Bath & North East Somerset Council

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To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: Paul Fox (Chair), Gabriel Batt, Nicholas Coombes, Charles Gerrish and Katie Hall

Co-opted Voting Members: Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), Cllr Mark Wright (Bristol City Council), Bill Marshall (HFE Employers), Rowena Hayward (Trade Unions), Ann Berresford (Independent Member) and Carolan Dobson (Independent Member)

Co-opted Non-voting Members: Councillor Clive Fricker (Town and Parish Councils), Richard Orton (Trade Unions), Steve Paines (Trade Unions) and Paul Shiner (Trade Unions)

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 23rd September, 2011

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 23rd September, 2011** 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.

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, 23rd September, 2011

at 2.00 pm in the Council Chamber - Keynsham Town Hall

A G E N D A

PRELIMINARY MATTERS

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: 24 JUNE 2011 (Pages 7 - 46)

FOR APPROVAL

8. FINAL ACCOUNTS 2010/11, GOVERNANCE REPORT AND AUDIT PLAN 2011/12 (Pages 47 - 100) **(15 MINUTES)**

   These are presented to the APFC prior to approval by the Corporate Audit Committee. The Auditor will attend to answer questions.

9. AVON PENSION FUND ANNUAL REPORT 2010/11 (Pages 101 - 166) **(10 MINUTES)**

10. APPLICATION BY THE PARK FOR COMMUNITY ADMISSION BODY STATUS (Pages 167 - 174) **(5 MINUTES)**

11. APPLICATION BY SOUTH WEST ACADEMIES FOR COMMUNITY ADMISSION BODY STATUS (Pages 175 - 180) **(5 MINUTES)**

STRATEGIC REPORTS

12. LGPS CHANGES/HUTTON REVIEW - VERBAL UPDATE **(15 MINUTES)**

13. ADMINISTRATION STRATEGY - STEWARDSHIP REPORT (Pages 181 - 198) **(15 MINUTES)**

INFORMATION ONLY REPORTS

14. ADMITTED BODIES - VERBAL UPDATE **(10 MINUTES)**

    Before the update the Committee is invited to pass the following resolution:

    > Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee resolves that in accordance with the provisions of Section 1000(A)(4) the public be excluded from the meeting for this item of business because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

15. INVESTMENT PANEL MINUTES (Pages 199 - 204) **(5 MINUTES)**

MONITORING REPORTS

16. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 JUNE 2011 (Pages 205 - 266) **(20 MINUTES)**

    If Members wish to discuss Appendix 4, they are invited to pass the following resolution:

    > Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee resolves that in accordance with the provisions of Section 1000(A)(4) the public be excluded from the meeting for this item of business because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

17. PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR YEAR TO 31 AUGUST 2011 AND PERFORMANCE INDICATORS FOR QUARTER ENDING 31 JULY 2011 (Pages 267 - 298) **(20 MINUTES)**

18. WORKPLANS (Pages 299 - 314) **(5 MINUTES)**

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

Minutes of the Meeting held

Friday, 24th June, 2011, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Gabriel Batt, Nicholas Coombes, Charles Gerrish and Katie Hall

Co-opted Voting Members: Councillor Mike Drew (South Gloucestershire Council), Ann Berresford (Independent Member) and Bill Marshall (HFE Sector)

Co-opted Non-voting Members: Richard Orton (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor) and John Finch (JLT Benefit Solutions)

Also in attendance: Andrew Pate (Strategic Director, Resources & Support Services), Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager), Matthew Betts (Assistant Investments Manager), Steve McMillan (Pensions Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Mary Blatchford, Carolan Dobson, Councillor Clive Fricker, Rowena Hayward, Steve Paines, Paul Shiner and Councillor Mark Wright.

3 ELECTION OF VICE-CHAIR

Councillor Charles Gerrish was elected Vice-Chair for the Council Year.

4 DECLARATIONS OF INTEREST

There were none.

5 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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: 18 MARCH 2011

These were approved as a correct record and signed by the Chair, subject to the following amendment:

> page 3, item 46 (Review of Hedge Fund Portfolio), after "The Investments Manager replied that officers would ascertain the costs" insert "and report to the Investment Panel".

9 ROLES AND RESPONSIBILITIES OF THE COMMITTEE

The Investments Manager presented the report, which set out the roles and responsibilities of all those involved in the governance of the Fund. She drew attention to the need for the Committee to appoint three non-B&NES voting members to the Investment Panel.

A Member asked about the interpretation of "obtain proper advice at reasonable intervals about its investments", which was quoted from the LGPS (Management and Investment of Funds) Regulations 2009 in paragraph 4.9 of the report. The Investments Manager replied that the Committee's quarterly meetings would suffice for this purpose, though in fact additional advice was available from the external advisers who attended all meetings of the Committee and the Investment Panel.

RESOLVED:

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

2. To agree that the non-B&NES members of the Investment Panel will be Ann Berresford , Councillor Mary Blatchford and Bill Marshall.

To note that the B&NES members appointed to the Councillor places on the Investment Panel are Councillor Gabriel Batt, Councillor Nicholas Coombes and Councillor Charles Gerrish.

10 PRESENTATION BY MERCERS ON THE FAIR DEAL CONSULTATION

The Investments Manager reported that the Government's consultation on the Fair Deal had just ended. If the Fair Deal was abolished or substantially reformed there could be serious implications for the Fund.

The Chair welcomed Paul Middleman of Mercer Limited to the meeting. Mr Middleman made a presentation; a copy of his slides is attached as Appendix 1 to these minutes. He said that there were currently two options when functions were contracted out from the local authorities to the private sector: either outsourced staff could remain in the local authority pension fund through the use of admitted body status, or they could be enrolled in a broadly comparable scheme maintained by the contractor. It was the contractor's choice which of these would apply. The admitted body route was the more common one for employees in the Local Government Pension Scheme. Currently about 5% of the members of the LGPS were employed by admitted bodies. The Government was concerned that the current arrangements were a potential barrier for the outsourcing of public sector functions, so had initiated a consultation on whether the Fair Deal should be abolished or modified. The response to the consultation submitted on behalf of the Avon Pension Fund had argued that Fair Deal should be maintained but modified. Mr Middleman thought that if Fair Deal were abolished, it would be difficult for the LGPS to maintain current membership levels and that it would face increased volatility in relation to contributions and funding levels. As shown in the graph on page 4 of the presentation, the crossover point after which LGPS funds might have to use cash or sell assets to pay benefits could shift forward by about 8 years. Organisational restructuring resulting in a large number of redundancies at the same time would have a significant impact on LGPS funds.

A Member asked how additional costs could be incurred through staff leaving the Fund. Mr Middleman replied that while there were no additional costs when individual employees left the Fund, the Fund would be less able to pursue a higher-risk strategy and would have to invest more in defensive assets. A 4% decline in membership would cause a significant increase in volatility. Mr Middleman agreed with the Member's comment that the Fund would benefit from a reduction in the number of high earners who were members.

In reply to questions about the reasons for staff choosing to opt out of the Fund now, Mr Middleman said that people were behaving irrationally because of pressure on pay and a lot of misinformation. However, he would expect a fall in membership of about 20% if the Fair Deal was abolished. A Member responded that their behaviour might not seem so irrational when it was considered that employees were seeing steep rises in contributions and a fall in the value of their pensions; a contribution rate of 3.5% of total pay would mean a 50% increase in contributions and a change in the accrual rate from 1/80th to 1/100th would mean a 40% reduction in pension. The Chair suggested that a workshop could be arranged for Members to review this wider context after the Government had announced its decision on Fair Deal.

The Director of Resources and Support Services said that not only was there a danger of a "race to the bottom", as Hutton had warned against, but also of a race to the exit. The prospect of a 20% fall in membership was really worrying. There would probably be a bigger deficit to fund, but fewer active members, so the current investment strategy would have to be altered. Hutton had emphasised that the LGPS was different because it is a funded scheme. There was a need for more effective communication with fund members; it was important that they were not panicked into leaving the Fund.

The Chair asked how communications with members would be handled. The Head of Finance, Business and Pensions said that information would be added to the website the following week. A Member said that the information on the website was not enough; it was important to involve the employers. The Pensions Manager said that data on opt-outs was being collected and could be presented to the Committee. Members agreed that this information should be presented regularly.

The Chair thanked Mr Middleman for his presentation.

11 PRESENTATION BY SCHRODERS ASSET MANAGEMENT ON THE ECONOMIC/MARKET OUTLOOK

The Investments Manager explained that Schroders was one of the Fund's investment managers, specialising mainly in retail, property and global equities.

The Chair welcomed Lyndon Bolton, Schroders' Client Director, to the meeting.

Mr Bolton made a presentation. A copy of his slides is attached as Appendix 2 to these minutes. There were currently three main threats to the global economy:

(a) the spike in oil prices;
(b) inflation and the possibility of rises in interest rates;
(c) the crisis in the Eurozone.

These issues were discussed in depth based on the information included in the slides.

A Member observed that despite the Greek debt crisis the euro was appreciating against the pound. Mr Bolton responded that the key driver was the euro against the dollar. The dollar would appreciate against the euro if US interest rates rose.

A Member referred to slide 10 ("growth reliant on fall in savings ratio") and asked where the increase in spending necessary for the recovery would come from. Mr Bolton replied that one of the conditions for the bailout of the banks was that they would lend to businesses. However, the banks were reluctant to lend. That was part of the problem. Recovery required companies to spend more, and that was not happening at the moment.

The Investments Manager asked whether the main risk to the portfolio was through its investments in European financial institutions. Mr Bolton agreed, though a significant degree of Greek contagion risk was probably priced into valuations.

The Chair thanked Mr Bolton for his presentation.

12 REVIEW OF INVESTMENT PERFORMANCE FOR YEAR AND QUARTER ENDING 31 MARCH 2011

The Investments Manager presented the report. There had been a return of 7.8% over the year, with positive returns across all asset classes. It had been a good year for the Fund's managers, although in the last quarter they had slightly underperformed relative to their benchmarks. The return slightly lagged behind other LGPS funds, because of the Fund's lower than average allocation to equities and higher than average allocation to hedge funds. The funding level had marginally increased from 82% to 83% since March 2010. The change in the allocations between the hedge fund managers which had been agreed in March would be completed by end July.

Mr Finch commented on the JLT performance review, attached as Appendix 2 to the report. There had been strong returns in Asian, Pacific and emerging markets. The return on government bonds had been negative in the last quarter. Volatile markets had been tough for investment managers. The graph of risk versus return on page 19 showed that the Fund now had a more balanced profile. Lyster Watson is low risk, but had underperformed the benchmark during the last quarter, over the year and over the last three years, justifying the decision to disinvest from this manager taken in March. Gottex had generated reasonably good returns with low risk. Bonds had generated reasonable positive returns over the year. Jupiter had outperformed the benchmark by 7.2% over the year, though it had fallen back during the final quarter. The Fund's strategic allocation remained well diversified in terms of asset class and regional exposure.

The Investments Manager said that the Fund's asset allocation strategy would be covered in the next induction session for new Members of the Committee.

A Member suggested that the Fund might invest in land. The Investments Manager responded that this had not yet been considered by the Committee. The Chair observed that agricultural land appeared to be a good investment at the moment.

RESOLVED to note the report.

13 APPOINTMENT OF MANAGER TO HEDGE CURRENCY EXPOSURE

The Assistant Investments Manager presented the report.

RESOLVED to note the report.

14 ADMISSION OF COMMUNITY HEALTH AND SOCIAL CARE TO THE FUND

The Investments Manager presented the report. She explained that under the Local Government Pension Scheme (Administration) Regulations 2005 community admission bodies could be admitted to the Avon Pension Fund with the consent of the Committee. The Director of Resources and Support Services explained that only existing B&NES social care staff transferred to Community Health and Social Care CIC would become members of the Fund and that there would be other arrangements for new recruits to the CIC. A Member observed that this would prevent people who would have been previously eligible to join the Fund from becoming members, so that outsourcing was another factor threatening membership levels.

RESOLVED that Community Health and Social Care (CIC) be allowed entry into the Avon Pension Fund as a Community Admission Body with Bath & North East Somerset acting as a guarantor.

15 PENSION FUND ADMINISTRATION - BUDGET OUTTURN 2010/11 AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 30 APRIL 2011

The Finance & Systems Manager (Pensions) presented the financial report. Expenditure for the year had been £660,394 under budget. £267,144 had been saved on investment manager fees because of a delay in appointing a new manager. There had also been less than expected expenditure on the guides, postage and the website. The Pensions Manager explained that these savings had been made without a reduction in the level of service provided.

The Pensions Manager presented the Administration Report. He referred to the key performance indicators in Appendix 3a of the report and asked members to note that most were on or ahead of target. There was 100% compliance with statutory targets, but some minor shortfall in the internal targets agreed with employers in service level agreements.

A Member asked about shortfalls in meeting service targets. The Pensions Manager reported that quite often delays by employers in providing information, e.g. about retirements, in time to enable the Fund to achieve the internal service target. He emphasised however that all statutory targets had been met. The new Administration Strategy which came into effect in April 2011 was expected to lead to improvements in service delivery to Scheme members through closer working with employers.

A Member noted that, only 0.3% of the Fund's services were delivered to members electronically. The Pensions Manager replied that the aim was to deliver as much to members electronically as possible; this was easy with the Newsletter, but more difficult with personal confidential pensions information. The 0.3% level was achieved when members were asked some time ago whether they wished to receive the Newsletter electronically. The administration team would like to e-mail members advising them that their annual benefits statement was available online, but needed to check whether this met legal requirements. The Chair asked for a report at the next meeting on the progress made in achieving electronic service delivery.

The Pensions Manager drew attention to the delays which had been experienced last year in processing transfers in and out while waiting for the Government Actuaries Department to supply revised factor tables following the change in indexation from RPI to CPI. The backlog had now been cleared, although there was a similar situation since early 2011 in quoting for costs to members for buying additional pension (ARCs). This problem had now been resolved following a recent direction issued by CLG, and it was reported that the outstanding cases were now starting to be cleared. The Pensions Manager confirmed that members had been kept informed of the delay and the reasons for it.

RESOLVED

1. To note the expenditure and administration and management expenses incurred for the year ending 31 March 2011 and Performance Indicators for the 3 months to 30 April 2011.

2. To note the conclusions from the Internal Audit Report.

16 DRAFT STATEMENT OF ACCOUNTS 2010/11

The Finance and Systems Manager (Pensions) tabled a revised statement of accounts with changes highlighted. He said that the most significant change was the addition of note 22 (Financial Risk Management Disclosure). This had been included to comply with International Financial Reporting Standards (IFRS).

The addition of note 16 (Actuarial present Value of promised Retirement Benefits) was also required by IFRS. He drew attention to the Fund Account on page 4 of the revised Statement of Accounts, which showed that assets and benefits payable had both increased.

The Director of Resources and Support Services referred to note 4 (Contributions Receivable) and observed that this was why the Committee needed to monitor the numbers of members regularly.

RESOLVED to note the Draft Statement of Accounts for year to 31 March 2011 for audit.

17 COMMITTEE'S ANNUAL REPORT TO COUNCIL

The Investments Manager introduced this item. The Annual Report would be submitted to the Council in September. She invited Members to let her know of any matters they thought should be included.

RESOLVED to approve the Annual Report to Council.

18 WORKPLANS

The Investments Manager presented the report.

She said that the next training session would be held on 15th July 2011. It would deal with the Fund's investment strategy and investment managers. It was intended for new Members, but all Members would be welcome to attend. She invited Members to suggest items for inclusion in the work plans. A Member asked when Socially Responsible Investment (SRI) would be coming to the Committee. The Investments Manager replied that there would be two workshops on SRI during 2011.

RESOLVED to note the workplans.

19 DATES OF FUTURE MEETINGS

The dates of future meetings were noted.

It was agreed that meeting dates should be scheduled up to the end of 2015 with the preferred time Friday afternoon and the preferred location Bath.

Appendix 1: Mercers presentation on Fair Deal

Appendix 2: Schroders presentation on macro outlook

The meeting ended at 4.33 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

MERCER

Consulting. Outsourcing. Investments.

24 June 2011

Avon Pension Fund
Fair Deal – Implications for the Fund

Paul Middleman FIA

Outsourcing contract – current pensions options

ADMITTED BODY ROUTE

CONTRACTOR'S BROADLY COMPARABLE SCHEME

- Stay within Fund
- Automatic continuation of pension rights
- Replicates benefits exactly

- Alternative to ABS for future service
- Bulk transfer for past service
- Benefits not exact

- Contactor's choice
- Impact of Fair Deal Consultation and removal of Two Tier Code?

Fair Deal Consultation

- Fair Deal applies to LAs in England under Best Value Authorities Staff Transfers (Pensions) Direction 2007
- HM Treasury consultation on the Fair Deal policy: treatment of Pensions on compulsory transfers of staff from the public sector
- Recommendation made in the Hutton report for “desirability” of only public sector employees being allowed access to public sector schemes
- Consultation ran from 3 March – 15 June 2011
- Mercer and Fund response supportive of Fair Deal but with modification / simplification

Possible Outcomes?

- Scrapped → no obligations (other than required under TUPE or NEST)
- Retained → as now but very likely will be amended

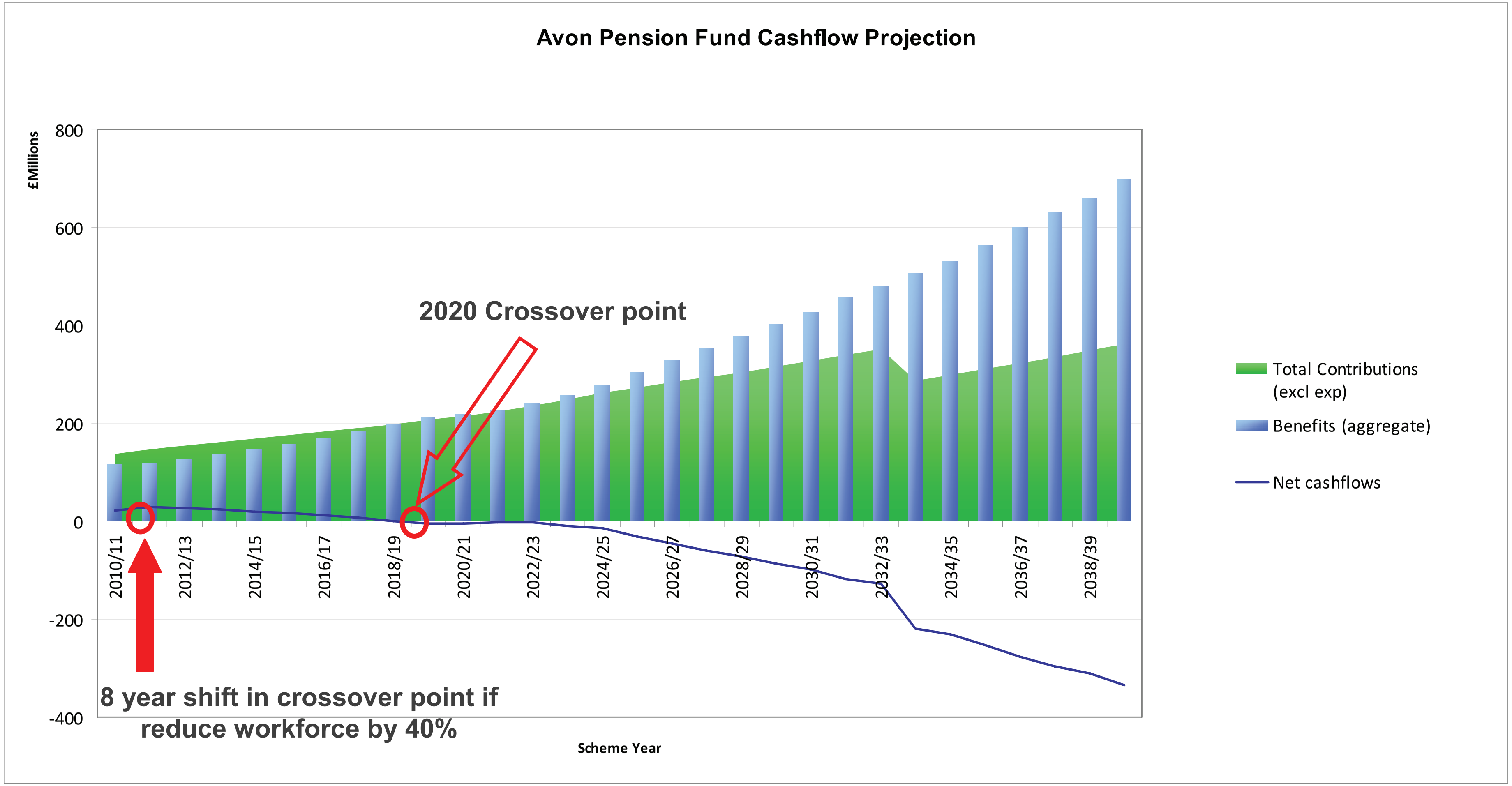
Implications of scrapping Fair Deal

- Current pressure on membership from restructure and opt-outs
- Scrapping Fair Deal → potential for an increased fall in numbers
- Further change in cashflow and Fund maturity profile
- Pressure on funding strategy, liquidity requirements and long term investment strategy

Possibly higher long term cost

Treasury management issues and constraints on investment strategy

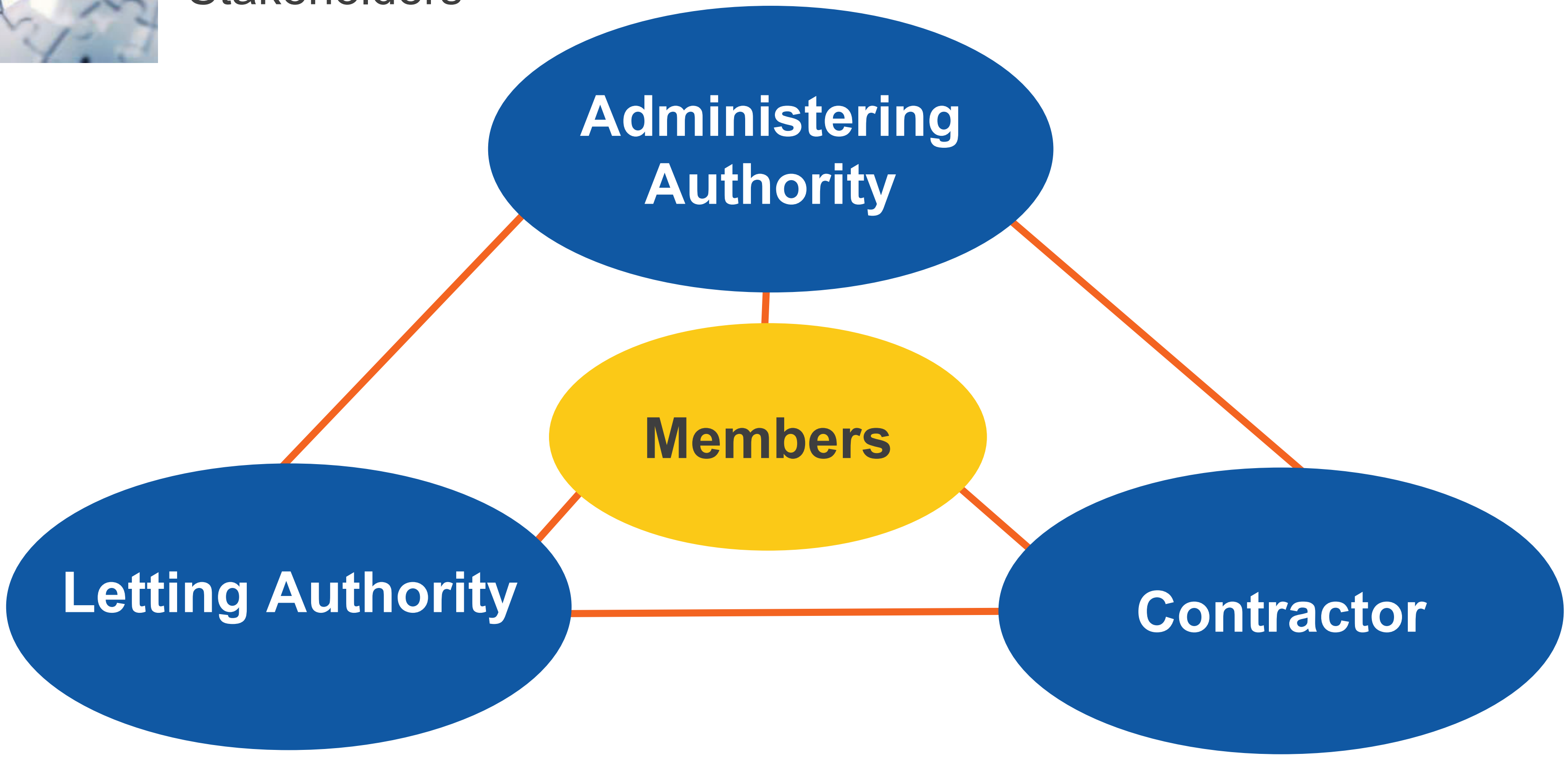
Impact of reducing membership
Cashflow Projection for Fund



ANY QUESTIONS

Appendix

Admitted Body Route
Stakeholders



- Admission Agreement → Administering Authority, Letting Authority and Contractor
- Commercial Agreement → Letting Authority and Contractor

Views on ABS Provisions

- Widely held view that ABS is a valuable mechanism for pension provision for transferring staff – part of our response on Fair Deal
- Concerns from contractors over a number of areas
  - Backdoor compulsion to offer ABS
  - Lack of control over pension risk
  - Lack of transparency or consistency of application
- Can lead to uncompetitive bids or even no bid at all (especially from smaller bidders)
- Test of beliefs will emerge from the Fair Deal Consultation

MERCER

Avon Pension Fund

Macro-economic outlook:

Will the oil shock and inflation derail the world economy?

Lyndon Bolton
Client Director
24 June 2011

Schroders

Themes for 2011

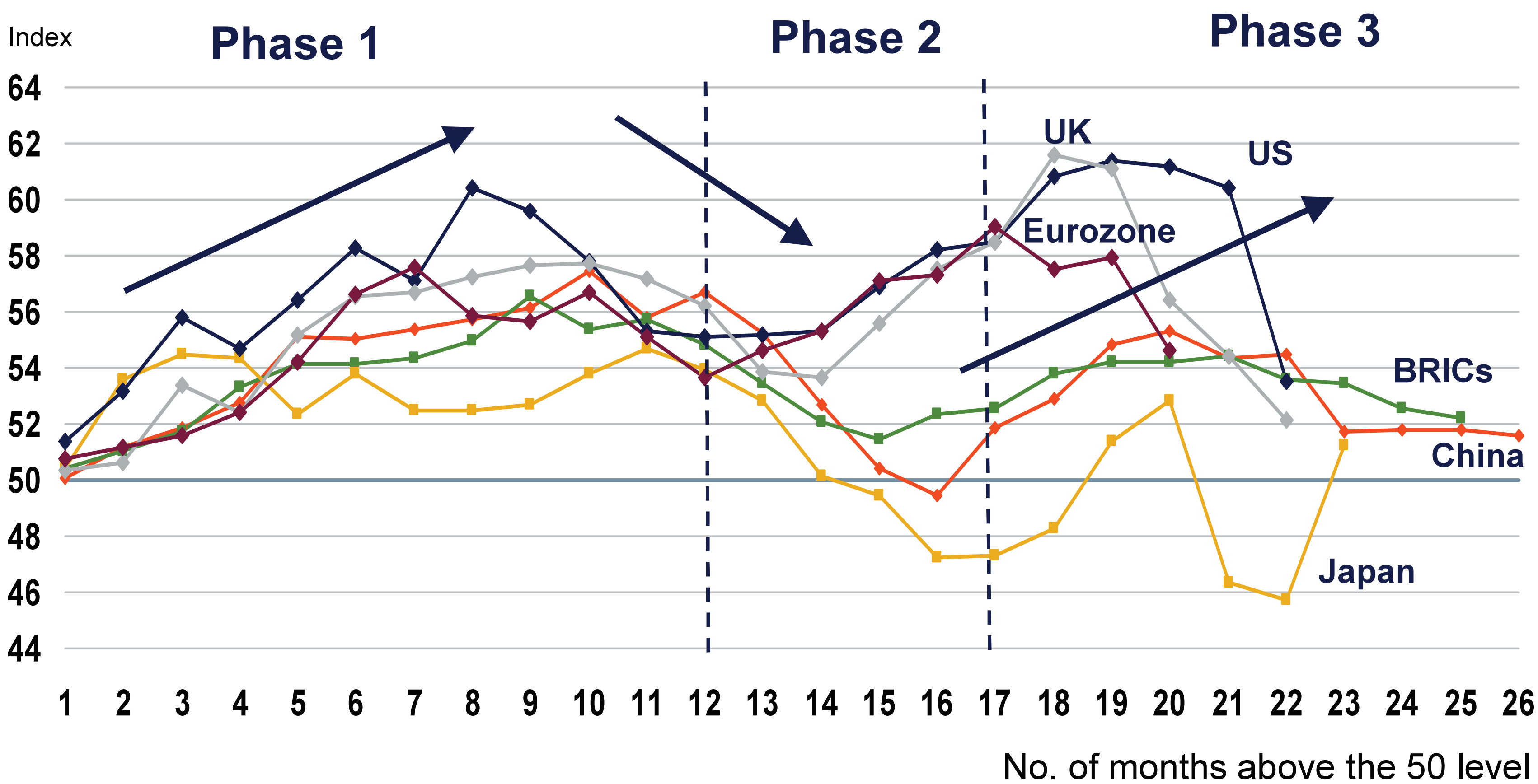
- Sweet spot for risk assets
- Search for yield
- East/ west divergence
- Sovereign debt restructuring in Eurozone

Schroders

Sweet spot under threat

Oil, Japanese earthquake present near term challenge to recovery

Manufacturing Purchasing Managers Index

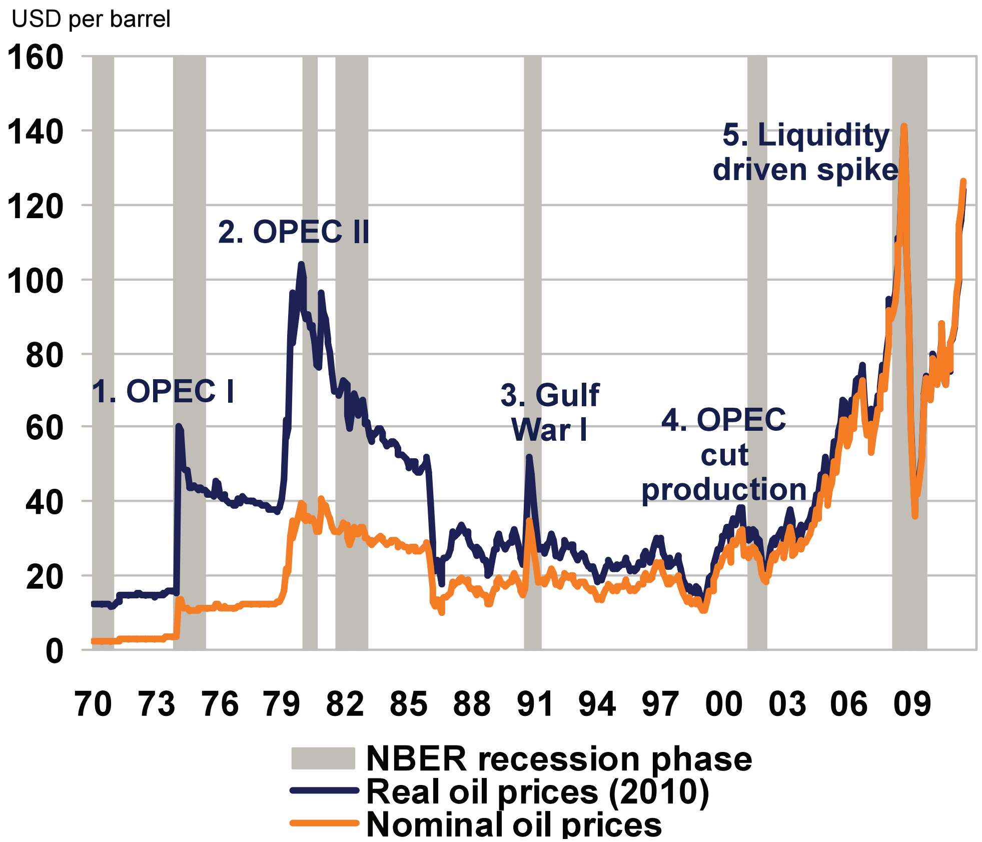


Source: Schroders, Markit PMI, June 2011. BRIC: Brazil, China, India & Russia.
GDP weights based on nominal GDP in USD from IMF.

Will the rise in oil prices cause another recession?

Latest rise in oil prices is smaller than previous shocks

Oil prices in nominal and real terms (2010)



Oil shocks compared

Period	Oil price: % rise trough to peak		Duration	1-year after peak vs. trough
	Nominal	Real		
Dec-73 to Jan-74	293%	286%	1 month	179%
Nov-78 to Nov-79	201%	170%	12 months	170%
Jun-90 to Oct-90	133%	128%	4 months	-40%
Mar-99 to Nov-00	151%	142%	20 months	138%
Jul-07 to Jul-08	92%	83%	12 months	-10%
Jul-10 to May-11?	77%	73%	10 months	?

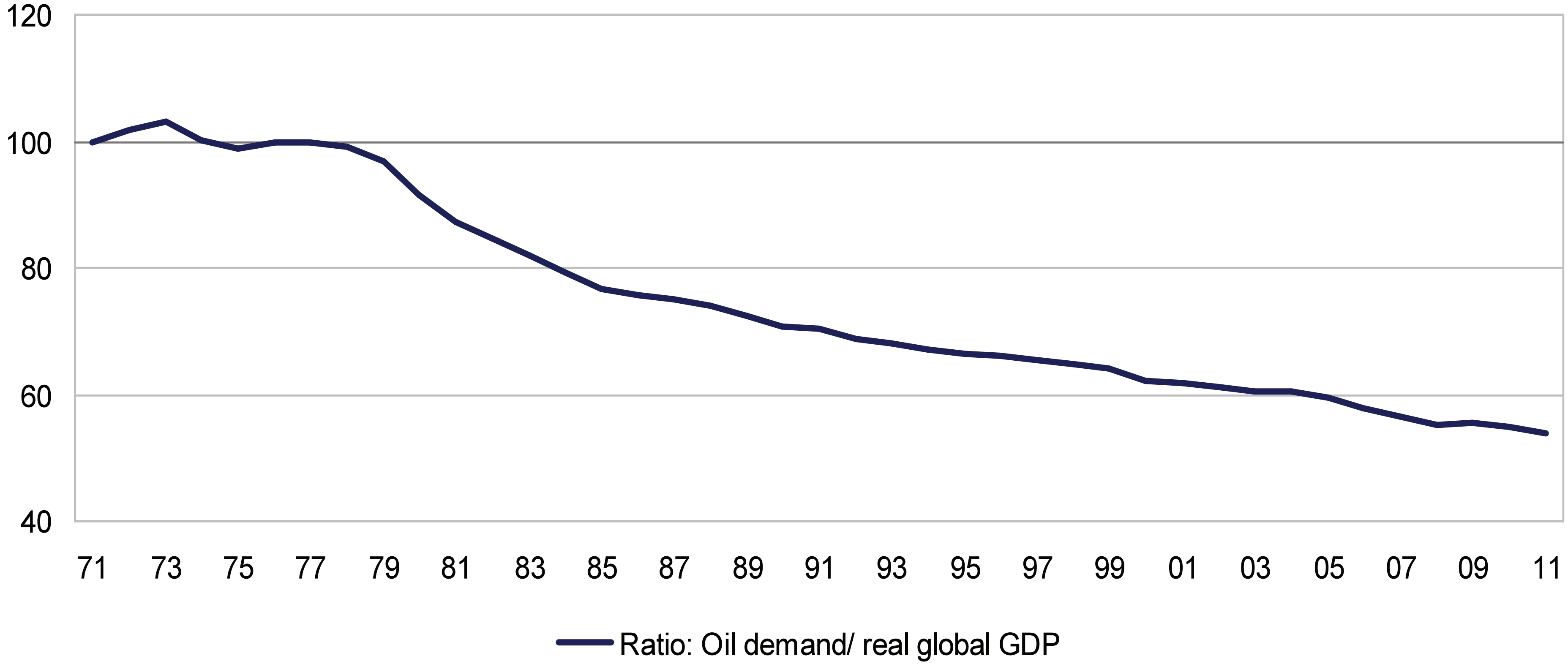
Source: Thomson Datastream, NBER (National bureau of Economic Research), Schroders, 19 May 2011.

Schroders

Energy intensity has fallen

Oil's role in the world economy has halved

Global oil demand to GDP (1971=100)

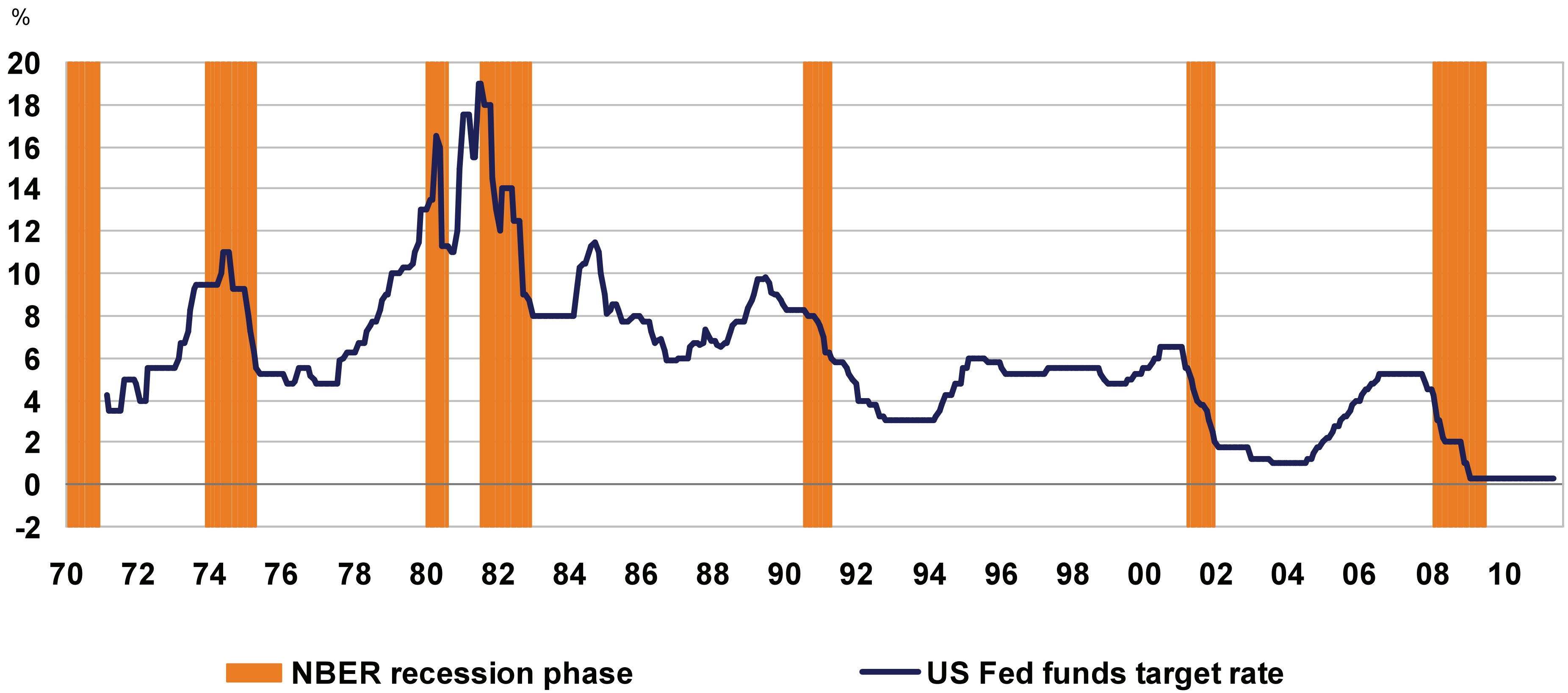


Source: Thomson Datastream, 19 May 2011

Schroders

Link between interest rates and recessions is stronger

Policy response to oil price shocks critical and dependent on second round effects

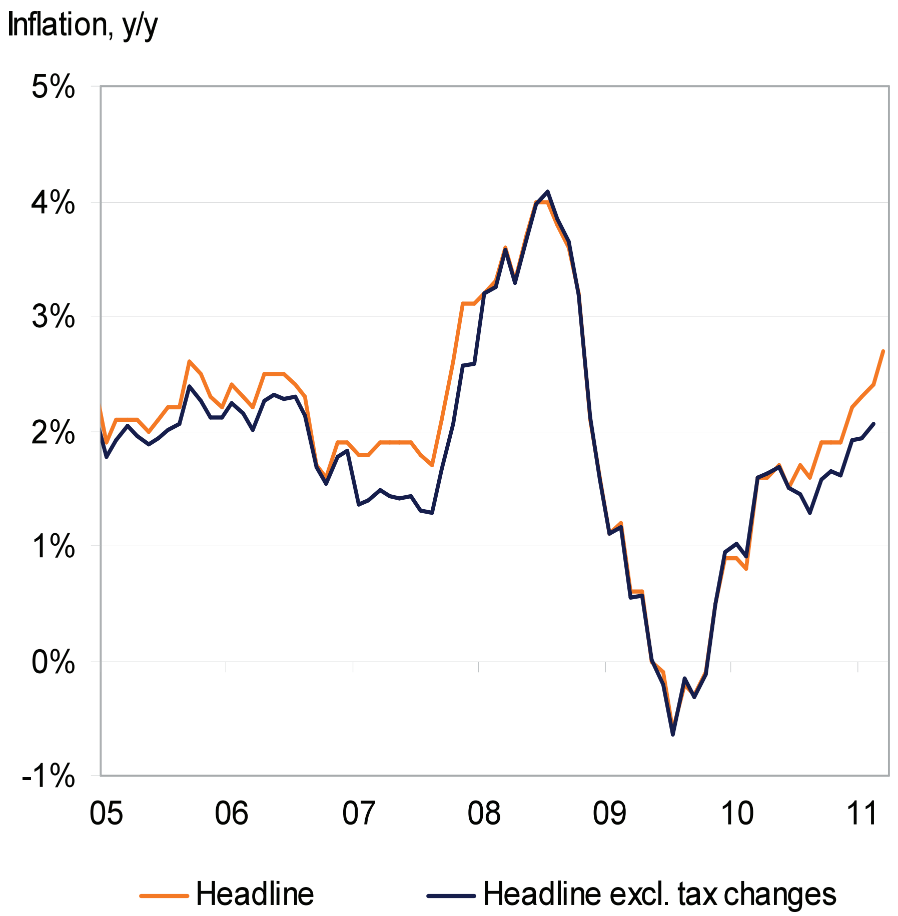


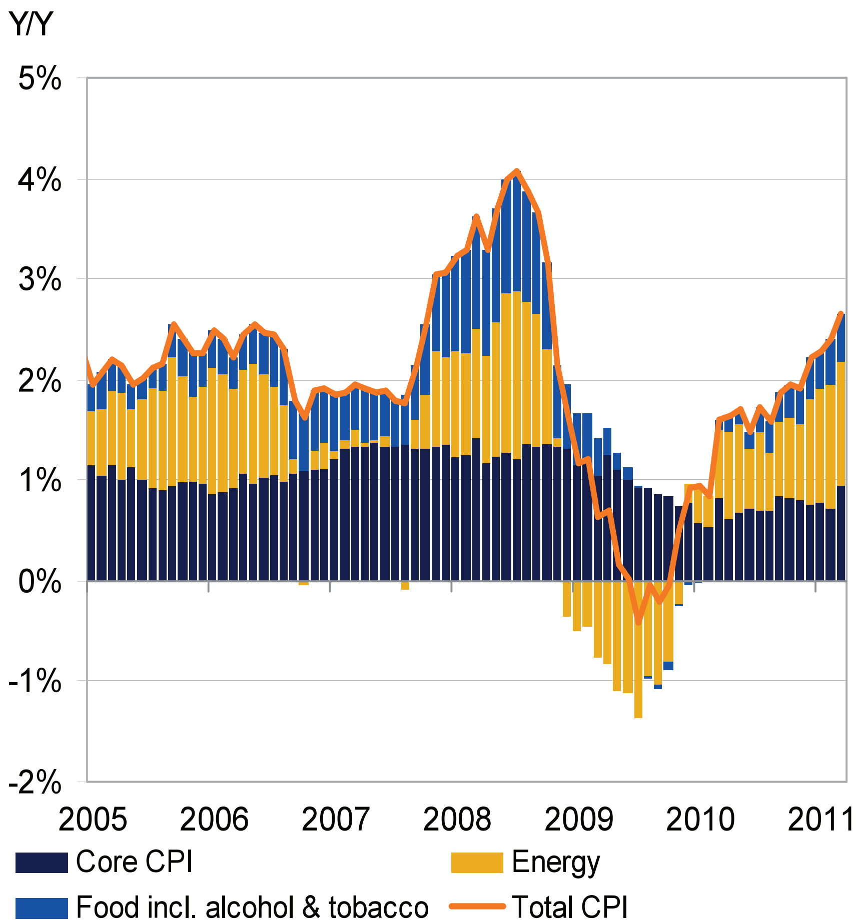
Source: Thomson Datastream, NBER (National bureau of Economic Research), 19 May 2011.

Schroders

The ECB has started raising interest rates

Taxes and energy price inflation hurting consumers



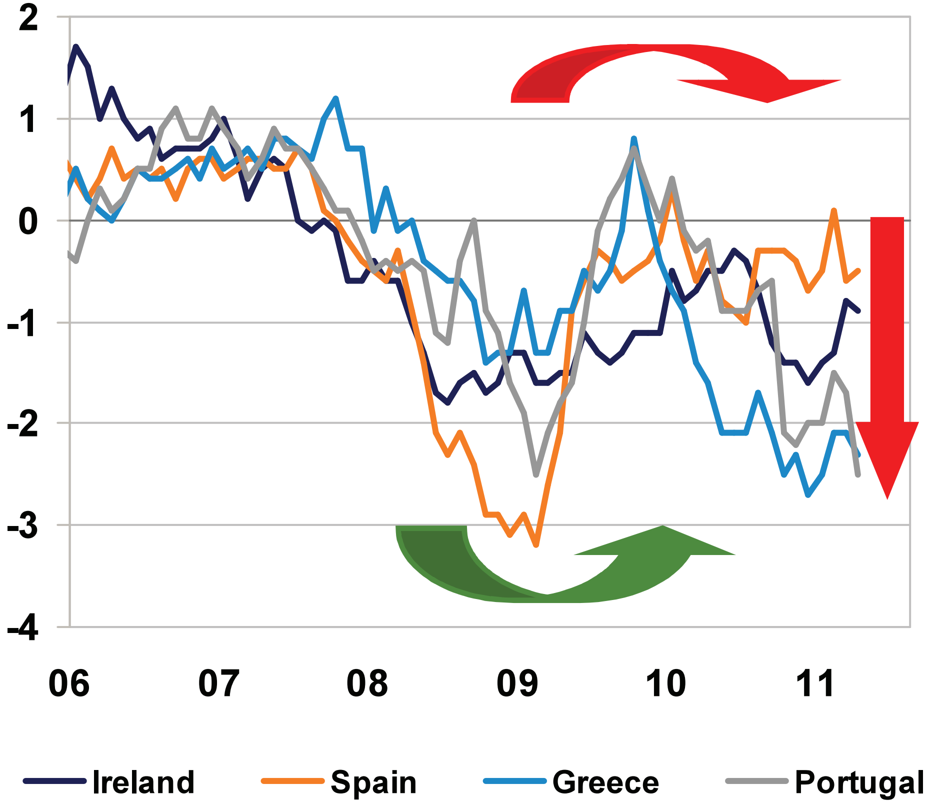


Source: Thompson Datastream. Updated 5 May 2011.

Growth divergence within Europe

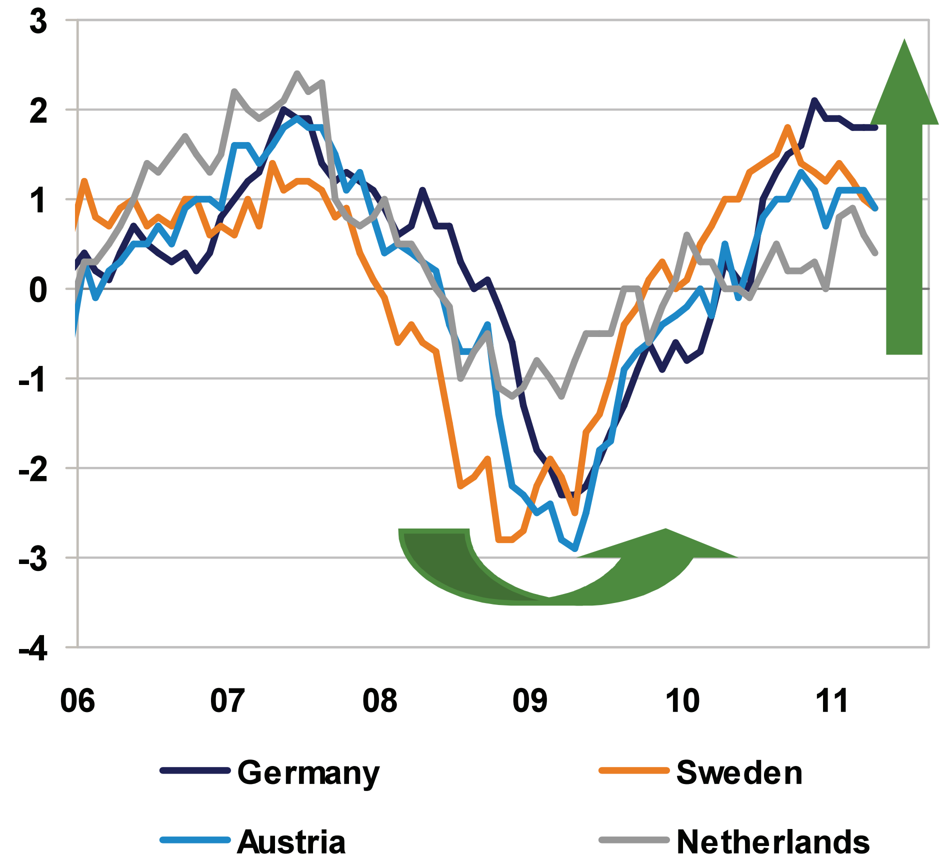
A tale of two consumers

Peripheral consumer confidence



Source: Thomson Datastream, European Commission, 18 May 2011.

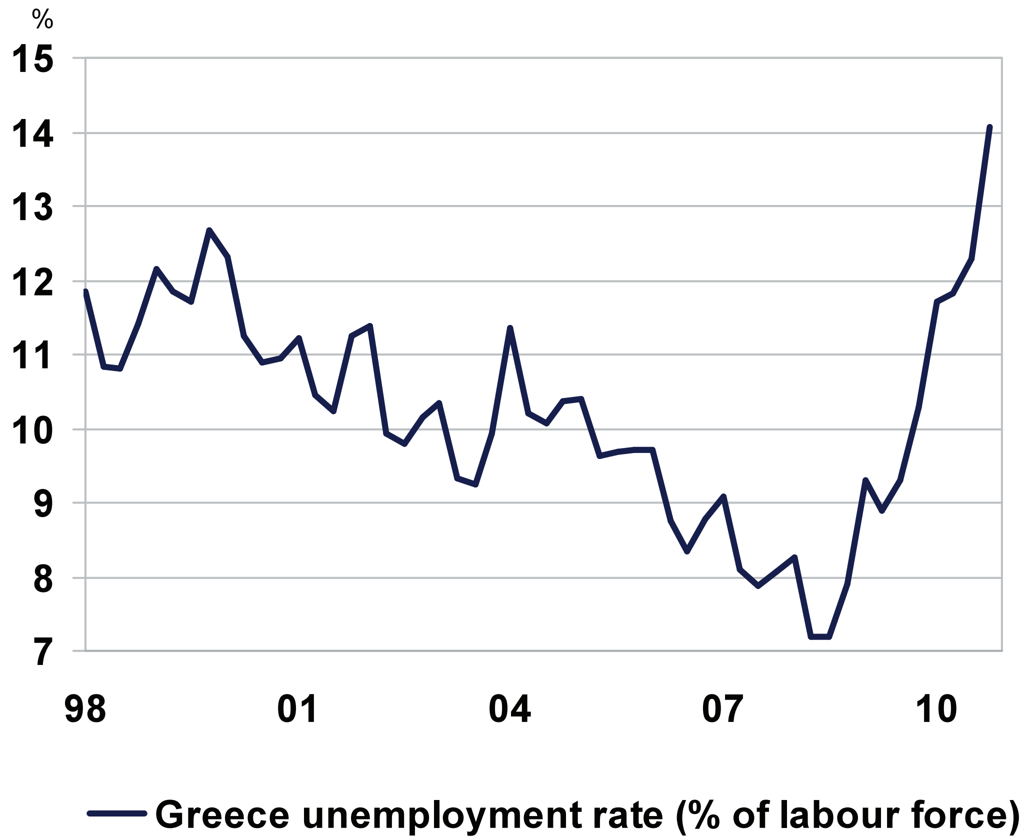
Core consumer confidence



Schroders

The Euro crisis

How far can government's cut spending?

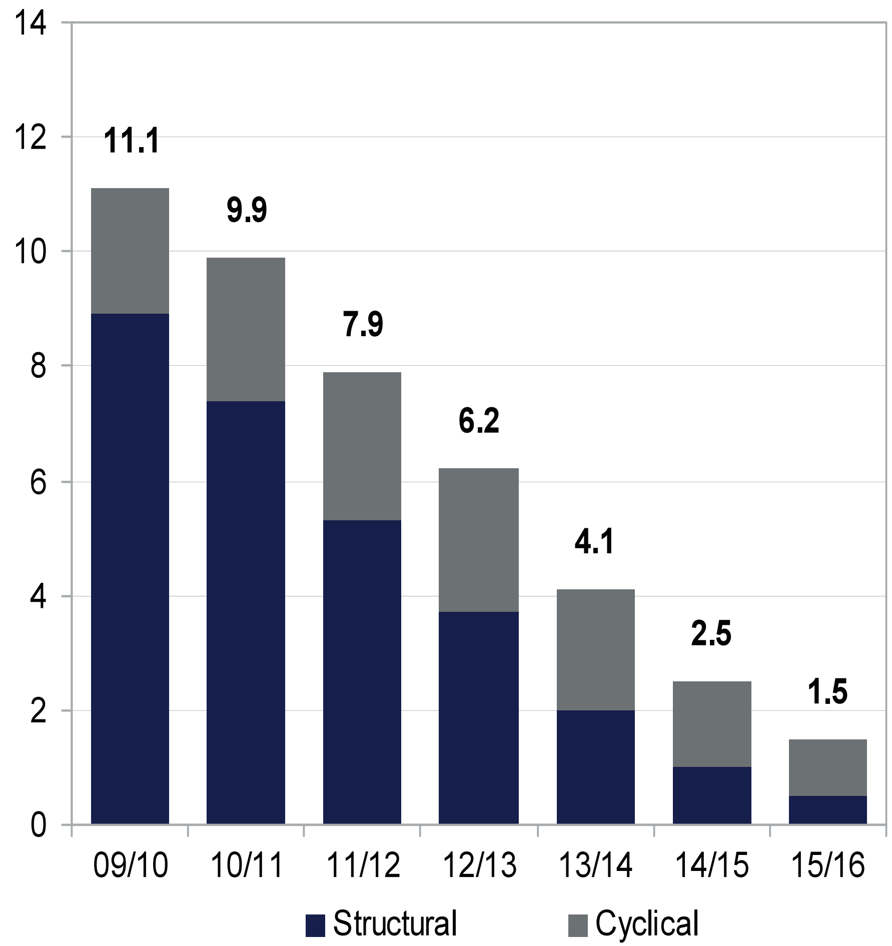


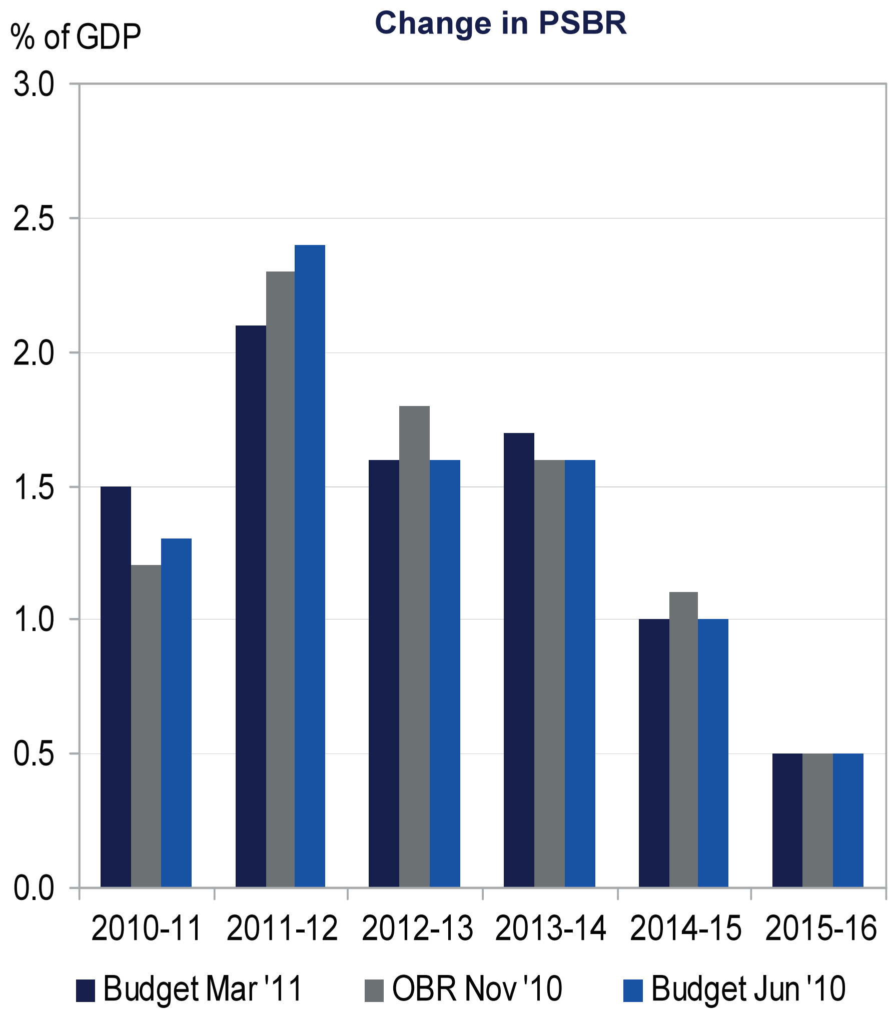
Source: Thomson Datastream, 19 May 2011, BBC

Schroders

Still following Plan A

Path of fiscal tightening in the UK



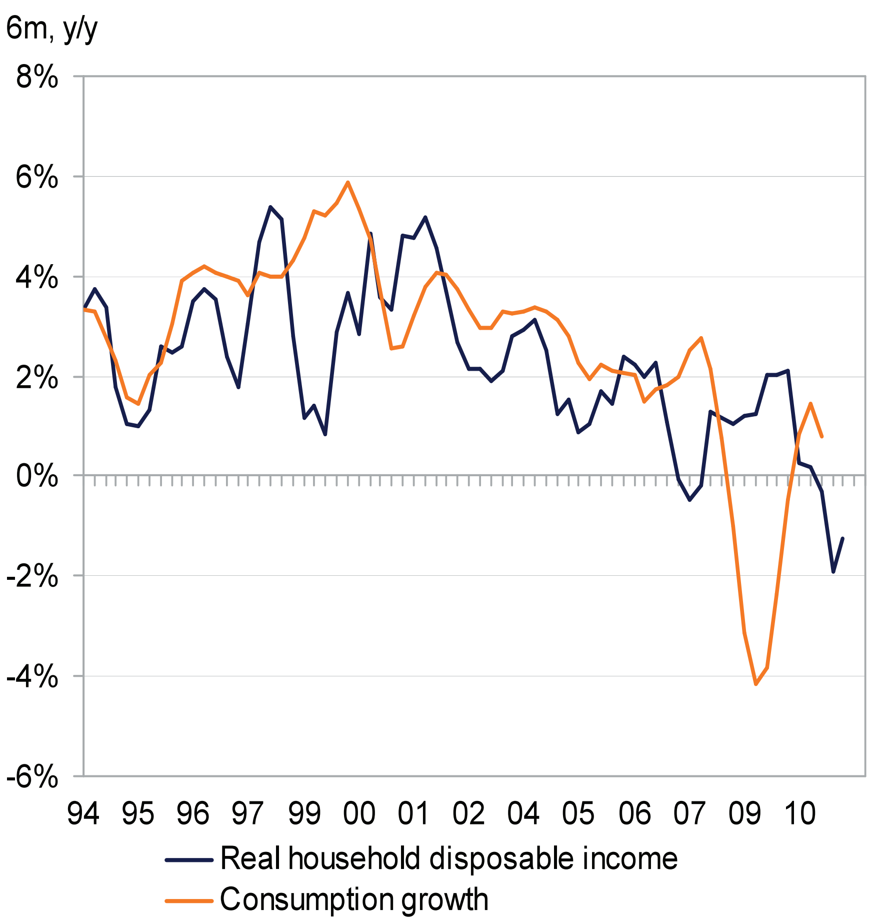


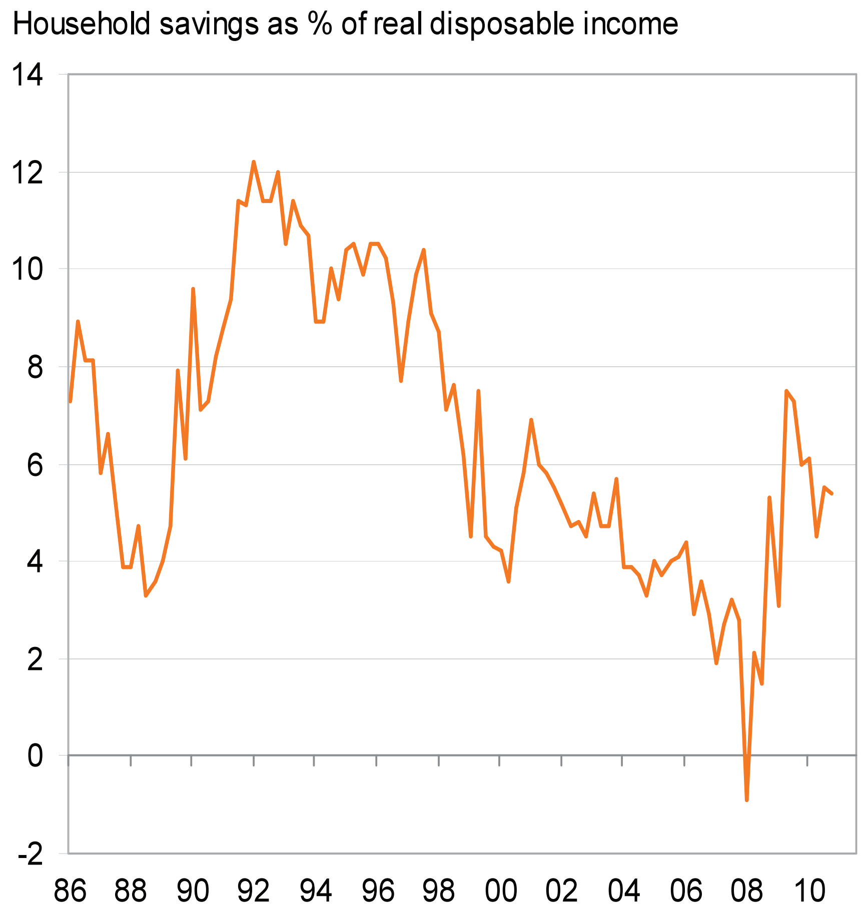
Source: ONS, Datastream, OBR, Budget March 2011, Schroders. 30 March 2011

Schroders

But can the UK withstand the fiscal squeeze?

Growth reliant on fall in savings ratio

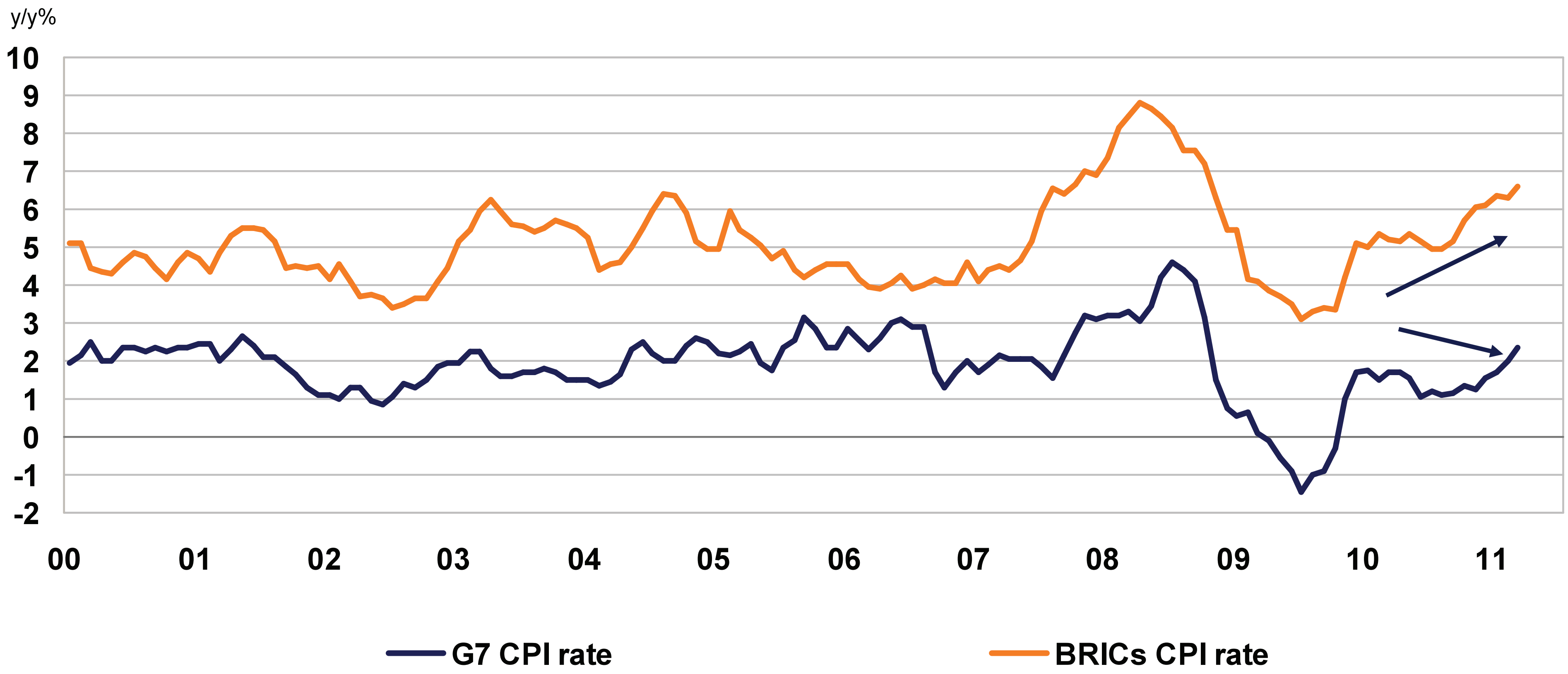




Source: ONS, Datastream. Updated 5 April 2011.

East/ west divergence

Inflation is diverging in the developed and emerging worlds

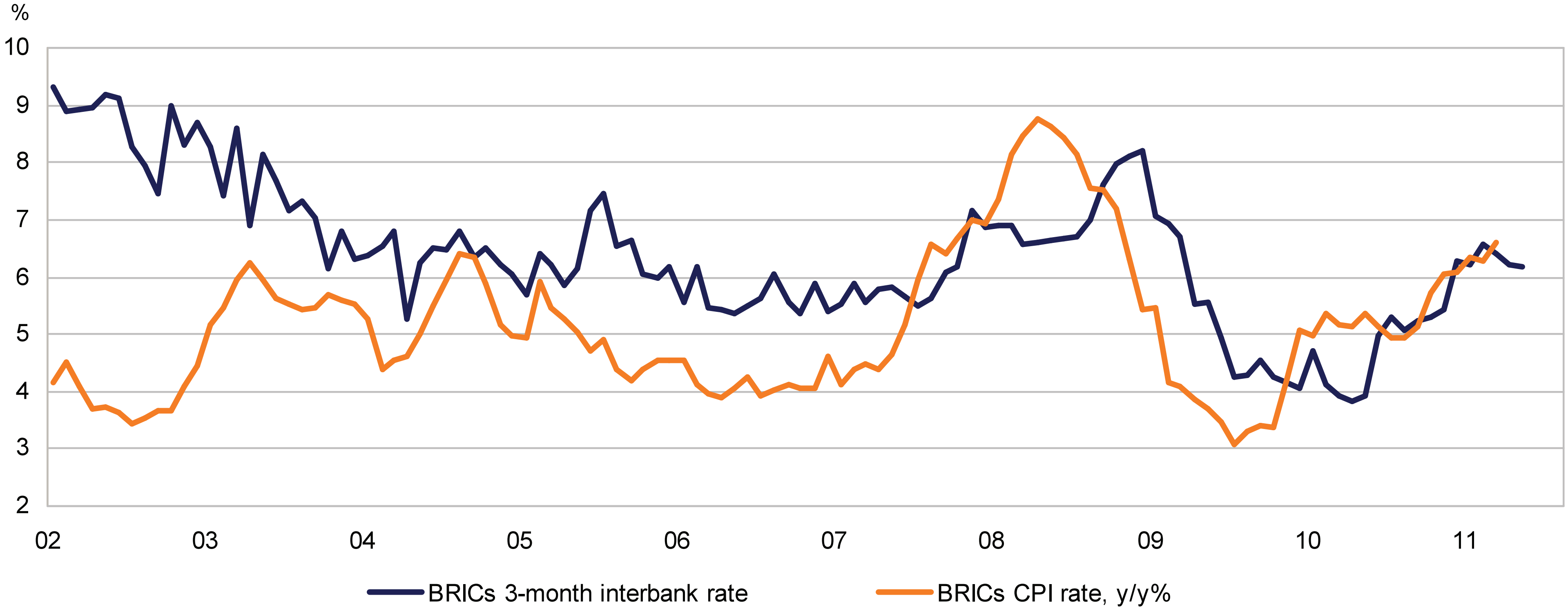


Source: Thomson Datastream, Schroders, 19 May 2011.
BRICs: Brazil, Russia, India and China. USD GDP-weighted.

Schroders

Tighter policy in emerging markets

Inflation and rates in the BRIC's



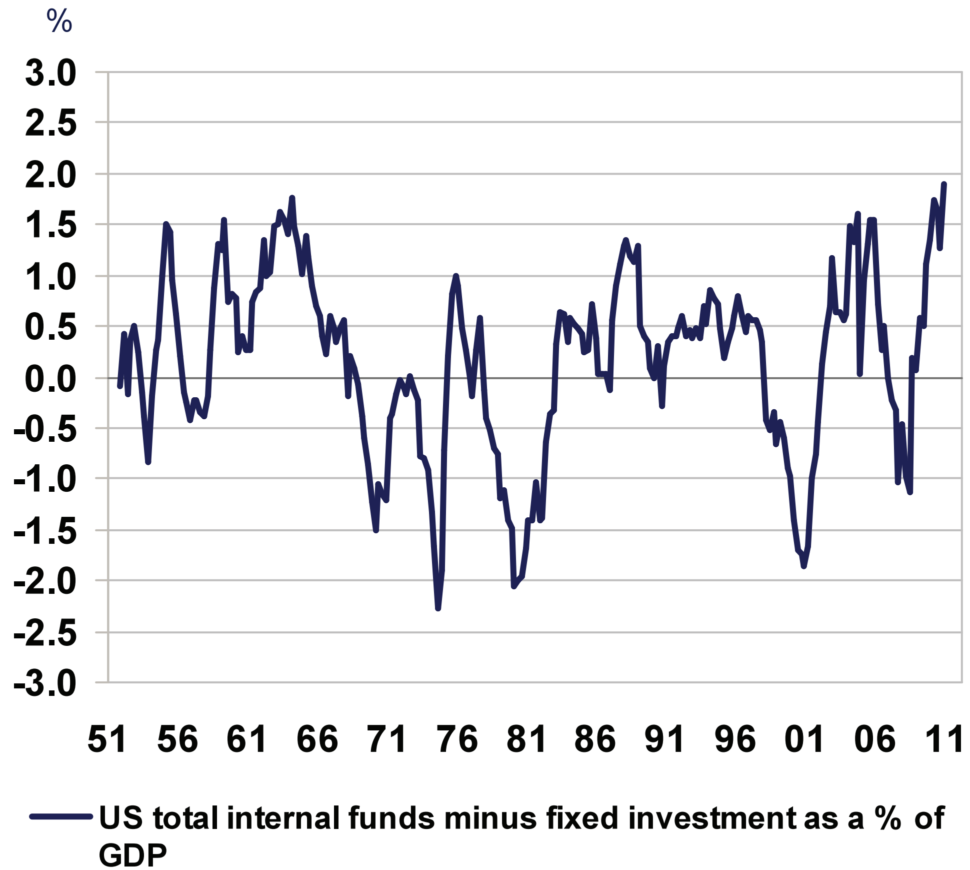
Source: Thomson Datastream, Schroders, 19 May 2011.
BRICs: Brazil, Russia, India and China. USD GDP-weighted.

Schroders

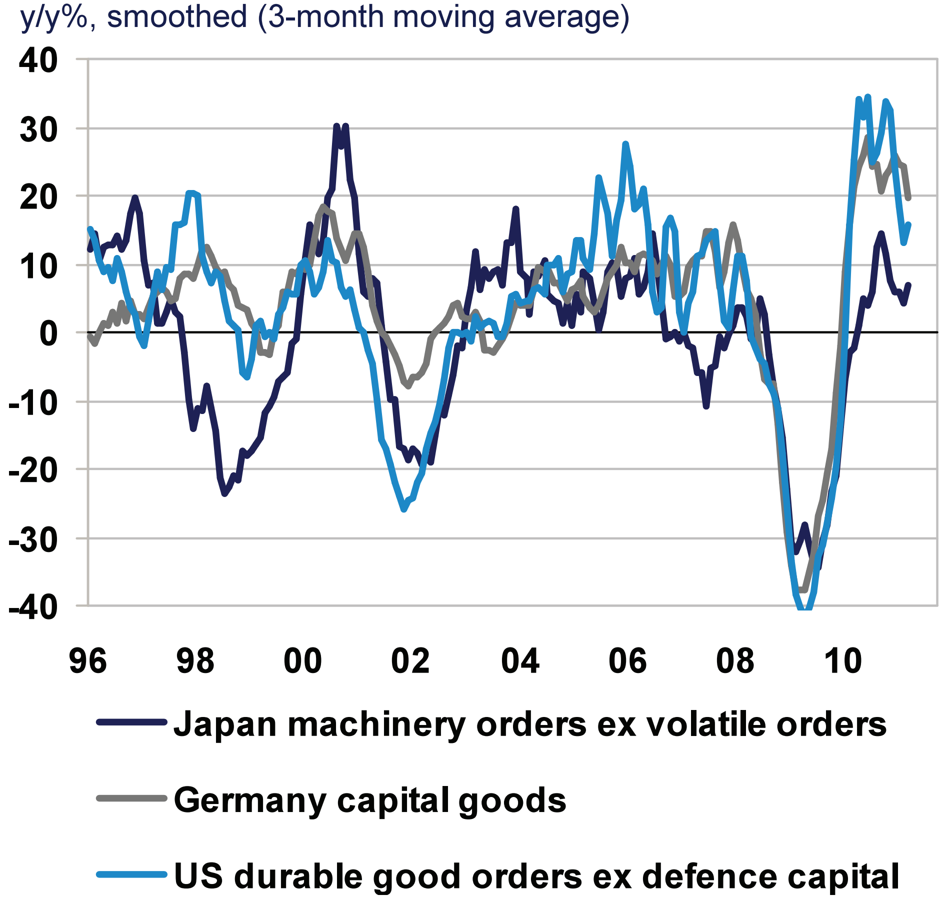
Corporate spending is recovering

Cash flow surges – capex accelerates

Corporate cash flow



Business capex orders

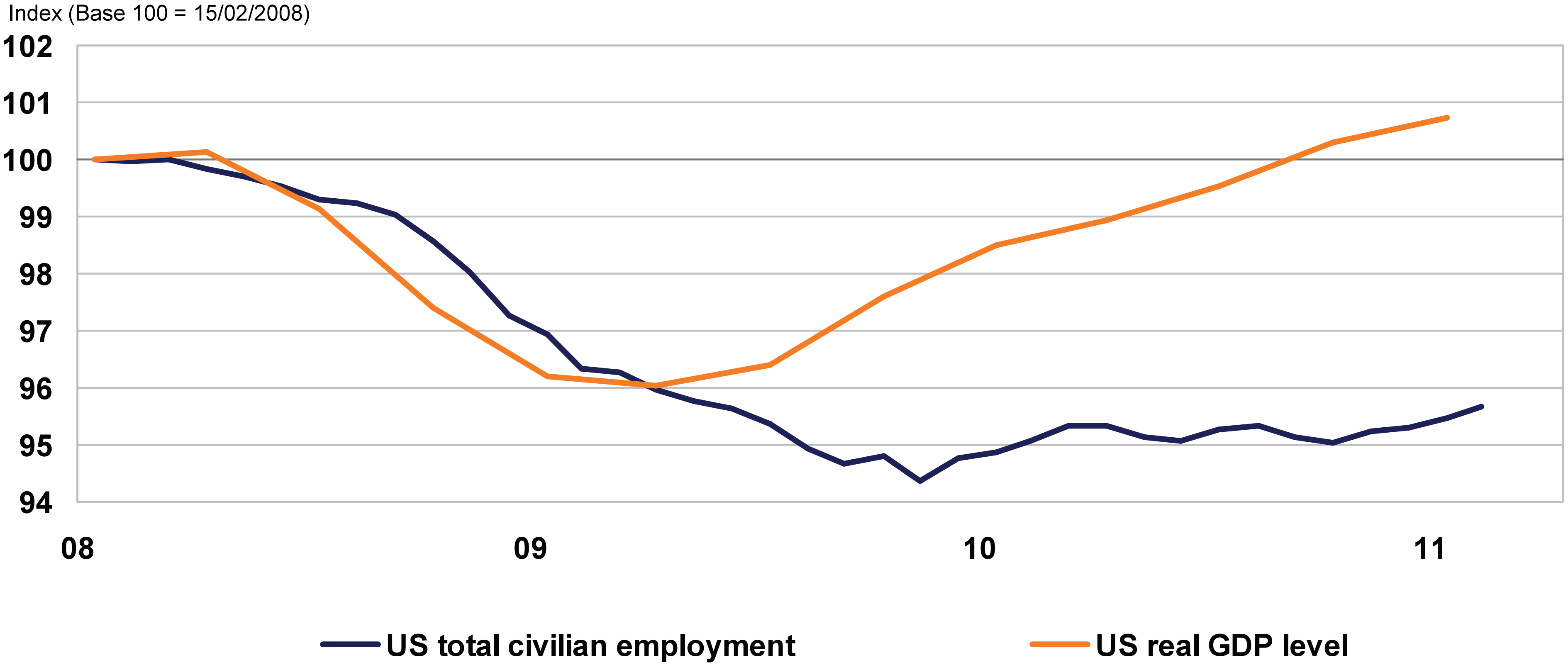


Source: Schroders, Thomson Datastream, 19 May 2011

Schroders

Waiting for a recovery in jobs

US GDP and jobs



Source: Thomson Datastream, 19 May 2011.

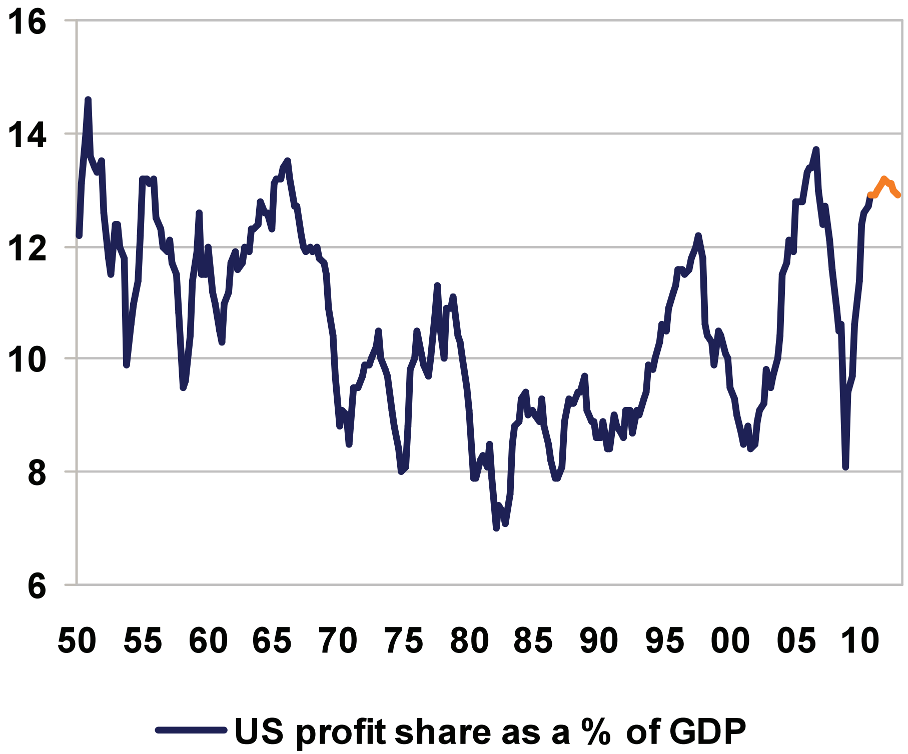
Schroders

Asset allocation

Schroders

Equities: corporate profits are buoyant

Profit margins have risen sharply in the US



Source: Schroders, Thomson Datastream, Data to Q4 2010, 19 May 2011

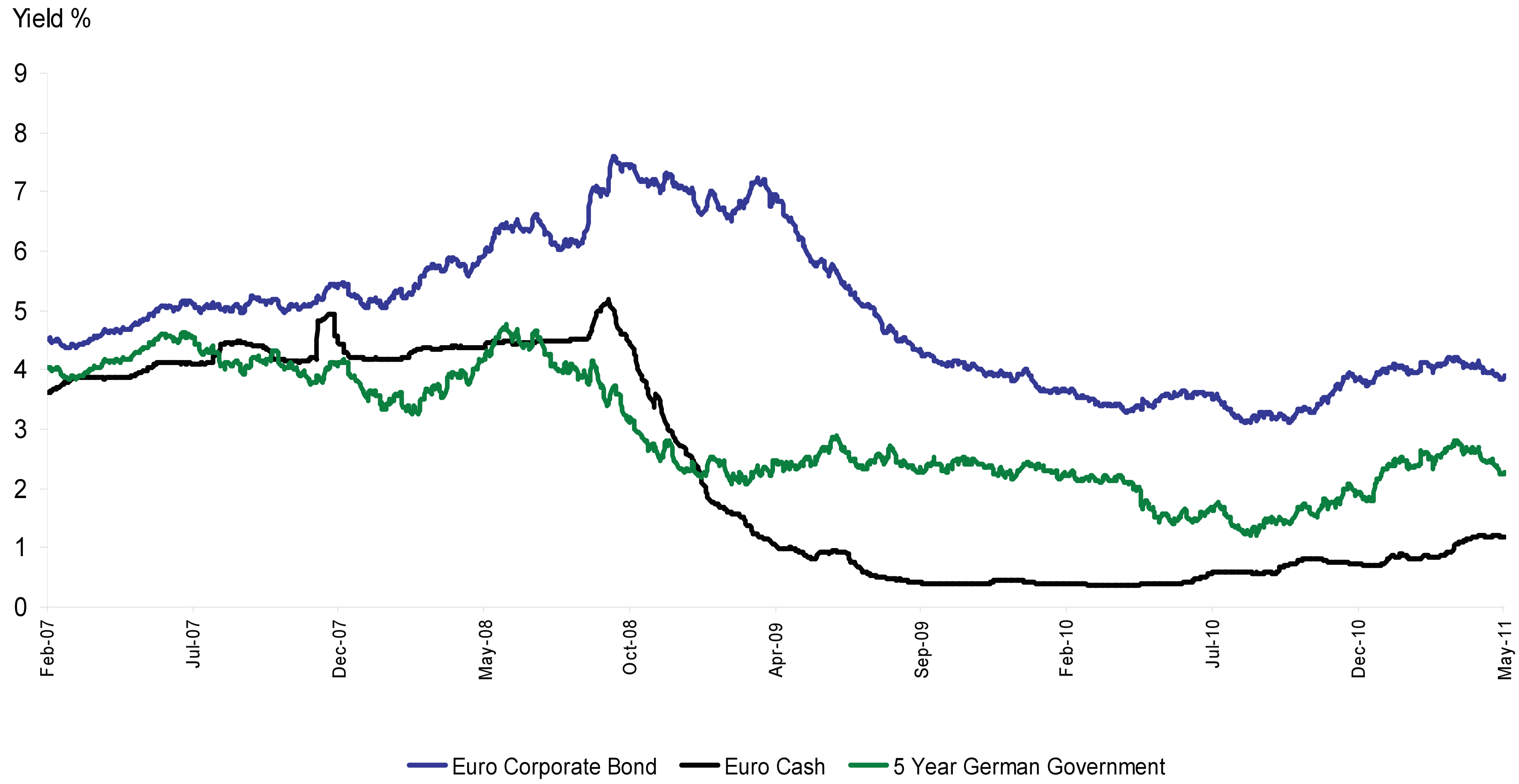
Table: Profit and EPS forecasts

	2009	2010	2011	2012
Economic profits				
y/y%	-9.7	49.7	9.6	6.3
Nonfinancial share % GDP	5.8	8.2	8.7	8.8
S&P 500 EPS				
Operating $	$57	$84	$92	$98
y/y%	15	47	10	6
Reported $	$51	$77	$86	$93
y/y%	243	51	11	8
S&P 500 PE market at:	1115.1	1257.64	1330	1330
Based on operating EPS	19.6	15	14.4	13.5
Based on reported EPS	21.9	16.3	15.5	14.3

Source: S&P, Schroders, 1 March 2011

Schroders

Bonds: where is the bubble…
…and where is the opportunity today?



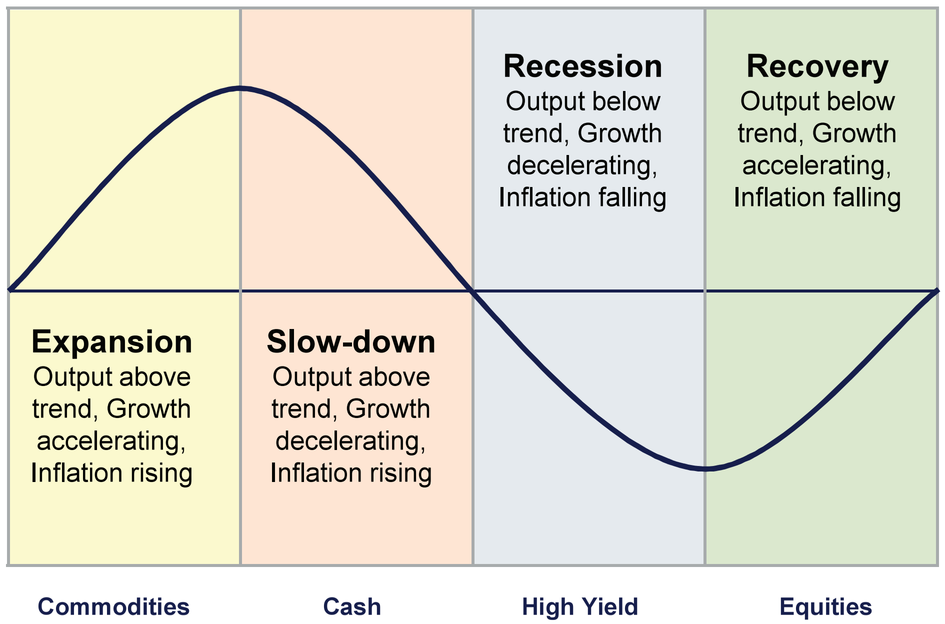
Source: Bank of America Merrill Lynch Indices using yield to worst (conventional) : ER00. Bloomberg 5 year government bond (GDBR5) BBA 1 month LIBOR (EU0001M Index). Month end dates. 31 May 2011

Schroders

Risk assets perform well in the recovery phase

"History does not repeat itself…but it does rhyme"

Phase/ Asset		Recovery	Expansion	Slowdown	Recession
Equity	Excess return*	8.6	8.4	-8.4	7.4
Government Bonds	Excess return	1.0	-1.0	0.0	2.1
High Yield	Excess return	6.7	2.0	-11.9	11.7
Investment Grade	Excess return	5.2	2.9	-1.9	7.3
Commodity	Excess return	2.9	15.3	7.9	-4.4



Source: Thomson DataStream, Schroders.
Data: Equity S&P 500 TR & US 10yr Govt. bonds from 1950 to 2010, BarCap US High Yield from 1983 -2010, BarCap US Corporate Investment Grade from 1973 -2010, S&P GSCI Commodity.
Data for capacity utilisation and the unemployment rate in the US are used to estimate the output gap.
All risk return figures are in % and annualised for each phase of the cycle. Risk return numbers are relative to cash.

Schroders

Asset allocation: themes and views

- Sweet spot for risk assets
  - Overweight equity/ underweight govt bonds
- Search for yield
  - Underweight cash/ Overweight high yield
- East/ west divergence
  - Underweight emerging market bonds/ neutral EM equity/ overweight EM currencies
- Sovereign debt restructuring in Eurozone
  - Underweight Eurozone equity/ overweight US

Schroders

Important information

For professional advisers only. This material is not suitable for retail clients.

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Schroders has expressed its own views and these may change.

The forecasts included in this presentation should not be relied upon, are not guaranteed and are provided only as at the date of issue. Our forecasts are based on our own assumptions which may change. We accept no responsibility for any errors of fact or opinion and assume no obligation to provide you with any changes to our assumptions or forecasts. Forecasts and assumptions may be affected by external economic or other factors. The data contained in this document has been sourced by Schroders and should be independently verified before further publication or use.

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Bath & North East Somerset Council		
MEETING:	Avon Pension Fund Committee	
MEETING DATE:	23 September 2011	**AGENDA ITEM NUMBER**
TITLE:	**Audited Statement of Accounts & the Annual Governance Report – 2010/11**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – 2010/11 Audited Statement of Accounts – subject to any further issues raised by the Auditor** **Appendix 2 – Draft Annual Governance Report 2010/11**		

1 THE ISSUE

1.1 The Annual Governance Report summarises the results of the Audit Commission's audit of the 2010/11 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 2010/11 and note the issues raised in the Governance reports at its meeting on 29 September 2011, 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 2010/11.

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 2011 as £2,668,063,000. This is £134,000 less than the figure in the draft accounts prior to the external audit.

4 CHANGES FROM THE DRAFT STATEMENT OF ACCOUNTS

4.1 The Committee noted the draft Statement of Accounts 2010/11 at its meeting of 24th June 2011.

4.2 They are now being resubmitted following several presentational and technical changes.

4.3 The main changes are:-

1) Following the instruction of the auditors, the cost of the Triennial Valuation is not deferred to be charged over the period to which the valuation applies as it was in the draft accounts. Instead it is to be charged to the year in which the valuation work was performed. Consequently the £134,000 cost of the triennial valuation is now included in the Fund Account under Administrative Expenses and is no longer included under Net Current Assets in the Net Asset Statement as a deferred charge. In consequence the directly controlled administration out-turn costs that were reported to the Committee in June as being £200,000 below budget for the year ending 31st March 2011 are now £66,000 below budget for the year.

2) An addition to note 10 regarding Investment income discloses:- Dividends from equities in the year to 31 March 2011 includes tax reclaims from former investment managers of £275,598 received in the year ending 31 March 2009 but not previously recognised as income in the accounts.

3) An additional disclosure has been added as note 22 to disclose the Fund's holdings of financial instruments and related income, expenses, gains and losses. Former notes 22 and 23 have become notes 23 and 24.

4) Notes 4 and 6 now include separate disclosure of the contributions paid by B&NES Council to the Fund during the year and the benefits paid to B&NES pensioners during the year, respectively.

5) Paragraph 2.2 previously point viii, referring to AVCs not being included in the accounts, has been deleted as this is also stated in note 19.

6) Paragraph 2.2 (new) point viii has been amended to replace "Pensions SORP" with "CIPFA code of practice on local authority accounting".

5 CHANGES FROM LAST YEAR, MADE TO COMPLY WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

5.1 The Statement of Accounts 2010/11 includes the following major changes from the 2009/10 Statement of Accounts in order to comply with the new CIPFA code of practice based on International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

5.2 In compliance with IAS 26 note 16 discloses the actuarial present value of promised retirement benefits. The assumptions required by this accounting standard are different from those used in the triennial valuation. Consequently the resulting valuation of liabilities is not the same.

5.3 In compliance with IFRS 7 note 23 is a financial risk management disclosure. This explains and quantifies the financial risks to which the Fund is exposed. These are analysed as market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and currency risk. Note 23 also includes a classification of the Fund's financial assets and liabilities in a three level fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of their fair value.

5.4 In compliance with IAS 39 note 22 discloses the financial instruments held by the Fund and related income, expenses, gains and losses.

6 RISK MANAGEMENT

6.1 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.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary

8 OTHER OPTIONS CONSIDERED

8.1 None as this report is a statutory requirement.

9 CONSULTATION

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

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 No decision as this is a statutory requirement.

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	Martin Phillips, Finance and Systems Manager (Pensions) (01225) 395259
Background papers	Pension Fund Committee – 24th 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 2010/11

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 2010 to 31 March 2011.

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 2010 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 This is the first year in which the accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice. There is no material difference in the Net Assets as at 1 April 2009 that would effect the 2009/10 accounts shown for comparison with the 2010/11 accounts.

1.4 The accounts are set out in the following order:

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

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

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

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

Actuarial Valuation

1.5 As required by the Local Government Pension Scheme Regulations 2008 an actuarial valuation of the Fund was carried out as at 31 March 2010. The market value of the Fund's assets at the valuation date was £2,459 million. The Actuary estimated that the value of the Fund was sufficient to meet 82% of its expected future liabilities (of £3,011m) in respect of service completed to 31 March 2010.

1.6 The deficit recovery period for the Fund overall is 23 years.

1.7 The 2010 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions, on the basis of which employers' contributions are set, are as set out in the table below:

	Past Service	Future Service
Rate of Discount	6.85% per annum (pre retirement) 5.7% per annum (post retirement)	6.75% per annum
Rate of pensionable pay inflation	4.5% per annum	4.5% per annum
Rate of price inflation	3.0% per annum	3.0% per annum

1.8 The 2010 valuation set the employer contribution rates effective from 1 April 2011. In previous years the employer contribution rate has been expressed as a percentage of pay. For the 2010 valuation, due to declining payrolls, the deficit recovery payment has been expressed as a monetary amount payable annually, whereas the future service rate is still expressed as a percentage of pay.

1.9 The Actuary has estimated that the funding level as at 31 March 2011 has marginally increased to 83% from 82% at 31 March 2010.

1.10 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 Manager.

Statement of Investment Principles

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

Statement of Accounting Policies

Basis of Preparation

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

Investments

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

i. Quoted Securities have been valued at 31 March 2011 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation.

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

iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2011.

iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2011.

v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.

vi. Forward foreign exchange contracts outstanding at the year end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.

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

viii. Investment debtors and creditors at the year end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.

ix. The Fund's surplus cash is treated as an investment asset. Prior to 1 April 2010 the Fund's surplus cash was managed together with the surplus cash of B&NES Council, consequently this balance was shown as a debtor in the Fund's accounts. Since 1 April 2010 the Fund's surplus cash has been managed separately and consequently is now treated as an investment asset.

Contributions

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

Benefits, Refunds of Contributions and Cash Transfer Values

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

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

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

Investment Income

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

Investment Management & Administration

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

2.9 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes.

Management fees are recognised in the year in which the management services are provided. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

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

Use of Accounting Estimates

2.11 Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 16) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary.

Fund Account

For the Year Ended 31 March 2011

	Notes	**2010/11**	2009/10
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	139,519	134,681
Transfers In		9,571	14,934
Other Income	5	273	361
		149,363	149,976
Benefits Payable	6	121,745	115,101
Payments to and on account of Leavers	7	9,094	14,618
Administrative Expenses	8	2,379	2,340
		133,218	132,059
Net Additions from dealings with members		**16,145**	17,917
Returns on Investments			
Investment Income	10	22,663	16,014
Profits and losses on disposal of investments and change in value of investments.	11	177,861	612,435
Investment Management Expenses	9	(7,194)	(6,860)
Net Returns on Investments		**193,330**	621,589
Net Increase in the net assets available for benefits during the year		**209,475**	639,506
Net Assets of the Fund			
At 1 April		2,458,588	1,819,082
At 31 March		**2,668,063**	2,458,588

Net Assets Statement at 31 March 2011

	Note	31 March 2011 £'000	%	31 March 2010 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		**154,494**	**5.8**	134,999	5.5
Equities		**246,996**	**9.3**	241,265	9.8
Index Linked securities : Public Sector		**157,378**	**5.9**	147,483	6.0
Pooled investment vehicles :-					
- Property : Unit Trusts		**69,935**	**2.6**	43,608	1.8
: Unitised Insurance Policies		**49,875**	**1.9**	33,034	1.3
: Other Managed Funds		**52,242**	**2.0**	26,071	1.1
Property Pooled Investment Vehicles		**172,052**		102,713	
- Non Property : Unitised Insurance Policies		**844,190**	**31.6**	873,040	35.5
: Other Managed Funds		**1,028,962**	**38.6**	873,533	35.5
Non Property Pooled Investment Vehicles		**1,873,152**		1,746,573	
Derivative Contracts: FTSE Futures		**542**	**0.0**	152	0.0
Cash deposits		**50,515**	**1.9**	63,042	2.5
Other Investment balances		**4,750**	**0.2**	4,150	0.2
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		**(59)**	**0.0**	0	0.0
Other Investment balances		**(1,869)**	**(0.1)**	(738)	0.0
TOTAL INVESTMENT ASSETS	12	**2,657,951**		2,439,639	
Net Current Assets					
Current Assets	14	**11,548**	**0.4**	21,149	0.9
Current Liabilities	14	**(1,436)**	**(0.1)**	(2,200)	(0.1)
Net assets of the scheme available to fund benefits at the period end		**2,668,063**	**100**	2,458,588	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2011.

Notes to the Accounts - Year Ended 31 March 2011

1, GENERAL

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

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating admission bodies. A list of employers with contributing scheme members can be found in note 24.

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 2011	31 March 2010
Employed Members	**33,810**	34,800
Pensioners	**22,541**	21,313
Members entitled to Deferred Benefits	**26,868**	24,544
TOTAL	**83,219**	80,657

3, TAXATION

i. Value Added Tax

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

ii. Income Tax

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

iii. Capital Gains Tax

No capital gains tax is chargeable.

iv. Taxation of Overseas Investment Income

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

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		2010/11		2009/10
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	**75,120**		72,746	
Administering Authority	**11,560**		11,648	
Admission Bodies	**7,587**	**94,267**	7,564	91,958
Employers' contributions- Augmentation				
Scheduled Bodies	**4,226**		3,042	
Administering Authority	**825**		506	
Admission Bodies	**552**	**5,603**	814	4,362
Employers' Deficit Funding				
Administering Authority	**35**		-	
Admission Bodies	**1963**	**1,998**	241	241
Members' normal contributions				
Scheduled Bodies	**29,060**		29,306	
Administering Authority	**4,292**		4,276	
Admission Bodies	**3,568**	**36,920**	3,595	37,177
Members' contributions towards additional benefits				
Scheduled Bodies	**570**		784	
Administering Authority	**126**		117	
Admission Bodies	**35**	**731**	42	943
Total		**139,519**		134,681

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

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 19.

5, OTHER INCOME

	2010/11	2009/10
	£'000	£'000
Recoveries for services provided	**262**	356
Cost recoveries	**11**	5
	273	361

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

6, BENEFITS PAYABLE
Analysis of Benefits Payable by Type:-

	2010/11	2009/10
	£'000	£'000
Retirement Pensions	90,317	86,016
Commutation of pensions and Lump Sum Retirement Benefits	28,734	26,536
Lump Sum Death Benefits	2,694	2,549
	121,745	115,101

Analysis of Benefits Payable by Employing Body:-

	2010/11 £'000	2009/10 £'000
Scheduled & Designating Bodies	**102,705**	97,682
Administering Authority	**11,412**	9,418
Admission Bodies	**7,628**	8,001
	121,745	115,101

7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2010/11	2009/10
Leavers	**£'000**	£'000
Refunds to members leaving service	**22**	77
Individual Cash Transfer Values to other schemes	**9,072**	14,541
Bulk Cash Transfers	**-**	-
	9,094	14,618

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.

	2010/11	2009/10
	£'000	£'000
Administration and processing	**1,638**	1,680
Actuarial fees	**271**	178
Audit fees	**47**	71
Legal and professional fees	**-**	1
Central recharges from Administering Authority	**423**	410
	2,379	2,340

9, INVESTMENT EXPENSES

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

	2010/11	2009/10
	£'000	£'000
Portfolio management	**6,840**	6,469
Global custody	**78**	74
Investment advisors	**174**	171
Performance measurement	**32**	33
Investment accounting	**15**	22
Investment Administration	**55**	91
	7,194	6,860

10, INVESTMENT INCOME

	2010/11	2009/10
	£'000	£'000
Interest from fixed interest securities	**6,350**	4,135
Dividends from equities	**7,051**	6,275
Income from Index Linked securities	**6,187**	3,840
Income from pooled investment vehicles	**2,917**	1,574
Interest on cash deposits	**146**	172
Other - Stock lending	**12**	18
	22,663	16,014

Dividends from equities in the year to 31 march 2011 includes tax reclaims from former managers of £275,598 received in the year ending 31 March 2009 but not previously recognised as income in the accounts.

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

The value of the stock on loan as at 31 March 2011 was £43.67 million (31 March 2010 £9.42m), comprising of £5.56m equities and £38.11m sovereign debt. This was secured by collateral worth £45.21 million comprising OECD sovereign and supra national debt and equity index baskets from the FTSE 350 index. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at 31/03/10 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change In Market Value £'000	**Value at 31/03/11 £'000**
Fixed Interest Securities	134,999	36,541	(20,446)	3,400	**154,494**
Equities	241,265	117,633	(128,049)	16,147	**246,996**
Index linked Securities	147,483	30,450	(24,322)	3,767	**157,378**
Pooled Investments -					
- Property	102,713	85,169	(27,383)	11,553	**172,052**
- Non Property	1,746,573	97,871	(108,188)	136,896	**1,873,152**
Derivatives	152	1,922	(3,415)	1,824	**483**
	2,373,185	369,586	(311,803)	173,587	**2,604,555**
Cash Deposits	63,042	232,606	(244,154)	(979)	**50,515**
Net Purchases & Sales		602,192	(555,957)	46,235	
Change in Creditors, Debtors and Revenue.					
Investment Debtors and Creditors	3,412			(531)	**2,881**
Total Investment Assets	2,439,639				**2,657,951**
Adjustment for Revenue, Debtors & Creditors	18,949			(8,837)	**10,112**
Less Net Revenue of Fund				(31,614)	
Total Net Assets	2,458,588			**177,861**	**2,668,063**

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

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

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

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

£'000	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees and Taxes	606	1	-	607
Commission	159	152	3	314
TOTAL	765	153	3	921

12, INVESTMENT ASSETS

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

		31 March 2011		31 March 2010
UK Equities		**£'000**		£'000
Quoted	**209,686**		191,718	
Pooled Investments	**415,651**		456,708	
FTSE Futures	**543**	**625,880**	152	648,578
Overseas Equities				
Quoted	**37,310**		49,546	
Pooled Investments	**987,796**	**1,025,106**	830,704	880,250
UK Fixed Interest Gilts				
Quoted	**154,494**		134,999	
Pooled Investments	**35,247**	**189,741**	49,413	184,412
UK Index Linked Gilts				
Quoted	**157,378**	**157,378**	147,483	147,483
Sterling Bonds (excluding Gilts)				
Pooled Investments	**138,079**	**138,079**	124,427	124,427
Non-Sterling Bonds				
Pooled Investments	**74,000**	**74,000**	72,348	72,348
Hedge Funds				
Pooled Investments	**222,379**	**222,379**	212,973	212,973
Property				
Pooled Investments	**172,052**	**172,052**	102,713	102,713
Cash Deposits				
Sterling	**49,672**		52,627	
Foreign Currencies	**843**	**50,515**	10,415	63,042

Investment Debtors/Creditors

Investment Income	**3,264**		3,231	
Sales of Investments	**1,485**		919	
Foreign Exchange Hedge	**(59)**		-	
Purchases of Investments	**(1,869)**	**2,821**	(737)	3,413
TOTAL INVESTMENT ASSETS		**2,657,951**		2,439,639

DERIVATIVES ANALYSIS

"Over The Counter"

		31 March 2011 £'000
Forward Foreign Exchange Hedge :	Receivable in Sterling	3,774
Forward Foreign Exchange Hedge :	Payable in Euros	(3,786)
Forward Foreign Exchange Hedge :	Payable in Sterling	(132)
Forward Foreign Exchange Hedge :	Receivable in Euros	133
		(11)
Forward Foreign Exchange Hedge :	Receivable in Sterling	9,523
Forward Foreign Exchange Hedge :	Payable in U.S. Dollars	(9,571)
		(48)
		(59)

There were no "Over The Counter" derivatives held as at 31 March 2010

Exchange Traded Derivatives held at 31 March 2011:-

Contract Type	Expiration	Book Cost £'000	Unrealised Gain £'000
FTSE equity futures	June 2011	15,228	543

Exchange Traded Derivatives held at 31 March 2010:-

FTSE equity futures	June 2010	20,887	152

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 held by one of the investment managers to reduce the impact of fluctuations in the exchange rate between sterling and the other currency. Other foreign exchange contracts are held by the fund to hedge the U.S dollar denominated share class of the Lyster Watson fund.

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

	31 March 2011		31 March 2010	
	£'000	**%**	£'000	%
Blackrock	**1,469,327**	**55.3**	1,402,836	57.5
Residual values held by former managers	**24**	**0**	79	0
Jupiter Asset Management	**109,295**	**4.1**	94,451	3.9
Genesis Investment Management	**147,200**	**5.5**	130,211	5.3
Invesco Perpetual	**169,742**	**6.4**	158,223	6.5
State Street Global Advisors	**91,176**	**3.4**	85,675	3.5
Partners Group	**53,129**	**2.0**	26,100	1.1
Royal London Asset Management	**131,992**	**5.0**	122,185	5.0
TT International	**132,073**	**5.0**	124,756	5.1
Man Investments	**100,418**	**3.8**	95,047	3.9
Gottex Asset Management	**53,490**	**2.0**	51,280	2.1
Stenham Asset Management	**11,665**	**0.4**	11,544	0.5
Signet Capital Management	**47,225**	**1.8**	45,279	1.9
Lyster Watson Management	**10,228**	**0.4**	9,823	0.4
Schroder Investment Management	**120,511**	**4.5**	76,798	3.1
Bank of New York Mellon	**1,882**	**0.1**	5,352	0.2
Treasury Management	**8,574**	**0.3**	-	-
TOTAL INVESTMENT ASSETS	**2,657,951**	**100.0**	2,439,639	100.0

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

13, SINGLE INVESTMENTS OVER 5% OF ASSET CLASS
The following investment holdings amounted to 5% or more of their asset class excluding pooled funds. If pooled funds were included the only holding to exceed 5% of its asset class would be the Index linked 2.5% July 2016 which would be 5.01% of its class. Therefore the percentage of asset class only relates to the assets held on a segregated basis.

Fixed Interest Securities	**Value**	**% of Asset Class**
UK Government 4.250% 07-JUN-2032	13,819,909	8.9%
UK Government 4.750% 07-DEC-2038	13,801,303	8.9%
UK Government 4.250% 07-DEC-2027	13,788,096	8.9%
UK Government 4.750% 07-DEC-2030	13,288,963	8.6%
UK Government 4.250% 07-DEC-2055	12,279,623	7.9%
UK Government 4.250% 07-MAR-2036	12,048,891	7.8%
UK Government 6.000% 07-DEC-2028	11,851,040	7.7%
UK Government 4.250% 07-DEC-2046	10,883,067	7.0%
UK Government 4.500% 07-DEC-2042	10,637,834	6.9%
UK Government 4.250% 07-DEC-2049	9,992,587	6.5%
UK Government 4.500% 09/07/2034	9,434,179	6.1%
UK Government 4.250% 09/09/2039	8,736,240	5.7%
UK Government 4.250% 12/07/2040	8,048,473	5.2%

Index Linked Securities	**Value**	**% of Asset Class**
UK Government 2.500% 26-JUL-2016	17,391,647	11.1%
UK Government 2.500% 16-APR-2020	14,602,053	9.3%
UK Government VAR RT 17-JUL-2024	13,276,979	8.4%
UK Government 1.250% 22-NOV-2027	12,612,039	8.0%
UK Government 1.875% 22-NOV-2022	11,698,426	7.4%
UK Government 2.000% 26-JAN-2035	11,103,557	7.1%
UK Government 1.250% 22-NOV-2055	10,751,199	6.8%
UK Government 1.250% 22-NOV-2017	10,534,918	6.7%
UK Government 1.250% 22-NOV-2032	10,288,052	6.5%
UK Government 4.125% 22-JUL-2030	9,633,243	6.1%
UK Government 1.125% 22-NOV-2037	9,242,996	5.9%

UK Equities	**Value**	**% of Asset Class**
VODAFONE GROUP	13,799,031	6.6%
HSBC HLDGS ORD USD0.50 (UK)	10,854,552	5.2%
Overseas Equities		
ROYAL DUTCH SHELL 'A'	5,734,441	15.4%
XSTRATA COM STK	5,532,311	14.8%
BAYER AG ORD NPV	3,071,731	8.2%
WPP PLC ORD	2,082,094	5.6%

14, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2011. Debtors and creditors included in the accounts are analysed below:-

		31 March 2011		31 March 2010
CURRENT ASSETS		**£'000**		£'000
Bath & North East Somerset Council	**-**		10,027	
Contributions Receivable :-				
- Employers	**7,466**		7,267	
- Members	**2,963**		2,985	
Discretionary Early Retirement Costs	**409**		498	
Other Debtors	**710**	**11,548**	372	21,149
CURRENT LIABILITIES				
Management Fees	**(728)**		(393)	
Lump Sum Retirement Benefits	**(380)**		(1,712)	
Other Creditors	**(328)**	**(1,436)**	**(95)**	(2,200)
NET CURRENT ASSETS		**10,112**		18,949

The 31 March 2010 debtor with Bath & North East Somerset Council represents monies held by the Administering Authority on which a commercial rate of interest was paid. From 1 April 2010 the Fund has managed its surplus cash separately from the Council, consequently this debtor no longer occurs. Surplus cash is now included within the Total Investment Assets.

The Lump Sum Retirement Benefits creditor was lower at 31 March 2011 because longer notice was given to the Fund of the number of members taking early retirement following redundancy, than was given at 31 March 2010.

Analysis of Debtors and Creditors by public sector bodies:-

		31 March 2011		31 March 2010
CURRENT ASSETS		**£'000**		£'000
Local Authorities	**9,068**		18,961	
NHS Bodies	**11**		10	
Other Public Bodies	**1,580**		1,674	
Non Public Sector	**889**	**11,548**	504	21,149
CURRENT LIABILITIES				
Non Public Sector	**(1,436)**	**(1,436)**	(2,200)	(2,200)
NET CURRENT ASSETS		**10,112**		18,949

There were no debtors or creditors of Central Government or public corporations and traded funds.

15, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2011. (March 2010 = NIL).

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

In compliance with IAS 26 the following statement has been prepared by the Fund's actuary.

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

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement rather than the rates as outlined in section 1.7. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the promised retirement benefits as at 31 March 2010 is £3,318 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value for IAS 26 purposes of the Fund's promised retirement benefits at that date was £2,962 million.

The Net Assets available to meet this liability are currently £2,668 million. The triennial valuation of the Fund by the actuary sets contribution rates at the level required to recover the deficit. The assumptions required for the purposes of IAS 26 and those required for the triennial valuation are different, consequently the value of the liability in each case is not the same.

17, 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 2011.

18, BENEFITS RECHARGED TO EMPLOYERS

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

	2010/11	2009/10
	£'000	£'000
Benefits Paid and Recharged	**6,025**	6,131

19, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2010/11 were £4,128 (2009/10 - £7,319). Additional Voluntary Contributions received from employees and paid to Friends Life during 2010/11 were £516,160 (2009/10 - £527,655).

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

	31 March 2011	31 March 2010
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**784**	917
Unit Linked Retirement Benefits	**443**	449
Building Society Benefits	**319**	327
	1,546	1,693
Death in Service Benefit	**199**	296
Friends Life		
With Profits Retirement Benefits	**173**	263
Unit Linked Retirement Benefits	**2,307**	3,227
Cash Fund	**277**	482
	2,757	3,972

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

20, RELATED PARTIES

Committee Member Related:-
In 2010/11 £39,245 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee *(£36,893 in 2009/10)*. Four 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 2010/2011. *(Five voting members and three non voting members in 2009/2010, including three B&NES Councillor Members*)

Independent Member Related:-
Two Independent Members were paid allowances of £6,380 and £12,379 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-
During the year 2010/11 the Fund paid B&NES Council £246,209 for administrative services (*£239,878 in 2009/10*) and B&NES Council paid the Fund £6,091 for administrative services (*£1,528 in 2009/10*). Various Employers requiring IAS 19 disclosures and other actuarial work paid the fund a total of £3,266 *(£1,665 in 2009/10)* for their services in compiling data for submission to the actuary.

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

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

21, OUTSTANDING COMMITMENTS
As at the 31 March 2011 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £86,867,061.

22, FINANCIAL INSTRUMENTS
The net assets of the Fund are made up of the following categories of Financial Instruments:

	31/03/2011	31/03/2010
Financial Assets	**£'000**	£'000
Loans & Receivables	**62,063**	84,191
Financial assets at fair value through profit or loss	**2,609,364**	2,377,335
Total Financial Assets	**2,671,427**	2,461,526
Financial Liabilities		
Payables	**- 3,305**	- 2,938
Financial liabilities at fair value through profit or loss	**- 59**	-
Total Financial Liabilities	**- 3,364**	- 2,938
All investments are disclosed at fair value. Carrying value and fair value are therefore the same. The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows.		

Income , Expense, gains and Losses

	Loans & Receivables	**Financial assets at fair value through profit or loss**	Loans & Receivables	Financial assets at fair value through profit or loss
	2010/11		2009/10	
	£'000	**£'000**	£'000	£'000
interest expense	**-**	**-**	-	-
Losses on derecognition	**-**	**- 2,321**	-	- 1,463
reductions in fair value	**-**	**- 4,788**	-	- 11,549
fee expense	**-**	**- 921**	-	- 831
total expense in Fund Account	**-**	**- 8,030**	-	- 13,843
interest and dividend income	**146**	**22,517**	172	15,842
gains on derecognition	**-**	**31,730**	-	33,951
increases in fair value	**-**	**148,966**	-	585,624
total income in Fund Account	**146**	**203,213**	172	635,417
net gain/(loss) for the year	**146**	**195,183**	172	621,574

23, FINANCIAL RISK MANAGEMENT DISCLOSURE

As an investment fund, the Avon Pension Fund's objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds financial instruments such as securities (equities, bonds), collective investment schemes (pooled funds) and cash and cash equivalents. In addition debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

The main risks from the Fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and currency risk.

The Fund's investments are managed on behalf of the Fund by the appointed Investment Managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Avon Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager and its Investment Consultant advises on the nature of the investments made and associated risks.

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

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio.

(a) Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee.

(a) (i) Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general.

Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The

Investment Managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

(a) (ii) Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the year to 31 March 2011. The volatility data has been provided by JLT Benefit Solutions and is broadly consistent with a one -standard deviation movement in the value of the assets. The analysis assumes that all other variables including interest rates and foreign currency exchange rates have a similar experience to that experienced for the year to 31 March 2011.

Movements in market prices could have increased or decreased the net assets valued at 31 March 2011 by the amounts shown below. It should be noted that the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the fund.

As at 31 March 2011	Value £'000	Volatility of return	Increase £'000	Decrease £'000
Blackrock	1,389,499	14%	195,919	(195,919)
Blackrock No 2 Fund	79,828	7%	5,827	(5,827)
Jupiter UK Equities	109,295	12%	13,225	(13,225)
TT UK Equities	132,073	17%	22,452	(22,452)
Invesco Global ex-UK Equities	169,742	15%	24,782	(24,782)
State Street Europe Equities	32,846	20%	6,504	(6,504)
State Street Pacific Rim Equities	58,330	13%	7,583	(7,583)
Genesis Emerging Market Equities	147,200	15%	21,344	(21,344)
RLAM Corporate Bonds	131,992	5%	7,128	(7,128)
MAN Fund of Hedge Funds	100,418	6%	5,925	(5,925)
Gottex Fund of Hedge Funds	53,490	2%	1,337	(1,337)
Signet Fund of Hedge Funds	47,225	3%	1,417	(1,417)
Stenham Fund of Hedge Funds	11,665	4%	443	(443)
Lyster Watson Fund of Hedge Funds	10,228	9%	941	(941)
Schroder Uk Property	120,511	2%	2,049	(2,049)
Partners Overseas Property	53,129	4%	2,125	(2,125)
Internal Cash	10,456	0%	21	(21)
Deferred Assets (previous managers)	24	-	-	-
Total	**2,657,951**	**12%**	**319,002**	**(319,002)**

(a) (iii) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities. The amount of income receivable from cash balances or interest payable on overdrafts will be affected by fluctuations in interest rates.

The Fund's exposure to interest rate movements on these investments at 31 March 2011 are provided below. Cash includes the cash deposits held against futures contracts.

	31 March 2011
	£'000
Cash and Cash Equivalents	50,515
Fixed Interest Assets	559,197
Loans	-
Total	**609,712**

(a) (iv) Interest Rate Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the affect on the fair value of the fixed income securities as at 31 March 2011 of a 1% change in interest rates (or 100 basis points (bps)). The analysis assumes that all other variables including foreign currency exchange rates have a similar experience to that experienced for the year to 31 March 2011.

An increase or decrease of 1% in interest rates at the reporting date would have increased or decreased the net assets by the amount shown below.

	Value	Change in net assets	
As at 31 March 2011	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	50,515	-	-
Fixed Interest	559,197	(69,620)	69,620
Loans	-	-	-
Total	**609,712**	**(69,620)**	**69,620**

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

(a) (v) Foreign Currency Risk

Foreign currency risk represents the risk that the fair value of financial instruments when expressed in Sterling, the Fund's base currency, will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. For a Sterling based investor, when Sterling weakens, the Sterling value of foreign currency denominated investments rises. As Sterling strengthens, the Sterling value of foreign currency denominated investments falls.

The Fund's current policy is not to hedge its foreign currency exposure to mitigate the impact of movements in foreign exchange rates, except for the Fund of Hedge Funds. The Fund invests in the Fund of Hedge Funds' Sterling share classes. This effectively eliminates currency gains and losses from the investment gains and losses. The Fund implements the US Dollar Sterling hedge for the Lyster Watson Fund of Hedge Funds. It should be noted that the Fund will implement active currency hedging over the currency exposure arising from its overseas equity portfolios from 2011/12.

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

The following tables summarise the Fund's exposure at 31 March 2011 to the US Dollar, Japanese Yen and Euro (expressed in sterling values) which are the main currency exposures within the portfolio. The fair value of each exposure is based on the "look through" exposure of the pooled funds and is based on information provided by the investment managers, except for the global property funds where the share class of the funds held has been used. The fund of hedge funds are not included in this analysis given the share classes held are hedged back to Sterling.

As at 31 March 2011	US Dollar	Euro	Yen
Assets held at Fair Value (£000s)	371,103	220,131	126,700
FX Contracts (£'000s)	-9,571	-3,653	0
Net Currency Exposure	**361,532**	**216,478**	**126,700**

(a) (vi) Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency exchange rates has been analysed using the volatility experienced by each currency against Sterling during the year to 31 March 2011. The volatility data has been provided by JLT Benefit Solutions and is broadly consistent with a one -standard deviation movement in the currency. The analysis assumes that all other variables including interest rates have a similar experience to that experienced for the year to 31 March 2011.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2011 would have decreased the net assets by the amount shown below and vice versa:

			Change in net assets	
As at 31 March 2011	Percentage Change	Assets held at Fair Value £'000	+ 1 Standard Deviation £'000	- 1 Standard Deviation £'000
US Dollar	12%	361,532	(43,745)	43,745
Euro	9%	216,478	(20,349)	20,349
Yen	17%	126,700	(21,412)	21,412
Total			**(85,506)**	**85,506**

(b) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk.

The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur though the failure to settle transactions in a timely manner. The Fund's contractual exposure to credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the position in the event of a counterparty default. Bankruptcy or insolvency of the custodian may affect the

Fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore can not be claimed by creditors of the custodian. The Fund manages its risk by monitoring the credit quality and financial position of the custodian. The investment managers' research process for selecting and monitoring securities or funds for investment mitigates the risk of fraud.

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default). However, it should be noted from historical data that the probability of default of investment grade bonds is 6.7% over a twenty year period (Source: Moody's 1920-2010). This means that in a portfolio of a hundred investment grade bonds held for twenty years, seven would have defaulted by the end of the period.

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

Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Cash collateral is not permitted.

Foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts which are primarily banks. The maximum credit exposure on foreign currency contracts is the full amount of the contractual settlement should the counterparty fail to meet it obligations to the Fund when it falls due.

The fair market value of the financial assets represents the Fund's exposure to credit risk in relation to those assets and is set out below. For derivative positions the credit risk is equal to the net market value of positive (asset) derivative positions.

	31 March 2011 £'000
Equities	1,650,443
Fixed Interest – Quoted	154,494
Fixed Interest – Pooled	247,326
Index Linked - Quoted	157,378
Fund of Hedge Funds	222,379
Property	172,052
Cash assets	50,515
Derivatives FTSE Futures	543
Forward Foreign Exchange hedge	-59
Investment Debtors/Creditors	2,880
	2,657,951

The credit risk within the bond portfolios can be analysed using standard industry credit ratings and the analysis as at 31 March 2011 is set out below.

Credit Analysis 31/03/2011	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Unrated £'000
UK Gilts	189,741	-	-	-	-	-
UK Index Linked	157,378	-	-	-	-	-
Overseas Government Bonds	39,886	33,966	-	-	-	-
Corporate Bonds	16,228	13,511	49,556	36,724	5,436	16,895
	403,233	47,477	49,556	36,724	5,436	16,895
% of Fixed Interest Portfolios	72%	8%	9%	7%	1%	3%

Through the UK Gilt and Index Linked portfolios the Fund has significant credit exposure to the UK Government. Unrated bonds are bonds that are not rated by any of the rating agencies; traditionally, unrated bonds benefit from security over the assets of the issuer.

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. A substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the Fund is the benefits payable which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and can not be considered as liquid as the other investments. The Fund maintains a cash balance to meet working requirements.

The following table analyses the Fund's financial liabilities, grouped into relevant maturity dates.

31/03/2011	Carrying Amount £'000	Less than 12 Months £'000	Greater than 12 Months £'000
Accounts Payable	3,305	3,305	-
Benefits Payable	380	380	-
Vested Benefits	3,318,000	3,318,000	-
Derivative financial liabilities settled gross			
Inflows	29,200	29,200	-
Outflows	(28,717)	(28,717)	-
	483	483	-

Vested benefits are categorised as due within 12 months because any individual benefit could become due in that time. In reality these benefits will become due over the life times of the members.

(d) Fair Value Hierarchy

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

• Level 1 - easy to price securities; there is a liquid market for these securities.

• Level 2 - moderately difficult to price; limited visible market parameters to use in the valuation e.g. use inputs derived from observable market data.

• Level 3 - difficult to price; difficult to verify the parameters used in valuation e.g. use information not available in the market.

The level in the fair value hierarchy will be determined by the lowest level of input that is appropriate for the investment. This is particularly relevant for pooled funds where, for this exercise, the fund is classified as a single investment.

The classification of financial instruments in the fair value hierarchy is subjective but the Fund has applied the same criteria consistently across its investments. The financial instruments reported at fair value are classified in accordance with the following levels:

<u>Level 1 inputs</u> - Quoted prices (unadjusted) in active, liquid markets for an identical instrument. These include active listed equities, exchange traded derivatives, government bonds. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and those prices represent regularly occurring market transactions.

Therefore in the analysis below, Level 1 includes quoted equities and government bonds, which are liquid and readily realisable investments but excludes pooled funds that invest in these securities.

<u>Level 2 inputs</u> - Valuation techniques used to price securities are based on observable inputs. This includes instruments valued using quoted market prices for similar instruments, quoted prices for similar instruments in markets that are less active, or other valuation techniques where all significant inputs are observable from market data.

Therefore in the analysis below, Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities. The Fund's holding in these pooled funds can be realised at net asset value.

<u>Level 3 inputs</u> - Valuation techniques using significant unobservable inputs for the valuation of financial instruments and where there is little market activity. These inputs require management judgement or estimation and include financial instruments that are valued based on unobservable adjustments or assumptions to reflect differences between instruments for which there is no active market.

Therefore in the analysis below, Level 3 includes pooled funds such as the property funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs. In addition, the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2011.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
UK Equities - Quoted	247,539			247,539
Fixed Interest - Quoted	311,872			311,872
Pooled Investment Vehicles		1,650,773		1,650,773
Fund of Hedge Funds			222,379	222,379
Property			172,052	172,052
Cash	50,515			50,515
Investment Debtors /Creditors	2,821			2,821
	612,747	1,650,773	394,431	2,657,951

24, EMPLOYING BODIES

As at 31 March 2011 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Scheduled Bodies

Principal Councils and Service Providers

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

Education Establishments

Bath Spa University College
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
Merchant's Academy
Oasis Academy Brightstowe
Oasis Academy Bristol
Oldfield School Academy Trust
Midsomer Norton School Partnership
Norton Radstock College
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
Peasedown St John 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
Yatton Parish Council
Yate Town Council

Admitted Bodies

Active Community Engagement Ltd
Agilisys
Agincare Ltd. *
Aquaterra Leisure
Aramark Ltd *
Ashley House Hostel
BAM Construct UK Ltd (Henbury School) *
Bath &NE Somerset Racial Equality Council
Bespoke Cleaning Services Ltd *
The Care Quality Commission
Centre For Deaf People
Churchill Contract Services

Churchill Team Clean
Clifton Suspension Bridge Trust
Eden Food Services *
English Landscapes*
Holburne Museum of Art
ISS Mediclean (Bristol)*
ISS Mediclean Cabot Learning Federation*
Keir Facilities Services
Liberata UK Limited
Learning Partnership West Ltd
Merlin Housing Society Ltd
Merlin Housing Society (SG)
Mouchel *
Mouchel Business Services *
Mouchel Business Srvices Ltd (Nailsea IT)*
Northgate Information Solutions *
Northgate Colston Girls School IT
North Somerset Housing
Off The Record Bath & Nrth East Somerset
Prospect Services Ltd *
Quadron Services*
RM Data Solutions
Shaw Healthcare (North Somerset) Ltd*
SITA Holdings UK Ltd. *
Skanska (Cabot Learning Federation)*
Skanska Rashleigh Westerfoil *

SLM Community Leisure *
SLM Fitness and Health *
Sodexo Ltd
Somer Community Housing Trust
Somer Housing Group Ltd.
South Gloucestershire Leisure Trust *
Southern Brooks Community partnership
Southwest Grid for Learning Trust
The Brandon Trust *
University of Bath
West of England Sports Trust
Woodspring Association for Blind People
Yes Dining Ltd *

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

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Annual governance report

Avon Pension Fund

Audit 2010/11

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Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from the 2010/11 audit of the pension fund accounts which is substantially complete.

	Our findings
Unqualified audit opinion	

Audit opinion and financial statements

I intend to issue an unqualified opinion on the Avon pension fund accounts included in the financial statements of Bath and North East Somerset Council for the year ending 31 March 2011.

Before I complete my audit

I confirm to you

My report 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.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

I ask you to confirm to me

I ask the corporate audit committee to:

- take note of the adjustment to the financial statements which is set out in this report (Appendix 2); and
- approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion.

Financial statements

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements ahead of my deadline of September 30. Appendix 1 contains a copy of my draft audit report. I identified one small error relating to the inclusion of a deferred charge. The entry was designed to spread the Actuarial cost of valuing the pension fund over three financial years. This particular entry is contrary to the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the accounts Code) and has been removed. The cost of the actuarial valuation £134,000 has been charged to 2010/11. The accounting adjustment is set out in Appendix 2.

Financial statements

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

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

Key audit risk and our findings

Key audit risk	Finding
Avon pension fund has £2bn of units in unquoted pooled investment securities. There is no direct market to independently check the valuation of these units, although we understand the underlying securities are quoted.	I agreed the value of all material investment balances to fund manager's reports and custodian reports. I reviewed and placed reliance on AAF01 reports from the auditors of the fund managers. AAF01 reports are industry standard reports on the effectiveness of internal control arrangements at fund mangers.
Actuarial Valuation	The disclosures on the actuarial valuation as at 31 March 2010 agreed to supporting evidence from the Actuary.
Changes to the accounts code present risks the accounts will not meet the requirements.	A note analysing the financial risks faced by the pension fund is required this year for the first time. A note was included in the draft accounts covering the required headings of market risks, credit risks and liquidity risks.

Financial statements

Significant weaknesses in internal control

My audit includes consideration of your financial controls. I did not identify any significant weaknesses in your internal control. I am not expressing an opinion on the overall effectiveness of internal control.

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures

Issue	Findings and recommendations
Financial Instrument disclosures Notes analysing the assets and liabilities of the pension fund into the different categories of financial instruments are required to be included for the first time this year in the statement of accounts.	Notes had not been included. Additional information analysing financial instruments was added to comply with the accounting code.
Notes to the accounts These need to reflect the current requirements of the accounts code and provide further explanation of the main statements.	Additional information was added to the notes to the accounts to analyse contributions receivable and benefits payable by administering authority, scheduled bodies and admission bodies. A number of minor changes were made to the wording of a number of notes to the accounts. For example to provide more explanation of the derivative contracts entered in to.
Accounting policies Recommended accounting policies are set out in the	I agreed that additional information be added to the accounting policies note. For example to explain further the estimation techniques used in the preparation of the accounts.

Issue	Findings and recommendations
accounts code. Officers tailor them to reflect local circumstances.	

Financial statements

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. There will be one letter of representation covering the Council's accounts including the pension fund accounts. The final letter may include additional requirements as necessary relating to the Council. The draft letter is included below.

To: Wayne Rickard

District Auditor

Audit Commission

3-4 Benheim Court

Matford Business Park

Lustleigh Close

Exeter EX2 8PW

Bath and North East Somerset Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers 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 2011. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled 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 which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedules are not material to the financial statements, either individually or in aggregate.

Supporting records

All relevant information and access to persons within the entity has 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 financial statements.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

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

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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Bath and North East Somerset Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Bath and North East Somerset Council

I confirm that this letter has been discussed and agreed by the Corporate Audit Committee on September 29 2011.

Signed

Name

Position

Date

Appendix 1 – Draft audit report

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

Opinion on the Authority accounting statements

I have audited the accounting statements of Bath and North East Somerset Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. These 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Divisional Director Finance and auditor

As explained more fully in the Statement of Responsibilities for the Accounts the Divisional Director Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:
- give a true and fair view of the state of Bath and North East Somerset Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Divisional Director Finance and auditor

As explained more fully in the Statement of Responsibilities for the Accounts, the Divisional Director Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, *Bath and North East Somerset Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Bath and North East Somerset Council and Avon Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Wayne Rickard
District Auditor

Audit Commission
3-4 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter, EX2 8PW

30 September 2011

Audit Report to go with the Pension Fund Annual Report

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

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These 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 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Divisional Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Accounts, the Divisional Director Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

Matters on which I report by exception

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

Wayne Rickard
District Auditor

Audit Commission
3-4 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter, EX2 8PW

30 September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Fund Account		Net Assets Statement	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
A 'deferred charge' had been created in the accounts. Effectively the cost of the triennial valuation was being charged to future years accounts.	The accounts code requires this to be written off in the year it is incurred.	134			134

Appendix 3 – Unadjusted misstatements to the financial statements

There are no uncorrected misstatements arising from the 2010/11 audit. Auditing standards require that I report uncorrected misstatements from prior periods and their effect on this year's statements. The effect on 2010/11 is not material.

		Fund account		Net asset statement	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
'Strain on the fund' costs not invoiced in 2009/10	Debtors were understated and contributions receivable were understated by the same amount in 2009/10. Additional contributions will have been disclosed in the 2010/11 accounts.		1,074	1,074	
Error on amount due from B&NES Council	Debtors were understated and the fund account understated. The amounts were disclosed in 2010/11.		152	152	

Appendix 4 – Glossary

Annual governance statement

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

Audit closure certificate

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 financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:
- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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.

www.audit-commission.gov.uk

September 2011

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**23 September 2011**	**AGENDA ITEM NUMBER**
TITLE:	**ANNUAL REPORT 2010/11**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - Avon Pension Fund Annual Report 2010/11 (draft)		

1 THE ISSUE

1.1 The Avon Pension Fund Annual Report for 2010/11 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 report, on the basis that no substantive changes will be made to it following Committee approval.

1.3 The external Auditor has reviewed the Annual Report as part of the Fund's audit.

1.4 The report will be published ahead of the deadline of 1 December 2011.

2 RECOMMENDATION

That the Committee

2.1 **approves the draft Avon Pension Fund Annual Report 2010/11**

2.2 **notes the arrangements for distribution of the Avon Pension Fund Report 2010/11**

3 FINANCIAL IMPLICATIONS

3.1 The cost of producing the 2010/11 Annual Report of £2,500 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 annually by 1 December. As this is before the next committee meeting, the Committee are asked to approve the 2010/11 report in draft form. No substantive changes are expected to be made following the Committee's approval.

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

4.3 An electronic copy of the 2010/11 Annual Report will been sent to all employing bodies in the Avon Pension Fund (with a request that it is made available to their pension scheme members for reference purposes). Hard copies will be available on request.

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, the next newsletters for members 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 The Annual Report is available in alternative formats on request.

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

INVESTOR IN PEOPLE

AVON PENSION FUND

Avon Pension Fund

Annual Report 2010/2011

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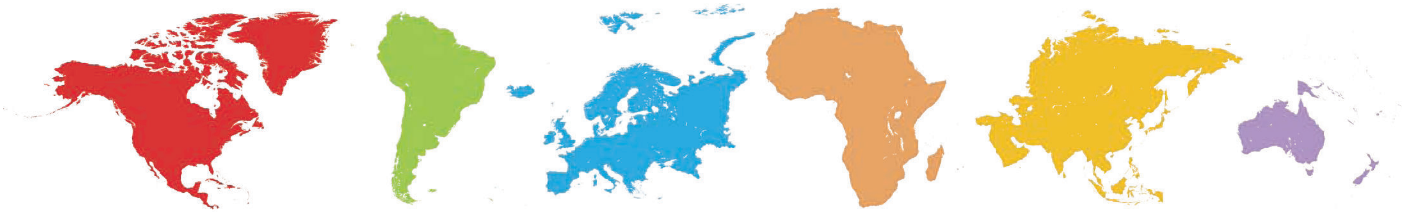

Avon Pension Fund
Annual Report 2010/11

This year's report includes photographs celebrating UNESCO World Heritage sites, including Bath and Stonehenge. This theme was selected to highlight the Fund's increased commitment to global equity and property investments.

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Forward by Resources Director


Roman Baths © Bath Tourism Plus

The Roman Baths, Bath, UK

Foward by Strategic Director

It has been another challenging year for the Fund as public sector pension schemes including the Local Government Pension Scheme (LGPS) underwent significant public scrutiny as a result of the Hutton Commission Review.

The Commission's report addressing the sustainability and affordability of public sector pensions has been accepted by the Government but we still await definitive proposals to be brought forward.

The difficulty for the LGPS is that many of the recommendations are based on the requirements of the other unfunded public sector schemes and there is a risk that the strengths of the LGPS could be diluted as a result of the exercise. In the meantime the Fund is putting plans in place to manage the expected changes to the LGPS, as any changes will need to be communicated to members and employers alike.

The Fund launched its Administration Strategy in 2011, with the aim of improving the quality and efficiency of the service provided through more effective partnership working with the Fund's employing bodies. Rolling out of this strategy over the next few years will be critical to meeting the challenges ahead.

2010/11 also saw the 2010 triennial valuation which sets the contribution rates for the next three years. This was obviously done against a difficult funding background for our employers which face reductions in budgets over the foreseeable future. The valuation took these circumstances into account by keeping employer contribution rates stable where possible but within parameters that will ensure the ongoing solvency of the Fund.

Since March 2011, significant volatility has returned to global markets due to fears over government debt levels and the risk of recession in the developed economies. The Fund remains vigilant to these threats; however, the Fund has a long term investment perspective and has a well diversified portfolio which should help minimise the impact of negative market returns.

The May 2011 local elections have resulted in a number of members leaving the Committee, including our Chairman for the last four years, Councillor Gordon Wood. I would like to thank all our Committee members for the valuable input they have provided over the last few years.

The governance structure means the Fund retains significant expertise and experience over this transition and the officers look forward to working with the new Committee over the next few years.

Finally I would like to thank all the staff for their contribution to delivering a high standard of service throughout the year.

Andrew Pate
Director of Resources and Support Services

©istockphoto.com/credit

Stonehenge and Avebury, Wiltshire, UK

Review of the Year

- **Hutton Commission recommends Scheme changes**
- **2010 funding level 82%**
- **Asset Value increases 7.8%**

Hutton Commission

New Scheme expected by 2015

In March 2011, the Independent Public Service Pension Commission, led by Lord Hutton, issued its final report. The most significant recommendations for the LGPS were as follows:

- replacing the final salary scheme with a career average (CARE) scheme with annual increases linked to pay awards
- benefits accrued up to the date of change to retain the final salary link
- retaining the funded status
- similar benefit framework as other public sector schemes
- partnership working to be encouraged to minimise costs

The government has accepted Lord Hutton's recommendations and, subject to consultation on the details for each scheme, intends to publish a consultation document on its proposals for the reform of public sector pensions in the autumn of 2011. The aim is to have new schemes in place by 2015.

However, the government has also announced that for all public sector pension schemes, employee contributions will be increased to achieve savings equivalent to around 3% of Pensionable pay by 2014/15. Following significant opposition from employers, unions and LGPS funds, the government agreed that the savings target for the LGPS will be achieved through a package of measures that will not be limited to increases in employee contribution rates. At the time of writing this review, the proposed measures have not been agreed.

2010 Actuarial Valuation

Employer contribution rates stabilised in 2010 valuation

The 2010 triennial valuation using values as at 31 March 2010 sets the employer contribution rates for the three years beginning 1 April 2011.

At 31 March 2010, the funding level was 82% leaving a deficit of 18% or £552m. This compares to a funding level of 83% in 2007. In the event the outcome was more favourable than anticipated mainly due to the Government's announcement in 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 the RPI, this change meant that the inflation assumption used for valuing the Fund's liabilities was lower. As a result, the deterioration in the funding level was less than expected and the Fund was able to maintain stable employer contribution rates at the total Fund level. The 2010 valuation is discussed in more detail on page 23.

At the time of writing this report, global markets are once again experiencing significant volatility due to heightened fears of a sovereign debt crisis amid a slowing economic background. As a result equity markets have fallen in value and the funding level will have fallen from the 82% level calculated at 31 March 2010.

Investment Markets & Fund Performance

Fund Assets rose 7.8% to £2.66 billion

After stellar investment returns in 2009/10, investment markets performed well in 2010/11, albeit more muted, underpinned by low interest rates around the world and good earnings growth as companies continued to recover from the economic slowdown of 2009.

Economic growth has remained fragile in most of the developed world and, as a result, the US Federal Reserve has continued with its programme to inject liquidity into the banking system. This in turn has left interest rates at historically low levels, as central banks around the world delay raising official interest rates in fear of stalling the fragile recovery.

The markets have dealt with a number of crises during the year. The fiscal problems in Europe, caused by excessive government borrowing, have resulted in EU-led bailouts of Greece, Ireland and Portugal. The earthquake, tsunami and nuclear crisis in Japan temporarily undermined equity markets but the impact on economic growth has yet to be ascertained. Lastly, the uprisings in north Africa and the Middle East have caused a significant rise in oil prices, which is one reason why inflation has again come to the fore as a risk to economic stability.

Against this background, the Fund had a reasonable year. The Fund's assets rose £208m or 7.8% to £2.66 billion. The asset mix at the year end was 63% in equities, 21% in bonds, 8% in hedge funds, 7% in property and 1% in cash. The WM Local Authority Average Fund Return of was 8.2%.

Investment Strategy

During 2010/11 the Fund implemented the changes to its investment structure that arose from the strategic review undertaken in 2009/10. Following a competitive tender, Schroders Asset Management was appointed to manage a global equity portfolio of c. 6% of total assets. In addition, the allocation between passively managed UK and overseas equities was altered in favour of overseas equities where it is felt there are superior growth prospects in the long term. The Fund also agreed to hedge its currency exposure to reduce the impact of currency fluctuations on the Fund's return over time.

A review of the hedge fund portfolio in 2011 confirmed the strategic allocation of 10% to hedge funds and recommended a reallocation between the Fund's Fund of Hedge Fund managers. These changes will be implemented in 2011. The Fund's target strategic asset allocation of 60% in equities, 20% in bonds, 10% in property and 10% in hedge funds remains unchanged.

During the year, the Fund appointed an agent to monitor the execution of voting rights by Investment Managers on behalf of the Fund, with the aim of improving transparency and reporting in this area. This will strengthen the Fund's compliance with the new FRC Stewardship code (a set of best practice principles for shareholder engagement with companies, and the disclosure of such activity). The Fund issued a statement of compliance with the new Stewardship Code in January 2011.

Administration Strategy

Legislation introduced in 2008 empowers LPGS funds to develop an Administration Strategy for the purpose of improving the administrative processes within their Fund. Given the complexity that arises from the multi-employer nature of the Fund, the Avon Pension Fund has introduced an Administration Strategy effective from 1 April 2011.

The purpose of the strategy is to develop best practice in service delivery in order for the Fund and scheme employers to meet future challenges more efficiently. The focus of the strategy is:

- to improve communications between the Fund and employers
- increase the utilisation of technology for capturing and processing data
- provide more training for in-house staff and for employers' staff dealing with pensions

Integral to the Administration Strategy are the Service Level Agreements between the Fund and individual employers. These agreements set out agreed performance standards for both parties that will be monitored in order that any processing, training or communication issues can be resolved. In addition, the Avon Pension Fund Committee will review the performance reports to ensure the Strategy is being implemented and the administration process is working efficiently.

Scheme Regulations

During the year, the coalition government introduced several changes that affect the way pension schemes operate. The most high-profiled of these was the change in the method by which pensions increases are assessed. With effect from April 2011, all deferred pension benefits and pensions in payment have their annual increase linked to the Consumer Price Index (CPI) instead of the Retail Price Index (RPI).

The implications of the change to CPI were far-reaching as the Government Actuary's Department had to revise all factor tables that had been based with assumptions on prospective pension increases. Various calculations including transfer values, pension sharing on divorce and the purchase of Additional Regular Contributions (ARC's) were affected by the change as the anticipated reduction in the cost of providing pension benefits had to be accounted for.

Review of the Year

The Swiss Alps, Switzerland

Unfortunately there was a considerable delay before the revised tables were issued, and in respect of transfer values there was a period of between four and six months in which the Avon Pension Fund was unable to process transfers in or out of the Fund. Revised factors for calculating ARC contributions were still awaited at the end of the year.

Following responses to the HM Treasury discussion paper, pension tax relief was reformed with a reduction in the Annual Allowance from £155,000 to £50,000, effective from April 2011, and the Lifetime Allowance set to reduce to £1.5 million the following April. A small number of scheme members may now incur a tax charge if their pension entitlement increases substantially in one year, for example high earners or members with long service whose pay increases substantially over the year.

A discussion document was issued in March 2011 to review the Fair Deal policy, with responses invited by 15th June. If Fair Deal were to be abolished it could have an impact on pension provision for employer outsourcings and also potentially have serious funding implications for LGPS funds in the future.

Fund Governance

During the year the year the Committee undertook a self-assessment of the effectiveness of its own decision-making process. The outcome of the assessment concluded that the Committee members have confidence that the decision-making process enables them to effectively discharge their responsibilities. It also identified areas where the process could be improved and an action plan to address these issues has been agreed, including a formal training programme (see pages 7-9 for more details).

Governance & Management Structure as at 31 March 2011

Administering Authority:

Bath & North East Somerset Council

Governance:

Members of the Avon Pension Fund Committee:

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 David Bellotti
Bath & North East Somerset Council

Ann Berresford
Independent Member

Councillor Mary Blatchford
North Somerset Council

Councillor Victor Clarke
Bath & North East Somerset Council

Councillor Mike Drew
South Gloucestershire Council

Carolan Dobson
Independent Member

Councillor Tim Kent
Bristol City Council

Bill Marshall
University of the West of England

Steve Paines
Unite the Union

Non - Voting Members:

Rowena Hayward
GMB

Councillor Keith Kirwan
Parish & Town Councils

Richard Orton
Unison

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:

BlackRock, Genesis, Gottex Fund Management, Invesco, Jupiter, Lyster Watson, Man Investments, rlam royal london asset management, Partners Group, Schroders, Signet, SSgA State Street Global Advisors, Stenham, TT International

Actuary:

Mercer

Legal Advisors:

Osborne Clarke

Investment Consultant:

JLT

Global Custodian:

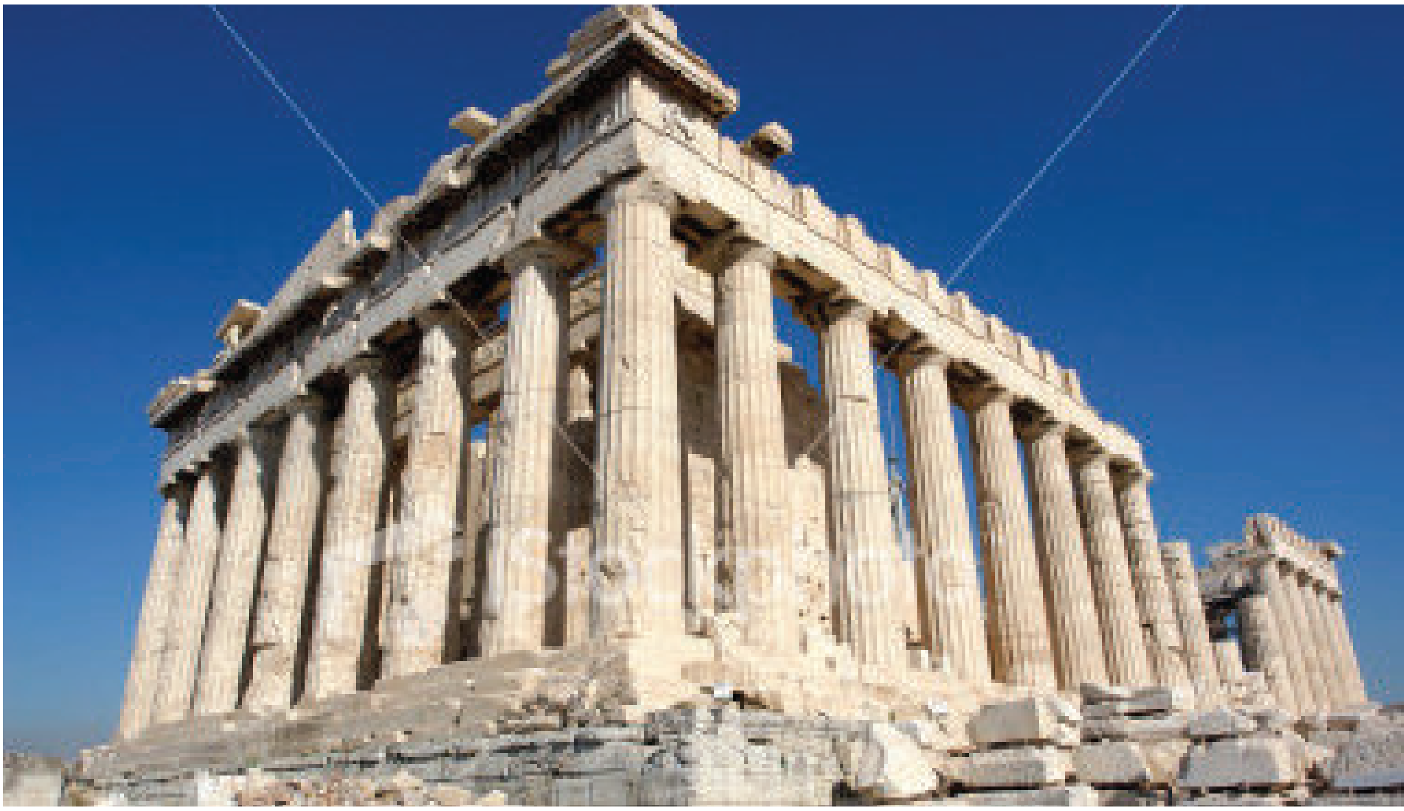
BNY Mellon Asset Servicing

Bankers:

NatWest, The Bank of New York Mellon

AVC Providers:

Friends Life, Equitable Life



©istockphoto.com/credit

The Parthenon of Athens, Greece

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."

The Committee structure is shown in Table 1 above.

The Committee membership as at 31 March 2011 is set out on page 6. The Committee meets formally each quarter and attendance at these meetings during the year was 83% for the voting members and 56% for the non-voting members. In addition to the quarterly meetings, the Committee held two workshops in 2010/11 to review specific investment issues in greater detail.

- **Training framework implemented**

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 from the Trades Unions
Non-voting members (4):	1 nominated from the Parish Councils
	3 nominated from the Trades Unions

Investment Panel

Given the size of the Committee and complexity of investment issues, there is an Investment Panel which considers investment issues in greater depth. The Panel has no delegated powers, and can only make recommendations to the 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 where the attendance over the year was 96%. In addition the Panel held four workshops as part of a programme to review each of the investment managers over a twelve month period. The rest of these reviews were accommodated within the quarterly meetings.

The attendance record for each Committee member is set out in table 2 below.

Table 2: Committee Attendance Record

	Committee		Investment Panel
	Meeting	**Workshop**	
Number of Meetings during year	4	2	4
Voting Members			
Councillor Gordon Wood (Chair)	4	1	4
Councillor Tim Ball	4	2	N/A
Councillor Gabriel Batt	4	2	3
Councillor David Bellotti	4	2	4
Ann Berresford	4	1	4
Councillor Mary Blatchford	4	2	4
Councillor Vic Clarke	4	0	N/A
Carolan Dobson	2	1	N/A
Councillor Mike Drew	3	2	N/A
Councillor Tim Kent	4	0	N/A
Bill Marshall	1	1	4
Steve Paines	2	1	N/A
Non-voting members			
Rowena Hayward	1	0	N/A
Keith Kirwan	2	1	N/A
Richard Orton	4	1	N/A
Paul Shiner	2	1	N/A

Training

Members training framework established

During 2010 the framework for training was formalised to ensure Committee members' knowledge is maintained at a satisfactory level on an ongoing basis in order that they are able to discharge their responsibilities as required. The training is based on CIPFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds. This identifies six areas of knowledge as follows;

- Legal and governance context,
- Pensions Auditing and Accounting Standards,
- Procurement and Relationship Management,
- Investment Performance and Risk Management,
- Financial Markets and Product Knowledge,
- Actuarial Methods, Standards and Practices.

Many of the areas identified by the framework are covered through detailed Committee reports, workshops and presentations by experts. For example, an annual Committee report sets out the governance structure and role and responsibilities of Committee members, advisors and officers; investment performance and risk is reviewed at each quarterly meeting.

In 2010/11 two Committee workshops were held. One focussed on the 2010 actuarial valuation and Funding Strategy Statement. The other reviewed the strategic allocation to hedge funds and the structure of the hedge fund portfolio.

Members are encouraged to attend seminars and conferences to in-

Fund Governance

crease their understanding of investments and workshops are organised to explore more complex issues in greater detail than is possible at a Committee meeting.

In addition, the Fund requires all members to undertake formal training and during the year new Committee members attended the Fundamentals Training Courses offered by the Local Government Pension Committee.

The training programme for the Committee to be delivered over the next 24 months was agreed in March 2011, subject to topical issues being introduced as required.

The CIPFA Knowledge and Skills Framework also applies to the officers responsible to the fund. The framework assists in assessing and identifying key competencies accross the service areas. Training needs can then be incorporated into learning and development plans ensuring the requisite knowledge and skills are obtained. All pension fund staff recieve an annual appraisal where training plans are agreed.

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 below:

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 admission bodies are not represented as it is difficult to have meaningful representation from such a diverse group of employers.
Selection / role of lay members	Compliant	The role and responsibilities of all members are set out in a Job Description 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 lay members are included in the formal arrangements.
Access	Compliant	All members have equal access to meeting papers and advice.
Scope	Compliant	The terms of reference include all aspects of 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.

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 which 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. These include market, interest rate, foreign currency, credit and liquidity risks. 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 the diversification of assets, the approaches to investment (for example passive investing or active investing) and managers.

The provision of expert advice is crucial to the decision-making and risk management-processes. 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 the principle of training and the Committee members are required to undertake training in order to discharge their duties. An Independent Investment Advisor supports the Committee and Investment Panel members. Their role is to ensure that all the relevant advice

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 retrieval problems and service failure issues	The Administering Authority maintains a solid systems of controls including virus checkers and firewall which are constantly monitored.
Offices and /or systems not accessible. Implications are that failure would cause disruption to benefits processing and delay benefit payments and create backlog of tasks.	Business Continuity and disaster recovery policy and plans are in place. These consider the different scenarios of building, hardware and systems not being available and specify the circumstances in which disaster recovery measures are triggered.
Non-compliance with the Data Protection Act. Implications are that fines could be imposed, risk of criminal/civil prosecutions, adverse publicity and data processing could be suspended.	The Fund is DP registered through the Administering Authority. Confidentiality Agreements are in place with 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 members to the Committee (independent from the administering authority, scheme employers and unions)

has been presented to the and that all 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 on a regular basis and raising any issues to Committee. A robust manager selection process is undertaken in which the risks of the investment approach, and therefore the risk the 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 actuarial 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 effect of inflation which affects the value of the pension liabilities. In addition the allocation to index-linked bonds mitigates some of the risk of inflation being higher than expected.

Financial Risks

The Fund operates within the Council's financial framework. The Fund's 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.

The Pension Fund operates a separate bank account from the Council's to ensure transparency and accountability of the Fund's banking arrangements. Management of the Fund's cash balance is delegated to the Council's Treasury Management Team which manages the cash separately from the Council's cash, in line with the Fund's own Treasury Management Policy.

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, loss of reputation and ultimately statutory fines. These are addressed in the Business Continuity Plan and mitigated in the Risk Register.

Business Continuity Plan

The Business Continuity Plan is in place primarily to deal with "disaster recovery" and includes contingency measures. The Plan identifies critical activities whose failure would lead to an unacceptable loss of service, documents and sets out 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 shown in Table 4 opposite.

Pensions Administration

- **Administration Strategy Introduced**
- **Technological Developments**

The Avon Pension Fund is administered by Bath & North East Somerset Council and the administration of the Fund is undertaken in-house by the Pensions Department of the Council. The department is split into three sections: 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*

3-Year Service Plan 2010/13

Each year the pension Fund prepares a rolling 3-Year Service Plan which sets out the Fund's objectives in the medium-term and reviews its performance in the previous year against these objectives. It also includes a 3-year financial budget. The Service Plan is submitted to the Avon Pension Fund Committee each year for approval and is published on the Fund's website.

Operational Improvements

New Pensions Administration Strategy

Recent legislation allowed local government pension schemes to draw up a Pensions Administration Strategy for implementation, after adequate employer consultation. Following a consultation exercise with employers, the Strategy was approved by the Committee in December 2010 and came into effect from April 2011. Significant changes to the LGPS benefit structure are expected over the next 3 to 5 years and the Strategy will be key to preparing the Fund for these changes.

The primary objective of the Strategy is for the Fund and more employers to work together more effectively in order to meet future challenges and to continue to deliver an excellent level of service. Key elements are the improvement of communications between employers and the Fund, comprehensive training of both in-house staff and the pensions staff at the employers and utilisation of technology to capture and process data changes.

The Strategy incorporates performance targets for both the Fund and employers which are set out in Service Level Agreements (SLAs). Large and medium-sized employers already have SLAs in place and as part of the Strategy all employers will be asked to sign an SLA. These will include challenging but achievable targets against which the performance of both parties will be monitored. Results will be published in Stewardship Reports which will be considered at regular review meetings with large and medium-sized employers. In addition, summary performance will be monitored quarterly by the Committee once sufficient data has been compiled.

Avon Pension Fund is one of only a small number of the 99 local authority pension funds to have taken advantage of this initiative, as it is considered a vital tool if the Fund is to successfully deal with the challenges of the most significant scheme changes in the history of the LGPS.

In recent years a number of significant technical advancements have become available which can improve the delivery of the service to members and employers. The Fund is keen to adopt these wherever possible to help improve and streamline its service to members and employers.

Technological Advances

During the year the Fund made the following significant changes:

- **Pensions Administration Software:** updated the Heywood software to a web-based version providing easier access which is more user-friendly.
- **Member Self-Service (MSS):** switched providers to Heywood thus providing additional facilities for members including a pension benefit calculator. In addition, once registered for MSS, members will be able to update certain basic personal information on-line.
- **Secure two-way portal:** a two-way portal for data transfer from and to employers was established. The Fund uses Globalscape which provides a simple-to-use secure means of transferring encrypted data. This new facility, popular with employers, has significantly improved data security and further streamlined processes.

Enabling both members and employers to have access to relevant member information with the ability to change or update this online in a controlled environment is seen as a major advancement as it will speed up processing and remove manual processing errors.

Employer Self-service (ESS)

With this in mind, and Employer Self-Service module was purchased from Heywood during the year. Once registered, employers can now carry out basic calculations and obtain pension costs immediately instead of having to request them from the Fund.

An additional important facility in ESS will be available from October. This will allow employers to update starters, changes and leavers online (in a Fund-controlled environment) thus significantly improving information flows to the Fund, assisting in streamlining processes and improving service delivery to members.

Communications

The Fund publishes its Communications Policy on its website. This now forms an integral part of the Pensions Administration Strategy.

The Fund believes that clear and meaningful communication with members and employers is vital and it uses various media to achieve

Pensions Administration

effective communication including newsletters for members (Avon Pension News) and a separate newsletter for pensioners (at*ease*). In addition, employers receive regular electronic newsletters and updates to keep them informed of all changes that affect them.

The Fund's objective is to provide information electronically where appropriate. As a pilot, the most recent copy of the members' newsletter was sent electronically by one employer to its staff.

The Fund is currently developing a strategy to increase its use of electronic delivery for both generic information (such as member and employer newsletters) and individual information (such as Annual Benefit Statements) in an appropriately secure manner in line with the Disclosure of Information Regulations 2010. It is accepted that a significant number of the Fund's members do not have email access at their workplace and they can opt to continue to receive information in a printed format. Notwithstanding this, significant future savings are expected in reduced printing and postage costs.

Website

The Fund has had its own dedicated pension website for over ten years and this is now a major source of information for members and employers. The site has separate sections for each category of membership and also one for employers.

The website received an increased number of 'hits' this year demonstrating an increased interest in pensions following media coverage of the Hutton Review of public sector pensions, which has significantly highlighted the profile of pensions.

The new Member and Employer Self-Service modules are web-based which increases the usefulness and importance of this media.

Member Satisfaction

The Fund places considerable importance on the feedback it receives from members on the service provided. Obtained at pension clinics and from retirees, this information is analysed and, where appropriate, comments and suggestions are used to improve service delivery. The Fund also makes a point of regularly publishing satisfaction results back to its members in the Fund's newsletters.

Pension Clinics

The Fund offers to hold pension clinics for members of all employers, normally at their sites, at least once a year. During the calendar year 2010, 15 clinics were held and 350 members were seen on an individual basis. These members were asked to complete satisfaction questionnaires rating the adequacy of the Fund's response, the helpfulness of the Fund's staff, the suitability of

Table 5: Performance Indicators 2010-11

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%

Pension Administration

the location and the privacy afforded them. Ratings of good/excellent ranged from 85% for the venue to 100% for the helpfulness, with an average rating of good/excellent across the board of 98%.

Retirements

Shortly after retirement, questionnaires are sent to members for feedback on the quality and timeliness of the service they received from the Fund in dealing with their retirement. An overall rating of 95% as good or excellent was received on the quality of the service provided by the Fund. The Fund received no formal com-

Complaints

plaints about its service during the year.

Disagreements Procedure

(Formally known as the Internal Dispute Procedure)

The Fund operates a Disagreement Procedure, the terms of which are defined by statute. The Procedure is used in cases where a member disagrees with the pension benefits he/she has been awarded, or is in disagreement with a decision made by his/her employer that affects the pension 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 were two cases in progress under Stage 2 (further appeal where Stage 1 was completed by the employer).

Performance Indicators

Performance Comparison against other local authority funds – CIPFA Benchmarking

The Fund participates in the annual CIPFA Pensions Administration Benchmarking Club. This data is used to target areas for improvement in the Service Plan, to understand the specific service pressures that the Avon Pension Fund faces and to operate as efficiently and effectively as possible.

Table 5 uses data from the CIPFA Benchmarking Club 2011 Report which compares the data and performance of local authority pension funds in the Club (over 40 out of 99 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 SLAs it has in place with its large to medium-sized employers, covering over 90% of the active members. In many cases these targets are more challenging than the industry standard. Regular SLA meetings are held with medium to large employers to review performance.

The Fund also publishes a Customer Charter on the Avon Pension Fund website. This includes targets (in working days) for completion of processing of member benefits.

Key Staffing Indicators

The total number of staff in the Pension Service administering the LGPS was 38.4 in 2010/11 (38.5 in 2009/10) and, of these, 18.7 deal with pension benefits administration.

Table 6 is an analysis of staff-based data from the CIPFA Benchmarking Club 2011 Report. 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 2010-11

Key Staffing Indicators	2010	(CIPFA club average)	2009	(CIPFA club average)
Number of staff administering the LGPS scheme	18.7		18.4	
Fund Member / Staff ratio	4,568	(3,500)	4,502	(3,404)
Average number of cases dealt with by benefits staff	244		244	

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The Taj Mahal, India

Investment Report

- **Asset Value increases 7.8%**
- **3 year Investment return of 6.3% per annum**
- **New Management appointed**

1. Investment Regulations

Investment Limits

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

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

The limits relevant to the Fund are:

- no more than 25% may be invested in unit trusts managed by any one body;
- no more than 10% of the Fund may be invested in unlisted securities;
- no more than 10% of the Fund may be invested in a single investment holding;
- no more than 10% of the Fund may be deposited with any one bank;
- 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.

Statement of Investment Principles

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

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

1. A further change in the strategic asset allocation from UK equities to Overseas equities
2. The adoption of the Financial Reporting Council (FRC) UK Stewardship Code
3. The appointment of Manifest to monitor the Fund's voting activity

The changes in the strategic asset allocation are explained in section 2 - Investment Strategy.

Investment Report

In July 2010 the FRC published the Stewardship Code, a set of best-practice principles that are intended to frame both shareholder engagement with companies, and the disclosure of such activity. The Fund published a statement describing how the principles of the Code have been applied and an explanation where elements of the Code have not been complied with.

The Fund's recent appointment of Manifest, an independent vote-monitoring service provider, will improve the analysis and reporting of how the Fund's Investment Managers are executing voting rights on behalf of the Fund. The voting activity will be reported to Committee quarterly and an annual report will be published. This will serve to strengthen the Fund's compliance with the recently published FRC Stewardship Code with regard to monitoring and disclosure of voting activity.

In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative body which 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

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

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

2 Clear Objectives	Compliance
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	Compliance
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	Compliance
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	Compliance
Managers adopt the Institutional Shareholders' Committee Statement of Principles	✓
Policy on responsible ownership is included in Statement of Investment Principles	✓

6 Transparency and Reporting	Compliance
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.	✓

Investment Report

Table 8: Strategic Asset Allocation and Actual Asset Allocation

Asset Class	Strategic Allocation 31 March 2011	Actual Allocation 31 March 2011	Actual Allocation 31 March 2010
UK Equities	18.0%	24.9%	28.2%
Overseas Equities	42.0%	37.7%	35.1%
Index-Linked Gilts	6.0%	6.0%	6.1%
Fixed Interest Gilts	6.0%	7.2%	7.6%
UK Corporate Bonds	5.0%	5.2%	5.1%
Overseas Fixed Interest	3.0%	2.8%	3.0%
Fund of Hedge Funds	10.0%	8.3%	8.7%
Property	10.0%	6.5%	4.2%
Short term deposits / Other	0.0%	1.4%	2.2%

amongst the pension funds.

Compliance with 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. They set out 10 investment principles codifying a model of best practice for investors.

Following a review in October 2008 the Treasury published a revised set of 6 Principles with the intention of giving 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 has been updated to reflect the latest guidance issued by CIPFA on applying the revised Myners Principles to LGPS funds, and is summarised in Table 7.

To further strengthen the level of compliance the Fund will be implementing a training framework for members over the next twelve months.

The latest SIP was approved by the Avon Pension Fund Committee at its meeting in March 2011. 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*

2. Investment Strategy

Strategic Asset Allocation

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

Following the decision in 2009 to reduce the allocation to UK equities in favour of overseas equities Schroder Asset Management was appointed to manage a Global Equity portfolio which was funded in April 2011.

During the year, the Fund reviewed its allocation to hedge funds, concluding that the 10% allocation remained appropriate. However, the allocation of monies within the portfolio between the Fund of Hedge Fund managers was altered to reflect the preferred investment strategy profile for the portfolio and the managers' performance.

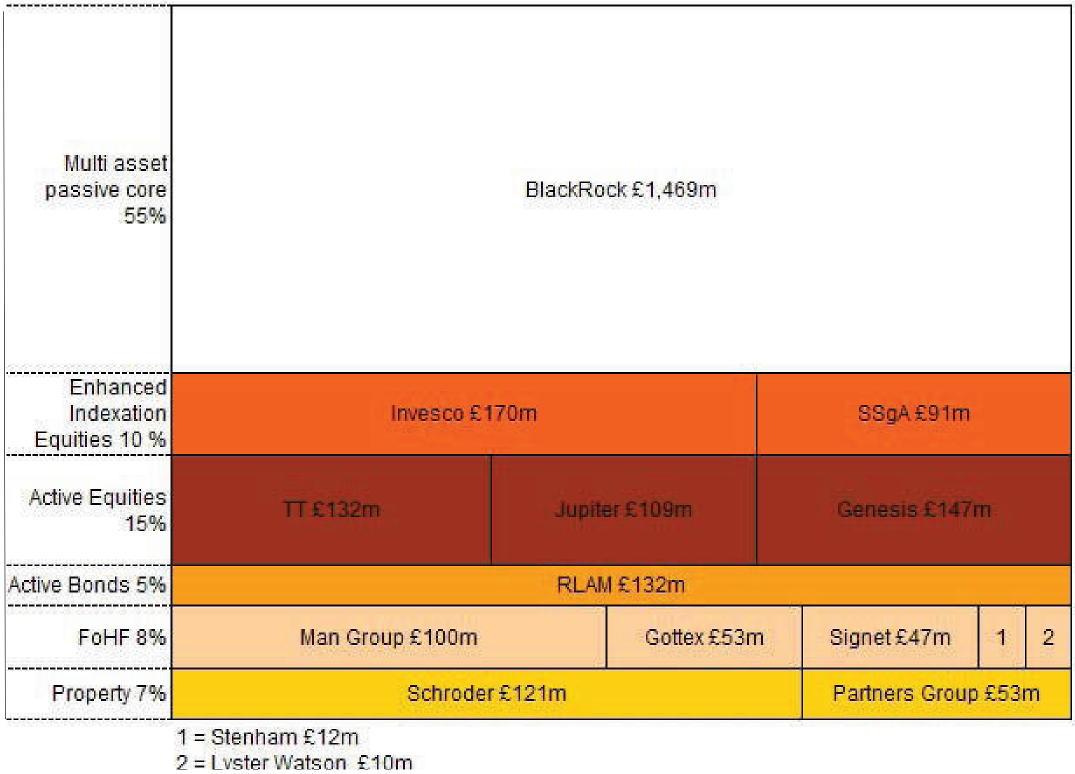
The strategic asset allocation at 31 March 2011 and actual asset allocation at 31 March 2011 and the previous year is shown in Table 8. Note that as at 31 March 2011, the Fund's property investment managers were still in the process of investing the monies allocated to property, and the increased strategic allocation to overseas equities was still being implemented. Once the switch between UK and overseas equities was implemented in April 2011 the allocation to UK equities was 20% and overseas equities 42.7%.

Investment Management Structure

The Fund's Investment Strategy is implemented by external investment managers. The investment management structure and the amount of assets each manager manages on behalf of the Fund as at 31 March 2011 is set out in Chart 1. During the year the following changes to the Investment Management Structure

Investment Report

Chart 1: Strategic Asset Allocation by Manager 31 March 2011



were made.

- As a result of the review of hedge funds the mandate with Lyster Watson was terminated and the allocation to MAN reduced (to be implemented in July 2011) with the proceeds to be invested with two of the other Fund of Hedge Fund managers, Stenham and Signet.
- Schroders were appointed to manage an actively invested global equity portfolio of c.6% of the Fund's assets which will be funded early in the 2011/2012 financial year.

3. Market Background

Following a year characterised by recovering markets and high returns, the outlook for the coming year at 31 March 2010 balanced two contrasting scenarios: the threat of a double-dip recession versus the likelihood of a continued recovery. In actual fact, neither scenario has come to pass. Instead, investors have found themselves reacting to a continually changing landscape of conflicting economic information and market sentiment, with many fluctuating between a "risk-on" outlook, where investors seek assets that benefit from a risk premium such as equities, and a "risk-off" approach where they seek safe havens such as bonds and eschew risk assets. When the events of March 2011 are added-in, (a month which saw the devastating earthquake and tsunami in Japan, the turmoil in the Middle East and concerns over the Portuguese economy and Irish banks), the year ends as it began, with uncertainty the overriding characteristic.

Whilst unable to match the remarkable returns of the previous year, all asset classes delivered significant positive returns over the year with the exception of Japanese equities and cash. The returns for the individual assets and markets in 2010/11 are set out in Chart 2 along with the 3 year returns in sterling.

Equity markets produced a solid return over the year despite a poor second quarter of 2010 when the rally suffered a brief setback due to a slowing in the pace of economic recovery, concerns over European sovereign debt and policy tightening in emerging economies. However, better than expected corporate profits saw equities bounce back in the following quarters, only for the events of March 2011 to herald a return of uncertainty to dampen the equity market as the financial year came to a close. UK equities performed broadly in line with the other developed markets, delivering a return of 8.7%. Asia Pacific (excluding Japan) rose 13.1% outperforming emerging markets which rose 11.9%, whilst Japanese equities were the only asset class to generate negative returns over the 12 months.

UK government bonds had a better year in general (6.9% return) as the economic uncertainty meant the 'safe haven' of government bonds became valued. Although the higher yields of corporate bonds continued to attract investors, they were unable to match their impressive performance of the previous year but still returned 6% over the year.

UK Property, hedge funds and commodities all outperformed equities delivering returns of 12.1%, 12.6% and 16.1% respectively. UK Property posted positive returns in each quarter during the year, driven by increasing investor interest based on the belief that the UK property market bottomed out in mid-2009, rather than any significant improve-

Investment Report

ment in underlying fundamentals. Hedge funds outperformed their cash-based benchmarks for a second successive year and commodities achieved a positive return on the back of a strong rally in Q1 2011 across a broad spectrum of commodities. Oil prices increased steadily over the year and gold continued to be valued at record highs, ending the year at over $1,400 an ounce.

Sterling continued it's appreciation versus the US dollar, whilst a final-quarter depreciation against the Euro returned the £/€ exchange rate to levels seen at the start of the year. Official interest rates in the US, Europe and the UK have remained at historic lows in an effort by the central banks to stimulate economic growth. UK inflation remained low for the majority of the year but experienced a rise in the final quarter, reflecting higher VAT and rising fuel costs although wage pressures remained subdued. This acceleration in UK inflation alongside smaller rises in European and US inflation rates, prompted many commentators to cite the threat of global inflation as a key risk for 2011/12. Inflation rates are also increasing in many emerging markets fuelled by wages and higher input prices.

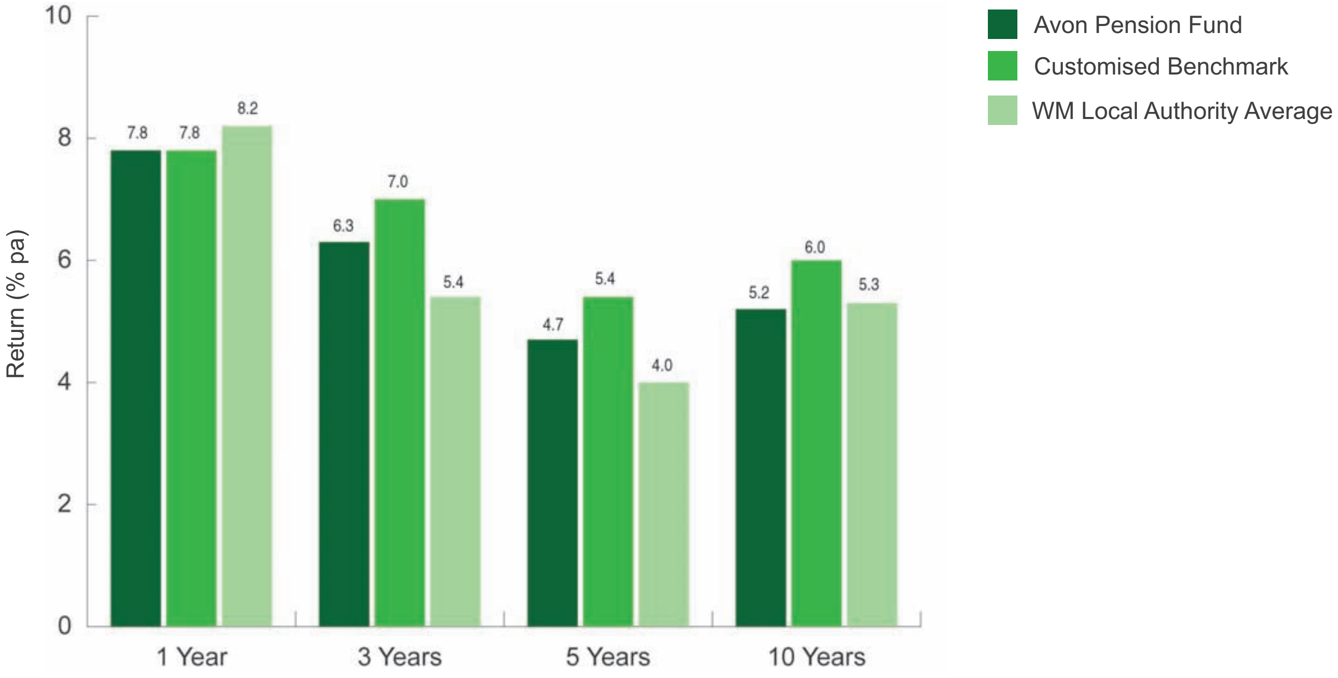
As the year under review came to a close, March proved to be a particularly turbulent month. Equities came under pressure from contagion concerns surrounding political turmoil in the Middle East. Risk assets then suffered a further decline after the devastating earthquake and subsequent tsunami hit Japan. As fears of a nuclear spill unfolded the situation deteriorated rapidly. However, despite a significant fall initially, commodity and equity markets, finished the month strongly as investors gained confidence that the necessary rebuild in Japan would likely boost GDP growth and nuclear meltdown would be averted. Central bank intervention to stabilise the Yen and the UN-imposed no-fly-zone in Libya both helped reduce volatility in the markets by the end of the month.

The outlook is for the global economic recovery to continue but at a slower rate than in the previous 12 months. Uncertainty remains in the markets, especially over the peripheral European markets. However, this did not deter the ECB from signalling a rise in interest rates in response to rising inflation as we enter 2011/12.

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

Investment Report

Chart 3: Long Term Performance



4. Investment Performance

Following a strong 2009/10 where the value of the Fund's assets increased by 34.5%, in 2010/11 the value of the Fund rose by £208 million (or 7.8%) to £2.66 billion at 31 March 2011. This was driven by positive returns across all asset classes and portfolios, in particular the equity portfolios and property. Over the last 3 years the Fund's return is 6.3% per annum falling to 4.7% per annum when viewed over the last 5 years. However, over 10 years the Fund's return of 3.5% per annum is below that required to maintain satisfactory funding levels.

The long-term performance of the Fund is shown in chart 3 (the returns are annualised). The Fund has a customised benchmark, the return for which is included in the chart together with the return of the WM Local Authority Fund Average (the average local authority pension fund return as calculated by WM Company).

Compared to the WM Local Authority Fund universe, the Fund underperformed the average fund over the year. This was due to the Fund's lower than average allocation to equities (equities performed positively over the year), and the overweight position in hedge funds (hedge funds lagged equities in absolute returns).

The customised benchmark (which measures the relative performance of the managers in aggregate), shows that the Fund's managers in aggregate matched their specific index returns over the year. Jupiter, Royal London and Partners Group in particular had strong relative performances with TT being the main detractor. Within the Fund of Hedge Fund portfolio, Signet and Gottex achieved their performance targets.

Chart 4 shows the performance of the Fund's external investment managers, against their benchmark during 2010/11. The Fund of Hedge Fund Managers have a cash based benchmark rather than an index. The performance of Partners and Schroders reflects the fact that they are still part-way through investing their portfolios.

Investment Managers' Voting Record

Table 9 summarises the voting activity undertaken by the Fund's external investment managers in respect of the company shares they hold on the Fund's behalf.

5. Largest Holdings

The 10 largest investment and equity holdings of the Fund at 31 March 2011 are shown in the tables 10 and 11.

6. Investment Administration

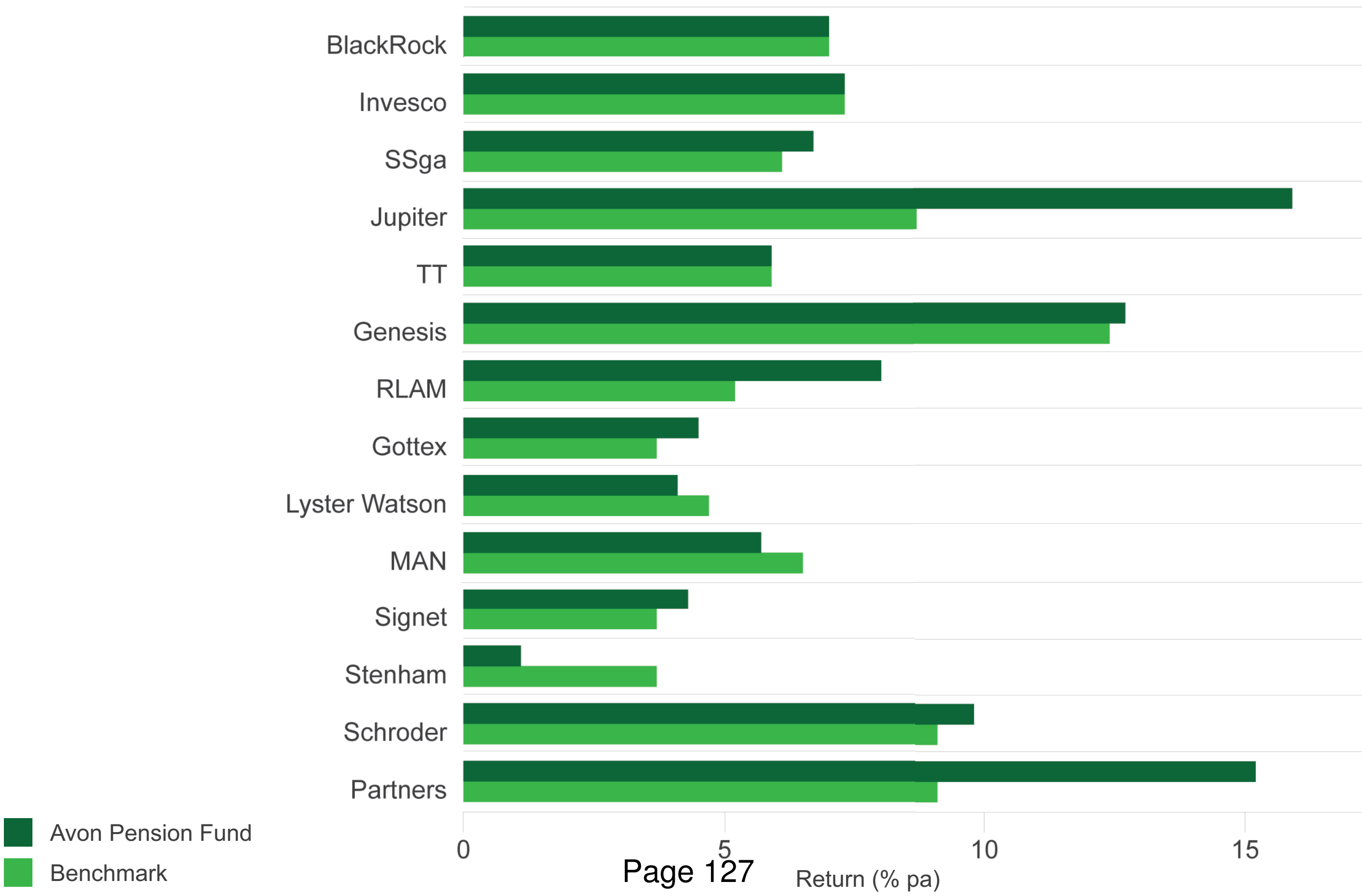
The Fund's custodian is responsible for the safe–keeping of the Fund's assets and acts as the Fund's bank, settling transactions and collecting income. In addition they provide a range of support services including stock lending and investment accounting.

Since April 2009 the Fund has had a separate bank account to improve the transparency and accountability of the Fund's and Council's banking arrangements. In addition, the Fund has a separate Treasury Management Policy as a result of regulations prohibiting the co-mingling of the investment cash of the pension fund and Council. The management of the pension fund's investment cash is still delegated to the Council.

Investment Report

Juscelino Kubitschek bridge in Brasilia City the capital of Brazil

Chart 4: Performance by Manager 2010-11



Investment Report

Table 9: Voting Summary 2010/2011

		Percentage of meetings where:		
Manager	**Number of meetings voted at**	**Voted entirely with management**	**Made a vote against management**	**Recorded an abstention**
BlackRock	3,111	62%	33%	4%
Genesis Investment Management	113	53%	33%	14%
Invesco Perpetual	67	55%	43%	2%
Jupiter Asset Management	82	87%	11%	2%
State Street Global Advisors	738	92%	7%	1%
TT International	57	33%	67%	0%

Table 10: Top 10 Largest Investment Holdings at 31 March 2011

Top 10 Largest Investment Holdings		% of Fund
Aquila Life UK Equity Index Fund (BlackRock)	£413,357,332.28	15.49%
BlackRock World Index Fund	£238,457,411.11	8.94%
Invesco Pertual Global ex UK Enhanced Index Fund	£169,742,352.03	6.36%
Genesis Emerging Markets Investment Fund	£147,200,459.27	5.52%
RLPPC UK Corporate Bond Fund (Royal London)	£131,992,312.63	4.95%
BlackRock Europe ex-UK Index Fund	£129,622,422.5	4.86%
MSCI Equity Index Fund B-US (BlackRock)	£119,266,039.49	4.47%
RMF Investment Strategies SPC (MAN)	£100,429,104.07	3.76%
Aquila Life Overseas Bond Index Fund (BlackRock)	£73,999,756.98	2.77%
MPF Pacific Enhanced Equity Index Fund (SSgA)	£58,330,688.22	2.19%

Table 11: Top 10 Largest Investment Direct Equity Holdings at 31 March 2011

Top 10 Largest Direct Equity Holdings		% of Fund
Vodafone Group	£13,799,031	0.52%
HSBC	£10,854,552	0.41%
BG Group	£9,628,109	0.36%
Rio Tinto	£7,765,620	0.29%
BP	£7,683,444	0.29%
Royal Dutch Shell	£5,734,441	0.21%
Tesco	£5,733,099	0.21%
Xstrata	£5,532,311	0.21%
Barclays	£5,272,852	0.20%
GlaxoSmithKline	£4,928,476	0.18%

Actuarial Report and Funding Strategy Statement

- **2010 funding level at 82%**
- **Stable employer contribution rates**
- **Hutton recommendations to alter scheme benefits**

In line with the LGPS Regulations, the Fund's actuarial position is reviewed every three years with the latest triennial valuation based on membership data and asset values as at 31 March 2010. This valuation sets the employer contribution rates for the period from 1 April 2011 to 31 March 2014.

The valuation produced a funding level of 82% leaving a deficit of 18%, a slightly lower funding level than the 83% at the previous valuation in 2007. However, in monetary terms the deficit has increased from £459 million in 2007 to £552 million in 2010. This increase in the deficit is due to investment returns being less than those which were assumed in the previous valuation and a rise in the liabilities. This was due to a rise in longevity and a reduction in the yields on index-linked gilts which reduces the discount rate used to value future benefits.

However, the deterioration in the funding level would have been far worse had it not been for the decision by the government to link public sector pension benefits to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) in the future. As the CPI has historically been lower than the RPI, this change meant that the inflation assumption used for valuing the Fund's liabilities was lower.

The 2010 valuation was undertaken against a very challenging environment for local authorities and public sector bodies. Given this backdrop, the Funding Strategy Statement for the 2010 valuation reflected the need to balance the long-term solvency of the Fund with cashflow pressures faced by the scheme employers over the three year valuation period.

The Regulations provide that the Funding Strategy Statement must

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

Using the flexibility provided within this framework, the Fund managed to keep employer rates (when expressed as a percentage of pensionable pay) stable with the 2007 valuation outcome. However, in order to achieve stability, the period over which the deficit is recovered from each employer was increased to a maximum of 30 years from 20 years at the 2007 valuation. Overall, the Fund's deficit recovery period increased from 20 years to 23 years. In addition, given the expected reduction in pensionable payroll over the next three years for most of the employing bodies, the deficit recovery contribution (or past service contribution), which has traditionally been expressed as a percentage of pay, has been expressed in annual monetary amounts. This is to ensure that there is no significant underpayment of deficit recovery contributions should payrolls contract.

The Hutton Commission reported back during the year on the future of the public sector pension schemes. Although long-term sustainability was the main issue, short term cost pressures also influenced the report's conclusions. A number of recommendations were put forward which the government have accepted but have yet to announce how they will be implemented.

The Commission's main recommendation proposes that final salary schemes are closed with accrued rights fully protected and all current members move to a Career Average Re-valued Earnings based scheme (or a CARE scheme) for future service. CARE schemes are considered fairer for members on lower salaries and those that have less career progression whereas final salary schemes favour those on higher salaries and those promoted throughout their careers. However, there was no recommendation from the Commission on the detail of the new structure, such as accrual rates and contribution levels. This decision has been left to the government; ultimately the new scheme structure will be designed to meet the cost parameters set out by the government. There were other recommendations including linking the normal retirement age to the State Pension Age and establishing an independent commission to oversee public sector pensions. As primary legislation is expected to be required to bring in the new changes, it is doubtful if the new scheme will be fully reflected in the next triennial valuation in 2013.

Separate to the Hutton report, in the 2010 Comprehensive Spending Review the government announced that the LGPS had to achieve savings of £900m per year by 2015 to be achieved by increasing employee contributions by c. 3% of pay. In July 2011 the government announced that given the funded nature of the LGPS, these savings could be achieved through a combination of employee contribution increases and benefit changes. The Department for Communities and Local Government will consult with stakeholders over the summer as to how these savings will be realised.

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*

The Iguaçu Falls span the border between Argentina and Brazil

Statement of Consulting Actuary

This is the statement required under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Avon Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The results of the valuation are contained in our report dated 31 March 2011.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £2,459 million represented 82% of the Funding Target of £3,011 million at the valuation date. The valuation also showed that a common rate of contribution of 11.8% 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 4.8% of pensionable pay for 23 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 2011. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). 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 as determined through the FSS consultation process.

Statement of Consulting Actuary

As a result of the valuation, a revised Rates and Adjustments Certificate was prepared for the three years commencing 1 April 2011. The rates payable by the Unitary Authorities were certified as follows:-

	Future Service Rate (% of pay) plus lump sum (£)		
	2011/12	2012/13	2013/14
Bristol City Council	11.8% plus £12,281,900	11.8% plus £12,834,600	11.8% plus £13,412,200
Bath & North East Somerset Council	12.2% plus £4,146,600	12.2% plus £4,333,200	12.2% plus £4,528,200
North Somerset Council	11.8% plus £4,508,000	11.8% plus £4,710,000	11.8% plus £4,922,000
South Gloucestershire Council	11.9% plus £4,677,000	11.9% plus £4,888,000	11.9% plus £5,108,000

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	6.85% per annum	6.75% per annum
- post retirement	5.7% per annum	6.75% per annum
Rate of pay increases:	4.5% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The Administering Authority determined that certain employers with a lesser financial covenant (based on criteria 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.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

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

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the promised retirement benefits as at 31 March 2010 is £3,318 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value for IAS 26 purposes of the Fund's promised retirement benefits at that date was £2,962 million.

Paul Middleman

Fellow of the Institute of Actuaries,
Mercer Limited, May 2011

Employer Contribution Rates

Participating Employers	Contribution Rates	
Year Ended 31st March	2011	2010
	%	%
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	17.2	16.3
North Somerset Council	18.6	17.7
South Gloucestershire Council	16.8	15.9
Further & Higher Education Establishments		
Bath Spa University College	15.9	15.9
City of Bath College	13.4	13.0
City of Bristol College	14.6	14.2
Filton College	14.3	13.1
Norton Radstock College	14.0	12.9
St. Brendan's College	13.8	13.8
University of the West of England	14.5	14.5
Weston College	14.7	14.0
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	12.0
City Academy Bristol	11.1	10.6
Colston Girl's School Academy	14.0	14.0
Merchant's Academy	13.7	13.7
Midsomer Norton School Partnership	17.5	17.5
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	13.0
The Ridings Federation of Academies Yate	11.8	11.8
Designating Bodies		
Bath Tourism Plus	14.0	14.0
Backwell Parish Council	16.9	16.4
Bradley Stoke Town Council	16.6	16.6
Charter Trustees of the City of Bath	15.4	13.8
Clevedon Town Council	14.0	14.0
Destination Bristol	11.7	11.3

Employer Contribution Rate

Participating Employers	Contribution Rates	
Year Ended 31st March	2011	2010
	%	%
Dodington Parish Council	14.8	14.8
Downend and Bromley Heath Parish Council	10.8	9.8
Easton in Gordano Parish Council	14.0	14.0
Filton Town Council	9.6	9.2
Frampton Cotterell Parish Council	16.6	14.0
Hanham Parish Council	31.1	24.8
Hanham Abbots Parish Council	14.0	14.0
Keynsham Town Council	20.0	20.0
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	21.3	19.6
Oldland Parish Council	11.2	10.5
Patchway Town Council	15.6	15.6
Paulton Parish Council	16.0	14.1
Peasedown St John Parish Council	14.0	-
Portishead & North Weston Town Council	21.3	18.8
Saltford Parish Council	15.0	14.0
Stoke Gifford Parish Council	19.1	17.9
Thornbury Town Council	21.8	21.0
Westerleigh Parish Council	12.5	12.5
Weston Super Mare Town Council	11.0	10.3
Whitchurch Parish Council	10.5	10.5
Winterbourne Parish Council	17.6	15.8
Yate Town Council	15.9	15.9
Yatton Parish Council	14.0	-
Community Admission Bodies		
Ashley House Hostel	18.8	16.1
Bath & North East Somerset Racial Equality Council	16.1	14.5
Brislington Neighbourhood Centre	9.2	8.4
Centre For Deaf People	17% + £26,360	17% + £16,140
Clifton Suspension Bridge Trust	14.1	13.5
The Care Quality Commission	18.0	16.9
Learning Partnership West Limited	14.6	14.6
Holburne Museum of Art	13.5	11.6
Merlin Housing Society (SG)	12.5	12.5
Merlin Housing Society Ltd	17.0	14.8
North Somerset Housing	11.3	10.8
Off the Record Bath & North East Somerset	12.1	10.8
Somer Community Housing Trust	15.0	15.0
Somer Housing Group Ltd	9.4	9.4

Employer Contribution Rate

Participating Employers	Contribution Rates	
Year Ended 31st March	2011	2010
	%	%
Southern Brooks Community Partnership	12.1	10.8
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	26.8	24.2
Transferees Admitted Bodies (Scope)		
Active Community Engagement Ltd	10.2	10.2
Agilisys	14.3	14.3
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	16.5
Churchill Contract Services	17.0	17.0
Eden Food Services (Initial Catering)	13.7	13.7
English Landscapes	16.0	16.0
RM Data Solutions Ltd	20.0	20.0
ISS Mediclean	11.9	11.9
ISS Mediclean (Bristol)	12.6	12.6
Kier Facilities Services	14.6	14.6
Liberata UK Ltd	14.3	14.3
Mouchel Business Services Ltd	20.5	18.6
Mouchel Business Services Ltd (Nailsea IT)	15.1	15.1
Northgate Colston Girls School IT	11.2	-
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	22.6	21.5
SITA Holdings UK Ltd	15.7% + £53,760	15.7% + £53,760
Skanska Rashleigh Wsterfoil	9.5	9.5
SLM Community Leisure	10.9	10.9
SLM Fitness & Health	8.7	8.7
Sodexo	17.1	17.1
South Gloucestershire Leisure Trust	8.5	7.5
Team Clean Ltd	13.3	13.3
The Brandon Trust	17.3	16.9
Yes Dining Ltd	12.2	12.2

Statement of Accounts 2010/11

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 2010 to 31 March 2011.

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 2010 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 This is the first year in which the accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice. There is no material difference in the Net Assets as at 1 April 2009 that would effect the 2009/10 accounts, shown for comparison with the 2010/11 accounts.

1.4 The accounts are set out in the following order:

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

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

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

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

Actuarial Valuation

1.5 As required by the Local Government Pension Scheme Regulations 2008 an actuarial valuation of the Fund was carried out as at 31 March 2010. The market value of the Fund's assets at the valuation date was £2,459 million. The Actuary estimated that the value of the Fund was sufficient to meet 82% of its expected future liabilities (of £3,011m) in respect of service completed to 31 March 2010.

1.6 The deficit recovery period for the Fund overall is 23 years.

1.7 The 2010 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions, on the basis of which employers' contributions are set, are as set out in the table below.

1.8 The 2010 valuation set the employer contribution rates effective from 1 April 2011. In previous years the employer contribution rate has been expressed as a percentage of pay. For the 2010 valuation, due to declining payrolls, the deficit recovery payment has been expressed as a monetary amount payable annually, whereas the future service rate is still expressed as a percentage of pay.

1.9 The Actuary has estimated that the funding level as at 31 March 2011 has marginally increased to 83% from 82% at 31 March 2010. The increase in the asset value exceeded the rise in liabilities, which was caused by the unwinding of the discount rate by one year.

1.10 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 Manager.

Statement of Investment Principles

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

Statement of Accounting Policies

Basis of Preparation

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

Investments

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

i. Quoted Securities have been valued at 31 March 2011 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 based on the

	Past Service	Future Service
Rate of Discount	6.85% per annum (pre retirement) 5.7% per annum (post retirement)	6.75% per annum
Rate of pensionable pay inflation	4.5% per annum	4.5% per annum
Rate of price inflation	3.0% per annum	3.0% per annum

Fund Managers valuation..

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

iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2011.

iv. Foriegn currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2011.

v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.

vi. Forward foreign exchange contracts outstanding at the year end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.

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

viii. Investment debtors and creditors at the year end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.

ix. The Fund's surplus cash is treated as an investment asset. Prior to 1 April 2010 the Fund's surplus cash was managed together with the surplus cash of B&NES Council, consequently this balance was shown as a debtor in the Fund's accounts. Since 1 April 2010 the Fund's surplus cash has been managed separately and consequently is now treated as an investment asset.

Contributions

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

Benefits, Refunds of Contributions and Cash Transfer Values

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

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

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

Investment Income

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

Investment Management & Administration

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

2.9 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

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

Use of Accounting Estimates

2.11 Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 16) in which the actuarial calculation of the liability is subject to the professional judgement of the Fund Actuary.

Statement of Accounts 2010/11

Fund Account for Year Ended 31 March 2011

	Notes	2010/11	2009/10
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	139,519	134,681
Transfers In		9,571	14,934
Other Income	5	273	361
		149,363	149,976
Benefits Payable	6	121,745	115,101
Payments to and on account of Leavers	7	9,094	14,618
Administrative Expenses	8	2,379	2,340
		133,218	132,059
Net Additions from dealings with members		**16,145**	17,917
Returns on Investments			
Investment Income	10	22,663	16,014
Profits and losses on disposal of investments and change in value of investments.	11	177,861	612,435
Investment Management Expenses	9	(7,194)	(6,860)
Net Returns on Investments		**193,330**	621,589
Net Increase in the net assets available for benefits during the year		**209,475**	639,506
Net Assets of the Fund			
At 1 April		**2,458,588**	1,819,082
At 31 March		**2,668,063**	2,458,588

Statement of Accounts 2010/11

Net Assets Statement at 31 March 2011

		Notes	31 March 2011		31 March 2010	
INVESTMENT ASSETS			**£'000**	**%**	£'000	%
Fixed-interest securities : Public Sector			**154,494**	**5.8**	134,999	5.5
Equities			**246,996**	**9.3**	241,265	9.8
Index-Linked securities : Public Sector			**157,378**	**5.9**	147,483	6.0
Pooled investment vehicles :-						
Property	Unit Trusts		**69,935**	**2.6**	43,608	1.8
	Unitised Insurance Policies		**49,875**	**1.9**	33,034	1.3
	Other Managed Funds		**52,242**	**2.0**	26,071	1.1
Property Pooled investment vehicles			**172,052**		102,713	
Non-Property	Unitised Insurance Policies		**844,190**	**31.6**	873,040	35.5
	Other Managed Funds		**1,028,962**	**38.6**	873,533	35.5
Non-Property Pooled investment vehicles			**1,873,152**		1,746,573	
Derivative Contracts: FTSE Futures			**542**	**0.0**	152	0.0
Cash deposits			**50,515**	**1.9**	63,042	2.5
Other Investment balances			**4,750**	**0.2**	4,150	0.2
INVESTMENT LIABILITIES						
Derivative contracts (Foreign Exchange hedge)			**(59)**	**0.0**	0	0.0
Other Investment balances			**(1,869)**	**(0.1)**	(738)	(0.0)
TOTAL INVESTMENT ASSETS		12	**2,657,951**		2,439,639	

Net Current Assets					
Current Assets	14	**11,548**	**0.4**	21,149	0.9
Current Liabilities	14	**(1,436)**	**(0.1)**	(2,200)	(0.1)
Net assets of the scheme available to fund benefits at the period end		**2,668,063**	**100**	2,458,588	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2011.

Statement of Accounts 2010/11

Notes to Accounts - Year Ended 31 March 2011

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 eligible employees of designating admission bodies. A list of employers with contributing scheme members can be found in note 24.

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 2011	31 March 2010
Employed Members	**33,810**	34,800
Pensioners	**22,541**	21,313
Members entitled to Deferred Benefits	**26,868**	24,544
TOTAL	**83,219**	80,657

3. Taxation

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

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

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

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

4. Contributions Receivable

Contributions receivable are analysed below:-

		2010/11		2009/10
Employers' normal contributions		**£'000**		£'000
Scheduled Bodies	**75,120**		72,746	
Administering Authority	**11,560**		11,648	
Admission Bodies	**7,587**	**94,267**	7,564	91,958

Statement of Accounts 2010/11

Employers' contributions - Augmentation				
Scheduled Bodies	**4,226**		3,042	
Administering Authority	**825**		506	
Admission Bodies	**552**	**5,603**	814	4,362
Employers' Deficit Funding				
Administering Authority	**35**		0	
Admission Bodies	**1,963**	**1,998**	241	241
Members' normal contributions				
Scheduled Bodies	**29,060**		29,306	
Administering Authority	**4,292**		4,276	
Admission Bodies	**3,568**	**36,920**	3,595	37,177
Members' contributions towards additional benefits				
Scheduled Bodies	**570**		784	
Administering Authority	**126**		117	
Admission Bodies	**35**	**731**	42	943
Total		**139,519**		134,681

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

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 19.

5. Other Income

	2010/11	2009/10
	£'000	£'000
Recoveries for services provided	**262**	356
Cost recoveries	**11**	5
	273	361

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

6. Benefits Payable

Analysis of Benefits Payable by Type:-

	2010/11		2009/10	
		£'000		£'000
Retirement Pensions		90,317		86,016
Commutation of pensions and Lump Sum Retirement Benefits		28,734		26,536
Lump Sum Death Benefits		2,694		2,549
		121,745		115,101

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Analysis of Benefits Payable by Employing Body:-

		2010/11		2009/10
		£'000		£'000
Scheduled & Designating Bodies		102,705		97,682
Administering Authority		11,412		9,418
Admission Bodies		7,628		8,001
		121,745		115,101

7. Payments to and on Account Leavers

	2010/11	2009/10
Leavers	£'000	£'000
Refunds to members leaving service	22	77
Individual Cash Transfer Values to other schemes	9,072	14,541
Bulk Cash Transfers	-	-
	9,094	14,618

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.

	2010/11	2009/10
	£'000	£'000
Administration and processing	1,638	1,680
Actuarial fees	271	178
Audit fees	47	71
Legal and professional fees	-	1
Central recharges from Administering Authority	423	410
	2,379	2,340

9. Investment Expenses

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

	2010/11	2009/10
	£'000	£'000
Portfolio management	6,840	6,469
Global custody	78	74
Investment advisors	174	171
Performance measurement	32	33
Investment accounting	15	22
Investment Administration	55	91
	7,194	6,860

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10. Investment Income

	2010/11	2009/10
	£'000	£'000
Interest from fixed-interest securities	**6,350**	4,135
Dividends from equities	**7,051**	6,275
Income from Index-Linked securities	**6,187**	3,840
Income from pooled investment vehicles	**2,917**	1,574
Interest on cash deposits	**146**	172
Other - Stock lending	**12**	18
TOTAL	**22,663**	16,014

Dividends from equities in the year to 31 March 2011 includes tax reclaims from former managers of £275,598 received in the year ending 31 March 2009 but not previously recognised as income in the accounts.

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

The value of the stock on loan as at 31 March 2011 was £43.67 million (31 March 2010 £9.42m), comprising of £5.56m equities and £38.11m sovereign debt. This was secured by collateral worth £45.21 million comprising OECD sovereign and supra-national debt and equity index baskets from the FTSE 350 index. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11. Change in Total Net Assets

Change in Market Value of Investments

	Value at 31/03/10	Purchases at Cost	Sales Proceeds	Change in Market Value	**Value at 31/03/11**
	£'000	£'000	£'000	£'000	**£'000**
Fixed-Interest Securities	134,999	36,541	(20,446)	3,400	**154,494**
Equities	241,265	117,633	(128,049)	16,147	**246,996**
Index-Linked Securities	147,483	30,450	(24,322)	3,767	**157,378**
Pooled Investments -					
- Property	102,713	85,169	(27,383)	11,553	**172,052**
- Non-Property	1,746,573	97,871	(108,188)	136,896	**1,873,152**
Derivatives	152	1,922	(3,415)	1,824	**483**
	2,373,185	369,586	(311,803)	173,587	**2,604,555**
Cash Deposits	63,042	232,606	(244,154)	(979)	**50,515**
Net Purchases & Sales		602,192	(555,957)	46,235	

Change in Creditors, Debtors and Revenue

Investment Debtors/Creditors	3,412			(531)	**2,881**
Total Investment Assets	2,439,639				**2,657,951**
Adjustments for Revenue, Debtors & Creditors	18,949			(8,837)	**10,112**
Less Net Revenue of Fund				(31,614)	
Total Net Assets	2,458,588			**177,861**	**2,668,063**

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

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

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

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

	Purchases	Sales	Other	Total
	£'000	£'000	£'000	£'000
Fees and Taxes	606	1	-	607
Commission	159	152	3	314
TOTAL	765	153	3	921

12. Investment Assets

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

		31 March 2011		31 March 2010
UK Equities		**£'000**		£'000
Quoted	**209,686**		191,718	
Pooled Investments	**415,651**		456,708	
FTSE Futures	**543**	**625,880**	152	648,578
Overseas Equities				
Quoted	**37,310**		49,546	
Pooled Investments	**987,796**	**1,025,106**	830,704	880,250
UK Fixed-Interest Gilts				
Quoted	**154,494**		134,999	
Pooled Investments	**35,247**	**189,741**	49,413	184,412
UK Index-Linked Gilts				
Quoted	**157,378**	**157,378**	147,483	147,483
Sterling Bonds (excluding Gilts)				
Pooled Investments	**138,079**	**138,079**	124,427	124,427
Non-Sterling Bonds				
Pooled Investments	**74,000**	**74,000**	72,348	72,348
Hedge Funds				
Pooled Investments	**222,379**	**222,379**	212,973	212,973
Property				
Pooled Investments	**172,052**	**172,052**	102,713	102,713
Cash Deposits				
Sterling	**49,672**		52,627	
Foreign Currencies	**843**	**50,515**	10,415	63,042

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Investment Debtors/Creditors				
Investment Income	**3,264**		3,231	
Sales of Investments	**1,485**		919	
Foreign Exchange Hedge	**(59)**		-	
Purchases of Investments	**(1,869)**	**2,821**	(737)	3,413
TOTAL INVESTMENT ASSETS		**2,657,951**		2,439,639

DERIVATIVES ANALYSIS		**31 March 2011**
“Over The Counter”		**£’000**
Forward Foreign Exchange Hedge :	Receivable in Sterling	3,774
Forward Foreign Exchange Hedge :	Payable in Euros	(3,786)
Forward Foreign Exchange Hedge :	Payable in Sterling	(132)
Forward Foreign Exchange Hedge :	Receivable in Euros	133
		(11)
Forward Foreign Exchange Hedge :	Receivable in Sterling	9,523
Forward Foreign Exchange Hedge :	Payable in U.S. Dollars	(9,571)
		(48)
		(59)

There were no “Over The Counter” derivatives held as at 31 March 2010

Exchange Traded Derivatives held at 31 March 2011:-

Contact Type	Expiration	Book Cost	Unrealised Gain
		£’000	£’000
FTSE Equity Futures	June 2011	15,228	543

Exchange Traded Derivatives held at 31 March 2010:-

FTSE Equity Futures	June 2010	20,887	152

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 held by one of the investment managers to reduce the impact of fluctuations in the exchange rate between sterling and the other currency. Other foreign exchange contracts are held by the Fund to hedge the US Dollar demonstrated share class of the Lyster Watson fund.

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

	31 March 2011		31 March 2010	
	£'000	%	£'000	%
BlackRock	**1,469,327**	**55.3**	1,402,836	57.5
Residual values held by former Managers	**24**	**0.0**	79	0
Jupiter Asset Management	**109,295**	**4.1**	94,451	3.9
Genesis Investment Management	**147,200**	**5.5**	130,211	5.3
Invesco Perpetual	**169,742**	**6.4**	158,223	6.5
State Street Global Advisors	**91,176**	**3.4**	85,675	3.5
Partners Group	**53,129**	**2.0**	26,100	1.1
Royal London Asset Management	**131,992**	**5.0**	122,185	5.0
TT International	**132,073**	**5.0**	124,756	5.1
MAN Investments	**100,418**	**3.8**	95,047	3.9
Gottex Asset Management	**53,490**	**2.0**	51,280	2.1
Stenham Asset Management	**11,665**	**0.4**	11,544	0.5
Signet Capital Management	**47,225**	**1.8**	45,279	1.9
Lyster Watson Management	**10,228**	**0.4**	9,823	0.4
Schroder Investment Management	**120,511**	**4.5**	76,798	3.1
Bank of New York Mellon	**1,882**	**0.1**	5,352	0.2
Treasury Management	**8,574**	**0.3**	-	0.2
TOTAL INVESTMENT ASSETS	**2,657,951**	**100.0**	2,439,639	100.0

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

13. Single Investments over 5% of Asset Class

The following investment holdings amounted to 5% or more of their asset class excluding pooled funds. If pooled funds were included the only holding to exceed 5% of its asset class would be the Index linked 2.5% July 2016 which would be 5.01% of its class. The percentage of asset class only relates to the assets held on a segregated basis.

Fixed-Interest Securities	Value £'000	% of Asset Class
UK Government 4.250% 07-JUN-2032	13,819,909	8.9%
UK Government 4.750% 07-DEC-2038	13,801,303	8.9%
UK Government 4.250% 07-DEC-2027	13,788,096	8.9%
UK Government 4.750% 07-DEC-2030	13,288,963	8.6%
UK Government 4.250% 07-DEC-2055	12,279,623	7.9%
UK Government 4.250% 07-MAR-2036	12,048,891	7.8%
UK Government 6.000% 07-DEC-2028	11,851,040	7.7%
UK Government 4.250% 07-DEC-2046	10,883,067	7.0%
UK Government 4.500% 07-DEC-2042	10,637,834	6.9%
UK Government 4.250% 07-DEC-2049	9,992,587	6.5%
UK Government 4.500% 09/07/2034	9,434,179	6.1%
UK Government 4.250% 09/09/2039	8,736,240	5.7%
UK Government 4.250% 12/07/2040	8,048,473	5.2%

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Index Linked Securities	Value £'000	% of Asset Class
UK Government 2.500% 26-JUL-2016	17,391,647	11.1%
UK Government 2.500% 16-APR-2020	14,602,053	9.3%
UK Government VAR RT 17-JUL-2024	13,276,979	8.4%
UK Government 1.250% 22-NOV-2027	12,612,039	8.0%
UK Government 1.875% 22-NOV-2022	11,698,426	7.4%
UK Government 2.000% 26-JAN-2035	11,103,557	7.1%
UK Government 1.250% 22-NOV-2055	10,751,199	6.8%
UK Government 1.250% 22-NOV-2017	10,534,918	6.7%
UK Government 1.250% 22-NOV-2032	10,288,052	6.5%
UK Government 4.125% 22-JUL-2030	9,633,243	6.1%
UK Government 1.125% 22-NOV-2037	9,242,996	5.9%

UK Equities	Value £'000	% of Asset Class
Vodafone Group	13,799,031	6.6%
HSBC Hldgs ord USD0.50 (UK)	10,854,552	5.2%

Overseas Equities	Value £'000	% of Asset Class
Royal Dutch Shell 'A'	5,734,441	15.4%
Xstrata com stk	5,532,311	14.8%
Bayer ag ord npv	3,071,731	8.2%
WPP plc ord	2,082,094	5.6%

14. Current Assets and Current Liabilities

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2011. Debtors and creditors included in the accounts are analysed below:-

	31 March 2011		31 March 2010	
CURRENT ASSETS		**£'000**		£'000
Bath & North East Somerset Council	**-**		10,027	
Contributions Receivable				
- Employers	**7,466**		7,267	
- Members	**2,963**		2,985	
Discretionary Early Retirement Costs	**409**		498	
Other Debtors	**710**	**11,548**	372	21,149
CURRENT LIABILITIES				
Management Fees	**(728)**		(393)	
Lump Sum Retirement Benefits	**(380)**		(1,712)	
Other Creditors	**(328)**	**(1,436)**	(95)	(2,200)
		10,112		18,949

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The 31 March 2010 debtor with Bath & North East Somerset Council represents monies held by the Administering Authority on which a commercial rate of interest was paid. From 1 April 2010 the Fund has managed its surplus cash separately from the Council, consequently this debtor no longer occurs. Surplus cash is now included within the Total Investment Assets.

The Lump Sum Retirement Benefits creditor was lower at 31 March 2011 because longer notice was given to the Fund of the number of members taking early retirement following redundancy, than was given at 31 March 2010.

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2011		31 March 2010	
CURRENT ASSETS		**£'000**		£'000
Local Authorities	**9,068**		18,961	
NHS Bodies	**11**		10	
Other Public Bodies	**1,580**		1,674	
Non Public Sector	**889**	**11,548**	504	21,149
CURRENT LIABILITIES				
Non Public Sector	**(1,436)**	**(1,436)**	(2,200)	(2,200)
NET CURRENT ASSETS		**10,112**		18,949

There were no debtors or creditors of Central Government or public corporations and traded funds.

15. Contingent Liabilities

There were no contingent liabilities as at 31 March 2011. (March 2010 = NIL).

16. Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

In compliance with IAS 26 the following statement has been prepared by the Fund's actuary.

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

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement rather than the rates as outlined in section 1.7. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the promised retirement benefits as at 31 March 2010 is £3,318 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value for IAS 26 purposes of the Fund's promised retirement benefits at that date was £2,962 million. The net assets available to meet this liability are currently £2,668 million. The triennial valuation of the fund by the actuary sets contribution rates at the level required to recover the deficit. The assumption required for the purposes of IAS 26 and those required for the triennial valuation are different, consequently the value of the liability in each case is not the same.

17. Transfers In

Transfers-In during the year were all in relation to individuals. There were no transfers-in to the Fund during the year ending 31 March 2011.

18. Benefits Recharged to Employers

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

	2010/11	2009/10
	£'000	£'000
Benefits Paid and Recharged	**6,025**	6,131

19. Additional Voluntary Contributions (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2010/11 were £4,128 (2009/10 - £7,319). Additional Voluntary Contributions received from employees and paid to Friends Life during 2010/11 were £516,160 (2009/10 - £527,655).

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

	31 March 2011	31 March 2010
	£'000	£'000
Equitable Life		
With-Profits Retirement Benefits	**784**	917
Unit-Linked Retirement Benefits	**443**	449
Building Society Benefits	**319**	327
	1,546	1,693
Death in Service Benefit	**199**	296
Friends Life		
With-Profits Retirement Benefits	**173**	263
Unit-Linked Retirement Benefits	**2,307**	3,227
Cash Fund	**277**	482
	2,757	3,972

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

20. Related Parties

Committee Member Related:-
In 2010/11 £39,245 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£36,893 in 2009/10). Four voting members and three non-voting members of the Committee (including three B&NES Councillor Members) were members of the LGPS during the financial year 2010/2011. (Five voting members and three non voting members in 2009/2010, including three B&NES Councillor Members)

Independent Member Related:-
Two Independent Members were paid allowances of £6,380 and £12,379 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the LGPS.

Employer Related:-
During the year 2010/11 the Fund paid B&NES Council £246,209 for administrative services (£239,878 in 2009/10) and B&NES Council paid the Fund £6,091 for administrative services (£1,528 in 2009/10). Various Employers requiring IAS 19 disclosures and other actuarial work paid the Fund a total of £3,266 (£1,665 in 2009/10) for their services in compiling data for submission to the actuary.

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

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

21. Outstanding Commitments

As at the 31 March 2011 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £86,867,061.

22. Financial Instruments

	31 March 2011	31 March 2010
Financial Assets	**£'000**	£'000
Loans & Receivables	**62,063**	84,191
Financial assets at fair value through profit or loss	**2,609,364**	2,377,335
Total Financial Assets	**2,671,427**	2,461,526
Financial Liabilities		
Payables	**3,305**	2,938
Financial liabilities at fair value through profit or loss	**59**	-
Total Financial Liabilities	**3,364**	2,938

All investments are disclosed at fair value. Carrying value and fair value are therefore the same. The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows:

Income, Expense, gains and Losses

	Loans & Receivables	Financial assets at fair value through profit or loss	Loans & Receivables	Financial assets at fair value through profit or loss
	2010/11		2009/10	
	£'000	£'000	£'000	£'000
Interest expense	-	-	-	-
Losses on derecognition	-	2,321	-	1,463
Reductions in fair value	-	4,788	-	11,549
Fee expense	-	921	-	831
Total expense in Fund Account	-	8,030	-	13,843
Interest and dividend income	**146**	**22,517**	172	15,842
Gains on derecognition	-	**31,730**	-	33,951
Increases in fair value	-	**148,966**	-	585,624
Total income in Fund Account	**146**	**203,213**	172	635,417
Net gain/(loss) for the year	**146**	**195,183**	172	621,574

23. Financial Risk-Management Disclosure

As an investment fund, the Avon Pension Fund's objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds financial instruments such as securities (equities, bonds), collective investment schemes (pooled funds) and cash and cash equivalents. In addition debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

The main risks from the Fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and currency risk.

The Fund's investments are managed on behalf of the Fund by the appointed Investment Managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Avon Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager and its Investment Consultant advises on the nature of the investments made and associated risks.

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

Because the Fund adopts a long-term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio.

(a) Market Risks

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the Investment Strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio

In general, market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee.

(a) (i) Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general.

Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The Investment Managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

(a) (ii) Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the year to 31 March 2011. The volatility data has been provided by JLT Benefit Solutions and is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables including interest rates and foreign currency exchange rates have a similar experience to that experienced for the year to 31 March 2011.

Movements in market prices could have increased or decreased the net assets valued at 31 March 2011 by the amounts shown below. It should be noted that the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the fund.

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As at 31 March 2011	Value	Volatility of Return	Increase	Decrease
	£'000	%	£'000	£'000
BlackRock	1,389,499	14%	195,919	(195,919)
BlackRock No 2 Fund	79,828	7%	5,827	(5,827)
Jupiter UK Equities	109,295	12%	13,225	(13,225)
TT UK Equities	132,073	17%	22,452	(22,452)
Invesco Global ex-UK Equities	169,742	15%	24,782	(24,782)
State Street Europe Equities	32,846	20%	6,504	(6,504)
State Street Pacific Rim Equities	58,330	13%	7,583	(7,583)
Genesis Emerging Market Equities	147,200	15%	21,344	(21,344)
RLAM Corporate Bonds	131,992	5%	7,128	(7,128)
MAN Fund of Hedge Funds	100,418	6%	5,925	(5,925)
Gottex Fund of Hedge Funds	53,490	2%	1,337	(1,337)
Signet Fund of Hedge Funds	47,225	3%	1,417	(1,417)
Stenham Fund of Hedge Funds	11,665	4%	443	(443)
Lyster Watson Fund of Hedge Funds	10,228	9%	941	(941)
Schroder Uk Property	120,511	2%	2,049	(2,049)
Partners Overseas Property	53,129	4%	2,125	(2,125)
Internal Cash	10,456	0%	21	(21)
Deferred Assets (previous managers)	24	-	-	-
TOTAL	**2,657,951**	**12%**	**319,002**	**(319,002)**

(a) (iii) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed-interest and index-linked securities. The amount of income receivable from cash balances or interest payable on overdrafts will be affected by fluctuations in interest rates.

The Fund's exposure to interest rate movements on these investments at 31 March 2011 are provided below. Cash includes the cash deposits held against futures contracts.

	31 March 2011 - £'000
Cash and Cash Equivalents	50,515
Fixed-Interest Assets	559,197
Loans	-
Total	**609,712**

(a) (iv) Interest Rate Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the affect on the fair value of the fixed-income securities as at 31 March 2011 of a 1% change in interest rates (or 100 basis points (bps)). The analysis assumes that all other variables including foreign currency exchange rates have a similar experience to that experienced for the year to 31 March 2011.

An increase or decrease of 1% in interest rates at the reporting date would have increased or decreased the net assets by the amount shown below.

Statement of Accounts 2010/11

	Value	Change in net assets	
As at 31 March 2011	**£'000**	**+100 bps**	**-100 bps**
Cash and Cash Equivalents	50,515	-	-
Fixed-Interest	559,197	(69,620)	69,620
Loans	-	-	-
Total	**609,712**	**(69,620)**	**69,620**

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

(a) (v) Foreign Currency Risk

Foreign currency risk represents the risk that the fair value of financial instruments when expressed in Sterling, the Fund's base currency, will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. For a Sterling-based investor, when Sterling weakens, the Sterling value of foreign currency denominated investments rises. As Sterling strengthens, the Sterling value of foreign currency denominated investments falls.

The Fund's current policy is not to hedge its foreign currency exposure to mitigate the impact of movements in foreign exchange rates, except for the Fund of Hedge Funds. The Fund invests in the Fund of Hedge Funds' Sterling share classes. This effectively eliminates currency gains and losses from the investment gains and losses. The Fund implements the US Dollar Sterling hedge for the Lyster Watson Fund of Hedge Funds. It should be noted that the Fund will implement active currency hedging over the currency exposure arising from its overseas equity portfolios from 2011/12.

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

The following tables summarise the Fund's exposure at 31 March 2011 to the US Dollar, Japanese Yen and Euro (expressed in Sterling values) which are the main currency exposures within the portfolio. The fair value of each exposure is based on the "look through" exposure of the pooled funds and is based on information provided by the investment managers, except for the global property funds where the share class of the funds held has been used. The Fund of Hedge Funds are not included in this analysis given the share classes held are hedged back to Sterling.

As at 31 March 2011	US Dollar	Euro	Yen
Assets held at Fair Value (£000s)	371,103	220,131	126,700
FX Contracts (£'000s)	-9,571	-3,653	0
Net Currency Exposure	**361,532**	**216,478**	**126,700**

(a) (vi) Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency exchange rates has been analysed using the volatility experienced by each currency against Sterling during the year to 31 March 2011. The volatility data has been provided by JLT Benefit Solutions and is broadly consistent with a one-standard deviation movement in the currency. The analysis assumes that all other variables including interest rates have a similar experience to that experienced for the year to 31 March 2011.

A strengthening of Sterling against the various currencies by one standard-deviation (expressed as a percentage) at 31 March 2011 would have decreased the net assets by the amount shown below and vice versa:

Statement of Accounts 2010/11

			Change in net assets	
As at 31 March 2011	**Percentage Change**	**Assets held at Fair Value**	**+ 1 Standard Deviation**	**- 1 Standard Deviation**
	%	**£'000**	**£'000**	**£'000**
US Dollar	12%	361,532	(43,745)	43,745
Euro	9%	216,478	(20,349)	20,349
Yen	17%	126,700	(21,412)	21,412
Total			**(85,506)**	**85,506**

(b) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk.

The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur though the failure to settle transactions in a timely manner. The Fund's contractual exposure to credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the position in the event of a counterparty default. Bankruptcy or insolvency of the custodian may affect the Fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore can not be claimed by creditors of the custodian. The Fund manages its risk by monitoring the credit quality and financial position of the custodian. The investment managers' research process for selecting and monitoring securities or funds for investment mitigates the risk of fraud.

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default). However, it should be noted from historical data that the probability of default of investment grade bonds is 6.7% over a twenty year period (Source: Moody's 1920-2010). This means that in a portfolio of a hundred investment grade bonds held for twenty years, seven would have defaulted by the end of the period.

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

Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Cash collateral is not permitted.
Foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts which are primarily banks. The maximum credit exposure on foreign currency contracts is the full amount of the contractual settlement should the counterparty fail to meet it obligations to the Fund when it falls due.

The fair market value of the financial assets represents the Fund's exposure to credit risk in relation to those assets and is set out below. For derivative positions the credit risk is equal to the net market value of positive (asset) derivative positions.

	31 March 2011
	£'000
Equities	1,650,443
Fixed-Interest – Quoted	154,494
Fixed-Interest – Pooled	247,326
Index-Linked - Quoted	157,378
Fund of Hedge Funds	222,379
Property	172,052
Cash assets	50,515
Derivatives FTSE Futures	543
Forward Foreign Exchange hedge	-59
Investment Debtors/Creditors	2,880
	2,657,951

The credit risk within the bond portfolios can be analysed using standard industry credit ratings and the analysis as at 31 March 2011 is set out below.

Credit Analysis 31/03/2011	AAA	AA	A	BBB	BB	UNRATED
	£'000	£'000	£'000	£'000	£'000	£'000
UK Gilts	189,741	-	-	-	-	-
UK Index-Linked	157,378	-	-	-	-	-
Overseas Government Bonds	39,886	33,966	-	-	-	-
Corporate Bonds	16,228	13,511	49,556	36,724	5,436	16,895
	403,233	47,477	49,556	36,724	5,436	16,895
% of Fixed-Interest Portfolios	72%	8%	9%	7%	1%	3%

Through the UK Gilt and Index Linked portfolios the Fund has significant credit exposure to the UK Government. Unrated bonds are bonds that are not rated by any of the rating agencies; traditionally, unrated bonds benefit from security over the assets of the issuer.

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. A substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed-income investments, even though a significant proportion is held in pooled funds. However, the main liability of the Fund is the benefits payable which fall due over a long period and the investment strategy reflects the long-term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and Fund of Hedge Funds which are subject to longer redemption periods and can not be considered as liquid as the other investments. The Fund maintains a cash balance to meet working requirements.

The following table analyses the Fund's financial liabilities, grouped into relevant maturity dates.

	Carrying Amount	Less than 12 Months	Greater than 12 Months
As at 31 March 2011	**£'000**	**£'000**	**£'000**
Accounts Payable	3,305	3,305	-
Benefits Payable	380	380	-
Vested Benefits	3,318,000	3,318,000	-
Derivative financial liabilities settled gross			-
Inflows	29,200	29,200	-
Outflows	(28,717)	(28,717)	-
	483	**483**	**-**

Statement of Accounts 2010/11

Vested benefits are categorised as due within 12 months because any individual benefit could become due in that time. In reality these benefits will become due over the life times of the members.

(d) Fair Value Hierarchy

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

- Level 1 - easy to price securities; there is a liquid market for these securities.
- Level 2 - moderately difficult to price; limited visible market parameters to use in the valuation e.g. use inputs derived from observable market data.
- Level 3 - difficult to price; difficult to verify the parameters used in valuation e.g. use information not available in the market.

The level in the fair value hierarchy will be determined by the lowest level of input that is appropriate for the investment. This is particularly relevant for pooled funds where, for this exercise, the fund is classified as a single investment.

The classification of financial instruments in the fair value hierarchy is subjective but the Fund has applied the same criteria consistently across its investments. The financial instruments reported at fair value are classified in accordance with the following levels:

Level 1 inputs - Quoted prices (unadjusted) in active, liquid markets for an identical instrument. These include active listed equities, exchange traded derivatives, government bonds. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and those prices represent regularly occurring market transactions.

Therefore in the analysis below, Level 1 includes quoted equities and government bonds, which are liquid and readily realisable investments but excludes pooled funds that invest in these securities.

Level 2 inputs - Valuation techniques used to price securities are based on observable inputs. This includes instruments valued using quoted market prices for similar instruments, quoted prices for similar instruments in markets that are less active, or other valuation techniques where all significant inputs are observable from market data.

Therefore in the analysis below, Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities. The Fund’s holding in these pooled funds can be realised at net asset value.

Level 3 inputs - Valuation techniques using significant unobservable inputs for the valuation of financial instruments and where there is little market activity. These inputs require management judgement or estimation and include financial instruments that are valued based on unobservable adjustments or assumptions to reflect differences between instruments for which there is no active market.

Therefore in the analysis below, Level 3 includes pooled funds such as the property funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs. In addition, the Fund’s holding in these pooled funds is not immediately realisable at the net asset value.

Statement of Accounts 2010/11

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2011.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
UK Equities - Quoted	247,539			247,539
Fixed-Interest - Quoted	311,872			311,872
Pooled Investment Vehicles		1,650,773		1,650,773
Fund of Hedge Funds			222,379	222,379
Property			172,052	172,052
Cash	50,515			50,515
Investment Debtors /Creditors	2,821			2,821
	612,747	**1,650,773**	**394,431**	**2,657,951**

24. Employing Bodies

As at 31 March 2011 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Scheduled Bodies	
Principal Councils and Service Providers	
Avon Fire Brigade	
Bath & North East Somerset Council	
Bristol City Council	
North Somerset Council	
South Gloucestershire Council	

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

Designating Bodies	
Bath Tourism Plus	Nailsea Town Council
Backwell Parish Council	Norton Radstock Town Council
Bradley Stoke Town Council	Oldland Parish Council
Charter Trustees of the City of Bath	Patchway Town Council
Clevedon Town Council	Paulton Parish Council
Destination Bristol	Peasedown St John Parish Council
Dodington Parish Council	Portishead & North Weston Town Council
Downend & Bromley Heath Parish Council	Saltford Parish Council

The Statement of Responsibilities for the Avon Pension Fund

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	Yatton Parish Council
Mangotsfield Parish Council	Yate Town Council

Admission Bodies	
Active Community Engagement Ltd	Mouchel Business Srvices Ltd (Nailsea IT)*
Agilisys	Northgate Information Solutions *
Agincare Ltd. *	Northgate Colston Girls School IT
Aquaterra Leisure	North Somerset Housing
Aramark Ltd *	Off The Record Bath & Nrth East Somerset
Ashley House Hostel	Prospect Services Ltd *
BAM Construct UK Ltd (Henbury School) *	Quadron Services*
Bath &NE Somerset Racial Equality Council	RM Data Solutions
Bespoke Cleaning Services Ltd *	Shaw Healthcare (North Somerset) Ltd*
The Care Quality Commission	SITA Holdings UK Ltd. *
Centre For Deaf People	Skanska (Cabot Learning Federation)*
Churchill Contract Services	Skanska Rashleigh Westerfoil *
Churchill Team Clean	SLM Community Leisure *
Clifton Suspension Bridge Trust	SLM Fitness and Health *
Eden Food Services *	Sodexo Ltd
English Landscapes*	Somer Community Housing Trust
Holburne Museum of Art	Somer Housing Group Ltd.
ISS Mediclean (Bristol)*	South Gloucestershire Leisure Trust *
ISS Mediclean Cabot Learning Federation*	Southern Brooks Community partnership
Keir Facilities Services	Southwest Grid for Learning Trust
Liberata UK Limited	The Brandon Trust *
Learning Partnership West Ltd	University of Bath
Merlin Housing Society Ltd	West of England Sports Trust
Merlin Housing Society (SG)	Woodspring Association for Blind People
Mouchel *	Yes Dining Ltd *
Mouchel Business Services *	

*Transferee Admission Body: 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

Sukhothai, Thailand

The Statement of Responsibilities for the Avon Pension Fund Account

Bath & North East Somerset Council's responsibilities

The Council is required to:

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

Divisional Director of Finance responsibilities

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

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

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

The Divisional Director of Finance has also:

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

Statement of the Divisional Director of Finance

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Avon Pension Fund at the accounting date and the income and expenditure for the year ended 31 March 2011.

Tim Richens

Divisional Director of Finance
(S151 Officer)

September 2011

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 53.

Auditors Report

The Sydney Opera House, Australia

Auditors Report

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

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These 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 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Divisional Director of Finance and Auditor

As explained more fully in the Statement of Responsibilities for the Accounts, the Divisional Director Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the

Auditors Report

Machu Picchu, Peru

amount and disposition of the fund's assets and liabilities as at 31 March 2011; and

- have been properly prepared in accordance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

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

Matters on which I report by exception

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

Wayne Rickard

District Auditor

Audit Commission
3- 4 Blenheim Court
Matford Business Park
Lustleigh Close
Exeter
EX2 8PW

30 September 2011

Five Year Summary of Financial Statistics

Statue of liberty, New York, United States of America

Five Year Summary of Financial Statistics

Year Ended 31 March	2007	2008	2009	2010	2011
Revenue Account	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Income					
Net Contributions	105.1	112.4	125.3	134.7	139.5
Investment Income	44.2	32.6	19.9	16.0	22.6
Net Cash Transfer	5.7	5.5	4.8	0.3	0.5
	155.0	**150.5**	**150.0**	**151.0**	**162.6**
Expenditure					
Pension & Benefits	88.1	95.0	105.2	115.1	121.7
Investment Management Expenses	4.3	4.8	5.0	6.9	7.2
Administration Costs	1.8	1.8	2.0	1.9	2.1
	94.2	**101.6**	**112.2**	**123.9**	**131.0**
Surplus for the Year	60.8	48.9	37.8	27.1	31.6
Revaluation of Investments	79.7	(55.0)	(396.4)	612.4	177.9
Change in Fund Value	**140.5**	**(6.1)**	**(358.6)**	**639.5**	**209.5**
Total Fund Value	**2,183.8**	**2,177.7**	**1,819.1**	**2,458.6**	**2,668.1**

Pension Increase

Yosemite National Park, California, United States of America

Pension Increase

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

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

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

Year Begining April	Rate of Increase %
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
2011	3.1

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.

The increases shown above also apply to deferred pensions.

Nara, Japan

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
Riverside, Temple Street,
Keynsham,
BS31 1LA

Tel: 01225 477000
Fax: 01225 395258

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

Appendix

Local Goverment Pension Scheme

How the Local Government Pension Scheme Works

Avon Pension Fund is part of the Local Government Pension Scheme (LGPS) which is administered in accordance with the LGPS Regulations which are Statutory Instruments approved by Parliament.

The benefits of Councillor Members come under the LGPS Regulations 1997 (as amended).

The benefits of all other active members come under the new LGPS Regulations, which mainly came into effect on 1 April 2008. These are:

- LGPS (Benefits, Membership & Contributions) Regulations 2007
- LGPS (Administration) Regulations 2008
- LGPS (Transitional Provisions) Regulations 2008

The LGPS Regulations can be viewed online here: *http://timeline.lge.gov.uk/*

The regulations specify the pension and other benefits payable and fix the rate of member contributions. Employer contributions are set every three years by the actuarial valuation.

The Avon Pension Fund covers the old Avon County Council area and on reorganisation in 1996, Bath & North East Somerset Council were selected to administer the Fund on behalf of all the participating employers.

The Avon Pension Fund Committee, as advised by the Strategic Director – Resources, is responsible for the Fund's investment management arrangements. The Committee sets the overall investment policy and monitors the performance of the investment managers.

The Fund has members from over 110 employers which are classed as 'scheduled bodies', 'designating bodies' or 'admission bodies'. They are listed on pages 50-51. Scheduled bodies are defined in the Regulations and their employees have a statutory right to participate in the LGP. Admission bodies fall into two categories – those who apply to join on an autonomous basis and those who are entitled to join as part of a Best Value arrangement with an existing fund employer; in each case, they must satisfy specific criteria set out in the Regulations.

Contributions

From 1 April 2008, most active members pay contributions of between 5.5 and 7.5% of pensionable pay depending on their pay band.

Councillor members pay pension contributions at the rate of 6% of pensionable pay.

The employer contribution rates are assessed every three years following an actuarial valuation. A list of participating employers together with their contribution rates is shown on pages 26-28.

Benefits

The LGPS provides significant benefits to members. The following summary is provided as an illustrative guide only and is not intended to give full details of all the benefits provided or all of the specific conditions that must be met before benefits can be obtained.

- Annual Pension. The LGPS is defined benefit scheme. The pensions of most members are based on 1/80th of final pensionable pay for each year of membership until 31 March 2008 and 1/60th of final pensionable pay for each year of membership thereafter. The pensions of Councillor Members are based on 1/80th of their career average pay for each year of membership.
- Pensions Increase Orders made under the Social Security Pension Act 1975 provide for pensions to be assessed in line with an index specified by the government. Historically this was the Retail Price Index but from April 2011 the government changed the index to the Consumer Price Index. The increases implemented over the last ten years are shown on page 56.
- Lump Sum Retirement Grant. In addition to an annual pension, most LGPS members receive a tax-free 'lump sum retirement grant' of three times annual pension on membership up to 31 March 2008. At retirement, a member will also be able to give up part of their annual pension to provide an additional lump sum. Each £1 of annual pension given up will buy £12 of lump sum. The lump sum of Councillor Members is based on 3/80th of their career average pay, also with the option of giving up part of their pension to provide additional lump sum as above.
- Deferred Benefits. Members who leave their employment or opt out of the LGPS with membership of 3 months or more, or with less than 3 months membership but have transferred service in, are entitled to Deferred Benefits and will have their benefits preserved in the Fund until retirement or they can be transferred to another approved pension arrangement.
- Refund of Contributions. A refund of contributions will be paid to members who leave employment with less than 3 months membership, provided they have not transferred in any additional membership.
- Death Benefits. When a member dies in service, a lump sum death grant is payable. For most Active Members, this is the equivalent of three times the member's final year's pensionable pay. For Councillor Members, this is the equivalent to twice the member's career average pay.

Legal Spouses and Civil Partners are also entitled to receive a Survivor's Pension based on the member's Scheme Membership at the date of death. Active Members from 1 April 2008 who are not married or in a civil partnership may nominate an eligible cohabiting partner to receive a Survivor's Pension subject to certain qualifying conditions. Councillor Members cannot nominate a cohabiting partner to receive a Survivor's Pension.

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 Partnership

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

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.

Designating Body

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

Discretionary Compensatory Added Years

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

Equities

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

Final Salary Scheme

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

Fixed Interest Government Securities

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

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).

Glossary

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.

Indexed-Linked Government Securities

Investments in government stocks (UK and overseas) where both the annual interest payment and the capital sum repayable by the government are adjusted to allow for inflation. Investments in government 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

Set up under the 1997 Regulations to determine whether benefits are subject to any actuarial reduction where a member elects to receive benefits before age 65.

If the sum of the member's age and Scheme membership, both in whole years, is 85 or more then the benefits were payable unreduced.

However, this rule was removed from the Regulations in 2006 and does not apply to new Scheme members from 1 October 2006. Members in the LGPS before this date may have acquired certain protections that apply in respect of this rule.

The rule of 85 does not apply where the member is retired on grounds of redundancy, efficiency or ill health, where benefits are paid without reduction.

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 transferring, must act as guarantor for such bodies.

Unlisted Securities

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

WM Local Authority Average

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

Bath & North East Somerset Council		
MEETING:	**Avon Pension Fund Committee**	
MEETING DATE:	**23 SEPTEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**Application for The Park to be admitted to the Avon Pension Fund as a Community Admission Body**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1: Local Government Pension Scheme (Administration) Regulations 2008: regulation 5 Appendix 2: Bristol City Council: Proposed admission body		

1 THE ISSUE

1.1 Under regulation 5 of the Local Government Pension Scheme (Administration) Regulations 2008 [LGPS (Admin) Regs 2008], an administering authority may make an admission agreement with a community admission body.

1.2 An application to become a community admission body of the Avon Pension Fund has been received from Bristol City Council on behalf of The Park.

2 RECOMMENDATION

The Pension Committee is asked to agree that:

2.1 The Park is allowed entry into the Avon Pension Fund as a Community Admission Body with Bristol City Council acting as guarantor, subject to the condition set out in paragraph 4.5.

3 FINANCIAL IMPLICATIONS

3.1 In allowing any community admission body to join the fund there is always a need to consider the financial risk which such a body may present. This is because it may at some point either become insolvent or, if it ceases to operate, may have insufficient resources to meet any outstanding pension liability.

3.2 The way in which this risk can be minimised or, in most cases, eliminated is for the pension liabilities of the community admission body to be guaranteed by another (more substantial) Scheme Employer, who will normally be the principal funder. At its meeting on 2 March 2007 the Committee accordingly made the following policy decision:

"that the existing policy relating to the conditions of admittance for Community Admission Bodies be amended to allow a Community Admission Body to join the Avon Pension Fund subject to the total potential liability being fully underwritten by the transferring employer or, where the transferring employer will not give a guarantee for future employees joining after the date of transfer, the Community Admission Body would be accepted for transferred employees only – on a Closed Scheme basis.

New employees would however be allowed to join the Scheme if the Community Admission Body entered into a permanent bond (subject to annual review and adjustment) to indemnify the Fund against any potential losses for employees admitted after the transfer date."

This decision was taken in the context of staff being transferred from a unitary authority to a Housing Association. In other circumstances a bond may not be a viable option and in any event would not protect the Fund to the same degree as a guarantee.

In the case of The Park, Bristol City Council is the "transferring employer". However, there will be other cases where applications are received from bodies who are independent of a Scheme Employer except that they depend for their existence on funding from a Scheme Employer. In applying the policy the Committee should be aware of this and therefore allow for the principal funder to supply the guarantee.

3.3 The LGPS (Administration) Regulations provides some support for the Committee's policy. Regulation 5, paragraph 4, states "where, at the date that an admission agreement is made with a body mentioned in Regulation 5, paragraph 2 (b), the contributions paid to the body by one or more Scheme employers equal in total 50% or less of the total amount it receives from all sources, it must be a term of the admission agreement that the Scheme employer paying contributions (or, if more than one pays contributions, all of them) guarantees the liability of the body to pay all amounts due from it under these Regulations or the Benefits Regulations".

3.4 So far as The Park is concerned, Bristol City Council has agreed to guarantee any pension liabilities not funded by the body itself.

4 THE REPORT

4.1 No Community Admission Body can join the Fund without the Committee's approval.

4.2 The Park is being set up to take over the provision of services from Bristol City Council [see Appendix 2]. The Park is applying for Community Admission Body status in the Avon Pension Fund in order to preserve the pension rights of the staff who will be transferring.

4.3 As already indicated, Bristol City Council will act as guarantor. It has yet to be decided whether the admission agreement will be on a "closed" or "open" basis.

4.4 The number of potential transferring scheme members is 12.

4.5 Bristol City Council has yet to approve the establishment of this body. However, it is their intention to have it operative from 1 November 2011. Given this situation, approval for admission to the Fund should only be given subject to an appropriate decision, including the commitment to a satisfactory guarantee, being taken by a meeting of Bristol City Council's cabinet on 29 September 2011 (see Appendix 2). If this does not occur, the Committee's approval will be withdrawn and Bristol City Council will have to re-apply on behalf of the body.

5 RISK MANAGEMENT

5.1 In line with the Avon Pension Fund Committee's policy, officers have ensured that this application is supported by a guarantee.

6 EQUALITIES

6.1 There are no direct equality implications from this process.

7 CONSULTATION

7.1 No consultation is appropriate.

8 ADVICE SOUGHT

8.1 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 x 5306*
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Regulation 5 Local Government Pension Scheme (Administration) Regulations 2008

Employees of non-Scheme employers: community admission bodies

5.—(1) Subject to the requirements of this regulation and regulation 7, an administering authority may make an admission agreement with any community admission body.

(2) The following are community admission bodies—

(a)a body, other than the governors or managers of a voluntary school (within the meaning of the School Standards and Framework Act 1998, which provides a public service in the United Kingdom otherwise than for the purposes of gain and which either—

(i)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), or

(ii)is approved by the Secretary of State for the purposes of admission to the Scheme;

(b)a body, other than the governors or managers of a voluntary school, to the funds of which a Scheme employer contributes;

(c)a body representative of—

(i)local authorities,

(ii)local authorities and officers of local authorities,

(iii)officers of local authorities where it is formed for the purpose of consultation on the common interests of local authorities and the discussion of matters relating to local government, or (iv)Scheme employers;

(f)a company for the time being subject to the influence of a local authority (within the meaning of section 69 of the Local Government and Housing Act 1989 (companies subject to local authority influence)); and

(g)a company for the time being subject to the influence of a body listed in Part 1 of Schedule 2 (other than a local authority).

(3) An approval under paragraph (2)(a)(ii) may be subject to such conditions as the Secretary of State thinks fit and she may withdraw an approval at any time if such conditions are not met.

(4) Where, at the date that an admission agreement is made with a body mentioned in paragraph (2)(b), the contributions paid to the body by one or more Scheme employers equal in total 50% or less of the total amount it receives from all sources, it must be a term of the admission agreement that the Scheme employer paying contributions (or, if more than one pays contributions, all of them) guarantees the liability of the body to pay all amounts due from it under these Regulations or the Benefits Regulations.

(5) In paragraph (2)(c) “local authorities" and (f) “local authority" includes the Greater London Authority.

(6) For the purpose of determining whether a company is subject to the influence of a body as mentioned in paragraph (2)(g), section 69 of the Local Government and Housing Act 1989 shall have effect as if references in that section to a local authority were references to the body.

Appendix 2

Background note on The Park's application for admission to the LGPS as a community admission body (provided by Bristol City Council)

Subject : The Park governance options

- **Name of the organisation: The Park Community Centre Limited**

- **Service to be provided:**

  Education and training
  Education and training forms a major part of the centre's work, including:
  - 14-16 vocational programme for up to 100 full time students and others part time up to a similar number.
  - 16-19 full time vocational programme for about 50 students.
  - Part time courses for adults with more of a leisure focus. Also offered are activities for adults with learning difficulties.

  Sports
  The sports centre is well provided with sport facilities including a fitness suite and sports hall. The sports staff run a varied programme catering for different ages and both sexes. Their work has an underpinning health theme.

  Arts
  A range of activities for adults and young people are delivered by and from The Park. Performing Arts are a particular strength offering spacious provision for rehearsal and performance. The Park also makes excellent use of its pottery and sculpture areas.

  Small business start ups
  The core team make spaces available for business incubation and provide support to those embarking on this route. However the businesses then provide services to the community as varied as hairdressing, horticulture and car valeting.

  Facilities Hire
  The core team runs a facilities hire service, renting out specialised and general purpose spaces. The activities which take place form part of the indirect services offered.

  Community Events
  The calendar includes a number of (one off) community events which help build greater cohesion and "community spirit". These include car boot sales, fetes, sponsored events, shows and competitions.

  Indirect Services
  These consist of the delivery by tenants and others who rent spaces at The Park, some are traded activities such as tattooing others offer

learning and progression support such as the Learning Communities Team.

- **Company Limited by Guarantee (with charitable status)**

- **Number of expected staff transferring: 12**

- **If The Park enters into a closed admission agreement Bristol City Council will act as the guarantor for pension liabilities. If The Park's admission agreement is an open arrangement Bristol City Council will also act as a guarantor for pension liabilities in relation to both existing and new members.**

It is anticipated that Bristol City Council's cabinet will consider the proposed transfer of establishment of The Park, at their cabinet meeting on the 29/09/2011. The recommendation to this cabinet meeting will be that:

- Approval be given to the establishment of an arm's length organisation so that valued local services can be securely retained and developed (see above), with a view to Bristol City Council employees transferring to the new organisation from 1st November 2011

- An admission agreement with the Avon Pension Fund should be established to provide pension protection to the employees transferring to The Park from Bristol City Council under the TUPE regulations.

- Bristol City Council will act as the guarantor for pension liabilities in relation to this agreement.

Bath & North East Somerset Council		
MEETING:	**Avon Pension Fund Committee**	
MEETING DATE:	**23 SEPTEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**Application for South West Academies Limited to be admitted to the Avon Pension Fund as a Community Admission Body**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1: Local Government Pension Scheme (Administration) Regulations 2008: regulation 5		

1 THE ISSUE

1.1 Under regulation 5 of the Local Government Pension Scheme (Administration) Regulations 2008 [LGPS (Admin) Regs 2008], an administering authority may make an admission agreement with a community admission body.

1.2 An application to become a community admission body of the Avon Pension Fund has been received from South West Academies Limited.

2 RECOMMENDATION

The Pension Committee is asked to agree that:

2.1 South West Academies Limited is allowed entry into the Avon Pension Fund as a Community Admission Body subject to City Academy and Colston Girls' School acting as "joint and several" guarantors.

3 FINANCIAL IMPLICATIONS

3.1 In allowing any community admission body to join the fund there is always a need to consider the financial risk which such a body may present. This is because it may at some point either become insolvent or, if it ceases to operate, may have insufficient resources to meet any outstanding pension liability.

3.2 The way in which this risk can be minimised or, in most cases, eliminated is for the pension liabilities of the community admission body to be guaranteed by another (more substantial) Scheme Employer, who will normally be the principal funder. At its meeting on 2 March 2007 the Committee accordingly made the following policy decision:

"that the existing policy relating to the conditions of admittance for Community Admission Bodies be amended to allow a Community Admission Body to join the Avon Pension Fund subject to the total potential liability being fully underwritten by the transferring employer or, where the transferring employer will not give a guarantee for future employees joining after the date of transfer, the Community Admission Body would be accepted for transferred employees only – on a Closed Scheme basis.

New employees would however be allowed to join the Scheme if the Community Admission Body entered into a permanent bond (subject to annual review and adjustment) to indemnify the Fund against any potential losses for employees admitted after the transfer date."

This decision was taken in the context of staff being transferred from a unitary authority to a Housing Association. In other circumstances a bond may not be a viable option and in any event would not protect the Fund to the same degree as a guarantee.

In the case of South West Academies, City Academy and Colston Girls' School are the "transferring employers". However, there will be other cases where applications are received from bodies who are independent of a Scheme Employer except that they depend for their existence on funding from a Scheme Employer. In applying the policy the Committee should be aware of this and therefore allow for the principal funder to supply the guarantee.

3.3 The LGPS (Administration) Regulations provides some support for the Committee's policy. Regulation 5, paragraph 4, states "where, at the date that an admission agreement is made with a body mentioned in Regulation 5, paragraph 2 (b), the contributions paid to the body by one or more Scheme employers equal in total 50% or less of the total amount it receives from all sources, it must be a term of the admission agreement that the Scheme employer paying contributions (or, if more than one pays contributions, all of them) guarantees the liability of the body to pay all amounts due from it under these Regulations or the Benefits Regulations".

3.4 City Academy and Colstons Girls' School have each agreed to guarantee any pension liabilities not funded by the body itself. The guarantee will be on a "joint and several basis".

4 THE REPORT

4.1 No Community Admission Body can join the Fund without the Committee's approval.

4.2 South West Academies Limited has been set up to provide financial services to academies in the South West region. It is applying for Community Admission Body status in the Avon Pension Fund in order to preserve the pension rights of two staff who will be transferring from City Academy and one from Colston Girls' School. However, it is also looking beyond this initial requirement (see paragraph 4.4).

4.3 South West Academies Limited is a company limited by guarantee and a "not for profit" organisation. It has five shareholders with equal shareholdings: Bristol Cathedral Choir School, City Academy, Colston Girls' School, Merchants Academy and Merchants Venturers. There is no intention to add to membership.

4.4 The admission agreement will be "open", given that the company expects to increase the number of academies for whom it provides a service in the future and is conscious of the need to attract the right staff.

4.5 South West Academies Limited is eligible to join the Fund as a Community Admission Body under Regulation 5 (2) (i), viz. "(it) 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)".

5 RISK MANAGEMENT

5.1 In line with the Avon Pension Fund Committee's policy, officers have ensured that this application is supported by a guarantee.

6 EQUALITIES

6.1 There are no direct equality implications from this process

7 CONSULTATION

7.1 No consultation is appropriate.

8 ADVICE SOUGHT

8.1 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 x 5306*
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Regulation 5 Local Government Pension Scheme (Administration) Regulations 2008

Employees of non-Scheme employers: community admission bodies

5.—(1) Subject to the requirements of this regulation and regulation 7, an administering authority may make an admission agreement with any community admission body.

(2) The following are community admission bodies—

(a)a body, other than the governors or managers of a voluntary school (within the meaning of the School Standards and Framework Act 1998, which provides a public service in the United Kingdom otherwise than for the purposes of gain and which either—

(i)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), or

(ii)is approved by the Secretary of State for the purposes of admission to the Scheme;

(b)a body, other than the governors or managers of a voluntary school, to the funds of which a Scheme employer contributes;

(c)a body representative of—

(i)local authorities,

(ii)local authorities and officers of local authorities,

(iii)officers of local authorities where it is formed for the purpose of consultation on the common interests of local authorities and the discussion of matters relating to local government, or (iv)Scheme employers;

(f)a company for the time being subject to the influence of a local authority (within the meaning of section 69 of the Local Government and Housing Act 1989 (companies subject to local authority influence)); and

(g)a company for the time being subject to the influence of a body listed in Part 1 of Schedule 2 (other than a local authority).

(3) An approval under paragraph (2)(a)(ii) may be subject to such conditions as the Secretary of State thinks fit and she may withdraw an approval at any time if such conditions are not met.

(4) Where, at the date that an admission agreement is made with a body mentioned in paragraph (2)(b), the contributions paid to the body by one or more Scheme employers equal in total 50% or less of the total amount it receives from all sources, it must be a term of the admission agreement that the Scheme employer paying contributions (or, if more than one pays contributions, all of them) guarantees the liability of the body to pay all amounts due from it under these Regulations or the Benefits Regulations.

(5) In paragraph (2)(c) “local authorities" and (f) “local authority" includes the Greater London Authority.

(6) For the purpose of determining whether a company is subject to the influence of a body as mentioned in paragraph (2)(g), section 69 of the Local Government and Housing Act 1989 shall have effect as if references in that section to a local authority were references to the body.

Bath & North East Somerset Council		
MEETING: **AVON PENSION FUND COMMITTEE** MEETING DATE: **23SEPTEMBER 2011**	**AGENDA ITEM NUMBER**	
TITLE: **PENSIONS ADMINISTRATION STRATEGY: UPDATE REPORT**		
WARD: **'ALL'**		
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1NewService Level Agreement ("SLA")** **Appendix 2 Performance Criteria for joint delivery to members (Appendix 1 of SLA)** **Appendix 3 Format of Stewardship Report for Employers (Annex 3 of Pensions Administration Strategy Statement)** **Appendix 4 Summary of Employers Responses & roll out of self service facilities**		

THE ISSUE

1.1 The purpose of this report is to update the Committee on the progress in taking forward the required actions following the Pensions Administration Strategy coming into effect from1st April 2011: namely the progress made by Officers in signing Service Level Agreements with all employers; establishing training requirements of employers' staff and agreeing delivery; establishing electronic data transmission by employers. In addition the Committee also requested details of Officers progress towards electronic delivery of information to members.

1.2 This information is set out in Appendix 1 to 3**.**

2. RECOMMENDATION

That the Committee notes:

2.1 The current position on the actions in 1.1 above and the Officers reported proposals to progress these.

. FINANCIAL IMPLICATIONS

3.1Electronic delivery of information to the Fund is expected to reduce the amount of resource required to process inputs and outputs and result in savings. At this stage however it is too early to assess an actual amount.

3.2Electronic delivery to members could result in tangible future savings on postage and printing. The amount will depend on the level of take up over and above those already registered for Member Self Service. At this stage therefore as above it is too early to assess an actual amount.

4. Background

The Committee were advised at the last meeting that the Avon Pension Fund had put in place a Pensions Administration Strategy “the Strategy” from April 2011. Under this there are a number of actions and the Committee has asked for an update on these, namely:

- ❖ Performance Reporting (4.1.1)
- ❖ Employers’ Staff Training (4.1.2)
- ❖ Electronic submission of member data change information by employers to the Fund (4.1.3)
- ❖ Electronic deliveryby the Fund of general and personal information to Scheme members(4.1.4)

4.1.SERVICE LEVEL AGREEMENTS (“SLAs”)

Although the larger and medium sized employers (numbering 11) already have SLAs in place, a more concise version has been produced with revised performance targets for both the Fund and employers. A copy of the new SLA is attached as **Appendix 1**.All 112 employers in the Fund are expected to sign their own SLA. Bristol City Council acted as employer responsible for reviewing and signing offthe new“standard” SLA and thiswas rolled out to all employers in July 2011. It is intended that meetings will take place with the larger employers to review/agree the standard SLA and amend it if necessary to reflect that employer’s specific circumstances.

These meetings are scheduled to be held over the next quarter. To date 25 employers (mainly smaller ones) have signed and returned signed copies of the new SLA without query or comment.

4.2PERFORMANCE REPORTING – STEWARDSHIP REPORTS

Appendix 1 of the SLAsets out the Performance criteria for specified actions for both the employer and the Fund. Regular Stewardship Reports on major items namely startersand retirements will be produced and provided to each employer. For most this is expected to be quarterly (See **Appendix 2** for agreed actions to be monitored and **Appendix 3** for the proposed Stewardship Report format). A **Summary**report will be submitted to the Committee each quarter so that they are aware of the level of performance by the Fund and employers. *It is expected that this will be an* ***Exempt*** *Appendix as it will contain information which could be regarded as commercially sensitive as some employers (where outsourcing has occurred are commercial for profit bodies.)*

4.3 STAFF TRAINING - EMPLOYERS AND AVON PENSION FUND

It is recognised in the Administration Strategy thatadministration of the Fund is a joint process between the Fund and Scheme employers and that staff of both the Fund and Scheme employers need to receive on-going adequate training to ensure their competence in operating the pension administration process for delivery of an excellent service for Scheme members.

4.3.1 Employers

There is therefore an on-going commitment to provide adequate training to employers’ staff to enable them to be proficient in performing their part of the pension administration process. It was felt appropriate to allow employers to advise the Fund of specific areas where they felt that their staff need specific training. A questionnaire was sent to all employers in May (with a reminder in

June) 2011.Encouragingly, over two thirds of employers have responded and their responses are currently being analysed, following which a comprehensive targetedtraining programme will be drawn up for employers' staff. This is expected to commence in November 2011. Training will be either site visits to employers or group sessions in Keynsham, depending on employer staff numbers.

4.3.2 Avon Pensions Staff

The Fund's own staffreceive appropriate on-going on-the-job training as necessary. All have Personal development plans and all staff are given the opportunity and are encouraged to study for external professional qualifications which will improve their own and the Fund's professionalism.

4.4ELECTRONIC DELIVERY OF MEMBER DATA CHANGESBY EMPLOYERS

As part of the Administration Strategy and incorporated into the SLA,all employers will be signed up to electronic delivery of member data changes namely, joiners, changes and leavers by 1 April 2012 (larger and medium employers) and 1 October 2012 (smaller employers).

There are two alternative methods of delivery available to employers. The more appropriatemethod will depend on size and activity level of employment:

- **BULK update basis**

  Although a number of the larger/medium employers are doing this already they are achieving this by *manual* input into an Excel spreadsheet which leaves room for human error. Larger employers are expected to provide monthly *bulk* updates from data downloads from their payroll primary source information. This is the way the largest employer Bristol City Council currently operates and has been doing so for five years and this works very efficiently.

  A series of meeting over the next few months are scheduled with the other 3 unitary authorities to help them achieve this. A very positive meeting has already taken place with North Somerset Council and it looks promising that it will have produced a test model by late October 2011.

  Once electronic delivery becomes "the norm" it is possible that those employers still submitted on paper will be charged additional administration fees for causing the Fund disproportionate work in comparison to other Scheme employers. It is therefore in these employers' interest to put in place the necessary payroll or management reports to enable extract of bulk data in an electronic format for submission, even if this means additional cost in the short–term, as in the long-term this will avoid such additional charges from the Fund. Employers are advised in the Strategy document to "invest to save."

- **INDIVIDUAL On-line Updating basis**

  Employer Self Service ("ESS"*)* (web-based browser software from Heywood (the main software supplier to the Fund)which the Fund purchased this year is the alternative method that employers can use to deliver member data change information electronically. ESS has been made available to all employers in August 2011. Currently read only, this facility will be upgraded from late October 2011 (following a new Heywood release) to allow registered employers to perform on-line updating (in a controlled environment) forindividual memberchanges. This method is most suitable for smaller employers (over a hundred) and those medium-sized employers with low levels of member change activity.

5.ELECTRONIC DELIVERY OF INFORMATION TO SCHEME MEMBERS

5.1. OBJECTIVE: Although not specifically part of the Pensions Administration Strategy, the Fund's objective is to provide information electronically to members whereverpossible and where appropriate. This initiative if successful should provide significant future savings on printing and postage.As a pilot, the most recent copy of the Fund's active members' Newsletter was successfully sent electronically by one Scheme employer to allits staff.

5.2 STRATEGY TO IMPLEMENT: The Fund is therefore currently developing a strategy to increase its use of electronic delivery for both general information (such as member and employer Newsletters) and for individual personal communications (such as members' Annual Benefit Statements) which contain sensitive personal and confidential information. It is recognised that a high level of security will be needed for members to access individual personal information(*see Member Self Service below).*

5.3*The Disclosure of Information Regulations 2010:* An important development relating to this is the *new* Disclosure Regulations in 2010. Thesespecify that electronic delivery meets legal requirements equally as well as mailed hard copy. This clears the way for the Fund to move forward on electronic delivery of all its communications.

In order for the Fund to achieve this, the legislation requiresit to tell members on that it proposes to move to using electronic means of delivery, if this is by default. This will take place by inclusion of the notification in scheduled sendings to members over the next 9 months or so. It is therefore expected that by summer 2012, as many as 60% of the membership could be receiving all general and personal information electronically. It is however appreciated that for some employers a significant percentage of their membership do not have e-mail access at their workplace.Following a straw poll of employers last year, this could be as high as 40% for some and **they will be able toopt to continue to receive information by post in a PRINTED FORMAT** by completing a simple tear off return slip (post-paid) on any of the three occasions.

5.4 MEMBER SELF SERVICE("MSS"), which members can register for, will be the main conduit for electronic "delivery" as it provides fully secure access for members to their own information held on the Avon Pension Fund database. Currently over 1,500 members (5% of active members) have already signed up for this and the Fund is vigorously promoting this in a variety of ways such as payslips, Newsletters and at pension clinics. Although it is possible to store members' e-mail addresses on their computerised record, Officers wish to avoid this as the on-going maintenance of this on over 30,000 separate member records would create significant extra work possibly requiring additionalstaff resource reducing potential cost savings.

Appendix 4 contains a Summary of Employers Responses & roll out of Self Service facilities.

6.RISK MANAGEMENT

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

7. EQUALITIES

7.1No equalities impact assessment is required as the Report contains only recommendations to note.

8. CONSULTATION

8.1 None appropriate.

9. ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 This report is for noting only.

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**	*Steve McMillan, Pensions Manager Tel: 01225 395254*
Background papers	None

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Bath & North East Somerset Council

Avon Pension Fund

LOCAL GOVERNMENT PENSION SCHEME

Bath & North East Somerset Council
Floor 3 South, Riverside, Temple Street, Keynsham, BS31 1LA
Tel: 01225 477000 ~ Fax: 01225 395258 ~ Email: pensionsedi@bathnes.gov.uk
Web: www.avonpensionfund.org.uk

AVON PENSION FUND

SERVICE LEVEL AGREEMENT

Between

Avon Pension Fund

And

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXil

Service Level Agreement (SLA)

Introduction

This SLA is an integral part of the Pensions Administration Strategy (PAS) which came into effect on 1 April 2011, after approval by the Avon Pension Fund Committee. The PAS outlines the joint role of the Avon Pension Fund (the Fund) and Employing Bodies (Employers) in delivering a seamless, efficient and cost-effective pensions service by working together in partnership. It is a legal requirement that both the Fund and the Employer have regard to the PAS when carrying out their functions[1].

Our Service Ethos

The PAS sets out how Employers and the Fund work together as administrators of the LGPS in order to provide the best possible pensions service to our Stakeholders[2]. Our primary Stakeholders are the Members of the LGPS and their dependents, as ultimate service users. But it is important for Employers and the Fund to understand from the outset that we are also Stakeholders, being service users of one another in the giving and receiving of the information we both need in order to administer the Scheme. The PAS highlights three crucial aspects of Service:

- **Seamless Service** - the pensions service which the Fund and the Employer jointly provide will be seamless from the experience of our Stakeholders.

- **Efficient Service** - the pensions service which the Fund and the Employer provide will give Stakeholders accessible and timely quality information. We will achieve this by having appropriate administrative procedures in place, combined with the application of best practice and the use of appropriate technology.

[1] Regulation 65(7) of the LGPS (Administration) Regulations 2008 (Statutory Instrument 2008 No

[2] The respective administrative and decision-making roles of the Fund and the Employers (known as 'discretions') are helpfully listed by the Local Government Employers organisation on their website at: http://www.lge.gov.uk/lge/core/page.do?pageId=279288

- **Cost-Effective Service** - the pensions service which the Fund and the Employer provide will maintain costs at industry average levels, or below. We will achieve this by streamlining our administrative processes, applying industry best practice, investing in the use of technology where appropriate and maintaining a culture of continuous improvement.

Although the LGPS is currently exempt from the Pensions Regulator's national standards for the quality of pension records[3], we will aim to achieve these standards as a matter of course.

Legislation requires the Employer to publish policies on the discretions it has under Regulations 12, 13, 18 and 30 of the LGPS (Benefits) Regulations 2007. The Employer will keep these policies under review and forward a copy to the Fund.

Engaging the Employer with the LGPS

In order to provide a truly seamless, effective and cost-effective pensions service, both the Fund and the Employer must have staff with an appropriate level of knowledge about the LGPS and associated administrative procedures.

The Employer must ensure therefore that their HR, Payroll and Finance staff who deal with pensions issues as part of their work are appropriately trained so that they are able to understand and minimise pensions risk and can engage in the wider pensions agenda[4]. Pensions risk includes Employer funding liabilities as well as compliance with pensions legislation and disclosure of information requirements.

The Employer must appoint a Pensions Lead Officer to be their primary liaison with the Fund and be responsible for disseminating LGPS information to appropriate officers in their organisation, as well as ensuring the Fund receives all information it requires to administer the LGPS. The Fund will maintain an Employer Website with information about the LGPS and administrative procedures which the Employer should follow.

All sensitive personal data will be transferred between the Fund and the Employer via a secure portal.

The Fund will hold regular meetings with Scheme Employers. The Fund will do everything possible to ensure that these meetings are effective and the Employer should ensure that they make every effort to be represented and interact with the Fund and at these meetings.

[3] http://www.thepensionsregulator.gov.uk/guidance/guidance-record-keeping.aspx
[4] The Employer should consider sending their officers on training courses, such as the 'Understanding the Employer Role' course run by the Local Government Employers organisation

The Fund operates an ongoing *Learning and Development Programme* for its own staff to ensure that they are knowledgeable in the LGPS Regulations, investments and benefits administration.

Measuring the quality of our Service

The Employer must ensure that the Fund receives all data it requires to administer the LGPS with the time limits outlined in Appendix 1. The Fund is required to report an Employer to the Pensions Ombudsman if pension contributions are not received by the 19^{th} of the month following deduction.

Accountability

Summary reports on all employers performance will be submitted to the Avon Pension Fund Committee at its quarterly meetings and both the Fund and Employers will be accountable for their performance.

Also legislation requires that the Fund and the Employers publish statistics on their performance against the targets outlined in Appendix 1.

Quality and Review

Regular meetings will take place as agreed between the Fund and the Employer but no less than every six months to review the effectiveness of the joint working arrangements and its contribution towards objectives.

Changes to the Agreement

Changes to this SLA will be implemented following full consultation and analysis of impacts on both the Fund and the Employer. The overriding condition to any such changes is that they are undertaken in the best interests of the members of the Fund. Any changes will take place using an agreed and managed process and within a time scale that minimises disruption and equalises financial issues.

The terms and conditions of this SLA are hereby agreed between the following parties:

Agreed and signed on behalf of the Employer.
Signed:
Position:
Date:

Agreed and signed on behalf of Bath and North East Somerset Council (the Administering Authority)
Signed:
Position:
Date:

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APPENDIX 2 TO PENSIONS ADMINISTRATION STRATEGY: UPDATE REPORT

TAKEN FROM AVON PENSION FUND - SERVICE LEVEL AGREEMENT APPENDIX 1

PERFORMANCE CRITERIA- JOINT DELIVERY TO MEMBERS

(1) ACTIVE MEMBERS / PENSION CONTRIBUTION SUBMISSION

Element	Employer	Target (working days)	The Fund	Target (working days)
Starters	Issue Member Starter Pack Send notification of the starter to the Fund	Within 15 days of commencement Within 10 days of month end	Issue a Membership Certificate	Within 10 days of receiving the required data from the employer
Changes in name. address, DOB, NI No, contractual hours	Send notification to the Fund	Within 10 days of month end	Issue a Membership Certificate	Within 10 days of receiving the required data from the Employer
Transfers In			Issue quotation to member Request payment of the transfer value Calculate and advise member of benefits	Within 10 days of receiving details from previous scheme. Within 5 days of receiving Member confirmation Within 10 days of receiving payment
Transfers Out			issue a quotation, guaranteed for 3 months Pay transfer value	Within 10 days of receiving the Member request Within 10 days of receiving member confirmation
Early Leavers	send the Fund completed leaver form - electronically by 01.04.2012*	Within 15 days of month end after date of leaving	The Fund to advise member of deferred benefits	Within 10 days of being in receipt of all necessary information
Actual Retirement Forms	send the Fund completed leaver forms - electronically by 01.04.2012*	On or before retirement date	The Fund to pay benefits to member	Within 20 days of being in receipt of all necessary information
Element	**Employer**	**Target (working**	**The Fund**	**Target (working**

Performance Criteria - Joint Delivery to Members

APPENDIX 1

		days)		**days)**
Estimate Requests	Employer request for estimate to the Fund	n/a	The Fund to provide Employer with estimate	Within 10 days of receipt of all necessary information
Death in Service	Employer to send the Fund completed form - electronically by 01.04.2012*	Within 5 days of being notified	The Fund to advise member benefits	Within 10 days of receipt of all necessary information
Year End Data Submission Employer each year to supply schedules showing contribution and pensionable pay information in the format specified by the Fund in LGPS 51 and LGPS 52 format (after LGPS 51 has been reconciled to LGPS50s)	Supply to the Fund electronically	By 15th May (6 weeks after year end)		
Year End Data Queries Responding to Year end/ Valuation queries resulting from APF reconciliation of member data submitted	Response to queries on reconciling the year end returns to the Fund	within 1 month of being raised		
Annual Benefit Statements			Issue *Statements* for those active members whose data is updated reconciled and complete (Legal Requirement to send every year under the Disclosure Regulations)	Annually by 31st December
Payment of Scheme Pension Contributions **Payment of AVC Pension Contributions**	Pay over to the Fund Employee and Employer Pay to AVC Provider and provide covering schedule to Provider	By 19th of the month following deduction By 19th of the month following deduction		

SMALLER Employers have until 01.10. 2012 to move to electronic submission by on-line forms through Employer Services

Performance Criteria - Joint Delivery to Members **APPENDIX 1**

(2) DEFERRED MEMBERS

	The Fund	Target
Benefit Statements	Provide each Deferred Member * with Annual Benefit Statement showing the current value of preserved benefits (as increased in line with factors issued by Central Government).	Annually by 31st August
Deferred Benefits into Payment	Write to the Deferred Member* requesting personal details confirmation before sending of the benefits details and options available. Pay benefits to member and set up pension *If Fund cannot confirm address make every effort to trace deferred member.*	6 months before age 65 or earlier retirement date if approved by employer Retirement date

*only If a current address is held

(3) PENSIONER MEMBERS

	The Fund	Target
Changes in personal particulars (including)	Update payroll record with changes to personal details However, *due to the nature of payroll administration, any such changes may not take effect until a subsequent payroll has been run.* Confirmation of changes to bank details	Within 5 days of receiving the written notification Advise on the next pay advice notification.
Changes of tax code	Update payroll record with revised tax code. (*However, due to the nature of payroll administration, changes may not take effect until a subsequent payroll has been run)*	Within 2 days of receiving notice of the change from HMRC
Newsletter	Send a Newsletter to each of our pensioners	Twice a year
Deaths of pensioners	Acknowledge receipt of a notification of the death of a pensioner and start action to put into payment any dependants' benefits	Within 5 days of receiving the notification.

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Annex 3 of Administration Strategy Statement

Performance Criteria (to be reported in Stewardship Report) - Joint Delivery to Members

Employer Service Information and Performance Standards – OPERATIONAL & FINANCIAL

Element	Employer	Target (working days)	The Fund	Target (working days)	Average % within target?
Early Leavers	Employer to send the Fund completed leaver form - electronically by 01.04.2012*	Within 15 days of month end after date of leaving	The Fund to advise member of deferred benefits	Within 10 days of being in receipt of all necessary information	
Actual **retirement** forms	Employer to send the Fund completed leaver form - electronically by 01.04.2012*	On or before retirement date	The Fund to pay benefits to member	Within 10 days of being in receipt of all necessary information	
Estimate Requests	Employer request for estimate to the Fund	n/a	The Fund to provide Employer with estimate	Within 10 days of receipt of all necessary information	
Death in Service	Employer to send the Fund completed form - electronically by 01.04.2012*	Within 5 days of being notified	The Fund to advise member benefits	Within 7 days of receipt of all necessary information	
Year End Data submission Employer each year to supply schedules showing contribution and pensionable pay information in the format specified by the Fund in LGPS 51 and LGPS 52 format (after LGPS 51 has been reconciled to LGPS50's)	Supply to the Fund electronically	By 15th May (6 weeks after year end)			

Year End Data queries Responding to Year end/ Valuation queries resulting from APF reconciliation of member data submitted	Response to queries on reconciling the year end returns to the Fund	within 1 month of being raised			
Annual Benefit Statements			Issue *Statements* for those active members whose data is updated reconciled and complete	By 31st December each year	

SMALLER Employers have until 01.10. 2012 to move to electronic submission by on-line forms

APPENDIX 4 to Pension Administration Strategy: Update Report

Summary of Employers Responses & roll out of Self Service facilities

			sent	Signed & returned	
1	Service Level Agreements		110	25	21%
2	Training Questionnaires returned		110	74	57%

Self Service facilities

1	Employers registered for Employer Self Service – only just rolled ou		Offered to all employers. So far only 3 users register but many more expected to sign up soon		
2	Members signed up for self service		2,000 out of a total of 80, 000 (inc deferred and pensioners)		2.5%

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**23 SEPTEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**INVESTMENT PANEL MINUTES**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft minutes from Investment Panel meeting held 7 September 2011		

1 THE ISSUE

1.1 The minutes are a record of the Panel's debate before reaching their conclusions and agreeing any recommendations to the Committee. This ensures the Committee is informed of the activities of the Panel.

1.2 The *draft* minutes of the Panel meeting held on 7 September 2011 are in Appendix 1.

2 RECOMMENDATION

2.1 That the Committee notes the *draft* minutes of the Investment Panel meeting held on 7 September 2011.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications.

4 MINUTES

4.1 The draft minutes of the Investment Panel meeting are in Appendix 1.

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 This report is for information only.

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	
Please contact the report author if you need to access this report in an alternative format	

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 7th September, 2011, 9.30 am

Members:Councillor Charles Gerrish (Chair), Councillor Mary Blatchford, Andy Riggs (Reserve) (In place of Bill Marshall) and Ann Berresford
Advisors: Tony Earnshaw (Independent Advisor) and John Finch (JLT Investment Consultancy)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager) and Matthew Betts (Assistant Investments Manager)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Nicholas Coombes and from Bill Marshall, for whom Andy Riggs substituted.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 12 JANUARY 2011

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

8 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2011

The Assistant Investments Manager said that although investment report was presented quarterly, it was the yearly and three-yearly performance that was significant for the Fund. Over the year the Fund had earned a return of 16.5%, with positive returns across all asset classes, especially equities. In aggregate the managers had marginally underperformed their benchmarks over the year with underperformance from Jupiter, TT, Stenham and Lyster Watson offsetting positive performance elsewhere in the portfolio. Over the quarter there had been a return of 1.5%, which was in line with the benchmark.

There were three strategic issues to be noted:

1. The implementation of the currency hedging programme had commenced in July with the appointment of Record as the active currency hedging manager.

2. The changes to the hedge fund allocations approved by the Committee had been implemented.

3. Exposure of the Fund to Euro and European financials. This was summarised in Appendix 3 of the report, an updated version of which was tabled.

The Actuary's quarterly estimate of the funding level of the Fund was 82% as at 30 June 2011.

The Assistant Investments Manager clarified that "ESG" in paragraph 8.2 stood for "environmental, social and governance".

The Investments Manager said that as the actuary's estimate of funding level was only received at the end of each quarter, the impact of the latest market turbulence, with yields on gilts at their lowest for a century, was not yet known.
Mr Finch presented the JLT investment review. He said that the report was already outdated to a greater extent than usual, because of market turbulence since 30 June. For example, the report refers to yields on long-term gilts of over 4%, whereas the previous day they had been down to 3.5-3.6%. Current yields on gilts were unprecedented. Markets were concerned that interest rates were likely to remain low for some time. Some time ago fears had been expressed that the UK's credit rating might be downgraded, but since then debt crises had emerged in Spain, Greece and Portugal, while the UK had persuaded markets that it was addressing its own debt problems, though the rhetoric about this might be tougher than the reality. The Avon Pension Fund was slightly underweighted in equities, so is maybeslightly better placed than other local authority pension funds. Corporate bonds yields had fallen, but not as much as government bonds, and the differential between corporate and government bond yields had increased.

Page 14 of the JLT report gave a snapshot of allocations and values at 30 June 2011. Since then there had been total disinvestment from Lyster Watson and the allocation to Man had been reduced.

The Chair asked about the statement that because of data timing issues returns for the Partners' portfolio are lagged by a quarter in the performance reports. He was uncomfortable with this, and felt that if the Panel and the Committee were to monitor this portfolio effectively they needed more up-to-date information. He wondered whether Partners could be persuaded to release information earlier, or whether there were alternative sources of information. The Investments Manager explained that information from Partners isnot received in time for WM to calculate the performance statistics in time for the Panel meetings, which occurred earlier in the quarter than meetings of the full Committee Members agreed that a verbal report on Partners performance will be required at meetings of the Panel and Committee.

Mr Finch highlighted the following issues with the investment managers. Jupiter had underperformed over 12 months, but this was because of the nature of the mandate. JLT had concerns about TT's overall strategy, which the Panel might want to put to them when they attended the workshop later today. The Panel might also wish to consider the recent large drop in the size of SSgA-Europe ex-UK pooled fund. There was no reason to think this would necessarily result in a fall in performance, and the fund was performing well at the moment. With the growth of global mandates, regional funds not as popular with institutional investors. He would have no concerns about the APF being the only investor in the fund, provided that SSgA-Europe were committed to maintain its current mode of operation. It would unwise to change the mandate while performance was good, but the situation should be monitored. A dip in performance might indicate that it was time to review APF's allocation in this fund.

Mr Finch drew attention to the graph of TT's relative returns on page 25 of the JLT report, which showed a rolling three-year deterioration. He suggested that the workshop should focus on this, what they were doing to address it, and whether they were making appropriate adjustments in response to current economic conditions.

A Member asked about the reliance of investment managers on computer models. Mr Finch replied that TT was an active manager, using fundamental analysis rather than quantitative modelling and had used a valuation matrix for many years. It was vital for investment managers to consider which companies were likely to do well in the current economic climate. It was unlikely that there would be a strong recovery, but some companies would do well and when some of the present uncertainties had abated it was quite likely that there would be a spate of mergers and acquisitions. SSgA uses quantitative models with limited managers' judgement.

RESOLVED

1. To note the Fund's return on investments and details of managers' performance as set out in the report.

2. To bring to the attention of the Avon Pension Fund Committee (as recorded in the Performance Report in a later agenda item):

    a. The Panel's request that Officers verbally update the Panel and Committee on the latest performance of Partners where necessary.

    b. The Panel'sintention to inviteSSgA to the next Investment Panel meeting to allow the Panel to fully assess the current situation with regard to the overall size of the SSgA pooled funds in which the Fund is invested.

The meeting ended at 10.30 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**23 SEPTEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**Review Of Investment Performance For Periods Ending 30 June 2011**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report Appendix 3 - Euro and European Financials exposure Exempt Appendix 4 – Summaries of Investment Panel meetings with Investment Managers		

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic areas concerning the Fund's investments.

1.2 This report contains performance statistics for periods ending 30 June 2011.

1.3 The main body of the report comprises the following sections:

Section 4. Investment Performance: A - Fund, B - Investment Managers.

Section 5. Investment Strategy

Section 6. Funding Level Update

Section 7. Portfolio Rebalancing and Cash Management

Section 8. Corporate Governance and Socially Responsible Investment (SRI) Update

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 commencing 1 April 2010 will impact the next triennial valuation which will be calculated as at 31 March 2013. Section 6 of this report discusses the trends in the Fund's liabilities and the funding level.

4 INVESTMENT PERFORMANCE

4.1 JLT's report in Appendix 2 provides a full commentary on the performance of the fund (pages 15 to 21), the investment managers (pages 22 to 42) and a commentary on investment markets (pages 5 to 11). In the section on the Fund (page 15), three year rolling returns are included to provide a longer term perspective.

A – Fund Performance

4.2 The Fund's assets rose in value by £396m (+16.5%) over the previous 12 months and £42m (+1.5%) in the quarter, giving a value for the investment Fund of £2,701m at 30 June 2011. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

4.3 The Fund's investment return and performance relative to benchmarks is summarised in Table 1.

Table 1: **Fund Investment Performance, periods to 30 June 2011**

	3 months	12 months	3 years (p.a.)
Avon Pension Fund	1.5%	16.5%	7.2%
Strategic benchmark *(Fund relative to benchmark)*	1.1% *(+0.4%)*	16.3% ***(+0.2%)***	6.1% *(+1.1%)*
Customised benchmark *(Fund relative to benchmark)*	1.5% *(=)*	16.7% ***(-0.2%)***	7.9% *(-0.7%)*
Local Authority Average Fund *(Fund relative to benchmark)*	1.6% *(-0.1%)*	17.8% ***(-1.3%)***	6.5% *(+0.7%)*

4.4 **Avon Pension Fund**: Quarterly return driven by good returns from bonds, with positive contributions coming from most equity regions and property. These offset small negative overall returns from the hedge funds this quarter. Annual return driven by positive absolute returns across all asset classes especially equities.

4.5 **Versus Strategic Benchmark (which reflects an allocation of 60% equities, 20% bonds, 10% property, 10% hedge funds):** Quarterly relative outperformance driven by Fund being overweight both UK and overseas equities (versus the benchmark) and the equity and bond managers outperforming their benchmarks. Annual outperformance resulted from being underallocated to hedge funds which have underperformed other asset classes and from the Fund's property and bond managers outperforming benchmark returns from their asset classes over the year. This is despite a small cash holding.

4.6 **Versus Customised Benchmark (which reflects the individual benchmarks of each manager and as such, measures the relative performance of the managers as a whole):** Underperformed the benchmark over the year, with underperformance of Jupiter, TT, Stenham and Lyster Watson more than offsetting outperformance by State Street, RLAM and Gottex. The other managers performed broadly in line with their benchmarks.

4.7 **Versus Local Authority Average Fund**: Annual relative underperformance driven by Fund's lower than average allocation to equities which performed positively over the year, and higher than average allocation to hedge funds which did not match the returns made by equities.

4.8 Since the end of June global equity markets retreated with the FTSE All Share index falling c. 13% (to 9 September). In contrast, the total return for the Over 15-year Gilt index was c. 12% during the same period. The Fund value is estimated to be c. £2.55bn, down c. 6%. These market moves impact the funding position and this is discussed in Section 6 below.

4.9 At the time of writing this report, the markets remain extremely volatile but with negative sentiment overall. Given that the sovereign debt and fiscal crisis in the Eurozone has not been resolved and official statistics for consumer confidence and global economic growth show a deteriorating economic environment. As a result the risk of many western countries going into recession has increased. In such an environment bond yields are expected to stay at low levels and the outlook for corporate earnings could deteriorate.

B – Investment Manager Performance

4.10 A detailed report on the performance of each investment manager has been produced by JLT – see pages 21 to 41 of Appendix 2. Their report does not identify any performance issues with the managers.

4.11 The decisions taken following the review of the Fund's investments in hedge funds were fully implemented in August.

4.12 The Committee agreed in December 2010 to appoint Schroder to manage the Fund's active global equity mandate. Following a managed transition process, the assets were transferred to Schroder on 20 April 2011.

4.13 At its meeting on 7 September, the Investment Panel discussed the decrease in the overall size of the State Street pooled funds in which the Fund is invested. The Panel have requested that State Street attend the next Investment Panel meeting to allow the Panel to fully assess the current situation.

4.14 The Investment Panel requested that following the decision to lag the reporting of Partners performance data by a quarter (due to the difficulty in collecting the data within the necessary timeframe for inclusion in the quarterly report), that Officers verbally update the Panel and Committee on the latest performance of Partners where necessary.

4.15 As part of the ongoing "Meet the Managers" programme, the Investment Panel received presentations from 3 managers in a workshop on September 7: BlackRock, TT and Schroder Property. The summaries of these meetings are in Exempt Appendix 4.

5 INVESTMENT STRATEGY

5.1 JLT's report notes the changes to the strategic allocation that were implemented this quarter following the decision by the Committee to increase the allocation to overseas equities and reduce the allocation to UK equities within the equity portfolio. This implementation was completed with the transition of assets to Schroder described above.

5.2 Following the appointment of Record as the Fund's active currency hedging manager, the implementation of the currency hedging programme commenced in July and will be implemented fully within a 12 month timeframe. The decision to employ an active currency hedge was an action that came out of the conclusions following the strategic investment review in 2009.

5.3 Appendix 3 provides an analysis of the Fund's current exposure to Euro denominated assets and European financial institutions in light of the current concerns regarding European sovereign debt and the potential impact upon financial institutions. The Fund's exposure to Spanish and Italian government bonds is very small (there is no exposure to Greece, Ireland and Portugal). Approximately 7% of the Fund's equity holdings are exposed to UK and European financial institutions. The active currency hedging programme currently covers approximately 25% of the Fund's Euro denominated equity exposure of approximately £185m in total. Implementation of the programme is continuing.

6 FUNDING LEVEL UPDATE

6.1 As at 30 June 2011 the Actuary has estimated that the funding level is 82%, the same as at 31 March 2010 triennial valuation.

6.2 Since the 2010 valuation, the value of the assets have increased by £255m (10.4%) to £2.7bn, and liabilities increased by £296m (9.8%) to £3.3bn. As a result the deficit has increased from £552m to £593m. Note that the revised funding level takes into account benefit payments and contributions received during the period.

6.3 Table 2 shows the change in financial assumptions:

Table 2: **Change in Financial Assumptions**

	31 March 2010	30 June 2011
UK Gilt yield	4.50%	4.30%
Real yield	0.70%	0.60%
Implied RPI inflation p.a.	3.80%	3.70%
Inflation adjustment p.a.	0.80%	0.80%
CPI Inflation p.a.	3.00%	2.90%

6.4 Since the end of June, equity values have fallen and bond prices risen, neither of which are positive for the funding level. The fall in the value of the Fund since the end of June is estimated to be around 6%. Of more significance is the fall in long-dated gilt yields which have declined at least 0.5% (to c. 3.8%) since end June (real yields fallen to c. 0.45%). Such a significant fall in bond yields (which is the basis of the discount rate used to value liabilities) could increase the liabilities by an estimated 7-10%. As a result, the funding level is estimated to have fallen to 70-75% range. ***It should however be noted that this is just a snapshot of the funding level at a particular point in time.***

6.5 The Actuary is preparing an interim valuation at the Fund level as at 31 March 2011, rolled forward to 31 August. This will be discussed at the Committee workshop and meeting on 9 December 2011. The Actuary will also discuss the possible implications of the changes to the scheme as a result of the (expected) Hutton proposals and the changes put forward to achieve savings equivalent to 3.2% of contributions.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 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.

7.2 There was no rebalancing undertaken this quarter. As at 31 July 2011 the Equity:Bond allocation was estimated at 74.6:25.4. It is estimated that recent equity market falls will have reduced the equity weighting further.

Cash Management

7.3 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, Schroder Equity 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.

7.4 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies and are invested in line with the Fund's Treasury Management Policy which was approved on 18 December 2009. The Fund adopts the Council's counterparty list and the latest list approved by the Council in February 2011.

8 CORPORATE GOVERNANCE AND SRI UPDATE

8.1 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.

8.2 LAPFF's current activity includes:

(1) **Integrated Reporting Movement**
Current reporting standards such as International Financial Reporting Standards require organisations to produce a "fair and reasonable" account of their business in audited financial reports. However, these reports do not fully integrate the long-term social, environmental and economic contexts of their operating environments. While some companies produce stand-alone sustainability reports, they sometimes fail to make the link between their sustainability agenda and the company's overall strategy and business model. LAPFF has over a number of years been engaging with companies on increasing their Environmental Social Governance (ESG) disclosure within the Business Review of their annual reports. LAPFF believes "an integrated report is the most appropriate (possibly the only) place a company can hope to convey an understanding of how it combines physical and intangible resources into processes and practices that provide the organisational capital that sets one company apart from another."

(2) **Engagement activity:**

a) News Corp – LAPFF initiated a dialogue with News Corp in June 2010 to address the company's poor governance record. LAPFF will be meeting with News Corp directors in August 2011 to convey concerns about the situation and the concentration of power on the Board. The company's succession plans and the Board's oversight of internal investigations into the ethical conduct of company officers will also be discussed.

b) Palm Oil - LAPFF is currently engaging with companies in the food and beverage sector on the importance of seeking sustainable palm oil within their global supply chains.

c) Successful engagement outcome, FirstGroup - Unions first raised concerns over alleged anti-union activity in the Company's US operations in 2006. In response to the allegations, LAPFF engaged with both the Company and the unions through a series of investor meetings. LAPFF proposed the introduction of a "Compliance Monitoring Program" with an independent monitor. Several years later, the successful operation of the policy has much improved relations between the company and union members. It's an important example of shareholders playing a proactive role in ensuring that management and employees at an investee company work together more effectively for the benefit of all, and where LAPFF's intervention was a proactive factor.

9 RISK MANAGEMENT

9.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors 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.

10 EQUALITIES

10.1 This report is primarily for information only.

11 CONSULTATION

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

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer (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	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 2011

	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	Schroder Global	Invesco	State Street	Royal London		Schroder & Partners			
EQUITIES														
UK	271.0	15.9	133.4	106.5		18.3							545.1	20.2%
North America	126.5	8.7				54.3							189.5	7.0%
Europe	133.5	6.3				21.7		34.0					195.5	7.2%
Japan	35.4					10.2		28.1					73.7	2.7%
Pacific Rim	49.8					12.5		30.6					92.9	3.5%
Emerging Markets					147.4	25.5							172.9	6.4%
Global ex-UK							170.3						170.3	6.3%
Global inc-UK	239.4												239.4	8.9%
Total Overseas	***584.6***	***15.0***			***147.4***	***124.2***	***170.3***	***92.7***					***1134.2***	**42.0%**
Total Equities	**855.6**	**30.9**	**133.4**	**106.5**	**147.4**	**142.5**	**170.3**	**92.7**					**1679.3**	**62.2%**
BONDS														
Index Linked Gilts	165.6												165.6	6.1%
Conventional Gilts	157.1	36.0											193.1	7.1%
Sterling Corporate	6.1								134.7				140.8	5.2%
Overseas Bonds	76.4												76.4	2.8%
Total Bonds	**405.2**	**36.0**							**134.7**				**575.9**	21.2%
Hedge Funds										219.0			219.0	8.1%
Property											182.4		182.4	6.8%
Cash	5.0	10.6	1.4	6.6		7.6						13.5	44.7	1.7%
TOTAL	**1265.8**	**77.5**	**134.8**	**113.1**	**147.4**	**150.1**	**170.3**	**92.7**	**134.7**	**219.0**	**182.4**	**13.5**	**2701.3**	**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 2011

Avon Pension Fund

JLT INVESTMENT CONSULTING

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Bekki Jones, BSc (Hons), IMC
Senior Investment Consultancy Analyst

John Finch, ASIP, FCII
Divisional Director

August 2011

Avon Pension Fund

Section One – Executive Summary

- This report is produced by JLT Investment Consulting ("JLT") to assess the performance and risks of the investment managers of the Avon Pension Fund (the “Fund”), and of the Fund as a whole.

Highlights

- The total Fund's assets rose in value by £42m over the second quarter of 2011, to £2,701m as at the end of June 2011.
- Over the last quarter, the total Fund's assets produced a positive absolute investment return of 1.5%, performing in line with the customised benchmark. Over the last year, the Fund produced a return of 16.5%, which was behind the customised benchmark return by 0.2%. Over 3 years, the Fund has produced a return of 7.2% p.a., underperforming the customised benchmark by 0.7% p.a.
- Over the quarter, the returns from bonds, and UK index-linked bonds in particular, were the primary drivers of positive returns, with positive contributions also coming from most equity regions and the property funds.
- Over the one year period, absolute performance remains positive due to 4 consecutive quarters of positive returns.
- This quarter the Fund performed in line with the benchmark. This was due to the positive performances by most managers being largely offset by the underperformance of the fund of hedge fund managers. The strongest relative returns were generated from Jupiter and Genesis.
- There were changes to the Fund's asset allocation during the quarter besides those driven by market movements. The decision by the Committee to increase the allocation to overseas equities within the equity portfolio was completed with the implementation of the Schroder global equity mandate. Further funding of the property portfolios also took place over the quarter.

Conclusion

- Strategic allocation: The Fund's strategic allocation remains well diversified in terms of asset class and regional exposure. There were changes made to the strategic asset allocation, mainly the appointment of Schroder to manage a global equity portfolio. The changes to the strategic asset allocation are now complete following this implementation. We have identified no causes for concern with this strategy outside of the areas that have been discussed and progressed by the Investment Panel. We also note the Fund's search for an active hedging currency manager has concluded and Record Currency Management is due to be implemented during the third quarter of 2011.
- Manager Performance: We have identified no areas of significant concern regarding the managers. However, it should be noted that the SSgA Europe (ex UK) Enhanced Index Fund fell in size from £306.12million as at 31 March 2011 to £46.85million as at 30 June 2011. SSgA has stated that this was due to one of its largest investors in this fund withdrawing their assets as part of a strategic review.
- The largest negative return over the quarter came from Lyster Watson, and all but one of the fund of hedge fund managers produced negative absolute returns. The largest positive return over the quarter came from Jupiter.

- The Fund's review of the Fund of Hedge Fund allocation is now complete and the recommended changes will be implemented in July and August 2011.

Section Two – Market Background

- The table below summarises the various market returns to 30 June 2011, 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	1.9	25.6
Overseas Equities	0.2	21.5
USA	0.0	21.8
Europe	2.6	29.5
Japan	0.2	5.4
Asia Pacific (ex Japan)	-0.1	21.3
Emerging Markets	-1.8	17.5
Property	2.1	9.1
Hedge Funds	-0.4	12.5
Commodities	-8.1	17.5
High Yield	1.1	10.1
Cash	0.1	0.5

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	0.2	7.3
Against Euro	-2.0	-9.3
Against Yen	-2.4	-2.1
Yields as at 30 June 2011	**% p.a.**	
UK Equities	2.99	
UK Gilts (>15 yrs)	4.22	
Real Yield (>5 yrs ILG)	0.48	
Corporate Bonds (>15 yrs AA)	5.54	
Non-Gilts (>15 yrs)	5.53	

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	2.3	2.8
Index-Linked Gilts (>5 yrs)	4.5	9.7
Corporate Bonds (>15 yrs AA)	1.2	3.5
Non-Gilts (>15 yrs)	1.3	4.3

Absolute Change in Yields	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-0.1	0.1
Index-Linked Gilts (>5 yrs)	-0.2	-0.2
Corporate Bonds (>15 yrs AA)	0.0	0.2
Non-Gilts (>15 yrs)	0.0	0.1

Inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	1.2	5.0
Price Inflation - CPI	1.1	4.2
Earnings Inflation *	0.9	2.4

* is subject to 1 month lag

Statistical highlights

- The rate of CPI inflation rose from 4.0% in March to 4.2% in June, and has overshot the Bank of England's 2% target for 34 of the past 40 months. The Bank of England's Monetary Policy Committee kept interest rates on hold at 0.5% over the quarter.
- UK retailers continue to suffer as consumer spending falls; Thorntons and Carpetright both announced their intention to close stores. Meanwhile TJ Hughes has gone into administration following Jane Norman, Homeform and the furniture firm Habitat.
- The Office for National Statistics ("ONS") reported that the number of people unemployed increased by 38,000 over the quarter to reach 2.49million in June 2011. The unemployment rate was 7.9%, up 0.1% on the quarter.
- The European Central Bank ("ECB") has raised interest rates from 1.25% to 1.5% in a bid to curb inflation and signalled further potential rate rises, despite faltering growth in southern Europe and the crisis facing the peripheral European Government bond markets.
- The pound depreciated against the Euro and Yen over the quarter but was little changed against the US Dollar. Fears about the pace of the UK's economic recovery and the likelihood that interest rates will remain at a low level have unsettled the currency markets.
- The FTSE All-Share Index achieved a positive return over the quarter of 1.9%, despite moderating economic data, a sudden increase in the number of profit warnings, heightened anxiety over the potential risk of default in Greece and the uncertainty regarding the strength of the global economic recovery. The quarter saw sharp intra-day moves at the market and stock level and unseasonably low liquidity. Although the equity market rose sharply in the latter part of June after the Greek Parliament approved austerity measures, which gave the positive return for the quarter as a whole, it has subsequently lost most of these gains as the risk of contagion to Italy and Spain became the focus of attention.
- Overall equities had a somewhat muted quarter with the Asia Pacific ex Japan and Emerging Markets regions again producing negative returns in sterling terms. The US and Japanese markets were little changed over the quarter while the Europe ex UK region produced a return of 2.6%. The performance of global equities over the quarter was largely impacted by falls in commodity prices, which achieved a return of -8.1% amid concerns about the stalling recovery in developed economies and a slowdown in growth in emerging markets.
- Gilts produced a return of 2.3% over the quarter and corporate bonds produced a return of 1.2%.

UK market events – Q2 2011

- **Quantitative Easing:** The Bank of England has not extended its £200 billion quantitative easing programme.
- **Government Debt:** At the end of June 2011 UK national debt stood at £944.3 billion, or 61.9% of GDP, as compared to £803.7 billion (55.3% of GDP) at the end of June 2010.
- **Unemployment:** The number of people unemployed in the UK increased by 38,000 over the three months to June to reach 2.49 million. The unemployment rate for the three months to June 2011 was 7.9%, up 0.1% over the quarter. The number of people claiming Jobseeker's Allowance (the claimant count) increased by 24,500 between May 2011 and June 2011 to 1.52 million according to the ONS.

- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey fell to a twenty one month low, seasonally adjusted figure of 51.3 in June after declining to 52.0 in May. The 50-level being the point at which 'contraction' is deemed to become 'growth'.
- **Inflation:** CPI annual inflation was 4.2% in June 2011, down from 4.5% in May 2011. RPI annual inflation was 5.0%, down from 5.3% in May 2011. RPIX inflation, which excludes mortgage interest payments, was 5.0% in June 2011, down from 5.3% in May 2011. The equivalent annualised EU CPI figure for March was 3.2%. The largest downward pressures to the change in CPI inflation came from recreation and culture where prices, overall, fell by 0.9% between May and June 2011. The largest upward pressure came from food and non-alcoholic beverages where prices, overall, rose by 0.9% between May and June this year compared with a decrease of 0.1% between the same two months a year ago.
- **Gross Domestic Product ("GDP"):** In the second quarter of 2011, GDP increased by 0.2%. There were a number of special events cited as the reasons for lower than expected growth in the second quarter, including the additional April bank holiday, the royal wedding and the after-effects of the Japanese tsunami and subsequent nuclear failure. These special events are estimated to have had a net downward impact on second quarter GDP. Total services output increased by 0.5% in the second quarter compared with an increase of 0.9% in the previous quarter.
- **Interest Rate:** Despite inflation remaining 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 the case since March 2009. The Bank has faced a difficult choice - either keep interest rates low to try to aid the economic recovery, or raise them to try to cool inflation.

Europe market events – Q2 2011

- **European sovereign debt crisis:** In Europe, concern is growing that Spain, the Eurozone's fourth-largest economy, hamstrung by meagre growth and high unemployment, will fail to put its finances in order and need a Greek-style bailout. Financial markets too face more turmoil after Moody's put Spain's Aa2 credit rating on review for possible downgrade while US debt talks are still deadlocked. The news sent the Euro falling and stock markets across the Eurozone down. Moody's mentioned that the recent Greek aid package set a precedent for private sector participation in future debt restructurings in the Eurozone. The credit rating agency added that a downgrade is likely to be limited to one notch.
- **Spain and Italy:** Spain and Italy were forced to pay a higher price to sell short-term debt amid concerns that the recent Greek bailout had failed to solve the problems in the Eurozone. Spain's short-term cost of borrowing hit three-year highs and demand fell at its Treasury bills auction, while yields at a sale of six-month Italian paper hit their highest since November 2008. Spanish and Italian benchmark bond yields rose after the auctions, and the premium demanded to hold Spanish debt rather than lower-risk German bonds widened.
- **Greece:** After securing a second rescue package to prop up its debt-stricken economy, Greece has implored its citizens to honour the agreement by repatriating cash whisked abroad during the crisis. Appealing to businessmen, ship owners and financiers who transferred large amounts of wealth out of the crisis-hit country, finance minister Evangelos Venizelos said that the bailout had ensured that Greek banks were now among the safest in the world. Having said that, ratings agency Moody's has cut Greece's debt rating by three notches to Ca, leaving it just one notch above what is considered default. The ratings agency also stated that chances of default were now virtually 100%.

- **Unemployment:** The EU27 unemployment rate was at 9.4% in June 2011, unchanged compared with May 2011. Among the Member States, the lowest unemployment rates were recorded in Austria (4.0%), the Netherlands (4.1%) and Luxembourg (4.5%), and the highest in Spain (21.0%), Lithuania (16.3% in the first quarter of 2011) and Latvia (16.2% in the first quarter of 2011).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI registered 50.8 in July 2011 down from 53.3 in June 2011. Manufacturing PMI fell to 50.4 from 52.0 in June while services PMI declined to 51.4 from 53.7 in June.
- **Inflation:** The inflation rate in the Euro Area was reported at 2.7% in June 2011.
- **GDP:** GDP growth for the second quarter was not available at the time of writing, although it is expected to be below the 0.8% achieved during the first quarter of 2011.
- **Interest Rate:** The European Central Bank has increased its base rate by 0.25% in July 2011. The base rate now stands at 1.50%.

US market events – Q2 2011

- **Unemployment:** The rate of unemployment in the US increased from 8.8% in March 2011 to 9.2% in June 2011. However, this was a decrease from the 9.4% rate in December 2010.
- **Manufacturing and Industrial Production:** Industrial production increased 0.2% in June 2011 after having edged down 0.1% in May 2011. For the second quarter as a whole, total industrial production increased at an annual rate of 0.8%. In the manufacturing sector, output remained unchanged, ending four consecutive months of strong expansion.
- **Inflation:** The US CPI rate increased from 2.7% in March 2011 to 3.6% in June 2011.
- **GDP:** US real GDP increased by 1.3% over the second quarter of 2011, against a 0.4% increase in the first quarter. First-quarter growth was revised down sharply to a 0.4% rate from the earlier estimate of a 1.9% gain.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q2 2011

- Emerging market assets could lose their appeal as safe havens for global investors despite their recent rally, as mounting global risks threaten to undermine sentiment in the remainder of the year, leading industry players have warned. Emerging market stocks, currencies and bonds surged after Greece secured the approval for a new set of austerity measures. However, experts say that returns on emerging market equities and bonds are likely to be subdued for the remainder of the year as fears resurface over the Eurozone's debt crisis and rising inflation across emerging economies.
- South Africa could see significant currency depreciation during the second half of this year due to the increasingly risk-averse global investment climate and government recognition that the currency is overvalued. The country, Africa's largest economy, has seen a sustained surge in capital inflows since early 2009, resulting in significant appreciation of the rand.
- Brazil has signed a ground-breaking agreement with the African Development Bank to set up a South-South cooperation fund in a move it dubbed a 'kind provocation' to its Latin American trading rivals. Brazil hopes that other countries from the Southern hemisphere, such as South Africa, India and Argentina will also take part in the fund, while China had also been approached. Brazilian

diplomats have been strengthening ties with Africa in recent years as part of Brazil's push to gain the region leaders' support in order to gain a permanent seat at the UN's Security Council.

Market events – Global summary – 1 year

Economy

- The rate of inflation, as measured by the Consumer Prices Index ("CPI") rose from 3.2% in June 2010 to 4.5% in June 2011. CPI peaked at 4.5% in April and May 2011 but there is widespread expectation that this level may be further surpassed in the coming months. The Retail Prices Index (RPI) reached its highest ever level, 5.5%, in February 2011 before falling back to 5.0% in June 2011.
- The Bank of England's Monetary Policy Committee have held the base rate constant at 0.5% over the course of the year, the last change having come in March 2009, meaning that the base rate has now been at this level for 28 consecutive months. The decision in early June was voted through seven against two with Spencer Dale and Martin Weale voting in favour of an increase of 25 basis points. The Committee also voted, eight against one, to maintain the asset purchase program at £200 billion, Adam Posen being the lone voice preferring an increase of £50 billion.
- Gross Domestic Product (GDP) grew at an annualised rate of 0.7% over the year to 30 June 2011. GDP turned negative in the fourth quarter of 2010 but fears of a double recession were averted after a positive quarter in Q1 2011. Growth in Q2 2011 was weaker than expected, the Office for National Statistics ("ONS") cited additional bank holiday weekends for the royal wedding and the after effects of the Japanese tsunami.
- The UK unemployment rate stood at 7.7%, or 2.45 million, while those unemployed for a year or longer was 807,000, as at May 2011. The ONS noted that the fall in unemployment occurred mainly among the young (16 to 24 year olds). Despite the fall in unemployed, the claimant count (Jobseeker's allowance) increased to 1.52 million.
- The Federal Reserve maintained the US base rate at 0.25%. The US unemployment rate, an important factor in determining market sentiment, has decreased over the year as whole from 9.7% to 9.1%. The unemployment rate had fallen to 8.8% in April 2011 before creeping back up. The US trade deficit widened over the year to over $50 billion.
- The European Central Bank ("ECB") has raised interest rates from 1.25% to 1.5% in a bid to curb inflation and signalled further potential rate rises, despite faltering growth in southern Europe and the crisis facing the peripheral European Government bond markets. The ECB is becoming increasingly concerned about the rate of inflation, which has risen from 2.2% to 2.7% during 2011.
- Sterling strengthened by 7.3% against $US due but weakened against the Euro despite widespread economic woes in the periphery Eurozone countries, such as Greece and Ireland. Sterling also depreciated against the Yen as the Japanese repatriated its currency following the tsunami in Q1 2011.
- The Irish and Portuguese governments have followed their Greek counterpart cap in hand to the ECB to request a bailout. The Greek government passed stringent austerity measures despite fierce protests from its citizens and narrowly avoided defaulting by managing to roll over its current debt into longer term obligations. Many commentators believe that the current measures have just moved the default "down the road".

- The hard line interest rate policy of the ECB does contain risks, and has had an impact on Italian and Spanish government debt increasing yields to 5.3% and 5.7% respectively. Public debt in Italy is the world's third largest, at €1.84 trillion, and the rise in yields has begun to attract unwelcome attention from investors. There has also been much speculation that the Spanish may join the line behind Greece, Ireland and Portugal.
- The Japanese earthquake and ensuing tsunami, whilst first and foremost a human tragedy, unnerved markets in Q1 2011. Japan is responsible for the manufacture of many components, particularly in the automotive and technology industries, and the "just in time" nature of these industries meant that the destruction to component plants in Japan had a knock on effect on production around the globe.
- Economic growth in emerging markets fell to the lowest level in two years in the second quarter, as tightening monetary policies against the background of increasing inflationary pressures resulted in a slowdown in output growth. Rising finished goods inventories and falling export orders in emerging market countries such as South Korea and China, are likely to force companies to reduce further levels of production. The "knock-on" impact may lead to slower growth over 2011.

Equities

- Although equities have been extremely volatile, they have produced strong absolute returns over the year to 30 June 2011. Europe (ex UK) has led the way, in Sterling terms, despite the problems facing it, with the UK market in second place. The US, Asia Pacific and emerging markets all produced strong absolute returns whilst the Japanese market struggled on the back of the earthquake.
- Equity performance was driven by better than expected corporate profitability and increased investor risk appetite.

Fixed Interest

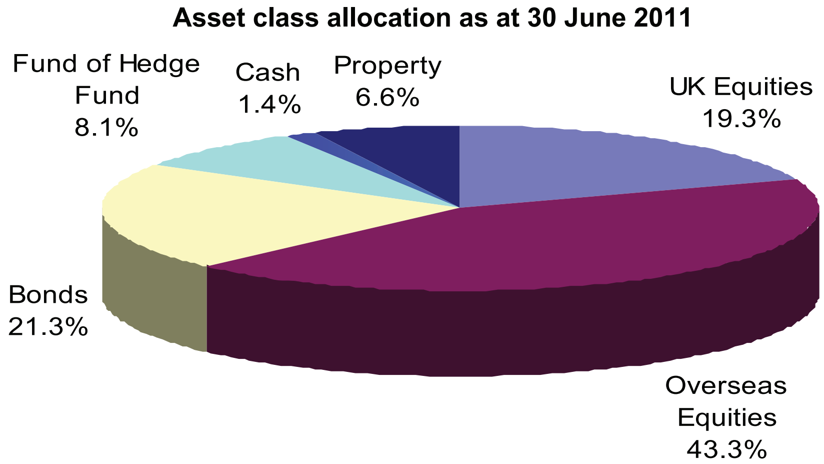
- The European debt crisis continues to dominate the headlines and the two major ratings agencies have downgraded Greece to junk bond status. The ECB's decision to raise interest rates to 1.5% is a further blow to the southern European peripheral economies, which shows the ECB is more concerned about fighting inflation than holding down borrowing costs for embattled governments. Portuguese government bonds have also been cut to "junk bond" status and the yields on Italian and Spanish government bonds have increased significantly.
- Gilts produced a positive return over the year but underperformed corporate bonds due to the increase in risk appetite. Long dated gilts produced a return of 2.8% over the year compared to 4.3% for long dated corporate bonds.
- Index-linked fixed interest assets produced a return of 9.7% over the year. Inflation remains a concern with the Bank of England unlikely to increase interest rates, despite inflation remaining more than 2% above the Bank of England's target.

Alternative Asset Classes

- Commodities produced a 17.5% return over the year. The price of gold continued its ever increasing upward trend while foodstuffs, such as coffee and sugar, also rose.
- Commercial property continued its upward trend over the last few months, with rental income the main driver of performance.
- Hedge funds produced a strong absolute return over the year but lagged equities.

Section Three – Fund Valuations

- The chart and table below show the asset allocation of the Fund as at 30 June 2011, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.



Asset Class	30 June 2011 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	521,128	19.3	18.0
Overseas Equities	1,167,428	43.3	42.0
Bonds	576,055	21.3	20.0
Fund of Hedge Funds	218,915	8.1	10.0
Cash (including currency instruments)	38,737	1.4	-
Property	178,605	6.6	10.0
Reconciling differences and rounding	0	0.0	-
TOTAL FUND VALUE	**2,700,868**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets rose by £42m over the second quarter of 2011 to £2,701m, as a result of positive absolute investment performance from most funds. Bonds produced the highest return over the quarter at 2.9%. Equities and property were also positive contributors. Equities comprise approximately 63% of the Fund's investments.
- In terms of asset allocation, changes seen over the quarter include:
  - Changes were made at the strategic level to the proportion of the Fund held in UK and overseas equities. The allocation was reduced for UK equities from 21% to 18%, and increased for overseas equities from 39% to 42%.

- This new strategic benchmark was implemented by the appointment of Schroders, the Fund's new global equity manager. This completes the changes to the strategic asset allocation.
- There was some further funding of property investments over the quarter.

- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	31 March 2011		Net New Money £'000	30 June 2011	
		Value £'000	Proportion of Total %		Value £'000	Proportion of Total %
Jupiter	UK Equities	109,260	4.1	-	113,139	4.2
TT International	UK Equities	132,073	5.0	-	134,814	5.0
Invesco	Global ex-UK Equities	169,742	6.4	-	170,252	6.3
Schroder	Global Equities	-	-	148,204	150,254	5.6
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	91,405	3.4	-	92,493	3.4
Genesis	Emerging Market Equities	147,096	5.5	-	147,493	5.5
Lyster Watson	Fund of Hedge Funds	9,582	0.4	-	9,257	0.3
MAN	Fund of Hedge Funds	100,418	3.8	-	97,554	3.6
Signet	Fund of Hedge Funds	47,225	1.8	-	47,157	1.7
Stenham	Fund of Hedge Funds	11,665	0.4	-	11,436	0.4
Gottex	Fund of Hedge Funds	53,490	2.0	-	53,578	2.0
BlackRock	Passive Multi-asset	1,390,146	52.3	-150,267	1,267,555	46.9
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	79,793	3.0	-3,450	77,531	2.9
RLAM	Bonds	131,992	5.0	-	134,650	5.0
Schroder	UK Property	120,487	4.5	910	126,415	4.6
Partners*	Property	53,129	2.0	2,450	54,692	2.0
Internal Cash*	Cash	11,115	0.4	2,153	12,597	0.5
Rounding		-1	0.0	-	-1	0.0
TOTAL		**2,658,617**	**100.0**	**-**	**2,700,868**	**100.0**

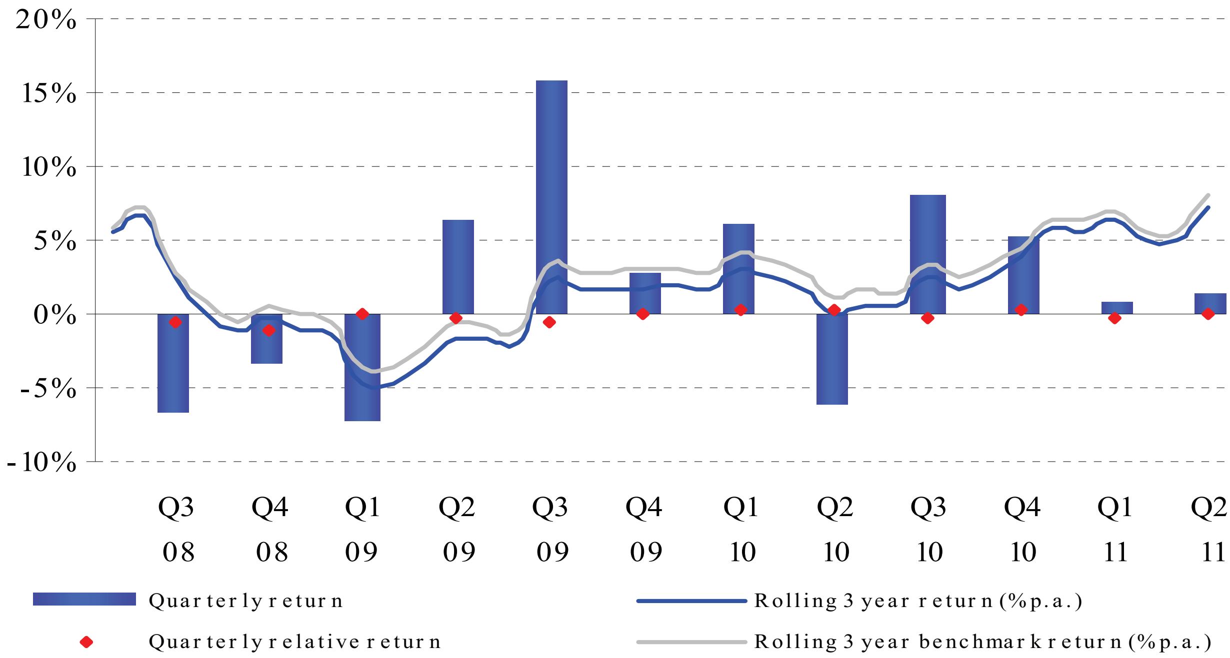
Source: Avon Pension Fund, Data provided by WM Performance Services. From Q2 2011, Partners valuation will be lagged by one quarter. * Cashflows includes one transaction which has been converted to GBP

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



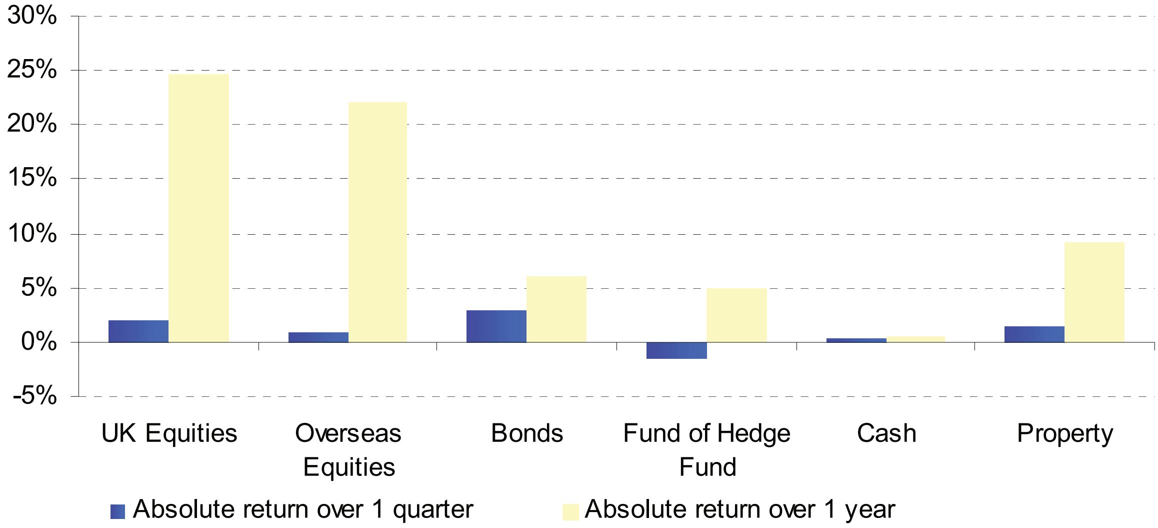
Source: Data provided by WM Performance Services

- Over the last quarter (blue bars) the total Fund's assets produced a return of 1.5%, performing in line with the customised benchmark.
- Over the last year (not shown above) the total Fund's assets produced a positive return of 16.5%, marginally underperforming 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 7.2% p.a., underperforming the customised benchmark by 0.7% p.a.
- The driver of positive absolute performance over the last quarter was the positive absolute returns from a large number of the Fund's managers. Only the fund of hedge fund managers produced negative absolute returns, the exception in this asset class being Gottex whose return was positive.
- The Fund performed in line with its benchmark over the quarter. There were positive relative performances from a number of managers, most notably Jupiter, SSgA Europe, Genesis and the newly appointed Schroder unconstrained equity. However, relative underperformances came from all the fund of hedge fund managers, which reflects the difficult environment and also the fact that their benchmarks are cash plus benchmarks.

Asset classes' performance

- The chart below and the table on the following page show the absolute performance of the Fund's assets by asset class over the quarter and year to 30 June 2011. Note that the returns from the BlackRock Multi-Asset portfolio and the second BlackRock portfolio, which hold a combination of asset classes, are aggregated within the relevant asset class returns.

Asset class absolute performance to 30 June 2011



Source: Data provided by WM Performance Services

- Over the second quarter of 2011, all asset classes produced positive absolute returns except fund of hedge funds.
- The key drivers of absolute performance are:
  - UK and overseas equity markets produced returns of 2.0% and 0.9% respectively.
  - Sterling depreciated against the Euro and the Yen over the quarter, meaning a higher return on the Euro and Yen denominated overseas equities in sterling terms. Sterling appreciated against the Dollar, meaning a lower return on the Dollar denominated overseas equities in sterling terms. The majority of equity markets produced negative returns for the quarter in local currency terms; the only exception to this was the US whose return was marginally positive. The lowest return came from the emerging markets region.
  - Bonds produced positive absolute returns of 2.9% over the quarter. This is due to UK, UK Index-Linked and Overseas bonds all producing positive absolute returns.
  - The fund of hedge fund portfolio produced a negative return of 1.5% over the quarter.
  - Property portfolio generated a positive return over the quarter of 1.4%.
- The table overleaf shows the returns from major asset class indices over the quarter and year to 30 June 2011.

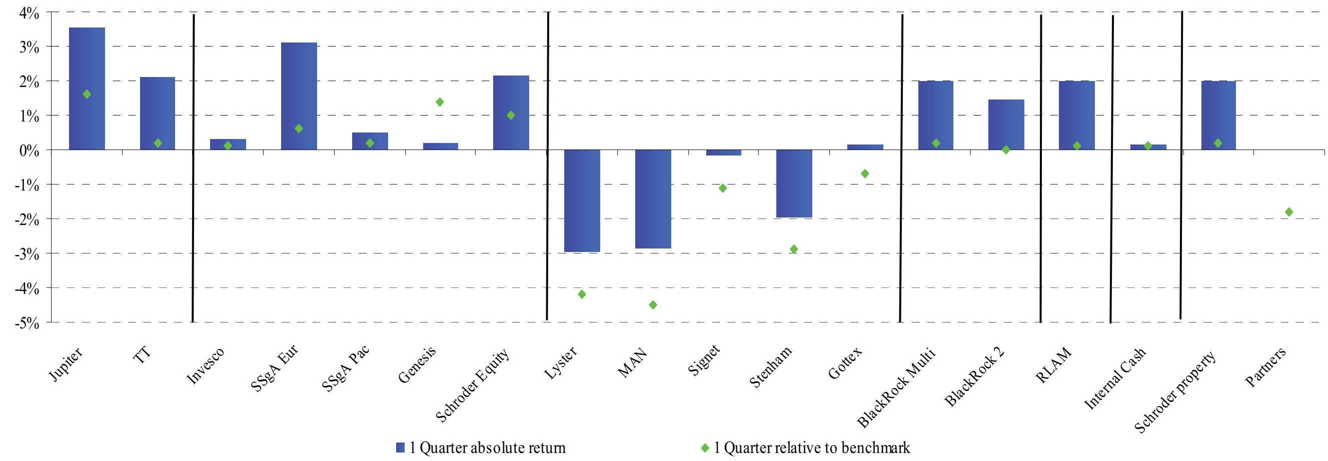
Asset Class	Weight in Strategic Benchmark	Q2 2011 (index returns)	1 year (index returns)
UK Equities	18%	1.9%	25.6%
Overseas Equities	42%	0.2%	21.5%
Index Linked Bonds *	6%	4.0%	8.9%
Gov Bonds – Fixed *	14%	2.5%	3.1%
Corporate Bonds *		1.7%	6.2%
Hedge Funds	10%	-0.4%	12.5%
Property	10%	2.1%	9.1%
Total 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.

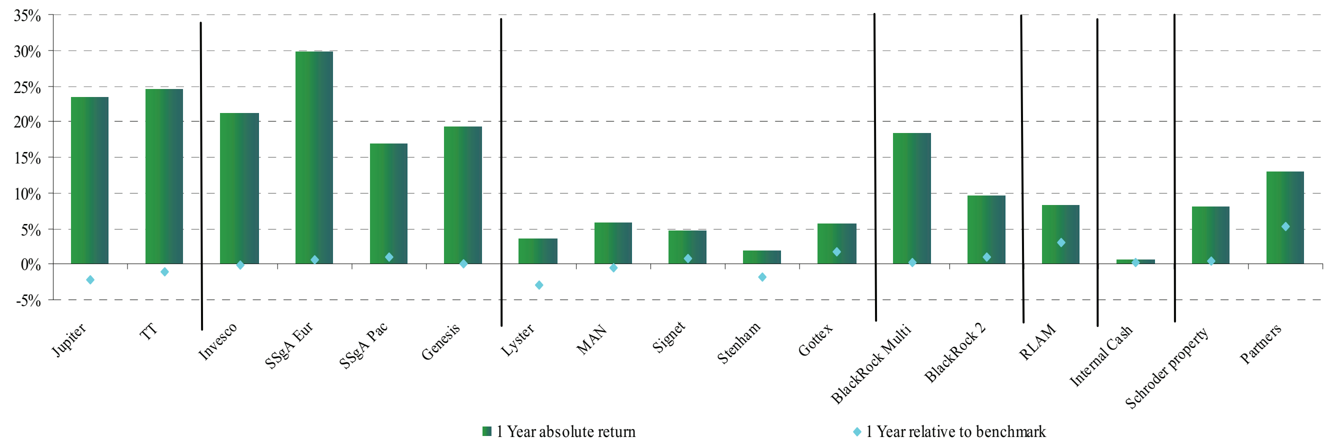
Manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of June 2011. The relative quarter and one year returns are marked with green and blue dots respectively. Please note, the quarterly return for Schroder Equity represents the period from inception, 20 April 2011, to the end of the quarter.
- Please note that due to data timing issues, from this quarter onwards Partner's returns and values will be lagged by a quarter and therefore reflect the previous quarters returns and values. As this is the first quarter we have done this – this quarter will have the same start and end values (plus any cash investments made) and the quarter's return is zero. This also impacts Partner's annual return figure in this report.

Absolute and relative performance - quarter to 30 June 2011



Absolute and relative performance - year to 30 June 2011



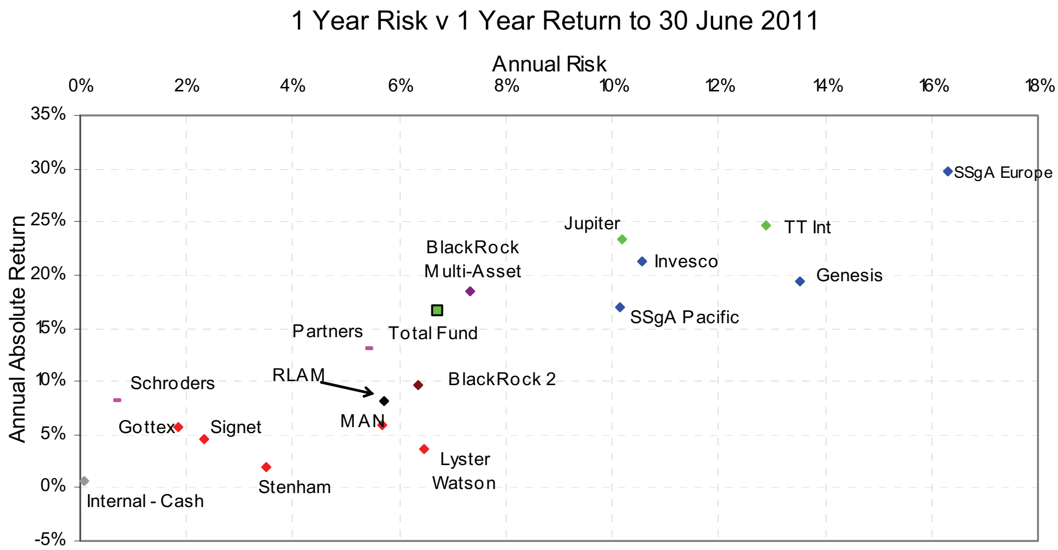
Source: Data provided by WM Performance Services

- The Fund's Investment managers produced mixed returns over the quarter. The Fund's fund of hedge fund managers mostly produced negative absolute returns, the only exception to this was Gottex whose return was positive in absolute terms. The remaining managers for the Fund produced positive absolute returns. Over the quarter, the strongest absolute performance came from Jupiter, producing a return of 3.5%.

- In relative terms, it was again Jupiter who performed the best over the quarter, outperforming their benchmark by 1.6%. The worst relative performance came from MAN who underperformed their benchmark by 4.4%.
- Over the year, all absolute returns were positive. In absolute terms the strongest performance came from SSgA Europe. In relative terms, the top performer was Partners.

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 2011 of each of the funds, along with the total Fund.



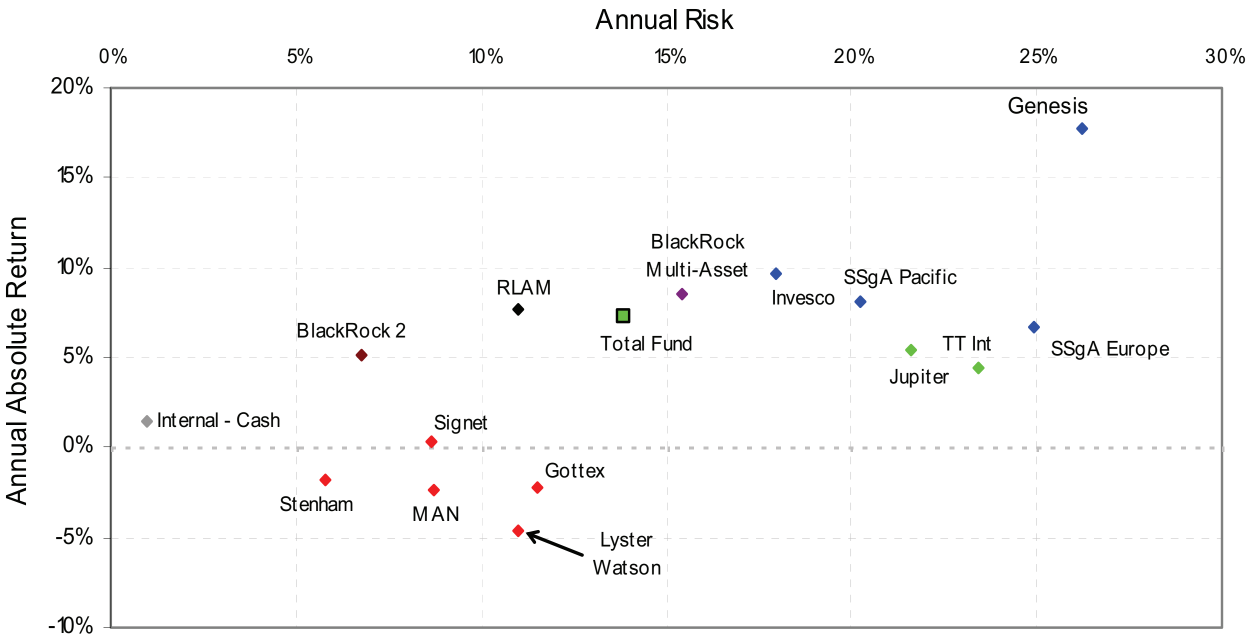
Source: Data provided by WM Performance Services

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

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

- The volatility of returns over the year has broadly decreased from the previous quarter. There were however three funds whose volatility increased, those being RLAM, Lyster Watson and Partners. However, this was not by a significant amount and is within the parameters expected for each mandate.
- The returns from the fund of hedge funds are generally unchanged (around the left of the chart), however the volatility of Lyster Watson has increased over the quarter and has moved to the right on the chart.
- Most notable risk-adjusted returns came from SSgA Europe, TT International and Jupiter over the one year. The comparatively high volatility shown by TT reflects the more concentrated nature of their portfolio. The return from SSgA Europe represents somewhat of a bounce following the difficult circumstances in Europe at the beginning of the period.
- The volatility of all of the various funds is broadly in line with expectations. The total Fund has benefited from diversification by asset classes, as Fund volatility is lower than the equity managers, despite these making up a large proportion of the total assets.

3 Year Risk v 3 Year Return to 30 June 2011



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

- The returns from the fund of hedge funds continue to remain at a lower level (lower down on chart) than most of the other managers, with continued significantly lower volatility (to the extreme left).
- The very strong absolute return from Genesis over the last 3 years has provided a very good risk adjusted absolute return, when compared with its annualised volatility and other portfolios.
- The improvement in the 3 year annual absolute return for Jupiter has continued along with several other equity funds, whilst the risk has remained at a similar level. A difficult quarter for the fund of hedge funds has resulted in a fall in returns whilst risk has remained at a similar level. This has partially offset the improvement in equity returns thus only a moderate improvement in the risk adjusted return of the overall Fund.
- The volatility of all of the various funds is broadly in line with expectations. The total Fund has again, over the longer period, benefited from diversification by asset classes, as Fund volatility is lower than the equity managers, despite these making up a large proportion of the total assets. The total Fund volatility saw a small decrease over the quarter.

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.

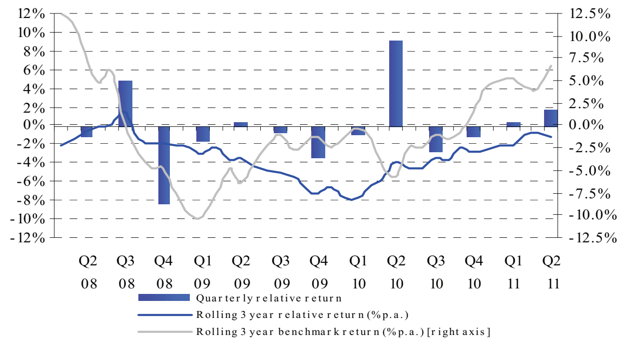
Summary of conclusions

- 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. As noted last quarter, the review of the fund of hedge fund allocation is now complete and changes as a result of this change will be shown in future reports as they are implemented. The implementation of the newly appointment global unconstrained equity manager was completed in Q2 2011. The appointment of an active currency hedging manager was also concluded during Q2 2011, although the mandate had not commenced as at the end of the quarter. New investment with Jupiter should continue to be subject to discussion whilst the review of the Fund's policy to SRI and ESG issues is under review.
- UK Equity Funds:
  - Jupiter outperformed their benchmark over the quarter by 1.6%. The Fund produced strong risk-adjusted returns for the year ended 30 June 2011.
  - TT International outperformed its benchmark over the quarter; over the one year to 30 June 2011, the Fund underperformed its benchmark. The Fund continues to be overweight in Consumer services and Basic Materials, with underweight positions to Financials and Utilities.
- The newly appointed unconstrained global equity manager, Schroder, produced a positive absolute and relative return during the short period from inception to 30 June 2011.
- Non-UK Enhanced Indexation Funds: Both SSgA Enhanced Indexation funds outperformance relative to their respective benchmarks over the quarter. Performance over the one year was also positive in relative terms for both of the SSgA Enhanced Indexation funds. Invesco marginally outperformed its benchmark over the quarter. Over the one year performance was in line with its benchmark. We note however that Invesco's relative performance can be affected by 'timing' differences in the pricing of their Fund compared to their benchmark.
- Emerging Markets: Genesis outperformed their benchmark over the quarter and produced a positive absolute return, despite the benchmark return being negative.
- Fund of Hedge Funds:
  - Lyster Watson produced negative absolute and relative returns of -3.0% and -4.2% respectively. Following completion of the Fund's change to the fund of hedge funds portfolio, Lyster Watson is due to be removed from the portfolio.
  - Man produced a negative relative return of 4.4%, producing an absolute return of -2.9%.
  - Signet produced a negative relative return over the quarter, underperforming their benchmark by 1.1%. In absolute terms, Signet produced a return of -0.2%.
  - Stenham Asset Management produced a negative relative return for the quarter, 2.9% behind their benchmark, with an absolute return of -2.0%.

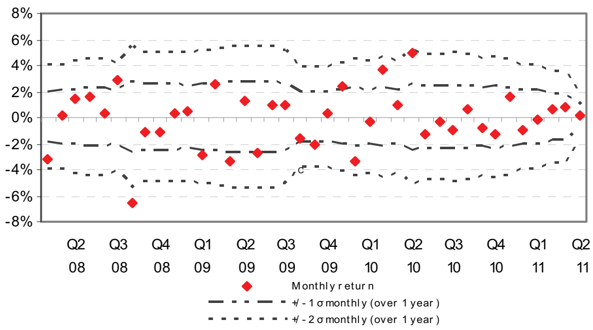
  - Gottex underperformed their benchmark over the quarter by 0.8%, producing an absolute return of 0.2%. Gottex were the only fund of hedge fund manager to produce a positive absolute return over Q2 2011.
  - Hedge funds continued to underperform equities for the fourth consecutive calendar quarter, which is to be expected following the market rally after negative equity in returns during Q2 2010.
  - Of the five fund of hedge fund managers Gottex and Signet were ahead of their benchmarks over the year to 30 June 2011.
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive portfolios.
- Fixed Interest: RLAM outperformed the benchmark in the last quarter by 0.1%. In absolute terms, RLAM produced a return of 2.0%. There are no notable changes in the risk profile of this fund.
- Property: Performance of the Schroder property fund over the quarter was positive in both absolute and relative terms. See note on page 18 for explanation of a change in performance reporting of the Partners fund. Once a 3 year track record is available for a meaningful proportion of the Fund's commitment with Schroder and Partners, a fuller quantitative assessment will be available. For the time being, a qualitative assessment is included for each of these two managers, as such details are not provided in the charts following.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

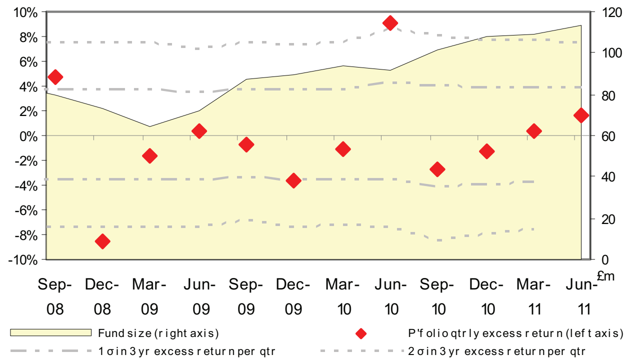
Relative returns #1



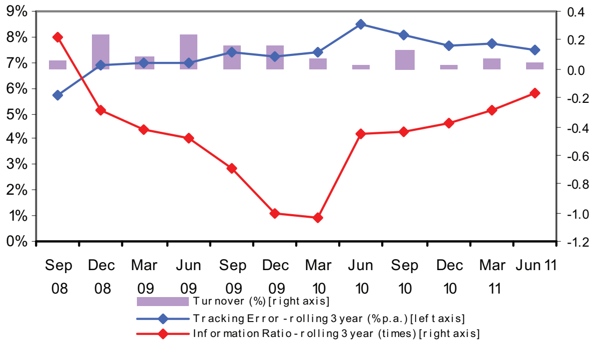
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



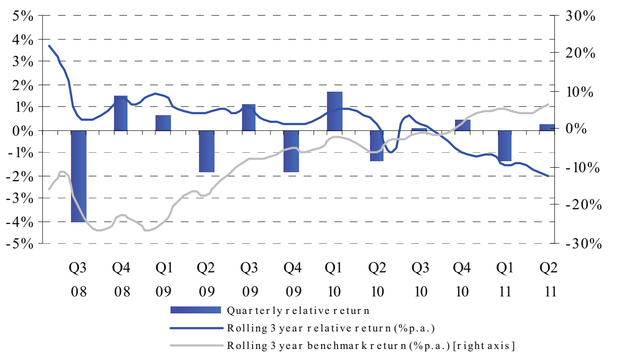
Source: Data provided by WM Performance Services, and Jupiter

Comments:

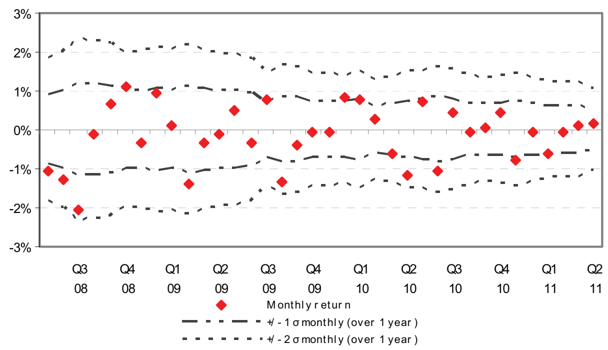
- Over the last quarter, the Fund outperformed the benchmark by 1.6%, producing an absolute return of 3.5%.
- Over the last year, the Fund underperformed the benchmark by 2.2%, producing an absolute return of 23.4%. Over the last 3 years, the Fund underperformed the benchmark by 1.2% p.a., producing an absolute return of 5.4% p.a.
- The Fund's allocation to Cash (5.2%) marginally reduced compared to the preceding quarter (5.5%).
- The industry allocation has remained 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 2011, Jupiter were significantly underweight Basic Materials, Oil and Gas, Consumer Services and Financials, with significantly overweight positions in Industrials, Consumer Goods and Utilities.

TT International – UK Equities (Unconstrained)

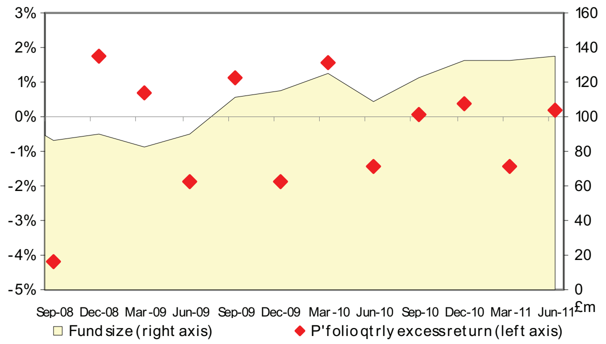
Relative returns #1



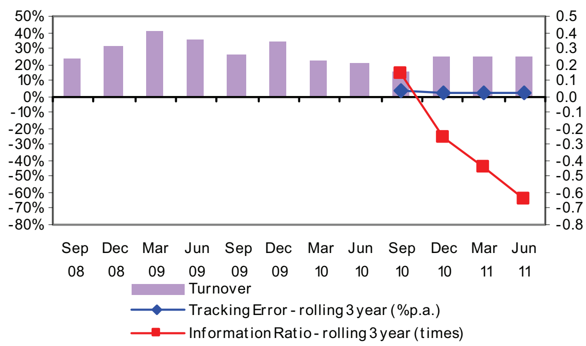
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



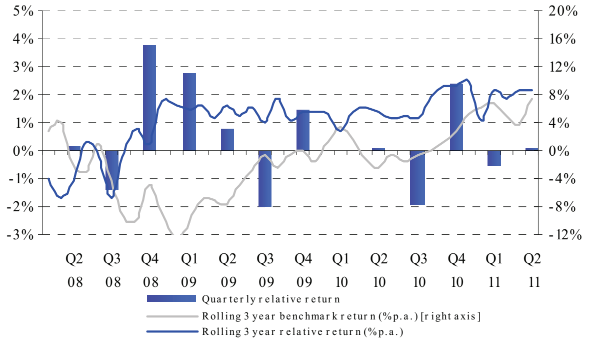
Source: Data provided by WM Performance Services, and TT International

Comments:

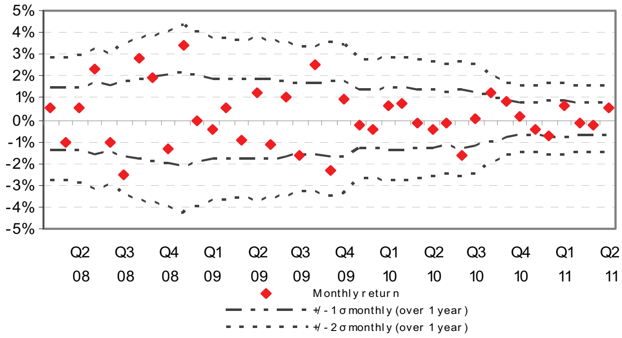
- Over the last quarter the Fund outperformed the benchmark by 0.2%, producing an absolute return of 2.1%.
- Over the last year, the Fund underperformed the benchmark by 1.0%, producing an absolute return of 24.6%. Over the last three years, the Fund underperformed the benchmark by 2.1% p.a., producing an absolute return of 4.5% p.a.
- The Fund continues to maintain its overweight position in Consumer Services and Basic Materials by 4.9% and 4.2% respectively, and is underweight to Financials and Utilities by 8.5% and 3.8% respectively, which also represents a continued increase in underweight position compared to the preceding quarter.
- The volatility of monthly relative returns has not changed significantly over the most recent quarter. Turnover of 24.2% has remained in line compared to the previous quarter turnover of 25.1%.
- The 3 year tracking error (proxy for risk) has remained broadly consistent over the quarter. The 3 year information ratio (risk adjusted return), fell slightly from -0.4% to -0.6%.
- 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 whilst TT International is more unconstrained in approach, their sector positions are better able to reflect those of the benchmark than Jupiter's (which are, in part, a function 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 review of SRI and Corporate Governance planned for later in 2011.

Invesco – Global ex-UK Equities (Enhanced Indexation)

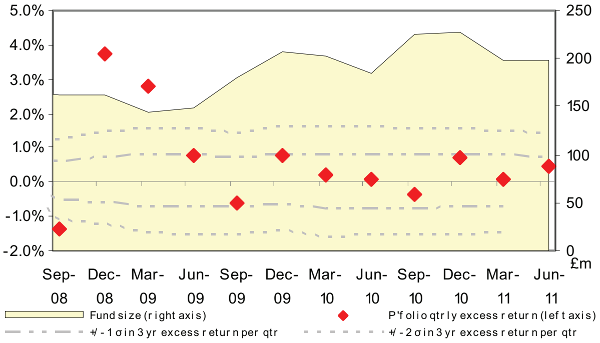
Relative returns #1



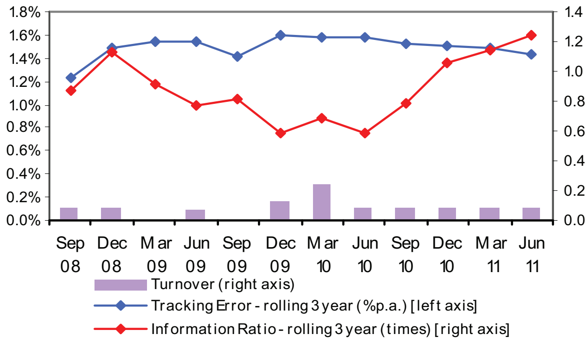
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



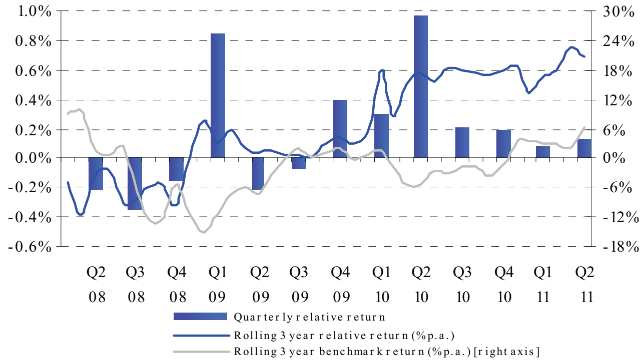
Source: Data provided by WM Performance Services, and Invesco

Comments:

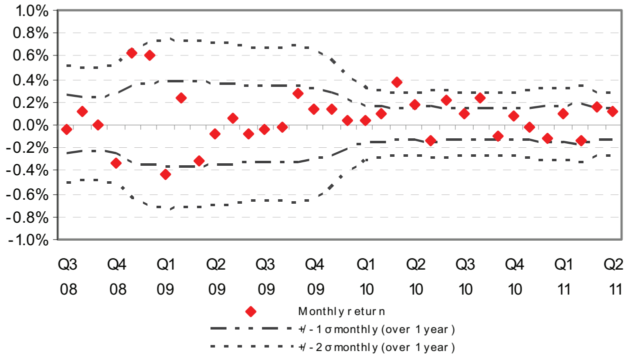
- Over the last quarter the Fund outperformed its benchmark by 0.1%, producing an absolute return of 0.3%.
- Over the last year, the Fund performed in line with its benchmark, producing an absolute return of 21.3%. Over three years, the Fund outperformed, by 2.1% p.a., producing an absolute return of 9.6% p.a.
- Over the last quarter, stock selection, industry selection and style selection were all positive contributors. Country selection and active currency selection negatively affected contribution to excess returns. The timing of the pricing of the Fund versus the benchmark also remains a factor in respect of short term relative performance.
- The volatility of monthly relative returns has reduced gradually over time.
- The turnover of 9.0% remained constant as compared to the previous quarter, and remained low, as expected for this mandate. The number of stocks marginally reduced over the quarter from 417 to 412.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were within +/- 1% of benchmark weightings as expected from this mandate.

SSgA – Europe ex-UK Equities (Enhanced Indexation)

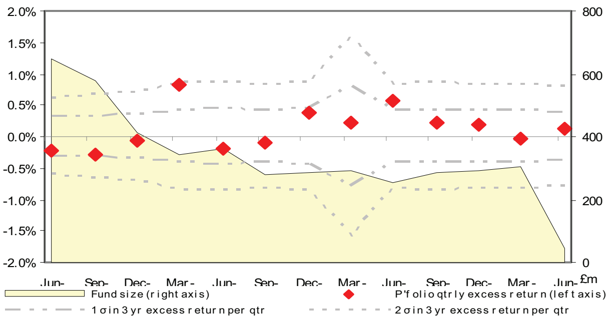
Relative returns #1



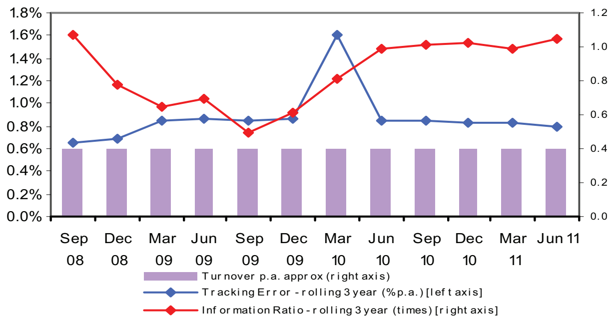
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



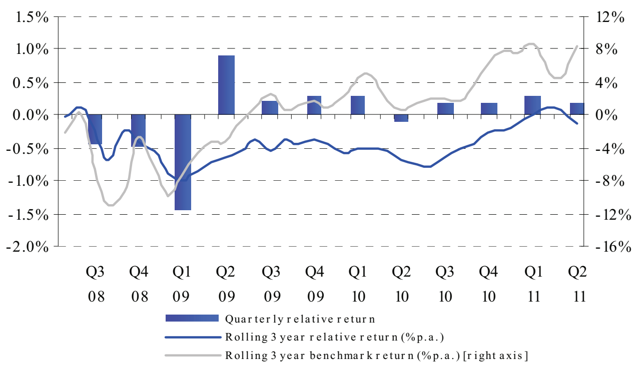
Source: Data provided by WM Performance Services, and SSgA

Comments:

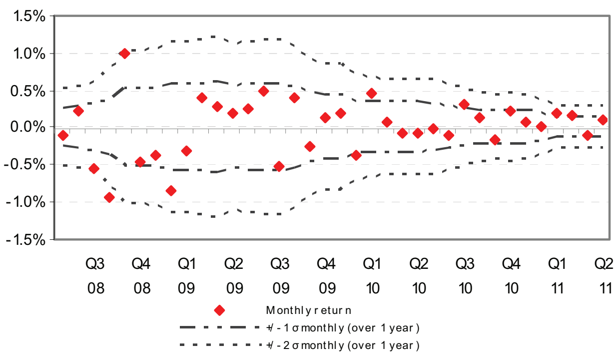
- Over the last quarter the Fund outperformed the benchmark by 0.6%, producing an absolute return of 3.1%.
- Over the last year, the Fund outperformed the benchmark by 0.6%, producing an absolute return of 29.7%. Over the last 3 years, the Fund outperformed the benchmark by 0.6% p.a., producing an absolute return of 6.7% p.a.
- The pooled fund fell in size from £306.12million as at 31 March 2011, to £46.85million as at 30 June 2011. This was due to one of SSgA's largest investors in this fund withdrawing their assets as part of a strategic review.
- The volatility of monthly relative returns has remained in the narrower band experienced since Q1 2010. As an enhanced indexation fund the magnitude of the volatility is expected to be very low.
- Turnover has continued to remain consistent over the last 3 years while the number of stocks decreased over the quarter. The tracking error has slightly increased over the last quarter.
- This has typically been seen as a suitable fund for contributions or investment if rebalancing is required into active overseas equities. However, performance should be monitored closely in light of the recent large drop in the size of the pooled fund. There is no reason to suggest this in itself will lead to a deterioration in performance, and Avon's share of the pooled fund is now similar to that for the Pacific enhanced indexation fund.

SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

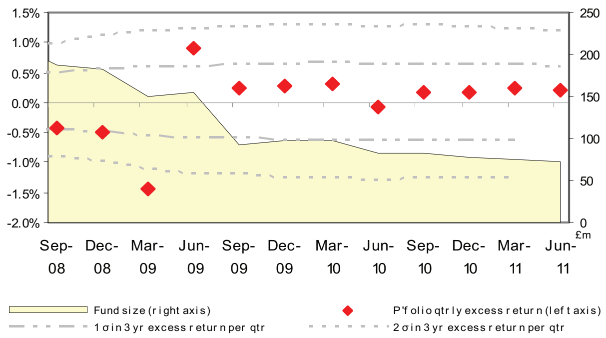
Relative returns #1



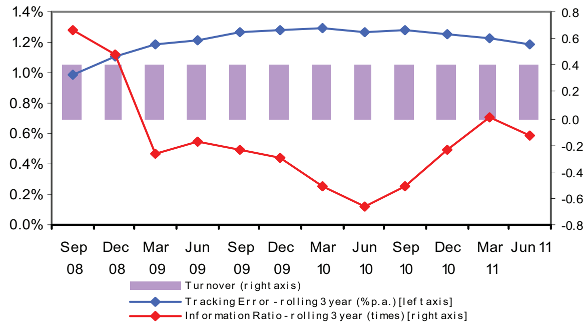
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



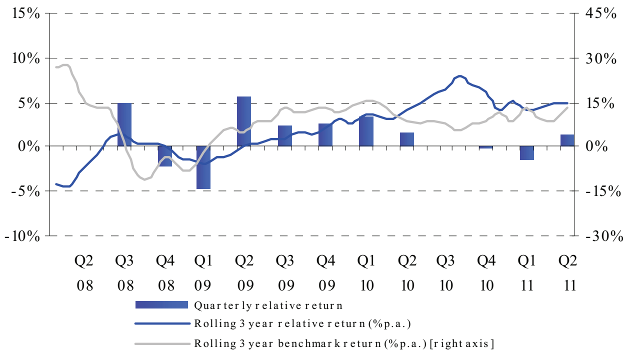
Source: Data provided by WM Performance Services, and SSgA

Comments:

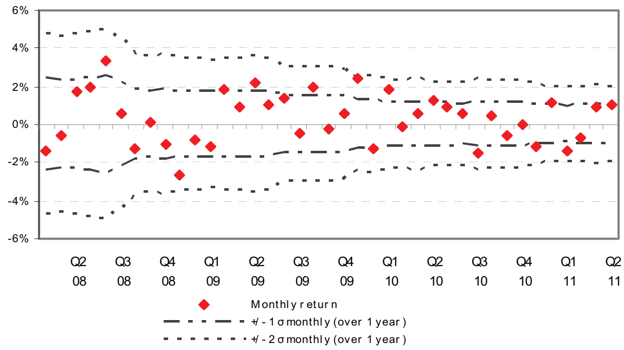
- Over the last quarter, the Fund outperformed the benchmark by 0.2%, producing an absolute return of 0.5%.
- Over the last year, the Fund outperformed the benchmark by 1.0%, producing an absolute return of 16.9%. Over the last 3 years, the Fund underperformed the benchmark by 0.1% p.a., producing an absolute return of 8.2% p.a.
- Turnover has remained consistent over the last three years, which is what is expected of this style of investment management.
- 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

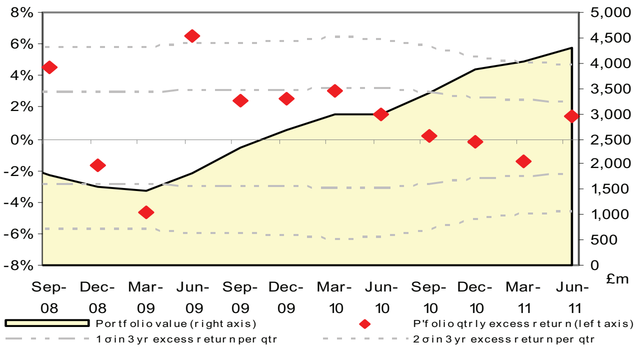
Relative returns [#1]



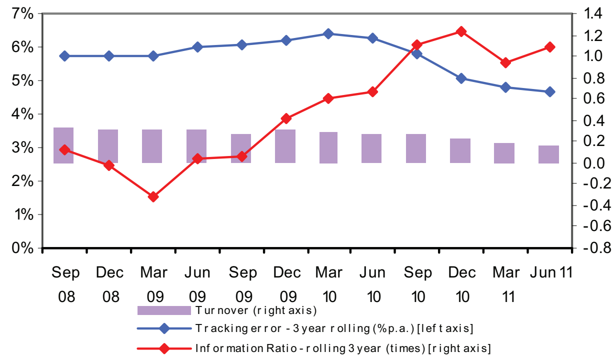
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



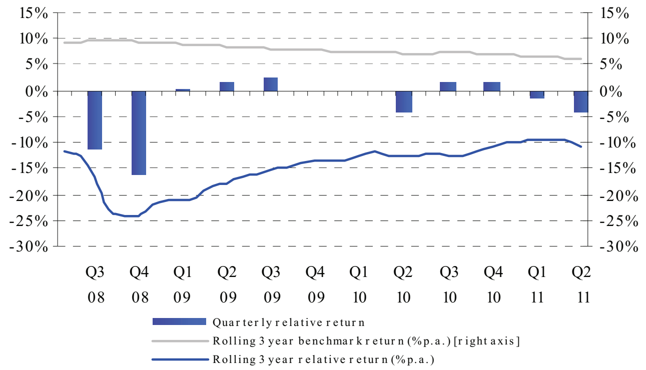
Source: Data provided by WM Performance Services, and Genesis

Comments:

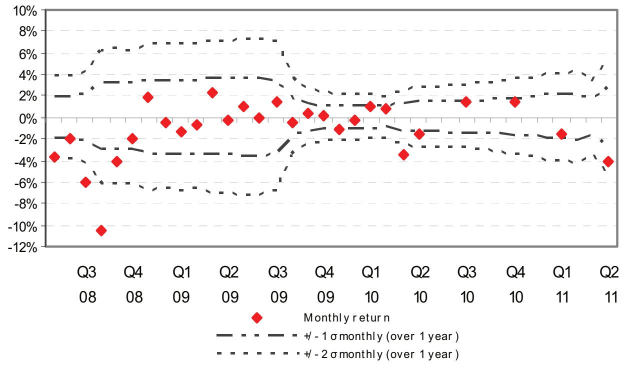
- Over the last quarter the Fund outperformed the benchmark by 1.4%, producing an absolute return of 0.2%.
- Over the last year, the Fund performed in line with the benchmark, producing an absolute return of 19.4%. Over the last 3 years, the Fund outperformed the benchmark by 4.8% p.a., producing an absolute return of 17.8% p.a.
- The Fund remains overweight to South Africa and India, and underweight China and South Korea. The underweight position in China is maintained, although this is partly due to the restrictions on non-local investors. Please note that the over and underweight's are a result of Genesis' stock picking approach, rather than taking a view on countries.
- The 3 year tracking error (proxy for risk) remained broadly consistent over the latest quarter. The 3 year information ratio (risk adjusted return), rose slightly from 0.9% to 1.1%.
- On an industry basis, the Fund is now overweight to Health Care (+8.0%), Consumer Staples (+2.5%) and Telecom Services (+2.5%). The Fund is underweight to Energy (-5.6%), Consumer Discretionary (-4.5%) and Industrials (-2.2%).

Lyster Watson Management Inc – Fund of Hedge Funds

Relative returns #1

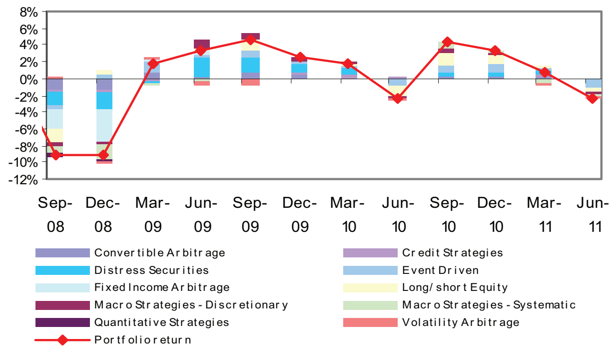


Monthly / Quarterly relative returns #2

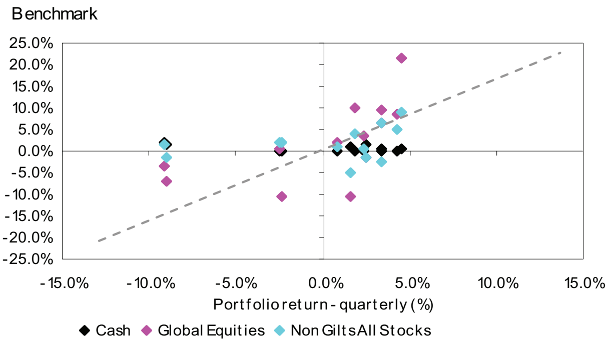


Note that returns after Q2 2010 above are quarterly returns.

Hedge fund strategies and source of return #6



Correlation with indices #7

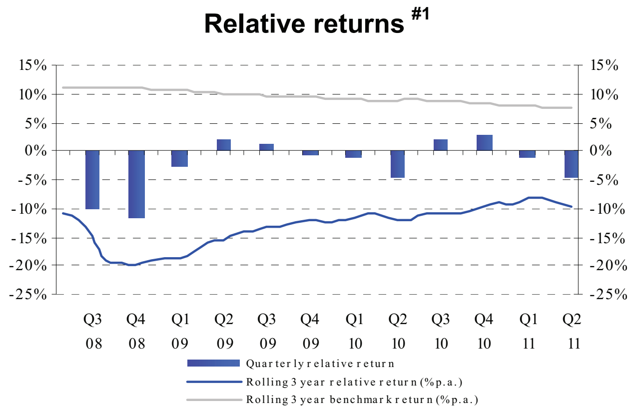


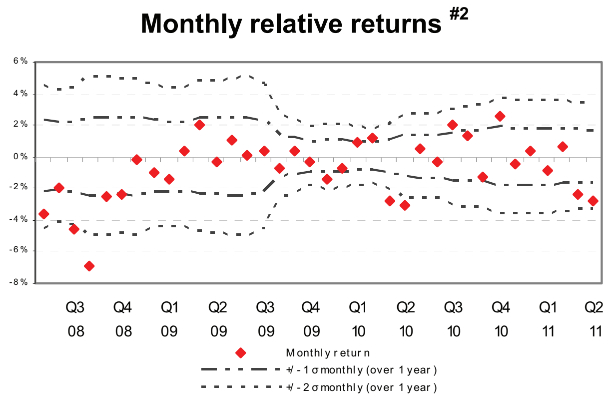
Source: Data provided by WM Performance Services, and Lyster Watson

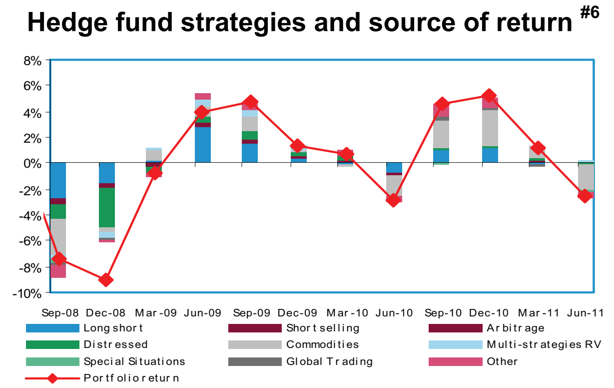
Comments:

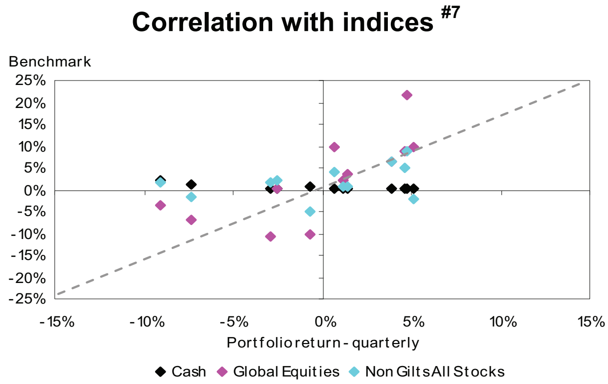
- Over the last quarter, the Fund underperformed the benchmark by 4.2%, producing an absolute return of -3.0%.
- Over the last year, the Fund underperformed the benchmark by 2.9%, producing an absolute return of 3.6%. Over the three year period, the Fund underperformed the benchmark by 10.9% p.a., producing an absolute return of -4.6% p.a.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds.
- The allocation to Lyster Watson is to be removed from the portfolio in due course.

MAN – Fund of Hedge Funds









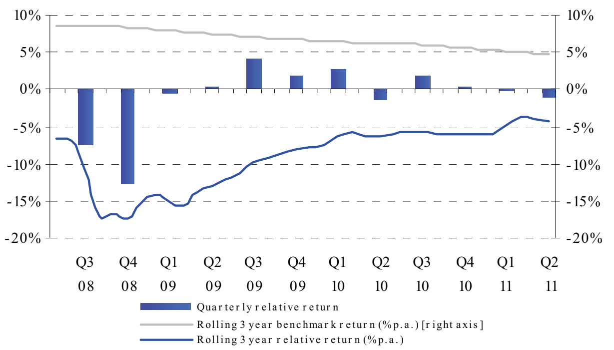
Source: Data provided by WM Performance Services, and MAN

Comments:

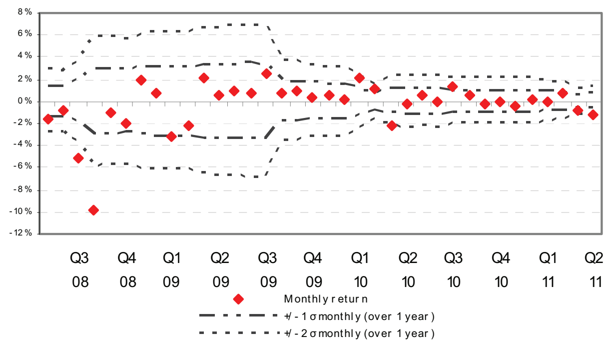
- Over the last quarter, the Fund underperformed the benchmark by 4.4%, producing an absolute return of -2.9%.
- Over the last year, the Fund underperformed the benchmark by 0.7%, producing an absolute return of 5.9%. Over the last 3 years, the Fund underperformed the benchmark by 9.8% p.a., producing an absolute return of -2.4% p.a.
- The key drivers of the negative performance were the high allocations to Commodities and Long / Short strategies, which produced negative returns, except for the Long / Short Asia Pacific and US strategies, which produced, positive returns.
- The Fund continues to hold a diverse exposure to hedge fund strategies, with the largest allocations to Long / Short and Commodities strategies, making up 66.6% of the fund.
- 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.
- As part of the recent review of Fund of Hedge Funds, it was decided that the allocation to Man will be reduced. Updates will be provided in future reports.

Signet – Fund of Hedge Funds

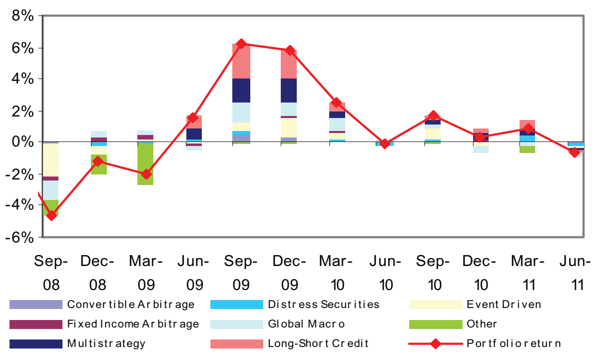
Relative returns #1



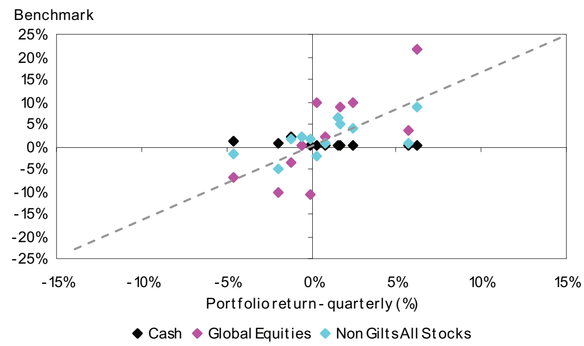
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



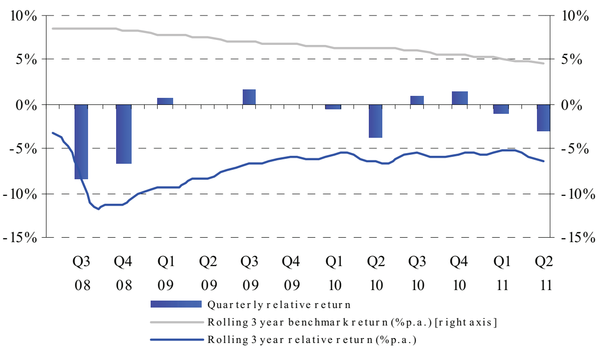
Source: Data provided by WM Performance Services, and Signet

Comments:

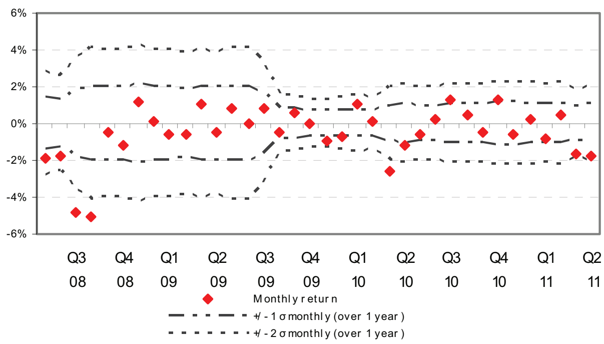
- Over the last quarter, the Fund underperformed the benchmark by 1.1%, producing an absolute return of -0.2%.
- Over the last year, the Fund outperformed the benchmark by 0.9%, producing an absolute return of 4.6%. Over the 3 year period, the Fund underperformed the benchmark by 4.3% p.a., producing an absolute return of 0.4% 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.
- The reduction in the volatility of monthly returns since the middle of 2009 is marked, and a trend identifiable in all of the Fund of Hedge Fund managers' monthly returns.

Stenham – Fund of Hedge Funds

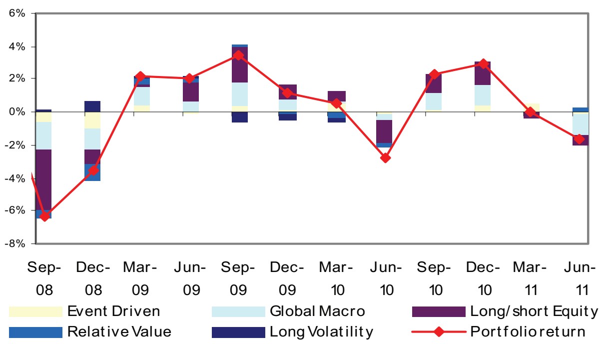
Relative returns [#1]



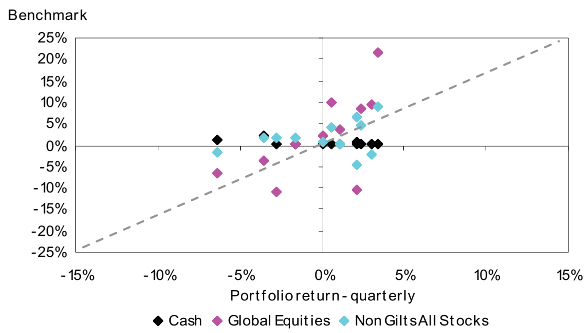
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



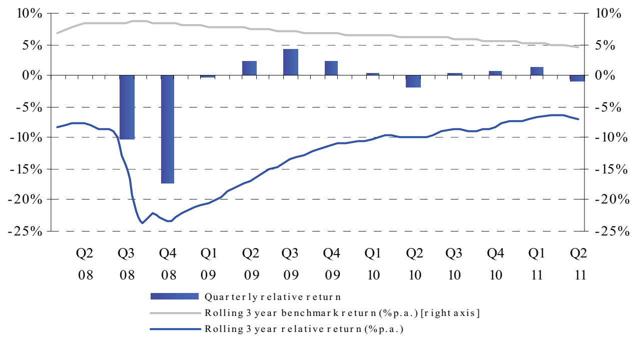
Source: Data provided by WM Performance Services, and Stenham

Comments:

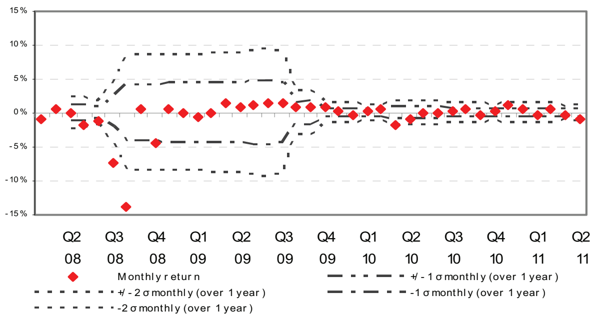
- Over the last quarter, the Fund underperformed the benchmark by 2.9%, producing an absolute return of -2.0%.
- Over the last year, the Fund underperformed the benchmark by 1.9%, producing an absolute return of 1.9%. Over the last 3 years, the Fund underperformed the benchmark by 6.4% p.a., producing an absolute return of -1.8% p.a.
- Long/Short Equity, Global Macro and Event Driven strategies were the main contributors to the negative absolute return. Relative value strategies contributed positively.
- The allocation to the Global Macro and Long / Short Equity strategies made up 69.0% of the total Fund allocation. The allocation to Event Driven strategies marginally rose from 17.0% to 18.0% 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

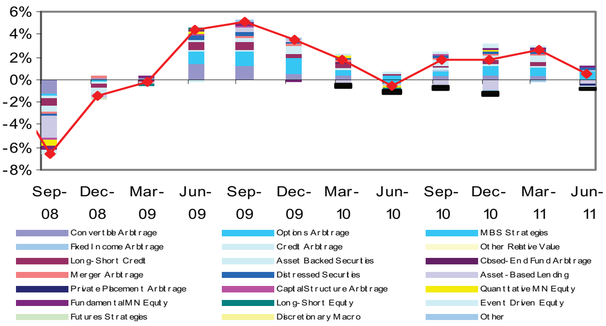
Relative returns [#1]



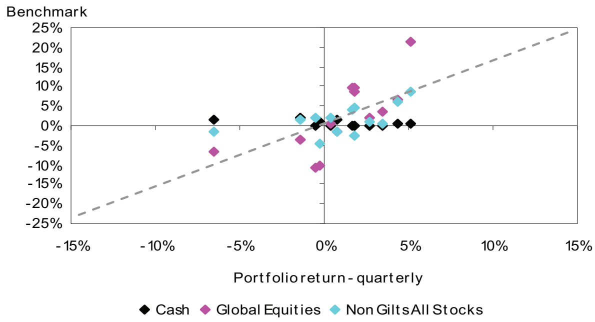
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



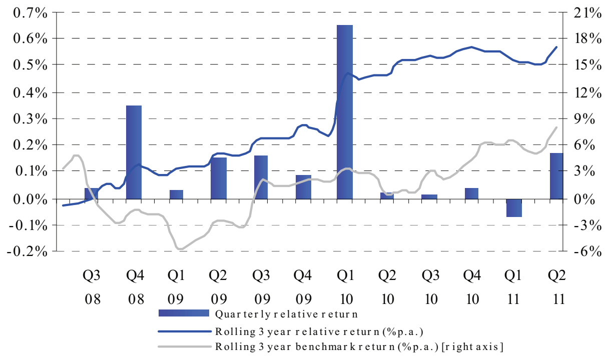
Source: Data provided by WM Performance Services, and Gottex

Comments:

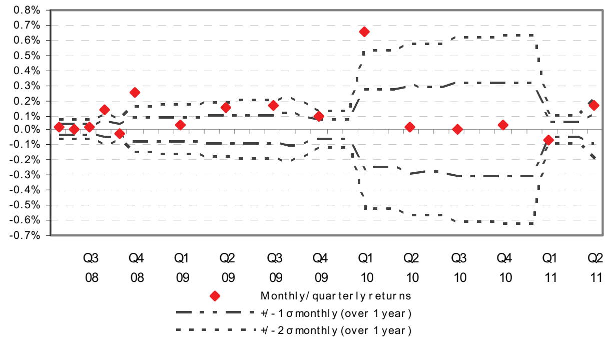
- Over the last quarter, the Fund underperformed the benchmark by 0.8%, producing an absolute return of 0.2%.
- Over the last year, the Fund outperformed the benchmark by 1.8%, producing an absolute return of 5.6%. Over the last 3 years, the Fund underperformed the benchmark by 6.8% p.a., producing an absolute return of -2.2% p.a.
- The key drivers of performance were MBS strategies, Fundamental Market Neutral Equity and Fixed Income Arbitrage. Performance for the quarter was negatively impacted by Asset-Backed lending and Event Driven Equity.
- The Fund has a diverse range of strategy exposures, with the major exposures to ABS, MBS, Fundamental MN Equity, Long-Short Credit and Convertible Arbitrage Strategies. There were no significant changes to the strategy asset allocations in the fund, however, the allocations to Asset-Backed Securities decreased marginally, after a prolonged period of gradual increase.
- 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]

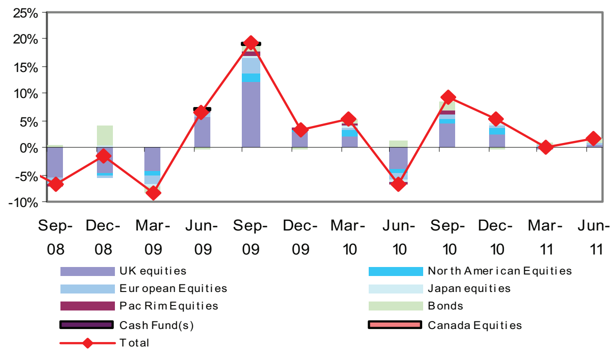


Monthly/Quarterly relative returns [#2]

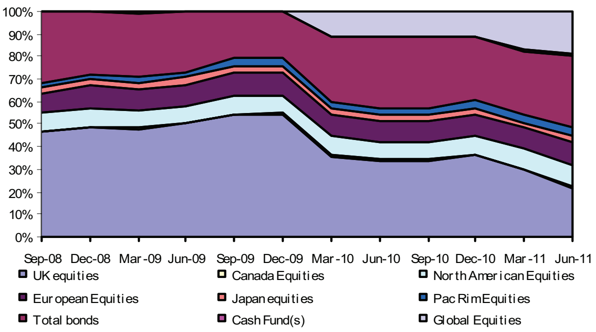


Note that returns after Q4 2008 above are quarterly returns.

Contribution to absolute return [#6]



Asset Allocation [#5]



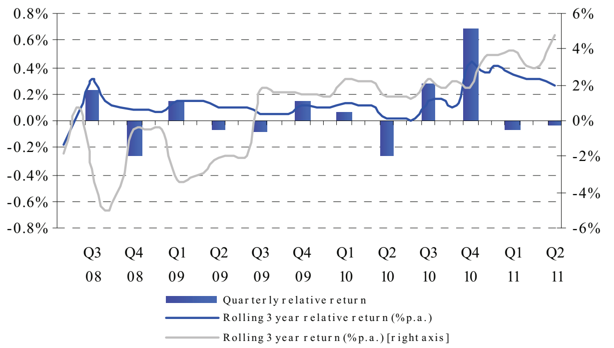
Source: Data provided by WM Performance Services, and BlackRock

Comments:

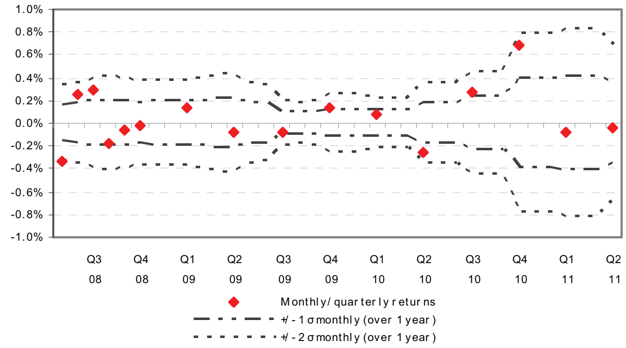
- Over the last quarter, the Fund has outperformed its benchmark by 0.2%, producing an absolute return of 2.0%.
- Over the last year, the Fund outperformed its benchmark by 0.2%, producing an absolute return of 18.4%. Over the last 3 years, the Fund outperformed the benchmark by 0.6% p.a., producing an absolute return of 8.5% 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 magnitude of the relative volatility in the portfolio remains small.
- Allocations to UK equities reduced by 8.3%, the allocation to Global Equities has increased by 4.5% and to Bonds by 3.6 compared to Q1 2011. These changes are in line with the changes made to the total Fund strategic asset allocation.

BlackRock No.2 – Property account ("ring fenced" assets)

Relative returns #1



Monthly relative returns #2



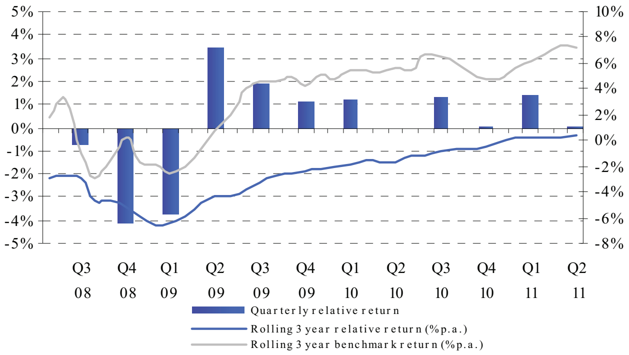
Note that returns after Q4 2008 above are quarterly returns.

Source: Data provided by WM Performance Services, and BlackRock

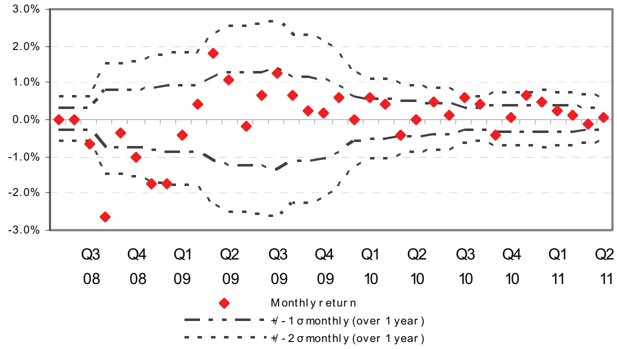
Comments:

- Over the last quarter, the Fund marginally underperformed the benchmark by <0.1%, producing an absolute return of 1.5%.
- Over the last year, the Fund produced a return of 9.7%, outperforming the benchmark by 1.1%. Over a rolling 3 year period, the Fund produced an absolute return of 5.1% p.a., outperforming the benchmark return by 0.3% p.a.
- Over the quarter the Fund's holding in cash decreased by approximately 4%.
- Over the quarter, all asset classes except for US equities contributed positively to the performance. However, the negative contribution from US equities was not significant.

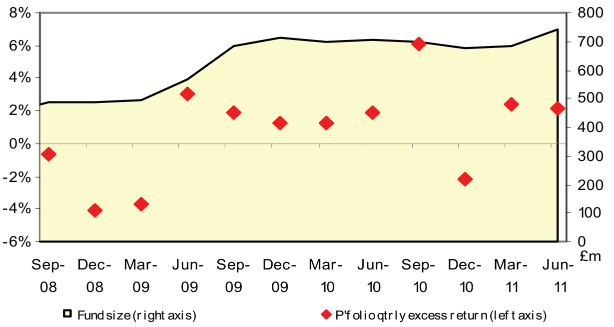
Relative returns [#1]



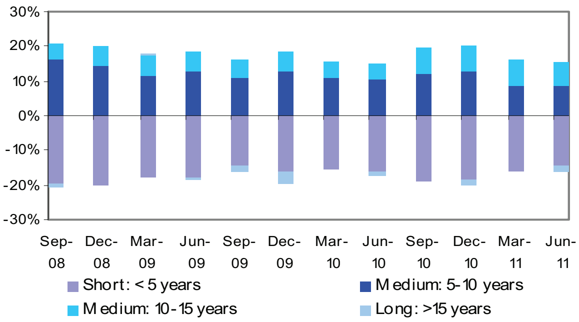
Monthly relative returns [#2]



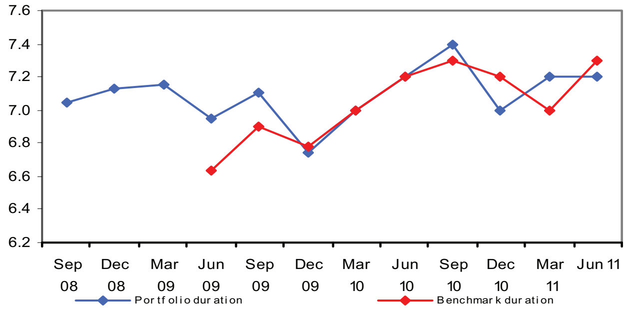
Performance v fund size [#3]



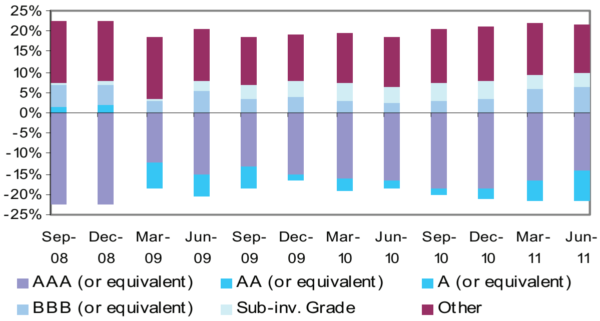
Relative Maturity exposure [#8]



Duration [#10]



Relative Ratings exposure [#9]



Source: Data provided by WM Performance Services, and RLAM

Comments:

- Over the last quarter, the Fund outperformed the benchmark by 0.1%, producing an absolute return of 2.0%.
- Over the last year, the Fund outperformed the benchmark by 3.0%, producing an absolute return of 8.2%. Over a rolling 3 year period, the Fund outperformed the benchmark by 0.4% p.a., producing an absolute return of 7.7% p.a.
- The Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity and long dated bonds.

Schroder – UK Property

- The mandate awarded to Schroder 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.
- Once a 3 year track record is available for a meaningful proportion of the Fund's commitment, a fuller quantitative assessment of Schroder will be available. However, we provide here a qualitative update and assessment of the manager.

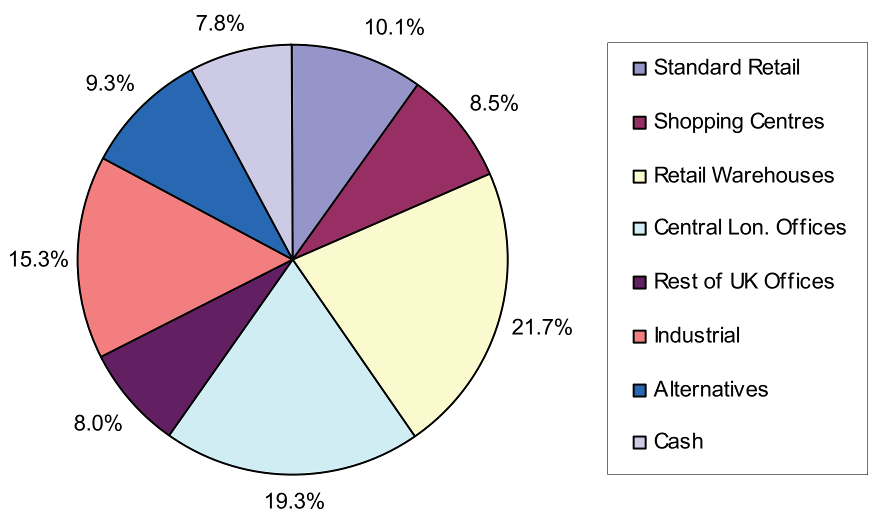
Portfolio update

A further £910,000 was drawn by Schroder over the quarter to 30 June 2011. This takes the aggregate figure drawn to date up to £108.9million, or 99% of the Fund's total commitment.

To date, the drawn down monies have been invested across 16 different underlying funds. Of these funds, 6 are "core" investments (comprising 61% of the total portfolio) and 10 are "value add" investments (the remaining 39% of the portfolio).

The investments in the funds noted above have resulted in a UK property portfolio that, as at 30 June 2011, 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 (by 4.8%) and non-London offices (by 5.6%) and overweight in the other sectors. The most significant overweights are to central London offices (by 5.4%) and shopping centres (by 2.4%).

Schroder have an overweight position to Central London offices, and office rentals in this area rose by 5% in the first half of 2011 due to strong demand from international IT, legal and media companies.

Shopping centre rental values fell by 1-3% in the first half of 2011, which has been driven by a new wave of retailer insolvencies and store closures. Schroder state that this turmoil reflects the current squeeze on household incomes from tax increases and rising energy prices. There are other structural changes which Schroder believe to be at work, such as the growth of on-line sales which has added pressure to existing retailers. Additionally, poor sales mean that some retailers may be struggling to service their debts. Schroder maintain an underweight position to this part of the market.

The remaining equity is committed to existing investments (i.e. Columbus UK Real Estate Fund, Threadneedle Strategic Property Fund IV and the Real Income Fund). Once the investment is complete, Schroder may undertake some re-balancing to achieve their favoured sector weightings.

Performance over Q2 2011

- Schroder produced a return of 1.9% net of fees over the three months to 30 June 2011, versus the benchmark return of 1.8%. The key drivers of the relative return over the period were:
- The main contributors to the performance this quarter came form the "value add" funds which generated above benchmark returns over the quarter. These included the West End of London Property Unit Trust.
- The core funds remain widely dispersed and this quarter funds with low cash levels outperformed, (Hermes Property Unit Trust) and those with high levels of cash diluted returns (Aviva Investors Pensions Property Fund and L&G Managed Property Fund). Overall, the core funds underperformed the benchmark this quarter.
- Over the 12 months, performance is ahead of the benchmark, 7.9% (net of fees) versus 7.7%. Value added funds have outperformed the portfolio’s benchmark over twelve months and have contributed 1.1% to relative returns. Core funds including the Hermes Property Unit Truste and Aviva Investors Pensions Property Fund have detracted from returns. Schroder have incurred transaction costs entering both these funds in the last year.
- Schroder estimates that transaction costs impacted performance by 0.6% over the year ended 30 June 2011. Now that the investment programme is virtually complete, Schroder expects the portfolio's relative returns to improve.

Conclusion

The Schroder property portfolio is almost fully invested, this having occurred in the expected time since they were appointed. The portfolio is well diversified by manager and sector while still showing active sector allocation according to the views of the Schroder Property Multi-Manager team. Transaction costs have a large impact in the shorter term and Schroder have shown that they take these into consideration in determining if and when to make an investment.

We have no concerns with Schroder.

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 £54 million of the Fund's intended commitment of approximately £135 million. A total of £2.45 million was drawn down over the quarter. The draw downs commenced in September 2009.

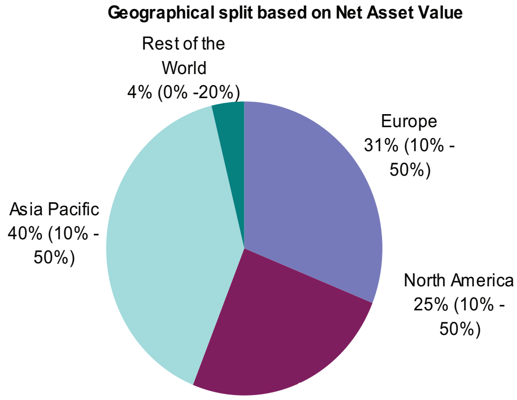
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

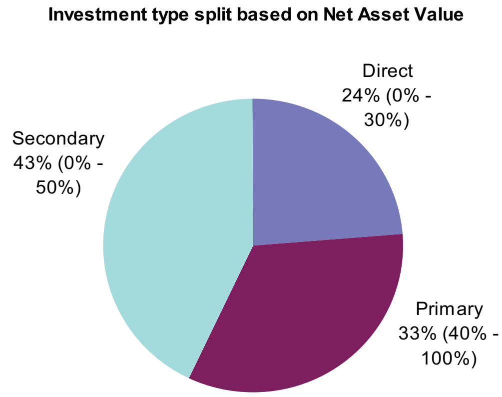
The funds invested to date have been split by Partners between funds as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 30 June 2011 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	9.00	9.99
Direct Real Estate 2011	2.36	2.38
Distressed US Real Estate 2009	9.53	9.93
Global Real Estate 2008	23.56	25.83
Global Real Estate 2011	3.63	3.54
Real Estate Secondary 2009	5.78	7.01
Total (£)	**53.86**	**58.68**

Source: Partners. Please note, whilst the valuation on page 14 is as at 31 March 2011 (adjusted for cash flows), the above is Partners' valuation as at 30 June 2011.

The investments in the funds noted above have resulted in a portfolio that was, as at 30 June 2011, 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. Changes to the geographical allocation to the portfolio over the quarter include a reduction to Europe from 35% to 31%, North America from 26% to 25%. The exposure to the Asia Pacific region has increased from 35% to 40%. There have been no changes to the exposure to the rest of the world.

In terms of the portfolio allocation by investment type, the exposure to direct investments has reduced from the position last quarter from 26% to 24%. The exposure to primary investments has remained the same, and the exposure to secondary investments has increased from 41% to 43%. These percentage changes reflect the ongoing investment programme and vary as Partners continue to invest in the underlying funds.

The exposure to Primary is currently below the guidelines, but 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.

Performance over Q2 2011

Please note that due to data timing issues, from this quarter onwards Partners' returns and values will be lagged by a quarter, except those shown on this and the previous page, and therefore reflect the previous quarter's returns and values. As this is the first quarter we have done this – this quarter will have the same start and end values (plus any cash investments made) and the quarter's return is zero. This will also impact the annual return figures in this report. Next quarter's performance report will report Partners' performance for the second quarter 2011.

Distributions since inception total £4.0m, with no new distributions over the most recent quarter.

Conclusion

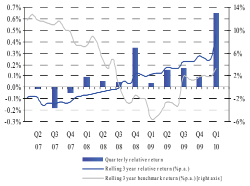
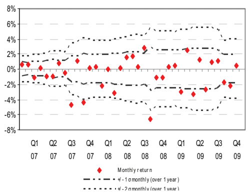
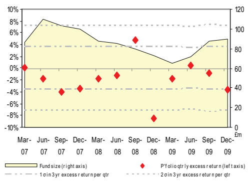
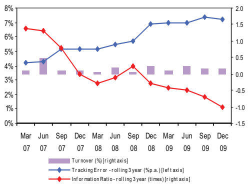
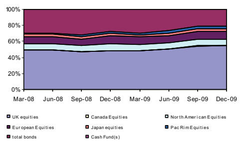
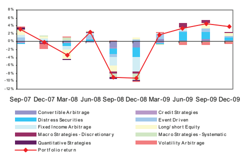
Over the quarter Partners increased the amount drawn down by £2.45 million. A new fund was added to the portfolio over the quarter, Global Real Estate 2011. There have been some changes to the asset allocations, namely an increase in secondary investments in favour of direct and primary assets. Changes to the geographical split include a reduction to Europe and North America in favour of an increase towards Asia Pacific.

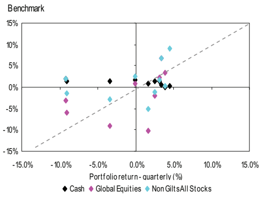
Over the quarter only modest changes to asset allocation have been made and Partners are continuing to invest according to the views most recently expressed, that led to changes in the investment guidelines in October 2010.

We have no concerns with Partners.

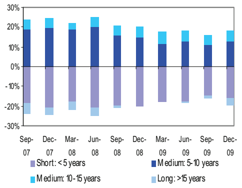
Appendix A – Glossary of Charts

The following provides a description of the charts used in Section 5 and a brief description of their interpretation.

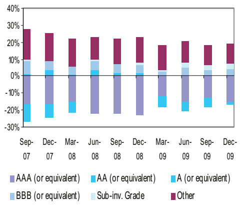
Reference	*Description*
#1 	This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark 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 

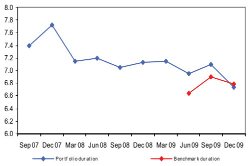
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance. 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%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+3.5-4.5%
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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Appendix 3

Euro and European Financials exposure

Estimated exposure to Euro Denominated assets at 30 June 2011

	£m	% of asset class
Overseas Bond portfolios	22	3.8%
Equity portfolios	185	11.0%
Global Property Funds	36	61.3%
Total Euro denominated exposure	243	10.5%

The Overseas Bond Portfolio has no exposure to Sovereign bonds issued by Greece, Ireland and Portugal. It has an estimated £2.5m invested in Spanish Government Bonds and £5.5m in Italian Government Bonds.

Estimated exposure to European Banks and Insurance Companies at 30 June 2011

	£m	% of asset class
Equities		
UK Banks	42	
European Banks	37	
UK Insurers	18	
European Insurers	18	
Total	**115**	**6.8%**
Corporate Bonds		
Financial companies	33	
Total	**33**	**24.5%**

Note: this excludes hedge funds; European banks includes Eurozone, Swiss, Swedish, Danish and Norwegian banks

Stock Price performance since 30 June 2011 (Sterling returns)

	Approx % of index at 30/6/11	Price change 30/6/11 to 30/8/11
HSBC	6.1%	-13.3%
Barclays	2.4%	-33.6%
Lloyds	1.1%	-31.4%
Royal Bank Scotland	1.0%	-36.8%
Banking Sector	14.5%	-19.0%
Life Insurance Sector	3.0%	-13.5%
FTSE All Share		-9.6%
European Bank Sector	13.9%	-30.0%
European Insurance Sector	6.4%	-24.4%
FTSE AW Europe		-14.5%

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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-11-011

Meeting / Decision: Avon Pension Fund Committee
Date: 23 September 2011

Author: Liz Feinstein
Report Title: Review of Investment Performance for Quarter Ending 30 June 2011 Exempt Appendix Title: Appendix 4 - Summary of Investment Panel Meetings with Investment Managers

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 appendix contains the opinions of Council officers and Panel members. It also contains details of the investment processes/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.

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

Document is Restricted

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Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**	**AGENDA ITEM NUMBER**	
MEETING DATE:	**23 SEPTEMBER 2011**		
TITLE:	**PENSION FUND ADMINISTRATION - EXPENDITURE FOR YEAR TO 31 AUGUST 2011 AND PERFORMANCE INDICATORS FOR 3 MONTHS TO 31 JULY 2011**		
WARD:	**'ALL'**		
AN OPEN PUBLIC ITEM			

List of attachments to this report:

Appendix 1 Summary Financial Account: financial year to 31 August 2011
Appendix 2 Summary Budget Variances: financial year to 31 August 2011
Appendix 3A Balanced Scorecard : 3 months to 30 April 2011 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs for *selected* items
Appendix 4A Customer Satisfaction Feedback in the 3 months to 31 July 2011 *(Retirements from ACTIVE status)*
Appendix 4B Customer Satisfaction Feedback in the 3 months to 31 July 2011 *(Retirements from DEFERRED status)*
Appendix 4C Customer Satisfaction Feedback in the months to 31 July 2011 *(Pensions Clinics)*
Appendix 5 Active membership statistics over 24 months to August 2011 (*graph*)
Appendix 6 Joiners & Leavers (statistics & *graph*)
Appendix 7 Statistics showing the current level of opt outs in major Fund Employers

THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the financial year to 31 August 2011. This information is set out in Appendix 1 and 2**.**

1.2 This report also contains Performance Indicators and Customer Satisfaction Feedback from recently retired members and from 31 July 2011.

2. RECOMMENDATION

That the Committee notes

2.1 the expenditure for administration and management expenses incurred for the year to 31 August 2011 and Performance Indicators for the 3 months to 31 July 2011.

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 2011 to 31 August 2011 and are contained in **Appendix 1**.

4.2 The variance for the year to 31 March 2012 is forecast to be £246,000 over budget. Within the directly controlled Administration budget it is forecast that expenditure will be £20,000 below budget as a result of reduced expenditure on salaries.

4.3 A summary of variances to 31st August 2011 and forecast for the full year is contained in **Appendix 2** to this Report.

5. BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS ("PIs") FOR THE 3 MONTHS TO 31 JULY 2011

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 **ADMINISTRATION PERFORMANCE**

5.2.1 Figures in the Balance Scorecard for performance of processing tasks within internal targets in SLAs figures are not currently available as work is being carried out on the "reporting tool." An updated Balance Scorecard will be circulated by e-mail before the meeting.

5.2.2 The level of **work outstanding** (Item C5 and graphs 5-7I In the 3 month period 3,744 tasks were created and 3,589 cleared (95.8%), leaving an outstanding workload of 4.2% well within the target of 10%.

5.3 **COMPLAINTS:** There were **no** complaints received in the period.

5.4 **2011 YEAR END AND MEMBERS ANNUAL BENEFIT STATEMENTS ("ABSs")** 98% of the employers have submitted their year end salary information; this is currently being posted to members' records and reconciled. Statements for active and deferred members are due to be rolled out to members starting in October 2011.

6. LEVEL OF OPT OUTS FROM THE SCHEME

6.1 The Committee has asked that the position on opt outs from the Scheme be monitored in view of recent events affecting public pensions and the trend reported back to each Committee meeting.

Concern was expressed at the last meeting that the high profile attaching to public sector pensions as a result of significant media coverage of recent events might be leading to an unwarranted increase in the number of new and existing members opting out of the Avon Pension Fund Scheme. In particular, the recent events are recommendations to the government by Lord Hutton following his review of Public Sector pensions and their sustainability *and* the announcement by H M Treasury to increase members' contributions from next April, both of which could make LGPS benefits less valuable and less attractive to members.

6.2 The following are the actions taken by the Fund's Officers to deter members from opting out prematurely and to monitor opt out trends going forward:

6.2.1. **Deterring Members**: ***A* special announcement** addressed to active members has been placed on the prominent News area of the Avon Pension Fund website to deter members from making a premature decision to opt out of the Scheme before detailed government proposals for change are even announced. A general misconception seems to be that benefits already accrued could be adversely affected by future changes and that if members opt out they will avoid this. The Fund announcement makes it clear that this is not the case as the government has declared its intention not to do this.

6.2.2 **Monitoring future opt outs and reporting trends**

- Employers have been asked to provide information to establish who is in and who is out and the Fun. There has been a fair response with 64 replies from employers (including all larger employers). This information will be used as a benchmark position going forward. See **Appendix 7** for statistics for the top 9 employers' responses. This represents 86% of the active membership and reveals that the opt out rate across these employers is 80%. Opt outs for the Universities are significantly higher perhaps reflecting the lower ages of their staff.

- Administration processes were amended in June 2011 to identify opt outs in a reportable field. At present however it is too soon to be able to provide the Committee with any meaningful statistics

- The standard Opt Out form that members sign has been amended to ask them to specify ***why*** they have opted out using 4 simple to use tick boxes.

- The Pension Scheme's current software is being amended by Heywood for its next release in October 2011 to provide "opt out" as a recordable and reportable reason for leaving. This will make it much easier to monitor the on-going position on opt outs.

6.3 **Active Membership Statistics (to assist monitoring of opt out trends)**

6.3.1Figures of the current active membership for 24 months to the end of August 2011 are shown for information in a graph format in **Appendix 5.** Also enclosed is **Appendix 6** which shows the joiners and leavers movements from January 2009 to August 2011. As can be seen the number of leavers has outweighed the joiners over the period: however this is probably to be expected with the redundancies coming through and less staff being taken on by employers due to austerity measures.

6.3.2 Active Membership figures in graph format will be included as a standard item to be reported at future Committee meetings to monitor the trend in member movements at this volatile time when higher than normal level of 1) redundancies and 2) opt outs by members concerned about future scheme changes and potential increases to their contributions.

7. CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 JULY 2011

7.1 ***Retirement Questionnaires***

Appendix 4A reports on the customer satisfaction based on **75** questionnaires returned from ***active*** members retiring. On average 72% received their lump sum and 75% their first pension payments within "10 day" target *(See chart).*

Appendix 4B reports on the customer satisfaction based on a small sample of **39** questionnaires returned from *former* active members retiring from ***deferred*** status. 90% received their lump sum and 87% their first pension payments within "10 day" target *(See chart).*

Overall service rating as good/excellent from both actives and deferreds on the service received from Avon Pension Fund staff handling their retirement was 96% (See chart Item 5 on both graphs). A few Scheme members suggested some changes to aid the retirement administration process and these are being considered.

7.2 **C*linics*** In this period 11 clinics were held **127** members gave feedback with a good/excellent rating of 100% for the service provided by APF staff. The venue and location was slightly less well-rated scoring a good/excellent rating of 90%. (See **Appendix 4C)**

8. EVENTS DURING THE PERIOD

8.1 **Pensions Administration Strategy** became operative from 1st April 2011. At this meeting there is a separate Report to this update on progress of relevant items from the Strategy - the rollout of revised Service Level Agreements: proposals for employer staff training following analysis of returned questionnaires from employers on their requirements and electronic delivery of member data information from employers.

8.2**;** The Heywood self-service facility for employers has now been tested in-house and by a Scheme Employer and has been made available to employers in June 2011. (The Report referred to in 7.1 above also covers this.)

9. RISK MANAGEMENT

9.1 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.

10. EQUALITIES

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

11. CONSULTATION

11.1 None appropriate.

12. ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 This report is for noting only.

13. ADVICE SOUGHT

13.1 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 (*All except budgets*) Tel: 01225 395254
Background papers	Various Accounting and Statistical Records

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APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR TO 31 AUGUST 2011

	YEAR TO 31 AUGUST 2011			FULL YEAR FORECAST AT 31 /8/2011		
	ACTUAL	BUDGET	VARIANCE	FORECAST	BUDGET	VARIANCE
	£	£	£	£	£	£
Investment Expenses	39,656	50,398	(10,742)	101,026	101,026	0
Administration Costs	30,059	37,576	(7,517)	78,319	78,319	0
Communication Costs	60,443	65,734	(5,291)	168,117	168,117	0
Information Systems	44,133	69,565	(25,432)	166,956	166,956	0
Salaries	519,980	543,100	(23,120)	1,283,440	1,303,440	(20,000)
Central Allocated Costs	150,268	164,342	(14,074)	394,420	394,420	0
Miscellaneous Recoveries/Income	(43,072)	(58,000)	14,928	(139,200)	(139,200)	0
Total Administration	**801,468**	**872,715**	**(71,247)**	**2,053,078**	**2,073,078**	**(20,000)**
Investment Governance & Member Training	116,990	121,321	(4,330)	291,170	291,170	0
Members' Allowances	16,800	16,851	(51)	40,443	40,443	0
Independent Members' Costs	7,109	7,817	(707)	18,760	18,760	0
Compliance Costs	141,788	104,695	37,093	244,575	269,575	(25,000)
Compliance Costs recharged	(98,988)	(21,667)	(77,322)	(52,000)	(52,000)	0
Governance & Compliance	183,699	229,017	(45,318)	542,948	567,948	(25,000)
Global Custodian Fees	65,779	59,583	6,196	143,000	143,000	0
Investment Manager Fees	3,407,773	3,561,229	(153,456)	8,838,210	8,546,950	291,260
Investment Fees	3,473,552	3,620,813	(147,260)	8,981,210	8,689,950	291,260
NET TOTAL COSTS	**4,458,719**	**4,722,544**	**(263,825)**	**11,577,236**	**11,330,976**	**246,260**

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Summary of Budget Variances: Forecast for year, as at 31st August 2011 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
Salaries	(20,000)	Staff vacancies have been left unfilled and some staff have reduced their hours. This has not currently affected the level of service provided.
Compliance Costs	(25,000)	The forecast £25,000 reduction in expenditure against budget follows the audit requirement that the cost of the triennial valuation should be charged to the year in which the valuation was performed (2010/11) and not to the years in which it would apply as was assumed in the budget. This is a change in policy. This has resulted in a reduction of the total under-spend against budget in 2010/11 reported to the Committee in June from £200,000 to £66,000. Increased expenditure on actuarial fees is offset by increased recharging of fees to employing bodies.
Investment Manager Fees:	291,000	The budget was prepared prior to the appointment of the currency hedging manager. The full year cost of this is currently forecast to be £605,000. This is largely offset by reductions in fees as a result of the markets lagging the return assumed in the budget.
	246,000	

-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

Key Performance Indicators

	INDICATOR	Green Red Amber	Reporting Dept	2010/11 Actual	Target for 2011/12	Actual - 3 months to 30/07/2011	Comment	
A	**Customer Perspective**							
1a	General Satisfaction with Service - clinic feedback	G	Admin	97%	95%	100%	11 clinics held during period.	Graph 1
1b	General Satisfaction with Service - retirees feedback	G	Admin	95%	95%	99%	Generally good from response from retirees	
2	Percentage Compliance with Charter Mark criteria	G	Admin	90%	95%	97%	Quality and in particular confidentiality of venue was the least well-scored. Concentrating on this for future See separate appendix	
3	Level of Equalities Standard for Local Government	G	Admin	100%	100%	100%	Chartermark Accreditation obtained as part of B&NES Finance in 2008 - re-assessment is due in 2011	
4a	Service Standards - Processing tasks within internal targets (SLA)							
	Deaths [12 days]	G	Admin	76%	90%	to follow*	* see narrative in report	
	Retirements [15 days]	G	Admin	82%	90%	to follow*	* see narrative in report	
	Leavers (Deferreds) [20 days]	A	Admin	62%	75%	to follow*	* see narrative in report	
	Refunds [5 days]	G	Admin	85%	75%	to follow*	* see narrative in report	
	Transfer Ins [20 days]	G	Admin	64%	75%	to follow*	* see narrative in report	
	Transfer Outs [15 days]	G	Admin	74%	75%	to follow*	* see narrative in report	
	Estimates [10 days]	G	Admin	94%	90%	to follow*	* see narrative in report	
4b	Service Standards Processing tasks within statutory limits	G	Admin	100%	100%	100%		
5	Number of complaints	G	Admin	2	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	on time	100%	100%	All completed on time	
8	Number of hits per period on APF website	G	Admin	49256	36000p/a 3000p/q	15847	5,282 per calendar month for reporting period	Graph 2
9	Advising members of Reg Changes within 3 months of implementation	G	Admin	100%	100%	n/a	none this quarter	
11	Issue of Newsletter (Active & Pensioners)	G	Admin	100%	100%	N/A	due next quarter	
12	Annual Benefit Statements distributed by year end	G	Admin	70%	100%	N/A	2011 statements due to start being sent next quarter	

B People Perspective

1	Health & Safety Compliance	G	All	100%	100%	100%	Up to date	
2	% of staff with Investor in People Award (IIP)	G	All	0%	100%	100%	n/a - re- awarded in Summer 2010	
3	% of new staff leaving within 3 months of joining	G	All	0%	4%	0%	No leavers in the period	
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)1.87 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%	Staff training requirements for all staff identified from. Courses (internal & external) are open to relevant staff as when available, services bought in where bulk training necessary.	

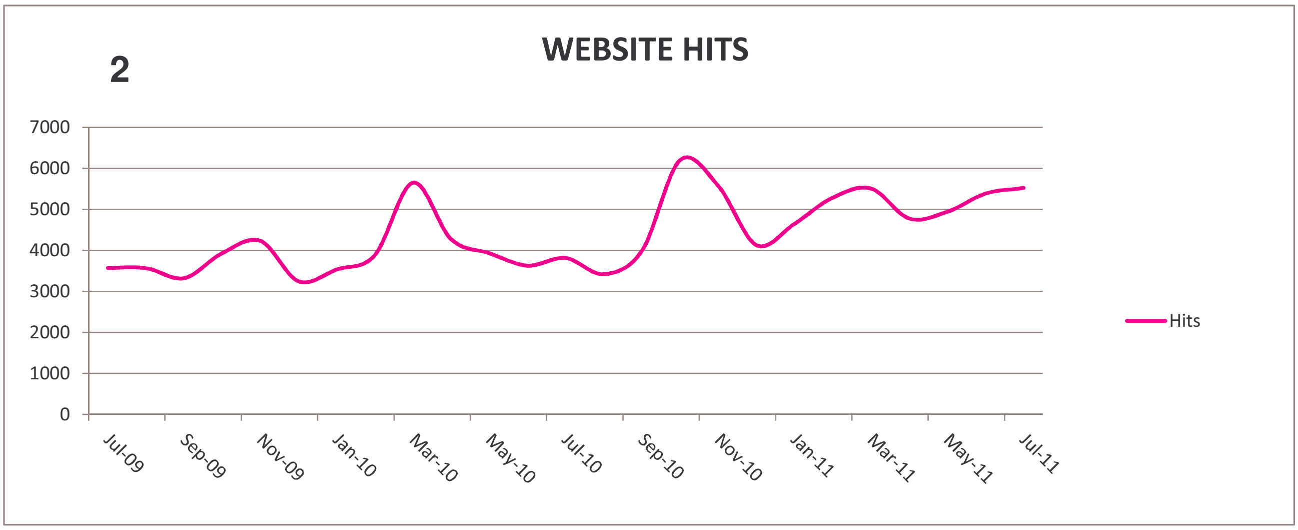
C Process Perspective

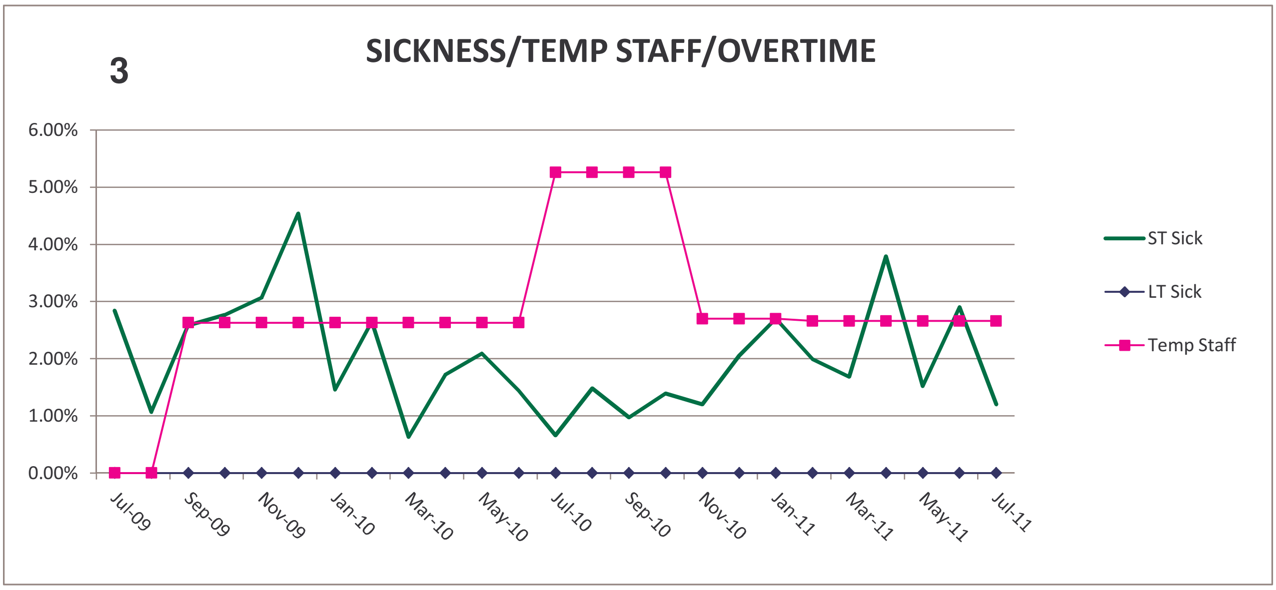
1	a) Services actually delivered electronically b) Services *capable* of delivery to members	**A**	Admin	a) 0.3% b) 100%	a) 4% b) 100%	a) 0.3% b) 100%	a)0.03% represents the members who agreed receive the Newsletter electronically. Internet Access means that over 2000 members are happy to receive info electronically b) Section able to deliver all targeted services electronically (See Admin Report)	
2	% Telephone answered within 20 seconds	G	Admin	99%	98%	96.5%	8900 calls, 8585 answered within 20 seconds -marginally behind target	Graph 4
3	% Complaints dealt with within Corporate Standards	G	Admin	100%	100%	n/a	No complaints in the period	
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	5.77%	10%	4.22%	In the 3 month period 3744 Created, 3589 cleared (95.78.% leaving 4.22% of workload outstanding) Within target	**Graphs 5 6 & 7)**
6	Collection of Pension Contributions:- a) % Received late b) Late contributions as a % of total	G	Accounts	a) 6% b) 0.05%	a) 0% b) 0%	a) 1.8% b) 0.08%	An average of 2 of the 112 employers sent their contributions in late. **No persistent late-payers.** Average delay of late payers was 9 days however the amounts involved were negligible at under 1% of the total of 10.9m**.** 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 31/08/2011)	G	Admin	81%	100%	98%	All Pen Conts and Pen Rems now received however, North Somersets Pen Rems returned as 1500 post numbers missing.	
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%	93.72%	Business Financial Services (inc Pensions) figure is marginally below target
2	Temp Staff levels (% of workforce)	G	All	0.40%	3%	2.66%*	* For the purposes of reoprting temporaray staff levels these only show ***agency*** temporary staff. Previous reports have included B&NES staff who are on temporary contracts.There are currently 2 FTE staff in te benefits area who are kept on temporary contracts intentionally so that they there is the flexibily to move them around to cover for maternity absence.
3	% of IT plan achieved against target	**R**	Supp & Dev	24%	100% (25% p/q)	20%	EDI progress has been slow. The new Admin Strategy will be used to encourage employers to provide information electronically as the norm. New Empoyer Access module to be rolled out in 2011 will allow employers to key information electronically into the pensions database.
4	% of Training Plan achieved against target	G	Supp & Dev	100%	100%	100%	Staff training requirements for all staff identified from Staff meeting in 2010 new form set up to use at 1 - 1 meetings to supplement Performance Review assessment. Courses (internal & external) are open to relevant staff as when available, services bought in where bulk training necessary.

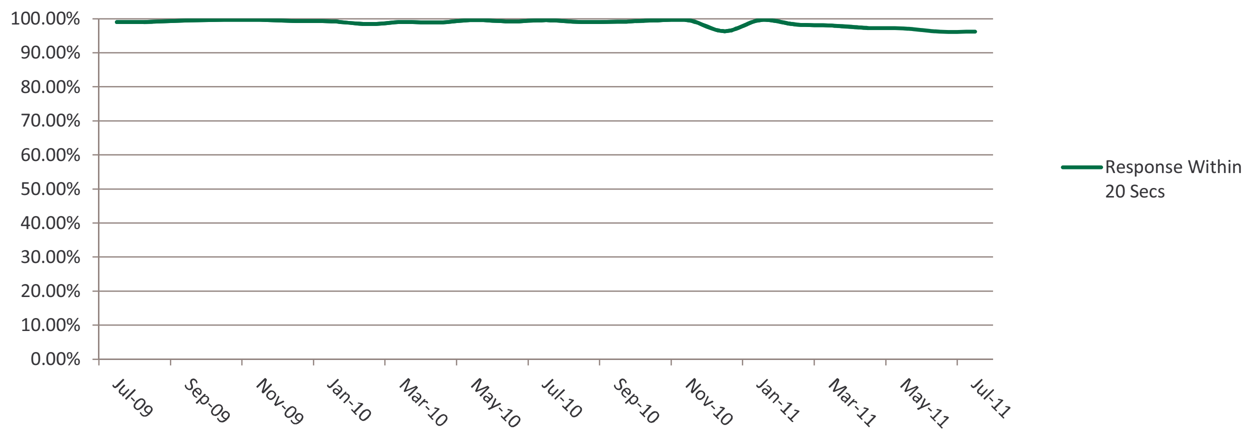

1
PENSION CLINIC SATISFACTION
100
90
80
70
60
50
40
30
20
10
0
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11
Jul-11
Satisfaction


2
WEBSITE HITS
7000
6000
5000
4000
3000
2000
1000
0
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11
Jul-11
Hits


3
SICKNESS/TEMP STAFF/OVERTIME
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11
Jul-11
ST Sick
LT Sick
Temp Staff

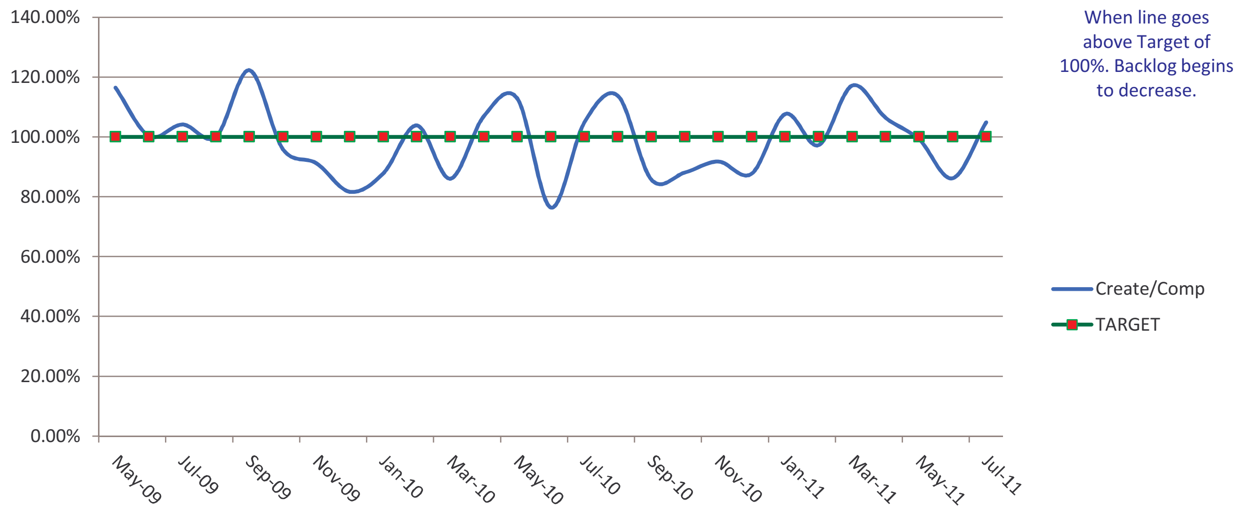
4

TELEPHONE RESPONSE



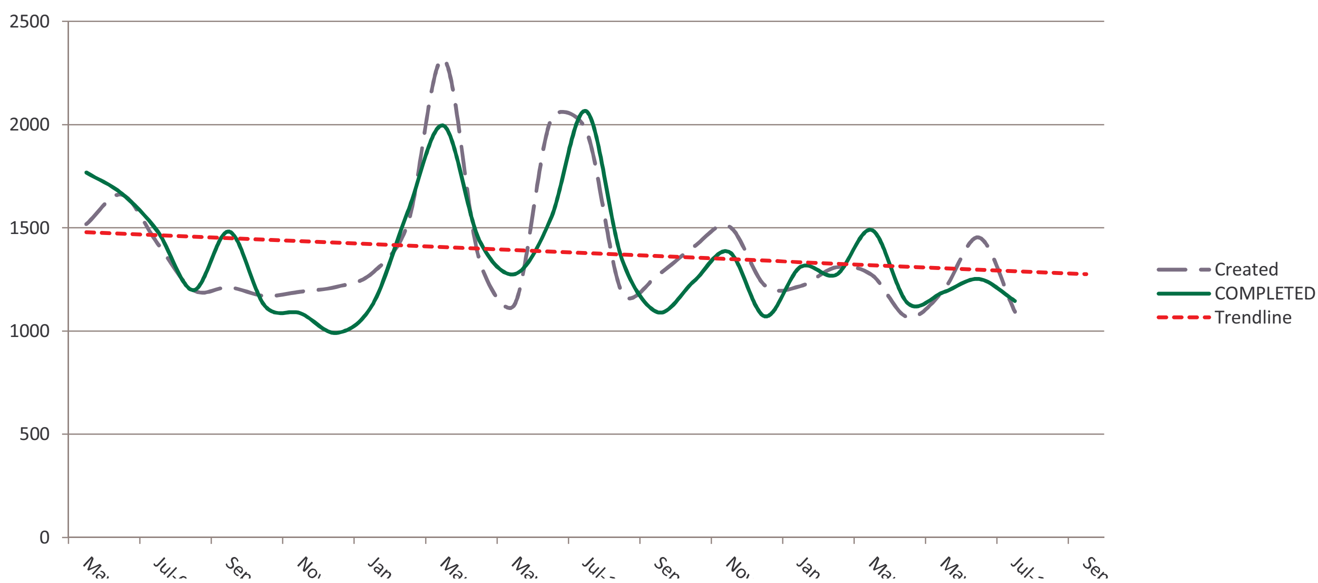
5

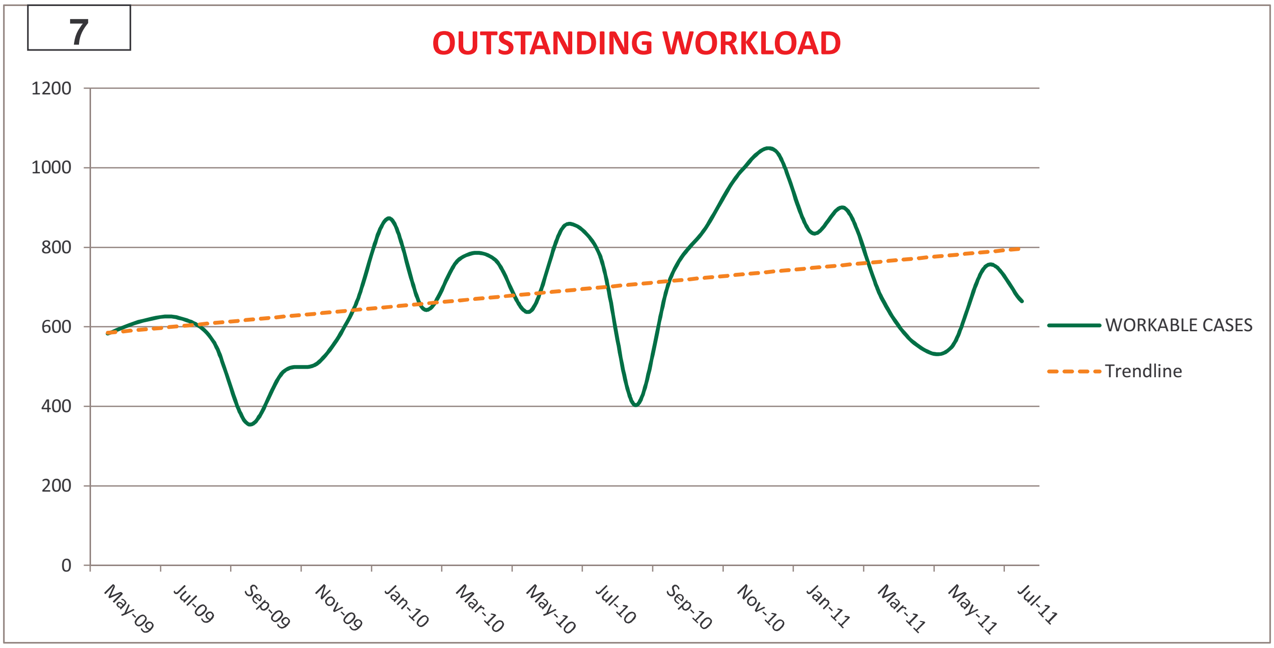
TASKS CREATED & COMPLETED



6

NEW CASES CREATED & COMPLETED




7
OUTSTANDING WORKLOAD
1200
1000
800
600
400
200
0
May-09
Jul-09
Sep-09
Nov-09
Jan-10
Mar-10
May-10
Jul-10
Sep-10
Nov-10
Jan-11
Mar-11
May-11
Jul-11
WORKABLE CASES
Trendline

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Pensions Admin Report: Appendix 4A & B - Retirees Feedback Results May to July 2011

Responses to Retirement Questionnaire

Number of Questionnaires in this period	75

No.	Question		Response	Count	%
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	73	97%
			NO	2	3%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	43	57%
		B	Within 10 working days after R'ment date	20	27%
		C	Later than 10 days after R'ment date	12	16%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	36	84%
			Later than 10 days after R'ment date	7	16%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	14	70%
			Later than 10 days after returning Opt Form	6	30%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	4	33%
			Later than 10 days after returning Opt Form	8	67%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	56	75%
			Later than 1 month after R'ment date	19	25%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	46	61%
			Good	24	32%
			Average	5	7%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	13	17%
			No	62	83%
7	Were you treated with sensitivity & fairness?		Yes	75	100%
			No	0	0%

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Pensions Admin Report: Appendix 4A & B - Retirees Feedback Results May to July 2011

Responses to Retirement Questionnaire

	Number of Questionnaires in this period		39		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	39	100%
			NO		0%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	35	90%
		B	Within 10 working days after R'ment date	1	3%
		C	Later than 10 days after R'ment date	3	8%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	32	91%
			Later than 10 days after R'ment date	3	9%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	1	100%
			Later than 10 days after returning Opt Form	0	0%
3C	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%
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	34	87%
			Later than 1 month after R'ment date	5	13%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	31	79%
			Good	8	21%
			Average	0	0%
			Poor	0	0%
6	Is there anything we could have done to improve the service we provided?		Yes	6	15%
			No	33	85%
7	Were you treated with sensitivity & fairness?		Yes	39	100%
			No	0	0%

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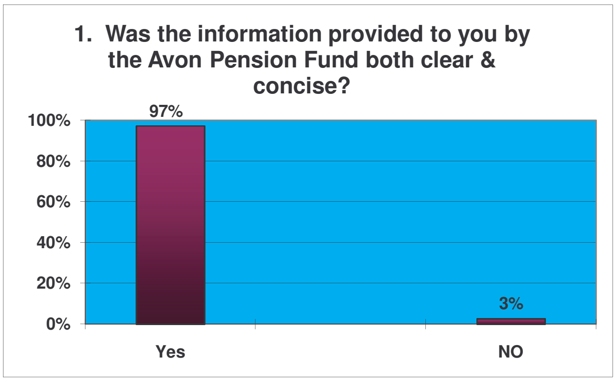
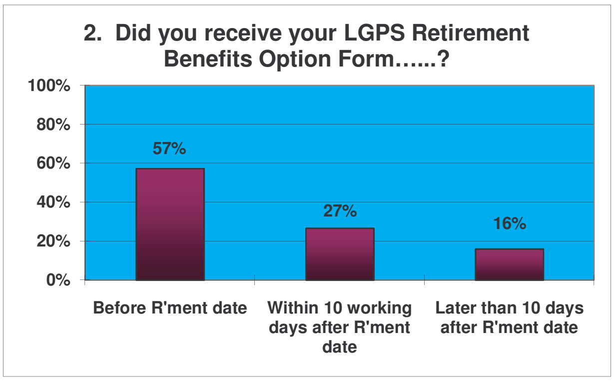
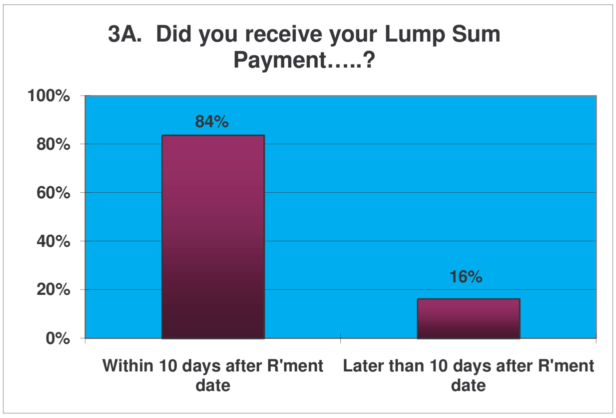
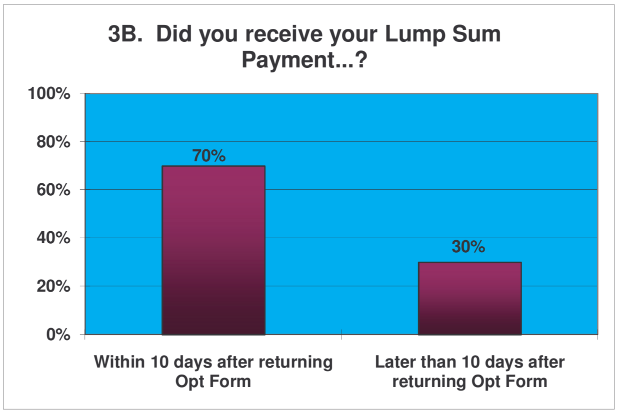
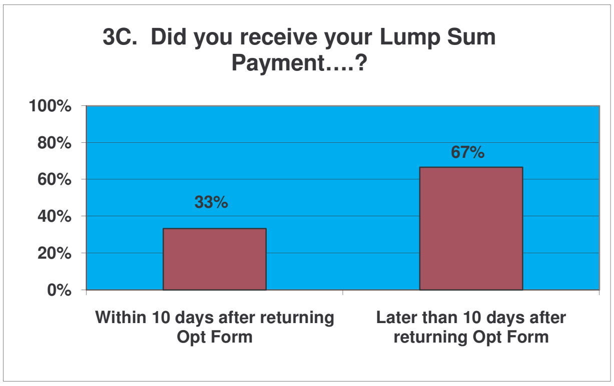


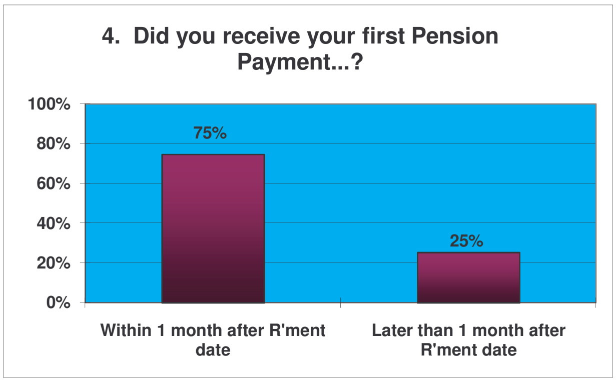


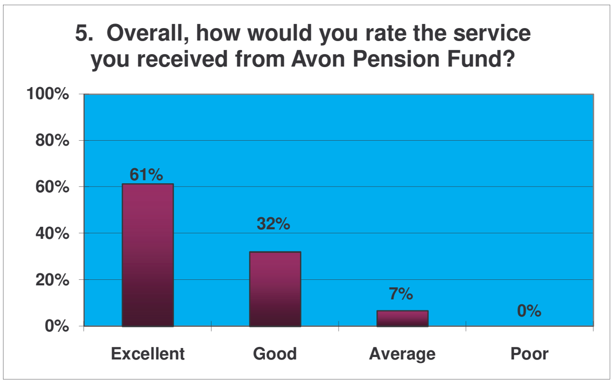
From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

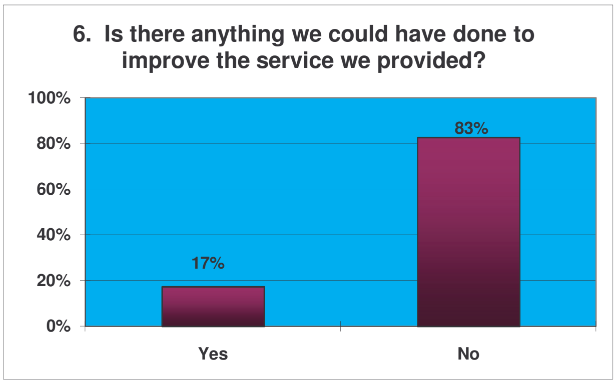


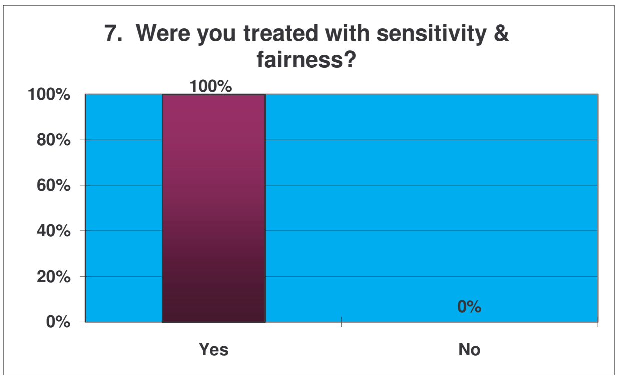












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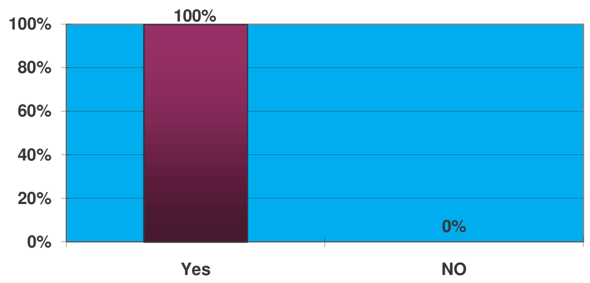
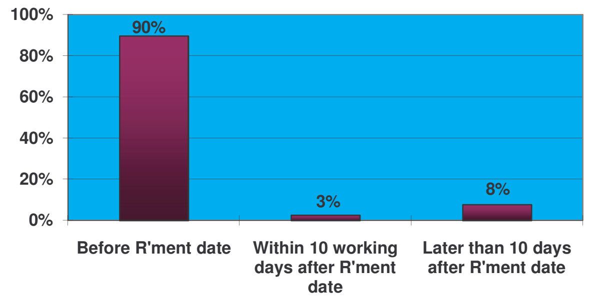
1. Was the information provided to you by the Avon Pension Fund both clear & concise?

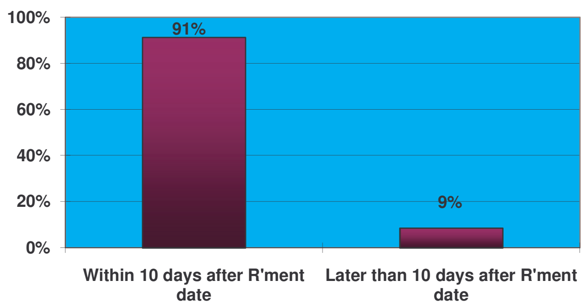


2. Did you receive your LGPS Retirement Benefits Option Form...?

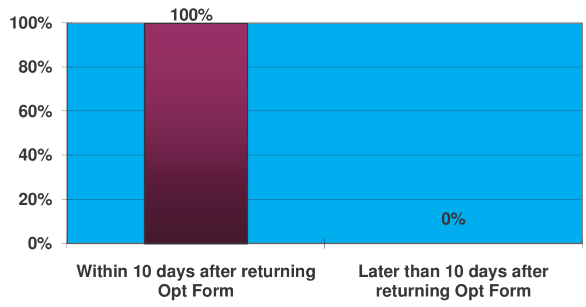


From Question 2 above (column 1)	From Question 2 above (column 2 & 3))

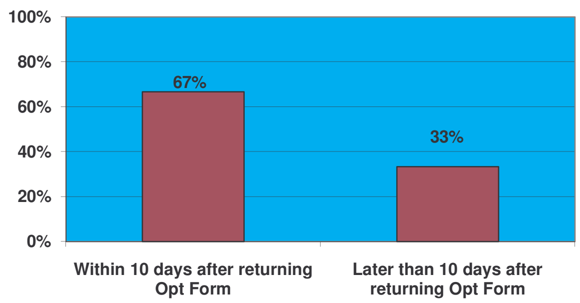
3A. Did you receive your Lump Sum Payment...?



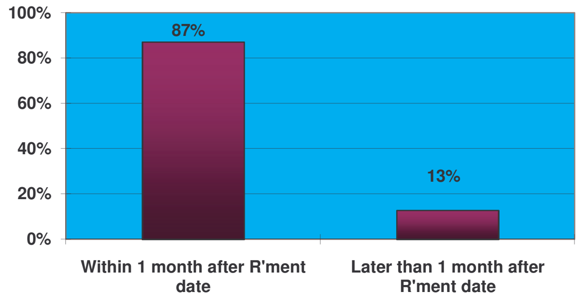
3B. Did you receive your Lump Sum Payment...?



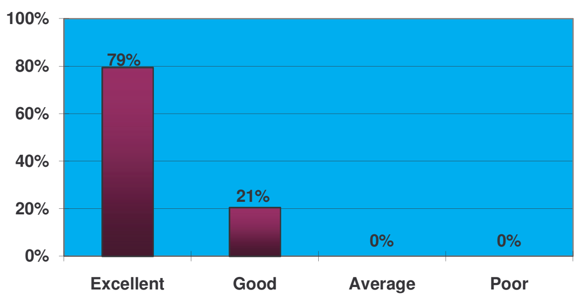
3C. Did you receive your Lump Sum Payment....?



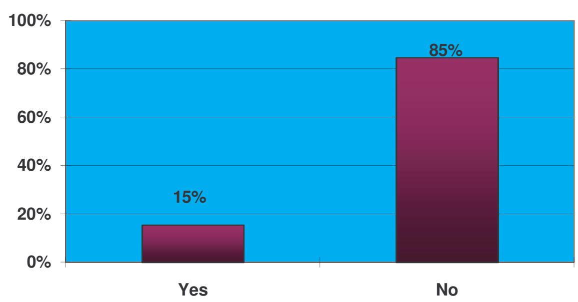
4. Did you receive your First Pension Payment...?



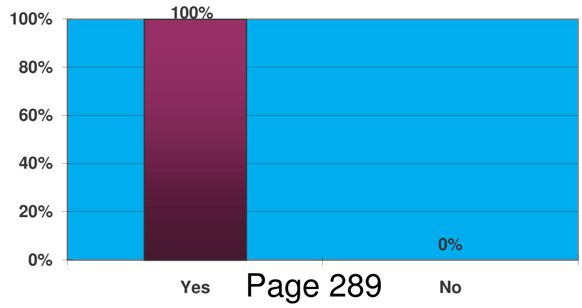
5. Overall, how would you rate the service you received from Avon Pension Fund?



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



7. Were you treated with sensitivity & fairness?



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APPENDIX 4C PENSION FUND ADMIN REPORT (ITEM 14)

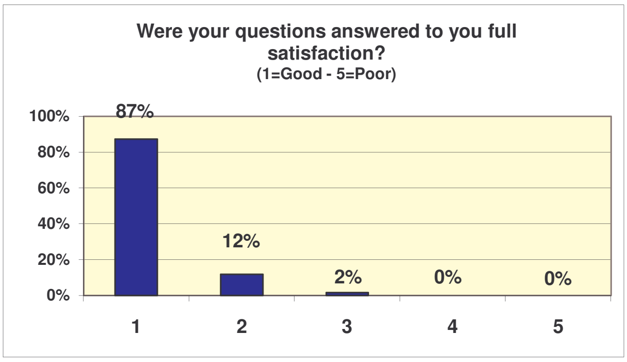
Clinic Feedback Results 1st May -31st July 2011

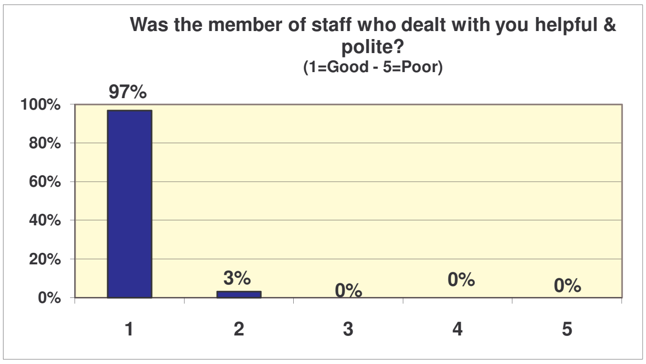
1 = Excellent ; 2 = Good ; 3 = Average 4 = Below average ; 5 = Poor

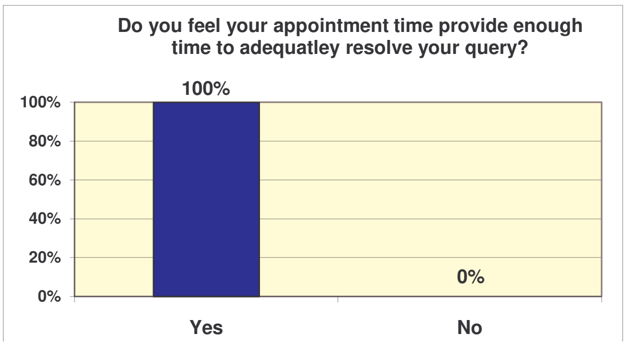
11 CLINICS WERE HELD IN THE PERIOD FOR CONSIDERABLY DIFFERING SIZED EMPLOYERS

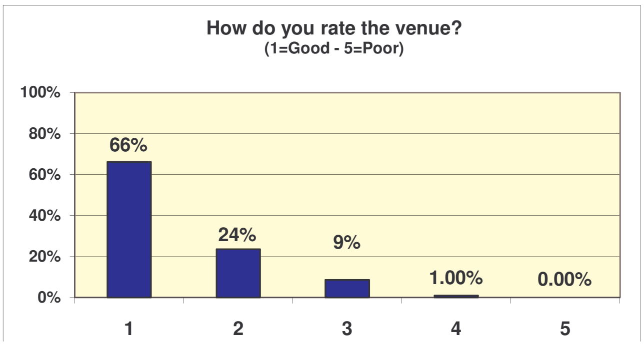
Number of questionnaires: **127**

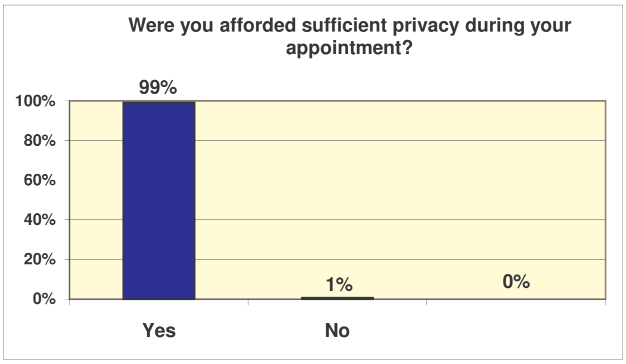
Question	Response	No.	%
Were your questions answered to your full satisfaction?	1	111	87%
	2	15	12%
	3	2	2%
	4	0	0%
	5	0	0%
Was the member of staff who dealt with you helpful and polite?	1	123	97%
	2	4	3%
	3	0	0%
	4	0	0%
	5	0	0%
Do you feel your appointment provided enough time to adequately resolve your query?	Yes	127	100%
	No	0	0%
How do you rate the venue?	1	84	66%
	2	30	24%
	3	11	9%
	4	2	1.00%
	5	0	0.00%
Were you afforded sufficient privacy during your appointment?	Yes	126	99%
	No	1	1%
	No response	0	0%
If you had further questions and we held a Clinic at this venue again would you attend?	Yes	119	94%
	No	8	6%
	No response	0	0%
Was this location convenient for you?	Yes	123	97%
	No	4	3%

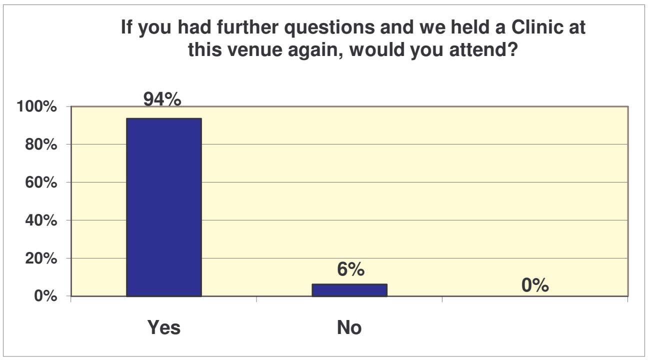


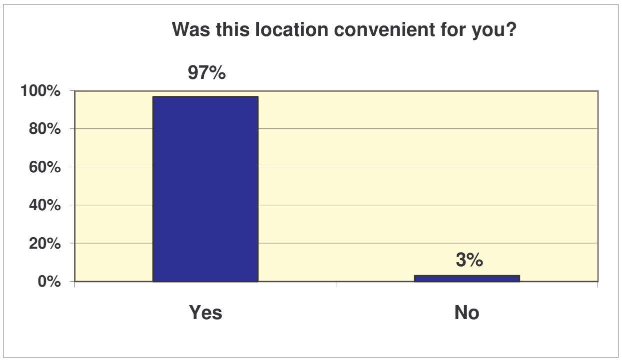




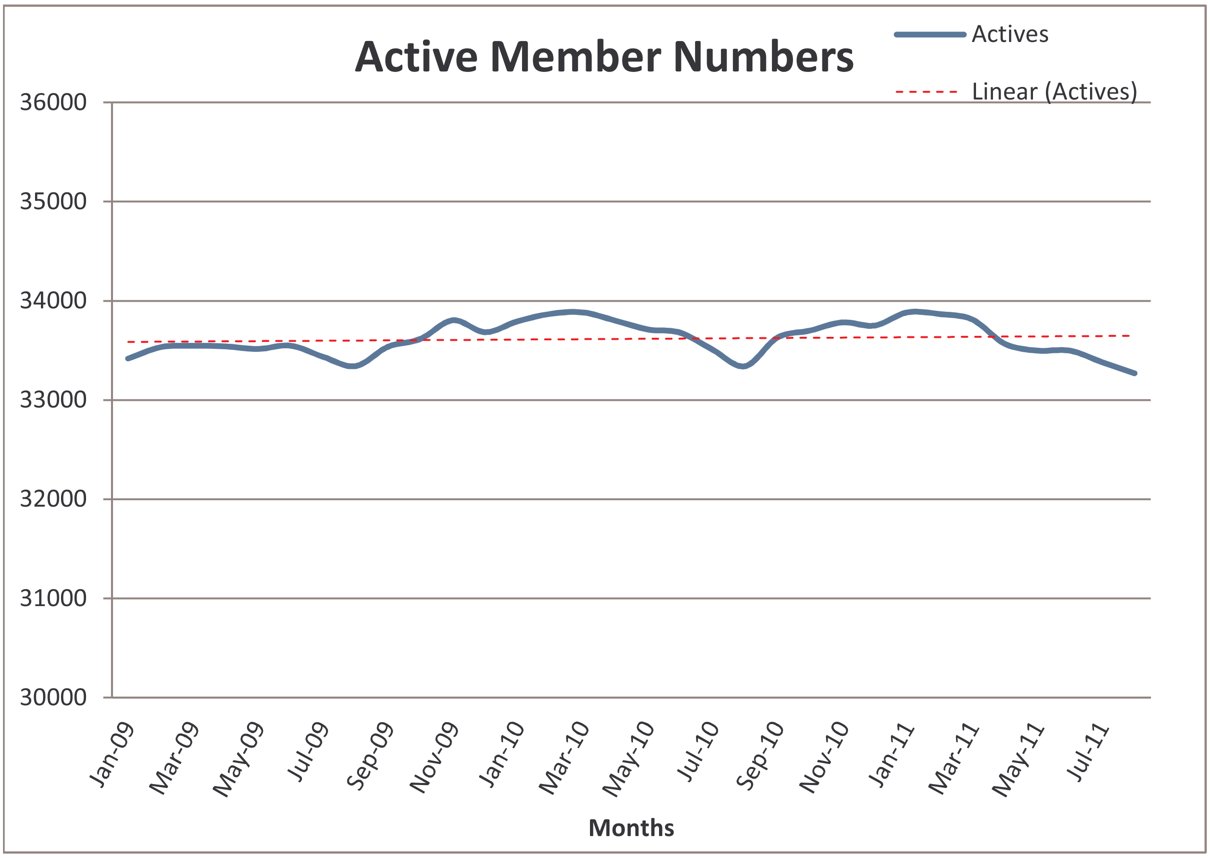



Were you afforded sufficient privacy during your appointment?
99%
1%
0%
100%
80%
60%
40%
20%
0%
Yes
No


If you had further questions and we held a Clinic at this venue again, would you attend?
94%
6%
0%
100%
80%
60%
40%
20%
0%
Yes
No


Was this location convenient for you?
97%
3%
100%
80%
60%
40%
20%
0%
Yes
No

Pension Admin Report Appendix 5



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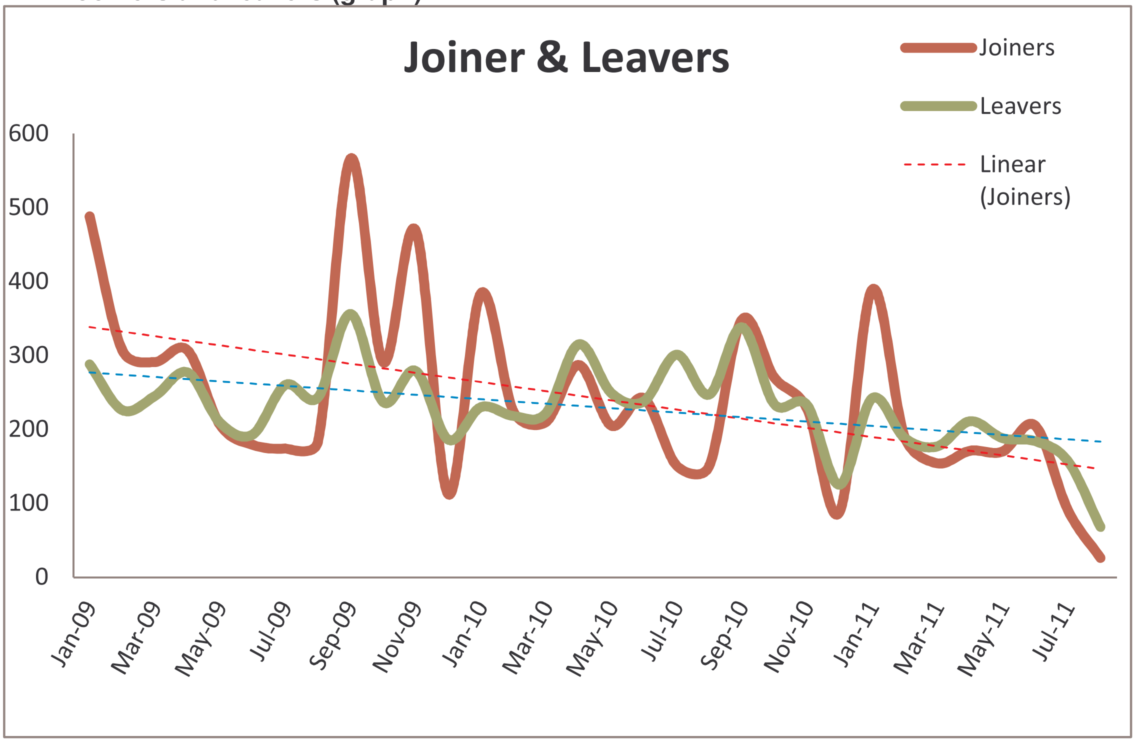
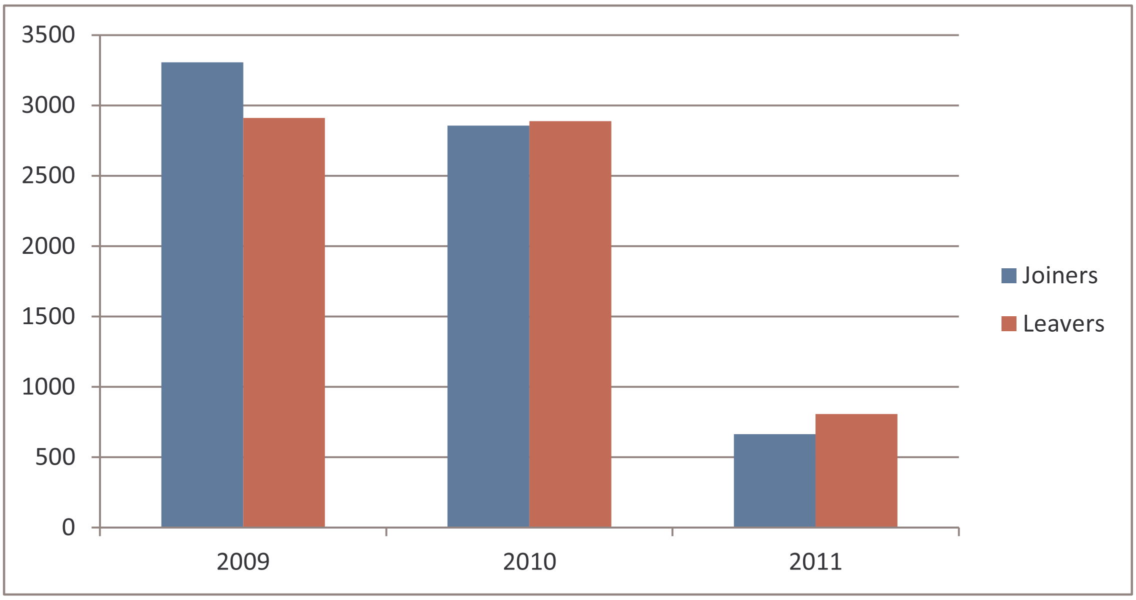
Joiners and leavers (graph)



Joiners and leavers in years 2009-2011 (Total in the period)



		Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	
2009-10	joiners	307	206	179	174	183	566	291	469	112	384	224	210	3305
	leavers	277	209	193	260	243	356	237	279	186	230	218	222	2910
		30	-3	-14	-86	-60	210	54	190	-74	154	6	-12	395

		Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	
2010-11	joiners	287	210	287	205	242	151	150	348	270	228	88	389	2855
	leavers	315	249	238	301	247	338	234	233	125	242	188	177	2887
		-28	-39	49	-96	-5	-187	-84	115	145	-14	-100	212	-32

		Apr-11	May-11	Jun-11	Jul-11	Aug-11	
2011 Apr-Aug	joiners	171	170	205	91	26	663
	leavers	211	188	184	157	68	808
		-40	-18	21	-66	-42	-145

Recent months prably have more to be sent from employers

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Pension Fund Admin Report: Appendix 7

Table of largest empoyers opt out statistics

9 largest employers	total e'es	in fund	opted out	% in Fund
City of Bristol Council	13610	11089	2521	81%
South Gloucestershire Council	7553	6100	1453	81%
Bath & North East Somerset Council	5424	4413	1011	81%
North Somerset Council	4759	3982	777	84%
University of the West of England	2678	1675	1003	63%
University of Bath	1035	819	216	79%
City of Bristol College	781	646	135	83%
Avon Fire & Rescue - Civilians	361	176	185	49%
Bath Spa University	356	314	42	88%
total/average	36557	29214	7343	80%

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**23 SEPTEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**WORKPLANS**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – Investments Workplan to 31 March 2012** **Appendix 2 – Pensions Benefits Workplan to 31 March 2012** **Appendix 3 – Committee Workplan to 31 March 2012** **Appendix 4 – Investments Panel Workplan to 31 March 2012** **Appendix 5 – Training Programme 2011-13**		

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 at least 31 March 2012 and which may result in reports being brought to Committee. In addition there is a Committee workplan which sets out provisional agendas for the Committee's forthcoming meetings.

1.2 The workplan for the Investment Panel is also included for the Committee to review and amend as appropriate.

1.3 The provisional training programme for 2011-2013 which was discussed at the March 2011 committee meeting is included as Appendix 5.

1.4 The workplans are consistent with the 2011/2014 Service Plan but also include a number of items of lesser significance which are not in the Service Plan.

1.5 The workplans will be updated quarterly

2 RECOMMENDATION

2.1 That the workplans for the period to 31 March 2012 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. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets.

4.2 Reviewing the future workplan provides the opportunity for the Committee to consider the process to be undertaken for each project, their level of involvement and whether any of the work should be delegated to the Investment Panel and/or officers.

4.3 At this stage the primary focus of the Panel is monitoring the investment managers as no investment projects are currently delegated to the Panel

4.4 As this is a new committee, the committee workplan includes a number of training sessions planned for 2011/12 which are designed to support the committee in their role. In addition the provisional training plan for 2011 -13 is also included so that Members are aware of intended training sessions. This plan will be updated quarterly.

4.5 Please note that a workshop for the Interim Actuarial Valuation is to be held on the morning of the Committee meeting on 9 December (11 to 1 pm). This will cover the valuation process as well as the outcome from the Interim Valuation. There will be a report on the outcome of the valuation (and potential implications of scheme changes) on the Committee agenda.

5 RISK MANAGEMENT

5.1 Forward planning and training plans form part of the risk management framework.

6 EQUALITIES

6.1 This report is for information only.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer 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	

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Appendix 1

INVESTMENTS TEAM WORKPLAN TO 31 MARCH 2012

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
Review manager performance	Officers to formally meet managers annually See IP workplan for Panel meetings	2011 dates confirmed
SRI Review	Workshops to be planned for September-December to review SRI policy	December 2011/March 2012
Interim valuation	Report to committee and employers on outcome of interim valuation.	December 2011
Custody Contract	Re tender the custody contract	December 2011
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	December 2011
Statement of Investment Principles	Revise following any change in Fund strategy/policies. Publish within 6 months of any changes.	ongoing
Budget and Service Plan 2012/15	Preparation of budget and service plan for 2012/15	March 2012
Investments Forum	Organise forum meetings expected to be held in Autumn 2011 (covering interim valuation, Hutton)	
FRS 17	Liaise with the Fund's actuary in the production of FRS 17 disclosures for employing bodies	

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WORKPLAN - PENSION ADMINISTRATION TO 31 MARCH 2012

Project	Proposed Action	Report
Employer Self Service	*Employer Self Service* a heywood software application) allowing Employers to do their own member estimates and associated cost calculations for redundancies. Introduce the facility for employers to advise the Fund on member data changes from October 2011, (Data Protection issues currently need clarification).	N/A
Administration Strategy(SLA) Agreements	The Pensions Administration Strategy effective from April 2011. important areas to be progressed: - Employer staff training - Electronic reporting of member data changes either by bulk Electronic Data Interface *or* via Employer Self Service (*see above*) by April or October 2012, depending on employer's size - Performance Reporting and review meetings with employers See *Report on Pensions Administration Strategy Report* submitted to this meeting.	N/A
Electronic Delivery of information to members	Devise a Strategy to move to electronic delivery to all members (other than those who choose to remain with paper) Provide members with the 3 appropriate notices of the Fund's intention to cease to send them paper copy communication in favour of electronic delivery (unless they opt out from this) See *item within Budget Monitoring and Performance Indicators Report* submitted to this meeting.	N/A
Strategy to communicate proposed government changes to LGPS benefits (Post Hutton and H M Treasury proposed increase in members' contributions)	To put in place a workable Strategy/Timetable to effectively communicate the proposed changes (Post Hutton and H M Treasury proposed increase in members' contributions) to the Scheme and what it will mean for members/employers utilising electronic (website) paper and face to face meetings with employers' and their staff	N/A
Monitor Opt out rates	Change processes to mark opt out on memebers records as reason for leaving and be able to monitor and report on these to Committee)	N/A
AVC Strategy	Finalise new AVC Investment Strategy for approval by Committee	Dec 2011

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Appendix 3

Committee Workplan to 31 March 2012

December 2011
Interim Actuarial Valuation – update of funding level; implications of Hutton proposals
Review of Investment Performance for Quarter Ending 30 September 2011
Pension Fund Administration – Budget Monitoring 2011/12, Performance Indicators for Quarter Ending 30 September 2011 and Risk Register Action Plan
Investment Panel Minutes
Review Investment Panel Recommendations
Review of SRI Policy – Stage 1 report
Compliance report: Annual review of internal control reports of external service providers; SIP
Custody Contract Tender outcome
Workplans
Planned Workshops & Training sessions – Interim Actuarial Valuation training workshop to be held on 9 December 2011 11-1 pm prior to Committee meeting – SRI Policy Review 4Q11 Stage 1

March 2012
Review of Investment Performance for Quarter Ending 31 December 2011
Pension Fund Administration – Budget Monitoring 2011/12, Performance Indicators for Quarter Ending 31 December 2011 and Risk Register Action Plan
Budget and Service Plan 2012/15
Investment Panel Minutes
Review Investment Panel Recommendations
Review of SRI Policy – Stage 2 report
Workplans
Planned Workshop – SRI Policy Review 1Q12 Stage 2 **Planned Training session** – February 2012 Investment Manager Selection and Monitoring or The Basics of Asset Allocation

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Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2012

Panel meeting / workshop	Proposed reports	Outcome
7 Sept 2011 Workshop and Meeting	• Review mangers performance to June 2011 • Meet the Managers workshop (BlackRock, Genesis and Schroder property)	• Agree any recommendations to Committee • Agree any recommendations to Committee
Oct 2011 Workshop	• Meet the managers workshop (Royal London, TT, Invesco)	• Agree any recommendations to Committee
22 Nov 2011 Workshop and Meeting	• Review mangers performance to Sept 2011 • Meet the managers workshop (Jupiter, SSgA)	• Agree any recommendations to Committee • Agree any recommendations to Committee
22 Feb 2012 Workshop and Meeting	• Review mangers performance to Dec 2011 • Meet the managers workshop (Partners, Schroder equity)	• Agree any recommendations to Committee • Agree any recommendations to Committee
Apr 2012 Workshop	• Meet the managers workshop (Intro to Hedge Funds, Man, Signet)	• Agree any recommendations to Committee
May 2012 Workshop and Meeting	• Review mangers performance to Dec 2011 • Meet the managers workshop (Gottex, Stenham)	• Agree any recommendations to Committee • Agree any recommendations to Committee

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Appendix 5

Avon Pension Fund Committee Training Programme 2011-13

General Topics

Topic	Content	Timing
Fund Governance and Assurance *(relates to CIPFA Knowledge & Skills Framework areas: Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management)*	• Role of the administering authority - How AA exercises its powers (delegation, role of statutory 151 Officer) - Governance Policy Statement • Members duties and responsibilities - LGPS specific – duties under regulatory framework o Admin regulations (including discretions), admin strategy, communications strategy o Investment regulations o Statutory documents - Statement of Investment Principles, Myners compliance, Funding Strategy Statement, Annual Report - Wider Pensions context • Assurance framework - S 151 Officer - Council Solicitor - FoI Officer/Data Protection - Internal Audit - External Audit - Risk Register	June 2011
Manager selection and monitoring *(relates to CIPFA Knowledge & Skills Framework areas: Investment Performance & Risk Management)*	• What look for in a manager – people, philosophy and process • How to select the right manager – roles of officers & members, procurement, selection criteria, evaluation • Monitoring performance & de-selection • Fees	***2012***

Asset Allocation *(relates to CIPFA Knowledge & Skills Framework areas: Investment Performance & Risk Management, Financial Markets & Products)*	• Basic concepts – Expected Return, Risk Budget, efficient markets • Why is asset allocation important – correlations, strategic vs. tactical allocation • Implementation of strategy – active/passive investing, large/mid/small cap, UK/overseas, relative/absolute return, quantitative/fundamental investment approaches	2012
Actuarial valuation and practices *(relates to CIPFA Knowledge & Skills Framework areas: Actuarial Methods, Standards and Practices)*	• Understanding the valuation process - Future and past service contributions - Financial Assumptions - Demographic Assumptions including longevity • Importance of Funding Strategy Statement • Inter-valuation monitoring • Managing Admissions/cessations • Managing Outsourcings/bulk transfers	***Interim Valuation workshop 4Q11*** Refresher for 2013 valuation in late 2012

Planned Committee Workshops 2011/12

Workshop	**Content**	**Timing**
SRI - Stage 1	Overview and Direction of Policy	***4Q11***
SRI – Stage 2	Implementation options	***1Q12***
Hutton Proposals	***Implications of Hutton proposals will be covered in Interim Valuation Workshop***	***4Q11***

Investment Market Topics

Topic	**Content**	**Timing**
Current market outlook - (delivered by a manager)	- focus on inflation risk and impact on quantitative easing in particular on bonds	June/ Sep 2011
Emerging markets – (delivered by a manager)	potential opportunities/risks	2012
Infrastructure	introduction to opportunities	***2012***
Private Equity	introduction to the asset class	2013

Note – changes since last meeting in bold italics

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