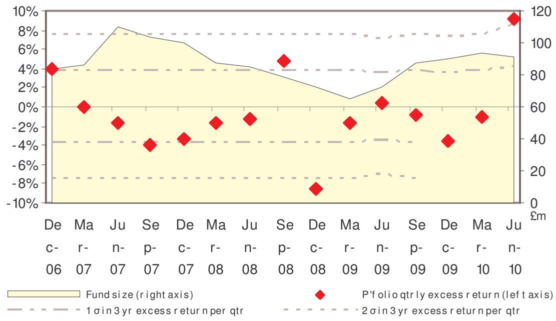
Relative returns #1



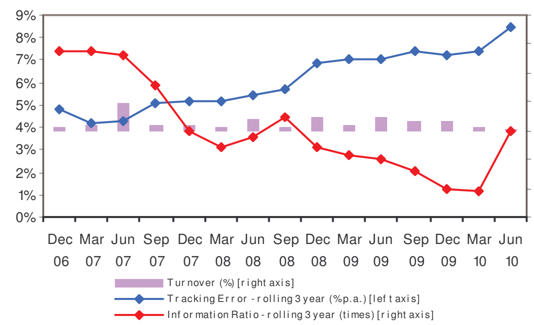
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



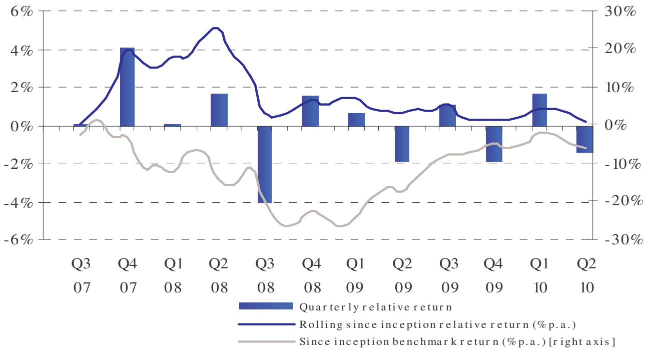
Source: Data provided by WM Performance Services, and Jupiter

Comments:

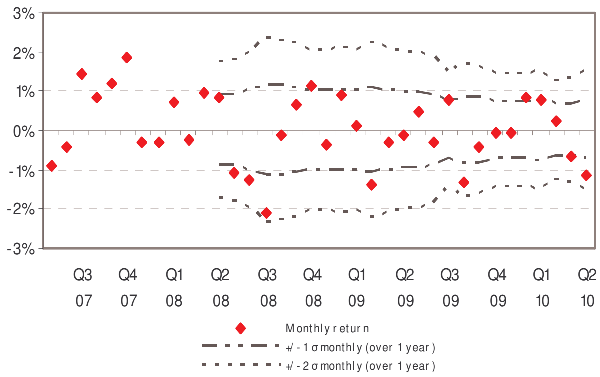
- In May 2010 Jupiter announced that they intended to list on the London Stock Exchange; Jupiter's float went ahead in June 2010, with the company being valued at £755m, whilst this was slightly below the previously targeted value of £1bn, the initial value was within the target range which Jupiter had set (albeit towards the lower end).
- Whilst there can be a risk attached to any significant capital restructuring, it is expected that Jupiter will use the opportunity to grow the business and become a larger and stronger organisation.
- We continue to have no significant concerns over the change, however it may take time before the full impact of the change is known, and therefore we recommend that further investment is not made into this Fund.
- Over the last quarter the Fund outperformed the benchmark by 9.2%, producing an absolute return of -2.7%.
- Over the last year the Fund outperformed the benchmark by 5.8%, producing an absolute return of 27.0%. Over the last 3 years the Fund underperformed the benchmark by 3.8% p.a., producing an absolute return of -9.6% p.a.
- Over the second quarter of 2010, small cap stocks outperformed mid and large cap stocks (-6.1%: -7.1%: -12.6% respectively). The outperformance of small caps benefitted Jupiter's relative performance.
- The Fund has a small exposure to cash (2.6%) which had a positive impact on absolute performance.
- The industry allocation is considerably different from the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. Over Q2 2010, Jupiter were significantly underweight Mining and Oil and Gas, with overweights in Telecommunications and Utilities. These positions, driven by the SRI nature of their mandate, were positive contributors to relative returns.

TT International – UK Equities (Unconstrained)

Relative returns #1

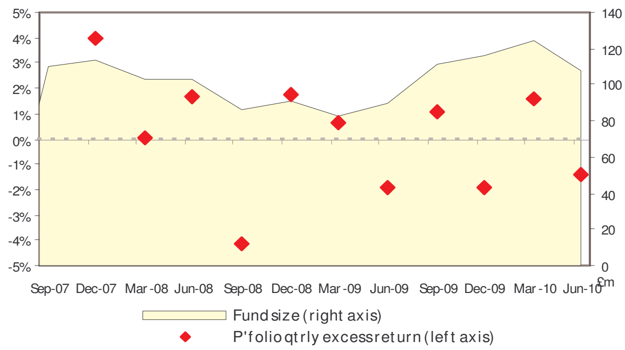


Monthly relative returns #2

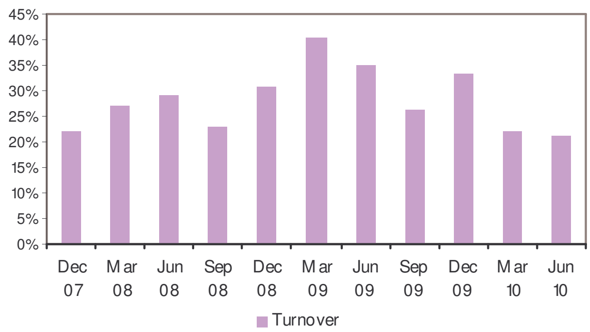


note: Q3 2007 is only a partial period of investment

Performance v fund size #3



Turnover #4



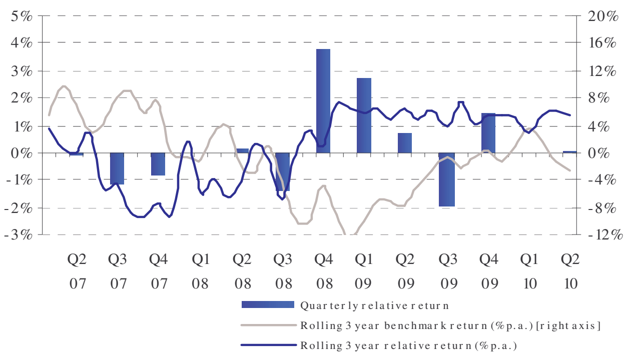
Source: Data provided by WM Performance Services, and TT International

Comments:

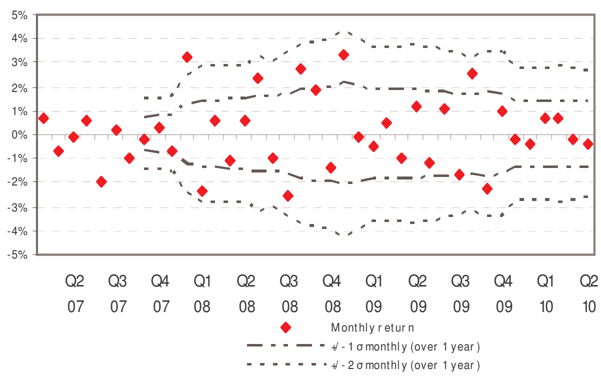
- Over the last quarter the Fund underperformed the benchmark by 1.4%, producing an absolute return of -13.2%.
- Over the last year the Fund underperformed the benchmark by 1.2%, producing an absolute return of 19.9%. Over the period since inception the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of -5.8% p.a.
- The Fund was overweight in Oil & Gas by 1.7% relative to the benchmark, which was one of the worst performing sectors over the second quarter of 2010. The main underweights, Telecommunication and Technology (3% and 1% respectively) were amongst the strongest performers. These positions were detrimental to performance.
- The volatility of monthly relative returns has not changed significantly over the most recent quarter. Turnover has been marginally lower than in previous quarters, but not significantly so.
- Apart from the particularly poor quarter in Q3 2008, the volatility of this Fund relative to the benchmark is lower than that of Jupiter. This is driven by the fact that TT International's sector positions tend to be less severe than Jupiter's (which are a product of their Socially Responsible Investment brief). This more pragmatic style may be more suited for investment when rebalancing to active UK equities, not least given the ongoing review of SRI and Corporate Governance.

Invesco – Global ex-UK Equities Enhanced (Enhanced Indexation)

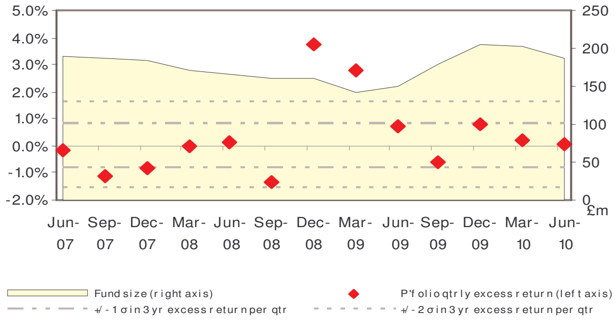
Relative returns #1



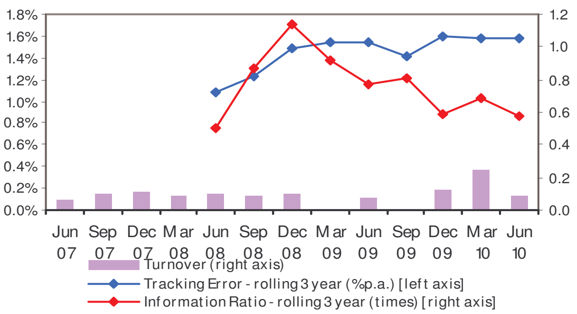
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



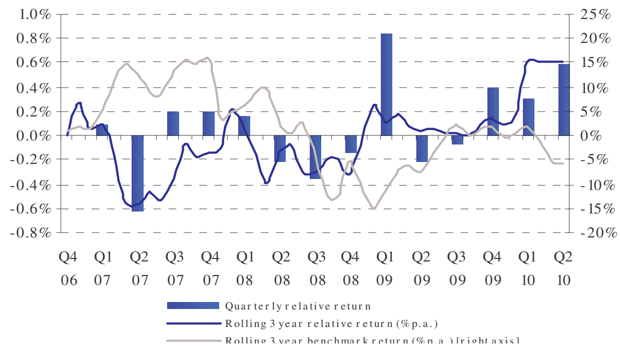
Source: Data provided by WM Performance Services, and Invesco

Comments:

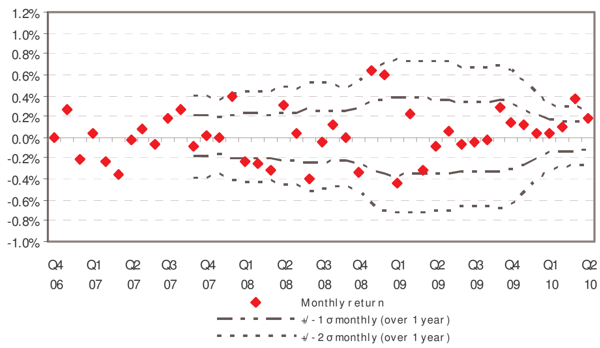
- Over the last quarter the Fund performed in line with its benchmark, producing an absolute return of -11.3%.
- Over the last year the Fund marginally underperformed the benchmark by 0.2%, producing an absolute return of 21.3%. Over three years, the Fund outperformed, by 1.4% p.a., producing an absolute return of -1.2%p.a.
- Contributions to relative performance from stock selection and country selection were broadly neutral. The timing of the pricing of the Fund versus the benchmark also remains a factor in its short term relative performance.
- The volatility of monthly relative returns has reduced gradually over time, as the volatile 2008 has rolled out of the calculations. As an enhanced indexation fund the magnitude of the volatility is quite low. The larger deviations from the benchmark tend to be upwards, which is favourable.
- Turnover decreased slightly over Q2 2010 remaining low, as expected for this mandate. The number of stocks remains at approximately 500, which reduces stock specific risk through diversification.
- The industry allocation is relatively close, with all standard ICB industry sectors within 1.8% of the benchmark allocation, as is to be expected with this mandate.

SSgA - Europe ex-UK Equities (Enhanced Indexation)

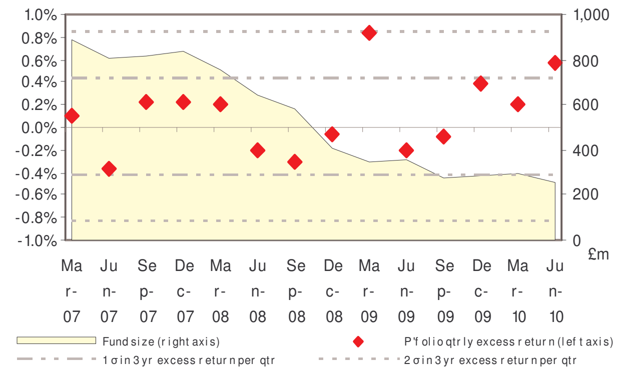
Relative returns #1



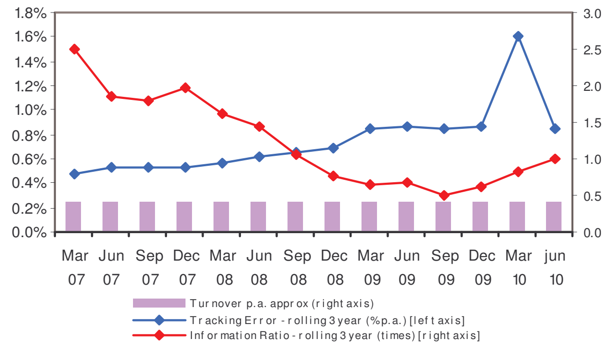
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



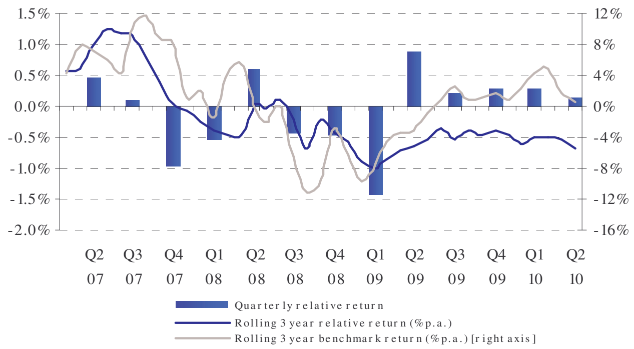
Source: Data provided by WM Performance Services, and SSgA

Comments:

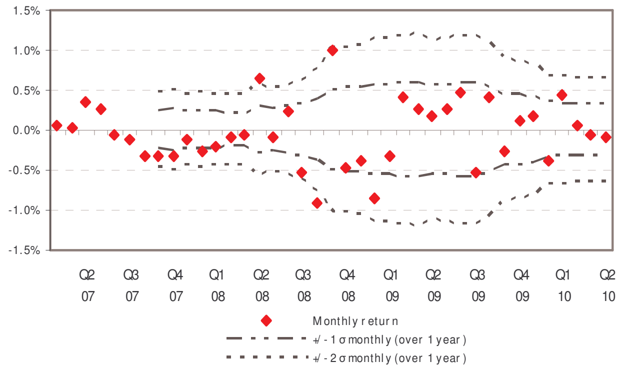
- Over the last quarter the Fund outperformed the benchmark by 0.9%, producing an absolute return of -13.9%.
- Over the last year the Fund outperformed the benchmark by 1.4%, producing an absolute return of 16.7%. Over the last 3 years the Fund outperformed the benchmark by 0.6% p.a., producing an absolute return of -5.0%p.a.
- Stock selection has been the primary driver of relative performance, continuing to account for approximately 90% of relative performance.
- The volatility of monthly relative returns remained fairly constant over the last year. As an enhanced indexation fund the magnitude of the volatility is very low.
- Turnover remains consistent over the last 3 years. The tracking error has decreased over the last quarter back to a similar level as at December 2009.
- Given its reasonable return and low risk this Fund would appear to be suitable for new contributions or suitable for investment if rebalancing is required into active overseas equities subject to the strategic benchmark constraints.

SSgA - Pacific incl. Japan Equities (Enhanced Indexation)

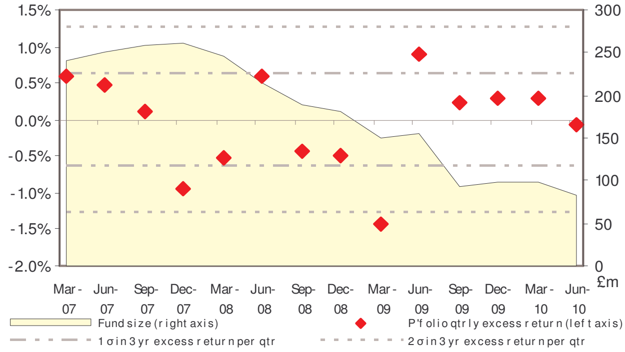
Relative returns #1



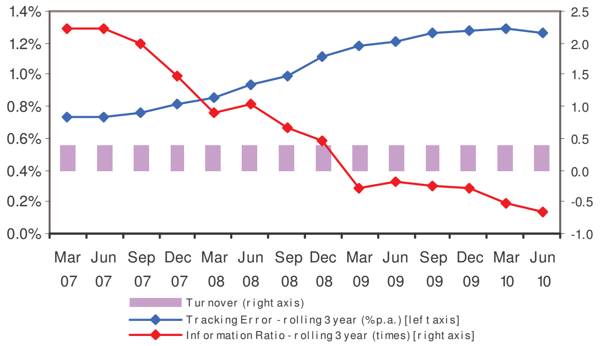
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



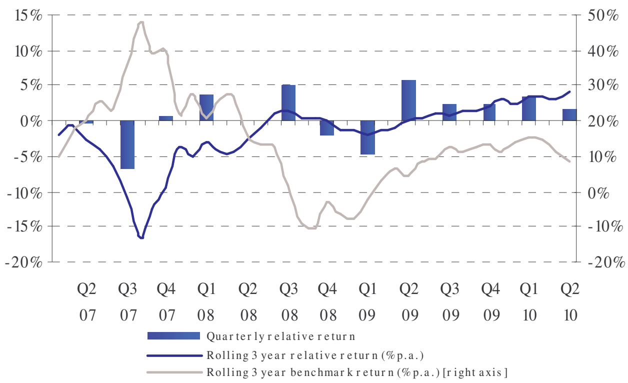
Source: Data provided by WM Performance Services, and SSgA

Comments:

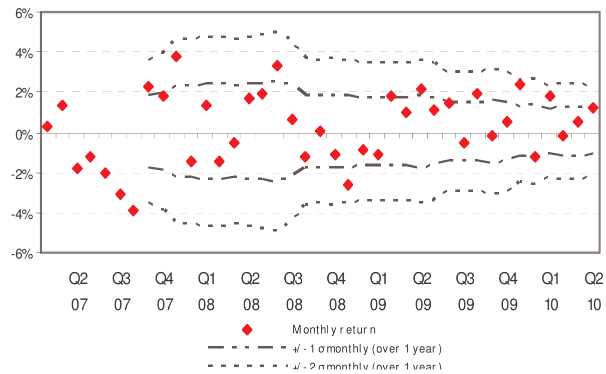
- Over the last quarter the Fund outperformed the benchmark by 0.2%, producing an absolute return of -9.1%.
- Over the last year the Fund outperformed the benchmark by 0.7%, producing an absolute return of 19.4%. Over the last 3 years the Fund underperformed the benchmark by 0.6% p.a., producing an absolute return of 0.0% p.a.
- Similar to the other SSgA portfolio, stock selection has been the primary driver of relative performance over the year, accounting for approximately 90% of relative performance.
- The industry allocation remains close to the benchmark allocation, as would be expected from an enhanced indexation fund.
- Given its reasonable return and low risk this Fund would also appear to be suitable for new contributions or suitable for investment if rebalancing is required.

Genesis Asset Managers – Emerging Market Equities

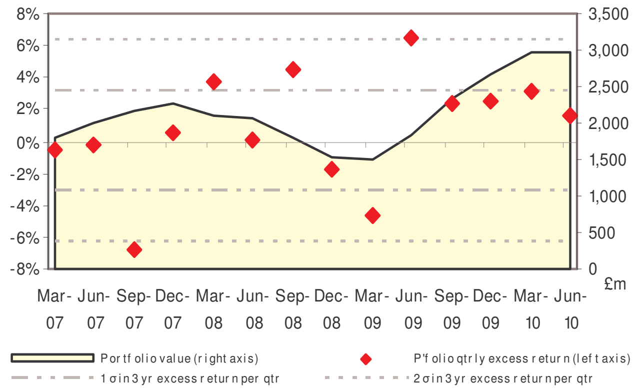
Relative returns #1



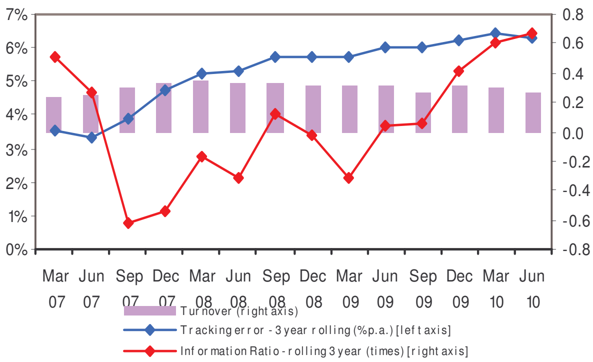
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



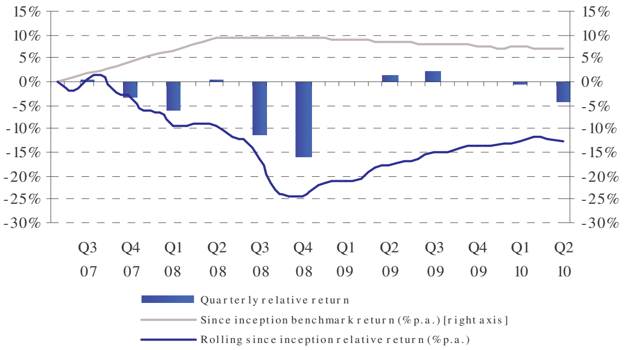
Source: Data provided by WM Performance Services, and Genesis

Comments:

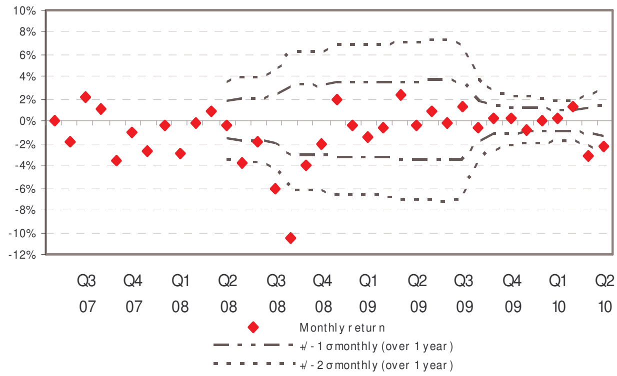
- Over the last quarter the Fund outperformed the benchmark by 1.6%, producing an absolute return of -5.4%.
- Over the last year the Fund outperformed the benchmark by 12.7%, producing an absolute return of 48.9%. Over the last 3 years the Fund outperformed the benchmark by 4.1% p.a., producing an absolute return of 12.5% p.a.
- The Fund is overweight to South Africa, India and Russia, and underweight China and Brazil. Please note that the over and underweights are a result of Genesis' stock picking approach, rather than taking a view on countries. Note that the China underweight is partly due to the restrictions on non-local investors.
- The 3 year tracking error (proxy for risk) fell slightly over the quarter. The 3 year information ratio (risk adjusted return) rose slightly over the quarter.
- On an industry basis, the Fund is overweight in Consumer Staples (+9.4%) and underweight Information Technology (-5.5%) and Energy (-3.8%).

Lyster Watson Management Inc – Fund of Hedge Funds

Relative returns #1

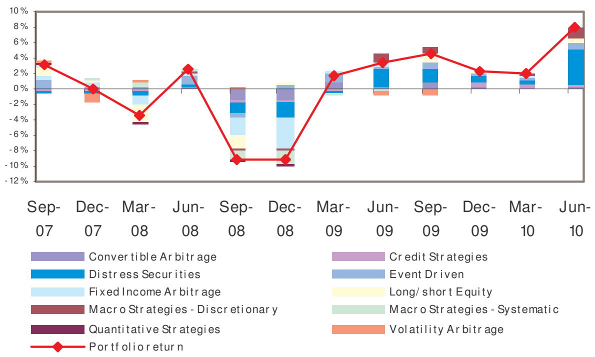


Monthly relative returns #2

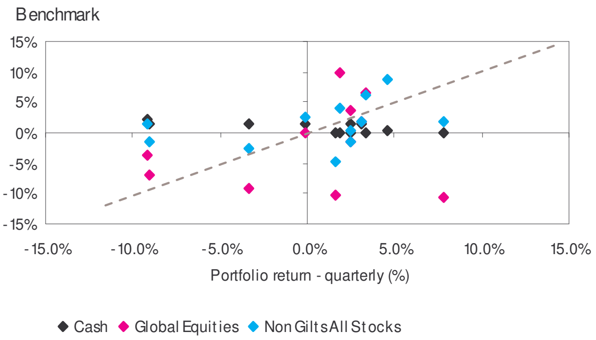


note: Q3 2007 is only a partial period of investment

Hedge fund strategies and source of return #6



Correlation with indices #7



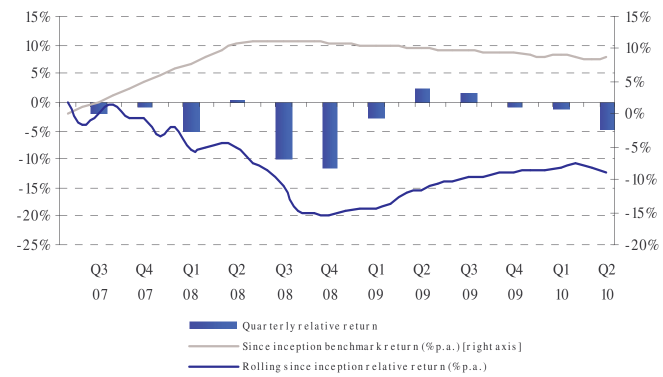
Source: Data provided by WM Performance Services, and Lyster Watson

Comments:

- Over the last quarter the Fund underperformed the benchmark by 4.1%, producing an absolute return of -3.0%.
- Over the last year the Fund underperformed the benchmark by 2.2%, producing an absolute return of 2.5%. Over the period since inception the Fund underperformed the benchmark by 12.8% p.a., producing an absolute return of -5.7% p.a.
- The key driver of the Fund's negative absolute return over the quarter has been the allocation to Distressed Securities, Event Driven Strategies and Long/Short Equity. There were some positive contributions from Credit Strategies and Fixed Income Arbitrage, but these were outweighed by the negative contributors.
- The Fund continues to have a diverse exposure to hedge fund strategies, although there is a continued high allocation of 40% to Distressed Securities and Long/Short Equity strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

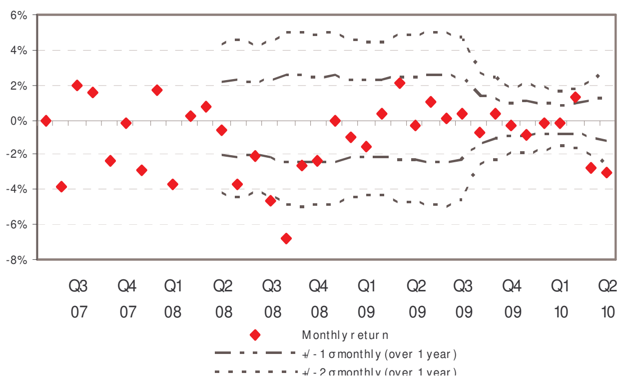
MAN – Fund of Hedge Funds

Relative returns #1

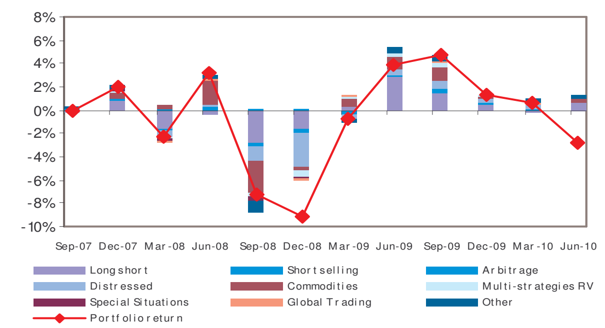


note: Q3 2007 is only a partial period of investment

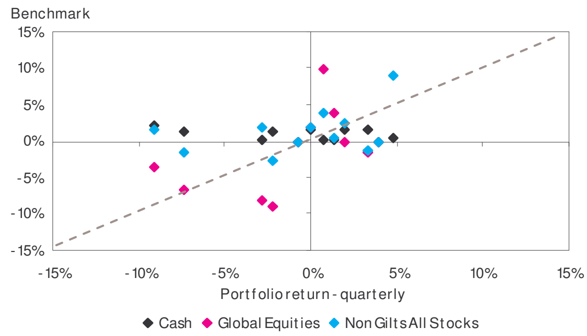
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7

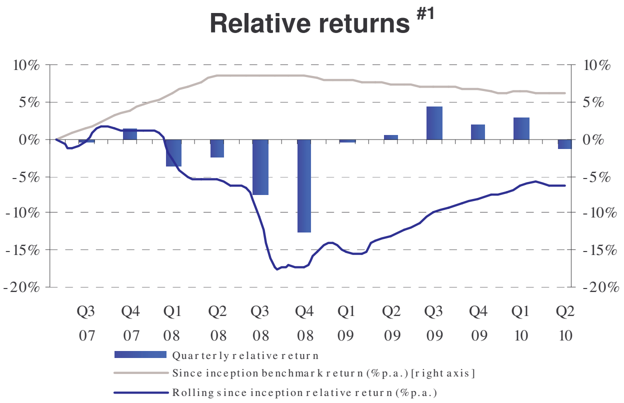


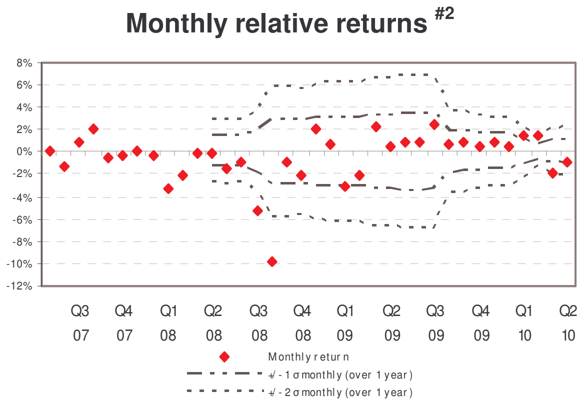
Source: Data provided by WM Performance Services, and MAN

Comments:

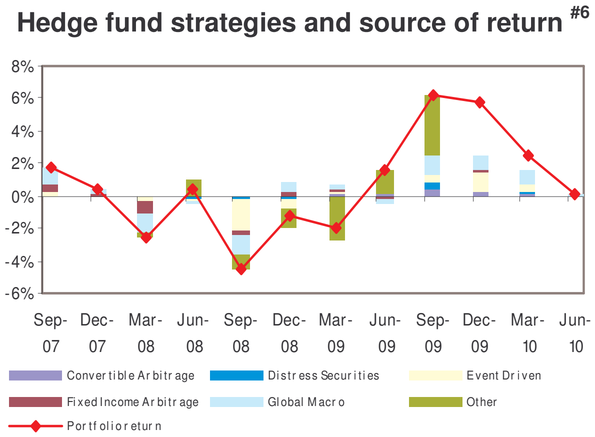
- In May 2010 GLG Partners announced that it had agreed to be acquired by Man Group plc, through a cash and share exchange. Man Shareholders have a meeting scheduled for 1 September, which will allow them to vote on the proposed resolution to approve and implement the acquisition. Provided approval is received, the acquisition is expected to complete in September 2010.
- The merged hedge fund business will manage c.US$63 billion of assets. The acquisition has been stated as the merging of complementary and uncorrelated investment strategies, with significant cost savings identified.
- There are no immediate concerns with the impact on the management of the Fund, although we recommend that further investment is not made into this Fund until the impact of the acquisition is clear.
- Over the last quarter the Fund underperformed the benchmark by 4.7%, producing an absolute return of -3.1%.
- Over the last year the Fund underperformed the benchmark by 5.3%, producing an absolute return of 1.1%. Over the period since inception the Fund underperformed the benchmark by 12.2% p.a., producing an absolute return of -3.3% p.a.
- The key driver of performance was the high allocation to Commodities, Long/Short Asia Pacific and Long/Short, while the remaining strategies produced returns that where either slightly negative or broadly neutral.
- The Fund has a diverse exposure to hedge fund strategies, although 64% is made up of Long/Short and Commodities strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

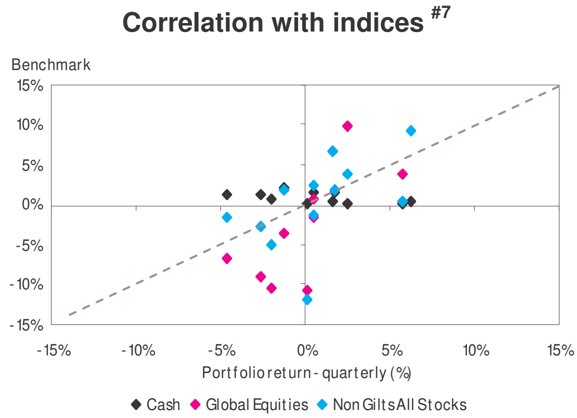
Signet – Fund of Hedge Funds





note: Q3 2007 is only a partial period of investment



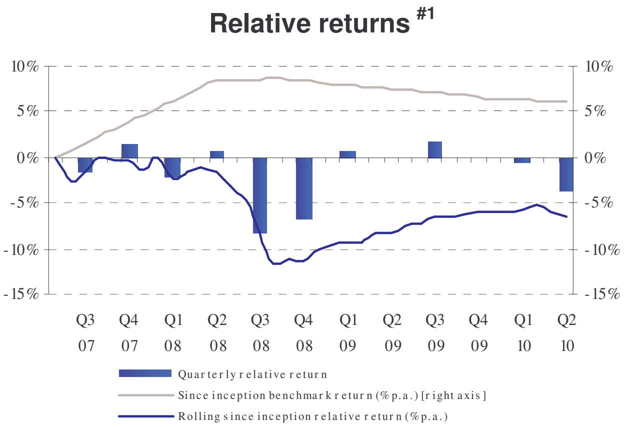


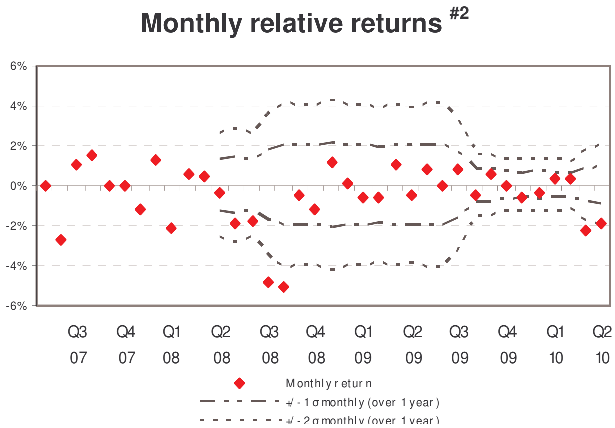
Source: Data provided by WM Performance Services, and Signet

Comments:

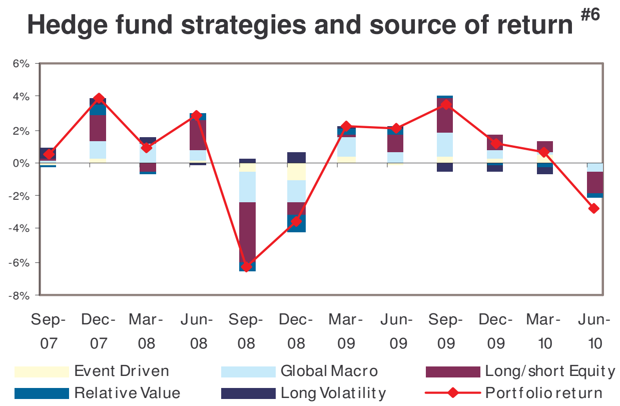
- Over the last quarter the Fund underperformed the benchmark by 1.4%, producing an absolute return of -0.5%.
- Over the last year the Fund outperformed the benchmark by 8.0%, producing an absolute return of 11.7%. Over the period since inception the Fund underperformed the benchmark by 6.4% p.a., producing an absolute return of -0.2% p.a.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

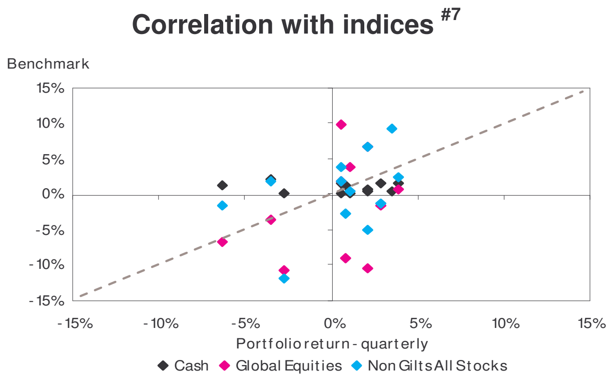
Stenham – Fund of Hedge Funds





note: Q3 2007 is only a partial period of investment





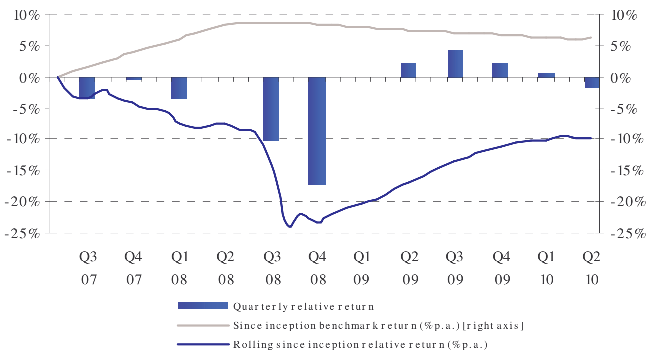
Source: Data provided by WM Performance Services, and Stenham

Comments:

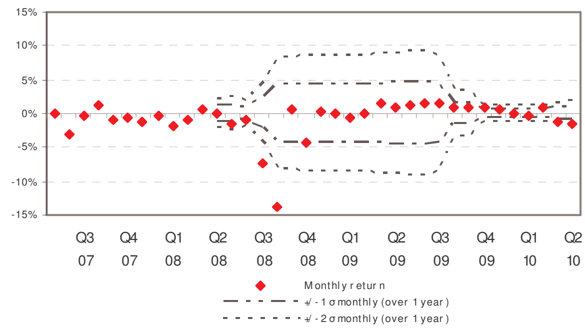
- Over the last quarter the Fund underperformed the benchmark by 3.7%, producing an absolute return of -2.8%.
- Over the last year the Fund underperformed the benchmark by 2.8%, producing an absolute return of 1.0%. Over the period since inception the Fund underperformed the benchmark by 6.4% p.a., producing an absolute return of -0.2% p.a.
- The main contributor to the negative absolute performance was the Long/Short Equity, however all the underlying strategies produced negative absolute returns.
- The allocation to the Global Macro and Long/Short Equity strategies made up 71% of the total Fund allocation. The allocation to cash was increased from 2% to 7.5% over the quarter.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Gottex – Fund of Hedge Funds

Relative returns #1

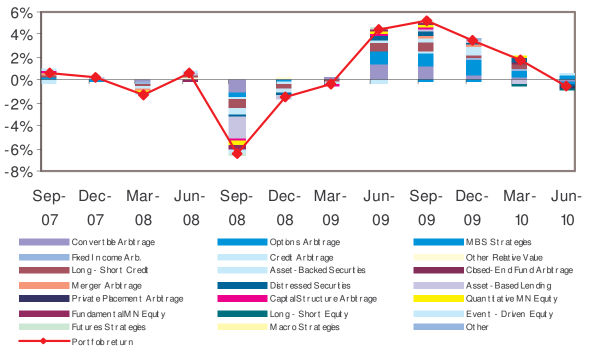


Monthly relative returns #2

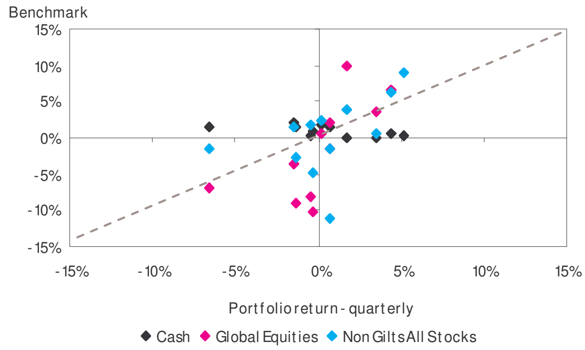


note: Q3 2007 is only a partial period of investment

Hedge fund strategies and source of return #6



Correlation with indices #7



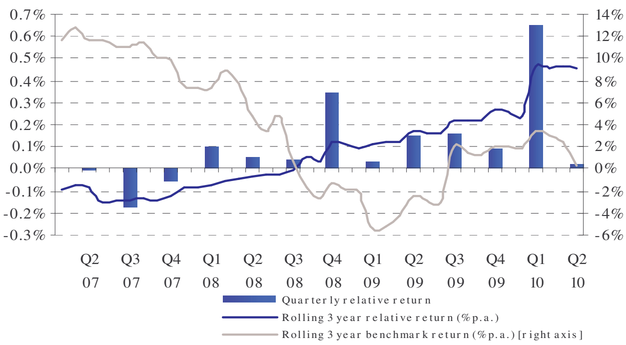
Source: Data provided by WM Performance Services, and Gottex

Comments:

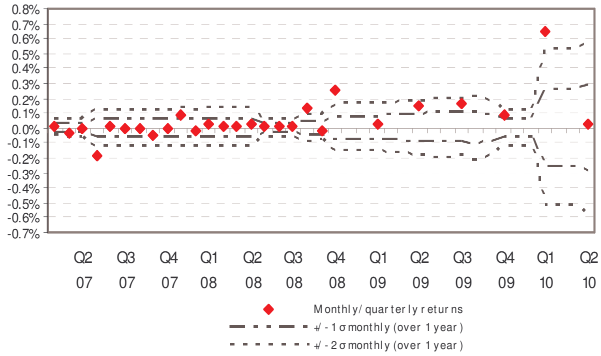
- Over the last quarter the Fund underperformed the benchmark by 1.8%, producing an absolute return of -0.9%.
- Over the last year the Fund outperformed the benchmark by 5.3%, producing an absolute return of 9.0%. Over the period since inception the Fund underperformed the benchmark by 9.9% p.a., producing an absolute return of -3.7%p.a.
- The key drivers of performance were Mortgage Backed Securities ("MBS"), Asset Backed Securities ("ABS"), Options Arbitrage, Asset Based Lending and Asset Based Securities. The largest contributor to performance was from MBS.
- The Fund has a diverse range of strategy exposures, with the major exposures continuing to be Convertible Arbitrage, Long-Short Credit and ABS Strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

BlackRock - Passive Multi-Asset

Relative returns #1

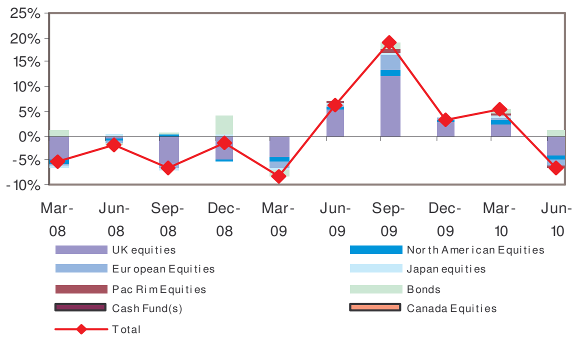


Monthly/Quarterly relative returns #2

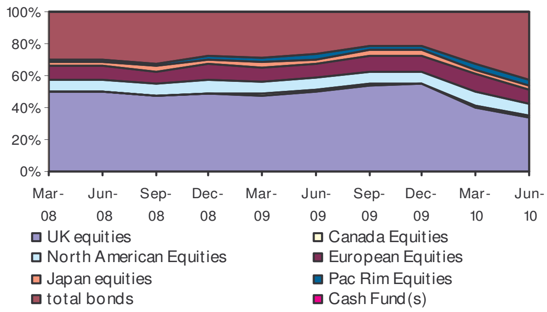


Note that return after Q4 2008 above are quarterly returns.

*Contribution to absolute return #6



Asset Allocation #5



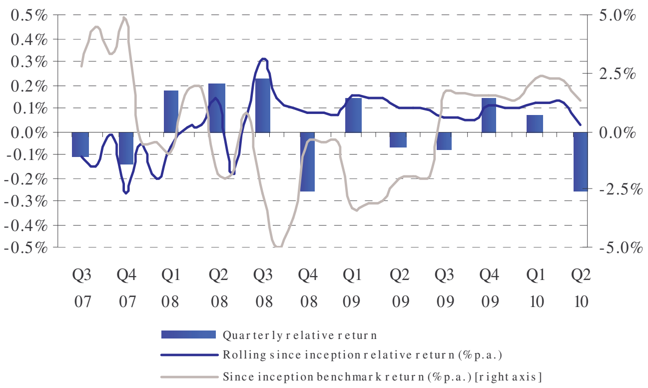
Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the last quarter the Fund very marginally outperformed benchmark (by <0.1%), producing an absolute return of -7.4%.
- Over the last year the Fund outperformed the benchmark by 1.0%, producing an absolute return of 20.3%. Over the last 3 years the Fund outperformed the benchmark by 0.5% p.a., producing an absolute return of 0.8% p.a.
- Being a passive mandate, with a customised benchmark based on the monthly mean fund weights, there is nothing unusual arising in risk and performance.
- The portfolio has outperformed its benchmark for the last 10 consecutive quarters, though being passively managed the outperformance has been marginal. This is positive as it indicates minimal relative risk in the portfolio.
- The magnitude of the relative volatility in the portfolio is very small.
- Over the last quarter, and the start position 1 year ago, there has been some change within the underlying asset allocation; the total allocation to bonds has increased and the allocation to equities has reduced, although over the latest quarter in particular this was largely driven by market movements rather than a strategic change.

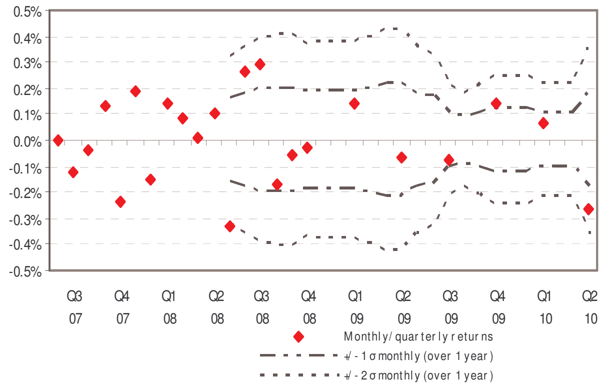
BlackRock No.2 – Property account ("ring fenced" assets)

Relative returns #1



Note: Q3 2007 is only a partial period of investment

Monthly relative returns #2



Note that return after Q4 2008 above are quarterly returns.

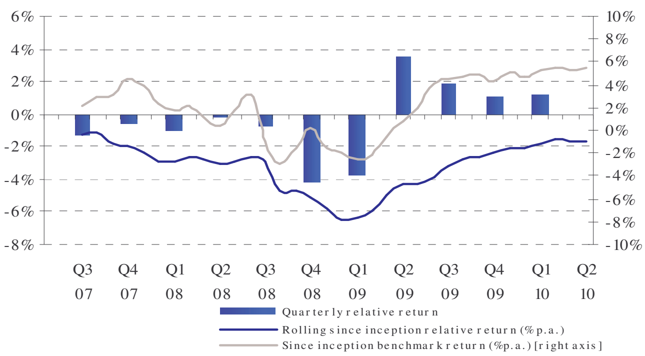
Source: Data provided by WM Performance Services, and BlackRock

Comments:

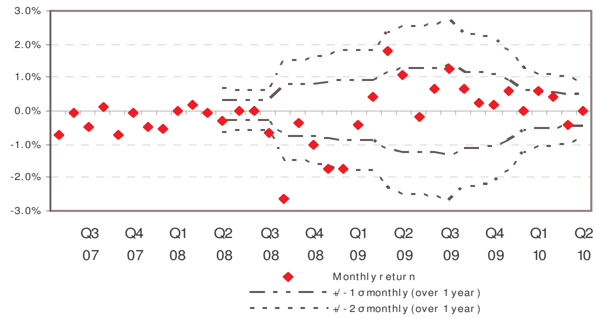
- Over the last quarter the Fund underperformed the benchmark by 0.3%, producing an absolute return of -2.5%.
- Over the last year the Fund produced a return of 8.1%, underperforming the benchmark by 0.1%. Over the period since inception the Fund produced as absolute return of 1.4%p.a., which was broadly in line with the benchmark return.
- Despite a high cash element, the Fund has produced a relatively low absolute return. Over the last year it has produced a return very close to the benchmark.
- Being passively managed the relative performance has been marginal over the last 12 quarters. This is positive as it indicates minimal relative risk in the portfolio.
- The magnitude of the relative volatility in the portfolio is very small.
- There was no significant change to the asset allocation over the year.

Royal London Asset Management – Fixed Interest

Relative returns #1

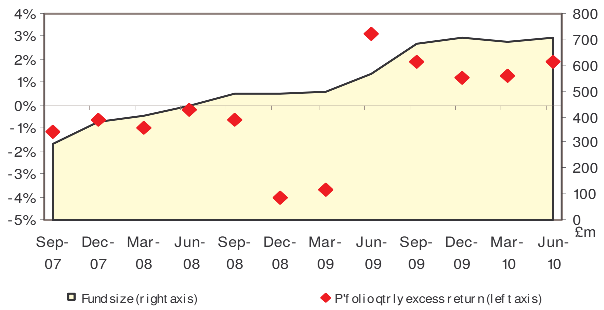


Monthly relative returns #2

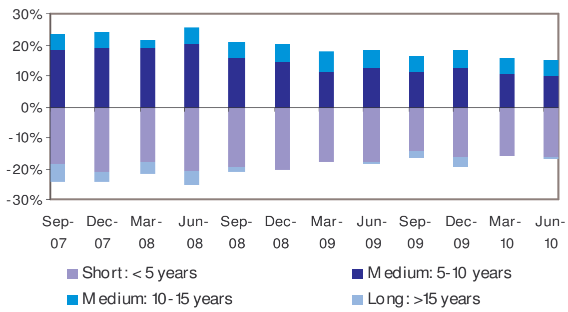


note: Q3 2007 is only a partial period of investment

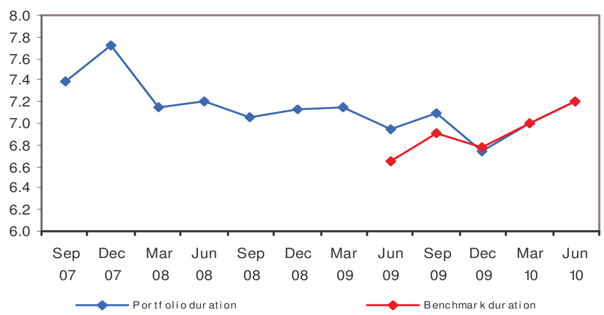
Performance v fund size #3



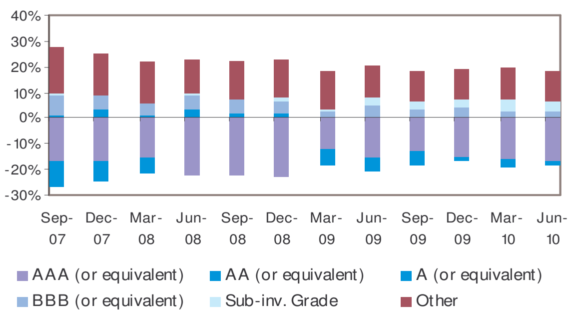
Relative Maturity exposure #8



Duration #10



Relative Ratings exposure #9



Source: Data provided by WM Performance Services, and RLAM

Comments:

- Over the last quarter the Fund performed in line with the benchmark, producing an absolute return of 1.9%.
- Over the last year the Fund outperformed the benchmark by 4.6%, producing an absolute return of 20.5%. Over the period since inception the Fund underperformed the benchmark by 1.7% p.a., producing an absolute return of 3.9% p.a.
- The Fund performed in line with the benchmark over the last quarter, this is despite the portfolio being underweight to AAA, in favour of BBB, sub-investment and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity bonds.

Schroder – UK Property

- The mandate awarded to Schroders by the Fund commenced in February 2009.
- The Fund appointed Schroder to manage UK property on a segregated, multi-manager basis. The investments held within the underlying funds are primarily direct, although some managers might use listed securities for diversification.
- Due to the recency of the first investments into the portfolio, a full quantitative assessment of Schroder is not yet possible. However, we provide here a qualitative update and assessment of the manager.

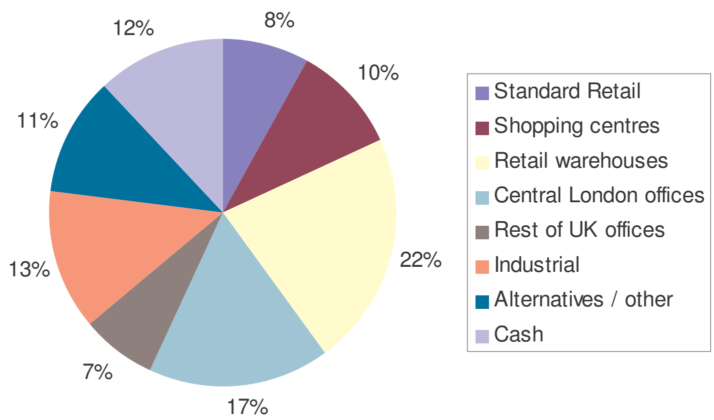
Portfolio update

As at 10 August 2010, approximately 84% of the Fund's £90million committed cash had been drawn by Schroder.

To date, the drawn down monies have been invested across 13 different underlying funds. Of these funds, 4 are "core" investments (comprising 58% of the total portfolio) and 9 are "value add" investments (the remaining 42% of the portfolio).

The investments in the funds noted above have resulted in a UK property portfolio that, as at 30 June 2010, was split between sectors as shown in the following chart.

Portfolio split by sector



In terms of relative positioning, the allocations above are, compared with the benchmark (the UK IPD Pooled Property Index), underweight standard retail, non-London offices and industrial properties and overweight in the other sectors. The most significant overweights are to central London offices and cash.

Although the portfolio is not yet fully invested the allocation is consistent with Schroder's outlook. For example, they believe that non-London offices may be vulnerable to government spending cuts, whereas central London offices, and the South East more generally, will be potentially more resilient. Cash is above benchmark levels due to one particular holding, the Hansteen UK Industrial Property Unit Trust, which has a high proportion of cash. However, with capital values now stabilising somewhat, Schroder are less concerned about the opportunity cost of holding cash than would have been the case twelve months ago.

Over the latest quarter, Schroder made two new investments, totalling approximately £1.6 million. The monies were invested into:

- The Columbus UK Real Estate Fund, which recently acquired its first asset in the form of a shopping centre in Motherwell, which Schroder note has a secure income profile with scope to increase the rental income. The price paid for the property was at a 45% discount to that paid in 2007 by the previous owner.
- The Henderson UK Retail Warehouse Fund, where Schroder believe that the underlying properties held are attractive, and debt is secured on favourable terms until the expiry of the fund

Performance over Q2 2010

Schroder produced a return of 3.6% over the three months to 30 June 2010, versus the benchmark return of 3.1%. The key drivers of the relative return over the period were:

- Allocations to the West End of London Property Unit Trust, the Standard Life Investments Pooled Pensions Property Fund and the Threadneedle Investments Strategic Property Fund IV.
- Investments with higher than average gearing levels, in particular value add and opportunity funds, have boosted returns over the quarter, and over the last twelve months as a whole.
- On the negative side, Schroder's circa 5% allocation to the Hansteen UK Industrial Property Unit Trust has disappointed, driven by this Unit Trust's high levels of uninvested cash, which has diluted returns. Schroder remain confident that this particular fund's strategy of buying high yielding multi-let industrial estates from distressed sellers will be successful over the longer term.

Conclusion

Schroder's intention when they were appointed was to fully establish the Fund's portfolio over a period of around 18 months, and this appears to be on track. The portfolio is diverse, as one might expect for a multi-manager vehicle, although even at this early stage evidence of Schroder's outlook can be seen in the portfolio positioning. Schroder do note that the portfolio sector structure and property fund allocations will be reviewed again once the portfolio is fully invested.

We have no concerns with Schroder. We also note that they are due to attend the September Investment Panel meeting, where their outlook and strategy will be discussed further.

Partners – Overseas Property

- The mandate awarded to Partners by the Fund commenced in August 2009, although draw downs are being made gradually over time, and the full extent of the Fund's commitment has not yet been invested.
- Partners invest in direct, primary and secondary private real estate investments on a global basis.

Portfolio update

To date, Partners have drawn down approximately £32.3 million of the Fund's intended commitment of approximately £90 million. The draw downs commenced in September 2009.

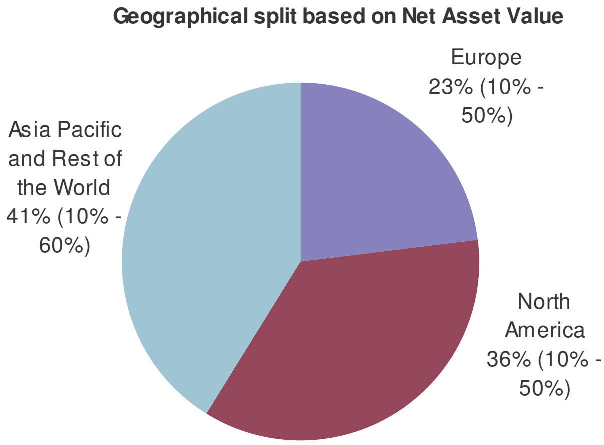
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

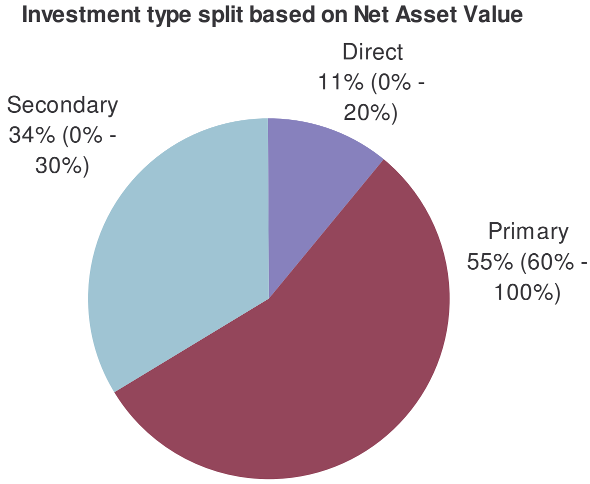
The funds invested to date have been split by Partners between funds as follows:

Partners Fund	Net Drawn Down (£ m)	Net Asset Value as at 30 June 2010 (£m)
Asia Pacific and Emerging Market Real Estate 2009	5.81	6.02
Distressed US Real Estate 2009	7.65	8.28
Global Real Estate 2008	15.65	14.54
Real Estate Secondary 2009	3.22	3.17
Total	**32.33**	**32.01**

Source: Partners

The investments in the funds noted above have resulted in a portfolio that was, as at 30 June 2010, split regionally as shown in the chart on the left below, and across different investment types as shown on the right. We show in brackets for each region the current guideline allocations to each region that are in place for the Fund's portfolio.





Source: Partners

The geographical allocation shown is consistent with Partners' current investment outlook, which favours Asia Pacific and Emerging Markets on the grounds that such economies will drive future global growth. In contrast, Partners believe that Europe's sovereign debt crisis creates risks on the downside for Europe, hence the relative underweight to this region. Partners are have a broadly neutral view with respect to North America, and the current overweight to this region is expected to reduce as further draw downs are made.

In terms of the portfolio allocation by investment type, currently Partners are underweight primary investments and this allocation is below the lower bound of the investment restrictions in place for the longer term portfolio, with a commensurate overweight to secondary investments.

Short term deviation from the allocation restrictions in place can be expected at such an early stage of investment and we do not believe the current positioning to be of concern. Additionally, the overweight to secondary investments reflects Partners' strong view that this market offers attractive value.

Encouragingly, the Fund's portfolio has already experienced its first distributions (to date, distributions of approximately £0.61 million have been paid). This would ordinarily be unexpected from a private investment portfolio, however, Partners' use of secondary vehicles, many of which they have been able to purchase at a discount from distressed sellers, are at the stage where distributions are being made.

Performance over Q2 2010

Partners produced a return of 2.0% over the three months to 30 June 2010. Information for the portfolio's stated benchmark (the IPD Global Pooled Property Index) is not yet available. We do note that the Partners portfolio proved a good diversifier from global equities over this short period. Performance attribution for

Partners is unavailable at this point, as benchmark data is not yet published and the Fund's investments are at such an early stage.

Conclusion

The early stages of investment in a private real estate portfolio are about establishing a diversified portfolio whilst aiming to mitigate the "J curve effect" (the tendency of private investments to deliver negative returns in early years, driven by initial costs, and positive returns in later years as the portfolio matures).

Although it remains very early days for Partners, they have stuck to their stated approach of building a diverse portfolio by region, type of investment (primary, secondary and direct), and by vintage year. The manager has employed a strategy whereby value opportunities are attained via the purchase of perceived high quality funds at discounts from distressed sellers, and growth is sought by overweighting Emerging Markets. This appears to be a sensible approach to mitigating the impact of the J-curve effect

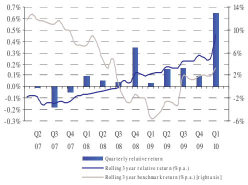
We have no concerns with Partners. We also note that they are due to attend the September Investment Panel meeting, where their outlook and strategy will be discussed further.

Appendix A - Glossary of Charts

The following provides a description of the charts used in Section 5 and a brief description of their interpretation.

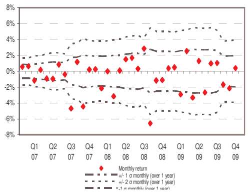
Reference ***Description***

#1



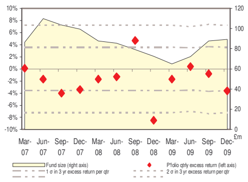
This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark absolute return (grey line) is overlayed to provide a context for relative performance, e.g. consistent underperformance in a falling market.

#2



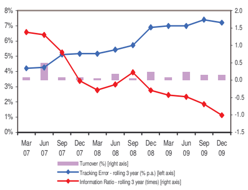
This chart shows the relative monthly returns for 3 years/since inception. It shows the level of fluctuation about the zero axis, i.e. the level of volatility of monthly returns and any tendency for positive or negative returns. The dotted lines show the standard deviation of returns over 1 year periods - this is a standard measure of risk which shows the magnitude of fluctuations of monthly returns. Under common **assumptions**, being within the inside dotted lines (i.e. 1 standard deviation) is roughly likely to occur 2/3rds of the time, while being within the outside lines is roughly likely to occur 1 in 20 times (i.e. 2 standard deviation - which is considered unlikely).

#3



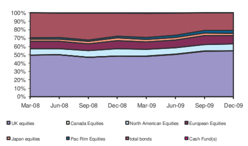
This chart shows the relative performance on a quarterly basis. The dotted lines show the standard deviation of returns for a quarter - based on the latest quarter 3 year standard deviation. (See #2 above for further detail on interpretation). The total size of the underlying fund is overlayed in yellow (portfolio value in blue) to identify any trend in diminished performance with increasing fund (portfolio) size, as sometimes observed.

#4



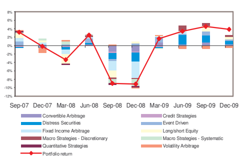
This chart shows the 3 year annualised tracking error (this is the standard deviation of returns which shows the magnitude of the fund returns compared to the benchmark) and the 3 year information ratio (this is the excess return divided by the tracking error). If tracking error increases, the risk taken away from the benchmark increases, and we would expect an increase in the excess return over time (albeit more variable). The turnover is provided to show if any increase in risk is reflected in an increase in the level of active management, i.e. purchases/sales in the portfolio.

#5



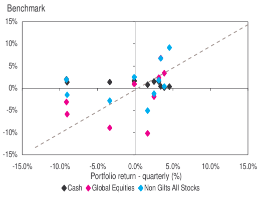
This chart shows the absolute asset allocation or hedge fund strategy allocation over time. This helps to identify any significant change or trends over time in allocation to particular asset allocations/hedge fund strategies.

#6



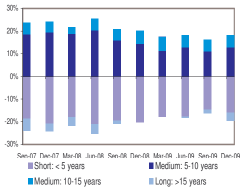
These charts show the breakdown of the return provided by each of the different hedge fund strategies or asset classes over time - this provides a profile of where the returns come from, and should be compared with the volatility chart above to see if risk taken is being rewarded accordingly. The total portfolio return is also shown.

#7



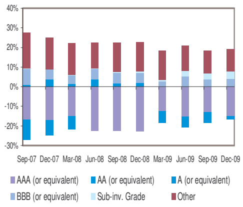
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance. This is to highlight any apparent correlation between the fund returns and any particular index. If a fund is used as a diversifier from, say equities, we would expect to see a lack of returns plotted close to the diagonal line.

#8



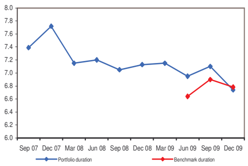
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#9



This chart shows the holding in bonds with different credit ratings. AAA is the highest grading (usually for government or supranational organisation bonds) while below BBB is sub-investment grade and has a considerably higher risk of default. The lower the grade the higher the risk and therefore the higher the return expected on the bond.

#10



This chart shows the duration of the fund against the benchmark duration. It shows whether the fixed interest fund manager is taking duration bets against the benchmark.

Appendix B - Summary of Mandates

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Invesco	Global ex-UK Equities Enhanced (En. Indexation)	MSCI World ex UK NDR	+0.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Lyster Watson	Fund of Hedge Funds	3M LIBOR + 4%	+0-2%
MAN	Fund of Hedge Funds	3M LIBOR + 5.75%	+0-0.25%
Signet	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Stenham	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Gottex	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
BlackRock	Passive Multi-asset	In line with customised benchmarks using monthly mean fund weights	0%
BlackRock	Overseas Property	Customised benchmarks using monthly mean fund weights	0%
RLAM	UK Corporate Bond Fund	iBoxx £ non-Gilts all maturities	+0.8%
Schroder	UK Property	IPD UK pooled	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Cash	Internally Managed	7 day LIBID	

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**24 September 2010**	**AGENDA ITEM NUMBER** 14
TITLE:	**RECOMMENDATIONS FROM THE INVESTMENT PANEL**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – TT brief on BP Exempt Appendix 2 – Partner's IMA Guidelines (Current and Proposed) and Partner's rationale for change Appendix 3 – Definitions of terms within Partners IMA Guidelines		

1 THE ISSUE

1.1 The Investment Panel meeting on 16 September is after the deadline for distributing the Committee papers. Therefore it is not possible to put forward recommendations on the issues that will be discussed at the Panel meeting. Any urgent recommendations will be received from the Panel at the Committee meeting.

1.2 The issues to be discussed at the Investment Panel meeting are:

(1) TT's holding in BP

(2) The Fund's passive investments

(3) Annual review of property mandates

1.3 As the minutes of the Panel meeting are not available for distribution with these papers, appendices 1-3 to this report replicate the information provided to the Panel with regard to TT's holding in BP and the annual review of the property mandates. These are appended to provide background information to the Committee should the Panel make a recommendation to the Committee regarding either issue.

1.4 The minutes from the Panel meeting of 16 September will be included in the agenda for the December committee meeting.

2 RECOMMENDATION

2.1 Any recommendations will be received from the Panel at the Committee meeting.

3 FINANCIAL IMPLICATIONS

3.1 The budget provides for investment management fees and the procurement of investment advice. Any changes to the investment strategy may incur costs not yet provided for.

4 BACKGROUND

4.1 The Panel will discuss various reports at their meeting on 16 September 2010 and may recommend action which needs to be considered immediately by the Committee on the following investment issues:

(1) **TT's recent actions regarding BP** (see appendix 1)

At the meeting on 25 June 2010, the Committee considered the implications for the Fund of its investment in BP following the fall in the BP share price. As a result, the Committee requested a written response from TT explaining their investment decisions on BP during the period since the oil spill. TT's explanation of their decisions is in Exempt Appendix 1 and they also presented to the Investment Panel on 16 September. The Panel will make any urgent recommendations regarding this issue to the Committee following the presentation/meeting on 16 September.

(2) **The Fund's passive investments**

The Panel is currently considering a number of issues regarding the investment management structure and allocation between passive and active equity mandates that have arisen following their meetings with the investment managers and the BP incident. Any conclusions from these ongoing discussions will be brought to the Committee at a later date.

(3) **Annual review of the property mandates** (see appendices 2&3)

The illiquid nature of property assets increases the importance of portfolio planning when compared with mandates of more liquid assets, and requires the property managers to take a long term investment horizon. Each year the Fund will review each manager's investment strategy and **how that strategy is to be implemented** in the light of new investment opportunities and the reinvestment of any asset sales within each portfolio.

As the property managers have been in place for at least a year, as part of the first annual review, both property managers presented their investment strategy to the Panel at the workshop on 16 September. The Panel will review strategy implementation and performance at the workshop and bring any issues to the attention of the Committee.

Potential recommendations:

(i) Partners are proposing revisions to their investment guidelines in order to implement their long term strategy and the Panel will be asked to consider whether to recommend the revised guidelines to the Committee.

(ii) The Panel will be asked to consider whether they wish to recommend that in future the annual reviews of the property mandates should be delegated to the Officers in consultation with the Panel rather than being presented automatically to the Committee. The reasoning for having delegated powers is that the implementation of a strategy over a longer period will need to respond to the constantly evolving outlook for property in order for the manager to be able to take advantage of opportunities as they develop. The Officers and Panel, through their meetings with the managers, will have a more informed basis to make such decisions. However, any changes of a strategic nature i.e. that materially affect the risk return profile of either portfolio within the Fund would be referred to full Committee.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues being considered are contained in the report.

9 ADVICE SOUGHT

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

Contact person	Liz Feinstein, Investments Manager 01225 395306
Background papers	JLT reports prepared for Investment Panel meetings Investment Panel reports and minutes.

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-10-014

Meeting / Decision: Avon Pension Fund Committee
Date: 24th September 2010

Author: Liz Feinstein
Report Title: RECOMMENDATIONS FROM THE INVESTMENT PANEL Exempt Appendix Title: Appendix 1 – TT UK Equity Mandate - Positioning in BP Appendix 2 - Partner's IMA Guidelines (Current and Proposed) and Partner's rationale for change

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the committee resolve to exclude the public. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the investment managers which is commercially sensitive to the investment managers. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

Weighed against this is the fact that the exempt appendices contain the investment strategies of the investment managers. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available. The information to be discussed is also commercially sensitive and if disclosed could prejudice the commercial interests of the investment managers.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion relating to the investment managers in order to make a decision which is in the best interests of the Fund's stakeholders.

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Appendix 3: Definitions of Terms within Partners Investment Guidelines

<u>"Core Investments"</u> are investments in well-managed properties that are occupied by quality tenants and leased to capacity. Returns predominantly stem from current net operating income and to a lesser extent, from capital appreciation.

<u>"Value added Investments"</u> are investments in properties which are considered undervalued due to sub-optimal management. The objective is typically to improve net operating income (and thereby property value) through renovation, releasing, repositioning, redevelopment, improved management and/or similar measures. Returns from such assets are typically a mix of current income and capital gains.

<u>"Opportunistic Investments"</u> are investments in development projects, turnaround projects or special situations such as distressed real estate assets. The objective is to create or significantly improve net operating income through repositioning, redevelopment, implementation of a new development and/or substantially improved property management. The creation of a regular net operating income stream ultimately translates into substantial capital gains which are the predominant source of returns.

<u>"Primary Investments"</u> are interests (including all related Securities) in Portfolio Funds, which are acquired directly from the relevant vehicle's general partner or other managing agent.

<u>"Secondary Investments"</u> are interests (including all related Securities) in (i) Portfolio Funds, (ii) investment vehicles that invest predominantly in Portfolio Funds, and/or (iii) Direct Investments, which are (in each case) acquired in the secondary market.

<u>"Direct Investments"</u> are interests (including all related Securities) in (typically unlisted) Real Estate Investments.

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Bath & North East Somerset Council		
MEETING:	Avon Pension Fund Committee	
MEETING DATE:	24 September 2010	AGENDA ITEM NUMBER 16
TITLE:	**WORKPLANS**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Investments Workplan to 31 March 2011

Appendix 2 – Pensions Benefits Workplan to 31 March 2011

Appendix 3 – Committee Workplan to 31 March 2011

Appendix 4 – Investments Panel Workplan to 31 March 2011

1 THE ISSUE

1.1 Attached to this report are updated workplans for the Investments and Pensions Benefit teams which set out the various issues on which work will be undertaken in the period to 31 March 2011 and which may result in reports being brought to Committee. In addition there is a Committee workplan which sets out provisional agendas for the Committee's forthcoming meetings.

1.2 The workplan for the Investment Panel is also included for the Committee to review and amend as appropriate.

1.3 The workplans are consistent with the 2010/2013 Service Plan but also include a number of items of lesser significance which are not in the Service Plan.

1.4 The workplans will be updated quarterly

2 RECOMMENDATION

2.1 That the workplans for the period to 31 March 2011 be noted.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising from this report.

4 THE PURPOSE OF THE WORKPLANS

4.1 The purpose of the workplans is to enable members to have a better appreciation of their future workload and the associated timetable. In effect they represent an ongoing review of the Service Plan while including a little more detail.

5 RISK MANAGEMENT

5.1 This report is for information only so no risk assessment is necessary.

6 EQUALITIES

6.1 This report is for information only and therefore an equalities impact assessment is not necessary.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a

9 ADVICE SOUGHT

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

Contact person	Liz Feinstein, Investments Manager; Steve McMillan, Pensions Manager
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

INVESTMENTS TEAM WORKPLAN TO 31 MARCH 2011

Project	Proposed Action	Committee Report
Member Training	Develop training policy for members (and then officers) in line with CIPFA Knowledge and Skills Framework and Toolkit (when issued). Arrange training sessions as necessary to ensure that all Committee members stay abreast of the latest developments in the world of local government pensions by being given the opportunity to attend seminars	ongoing
Review of investment strategy	Investment Panel to make recommendations to Committee – see Investment Panel workplan for projects	ongoing
Annual Accounts	Draft accounts to be approved by Committee in June Final accounts to be approved by Committee in September before formal approval by Corporate Audit Committee on 30 September	September 2010
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	December 2010
Training Policy	Develop training framework for members and then officers	December 2010
Actuarial Valuation	Work on valuation with Actuary Consult employers on FSS during 4Q10	December 2010
Self Assessment of Decision making process	Develop framework for self assessment of decision making process – issue to members in 4Q10	
Global Equity Tender	Tender for investment mandate	December 2010
Vote monitoring	Tender for agent to monitor voting by managers	December 2010
Review Hedge Funds	Review performance once mandates in place for 3 years and then review strategy	March 2011
Budget and Service Plan 2011/14	Preparation of budget and service plan for 2011/14	March 2011
FX hedging	Tender mandate	March 2011

Custody Contract	Re tender or Market test the custody contract	June 2011
Use of SWAPS	Investigate the use of SWAPS by the Fund in order to reduce the risk associated with the mismatching of assets and liabilities.	June 2011
Statement of Investment Principles	Revise following any change in Fund strategy/policies. Publish within 6 months of any changes.	ongoing
Investments Forum	Organise forum meetings expected to be held in Autumn 2010 and Spring 2011	
FRS 17	Liaise with the Fund's actuary in the production of FRS 17 disclosures for the larger employing bodies	

WORKPLAN - PENSION ADMINISTRATION TO 31 MARCH 2011

Project	Proposed Action	Report ?
"Altair" – Upgraded AXIS administration software *(Heywood)*	Migration to *Altair* (updated pension administration and payment software). Deferred from January 2010 until after data extract for the triennial actuarial valuation due to Heywood experiencing technical problems. Will now go live following in-depth testing on 21st September 2010 .	N/A
Member & Employer Access – a change of provider	Following a visit to see the alternative Heywood products, it was decided not to renew the contract with Gandlake in October 2010 and instead to move to the Heywood facility for member and employer access which has additional facilities such as a pensions calculator and two-way portal which had not been developed by Gandlake. This will run on new *Altair* and member access will switch from Gandlake in October 2010 and employer access will begin in early in 2011.	N/A
Employer two-way portal *("Globalscape")*	B&NES have purchased a two way portal which will allow employers and the Fund to send information electronically to each other. Pensions will be one of the departments that will share use of this facility at a very reasonable cost. Expected to go live in late September.	N/A
Administration Strategy/ Partnership (**SLA**) Agreements	Consultation with employers on the Administration Strategy Policy document will take place in autumn 2010. Individual partnership (SLA) agreements with employers will provide efficient delivery of key information to improve the service that Pensions can provide to Fund members. The strategy will incorporate communication, employer staff training and technological enhancement /development (e.g. Electronic Data Interface ("EDI") Monitoring) Regular review meetings will be integral to a successful process. Will also allow the Fund to pass on to a poor-performing employer extra costs where failure to supply information causes a disproportionate amount of work by Pensions or where "monetary fines" are incurred as a result of that employer's poor performance. The document is seen as a positive way forward to improve ongoing working between the Fund and its 108 diverse employers. Additional costs will be only passed on as a "last resort."	Poss. Dec 2010
EDI - auto designer interface	Work continuing on setting up major employers to enable automatic electronic update of member data changes including starters. Focus groups originally set up with employers for the New Look Scheme will be continued to keep momentum going. Specific focus of the newly created Employer Relationship team for 2010 onwards. EDI will be included in the Administration Strategy to work more closely with Fund employers with **an expected date of April 2012 for all employers to provide data electronically**.	N/A
Actuarial Valuation/Data cleanse	All data sent to Mercer on 15th July 2010 (on schedule).and sent to Govt. Actuary end of August for the National Fund evaluation in connection with *Cost Sharing* coming in 2013. Results of the Valuation are due in October and will be reported to Committee in December 2010	Dec 2010

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Appendix 3

Committee Workplan to 31 March 2011

December 2010
Review of Investment Performance for Quarter Ending 30 September 2010
Pension Fund Administration – Budget Monitoring 2010/11, Performance Indicators for Quarter Ending 30 September 2010 and Risk Register Action Plan
Update on Actuarial Valuation
Review Investment Panel Recommendations
Annual review of internal control reports of external service providers
Review training policy for members
Review framework for self assessment of decision making process (any conclusions)
Approve Administration Strategy (post consultation with employers)
Additional Voluntary Contributions Monitoring Report
Workplans

March 2011
Review of Investment Performance for Quarter Ending 31 December 2010
Pension Fund Administration – Budget Monitoring 2010/11, Performance Indicators for Quarter Ending 31 December 2010 and Risk Register Action Plan
Budget and Service Plan 2011/14
Review of Custody Contract
Review of Hedge Funds
Workplans

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Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2011

Panel meeting	Proposed reports	Outcome
16 September 2010	• Review managers performance to June 2010 • Review passive investing issues • Meet the managers workshop – property managers	• Agree any recommendations to Committee
11 November 2010	• Review of Hedge Fund managers – performance and meet the managers • Review managers performance to Sept 10	• Input to committee workshop in 1Q11 • Agree any recommendations to Committee
1Q11	• Review managers performance to Dec 10 • Meet the managers workshop	• Agree any recommendations to Committee • Agree any recommendations to Committee

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