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15 March 2013
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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 (Vice-Chair) and Katie Hall

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

Co-opted Non-voting Members: Clive Fricker (Town and Parish Councils), Rowena Hayward (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, 22nd March, 2013

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 22nd March, 2013** at **2.00 pm** in the **The Carter Room - Fry Club and Conference Centre, Keynsham.**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

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

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

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

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

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

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

   Appendices to reports are available for inspection as follows:-

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

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

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

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

6. **Emergency Evacuation Procedure**

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

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

Avon Pension Fund Committee - Friday, 22nd March, 2013

at 2.00 pm in the The Carter Room - Fry Club and Conference Centre, Keynsham

A G E N D A

PRELIMINARY ITEMS

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

   At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to indicate:

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

   (b) The nature of their interest.

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

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

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

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

7. MINUTES: 14 DECEMBER 2012 AND 6 MARCH 2013 (Pages 5 - 18)

STRATEGIC REPORTS

8. BUDGET AND SERVICE PLAN 2013/16 (Pages 19 - 38) *20 MINUTES*

9. LGPS 2014 CONSULTATION (Pages 39 - 58) *10 MINUTES*

10. REVISED TREASURY MANAGEMENT POLICY (Pages 59 - 66) *10 MINUTES*

11. INVESTMENT PANEL MINUTES AND RECOMMENDATIONS (Pages 67 - 72) *5 MINUTES*

12. HEDGE FUND PORTFOLIO (Pages 73 - 78) *15 MINUTES*

Before discussing this item 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, in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, that 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.”

13. PROJECTS ARISING FROM THE STRATEGIC REVIEW - COMMITTEE TERMS OF REFERENCE (Pages 79 - 90) *10 MINUTES*

MONITORING REPORTS

14. REVIEW OF INVESTMENT PERFORMANCE (Pages 91 - 164) *20 MINUTES*

Before discussing the contents of Appendix 3 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, in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, that the public be excluded from the meeting during the discussion of Appendix 3 of 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. PENSION FUND ADMINISTRATION (Pages 165 - 192) *20 MINUTES*

FOR INFORMATION

16. AUDIT FEES 2012-13 (Pages 193 - 198) *5 MINUTES*

17. WORKPLANS (Pages 199 - 210) *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, 14th December, 2012, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Nicholas Coombes and Charles Gerrish (Vice-Chair)

Co-opted Voting Members: Councillor Mary Blatchford (North Somerset Council), Ann Berresford (Independent Member), Carolan Dobson (Independent Member) and Richard Orton (Trade Unions)

Co-opted Non-voting Members: Steve Paines (Trade Unions) and Paul Shiner (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor) and Jignesh Sheth (JLT Investment Consulting)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Steve McMillan (Pensions Manager) and Alan South (Technical and Development Manager)

36 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

37 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillors Gabriel Batt, Mike Drew, Katie Hall, and Mark Wright.

38 DECLARATIONS OF INTEREST

There were none.

39 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

It was noted that this was Bill Marshall's last meeting as a Member of the Committee. The Chair, Members and officers thanked Bill for his contributions to the work of the Committee. Bill said that since he became a member in 2006 he had been impressed by the way in which the Committee had developed and responded to change.

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

There were none.

41 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

42 MINUTES: 21ST SEPTEMBER 2012

The public and confidential minutes of the meeting of the 21st September 2012 were approved as a correct record and signed by the Chair.

43 INTERIM ACTUARIAL VALUATION 2012 - PRESENTATION BY ACTUARY

Mr Middleman made a presentation. A copy of his slides had been circulated with the agenda.

He said the key issue was affordability. Known factors that would impact on the valuation included workforce reductions and the maturity of the Fund. There was considerable uncertainty about the wider outlook for the economy; there was now talk of the UK's credit rating being downgraded, and a failure of the Euro could put massive pressure on the Fund. There was also the impact of the Local Government Pension Scheme (LGPS) reforms. A major pressure came from the current low level of gilt yields, which would be serious if current yields persisted into 2013. In response to a question from the Chair, he agreed that low gilt yields would create pressure for higher contributions. On the other hand he would assume that the pay cap of 1% would remain in place for some time, which would probably lead to the unwinding of about £100m of the deficit. In reply to a question from Councillor Gerrish, he said that it was difficult to predict the effect of quantitative easing in the United States.

He said that the Public Service Pension Bill represented a paradigm shift in public sector pension fund governance. There would probably be a National Pensions Board for the LGPS funds. The proposed reforms of the LGPS benefits structure would not affect the deficit. In response to a question from Richard Orton, he said that the increase in retirement ages would be the major force for savings; an increase in the number of people working beyond 65 would reduce costs because they would have given up their right to take benefits at an earlier age. He said that the Treasury wanted the new LGPS to be structured in exactly the same way as the unfunded schemes. The Unions, however, wanted the difference recognised. He drew attention to the timeline for the valuation given on page 65 of the agenda papers.

RESOLVED to note the information given in the report and the presentation.

44 UPDATE ON LGPS CONSULTATION - VERBAL REPORT

The Technical and Development Manager updated the Committee. He had prepared a note, which had been circulated with the agenda. The note gave the text of the written Ministerial Statement issued in November and set out the main parameters of the forthcoming statutory consultation. The statutory consultation (relating to Workstream 1, which dealt with benefit amendments) was expected to be issued the following Friday. The consultation period for this had been halved from 12 weeks to 6 weeks. This would be followed by a narrative paper on Workstream 2 (governance and cost controls), which would probably be issued next March. The new Regulations were expected to be issued next year.

Councillor Gerrish asked about the potential impact of scheme changes on pensions administration. The Pensions Manager replied that there would be no change to benefits until 2014. The management of changes would be facilitated by the use of the CARE software, which was already being used by the Pensions team. The Head of Business, Finance and Pensions said that in the worst case the implementation of changes would have to be prioritised and other work temporarily put aside.

The Chair said that he had heard that the Councillors' Pension Scheme might be abolished. The Technical and Development Manager replied that this scheme had been revised in 2008 and that any review of it was very much on the back burner.

RESOLVED to note the update.

45 LGPS INVESTMENT LIMITS - INVESTMENTS IN PARTNERSHIPS

The Investments Manager presented the report. She explained that the Department for Communities and Local Government was consulting about whether the limits imposed on investments in partnerships by the LGPS Regulations should be amended to facilitate funds' investments in infrastructure. Investment partnerships were the usual vehicle for investments in infrastructure. A draft response to the consultation was appended to the report.

She said that the Fund had been lobbying with other funds to have the limits replaced by a more flexible risk framework, but thought this was unlikely to be implemented. The current consultation arose from the Government's infrastructure initiative. Regardless of the outcome of the consultation, investments in infrastructure would continue to be made on the same criteria as other investments.

Mr Sheth said that he was uncomfortable with the singling out of infrastructure investment. The same criteria should be used to assess all investments.

RESOLVED to approve the draft response to the DCLG consultation.

46 INVESTMENT PANEL MINUTES AND RECOMMENDATIONS

RESOLVED to note the draft minutes of the Investment Panel.

47 REVIEW OF INVESTMENT PERFORMANCE (SEPTEMBER 2012)

The Investments Manager presented the report and highlighted the key figures. She drew attention to the new section 9 of the report "Review of Internal Control Report". She said that there were no major concerns to bring to the Committee.

Mr Sheth presented the JLT investment report. He said that it had been a positive quarter for equities because of a change in market sentiment. Market sentiment had been boosted by two factors. The first was the statement by the President of the European Central Bank that the Bank would do whatever it takes to save the Euro; this had shown that there was the political will to save the Euro, even though there might be concerns about the long-term stability of the currency. The second had been quantitative easing in the United States to support mortgages. There were signs that markets were becoming less concerned about inflation and more concerned about growth. The IMF had reduced its growth forecasts. JLT expected gilt yields to increase, but it was not clear when and by how much. Gilt yields had increased over the past couple of weeks, but could be knocked back by bad news.

It had been a decent quarter for all the Fund's investment managers. There had been a very good performance by Partners. The Investment Panel had met TT and had been reassured by the changes they had made. Schroders had outperformed over the quarter. It was understood that they selected stocks on a long-term basis, so their performance is subject to short-term volatility. Accordingly, their underperformance over the year since the start of the mandate was not a significant concern. The Investment Panel would be meeting Schroders in February 2013. Discussions had been taking place with Man about the restructuring of their funds. They were continuing to be monitored to see how these changes impacted performance. The Investments Manager added that Man had recognised that they had been over-diversified; the jury was out on whether the restructuring had worked. Councillor Gerrish said that the Investment Panel had been looking closely at Man. Their performance in the last quarter seemed to show improvement; action would be taken if this did not continue.

RESOLVED to note the information set out in the report.

48 PENSION FUND ADMINISTRATION

The Investments Manager summarised the financial report. The forecast was for a net underspend for the year ending 31 March 2013 mainly because of lower fees for investment managers and reduced fees under the new custodial contract. There had been £17,000 additional expenditure on IT, which was approved by the Committee in September 2012.

The Pensions Manager summarised the performance report. Active membership remained fairly stable. The number of joiners had declined, which was not unexpected in view of the on-going freeze in local authority recruitment. Employers had been advised that Employer Self Service had been enhanced to allow online updating of member changes. Online updating would be mandatory from 1 April 2013. The Fund had purchased *i-Connect*, which will allow information on starters and changers to uploaded monthly into the Fund's database from employers' payroll data. The four unitaries had also signed contracts to take *i-Connect*, which would also allow them to monitor their workforce data electronically to assess their staff for auto enrolment purposes. He then turned to the employer performance data, which would no longer be taken in exempt session. There had been major improvements in the performance of Bristol City Council and North Somerset. South Gloucestershire was improving, but Bath and North East Somerset was lagging behind. This had been taken up with the Head of Human Resources at B&NES, who had sent a response to the Chair. The Chair said that this would be copied to any member who requested it. The Pensions Manager said that great progress had been made in removing errors from the Fund's database; all errors should have been removed by the end of the year. A detailed explanation of the apparently poor performance by B&NES and Bristol City Council on deferreds had been included on page 172 of the agenda papers. Their performance figures for deferreds were expected to improve when older "backlog" cases had been cleared. Three employers who had failed to send their year-end returns were listed on page 173 of the agenda. They were Liberata, Mangotsfield Parish Council and Southern Brooks. Their returns had all been received prior to this meeting

RESOLVED to note:

(i) administration and management expenses incurred for 7 months to 31 October 2012;
(ii) performance indicators and customer satisfaction feedback for 3 months to 31 October 2012;
(iii) Summary Performance Report for period 1 April 2011 to 31 October 2012.

49 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 3.29 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Wednesday, 6th March, 2013, 9.30 am

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

Co-opted Voting Members: William Liew (HFE Employers), Councillor Mary Blatchford (North Somerset Council), Ann Berresford (Independent Member), Carolan Dobson (Independent Member) and Richard Orton (Trade Unions)

Co-opted Non-voting Members:

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

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager) and Matthew Clapton (Investments Officer)

50 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

51 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Mark Wright, Rowena Hayward and Paul Shiner.

52 DECLARATIONS OF INTEREST

There were none.

53 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

55 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

56 REVIEW OF INVESTMENT STRATEGY

It was **RESOLVED** by 10 votes in favour and 1 against that:

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

Following discussion, it was **RESOLVED** unanimously:

1. To agree the strategic asset allocation set out in paragraph 6.3;
2. To agree the revised governance arrangements to be recommended to the Council as set out in Exempt Appendix 2, subject to the amendment in paragraph 2 of "to delegate implementation to Officers who will consult the Panel" to "to delegate to the Panel" ;
3. To agree the implementation plan set out in Exempt Appendix 3;
4. To note the implications for changes to Fund policy identified in section 9.

The meeting ended at 11.40 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	AGENDA ITEM NUMBER
MEETING DATE:	22 MARCH 2013	
TITLE:	2013-16 SERVICE PLAN AND BUDGET	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Annex: 2013 – 2016 Service Plan and Budget (including 3 Appendices)		

1 THE ISSUE

1.1 The purpose of this report is to present to Committee the 3-Year Service Plan and Budget for the period 1 April 2013 to 31 March 2016.

1.2 The Service Plan (Annex) details development proposals that are planned to be undertaken during the next 3 financial years. These are designed to respond to known legislative changes and Committee initiatives as well as to take the Service forward by improving performance and overall quality of service to its stakeholders.

2 RECOMMENDATION

2.1 That the Committee approves the 3-Year Service Plan and Budget for 2013-16 for the Avon Pension Fund.

3 FINANCIAL IMPLICATIONS

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

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

3.3 Financial implications are contained within the body of the Report.

4 SERVICE PLAN 2013/16

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

4.2 Within this plan, 2013-14 is a particularly busy period with the introduction of the new scheme, the 2013 valuation, implementation of the new investment strategy and roll out of electronic information systems. The later years will focus on consolidation, realising efficiencies and embedding partnership working.

4.3 Full details of the 2013/16 Service Plan are included in the Appendix. Appendix 3 of the Service Plan shows the new medium term targets for 2013/16

5 BUDGET FOR 2013/16

5.1 The Service Plan includes details of the proposed budget over this period. A three-year budget commencing 1 April 2013 is included as **APPENDIX 3A** to the Service Plan. A commentary on the budget is given in **APPENDIX 3B**.

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

5.3 The budget approved for Administration, Governance and Compliance in 2012/13 was £2,716,800. In the proposed budget for 2013/14 this has had to be increased to £3,009,500. The increase is mainly in order to meet the one off costs of the strategic review of investments and to provide the necessary resources to meet the increased administrative pressures on the Fund. This increase in budget includes £125,000 relating to the restructure of the Benefits section that was approved by Committee in September 2012. Wherever possible the increased demand for resources has been met by savings in other areas. The Service Plan includes explanations of any growth and savings in the budget and any variations resulting from expected developments shown in the Service Plan.

6 RISK MANAGEMENT

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

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Are detailed in the report.

10 ADVICE SOUGHT

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

Contact persons	**Budget** – Martin Phillips, Finance & Systems Manager (Pensions) (01225 395259) **Service Plan** -- Tony Bartlett, Head of Business, Finance and Pensions (01225 477302), Steve McMillan, Pensions Manager (01225 395254), Liz Woodyard, Investments Manager (01225 395306)
Background papers	Various Accounting Records

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THE AVON PENSION FUND

SERVICE PLAN

2013 - 2016

PREPARED BY:

TONY BARTLETT, STEVE McMILLAN, MARTIN PHILLIPS and LIZ WOODYARD

MARCH 2013

CONTENTS OF SERVICE PLAN

SECTIONS

APPENDICES

1. INTRODUCTION

The Local Government Pension Scheme continues to face its most significant changes for many years that will impact financially and operationally on all areas of the Avon Pension Fund and its Employing Bodies. The Hutton Report on Public Sector Pensions set out a range of principles to shape future public sector pension schemes which are currently being incorporated into the Public Sector Pensions Bill 2013. The proposals to change the LGPS will affect contributions, benefits and accessibility to pensions. In addition, the funding environment for many of the employing bodies will remain challenging over the 3 years of this Service Plan.

Increasing longevity pressures together with a prolonged economic downturn means affordability remains at the top of the agenda and the new scheme which balances the relative affordability of employers and members is scheduled to come into effect in April 2014. The new scheme coupled with the implementation of auto-enrolment is putting severe pressure on the administration of both the Fund and Employer. Whether the new scheme has the desired effect on costs in the long term remains to be seen but it is not expected to reduce costs in the short term as the cost of pensions continues to rise due to the effect of historically low government bond yields on the discount rate used to value liabilities. Any potential savings arising from the changes to the benefits structure from 2014 will be taken account in the 2013 Valuation by the actuary. In 2012-13 the Fund reviewed its Investment Strategy in light of the current economic environment and outlook for investment markets.

These changes come on top of existing pressures; the number of employers is increasing exponentially as Local Authorities divest themselves of services through outsourcing and the creation of academies removes schools from LEA control, there are now 59 academies in the Fund; the number of Fund members has increased by two-thirds in the last decade but now the trend is decreasing due to recent public sector cuts; the level of diversification required to manage risk within the investment portfolio has increased the number of fund managers to three times its level in 2006, a period during which the level of scrutiny of the Fund through regulation and our own governance arrangements has also increased significantly. Against the difficult economic environment and public sector cuts, the Fund is dealing with the financial difficulties faced by some of its smaller Employers, as well as an increase in demand for information as employers downsize and alter the way they deliver services. In 2012-13 the level of contributions paid into the Fund fell at the same time that pension payments increased. This has caused the Fund to move into negative cashflow which will need to be managed through the revised investment strategy.

In the main the Fund has coped extremely well with all these challenges. During 2012/13 the Fund took significant steps to prepare for the changes to come. It revised its internal structure to ensure it can continue to deliver a high quality service to members and employers in recognition of the new changing world ahead. The establishment of a Data Control and Quality Management (DCQM) team from March 2013 will improve data quality and help streamline process. The team will also quality assess member data and clear errors to ensure that the Fund will meet the stringent minimum data quality requirements being brought in April 2015 policed by the Pensions Regulator whose remit has been significantly extended. The ground work for full electronic delivery of member data changes were laid in 2012 with the purchase of new middleware to enable bulk **automatic monthly** updating of changes to the Fund's pension database for larger employers and the roll out of Employer Self Service for other employers to facilitate their on-line update of changes.

Fire Fighters Scheme

The Pension Section also has responsibility for administering the two existing Fire Service pension schemes for Avon fire-fighters. This, like the LGPS will have a third new CARE based Scheme introduced but a year later from April 2015. Resource will be required as for the LGPS Scheme to communicate the changes to members and to deal with an additional layer of benefit calculations and new software. In view of the relatively small number of members it is expected that the existing resource will be able to handle this change. A more accurate assessment will be made in 2014 when the details of the new scheme is known and any additional resource will be included in the 2014-17 Service Plan.

The 2012-15 Service Plan identified the need to strengthen the resources in managing the investment and funding strategies and also in member data quality assurance within the benefits administration area. The extra resources are now in place leaving the Fund well positioned to deal with change moving forward.

The 2013-16 Service Plan builds on last years plan, identifying how the Fund will implement changes to its strategy and operations in order to continue to deliver services efficiently and that costs remain competitive.

2. KEY OBJECTIVES 2013 -16 (See APPENDIX 2: Key Objectives & Targets for detail)

The Fund's two core Strategies, Investment and Administration are both designed to maximise the efficiency and sustainability of the Fund and the success of these is critical. In particular diversification of investments has been a key strength in recent turbulent times but has proved resource and governance intensive; the Pensions Administration Strategy has set a direction of travel which is perfectly aligned to the developing environment and work has begun with the Fund's' key employers to fully realise the benefits for all parties.

Within this plan, 2013-14 is particularly busy with the introduction of the new scheme, the 2013 valuation and implementing changes to the investment portfolio. The latter years will focus on consolidation, realising efficiencies and developing partnership working.

The Principles established between government and unions in developing the new scheme include a review of the Administrative and Fund Management arrangements to improve efficiency, governance, transparency of data and collaborative initiatives. The implications for the Avon Fund are unclear but the diversity in size and value of funds across the country suggests that greater collaboration and possible rationalisation could materialise.

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

1. To fully engage in all activity relating to the design, development and communication of a new Local Government Pension Scheme ("LGPS") proposals ensuring all stakeholders are fully informed of the developing situation
2. To plan for and implement all necessary changes to the administration to ensure a seamless transition to the new LGPS in 2014 and new Fire-fighters Pension Scheme in 2015, including systems enhancements and training for both the Fund and its employers
3. To work with employers to plan for and implement robust procedures for successful implementation of auto-enrolment (Employer legal responsibility)
4. To progress electronic member information updating by the introduction of the availability of on-line updating of member information to employers through *Employer Self Service* and to work with the unitaries to develop bulk interfaces through the recently purchased *i- Connect* software
5. To progress the move towards electronic delivery of Scheme communications to active members
6. To improve the quality of member data held to meet the Pension Regulator's minimum legal requirements expected from April 2014. It will also review data changes as they are submitted by employers clearing errors to streamline the work of the Benefits teams in processing and paying members benefits
7. To undertake the Fund valuation including the review of the Funding Strategy Statement in light of scheme changes and Fund experience
8. To implement changes to the Investment Strategy in line with the principles set out in the Statement of Investment Principles.

9. To review the monitoring of the investment strategy and management arrangements in order to strengthen the decision making process and support the amended governance arrangements in respect of investment decisions
10. To review the Pensions Administration Strategy, recognising the new arrangements for electronic service delivery and in particular to deal with issues of poor performance. Introduce a new charging regime to reflect the increasing cost of employer fragmentation and the workload this generates.
11. To embrace partnership opportunities as they arise at both a local and regional level.
12. To review the training arrangements for the Committee in view of the emerging changes.

3. RESOURCE IMPLICATIONS

The 2012-15 Service Plan included proposals to strengthen the organisational structure to build resilience for the future, reduce risk and ensure fitness for purpose. As a result and number of staff changes were implemented in 2012/13 and the budget now reflects the revised organisational structure.

The Investments team has been strengthened by a full time post to work with employers on actuarial issues including outsourcings and an Investment Officer to assist in the monitoring of the investment arrangements, cash balances and asset allocation in addition to working on investment projects. These costs were provided for in the 2015-16.

The entire cost implications of implementing the new scheme arrangements cannot be fully quantified at present, but there are significant IT, Communication and training aspects to introducing the new scheme. In order to be adequately resourced for these changes and in particular the need to have accurate pension records, the Benefits Section has been restructured and strengthened from March 2013 by putting in 2.5 additional posts and by the establishment of a new Data Quality and Control Management team to help streamline process in advance of new stringent minimum data quality requirements by the Pensions Regulator. The additional costs of this change and the costs for implementing the new LGPS Scheme are included in the budget. In contrast the cost saving initiative is progressing to move to full electronic delivery to members.

Once the full extent of the Scheme changes and the roll out of auto-enrolment are understood, proposals may be brought forward to make further changes to the Benefits Section and its support services. This will depend on the effectiveness of the initiatives put in place to manage the extra work.

4. BUDGET 2013-16

The three year budget plan includes provision for the Triennial Valuation, implementation of the revised investment strategy and additional costs resulting from the restructuring of the Benefits Administration team that were approved in September 2012. As the revised investment management structure has not been agreed at the time of setting this budget, assumptions have been made including the appointment of new managers of more complex mandates than those funding the new mandates and, as a result, will incur higher costs. An allowance has been made for investment advice to select managers and projects arising from the review. The Investments budget also reflects the anticipated 6% growth in asset values and will clearly be lower if this is not the case.

Full details of the budget movements between 2012/13 and 2015/16 are given in **APPENDIX 3A.** A commentary on the budget is given in **APPENDIX 3B.**

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SCOPE OF THE AVON PENSION FUND

As at 31st March	2010	2011	2012
STAFF ESTABLISHMENT			
Investment & accounting	7.8	9.4*	9.4
Benefits administration	31.0	29.6*	29.1
Total staff	38.8	39.0	38.5
* 2 staff transferred to Investments to create the *Employer Relationship team.*			
AVON PENSION FUND Membership			
▪ Active	34,800*	33,810*	33,737
▪ Deferred	24,544	26,868	28,657
▪ Pensioners	21,313	22,541	23,631
Total membership	80,657	83,219	86,025
**Fell following continuous data cleansing exercises*			
No. of Participating Employers	102	107	140 *(173 at 31/01/2013)*
Employers common contribution rate (*% of employees pensionable pay)*	16.6% (inc. 4.9% for deficit repayment)	16.6% (inc. 4.9% for deficit repayment)	16.6% (inc. 4.9% for deficit repayment)
Fund Assets (£)	2.46bn	2.67bn	2.76bn *(£2.93bn at 31.1.13)*
Funding Level	82%	83%	70% *(71% at 31.12.12)*
2. FIRE-FIGHTERS PENSION SCHEMES Total Membership in 2 Schemes			
▪ Active	744	771	764
▪ Deferred	65	72	81
▪ Pensioners	744	751	749
Total	1,554	1,594	1,594
3. Teachers Compensatory Added Years – number of pensions in payment	2,877	2,822	2,757

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Key Objectives & Targets 2013-2016

Key Objective	Tasks	Target Date
1. To undertake the Fund's triennial valuation as at 31/03/2013 and the review the Funding Strategy Statement in light of scheme changes and actuarial findings	• Commission the Valuation process and review of actuarial assumptions • Prepare financial risk assessment of employing bodies • Data Cleanse project • Agreement of employer contributions	Workshop 3Q13 2Q13 2Q13 4Q13
2. Implement changes to the Investment Strategy maintaining compliance with the Funds Investment Principles and Policy	• Projects arising and Implementation process • Revise any investment policies (rebalancing, cash management) to support new strategy • Revise Committee and Panel Terms of Reference to reflect revised governance arrangements	Commence 2Q13 2Q13/2Q13 1Q13/2Q13
3. To review the Governance and training arrangements for the Committee in view of the emerging changes	• Review the appointments of Independent Advisor • Appoint new Independent member to the Committee • Training for new members • Committee Training (in-house provision) ○ Valuation workshop to discuss funding level and assumptions for FSS (3Q13)	November 2013 By June 2013 Start 3Q13 On-going
4. Develop a central document management system for storing financial, legal and actuarial information of individual employers	• Select appropriate software or set up new system to enable central storing of financial /actuarial data and correspondence	September 2013
5. Build on changes in 2012 to Pension Section organisation structure to build resilience for the future, reduce risk and ensure fitness for purpose	• To embed the new Member Data Quality Control Function team to improve data management to comply with the stringent requirements of the Pensions Regulator effective from April 2015. • To assess the quality of existing data and identify errors/omissions and remedy by 2015	1Q13 onwards 1Q13 onwards
6. Seamless introduction of New ***LGPS*** Scheme 2014 adapting to new pension software and successfully communicating with employers and members	• Dealing with the extra administration and complexity of a new CARE Scheme *and* 50/50 Scheme • Adapting to new and radically different pensions software	1Q14 1Q14

on changes	• Communication campaign with members and employers to successfully explain the changes – requiring member & employer roadshows, Scheme newsletters, DVDs and replacement Scheme literature.	3Q13 onwards for 12 months
7. Seamless introduction of New ***Fire fighters*** new Scheme in 2015 adapting to new pension software and successfully communicating with employers and members on changes	• Adapting to new pensions software • Working with Avon Fire Service to put in place a successful communication campaign to explain changes to fire-fighters requiring roadshows**.**	2Q 14 onwards for 12 months
8. To strengthen the working relationship and process efficiency with employers by moving to full electronic delivery of change in member data through ESS and/or i-Connect	• Complete roll out of Employer Self Service (ESS): - to larger employees - to medium AND smaller employers • Complete installation of i-Connect software for the 4 unitaries and support the process • Market i-Connect to other participating employers in the Fund • Implement employer staff training programme	2Q13 3Q13 thru' to 1Q14 1Q13 2Q13 During 13/14
9. To progress to electronic delivery to members as a cost saving measure	• To progress to electronic delivery to active members of generic Scheme communications • Promotion of Member Self-Service to sign up members to enable this	3Q13 3Q13 onwards
10. To embrace partnership opportunities as they arise at both a local and regional level.	• Pilot communications opportunities within region to support new scheme implementation	3Q13

SERVICE PLAN

APPENDIX 3A

	Budget for 2012/13 £	Forcast 2012/13 £	Budget 2013/14 per 2012/13 3 year budget £	Budget 2013/14 £	Budget 2014/15 £	Budget 2015/16 £
Investment Expenses	75,300	75,300	96,800	71,500	71,500	73,700
Administration Costs	75,500	75,500	69,300	76,900	83,000	83,100
Communication Costs	81,000	63,000	81,000	90,100	72,900	75,100
Payroll Communication Costs	79,500	82,500	81,700	81,700	84,200	86,700
Information Systems	216,300	235,300	221,900	246,200	252,300	243,400
Salaries	1,372,300	1,312,300	1,386,100	1,476,500	1,488,200	1,485,000
Central Allocated Costs	395,200	403,200	395,300	425,900	415,800	415,800
Recharges Admin	- 166,000	- 174,000	- 171,000	- 134,300	- 137,700	- 141,200
Total Administration	**2,129,100**	**2,073,100**	**2,161,100**	**2,334,500**	**2,330,200**	**2,321,600**
	-	-	-	-	-	-
Governance Costs	308,900	284,900	210,800	327,800	244,900	199,200
- Members' Allowances	40,500	40,500	41,700	39,100	40,300	41,500
- Independent Members' Costs	48,800	48,800	19,300	28,000	18,500	19,100
Compliance Costs	339,500	482,500	414,800	471,100	361,600	372,400
Compliance Costs recharged	- 150,000	- 300,000	- 154,500	- 191,000	- 196,700	- 202,600
Governance & Compliance	**587,700**	**556,700**	**532,100**	**675,000**	**468,600**	**429,600**
Admin, Governance & Compliance				**3,009,500**	**2,798,800**	**2,751,200**
Global Custodian Fees	120,000	100,000	123,600	129,400	137,200	145,400
Investment Manager Fees	10,053,000	10,053,000	10,656,100	12,525,500	13,250,500	14,045,600
Investment Fees	**10,173,000**	**10,153,000**	**10,779,700**	**12,654,900**	**13,387,700**	**14,191,000**
NET TOTAL COSTS	**12,889,800**	**12,782,800**	**13,472,900**	**15,664,400**	**16,186,500**	**16,942,200**

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SERVICE PLAN 2013 - 2016

A three year budget for 2013 to 2016 is included as Appendix 3A. The proposed budget includes the variations resulting from expected developments shown in this Service Plan.

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

The table below shows the change in the budget for the Fund between 2012/13 and 2013/14, excluding Investment Management and Custody costs that are dependent upon investment performance and the volume of transactions:

Change in Administration, Governance and Compliance Budget	**£**
Budget for Administration, Governance and Compliance 2012/13	2,716,800
Additional Recurring Costs	
Additional resources for Salaries, Software and IT costs to meet demands of Auto-enrolment and the new scheme LGPS2014, approved by the Committee in September 2012.	125,000
One off costs 2013/14 (and 2014/15 where indicated)	
Triennial Valuation	120,000
Investments Strategic Review (Work spread over two years)	50,000
Investments New Mandates (following strategic review)	90,000
Investments Transition Manager (following strategic review)	25,000
Apprentices (Two years only) to meet demands of Auto-enrolment and the new scheme LGPS2014 approved by the Committee in September 2012	18,000
Removal of 2012/13 One Off costs	
Appointment of Independent Trustees (one off cost)	-30,000
SRI Tender advice	-20,000
Recurring savings partly offset by inflation	-85,300
Proposed Administration, Governance and Compliance Budget	**3,009,500**

The budget has had to be increased to in order to provide the necessary resources to meet the increased administrative pressures on the Fund and the one off costs relating to the strategic review of investments. The increase includes £125,000 relating to the re-structure of the Benefits section that has already been approved by the Committee in September 2012. Savings have been found across the budget, including the absorption of the effect of inflation. A detailed analysis of the necessary growth, savings and one off items is given below.

In the subsequent two years of the service plan the budget is expected to reduce to c. £2,800,000 based on current assumptions of service delivery, governance and compliance.

<u>Scheme Administration</u>

1. **Salaries**
   There is an increase in salary costs of £104,200. Of this £77,000 is to fund the restructure of the Benefits section and creation of the Data Quality and Management Team as approved by the September Committee. A further £18,000 is to provide for the cost of two apprentices for 2013/14 and 2014/15 also as approved by the September Committee. The balance of the increase is the net result of some grade confirmations of new posts offset by a reduction in the provision for overtime and temps.

   The 2013/14 salaries budget is based on an assumed 1% increase in pay rates. The same level of increase is also assumed for subsequent years.

2. **Investment Administration**
   There is a small reduction in costs from savings in Investment Accounting as a result of the new custody contract and from a reduction in expenditure on publications.

3. **Administration**
   There is a small increase in the budget for tracing that will improve the quality of data held in relation to deferred members. This is largely off-set in 2013/14 by the removal of the cost of the periodic AVC monitoring exercise that will not be required until 2014/15.

4. **Communications**
   The Communications budget has had to be increased by £9,000 to meet the cost of producing two editions of the Pensioner Member's magazine "At Ease". It was previously intended that the cost of producing the magazine would be substantially reduced through a partnership arrangement. Unfortunately it has not been possible to implement this arrangement. If an alternative partnership can be found the budget for the magazine may not all be required.

5. **Payroll Communication**
   The Payroll Communication budget that is mainly made up of postage costs has been increased with inflation.

6. **Information Systems**
   Information Systems costs have increased by £30,000. Of this increase £15,000 is to fund the full year cost of the "i-Connect" system that was previously only budgeted for part of the year. The system will allow the more efficient uploading of employer's data in to Altair, of particular importance when Auto Enrolment starts. The other £15,000 is to

fund the cost of the necessary updates to the Altair system in preparation for the LGPS 2014 scheme.

7. **Central Allocated Costs**
Central Allocated Costs are budgeted to increase by £30,700.

- £10,000 of this relates to the additional IT costs of the restructure that were approved by the September 2012 Committee.

- £10,000 is to fund the research and acquisition of a suitable Employer Document Management System (central storage for employer related documents and correspondence). With the growing number of employers in the Fund and their increasingly complex and diverse situations it is becoming imperative to maintain their documents in a well ordered and manageable system.

- £10,700 is to fund additional corporate legal fees that are expected to result from the various activities of employers (mainly admission agreements). Such costs arising from outsourcings are recharged to the relevant employer.

8. **Administration Recharges and Compliance Costs Recharged**
The budget for income from recharges has been increased by £9,000 to £325,000. Within this total there has been a greater increase in recharges for actuarial work offset by a reduction in recharges for administration. The budget reflects the expectation that there may be a slow-down in the number of schools converting to Academy status and thus becoming new employers in the Fund. It is accepted that this may be an underestimate if the rate of conversion to Academies does not slow or if there is an increase in out-sourcing of services such as cleaning and catering.

The Fund intends to impose recharges on employers for additional work incurred as a result of their late or inappropriate submission of data/information. However, it is intended that these recharges should stimulate a change in behaviour rather than produce additional income.

<u>Governance and Compliance</u>

9. **Governance**
The budget for Governance Costs, including Member’s allowances and Independent members’ costs has been reduced by £3,000 due to a combination of factors, mainly:

- Investment Consultancy fees have increased £20,000 including the advice required to implement potential changes to the investment management structure.
- This has been more than offset by the removal of the one off cost in 2012/13 for appointing independent trustee.

10. **Compliance costs**
The 2013/14 budget for Compliance costs is £132,000 more than the budget for 2012/13. The budget increase is mainly due to:-

- Actuarial costs of £105,000 for the 2013 Triennial Valuation, the costs of which will fall mainly in 2013/14.
- A £37,000 increase in Actuarial fees (excluding the valuation) that will wherever possible be recharged to the relevant employer. These recharges are shown

separately in the budget as income, but offset £37,000 of the total increase in Compliance costs.

- A £5,000 increase in the budget for External Legal Services for new Investment Management Agreements.
- The above are partly offset by a £17,000 reduction in the expected external audit fee.

Investment Fees

11. Investments fees

The investment management fees budget is based on the assumption that there will be a 6% increase in asset values during 2013/14.

In addition to the assumed 6% growth, the budget includes estimated net additional Investment Manager's fees of £1,760,000 arising from the new investment strategy. The revised strategy will include more actively managed mandates structured to generate the same overall return objective but with lower volatility of returns which is intended to maintain stability in employer contribution costs. The budget also includes £25,000 for Transition Manager Fees that may be incurred in implementing the new strategy.

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	AGENDA ITEM NUMBER
MEETING DATE:	22 MARCH 2013	
TITLE:	LGPS 2014 UPDATE	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix: Avon Pension Fund submission on the draft (including 2 Annexes)		

1 THE ISSUE

1.1 The purpose of this report is to present to Committee the submission to the Department of Communities and Local Government ("DCLG") by Head of Business Financial Services & Pensions of Bath & North East Somerset Council ("B&NES") as the administering authority of the Avon Pension Fund in response to the statutory consultation on the draft Local Government Pension Scheme Regulations ("LGPS") 2013 for the new Scheme effective from April 2014.

1.2 To avoid duplication of responses, Local Government Association ("LGA") submitted a response to DCLG on *specific clauses* on behalf of all Local Authority Funds who participated in a *consolidation exercise.* The Avon Pension Fund participated in and significantly contributed to this exercise with its comments and those of the South West Pensions Group being taking forward to a National Technical Group for assimilation.

1.3 Copies of the response by B&NES as administering authority is attached as an Appendix with 2 further Annexes. The response by LGA is not included due to its length but is available to view on the LGA website.

2 RECOMMENDATION

2.1 That the Committee notes the response submission by Bath & North East Somerset Council as the administering authority of the Avon Pension Fund sent to DCLG on 8th February 2013

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 There are no specific financial implications

4 LGPS ("LGPS") 2014: Response to Consultation on draft LGPS Regulations 2013

4.1 The statutory consultation on the draft Local Government Pension Scheme Regulations 2013 for the new Scheme effective from April 2014 was issued by DCLG on 21st December 2012 with a closing date of 8th February 2013, a consultation period only half the usual period with the consent of all interested parties. This consultation only covered the benefit structure of the new Scheme, a second consultation is expected shortly covering governance and transitional protections.

4.2 The letter of response and attachments to DCLG are contained in the Appendix and the 2 Annexes which were submitted on 8th February 2013.

4.3 As the draft regulations are not comprehensive, there are some unknowns at this stage. It was also not possible to cross reference the new regulations against how the transitional regulations will treat the protections going forward and how these will all fit together within the LGPS 2014.

There were three key areas that were unable to be included within this main response. These were:

1) Regulations that require amendment either for clarification on a technical point or how they fit in with the full regulations including transitions

2) Regulations that have been changed and there is no explanation as to why or it appears something has been omitted but it's not clear whether this is intentional or accidental

3) Regulations that require amendment but are not changing within this draft.

The Fund's response to regulations that fall into categories 1 and 2 above are included within **Annex 1** and **Annex 2** sets out in more detail the current issues regarding admission bodies and how the regulations should be changed to remove the current problems affecting them.

4.4 Responses to the Consultation were likely from most of the 92 Local Authority Funds ("LAF's"). In order to avoid duplication of comments from LAFs that would be responding on changes to ***specific clauses***, the Local Government Authority (LGA) offered to compile responses and submit a response on behalf of all LAFs.

4.5 APF's response was therefore drawn up in the knowledge that a plethora of comments on specific regulation changes from those LAF's who agreed to take in the LGA consolidation were covered in LGA's response to DCLG. A copy of THIS response is **not** enclosed as part of this report as it over a hundred pages long however it is available to view at or download from the LGA website.

5 RISK MANAGEMENT

5.1 No specific issues to consider.

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 Are detailed in the report.

9 ADVICE SOUGHT

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

Contact persons	**Alan South Technical Manager (Pensions) (01225 395283)**
Background papers	**Various previous updates to Committee since 2012**

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Avon Pension Fund
LOCAL GOVERNMENT PENSION SCHEME
Bath & North East Somerset Council
Floor 3 South, Riverside, Temple Street, Keynsham, Bristol, BS31 1LA
Tel: 01225 477000 ~ Fax: 01225 395258 ~ Email: pensionsedi@bathnes.gov.uk
Web: www.avonpensionfund.org.uk

The LGPS Pension Team
5/G6
Department of Communities and Local Government
Eland House
Bressenden Place
London SW1E 5DU

Ask for: Alan South
Telephone: 01225 395283
Fax: 01225 395258
Email: alan_south@bathnes.gov.uk
Our ref.: Pens/AGS
Your ref.: Philip Perry
Date: 8 February 2013

Dear Sir

Avon Pension Fund submission on the draft Local Government Pension Scheme Regulations 2013

The Avon Pension Fund [APF] is part of the Local Government Pension Scheme [LGPS] and is committed to participating in all consultations regarding the future development of the scheme. This response considers the draft regulations issued in respect of the changes in the benefit structure in the LGPS from 1 April 2014. [LGPS 2014]

The initial structure for the LGPS 2014 was set out in the joint informal consultation document sent out in June 2012 by the Local Government Association and Trade Unions. There was considerable support for these proposals from both employers and employees. This was a key factor in reducing the statutory consultation from the customary 12 weeks to 7 weeks on the basis that it was merely replicating the current benefits into the new structure.

As the draft regulations are not comprehensive, there are some unknowns at this stage. It has also not been possible to cross reference the new regulations against how the transitional regulations will treat the protections going forward and how these will all fit together within the LGPS 2014.

Regardless of this, there are still three key areas that can be included within this response. These are as follows:-

1. Regulations that require amendment either for clarification on a technical point or how they fits in with the full regulations including transitions

2. Regulations that have been changed and there is no explanation as to why or it appears something has been omitted but it's not clear whether this is intentional or accidental

3. Regulations that require amendment but are not changing within this draft.

Our response to regulations that fall into categories 1 and 2 above are included within Annex 1.

Whilst we understand the urgency for getting the new scheme on the statute books there are some further areas in the current scheme that should be reviewed at the soonest opportunity. These are as follows; e.

a) As a result of the Local Government Pension [Miscellaneous Regulations] Regulations 2012 the regulations in respect of admission bodies were changed to try to simplify arrangements. This authority wrote to DCLG explaining that these new provisions were almost unworkable and contained sections that seemed illogical. These same regulations have now been reproduced in the draft regulations to be carried forward. With the increasing necessity to seek economies, employers are increasingly looking to work together with other parties. There are so many new concepts of working together that the LGPS is constantly under pressure to cope with all the subtle differences.

   The whole concept of admission bodies needs to be reassessed to ensure that the LGPS is able to facilitate all circumstances. The way the current regulations stand employers may want to enter a partnership contract only to find problems with LGPS either delaying or preventing completion. This will only increase when scheme members are given the right to retain LGPS membership on outsourcing arrangements. This of course should not be at the expense of Administering Authorities still carrying out their responsibilities as guardian of the funds.

   Annex 2 sets out in more detail the current issues regarding admission bodies and how the regulations should be changed to remove the current problems.

b) The other area that urgently needs change is ill health retirement which we have been informed is high on the to-do agenda but deemed too onerous to change at this time bearing in mind the limited time left to get LGPS 2014 operational on time.

   The whole concept of tiers, reduced likelihood of gainful employment, tier 3 reviews need to be reconsidered to ensure that the whole procedure is clear to scheme members throughout. The process must also allow employers to manage their ill health process without the current complexities within the pension regulations.

   A detailed account of the problems within the regulations on ill health retirements will be sent to DCLG shortly.

This authority will ensure that DCLG is constantly reminded of the need for reform going forward on this matter.

c) It has become increasingly noticeable that wherever there is doubt over regulations or guidance from DCLG, any response from DCLG seems to refer the authority to seek their own legal advice. This practice appears to have become more prevalent, following the removal of the Secretary of State from the appeals procedure in 2004.

When the draft for the transitional regulations is released it is essential that sufficient time is given to ensure adequate responses can be given to make certain that all the regulations for the LGPS going forward are fit for purpose and workable.

It is a concern that there is such a tight timescale, drafting of the final regulations may be rushed thereby reducing quality and accuracy. We would ask that full account is taken of responses and ensure that regulations are fully workable even if there may be some delay.

Yours faithfully

Tony Bartlett
Head of Business Financial Services & Pensions
Bath & North East Somerset Council
Administering Authority for the Avon Pension Fund

Encl.
Annex 1
Annex 2

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Chapter 2 Proposals Part 1 Membership Contributions and Benefits

		Page
Reg 2	Notes refer to "administrating authority" whereas drafts regs say "administering authority" **Administering authority must be retained**	p13
	Membership	
Reg 3(1)(c) **Schedule 2 Part 3**	**This Authority has made representations to DCLG that the current regulations on admission bodies is flawed as a result of the Miscellaneous Regulations 2012** **Annex 2 uses the draft regulations as amended by Terry Edwards and includes our comments on what should be changed**	p 54
Reg 5 (5 [Ending Active Membership] Refunds on opt outs	Currently anyone who opts out within 3 months is deemed not to have been a member and contributions paid are refunded via payroll. **Administering Authorities must have clear guidance that this change merely substitutes 2 years for the existing 3 months and there will still be a requirement for payroll sections to make all refunds including where tax years are crossed**.	p 25
	Contributions	
Reg 10 (1) [50/50]	Uses the expression "for a period" **This must be defined either in reg or Schedule 1**	p 26
Reg 14	The rate of employee contribution in these cases has been set at 16% for many years **This should now reflect the current cost of the scheme [proposed 19.5%]**	p 28
Reg 16 (3) [MARCS]	Max level still £5000 same as 2008 level **There should be a mechanism to review this over time** **Regulation needs clarification as to what the limit of £5000 covers as not clear whether its each job, total jobs , all contracts and for each year**	p29

Reg 17 [AVC]	Understanding is that this regulation is being reviewed in full **If Admin Reg 25 (5)(b)(ii) and (iii) [death benefits provision] is not to be reproduced then notes should explain reasoning to show it has not been omitted in error**	p 30
Reg 18) [Refunds]	**Regulation 18(1) refers to Regulation 3(5) but it should be 3(6).** Regulation 18(4) covers claims made within 1 year **Provision if claimed after this period must also be covered**	p 30
Reg 21 (3) [Assumed pensionable pay]	Requirement for IRMP involvement, **Should be set that the employer makes decision**	p 31
Reg 21(6) Assumed pensionable pay	**Regulation should cover situation where assumed pay period spans more than 2 years** **Guidance to be given on the intentions of how this is to be achieved**	p 31
	Benefits	
Reg 30 Benefits	No employer's consent for age 55 – 60 early retirements. Actuarial reduction for all retirements before age 60 **With the removal of the specific compassionate grounds as reason to waive a reduction there must be some clear guidelines issued as to why this has been removed but retirements on redundancy grounds are still without reduction. These guidelines must show that it is not the intention to allow employers to decide whether to waive purely on financial grounds** **As there will be the need for new reduction factors for members with protections receiving benefits before age 60 it is imperative that GAD issue these and any relevant guidelines well in advance of the April 2014 implementation date**	p 36
Regs 35 – 39 [ill health]	The Consultation asked for comments on enhancements on subsequent ill health retirements **As these will be very rare cases it would be the preferred option to allow full**	p37-38

	enhancement in these circumstances	
Regs 41 44 & 47 [nominated co habiting partners]	**There is no reason for a nomination form as the partner already has to provide appropriate evidence on the member's death to claim any pension.[There is no requirement for a nomination for either a marriage or civil partnership** **This would also remove the anomaly of the requirement for the two year period to start at the point both become eligible to remarry/re-enter civil partnership. A couple should qualify as soon as they are both legally eligible to enter another legal relationship provided that co habitation has been for a period of more than 2 years.[i.e. A couple who have co-habited for 20 years should not have to wait another 2 years following the point that both become eligible to enter another legal partnership].**	p41 43 & 46

This authority has seen a copy and supports the excellent work done by Local Government Association [Terry Edwards] on the possible changes to the finer details.

We are also supportive of the response from our fund actuary, Mercers, especially the several references to the Secretary of State obtaining guidance from the Government Actuary's Department [GAD] This has under the current regulation become an increasing problem for administering authorities where factors and guidance from GAD have been slow in being produced or released at very short notice with an immediate or in some cases retrospective application date which where previous estimates have already been provided creates extreme complications.

Also where a case occurs before factors are released, GAD will provide on an individual basis but will charge the authority.. Authorities should not be charged for something that is supposed to be provided automatically from DCLG via GAD, especially as the information given will be generally circulated within a relatively short period?

Whilst a cost would still be incurred by going to the Fund Actuary perhaps there should be a mechanism for this to be passed on to DCLG in such circumstances.

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Draft Regulations: Admission Bodies

Avon Pension Fund have already written to DCLG pointing out that, following the Miscellaneous Regulations, the regulations relating to admission bodies are defective in a number of key areas; it is unfortunate that the same defects are inherent in the draft 2013 regulations. **We see no logical reason why, if it is agreed that defects exist, they should be perpetuated in the new regulations.**

Although the Fund's view is that it would be preferable to have separate provisions relating to transferee admission bodies and community admission bodies, this appears to be no longer a matter for discussion. However the current drive for economies from partnership working arrangements does put some doubt on whether all types of arrangements can be fully satisfied to all stakeholders satisfaction under the regulations as proposed..

There are two distinctive types of admission bodies one that provides a community service and the other one that provides a specific type of service under a specific contract. They need to be looked at separately to ensure that pension funding is protected and that the necessary guarantees are in place.

There needs to be a mechanism to provide more co-ordination between the main contracts and LGPS to ensure that all possible contractual partnerships are covered within the regulations and that the correct provisions are in place to safeguard the fund

It should not be possible for an employer to enter in a contractual agreement without consideration of all their pension obligations

The key objective now must be, within the new framework, to try to have regulations which are coherent, and, consistent with operational realities.

Schedule 2 Part 3 Proposed changes

For the purposes of this part of the annex the response set out by Terry Edwards [LGA] has been used as this gives the platform to show our comments at the respective regulations.

Blue/green wording	Terry has added or amended and the in
Red wording	explains Terry's rationale behind the changes.

Grey sections **APF proposals for changing the regulations on Admission Bodies are added in the**.

PART 1

General comment: What has happened to Admin regs 5(2)(f), (g),and 5(6)? Have they been deliberately not carried forward? If so, what is the rationale?

1. The following bodies are admission bodies with whom an administering authority may make an admission agreement —

Comment: Wording in blue added as, otherwise, an employee of a body listed in paragraph 1 could seek to claim access to the Scheme under regulation 3(1)(c) even where no admission agreement is actually in place.

At the outset there is an important point of principle which needs to be clarified. **It is clearly not true that bodies 1 (a) to (c) are admission bodies since they would only become admission bodies if they applied to be so**. Then there is the question of whether, if pension funds receive an application from a body which fulfils the criteria set out in paragraph 1 and also satisfies the remaining conditions set out in the new regulations, there are any circumstances in which this application can be rejected. In the case of transferee admission bodies we have the possibility of a bond being in place but, more importantly, the outsourcing Scheme employer stands as the ultimate guarantor. In the case of community admission bodies, there is unlikely to be a bond and pension funds will invariably secure protection through guarantors. In the case of a potential guarantor under paragraph 8 (a) (which we should assume would not always be a Scheme employer), it is possible that "a person who funds the admission body in whole or in part" might not have the financial strength to be acceptable as a guarantor.

Therefore while, in the majority of circumstances, there is no logical reason why an application should be rejected, we believe that pension funds should continue to have the power to reject applications where they are not satisfied that the necessary degree of protection is forthcoming.

However, if paragraph 8(a) were to read "a Scheme employer who funds the admission body in whole or in part", then the power to reject would probably not be necessary.

(a) a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise).

(b) a body, to the funds of which a Scheme employer contributes;

(c) a body representative of –

(i) any Scheme employers ~~or employees of Scheme employers~~;

(ii) local authorities;

(iii) local authorities and officers of local authorities; or

(iv) 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.

Comment: revised wording above mirrors that in reg 5(2)(c) of the Admin Regs 2008. The reason for reverting back to that wording and striking through the more general words "or employees of Scheme employers" is that those more general words are too all encompassing and would, for example, allow Trade Unions to apply for membership of the LGPS (which the wording in the 2008 Scheme would not).

(d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

(i) the transfer of the service or assets by means of a contract or other arrangement,

(ii) a direction made under section 15 of the Local Government Act 1999 (Secretary of State's powers),

(iii) directions made under section 497A of the Education Act 1996;

(e) a body which provides a public service in the United Kingdom and is approved by the Secretary of State for the purpose of admission to the Scheme.

Comment: superfluous full stop deleted.

The concept of controlled entities as set out in Part 2 of Schedule 2 (item 6) should be abolished and any such body should only be entitled to join local authority pension funds as an admitted body. In this way it would be the subject of a guarantee, which at the present time it is not. If the controlling Scheme employer was not prepared to provide a guarantee the body would not be admitted. This change should be effected by including an additional category under paragraph 1 of Part 3 of Schedule 2, as follows:-
"A body under the control of a Scheme employer listed in paragraphs 6 to 23 of Part 1 of this Schedule (where "under the control" has the same meaning as in Section 68 or, as the case may be, 73 of the Local Government and Housing Act 1989...........)"

However, the reality is that such a body would already qualify under categories (a), (b) or (c).

2. An approval under paragraph 1(e) may be subject to such conditions as the Secretary of State thinks fit and the Secretary of State may withdraw an approval at any time if such conditions are not met.

3. The Scheme employer, if it is not also the administering authority, must be a party to the admission agreement with a body falling within the description in paragraph 1(d).

4. In the case of an admission body falling within the description in paragraph 1(b), where at the date of the admission agreement the contributions paid to the body by one or more Scheme employers equal in total 50% or less ~~than~~ of the total amount it receives from all sources, the Scheme employer paying contributions (or, if more than one pays contributions, all of them) must guarantee the liability of the body to pay all amounts due from it under these Regulations.

Paragraph 4 should be deleted. Nobody to my knowledge has been able to justify this provision but it is now effectively superseded by paragraph 8. In short, if paragraph 4 was intended to protect pension funds, this protection is now provided by paragraph 8

Comment: I've never wholly understood the rationale behind this paragraph. Isn't it more important to have the Scheme employers act as guarantor where they are providing more than 50% of the funding? I think this is a policy matter that needs reviewing.

5. If the admission body is exercising the functions of the Scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

6. An admission agreement must require the admission body to carry out, to the satisfaction of the administering authority, and to the satisfaction of the Scheme employer in the case of a body falling within paragraph 1(d)(i), an assessment, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up, or liquidation of the admission body.

Comment: the Scheme employer letting the contract should have to be satisfied too as, ultimately, liability would fall back on them if anything went amiss.

Paragraph 6 is in greatest need of revision as there are a number of reasons why this paragraph is defective, viz.

A risk assessment is required **before** an admission agreement is put in place.

The risk assessment should be commissioned **by the beneficiary** not the admission body. The beneficiary is the administering authority in the case of bodies admitted under paragraphs 1(a), 1(b) and 1 (c) and the Scheme employer in the case of transferee admission bodies. The question of who pays for the risk assessment is irrelevant and will depend on the circumstances of the admission.

The assessment should be carried out to the satisfaction of the Scheme employer in the case of bodies admitted under paragraph 1(d).

In our opinion the paragraph should be re-worded as follows:-

"In the case of bodies admitted under paragraphs 1(a), 1(b) and 1(c) the administering authority must obtain an actuarial assessment to enable it to determine the potential liability for which that body may become responsible during the period of the admission agreement. In the case of bodies admitted under paragraph 1(d), an actuarial assessment should be commissioned by the Scheme employer where appropriate".

It should be emphasised that a risk assessment carried out by an actuary does not identify the "level of risk"; for this to be the case an assessment would need to be made of the creditworthiness of the admission body and this does not normally come within the scope of an actuarial assessment. The reason for the insertion of the words "where appropriate" allows for the fact that, in some cases, a decision will have been taken upfront not to transfer the pension risk to the admission body. It will be noted that there is no reference to an admission agreement in this revised wording because the actuarial assessment is a fait accompli by the time the admission agreement comes to be signed. We would also make the point that, as a general principle, it should not be necessary to use the admission agreement as a means of enforcing compliance with the regulations.

7. Notwithstanding paragraph 6, and subject to paragraph 8, the admission agreement must further provide that where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond in an approved form with—

(a) a person who has permission under Part 4 of the Financial Services and Markets Act 2000 to accept deposits or to effect and carry out contracts of general insurance;

(b) an EEA firm of the kind mentioned in paragraph 5(b) and (d) of Schedule 3 to that Act, which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule) to accept deposits or to effect and carry out contracts of general insurance; or

(c) a person who does not require permission under that Act to accept deposits, by way of business, in the United Kingdom.

Comments:

- words in blue added to counteract the word "must" in paragraph 7
- how are the words "in an approved form" to be defined? Approved by whom? Will there be a definition included in Schedule 1?.

If Paragraph 6 is changed then Paragraph 7 should then read

"Where, subject to paragraph 6, the administering authority or Scheme employer decides that the admission body should enter into an indemnity or bond, this should be in an approved form with-

…………………………………………………………"

"Subject to paragraph 6" means that the administering authority or Scheme employer will have taken into account the results of the actuarial assessment when deciding whether there should be a bond or not (although other factors will also have to be taken into account). We will need a definition of "an approved form" under the Interpretation section in Schedule 1.

8. Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

(a) a person who funds the admission body in whole or in part;

If paragraph 8(a) should read "a Scheme employer who funds the admission body in whole or in part", then the power to veto would probably not be necessary.

(b) in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

(c) a person who—

(i) owns, or

(ii) controls the exercise of the functions of,

the admission body; or

(d) the Secretary of State in the case of an admission body—

(i) which is established by or under any enactment, and

(ii) where that enactment enables the Secretary of State to make financial provision for that admission body.

9. An admission agreement must include—

(a) provision for it to terminate if the admission body ceases to be such a body;

(b) a requirement that the admission body notify the administering authority of any matter which may affect its participation in the scheme;

Comment: amend "the scheme" to "the Scheme" as per draft regulation 2(1)

(c) a requirement that the admission body notify the administering authority of any actual or proposed change in its status, including a take-over, reconstruction or amalgamation, insolvency, winding up, receivership or liquidation and a material change to the body's business or constitution;

(d) a right for the administering authority to terminate the agreement in the event of—

(i) the insolvency, winding up or liquidation of the admission body,

(ii) a material breach by the admission body of any of its obligations under the admission agreement or these Regulations which has not been remedied within a reasonable time,

(iii) a failure by the admission body to pay any sums due to the fund within a reasonable period after receipt of a notice from the administering authority requiring it to do so.

10. An admission agreement must include a requirement that the admission body will not do anything to prejudice the status of the Scheme as a registered scheme.

11. When an administering authority makes an admission agreement it must make a copy of the agreement available for public inspection at its offices and must promptly inform the Secretary of State of—

(a) the date the agreement takes effect;

(b) the admission body's name; and

(c) the name of any Scheme employer that is party to the agreement.

12. Where an admission body is such a body by virtue of paragraph 1(d), an admission agreement must include—

(a) a requirement that only employees of the body who are employed in connection with the provision of the service or assets referred to in that sub-paragraph may be members of the Scheme;

(b) details of the contract, other arrangement or direction by which the body met the requirements of that sub-paragraph;

(c) a provision whereby the Scheme employer referred to in that sub-paragraph may set off against any payments due to the body, an amount equal to any overdue employer and employee contributions and other payments (including interest) due from the body under these Regulations;

Comment: Would it be appropriate to add at the end of paragraph (c) "or due from any other body to which the body has sub-contracted work to which the payments relate and where that other body is also an admission body" to cover cases where the main contractor sub-contracts work to a sub-contractor who also joins the LGPS as an admission body but the payments from the Scheme employer are all paid to the main contractor? This would enable the Scheme employer to recover from the payments due to the main contractor any sums due to the Fund from the sub-contractor. At the present time the only way this can be dealt with is via the contract with the main contractor. The view might be taken that this is a matter for the contract and not for the admission agreement.

(d) a provision requiring the admission body to keep under assessment, to the satisfaction of the bodies mentioned in paragraph 6, the level of risk arising as a result of the matters mentioned in that paragraph ~~6~~;

Comment: added the wording in blue to tie up better with the requirements of paragraph 6.

(e) a provision requiring copies of notifications due to the administering authority under paragraph 9(b) or (c) to be given to the Scheme employer referred to in that sub-paragraph; and

(f) a provision requiring the Scheme employer referred to in that sub-paragraph to make a copy of the admission agreement available for public inspection at its offices.

Comment: Paragraph (f) only covers admission agreements that are the result of an outsourcing. What about normal admission agreements (community admission bodies)? Para 11 of Schedule 3 to the Admin Regs 2008 required that the admission agreement for such bodies should be available for public inspection, in its final form, at the offices of the administering authority.

13. Comment: Surely we need to insert a paragraph 13 requiring the administering authority to enter into an admission agreement if the letting authority and the contractor wish to do so and agree to comply with the conditions in Part 3 (and the Secretary of State gives approval where necessary) i.e. we need the equivalent of Admin Regs 6(10) and (11). In the absence of such a paragraph the administering authority could exercise a power of veto and not agree to enter into the admission agreement.

A Regulation 13 as set out above should be inserted to ensure no power of veto

Bath & North East Somerset Council		
MEETING: **AVON PENSION FUND COMMITTEE** MEETING DATE: **22 MARCH 2013**	**AGENDA ITEM NUMBER**	
TITLE: **TREASURY MANAGEMENT POLICY**		
WARD: **'ALL'**		
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1** The Fund's Treasury Management policy approved in March 2012. **Appendix 2** The proposed Treasury Management policy.		

1 THE ISSUE

1.1 The Fund's Treasury Management policy (as set out in Appendix 1) was approved in March 2012. The Fund's policy closely mirrors the Council's policy set out in the Councils' Annual Investment Strategy.

1.2 The Fund's current accounts are held with NatWest Bank. Under the existing Treasury Management policy the Fund is barred from keeping deposits with NatWest Bank under its current credit rating.

1.3 A revised Treasury Management policy for the Council was approved by the Corporate Audit Committee at its meeting on 5 February 2013. The revised policy has removed the short term credit rating criteria and set separate credit limits for the Council's banker, NatWest Bank. In the event of NatWest falling below the accepted credit rating criteria for other banks, but having a rating of at least BBB- (or equivalent), their criteria limits deposits to £10m that must be available for next banking day withdrawal. By these criteria the Council is permitted to keep deposits with NatWest Bank under its current credit rating as long as they are available for withdrawal on the next working day.

1.4 It is proposed that the Pension Fund's Treasury Management policy be amended in order to keep it line with the Council's Treasury Management policy. The proposed amended policy is set out in Appendix 2.

2 RECOMMENDATION

2.1 That the Committee approves the revised Treasury Management Policy as set out in Appendix 2

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

4.1 The proposed revised Treasury Management policy closely mirrors the policy set out in the Councils' Annual Investment Strategy. The Pension Fund's Treasury Management is managed by the Council's Treasury Management team. The Pension Fund and Council have a similar attitude to Treasury Management risk. The use of similarly formatted policies reduces the risk of error. Where the policy limits differ, it is a reflection of the different cash flow requirements and the amounts of cash that need to be invested.

4.2 The Fund has a Special Interest Bearing Account with NatWest bank. Funds could be transferred to this account electronically later and for lower cost than transfers by CHAPs to other banks. The inability to leave deposits with NatWest bank imposes additional costs and administration on the Fund's Treasury Management team. In the event of funds being received after the CHAPs deadline, they are by default left with NatWest bank, but cannot currently be transferred to an interest bearing account. The revised Treasury Management policy will permit the more efficient investment of temporary cash balances through the use of the NatWest Special Interest Bearing Account.

4.3 The BBB credit ratings are defined by Fitch (in comparison with higher rating levels) as "Expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity."

4.3 The additional risk of accepting a lower credit rating for NatWest Bank is mitigated by the fact that the deposit is available for withdrawal on the next working day.

5 RISK MANAGEMENT

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

6 EQUALITIES

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

7 CONSULTATION

7.1 None appropriate.

8 ISSUES TO CONSIDER

8.1 The issues are detailed in the report.

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	Martin Phillips Finance & Systems Manager (Pensions) Tel: 01225 395369.
Background papers	Various Accounting and Statistical Records

Appendix 1

AVON PENSION FUND

TREASURY MANAGEMENT POLICY 2012

1 The management of the pension fund cash will be delegated to the Treasury Management team.

2 The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back in to the Pension Fund bank account.

3 The Pension Fund's limits are in addition to the Council's limit in any single counterparty.

4 The Fund will invest its short term cash balances in bank call accounts and Money Market Funds (with maximum notice requirements of three days) that fall within the credit rating criteria stated below.

5 In the event that call accounts and Money Market Funds are not available the Fund will invest its short term balances with counterparties meeting the same ratings criteria.

6 In the absence of alternative or more preferred counter parties the Fund will invest its short term balances with the Government's Debt Management Office.

7 The criteria for acceptable counter parties and their limits are:-

	Maximum Monetary limit	Time limit
UK Banks and building societies holding long-term credit ratings no lower than A- or equivalent, short-term credit ratings no lower than F1 or equivalent and a Fitch Support Rating (where given) no lower than 3.	£10m each[1]	2 months
Money market funds[2] holding the highest possible credit ratings (AAA) or equivalent.	£10m each	3 months

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

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

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

8 The cash retained as a working balance will target £10 million.

9 All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.

10 For reference the rating agencies equivalent ratings are as shown below.

Fitch		Moody's		S&P	
Short term	Long term	Short term	Long term	Short term	Long term
	AAA		Aaa		AAA
	AA+		Aa1		AA+
	AA		Aa2		AA
	AA-		Aa3		AA-
	A+		A1		A+
	A		A2		A
	A-		A3		A-
F1+		P-1		A-1+	
F1		P-1		A-1	

APPENDIX 2

AVON PENSION FUND

– DRAFT TREASURY MANAGEMENT POLICY 2013

1 The management of the pension fund cash will be delegated to the Treasury Management team.

2 The monies will be invested separately from the Council's and the Fund will receive the actual interest earned. Monies will be paid out of and received back in to the Pension Fund bank account.

3 The Pension Fund's limits are in addition to the Council's limit in any single counterparty.

4 The Fund will invest its short term cash balances in bank call accounts and Money Market Funds (with maximum notice requirements of three days) that fall within the credit rating criteria stated below.

5 In the event that call accounts and Money Market Funds are not available the Fund will invest its short term balances with counterparties meeting the same ratings criteria.

6 In the absence of alternative or more preferred counter parties the Fund will invest its short term balances with the Government's Debt Management Office.

7 The criteria for acceptable counter parties and their limits are:-

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

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

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

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

8 The cash retained as a working balance will target £10 million.

9 The Treasury Manager will inform the pension Fund of any changes to the counterparty credit ratings.

10 All Treasury Management activity related to the Pension Fund will be reported to the Pension Fund Finance and Systems Manager on a regular basis.

11 For reference the rating agencies equivalent ratings are as shown below.

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

There are a further three levels of C ratings.

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

Counterparty Name	FITCH RATINGS			MOODY'S RATINGS		S&P RATINGS	
	S/Term	L/Term	Sup	S/Term	L/Term	S/Term	L/Term
Barclays Bank plc.	F1	A	1	P-1	A2	A-1	A+
HSBC Bank plc.	F1+	AA-	1	P-1	Aa3	A-1+	AA-
Lloyds Banking Group							
→ Bank of Scotland plc.	F1	A	1	P-1	A2	A-1	A
→ Lloyds TSB Bank plc.	F1	A	1	P-1	A2	A-1	A
Royal Bank of Scotland Group							
→ National Westminster Bank plc.	F1	A	1	P-2	A3	A-1	A
→ Royal Bank of Scotland plc.	F1	A	1	P-2	A3	A-1	A
Standard Chartered Bank	F1+	AA-	1	P-1	A1	A-1+	AA-
UK Building Societies							
Nationwide	F1	A+	1	P-1	A2	A-1	A+

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 MARCH 2013**	**AGENDA ITEM NUMBER**
TITLE:	**MINUTES & RECOMMENDATIONS FROM THE INVESTMENT PANEL**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft minutes from Investment Panel meeting held 22 February 2013		

1 THE ISSUE

1.1 The Investment Panel is responsible for exploring investment issues including the investment management arrangements and the performance of the investment managers, and making recommendations to the Committee.

1.2 The Panel has held one meeting since the December 2012 committee meeting, on 22 February 2013. The draft minutes of the Investment Panel meeting provide a record of the Panel's debate before reaching any recommendations. These draft minutes can be found in at Appendix 1.

1.3 There are no recommendations from the Panel.

1.4 There is a paper on the agenda (item 13) that addresses an issue arising from the Panel's 'Meet the Manager' workshop held after the Panel meeting on 22 February 2013.

2 RECOMMENDATION

That the Committee:

2.1 Notes the draft minutes of the Investment Panel meeting held on 22 February 2012

3 FINANCIAL IMPLICATIONS

3.1 None

4 RECOMMENDATIONS

4.1 There are no recommendations arising from the meeting held on 22 February 2013.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

5.2 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund. The rebalancing policy has the objective of avoiding significant drift from the strategic benchmark.

6 EQUALITIES

6.1 An equalities impact assessment is not necessary as the report is primarily for information only.

7 CONSULTATION

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

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues to consider are contained in the report.

9 ADVICE SOUGHT

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

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

AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Friday, 22nd February, 2013, 9.30 am

Members: Councillor Charles Gerrish (Chair), Councillor Gabriel Batt, Roger Broughton, Councillor Nicholas Coombes, Councillor Mary Blatchford and Ann Berresford
Advisors: Tony Earnshaw (Independent Advisor) and Jignesh Sheth (JLT Benefit Solutions)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager) and Matthew Clapton (Investments Officer)

29 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

30 DECLARATIONS OF INTEREST

There were none.

31 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

32 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

34 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

35 MINUTES: 14 NOVEMBER 2012

These were approved, subject to the following amendment in Item 27 in the third line of the third paragraph on the second page: “a reasonable term” to be changed to “the minimum term”.

36 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DECEMBER 2012

Mr Sheth presented the JLT performance monitoring report for the period to 31 December 2012. He began by summarising the market background. The quarter and the year had been positive for equities. Major factors in stabilising the market had been action taken by the European Central Bank and the unequivocal commitment to save the Euro and quantitative easing in the US to support the mortgage market. In addition companies had strong balance sheets, though there were concerns about the level of profits in difficult trading conditions. UK property had fallen by 3-4% reflecting concerns about the UK economic outlook. Government bonds had ended the year at the same levels as they had started it. The Investments Manager pointed out that index-linked bonds had performed very well. Mr Sheth agreed and said that this was related to changes in the methodology for calculating the Retail Prices Index.

The Chair asked about the implications of the fall in the pound against the Euro since the beginning of the year. Mr Sheth said that governments around the world had an incentive to see the exchange rate of their currency fall in order to boost exports; there were concerns about the ability of the UK Government to pay off debt, which would impact on the value of the pound. The Investments Manager added that markets were increasingly optimistic about the outlook for Europe in 1-2 years, but concerned about the UK, which had hitherto benefitted as a safe haven from the turmoil in Europe. She reminded the Panel that the Fund had a currency hedging mechanism in place and the Fund's exposure to currency volatility had been reduced.

Mr Sheth drew attention to the table on page 7 of the report (agenda page 21), which set out the Strategy Assumed Return and 3-year Index Return for each asset class. Equities had returned less than assumed, but there had been strong returns from bonds. The performance of overseas fixed interest had been mixed; different countries had performed differently. The Fund of Hedge Funds had performed well below the assumed return; hedge funds had reduced their level of risk. A Member suggested that hedge funds may have performed less well because they had been distracted by corporate activity. The Investments Manager noted that some hedge funds took positions based on strong views of where the market was going. This has led to strong performance by Signet, but Stenham had performed less well. She suggested it would be interesting to probe Man's views on the market and their strategy.
Mr Sheth said that for bonds the year to date had been a reasonably good one. He then referred to the graphs for aggregate manager performance on page 11 of the report (agenda page 25) and noted the strong performances of Jupiter and RLAM over three years, though RLAM had underperformed slightly in the most recent period. RLAM invests in bonds with lower credit ratings, which the market might see as higher risk.

A Member suggested that the Fund needed to establish a process for deciding when to disinvest from an investment manager. The Investments Manager responded that consideration was being given to quarterly monitoring of managers. She felt, however, that it would not be sensible to have a single process that was suitable for every manager; the difference in the mandates had to be taken into account.. She felt that managers should be reviewed case by case, and given time, perhaps a year, to show whether they could improve performance. The aim was to meet each manager at least once a year and it was always possible to prepare a detailed report for the Panel if any manager was causing significant concern. The Member suggested that managers could be monitored by a traffic-lights system, with red indicating it was time to get rid of them and amber for two consecutive quarters indicating that a meeting with them was needed. The Independent Advisor suggested that the Panel needed to take account of more than just a manager's statistics; it should consider how much confidence it had in them and whether what they said made sense.

Mr Sheth drew Members' attention to the table on agenda page 26, which gave the 3-year performance against target for all the Fund's managers. He then commented on the performance of the individual managers. The Investments Manager suggested that the performance of Stenham, who were avoiding higher-risk investments, should be monitored.

The Chair thanked Mr Sheth for his informative report.

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

37 WORKPLAN

The Investments Manager presented the report. The workplan will be updated with projects arising from the Committee's strategic investment review, which would probably occupy the Panel's next two meetings. She said that a rota also had to be worked out for meetings with the Fund's external investment managers.

RESOLVED to recommend the workplan to the Committee.

Following the conclusion of the business of the public meeting, a private meeting was held with two of the Fund's external investment managers.

The meeting ended at 10.29 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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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: RFI 274/13

Meeting / Decision: Avon Pension Fund Committee
Date: 22 March 2013

Author: Matt Betts
Exempt Report Title: **Report on Hedge Fund Portfolio**

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the 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 report contains the opinions of Council officers and Panel members. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available. The 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.

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**22 MARCH 2013**
TITLE:	**COMMITTEE TERMS OF REFERENCE**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Draft Terms of Reference** **Appendix 2 – Decision-making framework**	

1. THE ISSUE

1.1 Bath & North East Somerset Council are responsible for approving the Avon Pension Fund Committee's Terms of Reference. The Council's governance arrangements are reviewed at its AGM in May 2013. The Committee must agree a revised Terms of Reference to be submitted to the Council's AGM.

1.2 The changes to the Terms of Reference are in response to the changes to the investment strategy that were agreed at the Committee meeting on 6 March 2013.

1.3 The Committee's Terms of Reference must comply with the Council's constitution and governance arrangements.

2. RECOMMENDATION

That the Committee

2.1. Approves the Terms of Reference as set out in Appendix 1 for submission to the Council's AGM in May 2013.

3. FINANCIAL IMPLICATIONS

3.1. There are no financial considerations to consider.

4. THE REPORT

4.1. Bath and North East Somerset Council, as administering authority of the Avon Pension Fund, is responsible for approving the Avon Pension Fund Committee's Terms of Reference (ToR) and therefore the ToR must comply with the Council governance arrangements and Standing Orders.

4.2. The new investment strategy has a degree of flexibility built into the structure in order for the Fund to manage the market and funding risks more effectively. In particular, there is a need for speedier and timelier decision-making and for complex investment decisions to be taken by those with the appropriate knowledge. The Committee has already established a Sub-Committee, the Investment Panel ("the Panel"), to consider investment issues in greater detail. The Panel currently only makes recommendations to the Committee.

4.3. The proposed changes delegates some decision-making to the Panel in order to support the flexibility required if the new strategy is to be implemented and managed effectively. The proposed structure recognises that the strategic decisions have greatest impact on the investment return and the funding position whereas implementation and monitoring of the investment management structure require more detailed knowledge and in-depth consideration.

4.4. Under the proposal, all strategic decisions and the monitoring of those decisions will remain with the Committee as is current practice. However, it is proposed that decisions concerning the implementation of strategic policy are delegated formally to the Panel (as is often the Fund's practice but is decided on a case by case basis by the Committee). In addition, the Panel will remain responsible for the monitoring of the investment managers including termination of mandates due to performance issues and the use of tactical positions within the strategic ranges.

4.5. Operational implementation of the investment strategy and investment policies will be delegated to officers as is current practice.

4.6. The reporting process will be revised to provide full transparency to the Committee of the Panel's decisions and the outcomes of those decisions.

4.7. The revised ToR is set out in Appendix 1. For reference, the decision making framework agreed at the Committee meeting on 6 March 2013 is set out in Appendix 2.

4.8. Any changes to the decision making process require the approval of the Council. Therefore the TOR agreed by this Committee will be submitted to the Council Annual General Meeting in May 2013 for approval.

5. RISK MANAGEMENT

5.1. 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. An Investment Panel has been established to consider in greater detail investment performance and related investment issues.

6. EQUALITIES

6.1. An Equalities Impact Assessment is not relevant.

7. CONSULTATION

7.1. Democratic Services.

8. ISSUES TO CONSIDER IN REACHING THE DECISION

8.1. N/a

9. ADVICE SOUGHT

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

Contact person	Liz Woodyard, Investments Manager; 01225 395306
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

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TERMS OF REFERENCE (Draft May 2013)

1 Avon Pension Fund Committee

Bath and North East Somerset Council, in its role as administering authority, has executive responsibility for the Avon Pension Fund. 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.

Function and Duties

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 all Fund specific policies concerning the administration of the Fund, investing of Fund monies and the management of the Fund's solvency level. In addition, the Committee is responsible for all financial and regulatory aspects of the Fund. At all times, the Committee must discharge its responsibility in the best interest of the Avon Pension Fund.

The key duties in discharging this role are:

1. Determining the investment strategy and strategic asset allocation.
2. Determining the pensions administration strategy.
3. Making arrangements for management of the Fund's investments in line with the strategic policy.
4. Monitoring the performance of investments, investment managers, scheme administration, and external advisors.
5. Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.
6. Approving the Pension Fund's Statement of Accounts and annual report.
7. Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.
8. Considering requests from organisations wishing to join the Fund as admitted bodies.
9. Making representations to government as appropriate concerning any proposed changes to the Local Government Pension Scheme.

Delegations

In discharging its role the Committee can delegate any of the above or implementation thereof to the Sub-Committee (referred to as the Investment Panel) or Officers. The current delegations are set out in Sections 2 & 3 below.

Membership of the Committee

Voting members (12)	5 elected members from B&NES (subject to the rules of political proportionality of the Council) 2 independent trustees 3 elected members nominated from the other West of England unitary councils 1 nominated from the education bodies 1 nominated by the trades unions
Non-voting members (4)	1 nominated from the Parish Councils Up to 3 nominated from different Trades Unions

The Council will nominate the Chair of the Committee.

Meetings

Meetings will be held at least quarterly. Meetings will be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

Quorum

The quorum of the Committee shall be 3 voting members.

Substitution

Named substitutes to the Committee are allowed.

2 Investment Panel

The role of the Avon Pension Fund Committee Investment Panel shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

The Investment Panel will:

1. Review strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.
2. Review the Statement of Investment Principles and submit to Committee for approval.
3. Report regularly to Committee on the performance of investments and matters of strategic importance

and have delegated authority to:

4. Approve and monitor tactical positions within strategic allocation ranges.
5. Approve investments in emerging opportunities within strategic allocations.
6. Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.

7. Approve amendments to investment mandates within existing return and risk parameters.
8. Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.
9. Delegate decisions to Officers as appropriate.

Panel Membership

The Panel shall comprise a maximum of 6 voting Members of the Avon Pension Fund Committee, of which 3 shall be Bath and North East Somerset Councillors. The membership shall include the Chairman of the Committee and /or the Vice- Chair and 4 other Members (or 5 if the Chair or Vice-Chairperson is not a member of the Panel).

Note: The appointment of Bath and North East Somerset Councillors to the Panel is subject to the rules of political proportionality of the Council.

Members shall be appointed to the Panel for a term of one year.

The Council will nominate the Chair of the Panel.

Panel Meetings

Though called a "Panel", it is an ordinary sub-committee of the Committee. Accordingly, meetings must be held in public, though the public may be excluded from individual items of business in accordance with the usual exemption procedures.

The Panel shall meet at least quarterly ahead of the Committee meeting on dates agreed by Members of the Panel.

Panel Quorum

The quorum of the Panel shall comprise 3 Members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

Panel Substitution

Substitutes for the Panel must be members of Committee or their named Committee substitute.

Panel Minutes

Minutes of Panel meetings (whether or not approved by the Panel) shall appear as an item on the next agenda of the meeting of the Committee that follows a meeting of the Panel.

3 Officer Delegations

Officers are responsible for:

1. Day to day implementation and monitoring of the investment, administration, funding strategies and related policies.
2. The Section 151 Officer has authority to dismiss investment managers, advisors and 3rd party providers if urgent action is required (does not

refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company).

3. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount
4. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.

Decision-making framework

Policy area	Decision framework	Changes to policy
1 Strategic asset allocation	**Committee responsible for following decisions:** • Setting target allocations • Setting allocation ranges including rebalancing policy • Approving the Statement of Investment Principles (SIP) • Adhoc delegations (other than those described below) **Investment Panel (Panel) responsible for reviewing:** • New strategic / emerging opportunities outside strategic asset allocation and make recommendations to Committee • The SIP and recommending changes to the Committee	• No change in that all strategic asset allocation decisions remain the responsibility of the Committee, including setting the ranges around the target asset allocation • Committee still retains authority to delegate to officers and/or Panel on an adhoc basis or to withdraw delegated authority • Change in policy - To facilitate more flexibility and ensure timely decision making, Committee to give standing delegation to the Panel to review strategic opportunities outside the strategic asset allocation and make recommendations to Committee rather than on an adhoc basis as currently • No change to policy
2 Implementing asset allocation & use of ranges	**Committee to delegate decisions to Panel and the implementation to Officers as follows:** a) **Decisions to take tactical positions within strategic allocation ranges** – delegated to Panel. Where timing an issue, decisions are delegated to Chairs of Committee & Panel b) **Decision to invest in Emerging opportunities (within**	Change to policy - currently Committee makes most decisions (sometimes following a recommendation from Panel) and delegates operational implementation to Officers a) Change in policy as currently the Committee agrees tactical positions (as no allowance in asset allocation) and delegates implementation to the Officers / Panel

	"Other" allocations) – delegated to Panel. Where timing an issue, that is, where implementation or materiality of outcome is dependent on a timely decision, decision is delegated to Chairs of Committee & Panel. Such opportunities by definition are not specifically included in the strategic asset allocation and will fall under "Others". An example could be an offering of a Local Authority Credit Fund or an Emerging Markets Debt Fund. The offering period can be limited and full Committee approval would not be possible. c) **Investment management arrangements / new managers** – decisions delegated to Panel, including • Mandate Investment parameters • Termination of mandates if required following a strategic review to fund new mandates • Process for selecting new managers d) **Amendments to mandates within existing risk return parameters** – Panel to approve as such amendments would not alter the risk / return characteristics of the mandate but enable the investment strategy to adapt to changing market conditions, such as a property manager's view of geographical or sector outlook e) **Rebalancing / cash management policy** – officers implement	b) New policy as "Other" allocations not included in current strategy c) Change in policy as the Committee is delegating authority whereas Fund's current practice is to delegate decisions for new mandates only to the Panel on an adhoc basis d) No change in policy e) No change to policy but recognise greater flexibility within ranges
3 Monitoring strategy	**Committee – responsible for** a) **Monitoring Fund level investment performance and funding position** **Panel – responsible for** b) **Monitoring managers long term investment performance**	a) No change to policy b) No change to policy

	c) **Decision to terminate a mandate** - As the Panel monitors poor performing managers closely, it would be difficult for the Committee to reject a recommendation to terminate a manager. Therefore the decision would be made timelier if delegated to the Panel. In addition, the Panel is required to inform the Committee of any performance issues so the Committee would be aware of any potential termination.	c) Change in policy (as currently a Committee decision) to improve timeliness of performance related decisions
	d) **Monitoring tactical positions and allocations within ranges**	d) No change to policy
	Officers – responsible for e) **Monitoring managers and tactical positions more closely**	e) No change to policy
	f) **Monitoring compliance with investment mandate guidelines**	f) No change to policy
	g) **S151 Officer has authority to dismiss managers / advisors if urgent action is required** – this does not refer to performance failures but to their inability to fulfil their contractual obligations or a material failing of the company	g) No change to policy
	h) **S151 Officer has authority to suspend policy** (in consultation with Chairs of Committee & Panel) in times of extreme market volatility where protection of capital is paramount	h) No change to policy
4 Reporting	a) **Panel to report to Committee on exceptions/issues of concern basis regarding managers' performance, strategic issues or tactical positions**	a) Revise standard reporting to avoid duplication of information but ensure Committee are informed of relevant issues regarding investment strategy or mangers
	b) **Annual review of strategy** - the Fund's investment advisor will report annually to Committee focusing on the economic and market drivers of performance at the asset allocation	b) New policy - This is to provide assurance to Committee as to whether the strategy is delivering against expectations

	level and how the managers have performed. c) **Periodic strategic review of asset allocation** – asset allocation to be reviewed periodically (intervals of no less than 3 years) to take into account the funding position, changes to Fund membership, cash flow trends, investment performance and risks and manager performance.	 c) No change in policy
5 Consultation	a) When decisions are delegated to the Chairs of the Committee and Panel, if there is no agreement, the decision will be referred to Committee (a special meeting will be called if necessary). b) To allow for necessary responsiveness, the Chairs of Committee and Panel can reach decisions. Normally having consulted the Panel. All decisions/actions will be formally recorded at next Panel meeting and evidenced in the Panel minutes that are reported to Committee. c) Before any decision/action under delegated powers is made, expert advice will be taken in line with current Committee practice. Where required, officers will commission further advice prior to taking action.	a) For clarification of process b) For clarification of process c) No change in policy

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**22 March 2013**
TITLE:	**REVIEW OF INVESTMENT PERFORMANCE (for periods ending 31 December 2012)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report Exempt Appendix 3 – Summaries of Investment Panel meetings with Investment Managers Appendix 4 - LAPFF Quarterly Engagement Monitoring Report	

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 31 December 2012.

1.2 The main body of the report comprises the following sections:

Section 4. Funding Level Update

Section 5. Investment Performance: A - Fund, B - Investment Managers

Section 6. Investment Strategy

Section 7. Portfolio Rebalancing and Cash Management

Section 8. Corporate Governance and Responsible Investment (RI) Update

Section 9. Change to Investment Regulations

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to agree:

2.1 To note the information 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 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 FUNDING LEVEL

4.1 Using information provided by the Actuary, JLT has analysed the funding position as part of the quarterly report (see pages 8-10). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. ***It should however be noted that this is just a snapshot of the funding level at a particular point in time.***

4.2 Key points from the analysis are:

(1) The estimated funding level at 31 Dec 2012 decreased to 71% from 73% at 30 Sept 2012.

(2) The largest contributor to the reduction in the funding level was a rise in the inflation assumption used to value the liabilities, which increased the value of future inflation linked payments (liabilities). The overall 2% reduction in the funding level was in spite of a positive return on assets.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £80m (+2.8%) in the quarter, giving a value for the investment Fund of £2,873m at 31 December 2012. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers. The Fund's investment return and performance relative to benchmarks is summarised in Table 1.

Table 1: **Fund Investment Performance**
Periods to 31 Dec 2012

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	2.8%	9.7%	n/a
Avon Pension Fund (excl. currency hedging)	2.6%	9.3%	7.3%
Strategic benchmark *(Fund incl hedging, relative to benchmark)*	2.3% *(+0.5%)*	8.6% ***(+1.1%)***	6.8% *n/a*
Customised benchmark *(Fund excl hedging, relative to benchmark)*	2.6% *(=)*	9.1% ***(+0.2%)***	7.4% *(-0.1%)*
Local Authority Average Fund *(Fund incl hedging, relative to benchmark)*	3.0% *(-0.2%)*	10.2% ***(-0.5%)***	7.2% *n/a*

Note that "*Fund relative to benchmark*" data in the above table includes currency hedging except when in comparison with the customised benchmark which seeks to assess manager performance and therefore doesn't include the impact of hedging.

5.2 **Fund Absolute Return:** Quarterly return driven by positive returns from all equity markets (except US which fell over the quarter), index linked gilts and to a lesser extent UK corporate bonds. Over three years the Fund has outperformed the return expectations underpinning the investment strategy. This is largely a result of strong three year returns from both equities and bonds. However, the prospects for similar high returns from these asset classes over the next 3 years are not as strong in face of concerns over global growth prospects and the historically low bond yields.

5.3 **Fund Relative Return:**

(1) Versus Strategic Benchmark (which reflects an allocation of 60% equities, 20% bonds, 10% property, 10% hedge funds): Annual relative outperformance was largely driven by several of the Fund's managers outperforming their respective benchmarks used in the strategic benchmark. These included both active UK equity managers and the corporate bond manager. The overweight to corporate bonds (which performed strongly) and underweight to hedge funds and Japan equities (which both performed poorly) also added to the outperformance over the twelve month period. Currency hedging added 0.2% to the Fund return during the quarter (see 5.4 below for details).

(2) **Versus Local Authority Average Fund:** Performance behind the LA average over 12 months due to the Fund's lower than average allocation to UK equities, and higher than average allocation to bonds and hedge funds which underperformed the returns of the equity markets over 12 months.

5.4 **Currency Hedging:** This quarter Sterling strengthened against the US dollar and Yen, resulting in the returns from equity assets denominated in these currencies reducing in Sterling terms. The opposite can be said for assets denominated in Euro's as Sterling weakened versus the Euro. On the c.£764m assets in the programme, underlying currency return had an impact of -1.6% over the quarter, with the hedging programme offsetting this by 0.9% by generating a value of c.£7.1m, thereby improving the net currency return on the assets in the programme to -0.7%. In terms of the Fund's total return, the hedging programme added 0.2% to the Fund's total return in the quarter.

B – Investment Manager Performance

5.5 In aggregate over the 3 year period the managers' performance is marginally behind the benchmark. 10 mandates met or exceeded their 3 year performance benchmark, which offset underperformance by the Hedge Funds. A detailed report on the performance of each investment manager has been produced by JLT – see pages 22 to 39 of Appendix 2. Genesis, RLAM, and Jupiter have all significantly outperformed their 3 year performance targets. Other than comments on Man, Stenham, Schroder and SSgA (see 5.6 to 5.9 below) JLT's report does not identify any new performance issues with the managers.

5.6 MAN remains under close review as they restructure the portfolio after a period of disappointing performance.

5.7 Close monitoring of Stenham's mandate will be undertaken in light of the changing focus of their business strategy away from growing their institutional client base to focus on existing investors.

5.8 After an increase in size, the funds managed by SSgA that the Fund invests in have again reduced in size to the level they were when the issue was raised in Dec 2011. At that time the Panel were satisfied that the funds were sustainable at this size, that no additional costs were being borne by remaining investors and that there was no impact on the efficiency of the models used to generate returns.

5.9 The global equity mandate managed by Schroder has underperformed over 12 months but the rolling 12 month relative return is improving. Because of the unconstrained nature of the mandate, performance relative to benchmark is expected to be volatile on a quarterly basis. Schroder continue to adhere to the approach and philosophy outlined during the tender process. Closer monitoring of this mandate will continue.

5.10 As part of the 'Meet the Managers' programme, the Panel met with Man and Schroder (Global Equity) on 22 February 2013. The summary of the Panel's conclusions can be found in Exempt Appendix 3.

6 INVESTMENT STRATEGY

6.1 The Fund has recently undertaken a full strategic investments review which reported to the Special Committee Meeting on 6 March 2013. JLT's performance report at Appendix 2 did not highlight any additional strategy issues for consideration.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 The rebalancing policy agreed by the Committee on 22 June 2012 requires rebalancing of the Equity/Bond allocation to occur when the equity portion deviates from 75% by +/- 5%, and allows for tactical rebalancing between deviations of +/- 2 to +/- 5%, on advice from the Investment Consultant. The implementation of this policy is delegated to Officers.

7.2 There was no rebalancing activity undertaken during the quarter. Market movements have resulted in an Equity:Bond allocation of 78:22 as at 22 Feb 2013. This is within the tactical range for rebalancing. Given the Fund's asset allocation is subject to change following the recent strategy review, Officers decided not to undertake any rebalancing at this time.

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 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 16 March 2012.

7.5 The Fund continues to deposit internally managed cash on call with Barclays and Bank of Scotland. In line with the Treasury Management Policy the Fund has not deposited cash with NatWest during the quarter. This issue is being considered elsewhere on the agenda. The Fund also deposits cash with the AAA rated RBS Global Treasury Fund and has another AAA rated fund with Deutsche Bank available for deposits if required. The Fund also has access to the Government's DMO (Debt Management Office); however the interest paid currently may not cover the transfer and administration costs incurred.

7.6 During the quarter there was a net cash inflow of c. £0.5m as some major deficit funding payments fell due. However the overall trend is close to the neutral scenario in the cash flow forecasting model used internally to monitor cash flow. This forecasts an average monthly outflow of C£0.9m but this could change as the effects of the 2013 valuation, Auto enrolment and LGPS 2014 become clearer.

8 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted:	204
Resolutions voted:	1,925
Votes For:	1,853
Votes Against:	59
Abstained:	13
Withheld* vote:	12

* A withheld vote is essentially the same as a vote to abstain, it reflects a view to vote neither for or against a resolution. Although the use of 'abstain' or 'withheld' reflects the different terms used in different jurisdictions, a 'withheld' vote can often be interpreted as a more explicit vote against management. Both votes may be counted as votes against management, where a minimum threshold of support is required.

8.2 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report at Appendix 4.

9 CHANGE TO INVESTMENT REGULATIONS

9.1 On 28 February 2013 following a consultation exercise, DCLG has issued a revision to the LGPS Investment Regulations, increasing the maximum proportion that LGPS funds can invest in partnerships from 15% to 30% of assets in total, effective from 1 April 2013. Currently, to invest more than 5% in partnerships the Fund's Committee has to resolve to increase the limit up to 15%, the option to increase the limit by Committee resolution will be available up to 30% as of 1 April. The limit on investments in any single partnership remains at 5%. At this stage there is no need to increase the partnerships limit to 30%.

10 RISK MANAGEMENT

10.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors (i) the strategic policy and funding level in terms of whether the strategy is on course to fund the pension liabilities as required by the funding plan and (ii) the performance of the investment managers. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

11 EQUALITIES

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

12 CONSULTATION

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

13 ISSUES TO CONSIDER IN REACHING THE DECISION

13.1 The issues to consider are contained in the report.

14 ADVICE SOUGHT

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

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

APPENDIX 1

AVON PENSION FUND VALUATION – 31 DECEMBER 2012

	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	Includes Currency Hedging		
EQUITIES														
UK	285.5	15.8	143.6	116.2		12.7							573.8	20.0%
North America	138.1	9.3				83.3							230.7	8.0%
Europe	123.0					30.8		31.2					185.0	6.4%
Japan	34.1					12.9		27.1					74.1	2.6%
Pacific Rim	51.1					15.8		32.1					99.0	3.4%
Emerging Markets					147.5	17.1							164.6	5.7%
Global ex-UK							186.3						186.3	6.5%
Global inc-UK	269.1											8.9	278.0	9.7%
Total Overseas	***615.4***	***9.3***			***147.5***	***159.9***	***186.3***	***90.4***				***8.9***	***1217.7***	**42.3%**
Total Equities	**900.9**	**25.1**	**143.6**	**116.2**	**147.5**	**172.6**	**186.3**	**90.4**				**8.9**	**1791.5**	**62.3%**
BONDS														
Index Linked Gilts	194.2												194.2	6.8%
Conventional Gilts	110.8	24.9											135.7	4.7%
Sterling Corporate	16.9								172.2				189.1	6.6%
Overseas Bonds	78.2												78.2	2.7%
Total Bonds	**400.1**	**24.9**							**172.2**				**597.2**	**20.8%**
Hedge Funds										215.5			215.5	7.5%
Property											213.9		213.9	7.5%
Cash	5.0	10.4	1.1	8.5		2.1					4.5	23.5	55.1	1.9%
TOTAL	**1306.0**	**60.4**	**144.7**	**124.7**	**147.5**	**174.7**	**186.3**	**90.4**	**172.2**	**215.5**	**218.4**	**32.4**	**2873.2**	**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 31 December 2012

Avon Pension Fund

JLT INVESTMENT CONSULTING

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.

Funding level

- There is expected to have been a deterioration in the funding level by around 2% over the fourth quarter of 2012.
- The drivers of this are:
  - A rise in the Market Implied (RPI) inflation assumption used to value the liabilities. This increases the value of future inflation-linked payments and hence increases the value of the liabilities.
  - This was offset to some extent by a positive return on the assets, in particular from equities.

Fund Performance

- The value of the Fund's assets increased by £80m over the fourth quarter of 2012 to £2,873m. The total Fund, (including the impact of currency hedging), outperformed the Fund's strategic benchmark over the quarter by 0.5%, producing an absolute return of 2.8%.

Strategy

- Equity markets generally produced strong returns, with all of the major regions apart from the US producing positive returns over the quarter. Over the last twelve months Japanese equity returns were positive but reduced in Sterling terms by the weakening of the Yen, whereas other regions produced double-digit returns.
- The three year benchmark equity returns remain slightly below the assumed strategic returns due to the effect of falling markets in 2011.
- Bond returns have been high over the last three years and ahead of the assumed strategic return. This was a result of falling bond yields, although only corporate bond yields have continued to fall over the last six months. Gilt yields remain at historically low levels.
- Overseas Fixed Interest and hedge funds performed below the assumed strategic return.
- Whilst the three-year property return remains ahead of the strategic return, the bulk of the performance came from 2010 and 2011, with the small modest return over the most recent year being a result of income (rent) rather than capital growth.

Managers

- In line with general market returns, all managers have produced positive returns over the last quarter, with the exception of Partners Property. In relative terms, it has been a mixed quarter with seven funds outperforming and eight funds underperforming.
- The four fund-of-hedge fund managers and Blackrock Multi-Asset have produced negative relative returns over three years and hence have not met their three-year target performance.
- TT made changes in Q4 2011 and performance has improved, with one year performance at target level and the 3 year rolling measure improving. Man restructured the portfolio in Oct 2012 and the Panel met them on 22 Feb 2013 to review the impact on performance. The Panel also met Schroder Global Equity on 22 Feb 2013 to review the disappointing performance since inception.

- Whilst Invesco and Schroders Property outperformed their benchmarks, they have not met their respective targets.
- The SSgA Europe ex UK Enhanced Equity pooled fund has fallen in size such that Avon's investment now represents over 90% of the pooled fund holdings.
- Stenham has recently changed the focus of its business strategy, focussing away from growing its institutional business to focus on servicing existing investors and strategic acquisition and joint venture projects.

Key points for consideration

- Consideration should be given to the potential impact on the SSgA Europe ex UK Enhanced Equity Fund following its fall in size. This should be taken into account in when implementing any changes to the strategic asset allocation following the review currently being undertaken.
- The performance of Stenham and any changes to the team should be monitored closely following the announcement of their change in business strategy.
- The changes introduced to the MAN fund of hedge fund portfolio have yet to show any material benefit in terms of investment performance.
- The Fund is currently undergoing an investment strategic view. This should be taken into account before any manager or asset allocation changes are made.

Contents

Section Two – Market Background

The figures below cover the three and twelve months to the end of December 2012.

Market Statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	3.8	12.3
Overseas Equities	2.4	12.1
USA	-0.9	11.2
Europe	7.9	17.4
Japan	5.1	3.3
Asia Pacific (ex Japan)	5.5	17.5
Emerging Markets	5.1	12.8
Property	0.5	2.4
Hedge Funds	2.0	8.1
Commodities	-3.9	-4.3
High Yield	3.9	14.1
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-0.2	2.9
Index-Linked Gilts (>5 yrs)	5.0	0.5
Corporate Bonds (>15 yrs AA)	0.5	9.9
Non-Gilts (>15 yrs)	1.6	13.1

Inflation Indices	3 Mths %	1 Year %
Price Inflation - RPI	1.1	3.1
Price Inflation - CPI	1.2	2.7
Earnings Inflation	-0.1	1.4

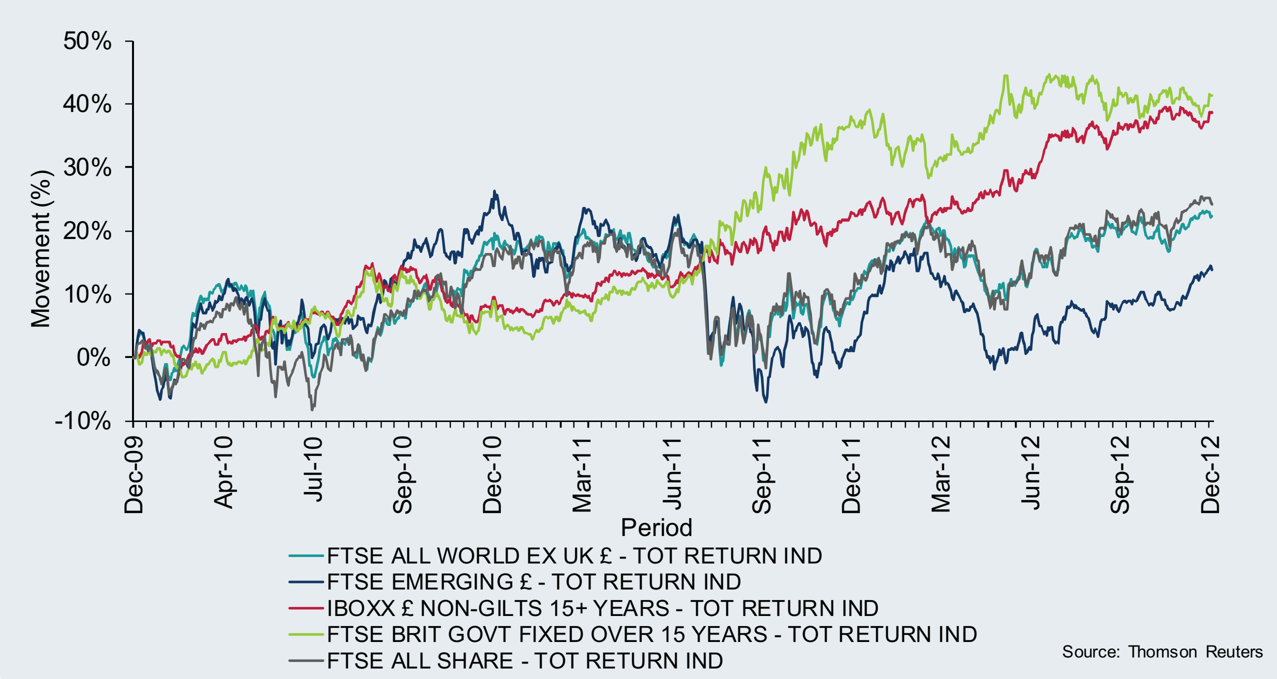
Change in Sterling	3 Mths %	1 Year %
Against US Dollar	0.7	4.6
Against Euro	-1.8	3.0
Against Yen	11.9	17.5

Yields as at 31 December 2012	% p.a.
UK Equities	3.6
UK Gilts (>15 yrs)	3.0
Real Yield (>5 yrs ILG)	-0.1
Corporate Bonds (>15 yrs AA)	4.1
Non-Gilts (>15 yrs)	4.2

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)	0.1	-0.6
Non-Gilts (>15 yrs)	0.0	-0.6

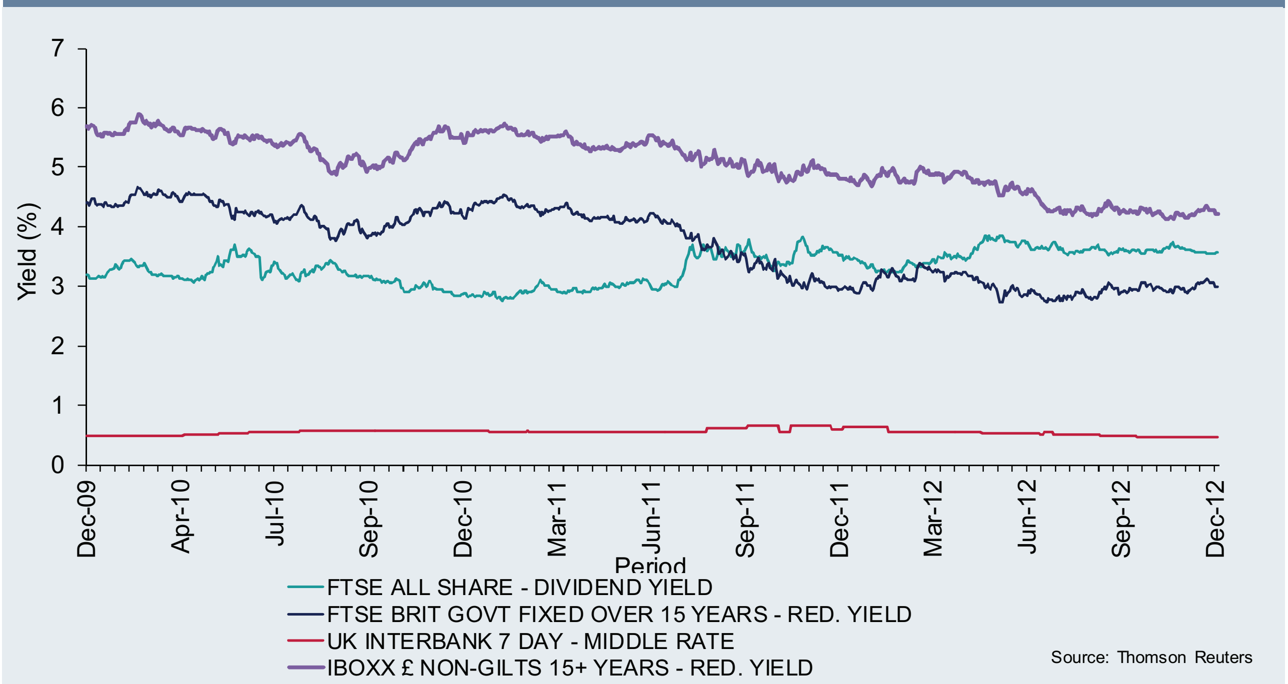
Market Background

Market Returns over the last 3 years



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

Changes in Yields over the last 3 years



The graph above shows the historic yields for gilts, corporate bonds, UK equities and UK cash over the last three years. The trend over 2011 and the first half of 2012 shows falling gilt yields, which stabilised over the second half of 2012, whilst corporate bond yields continued to fall.

The table below compares general market returns (i.e. not achieved Fund returns) to 31 December 2012, with assumptions about returns made in the Investment Strategy agreed in 2009.

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
UK Equities	8.4	7.5	Behind the assumed strategic return due to negative returns in 2011. Both 2010 and 2012 produced double-digit positive returns, latterly partly attributable to market intervention by regulators.
Global Equities	8.4	6.9	
UK Gilts	4.7	12.2	Significantly ahead of the assumed strategic return as gilt yields fell significantly during 2011. Over the last twelve months, gilt yields have stabilised giving a 2012 gilt return of 2.9%. Corporate bond yields have continued to fall.
Index Linked Gilts	5.1	10.6	
UK Corporate Bonds	5.6	9.4	
Overseas Fixed Interest	5.6	4.7	Behind the assumed strategic return. The return has been negative over the last twelve months, affected by rising yields within European bonds, whilst US yields remained reasonably stable.
Fund of Hedge Funds	6.6	1.8	Behind the assumed strategic return. Low LIBOR levels could lead to continued low performance.
Property	7.4	8.2	Ahead of the assumed strategic return, although reduced from the last quarter and driven by the higher returns of 2010 and 2011.

Source: Statement of Investment Principles, Thomson Reuters.

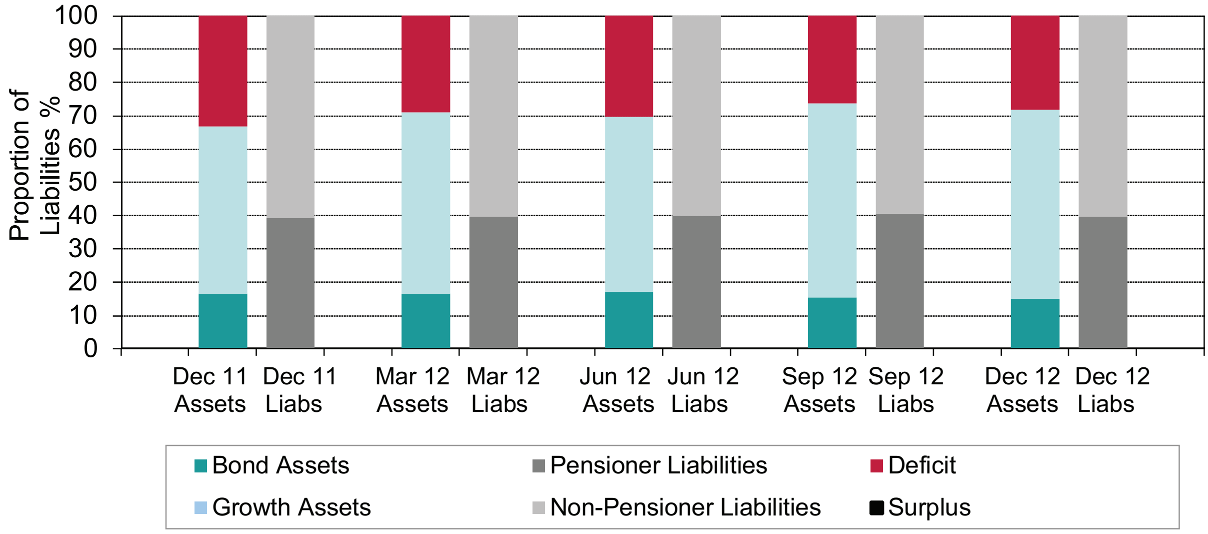
See appendix A for economic data and commentary

Section Three - Consideration of Funding Level

- This section of the report considers the estimated funding level of the Fund. Firstly, it looks at the Fund asset allocation relative to its liabilities. Then it looks at market movements, as they have an impact on both the assets and the estimated value placed on the liabilities.

Asset allocation and liability split

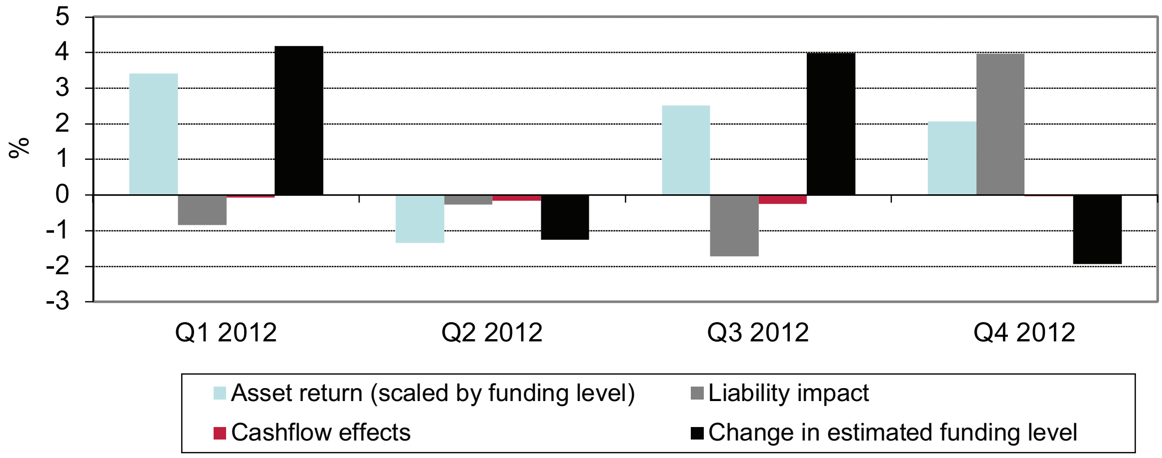
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix for definition). The liability benchmark is based on the valuation results from 31 March 2010.
- These calculations do not take account of any unexpected changes to the Fund membership or changes to the demographic assumptions and should not be construed as an actuarial valuation.



- Based on financial market values, investment returns and cashflows into the Fund, the estimated funding level decreased by around 2% over the fourth quarter of 2012, all else being equal. This was driven by:
  - A rise in the Market Implied (RPI) inflation assumption used to value the liabilities. This increases the value of future inflation-linked payments and hence increases the value of the liabilities.
  - This was offset to some extent by a positive return on the assets, in particular from equities.
- At the valuation date, 31 March 2010, the Scheme was 82% funded. Since then financial market movements, actual cashflows, and investment returns are expected to have reduced the overall funding level, all else being equal, although there has been an improvement over the last twelve months.

Scheme performance relative to estimated liabilities

- The chart below shows, quarter by quarter, the return on the assets and the impact on the liabilities due to changes in financial market values and expected member movements.
- As detailed above, such movements in liabilities are based upon the bond yield underlying the Scheme Actuary's calculation of liabilities.

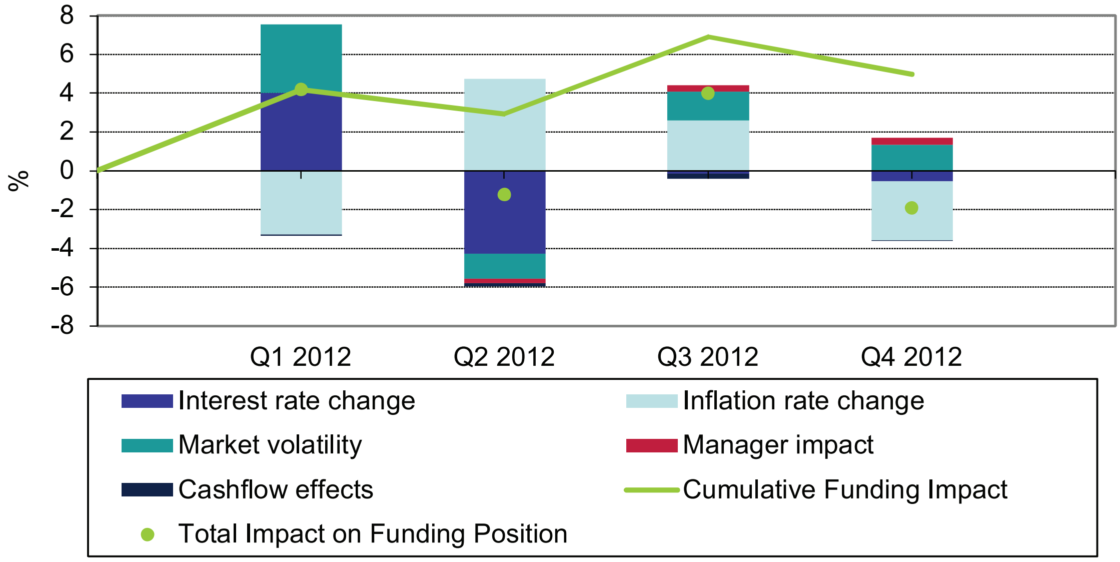


Note : A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of 2.1%, over the last quarter.
- Over the quarter, the value placed on the liabilities increased by more, by an estimated 3.9% mainly due to an increase in the Actuary's inflation assumption.
- Overall, the combined effect has led to a decrease in the estimated funding level to 71% (from 73% at 30/09/2012).

Key drivers of performance against the estimated liabilities

- The chart below shows the main contributors to the change in the estimated funding level. For reference, please note that the underlying calculations are based on the Mercer gilt yield.



- 'Interest rate change' reflects the impact caused by the difference in the duration of the liabilities compared to the assets. As the liabilities have a longer duration than the assets, when yields fall this has a negative impact, for example as in Q2 2012. Over the last two quarters, the discount rate assumption has not changed, which results in a negligible contribution due to the liabilities unwinding.
- The Market Implied (RPI) inflation assumption rose over the last quarter, which took it back to the 30 June 2012 level following a fall in quarter 3. This increased the estimated liabilites and therefore was a negative contibution to the estimated funding level, reversing the positive impact in the previous quarter.
- For Growth assets, 'Market volatility' is simply the (benchmark) return on the assets; for Bond assets it is the return less the return that would be expected given the changes in bond yields. This has been positive over the last quarter mainly due to the rise in equity markets.
- 'Manager impact' is the investment performance compared to the strategic benchmark. This was positive over the last quarter but gives a relatively small contribution compared to the other factors.
- The small 'cashflow effects' reflect factors such as pension payments and contributions/disinvestments.
- Overall the investment factors have had a negative impact on the estimated funding level of the Fund over the last quarter.
- Conversely, over the last twelve months, the investment factors have had a positive effect mainly due to rising markets (the "market volatility" bars), with each of the other components on the chart above broadly neutral.

Section Four – Fund Valuations

- The table below shows the asset allocation of the Fund as at 31 December 2012, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.

Asset Class	31 December 2012 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	573,926	20.0	18.0
Overseas Equities	1,217,607	42.4	42.0
Bonds	597,123	20.8	20.0
Fund of Hedge Funds	215,521	7.5	10.0
Cash (including currency instruments)	55,145	1.9	-
Property	213,927	7.4	10.0
	1		
TOTAL FUND VALUE	**2,873,250**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £80m over the fourth quarter of 2012 to £2,873m. Each asset class contributed positively to the increase, with the largest contributors being overseas equities, UK equities and bonds.
- In terms of the asset allocation, market movements resulted in a shift towards equities as they performed better than other asset classes. This moved the allocation slightly further away from the strategic benchmark weights.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 September 2012		Net new money	31 December 2012	
		Value £'000	Proportion of Total %	£'000	Value £'000	Proportion of Total %
Jupiter	UK Equities	121,709	4.4	-	124,793	4.3
TT International	UK Equities	137,884	4.9	-	144,716	5.0
Invesco	Global ex-UK Equities	185,007	6.6	-	186,292	6.5
Schroder	Global Equities	171,023	6.1	-	174,947	6.1
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	84,902	3.0	-	90,327	3.1
Genesis	Emerging Market Equities	140,956	5.0	-	147,442	5.1
MAN	Fund of Hedge Funds	61,995	2.2	-	62,264	2.2
Signet	Fund of Hedge Funds	64,713	2.3	-	66,339	2.3
Stenham	Fund of Hedge Funds	32,957	1.2	-	33,360	1.2
Gottex	Fund of Hedge Funds	53,313	1.9	-	53,559	1.9
BlackRock	Passive Multi-asset	1,271,197	45.5	2,000	1,305,849	45.4
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	66,102	2.4	-6,100	60,381	2.1
RLAM	Bonds	166,193	6.0	-	172,159	6.0
Schroder	UK Property	130,228	4.7	-	131,330	4.6
Partners	Property	80,408	2.9	6,148	87,078	3.0
Record Currency Mgmt	Dynamic Currency Hedging	2,815	0.1	-	8,249	0.3
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	7,114	0.3	-	8,924	0.3
Internal Cash	Cash	14,431	0.5	-2,048	15,242	0.5
Rounding		-	0.0	-	-1	0.1
TOTAL		**2,792,947**	**100.0**	**0**	**2,873,250**	**100.0**

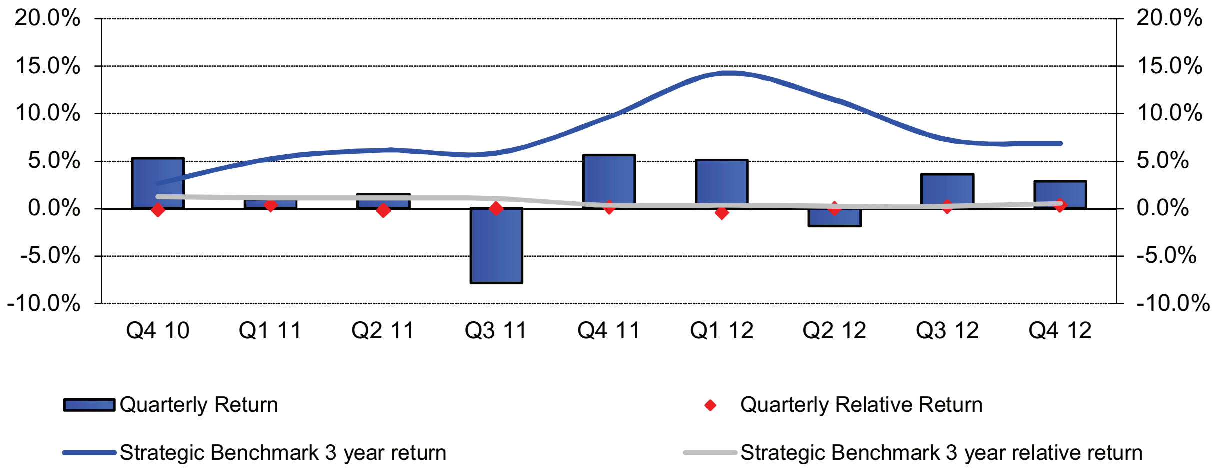
Source: Avon Pension Fund, Data provided by WM Performance Services.

Section Five – 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



Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	2.8	9.7	n/a
Total Fund (ex currency hedge)	2.6	9.3	7.3
Strategic Benchmark	2.3	8.6	6.8
Relative (inc currency hedge)	+0.5	+1.1	n/a
Relative (ex currency hedge)	+0.3	+0.7	+0.5

Source: Data provided by WM Performance Services.

Strategy performance

- The table below shows the strategic allocation to each of the major asset classes and the benchmark returns over the quarter and year to 30 September 2012.

Asset Class	Weight in Strategic Benchmark	Index returns	Contribution to total benchmark	Index returns	Contribution to total benchmark
		Q4 2012	(quarter)	1 year	(1 year)
UK Equities	18%	3.8%	0.7%	12.3%	2.2%
Overseas Equities	42%	3.2%	1.3%	12.4%	5.2%
Index Linked Gilts	6%	5.0%	0.3%	0.5%	0.0%
Fixed Coupon Gilts	6%	-0.3%	-0.0%	2.9%	0.2%
UK Corporate Bonds	5%	2.0%	0.1%	13.0%	0.7%
Overseas Fixed Interest	3%	-2.6%	-0.1%	-3.6%	-0.1%
Fund of Hedge Funds	10%	0.3%	0.0%	2.0%	0.2%
Property	10%	-0.4%	-0.0%	1.0%	0.1%
Total Fund	**100%**				

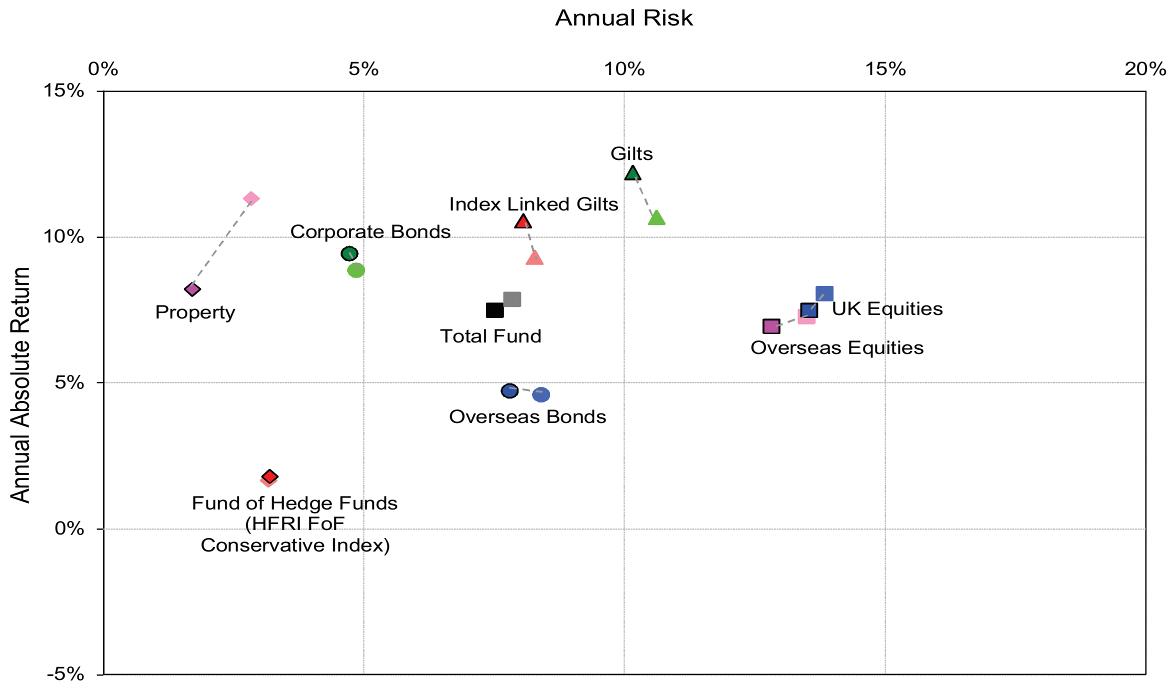
Source: Avon Pension Fund, Data provided by WM Performance Services.

- **Market impact:** Global equities generally moved upwards in the fourth quarter of 2012 as previous concerns, including the eurozone debt crisis and the fear of a prolonged period of low growth for the Chinese economy, receded.
- Trade-weighted sterling did not move a great deal during the quarter, with a marginal weakness against the Euro offset by a strength against the US Dollar. The Yen depreciated by over 10% against sterling over the quarter.
- Concerns over the US fiscal cliff held back US equities, which gave a small negative sterling return. This affected the overseas equity return this quarter.
- Corporate bonds continued to outperform gilts, as credit spreads narrowed from 2.2% to 1.8%. Index linked gilts significantly outperformed conventionals reflecting an increased demand, particularly for longer dated index linked assets, to match changes to the benchmark index in November.
- Property capital values declined over the quarter, partially offset by income.
- **Strategic Benchmark:** performance of the strategy was driven by the two largest components, UK (18%) and overseas (42%) equities, which made up the bulk of the benchmark return in rising markets over both the quarter and year.
- Corporate bonds contributed 0.7% over the year, a sizable amount given they only make up 5% of the benchmark.
- The other asset classes made small contributions ranging from -0.1% to +0.3%, both over the quarter and year.

Risk Return Analysis

- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2012 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark. We also show the position as at last quarter, as shadow points.
- This chart can be compared to the 3 year risk vs return managers' chart on page 20.

3 Year Risk v 3 Year Return to 31 December 2012



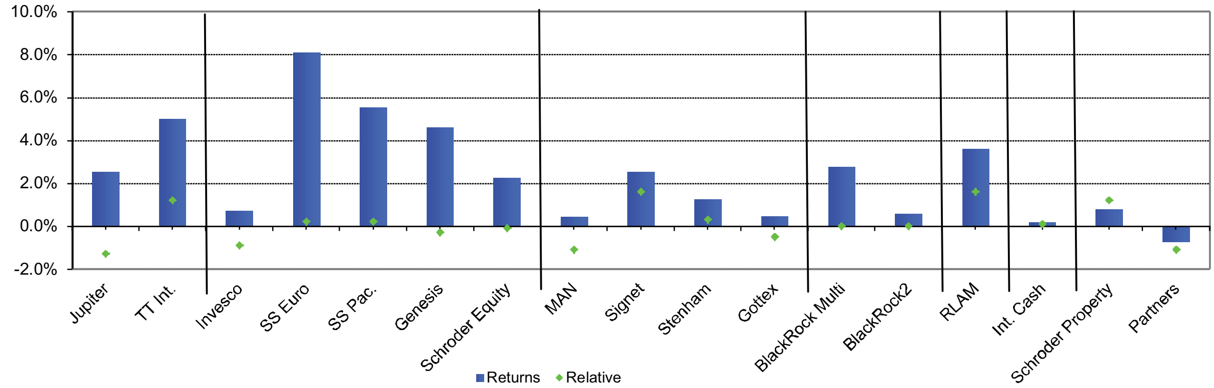
Source: Data provided by Thomson Reuters

- All of the underlying benchmarks have produced a positive return over the period (3 years p.a.).
- The change in the risk/return characteristics over the last quarter is not as marked as in previous quarters, except for property.
- The risk has fallen across all of the asset classes, bar a marginal increase for hedge funds.
- The 3 year returns on bonds has risen, in particular gilts. For conventional gilts, this was a result of a 4.3% fall from Q4 2009 falling out of the analysis, which had a greater impact than the negative return in the most recent quarter.
- Index-linked gilts continue to rise over the last quarter, taking the 3-year return to over 10% p.a.
- The 3-year property return has fallen from 11.3% p.a. to 8.2% p.a. Whilst total returns continue to be positive due to the rental element, the high returns of 2009 have fallen out of the analysis.
- The asset class with the highest return over 3 years is now conventional gilts, at 12.2% p.a., with the bulk of this growth in 2011. Property has fallen from highest to fourth highest.
- Both UK and overseas equity returns are slightly below their assumed strategic return of 8.4% p.a., with overseas fixed interest and hedge funds also remaining below their strategic return. The 3 year return on the other asset classes (property, gilts, index linked gilts and corporate bonds) remain above the respective strategic returns, although mainly due to good returns prior to 2012.

Aggregate manager performance

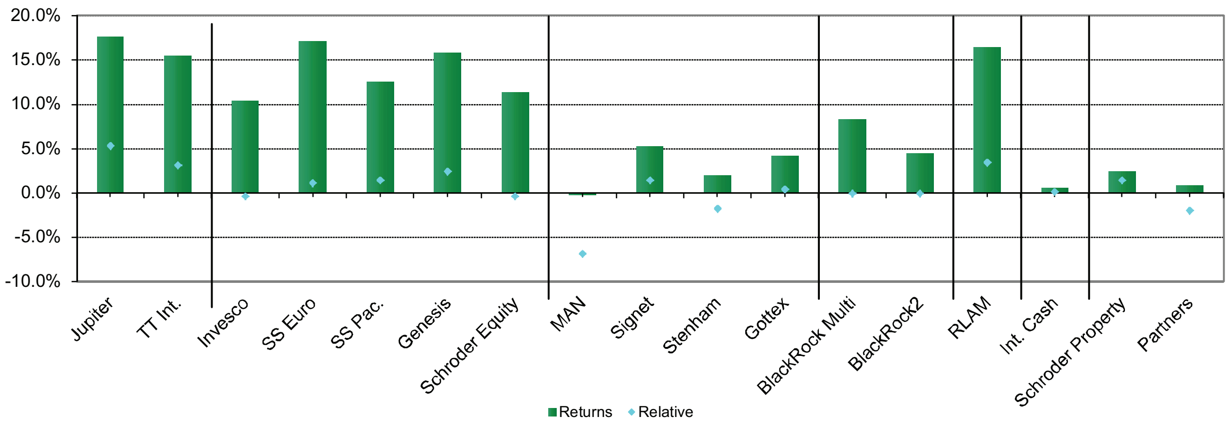
- The charts below show the absolute return for each manager over the quarter, one year and three years to the end of December 2012. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

Absolute and relative performance - **Quarter to 31 December 2012**

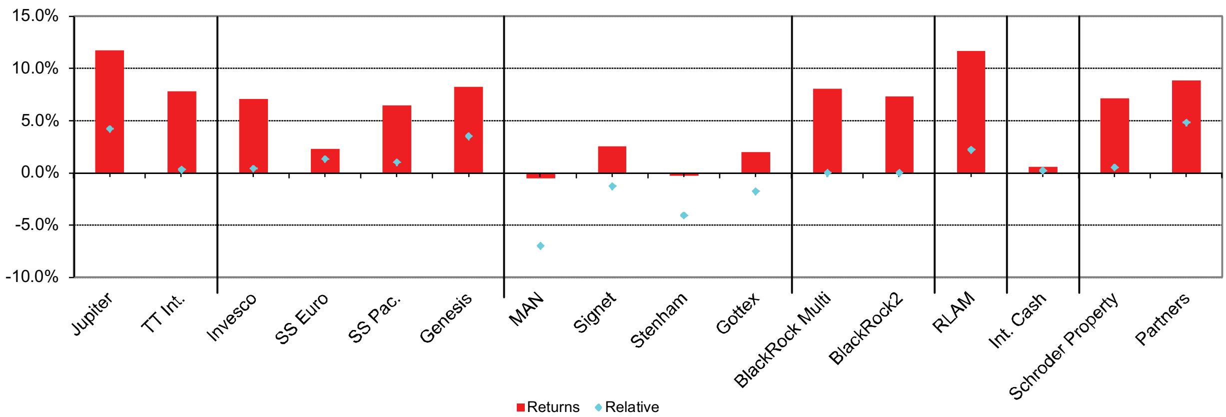


Partners data is lagged by 1 quarter.

Absolute and relative performance - **Year to 31 December 2012**



Absolute and relative performance - **3 years to 31 December 2012**



Source: Data provided by WM Performance Services

- The table below shows the relative returns of each of the funds over the quarter, one year and three years to the end of December 2012. Returns in blue text are returns which outperformed the respective benchmarks, red text shows an underperformance, and black text represents performance in line with the benchmark.

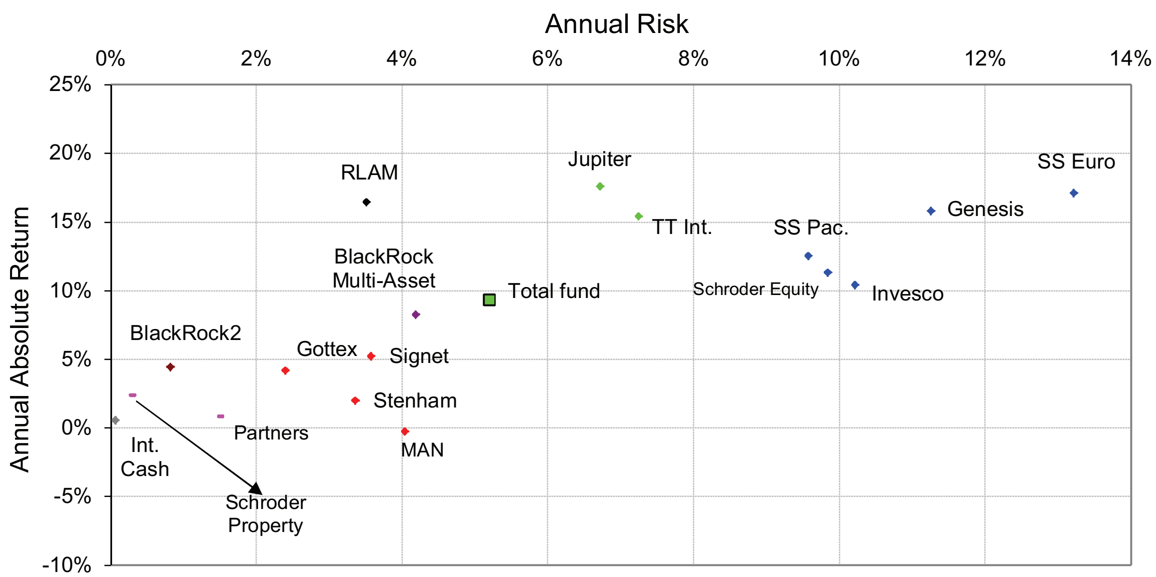
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	-1.3	+5.3	+4.2	Target met
TT International	+1.2	+3.1	+0.3	Target not met
Invesco	-0.9	-0.4	+0.4	Target not met
SSgA Europe	+0.2	+1.1	+1.3	Target met
SSgA Pacific	+0.2	+1.4	+1.0	Target met
Genesis	-0.3	+2.4	+3.5	Target met
Schroder Equity	-0.1	-0.4	N/A	N/A
Man	-1.1	-6.9	-7.0	Target not met
Signet	+1.6	+1.4	-1.3	Target not met
Stenham	+0.3	-1.8	-4.1	Target not met
Gottex	-0.5	+0.4	-1.8	Target not met
BlackRock Multi - Asset	0.0	-0.1	0.0	Target met
BlackRock 2	0.0	-0.1	0.0	Target met
RLAM	+1.6	+3.4	+2.2	Target met
Internal Cash	+0.1	+0.1	+0.2	N/A
Schroder Property	+1.2	+1.4	+0.5	Target not met
Partners Property	-1.1	-1.9	+4.8	N/A

Source: Data provided by WM Performance Services
Data for Partners is lagged by 1 quarter.

Manager and Total Fund risk v return

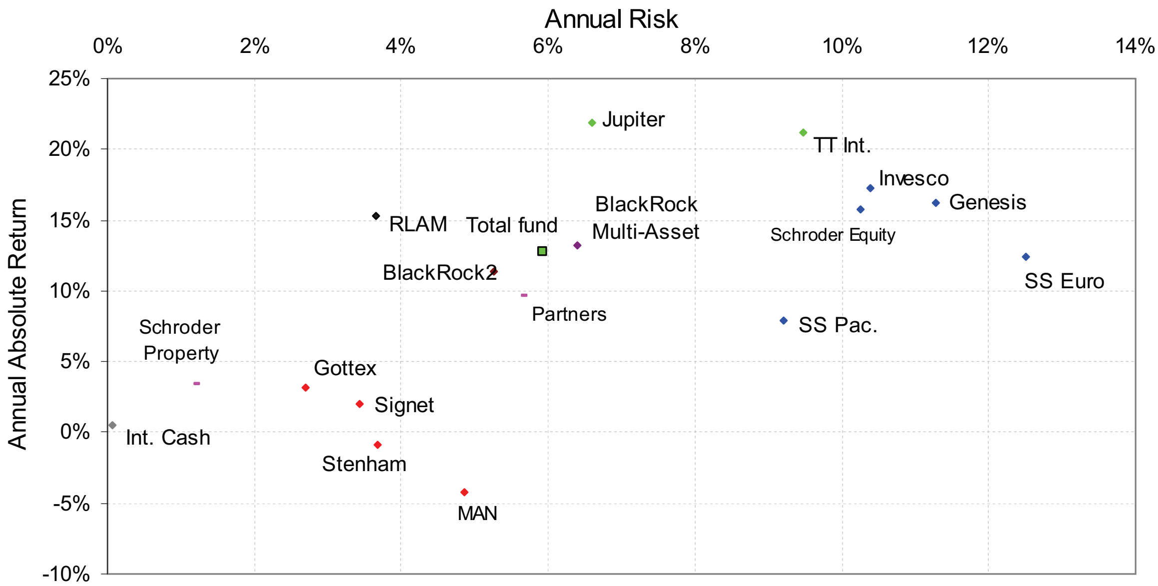
- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2012 of each of the funds. We also show the same chart, but with data to 30 September 2012 for comparison.
-

1 Year Risk v 1 Year Return to 31 December 2012



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 30 September 2012



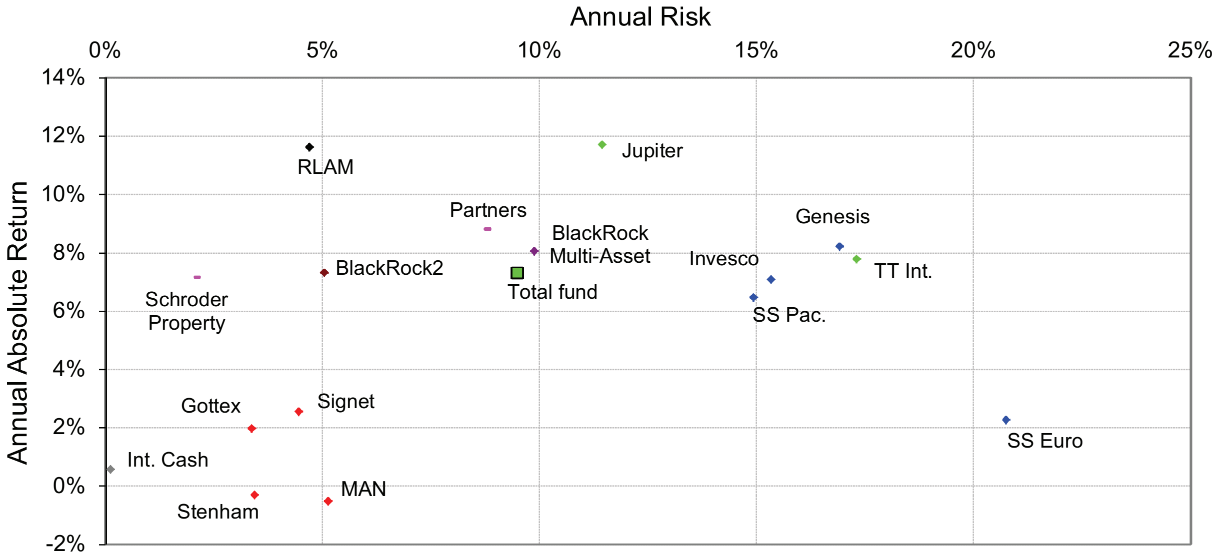
Source: Data provided by WM Performance Services

- 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 one-year returns are lower to December than September for all of the equity-based funds apart from the European and Pacific enhanced indexation funds with SSgA.
- The one-year hedge fund returns have all improved. Only MAN has a negative absolute one-year return at -0.3%, improving from -4.2% at the end of September.
- The BlackRock No.2 Fund return has fallen from 11.4% to 4.4%.
- The one-year risk has remained broadly unchanged for most funds, the notable exceptions being a fall for TT and the two BlackRock funds.

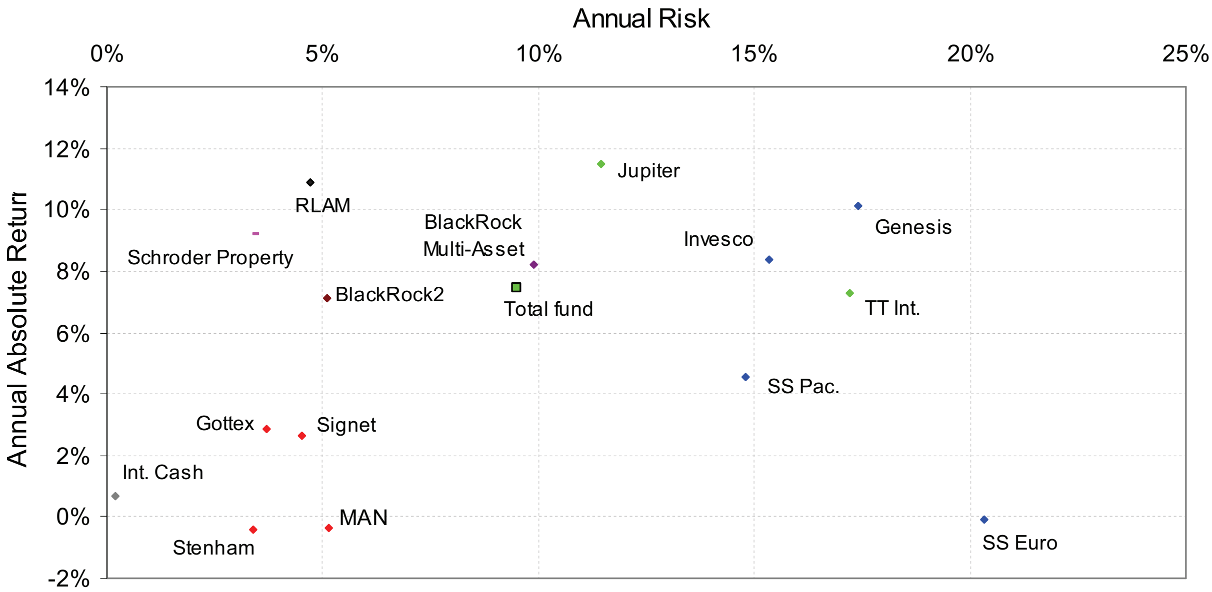
- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2012 of each of the funds. We also show the same chart, but with data to 30 September 2012 for comparison.

3 Year Risk v 3 Year Return to 31 December 2012



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 30 September 2012



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 three year returns are broadly unchanged compared to last quarter, apart from an improvement in the SSgA funds and a deterioration in Schroders' Property and the Gottex hedge fund.
- The 3-year risk figures have also remained at a broadly consistent level across all funds. As would be expected, the equity-based funds have the highest volatility and hedge funds, property and fixed interest the lowest, in line with the market returns chart on page 15.

Conclusion

- The strongest returns over the 1 year period are from equity funds, and the corporate bonds (RLAM). Each of these produced a double-digit return.
- Over three years the picture is more mixed, with Jupiter SRI equities and RLAM corporate bonds both just over 11.5% p.a. The other equity, property and multi-asset funds generally produced 6-8% p.a., with the hedge funds lowest at 0-3% p.a.
- As expected, the Fund of Hedge Fund managers have provided low volatility over both the 1 and 3 year period. However, over the longer 3 year period they have all underperformed their assumed strategic return. RLAM corporate bonds and Schroders' property also shows a low volatility.

Section Six – Individual 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.

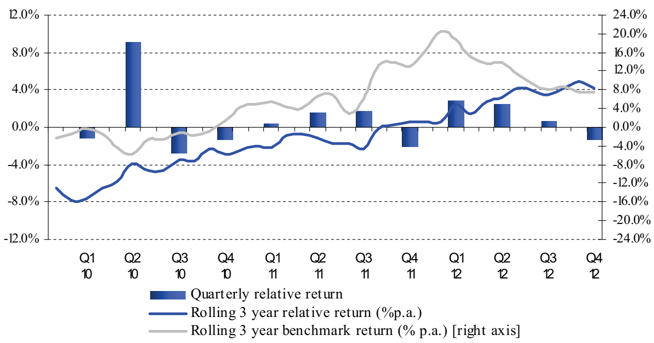
Key points for consideration

- The sustainability of the SSgA Europe ex UK Enhanced Equity Fund was assessed previously following a large fall in its size. The conclusion was that the Fund could be sustained even if the Avon Pension Fund was the only investor. This view should be reconfirmed following a further large redemption and any implications considered when implementing the current strategy review.
- The performance of Stenham and any changes to the team should be monitored closely following the announcement of their change in business strategy. In particular, reassurance should be sought that the portfolio will continue to receive the necessary resource to meet its objectives.
- The changes introduced to the MAN fund of hedge fund portfolio have yet to show any material benefit in terms of investment performance, although the restructuring is still underway.

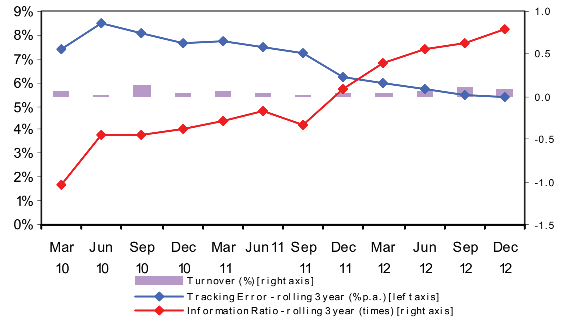
Jupiter Asset Management – UK Equities (Socially Responsible Investing)

Mandate	Benchmark	Outperformance target	Inception date
UK equities (Socially Responsible Investing)	FTSE All Share	+2%	April 2001
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings:**
£124,793	4.3	5.4%	58

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.5	17.6	11.7
Benchmark	3.8	12.3	7.5
Relative	-1.3	+5.3	+4.2

Source: Data provided by WM Performance Services, and Jupiter.

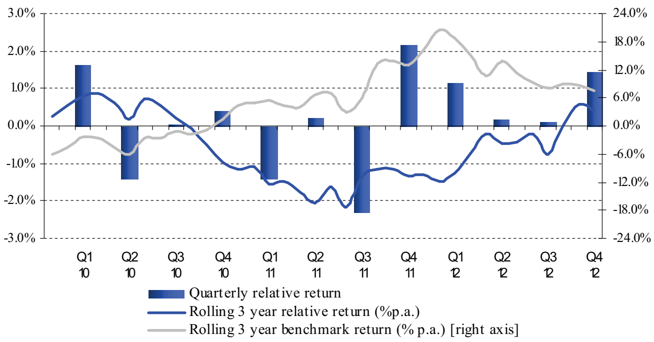
Comments

- Jupiter are outperforming their 3 year performance target.
- The Fund's allocation to Cash (6.5%) increased compared to last quarter (5.6%) but remains below the 7% limit.
- The industry allocation has continued to remain considerably different to the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. Over Q4 2012, Jupiter was significantly underweight in Oil and Gas, Consumer Goods, Basic Materials and Financials, with significant overweight positions in Consumer Services, Industrials, Utilities, Telecommunications and Technology. This relative allocation is consistent with previous quarters.
- The improvement in the information ratio is evidence of more consistent relative returns over 2011 and 2012 as the poorer returns from 2008 and 2009 fall out of the rolling 3-year figures. In addition, the fall in the tracking error has contributed to the information ratio improvement.

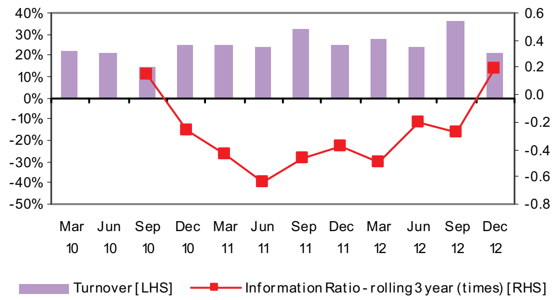
TT International – UK Equities (Unconstrained)

Mandate	Benchmark	Outperformance target	Inception date
UK equities (unconstrained)	FTSE All Share	+3-4%	July 2007
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£144,716	5.0	2.6%	54

Relative returns [#1]



Information ratio and Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.0	15.4	7.8
Benchmark	3.8	12.3	7.5
Relative	+1.2	+3.1	+0.3

Source: Data provided by WM Performance Services, and TT International.

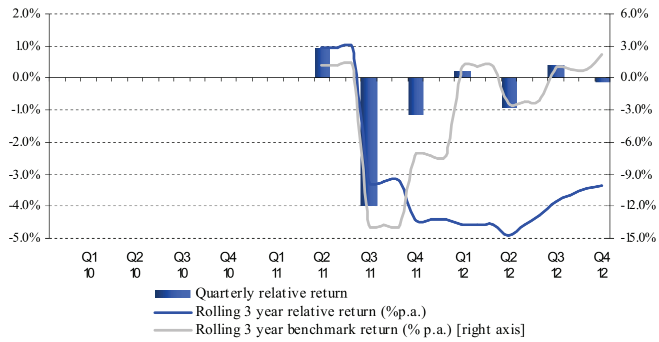
Comments

- TT made changes to the team and process in Q4 2011. The Panel met TT last quarter and were satisfied that performance had improved considerably since changes made, with one year performance at target level and the 3 year rolling measure improving.
- The Fund held an overweight position in Basic Materials by 3.4% and was underweight Utilities and Financials, by 3.1% and 2.9% respectively, at the end of the quarter.
- Turnover, over the fourth quarter, decreased significantly to 20.9% compared to the last quarter's number of 36.6%.
- The 3 year tracking error (proxy for risk relative to the benchmark) has remained broadly consistent over the last few quarters, to stand at 2.57%. However, there has been a consistent decrease since Q3 2010, when it was 3.12%.
- The 3 year information ratio (risk adjusted return), increased by 0.47 after a decrease last quarter.

Schroder – Global Equity Portfolio (Unconstrained)

Mandate	Benchmark	Outperformance target	Inception date
Global Equities (Unconstrained)	**MSCI AC World Index Free**	**+3.5-4.5%**	**April 2011**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£174,947	**6.1**	**N/A**	**N/A**

Relative returns [#1]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.2	11.3	N/A
Benchmark	2.3	11.7	N/A
Relative	-0.1	-0.4	N/A

Source: Data provided by WM Performance Services, and Schroders

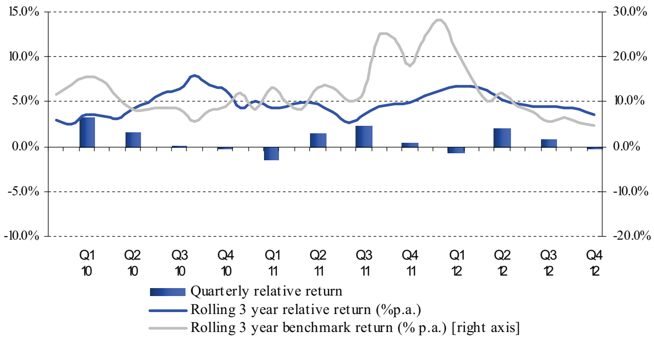
Comments

- The return over the last quarter was close to the benchmark, with the since-inception return continuing to be below the benchmark.
- In general, stocks with greater sensitivity to global growth trends mostly outperformed over the last quarter whilst defensive stocks were de-rated. In line with this, IT stock Infineon Technologies was the portfolio's top performer, consistent with their view that the semi-conductor cycle is bottoming. The financials sector also contributed positively, in particular Santander Mexico. Their largest underperformer was energy stock BG Group, with consumer discretionary stock Dollar General also detracting from performance.
- The strongest regions were Continental Europe and Emerging markets, the latter benefiting from more positive economic data in China. The principal detractor by region was Japan.
- They have moved to an overweight position in Continental Europe, reducing Japan, partly due to their relative performance. They remain overweight in Africa/Middle East, and underweight in the UK and North America.
- In terms of sectors, the Fund increased its holding in industrials to 16.1%, which is 5.7% above the index weight.
- Schroder continue to pursue companies which should benefit from longer-term global trends. The portfolio is balanced between defensive stocks (e.g. a stock which is not dependent on economic conditions such as stocks in pharmaceuticals or food) and more cyclical industries.
- Schroder's approach to stock selection is not constrained by the benchmark. They focus on stock-specific situations where they feel there is sustainable growth and valuation upside.
- Officers continue to monitor performance and Schroder met the Panel on 22nd February 2013.

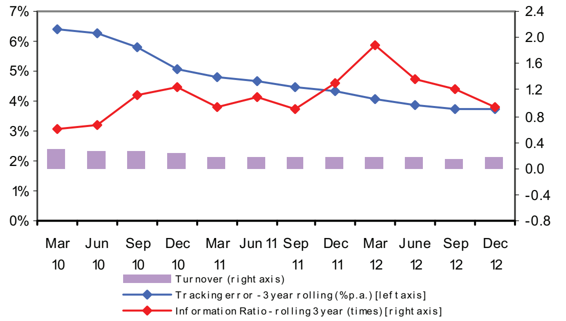
Genesis Asset Managers – Emerging Market Equities

Mandate	Benchmark	Outperformance target	Inception date
Emerging Market equities	**MSCI EM IMI TR**	**-**	**December 2006**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£147,442	**5.1**	**3.7%**	**164**

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	4.6	15.8	8.2
Benchmark	4.9	13.4	4.7
relative	-0.3	+2.4	+3.5

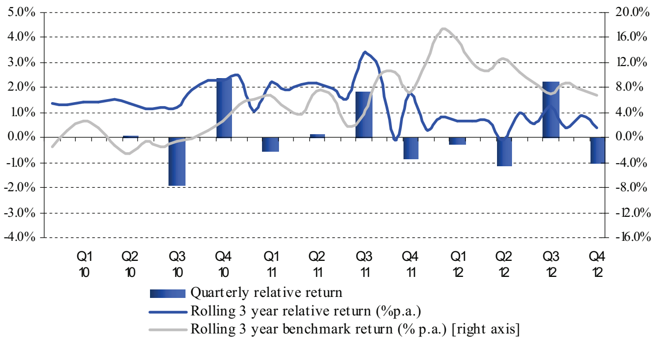
Source: Data provided by WM Performance Services, and Genesis.

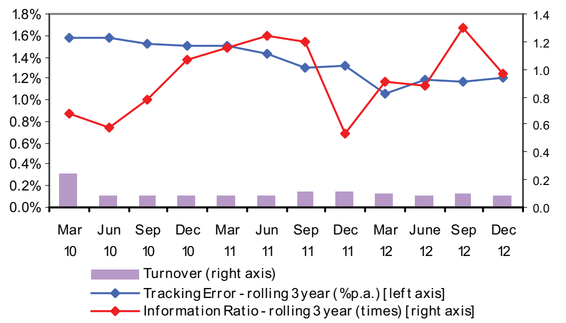
Comments:

- Genesis are achieving significant outperformance of the benchmark over 3 years.
- The Fund is overweight to India, South Africa and Russia, and underweight to China and South Korea, although note that the over- and underweights are a result of Genesis' stock picking approach, rather than taking a view on countries.
- The 3 year tracking error (proxy for risk relative to the benchmark) continued to remain the same as 3.7% in Q4 2012. This is the 1st quarter after 11 consecutive quarters that the tracking error has not fallen. The 3 year information ratio (risk adjusted return), fell from 1.2 to 0.9.
- The allocation to Cash (1.5%) decreased slightly compared to the previous quarter (1.9%).
- On an industry basis, the Fund is overweight Consumer Staples (+6.0%), Health Care (+2.7%) and Materials (+1.8%). The Fund is underweight to Consumer Discretionary (-4.9%), Energy (-4.6%) and Telecom Services (-2.2%). These are broadly similar positions to last quarter.

Invesco – Global ex-UK Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance target	Inception date
Global ex-UK equities enhanced (En. Indexation)	MSCI World ex UK NDR	+0.5%	December 2006
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£186,292	6.5	1.2%	365





Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.7	10.4	7.1
Benchmark	1.6	10.8	6.7
relative	-0.9	-0.4	+0.4

Source: Data provided by WM Performance Services, and Invesco.

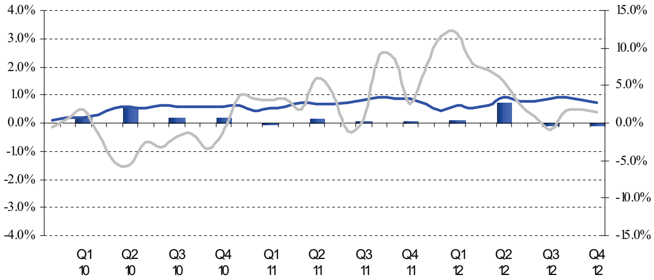
Comments:

- Over the last quarter, all strategies continued to be negative contributors except for Country selection.
- The absolute volatility has decreased to 7.7% at the end of the fourth quarter compared to 8.9% at the end of the third quarter.
- The turnover for this quarter of 8.5% decreased from 10.4% in the previous quarter. The number of stocks (365) remained at par compared to the previous quarter (365).
- The industry allocation is relatively in line with the benchmark industry allocations. Apart from Materials (-1.1%), all industry allocations were broadly within +/- 1.0% of benchmark weightings as expected from this mandate.
- The number of stocks held in this portfolio remains appropriate for the enhanced indexation approach.
- Invesco's 3 year performance has returned above the benchmark but fallen to below their outperformance target.

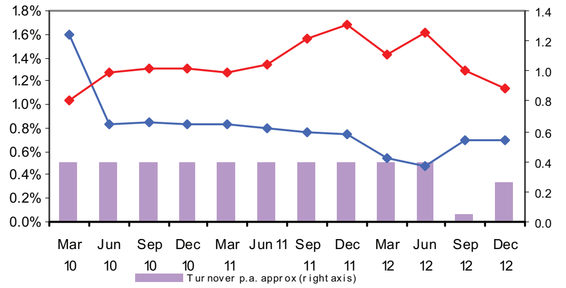
SSgA – Europe ex-UK Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance target	Inception date
Europe ex-UK equities (enhanced indexation)	FTSE AW Europe ex UK	+0.5%	December 2006
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£31,165	1.1	0.7%	233

Relative returns [#1]



Tracking error, Information ratio, Turnover [#4]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	8.1	17.1	2.3
Benchmark	7.9	16.0	1.0
relative	+0.2	+1.1	+1.3

Source: Data provided by WM Performance Services, and SSgA.

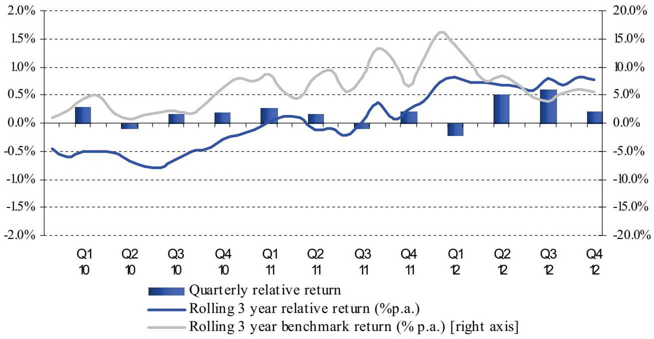
Comments:

- France, Germany and Switzerland make up over 60% of the fund's benchmark - it is overweight in all three countries.
- As previously reported, the pooled fund fell in size from £306.12million as at 31 March 2011, to £46.85million as at 30 June 2011. As at the end of the third quarter of 2012, it was £113.53 million. It has now again, decreased significantly during Q4 2012 and as at 31 December 2012 it is £36.24 million.
- Turnover has increased from 5.2% to 26.3%, closer to that previously seen. The tracking error has remained in line with the previous quarter.
- The information ratio has fallen further this quarter following a decrease in the previous quarter.

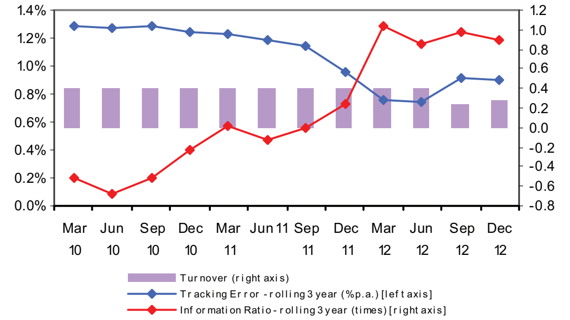
SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance target	Inception date
Pacific inc. Japan equities	**FTSE AW Dev Asia Pacific**	**+0.5%**	**December 2006**
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of holdings**
£59,162	**2.0**	**0.9%**	**446**

Relative returns #1



Tracking error, Information ratio, Turnover #4



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.5	12.5	6.5
Benchmark	5.3	11.1	5.5
relative	+0.2	+1.4	+1.0

Source: Data provided by WM Performance Services, and SSgA.

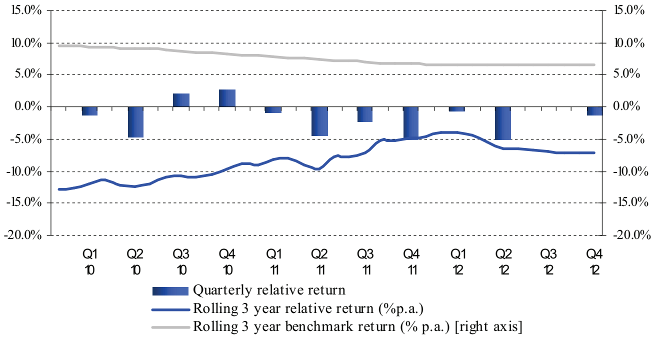
Comments:

- In terms of country allocation, there are no significant deviations away from the benchmark. Just under half of the fund is invested in Japan.
- Turnover has increased 27.8% after a fall in the previous quarter.
- The information ratio (+0.90) has decreased compared to the previous quarter (+0.98).
- The tracking error of the fund has remained the same as compared to the previous quarter.

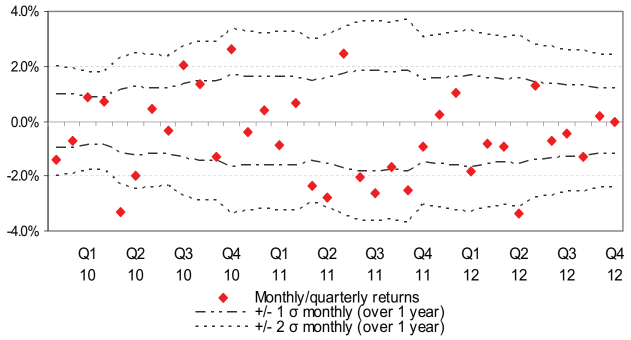
MAN – Fund of Hedge Funds

Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +5.75%	5.4%	August 2007
Value (£'000)	**% Fund Assets**	**Number of funds**	
£62,264	2.2	47	

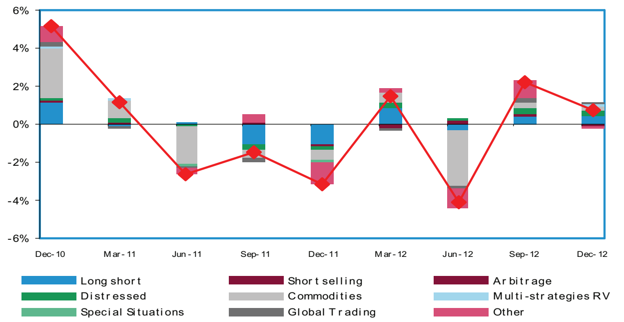
Relative returns [#1]



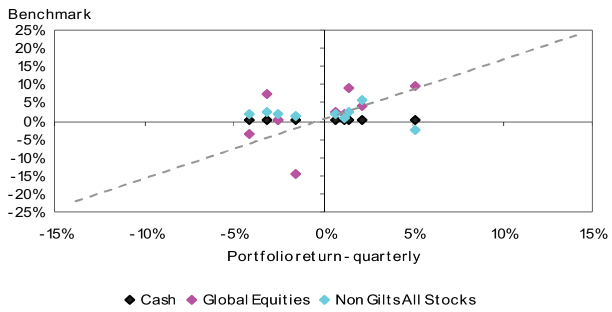
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.4	-0.3	-0.5
Benchmark	1.5	6.6	6.5
relative	-1.1	-6.9	-7.0

Source: Data provided by WM Performance Services, and MAN.

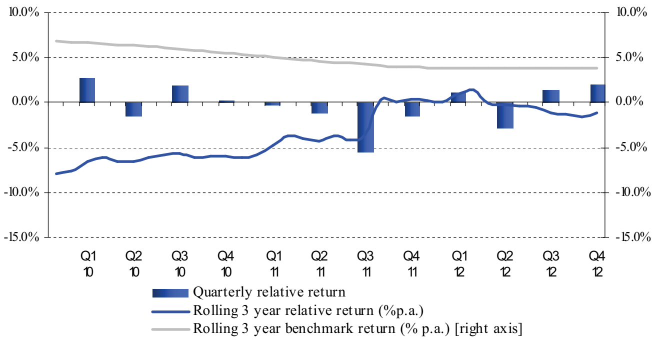
Comments:

- MAN have restructured the portfolio, increasing concentration and more dynamic allocations. The restructure completed in Oct 2012 and so the impact on performance has yet to be determined. The Panel met MAN on Feb 22nd to review how effective the restructure has been in achieving improved performance.
- MAN has a higher outperformance target than the other fund of hedge fund managers. This is partly responsible for a weaker long-term performance. Their 3 year absolute performance remains negative at -0.5% p.a.

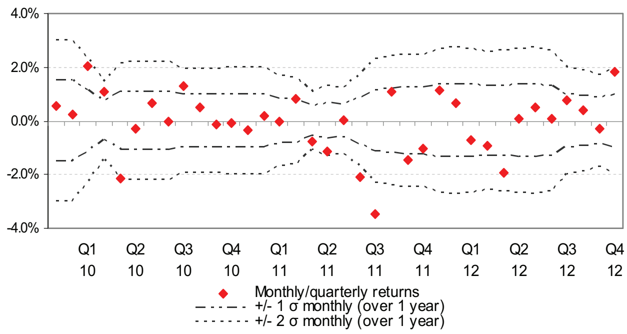
Signet – Fund of Hedge Funds

Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	**3 month LIBOR +3.0%**	**5.1%**	**August 2007**
Value (£'000)	**% Fund Assets**	**Number of funds**	
£66,339	**2.3**	**44**	

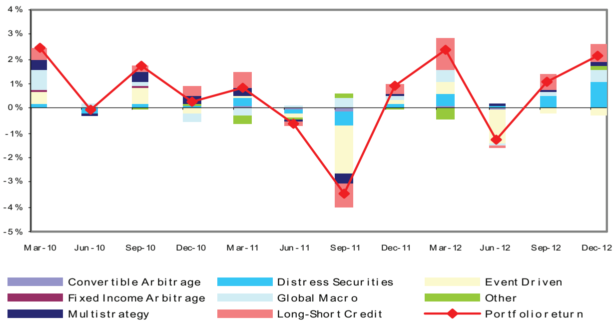
Relative returns [#1]



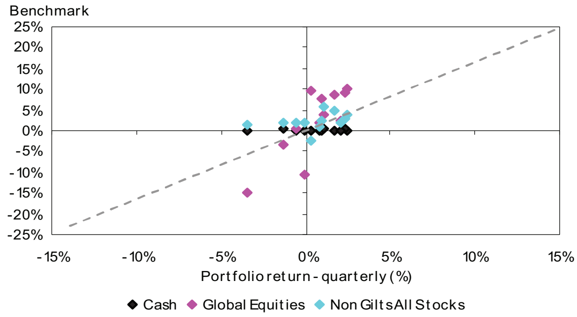
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.5	5.2	2.5
Benchmark	0.9	3.8	3.8
relative	+1.6	+1.4	-1.3

Source: Data provided by WM Performance Services, and Signet.

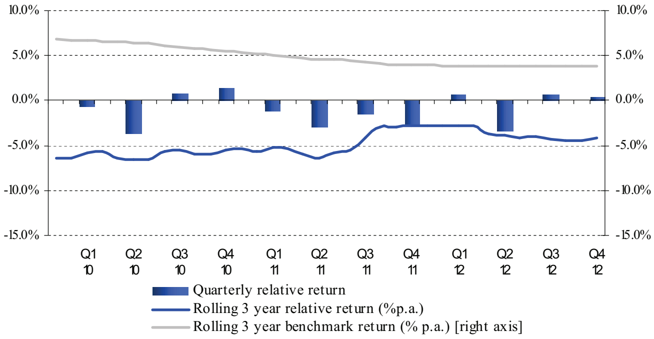
Comments:

- Most strategies contributed to the positive absolute returns.
- There is little correlation between this Fund and cash or non gilt bonds, but a weak correlation with global equities. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

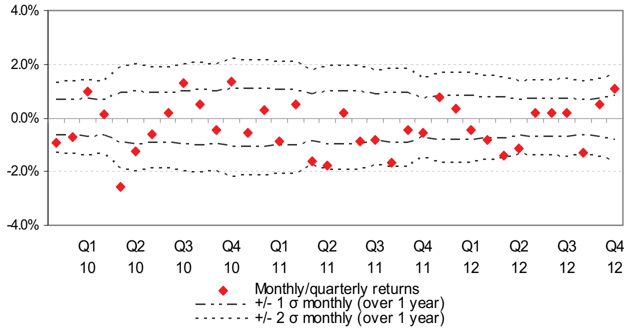
Stenham – Fund of Hedge Funds

Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	3 month LIBOR +3.0%	3.1%	August 2007
Value (£'000)	**% Fund Assets**	**Number of funds**	
£33,360	1.2	33	

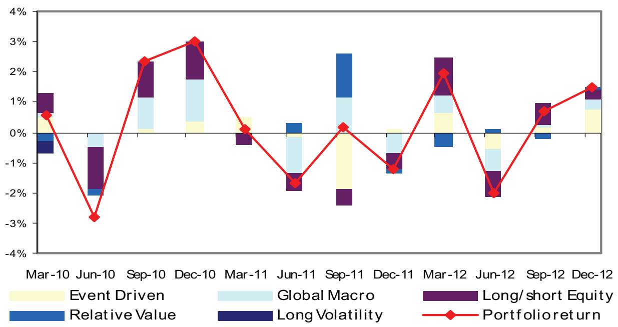
Relative returns [#1]



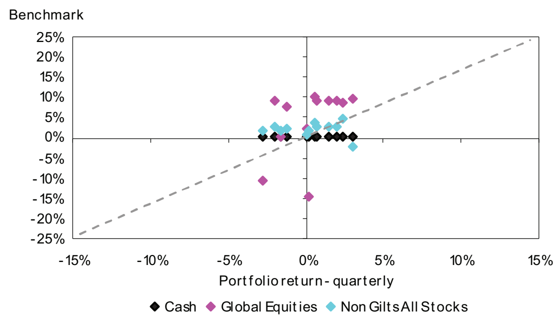
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.2	2.0	-0.3
Benchmark	0.9	3.8	3.8
relative	+0.3	-1.8	-4.1

Source: Data provided by WM Performance Services, and Stenham.

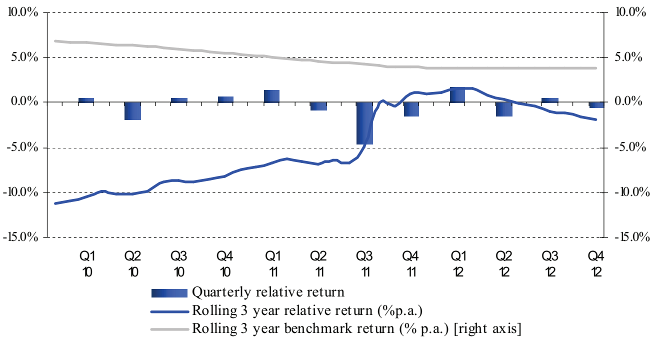
Comments:

- Stenham has recently changed the focus of its business strategy, focussing away from growing its institutional business to focus on servicing existing investors and strategic acquisition and joint venture projects.
- The positive contribution to performance came from Event Driven (0.8%), Long/short Equity (0.4%), Global Macro (0.3%) and Relative Value (0.1%) strategies. Long Volatility was neutral.
- The allocation to the Global Macro and Long / Short Equity strategies made up 67.0% of the total Fund allocation. The allocation to Cash decreased from 3.0% to 1.0% 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.

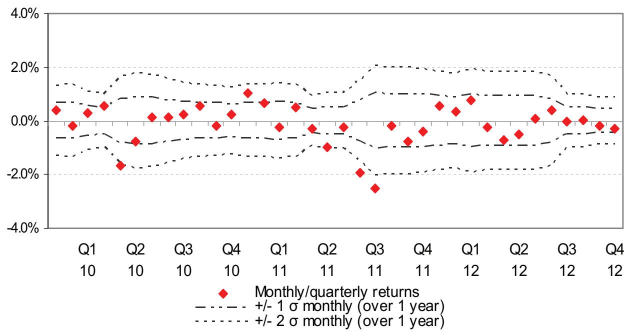
Gottex – Fund of Hedge Funds

Mandate	Benchmark	Portfolio volatility (3 yr p.a.)	Inception date
Fund of Hedge Funds	**3 month LIBOR +3.0%**	**2.7%**	**August 2007**
Value (£'000)	**% Fund Assets**	**Number of funds**	
£53,559	**1.9**	**Not available**	

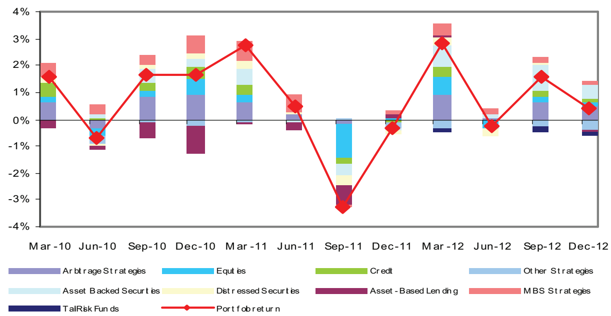
Relative returns [#1]



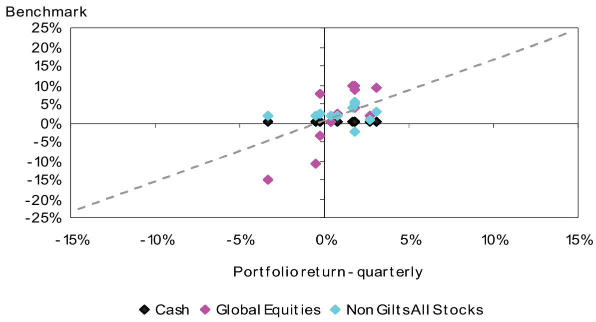
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.4	4.2	2.0
Benchmark	0.9	3.8	3.8
relative	-0.5	+0.4	-1.8

Source: Data provided by WM Performance Services, and Gottex.

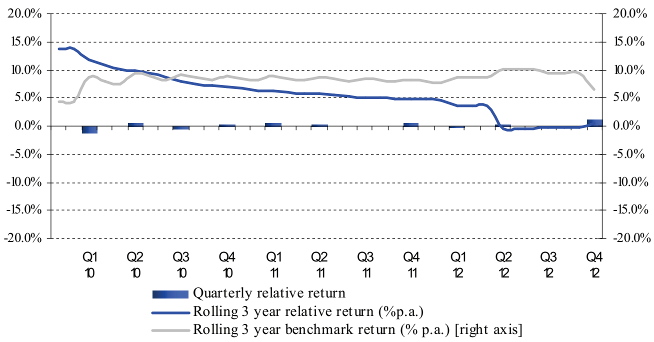
Comments:

- The Fund has a diverse range of strategy exposures, with continued major exposures to Asset Backed Securities, Mortgage Backed Securities and Fundamental MN Equity strategies. Allocations remained broadly in line with those in the earlier 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.

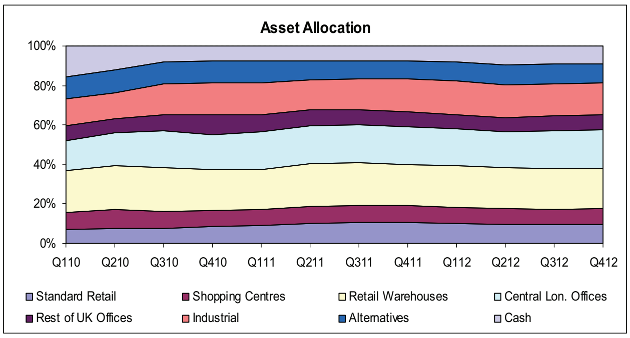
Schroder – UK Property

Mandate	Benchmark	Outperformance target	Inception date
UK property	IPD UK pooled	+1.0%	February 2009
Value (£'000)	**% Fund Assets**	**Tracking error**	**Number of funds**
£131,330	4.6	Not available	N/A

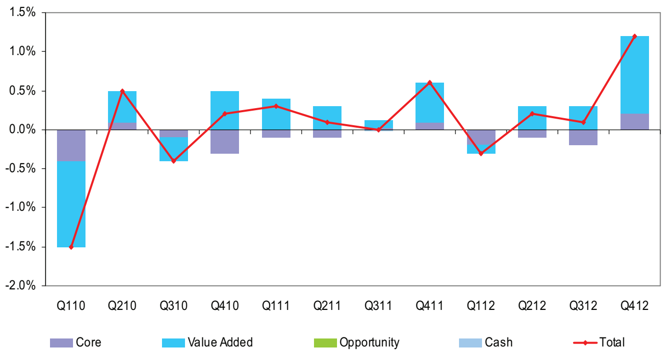
Relative returns [#1]



Asset Allocation [#5]



Contribution to relative return [#6]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.8	2.4	7.1
Benchmark	-0.4	1.0	6.6
relative	+1.2	+1.4	+0.5

Source: Data provided by WM Performance Services, and Schroders

Comments:

- Schroder were appointed 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.
- Over the quarter, outperformance can be attributed to their exposure to West End offices and to income-focussed strategies.
- Performance was also strong in some of the alternative property sectors, particularly in those areas where rental growth is less correlated to the broader economic cycle. Schroder will continue to focus on this type of stock going forward.
- They are looking to reduce shopping centre exposure and increase alternatives, to bring these positions closer to their House View.
- Over the next twelve months, Schroder expect capital values to fall across some provincial secondary markets, with investor focus being on prime assets in London and the South East.
- In the longer term they expect property returns to average around 7% pa over the next five years.

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 £85 million, or approximately 64% of the Fund's intended commitment of approximately £132 million. A total of £7.56 million was drawn down over the quarter, just under half of which was to Direct Real Estate 2011. The draw downs commenced in September 2009.

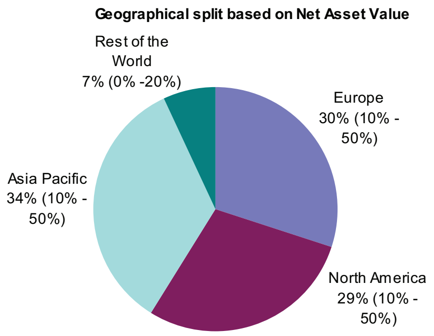
The funds invested to date have been split by Partners as follows:

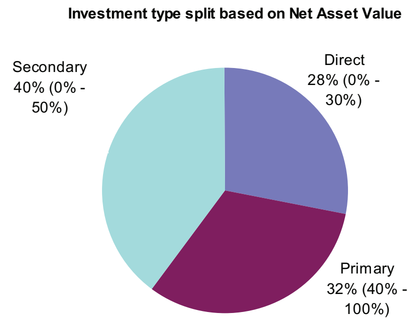
Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 31 December 2012 (£ Million)	Since inception Net IRR
Asia Pacific and Emerging Market Real Estate 2009	11.49	11.76	8.7%
Direct Real Estate 2011	6.82	6.52	-3.3%
Distressed US Real Estate 2009	13.93	13.77	10.4%
Global Real Estate 2008	29.70	30.91	8.8%
Global Real Estate 2011	11.60	11.53	6.4%
Real Estate Secondary 2009	11.83	12.59	15.0%
Total	**85.38**	**87.08**	**9.3%**

Source: Partners. (adjusted for cash flows), the above is Partners' valuation as at 31 December 2012.

The Net IRR is as expected, and in line with the mandate expectation.

The investments in the funds noted above have resulted in a portfolio that was, as at 31 December 2012, 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 changes to the geographical allocation and investment type over the quarter were small - North America increased by 3% and Secondary reduced by 2% in favour of Direct.

The exposure to Primary continues to be below the guidelines, but short-term deviation from the allocation restrictions in place are expected at such an early stage of investment and we do not believe the current positioning to be of concern. In total, 50% of the commitments are allocated to primary investments.

Performance over Q4 2012

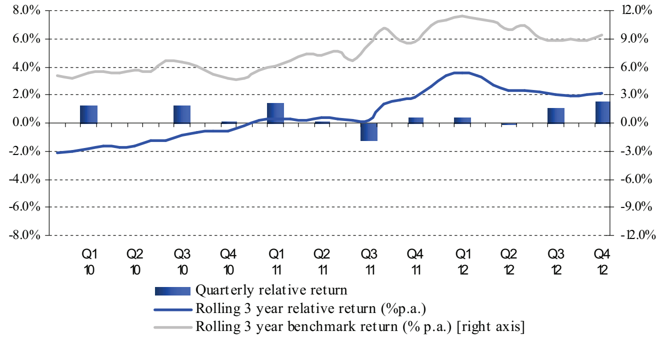
Distributions since inception total £9.46m, with distributions worth £1.76m over the most recent quarter.

Performance of Partners is lagged by 1 quarter. Performance over Q3 2012 was negative, with the manager producing a return of -0.7%, which was behind the benchmark by 1.1%.

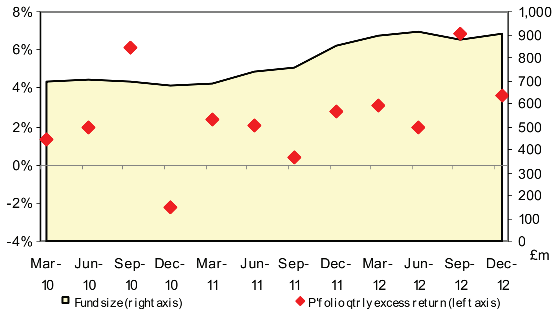
Royal London Asset Management – Fixed Interest

Mandate	Benchmark	Outperformance target	Inception date
UK Corporate Bonds	iBoxx £ non-Gilts all maturities	+0.8%	July 2007
Value (£'000)	**% Fund Assets**	**Number of holdings**	
£172,159	6.0	242	

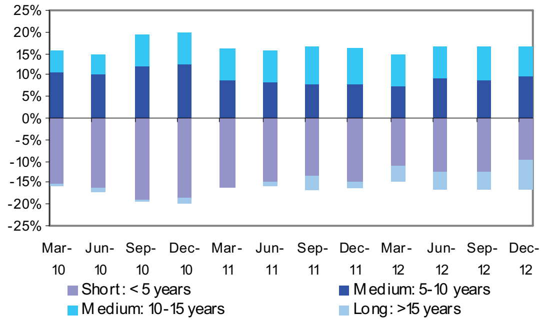
Relative returns [#1]



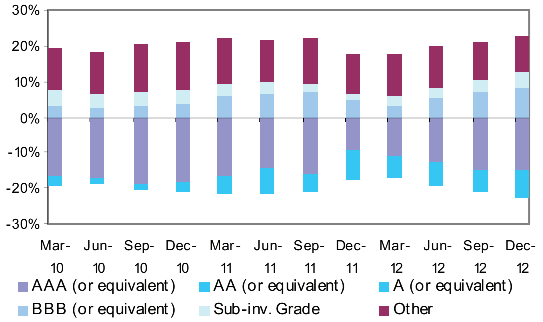
Performance v fund size [#3]



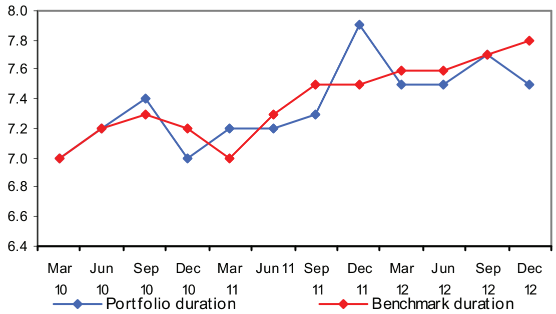
Relative Maturity exposure [#8]



Relative Ratings exposure [#9]



Duration [#10]



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	3.6	16.4	11.6
Benchmark	2.0	13.0	9.4
relative	+1.6	+3.4	+2.2

Source: Data provided by WM Performance Services, and RLAM

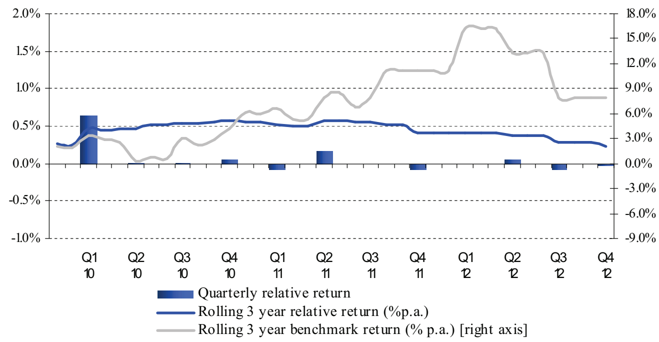
Comments:

- RLAM have maintained a consistent philosophy for some time - the Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds.
- Similarly, RLAM favour medium term maturity bonds. This quarter they have moved to a more underweight position in long (over 15 year) bonds.
- Performance relative to the benchmark may be volatile in the short term due to RLAM's allocation to unrated bonds. These investments are not necessarily riskier or "junk status" and RLAM place their own rating on the bonds using their own research.

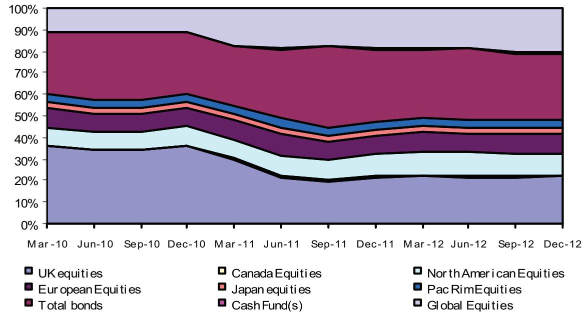
BlackRock – Passive Multi-Asset

Mandate	Benchmark	Outperformance target	Inception date
Passive multi-asset	**In line with customised benchmarks using monthly mean fund weights**	**0%**	**April 2003**
Value (£'000)	**% Fund Assets**		
£1,305,849	**45.4**		

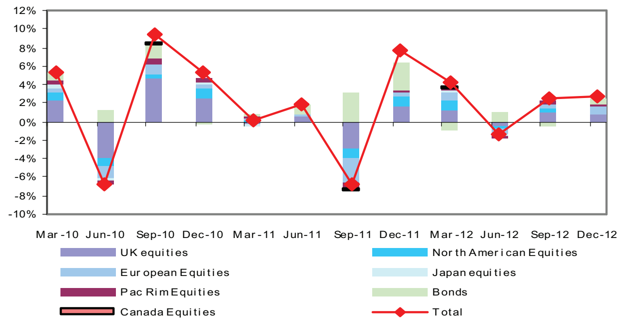
Relative returns #1



Asset Allocation #5



Contribution to absolute return #6



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	2.7	8.2	8.0
Benchmark	2.7	8.3	8.0
relative	0.0	-0.1	0.0

Source: Data provided by WM Performance Services, and BlackRock

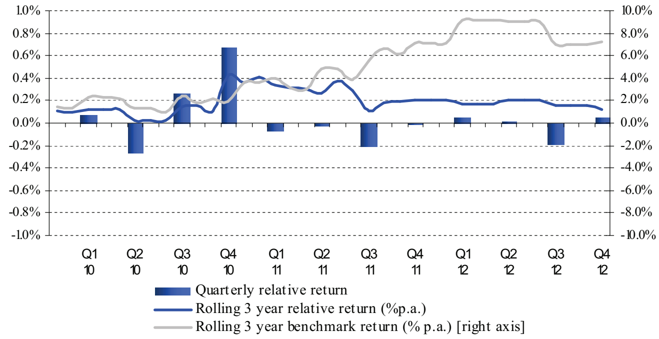
Comments:

- 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.
-

BlackRock No.2 – Property account ("ring fenced" assets)

Mandate	Benchmark	Outperformance target	Inception date
Overseas property	Customised benchmarks using monthly mean fund weights	0%	September 2009
Value (£'000)	**% Fund Assets**		
£60,381	2.1		

Relative returns #1



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.6	4.4	7.3
Benchmark	0.6	4.5	7.3
relative	0.0	-0.1	0.0

Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the quarter, the Fund's holding in Cash decreased by 7.4%, invested in UK Gilts (+3.5%), UK Equity futures (+2.8%) and US Equities (+1.1%).
- The majority of the positive absolute return came from UK Equity Futures, with a small negative contribution from US Equities.

Appendix A – Market Events

Asset Class	What happened? Positive Factors	What happened? Negative Factors
UK Equities	• UK equities were one of the better performing asset classes over the quarter, with the smaller and medium sized companies performing particularly well. Reasonable earnings growth, coupled in many cases with attractive yields, offset the relatively gloomier macro environment. • CPI inflation remained within the Bank of England's target range over the quarter; the latest figure for CPI inflation is 2.7%. • The UK Bank Rate remained at 0.5% over the quarter although there was no change to the level of QE, £375bn.	• Activity in the UK's dominant services sector shrank at the fastest pace for more than three and a half years in December, adding to fears that GDP may have contracted in the final quarter of 2012. The Purchasing Managers' Index for the services sector registered a worse than expected fall in December and is now at the lowest level since April 2009. • The number unemployed, 2.51m remains high although the unemployment rate has fallen from 8.0% to 7.8% over recent months. Increases in wages continue to be lower than the rate of inflation, putting further pressure on consumers.
Overseas Equities		
North America	• Revised figures showed that US GDP grew at an annualised rate of 3.1% during the third quarter compared with the initial estimate of 2.0%. • Signs of a recovery, an improvement in consumer confidence, increased housing demand and very easy monetary policy all combined to produce a positive backdrop.	• Towards the end of the quarter uncertainty set in as the 'fiscal cliff' loomed. The recent elections resulted in a Democratic Senate, but a Republican House of Representatives – a recipe for deadlock and partisan politics. To the surprise of no-one a 'compromise' on the fiscal cliff was negotiated at the very last minute, but leaves several major questions postponed or unasked. • The cuts in spending, roughly $110 billion, due to be implemented on 1st January have only been delayed for two months and not cancelled. There is a view that the Republicans conceded defeat on the tax issue ('protecting millionaires' – an unwinnable argument) to prepare for the far more important fight on spending where the Democrats are on less favourable ground.
Europe	• The ECB maintained interest rates over the quarter and announced a series of positive policy statements over the quarter in an attempt to stabilise investor confidence and improve liquidity in markets. • The European Central Bank's commitment to do 'whatever it takes' to preserve the euro and some signs that Germany was willing to be more flexible in its attitude towards austerity packages across the region, have led to a strong 'relief' rally in prices in the last few months. Although the losses in 2011 have been recovered, European equity markets are still a long way off their previous highs.	• Unemployment remains high - particularly in the peripheral Eurozone countries as austerity measures impact on confidence. Countries such as Spain and Greece are seeing unemployment in certain sections of the population in excess of 50%. • Most analysts expect the Eurozone as a whole to remain in recession throughout 2013 (the 'official' forecast from the ECB is for growth of only 0.1%) with even Germany now thought to be heading into recession. The peripheral countries – the original cause of the Eurozone problems – are seeing an improvement in competitiveness (not surprisingly given the fall in labour costs) but at the expense of potentially explosive social disorder.

Asset Class	What happened?	
	Positive Factors	**Negative Factors**
Japan	• Following the election of Shinzo Abe, there is a chance of radical measures emanating from the Bank of Japan. Whether these measures will be sufficient to satisfy investors, particularly foreign investors, only time will tell. In the past, a lower yen has been the trigger for improved stock market performance. As a result of exchange rate movements, the valuations of many high quality companies have fallen to attractive levels.	• Mr. Abe has promised to put pressure on the traditionally ultra-conservative Bank of Japan to raise inflation and target recovery. There is a risk in this that Mr. Abe tries to be too radical with the Japanese economy and further deepens existing structural problems.
Asia Pacific	• Asian Equities ticked up this quarter, after a year in which worries over the slowdown in China and the problems in Europe were uppermost in investors' minds. However, the recent relaxation of fiscal and monetary policy in China following the change in leadership has alleviated some of these concerns. • Most central banks held their interest rate strategy, helping market confidence. The recovery that appears to have begun in China in the latter part of last year should continue, albeit at lower rates of growth than in the past. There will be no double-digit growth again for the foreseeable future. However 7% is the generally accepted figure for 2013.	• Until there is clarification regarding the new regime's policies, there will inevitably be some concerns about the outlook for the Chinese economy. • Exports to Europe and the US remain a concern as long as doubts about economic growth continue.
Emerging Markets	• Emerging markets equities have started to outperform in the last few months after two years of the underperformance. With, in many cases, above average growth expectations coupled to relatively low valuations, there are obvious attractions to this asset class. • Emerging market equities do not look expensive, but prices are likely to remain volatile affected by policy pronouncements elsewhere in the world.	• Emerging Market equities over recent months have been the lowering of earnings expectations (given what has been happening globally) – thus putting a question mark over valuations. • Political instability is the main investor concern at present with the political leadership of China changing and the uncertainties in the Latin America increasing proving a drag to growth.
Gilts	• Despite Government bond yields remaining at near record lows, the demand for Gilts has proved resilient as the UK continues to be seen as a 'safe haven' status relative to other issuers of sovereign debt. In addition, the rate of CPI inflation is now within the Bank of England's target range. However expensive Gilts may look, until there is a perceived resolution to the problems of the Eurozone, this situation may continue for some time.	• Towards the end of the quarter, yields rose slightly as revised UK GDP figures and other economic data suggested that the worst of the economic downturn might be over. Gilt yields are at an unsustainably low level and, at some stage, are likely to rise significantly as interest rates are raised to limit inflationary pressures as the economy recovers.

Asset Class	What happened?	
	Positive Factors	Negative Factors
Index Linked Gilts	• With limited supply and investors continuing to seek inflation protection, demand for Index Linked Gilts remains high, thus supporting prices. Real yields remained slightly positive in Q4 as investors nervously awaited the review by the Office of National Statistics into the calculation of RPI. However, contrary to market expectations, the calculation basis for the RPI has been left unchanged which means that it will not be changed in order to bring RPI closer to CPI.	• A negative real yield on long-dated index-linked stocks is unsustainable over the longer term in an environment in which central banks are able to successfully control inflation within a target range.
Corporate Bonds	• Sterling Corporate Bonds produced a positive return, benefiting from the strength of corporate balance sheets and the higher yields relative to gilts. Investors also approved of the Eurozone's efforts to support the sovereign bond markets.	• The Corporate Bond Market is currently suffering from a lack of liquidity meaning that trading is becoming more difficult.
Property	• Tier 1 prime assets continue to outperform secondary and tertiary properties, as they have done throughout 2012.	• The well established trend of overall void levels increasing in tandem with the lowering of capital values as well as falling rental yields continued through Q4. The lack of growth in the economy compounded these issues.

Economic statistics

	Quarter to 31 December 2012			Year to 31 December 2012		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	-0.3%	n/a	0.0%	0.0%	n/a	1.5%
Unemployment rate	7.7%	*11.0%*[4]	7.8%	7.7%	11.0%[4]	7.8%
Previous	*7.9%*	*10.8%*[u]	*7.8%*	*8.4%*	*10.1%*[u]	*8.5%*
Inflation change[2]	1.2%	0.4%	-0.8%	2.7%	2.2%	1.7%
Manufacturing Purchasing Managers' Index	51.4	47.5	50.7	51.4	47.5	50.7
Previous	*48.4*	*46.1*	*51.5*	*49.6*	*46.9*	*53.1*
Quantitative Easing / LTRO [3]	£375bn	€1,018bn	$2,774bn	£375bn	€1,018bn	$2,774bn
Previous	*£375bn*	*€1,018bn*	*$2,654bn*	*£275bn*	*€0bn*	*$2,654bn*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. All figures to 31 December 2012 unless otherwise stated. "Previous" relates to data as at the previous quarter or year end.

(1) 15 Country Euro area; (2) CPI inflation measure; (3) Refers to amounts announced and therefore ignores changes due to debt maturing. LTRO refers to the European Central Bank's Long Term Refinancing Operation; (4) As at November 2012; (u) Updated since our previous reports.

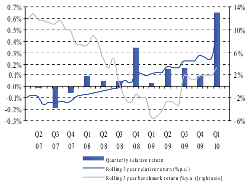
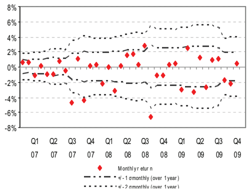
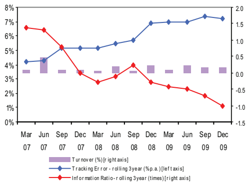
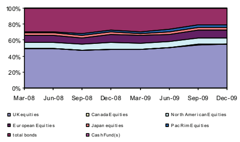
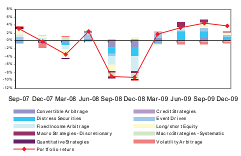
Appendix B – Glossary of Terms

Term	Definition
Absolute Return	The actual return, as opposed to the return relative to a benchmark.
Annualised	Figures expressed as applying to 1 year.
Bond Assets	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Growth Assets	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the Growth assets may not.
Duration	The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Funded Liabilities	The value of benefits payable to members that can be paid from the existing assets of the plan (i.e. those liabilities that have assets available to meet them).
High Yield	A type of bond which has a lower credit rating than traditional investment grade corporate bonds or government bonds. These bonds pay a higher yield than investment grade bonds.
Market Statistics Indices	The following indices are used for asset returns: UK Equities: FTSE All-Share Index Overseas Equities: FTSE AW All-World ex UK UK Gilts (>15 yrs or >20 yrs): FTSE Brit Govt Fixed Over 15 (or 20) Years Index Corporate Bonds(>15 yrs AA): iBoxx £ Corp 15+ Years AA Index Non-Gilts (>15 yrs): iBoxx £ Non-Gilts 15+ Years Index Index Linked Gilts (>5yrs): FTSE Brit Govt Index Link Over 5 Years Index Hedge Funds: CS/Tremont Hedge Fund Index Commodities: S&P GSCI Commodity GBP Total Return Index High Yield: Bank Of America Merrill Lynch Global High Yield Index Property: IPD Property Index (Monthly) Cash: 7 day London Interbank Middle Rate Price Inflation: All Items Retail Price Index Earnings Inflation: UK Average Weekly Earnings Index - Whole Economy excluding Bonuses
Market Volatility	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.

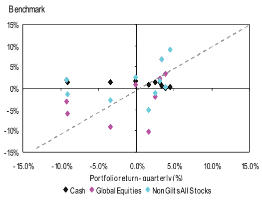
Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and timing of cashflows.
Non-Pensioner Liability	The value of benefits payable to those who are yet to retire, including active and deferred members.
Pensioner Liability	The value of benefits payable to those who have already retired, irrespective of their age.
Relative Return	The return on a fund compared to the return on another fund, index or benchmark. For IMAGE purposes this is defined as: Return on Fund less Return on Index or Benchmark.
Scheme Investments	Refers only to the invested assets, including cash, held by your investment managers.
Surplus/Deficit	The estimated funding position of the Scheme. This is not an actuarial valuation and is based on estimated changes in liabilities as a result of bond yield changes, asset movements and, if carried out, output from an asset liability investigation (ALI). If no ALI has been undertaken the estimate is less robust.
Three-Year Return	The total return on the fund over a three year period expressed in percent per annum.
Time-Weighted Rate of Return	The rate of return on an investment removing the effect of the amount and timing of cashflows.
Unfunded Liabilities	The value of benefits payable to members that cannot be paid from the existing assets of the Scheme (i.e. those liabilities that have no physical assets available to meet them). These liabilities are effectively the deficit of the Scheme.
Yield (Gross Redemption Yield)	The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

Appendix C – Glossary of Charts

The following provides a description of the charts used in Section 5 and a brief description of their interpretation.

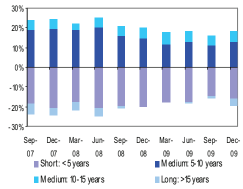
Reference		***Description***
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year 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).
#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



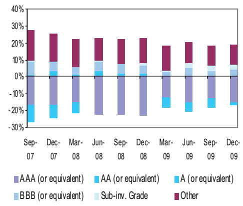
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance. 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



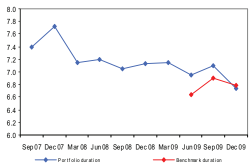
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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 D – 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	-
MAN	Fund of Hedge Funds	3M LIBOR + 5.75%	-
Signet	Fund of Hedge Funds	3M LIBOR + 3%	-
Stenham	Fund of Hedge Funds	3M LIBOR + 3%	-
Gottex	Fund of Hedge Funds	3M LIBOR + 3%	-
BlackRock	Passive Multi-asset	In line with customised benchmarks using monthly mean fund weights	0%
BlackRock	Overseas Property	Customised benchmarks using monthly mean fund weights	0%
RLAM	UK Corporate Bond Fund	iBoxx £ non-Gilts all maturities	+0.8%
Schroder	UK Property	IPD UK pooled	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Cash	Internally Managed	7 day LIBID	

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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: RFI 274/13

Meeting / Decision: Avon Pension Fund Committee
Date: 22 March 2013

Author: Matt Betts
Report Title: REVIEW OF INVESTMENT PERFORMANCE (for periods ending 31 December 2012) Exempt Appendix Title: Exempt Appendix 3 – Summaries of Investment Panel meetings with Investment Managers

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the Report be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972

Act exempts information which relates to the financial or business affairs of the 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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Local Authority Pension Fund Forum

QUARTERLY ENGAGEMENT REPORT

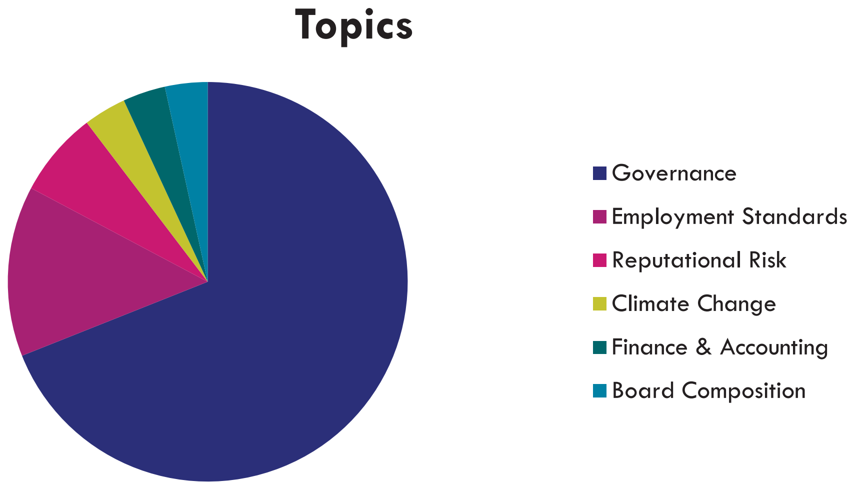
OCTOBER TO DECEMBER 2012

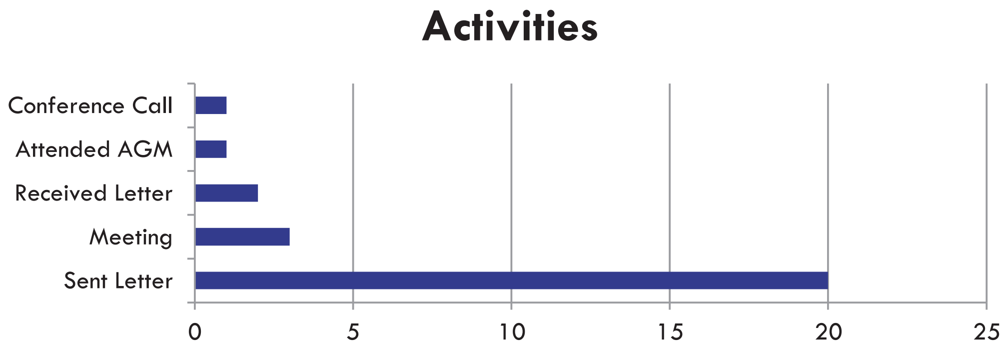
Local Authority Pension Fund Forum

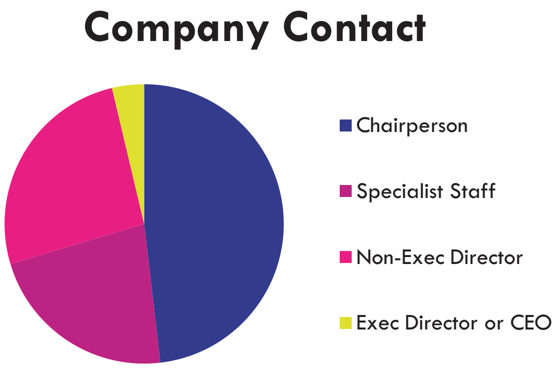
LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of local authority pension funds in the UK with combined assets of over £115 billion.

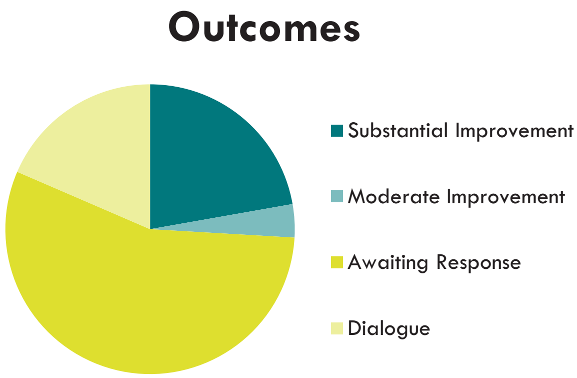
ENGAGEMENT SUMMARY

OCTOBER TO DECEMBER 2012









ACHIEVEMENTS

- Attended the **News Corporation** AGM in Los Angeles to speak to the resolution filed by LAPFF members and Christian Brothers Investment Services asking for an independent chair. It received 67% support from independent shareholders.
- Responded to DEFRA consultation on greenhouse gas emission reporting regulations flagged up the Forum's long-term support for **mandatory carbon emission reporting** being brought into effect by the regulations. Met with **BP,** together with CCLA, to discuss their carbon emissions management and positioning for a low carbon economy.
- Launched the 'Smith Institute' report '**Investing for Growth**' at a parliamentary event in October, co-sponsored by LAPFF. The Forum's '**People and Investment'** report was launched at the Forum's annual conference.
- Continued to engage companies and policy-makers on the basis that international accounting standards can overvalue assets and supported an USS-led investor coalition promoting **IFRS reform**. This position is beginning to be vindicated by statements by the Financial Policy Committee of the Bank of England.
- Discussed labour relations, succession planning and board diversity with **National Express**. Held a follow-up conference call focussed on employee relations in the US.
- Met with the chairman and chair of the audit committee of **Royal Bank of Scotland** to discuss IFRS, 'true and fair view' accounting, as well as recent fines and reputational risk in the banking sector.

THE FORUM IN THE NEWS

Independent Chair at News Corporation - Bloomberg TV, CNN, CNBC, Sydney Morning Herald, Independent, Guardian, Telegraph

'Aiming for A' Improving carbon reporting at UK companies - Financial Times

'People and Investment' Report - The Independent, Employee Benefits, Board Talk, Global Proxy Watch

International Financial Reporting Standards - Responsible-Investor.com, Financial News, IPE, Financial Times

Infrastructure Investment: Public Finance, Guardian

View more press coverage: http://lapfforum.org/TTx2/press/in-the-news

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

The LAPFF chair, Ian Greenwood, attended the AGM of **News Corporation** in Los Angeles and spoke in support of the resolution for an independent Chairman as part of ongoing constructive dialogue with company directors. Two LAPFF funds were co-filers on the resolution. In the run-up to the AGM the Forum spoke with several large News Corp shareholders and proxy advisory services. Subsequently both big US advisers, ISS and Glass Lewis, recommended a vote in favour of the resolution, and major investors including CalPERS and CalSTRS also stated their public support.

The resolution for Independent Chair at **News Corp** received 30% of the shareholder vote.

Excluding the Murdoch family stake, this represents 67% of the vote.

LAPFF's participation in the investor group of the **30% Club**, continued with the group issuing an update on its Best Practice Guidelines on board diversity, 'Diversity and Stewardship: the Next Steps' at an event to mark the second anniversary of the Group at the London Stock Exchange. The update includes proposed voting policies to promote diverse boards.

PROMOTING GOOD GOVERNANCE

Global Focus List Engagement

LAPFF wrote to fifteen companies, listed in the UK, US, France, Spain, Switzerland and Sweden. These companies have been selected for engagement by evaluating company performance on key governance issues. Companies include **Flir Systems**, a former focus list constituent, **Société Générale** where a LAPFF fund co-filed a resolution in 2011 relating to combined roles at the head of the company, and **Carnival Corporation**, where there are ongoing health and safety concerns. The Forum also wrote to five companies that achieved the highest scores in our evaluation in each of the markets to commend them on their good governance practices.

People & Investment Value

The Forum launched a new publication at the annual LAPFF conference entitled the Forum's publication 'People and Investment Value: Appraising Employee Value Propositions to Distinguish Corporate Performance.' The report identifies how companies can create sustainable value using non-monetary mechanisms to attract, retain and motivate staff. Formulated as a guide for investors, it sets out questions investors can raise with companies or their investment managers.

"The science tells us committed, as opposed to motivated staff (at all levels), are driven by purpose, a desire to connect with like-minded colleagues, autonomy, mastery and a sense of achievement and progress."

-'People & Investment Value' Report

The questions will enable investors to a) distinguish between companies with compelling employee value propositions and those with weak employee value propositions, b) engage with companies on this basis, and c) provide a platform to encourage companies to improve operating and stock price performance through better human capital management.

Financial Reporting & Audit

In December, the Financial Policy Committee of the Bank of England warned that banks have been over-optimistic in valuing their books and will have either to restructure their businesses or raise new capital, and to do that will require prudent accounting. LAPFF continues to call for change to international accounting standards and is working with an investor group including the Universities Superannuation Scheme, Royal London Asset Management and others. The group has set out a position paper arguing that **International Financial Reporting Standards** (IFRS) has failed UK companies and has not provided investors with sufficient assurance that accounting figures prepared under the IFRS provide an accurate picture of the financial health of companies.

A second position paper signed by LAPFF together with twenty-eight other investors expresses deep concern regarding the failure of **auditors** to provide investors with adequate warnings prior to the financial crisis. It highlights problems in the audit profession and calls for improvements to audit quality, mandatory rotation of audit firms at a minimum every fifteen years, mandatory re-tendering every five to seven years, and setting limits on non-audit work conducted by the auditors.

© James Stinger

LAPFF finished its round of meetings with UK banks, with a meeting with the chairman and audit committee chair of **Royal Bank of Scotland** this quarter. At the meeting, the Forum raised its concerns about accounting standards and the risks they pose to shareholder capital, and sought the company's perspective on the issue.

MANAGING ENVIRONMENTAL RISK

Climate Change

The Forum's ongoing involvement in influencing carbon management at corporations continued with the 'Aiming for A' engagement, in conjunction a group of UK charities and pension funds led by investment firm CCLA. The focus of the initiative is on engaging high emitting utilities and extractive companies that have been identified as slower than their peers in implementing carbon reduction measures. An initial meeting was held with representatives of **BP** where we discussed how companies can balance short-term demands against long-term regulatory requirements. Shareholder resolutions are planned for 2013/2014 for those companies that do not provide evidence of how they are improving.

The LAPFF Chair, Ian Greenwood, also met with the Chair of the Institutional Investor Group on Climate Change (IIGCC), Donald Macdonald, to explore where the Forum might align its policy work with that of the IIGCC. The IIGCC has recently announced an agreement to work with similar investor networks in the US and Australia to form the Global Investor Coalition on climate change (GIC).

Environmental Risk Management

In collaboration with other investors, LAPFF helped increase corporate responses to the CDP **Water Disclosure Project**. Overall, investors wrote to 41 companies in 2012 that had not yet committed to improve disclosure of water-related risks. Five of the companies later agreed to respond to the annual water questionnaire. Both **Marathon Oil** and **McDonalds** agreed to improve water disclosure after receiving letters co-signed by LAPFF. Despite these successes, overall engagement for the group was less effective than in 2011. Future engagement will focus on supply and/or operational risks in the food, beverage or textiles sector.

"More than 600 million people are expected to lack access to safe drinking water by 2015"

-Global Environmental Outlook, 2012

TARGETING SOCIAL ISSUES

Employment Standards

Engagement with **National Express** continued in October as LAPFF met with the company to discuss unionisation in the US and board diversity issues. Following meetings with union representatives in the US, LAPFF held a second conference call in November. LAPFF outlined its concerns regarding the company's approach to labour relations in the US and there was an agreement to meet again in the New Year.

The Forum also wrote to **Tesco** this quarter to discuss the future of the US business Fresh & Easy. LAPFF previously identified Tesco's Fresh & Easy subsidiary as presenting certain risks, as it faced significant commercial challenges. There have also been questions regarding human capital management, with reduced staffing levels affecting employee morale and customer service.

CONSULTATIONS & PUBLIC POLICY

ENGAGING POLICY MAKERS

LAPFF is a member of the Investor Network on Climate Risk, which now forms part of the new Global Investor Coalition on Climate Change (GIC). GIC, together with UNEP FI and PRI, released a letter to the governments of the world's largest economies calling for stronger climate and clean energy policies. The letter was announced ahead of international climate negotiations in Doha and coincided with the public launch of GIC.

The Forum met with Baroness Hogg, chair of the **FRC** and Roger Marshall an FRC Board Member to raise concerns regarding IFRS-audited accounts. LAPFF believes that the IFRS accounts of the UK's largest banks do not provide investors with a 'true and fair' view of companies' financial position. The discussion was productive, and extended to cover issues related to the ownership and stewardship responsibilities of investors more generally.

CONSULTATION RESPONSES

LAPFF responded to a consultation on **greenhouse gas emission reporting regulations** in October, by the Department for the Environment, Food and the Regions (DEFRA). Having long pushed for mandatory reporting, the Forum welcomed the new regulations for providing more consistent advice and support to businesses. The Forum noted that companies need to provide adequate information so investors can determine how carbon management is being factored into business strategy. The Forum further commended the principles-based approach of the Carbon Disclosure Standards Board which aims to align reporting with existing principles and objectives of financial reporting.

The Institute for Chartered Secretaries and Administrators, **ICSA,** issued a consultation this quarter on engagement between companies and investors. LAPFF welcomed the ICSA approach but suggested that an overly bureaucratic approach to engagement can dilute the investor message and lead to less productive outcomes in company meetings. The Forum does not see a need for any intermediary mediation service and prefers direct engagement with company representatives.

The Department for Communities and Local Government's consultation on **Investment in Partnerships** afforded the Forum an opportunity to set out its view on amendments that might appropriate to remove barriers that currently prevent scheme funds from investing in infrastructure projects. The Forum supported the proposal for an increased limit of 30% on investment in limited partnerships. The response also highlighted recent research by the Smith Institute, which was co-sponsored by LAPFF.

All consultation responses submitted by LAPFF can be viewed online at: http://www.lapfforum.org/consultations.

NETWORKS & EVENTS

The LAPFF conference met the usual high expectations with a sell-out event in Bournemouth, with the keynote speaker, **Robert Swannell** chair of M&S starting the event with high praise for the Forum in its previous engagement with the company. Sir Michael Darrington set out his vision for the future on a panel discussing the problem of ballooning executive pay. The panel on the banking crisis addressed concerns regarding IFRS and highlighted the growing chorus of investors voicing concerns. The conference ended with a fascinating keynote speech by Michael Woodford, the former CEO of Olympus, on his experience exposing widespread fraud and mismanagement by the company's directors. Next year's event is expected to take place in Bournemouth in late November or early December 2013.

- **'Investing for Growth'** parliamentary report launch
- **Board Evaluation** seminars by Board Insight & Ffion Hague
- **Institutional Investor Group on Climate Change** AGM
- **Church Investors Group** observer during CDP session
- **Plastic Disclosure Project** webinar on plastic risks
- **Focussed on the Future,** Martin Currie conference on global investment

LAPFF co-sponsored a report, **'Investing for Growth'** which looks into opportunities and barriers to local authority pension fund investment in local projects that offer wider socio-economic benefits. The report was launched at a parliamentary event in October chaired by Clive Betts MP, chair of the DCLG select committee, Paul Hackett of the Smith Institute, and Ian Greenwood.

LAPFF representatives also attended two events that explored current best practice and relevant success factors in revising the UK Corporate Governance Code. The Code introduced provisions on board evaluation almost ten years ago, and more recently has suggested that FTSE 350 companies should have their board evaluations externally facilitated at least every three years.

COMMUNICATIONS

Forum communications have had a 'revamp' with a redesigned website (www.lapfforum.org), the publication of LAPFF's 2012 Annual Report, and an update to the layout and format of the members' monthly email bulletin.

COMPANY PROGRESS REPORT

Company	Topic	Progress
ASML Holding	Governance	Awaiting Response
Assurant Inc.	Governance	Awaiting Response
Bellway	Governance	Awaiting Response
BNP Paribas	Governance	Awaiting Response
BP plc	Climate Change	Dialogue
Burberry	Governance	Awaiting Response
Carnival Corp	Governance	Awaiting Response
Centrica	Governance	Awaiting Response
Coach Inc.	Governance	Awaiting Response
Cognizant Technology Solutions	Governance	Awaiting Response
Comcast Corp	Governance	Awaiting Response
CRH plc	Governance	Awaiting Response
Flir Systems	Governance	Awaiting Response
Freeport McMoran	Governance	Awaiting Response
Imagination Technologies	Governance	Awaiting Response
Inditex	Governance	Awaiting Response
Lindt & Sprungli	Governance	Awaiting Response
Marshalls	Governance	Awaiting Response
National Express	Employment Standards	Dialogue
News Corporation	Board Structure, Reputational Risk	Dialogue
Resolution Ltd	Governance	Awaiting Response
Royal Bank of Scotland	Finance & Accounting	Dialogue
Société Generale	Governance	Awaiting Response
Svenska Handelsbanken	Governance	Awaiting Response
Tesco	Employment Standards, Reputational Risk	Dialogue

The Local Authority Pension Fund Forum was established in 1991 and is a voluntary association of local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's members currently have combined assets of over £115 billion.

Report prepared by PIRC Ltd. for the Local Authority Pension Fund Forum

www.lapfforum.org

- Aberdeen City Council
- Avon Pension Fund
- Bedfordshire Pension Fund
- Camden LB
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon LB
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding of Yorkshire Council
- Enfield
- Falkirk CC
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Gwynedd Pension Fund
- Hackney LB
- Haringey LB
- Harrow LB
- Hillingdon LB
- Hounslow LB
- Islington LB
- Lancashire County Pension Fund
- Lewisham LB
- Lincolnshire CC
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- NILGOSC
- Nottinghamshire CC
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- South Yorkshire Integrated Transport Authority
- South Yorkshire Pensions Authority
- Southwark LB
- Surrey CC
- Teesside Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Waltham Forest LB
- Warwickshire Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**22 MARCH 2013**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE IN 10 MONTHS TO 31 JANUARY 2013** **(2) PERFORMANCE INDICATORS 3 MONTHS TO 31 JANUARY 2013;** **(3) SUMMARY PERFORMANCE REPORT (1 APRIL 2011 TO 31 JANUARY 2013)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 Summary Financial Accounts: 10 months to 31 January 2013
Appendix 2 Summary Budget Variances: 7 months to 31 January 2013
Appendix 3A Balanced Scorecard : 3 months to 31 January 2013 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs for *selected* items
Appendix 4A Customer Satisfaction Feedback in the 3 months to 31 January 2013 *(Retirements from ACTIVE status)*
Appendix 4B Customer Satisfaction Feedback in the 3 months to 31 January 2013 *(Retirements from DEFERRED status)*
Appendix 5 Active membership statistics over 45 months to 31 January 2013
Appendix 6 Joiners & Leavers statistics over 45 months to 31 January 2013
Appendix 7 Summary Performance Report on Scheme Employers/APF performance for the period to 31 December 2012 (including late payers) – Annex 1 *Retirements* & Annex 2 *Deferreds*
Appendix 8 Table of Additional Administration Charges

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 3 months to 31 January 2013. This information is set out in Appendices1 and 2**.**

1.2 This report also contains Performance Indicators and Customer Satisfaction feedback for 3 months to 31 January 2013 and Summary Performance Reports on Employer and APF performance from 1 April 2011 to 31 January 2013.

2 RECOMMENDATION

That the Committee:

2.1 Notes administration and management expenditure incurred for 10 months to 31/01/2013

2.2 Notes performance Indicators & customer satisfaction feedback for 3 months to 31/01/13

2.3 Notes the Summary Performance Report for period from 1/04/2011 to 31/01/2013

2.4 **Approves** the Schedule of Additional Charges for employer non–compliance in meeting SLA agreed performance targets on submission of member data.

3 FINANCIAL IMPLICATIONS

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

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

4 COMMENT ON BUDGET

4.1 The summary Financial Accounts for 10 months to 31 January 2013 are contained in **Appendix 1.**

4.2 The forecast for the year to 31 March 2013 is for net expenditure to be £107,000 below budget. Within the directly controlled Administration budget the forecast is for expenditure to be below the original budget by £56,000. This is largely due to reduced expenditure on salaries as a result of delayed appointments partly offset by £17,000 additional expenditure on the implementation of *i-Connect* approved by the Committee at its September 2012 meeting. In that part of the budget that is not directly controlled expenditure is forecast to be £20,000 below budget.

4.3 Explanations of the most significant variances are contained in **Appendix 2** to this Report.

5 BALANCED SCORECARD SHOWING PERFORMANCE INDICATORS ("PIs") FOR THE 3 MONTHS TO 31 JANUARY 2013

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 The level of **work outstanding** from tasks set up in the period (Item C5 and graphs 5-7 of **Appendix 3A and 3B**) in the 3 month period is usually reported by showing what ***percentage*** of the work is outstanding. In this period all new work received in the period was cleared and 703 cases of old work cleared so the percentage was zero. 5441 new cases were created and 6144 cleared (113%) Such cases are always followed up on a continuing basis until they are cleared.

5.2.2 In other areas shown in selected **Graphs** the Fund:

- Level of use of the Avon Pension Website fell from 4,000 hits on average over the previous period to 3,681 in this period*(Chart 2)*
- A continuing low level in short-term sickness (1.35%) and no long-term sickness; the use of temporary staff is within target *(Chart 3)*

5.3 **Complaints:** There were **no** complaints received in the period.

5.4 CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 OCTOBER 2012

5.4.1 ***Retirement Questionnaires***

Appendix 4A reports on the customer satisfaction based on 48 questionnaires returned from ***active*** members retiring. On average 79% received their lump sum and 88% their first pension payments within "10 day" target *(See chart).*

Appendix 4B reports on the customer satisfaction based on 26 questionnaires returned from *former* active members retiring from ***deferred*** status. 90% received their lump sum and 86% their first pension payments within “10 day” target *(See chart).*

Service rating as either good or excellent from actives and deferreds on the service they received from Avon Pension Fund staff handling their retirement averaged out at 96% (See chart item 5 on both graphs).

5.4.2 **C*linics:*** None were held in the period.

6 LEVEL OF OPT OUTS FROM THE SCHEME

6.1 The Committee has asked that the level of opt outs from the Scheme be monitored in view of recent events affecting public pensions and the trend reported back to each Committee meeting.

6.2 APF’s administration processes were amended in 2011 to identify opt outs in a reportable field. Reports run indicate that only 46 members with more than 3 months service opted out over the 10 month period to 31 January 2013. When annualised this is 55 and expressed as percentage of the total membership of 33,212 this is only 0.17 % and is an encouraging sign that significant numbers of members are not leaving the Scheme now that the expected changes to benefits in 2014 are known. The fact that contributions for LGPS members did not increase in April 2012, as other public sector schemes did, would have had a beneficial effect on maintaining membership. For lower paid workers which make up a significant percentage of the Fund, contributions for the same or better benefits are unlikely to rise and in some cases could be lower!

6.3 The additional introduction of an alternative 50/50 scheme will also give those a cheaper option if the amount of their pension contribution in these austere times in the existing scheme is unaffordable. These all bode well for retention of members in the Scheme; however, the 50/50 option may actually encourage members of the current scheme to move to the lower level option to reduce their on-going contributions.

6.4 The position on opt outs will continue to be monitored and reported to the Committee at each of its Meeting.

7 TRENDS IN MEMBERSHIP/JOINERS AND LEAVERS (to assist monitoring of Opt Out trends)

7.1 Active Membership figures in graph format are included as a standard item for Committee meetings to monitor the trend in member movements at this volatile time when higher than normal level of 1) redundancies and 2) potential opt-outs by members concerned about future scheme changes.

7.2 The active membership statistics are shown in graph format in **Appendix 5** and the numbers of joiners and leavers feeding into this also in graph format in **Appendix 6.** Figures of the current active membership for a cumulative 45 months period from 1 May 2009 to 31 January 2013 are shown in a graph format in **Appendix 5**. The overall membership has remained fairly constant over the last few years between 33,000 and 34,000 and as at 31 January 2013 it stood at 33,212 compared to 33,500 in May 2009. There was an extraordinarily high numbers of joiners (average 482 per month) and the increased membership at 31 January 2013 of 33,212 compared to 32,989 at the end of October 2012 - an increase of 223 members (+ 0.67%). The LGPS Regulations required casual staff that had previously opted out to be offered membership of the LGPS again on 1 October 2012. (*This applied mainly to the* *unitaries and universities).* The total numbers of staff re-offered membership are not known but the largest employer Bristol C.C. wrote to over 1,500 casuals. The take up was believed to be fairly low.

8 SUMMARY APF & EMPLOYER PERFORMANCE

8.1 As part of the Pensions Administration Strategy which came into effect in April 2011 a **Performance Report** is now sent quarterly to each of the four unitary authorities to report on both their and Avon Pension Fund's administration performance against targets in the SLAs.

8.2 A Summary report to the Committee is now a requirement of the Administration Strategy. The Report for the period from April 2011 to 31 December 2012 is included as **Appendix 7**.

8.3 The Report discloses any poor performing employers which need to improve. It is important that the Committee are made aware of these going forward and the steps taken to assist these employers in improving their performance to avoid the imposition of additional charges.

8.4 **Appendix 7** contains:

- Trend graphs for each of the largest employers *(viz. 4 unitaries) showing performance on supplying the Avon Pension Fund with accurate leaver forms (Retirements (Annex 1) and Deferreds (Annex 2)) for *cumulative* period from 1 April 2011 to 31 December 2012.
- Report on late pension contributions by employers to the Fund due for the 3 months to 31 January 2013.

9 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

9.1 **The project is progressing towards ELECTRONIC RECEIPT of all member data change information from 2013:**

9.1.1 **Employer Self Service: Update**

Employers have been advised that Employer Self Service has been enhanced to allow on-line updating of member changes and that from April 2013 for the unitary authorities this will be the only acceptable way to send the Fund member data changes. For less large employers to ease implementation of ESS and due to the much smaller number of transaction submissions, these employers will be phased over a 12 month period and will only go on line when changes arise. Following going on-line and having been given appropriate training on usage those employers who continue to send in changes paper format will be charged additional administration costs (see following item and **Appendix 8** for detail).

9.1.2 **Auto enrolment / i-Connect**

Following approval to proceed by the Pensions Committee in September 2012, the Avon Pension Fund has purchased additional middleware from i-Connect (a sister company of Heywood- supplier of the hardware).

The four unitary authorities signed contracts in December 2012 to take i-Connect which is necessary for the APF database monthly updating to operate. This will enable information on starters and changes to be uploaded monthly automatically into the APF's pension database from the employer's payroll data extract resulting in a significant improvement in the timeliness and quality of information submission I time this will lead to improved member data and the level of service the Avon Pension Fund will be able to provide to its members.

The product is being tested and is expected to go live prior to the four unitaries' staging Dates for auto enrolment which are imminent.

Further medium-sized Scheme employers are expected to sign up for i-Connect in due course as each employer's staging date for auto enrolment approaches and they need to monitor their workforce every month to assess them for auto enrolment; as they do, the coverage for automatic monthly updating of information on APF's pension database will increase.

The relative cost of i-Connect in comparison to other middleware products currently available is quite low (cost to employers is relative to their size) and it is likely that even smaller employers may wish to take it. The Fund is not actively encouraging its take up by other employers at present until the product is fully tested and is proven to work.

9.2 **Annual Employers Conference 2013**

This year's conference held at Mercure Hotel in Bristol in February attracted over 70 attendees from 42 diverse employers. The theme of the conference was "managing risk" in all aspects of running the Fund - investment, administration and compliance - by employers, the Fund administrators and by the Avon Pension Fund Committee. There were three external speakers including the Head of Pensions from the Local Government Association who gave an insight into the content and progress of the new 2014 LGPS. Feedback since received from attendees has been very positive.

10 ADDITIONAL ADMINISTRATION CHARGES FOR EMPLOYER NON-COMPLIANCE

10.1 It is proposed, as allowed for in the 2011 Pensions Administration Strategy, to begin charging employers who are non-compliant in sending information on time as specified in the Service Level Agreements (SLAs). Such non-compliance causes additional work in administering the Fund and that cost is unfairly borne by *all* employers including all those employers who are compliant. It is therefore equitable to introduce and enforce such additional charges. The table of the charges and their application is shown in **Appendix** 8.This will be published to employers shortly. It is hoped that if employers are aware in advance of the charging that their performance will improve so that such charges do not apply.

10.2 The Committee is asked to APPROVE the application of such charges and the level of those charges.

10.3 Future Pensions Administration Reports will include in the Employer Summary Reports details of these additional charges made for non-compliance.

11 RISK MANAGEMENT

11.1 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.

12 EQUALITIES

12.1 No items in this Report give rise to the need to have an equalities impact assessment.

13 CONSULTATION

13.1 None appropriate.

14 ISSUES TO CONSIDER IN REACHING THE DECISION

14.1 There are no other issues to consider not mentioned in this Report.

15 ADVICE SOUGHT

15.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) 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 395259. Steve McMillan, Pensions Manager (*All except budgets*) Tel: 01225 395254
Background papers	Various Accounting and Statistical Records
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : PERIOD ENDING 31 JANUARY 2013

	TEN MONTHS TO 31st JANUARY 2012			FULL YEAR 2012/13		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	ACTUAL £	VARIANCE £
Administration						
Investment Expenses	64,851	55,407	(9,444)	75,273	75,273	0
Administration Costs	62,926	64,586	1,660	75,511	75,511	0
Communication Costs	67,498	37,575	(29,924)	80,998	62,998	(18,000)
Payroll Communication Costs	66,249	81,992	15,742	79,499	82,499	3,000
Information Systems	180,288	196,799	16,510	216,346	235,346	19,000
Salaries	1,143,577	1,071,027	(72,550)	1,372,293	1,312,293	(60,000)
Central Allocated Costs	329,322	330,168	847	395,186	403,186	8,000
Miscellaneous Recoveries/Income	(138,333)	(106,494)	31,840	(166,000)	(174,000)	(8,000)
Total Administration	**1,776,378**	**1,731,059**	**(45,319)**	**2,129,106**	**2,073,106**	**(56,000)**
Governance & Compliance						
Investment Governance & Member Training	256,608	146,680	(109,927)	307,929	284,929	(23,000)
Members' Allowances	33,750	14,543	(19,207)	40,500	40,500	0
Independent Members' Costs	40,633	20,510	(20,123)	48,760	48,760	0
Compliance Costs	282,958	322,013	39,055	340,550	482,550	142,000
Compliance Costs recharged	(125,000)	(255,963)	(130,963)	(150,000)	(300,000)	(150,000)
Total Governance & Compliance	**488,949**	**247,784**	(241,165)	**587,739**	**556,739**	**(31,000)**
Investment Fees						
Global Custodian Fees	100,000	63,005	(36,995)	120,000	100,000	(20,000)
Investment Manager Fees	8,377,463	8,377,463	0	10,052,955	10,052,955	0
Total Investment Fees	**8,477,463**	**8,440,467**	**(36,995)**	**10,172,955**	**10,152,955**	**(20,000)**
NET TOTAL COSTS	**10,742,789**	**10,419,310**	**(323,479)**	**12,889,800**	**12,782,800**	**(107,000)**

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Summary of Budget Variances: Forecast for full year, as at 31st January 2013 APPENDIX 2

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

Expenditure Heading	Variance*	Most Significant Reasons for Variance
General Communication Costs	(18,000)	Reduced expenditure in 2012/13 due to the re-scheduling of the production of the LGPS 2014 booklet to 2013/14 and the delayed launch of the new website.
Payroll Communications	3,000	Additional costs of introducing new Fire Fighter's scheme, rechargeable to Avon Fire Service.
Information Systems	2,000 17,000	Additional expenditure on Disaster Recovery programme Implementation of i-Connect system as approved by September Committee
Salaries	(60,000)	Delayed appointment of new posts in Investments Team. Investments Officer and Pensions Valuation Officer now in place.
Central Allocated Costs	8,000	Additional legal charges relating to new admission agreements partly offset by savings in other centrally allocated costs and additional recharges (see below).
Miscellaneous recoveries / income	(8,000)	Additional recharge of legal fees relating to new admission agreements and costs relating to new Fire Fighter's scheme (see above).
Administration	**(56,000)**	
Governance Costs	(23,000)	Provisional amount for SRI tender no longer required following the outcome of the Responsible Investment Review.
Compliance Costs	142,000	Increase in number of new bodies, mainly Academies, requiring admission agreements and IAS 19 reports. This is offset by increased recharges of fees to employing bodies (see below).
Compliance Costs recharged	(150,000)	Increased recharges of actuarial fees as per above including the Pension Fund's administration charge to cover its related additional costs.
Governance & Compliance	**(31,000)**	
Total Directly Controlled	**(87,000)**	
Global Custodian Fees	(20,000)	Custody fees lower than assumed in budget preparation that took place prior to completion of custody tender
Total Indirectly Controlled	**(20,000)**	
Total Forecast Underspend	**(107,000)**	

-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

APPENDIX 3A to Budget Monitoring Report at 31st January 2013

Key Performance Indicators

	INDICATOR	Green Red Amber	Reporting Dept	2011/12 Actual	Target for 2012/13	Actual - 3 months to 31/01/2013	Comment	
A	**Customer Perspective**							
1a	General Satisfaction with Service - clinic feedback	G	Admin	99%	95%	0.00%	0 clinics held during period.	Graph 1
1b	General Satisfaction with Service - retirees feedback	G	Admin	96%	95%	96.00%	Generally good from response from retirees	
2	Percentage Compliance with Charter Mark criteria	G	Admin	90%	95%	97%	Chartermark Accreditation obtained as part of B&NES Finance in 2008	
3	Level of Equalities Standard for Local Government	G		100%	100%	100%	Compliant	
4a	Service Standards - Processing tasks within internal targets (SLA)							
	Deaths [12 days]	G	Admin	60%	**90%**	**70.00%**	14 of 20 Tasks were completed within target	
	Retirements [15 days]	G	Admin	53%	**90%**	**91.67%**	385 of 420 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	A	Admin	53%	**75%**	**54.47%**	804 of 1,476 Tasks were completed within target	
	Refunds [5 days]	G	Admin	71%	**75%**	**88.75%**	71 of 80 Tasks were completed within target	
	Transfer Ins [20 days]	A	Admin	25%	**75%**	**45.95%**	68 of 148 Tasks were completed within target	
	Transfer Outs [15 days]	G	Admin	29%	**75%**	**74.49%**	73 of 98 Tasks were completed within target	
	Estimates [10 days]	G	Admin	89%	**90%**	**97.42%**	870 of 893 Tasks were completed within target	
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%	due next quarter	
8	Number of hits per period on APF website	G	Admin	66847	36,000p/a 3,000p/q	11,045	3,681 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	
10	Issue of Newsletter (Active & Pensioners)	G	Admin	100%	100%	n/a	due next quarter	
11	Annual Benefit Statements distributed by year end	G	Admin	70%	100%	n/a	due next quarter	

B People Perspective

1	Health & Safety Compliance	**G**	All	100%	100%	100%		
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%		
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	2.21%	a) 3% b) 3%	a)1.35 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 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.	

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	
2	% Telephone answered within 20 seconds	**G**	Admin	99%	98%	97.2%	7274 calls, 7068 answered within 20 seconds	**Graph 4**
3	% Complaints dealt with within Corporate Standards	**G**	Admin	100%	100%	100%		
4	Letters answered within corporate standard	**G**	Admin	95%	95%	100%	Ahead of target	
5	Maintain work in progress/outstanding at **below 10%**	**G**	Admin	3.73%	10%	0.00%	5441 Created, 6144 cleared (**113.00.% l**eaving 0.00% of current workload outstanding) . 703 cases of old work cleared	**Graphs 5 6 & 7)**
6	Collection of Pension Contributions:- a) % Number Received late b) b) Late contributions as % of Total Value	**G**	Accounts	a) 6% b) 0.05%	a) 0% b) 0%	a) 0.6%% b) 0.06%	1 out of 175 employers sent their contributions in late for one month only. 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	**G**	Admin	81%	100%	n/a	Send out year end letter in next period	
8	No. of customer errors (due to incomplete data)	**G**	Admin	2%	3%	2%	Acceptable error level	

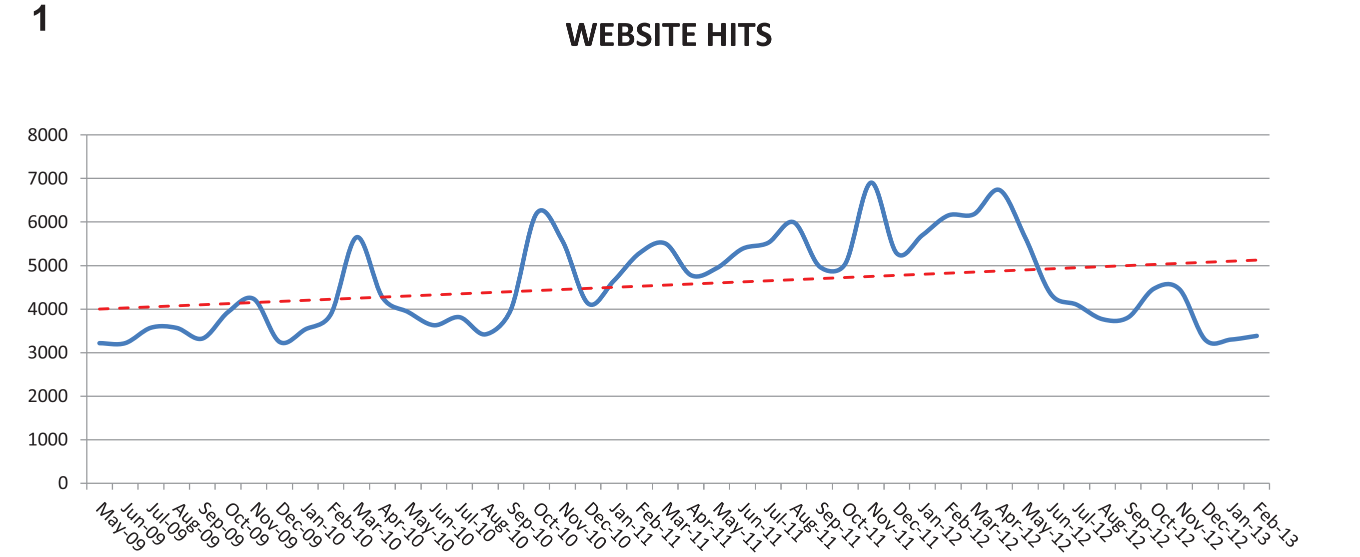
D Resource Perspective

1	% Supplier Invoices paid within 30 day or mutually agreed terms	**G**	Admin	91%	**90%**	89.00%	Business Financial Services (inc. Pensions) figure is marginally below target. Target reduced by B&NES in 2012 to 90%
2	Temp Staff levels (% of workforce)	**G**	All	3.67%	3%	0.00%	No temps in period so below target
3	% of IT plan achieved against target	**R**	Supp & Dev	24%	100% (25% p/q)	20%	EDI progress has been slow so the basis of updating is changing The Admin Strategy is being used to encourage employers to provide information electronically as the norm. Employer Access module rolled out in 2011 has bee updated to allow employers to key in changes on line into electronically into the APF 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.

Pension Administration Report 3 months to 31 January 2013

Appendix 3 GRAPHS

1



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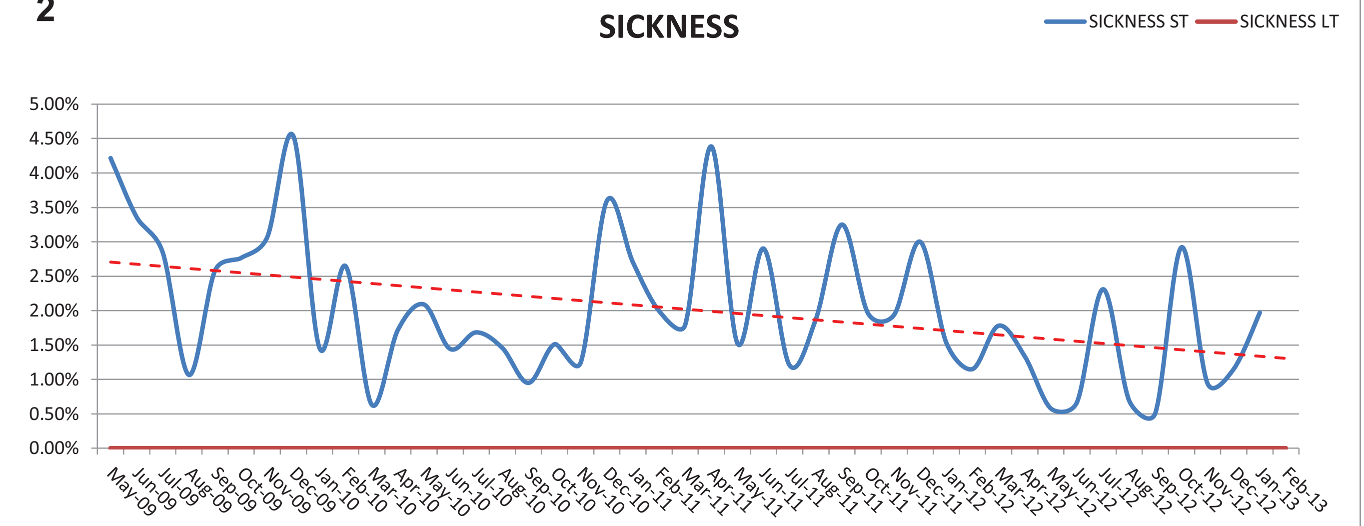

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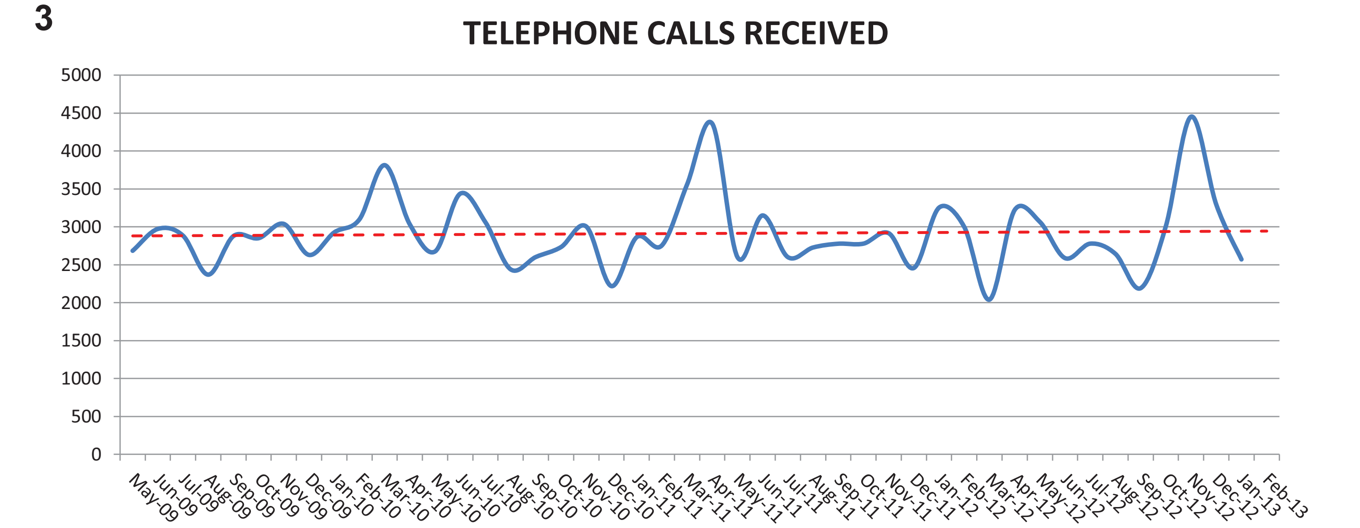
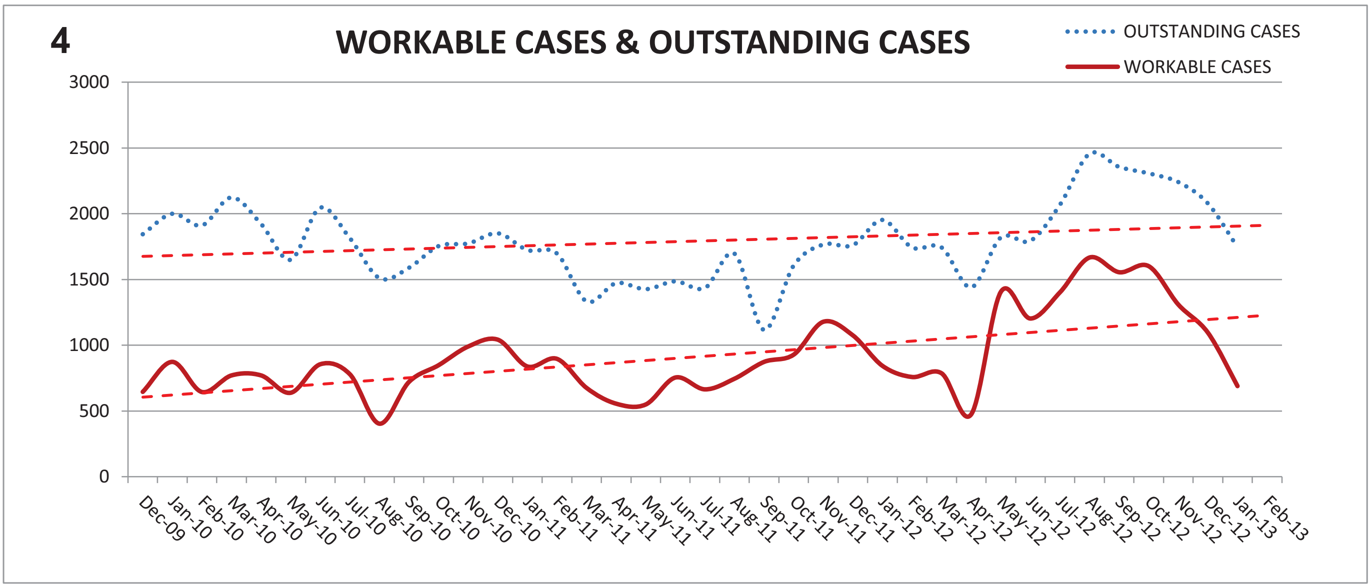
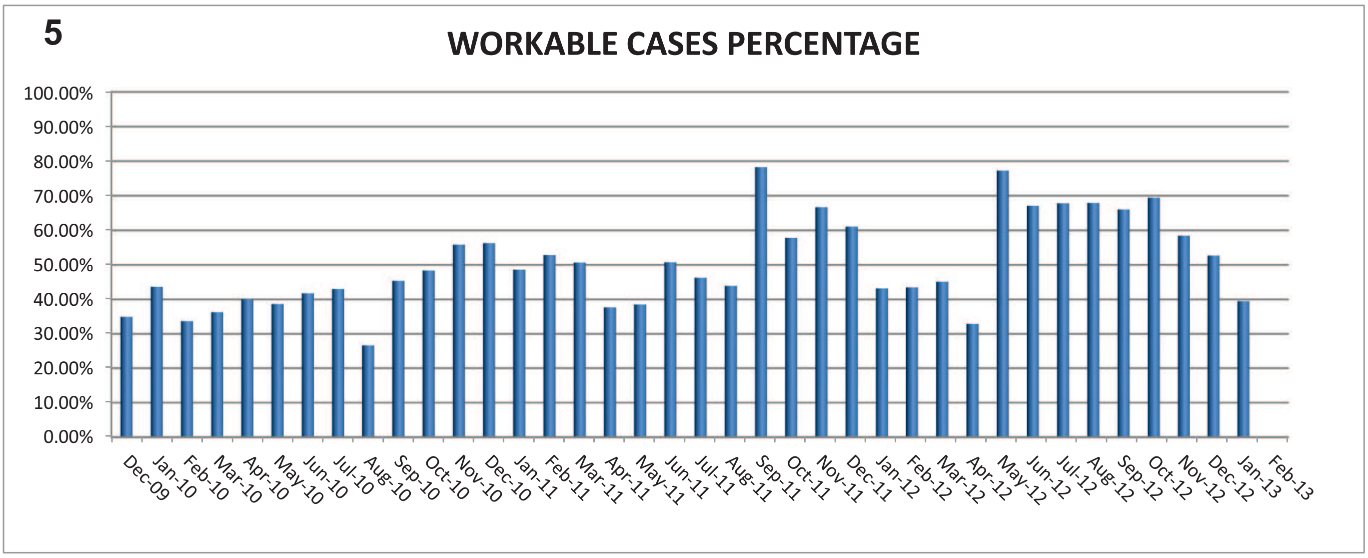
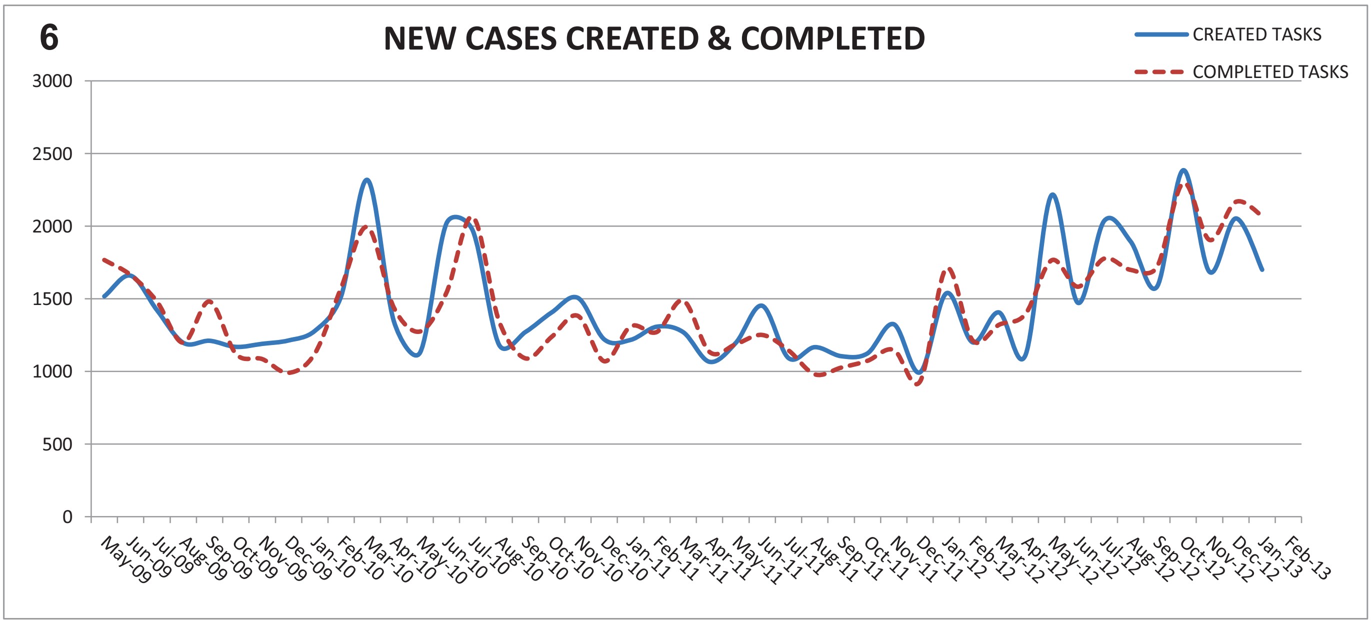


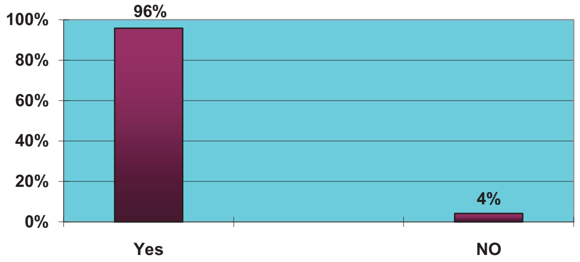

4
WORKABLE CASES & OUTSTANDING CASES
OUTSTANDING CASES
WORKABLE CASES
3000
2500
2000
1500
1000
500
0
Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-12 Aug-12 Sep-12 Oct-12 Nov-12 Dec-12 Jan-13 Feb-13


5
WORKABLE CASES PERCENTAGE
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-12 Aug-12 Sep-12 Oct-12 Nov-12 Dec-12 Jan-13 Feb-13

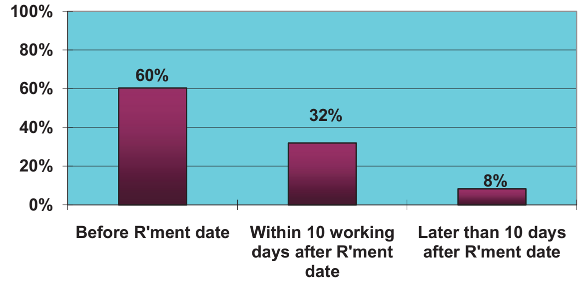

6
NEW CASES CREATED & COMPLETED
CREATED TASKS
COMPLETED TASKS
3000
2500
2000
1500
1000
500
0
May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-12 Aug-12 Sep-12 Oct-12 Nov-12 Dec-12 Jan-13 Feb-13

ACTIVE Retirements November 2012 - January 2013

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

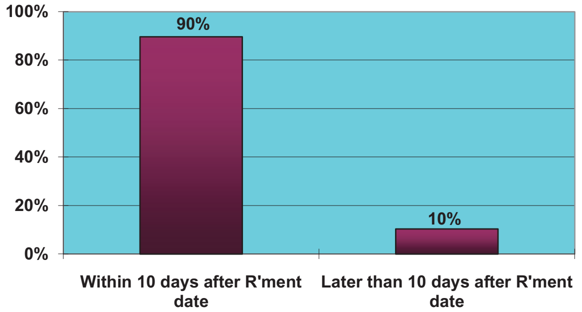


2. Did you receive your LGPS Retirement Benefits Option Form......?

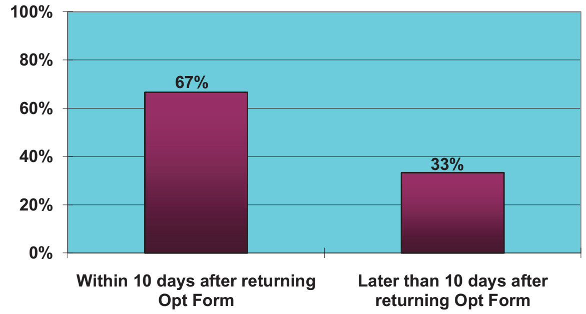


From Question 2 above (column 1)	From Question 2 above (column 2 & 3)

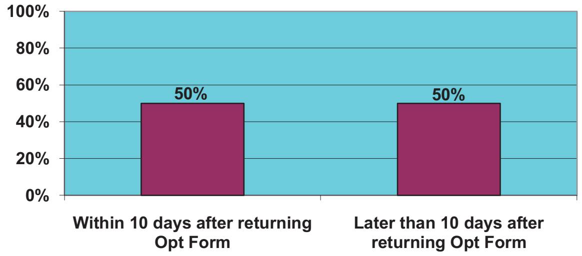
3A. Did you receive your Lump Sum Payment.....?



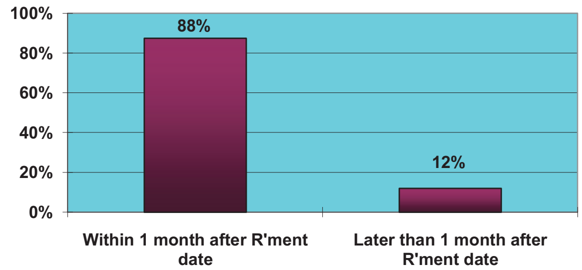
3B. Did you receive your Lump Sum Payment...?



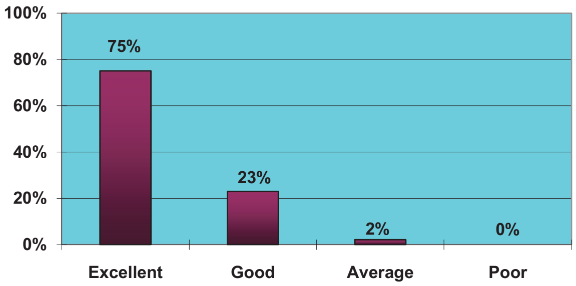
3C. Did you receive your Lump Sum Payment....?



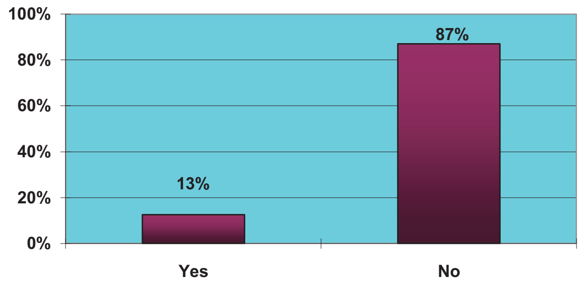
4. Did you receive your first Pension Payment...?



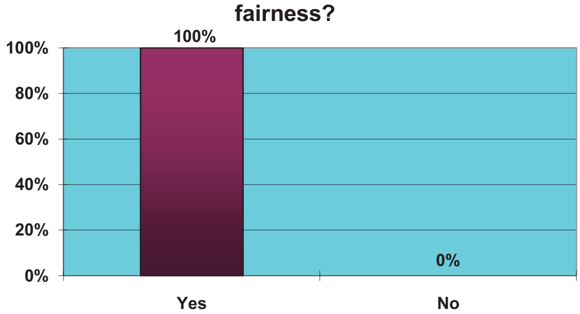
5. Overall, how would you rate the service you received from Avon Pension Fund?



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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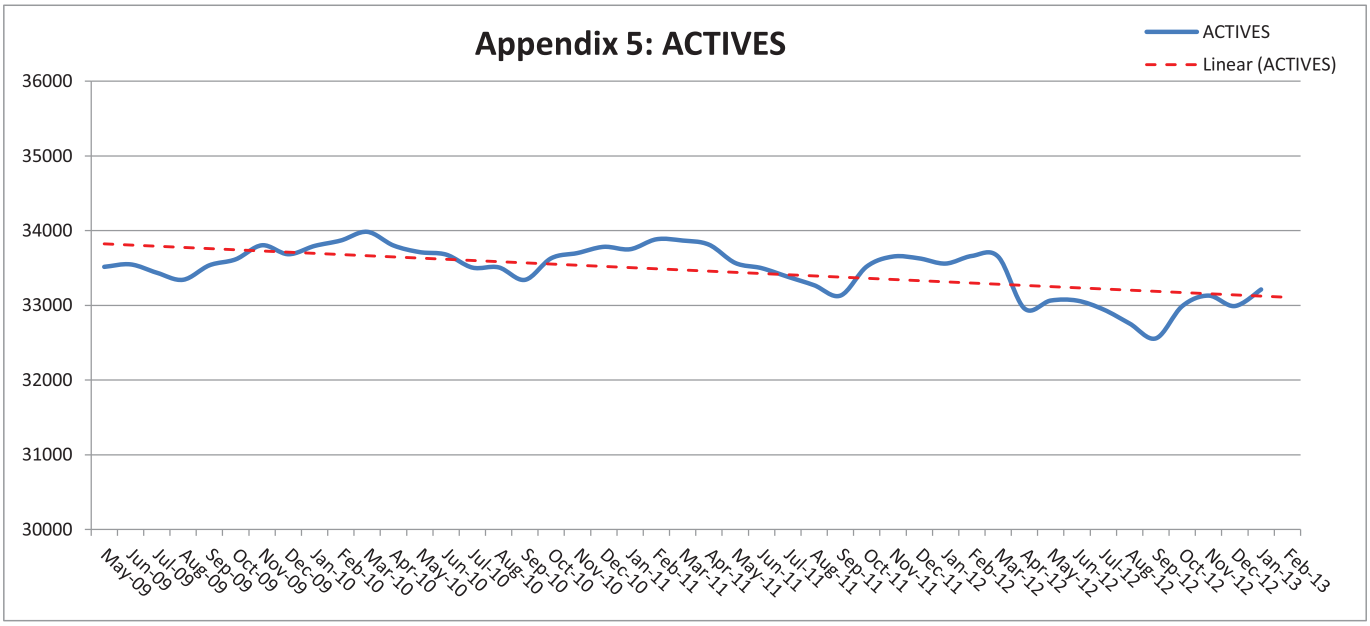
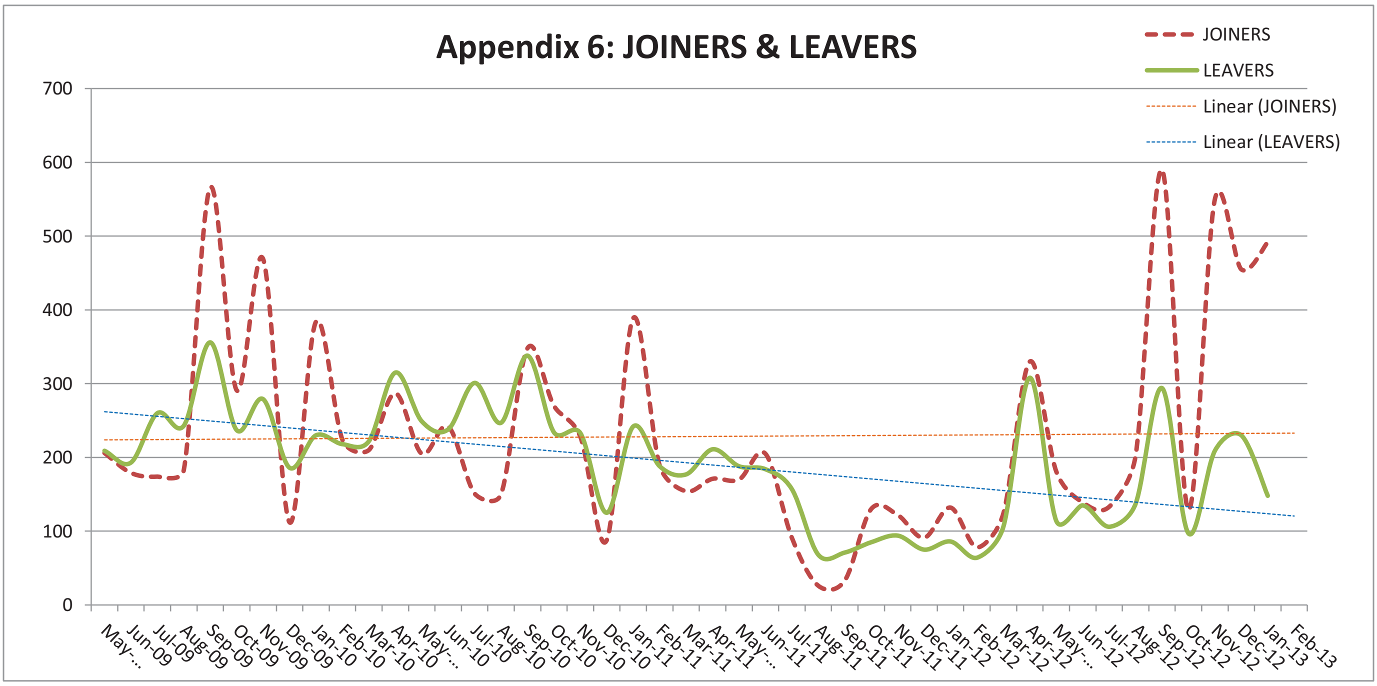

Appendix 5: ACTIVES
ACTIVES
Linear (ACTIVES)
36000
35000
34000
33000
32000
31000
30000
May-09 Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-10 Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-11 Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-12 Jun-12 Jul-12 Aug-12 Sep-12 Oct-12 Nov-12 Dec-12 Jan-13 Feb-13


Appendix 6: JOINERS & LEAVERS
JOINERS
LEAVERS
Linear (JOINERS)
Linear (LEAVERS)
700
600
500
400
300
200
100
0
May-… Jun-09 Jul-09 Aug-09 Sep-09 Oct-09 Nov-09 Dec-09 Jan-10 Feb-10 Mar-10 Apr-10 May-… Jun-10 Jul-10 Aug-10 Sep-10 Oct-10 Nov-10 Dec-10 Jan-11 Feb-11 Mar-11 Apr-11 May-… Jun-11 Jul-11 Aug-11 Sep-11 Oct-11 Nov-11 Dec-11 Jan-12 Feb-12 Mar-12 Apr-12 May-… Jun-12 Jul-12 Aug-12 Sep-12 Oct-12 Nov-12 Dec-12 Jan-13 Feb-13

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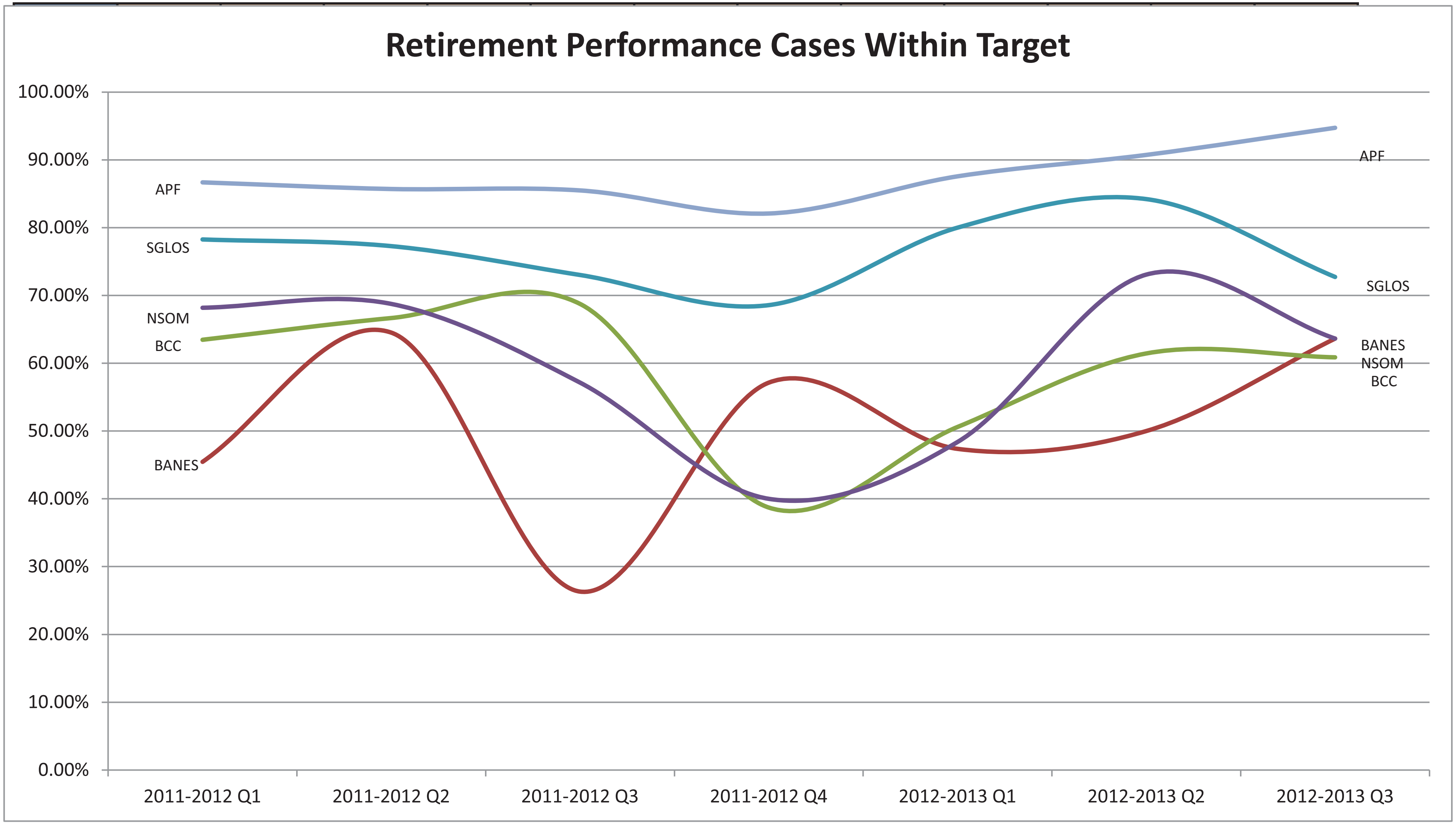
Pension Admiistration Report Appendix 7 Annex 1 Retirements performance (7 quarters to 31. 12. 2012)



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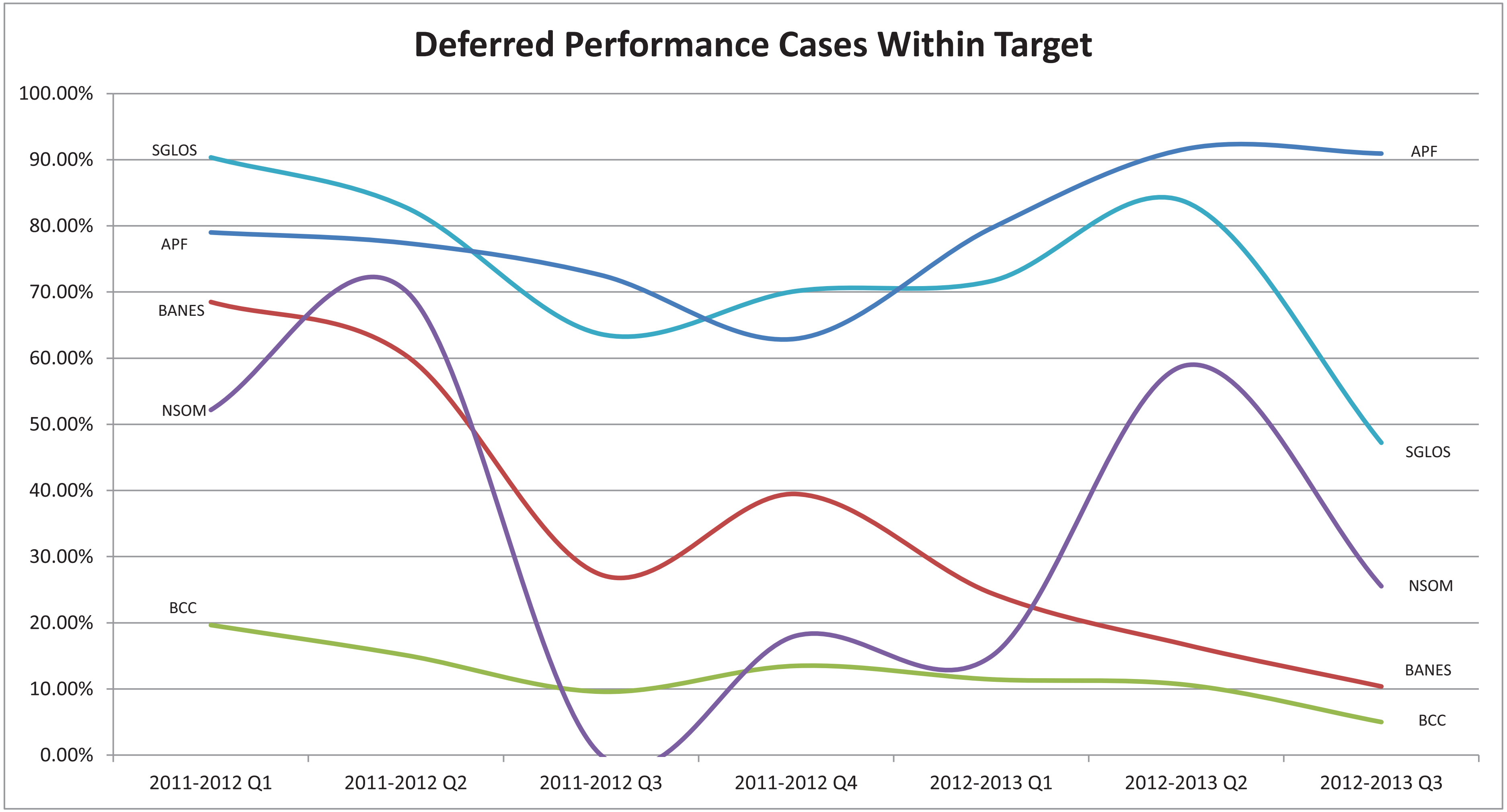
Pension Admiistration Report Appendix 7 Annex 2 Deferreds performance   (7 quarters to 31. 12. 2012)



N.B. SEE EXPLANATATARY NOTE IN REPORT FOR THE REASONS FOR APPARENT POOR PERFORMANCE

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APPENDIX 7 (to Pension Fund Administration Report)

COMMITTEE SUMMARY PERFORMANCE REPORT

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

Included in the Report are the following:

1. Graphs for each of the **largest employers* (viz. 4 unitaries) showing performance** on processing leavers ***(retirements and deferred***). (Annexes 1 & 2) for the 7 quarter period from 1 April 2011 to 31st December 2012

2. Report of late payers of **pension contributions** (employers) in the 3 month period 1 April 2011 to 31st December 2012

* *Smaller Employers*: *Performance of the remaining employers is not included in this report this time. This is a difficult area as in many cases there is little or no movement in membership and where for example there is only one leaver in the period their performance will either be 0% or 100% which is not very helpful information. The best way to report their performance is therefore being investigated and the intention is to include information in future reports to Committee.*

Any particular smaller employer's performance against target where there is cause for concern will be specifically reported to the Committee. **None need to be reported** in this period.

1. <u>Performance on processing leavers</u>

Graphs for each of the largest employers *(viz. 4 unitaries) showing their and APF performance on processing leavers (**<u>Retirements and Deferred</u>**). **(See Annexes 1 & 2 attached)** during the period 1 April 2011 and 31 December 2012.

<u>DEFERREDS GRAPH- ANNEX 2 (IMPORTANT EXPLANATORY NOTE</u>)

The graph showing performance figures for employers needs some explanation to put the information into context.

Some employers' performance shows as very poor. The reason for this is that the standard measure for performance is 20 working days <u>from date of leaving</u> and failure to meet this target adversely affects the figures shown.

Reconciliation of the information sent by employers in their 2011/12 year-end return revealed that some of the employers had not sent leavers forms to APF for leavers during 2011/12 or earlier. By their very nature these late submissions will be late and outside the target period.

Employers have been sending these forms in over the last few periods to remedy their earlier omissions and the figures on the attached statistics **include these late notifications** which will have impacted significantly adversely bringing down the number achieved within target and for some employers badly affected their performance against the standard 20 days target. **Once these older "backlog" cases are cleared we will see the employer performance figures improve.** The final date for clearance of these old cases is the end of February 2013 and the next statistics to 31 March 2013 should therefore show at least a marginal improvement with significant improvements in the following quarter to 30 June 2013.

The introduction of i-*Connect* software which is going live early this year with automatic updating of information and the production of monthly employee movement reports by employer payrolls will allow APF to pick up on leavers much more quickly than at present and APF will be able to press employers to send leaver information more expediently avoiding or at least reducing late notifications and improving overall performance and also the service APF can give to Scheme members.

Processing of older cases should be seen in context and appreciated for the effect it will have. The clearance of older non-reported cases will of course significantly improve the quality of member data held on which the forthcoming actuarial valuation will be based. It is a key component of the valuation and will have a significant effect on employers' pension costs. Inclusion of members as active will result in the actuary including the built up of future pension benefits and resulting in unnecessary and incorrect employer costs. The removal of members who have let the scheme is therefore very important and in all employers' interests.

Also clearance of non-reported cases will improve the accuracy of member data and increase the Fund's chances of meeting the Pension Regulator's requirements on minimum 95% data standard for legacy data being introduced in April 2015.

2. Late payers of Pension contributions

Late payment of contributions due in 3 months to 31st January 2013.

This report gives details of all payments (now paid or still outstanding) during the period, that relate to employers whose total aggregate late days during the period exceeded nine and whose value of one month's contributions exceeded £3,000. Late payments are not netted down by early payments. The report does not include new employers making their first payments who may experience delays in setting up their systems.

	Payroll month	Days late	Payment
English Landscapes	December 2012	12	£5,814

English Landscapes have a good record of paying on time. This appears to have been a "one off" error.

Total number of employers = 175
Total contributions received in period = £32,237,000
Total late contributions = £19,803 (0.06% of total contributions in period)

All late payers are contacted and reminded of their obligations regarding the timing of payments. Where appropriate they are advised on alternative, more efficient methods of payment.

Where material, interest will be charged on late payments at Base rate plus 1% in accordance with the 2008 regulations.

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

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

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

It is hoped that notification of these charges in advance of their application will improve performance where needed and their imposition should need to be kept to a minimum.

Item	Trigger	Additional Charge
Monthly contributions LGPS 50 forms.	Late Submission.	£50 per occasion.
Monthly Contributions.	Late Payment.	Interest at base rate plus 1% as per the 2008 LGPS regulations.
Year End LGPS51 & LGPS52 forms and Pensionable Pay data.	Late Submission or Incomplete or Poor Quality.	£250 per occasion plus £100 per month *or part thereof.*
Starter Forms.	Submission later than SLA target.	£50 per month per electronic notification.
Leaver Forms.	Submission later than SLA target.	£50 per month per electronic notification.
Disproportionate work.	Any data submissions or actions that create a disproportionate amount of work. (*also see below)	£50 per hour of additional work.

*Avon Pension Fund is committed to implementing **electronic processing and deliver**y. As these facilities become available and are introduced to Employers, the Fund reserves the right to make additional charges for disproportionate work to those Employers who fail or refuse to adopt them.	£50 per hour of additional work.

2012/13 Year End: Disproportionate work* as a consequence of the late delivery or poor quality of year end data will be recharged to the Employer at a rate of £50 per hour.

* It is currently estimated (for indicative purposes) that the additional work undertaken as a consequence of chasing / processing late submissions of year end data will be **one hour for each month that data is late.**

Issued March 2013

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 MARCH 2013**	**AGENDA ITEM NUMBER**
TITLE:	**AUDIT FEES 2012/13**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 – Fees Letter 2012/13**		

1 THE ISSUE

1.1 The Audit Commission have appointed Grant Thornton as the Council's auditors. Grant Thornton have prepared a Fees Letter for the audit of the 2012/13 accounts.

1.2 Grant Thornton will be presenting their Audit Approach Memo that will set out their audit plan at the June Committee, prior to the start of the audit.

1.3 The audit fee is based on a scale of fees established by the Audit Commission and made up of a fixed element and an uplift based on the Fund's net assets. The planned fees were noted by the Corporate Audit Committee at its meeting of 4th December 2012.

2 RECOMMENDATION

2.1 The Committee is asked to note the planned audit fees for 2012/13

3 FINANCIAL IMPLICATIONS

3.1 The indicative fee for the audit of the 2012/13 accounts is £28,804. The fee is charged against the 2012/13 budget.

4 REPORT

4.1 Since 2008/09 the audit of a local government pension fund has been separate from the audit of its administering body.

4.2 The Fees Letter for 2012/13 includes an indicative fee for the 2012/13 audit of £28,804. The 2011/12 fee was originally set at £46,622 but was later reduced to £43,080. The Fees Letter also includes a summary of the audit timetable and the key members of the team. The Fees Letter is attached in Appendix 1

4.3 In the past it has been the Audit Commission's practice to issue their Audit Plan by early March and present it to this Committee. It is the practice of Grant Thornton to issue their Audit Approach Memo closer to the start of their audit, following consultation with officers. The auditors have scheduled meetings with officers prior to the production of the Audit Approach Memo to discuss the key issues that might be covered by the audit.

4.4 Representatives from Grant Thornton will be at the June meeting to present the Audit Approach Memo prior to the start of the audit in July.

5 RISK MANAGEMENT

5.1 The officers have addressed the potential risks identified in the Audit Approach memo.

6 EQUALITIES

6.1 This report is for information only and therefore no equalities impact assessment was carried out.

7 CONSULTATION

7.1 Section 151 Finance Officer

8 ADVICE SOUGHT

8.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer 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	
Please contact the report author if you need to access this report in an alternative format	

Grant Thornton

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Hartwell House
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T +44 (0)117 305 7600

www.grant-thornton.co.uk

December 2012

Dear Andrew

Planned audit fee for 2012/13

We are delighted to have been appointed by the Audit Commission as auditors to the Council and look forward to providing you with a high quality external audit service for at least the next five years. We look forward to developing our relationship with you over the coming months, ensuring that you receive the quality of external audit you expect and have access to a broad range of specialist skills where you would like our support.

The Audit Commission has set its proposed work programme and scales of fees for 2012/13. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as "the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes."

For 2012/13, the Commission has independently set the scale fee for all bodies. The Council's scale fee for 2012/13 is £164,039 which compares to the audit fee of £273,398 for 2011/12, a reduction of 40%.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: www.audit-commission.gov.uk/scaleoffees1213.

The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Our fee is based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2012/13. It covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

Value for money conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. Our risk assessment is on-going and we will report the outcome of our risk assessment to the Council early in 2013. We will assess the Council's financial resilience as part of our work on the VFM conclusion and a separate report of our findings will be provided.

Certification of grant claims and returns

The Audit Commission has replaced the previous schedule of hourly rates for certification work with a composite indicative fee. This composite fee, which is set by the Audit Commission, is based on actual 2010/11 fees adjusted to reflect a reduction in the number of schemes which require auditor certification and incorporating a 40% fee reduction. The composite indicative fee for grant certification for the Council is £24,550.

Pension Fund audit

The Audit Commission has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The scale fee for the audit of the pension fund is £28,804. Our work on the pension fund will be undertaken in August 2013 by our specialist pension fund audit team, led by Stephen Malyn.

Billing schedule

Our fees are billed quarterly in advance. Given the timing of our appointment we will raise a bill for two quarter's in December 2012 with normal quarterly billing thereafter. Our fees will be billed as follows:

Main Audit fee	**£**
December 2012	82,019
January 2013	41,010
March 2013	41,010
Grant Certification	
June 2013	24,550
Total	**188,589**
Pension Fund audit	
September 2013	28,804

Outline audit timetable

We will undertake our audit planning and interim audit procedures in the period January to March 2013. Upon completion of this phase of our work we will issue our detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit, work on the VFM conclusion 2013 and work on the whole of government accounts return will be completed in September 2013.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	January to March 2013	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VFM.
Final accounts audit	June to Sept 2013	Report to those charged with governance	This report will set out the findings of our accounts audit and VFM work for the consideration of those charged with governance.
VFM conclusion	Jan to Sept 2013	Report to those charged with governance	As above
Financial resilience	Jan to Sept 2013	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2013	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2013	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2013	Grant certification report	A report summarising the findings of our grant certification work

Our team

The key members of the audit team for 2012/13 are:

	Name	Phone Number	E-mail
Engagement Lead	Barrie Morris	01173 057708 07771 976684	Barrie.Morris@uk.gt..com
Engagement Manager	Chris Hackett	01173 057876 07880 456130	Chris.I.Hackett@uk.gt.com
Pensions Audit Manager	Chris Hackett	01173 057876 07880 456130	Chris.I. Hackett@uk.gt.com
Audit Executive	Louise Luke	01173 057863	Louise.M.Luke@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact John Golding, our Public Sector Assurance regional lead partner (John.Golding@uk.gt.com).

Yours sincerely

Barrie Morris
For Grant Thornton UK LLP

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**22 MARCH 2013**
TITLE:	**WORKPLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Investments Workplan to 31 March 2014** **Appendix 2 – Pensions Benefits Workplan to 31 March 2014** **Appendix 3 – Committee Workplan to 31 March 2014** **Appendix 4 – Investments Panel Workplan to 31 March 2014** **Appendix 5 – Training Programme 2013-14**	

1. THE ISSUE

1.1 Attached to this report are updated workplans for the Investments and Pensions Benefit teams which set out the various issues on which work will be undertaken in the period to 31 March 2014 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 2013 - 14 is included as Appendix 5.

1.4 The workplans are consistent with the 2013 - 16 Service Plan but also include a number of items of lesser significance which are not in the Service Plan.

1.5 The workplans are updated quarterly.

2. RECOMMENDATION

2.1. That the workplans for the period to 31 March 2014 be noted.

3. FINANCIAL IMPLICATIONS

3.1. There are no financial considerations to consider.

4. THE REPORT

4.1. The purpose of the workplans is to enable members to have a better appreciation of their future workload and the associated timetable. In effect they represent an on-going review of the Service Plan while including a little more detail. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets.

4.3 The workplans and training plan will be updated with projects arising from the strategic review when these are agreed.

4.4 The provisional training plan for 2013-14 is also included so that Members are aware of intended training sessions. This plan will be updated quarterly.

5. RISK MANAGEMENT

5.1. Forward planning and training plans form part of the risk management framework

6. EQUALITIES

6.1. An Equalities Impact Assessment has not been completed as the report is for information only.

7. CONSULTATION

7.1. N/a

8. ISSUES TO CONSIDER IN REACHING THE DECISION

8.1. N/a

9. ADVICE SOUGHT

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

Contact person	Liz Woodyard, Investments Manager; 01225 395306 Steve McMillan, Pensions Manager, 01225 395254
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Appendix 1

INVESTMENTS TEAM WORKPLAN TO 31 MARCH 2014

Project	Proposed Action	Committee Report
Member Training	Implement training policy for members (and then officers) in line with CIPFA Knowledge and Skills Framework and Toolkit (when issued). Arrange training sessions as necessary to ensure that all Committee members stay abreast of the latest developments in the world of local government pensions by being given the opportunity to attend seminars	On-going
Review manager performance	Officers to formally meet managers as part of monitoring process See IP workplan for Panel meetings	ongoing
Review of investment strategy	Projects arising from review delegated to Panel for implementation or further investigation further.	Commence 2Q13
Annual Responsible Investing Report	Report of voting activity	June 2013
Appointment of Independent Member	Manage the appointment process as required	2Q2013
Triennial valuation	Arrange workshop to discuss assumptions, Funding Strategy Statement (FSS) and potential outcome Approve FSS Disseminate results to employers	June/July 2013 September 2013 4Q13
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	September 2013
Employer Document Management System	Have system in place ahead of actuarial valuation results (by September 2013)	No report
Investment Forum	To discuss actuarial valuation outcome and changes to investment strategy	Next due 4Q13
Budget and Service Plan 2014/17	Preparation of budget and service plan for 2014/17	March 2014
Statement of Investment Principles	Revise following any change in Fund strategy/policies.	On-going
IAS 19	Liaise with the Fund's actuary in the production of IAS 19 disclosures for employing bodies	No report
Final Accounts	Preparation of Annual Accounts	Annually 2nd quarter

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WORKPLAN - PENSION <u>ADMINISTRATION</u> TO 31 MARCH 2014

Project	Proposed Action	Report
Employer Self Service rollout	Employer Self Service rolling out of top ten employers (size) and then to others so full electronic delivery is achieved by the end of Q3 20123 including employer training	N/A
i-Connect software – to update member data on ALTAIR pension database automatically monthly	*i-Connect* middleware to provide monthly update to APF pension database purchased by the Fund and four unitaries whose staging dates are imminent. All payroll extracts from unitaries received (except S Glos) and i-Connect in test – need to go live for these by April 2013 Market to other employers during 2013/14 once testing complete and proved workable.	
Move to Electronic Delivery of generic information to members	Implement the 3 year Strategy to move to electronic delivery to all members (other than those who choose to remain with paper). Provide members with 1 further 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). From Q3 2013 Campaign to increase the sign up of members to Member Self Service (*My Pension on line)* to allow electronic access to documents	N/A
Successfully Communicate proposed government changes to LGPS benefits	To follow through the project plan to effectively communicate the proposed changes to LGPS in 2014 and what it will mean for members/employers utilising electronic (website), paper and face to face meetings with employers' and their staff.	N/A
Member opt out rates	Monitor and report on these to Committee at each meeting	N/A
AVC Strategy	Finalise new AVC Investment Strategy for approval by Committee	Q313

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Appendix 3

Committee Workplan to 31 March 2014

JUNE 2013
Roles & Responsibilities of the Committee
Review of Investment Performance for Year Ending 31 March 2013
Pension Fund Administration – Budget Monitoring 2013/14, Performance Indicators for Quarter/Year Ending 31 March 2013 and Risk Register Action Plan
Approval of revised policies (following Strategic Review)
Investment Panel Minutes & Recommendations
Annual Responsible Investing Report
Approval of Draft Accounts 2012/13 prior to formal approval by Corporate Audit Committee and noting of Audit Plan 2012/13
Update on Admitted Bodies and new Scheduled Bodies
Approval of Committee's Annual report to Council
Workplans
Planned Workshops **2013 Actuarial valuation assumptions & Funding Strategy Statement 2Q13**

SEPTEMBER 2013
Review of Investment Performance for Quarter Ending 30 June 2013 (including review of Internal Control Reports)
Pension Fund Administration – Budget Monitoring 2013/14, Performance Indicators for Quarter Ending 30 June 2013 and Risk Register Action Plan
Approval of Funding Strategy Statement
Investment Panel Minutes & Recommendations
Approval of Final Accounts 2012/13 prior to formal approval by Corporate Audit Committee
Workplans
Planned Workshops

DECEMBER 2013
Review of Investment Performance for Quarter Ending 30 September 2013
Pension Fund Administration – Budget Monitoring 2013/14, Performance Indicators for Quarter Ending 30 September 2013 and Risk Register Action Plan
Investment Panel Minutes & Recommendations

Committee Workplan to 31 March 2014

Workplans
Planned Workshops

MARCH 2014
Review of Investment Performance for Quarter Ending 31 December 2013
Pension Fund Administration – Budget Monitoring 2013/14, Performance Indicators for Quarter Ending 31 December 2013 and Risk Register Action Plan
Budget and Service Plan 2014/17
Investment Panel Minutes & Recommendations
Audit Plan 2013/14
Workplans
Planned Workshops

Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2014

Panel meeting / workshop	Proposed agenda	Outcome

22 May 2013	• Review mangers performance to March 2013
	• Projects arising from Strategic review
	    ○ Equity allocations
	    ○ Hedge fund allocations
	    ○ New mandate parameters
	        ▪ DGFs
		• Agree any decisions or recommendations to Committee

July meeting (TBC)	• Projects arising from Strategic review
	    ○ Training on selecting managers
	    ○ New mandate parameters – Emerging Markets
		• Agree any decisions or recommendations to Committee

4 September 2013	• Review mangers performance to June 2013
	• Projects arising from Strategic review
	    ○ Infrastructure options
	    ○ Implementation update
	• Meet the managers workshop
		• Agree any decisions or recommendations to Committee

15 November 2013	• Review mangers performance to September 2013
	• Projects arising from Strategic review
	    ○ LDI introduction
	    ○ Implementation update
	• Meet the managers workshop
		• Agree any decisions or recommendations to Committee

1Q14	• Review mangers performance to December 2013 • Projects arising from Strategic review ○ Implementation update • Meet the managers workshop	• Agree any decisions or recommendations to Committee

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Appendix 5

Avon Pension Fund Committee Training Programme 2013-14

General Topics

Topic	Content	Timing
Fund Governance and Assurance *(relates to CIPFA Knowledge & Skills Framework areas: Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management)*	• Role of the administering authority - How AA exercises its powers (delegation, role of statutory 151 Officer) - Governance Policy Statement • Members duties and responsibilities - LGPS specific – duties under regulatory framework o Admin regulations (including discretions), admin strategy, communications strategy o Investment regulations o Statutory documents - Statement of Investment Principles, Myners compliance, Funding Strategy Statement, Annual Report - Wider Pensions context • Assurance framework - S 151 Officer - Council Solicitor - Freedom of Information Officer/Data Protection - Internal Audit - External Audit - Risk Register	June 2013
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	2013 onwards following Strategic review

Asset Allocation *(relates to CIPFA Knowledge & Skills Framework areas: Investment Performance & Risk Management, Financial Markets & Products)*	• Basic concepts – Expected Return, Risk Budget, efficient markets • Why is asset allocation important – correlations, strategic vs. tactical allocation • Implementation of strategy – active/passive investing, large/mid/small cap, UK/overseas, relative/absolute return, quantitative/fundamental investment approaches	On-going through monitoring of strategy
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	2Q13 Workshop for valuation and Funding Strategy Statement

Planned Committee Workshops 2013-14

Workshop	Content	Timing
Triennial Valuation	Pre–valuation review of assumptions and funding strategy statement	2Q13