Bath & North East Somerset Council

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20 September 2013
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To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: Paul Fox (Chair), Charles Gerrish (Vice-Chair), Gabriel Batt, Lisa Brett and Ian Gilchrist

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

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

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 27th September, 2013

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 27th September, 2013** at **2.00 pm** in the **Council Chamber - Guildhall, Bath**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

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

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, 27th September, 2013

at 2.00 pm in the Council Chamber - Guildhall, Bath

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

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

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

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

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

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

7. MINUTES: 21ST JUNE 2013 (Pages 5 - 16)

STRATEGIC REPORTS

8. APPROVAL OF ACCOUNTS & GOVERNANCE REPORT AND ANNUAL REPORT & ACCOUNTS (Pages 17 - 142) *15 MINS*

9. FUNDING STRATEGY STATEMENT (Pages 143 - 168) *20 MINS*

10. LGPS 2014 UPDATE (Pages 169 - 178) *10 MINS*

11. RESPONSES TO CLG DISCUSSION PAPER ON GOVERNANCE ARRANGEMENTS AND CALL FOR EVIDENCE (Pages 179 - 206) *10 MINS*

MONITORING REPORTS

12. INVESTMENT PANEL ACTIVITY AND MINUTES (Pages 207 - 226) *10 MINS*

13. REVIEW OF INVESTMENT PERFORMANCE (Pages 227 - 280) *20 MINS*

14. PENSION FUND ADMINISTRATION (Pages 281 - 316) *20 MINS*

FOR INFORMATION

15. WORKPLANS (Pages 317 - 328) *5 MINS*

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, 21st June, 2013, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Charles Gerrish (Vice-Chair), Katie Hall and Lisa Brett

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

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

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

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

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Gabriel Batt, Shirley Marsh, Richard Orton and Paul Shiner.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 22 MARCH 2013

The public and exempt minutes for the meeting of 22 March 2013 were approved as a correct record and signed by the Chair.

8 ROLES AND RESPONSIBILITIES OF COMMITTEE AND APPROVAL OF GOVERNANCE COMPLIANCE STATEMENT

The Investments Manager presented the report. She reminded Members that the Committee was required to approve the revised Governance Compliance Statement, because the Terms of Reference of the Committee and Investment Panel had been amended. The Committee was also invited to agree the appointment of non-B&NES Members to the Investment Panel for the coming year, (the B&NES Members being subject to political proportionality and appointed by their Group).

Anne Berresford, Cllr Mary Blatchford, and William Liew indicated their willingness to continue to serve on the Panel and were appointed Members for a further year.

It was noted that the vacancy for a B&NES Member on the Panel created by the resignation of Cllr Nicholas Coombes from the Committee would be filled by either Cllr Katie Hall or Cllr Lisa Brett. Confirmation of which of them it would be would be provided by the end of the following week.

Cllr Pearce informed the Committee that Bristol City Council would be initiating talks with pensions officers about the strength of its representation on the Committee in view of the number of its employees in the Fund.

It was agreed that Cllr Drew should continue to represent the Committee on the Local Authority Pension Fund Forum (LAPPF). Cllr Drew pointed out that the Committee was entitled to have more than one representative on LAPPF. The Investments Manager explained that the commitment would be to attend 4 full-day meetings a year in London.

RESOLVED

1. To note the roles and responsibilities of the Members, advisors and officers.
2. To note the Terms of Reference of the Committee and Investment Panel.
3. To approve the Governance Compliance Statement.
4. To appoint Anne Berresford, Cllr Mary Blatchford, and William Liew to the Investment Panel.

9 APPROVAL OF DRAFT ACCOUNTS

The Finance & Systems Manager (Pensions) circulated the final version of the accounts and asked members to note revisions to the draft included with the agenda with respect to note 25 and some key figures. The Fund value was £3147m, not £3145m, net debtors was £12m, not £10m. Total contributions had fallen to £135m, compared with £138m in the previous year. This was explained by a slight fall in the number of members, a reduction in pensionable pay and the loss of higher-paid members. There had been an increase in pensions payable.

A Member asked whether the Fund would have to sell assets to cover current liabilities. The Head of Business, Finance and Pensions confirmed that this was the case, because the Fund was now mature, there were fewer members, a 50/50 option was now available to members, and there were issues with cash flow.

A Member noted that total contributions had gone down but that contributions receivable had gone up and sought reassurance that late payers were being pursued. The Finance & Systems Manager (Pensions) replied that there was always a month's delay in payments, so that the figure for contributions receivable was always higher at the end of the year. Responding to a question from the Chair, the Investments Manager said that the increase of 4.5% a year in employee contributions was not fully reflected in the income figures. The Chair requested an investigation and a report on this.

A Member asked about the figure of £1.6m for transfer-in values referred to in the updated accounts. The Investments Manager explained that this related to the transfer of staff between two colleges; it was an actuarial estimate and likely to be an understatement.

The Finance & Systems Manager (Pensions) explained that accounts had to be signed by the Section 151 Officer by 30 June and would be presented to the Corporate Audit Committee in September. He drew attention to the audit plan from Grant Thornton attached as appendix 2 to the report.

RESOLVED

1. To note the Statement of Accounts for the year to 31 March 2013 for audit.

2. To note the Audit Plan for the year ended 31 March 2013.

10 ANNUAL RESPONSIBLE INVESTING REPORT

The Assistant Investments Manager presented the report. He said that this was the first annual responsible investment report to be made to the Committee. He introduced Paul Hewitt from Manifest, who made a presentation on vote monitoring. A copy of his slides is attached as an appendix to these minutes.

After the presentation, Mr Hewitt answered Members' questions.

Q: Why is the number of resolutions for which results are not available (5,500) so high?
A: In some markets it is not compulsory or not the practice to report results.

Q: Why have State Street, Schroders, Invesco and Genesis been included in a single group on page 13 of the slides, when there are variations in their level of support for management resolutions?
A: They dissent from management resolutions more often than the other fund managers.

Q: Are there any examples of dissent changing anything?
A: Recently there were five directors who were not re-appointed and a chief executive was forced to stand down.

Q: Does anyone maintain black lists of senior executives?
A: I do not know. Manifest's job is to analyse the information that companies provide from a governance perspective.

Q: What proposals have there been to change executive remuneration?
A: Bonus schemes tend to medium-term and longer-term incentives over 5-10 years. The average annual increase in chief executive salaries has been 5% over the last five years.

A Member asked whether it was possible to find out how much resource investment managers devote to voting at company meetings? The Investments Manager replied that officers would follow this up and report. Now that information was being received from LAPPF and Manifest managers were being held to account to a greater extent.

RESOLVED

1. To approve the Annual Responsible Investment Report for 2012/13.

2. To approve the revised Statement of Compliance with FRC Stewardship Code.

11 ADMITTED BODIES AND NEW SCHEDULED BODIES

The Investments Manager presented the report. She said that there would be more monitoring of employers between valuations. However, because of the number of employers now in the Fund, it would be impossible to meet each of them individually, so that they would be monitored in groups; academies would be treated as one group. Section 6 of the report set out the charging regime for academies.

Before discussing the information contained in the exempt appendices, the Committee **RESOLVED** 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 the discussion of exempt appendices 1-3, 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.

After discussion, it was **RESOLVED**

1. To agree the policy for recovering outstanding liabilities and on-going assessment of employer covenants.

2. To agree to retain the current charging structure for new bodies when joining the scheme.

12 INVESTMENT PANEL ACTIVITY AND MINUTES

RESOLVED

1. To note the draft minutes of the Investment Panel meeting held on 4 June 2013.

2. To note the decisions made by the Panel at the meeting of 4 June 2013.

13 APPROVAL OF STATEMENT OF INVESTMENT PRINCIPLES, REBALANCING AND CASH MANAGEMENT POLICIES

The Investments Manager presented the report and explained that the Statement of Investment Principles was a statutory document which had to be updated whenever there were significant changes to the investment strategy. The revised Statement incorporated the changes agreed at the meeting of 6 March 2013.

Two Members expressed concerns about investment in tobacco and said that they would not be able to support the revised statement because of its incompatibility with the policy on public health agreed by the Council in April. The Investments Manager referred to the discussion that the Committee had had had on investment in tobacco at a previous meeting.

RESOLVED

1. By 7 votes in favour, 1 against and 2 abstentions, to approve the Statement of Investment Principles.

2. Unanimously, to approve the rebalancing policy.

3. Unanimously, to approve the cash management policy.

14 APPROVAL OF COMMITTEE'S ANNUAL REPORT TO COUNCIL

The Investments Manager presented the report. She said that the Chair would take the report to the meeting of B&NES Council in July.

Cllr Pearce and Cllr Blatchford said that they would like to present the report to their own Council meetings.

A Member noted the section about training (agenda page 221) and asked whether training could be provided to Members on the scheme changes to be implemented in

2014. The Pensions Manager replied that because of pressure on staff resources this could not be a high priority.

A Member wondered why the report did not discuss auto-enrolment. The Pensions Manager said that the report was retrospective and there had not been significant activity arising from auto-enrolment during the reporting year.

RESOLVED to approve the 2013 Annual Report to Council.

15 REVIEW OF INVESTMENT PERFORMANCE

The Assistant Investments Manager presented the report. He asked Members to note the change to the content of the JLT report, which now had a greater focus on strategic performance and no longer contained detail on individual investment managers. Reports to the Committee on individual managers would henceforth be on an exceptions basis. He summarised the key figures. There had been a 2% reduction in the funding level, from 71% to 69%, because of inflation. Since March there had been a fall in asset values, because of market concerns about the ending of quantitative easing. However, liabilities had fallen, because of a rise in bond yields.

John Finch commented on the JLT report. He explained that for every fall of 50 basis points in gilts the Fund’s liabilities decreased by 10%. The fall in gilts since the end of March had decreased liabilities by 6%, but this had been offset by a 3% fall in the value of the equity portfolio, resulting in a net positive effect on liabilities of 3%. Bond yields had risen and equities fallen, following the announcement by the Chairman of the Federal Reserve had suggested that quantitative easing (QE) had served its purpose and was nearing its end. The current Chairman, Ben Bernanke, was due to retire in March 2014, and the lady tipped to be his successor was reportedly more doveish on QE. However, market volatility would continue, which provided a strong reason to get the Diversified Growth Fund (DGF) up and running.

A Member suggested that there was a danger of “missing the train”, if the DGF was not set up promptly. The Investments Manager responded that the DGF would be a separate mandate, so that full procurement procedures had to be followed; the selection panel would meet in October.

[Cllr Katie Hall left the meeting at this point.]

RESOLVED to note the information set out in the report.

16 PENSION FUND ADMINISTRATION

The Finance & Systems Manager (Pensions) presented the financial report. Expenditure with the directly controlled Administration budget was £152,000 below the original budget, mainly because of a delay in appointments to three posts in the investment team. Savings were already being made under the new custodial contract.

The Pensions Manager presented the administration report.

A. Balanced scorecard

The balanced scorecard had been simplified, as Members had requested at the previous meeting. It was now contained on one page, rather than two. It would be reviewed again, with a view to showing workload more clearly.

B. Administration performance

All new work received in the quarter was cleared as well as 8.59% of old work, resulting in a performance of 108.59% in the quarter.

C. Customer satisfaction

Item 3 in Appendix 4A shows a 40% success rate for paying the lump sum within 10 days. Though apparently disappointing, when put in perspective this was in respect of only 5 out of 28 active members. The aggregate performance for paying the lump sum to active members was actually 76%.

D. Joiners and leavers

There was very little change in the number of members.

E. Opt-outs

The opt-out rate had been only 0.2%, which boded well for the LGPS 2014 scheme.

F. Employers' performance

The graph for retirement performance cases within target on agenda page 299, shows improvement for Bristol and South Gloucestershire, but a fall in performance for B&NES and North Somerset. A review meeting had been held with these two unitaries, who had undertaken to improve their performance in the next quarter.

The performance for deferred cases (page 301) was not as bad as it looked when the impact of data cleansing is understood, as explained on page 296.
No employers were late in paying the pension contributions due in the period. Employer performance was even more important this year, because of the triennial actuarial valuation. . Some information had been received from all employers. Over 98% of correct member data was received in time from 2/3 of employers. Employers who had not submitted full or correct information were listed on page 298. The largest of these was Circadian Trust (No 1) with 161 active members. Employers had been warned about penalties under the new Pensions Administration Strategy, and this had obviously been effective in improving performance.

Members' attention was drawn to the information about i-Connect on page 279. Avon Pension Fund was the first local authority pension fund to go live with i-Connect. Staff from the 10 largest employers had been given training in Employer Self-Service. It was hoped that all employers would use electronic data delivery from next year. Those making paper returns would be subject to additional charges.

G. LGPS 2014 scheme implementation project plan

Members were asked to note this.

RESOLVED

1. To note administration and management expenditure incurred for 12 months to 30 April 2013.

2. To note performance indicators and customer satisfaction feedback for 3 months to 30 April 2013.

3. To note the summary performance report for the period from 1 April 2011 to 31 March 2013.

17 LGPS 2014 UPDATE INCLUDING RESPONSES TO DCLG CONSULTATIONS

The Technical Manager presented the report. Responses made in May to various consultations about the Local Government Pension Scheme 2014 were attached to the report.

He said that consultation documents on the new scheme always seemed to arrive too late to be included on Committee agendas. This had happened yet again, with a launch the previous day of a consultation on draft regulations for the new Local Government Pension Scheme with a closing date of 2 August this year. There would be another consultation on transitional regulations and governance guidance. There was currently a consultation on the future of the Councillors' pension scheme with a closing date of 5 July 2013.

When he had contacted the Department of Communities and Local Government (DCLG), they had been unable to give a timescale for the finalisation of the new scheme.

He drew attention to the changes to Fund governance to be introduced by the Public Sector Pensions Act 2013, as summarised in section 5 of the report. A discussion paper issued by the DCLG indicated that the required scheme management board might or might not be the Committee. There would be a national LGPS Scheme Advisory Board, which was being set up in shadow form with an intended first meeting date in June 2013. There would be several sub-committees making recommendations to the Advisory Board. The Avon Pensions Fund had made 2 nominations for the main board.

The Chair informed Members that he had nominated himself to the Shadow Board.

A Member commented that there was also a consultation on merging local authority pension schemes. The Investments Manager said that this seemed to be based on concerns about the "London issue", the existence in London of many small schemes. Many claims were being made about the comparative costs of operating these schemes. In her view the issue was being driven more by politics than anything else. The Fund's officers were prepared for any calls for evidence. The APF schemes included estimates for the costs of maintaining pooled investments in its statements of costs, which made it appear less more expensive than those schemes which did not do this. It was easy to say that costs were too high, but the fact was that the challenges facing schemes were making them adopt more complex investment strategies, and the more complex the strategy, the more it cost to operate. What had to be considered was not simply the costs, but what was being achieved in return.

RESOLVED to note the responses made in May 2013 by Bath and North East Somerset Council in connection with the relevant consultations.

18 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 4.28 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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of the Local Government Act 1972.

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Bath & North East Somerset Council		
MEETING:	Avon Pension Fund Committee	
MEETING DATE:	27 September 2013	**AGENDA ITEM NUMBER**
TITLE:	**Audited Statement of Accounts, the Annual Governance Report & Annual Report – 2012/13**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – Audited Statement of Accounts 2012/13

Appendix 2 – Annual Governance Report 2012/13

Appendix 3 – Draft Avon Pension Fund Annual Report 2012/13

1 THE ISSUE

1.1 The Audited Statement of Accounts and the Annual Governance Report are now presented to be noted.

1.2 The Annual Governance Report summarises the results of the Grant Thornton audit of the 2012/13 accounts. It includes the issues arising from the audit of the financial statements and those issues which they are formally required to report under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA (UK&I) 260) – "Communication of audit matters with those charged with governance".

1.3 The Corporate Audit Committee was recommended to approve the final audited Statement of Accounts for 2012/13 and note the issues raised in the Governance reports at its meeting on 23 September 2013.

1.4 The Fund's Annual Report 2012/13 is a statutory document which the Auditor reviews as part of the Fund's audit. The Committee is asked to approve the draft report on the basis that no substantive changes will be made following Committee approval.

2 RECOMMENDATION

That the Committee:

2.1 Notes the final audited Statement of Accounts for 2012/13.

2.2 Notes the issues raised in the Annual Governance Report.

2.3 Approves the draft Avon Pension Fund Annual Report 2012/13.

3 FINANCIAL IMPLICATIONS

3.1 The Pension Fund's Statement of Accounts shows the Total Net Assets at 31 March 2013 as £3,145,656 thousand. This has changed from the figure in the draft accounts prior to the external audit following the inclusion of a creditor for £1,310 thousand previously omitted in error.

4 THE REPORT

4.1 The Committee noted the draft Statement of Accounts 2012/13 at its meeting of 21 June 2013. Since then, in response to the Auditors report and to correct some minor errors, the following changes have been made:-

i) Net Asset Statement and Note 14. Current Liabilities have increased by £1.3m. The creditor of £1.3m owed to HMRC in regards to the PAYE on the March 2013 Pensions Payroll was previously omitted. A note regarding a similar error in 2011/12 has been added.

ii) Note 2. Membership. The Membership for 2012/13 has been increased by 149 and for 2011/12 by 138 following the discovery that Councillor members had been omitted in error. An additional note has been added with regard to ex-members who are due refunds of contributions.

iii) Note 8. Administration Expenses. The Audit Fee originally stated as £19 thousand has been restated as £29 thousand following the discovery of an error.

iv) Note 24. Financial Instruments. The figures for Receivables and Financial Assets at fair value through profit or loss have been adjusted and some additional explanation added.

v) Note 25 d. Financial Risk Management Disclosure, Fair Value Hierarchy. In the table as at 31st March 2013 the figure for Pooled Investment Vehicles has been reduced by £7,386 thousand and the figure for Equities – Quoted has been increased by £7,386 thousand. This follows the re-definition of certain investments.

4.2 The 2012/13 Statement of Accounts was prepared on the same basis as the Statement of Accounts for 2011/12 consequently there are no significant changes in the 2012/13 Statement of Accounts from the 2011/12 Statement of Accounts.

4.3 The Annual Governance report is in Appendix 2. The Statement of Accounts has been adjusted in response to the issues raised where appropriate. Where adjustment has not been made it has been agreed with the Auditor that the issues will be considered for future years.

4.4 The draft Avon Pension Fund Annual Report is in Appendix 3. Under the Local Government Pension Scheme (Administration) Regulations 2008 the Fund is required to publish a report annually by 1st December. As this is before the next Committee meeting, the Committee are asked to approve the 2012/13 report in draft form. No substantive changes are expected to be made following the Committee's approval. The report will be published ahead of the 1st December deadline. The report will be published on the Fund's website. Hard copies will be available on request.

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

5 RISK MANAGEMENT

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

6 EQUALITIES

6.1 An equalities impact assessment is not necessary

7 OTHER OPTIONS CONSIDERED

7.1 None as this report is a statutory requirement.

8 CONSULTATION

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

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 No decision as this is a statutory requirement.

10 ADVICE SOUGHT

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

Contact person	Martin Phillips, Finance and Systems Manager (Pensions) (01225) 395259
Background papers	Pension Fund Committee 21 June 2013: Draft Statement of Accounts
Please contact the report author if you need to access this report in an alternative format	

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PENSION FUND ACCOUNTS 2012/13

Statement of Accounts

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2012 to 31 March 2013.

1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2012/13 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 The accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice.

1.4 The accounts are set out in the following order:

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

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

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

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

Actuarial Valuation

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

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

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

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

1.8 The Actuary has estimated that the funding level as at 31 March 2013 has fallen slightly to 69% from 70% estimated at 31 March 2012. This fall in the funding level is due to the increase in liabilities; the return on assets contributed positively to the funding position. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields. As gilt yields fall, the value of these liabilities rises. During the year the yield on UK gilts continued to fall.

1.9 The 2013 triennial valuation is currently being undertaken and will be calculated using values and membership data as at 31 March 2013. This will set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2014.

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

1.11 The Fund's Funding Strategy Statement can be found on the Fund's website www.avonpensionfund.org.uk or supplied on request from Liz Woodyard, Investments Manager.

Statement of Investment Principles

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

Statement of Accounting Policies

Basis of Preparation

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

Investments

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

i. Quoted Securities have been valued at 31 March 2013 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation.

ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2013.
iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2013.
v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
vi. Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
viii. Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
ix. The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

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

Benefits, Refunds of Contributions and Cash Transfer Values

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

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

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

Investment Income

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

Investment Management & Administration

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

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

Taxation

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

Use of Accounting Estimates

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

The value of two Group Transfers in to the Fund are subject to final agreement by the actuary. Estimated values were accrued as debtors (see 2.5 and note 18).

Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 17) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary.

The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 25d.

Events After the Balance Sheet Date

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

Financial Instruments

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

Fund Account
For the Year Ended 31 March 2013

	Notes	2012/13	2011/12
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	**134,858**	137,983
Transfers In		**7,255**	7,066
Other Income	5	**500**	341
		142,613	145,390
Benefits Payable	6	**136,655**	129,155
Payments to and on account of Leavers	7	**5,173**	5,325
Administrative Expenses	8	**2,585**	2,359
		144,413	136,839
Net Additions from dealings with members		**(1,800)**	8,551
Returns on Investments			
Investment Income	10	**29,025**	27,667
Profits and losses on disposal of investments and change in value of investments.	11	**362,285**	71,241
Investment Management Expenses	9	**(10,148)**	(9,228)
Net Returns on Investments		**381,162**	89,680
Net Increase in the net assets available for benefits during the year		**379,362**	98,231
Net Assets of the Fund			
At 1 April		**2,766,294**	2,668,063
At 31 March		**3,145,656**	2,766,294

Net Assets Statement at 31 March 2013

	Note	31 March 2013 £'000	%	31 March 2012 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		**109,674**	**3.5**	104,920	3.8
Equities		**495,980**	**15.8**	390,014	14.1
Index Linked securities : Public Sector		**209,876**	**6.7**	189,659	6.9
Pooled investment vehicles :-					
- Property : Unit Trusts		**78,749**	**2.5**	75,708	2.8
: Unitised Insurance Policies		**47,863**	**1.5**	50,849	1.8
: Other Managed Funds		**95,729**	**3.0**	70,394	2.5
Property Pooled Investment Vehicles		**222,341**		196,951	
- Non Property : Unitised Insurance Policies		**811,938**	**25.8**	791,555	28.6
: Other Managed Funds		**1,203,448**	**38.3**	1,004,658	36.3
Non Property Pooled Investment Vehicles		**2,015,386**		1,796,213	
Cash deposits		**85,895**	**2.7**	76,595	2.8
Other Investment balances		**12,864**	**0.4**	6,734	0.2
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		**(2,912)**	**(0.1)**	441	0.0
Derivative Contracts: FTSE Futures		**(226)**	**0.0**	(514)	0.0
Other Investment balances		**(13,502)**	**(0.4)**	(3,648)	(0.1)
TOTAL INVESTMENT ASSETS	12	**3,135,376**		2,757,365	
Net Current Assets					
Current Assets	14	**13,283**	**0.4**	10,881	0.4
Current Liabilities	14	**(3,003)**	**(0.1)**	(1,952)	(0.1)
Net assets of the scheme available to fund benefits at the period end		**3,145,656**	**100**	2,766,294	100

The Fund’s financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2013.

Notes to the Accounts - Year Ended 31 March 2013

1, GENERAL

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

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 26.

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

2, MEMBERSHIP

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

	31 March 2013	31 March 2012
Employed Members	**33,648**	33,828
Pensioners	**24,574**	23,658
Members entitled to Deferred Benefits	**31,754**	28,677
TOTAL	**89,976**	86,163

A further 2,126 ex-members whose membership was for up to 2 years before 1st April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

3, TAXATION

i. **Value Added Tax**

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

ii. **Income Tax**

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

iii. **Capital Gains Tax**

No capital gains tax is chargeable.

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

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		2012/13		2011/12
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	**52,129**		52,749	
Administering Authority	**6,566**		7,137	
Admission Bodies	**5,787**	**64,482**	5,252	65,138
Employers' deficit Funding				
Scheduled Bodies	**26,598**		25,368	
Administering Authority	**4,021**		3,842	
Admission Bodies	**1,082**	**31,701**	1,463	30,673
Total Employer's normal & deficit funding		**96,183**		95,811
Employers' contributions- Augmentation				
Scheduled Bodies	**2,697**		4,941	
Administering Authority	**224**		815	
Admission Bodies	**457**	**3,378**	440	6,196
Members' normal contributions				
Scheduled Bodies	**28,617**		29,112	
Administering Authority	**3,495**		3,795	
Admission Bodies	**2,649**	**34,761**	2,481	35,388
Members' contributions towards additional benefits				
Scheduled Bodies	**418**		480	
Administering Authority	**97**		78	
Admission Bodies	**21**	**536**	30	588
Total		**134,858**		137,983

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

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

5, OTHER INCOME

	2012/13	2011/12
	£'000	£'000
Recoveries for services provided	**492**	330
Cost recoveries	**8**	11
	500	341

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

6, BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2012/13	2011/12
	£'000	£'000
Retirement Pensions	**106,097**	97,229
Commutation of pensions and		
Lump Sum Retirement Benefits	**27,815**	29,416
Lump Sum Death Benefits	**2,743**	2,510
	136,655	129,155

Analysis of Benefits Payable by Employing Body:-

	2012/13	2011/12
	£'000	£'000
Scheduled & Designating Bodies	**114,704**	108,110
Administering Authority	**11,938**	12,277
Admission Bodies	**10,013**	8,768
	136,655	129,155

7, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2012/13	2011/12
Leavers	**£'000**	£'000
Refunds to members leaving service	**17**	19
Individual Cash Transfer Values to other schemes	**5,028**	5,306
Group Transfers	**128**	-
	5,173	5,325

8, ADMINISTRATION EXPENSES

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

	2012/13 £'000	2011/12 £'000
Administration and processing	**1,808**	1,612
Actuarial fees	**356**	278
Audit fees	**29**	43
Legal and professional fees	**-**	-
Central recharges from Administering Authority	**392**	426
	2,585	2,359

9, INVESTMENT EXPENSES

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

	2012/13 £'000	2011/12 £'000
Portfolio management	**9,827**	8,830
Global custody	**64**	127
Investment advisors	**167**	168
Performance measurement	**34**	35
Investment accounting	**3**	8
Investment Administration	**53**	60
	10,148	9,228

10, INVESTMENT INCOME

	2012/13	2011/12
	£'000	£'000
Interest from fixed interest securities	**3,898**	5,762
Dividends from equities	**15,070**	12,010
Income from Index Linked securities	**5,703**	5,757
Income from pooled investment vehicles	**4,002**	3,751
Interest on cash deposits	**335**	370
Other - Stock lending	**17**	17
	29,025	27,667

The Fund has an arrangement with its custodian (BNY Mellon) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. This stock lending programme was introduced with effect from July 2004. The Fund may terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.
The value of the stock on loan as at 31 March 2013 was £3.01 million (31 March 2012 £16.67 m), comprising entirely of equities. This was secured by collateral worth £3.15 million comprising OECD sovereign and supra national debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at 31/03/12 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Value at 31/03/13 £'000**
Fixed Interest Securities	104,920	18,268	(18,096)	4,582	**109,674**
Equities	390,014	294,637	(251,080)	62,409	**495,980**
Index linked Securities	189,659	35,415	(31,467)	16,269	**209,876**
Pooled Investments -					
- Property	196,951	36,144	(18,841)	8,087	**222,341**
- Non Property	1,796,213	47,414	(96,172)	267,931	**2,015,386**
Derivatives	(73)	2,860	(5,522)	(403)	**(3,138)**
	2,677,684	434,738	(421,178)	358,875	**3,050,119**
Cash Deposits	76,595	235,134	(225,911)	77	**85,895**
Net Purchases & Sales		669,872	(647,089)	22,783	
Investment Debtors & Creditors	3,086			(3,724)	**(638)**
Total Investment Assets	2,757,365			-	**3,135,376**
Current Assets	8,929			1,351	**10,280**
Less Net Revenue of Fund				(17,077)	
Total Net Assets	2,766,294			**362,285**	**3,145,656**

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

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

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

Change in Total Net Assets 2011/12

Change in Market Value of Investments	Value at 31/03/11 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31/03/12 £'000
Fixed Interest Securities	154,494	23,025	(103,921)	31,322	104,920
Equities	246,996	415,218	(263,954)	(8,246)	390,014
Index linked Securities	157,378	46,148	(41,614)	27,747	189,659
Pooled Investments -					
- Property	172,052	40,890	(25,477)	9,486	196,951
- Non Property	1,873,152	129,556	(219,883)	13,388	1,796,213
Derivatives	483	1,687	(3,009)	766	(73)
	2,604,555	656,524	(657,858)	74,463	2,677,684
Cash Deposits	50,515	240,786	(213,344)	(1,362)	76,595
Net Purchases & Sales		897,310	(871,202)	26,108	
Investment Debtors & Creditors	2,881			205	3,086
Total Investment Assets	2,657,951			-	2,757,365
Current Assets	10,112			(1,183)	8,929
Less Net Revenue of Fund				(26,990)	
Total Net Assets	2,668,063			71,241	2,766,294

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

	2012/13				2011/12			
	Purchases £'000	**Sales £'000**	**Other £'000**	**Total £'000**	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	**644**	**21**		**665**	650	31	-	681
Commission	**320**	**304**	**5**	**629**	414	446	9	869
TOTAL	**964**	**325**	**5**	**1,294**	1,064	477	9	1,550

12, INVESTMENT ASSETS

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

	31 March 2013		31 March 2012	
		£'000		£'000
UK Equities				
Quoted	258,957		224,418	
Pooled Investments	318,640		272,289	
FTSE Futures	(226)	577,371	(514)	496,193
Overseas Equities				
Quoted	237,022		165,597	
Pooled Investments	1,185,894	1,422,916	963,933	1,129,530
UK Fixed Interest Gilts				
Quoted	109,674		104,920	
Pooled Investments	14,668	124,342	27,676	132,596
UK Index Linked Gilts				
Quoted	209,876	209,876	189,658	189,658
Sterling Bonds (excluding Gilts)				
Pooled Investments	193,549	193,549	240,771	240,771
Non-Sterling Bonds				
Pooled Investments	81,488	81,488	77,973	77,973
Hedge Funds				
Pooled Investments	221,147	221,147	213,571	213,571
Property				
Pooled Investments	222,341	222,341	196,951	196,951
Cash Deposits				
Sterling	81,806		70,728	
Foreign Currencies	4,089	85,895	5,867	76,595
Investment Debtors/Creditors				
Investment Income	3,671		3,132	
Sales of Investments	9,194		3,602	
Foreign Exchange Hedge	(2,912)		441	
Purchases of Investments	(13,502)	(3,549)	(3,648)	3,527
TOTAL INVESTMENT ASSETS		3,135,376		2,757,365

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000's	Liability Value £000's
Up to one month	GBP	4,257	CHF	(6,083)	24	
Up to one month	GBP	36,659	EUR	(44,234)		(762)
Up to one month	GBP	155,560	USD	(250,878)		(9,681)
Up to one month	GBP	18,509	JPY	(2,414,000)	1,594	
Up to one month	JPY	1,218,000	GBP	(9,418)		(884)
Up to one month	USD	249,200	GBP	(155,920)	8,217	
Up to one month	EUR	32,000	GBP	(26,432)	639	
Up to one month	EUR	5,709	USD	(7,300)	21	
Up to one month	USD	2,262	EUR	(1,766)		(4)
One to six months	GBP	168,038	EUR	(209,600)		(9,459)
One to six months	GBP	204,568	JPY	(26,368,000)	19,606	
One to six months	GBP	744,079	USD	(1,184,300)		(36,259)
One to six months	EUR	209,600	GBP	(169,248)	8,249	
One to six months	JPY	18,993,000	GBP	(148,501)		(15,277)
One to six months	USD	1,184,300	GBP	(748,864)	31,473	
Six to twelve months	EUR	90,800	GBP	(76,391)	650	
Six to twelve months	GBP	124,574	EUR	(147,800)		(867)
Six to twelve months	GBP	166,975	JPY	(23,355,000)	2,813	
Six to twelve months	GBP	150,693	USD	(231,300)		(1,765)
Six to twelve months	JPY	21,880,000	GBP	(156,255)		(2,453)
Six to twelve months	USD	164,000	GBP	(106,885)	1,213	
Total					**74,499**	**(77,411)**
Net forward currency contracts at 31 March 2013						**(2,912)**

Open forward currency contracts at 31 March 2012	-	441
Net forward currency contracts at 31 March 2012		**441**

Exchange Traded Derivatives held at 31 March 2013:-

Contract Type	Expiration	Book Cost £'000	Unrealised Gain £'000
FTSE equity futures	**June 2013**	**25,186**	**(226)**

Exchange Traded Derivatives held at 31 March 2012:-

FTSE equity futures	June 2012	15,869	(514)

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

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

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

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

	31 March 2013 £'000	**%**	31 March 2012 £'000	%
Blackrock	**1,506,620**	**48.0**	1,297,622	47.1
Transition	**9**	**0**	1	0
Record	**4,893**	**0.2**	11,141	0.4
Jupiter Asset Management	**139,898**	**4.5**	115,721	4.2
Genesis Investment Management	**158,548**	**5.1**	140,717	5.1
Invesco Perpetual	**218,121**	**7.0**	173,237	6.3
State Street Global Advisors	**103,009**	**3.3**	86,241	3.1
Partners Group	**97,395**	**3.1**	71,011	2.5
Royal London Asset Management	**176,526**	**5.6**	227,558	8.3
TT International	**163,186**	**5.2**	134,334	4.9
Man Investments	**63,955**	**2.0**	63,099	2.3
Gottex Asset Management	**55,059**	**1.8**	52,820	1.9
Stenham Asset Management	**34,936**	**1.1**	33,272	1.2
Signet Capital Management	**67,197**	**2.1**	64,379	2.3
Lyster Watson Management	**-**	**0.0**	799	0.0
Schroder Investment Management	**327,563**	**10.4**	270,996	9.8
Bank of New York Mellon	**10,059**	**0.3**	7,369	0.3
Treasury Management	**8,402**	**0.3**	7,048	0.3
TOTAL INVESTMENT ASSETS	**3,135,376**	**100.0**	2,757,365	100.0

Assets held in Transition are assets in the process of being transferred from former Managers.

13, SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	Value at 31st March 2013 £'000	% of Net Assets	Value at 31st March 2012	% of Net Assets
Aquila Life UK Equity Index Fund (BlackRock)	**315,092**	**10.05%**	269,730	9.78%
BlackRock World Index Fund	**310,707**	**9.91%**	229,083	8.31%
Invesco Perpetual Global ex UK Enhanced Index Fund	**218,121**	**6.96%**	173,237	6.28%
RLPPC UK Corporate Bond Fund (Royal London)	**176,526**	**5.63%**	227,557	8.25%
Genesis Emerging Markets Investment Fund	**158,549**	**5.06%**	140,717	5.10%

14, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2013. Debtors and creditors included in the accounts are analysed below:-

		31 March 2013 £'000		31 March 2012 £'000
CURRENT ASSETS				
Contributions Receivable :-				
- Employers	**7,736**		7,306	
- Members	**2,817**		2,783	
Transfer Values Receivable	**1,640**		-	
Discretionary Early Retirement Costs	**585**		640	
Other Debtors	**505**	**13,283**	152	10,881
CURRENT LIABILITIES				
Management Fees	**(911)**		(1,119)	
Lump Sum Retirement Benefits	**(547)**		(720)	
Other Creditors	**(1,545)**	**(3,003)**	(113)	(1,952)
NET CURRENT ASSETS		**10,280**		8,929

Analysis of Debtors and Creditors by public sector bodies:-

		31 March 2013 £'000		31 March 2012 £'000
CURRENT ASSETS				
Local Authorities	**8,050**		8,424	
NHS Bodies	**6**		-	
Other Public Bodies	**4,338**		1,764	
Non Public Sector	**889**	**13,283**	693	10,881
CURRENT LIABILITIES				
Other Public Bodies	**(1,310)**		(40)	
Non Public Sector	**(1,693)**	**(3,003)**	(1,912)	(1,952)
NET CURRENT ASSETS		**10,280**		8,929

The Current Liabilities as at 31 March 2012 did not include a creditor within “Other Public Bodies” for £1,243,278 PAYE due to HMRC. There were no debtors or creditors of Central Government or trading funds.

15, CONTINGENT LIABILITIES
There were no contingent liabilities as at 31 March 2013. (March 2012 = NIL).

16, EVENTS AFTER THE BALANCE SHEET DATE
There have been no events after 31 March 2013 that require any adjustment to these accounts.

17, ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS 26
The following statement is by the Fund’s actuary:

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.0% per annum*	3.9% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% per annum

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

The demographic assumptions are the same as those used for funding purposes.

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year- end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund’s promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £3,869 million. The effect of the changes in assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by *c.*£456 million. Adding interest over the year increases the liabilities by a further *c.*£190 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another *c.*£4 million. The net effect of all the above is that the estimated total value of the Fund’s promised retirement benefits as at 31 March 2013 is therefore £4,519 million.

18, TRANSFERS IN
During the year ending 31 March 2013 there were group transfers in to the fund from Newcastle College to City of Bristol College and from Strode College to Weston College. The transfer values have not yet been confirmed. Estimated values have been included as part of the Fund’s Current Assets.

19, BENEFITS RECHARGED TO EMPLOYERS

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

	2012/13	2011/12
	£'000	£'000
Benefits Paid and Recharged	**6,225**	6,049

20, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2012/13 were £953 (2011/12 - £1,156). Additional Voluntary Contributions received from employees and paid to Friends Life during 2012/13 were £418,478 (2011/12 - £452,103).

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

	31 March 2013	31 March 2012
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**582**	678
Unit Linked Retirement Benefits	**306**	310
Building Society Benefits	**264**	279
	1,152	1,267
Death in Service Benefit	**150**	150
Friends Life		
With Profits Retirement Benefits	**197**	230
Unit Linked Retirement Benefits	**3,775**	3,700
Cash Fund	**402**	442
	4,374	4,372

AVC investments are not included in the Fund's financial statements in accordance with Regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

21, RELATED PARTIES

Committee Member Related:-

In 2012/13 £37,071 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee *(£37,926 in 2011/12)*. Seven voting members and one non- voting member of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2012/2013*. (Six voting members and two non-voting members in 2011/2012, including five B&NES Councillor Members*)

Independent Member Related:-
Two Independent Members were paid allowances of £7,102 and £12,778 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-
During the year 2012/13 the Fund paid B&NES Council £275,215 for administrative services *(£253,542 in 2011/12*) and B&NES Council paid the Fund £40,157 for administrative services (*£28,574 in 2011/12*). Various Employers paid the fund a total of £177,346 *(£136,921 in 2011/12)* for pension related services including pension's payroll and compiling data for submission to the actuary.

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

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

22, OUTSTANDING COMMITMENTS
As at the 31 March 2013 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £46,798,161.

23, KEY MANAGEMENT REMUNERATION
Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These consisted of:
- part of the Strategic Director of Resources salary, fees and allowances (£17,393) and their employers' pension contributions (£3,107).
- part of the Head of Business Finance and Pensions salary, fees and allowances (£31,540) and their employers' pension contributions (£5,460).

24, FINANCIAL INSTRUMENTS

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

	31/03/2013	31/03/2012
Financial Assets	**£'000**	£'000
Receivables	**13,283**	10,881
Financial assets at fair value through profit or loss	**3,149,104**	2,761,527
Total Financial Assets	**3,162,387**	2,772,408
Financial Liabilities		
Payables	**16,505**	5,600
Financial liabilities at fair value through profit or loss	**226**	514
Total Financial Liabilities	**16,731**	6,114
Total Net Assets	**3,145,656**	2,766,294

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

Net gains and losses on financial instruments

	Financial assets at fair value through profit or loss	
	2012/13	2011/12
	£'000	£'000
Losses on derecognition	**9,302**	19,427
Reductions in fair value	**10,079**	67,447
Total expense in Fund Account	**19,381**	86,874
Gains on derecognition	**53,216**	72,287
Increases in fair value	**325,040**	89,050
Total income in Fund Account	**378,256**	161,337
Net gain/(loss) for the year	**358,875**	74,463

25, FINANCIAL RISK MANAGEMENT DISCLOSURE

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

To achieve its investment objective the Fund invests across a diverse range of assets in order to manage market risks (price, interest rate and currency risk), credit risk and liquidity risk to an acceptable level.

The Fund's investments are managed by external Investment Managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines that sets out the relevant benchmark, performance target, asset allocation ranges and any restrictions. The Avon Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The

Committee regularly monitors each investment manager and its Investment Consultant advises on the nature of the investments made and associated risks.

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

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

(a) Market Risk

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

Market Price Risk

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

All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The Fund's strategy is to manage market price risk through the diversification of the investments held by asset class, geography and industry sector, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

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

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets within the Fund during the 3 years to 31 March 2013, in consultation with the Fund's advisors. These movements in market prices have been judged as possible for the 2013/14 reporting period. The analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. It should be noted that the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund. Only assets affected by market prices have been included. For 2013 the volatility figure at Total Assets level incorporates the impact of correlation across the asset classes which means the Total Assets increase /decrease is not the sum of the parts.

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	560,825	13.1%	634,293	487,357
Overseas Equities	1,243,081	12.9%	1,403,438	1,082,723
Global inc UK	196,608	12.6%	221,341	171,875
UK Bonds	317,892	6.7%	339,032	296,752
Overseas Bonds	81,487	7.6%	87,680	75,294
Index Linked Gilts	209,876	8.3%	227,317	192,435
Property	222,341	1.4%	225,521	219,162
Alternatives	221,147	3.6%	229,042	213,252
Total Assets	**3,053,257**	**7.6%**	**3,284,083**	**2,822,431**

The analysis for the year ending 31 March 2012 is shown below:

Asset Type	Value (£'000)	% Change	Value on Increase £'000	Value on Decrease £'000
UK Equities	531,761	15.6%	614,716	448,806
Overseas Equities	1,095,720	14.5%	1,254,600	936,840
Total Bonds	451,340	6.8%	482,031	420,649
Index Linked Gilts	189,658	7.8%	204,451	174,865
Property	196,951	3.3%	203,450	190,452
Alternatives	213,571	3.8%	221,687	205,455
Total Assets	**2,679,001**		**2,980,935**	**2,377,067**

The correlation between asset classes across the Total Asset level was not available for the year ending 31 March 2012.

Interest Rate Risk

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

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

	31 March 2013 £'000	31 March 2012 £'000
Cash and Cash Equivalents	85,895	76,595
Fixed Interest Assets	609,255	640,998
Total	**695,150**	**717,593**

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2013 of a 1% change in interest rates (or 100 basis points (bps)). The analysis assumes that all other variables including foreign currency exchange rates remain the same.

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

	Value	Change in net assets	
As at 31 March 2013	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	85,895	-	-
Fixed Interest	609,255	(83,651)	83,651
Total	**695,150**	**(83,651)**	**83,651**

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

The same analysis for the year ending 31 March 2012 is shown below:

		Change in net assets	
	Value	+100 bps	-100 bps
As at 31 March 2012	£'000	£'000	£'000
Cash and Cash Equivalents	76,595	-	-
Fixed Interest	640,998	(76,407)	76,407
Total	**717,593**	**(76,407)**	**76,407**

Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund’s equity portfolio is invested in overseas stocks. To reduce the volatility associated with fluctuating currency prices the Fund dynamically hedges its exposure to the US Dollar, Yen and Euro. The Fund invests in the Fund of Hedge Funds' Sterling share classes which effectively eliminates currency gains and losses from the investment gains and losses.

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

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

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2013 £'000	Asset value as at 31 March 2012 £'000
Overseas Equities	1,384,728	1,095,720
Overseas Fixed Income	81,487	77,934
Overseas Property	95,729	70,333

Currency Risk - Sensitivity Analysis

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

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2013 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	**Value (£'000)**	**% Change**	**Value on Increase**	**Value on Decrease**
Overseas Equities	1,384,728	2.6%	1,420,836	1,348,620
Overseas Fixed Income	81,487	2.7%	83,655	79,319
Overseas Property	95,729	5.5%	101,005	90,453

The same analysis for the year ending 31 March 2012 is shown below:

Currency Risk by Asset Type:

Asset Type	**Value (£)**	**% Change**	**Value on Increase £'000**	**Value on Decrease £'000**
Overseas Equities	1,095,720	4.7%	1,147,054	1,044,386
Overseas Fixed Interest	77,934	4.7%	81,585	74,283
Overseas Property	70,333	4.7%	73,628	67,038

(b) Credit Risk

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

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

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

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default). Through the UK Gilt and Index Linked portfolios the Fund has significant credit exposure to the UK Government, whose credit rating was downgraded during the year.

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2013 was £18.5m. This was held with the following institutions:

	31 March 2013		**31 March 2012**	
	Rating	**£'000**	**Rating**	**£'000**
Custodian's Liquidity Fund				
Bank of New York Mellon	AA-	10,058	AAA	7,357
Bank Call Accounts				
Barclays Platinum Account	A	1,000	A	3,000
Bank of Scotland Corporate Deposit Account	A	2,500	A	3,000
RBS Global Treasury Fund	AAA	4,880	AAA	-
NatWest Special Interest Bearing Account	A-	-	A	1,020
Bank Current Accounts				
NatWest	A-	17	A	14

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

(c) Liquidity Risk

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

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liability of the Fund is the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2013 the value of the illiquid assets was £443m, which represented 14.1% of the total Fund assets (31 March 2012: £140m which represented 14.9% of the total Fund assets).

(d) Fair Value Hierarchy

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

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

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

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

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

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

Level 1 – Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. These include active listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.

Therefore in the analysis below, Level 1 includes quoted equities and government securities but excludes pooled funds that invest in these securities.

Level 2 - Financial instruments at Level 2 are those where quoted market prices are not available; for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where those techniques use inputs that are based significantly on observable market data. Therefore in the analysis below, Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities. The Fund's holding in these pooled funds can be realised at net asset value.

Level 3 – Financial instruments at Level 3 are those where at least one input that could have a significant effect on the valuation is not based on marketable data.

Such instruments would include unquoted equity, property and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. Therefore in the analysis below, Level 3 includes pooled funds such as the property funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2013.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	495,979			495,979
Bonds - Quoted	319,550			319,550
Pooled Investment Vehicles		1,794,239		1,794,239
Fund of Hedge Funds			221,147	221,147
Property			222,341	222,341
Cash	85,895			85,895
Derivatives: Forward FX	-2,911			-2,911
Derivatives: Futures	-226			-226
Investment Debtors /Creditors	-638			-638
	897,649	1,794,239	443,488	3,135,376

The fair value hierarchy as at 31 March 2012 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities - Quoted	390,015			390,015
Bonds - Quoted	294,578			294,578
Pooled Investment Vehicles		1,582,642		1,582,642
Fund of Hedge Funds			213,571	213,571
Property			196,951	196,951
Cash	76,595			76,595
Derivatives: Forward FX	441			441
Derivatives: Futures	-514			-514
Investment Debtors /Creditors	3,086			3,086
	764,201	1,582,642	410,522	2,757,365

The 31 March 2012 table has been restated into 31 March 2013 format separating Derivatives and Investment Debtors/Creditors.

26, EMPLOYING BODIES

As at 31 March 2013 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Scheduled Bodies: *Principal Councils and Service Providers*	
Avon Fire Brigade	North Somerset Council
Bath & North East Somerset Council	South Gloucestershire Council
Bristol City Council	
Scheduled Bodies: *Education Establishments*	
Abbeywood Community School Academy	Heron's Moor Community School
Academy of Trinity C of E	Illminster Avenue E – Act Academy
Backwell School	Kings Oak Academy
Bannerman Road Community Academy	Little Mead Primary School
Bath Community Academy	Merchant's Academy
Bath Spa University	Midsomer Norton Schools Partnership
Bedminster Down School Academy	Minerva Primary Academy
Beechen Cliff School Academy	Nailsea School Academy
Begbrook Academy	Norton Radstock College
Bridge Learning Campus Foundation	Oasis Academy Bank Leaze
Bristol Church Academies Trust	Oasis Academy Brightstowe
Bristol Cathedral Choir School	Oasis Academy John Williams
Bristol Free School Trust	Oasis Academy Connaught
Broadlands Academy	Oasis Academy New Oak
Broadoak Mathematic & Computing College	Oldfield School Academy Trust
Cabot Learning Federation	Olympus Trust
Castle School Education Trust	One World Learning Trust
Chew Stoke Church School	Orchard Academy
Christ Church C of E Primary School	Parson Street Primary School
Churchill Academy & Sixth Form	Priory Community School Academy
City of Bath College	Ralph Allen Academy
City of Bristol College	Redland Green School Academy
Clevedon School Academy	South Gloucestershire and Stroud College
Colston Girl's School Trust	St Bede's School Academy
Colston's Primary School Academy	St. Brendan's College
Cotham School Academy	St. Nicholas of Tolentine Catholic Primary School
The Dolphin Academy	St. Patrick's Academy
Downend School	St. Teresa's Catholic Primary School
EACT (St Ursula's Academy)	Summerhill Academy
Elmlea Junior School Academy	Trust in Learning
Filton Avenue Infants Academy	University of the West of England
Fosseway Special School	Waycroft School Academy
Frome Vale Academy	Wellsway School Academy
Gordano School Academy	West Town Lane Primary School
Greenfield Primary School Academy	Westbury Park Primary School Academy
Hans Price Academy	Westbury-on-Trym C of E Academy
Hareclive Academy	Weston College
Hayesfield Girl's School Academy	Winterbourne International Academy
Henbury School Academy	Writhlington School Academy
Henleaze Junior School Academy	Yate International Academy

Designating Bodies	
Almondsbury Parish Council	Offender Learning Services
Backwell Parish Council	Oldland Parish Council
Bath Tourism Plus	Patchway Town Council
Bradley Stoke Town Council	Paulton Parish Council
Charter Trustees of the City of Bath	Peasedown St John Parish Council
Clevedon Town Council	Portishead Town Council
Destination Bristol	Radstock Town Council
Dodington Parish Council	Saltford Parish Council
Downend & Bromley Heath Parish Council	Stoke Gifford Parish Council
Easton in Gordano Parish Council	Thornbury Town Council
Filton Town Council	Vista SWP Ltd
Frampton Cotterell Parish Council	Westerleigh Parish Council
Hanham Parish Council	Westfield Parish Council
Hanham Abbots Parish Council	Weston-Super-Mare Town Council
Keynsham Town Council	Whitchurch Parish Council
Mangotsfield Rural Parish Council	Winterbourne Parish Council
Midsomer Norton Town Council	Yatton Parish Council
Nailsea Town Council	Yate Town Council
Admitted Bodies	
Active Community Engagement Ltd *	ISS Mediclean Ltd *
Agilisys *	Keeping Kids Company *
Agincare Ltd *	Keir Facilities Services Ltd *
Alliance Homes	Liberata UK Limited *
Aquaterra Leisure *	Learning Partnership West (CAB)
Aramark Ltd *	Learning Partnership West Ltd *
Ashley House Hostel	Merlin Housing Society Ltd
BAM Construct UK Ltd *	Mouchel Business Services Ltd *
Bath &NE Somerset Racial Equality Council	The Park Community Trust
Bristol Disability Equality Forum	Quadron Services Ltd*
Bristol Drugs Project *	Tone Leisure Trust *
Bespoke Cleaning Services Ltd *	Off The Record Bath & Nrth East Somerset
Bristol Music Trust	Prospect Services Ltd *
The Brandon Trust *	Shaw Healthcare (North Somerset) Ltd*
The Care Quality Commission	Sirona Care & Health CIC
Cater Link *	SITA Holdings UK Ltd. *
Centre For Deaf People	Skanska Rashleigh Westerfoil*
Churchill Contract Services Ltd *	SLM Community Leisure *
Circadian Trust *	SLM Fitness and Health *
Clifton Suspension Bridge Trust	Sodexo Ltd *
Creative Youth Networks *	Southern Brooks Community Partnership
CT Plus (CIC) *	Southwest Grid for Learning Trust
Curo Group	University of Bath
Direct Cleaning (SW) Ltd *	UPP Residential Services Ltd *
Eden Food Services *	Vision North Somerset
English Landscapes*	West of England Sports Trust
Holburne Museum of Art	
*Transferee Admission Body: A body that provides, by means of contract, a service in connection with the exercise of a function of a scheme employer.	

The Audit Findings for Avon Pension Fund

Year ended 31 March 2013

12th September 2013

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of Avon Pension Fund's ('the Fund') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

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

Introduction

In the conduct of our audit we have not had to make any substantive changes to our audit plan, which we communicated to you at the meeting of the Corporate Audit Committee on May 20th 2013.

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

- review of the pension fund annual report for consistency with the statement of accounts;
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

For audits with assets in excess of £1 billion we undertake an additional peer review, this is done at the end of the audit and is still to be completed.

We received draft financial statements and accompanying working papers at the start of our audit.

Key audit and financial reporting issues

Financial statements opinion

We have identified one adjustment affecting the fund's financial position. A creditor to HMRC had not been set up for £1.3m. This reduces the overall fund balance by this amount. We have made a number of recommendations to improve the presentation of the financial statements.

We anticipate providing an unqualified opinion on the Fund's financial statements.

Acknowledgement

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

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Corporate Audit Committee on 20th May 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any substantive changes to our Audit Plan as previously communicated to you, although admin expenses and investment management expenses were substantively tested as they were subsequently assessed as material when the accounts were received.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment **Income** **Profit and loss on disposal of investments and changes in the value of investments**	Investments not valid Investments activity not valid Fair value measurement not correct	• We reviewed the reconciliation between information provided by the fund managers, the custodian and the pension fund's own records and sought explanations for any variances. • We tested valuations, sales and purchases during the year to supporting information.	Our audit work has not identified any issues.
Pensions payable	Benefits improperly computed / claims liability understated	• We tested a sample of individual transfers, pensions in payment , lump sum benefits by reference to the member files. This testing was designed to ensure that all the appropriate documentation is correctly filed and internal control procedures operated by Avon Pension Fund have been followed. • We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained. • The movements on membership statistics will also be compared to transactions in the accounting records	Our audit work has not identified any issues.
Contributions receivable	Recorded contributions not correct	• We tested controls the pension fund operates to ensure that it receives all expected contributions from member bodies. • We rationalised contributions received by reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. • We liaised with the auditors of a sample of admitted bodies to confirm deductions were correctly made on their respective payroll systems.	We agreed contributions to signed returns from admitted bodies confirming contributions, LGPS 50 forms.

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Investment income: dividends and interest have been accounted for on an accruals basis. Income on pooled investments is accumulated and reflected in the valuation of units. • Except where otherwise stated the account are prepared on an accruals basis. Contributions are therefore on an accruals basis.	• The policies are in line with expectations and adequately explained. • The application of the accounting policies requires limited judgement.	●
Judgements and estimates	• Key estimates and judgements include: – pension fund valuations; and – investment valuation are at bid price or net asset value quoted by the fund manager.	• The policies are in line with expectations and adequately explained. • We have reviewed the work of the Fund's actuary by reference to the work of an independent expert and concluded their assumptions are reasonable. We note the actuary has changed some of his estimates, although this is not recorded in the accounts.	●
Other accounting policies	• The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting	• We have reviewed the Fund's policies against the requirements of the Code of Practice on Local Authority Accounting and do not have any comments to make.	●

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Assessment

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

Misstatements, misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit. In addition a number of transposition errors were amended.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misstatement	1,310	Creditors	Omission of amount owed to HMRC in respect of March 2013 pensions payment run. Corresponding reduction in the net assets of the Fund.
2	Disclosure	N/A	Note 2 membership numbers	There are 2,126 members who are currently not referred to in note 2 analysing the pension fund member. These are people who are due refunds of contributions. Pension fund officers have not been able to assess the liability relating to these people.
3	Disclosure	N/A	Note 17	The note disclosing the actuarial present value of the promised retirement benefits should be more explicitly linked to the notes detailing the asset values and funding levels.
4	Disclosure	4,374	Note 20	The note relating to additional voluntary contributions does not state that the related assets are not included in the pension fund.
5	Disclosure	29	Note 8	The 2012/13 audit fee is £28,804, not £19,000 as initially disclosed.
6	Disclosure	N/A	Note 24	The note has been adjusted to include cash holdings within investment assets, the related policy for valuing payables and receivables has been disclosed.

Unadjusted disclosure items

The table below provides details of disclosure issues identified during the audit which have not been amended but which will be considered for future years.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	N/A	Note 25	Note 25 includes an analysis of the currency hedging. IFRS 7requires the analysis to be at the year end. The Fund uses dynamic hedging. Officers know the level of hedging at the year-end but cannot calculate the impact that it has on currency volatility at the year- end which is what is being portrayed in the risk analysis
2	Disclosure	N/A	Note 13 Single investments over 5% of Asset Class	The accounts include the disclosure of large holdings, over 5% of the total assets, but not those over 5% in each class as required by the accounts Code. Officers felt disclosing everything over 5% in each class would lead to a large number of potentially small investments being disclosed.

Internal control

- The purpose of an audit is to express an opinion on the financial statements.
- Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- We have not identified any important control deficiencies during the audit , though there are two system access issues which are reported below for completeness.
- The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient merit to report to you in accordance with auditing standards.
- These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	Agresso and pension system folder access rights management The review established that access rights for folders used to store Agresso and pension system interface data are not adequately controlled. Interface data is sent via email and stored in an 'editable' mode in these folders, meaning there is a possibility of alteration of the interface information/data. There is a risk of unauthorised alteration of interface data hence compromising the integrity of information held in Agresso.	A review should be done of those who have access to interface folders. A form should be developed and used to document and evidence approval of folder access variations. This will help to ensure that only authorised users have access to interface folder. Interface data should be sent via secure protocol and encrypted to prevent unauthorised access or alteration.
2.	●	User access rights. No formal user access rights reviews are performed for the pension application to ensure that only authorised staff have access to the application, and the levels of access granted is appropriate for their roles and responsibilities. If user access is not reviewed by management on a periodic basis, there is a risk that leavers and unauthorised users may continue to have access to the Council's systems and data. The level of access provided may be disproportionate to roles and responsibilities.	Management should consider implementing a process to review user access rights on a periodic basis to ensure that only authorised users have access to pension applications and the levels of access granted is appropriate for their roles and responsibilities.

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Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Corporate Audit Committee and not been made aware of issues.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Fund. We will seek also a representation that the liability relating to 'unallocated members', being those due refunds, is not material.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and **confirm there were no fees for the provision of non audit services**.

Fees

	Per Audit plan £	Actual fees £
Fund audit	28,804	28,804

Independence and ethics

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

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

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Appendices

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Note 13 should be expanded to include all investments over 5% of asset class.	L		
	Additional disclosures should be included in the accounts covering: • Membership information • AVC's • Explaining the link between promised retirement benefits and funding levels.	L		
	The actuary has changed some of his estimates, the changes should be recorded in the accounts.	L		
	A review should be done of those who have access to interface folders. A form should be developed and used to document and evidence approval of folder access variations. This will help to ensure that only authorised users have access to interface folder. Interface data should be sent via secure protocol and encrypted to prevent unauthorised access or alteration.	M		
	Management should consider implementing a process to review user access rights on a periodic basis to ensure that only authorised users have access to pension applications and the levels of access granted is appropriate for their roles and responsibilities.	M		
	The audit fee should be correctly disclosed.	L		

Appendix B: Audit opinion

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

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Avon Pension Fund included in the accounts of Bath and North East Somerset Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

Respective responsibilities of the Divisional Director Finance and auditor

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

Scope of the audit of the pension fund financial statements

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

Opinion on other matters

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

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

• give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013 and

• have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Stephen Malyn
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
55-61 Victoria Street
Bristol BS1 6FT

September 2013

Draft opinion for inclusion in annual report

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Avon Pension Fund included in the accounts of Bath and North East Somerset Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

Respective responsibilities of the Divisional Director Finance and auditor

As explained more fully in the Statement of the Divisional Director Finance's Responsibilities, the Divisional Director Finance is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

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

Opinion on other matters

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

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

• give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and

• have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Stephen Malyn
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton UK LLP
55-61 Victoria Street
Bristol BS1 6FT
September 2013

grant-thornton.co.uk

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Bath & North East Somerset Council

lgps

INVESTOR IN PEOPLE

AVON PENSION FUND

Avon Pension Fund

Annual Report 2012/2013

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Contents

Avon Pension Fund Annual Report 2012/13

This year's report features photographs of iconic buildings from the Avon area.

Chairman's Foreword

"The Fund has successfully begun to roll out its IT initiative to increase the electronic delivery of member data from employers to the Fund as set out in the Administration Strategy."

Paul Fox

Chairman, Avon Pension Fund Committee

As Chairman of the Avon Pension Fund Committee, I am pleased to present the Fund's Annual Report and Financial Statement for the year ended 31 March 2013.

It has been a year of notable progress. The Fund has successfully begun to roll out its IT initiative to increase the electronic delivery of member data from employers to the Fund as set out in the Administration Strategy. Aligned with this, the benefits administration team has been restructured to give clear focus to the accuracy and quality of pension data, ahead of stricter compliance requirements from 2015. In March the Committee concluded its review of the investment strategy and agreed a new strategy to generate the investment returns required in, what we believe will remain, volatile markets. Lastly, the Fund's assets rose 13.8% but despite this strong performance it was not enough to offset the rise in the value of the liabilities (due to further falls in gilt yields) as the funding level was estimated have fallen to 1% to 69% at the end of the year.

This was all achieved against a demanding operational background as the Fund assisted employers preparing for the introduction of auto-enrolment, dealt with the large number of new employers (mainly academies) and responded to numerous consultations from the government about impending changes to the scheme.

Much of the structure of the new scheme has been agreed but detailed technical regulations are still in draft form. The consultation on changes to governance arrangements has yet to happen; but the new arrangements will not be in place until 2015 at the earliest. The objective is to strengthen the governance of LGPS funds by having greater national oversight and setting of best practice and standards. The Committee will need to be assured that the new arrangements do not generate "governance overload" and that there is not a duplication of roles and responsibilities. There is also debate about the optimum size for a LGPS fund in terms of costs and value for money and further consultations on this issue are expected in the next year.

Therefore we look forward to a busy couple of years with the outcome of the 2013 triennial valuation as well as the introduction of the 2014 scheme in the immediate spotlight. However, the Fund is well resourced to manage the work these projects will entail.

In the meantime I would like to thank the staff at the Avon Pension Fund for their contribution towards delivering an excellent service throughout the year.

Paul Fox

Chairman, Avon Pension Fund Committee

Review of the Year

LGPS 2014

This year has seen Employers and Unions put forward joint proposals for the benefit structure of the new LGPS 2014. The Department for Communities and Local Government (DCLG) have issued draft regulations based on the core elements as well as draft transitional regulations covering protections for existing benefits accrued up to 31 March 2014. The Public Sector Pensions Act was finally passed in April 2013 having spent several months of 2012/13 going through the Parliamentary process which has delayed parts of the LGPS 2014 concerning governance and cost sharing. As a result, any draft regulations have been delayed and the actual regulations on these aspects of the scheme may arrive after April 2014.

The changes from the current LGPS are:

- A pension scheme design based on career average and actual pay
- An accrual rate of 1/49th of pensionable earnings each year
- Revaluation of active members' benefits in line with a price index (currently Consumer Prices Index)
- A Normal Pension Age equal to the State Pension Age, which applies both to active members and deferred members (new scheme service only). If a member's State Pension Age rises, then Normal Pension Age will do so too for all post-2014 service
- A low cost optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate
- Average member contribution yield of 6.5%, with tiered contributions
- Early/late retirement from age 55 without requiring employer's consent (there will be a reduction in benefits for early retirement)
- Reverting the vesting period back to two years from the current three months (the earliest period at which benefits must be paid instead of refund)

Auto-enrolment

Under the Government's auto-enrolment legislation, employers must automatically admit into a 'qualifying pension scheme' all new starters and periodically admit all those who have previously opted out.

In October 2012, employer staging dates for auto-enrolment started and some of the smaller employers within the Fund, who are part of much larger companies, were amongst the first to go through this exercise. The staging dates for the larger employers, including the four unitary local authorities, came into operation from March 2013. The full impact of auto-enrolment on the Fund will be monitored during the current year.

Administration Strategy

During the year significant progress was made within the Administration Strategy, especially in respect of rolling out new electronic facilities for employers to send member data to the Fund (namely Employer Self Service and i-Connect) and the creation of a Data Quality Control Team to strengthen the focus on accuracy and timeliness of data. The effect of these initiatives is that the quality and accuracy of the data held by the Fund is already improving and they have assisted the Fund and employers in managing the additional work arising from auto-enrolment and in the future, the 2014 scheme, within resource constraints.

The introduction of these initiatives was timely given the significant increase in employers in the year. The fragmentation of the employer base, mainly due to the creation of academies, continues to increase the administrative burden and resource required to deliver a high quality service to members and employers alike.

Fund Performance and Investment Strategy

Fund assets increased by £378 million (or 13.8%) during the year to £3.13 billion at 31 March 2013. Performance was driven largely by strong returns across equity markets and to a lesser extent fixed income assets. Over the last five years the Fund's return of 7.2% per annum is ahead of the return assumed in the funding strategy. During the year the Fund outperformed its Fund benchmark due to both asset allocation and the investment managers outperforming their benchmarks in aggregate.

This year's performance was again achieved against a background of volatile investment markets as western economies continued to adopt restrictive fiscal policies, the euro crisis remained unresolved and the slowdown in global growth began to affect the prospects for growth in the emerging economies.

In March 2013 the Committee reviewed the investment strategy with an objective to increase dynamic asset allocation and diversification within the long term strategy. As a result the Fund agreed new allocations to diversified growth funds and infrastructure. In addition, within the equity portfolio the allocation to emerging markets will be increased given the expectation of stronger economic growth and higher investment returns in the medium to longer term from these markets.

Funding Level

Despite the positive investment performance, the funding level declined very slightly to an estimated 69% from 70% a year earlier as the value of liabilities increased more than the value of the assets (despite the investment returns exceeding the return assumed in the valuation).

The continued upward pressure on the value of liabilities is driven by a combination of low bond yields and high inflation (compared to the level of bond yields). Fortunately, since the year end bond yields have risen slightly as expectations for the end of quantitative easing are brought forward. Obviously a rise in bond yields could undermine equity markets; however, the Fund's liabilities are far more sensitive to changes in bond yields and therefore a rise in bond yields should overall have a positive impact on the funding level.

The 2013 valuation will reflect market prices as at 31 March 2013. The funding level at the 2010 valuation was 82% and as a consequence, employer contributions will have to rise to fund the larger deficit. The actuary will advise the Fund accordingly as to how the increases can be managed to take account of the funding pressures facing the scheme employers.

Fund Governance

The governance of the Avon Pension Fund at the local level was altered during the year to take account of the changes to the investment strategy. The Committee has delegated specific powers to the Investment Panel to permit speedier decision making regarding performance issues and tactical asset allocation. The Committee remain responsible for all strategic investment decisions.

At the national level the future governance arrangements are beginning to take shape following the introduction of the Public Sector Pensions Act during the year. A national LGPS Board will be established to set standards and best practice for local funds. In addition The Pensions Regulator will have a role in monitoring compliance with Disclosure and Data Protection regulations. The full implications for local LGPS funds are yet to be confirmed and full consultation is expected in late 2013/14.

Other Technical Issues during the Year

Changes to Scheme Factors (change of Discount rate)

As reported last year, the Government changed the discount rate which, although primarily used by the unfunded public sector pension schemes, did have implications for LGPS. The Government Actuary's Department issued revised guidance and factors last year for a number of LGPS calculations. In addition this year further revisions to factors have been made including, in early March 2013, some for Additional Regular Contribution payments which required immediate decisions by members before implementation in the April payrolls. The lateness of such notifications and the implications has been lodged with DCLG for consideration when the new scheme factor requirements are established.

LGPS Miscellaneous Regulations 2012

These miscellaneous regulations were made to address existing problem areas and necessary changes due to amendments in other legislation. To fall into line with auto enrolment requirements all employees with a contract of less than three months now have the option to join the LGPS.

There were also some adjustments affecting ill health retirements. Regulation 30 (early payment of deferred benefits) requires employers to have a discretionary policy in place for allowing payment. Newly introduced regulation 30A requires a similar policy for members with suspended 3rd tier ill health benefits. This policy was required to be put in place by 31 March 2013. Where a deferred member applies for early payment and their former scheme Employer no longer functions as such, consent now lies with the appropriate administering authority.

Changes were made to the requirements for setting up admission agreements. The administering authority has expressed some concern over the operational aspects of this change and these concerns have yet to be addressed in the latest draft of these regulations.

Further HMRC changes

HMRC reduced Annual Allowance from £255,000 to £50,000 for the tax year 2011/12. This level was further reduced in the Autumn Statement to £40,000 from the tax year 2014/15. Regulations for 'Scheme Pays' were made to allow a member to elect for any tax payment due that exceeds £2000 in respect of the Annual Allowance to be paid by the Scheme and subsequently deducted off pension benefits at retirement.

The Government has also reduced the HMRC Lifetime Allowance from £1.8m to £1.5m from 6 April 2012. This level will also be reduced in 2014/15 to £1.25m.

Whilst these changes at present only affect a small number of members, there are administrative checks that need to be made at year end and for retirements.

Governance & Management Structure as at 31 March 2013

Administering Authority:

Bath & North East Somerset Council

Members of the Avon Pension Fund Committee:

Councillor Paul Fox (Chair)
Bath & North East Somerset Council

Councillor Gabriel Batt
Bath & North East Somerset Council

Ann Berresford
Independent Trustee

Councillor Mary Blatchford
North Somerset Council

Councillor Nicholas Coombes
Bath & North East Somerset Council

Councillor Mike Drew
South Gloucestershire Council

Carolan Dobson
Independent Trustee

Councillor Charles Gerrish
Bath & North East Somerset Council

Councillor Katie Hall
Bath & North East Somerset Council

Richard Orton
Unison

Bill Marshall[1]
University of the West of England

William Liew[2]
University of the West of England

Councillor Mark Wright
Bristol City Council

Non - Voting Members:

Clive Fricker
Parish & Town Councils

Rowena Hayward
GMB

Steve Paines
Unite the Union

Paul Shiner
Unite the Union

Independent Investment Advisor:

Tony Earnshaw

Council Officers:

Tim Richens
Director of Business Support

Tony Bartlett
Head of Business Finance & Pensions

Liz Woodyard
Investments Manager

Steve McMillan
Pensions Manager

Vernon Hitchman
Divisional Director
(Legal and Democratic Services)

Notes:
[1]Bill Marshall resigned from the Committee In December 2012
[2]William Liew joined the committee from January 2013

Investment Managers:

Actuary:

Legal Advisor:

Bankers:

AVC Providers:

Investment Consultant:

Global Custodian:

Fund Governance

Avon Pension Fund Committee

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

The Avon Pension Fund Committee (the "Committee") is responsible for the following:

- *Determining the investment strategy and strategic asset allocation, the funding strategy and the administration and communications strategies.*
- *Management of the Fund's investments in line with the strategic policy.*
- *Monitoring the performance of investments, investment managers, scheme administration, and external advisors.*
- *Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.*
- *Approving the Pension Fund's Statement of Accounts and annual report.*
- *Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.*
- *Considering requests from organisations wishing to join the Fund as admitted bodies.*
- *Making representations to government as appropriate concerning any proposed changes to the Local Government Pension Scheme.*

Table 1: Committee Structure

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

The Committee structure is shown in Table 1. The Committee membership as at 31 March 2013 is set out on page 5.

The Committee meets formally each quarter and an additional Special Committee meeting was held in March 2013 to agree the revised investment strategy. In addition to the quarterly meetings, the Committee held three workshops during the year to discuss the Responsible Investing Policy and Investment Strategy in greater detail.

Investment Panel

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

The Panel is responsible for the following:

- *Reviewing strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.*
- *Reviewing the Statement of Investment Principles and submit to Committee for approval.*
- *Reporting regularly to Committee on the performance of investments and matters of strategic importance*

and have delegated authority to:

- *Approve and monitor tactical positions within strategic allocation ranges.*
- *Approve investments in emerging opportunities within strategic allocations.*
- *Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.*
- *Approve amendments to invest-*

Table 2: Committee Attendance Record

	Committee		Investment Panel	
	Meeting	Workshop	Meeting	Workshop
Number of Meetings during year	5	3	3	1
Voting Members				
Councillor Paul Fox (Chair)	5	2	N/A	N/A
Councillor Gabriel Batt	3	3	1	0
Ann Berresford	5	3	3	1
Councillor Mary Blatchford	5	3	3	1
Councillor Nicholas Coombes	5	3	3	1
Carolan Dobson	4	1	N/A	N/A
Councillor Mike Drew	1	3	N/A	N/A
Councillor Charles Gerrish	5	3	3	1
Councillor Katie Hall	4	3	N/A	N/A
Richard Orton	5	2	N/A	N/A
Bill Marshall [1]	3	2	N/A	N/A
William Liew [2]	2	N/A	1	0
Councillor Mark Wright	1	1	N/A	N/A
Non-voting members				
Clive Fricker	3	1	N/A	N/A
Rowena Hayward	1	0	N/A	N/A
Steve Paines	4	1	N/A	N/A
Paul Shiner	3	1	N/A	N/A

Notes:

[1] Bill Marshall, HE/FE Representative left the Committee in December 2012

[2] William Liew, HE/FE Representative joined the Committee in January 2013

ment mandates within existing return and risk parameters.

- *Monitor investment managers' investment performance and make decisions to terminate mandates on performance grounds.*
- *Delegate specific decisions to Officers as appropriate.*

Four meetings were held during the year followed by workshops to meet investment managers.

The attendance record for each Committee and Panel member is set out in Table 2.

Training

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

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

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

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

The training provided in 2012/13 is shown in Table 3.

Officers' annual performance review identifies any training needs as well as monitoring individual performance against objectives. The administering authority's approach is to ensure that the officers responsible for the management of the Fund possess, in aggregate, the skills and knowledge required for them to fulfil their role.

Governance Compliance Statement

The Fund is required under the regulations to publish a Governance Compliance Statement which demonstrates the extent to which the Fund complies with best practices in pension fund governance. The Fund's latest statement was approved by the Avon Pension Fund Committee in June 2013 following changes to the Terms of Reference for the Committee and Investment Panel to delegate specific powers to the Panel. The statement shows a high level of compliance with best practice and is summarised below in Table 4.

Copies of the latest Governance Compliance Statement can be obtained from the Fund's website www.avonpensionfund.org.uk

Table 3: Training provided in 2011/12

Topic	Delivered by:
Governance	
• Legal responsibility of Committee & Officers • Governance & assurance framework • Administration Strategy • Investment Regulations	• Committee reports monitoring administration performance of Fund and employers • Committee reports for audited accounts and governance • External conferences/training course
Employer and Funding risks	
• Admitted bodies • Employer risks • Funding level/solvency	• Committee reports cover funding position, employers risks and policy for recovering outstanding liabilities • Interim Actuarial Report & workshop
Investment Strategy	
• Asset Allocation • Performance monitoring • Investment manager monitoring • Stewardship activities • Responsible investing policy	• Quarterly Committee & Panel reports review investment strategy and performance • Workshop to review Responsible Investing Policy • Two workshops reviewing investment strategy • Annual report on voting activity • External conferences

Table 4: Governance Compliance

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

Risk Management

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

In establishing this governance structure, the Council is satisfied that there are adequate risk management processes in place to address the risks faced by the Fund. The Investment Panel strengthens the risk management process with regard to investment issues.

The Fund's approach to risk management is to manage risk rather than eliminate it entirely. The investment decision-making process, supported by expert advice, is designed to identify investment risks and act in a timely manner to ensure that these risks are kept to the minimum necessary to achieve the Fund's long term investment objectives. Internal controls and processes are in place to manage administration, financial and other operational risks.

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

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

Investment Risks

Investments by their very nature expose the Fund to varying degrees of risk. These include market, interest rate, foreign currency, credit and liquidity risks. The main tool for controlling these investment risks is the Strategic Investment Policy. Investment risk is managed through the diversification of assets, approaches to investment (for example passive investing or active investing) and managers.

The provision of expert advice is crucial to the decision-making and risk management processes. The Fund has appointed investment consultants to provide strategic investment advice as well as advising on managers' performance. Other expert or specialist advice (including tax and legal advice) is commissioned as required.

In addition, the Committee's level of knowledge of investments must be sufficient for advice to be challenged and understood. To facilitate this Committee members are required to undertake training in order to discharge their duties. In addition an Independent Investment Advisor supports the Committee and Investment Panel members. Their role is to ensure that all the relevant advice has been presented to the members and that all the issues have been fully considered and debated by the Committee and/or Panel.

Much of the investment management process is outsourced to investment managers and the global custodian. This arrangement provides a clear segregation of duties within the Fund, with the in-house Investments team closely monitoring compliance with regulations and mandates. The risks of the 3rd party suppliers are monitored by the Fund and the Internal Control Reports of all the service providers are reviewed annually and reported to Committee.

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

Actuarial Risks

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

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

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

Financial Risks

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

A key financial risk is the non-payment of contributions by employers. The regulations provide a sanction for late payments. Processes are in place to ensure that contributions are reconciled regularly and late payers are reported to the Committee.

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

Benefits Administration Risks

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

Business Continuity Plan

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

Risk Register

A summary of the significant material risks identified in the Pension Fund's Risk Register are shown in Table 5 below.

Table 5: Risk Register

Risk	Management action
The Fund fails to achieve investment returns sufficient to meet its liabilities.	Set a Fund specific benchmark which determines the appropriate risk adjusted return strategy to meet the liabilities. Fund performance and funding level monitored each quarter by Committee
Systems or lack of access to systems. This could result in potential loss of data, need to re-process data, fall in productivity, potential corruption of data, delay in payments of pensions.	Policies are in place with service providers to ensure continuity of service within agreed timeframe. Daily back-up of pension system. Rely on Council's system of control and firewalls to prevent virus attacks.
Non compliance with the Data Protection Act. Implications are that fines could be imposed, risk of criminal/ civil prosecutions, adverse publicity and data processing could be suspended.	The Fund is DP registered through the Administering Authority. Confidentiality Agreements are in place with third parties on restrictions on use of confidential member data.
Insolvency of Participating Employers in the Fund without sufficient monetary guarantees or bonds to make good their outstanding liability. Such liabilities will be absorbed by the Fund and spread across other employers.	Ongoing monitoring of financial standing of all admitted bodies. Where identified, consider options for obtaining stronger guarantee or greater protection through use of contingent assets.
Lack of continuity within Committee which arises because most members face re-election simultaneously.	Appointed two independent members to the Committee (independent from the administering authority, scheme employers and unions). Provide training for new Committee members and ongoing training so that they can discharge their duties effectively.

Pension Administration

Pensions Administration Strategy

The Pension Administration Strategy ("the strategy") came into effect from 1 April 2011. It sets out the Fund's policy for administering the Fund, the standard of service to be delivered and the Fund's requirements of the employers. It identifies milestones for service delivery and improvements required by all parties.

The introduction of the strategy will ensure the Fund can continue to deliver a high quality pension service at a time when the operating environment is becoming more complex: the employer base has fragmented (especially with the creation of academies) and a new scheme will be introduced from 2014. Table 6 below shows how the Fund's employer and membership base has changed over time.

The primary objective of the strategy is to promote more effective working arrangements between the Fund and employers in order to meet future challenges and deliver a high quality level of service to members. Key elements are the improvement of communications between employers and the Fund, training of both Fund staff and pension staff at the employers and the utilisation of technology as effectively as possible to capture and process data.

The strategy incorporates performance targets for both the Fund and employers which are set out in Service Level Agreements (SLAs). Performance against targets are published in quarterly Stewardship Reports which are considered at regular review meetings with employers. In addition, performance is monitored quarterly by the Committee.

The impact of the strategy is already beginning to show, as evidenced by the 2012/13 year end exercise; data was more accurate and there was greater compliance with deadlines by employers. The strategy will be reviewed in 2013/14 to evaluate its impact and revise the forward looking objectives.

Greater use of Technology

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

Pensions software developments:

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

Employer Self Service ("ESS")

The web based self service access for employers was launched in October 2011 and most employers have now signed up. This facility allows employers to carry out calculations for retirement cases and, in the case of redundancy or efficiency, to calculate the Strain on the Fund costs.

ESS has an interactive facility and over time all employers will input member data changes via ESS for automatic upload to the pension member database. This has been rolled out to the larger employers; however smaller employers with a low level of traffic on member changes will be phased in as they need to use the system.

Member Self Service ("MSS")

The web based member self service facility introduced in 2010 allows members' access to their personal pension information with the facility to perform "*what if*" calculations. There are now 4,220 registered members representing 3.9% of available membership. Development of this facility and encouraging greater take-up by members forms part of the work programme for the next couple of years.

Table 6: Employer & Membership Size 1999-2013

	1999/2000	2004/05	2009/10	2012/13
Active Members	31,746	34,144	34,800	33,561
Deferred Members	9,996	15,970	24,544	31,721
Pensioners	15,728	17,292	21,313	24,545
Total Membership	**57,470**	**67,406**	**80,657**	**89,827**
Employers	50	66	102	174

Auto-enrolment / i-Connect

In 2011 the government introduced "*Workplace Pensions*" which require employers to auto-enrol eligible employees into a qualifying pension scheme. The LGPS is a qualifying scheme for auto-enrolment. Under the regulations employees who have contracts of employment are already automatically contractually enrolled into the LGPS so there will be fewer employees that will need to be auto-enrolled. Auto-enrolment is the employer's responsibility. They need to monitor their work force to identify employees who must be auto-enrolled. Each employer has a staging (or start date) according to its size.The first employers in the Fund started this process in early 2013.

The Fund has introduced a payroll software package "i-Connect" to assist with auto-enrolment. i-Connect will monitor the employer's payroll, identifying employees who need to be auto- enrolled into the LGPS in each pay period and create a payroll extract. i-Connect has been developed by Heywood and the payroll extract will automatically update the pensions administration system on a monthly basis. i-Connect has only been made available to the largest employers within the Fund as the cost of developing the required interface with the employer's payroll system is prohibitive for smaller employers. This represents a major advance for the Fund. As well as assisting with auto-enrolment, it will provide more timely, accurate member information from the employers representing the majority of the Fund's active members. In addition ESS will enable a more efficient flow of data from the medium and smaller employers.

The introduction of i-Connect and ESS will mean that by April 2014 all employers will be expected to send all member data changes electronically.

Electronic delivery to members

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

Pensioners 'Newsletters

The pensioner newsletter in 2013 was produced internally. Options for future pensioner newsletters are being considered including collaborating with other local government funds on a generic pensioner newsletter.

Table 7: Performance Indicators 2012-13

Performance Indicator	LGPC Standard Target	Fund achieved against target %	CIPFA Club average %
Letter detailing transfer in quote	10 days	83	88
Letter detailing transfer out quote	10 days	81	90
Process and pay refund	5 days	65	87
Letter notifying estimates of retirement benefits	10 days	96	91
Letter notifying actual retirement benefits	5 days	71	90
Initial Letter acknowledging death of member	5 days	N/A	N/A
Letter notifying amount of dependant's benefits	5 days	84	86
Calculate and notify deferred benefits	10 days	75	82

Active Members' Newsletters

Newsletters are still posted to individual members. With the MSS facility now available, in the future the Fund intends to distribute newsletters electronically where possible. As legislation allows information to be distributed electronically, a campaign is planned for 2014 to promote MSS and encourage as many members as possible to sign up to receive information electronically.

Website

The Fund has had its own dedicated pension website for over 10 years and this is now a major source of information for members and employers. The site has been significantly improved in recent years and has separate sections for each category of membership. A separate Employers' website was launched in April 2013, providing interactive facilities.

The number of website 'hits' increased during the year demonstrating member's and media interest in pensions, prompted largely by the announcement of the new scheme from April 2014.

Performance Indicators

The Fund takes part in the annual Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Administration Benchmarking Club. This compares administration costs and performance indicators against other participating LGPS funds (over 52 of the 99 local funds) and against a group of funds of similar size. The results are used to identify areas for improvement in the Service Plan, to understand the specific service pressures that the Fund faces and to help the Fund operate as efficiently and effectively as possible. In addition it provides an indication of relative operational costs. This year's report identifies the cost per member for the Fund as £17.34 compared to £17.80 last year. This is significantly less than the cost for the average fund which is £21.4 per member.

The Fund's own performance targets are set out in the SLAs it has in place with employers, that cover over 80% of the active membership. In many cases these targets are more challenging than the industry standard. Regular SLA review meetings are held with these employers to review each parties' performance.

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

Table 7 shows the Fund's performance in meeting LGPC standard targets compared to the Club average.

Key Staffing Indicators

The administration of the Fund is provided by Bath & North East Somerset Council. The pensions service is split into three areas, Investment & Accounting, Benefits Administration and Systems Support & Pension Payments. An organisation chart is available on the Fund website.

The total number of staff in the pensions service was 39.3 in 2012/13. Of these 17.7 are involved in benefits administration a reduction on the previous year. Table 8 below is an analysis of staff based data from the CIPFA Benchmarking Club 2012 Report. This shows the average number of members dealt with by each of the Benefits Team staff increased by 15% to over 5,000.

In 2013 the benefits administration team was restructured to include a Data Quality Control Team. The creation of a dedicated team reflects the increasing focus within the LGPS on disclosure of information and Data Protection. In the next few years new national governance arrangements will be introduced for the LGPS and The Pensions Regulator will have a role in monitoring

Table 8: Key Staffing Indicators 2012-13

Key Staffing Indicators	2012/13	(CIPFA club average)	2011/12	(CIPFA club average)
Number of staff administering the LGPS scheme	17.7		18.7	
Fund Member / Staff ratio	5,189	3,863	4,568	(3,484)

standards and promoting best practice in relation to disclosure of information to members. The new team will focus on incoming and outgoing data, ensuring the data is accurate, resolving data queries and providing management information to assist in the performance monitoring process. This will enable the rest of the benefits team to service members more efficiently.

Communications

The Fund publishes its Communication Policy on its website. It forms an integral part of the Administration Strategy. A separate section on the Communications Policy is included on page 15 of this report.

Member Satisfaction

The Fund places considerable importance on the feedback it receives from members on the service provided. The information gathered feeds the service development programme and is published to members in the Fund's newsletters.

Pension Clinics

The Fund offers to hold pension clinics for members at employers' sites where individual members queries are addressed with them on a one-to-one basis. During the calendar year 2012, no clinics were held. Ahead of the new 2014 Scheme a significant programme of clinics and member meetings are planned from February 2014 to inform members about the new scheme.

Retirements

Following their retirement members are sent questionnaires to obtain feedback on the quality and timeliness of the service they received from the Fund in dealing with their retirement. The Fund maintained its overall rating with good or excellent in excess of 90% as in previous years.

Complaints

The Fund received no complaints about its service during the year.

Disagreements Procedure

The Fund operates a Disagreements Procedure ("the Procedure"), the terms of which are defined by statute, which is used in cases where a member disagrees with the pension benefits awarded or is in disagreement with a decision made by their employer that affects the pension benefits awarded. The Procedure is shown in detail on the Fund's website.

At the start of the year there was one case outstanding under Stage1 (appeals against initial decision of the administering authority) which was upheld by the administering authority. There were no new cases under Stage 1 or Stage 2 and none outstanding at the year end.

Pension Communications

Communications Strategy

Communications is at the heart of the Fund's strategy to deliver a seamless pensions service to stakeholders. The Communications Strategy's objective is to have the resources in place to improve communication between the Fund and employers. The Fund has also published a Customer Charter which lays out service standards within which information will be sent to scheme members at key milestones.

The Fund aims to give stakeholders timely and clear key messages, using a variety of media appropriate to their needs. The ultimate aim is that stakeholders will have the information and understanding to make informed decisions. Stakeholder feedback is fundamental to successful communications. The Fund gathers feedback from scheme members and employers to improve its communications.

The Fund keeps abreast of best practice through participating in collaborative groups such as the Local Government Association's pension communication group and the South West Pension Officers Communications group. These offer the oportunity to discuss topical pension issues and to share best-practice and innovations.

Members

The Fund reaches its members using a variety of media appropriate to their various needs. These include newsletters, annual statements and pre retirement benefit statements.

The Fund's website is an important method of publicising the latest news about pensions to members quickly and to direct members to more in-depth information on specific topics. The strategy to promote the take up of the Member Self Service facility is in line with the Occupational Pension Scheme (Disclosure of Information) Regulations 2010 which increased the scope for pension schemes to communicate with members by electronic means.

The Fund also plans to develop a new member website that can be accessed via smartphones and tablet devices. This is intended to increase accessibility to the Fund's website.

Employers

The Fund uses electronic communications with employers wherever possible, in order to increase efficiency, speed and cost-effectiveness.

The new Employers' website was launched in March 2013 and tailors information to meet employer needs. This website is becoming their primary source of information based around a series of Employer Factsheets.

The Fund frequently meets with employers individually and hosts events during the year including an annual Employers' Conference, Investments Forum and several Employers' Forums. The Investments Forum focuses on finance and investment issues. Topical pension matters are discussed at the Employers' Conference and Forums, including statutory consultations and the impact of regulatory changes. The Fund offers training on the employer role and administrative procedures to all new employers joining the Fund, and refresher training for officers of existing employers.

Investment Report

1. Investment Regulations

(a) Investment Limits

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

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

The limits relevant to the Fund are:

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

(b) Statement of Investment Principles

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

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

1. A change in the Cash Management policy to allow income and divestments to be used to meet pension payments
2. Implementation of a Responsible Investing policy which sets out a framework for considering such issues throughout the investment decision-making process
3. The new asset allocation strategy

The latest revision of the SIP was approved by the Committee at its meeting in June 2013. A copy of the statement can be obtained from the website www.avonpensionfund.org.uk

The Fund publishes a statement showing how it complies with the FRC Stewardship Code. This Code is a set of best practice principles that are intended to frame both shareholder engagement with companies and the disclosure of such activity by investors. The Code was revised during the year and the Fund published its updated statement of compliance in June 2013. The key changes relevant to the Fund were as follows:

- A requirement to disclose an organisation's approach to stock lending;
- To request that signatories review their policy statements annually, to update policies as necessary and confirm the date of last review;
- To require further disclosure on the use made of proxy voting or other voting advisory services;
- Signatories are encouraged to explain which of their equity funds or products were covered by the approach described in their statement.

A copy of the statement can be obtained from the website www.avonpensionfund.org.uk

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

Compliance with the Myners Principles

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

The Fund's current compliance with the principles is summarised in Table 9 (a full explanation can be found in the SIP).

Responsible Investing

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

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

- Identified and strategically evaluated RI/ESG risks of asset classes in the review of the Fund's investment strategy
- Held managers to account and queried ESG / RI factors in investment process where appropriate and reviewed whether engagement activity of managers was in line with their policies
- Analysed voting behaviour and actively sought explanations of voting behaviour from managers to evidence policies and seek to influence
- Increased participation in collaboration and engagement activities of Local Authority Pension Fund Forum (LAPFF)

2. Investment Strategy

The objective of the investment strategy is to achieve the investment return required by the funding strategy in order to meet the Fund's liabilities over time and to recover any funding deficit. The strategy must produce investment returns that will help sta-

Table 9: Compliance with the Myners Principles

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

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

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

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

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

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

Table 10: Strategic Asset Allocation and Actual Asset Allocation

Asset Class	Strategic Allocation (31 March 2012)	31 March 2012 Allocation	31 March 2013 Allocation	Strategic Allocation (31 March 2013) to be implemented
UK Equities	18%	19.60%	20.40%	15%
Overseas Equities	42%	40.30%	44.20%	35%
Diversified Growth Fund	-	-	-	10%
Infrastructure	-	-	-	5%
Index-Linked Gilts	6%	6.90%	6.70%	6%
Fixed Interest Gilts	6%	4.90%	4.00%	3%
UK Corporate Bonds	5%	8.70%	6.20%	8%
Other Bonds	3%	2.80%	2.60%	3%
Fund of Hedge Funds	10%	7.80%	7.00%	5%
Property	10%	7.10%	7.10%	10%
Short term deposits / Other	0%	1.90%	1.80%	0%

bilise and minimise employer contribution rates in the long term as well as reflecting the balance between maximising returns, protecting asset values, and matching the liabilities (to minimise investment risk).

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

During 2012/13 the Committee reviewed the investment strategy and in March 2013 concluded that a number of changes should be made to the long term strategic allocation to enhance the consistency of returns, increase flexibility and responsiveness to changes in the investment outlook and to increase diversification within the Fund.

The agreed changes are as follows and will be implemented from 2013 to 2015:

- To reduce the overall allocation to equities by 10% to 50% of as-

Chart 1: Asset allocation by Manager 31 March 2013

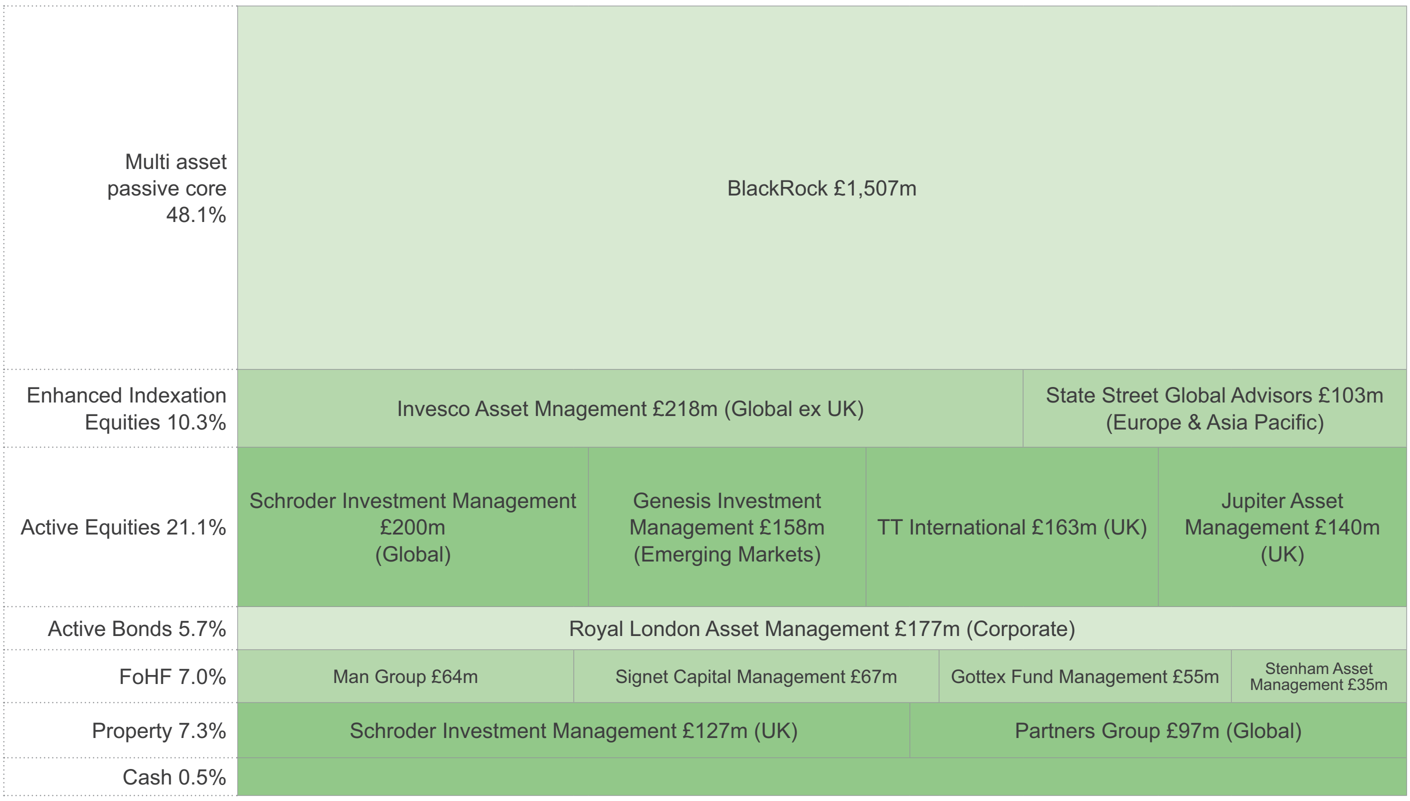
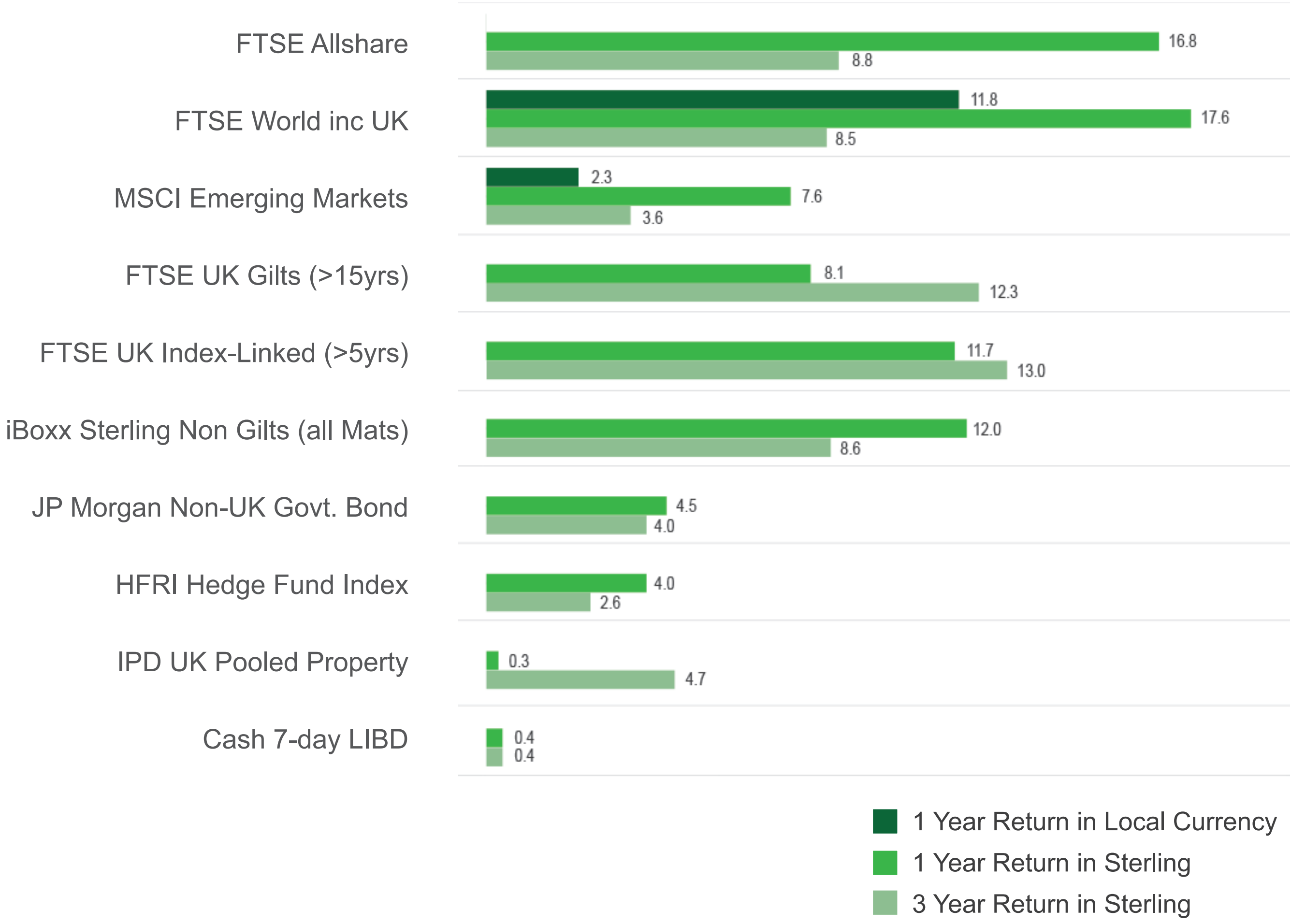


Chart 2: Market Performance by Asset Class (Return % p.a.)



sets;

- Within the equity portfolio to increase the allocation to emerging market equities from 5% to 10% of assets given their higher growth prospects over the medium to longer term;
- To allocate 10% of assets to diversified growth funds, primarily to introduce dynamic asset allocation within the long term strategy;
- To reduce the allocation to hedge funds from 10% to 5% of assets;
- To allocate 5% of assets to infrastructure;
- Within the bond portfolio to reduce the allocation to fixed interest gilts from 6% to 3%, and to increase the allocation to UK corporate bonds from 5% to 8%.

The Committee have also introduced target ranges for each of the asset classes which provides greater flexibility for asset allocation to deviate from central targets and therefore allows for tactical positioning.

The tactical position which switched assets from UK gilts into corporate bonds was reversed during 2012 when the assets achieved their anticipated values, generating an extra return of c. £2.4m net of costs.

The strategic asset allocation at 31 March 2013 and actual asset allocation at 31 March 2013 and the previous years are shown in Table 10. Note that as at 31 March 2013, the Fund's overseas property investment manager was still in the process of investing the monies allocated to property.

Investment Management Structure

The Fund's investment strategy is managed by external investment managers. The investment management structure and the amount of assets each manager manages on behalf of the Fund as at 31 March 2013 is set out in Chart 1.

3. Market Background

Markets at the end of 2011/12 were uncertain and the outlook for 2012/13 was for low or zero growth over the near term with political instability expected to return for some EU countries.

The year began with a potential Greek exit from the Euro causing markets to slide, only for equities to rally once a rescue package was agreed to finance the indebted economies of Greece, Spain and Italy.

The more positive tone to the market was underpinned by the European Central Bank president Mario Draghi commenting that the European Central Bank would do "whatever it takes" to save the Euro and announced plans to buy euro bonds in potentially unlimited amounts. In addition the US Federal Reserve and Bank of Japan both announced substantial supportive measures to boost economic growth and thus market sentiment improved through-

Chart 3: Long Term Performance

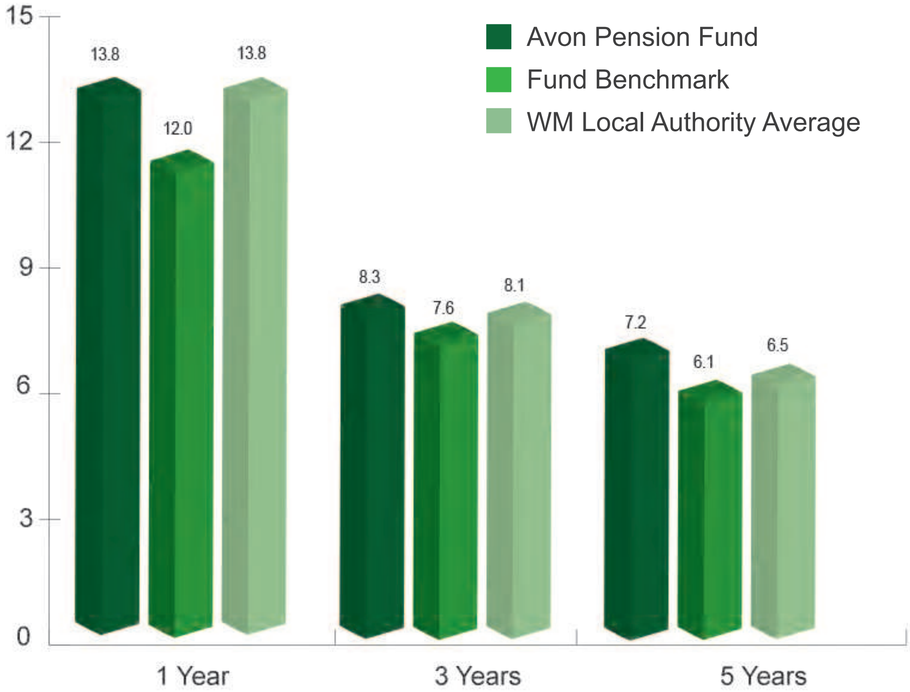


Table 11: Contribution to performance from asset allocation

Asset Class	1 Year (%)	3 Years (% p.a)
Equities	0.1	-0.1
Bonds	0.2	0.1
Property	0.1	0.1
Hedge Funds	0.2	0.1
Cash	-0.2	-0.1
Asset Allocation Impact	**0.4**	**0.1**

out the third quarter of 2012. Elsewhere the UK emerged from a double dip recession and there were tentative signs of recovery in the US housing market.

From late 2012 Japanese markets experienced a marked improvement following the appointment of Shinzo Abe as Prime Minister who pledged to end 20 years of economic stagnation, through stimulus packages and a weak Yen policy to stimulate exports. Greece also agreed severe budget cuts in order to obtain additional EU bailout funds and subsequently the risk of a Greek exit diminished. Finally, China successfully achieved a 'soft landing' in terms of GDP output for 2012 of 7.8%. Signs of cautious optimism with markets anticipating improvements in economic activity continued into 2013 with strong rallies in equity markets; the FTSE 100 reached its highest level since January 2008 and the S&P 500 hitting an all-time high. As the year ended market sentiment was more optimistic. However, fiscal retrenchment and low interest rates remained prevalent for developed markets underlining the fragile economic conditions.

The returns for the different markets in 2012/13 along with the three year returns in sterling are set out in Chart 2. All markets generated positive returns. Key characteristics over the period were the very strong performance of equities and fixed income assets albeit the returns of UK Gilts were lower than the previous twelve months.

Elsewhere hedge funds posted positive returns having performed negatively in 2011/12 and emerging market equities struggled to match the returns of other equity markets in local currency terms but in Sterling terms the difference was not so marked.

4. Fund Performance

The value of the Fund rose by £378 million (or 13.8%) during the year to £3.13 billion at 31 March 2013. Performance was driven largely by strong returns from equities and to a lesser extent fixed income. The Fund was in line with the average WM Local Authority Fund universe return over the year (the average local authority pension fund return as calculated by WM Company).

The longer term performance of the Fund is shown in Chart 3 (the returns are annualised). The Fund's benchmark return is included in the chart together with the return of the WM Local Authority Fund Average.

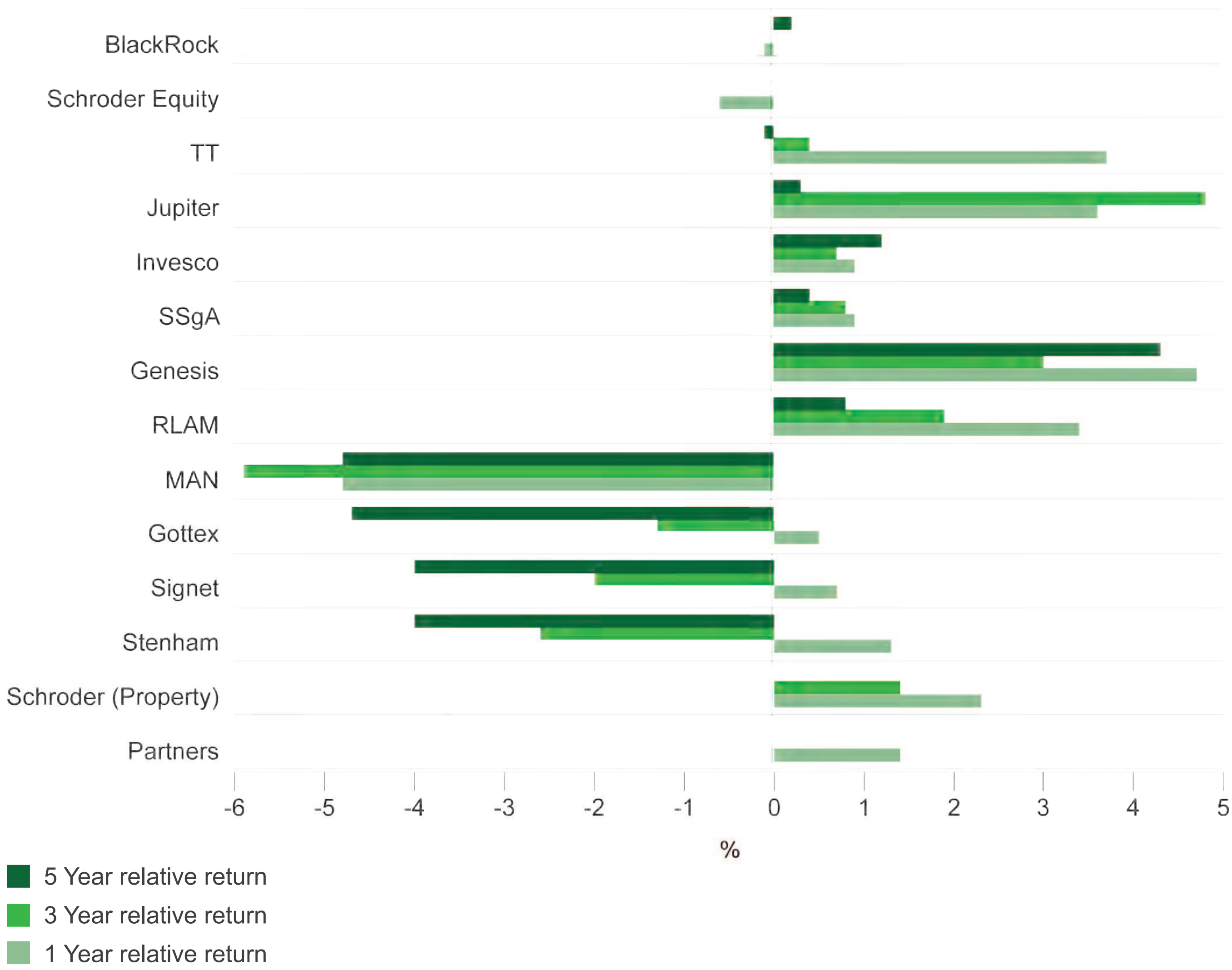
Over the last three years the investment return is 8.3% per annum falling to 7.2% per annum when viewed over the last five years. The Fund's return is ahead of the WM Local Authority Average return over three and five years

Over one and three years sterling has weakened and therefore the dynamic currency hedge has detracted slightly from overall returns.

Asset allocation has contributed to the Fund's outperformance of its benchmark over one and three years. The annualised contribution to performance by asset class can be seen in Table 11.

Chart 4 shows how the Fund's managers have contributed to performance. It shows their performance against their specific benchmarks over one, three and five years. Jupiter, TT International, Genesis and Royal London had strong performances relative to their benchmarks during 2012/13 with the Schroder global equity portfolio and the hedge fund portfolio managed by Man being the main detractors to overall performance. In 2012/13 the managers outperformed their benchmarks by 1.2% in aggregate and by 0.6% over three years.

Chart 4: Contribution to performance – Manager Relative Return



Investment Managers' Voting Record

The Fund produces an annual Responsible Investment report covering the voting activity of our external investment managers for the company shares they hold on the Fund's behalf.

A copy of the annual report can be obtained from the website www.avonpensionfund.org.uk

5. Largest Holdings

The 10 largest investment holdings of the Fund at 31 March 2013 are shown in the Table 12.

6. Investment Administration

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

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

Table 12: Top 10 Largest Investment Holdings at 31 March 2013

Top 10 Largest Investment Holdings	£'000s	% of Fund
BlackRock Aquila Life UK Equity Index Fund	315,092	10.05%
BlackRock World Index Fund	310,706	9.91%
Invesco Perpetual Global ex UK Enhanced Index Fund	218,120	6.96%
Royal London RLPPC UK Corporate Bond Fund	176,526	5.63%
Genesis Emerging Markets Investment Fund	158,548	5.06%
BlackRock MSCI Equity Index Fund B-US	155,735	4.97%
BlackRock Europe ex-UK Index Fund	135,642	4.33%
BlackRock Aquila Life Overseas Bond Index Fund	81,488	2.60%
State Street Global Advisors MPF Pacific Equity Enhanced Index Fund	68,560	2.19%
Signet Global Fixed Income Fund	67,196	2.14%

Actuarial Report and Funding Strategy Statement

In line with the LGPS regulations, the Fund's actuarial position is reviewed every three years. The triennial valuation based on membership data and asset values as at 31 March 2010 set the employer contribution rates for the period from 1 April 2011 to 31 March 2014. The 2013 valuation using fund data at 31 March 2013 will set the contribution rates from 1 April 2014.

The 2010 valuation produced a funding level (the coverage of liabilities by the assets) of 82% which was only slightly lower than the funding level of 83% at the previous valuation in 2007. However, in monetary terms the deficit increased from £459 million in 2007 to £552 million in 2010.

By 31 March 2013, the funding level is estimated to have fallen to 69% and the deficit is estimated to have risen to £1.2 billion. This increase in the deficit is due to the rise in liabilities. In the three years to 31 March 2013 asset values have been ahead of expectations used in the 2010 valuation. The future value of the pension liabilities are calculated using a discount rate based on gilt yields and as gilt yields have fallen to historic lows, the value of the liabilities has risen, in turn generating a higher deficit.

Funding Strategy Statement

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

The regulations provide that the Funding Strategy Statement must

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

Using the flexibility provided within this framework, the Fund kept employer rates (when expressed as a percentage of pensionable pay) stable with the 2007 valuation outcome. However, in order to achieve stability, the period over which the deficit is recovered from each employer was increased to a maximum of 30 years from 20 years at the 2007 valuation. Overall, the Fund's deficit recovery period increased from 20 years to 23 years.

In addition, to ensure there was no significant underpayment of deficit recovery contributions should payrolls contract given the reduction in the public sector, the deficit recovery contribution (or past service contribution), which had traditionally been expressed as a percentage of pay, was expressed in annual monetary amounts.

In March 2012 the Funding Strategy Statement was amended to clarify how the residual liabilities are treated when an admission agreement terminates. The change was to provide greater certainty to the Fund and employing bodies at the outset of an outsourcing as to how such residual liabilities will be dealt with.

The 2013 triennial valuation will incorporate the changes arising from the new LGPS scheme to be introduced from April 2014. As the new scheme preserves accrued pension benefits, the deficit for accrued service will not be affected. However, the new scheme will generate savings for future service costs (on average) through a combination of benefit changes and an increase in the retirement age for benefits accruing post April 2014. Nevertheless, the future service contribution rate may increase if the savings from the new scheme are insufficient to offset the impact of falling gilt yields on the discount rate.

A copy of the Funding Strategy Statement can be obtained from the website www.avonpensionfund.org.uk

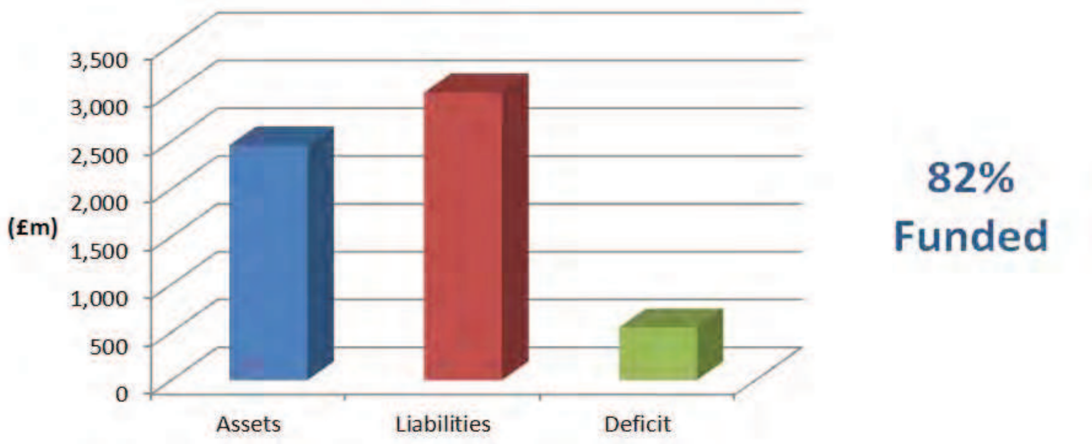
Statement of Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Avon Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £2,459 million represented 82% of the Fund's past service liabilities of £3,011 million (the "Funding Target") at the valuation date.

The valuation also showed that a common rate of contribution of 11.8% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.



Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate equivalent to 4.8% of pensionable pay for 23 years. This would imply an average employer contribution rate of 16.6% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2011.

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

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	6.85% per annum	6.75% per annum
- post retirement	5.7% per annum	6.75% per annum
Rate of pay increases	4.5% per annum*	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

* allowance was also made for short-term public sector pay restraint over a 2 year period, as announced in 2010 by the Government

The assets were assessed at market value.

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

Paul Middleman
Fellow of the Institute of Actuaries,
Mercer Limited, May 2013

Employer Contribution Rates

Participating Employers	Contribution Rates			
Year Ended 31st March	2013		2012	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Scheduled Bodies				
Principal Councils and Service Providers				
Avon Fire Brigade	10.9	£231,500	10.9	£221,500
Bath & North East Somerset Council	12.2	£4,333,200	12.2	£3,949,400
Bristol City Council	11.8	£12,660,600	11.8	£12,281,900
North Somerset Council	11.8	£4,710,000	11.8	£4,224,900
South Gloucestershire Council	11.9	£4,888,000	11.9	£4,677,000
Further & Higher Education Establishments				
Bath Spa University College	11.2	£382,400	11.2	£365,900
City of Bath College	11.2	£69,600	11.2	£66,600
City of Bristol College	11.4	£433,200	11.4	£414,500
Norton Radstock College	12.3	£33,400	12.3	£32,000
South Gloucestershire & Stroud College	10.4	£181,000	10.4	£173,200
St. Brendan's College	11.4	£25,400	11.4	£24,300
University of the West of England	11.0	£1,551,100	11.0	£1,484,200
Weston College	10.4	£153,900	10.4	£147,300
Other Education Establishments				
Abbeywood Community School Academy	11.8	£8,700	-	-
Academy of Trinity Cof E	12.5	£5,600	12.5	£1,012
Backwell School	13.7	£71,000	13.7	£5,666
Bannerman Road Community Academy	9.7	£7,100	-	-
Bath Community Academy	12.4	£8,400	-	-
Bedminster Down School Academy	13.5	£23,583	-	-
Beechen Cliff School Academy	12.4	£26,600	12.2	-
Begbrook Academy	12.5	£9,800	-	-
Olympus Trust	10.9	£46,600	10.9	£11,175
Bridge Learning Campus Foundation	11.7	£30,200	-	-
Bristol Cathedral Choir School	13.2	-£5,000	13.2	-£4,700
Bristol Church Academies Trust	12.0	£11,900	-	-
Bristol Free School Trust	13.4	-	13.4	-
Broadlands Academy	11.1	£11,500	-	-

Participating Employers	Contribution Rates			
Year Ended 31st March	2013		2012	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Broadoak Mathematics & Computing College	11.6	£57,700	11.6	£9,100
Cabot Learning Federation	10.8	-	10.8	-
Castle School Education Trust	13.0	£5,400	-	-
Chew Stoke Church School	12.0	£2,900	-	-
Christ Church C of E Primary School	12.2	£7,800	-	-
Churchill Academy	13.0	£74,000	13.0	£47,300
Clevedon School Academy	12.1	£48,300	12.1	£7,700
Colston Girl's School Trust	14.2	-£680	14.2	-£650
Colston’s Primary School Academy	10.9	£3,100	-	-
Cotham School Academy	11.8	£48,900	11.8	£27,300
Downend School	12.3	£3,200	-	-
Elmlea Junior School Academy	12.4	£8,100	12.4	£6,500
Filton Avenue Infants Academy	10.7	£9,500	-	-
Fosseway Special School	10.2	£40,300	10.2	£22,500
Frome Vale Academy	11.0	£5,800	-	-
Gordano School Academy	12.5	£78,700	12.5	£56,700
Greenfield Primary School Academy	12.3	£7,400	-	-
Hans Price Academy	12.1	£49,200	12.1	£43,300
Hareclive Academy	11.5	£10,600	-	-
Hayesfield Girls School Academy	12.9	£29,200	12.9	£18,700
Henbury School Academy	11.9	£29,400	-	-
Henleaze Junior School Academy	12.2	£7,500	12.2	£3,600
Heron’s Moor Community School	11.5	£11,500	-	-
Ilminster Avenue E-ACT Academy	15.0	£6,900	15.0	£1,600
Kings Oak Academy	13.2	£25,100	13.2	£14,000
Little Mead Primary School	10.7	£6,600	-	-
Merchant's Academy	11.2	-	11.2	-
Midsomer Norton School Partnership	12.1	£76,300	12.1	73,000
Minerva Primary Academy	12.6	£5,800	-	-
Nailsea School Academy	13.4	£32,900	-	-
Oasis Academy Bank Leaze	9.8	£5,800	-	-
Oasis Academy Brightstowe	11.5	-	11.5	-
Oasis Academy Connaught	12.4	£5,000	-	-
Oasis Academy John Williams	12.1	-	12.1	-
Oasis Academy New Oak	10.1	£8,100	-	-
Oldfield School Academy Trust	13.9	£11,000	13.9	£10,500
One World Learning Trust	10.4	£14,000	10.4	£13,400
Orchard Academy	12.1	£24,400	-	-
Parson Street Primary School	13.2	£8,100	-	-
Priory Community School Academy	11.9	£79,700	11.9	£51,000
Ralph Allen Academy	13.4	£25,900	-	-
Redland Green School Academy	10.5	£32,700	-	-
St Bedes School Academy	11.9	£24,500	11.9	£9,833
St. Nicholas of Tolentine Catholic Primary School	12.7	£3,500	-	-

Participating Employers	Contribution Rates			
Year Ended 31st March	2013		2012	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
St. Patrick’s Academy	13.4	£5,900	-	-
St. Teresa’s Catholic Primary School	11.9	£3,600	-	-
St. Ursula's E-ACT Academy	11.8	-	11.8	-
Summerhill Academy	13.1	£4,600	-	-
The Dolphin Academy	9.6	-	-	-
The Ridings Federation Winterbourne	11.8	-£20,400	11.8	-£19,600
The Ridings Federation Yate	11.4	-£9,100	11.4	-£8,700
Trust in Learning	19.7	£1,700	-	-
Waycroft School Academy	12.9	£20,600	12.9	£13,200
Wellsway School Academy	12.0	£37,000	12.0	£17,700
West Town Lane Primary School	14.0	£13,100	14.0	£3,100
Westbury Park Primary School Academy	13.8	£8,900	-	-
Westbury-on-Trym C of E Academy	12.3	£15,000	12.3	£12,200
Writhlington School Academy	11.0	£50,000	11.0	£24,000
Designating Bodies				
Almondsbury Parish Council	14.0	-	-	-
Backwell Parish Council	14.0	£1,200	14.0	£1,100
Bath Tourism Plus	14.1	-	14.1	-
Bradley Stoke Town Council	13.4	£6,700	13.4	£6,400
Charter Trustees of the City of Bath	14.3	£3,200	14.3	£3,200
Clevedon Town Council	13.2	-	13.2	-
Destination Bristol	12.5	£7,400	12.5	£7,100
Dodington Parish Council	14.8	£1,100	14.8	£1,100
Downend and Bromley Heath Parish Council	11.5	£100	11.5	£100
Easton in Gordano Parish Council	12.9	-	12.9	-
Filton Town Council	10.2	£1,100	10.2	£1,100
Frampton Cotterell Parish Council	14.0	£1,000	14.0	£1,000
Hanham Abbots Parish Council	10.0	-	10.0	-
Hanham Parish Council	12.9	£2,900	12.9	£2,800
Keynsham Town Council	14.5	£11,390	14.5	£10,900
Mangotsfield Rural Parish Council	10.7	£1,600	10.7	£1,500
Midsomer Norton Town Council	10.8	£6,900	10.8	£6,500
Nailsea Town Council	14.0	£3,200	14.0	£3,100
Oldland Parish Council	11.7	£300	11.7	£200
Patchway Town Council	12.0	£5,900	12.0	£5,600
Paulton Parish Council	13.4	£1,600	13.4	£1,600
Oldland Parish Council	11.7	£300	11.7	£200
Patchway Town Council	12.0	£5,900	12.0	£5,600
Paulton Parish Council	13.4	£1,600	13.4	£1,600
Peasedown St John Parish Council	14.0	-	14.0	-
Portishead Town Council	16.2	£2,600	16.2	£2,500
Radstock Town Council	7.5	£3,200	7.5	£3,100
Saltford Parish Council	13.9	£300	13.9	£300
Stoke Gifford Parish Council	14.9	£5,900	14.9	£5,600

Participating Employers	Contribution Rates			
Year Ended 31st March	2013		2012	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Thornbury Town Council	17.1	£11,000	17.1	£10,600
Vista SWP Ltd	11.3	-	-	-
Westerleigh Parish Council	11.9	-	11.9	-
Westfield Parish Council	18.4	£3,500	18.4	£3,300
Weston Super Mare Town Council	10.6	£4,600	10.6	£4,500
Whitchurch Parish Council	12.3	£100	12.3	£100
Winterbourne Parish Council	17.3	£300	17.3	£300
Yate Town Council	11.3	£9,400	11.3	£9,000
Yatton Parish Council	14.0	-	14.0	-
Community Admission Bodies				
Alliance Homes	13.6	£68,900	13.6	£65,900
Ashley House Hostel	14.6	£4,300	14.6	£4,100
Bath & North East Somerset Racial Equality Council	15.3	£500	15.3	£500
Bristol Disability Equality Forum	17.5	-	-	-
Bristol Music Trust	14.7	-	14.7	-
Centre For Deaf People	14.9	£20,400	14.9	£19,500
Clifton Suspension Bridge Trust	15.9	£2,500	15.9	£2,300
CURO Places Ltd	14.6	£220,700	14.6	£211,200
CURO Group (Albion) Ltd	12.4	£25,400	12.4	£24,400
Holburne Museum of Art	10.0	£14,700	10.0	£14,000
Learning Partnership West Limited (CAB)	11.1	£220,800	11.1	£211,300
Merlin Housing Society (SG)	14.2	-	14.2	-
Merlin Housing Society Ltd	15.9	-	15.9	£420,900
Off the Record Bath & North East Somerset Council	8.9	£11,000	8.9	£10,500
Sirona Care & Health CIC	14.8	-	14.8	-
Southern Brooks Community Partnership	11.0	£4,700	11.0	£4,500
Southwest Grid for Learning Trust	11.2	£23,900	11.2	£22,900
The Care Quality Commission	16.7	£34,400	16.7	£33,000
The Park Community Trust	14.2	-	-	-
University of Bath	11.6	£518,500	11.6	£496,100
Vision North Somerset	15.5	£8,700	15.5	£8,300
West of England Sport Trust	13.8	£12,900	13.8	£12,300
Transferee Admission Bodies (Scope)				
Active Community Engagement Ltd	13.7	-£3,400	13.7	-£3,300
Agilisys	14.3	-	14.3	-
Agincare	15.7	-	15.7	-
Aquaterra Leisure Ltd	8.8	£28,400	8.8	£28,400
ARAMARK	15.6	-	15.6	-
BAM Construct UK Ltd	16.6	£9,200	16.6	£8,600
Bespoke Cleaning Services Ltd	15.7	-	15.7	-
Bristol Drugs Project	11.3	-	-	-
Cater Link	17.0	-	-	-
Churchill Contract Services	15.6	-	15.6	-

Participating Employers	Contribution Rates			
Year Ended 31st March	2013		2012	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Churchill Contract Services Ltd (Team Clean)	13.6	£200	13.6	£200
Circadian Trust	9.5	£30,100	9.5	£28,800
Circadian Trust No 2	9.2	-	9.2	-
Creative Youth Networks (Lot 4)	14.7	-	-	-
Creative Youth Networks (Lot 5)	9.6	-	-	-
CT Plus (CIC)	17.6	-	-	-
Direct Cleaning (SW) Ltd	12.4	£1,300	-	-
Eden Food Services	13.8	£78,800	13.8	£75,500
English Landscapes	16.1	£1,500	16.1	£1,400
ISS Mediclean	16.8	£800	16.8	£800
ISS Mediclean (Bristol)	13.9	-	13.9	-
Keeping Kids Company	13.3	-	-	-
Kier Facilities Services	14.6	-	14.6	-
Learning Partnership West (Lot 1)	16.4	-	-	-
Learning Partnership West (Lot 2)	12.0	-	-	-
Learning Partnership West (Lot 3)	11.7	-	-	-
Learning Partnership West (Lot 6)	11.9	-	-	-
Learning Partnership West (Lot 7)	7.3	-	-	-
Liberata UK Ltd	14.3		14.3	-
Mouchel (B&NES School's IT)	11.9	-	11.9	-
Mouchel Business Services Ltd	14.4	£61,200	14.4	£58,500
Mouchel Business Services Ltd (Nailsea IT)	15.4	-	15.4	-
Prospect Services Ltd	13.5	£119,000	13.5	£119,000
Quadron Services	15.3	-£3,800	15.3	-£3,600
Shaw Healthcare (North Somerset) Ltd	15.5	£16,800	15.5	£16,100
SITA Holdings UK Ltd	21.9	£50,800	21.9	£48,600
Skanska (Cabot Learning Federation)	27.3	-£1,700	27.3	£1,600
Skanska Rashleigh Westerfoil	12.7	£500	12.7	£500
SLM Community Leisure	13.8	£4,800	13.8	£4,600
SLM Fitness & Health	12.4	£4,500	12.4	£4,400
Sodexo	17.1	-	17.1	-
The Brandon Trust	15.2	£23,000	15.2	£22,000
Tone Leisure (Trust) Limited	13.4	-	13.4	-
UPP Residential Services Ltd	20.6	-	-	-
The Mill	11.7	-	-	-
The Park Community Trust	14.2	-	-	-
The Station	9.6	-	-	-
Tone Leisure (Taunton Deane) Ltd	13.4	-	13.4	-
UPP Residential Services Ltd	20.6	-	-	-

Statement of Accounts 2012/13

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2012 to 31 March 2013.

1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2012/13 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 The accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice.

1.4 The accounts are set out in the following order:

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

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

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

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

Actuarial Valuation

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

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

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

1.8 The Actuary has estimated that the funding level as at 31 March 2013 has fallen slightly to 69% from 70% estimated at 31 March 2012. This fall in the funding level is due to the increase in liabilities; the return on assets contributed positively to the funding position. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields. As gilt yields fall, the value of these liabilities rises. During the year the yield on UK gilts continued to fall.

1.9 The 2013 triennial valuation is currently being undertaken and will be calculated using values and membership data as at 31 March 2013. This will set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2014.

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

1.11 The Fund's Funding Strategy Statement can be found on the Fund's website www.avonpensionfund.org.uk or supplied on request from Liz Woodyard, Investments Manager.

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

Statement of Investment Principles

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

Statement of Accounting Policies

Basis of Preparation

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

Investments

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

- **i** Quoted Securities have been valued at 31 March 2013 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation.
- **ii** Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
- **iii** Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2013.
- **iv** Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2013.
- **v** Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
- **vi** Forward foreign exchange contracts outstanding at the year- end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
- **vii** Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
- **viii** Investment debtors and creditors at the year- end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
- **ix** The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

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

Benefits, Refunds of Contributions and Cash Transfer Values

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

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

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

Investment Income

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

Investment Management & Administration

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

2.9 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the

Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

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

Use of Accounting Estimates

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

The value of two Group Transfers in to the Fund are subject to final agreement by the actuary. Estimated values were accrued as debtors (see 2.5 and note 18).

Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 17) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary.

The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 25d.

Events After the Balance Sheet Date

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

Financial Instruments

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

Fund Account For the Year Ended 31 March 2013

	Notes	2012/13	2011/12
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	**134,858**	137,983
Transfers In		**7,255**	7,066
Other Income	5	**500**	341
		142,613	145,390
Benefits Payable	6	**136,655**	129,155
Payments to and on account of Leavers	7	**5,173**	5,325
Administrative Expenses	8	**2,585**	2,359
		144,413	136,839
Net Additions from dealings with members		**(1,800)**	8,551
Returns on Investments			
Investment Income	10	**29,025**	27,667
Profits and losses on disposal of investments and change in value of investments.	11	**362,285**	71,241
Investment Management Expenses	9	**(10,148)**	(9,228)
Net Returns on Investments		**381,162**	89,680
Net Increase in the net assets available for benefits during the year		**379,362**	98,231
Net Assets of the Fund			
At 1 April		**2,766,294**	2,668,063
At 31 March		**3,145,656**	2,766,294

		Notes	31 March 2013		31 March 2012	
Investment Assets			**£'000**	**%**	£'000	%
Fixed interest securities : Public Sector			**109,674**	**3.5**	104,920	3.8
Equities			**495,980**	**15.8**	390,014	14.1
Index Linked securities : Public Sector			**209,876**	**6.7**	189,659	6.9
Pooled investment vehicles :-						
- Property	Unit Trusts		**78,749**	**2.5**	75,708	2.8
	Unitised Insurance Policies		**47,863**	**1.5**	50,849	1.8
	Other Managed Funds		**95,729**	**3.0**	70,394	2.5
Property Pooled Investment Vehicles			**222,341**		196,951	
- Non Property	Unitised Insurance Policies		**811,938**	**25.8**	791,555	28.6
	Other Managed Funds		**1,203,448**	**38.3**	1,004,658	36.3
Non Property Pooled Investment Vehicles			**2,015,386**		1,796,213	
Cash deposits			**85,895**	**2.7**	76,595	2.8
Other Investment balances			**12,864**	**0.4**	6,734	0.2
Investment Liabilities						
Derivative contracts (Foreign Exchange hedge)			**(2,912)**	**(0.1)**	441	0.0
Derivative Contracts: FTSE Futures			**(226)**	**0.0**	(514)	0.0
Other Investment balances			**(13,502)**	**(0.4)**	(3,648)	(0.1)
Total Investment Assets		12	**3,135,376**		2,757,365	
Net Current Assets						
Current Assets		14	**13,283**	**0.4**	10,881	0.4
Current Liabilities		14	**(3,003)**	**(0.1)**	(1,952)	(0.1)
Net assets of the scheme available to fund benefits at the period end			**3,145,656**	**100**	2,766,294	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2013.

1. GENERAL

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

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 26.

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

2. MEMBERSHIP

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

	31 March 2013	31 March 2012
Employed Members	**33,648**	33,828
Pensioners	**24,574**	23,658
Members entitled to Deferred Benefits	**31,754**	28,677
Total	**89,976**	86,163

A further 2,126 ex-members whose membership was for up to 2 years before 1st April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

3. TAXATION

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

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

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

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

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

	2012/13		2011/12	
Employers' normal contributions		**£'000**		£'000
Scheduled Bodies	**52,129**		52,749	
Administering Authority	**6,566**		7,137	
Admission Bodies	**5,787**	**64,482**	5,252	65,138
Employers' deficit Funding				
Scheduled Bodies	**26,598**		25,368	
Administering Authority	**4,021**		3,842	
Admission Bodies	**1,082**	**31,701**	1,463	30,673
Total Employer's normal & deficit funding		**96,183**		95,811
Employers' contributions- Augmentation				
Scheduled Bodies	**2,697**		4,941	
Administering Authority	**224**		815	
Admission Bodies	**457**	**3,378**	440	6,196
Members' normal contributions				
Scheduled Bodies	**28,617**		29,112	
Administering Authority	**3,495**		3,795	
Admission Bodies	**2,649**	**34,761**	2,481	35,388
Members' contributions towards additional benefits				
Scheduled Bodies	**418**		480	
Administering Authority	**97**		78	
Admission Bodies	**21**	**536**	30	588
Total		**134,858**		137,983

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

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

5. OTHER INCOME

	2012/13	2011/12
	£'000	£'000
Recoveries for services provided	**492**	330
Cost recoveries	**8**	11
	500	341

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

6. BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2012/13	2011/12
	£'000	£'000
Retirement Pensions	**106,097**	97,229
Commutation of pensions and Lump Sum Retirement Benefits	**27,815**	29,416
Lump Sum Death Benefits	**2,743**	2,510
	136,655	129,155

Analysis of Benefits Payable by Employing Body:-

	2012/13	2011/12
	£'000	£'000
Scheduled & Designating Bodies	**114,704**	108,110
Administering Authority	**11,938**	12,277
Admission Bodies	**10,013**	8,768
	136,655	129,155

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2012/13	2011/12
Leavers	**£'000**	£'000
Refunds to members leaving service	**17**	19
Individual Cash Transfer Values to other schemes	**5,028**	5,306
Group Transfers	**128**	-
	5,173	5,325

8. ADMINISTRATION EXPENSES

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

	2012/13	2011/12
	£'000	£'000
Administration and processing	**1,808**	1,612
Actuarial fees	**356**	278
Audit fees	**29**	43
Legal and professional fees	**-**	-
Central recharges from Administering Authority	**392**	426
	2,585	2,359

9. INVESTMENT EXPENSES

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

	2012/13	2011/12
	£'000	£'000
Portfolio management	9,827	8,830
Global custody	64	127
Investment advisors	167	168
Performance measurement	34	35
Investment accounting	3	8
Investment Administration	53	60
	10,148	9,228

10. INVESTMENT INCOME

	2012/13	2011/12
	£'000	£'000
Interest from fixed interest securities	3,898	5,762
Dividends from equities	15,070	12,010
Income from Index Linked securities	5,703	5,757
Income from pooled investment vehicles	4,002	3,751
Interest on cash deposits	335	370
Other - Stock lending	17	17
	29,025	27,667

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

The value of the stock on loan as at 31 March 2013 was £3.01 million (31 March 2012 £16.67 m), comprising entirely of equities. This was secured by collateral worth £3.15 million comprising OECD sovereign and supra national debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11. CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments

	Value at 31/03/12	Purchases at Cost	Sales Proceeds	Change in Market Value	**Value at 31/03/13**
	£'000	£'000	£'000	£'000	**£'000**
Fixed Interest Securities	104,920	18,268	(18,096)	4,582	**109,674**
Equities	390,014	294,637	(251,080)	62,409	**495,980**
Index linked Securities	189,659	35,415	(31,467)	16,269	**209,876**
Pooled Investments -					
- Property	196,951	36,144	(18,841)	8,087	**222,341**
- Non Property	1,796,213	47,414	(96,172)	267,931	**2,015,386**
Derivatives	(73)	2,860	(5,522)	(403)	**(3,138)**
	2,677,684	434,738	(421,178)	358,875	**3,050,119**
Cash Deposits	76,595	235,134	(225,911)	77	**85,895**
Net Purchases & Sales		669,872	(647,089)	22,783	
Investment Debtors & Creditors	3,086			(3,724)	**(638)**
Total Investment Assets	2,757,365			-	**3,135,376**
Current Assets	8,929			1,351	**10,280**
Less Net Revenue of Fund				(17,077)	
Total Net Assets	2,766,294			362,285	**3,145,656**

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

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

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

Change in Total Net Assets 2011/12

Change in Market Value of Investments

	Value at 31/03/11	Purchases at Cost	Sales Proceeds	Change in Market Value	**Value at 31/03/12**
	£'000	£'000	£'000	£'000	**£'000**
Fixed Interest Securities	154,494	23,025	(103,921)	31,322	**104,920**
Equities	246,996	415,218	(263,954)	(8,246)	**390,014**
Index linked Securities	157,378	46,148	(41,614)	27,747	**189,659**
Pooled Investments -					
- Property	172,052	40,890	(25,477)	9,486	**196,951**
- Non Property	1,873,152	129,556	(219,883)	13,388	**1,796,213**
Derivatives	483	1,687	(3,009)	766	**(73)**
	2,604,555	656,524	(657,858)	74,463	**2,677,684**
Cash Deposits	50,515	240,786	(213,344)	(1,362)	**76,595**
Net Purchases & Sales		897,310	(871,202)	26,108	
Investment Debtors & Creditors	2,881			205	**3,086**
Total Investment Assets	2,657,951			-	**2,757,365**
Current Assets	10,112			(1,183)	**8,929**
Less Net Revenue of Fund				(26,990)	
Total Net Assets	2,668,063			71,241	**2,766,294**

Investment Transaction Costs.

The following transactions costs are included in the above tables:

	2012/13				**2011/12**			
	Purchases	Sales	Other	Total	Purchases	Sales	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees & Taxes	644	21		665	650	31	-	681
Commission	320	304	5	629	414	446	9	869
Total	964	325	5	1,294	1,064	477	9	1,550

12. INVESTMENT ASSETS

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

		31 March 2013		31 March 2012
UK Equities		£'000		£'000
Quoted	**258,957**		224,418	
Pooled Investments	**318,640**		272,289	
FTSE Futures	**(226)**	**577,371**	(514)	496,193
Overseas Equities				
Quoted	**237,022**		165,597	
Pooled Investments	**1,185,894**	**1,422,916**	963,933	1,129,530
UK Fixed Interest Gilts				
Quoted	**109,674**		104,920	
Pooled Investments	**14,668**	**124,342**	27,676	132,596
UK Index Linked Gilts				
Quoted	**209,876**	**209,876**	189,658	189,658
Sterling Bonds (excluding Gilts)				
Pooled Investments	**193,549**	**193,549**	240,771	240,771
Non-Sterling Bonds				
Pooled Investments	**81,488**	**81,488**	77,973	77,973
Hedge Funds				
Pooled Investments	**221,147**	**221,147**	213,571	213,571
Property				
Pooled Investments	**222,341**	**222,341**	196,951	196,951
Cash Deposits				
Sterling	**81,806**		70,728	
Foreign Currencies	**4,089**	**85,895**	5,867	76,595
Investment Debtors/Creditors				
Investment Income	**3,671**		3,132	
Sales of Investments	**9,194**		3,602	
Foreign Exchange Hedge	**(2,912)**		441	
Purchases of Investments	**(13,502)**	**(3,549)**	(3,648)	3,527
Total Investment Assets		**3,135,376**		2,757,365

Derivatives Analysis
Open forward currency contracts

Settlement	Currency bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
	£000's	£000's		000's	£000's	£000's
Up to one month	GBP	4,257	CHF	(6,083)	24	
Up to one month	GBP	36,659	EUR	(44,234)		(762)
Up to one month	GBP	155,560	USD	(250,878)		(9,681)
Up to one month	GBP	18,509	JPY	(2,414,000)	1,594	
Up to one month	JPY	1,218,000	GBP	(9,418)		(884)
Up to one month	USD	249,200	GBP	(155,920)	8,217	
Up to one month	EUR	32,000	GBP	(26,432)	639	
Up to one month	EUR	5,709	USD	(7,300)	21	
Up to one month	USD	2,262	EUR	(1,766)		(4)
One to six months	GBP	168,038	EUR	(209,600)		(9,459)
One to six months	GBP	204,568	JPY	(26,368,000)	19,606	
One to six months	GBP	744,079	USD	(1,184,300)		(36,259)
One to six months	EUR	209,600	GBP	(169,248)	8,249	
One to six months	JPY	18,993,000	GBP	(148,501)		(15,277)
One to six months	USD	1,184,300	GBP	(748,864)	31,473	
Six to twelve months	EUR	90,800	GBP	(76,391)	650	
Six to twelve months	GBP	124,574	EUR	(147,800)		(867)
Six to twelve months	GBP	166,975	JPY	(23,355,000)	2,813	
Six to twelve months	GBP	150,693	USD	(231,300)		(1,765)
Six to twelve months	JPY	21,880,000	GBP	(156,255)		(2,453)
Six to twelve months	USD	164,000	GBP	(106,885)	1,213	
Total					**74,499**	**(77,411)**
					Net forward currency contracts at 31 March 2013	**(2,912)**
				Open forward currency contracts at 31 March 2012	-	441
					Net forward currency contracts at 31 March 2012	**441**

Exchange Traded Derivatives held at 31 March 2013:-

Contract Type	Expiration	Book Cost	Unrealised Gain
		£'000	£'000
FTSE equity futures	June 2013	25,186	(226)

Exchange Traded Derivatives held at 31 March 2012:-

FTSE equity futures	June 2012	15,869	(514)

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

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

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

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

	31 March 2013		31 March 2012	
	£'000	%	£'000	%
Blackrock	**1,506,620**	**48.0**	1,297,622	47.1
Transition	**9**	**0**	1	0
Record	**4,893**	**0.2**	11,141	0.4
Jupiter Asset Management	**139,898**	**4.5**	115,721	4.2
Genesis Investment Management	**158,548**	**5.1**	140,717	5.1
Invesco Perpetual	**218,121**	**7.0**	173,237	6.3
State Street Global Advisors	**103,009**	**3.3**	86,241	3.1
Partners Group	**97,395**	**3.1**	71,011	2.5
Royal London Asset Management	**176,526**	**5.6**	227,558	8.3
TT International	**163,186**	**5.2**	134,334	4.9
Man Investments	**63,955**	**2.0**	63,099	2.3
Gottex Asset Management	**55,059**	**1.8**	52,820	1.9
Stenham Asset Management	**34,936**	**1.1**	33,272	1.2
Signet Capital Management	**67,197**	**2.1**	64,379	2.3
Lyster Watson Management	**-**	**0.0**	799	0.0
Schroder Investment Management	**327,563**	**10.4**	270,996	9.8
Bank of New York Mellon	**10,059**	**0.3**	7,369	0.3
Treasury Management	**8,402**	**0.3**	7,048	0.3
Total Investment Assets	**3,135,376**	**100.0**	2,757,365	100.0

Assets held in Transition are assets in the process of being transferred from former Managers.

13. SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	Value at 31st March 2013	Net Assets	Value at 31st March 2012	Net Assets
	£'000	%	£'000	%
Aquila Life UK Equity Index Fund (BlackRock)	**315,092**	**10.05%**	269,730	9.78%
BlackRock World Index Fund	**310,707**	**9.91%**	229,083	8.31%
Invesco Perpetual Global ex UK Enhanced Index Fund	**218,121**	**6.96%**	173,237	6.28%
RLPPC UK Corporate Bond Fund (Royal London)	**176,526**	**5.63%**	227,557	8.25%
Genesis Emerging Markets Investment Fund	**158,549**	**5.06%**	140,717	5.10%

14. CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2013. Debtors and creditors included in the accounts are analysed below:-

	31 March 2013		31 March 2012	
Current Assets		**£'000**		**£'000**
Contributions Receivable :-				
- Employers	**7,736**		7,306	
- Members	**2,817**		2,783	
Transfer Values Receivable	**1,640**		-	
Discretionary Early Retirement Costs	**585**		640	
Other Debtors	**505**	**13,283**	152	10,881
Current Liabilities				
Management Fees	**(911)**		(1,119)	
Lump Sum Retirement Benefits	**(547)**		(720)	
Other Creditors	**(1,545)**	**(3,003)**	(113)	(1,952)
Net Current Assets		**10,280**		8,929

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2013		31 March 2012	
Current Assets		**£'000**		**£'000**
Local Authorities	**8,050**		8,424	
NHS Bodies	**6**		-	
Other Public Bodies	**4,338**		1,764	
Non Public Sector	**889**	**13,283**	693	10,881
Current Liabilities				
Other Public Bodies	**(1,310)**		(40)	
Non Public Sector	**(1,693)**	**(3,003)**	(1,912)	(1,952)
Net Current Assets		**10,280**		8,929

The Current Liabilities as at 31 March 2012 did not include a creditor within "Other Public Bodies" for £1,243,278 PAYE due to HMRC. There were no debtors or creditors of Central Government or trading funds.

15. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2013. (March 2012 = NIL).

16. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2013 that require any adjustment to these accounts.

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

The following statement is by the Fund's actuary:

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	**4.9% per annum**	4.2% per annum
Rate of pay increases	**4.0% per annum***	3.9% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	**2.5% per annum**	2.4% per annum

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

The demographic assumptions are the same as those used for funding purposes.

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year- end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £3,869 million. The effect of the changes in assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by c.£456 million. Adding interest over the year increases the liabilities by a further c.£190 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c.£4 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2013 is therefore £4,519 million.

18. TRANSFERS IN

During the year ending 31 March 2013 there were group transfers in to the fund from Newcastle College to City of Bristol College and from Strode College to Weston College. The transfer values have not yet been confirmed. Estimated values have been included as part of the Fund's Current Assets.

19. BENEFITS RECHARGED TO EMPLOYERS

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

	2012/13	2011/12
	£'000	£'000
Benefits Paid and Recharged	**6,225**	6,049

20. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2012/13 were £953 (2011/12 - £1,156). Additional Voluntary Contributions received from employees and paid to Friends Life during 2012/13 were £418,478 (2011/12 - £452,103).

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

	31 March 2013	31 March 2012
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**582**	678
Unit Linked Retirement Benefits	**306**	310
Building Society Benefits	**264**	279
	1,152	1,267

Death in Service Benefit	**150**	150

	31 March 2013	31 March 2012
	£'000	£'000
Friends Life		
With Profits Retirement Benefits	**197**	230
Unit Linked Retirement Benefits	**3,775**	3,700
Cash Fund	**402**	442
	4,374	4,372

AVC investments are not included in the Fund's financial statements in accordance with Regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

21. RELATED PARTIES

Committee Member Related:-
In 2012/13 £37,071 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£37,926 in 2011/12). Seven voting members and one non- voting member of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2012/13. (Six voting members and two non-voting members in 2011/12, including five B&NES Councillor Members)

Independent Member Related:-
Two Independent Members were paid allowances of £7,102 and £12,778 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-
During the year 2012/13 the Fund paid B&NES Council £275,215 for administrative services (£253,542 in 2011/12) and B&NES Council paid the Fund £40,157 for administrative services (£28,574 in 2011/12). Various Employers paid the fund a total of £177,346 (£136,921 in 2011/12) for pension related services including pension's payroll and compiling data for submission to the actuary.

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

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

22. OUTSTANDING COMMITMENTS

As at the 31 March 2013 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £46,798,161.

23. KEY MANAGEMENT REMUNERATION

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

- part of the Strategic Director of Resources salary, fees and allowances (£17,393) and their employers' pension contributions (£3,107).
- part of the Head of Business Finance and Pensions salary, fees and allowances (£31,540) and their employers' pension contributions (£5,460).

24. FINANCIAL INSTRUMENTS

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

	31/03/2013	31/03/2012
Financial Assets	**£'000**	£'000
Receivables	**13,283**	10,881
Financial assets at fair value through profit or loss	**3,149,104**	2,761,527
Total Financial Assets	**3,162,387**	2,772,408
Financial Liabilities		
Payables	**16,505**	5,600
Financial liabilities at fair value through profit or loss	**226**	514
Total Financial Liabilities	**16,731**	6,114
Total Net Assets	**3,145,656**	2,766,294

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

Net gains and losses on financial instruments	**Financial assets at fair value through profit or loss**	
	2012/13	2011/12
	£'000	£'000
Losses on derecognition	**9,302**	19,427
Reductions in fair value	**10,079**	67,447
Total expense in Fund Account	**19,381**	86,874
Gains on derecognition	**53,216**	72,287
Increases in fair value	**325,040**	89,050
Total income in Fund Account	**378,256**	161,337
Net gain/(loss) for the year	**358,875**	74,463

25. FINANCIAL RISK MANAGEMENT DISCLOSURE

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

To achieve its investment objective the Fund invests across a diverse range of assets in order to manage market risks (price, interest rate and currency risk), credit risk and liquidity risk to an acceptable level.

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

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

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

(a) Market Risk

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

Market Price Risk

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

All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The Fund's strategy is to manage market price risk through the diversification of the investments held by asset class, geography and industry sector, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

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

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets within the Fund during the 3 years to 31 March 2013, in consultation with the Fund's advisors. These movements in market prices have been judged as possible for the 2013/14 reporting period. The analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. It should be noted that the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund. Only assets affected by market prices have been included. For 2013 the volatility figure at Total Assets level incorporates the impact of correlation across the asset classes which means the Total Assets increase /decrease is not the sum of the parts.

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Equities	560,825	13.1%	634,293	487,357
Overseas Equities	1,243,081	12.9%	1,403,438	1,082,723
Global inc UK Equities	196,608	12.6%	221,341	171,875
UK Bonds	317,892	6.7%	339,032	296,752
Overseas Bonds	81,487	7.6%	87,680	75,294
Index Linked Gilts	209,876	8.3%	227,317	192,435
Property	222,341	1.4%	225,521	219,162
Alternatives	221,147	3.6%	229,042	213,252
Total Assets	**3,053,257**	**7.6%**	**3,284,083**	**2,822,431**

The analysis for the year ending 31 March 2012 is shown below:

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Equities	531,761	15.6%	614,716	448,806
Overseas Equities	1,095,720	14.5%	1,254,600	936,840
Total Bonds	451,340	6.8%	482,031	420,649
Index Linked Gilts	189,658	7.8%	204,451	174,865
Property	196,951	3.3%	203,450	190,452
Alternatives	213,571	3.8%	221,687	205,455
Total Assets	**2,679,001**		**2,980,935**	**2,377,067**

The correlation between asset classes across the Total Asset level was not available for the year ending 31 March 2012.

Interest Rate Risk

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

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

	31 March 2013	31 March 2012
	£'000	£'000
Cash and Cash Equivalents	**85,895**	76,595
Fixed Interest Assets	**609,255**	640,998
Total	**695,150**	717,593

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2013 of a 1% change in interest rates (or 100 basis points (bps)). The analysis assumes that all other variables including foreign currency exchange rates remain the same.

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

	Value	Change in net assets	
As at 31 March 2013	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	85,895	-	-
Fixed Interest	609,255	(83,651)	83,651
Total	**695,150**	**(83,651)**	**83,651**

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

The same analysis for the year ending 31 March 2012 is shown below:

	Value	Change in net assets	
As at 31 March 2012	**£'000**	**+100 bps**	**-100 bps**
Cash and Cash Equivalents	76,595	-	-
Fixed Interest	640,998	(76,407)	76,407
Total	**717,593**	**(76,407)**	**76,407**

Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund's equity portfolio is invested in overseas stocks. To reduce the volatility associated with fluctuating currency prices the Fund dynamically hedges its exposure to the US Dollar, Yen and Euro. The Fund invests in the Fund of Hedge Funds' Sterling share classes which effectively eliminates currency gains and losses from the investment gains and losses.

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

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

Currency risk by asset class:

Currency Exposure - Asset Type	Asset value as at 31 March 2013	Asset value as at 31 March 2012
	£'000	£'000
Overseas Equities	1,384,728	1,095,720
Overseas Fixed Income	81,487	77,934
Overseas Property	95,729	70,333

Currency Risk - Sensitivity Analysis

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

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2013 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Overseas Equities	1,384,728	2.6%	1,420,836	1,348,620
Overseas Fixed Income	81,487	2.7%	83,655	79,319
Overseas Property	95,729	5.5%	101,005	90,453

The same analysis for the year ending 31 March 2012 is shown below:

Currency Risk by Asset Type:

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Overseas Equities	1,095,720	4.7%	1,147,054	1,044,386
Overseas Fixed Interest	77,934	4.7%	81,585	74,283
Overseas Property	70,333	4.7%	73,628	67,038

(b) Credit Risk

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

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

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

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default). Through the UK Gilt and Index Linked portfolios the Fund has significant credit exposure to the UK Government, whose credit rating was downgraded during the year.

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2013 was £18.5m. This was held with the following institutions:

	31 March 2013		31 March 2012	
	Rating	£'000	Rating	£'000
Custodian's Liquidity Fund				
Bank of New York Mellon	AA-	10,058	AAA	7,357
Bank Call Accounts				
Barclays Platinum Account	A	1,000	A	3,000
Bank of Scotland Corporate Deposit Account	A	2,500	A	3,000
RBS Global Treasury Fund	AAA	4,880	AAA	-
NatWest Special Interest Bearing Account	A-	-	A	1,020
Bank Current Accounts				
NatWest	A-	17	A	14

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

(c) Liquidity Risk

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

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liability of the Fund is the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2013 the value of the illiquid assets was £443m, which represented 14.1% of the total Fund assets (31 March 2012: £140m which represented 14.9% of the total Fund assets).

(d) Fair Value Hierarchy

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

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

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

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

Level 1 – Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. These include active listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.
Therefore in the analysis below, Level 1 includes quoted equities and government securities but excludes pooled funds that invest in these securities.

Level 2 – Financial instruments at Level 2 are those where quoted market prices are not available; for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where those techniques use inputs that are based significantly on observable market data. Therefore in the analysis below, Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities. The Fund's holding in these pooled funds can be realised at net asset value.

Level 3 – Financial instruments at Level 3 are those where at least one input that could have a significant effect on the valuation is not based on marketable data. Such instruments would include unquoted equity, property and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. Therefore in the analysis below, Level 3 includes pooled funds such as the property funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2013.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equities - Quoted	495,979			495,979
Bonds - Quoted	319,550			319,550
Pooled Investment Vehicles		1,794,239		1,794,239
Fund of Hedge Funds			221,147	221,147
Property			222,341	222,341
Cash	85,895			85,895
Derivatives: Forward FX	-2,911			-2,911
Derivatives: Futures	-226			-226
Investment Debtors /Creditors	-638			-638
	897,649	**1,794,239**	**443,488**	**3,135,376**

The fair value hierarchy as at 31 March 2012 was:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equities - Quoted	390,015			390,015
Bonds - Quoted	294,578			294,578
Pooled Investment Vehicles		1,582,642		1,582,642
Fund of Hedge Funds			213,571	213,571
Property			196,951	196,951
Cash	76,595			76,595
Derivatives: Forward FX	441			441
Derivatives: Futures	-514			-514
Investment Debtors /Creditors	3,086			3,086
	764,201	**1,582,642**	**410,522**	**2,757,365**

The 31 March 2012 table has been restated into 31 March 2013 format separating Derivatives and Investment Debtors/Creditors.

26. EMPLOYING BODIES

As at 31 March 2013 the following employing bodies had contributing scheme members in the Avon Pension Fund:

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

Scheduled Bodies: Education Establishments	
Abbeywood Community School Academy	Heron's Moor Community School
Academy of Trinity C of E	Illminster Avenue E – Act Academy
Backwell School	Kings Oak Academy
Bannerman Road Community Academy	Little Mead Primary School
Bath Community Academy	Merchant's Academy

Bath Spa University	Midsomer Norton Schools Partnership
Bedminster Down School Academy	Minerva Primary Academy
Beechen Cliff School Academy	Nailsea School Academy
Begbrook Academy	Norton Radstock College
Bridge Learning Campus Foundation	Oasis Academy Bank Leaze
Bristol Church Academies Trust	Oasis Academy Brightstowe
Bristol Cathedral Choir School	Oasis Academy John Williams
Bristol Free School Trust	Oasis Academy Connaught
Broadlands Academy	Oasis Academy New Oak
Broadoak Mathematic & Computing College	Oldfield School Academy Trust
Cabot Learning Federation	Olympus Trust
Castle School Education Trust	One World Learning Trust
Chew Stoke Church School	Orchard Academy
Christ Church C of E Primary School	Parson Street Primary School
Churchill Academy & Sixth Form	Priory Community School Academy
City of Bath College	Ralph Allen Academy
City of Bristol College	Redland Green School Academy
Clevedon School Academy	South Gloucestershire and Stroud College
Colston Girl's School Trust	St Bede's School Academy
Colston's Primary School Academy	St. Brendan's College
Cotham School Academy	St. Nicholas of Tolentine Catholic Primary School
The Dolphin Academy	St. Patrick's Academy
Downend School	St. Teresa's Catholic Primary School
EACT (St Ursula's Academy)	Summerhill Academy
Elmlea Junior School Academy	The Ridings Federation Winterbourne
Filton Avenue Infants Academy	The Ridings Federation Yate
Fosseway Special School	Trust in Learning
Frome Vale Academy	University of the West of England
Gordano School Academy	Waycroft School Academy
Greenfield Primary School Academy	Wellsway School Academy
Hans Price Academy	West Town Lane Primary School
Hareclive Academy	Westbury Park Primary School Academy
Hayesfield Girl's School Academy	Westbury-on-Trym C of E Academy
Henbury School Academy	Weston College
Henleaze Junior School Academy	Writhlington School Academy

Designating Bodies	
Almondsbury Parish Council	Oldland Parish Council
Backwell Parish Council	Patchway Town Council
Bath Tourism Plus	Paulton Parish Council
Bradley Stoke Town Council	Peasedown St John Parish Council
Charter Trustees of the City of Bath	Portishead Town Council
Clevedon Town Council	Radstock Town Council
Destination Bristol	Saltford Parish Council
Dodington Parish Council	Stoke Gifford Parish Council
Downend & Bromley Heath Parish Council	Thornbury Town Council
Easton in Gordano Parish Council	Vista SWP Ltd
Filton Town Council	Westerleigh Parish Council

Frampton Cotterell Parish Council	Westfield Parish Council
Hanham Parish Council	Weston-Super-Mare Town Council
Hanham Abbots Parish Council	Whitchurch Parish Council
Keynsham Town Council	Winterbourne Parish Council
Mangotsfield Rural Parish Council	Yatton Parish Council
Midsomer Norton Town Council	Yate Town Council
Nailsea Town Council	

Admitted Bodies	
Active Community Engagement Ltd *	ISS Mediclean Ltd *
Agilisys *	Keeping Kids Company *
Agincare Ltd *	Keir Facilities Services Ltd *
Alliance Homes	Liberata UK Limited *
Aquaterra Leisure *	Learning Partnership West (CAB)
Aramark Ltd *	Learning Partnership West Ltd *
Ashley House Hostel	Merlin Housing Society Ltd
BAM Construct UK Ltd *	Mouchel Business Services Ltd *
Bath &NE Somerset Racial Equality Council	The Park Community Trust
Bristol Disability Equality Forum	Quadron Services Ltd*
Bristol Drugs Project *	Tone Leisure Trust *
Bespoke Cleaning Services Ltd *	Off The Record Bath & Nrth East Somerset
Bristol Music Trust	Prospect Services Ltd *
The Brandon Trust *	Shaw Healthcare (North Somerset) Ltd*
The Care Quality Commission	Sirona Care & Health CIC
Cater Link *	SITA Holdings UK Ltd. *
Centre For Deaf People	Skanska Rashleigh Westerfoil*
Churchill Contract Services Ltd *	SLM Community Leisure *
Circadian Trust *	SLM Fitness and Health *
Clifton Suspension Bridge Trust	Sodexo Ltd *
Creative Youth Networks *	Southern Brooks Community Partnership
CT Plus (CIC) *	Southwest Grid for Learning Trust
Curo Group	University of Bath
Direct Cleaning (SW) Ltd *	UPP Residential Services Ltd *
Eden Food Services *	Vision North Somerset
English Landscapes*	West of England Sports Trust
Holburne Museum of Art	

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

The Statement of Responsibilities for the Avon Pension Fund Accounts

Bath & North East Somerset Council's responsibilities

The Council is required to:

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

Divisional Director of Finance responsibilities

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

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

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

The Divisional Director of Finance has also:

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

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Avon Pension Fund at the accounting date and the income and expenditure for the year ended 31 March 2013.

Tim Richens

Divisional Director of Finance
(S151 Officer)

September 2013

Audit Opinion on the Accounts of the Avon Pension Fund

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

The audit opinion on the Avon Pension Fund provided by the Audit Commission can be found on page 58.

Auditors Report
Independent Auditor's Report to the Members of Bath & North East Somerset Council

Opinion on the pension fund accounting statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the
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This report is
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purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Divisional Director of Finance and Auditor

As explained more fully in the Statement of the Divisional Director of Finance's Responsibilities, the Divisional Director of Finance is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on accounting statements

ounting statements:

nancial transactions
ear ended 31 March
sition of the fund's
rch 2012; and
accordance with the
e on Local Authority
m 2011/12.

Opinion on other matters

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

Matters on which I report by exception

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

Wayne Rickard

District Auditor

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

28 September 2012

Five Year Summary of Financial Statistics

Year Ended 31 March	2009	2010	2011	2012	2013
Revenue Account	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Income					
Net Contributions	125.3	134.7	139.5	138.0	135.0
Investment Income	19.9	16.0	22.6	27.7	29.0
Net Cash Transfer	4.8	0.3	0.5	1.7	2.1
Total	150.0	151.0	162.6	167.4	166.1
Expenditure					
Pension & Benefits	105.2	115.1	121.7	129.2	136.7
Investment Management Expenses	5.0	6.9	7.2	9.2	10.1
Administration Costs	2.0	1.9	2.1	2.0	2.1
Total	112.2	123.9	131.0	140.4	148.9
Surplus for the Year	**37.8**	**27.1**	**31.6**	**27.0**	**17.1**
Revaluation of Investments	**(396.4)**	**612.4**	**177.9**	**71.2**	**363.6**
Change in Fund Value	(358.6)	639.5	209.5	98.2	380.7
Total Fund Value	**1,819.1**	**2,458.6**	**2,668.1**	**2,766.3**	**3,147.0**

Pension Increase

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

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

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

Year Beginning April	Rate of Increase %	Index
2004	2.8	RPI
2005	3.1	RPI
2006	2.7	RPI
2007	3.6	RPI
2008	3.9	RPI
2009	5.0	RPI
2010	0.0	RPI
2011	3.1	CPI
2012	5.2	CPI
2013	2.2	CPI

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

The increases shown above also apply to deferred pensions.

Contact Names

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

Martin Phillips
Pension Fund Accountant

Liz Woodyard
Investments Manager

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

Steve McMillan
Pensions Manager

Or you can write to us at:

Avon Pension Fund
Floor 3 South
Riverside, Temple Street,
Keynsham,
BS31 1LA

Tel: 01225 477000
Fax: 01225 395258

Alternatively, email us at
avonpensionfund@bathnes.gov.uk

Further general information regarding the Avon Pension Fund can be found at:
www.avonpensionfund.org.uk

Appendix

Local Goverment Pension Scheme
How the Local Government Pension Scheme Works

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

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

The benefits of all other active members come under the new LGPS Regulations, which mainly came into effect on 1 April 2008. These are:
- LGPS (Benefits, Membership & Contributions) Regulations 2007
- LGPS (Administration) Regulations 2008
- LGPS (Transitional Provisions) Regulations 2008

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

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

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

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

The Fund has members from over 139 employers which are classed as 'scheduled bodies', 'designating bodies' or 'admission bodies'. They are listed on pages 50-51. Scheduled bodies are defined in the Regulations and their employees have a statutory right to participate in the LGP. Admission bodies fall into two categories – those who apply to join on an autonomous basis and those who are entitled to join as part of a Best Value arrangement with an existing fund employer; in each case, they must satisfy specific criteria set out in the Regulations.

Contributions

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

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

The employer contribution rates are assessed every three years following an actuarial valuation. A list of participating employers together with their contribution rates is shown on pages 23-26.

Benefits

The LGPS provides significant benefits to members. The following summary is provided as an illustrative guide only and is not intended to give full details of all the benefits provided or all of the specific conditions that must be met before benefits can be obtained.
- Annual Pension. The LGPS is defined benefit scheme. The pensions of most members are based on 1/80th of final pensionable pay for each year of membership until 31 March 2008 and 1/60th of final pensionable pay for each year of membership thereafter. The pensions of Councillor Members are based on 1/80th of their career average pay for each year of membership.
- Pensions Increase Orders made under the Social Security Pension Act 1975 provide for pensions to be assessed in line with an index specified by the government. Historically this was the Retail Price Index but from April 2011 the government changed the index to the Consumer Price Index. The increases implemented over the last ten years are shown on page 55.
- Lump Sum Retirement Grant. In addition to an annual pension, most LGPS members receive a tax-free 'lump sum retirement grant' of three times annual pension on membership up to 31 March 2008. At retirement, a member will also be able to give up part of their annual pension to provide an additional lump sum. Each £1 of annual pension given up will buy £12 of lump sum. The lump sum of Councillor Members is based on 3/80th of their career average pay, also with the option of giving up part of their pension to provide additional lump sum as above.
- Deferred Benefits. Members who leave their employment or opt out of the LGPS with membership of 3 months or more, or with less than 3 months membership but have transferred service in, are entitled to Deferred Benefits and will have their benefits preserved in the Fund until retirement or they can be transferred to another approved pension arrangement.
- Refund of Contributions. A refund of contributions will be paid to members who leave employment with less than 3 months membership, provided they have not transferred in any additional membership.
- Death Benefits. When a member dies in service, a lump sum death grant is payable. For most Active Members, this is the equivalent of three times the member's final year's pensionable pay. For Councillor Members, this is the equivalent to twice the member's career average pay.

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

Glossary

Accrual Rate

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

Actuary

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

Active Investing

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

Annual Allowance

The amount of pension savings specified by HMRC that an individual can accrue in a tax year before becoming potentially liable for tax. Any unused allowance from the three previous years can be used to offset. Where eligible, the member can elect for the pension fund to pay the tax, if it exceeds £2,000, and have their pension adjusted accordingly (this is known as 'Scheme Pays')

Civil Partnership

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

Consumer Price Index (CPI)

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

Community Admission Bodies

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

Corporate Bonds

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

Customised Benchmark

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

Deferred Pension

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

Designating Body

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

Discretionary Compensatory Added Years

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

Equities

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

Final Salary Scheme

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

Fixed Interest Government Securities

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

Hedge Funds

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

Independent Members

Voting members of the Avon Pension Fund Committee who are not councillors and who have no political attachments. There are two such members on the committee, appointed principally because of the financial/investment expertise which they have acquired in the course of their professional careers.

Indexed-Linked Government Securities

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

Lifetime Allowance

The total amount of pension savings, specified by HMRC, that can be provided to an individual without incurring a tax charge. This includes pension benefits accrued in all tax 'registered' pension schemes.

Market Value

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

Myners Principles

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

Nominated Co-habiting Partner

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

Normal Retirement Age

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

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

Pooled Funds

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

Retail Price Index (RPI)

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

Rule of 85

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

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

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

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

Transferee Admission Bodies (Scope Body)

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

Unlisted Securities

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

WM Local Authority Average

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

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Alternative Formats

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

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Bath & North East Somerset Council

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**27 SEPTEMBER 2013**	**AGENDA ITEM NUMBER**
TITLE:	**FUNDING STRATEGY STATEMENT 2013**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Funding Strategy Statement Appendix 2 – Comments from Employing Bodies		

1 THE ISSUE

1.1 The Local Government Pension Scheme (LGPS) regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The FSS sets out the key assumptions which the actuary has used in preparing the actuarial valuation and, in those cases where the Administering Authority has some discretion, the policies adopted by the Administering Authority. A Committee workshop was held on 21 June 2013 to discuss the broad principles in the FSS prior to it being drafted and circulated to the employing bodies for comment. The deadline for receipt of comments was 10 September 2013.

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

1.3 The actuarial outcome will be reported to Committee at December 2013 meeting

1.4 Individual employer results will be disseminated in October and November. An Investment Forum has been arranged for 22 November 2013.

2 RECOMMENDATION

The Committee approves the:

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

3 FINANCIAL IMPLICATIONS

3.1 The actuarial costs for reviewing the FSS is included in the 2013 actuarial valuation fee and is provided for in the 2013/14 budget.

4 BACKGROUND

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

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

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

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

4.4 It is not anticipated that, unless there is a significant change in the Fund's investment policy, the management of employing bodies, to the structure of the LGPS or regulations, the FSS will be revised until the next actuarial valuation in 2016.

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

5 COMMITTEE WORKSHOP AND CONSULTATION WITH EMPLOYING BODIES

5.1 At the Committee workshop on 21 June 2013, the actuary gave a presentation on the actuarial valuation process and the basis for the assumptions to be used in the valuation. Following the presentation, the Committee agreed the broad principles to be included in the draft FSS.

5.2 The draft FSS was circulated to the employing bodies with comments required by 10 September 2013. Those comments which have been received are summarised in Appendix 2.

5.3 The comments received from the employing bodies were not such as to prompt any change in the FSS as agreed at the Committee workshop. Details are set out in the next section.

6 COMMENTS ON RESPONSES FROM EMPLOYING BODIES

6.1 There were no responses that required action prior to the valuation being undertaken. Where the approach taken in the FSS has been questioned, an explanation has been provided to the relevant employer.

6.2 In general the respondents are supportive of the approach being taken in the FSS.

6.3 Evidence of short term pay constraint from employing bodies ***will*** be taken into account by the Actuary (as it was in 2010). However, the Actuary is required to use an assumption for long term pay growth that is aligned to the long term liability profile and the assumption used is based on actual Fund experience. If there is evidence in the future that the basis on which local government pay is based alters, then this will be taken into account in future valuations.

6.4 South Gloucestershire Council questioned whether future valuation gains should be shared with the employer rather than solely used to reduce deficit recovery periods towards the Fund's medium term objective of 15 years. The FSS is aiming for stability of contributions in order to manage both adverse and positive movements in the funding level and the deficit recovery period is the mechanism that dampens any increase or decrease in contributions in order to achieve stability. In 2010 the deficit recovery period was temporarily extended to keep contributions as stable as possible and in 2013 the recovery period is being maintained to aid stability. Therefore, it is reasonable to use improvements in the funding position in the future to move towards the medium term objective. This would build in flexibility to lengthen recovery periods in the future if there is an adverse movement in the deficit in order to maintain stable contributions.

6.5 University of Bath questioned the process for moving certain admitted bodies on to the Sterling AA Corporate Bond basis. The Fund would discuss with the relevant body prior to any change and would only do so after a detailed covenant assessment had been undertaken that justified such a change in the valuation basis.

6.6 The FSS included the potential to alter the contribution rates set at 2013 if any ill-health retirement costs are subsequently insured by a 3rd party or internally within the Fund. Before the 2016 valuation it is intended that the Fund will explore the options for insuring against ill-health retirement costs for the smaller employers. All employing bodies would be consulted as part of the exercise.

7 RISK MANAGEMENT

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

8 EQUALITIES

8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

9.1 This is reporting the outcome of a consultation process.

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 Are contained in the report.

11 ADVICE SOUGHT

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

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

AVON PENSION FUND

FUNDING STRATEGY STATEMENT (FSS)

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

1. Introduction

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

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

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

The Scheme is a defined benefit one with its benefit structure having been reviewed recently by the Government. Members will have final salary benefits for service accrued prior to 1 April 2014 with Career Averaged Revalued Earnings ("CARE") benefits accruing on and after this date.

The Scheme's governing legislation currently consists of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the "BMC Regulations" and the Administration Regulations referred to above. New legislation *{The Local Government Pension Scheme Regulations 2013}* governs the Scheme from 1 April 2014. The required level of employee contributions is specified in the *{new legislation}*.

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

2. Purpose of the FSS in policy terms

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

The purpose of this Funding Strategy Statement is:

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

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

3. Aims and purpose of the Pension Fund

The aims of the fund are to:

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

The purpose of the fund is to:

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

(all the above items as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government

Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)).

4. Responsibilities of the key parties

The Administering Authority should:

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

The Individual Employer should:

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

The Fund Actuary should:

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

5. Solvency issues and target levels

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

The financial assumptions making up the funding strategy in respect of past service and as adopted for the 2013 valuation are:

Rate of discount	4.70% per annum
Rate of Pensionable Pay Inflation	4.10% per annum
Rate of CPI inflation	2.60% per annum
Rate of pension increase inflation	2.60% per annum

The key financial assumptions for Past Service are as follows:

- the extent to which the Fund's investments are expected to outperform a portfolio of Government bonds ("asset outperformance assumption" – AOA). An AOA of 1.6% per annum has been assumed.
- the expected rate of Pensionable Pay increase above CPI price inflation ("real Pensionable Pay growth"). This has been assumed to be 1.50% per annum in the long term (see further comments below).
- The expected rate of indexation of benefits accrued post 1 April 2014 up to retirement will be in line with the CPI inflation assumption.

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

The rate of pensionable pay inflation relates to pay increases for scheme members during their period of employment (this will determine the level of their final salaries, on which the pension is based). If the actual rate of pensionable pay inflation is greater than the actuary's assumption the liabilities relating to pre 1 April 2014 benefits for active members will increase and therefore the Fund deficit will increase. If it is lower then the Fund deficit will be reduced (again, provided that all the other assumptions remain valid).

For many of the employers that participate in the Fund, there is still significant downward pressure on future pay increases especially in the short term. The Administering Authority will take into account any short-term pay expectations based on reasonable evidence from the employers (such as that built into financial plans) and/or nationally proposed pay inflation.

The rate of price inflation applies primarily to pensions in payment and the assumption incorporates an adjustment to allow for supply/demand distortions in the bond market which is used to derive the market implied rate as at the valuation date. The rate of price inflation is important as retirement pensions are increased each April by the Consumer Price Index applying in the previous September. The CPI assumption will be calculated by making a 1% p.a. downward adjustment to the market implied RPI assumption at the valuation date. This adjustment is to take account of general market trends, the risk premia and the fact that the CPI in the long term is systematically lower than RPI due to methodology.

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

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

The future service basis for the 2013 valuation assumes a real rate of discount in excess of price inflation of 3.0% per annum. This is a reduction compared to the previous valuation which to some extent reflects the continuing trend of increasing pension costs due to falling interest rates and yields applying at the valuation date.

The 2013 valuation takes into account modified longevity (pre & post retirement), ill & normal health rates of early retirement and proportions married assumptions compared to that adopted at the previous valuation following an analysis of Fund experience carried out by the Fund Actuary. It also assumes that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, builds in a minimum level of longevity 'improvement' year on year in the future (for both past and future service liabilities).

The following two tenets underpin the 2013 valuation:

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

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

  - some allowance for interest rates and bond yields to revert to higher levels over the medium to long term; and
  - whether some allowance for increased investment return (in excess of AOA) can be built into the funding plan over the agreed recovery period.

In considering this the Actuary, following discussions with the Administering Authority, will consider if this results in a reasonable likelihood that the funding plan will be successful.

The current actuarial valuation of the Fund is effective as at 31 March 2013. The results indicate that overall the assets of the Fund represented [tbc]% of projected accrued liabilities at the valuation date.

Prior to 2004 any shortfall of assets relative to liabilities was recovered over a period of 15 years, which broadly equated to the expected future working lifetime of the active members at that valuation. At the 2004 valuation, the administering authority increased the maximum recovery period from 15 to 20 years and this position remained unchanged at the 2007 valuation. At the 2010 valuation recognising the pressures on public sector finances the maximum recovery period for Scheduled and Designating Bodies was increased to 30 years with the aim of maintaining a stable rate of contribution, subject to certain conditions. The intention was to reduce this at each subsequent valuation by three years or more quickly subject to affordability constraints. In the longer term this would benefit employers due to reduced interest costs on the deficits.

We would apply similar conditions to the 2013 valuation, as well as a maximum recovery period of 27 years as follows:

i. there being no reduction from the 2010 levels in the monetary value of each employer's deficit contributions payable including future indexation of the annual monetary amounts
ii. an assessment of the strength of the employer's financial covenant where the resulting analysis would support employer specific adjustments to the deficit recovery period being applied
iii. recognition of the need to use any improvements in the funding position and/or affordability of contributions for an individual employer at the 2013 valuation to reduce the deficit recovery period initially towards the 2007 position.

Academies

At the 2010 valuation the Actuary drew the Fund's attention to the uncertain position regarding the willingness of the government to guarantee the outstanding pension liabilities of a scheduled body, in particular, a college or academy. Because there were no immediate concerns about the financial covenant over the next three years, the same maximum deficit recovery period was applied to the colleges and academies as to the scheduled bodies.

In July 2013, the Department for Education (DfE) provided a guarantee that in the event of the closure of an Academy Trust, any outstanding pension liabilities would not revert to an LGPS fund. In the first instance, where an Academy Trust closes, the liabilities will be met from the Trust's assets on closure (the Secretary of State has the power to determine how the assets of an Academy Trust are disposed). Any remaining outstanding LGPS deficit would then be met by the DfE in full. However, the DfE and the Treasury reserve the right to withdraw the guarantee at any time. Grounds for withdrawing the guarantee include if the contingent liability levels set by the DfE are exceeded or if projected costs are no longer affordable from within the DfE's existing budget or are not approved by the Treasury. The Treasury also reserves the option to re-assess the approval of the guarantee at a later date, as appropriate, due to spending considerations or policy developments. Therefore the Fund's policy is to treat the academies in line with the unitary authorities in terms of the flexibility afforded under the 2013 funding strategy. However, in the event the guarantee is withdrawn or amended or there is a specific incidence of the government leaving an academy deficit with a LGPS fund, the Fund will amend this policy to reflect any material detriment to covenant of the academies.

The Government's guarantee does not extend to Higher/Further Education bodies. These bodies will be subject to the strength of their individual covenant assessment and this will determine the extent to which flexibility within the funding plan can be applied.

In addition, special arrangements continue to apply so far as the admitted bodies are concerned (see Appendix 1).

Contingent Assets and security

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. Generally this would result in a longer recover period being acceptable to the Administering Authority.

The maximum recovery periods are summarised in the table below.

Employer Category	Maximum Deficit Recovery Period
Tax-raising Scheduled and Designating Bodies (except Bath Tourism Plus and Destination Bristol)	27 years
Academy Trusts	In line with their original LEA schools group
Higher Education Bodies (Universities)	27 years
Further Education Bodies (Colleges)	25 years
Community Admission Bodies (guaranteed by another Scheme Employer within the Fund)	27 years subject to agreement with Guarantor but will be no longer than the recovery period of the guarantor.
Community Admission Bodies (with no guarantee), Bath Tourism Plus and Destination Bristol	Determined on a case by case basis
Transferee Admission Bodies (guaranteed by the letting Scheme Employers)	Deficit recovery period to be agreed with the letting scheme employer but will be no longer than the letting scheme employer recovery period

Employers will be able to select any shorter deficit recovery period than the periods adopted under this funding plan.

Ideally, the Fund would have been seeking to move back to a lower deficit recovery period at this stage but, in view of the continuing funding pressures this has not proved practicable. In particular savings from the new scheme anticipated at the 2010 valuation which might have reduced the deficits have not materialised due primarily to the full protection of accrued benefits up to 2014. Nevertheless **any savings arising from an improvement in the funding position at future valuations will be used to reduce the deficit recovery period**. Only after this has been achieved, will any reductions in employer contribution rates be considered. The medium term objective is to recover any deficit over a maximum of 15 years.

For this valuation, where the Actuary determines that an increase in contribution rates is necessary to restore full funding, the Fund will consider allowing employing bodies to phase in the increase over a period not normally exceeding three years. However, it should be noted that it may not be possible for the Actuary to extend this facility to all employers and in particular certain admitted bodies.

For those bodies with a weaker covenant, the Administering Authority will need to balance the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. At a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

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

In order to enable the employing bodies to exercise their discretion within the maximum deficit recovery period, they will be given detailed information by the Avon Pension Fund.

6. **Admitted Bodies, Destination Bristol, Bath Tourism Plus and VISTA SWP**

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

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

- **an "ongoing" valuation basis; consistent with the 2013 actuarial valuation assumptions but updated for market yields/inflation applying at the cessation date, or**
- **a "corporate bond yield" basis; consistent with the 2013 actuarial valuation assumptions, updated for market yields/inflation applying at the cessation date but with a discount rate based on the long dated Sterling AA Corporate Bond yield of appropriate duration**,

whichever produces the higher liability value.

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

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

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

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

The results of the 2013 valuation show the liabilities to be [tbc]% covered by the current assets, with the funding deficit of [tbc]% being covered by future deficit contributions.

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

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

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

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for out-performance of the investments or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. On this basis of assessment, the assessed value of the Fund's liabilities at the 2013 valuation would have been significantly higher, resulting in a funding level of [tbc]%.

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

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

Asset Class	% of Fund	Expected Return over gilts (long term, p.a.)
UK Equities	15%	3.75%
Developed Overseas Equities	25%	3.75%
Emerging market Equities	10%	4.25%
Diversified Growth Funds	10%	3.75%
Index-Linked Gilts	6%	-0.25%
Fixed Coupon Gilts	3%	0%
UK Corporate Bonds	8%	1.0%
Overseas Fixed Interest	3%	1.0%
Fund of Hedge Funds	5%	1.5%
Infrastructure	5%	2.5%
Property	10%	2.5%

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

The long term funding target adopted for the 2013 valuation is based on an assumed asset out-performance of 1.6% per annum. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy set out in the SIP.

8. Identification of risks and counter-measures

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

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

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

[chart to be inserted]

Financial

The financial risks are as follows:-

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

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

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

Demographic

The demographic risks are as follows:-

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

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

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

Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

The regulatory risks are as follows:-

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

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

Governance

The Avon Pension Fund Committee has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it will be circulating copies of the first draft to all employing bodies for their comments and will also place a copy on the Fund's website. The first draft is being released after consultation with Members of the Avon Pension Fund Committee; the final version will be approved at the Committee's meeting in September 2013 after the Fund has received feedback from the employing bodies.

Governance risks are as follows:-

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

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

9. Monitoring and Review

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

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

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

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

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

Avon Pension Fund
August 2013

FUNDING STRATEGY STATEMENT – APPENDIX 1

ADMITTED BODIES including DESTINATION BRISTOL, BATH TOURISM PLUS & VISTA SWP

Introduction

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

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

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

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

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

3. As mentioned above, community admission bodies in the Avon Pension Fund are a diverse group. Some are financially very secure in that they receive funding from either the government or local authorities on a quasi-permanent basis. Others either have short-term funding contracts with local authorities, which may not be renewed when they expire, or depend heavily on various forms of fund raising. Most of the recently admitted bodies are backed by a guarantee; however, those which were admitted prior to 2004 will have no such backing and, as such, will constitute a potential risk to the Fund. This is because they may cease operations with insufficient residual assets to meet their pension liabilities.

4. The risks associated with admitted bodies have always existed but these risks have assumed a higher profile recently because most employing bodies now have a deficit of assets relative to liabilities. It is important

that, in the interests of the other employing bodies, as much as possible is done to manage the risks associated with the admitted bodies. There is also the question of the basis on which the liabilities of the admitted bodies are valued by the actuary when the admitted body leaves the Fund. These have always been valued on a stronger basis (= higher funding target) than that used for the triennial valuation.

Valuation Basis

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

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

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

   - **an “ongoing” valuation basis consistent with the 2013 actuarial valuation assumptions but updated for market yields/inflation applying at the cessation date,**

   or

   - **a “corporate bond yield” basis consistent with the 2013 valuation assumptions, updated for market yields/inflation applying at the cessation date but with a discount rate based on the long dated Sterling AA Corporate Bond yield of appropriate duration,**

   whichever produces the higher liability value.

   The theory is that, if the assets left by the admitted body are invested in corporate bonds, the Fund can be assured of achieving a return which would approximate to the underlying liabilities and thereby eliminate most of the investment risk arising from “orphan liabilities” (but not inflation or longevity risk). The Sterling AA Corporate Bond yield is, of course, the discount rate currently used for FRS 17/IAS19 purposes, albeit over a range of durations appropriate to the underlying liabilities.

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

9. Currently only a small number of admitted bodies are in the position of having their liabilities valued on the Sterling AA Corporate Bond basis. Unfavourable financial circumstances will make it difficult to move more admitted bodies onto the corporate bond basis without compromising their financial stability.

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

Transferee Admission Bodies

11. As at 31 March 2013 the transferee admission bodies in the Avon Pension Fund, listed by outsourcing Scheme Employer were as follows:-

Bath & North East Somerset Council
- Aquaterra Leisure Ltd.
- Direct Cleaning Services (SW)
- Mouchel Business Services Ltd

Bristol City Council
- Active Community Engagement Ltd
- BAM Construction UK Ltd
- Bristol Drugs Project
- Creative Youth Network
- CT Plus
- Churchill Contract Services Ltd
- Eden Food Services
- English Landscapes
- Genuine Dining Ltd
- ISS Mediclean
- Keeping Kids Company
- Learning Partnership West
- Quadron Services Ltd
- SLM Community Leisure
- SLM Fitness and Health
- Skanska Rashleigh Weatherfoil

Cabot Learning Federation
- ISS Mediclean
- Skanska

City of Bristol College
- Aramark Ltd

Oasis Community Learning
- Keir Facilities Services
- Sodexho

North Somerset Council

Agilisys
Liberata
Mouchel Business Services – Nailsea IT
Shaw Healthcare (North Somerset) Ltd
The Brandon Trust
Tone Leisure

South Gloucestershire College

Bespoke Cleaning Services Ltd
Cater Link Ltd

South Gloucestershire Council

Circadian Trust
SITA Holdings UK Ltd.

University of Bath

UPP Residential Services Ltd

12. Until the Funding Strategy Statement was last revised in March 2012, an outsourcing scheme employer had a choice as to whether, at the conclusion of a transferee admission agreement, they left the liabilities of the transferee admission body with the Fund or took them back in-house. For transferee admission agreements which commenced after March 2012, the Fund's policy is that the liabilities of a transferee admission body will in all cases revert to the outsourcing scheme employer when the agreement ceases.

13. For those transferee admission agreements which were in operation as at 16 March 2012, the relevant outsourcing scheme employers will, prior to the 2013 valuation being finalised, indicate whether they intend to take the transferee admission body's liabilities back in-house when the agreement ceases or whether they intend to leave them with the Fund. This will enable the liabilities to be managed more effectively from an actuarial standpoint.

Community Admission Bodies (with guarantee)

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

15. As at 31 March 2013 the community admission bodies in the Avon Pension Fund supported by a guarantee were as follows:-

Guaranteed by South Gloucestershire Council:

Merlin Housing Society Ltd. (Transferred Staff Only)

Guaranteed by North Somerset Council:

Alliance Homes

Guaranteed by Bath & North East Somerset Council:

Sirona Healthcare

Guaranteed by Bristol City Council:

Bristol Music Trust
Disability Equality Forum
Park Community Trust

Multiple guarantors:
Southwest Grid for Learning Trust
West of England Sport Trust (Wesport)

16. Where a body is guaranteed by a single employer the relationship between the community admission bodies and the "outsourcing" employer is, from the Fund's standpoint, much the same as for transferee admission bodies. The Fund will accordingly seek to establish at the outset the policy stance of the outsourcing employer with regard to the treatment of the community admission body's liabilities both on an ongoing basis and on closure.

17. The admission agreement for Southwest Grid for Learning Trust involves multiple guarantors, many of whom are not employers in the Avon Pension Fund. In this case it is not practical for any deficit on closure to be transferred to another employer in the Fund. The Sterling AA Corporate Bond valuation basis would therefore apply on closure and the Fund will be discussing with Southwest Grid for Learning Trust the feasibility of adopting this valuation basis at the 2013 valuation.

18. Wesport is guaranteed by the four unitary councils. It was agreed with these Councils that the Sterling AA Corporate Bond valuation basis should apply from the outset.

19. In those cases where a guarantee exists the scheme employer has a choice as to whether to take the community admission body's liabilities back in-house when the admission agreement ceases or leave them with the Fund. This choice will continue to apply for those bodies which were in the scheme prior to 16 March 2012. However, for admission agreements which commenced after that date, the guaranteeing scheme employer is, as mentioned above, required to exercise that choice at the outset. For those in place prior to 16 March 2012, the choice must be exercised before the 2013 valuation is finalised.

Community Admission Bodies (without guarantee)

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

21. As at 31 March 2013 the community admission bodies in the Avon Pension Fund without a guarantee were as follows:-

Ashley House Hostel
Bath & North East Somerset Racial Equality Council
Care Quality Commission

Centre for Deaf People
Clifton Suspension Bridge Trust
Holburne Museum of Art
Learning Partnership West Ltd
Merlin Housing (new staff)
Off The Record Bath & North East Somerset
Somer Community Housing Trust
Somer Housing Group Ltd
Southern Brooks Community Partnership
University of Bath
North Somerset Levels ITB
Woodspring Association for Blind People

22. The Administering Authority's approach to agreeing the funding plans of admitted bodies will have regard to the financial strength of each individual body. The aim will be to achieve a balance between securing the solvency of the Fund and the sustainability of the organisation. For those with less secure income streams, the Fund will consider how it can manage contributions into the Fund in the short to medium term without compromising the financial stability of the organisation. Where there are assets or reserves, the Administering Authority will explore how these contingent assets could be used to assist in funding the liabilities or providing security to the Fund and its employing bodies.

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

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

25. The bodies to which this "link" relates are limited to:

Centre for the Deaf
Off the Record Bath & North East Somerset
Southern Brooks
Woodspring Association for Blind People

In view of the small number of bodies that fall into this category and the minimal impact which “linking” would have on the “linked funders”, the Fund will take account of this “link” in the event that outstanding liabilities are left with the Fund.

26. Learning Partnership West is a body linked to the four local authorities in that it has provided a service for the Councils but the pension liabilities are not guaranteed by these councils. However, in light of changes to the funding of this service, the Councils have entered an agreement with LPW to fund the pension liabilities in the event that the funding is withdrawn (by one or more of the Councils). In the event that this agreement fails, the Fund will instruct the Actuary to apportion the outstanding liabilities equitably between the unitary authorities.

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

Destination Bristol, Bath Tourism Plus and Vista SWP

28. The Fund remains concerned that there is no provision in the Regulations for the Scheme Employers which “control” Bath Tourism Plus and Destination Bristol to underwrite the liabilities of those bodies and has brought this matter to the attention of the Government. However, despite the Fund’s representations, the Government has declined to address this issue when drafting new scheme regulations. Given the present situation where there is no guarantee in place the case for moving to a Sterling AA Corporate bond basis remains and will be explored with the employers as part of the 2013 valuation.

29. In the case of Vista SWP, Bristol City Council was given the option of either taking over the assets and liabilities of the body on closure or having the future service rate based on corporate bond yields from the outset. It opted for the former.

Valuation 2013

30. The Fund’s officers will monitor the admitted bodies on a regular basis to assess the scope for paying off any deficit within a realistic timeframe. In particular at this valuation affordability considerations will be paramount and action to accelerate deficit recovery will be difficult. However, when setting the individual funding plans the Administering Authority will be looking to protect the Funds and other participating employers’ interests.

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Appendix 2

Responses to Funding Strategy Statement

Employing Body	Comments
Bath Spa University	• Broadly supportive of the proposals and assumptions • Confirmed pay restraint in short term
University of Bath	• Broadly supportive with the approach that the Authority intends to take to the determination of the maximum deficit recovery period and the financial and other assumptions relating to past service and future service. • As an Admitted Body, they understand the desirability of moving to a Sterling AA Corporate Bond basis of valuation for the liabilities of certain admitted bodies in order to protect the Funds and the interests of other participating employers, however, the financial stability and longevity of the University of Bath does not warrant such a move and would be extremely concerned if there was any indication that that Authority was contemplating this. They would expect there to be substantial discussion of the rationale for any proposed change to the basis of liability valuation before a funding plan is agreed.
South Gloucestershire Council	• Supportive in general terms that the FSS approach and assumptions are reasonable in the circumstances. • Ill Health Insurance – the implications of this approach will need to be quantified as part of the separate consultation prior to being incorporated in the 2016 valuation before a judgement can be made • Pay Growth Adjustment – the short term pay expectations adjustment needs to be incorporated in the 2013 valuation given the likely pay scenario over the next valuation period is a continuation of 1% pa pay awards coupled with the abolition of increments from 2015/16 across the wider public sector with the probable consequence that Government will presume that the Local Government Employers will do the same and will fund the sector in the 2015/16 Finance Settlement on this basis to force the LGE‘s hand. This suggests the longer term presumption of 1.5% real above CPI, is likely to overstate the short term reality and this may also create a need to revise the longer term post 2016 assumption. South Gloucestershire would welcome further discussion on the pay assumptions to be used for the short term in respect of the 2013 valuation. • Deficit Recovery Period – whilst appreciating what the Actuary is seeking to achieve, the funding position of Employers is likely to be under increasing pressure for an extended period including well beyond the next valuation period so the proposed use of any valuation gains at the 2016 valuation should be shared with Employers and not solely used to reduce the deficit recovery period as is proposed. The Government’s public sector austerity measures are likely to continue until at least 2018/19 and potentially to 2020/21, so consideration of the ability to shrink the deficit recovery period further may need to be deferred to the 2019 valuation at best.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**27 September 2013**	**AGENDA ITEM NUMBER**
TITLE:	**LGPS 2014 UPDATE [INCL. RESPONSE TO DCLG CONSULTATION]**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Avon Pension Fund Response – [Benefits] 2th August 2013 with Annex 1 Appendix 2 – Avon Pension Fund Response – [Councillors] 5th July 2013		

1 THE ISSUE

1.1 The purpose of this report is to present to Committee an update of current events concerning the new Local Government Pension Scheme 2014 [LGPS 2014], including the responses to the consultations received on draft regulations. Actual regulations are expected to be in place for implementation of the new scheme from 1 April 2014.

1.2 As reported at the June Committee, a further consultation document with draft regulations was issued by the Department of Communities and Local Government '[DCLG] on 20 June 2013, concerning further changes made to the Benefit Regulations as a result of the consultation responses already received in February and May 2013. The closing date for response was 2 August 2013. A copy of the response made by Bath and North East Somerset as administering authority is attached as Appendix 1 together with accompanying annex.

1.3 Also reported was the discussion document in respect of Councillors Pensions and a copy of the response letter is attached as Appendix 2

1.4 At the meeting officers will give a verbal update on the latest developments on LGPS 2014.

2 RECOMMENDATION

That the Committee:

2.1 Note the response made in August 2013 by Bath and North East Somerset Council in connection with the relevant consultations

3 FINANCIAL IMPLICATIONS

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

3.2 There are no specific financial implications.

4 LGPS 2014: Responses to consultations on draft Regulations 2013

4.1 In view of the fact that the LGPS 2014 has to be operational from 1 April 2014 the period for response in each case was reduced from the normal 12 weeks to 6 weeks.

4.2 The draft consultation concerned changes made to the benefit regulations previously consulted upon earlier this year. Like the previous draft the consultation concerned changes of a technical nature involving regulations and their interpretation. A response was made to this on 2nd August 2013 [Appendix 1 with Annex 1]

4.3 There was some suggestions in Government that the facility for allowing Councillors to be in the LGPS should be removed, however the consultation regarding this put forward 3 options.

1. ALLOW CONTINUED MEMBERSHIP
2. ALLOW FOR SELECTED ELECTED INDIVIDUALS AND CABINET MEMBERS
3. REMOVE FACILITY FOR MEMBERSHIP

4.4 The main decision as to which option should be taken forward was left for individual councils to respond. From an administrative perspective a key factor is to ensure that calculations match those in the main scheme rather than have two different career average schemes

4.5 If option 2 is chosen then because of the very small number of people affected it should be arranged for this to be contained within the main scheme.

4.6 A copy of the response letter from an administrative perspective is attached as Appendix 2

5 LGPS 2014: Other Developments

5.1 There has been a very limited consultation on the draft Transitional Regulations sent out to a selective group containing mainly scheme actuaries. There are still several areas regarding these regulations that are being negotiated and further developments are awaited.

5.2 Despite several requests to DCLG, no anticipated timescales for actual regulations has been received.

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6 RISK MANAGEMENT

6.1 No specific issues to consider.

7 EQUALITIES

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

8 CONSULTATION

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

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

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

Contact person	Alan South Technical Manager (Tel: 01225 395283)
Background papers	*Consultation documents and responses*
Please contact the report author if you need to access this report in an alternative format	

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Philip Perry
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: 2 August 2013

Dear Philip,

Local Government Pension Scheme Regulations 2013
Response to Consultation Letter 3rd Draft

This is the response from Avon Pension Fund to the consultation document on the third draft of the benefit regulations issued in June 2013.

This part of the consultation again deals with the technical changes made to the draft regulations as a result of the initial consultations. It does however ask a number of specific questions and these have been considered and answered where appropriate.

The attached Annex 1 covers these questions and raises other issues that need considering.

It is still apparent even at draft 3 stage that adjustments are being made where it is not clear whether the result of the change is as intended or whether something has been missed out. Some of the notes lack clarity [e g. see comment on Regulation 12].

As requested previously it would be useful to have some form of timescale of when other consultations are expected and the current expected date for actual regulations to be released.

The regulations are already several months overdue and it is extremely frustrating not having some indication of when DCLG expect the actual regulations to appear and what these will initially contain.

Avon Pension Fund will be making responses to both the governance consultation and the call for evidence in due course.

Yours sincerely

Alan South
Technical Manager
Avon Pension Fund

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Avon Pension Fund Response

Annex 1

Matters of Concern [incorporating answers to Chapter 2 questions]

Regulation 12 & 21	Contributions during child-related leave	There appears to be no facility for a member to pay contributions for a period of child related leave where there is no pay although the notes implies that this is covered within reg 21. This regulation does not seem to cater for these. If not then was a decision made to remove this option for the member?
Regulation 16	Q1:Is the Department right in saying that the take up of additional survivor benefits is extremely low?	No 94 ARC contracts have been taken out since 2008 and of these 50 include provision for survivor benefits
Regulation 32	Date of payment for Deferred Members due payment on ill health grounds	This must not be related to the review date but must be considered by the IRMP. It would be very unfair for the member to lose benefits purely because they delayed applying. An adverse reaction here would be for the deferred member to keep applying for another review as soon as a previous one fails
Regulation 35	Changes to ill health terminology	This must wait until Ill health retirements are fully reviewed [Shadow Board directive for Subcommittee]
Regulation 39 **(10)**	Q2:Should there be enhancement in this way given that there would be no equivalent protection for a member who remained in part time work rather than taking ill-health retirement?	. Yes Has there been a change in the interpretation from " such reduction in his service as is attributable to the condition causing retirement" to "work in reduced hours as a consequence of the ill health
Regulation 51	Q3:Comments are requested as to whether this Regulation should be retained or if it would be sufficient to rely on the overriding legislation	Retain
Regulation 54	Q4: Is there a need to provide for separate admission agreement funds to be established in the new Scheme?	Administering Authorities should have the flexibility to set up separate funds if it is considered advantageous to the fund
Regulation 60	Discretions	Change para (4) to provide that any changes are not operative until 30 days after the later of the date the Scheme Employer sends a revised statement to each relevant administering authority or publishes its statement as revised. This would prevent an employer when required to make a decision revising its policy to satisfy a discretion not covered in the existing policies.

Avon Pension Fund Response

Annex 1

Regulation 69	Q5: Is the list of statement items shown at Regulation 69(3) complete? If not, could you please describe what needs to be included	Nothing extra to add to list In view of the fact that funds have to operate separate bank accounts for the fund, why should the admin authority as employer not produce same the information!
Regulation 70	Q6: Should we include provision for interest to be paid on the late payment by scheme employers? If so, what period would constitute "late"?	.Yes [1 month]
Regulation 88	Q7: Should the new regulations set out what fund should pay in the case where an administering authority has more than one fund?	Don't see need as it seems logical that fund where employer is contributing would be the appropriate fund
Regulation 91	Q8:Do you think the current forfeiture provisions which have been carried forward into these draft regulations work well, or would you prefer it all to be dealt with by the courts with the removal of the role of the Secretary of State?	.This would depend on whether forfeiture can be dealt with at the point of conviction. If it could only be dealt with as a separate case then court costs would be applicable in which case it would be preferable to keep the Secretary of State in the procedure

We have previously put forward our views on the Local Government Pension Scheme [Miscellaneous] Regulations 2012 in relation to admission bodies and how the current regulations appear unworkable. It seems clear that the current situation will be replicated in the LGPS 2014. One response from within this authority on Schedule 2 was

" The CLG seem determined to incorporate historical anomalies and nonsense in Schedule 2 of the Regulations. From a practical standpoint, I suggest that, having attempted to get it changed, we effectively ignore Clause 6 of Part 3 and carry on as at present. If anyone challenges our position, we can presumably ask them what they believe we should be doing in order to comply with the regulations and see if it makes any sense."

Lack of clarity must be avoided in order to be able to administer the scheme effectively!

Councillor Pensions
Department of Communities and Local Government
Zone 5/F5
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.: Councillor Pens Z5/F5
Date: 5 July 2013

Dear Sir /Madam,

Taxpayer-funded pensions for Councillors and other elected local office holders

This is the response from Avon Pension Fund to the consultation on the proposals for elected members being members of the Local Government Pension Scheme.

As the decision whether to retain in the scheme or not should be considered by individual councils, this response puts forward comments relating to administration should membership be continued under options 2 or 3.

The new scheme commencing in April 2014 is adopting a career average scheme going forward. The existing arrangement for Councillors is has also been career average but with a different method of calculation. If it is decided to continue then it should be based on the same benefit calculations as the main scheme thus simplifying the process.

If membership is only to be allowed under Option 2 and as there would only be a limited number of elected members involved whose allowances mirror pay for main scheme members, then it would be preferable for such elected members to become included as part of the main scheme regulations.

Both of these suggestions would simplify the pension administration process whilst at the same time harmonising the benefits for both main scheme and elected members.

Yours faithfully

Alan South
Technical Manager
Avon Pension Fund

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**27 SEPTEMBER 2013**	**AGENDA ITEM NUMBER**
TITLE:	**GOVERNANCE ARRANGEMENTS DISCUSSION PAPER & CALL FOR EVIDENCE**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – DCLG Discussion Paper

Appendix 2 – Avon Pension Fund response to the Governance Paper

Appendix 3 – Covering letter to response

Appendix 4 – DCLG & LGA Call for Evidence (to follow)

1 THE ISSUE

1.1 Two informal consultation papers have been issued since the last meeting; the DCLG's discussion paper on LGPS governance arrangements and a call for evidence relating to the potential for increased co-operation between LGPS funds issued jointly by the DCLG and LGA.

1.2 This report sets out the background to these consultations and the Fund's responses.

1.3 The Fund's response to the governance paper is set out in Appendix 2 (deadline for response was 30 August 2013).

1.4 The response to the Call for Evidence will be circulated prior to the Committee meeting for comments. The deadline for responses is 27 September.

2 RECOMMENDATION

That the Committee:-

2.1 Notes the Fund's responses to the Governance paper and Call for Evidence

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial considerations in this report. However, it should be noted that the revised governance arrangements could increase costs for local funds.

4 DISCUSSION PAPER ON GOVERNANCE ARRANGEMENTS

4.1 Following the Public Sector Pensions Act 2013, the DCLG has issued an informal discussion paper ahead of undertaking a full consultation on proposed changes to the governance arrangements of the LGPS.

4.2 The main changes arising from the Act are the requirement to have a national board (for the LGPS called the National Scheme Advisory Board) and to have Local Pension Boards to scrutinise compliance of the "scheme manager", who in the case of the LGPS is the administering authority and its statutory committee. In addition, The Pensions Regulator will have a role in monitoring compliance with Disclosure and Data Protection regulations.

4.3 The CLG intends to consult on proposed changes to the governance arrangements in the autumn with the idea of having the new arrangements in place during 2014/15. They have issued a discussion paper to get the views of stakeholders to explore specific issues ahead of the formal consultation.

4.4 The discussion areas are as follows:

(1) Timing – what period should be allowed for setting up the new arrangements?

(2) Inclusion – are all relevant schemes included?

(3) Constitution – can the pensions board be combined with existing statutory committees?

(4) Remit of local boards – what should be prescribed centrally or left to local discretion?

(5) Representation – how should members be appointed to the pensions board? What is the appropriate tenure of office? Should the Secretary of State approve the Chair of the national board?

(6) Conflicts of interest – are these identified and managed?

(7) Reporting – should pensions boards prepare and publish an annual report of activity?

(8) Knowledge & Skills – should the new scheme regulations specify requirements over and above those of The Pensions Regulator?

(9) National Scheme Advisory Board – what should its legal status be and how should it be funded?

4.5 The Discussion paper from the DCLG is in Appendix 1 and the Fund's response in Appendix 2. The deadline for responses was 30 August 2013. The response was circulated to Committee members for comments prior to being submitted.

4.6 Whilst there is merit in establishing a national board to set standards of good governance and best practice across the LGPS, there are concerns as to the value in establishing the local pension boards to scrutinise the scheme manager. However, the Public Sector Pensions Act binds the LGPS to local boards (which must have equal representation of employers and employees) so the Fund's response focuses on clearly defining the role of the local boards, responsibilities of the various governance bodies and conflicts of interests to ensure that they work effectively within the new governance framework.

4.7 The Fund's response calls for minimum prescription in the regulations as to the structure of the new bodies. This is to ensure each body reflect the requirements of the relevant stakeholders and are able to adapt to change and, in respect of the local boards, reflect the local governance arrangements that could vary across the funds.

4.8 The issue of training is crucial given the technical aspects of pensions and a significant amount of training will be required for members of the local board to discharge their responsibilities adequately.

4.9 The covering letter (Appendix 3) reiterates the Fund's view that the existing governance arrangements for the LGPS provide a high level of scrutiny by relevant stakeholders and with a national board to set standards across the whole LGPS, it is not clear that an additional layer of local scrutiny will add value.

5 CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LGPS

5.1 The DCLG and LGA issued a joint call for evidence on 21 June 2013 about increasing co-operation between funds as a means to control costs. This will then be fed into the formal consultation on reforming the structure of the LGPS which will commence later in the year.

5.2 A roundtable event held by the LGA and DCLG put forward high level and secondary objectives for debate as follows:

- High level objectives
  1) Dealing with deficits
  2) Improving investment returns
- Secondary Objectives
  1) To reduce investment management fees
  2) To improve flexibility of investment strategies
  3) To provide for greater investment in infrastructure
  4) To improve the cost effectiveness of administration
  5) To provide access to higher quality staffing resource
  6) To provide more in-house investment resource

5.3 Within the response they wish to receive evidence to support answers to the following 5 questions:

(1) How can the LGPS best achieve a high level of accountability to local taxpayers and other interested parties – including through the availability of transparent and comparable data on costs and income – while adapting to become more efficient and to promote stronger investment performance?

(2) Are the high level objectives listed above those we should be focussing on and why? If not, what objectives should be the focus of reform and why? How should success against these objectives be measured?

(3) What options for reform would best meet the high level objectives and why?

(4) To what extent would the options you have proposed under question 3 meet any or all of the secondary objectives? Are there any other secondary objectives that should be included and why?

(5) What data is required in order to better assess the current position of the LGPS, the individual scheme fund authorities and the options proposed under this call for evidence? How could such data be best produced, collated and analysed?

5.4 The Fund’s response will be circulated prior to the Committee meeting for comments. The deadline for the response is 27 September 2013.

6 RISK MANAGEMENT

6.1 No decision is required and therefore a risk assessment in compliance with the Council’s decision making risk management guidance is not necessary.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 The Committee were consulted on the Fund’s responses before they were submitted.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 N/a

10 ADVICE SOUGHT

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

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	Public Sector Pensions Act 2013 DCLG & LGA Call for Evidence on the future structure of the LGPS
Please contact the report author if you need to access this report in an alternative format	

Department for Communities and Local Government

Local Government Pension Scheme (England and Wales) new governance arrangements

Discussion paper

June 2013
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

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Contents

Introduction

1.1 The Public Service Pensions Act 2013[1] includes several key provisions relating to the administration and governance of the new public service pension schemes established under Section 1 of the Act. In the case of the Local Government Pension Scheme in England and Wales, these arrangements will apply to the new Scheme which comes into effect on 1 April 2014.

1.2 This paper explores five specific sections of the Act which impact on the governance arrangements in the new Scheme :-

- Responsible authority
- Scheme manager
- Pension board
- Pension board information, and
- Scheme advisory board

1.3 Each section includes background and a more detailed summary of what we are required to include in the new Scheme to comply with the Act. Where appropriate, the paper also invites comment on consequential issues. Responses to the questions posed throughout the paper will enable us to start work on preparing draft regulations on governance for consultation later in the year.

How to respond

1.4 You should respond to this discussion paper by **30 August 2013**.

1.5 You can respond by email to Philip.perry@communities.gsi.gov.uk

When responding please ensure you have the words "Scheme governance discussion paper" in the email subject line.

Alternately you can write to:

Scheme governance discussion paper
Department for Communities and Local Government
Zone 5/G6 Eland House
Bressenden Place
LONDON SW1E 5DU

1.6 When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

[1] http://www.legislation.gov.uk/ukpga/2013/25/contents/enacted

Timing

1.7 Although the Act requires the Secretary of State and scheme managers to establish a scheme advisory board and local pension boards respectively, there is nothing in the Act to say when these bodies are to become operational. This would appear to be a matter left for each individual scheme to consider and determine. We also know that the Pensions Regulator will not commence any of their formal duties or responsibilities under the Act until April 2015.

1.8 In overall terms, our clear priority is to ensure that we have a new Scheme in place so that pensions can continue to be accrued and paid from 1 April 2014 onwards. Between now and the end of the year, most, if not all, of our resources will need to be directed towards that aim, which leaves very little time to introduce new regulations on governance in time for the scheme advisory board and local pension boards to be operational with effect from 1 April 2014.

1.9 Our intention therefore, is to aim for the new governance regulations to be in place by April 2014, and for these to require the new national and local bodies to become operational later in the year. Between April 2014 and whenever the new scheme advisory board and local pension boards become operational, it is envisaged that existing governance arrangements under Section 101 of the Local Government Act 1972 will continue to apply.

Q1. What period, after new governance regulations are on the statute book, should be given for scheme managers/administering authorities to set up and implement local pension boards?

Q2. How long after new governance regulations are on the statute book should the national scheme advisory board become operational?

Part 1 - “Responsible authority”

1.10 Section 2 of the Act, when read in conjunction with Schedule 2, provides that scheme regulations for local government workers (defined in Schedule 1 as “persons employed in local government service and specified in scheme regulations”) may be made by the Secretary of State. Under the Act, the Secretary of State has the title of “responsible authority”.

Implementation

1.11 There is no requirement for us to establish the Secretary of State as the Scheme’s responsible authority in the new Scheme regulations. In that respect, Section 2 of the Act is self-standing. On first reading of the Act, it may appear that the Secretary of State’s regulation making power only covers local government workers. But the Act does provide for this to be extended by definition in the new Scheme regulations and the two consultation exercises on draft regulations commenced in December 2012 and March 2013 included such provision to ensure that regulations cover all members of the Scheme, including non-local government workers.

Part 2 -"Scheme manager"

1.12 Section 4 of the Act requires the new Scheme regulations to provide for a person ("the scheme manager") to be responsible for managing or administering the Scheme. The term "person" is not to be taken literally. For example, in a centrally administered scheme, Section 4(1) of the Act would allow the Secretary of State to be both the "responsible authority" and "scheme manager". But in the locally administered Scheme, the "scheme manager" for the purposes of Section 4 will be each of the individual Scheme administering authorities in England and Wales.

1.13 Under Section 4(1)(b), the "scheme manager" is also responsible for managing or administering any statutory pension scheme that is connected with the main Scheme but section 4(4) provides that this does not include injury or compensation schemes.

Q3. Please give details of any such "connected" scheme that you are aware of.

Implementation

1.14 In draft new Scheme regulations we are currently consulting on[2], Regulation 2(2) provides that the scheme manager responsible for the local administration of pensions and other benefits under the new Scheme regulations is to be referred to as the "administering authority". We are satisfied that this is sufficient to comply with Section 4 of the Act.

1.15 Section 4(1)(b) of the Act extends the responsibilities of a scheme manager to include any statutory scheme connected with a main scheme. We are unaware of any such scheme that is connected to the Local Government Pension Scheme but invite consultees to tell us otherwise. As noted above, injury or compensation schemes are excluded by virtue of Section 4(4) of the Act.

Q4. Are there any schemes connected to the main Local Government Pension Scheme, other than an injury or compensation scheme, that the new Scheme regulations will need to refer to in setting out the responsibilities of scheme managers?

[2] https://www.gov.uk/government/organisations/department-for-communities-and-local-government/series/local-government-pensions

Part 3 - “Pension board”

1.16 Section 5 of the Act requires the new Scheme regulations to provide for the establishment of a board with responsibility for assisting the scheme manager, or each scheme manager, in :-

a) securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme connected with it;

b) securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator, and

c) such other matters as the scheme regulations may specify.

1.17 In making these regulations, the Department, as the “responsible authority”, must have regard to the desirability of securing the effective and efficient governance and administration of the Scheme and any connected schemes.

1.18 Our regulations will also need to include provision requiring each scheme manager to be satisfied that a person to be appointed as a member of a pension board does not have a conflict of interest, either at the outset, or from time to time. Section 5(5) of the Act defines “conflict of interest” as any financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of being a member of the Scheme.

1.19 Scheme regulations will also need to require any person appointed to the pension board or proposed to be appointed, to provide information that can reasonably be requested by the scheme manager to determine whether or not a conflict of interest exists.

1.20 By virtue of Section 5(4)(c), the regulations will also need to ensure that each pension board includes employer representatives and member representatives in equal numbers. Under the Act “employer representatives” means persons appointed to the board for the purpose of representing employers for the Scheme and “member representatives” means persons appointed to the board for the purpose of representing members of the Scheme. In this respect, it is noted that the Act permits nominations for scheme member representatives to come from trades unions or from members who are not members of trades unions.

1.21 Under Section 5(7) of the Act, where the scheme manager is a committee of a local authority, Scheme regulations may provide for that committee also to be the board for the purposes of Section 5.

Implementation

1.22 It is clear that the new Scheme regulations will need to require each scheme manager/administering authority to establish their own pension board. To comply with Section 5 of the Act, the new Scheme regulations will need to include :-

- The role of each pension board to assist the scheme manager/administering authority in securing compliance with scheme regulations and other legislation; with Pension Regulator's codes of practice and with any other matters specified in Scheme regulations.

Q5. What "other matters", if any, should we include in Scheme regulations to add to the role of local pension boards?

- A requirement for scheme managers/administering authorities to check that no person appointed to the board has any conflict of interest as defined in the Act (see paragraph 1.18 above) and also to undertake regular checks;

Q6. Should Scheme regulations make it clear that nobody with a conflict of interest, as defined, may be appointed to or sit on a pension board?

- A provision requiring a member of the board or person proposed to be a board member to provide whatever information about conflict of interest that the scheme manager/administering authority reasonably requires.

Q7. Should Scheme regulations prescribe the type of information that may be "reasonably required"?

- A requirement that each pension board must include employer representatives and member representatives in equal numbers.

Q8. Although not required by the Act, should Scheme regulations prescribe a minimum number of employer and employee representatives?

1.23 In addition to the above requirements imposed on the new Scheme by the Act, there are many other issues that we will need to address in preparing draft regulations for consultation. These include :-

Can a statutory committee also be the local pension board?

1.24 Section 5(7) of the Act would allow the new Scheme regulations to permit a committee of a local authority to also be the local pension board. This option was deliberately left open in the Act to ensure that a proper discussion of the issues with all interested parties could be undertaken.

1.25 The argument for and against separate bodies is finely balanced. Those who support the committee and pension board being one and the same body argue that local government cannot afford to spend more time and money setting up new bodies, particularly when the function could easily be undertaken by existing pension or investment committees. Others argue that a statutory decision making committee is in no position to fulfil the clear scrutiny role set out in the Act. It cannot, in effect, scrutinise itself and be in a position to assure the scheme manager that it is complying with all relevant legislation and Pension Regulator's codes of practice.

1.26 A further consideration is that combining a statutory committee with a pension board would, by virtue of Section 5(4)(c) of the Act, require the combined body to have equal numbers of employer and scheme member representatives.

1.27 Although we are seeking your views on the status of local pension boards and statutory committees, the Department is clear that the final outcome must be applied consistently across the Scheme as a whole. We do not therefore contemplate giving individual scheme managers/administering authorities the same choice afforded to us by the Act. All pension boards will either be combined or separated from statutory committees.

1.28 If the new Scheme regulations were to require local pension boards to be separate from any statutory committee, we would certainly encourage scheme managers/administering authorities to use existing non-statutory bodies to take on or adapt to the role of the new pension boards, but bearing in mind that the requirement to have equal number of employer and scheme member representatives would still apply.

Q9. Should the new Scheme regulations require local pension boards to be a body separate from the statutory committee or for it to be combined as a single body?

Level of prescription

1.29 Paragraph 1.22 above sets out the provisions of the Act that we must carry forward into the new Scheme. Apart from requiring equal numbers of employer and scheme member representatives and the restriction on conflicts of interest, the Act is silent on key issues including, for example, membership, constitution, frequency of meetings, the nomination process and training. In responding to Questions 10 and 11 below, it would be helpful if you could set out any particular views you might have on how the nomination process should operate.

1.30 As a general rule, the Department's preference would be to leave as much of the detailed workings of local pension boards as possible for determination at local level.

Q10. Apart from what is required under the Act, what other elements of local pension boards should be set out in the new Scheme regulations?

Q11. Apart from what is required under the Act, what other elements of local pension boards should be left to local determination?

Restrictions on membership

1.31 In early discussions with interested parties, concerns were expressed that scheme managers/administering authorities may look for savings by moving any scheme member representative from their statutory committee to their pension board (if the committee and the board are not one and the same body).

Q12. Should the new Scheme regulations prevent any incumbent scheme member representative being moved from a statutory committee to the local pension board (if the committee and the board are not one and the same body)?

Annual report

1.32 Under Section 6(1) of the Act, Scheme regulations will need to require scheme managers/administering authorities to publish certain membership details of their local pension board. Given that the main function of the board will be to assure the scheme manager/administering authority that those to whom they have delegated the pensions function to are complying with legislation and codes of practice, there is a case for the new Scheme regulations to also require each board to publish an annual report summarising its work.

Q13. Should the new Scheme regulations include a requirement for each local pension board to publish an annual statement of its work and for this to be sent to the relevant scheme manager, all scheme employers, the scheme advisory board and Pensions Regulator?

Training and qualifications

1.33 Paragraph 14 of Schedule 4 of the Act amends Section 90 of The Pensions Act 2004 and requires the Pensions Regulator to issue various codes of practice, including one on the requirements for knowledge and understanding of members appointed to pension boards of public service pension schemes. The Department, together with other interested parties, will be consulted on the content of this and other codes of practice and this ought to be sufficient to ensure that the specific circumstances of the Local Government Pension Scheme and the role of new local pension boards can be taken into account.

Q14. Apart from the training and qualification criteria that may be covered by the Pensions Regulator in a code of practice, are there any specific issues that we should aim to cover in the new Scheme regulations as well?

Part 4 – Pension board – information

Implementation

1.34 Scheme regulations will need to include provision for each scheme manager to publish information about the pension board and to keep that information up to date. This information includes who the members of the board are; representation on the board of members of the scheme and the matters falling within the board’s responsibility.

Part 5 – “Scheme advisory board”

1.35 Section 7(1) of the Act will require Scheme regulations to provide for the establishment of a board with responsibility for providing advice to the Secretary of State, at the Secretary of State’s request, on the desirability of changes to the Scheme.

1.36 For locally administered schemes like the Local Government Pension Scheme where there is more than one scheme manager, Scheme regulations may also provide for the board to provide advice (on request or otherwise) to the scheme managers or the scheme’s pension boards, in relation to the effective and efficient administration and management of the Scheme or any pension fund of the Scheme.

1.37 Under Section 7(4), Scheme regulations will need to apply the same provisions relating to conflicts of interest to the scheme advisory board as described at paragraph 1.18 above, except that it will be for the Secretary of State to consider and act on actual cases.

Implementation

Scope/role

1.38 Section 7(1) of the Act defines the scope and role of the scheme advisory board in the widest possible terms (see paragraph 1.35 above). Replicating the wording of the Act in Scheme regulations would be advantageous in terms of allowing the work of the scheme advisory board to evolve without the need for regulatory amendments, but equally, there may be merit in clearly defining certain areas of work, for example, making recommendations to the Secretary of State on cost management proposals.

Q15. Should Scheme regulations simply replicate the wording of the Act? If not, what specific areas of work should the new Scheme regulations prescribe?

1.39 Section 7(1) of the Act provides that the scheme advisory board is responsible for providing advice to the Secretary of State, as the responsible authority, at the Secretary of State’s request. This would suggest that the board can only advise when asked to do so on a case by case basis by the Secretary of State. We have taken advice from HM Treasury who take a more lenient view and suggest that it would be in order for Scheme regulations to set out the terms on which advice may be given.

Q16. Should Scheme regulations include a general provision enabling the scheme advisory board to advise the Secretary of State on the desirability of changes to the Scheme as and when deemed necessary?

Q17. Are there any specific areas of advice that Scheme regulations should prohibit the scheme advisory board from giving?

Membership

1.40 As Section 7 of the Act makes no provision for membership of the scheme advisory board, it will be for Scheme regulations to make such provision. This could be achieved in a number of different ways, for example :-

- The Secretary of State could appoint a small membership panel whose remit would be to nominate and appoint initial members of the board, including the Chairperson;
- As above, but Scheme regulations could also prescribe the sectors from which members of the board are to be drawn;
- The membership profile of the shadow scheme advisory board could be carried forward.

Q18. What options (if any other, please describe) would be your preference for establishing membership of the scheme advisory board?

Q19. Should Scheme regulations require the Secretary of State to approve any recommendation made for the position of Chair?

Q20. Should Scheme regulations prescribe tenure of office? If so, what should the maximum period of office be and should this also apply to the Chair of the board?

Q21. Should Scheme regulations make provision for board members, including the Chair, to be removed in prescribed circumstances, for example, for failing to attend a minimum number of meetings per annum? If so, who should be responsible for removing members and in what circumstances (other than where a conflict of interest has arisen) should removal be sought?

Q22. Should Scheme regulations prescribe a minimum number of meetings in each year? If so, how many?

Q23. Should Scheme regulations prescribe the number of attendees for the board to be quorate? If so, how many or what percentage of the board's membership should be required to be in attendance?

Q24. Rather than make specific provision in Scheme regulations, should the matters discussed at Q19 to Q23 be left as matters for the scheme advisory board itself to consider and determine?

Funding

1.41 If the scheme advisory board is to undertake its full range of duties effectively, the annual cost of administration is likely to be significant. It has been estimated that this may be in the region of an additional £3k per annum per fund, or £5k if project work is also to be included rather than as a separate cost to be levied. In early discussions with the shadow scheme advisory board it has been made clear that both it and the scheme advisory board must be self financing.

1.42 In terms of funding there would appear to be two clear alternatives. Funding the board could be achieved either by voluntary subscription or a mandatory levy from scheme managers/administering authorities. A clear risk associated with a voluntary subscription is that the board's agenda and workplans would be subject to an uncertain level of funding, dependent on whether or not individual fund authorities considered the work of the board to represent good value for money. However, a mandatory levy would give the board the financial certainty that it would need to be able to discharge its functions and could be justified on the grounds that it is advising the Secretary of State and assisting local pension boards on behalf of the Scheme as a whole. In either case, we envisage that the cost would be regarded as an administration cost and therefore rechargeable to the fund.

Q25. Should the scheme advisory board be funded by a voluntary subscription or mandatory levy on all Scheme pension fund authorities?

Constitution

1.43 The Act requires the setting up of the scheme advisory board but not the manner of its legal constitution. This would imply some form of body corporate to be set out in scheme regulations. Beyond setting out the corporate status of the board, scheme regulations would also need to spell out the personal liability protection for board members.

Q26. What would be your preferred manner of legal constitution of the scheme advisory board and how should Scheme regulations deal with the issue of personal liability protection for board members?

Conclusion

1.44 Significant steps have been taken in the past to improve Scheme governance and, in particular, to ensure the effective representation of Scheme beneficiaries. Ministers have consistently remarked on the importance of good Scheme governance and the Public Service pensions Act now provides us with the opportunity to build on this earlier success. We would strongly encourage you to consider this paper carefully and to respond to as many of the questions as you see fit. Your contribution will be of great assistance in helping us to prepare a set of draft regulations on Scheme governance for formal consultation later in the year.

List of questions

Q1. What period, after new governance regulations are on the statute book, should be given for scheme managers/administering authorities to set up and implement local pension boards?

Q2. How long after new governance regulations are on the statute book should the national scheme advisory board become operational?

Q3. Please give details of any such “connected” scheme that you are aware of.

Q4. Are there any schemes connected to the main Local Government Pension Scheme, other than an injury or compensation scheme, that the new Scheme regulations will need to refer to in setting out the responsibilities of scheme managers?

Q5. What “other matters”, if any, should we include in Scheme regulations to add to the role of local pension boards?

Q6. Should Scheme regulations make it clear that nobody with a conflict of interest, as defined, may be appointed to or sit on a pension board?

Q7. Should Scheme regulations prescribe the type of information that may be “reasonably required”?

Q8. Although not required by the Act, should Scheme regulations prescribe a minimum number of employer and employee representatives?

Q9. Should the new Scheme regulations require local pension boards to be a body separate from the statutory committee or for it to be combined as a single body?

Q10. Apart from what is required under the Act, what other elements of local pension boards should be set out in the new Scheme regulations?

Q11. Apart from what is required under the Act, what other elements of local pension boards should be left to local determination?

Q12. Should the new Scheme regulations prevent any incumbent scheme member representative being moved from a statutory committee to the local pension board (if the committee and the board are not one and the same body)?

Q13. Should the new Scheme regulations include a requirement for each local pension board to publish an annual statement of its work and for this to be sent to the relevant scheme manager, all scheme employers, the scheme advisory board and Pensions Regulator?

Q14. Apart from the training and qualification criteria that may be covered by the Pensions Regulator in a code of practice, are there any specific issues that we should aim to cover in the new Scheme regulations as well?

Q15. Should Scheme regulations simply replicate the wording of the Act? If not, what specific areas of work should the new Scheme regulations prescribe?

Q16. Should Scheme regulations include a general provision enabling the scheme advisory board to advise the Secretary of State on the desirability of changes to the Scheme as and when deemed necessary?

Q17. Are there any specific areas of advice that Scheme regulations should prohibit the scheme advisory board from giving?

Q18. What options (if any other, please describe) would be your preference for establishing membership of the scheme advisory board?

Q19. Should Scheme regulations require the Secretary of State to approve any recommendation made for the position of Chair?

Q20. Should Scheme regulations prescribe tenure of office? If so, what should the maximum period of office be and should this also apply to the Chair of the board?

Q21. Should Scheme regulations make provision for board members, including the Chair, to be removed in prescribed circumstances, for example, for failing to attend a minimum number of meetings per annum? If so, who should be responsible for removing members and in what circumstances (other than where a conflict of interest has arisen) should removal be sought?

Q22. Should Scheme regulations prescribe a minimum number of meetings in each year? If so, how many?

Q23. Should Scheme regulations prescribe the number of attendees for the board to be quorate? If so, how many or what percentage of the board's membership should be required to be in attendance?

Q24. Rather than make specific provision in Scheme regulations, should the matters discussed at Q19 to Q23 be left as matters for the scheme advisory board itself to consider and determine?

Q25. Should the scheme advisory board be funded by a voluntary subscription or mandatory levy on all Scheme pension fund authorities?

Q26. What would be your preferred manner of legal constitution of the scheme advisory board and how should Scheme regulations deal with the issue of personal liability protection for board members?

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Appendix 2

Avon Pension Fund Response to DCLG Discussion Paper on Governance Arrangements (issued June 2013)

	Question	Response
1	What period, after new governance regulations are on the statute book should be given for scheme managers/ administering authorities to set up and implement local pension boards?	As these governance arrangements arise from PSPA2013, the requirements for the LGPS should be no earlier than those for other public service pension schemes. The LGPS funds have a significant workload through to late 2014 in implementing and bedding in the LGPS 2014 scheme as well as supporting employers through auto-enrolment. Therefore administering authorities should be given a period post this to implement a new pension board. In addition, the setting up of new boards requires changes to the Council's constitution, including due consideration of who can be appointed following an appropriate selection process. This would mean administering authorities should be given to at least April 2016 to implement new governance arrangements. Furthermore the "Call for Evidence" may lead to more fundamental changes to the LGPS and therefore the outcome of this should be considered prior to any changes in governance arrangements are implemented.
2	How long after new governance regulations are on the statute book should the national scheme advisory board become operational?	With the introduction of the Shadow Board as a precursor, a reasonable handover period after April 2014 should be considered so that the Board is operational as soon as possible after regulations laid. The Board will then be able to start on the work needed to support the introduction of the new government arrangements at the local level and to facilitate the establishing of local pension boards.
3	Please give details of any such "connected" scheme that you are aware of.	Not aware of any.
4	Are there any schemes connected to the main Local Government Pension Scheme, other than an injury or compensation scheme, that the new Scheme regulations will need to refer to in setting out the responsibilities of	We are aware there is a potential issue regarding teachers where the Teachers Scheme can decide that a teacher is not eligible for that scheme but, as a result, may then be eligible for membership of LGPS. Would this make the Teachers Scheme "connected" to LGPS? Circumstances like this need to be rectified as it is ridiculous that teachers are not entered into the

	scheme managers?	Teachers Scheme in all cases. *For background - "connected", in relation to a scheme under section 1 and another statutory pension scheme, or a new public body pension scheme and another statutory pension scheme, has the meaning given by section 4(6); (6) For the purposes of this Act, a scheme under section 1 and another statutory pension scheme are connected if and to the extent that the schemes make provision in relation to persons of the same description.*
5	What "other matters", if any, should we include in Scheme regulations to add to the role of local pension boards?	The local pension board is a scrutiny board, not a decision making body. Therefore its remit should be limited to scrutinising the scheme manager's compliance with the regulations, legislation, codes of practice as set out in the Pensions Act. It should not challenge funding and investment decisions only that the decision-making process complies with scheme regulations, guidance and codes of practice. There is a risk of "drift" or duplication with the scheme manager and its statutory committee if the remit is too broad and not clearly defined.
6	Should Scheme regulations make it clear that nobody with a conflict of interest, as defined, may be appointed to or sit on a pension board?	Yes and most importantly, what constitutes a conflict of interest must be clearly defined in the regulations particularly if the local pension board and statutory committee could be one and the same body or, if the pension board members could be drawn from the statutory committee.
7	Should Scheme regulations prescribe the type of information that may be "reasonably required"?	Yes this should be stated so that all scheme managers can apply the same minimum requirement.
8	Although not required by the Act, should Scheme regulations prescribe a minimum number of employer and employee representatives?	Yes for clarity; the minimum should be set at 2 representatives for each on a Local Pension Board.
9	Should the new Scheme regulations require local pension boards to be a body separate from the statutory committee or for it to be combined as a single body?	Given the need for equal employee member and employer representation on the pension board we cannot support the statutory committee and the pension board being combined as a single body. However we are not in favour of establishing another body given the (i) extra resource needed to support it and (ii) the knowledge and training requirements that will be needed to ensure the pension board members can

		discharge their duties adequately. The suggestion to utilise an existing non-statutory body seems reasonable until applied to the make-up of a multi-employer fund such as ours. There is no one such body that reflects the required membership or could be adapted to enable a fair representation of scheme employers in particular. There could be an argument for the pension board to be drawn from the non-voting members of the statutory committee as they are not decision making members yet have the required knowledge (this would not mean the non-voting members no longer being on the statutory committee).
10	Apart from what is required under the Act, what other elements of local pension boards should be set out in the new Scheme regulations?	The minimum requirements should only be set out in the regulations as if too prescriptive it will remove local determination to reflect the needs and governance arrangements of the local fund. If the requirements for the pension boards are too onerous the cost of the resources required to support it will outweigh the benefits. The creation of the National Scheme Advisory Board should develop and promote best practice for the whole governance arrangements. The regulations could require a meeting to be held at least once a year. They could also include high level protocols for the appointment process to ensure that all relevant parties are given the opportunity to nominate representatives.
11	Apart from what is required under the Act, what other elements of local pension boards should be left to local determination?	The local fund should determine the following, all subject to any minimum set out in regulations: i. Detailed Terms of reference ii. Frequency of meetings iii. Size of Board iv. Agenda v. Reporting as this will reflect the local resources available to support the Board and the existing governance structure.
12	Should the new Scheme regulations prevent any incumbent scheme member representative being moved from a statutory	No. An incumbent member of a statutory committee may be a strong candidate to undertake the role. As mentioned earlier there may be a case for nominating non-voting members to the pension board. Existing committee

	committee to the local pension board (if the committee and the board are not one and the same body)?	members will have the knowledge to discharge the duties of the local pension board effectively. However, there is a risk that the creation of the local pension board could result in smaller statutory committees as the pension board will bring an additional layer of scrutiny to what is, if following best practice already, a highly scrutinised local pension fund. This could have the effect of reducing the breadth of stakeholder representation on the statutory committee which would not be the intended consequence of these reforms.
13	Should the new Scheme regulations include a requirement for each local pension board to publish an annual statement of its work and for this to be sent to the relevant scheme manager, all scheme employers, the scheme advisory board and Pensions Regulator?	For transparency purposes a report on activity should be publicly available for stakeholders. However, there is already a statutory requirement for LGPS funds to publish a detailed annual report and accounts which explains the fund's compliance with statutory guidance, regulations and codes of practice. Therefore an additional annual report will add little extra value and merely duplicate information. A summary statement could instead be incorporated in the Pension Fund's annual report as the "Statement of the Pensions Board". It could be a requirement that the agenda reports and minutes of the pension board meetings are publicly available to all employers and members (and the National Scheme Advisory Board) and that the minutes include any areas of non-compliance.
14	Apart from the training and qualification criteria that may be covered by the Pensions Regulator in a code of practice, are there any specific issues that we should aim to cover in the new Scheme regulations as well?	No. Other than for the regulations to state that the knowledge and training requirements must reflect the specific circumstances of the LGPS and the "lay" nature of the people who will serve on the board(s).
15	Should Scheme regulations simply replicate the wording of the Act? If not, what specific areas of work should the new Scheme regulations prescribe?	Yes. The wording should replicate the Act in order to allow the National Scheme Advisory Board to evolve. Too much prescriptive detail gives undue emphasis to what is included in the regulations rather than allow the governance arrangements to evolve as the scheme develops.
16	Should Scheme regulations include a general provision enabling the scheme advisory board to advise the Secretary of State on the desirability of changes to the Scheme as and	Yes as the advisory board will be more informed as to the issues that need to be considered.

	when deemed necessary?	
17	Are there any specific areas of advice that Scheme regulations should prohibit the scheme advisory board from giving?	The Advisory Board should only give advice on general matters of principle or best practice. They should not be involved in challenging decisions made regarding strategic funding or investment policies.
18	What options (if any other, please describe) would be your preference for establishing membership of the scheme advisory board?	The membership profile of the shadow board should be carried forward for the initial 3 year period after which it should be reviewed to evaluate whether it equitably reflects the needs of those involved with governance in the LGPS. There should be consideration to some form of staggered change to ensure there is continuity on the Board to avoid having a totally new Board at any time.
19	Should Scheme regulations require the Secretary of State to approve any recommendation made for the position of Chair?	Yes; if not then by majority of the scheme advisory board.
20	Should Scheme regulations prescribe tenure of office? If so, what should the maximum period of office be and should this also apply to the Chair of the board?	Tenure is important given the need for a required level of knowledge to discharge the Advisory Board's duties. The tenure needs to be long enough to enable longer term projects to be completed by the same board i.e. more than one term but each member would stand for re-election. However, this should be left to the Advisory Board to agree once it fully understands its remit, scope and the appropriate tenure across diverse representation. Maximum tenure should be expressed in terms of office.
21	Should Scheme regulations make provision for board members, including the Chair, to be removed in prescribed circumstances, for example, for failing to attend a minimum number of meetings per annum? If so, who should be responsible for removing members and in what circumstances (other than where a conflict of interest has arisen) should removal be sought?	Yes. Attendance is important and statutory pension committees have to disclose attendance records publicly. In addition the governance structure will incur extra costs inevitably to be funded by local funds so it needs to be accountable to these funds. The Chair should be responsible for removing members for poor attendance but all Advisory Board members should have right to ask Secretary of State to intervene in the absence of action by the Chair.
22	Should Scheme regulations prescribe a	Yes but subject to Q24 below. The Advisory Board should meet at least 4

	minimum number of meetings in each year? If so, how many?	times a year. If less one could question whether such a Body is required.
23	Should Scheme regulations prescribe the number of attendees for the board to be quorate? If so, how many or what percentage of the board's membership should be required to be in attendance?	Yes. The regulations prescribe equal representation of employers and employees and therefore should prescribe the minimum number for the Advisory Board to be quorate. As the Act requires equal representation, the quorate requirement should also. The percentage to be quorate should be at least 1/3rd of the board with equal representation i.e. 4 made up of 2 employer representatives and 2 employee representatives *(note: the Shadow Board has 6 employer representatives and 6 member representatives and the above assumes this structure will continue).*
24	Rather than make specific provision in Scheme regulations, should the matters discussed at Q19 to Q23 be left as matters for the scheme advisory board itself to consider and determine?	Yes 20 and 22 could be left to the Advisory Board. The risk of specifying detail even minimum detail in the regulations is that they can become obsolete or unfit for purpose. However, if specific provision is not made in the regulations and left to the Advisory Board itself to determine, then a general provision must be included for the Advisory Board to set out specific details in the Terms of Reference with justification for the decision to ensure transparency and openness of the Advisory Board.
25	Should the scheme advisory board be funded by a voluntary subscription or mandatory levy on all Scheme pension fund authorities?	It must be funded by a mandatory levy to ensure all funds carry the burden of financing the governance arrangements that are being imposed. It will also provide a budget to fund the board's agenda and workplan.
26	What would be your preferred manner of legal constitution of the scheme advisory board and how should Scheme regulations deal with the issue of personal liability protection for board members?	No view as to legal constitution Liability cover should be provided by the government as the Board is being established through legislation.

Bath & North East Somerset Council

Avon Pension Fund

LOCAL GOVERNMENT PENSION SCHEME

Bath & North East Somerset Council, Floor 3 South,
Riverside, Temple Street, Keynsham, Bristol BS31 1LA
Telephone: 01225 477000
Email: avon_pension@bathnes.gov.uk
Website: www.avonpensionfund.org.uk

AVON PENSION FUND

Scheme governance discussion paper
Department for Communities and Local Government
Zone 5/G6 Eland House
Bressenden Place
London SW1E 5DU

Telephone: 01225 395306

Email: liz_woodyard@bathnes.gov.uk

Date: 28 August 2013

Dear Philip,

Avon Pension Fund Response to Scheme Governance Discussion Paper

Thank you for inviting the Avon Pension Fund to respond to the discussion paper. The Avon Pension Fund is administered by Bath & North East Somerset Council.

Before addressing the questions set out in the discussion paper, the Fund has a number of general comments to make arising from the paper.

The LGPS is already highly regulated and scrutinised under the existing governance arrangements. The role of the Pensions Regulator is being extended across Public Sector Schemes and a National Scheme Advisory Board is being established to develop and promote best practice and address cost issues across the LGPS. This is in addition to extensive existing audit review which examines all aspects of compliance annually. Therefore we do not believe that Local Pension Boards will add value to the already extensive governance of the local funds but, at a time when funds are under pressure to reduce costs, these proposals will in fact increase costs as the new governance arrangements and the resources required to support the local pension boards will require additional funding.

Given that a number of different bodies have an existing or emerging role in the scrutiny of LGPS funds, there is a very high risk of duplication of roles, confusion or omission over responsibility with the result that the proposed governance arrangements will become too onerous and not deliver their objectives.

The LGPS funds are administered to a high standard, having moved significantly in recent years to incorporate greater representation and transparency in decision making processes. This is in contrast to other public sector funds where responsibilities and decision making is less clear. Ultimately the legal responsibility for the local funds lies with the designated administering authorities and they must retain full responsibility for determining the strategic policies required to discharge their duties. Specifically the Local Pension Boards should have no authority to scrutinise or comment on strategy or policy and there should be specific exclusions, purely to prevent these Boards from becoming overtly political.

The regulations must clearly define the roles of the National Scheme Advisory Board and Local Pension Boards in relation to the Scheme Manager; in the case of the National Scheme Advisory Board its role should be the development of best practice and advising on cost controls; in the case of the Local Pension Boards its role is limited to scrutiny and compliance with regulations, guidance and codes of practice.

We would also fully expect the process of appointments to Local Pension Boards to be set out (stating minimum standards) so that a consistent approach is adopted across the LGPS Funds and in particular, an approach that is reasonable in its definitions of representation – the LGPS funds are multi-employer funds and our fund alone has almost 200 employers and therefore employee groups and it would be extremely expensive and ambitious to reflect them all in the membership of the Local Pension Board.

Finally, I know you will not need reminding of the significant workload administering authorities are currently facing with introducing a new scheme, supporting employers through auto enrolment and responding to a wide range of consultations on LGPS changes. I would therefore urge considering an implementation timetable that it is expedited at a point when the relationships and responsibilities of all the Bodies within the governance arrangements are fully developed and refined.

We hope these comments are a useful contribution to the pre-consultation discussion.

Yours sincerely,

Tony Bartlett
Head of Business Finance and Pensions

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**27 SEPTEMBER 2013**	**AGENDA ITEM NUMBER**
TITLE:	**INVESTMENT PANEL ACTIVITY**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Minutes from Investment Panel meeting held 18th July 2013 EXEMPT Appendix 2 – EXEMPT Minutes from Investment Panel meeting held 18th July 2013 Appendix 3 – Draft Minutes from Investment Panel meeting held 4 September 2013 EXEMPT Appendix 4 – Draft EXEMPT Minutes from Investment Panel meeting held 4 September 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. The Panel has delegated responsibilities from the Committee and may also make recommendations to Committee. This report informs Committee of decisions made by the Panel and any recommendations.

1.2 The Panel has held two meetings since the June 2013 committee meeting, on 18 July 2013 and on 4 September 2013. The draft minutes of the Investment Panel meetings provide a record of the Panel's debate before reaching any decisions or recommendations. These draft minutes can be found in the Appendices.

1.3 There are no recommendations from the Panel. The Panel made the decisions as set out in paragraph 4.2.

2 RECOMMENDATION

That the Committee notes:

2.1 the draft minutes of the Investment Panel meetings held on 18 July 2013 and 4 September 2013

2.2 the decisions made by the Panel at the meeting on 18 July 2013

3 FINANCIAL IMPLICATIONS

3.1 In general the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.

3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for in the budget.

4 RECOMMENDATIONS AND DECISIONS

4.1 There are no recommendations to Committee arising from the meetings held on 18 July 2013 and on 4 September 2013.

4.2 The decisions taken on 18 July 2013 relate to the implementation of the new investment strategy agreed by Committee in March 2013, and were as follows (no decisions were made on 4 September 2013):

(1) Agreed the Emerging markets equity mandate specification and the make-up and timing of the selection panel.

(2) Agreed the target allocation within the overseas regional equity portfolio and arrangements for annual rebalancing.

(3) Agreed the changes to the allocation within the bond portfolio and timescale for the changes.

4.3 Additionally the Panel wish to highlight to the Committee the ongoing monitoring they are undertaking with mangers evaluated through the RAG performance framework as being rated Red or Amber. This quarter has seen all Amber rated managers showing improvement and progress towards a Green rating. The only Red rated manager is Man from whom the Fund is in the process of divesting.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. An Investment Panel has been established to consider in greater detail investment performance and related matters, and to carry out responsibilities delegated by the Committee.

5.2 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund.

6 EQUALITIES

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

7 CONSULTATION

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

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues to consider are contained in the report.

9 ADVICE SOUGHT

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

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	

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AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Thursday, 18th July, 2013, 9.30 am

Members: Councillor Charles Gerrish (Chair), Ann Berresford, Roger Broughton and Councillor Mary Blatchford
Advisors: John Finch (JLT Investment Consultancy), Kieran Harkin (JLT Investment Consultancy) and Tony Earnshaw (Independent Advisor)
Also in attendance: Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager) and Matthew Clapton (Investments Officer)

14 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

15 DECLARATIONS OF INTEREST

There were none.

16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillors Gabriel Batt and Lisa Brett, and Tony Bartlett Head of Pensions.

17 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

19 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

20 MINUTES: 4 JUNE 2013

The public minutes of the 4 June 2013 were approved as a correct record. The exempt minutes were approved subject to an amendment.

21 EMERGING MARKETS EQUITY MANDATE

The Assistant Investments Manager presented the report. He reminded Members that in the new Investment Strategy agreed at the Special Committee Meeting on 6 March 2013 an additional 5% of the Fund's assets would be allocated to emerging market equities, to be managed by a single manager. The Panel was invited to agree the specification for the new manager's mandate contained in Exempt Appendix 1

RESOLVED 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 the duration of the discussion of exempt appendices of 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.

After discussion, it was **RESOLVED**

1. To agree the proposed mandate specification at Exempt Appendix 1.

2. That the selection panel will comprise all members of the Investment Panel and should take place on Wednesday 4th December.

22 INVESTMENT STRATEGY IMPLEMENTATION WITHIN EQUITY AND BOND PORTFOLIOS

The Assistant Investments Manager presented the report. He circulated a table setting out the current allocations and the proposed changes. A copy of this is attached as Appendix 1 to these minutes. Page 1 summarises the strategic changes to the equity and bond portfolios and page 2 the proposed regional allocation of the global equity portfolio.

The Chair asked why, even after the proposed reduction, such a high proportion (3.1%) would be invested in a single country, namely Japan. Mr Finch replied that in many ways Japan did behave differently from other markets. It remained a significant manufacturer, and had done well from addressing the problems following the tsunami.

The Chair asked about Australia. Mr Finch said that it was a developed market. The status of countries could change, for example it was possible that China would change from emerging to developed at some point in time. A Member said that it was important that Members knew the current status of countries and asked if a list could be provided like the one that used to be circulated. The Assistant Investments Manager undertook to do this. Mr Harkin said that there would be plenty of notice of a reclassification of a country and its transfer from one index to another.

A Member asked about the Schroders global equity portfolio. The Investments Manager said that it was a global portfolio, which included emerging markets; the portfolio had been deliberately set up in this way. Mr Finch said that Schroders could decide to select companies in emerging markets when they were performing well. Managers were close to the markets and could respond appropriately.

Discussion turned to the role of Signet in the Fund's investment portfolio. Mr Finch said that because of the way that Signet manages its funds, it was appropriate for the mandate to be part of the bond portfolio as agreed in the strategy review rather than as part of the hedge fund portfolio. The Investments Manager said that when the mandate was given to Signet, there were hedge funds, but no absolute return bond managers. The Chair suggested that a note of clarification about the Signet fund should be included in the Fund's annual report. A Member said that the note should state that it was more cost effective to redefine the asset allocation to better reflect the underlying exposure of the Signet portfolio ratherthan invest the money in a new mandate.

RESOLVED

1. To agree the overseas regional equity allocation and arrangements for annual rebalancing set out in paragraph 4.9 of the report.

2. To agree the changes to the allocation within the bond portfolio and timescale for the changes set out in paragraph 5.5 of the report.

3. To note the intention to take income from the investments portfolio in line with the cash management policy, as set out in paragraph 6.7 of the report.

23 MANAGER SELECTION PRESENTATION (JLT)

The Investments Manager reminded the Panel that a Member had requested this presentation. It was hoped it would be useful for Members who had not participated in the selection process of a fund manager previously, and that it would also give some suggestions for how the appointed manager should be monitored.

Mr Finch gave the presentation. A copy of his slides was circulated to Members and is attached as Appendix 2 to these minutes.

The Chair thanked Mr Finch for his presentation.

24 WORKPLAN

The Investments Manager presented the report. She circulated a paper outlining a timescale and process for the Committee's review of infrastructure investment. She reminded Members that the Committee had not delegated the determination of policy on infrastructure to the Panel. It would assist the Committee if the Panel were able to consider some of the framework issues before a Committee workshop.

RESOLVED to note the workplan to be included in Committee papers.

The meeting ended at 11.16 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: LGA-1191-13

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 27 September 2013

Author: Matt Betts
Report Title: Investment Panel Activity EXEMPT Appendix 2 – EXEMPT Minutes from Investment Panel meeting held 18th July 2013 EXEMPT Appendix 4 – Draft EXEMPT Minutes from Investment Panel meeting held 4 September 2013

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

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

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

PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local

Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

Weighed against this is the fact that the exempt appendices contains the opinions of Council officers and Panel members. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available.

The exempt appendices also contain details of the investment processes/strategies of the investment managers. The information to be discussed is commercially sensitive and if disclosed could prejudice the commercial interests of the investment managers.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion relating to the investment managers in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Investment Panel Activity has been made available – by way of the main report and additional appendices.

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

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AVON PENSION FUND COMMITTEE - INVESTMENT PANEL

Minutes of the Meeting held

Wednesday, 4th September, 2013, 11.00 am

Members: Councillor Charles Gerrish (Chair), Ann Berresford, Roger Broughton and Councillor Ian Gilchrist
Advisors: John Finch (JLT)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Matt Betts (Assistant Investments Manager) and Matthew Clapton (Investments Officer)

25 EMERGENCY EVACUATION PROCEDURE

The Chair drew attention to the emergency evacuation procedure.

26 DECLARATIONS OF INTEREST

There were none.

27 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Mary Blatchford and Councillor Gabriel Batt.

28 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

30 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

31 MINUTES 18 JULY 2013

The public and exempt minutes of the meeting of 18 July 2013 were approved and signed by the Chair.

32 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2013

The Assistant Investments Manager presented the report. He drew attention to the RAG report on the Fund’s investment managers, which had been included on the agenda for the first time. He invited Members’ comments on the RAG report. He also drew attention to the information about the changes within the bond portfolio contained in section 4 of the covering report. Before completing the rebalancing of the bond portfolio Officers had investigated whether it would be appropriate to invest in RLAM's ethical fund and concluded that it was not appropriate because of the size of the ethical fund. In addition, because there was less commonality between the two funds than previously assumed, separate tenders may be required.

Mr Finch commented on the JLT report. As the tables on page 3 of the JLT report showed, there had been negative returns amongst a variety of asset classes during the last 3 months, though this was mainly because of market reaction to comments made by the Chairman of the Fed about the future of Quantitative Easing very near the end of the quarter. The last one year and three years showed equities moving up, but bond yields had risen by 50 basis points, which despite having a negative impact on bond returns, was, however, good for the Fund because it reduced liabilities by 10%. It had been good for the Fund to move from gilts to corporate bonds. The US economy was showing improvement, with encouraging job figures. Consumers might now be tempted to make big purchases (the average age of cars was now 8 years). Inflation might be a challenge down the line, but at present it was more of a problem in developing economies. He referred to the aggregate relative performance of managers shown in the tables on pages 9 and 10 of the JLT report (agenda pages 44 and 45) said that it was the best that he had known in his time reporting on the Fund's managers. Over the quarter fourteen managers had delivered returns in line with or over their benchmark. The Fund would soon be disinvesting from Man, one of the managers which had not achieved their benchmark. TT International had not met their three-year target, which admittedly was a challenging one, but had improved recently to become one of the best performing managers. The other four managers who had not met their targets were all hedge funds.

A member noted that Schroder Global Equity had shown improved performance this quarter following a period of underperformance and closer monitoring by the Panel.

A Member said that she felt a little concerned that though Partners and Schroders Property were performing above their benchmark and that the relative performance of Partners was among the best of the Fund's managers, property as an asset class was performing below its assumed strategic return. Mr Finch responded that these managers were performing well in a difficult market, but acknowledged that the assumption had been that property would perform better over the longer term than it had. It was also noted that the reporting would use the updated strategic return assumptions and benchmark once some of the changes to the strategic asset allocations had been made. The Assistant Investments Manager suggested that the performance of individual managers in meeting their performance targets and the long-term performance of the asset classes are both important aspects of investment performance and the reporting should clearly distinguish between both aspects. The Member thought that it was the role of the Panel to help the Committee to judge whether it had the right strategy as well as monitoring the managers' performance.

Before discussing the RAG report (Appendix 3), the Panel passed the following resolution:

RESOLVED 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 the duration of the discussion of exempt appendix 3 of 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:**

1. To note the information as set out in the report.

33 WORKPLAN

RESOLVED to note the Panel workplan.

The meeting ended at 11.54 am

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**27 September 2013**
TITLE:	**REVIEW OF INVESTMENT PERFORMANCE (for periods ending 30 June 2013)**
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 30 June 2013.

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. Annual Assurance on Control Environment of 3rd Party Suppliers

Section 9. Corporate Governance and Responsible Investment (RI) Update

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1 Note the information set out in the report

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund from 1 April 2013 will affect the next triennial valuation in 2016. Section 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 FUNDING LEVEL

4.1 Using information provided by the Actuary, JLT has analysed the funding position as part of the quarterly report at Appendix 2 (section 3). This analysis shows the impact of both the assets and liabilities on the (estimated) funding level. ***It should be noted that this is just a snapshot of the funding level at a particular point in time.*** (Please note, the Actuary is currently undertaking the triennial valuation which will calculate the funding position more accurately using membership data at March 2013).

4.2 Key points from the analysis are:

(1) The estimated funding level at 30 June 2013 has increased to 74% from 69% at 31 March 2013.

(2) The largest contributor to the improvement in the funding level was the increase in fixed interest gilt yields, which on a "like for like" basis has driven down the value of the liabilities to the extent that the deficit has reduced by approximately 25% (c. £300m). The overall 5% increase in the funding level was in spite of a return on assets being below the assumed return this quarter.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets decreased by £36m (c. -1.0%) in the quarter, giving a value for the investment Fund of £3,099m at 30 June 2013. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers. JLT's quarterly performance report is at Appendix 2. This report focuses on strategic performance of the Fund, with a summary of the performance of the managers. Manager performance is monitored in detail by the Panel. The Fund's investment return and performance relative to benchmarks is summarised in Table 1.

Table 1: **Fund Investment Returns**
Periods to 30 June 2013

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	-1.0%	14.9%	n/a
Avon Pension Fund (excl. currency hedging)	-0.9%	14.9%	10.4%
Strategic benchmark (no currency hedging) *(Fund incl hedging, relative to benchmark)*	-1.2% *(+0.2%)*	12.8% ***(+1.9%)***	9.5% *n/a*
Local Authority Average Fund *(Fund incl hedging, relative to benchmark)*	-0.7% *(-0.3%)*	15.1% ***(-0.2%)***	10.4% *n/a*

5.2 **Fund Investment Return:** Asset class returns were mixed in the quarter with declines in bond markets and emerging market equity markets. Developed equity markets performed better with UK equities falling slightly whereas other developed overseas markets posted small positive returns. However, within the quarter, equity markets were particularly negative in June.

5.3 Over the one year period there have been positive returns across all asset classes except fixed interest gilts and overseas fixed interest bonds. Property is showing the weakest returns within the growth portfolio, although still positive over the year. 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 bonds and equities. 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.

5.4 **Fund Performance versus Benchmark: +1.9% over 12 months, attributed to**

(1) Asset Allocation: The underweight to fixed income gilts, hedge funds and property (which all performed less well) contributed 0.3% to the outperformance over the twelve month period. The currency hedging programme was neutral over 1 year.

(2) Manager Performance: In aggregate, manager performance contributed 1.5% of the outperformance over the 12 month period, relative to the strategic benchmark.

5.5 **Versus Local Authority Average Fund:** Over one year, the Fund underperformed the average fund slightly due to lower than average allocation to equities which experienced a strong year.

5.6 **Currency Hedging:** This quarter Sterling weakened against both the Dollar and Euro, resulting in the returns from equity assets denominated in these currencies increasing in Sterling terms. Sterling strengthened against the Yen as the Yen continued to show weakness against most major currencies, resulting in returns from Yen denominated assets reducing in Sterling terms. On the c. £944m assets in the programme, the total effect of underlying currency movements had a negative impact of -0.5% over the quarter, with the hedging programme detracting 0.1% from this, resulting in a net currency return on the assets in the programme of -0.6%. The hedging programme detracted 0.1% from the Fund's total return in the quarter.

B – Investment Manager Performance

5.7 In aggregate over the 3 year period the managers' performance is in line with the benchmark. 10 mandates met or exceeded their 3 year performance benchmark, which offset underperformance by the Hedge Funds and TT. Genesis, RLAM, and Jupiter all continue to significantly outperform their 3 year performance targets.

5.8 Following the decision to divest last quarter, Man's portfolio is in the process of being redeemed.

5.9 TT's performance continues to improve since changes were made to address performance and whilst still short of their three year performance target, the one year performance is ahead of target.

5.10 JLT's report has highlighted that the SSgA European fund size has contracted again so that Avon Pension Fund's share of the pooled fund has risen to >95%. The Fund holds a similar share of the SSgA Pacific pooled fund. When the issue was last addressed by the Panel in November 2011, the shares of the funds were similar. At that time SSgA confirmed the fund was sustainable even if Avon were the only investor. The size of both funds is slightly higher than when the issue was last reviewed. Performance of both funds is consistently at or above target.

5.11 As part of the ‘Meet the Managers’ programme, the Panel met with RLAM on 18 July 2013. The summary of the Panel’s conclusions can be found in Exempt Appendix 3.

5.12 Under the new Red Amber Green (RAG) framework for monitoring manager performance, the Panel consider updates on all managers not currently achieving Green status including progress on action points. Any change in the RAG status of any manager is reported to Committee with an explanation of the change. This quarter there have been no changes to the RAG status of any of the managers. This quarter has seen all Amber rated managers showing improvement and progress towards a Green rating. The only Red rated manager is Man from whom the Fund is in the process of divesting.

6 INVESTMENT STRATEGY

6.1 Changes to the Investment Strategy agreed in March 2013 are in the process of being implemented and progress is as follows:

	Project	Progress
1	New DGF Mandates	**On track**: Tender in progress. Due Diligence in progress. Appointment decision due w/c 30 September
2	New Emerging Market Equity Mandate	**On track**: Tender process commenced. Closed 10 September Due Diligence w/c 18 November Appointment decision due w/c 2 December
3	Restructuring passive equity portfolio	**On track**: Conversion to income distributing funds to coincide with funding of DGF and EM mandates
4	Rebalancing bond portfolio	**Complete**: Strategic allocation between UK gilts and corporate bonds implemented 16 August
5	New Infrastructure allocation	**On track**: Educational session held 4 September 2013

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 The rebalancing policy requires rebalancing of the Equity/Bond allocation to occur when the equity portion deviates from 75% by +/- 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. Revisions to this policy are being considered in another item on this Committee agenda.

7.2 There was no rebalancing activity undertaken during the quarter. Market movements have resulted in an Equity:Bond allocation of 78.7:21.3 as at 28 August 2013. This is within the tactical range for rebalancing. Officers will incorporate any rebalancing as the new strategy is implemented.

Cash Management

7.3 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 during the quarter were invested in line with the Fund's Treasury Management Policy. The latest updated version of the Treasury Management Policy was approved on 22 March 2013.

7.5 The Fund continues to deposit internally managed cash on call with Barclays and Bank of Scotland. 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. Following the March Committee's approval of the revised Treasury Management Policy, the Fund has also been depositing cash with NatWest since the beginning of April.

7.6 During the quarter there was a net cash outflow of c. £3.8m as benefits paid and costs incurred exceeded contributions and income received. This is largely in line with the overall trend of 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 over the year to 31 March 2014, and greater outflows in subsequent years. However this could change as the effects of the 2013 valuation, auto enrolment and LGPS 2014 become clearer.

8 ANNUAL ASSURANCE ON CONTROL ENVIRONMENT OF 3RD PARTY SUPPLIERS

8.1 As part of the risk management process the Fund annually reviews the internal control reports (ICR) of the custodian and investment managers (and their administrators where relevant), and reports the findings to Committee. These reports are often designated SSAE16 or SSAE3402 reports (previously AAF 01/06 and SAS70 reports), that states which set of standards are being reported against.

8.2 ICR reports describe the internal control environment of an organisation. The management of the organisation are responsible for identifying the control procedures which they consider appropriate to enable certain control objectives to be met. External auditors verify that the controls identified are in place and comment on whether the controls will achieve the stated objectives or not.

8.3 For the reports reviewed in 2013, in each case the external auditor's report stated that the controls were in place and achieved the control objective and there are no issues to bring to the attention of the Committee. As part of the process, officers discuss the significance of the internal control reports with investment managers and custodian on an on-going basis and follow-up any issues flagged in the reports.

8.4 The ICRs of the pooled funds (and their administrators/custodian) and the Fund's custodian are also audited by the Fund's external auditor as part of the annual audit.

9 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted:	1,062
Resolutions voted:	15,046
Votes For:	14,052
Votes Against:	1,029

Abstained:	76
Withheld* vote:	97

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

9.2 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.

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 – Business Support) 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	

AVON PENSION FUND VALUATION – 30 JUNE 2013

	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	309.9	12.2	157.1	132.7		17.7							629.6	20.31%
North America	166.8	11.2				105.4							283.4	9.14%
Europe	136.6					34.0		35.0					205.6	6.63%
Japan	42.4					15.2		37.9					95.6	3.08%
Pacific Rim	50.6					10.9		29.1					90.6	2.92%
Emerging Markets					147.2	17.1							164.4	5.30%
Global ex-UK							221.2						221.2	7.14%
Global inc-UK	313.0											7.0	319.9	10.32%
Total Overseas	***709.5***	***11.2***			***147.2***	***182.7***	***221.2***	***101.9***				***7.0***	***1380.6***	***44.55%***
Total Equities	**1019.4**	**23.4**	**157.1**	**132.7**	**147.2**	**200.4**	**221.2**	**101.9**				**7.0**	**2010.2**	**64.86%**
BONDS														
Index Linked Gilts	195.1												195.1	6.30%
Conventional Gilts	103.0	13.8											116.8	3.77%
Sterling Corporate	17.2								172.0				189.2	6.11%
Overseas Bonds	79.1												79.1	2.55%
Total Bonds	**394.4**	**13.8**							**172.0**				**580.2**	**18.72%**
Hedge Funds										220.4			220.4	7.11%
Property											237.1		237.1	7.65%
Cash	5.0	18.2	6.5	8.0		1.6					2.6	9.2	51.2	1.65%
TOTAL	**1418.8**	**55.4**	**163.6**	**140.7**	**147.2**	**202.0**	**221.2**	**101.9**	**172.0**	**220.4**	**239.7**	**16.1**	**3099.1**	**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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Avon Pension Fund

Review for period to 30 June 2013

Contents

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1 Executive Summary

This report is produced by JLT Employee Benefits ("JLT") to assess the performance and risks of the investment managers of the Avon Pension Fund (the “Fund”), and of the Fund as a whole.

Funding level

- There is expected to have been an improvement in the funding level by around 5% over the second quarter of 2013.
- The drivers of this were:
  - A sharp rise in the discount rate assumption used to project the liabilities. This reduces the value placed on future pension payments and hence decreases the value placed on the liabilities, all else being equal.
  - This improvement was despite a small negative return from the assets, in particular from emerging market equities and bonds.

Fund performance

- The value of the Fund's assets decreased by £36m over the second quarter of 2013 to £3,099m. However the total Fund (including the impact of currency hedging) outperformed the Fund’s strategic benchmark over the quarter by 0.2%, producing an absolute return of -1.0%.

Strategy

- Equity markets paused over the last quarter following two very strong quarters. Japan was once again the best performer at 4.5%, with emerging markets equities producing a negative return of -7.5%. Over the last twelve months, European and Japanese equities produced the highest returns (of 26.7% and 26.3%), with emerging market equities trailing at 7.2%.
- The three year equity returns were well ahead of the assumed strategic return. The three-year figure includes the very strong markets towards the end of 2010, which will be the next to fall out of the analysis.
- Both the three year nominal and index-linked bond returns were lower than at 31 March but continued to exceed their assumed strategic returns. This was a result of falling bond yields, particularly during 2011, although yields began to rise over the most recent quarter.
- Overseas Fixed Interest remained below the assumed strategy return, affected by rising yields within European bonds.
- Both Hedge funds and Property remain below their assumed strategic returns but there has been some further improvement over the last quarter.

Managers

- In line with general market returns, the absolute manager returns have been mixed over the last quarter. The UK, European and global equity funds saw small rises, with the SSgA Pacific and Genesis funds falling in value. Apart from Genesis (at -7.1%), all of the manager returns were in a narrow range between -2.6% and 1.9%.
- Only the four fund-of-hedge fund managers produced negative relative returns over three years.

- TT made changes in Q4 2011 and performance has continued to improve, with one year performance at 5.8% above the benchmark. TT's three year performance has improved again to 1.7% p.a. above their benchmark, but this is below their target of +3-4% p.a. above the benchmark.
- All managers apart from TT and the four fund-of-hedge funds outperformed their 3-year targets.
- Both the SSgA Europe ex UK and Pacific incl Japan enhanced equity pooled funds are now at a size such that Avon's investment now represents almost all of the pooled fund holdings. However, the Panel has previously concluded that the funds could be sustained even if the Avon Pension Fund was the only investor.
- Stenham has recently changed the focus of its business strategy, focussing away from growing its institutional business to focus on servicing existing investors, strategic acquisitions and joint venture projects. The Stenham portfolio produced a strong quarterly return which has improved its longer term returns. Officers will continue to monitor the impact of the changes made.

Key points for consideration

- The results of the Fund's recent strategic review should be taken into account before making any manager or asset allocation changes.
- Performance of the SSgA Europe ex UK Enhanced Equity Fund does not appear to have been affected by its reduction in size.
- In June 2013 Signet announced that they have agreed to sell their Fund of Hedge Funds business to Morgan Creek Capital Management, a US based alternatives manager with $7bn under management. The deal is still subject to regulatory approval and some consolidation within the hedge fund industry is to be expected. This deal appears to be a complimentary fit as it gives Morgan Creek access to Signet's fixed income team, and will continue to be monitored.
- The Global Fixed Income team relevant to the Avon Pension Fund is not changing.

2 Market Background

The figures below cover the three months, 1 year and 3 years to the end of June 2013.

Market Statistics

Yields as at 30 June 2013	% p.a.
UK Equities	3.53
UK Gilts (>15 yrs)	3.43
Real Yield (>5 yrs ILG)	-0.03
Corporate Bonds (>15 yrs AA)	4.52
Non-Gilts (>15 yrs)	4.67

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	0.18	-0.16	0.19
UK Gilts (>15 yrs)	0.41	0.51	-0.71
Index-Linked Gilts (>5 yrs)	0.40	0.07	-0.70
Corporate Bonds (>15 yrs AA)	0.46	0.27	-0.80
Non-Gilts (>15 yrs)	0.44	0.05	-0.72

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	-5.9	-4.6	7.8
Index-Linked Gilts (>5 yrs)	-7.4	2.7	9.6
Corporate Bonds (>15 yrs AA)	-4.6	1.2	7.4
Non-Gilts (>15 yrs)	-4.3	4.4	7.9

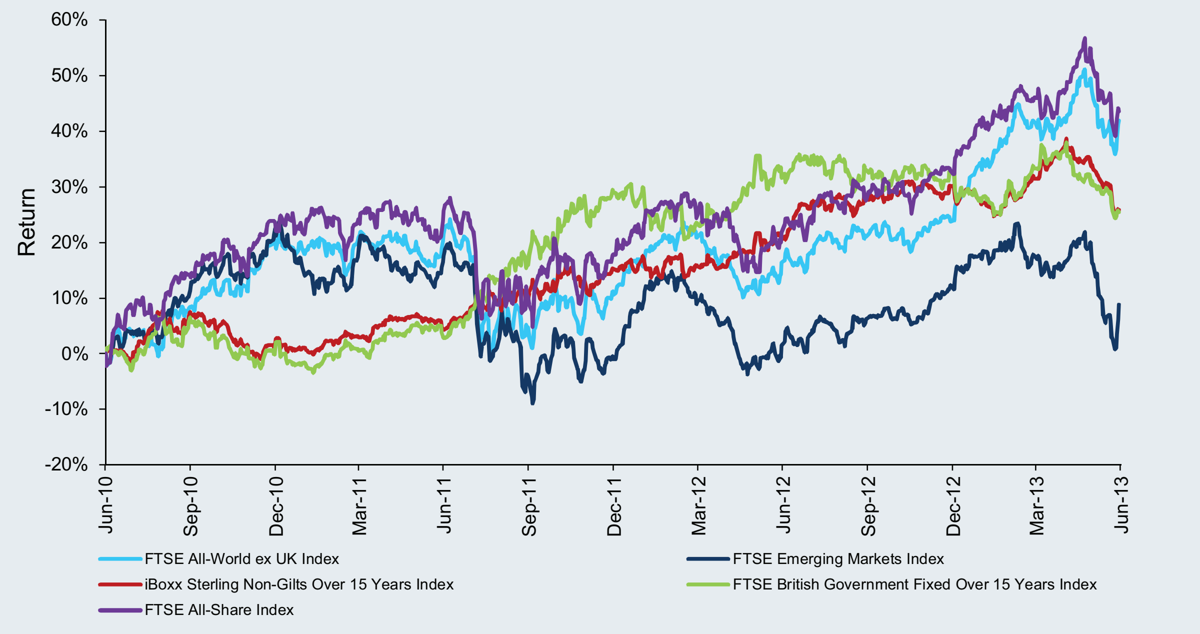
Source: Thomson Reuters and Bloomberg

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-1.7	17.9	12.8
Overseas Equities	0.1	21.9	12.4
USA	3.0	24.9	17.9
Europe	0.4	26.7	9.4
Japan	4.5	26.3	8.2
Asia Pacific (ex Japan)	-7.4	13.4	7.1
Emerging Markets	-7.5	7.2	2.8
Property	1.9	4.1	6.0
Hedge Funds	0.2	9.5	6.7
Commodities	-5.8	5.5	4.3
High Yield	-1.2	15.0	10.5
Emerging Market Debt	-5.6	1.1	7.3
Senior Secured Loans	1.3	8.7	6.4
Cash	0.1	0.4	0.5

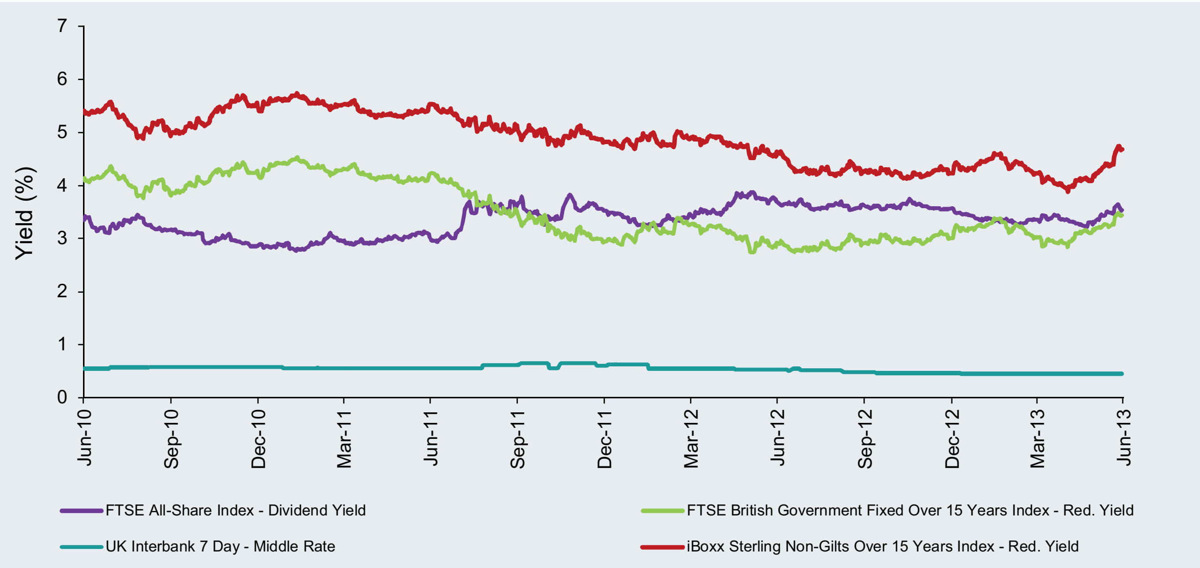
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-0.1	-3.3	0.5
Against Euro	-1.3	-5.6	-1.5
Against Yen	5.5	20.4	4.4

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation - RPI	0.4	3.3	3.7
Price Inflation - CPI	0.2	2.9	3.2
Earnings Inflation	1.0	0.9	1.7

Market Summary charts



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



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 2012 shows falling gilt and corporate bond yields, whilst there has been a rise over the second quarter of 2013.

The table below compares general market returns (i.e. not achieved Fund returns) to 30 June 2013, 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	12.8	Well ahead of the assumed strategic return following strong returns throughout the period apart from mid-2011. Returns were particularly strong towards the end of 2010, which will fall out of the analysis in the coming quarters.
Global Equities	8.4	12.4	
UK Gilts	4.7	7.8	Significantly ahead of the assumed strategic return as gilt yields fell significantly during 2011. However the returns are lower than in the previous report as gilt yields have begun to rise over the most recent quarter.
Index Linked Gilts	5.1	9.6	
UK Corporate Bonds	5.6	6.9	
Overseas Fixed Interest	5.6	2.3	Behind the assumed strategic return, affected by rising yields within European bonds.
Fund of Hedge Funds	6.6	2.9	Behind the assumed strategic return following a negative return in 2011. More recent returns have been steady and an improvement on 2011, with return over the last twelve months being 6.9%. Low LIBOR levels could lead to continued low performance.
Property	7.4	6.0	This remains behind the assumed strategic return, although there have been some signs of a potential recovery during 2013.

Source: Statement of Investment Principles, Thomson Reuters.

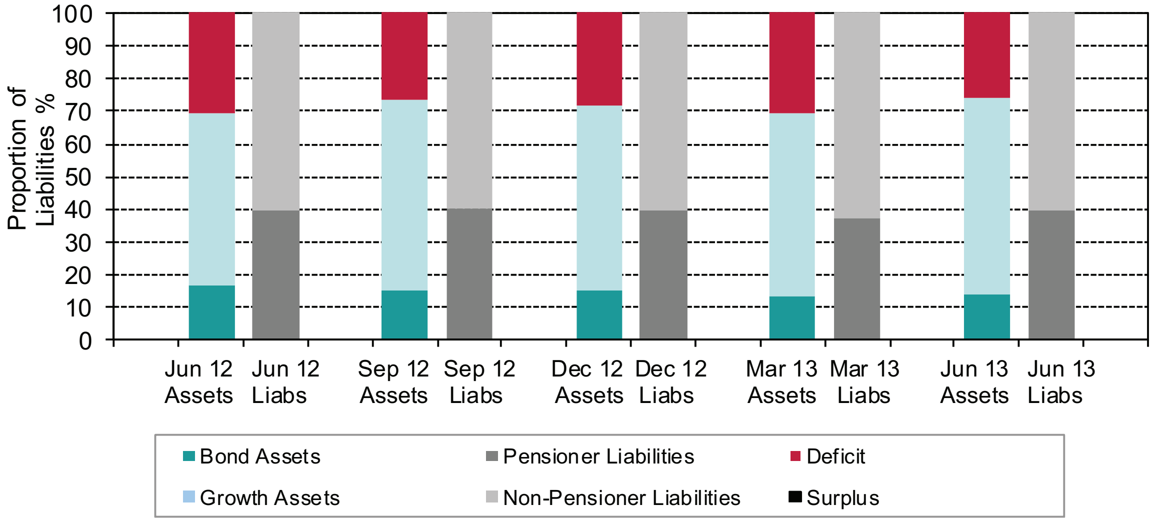
See appendix A for economic data and commentary.

3 Consideration of Funding Level

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

Asset allocation and liability split

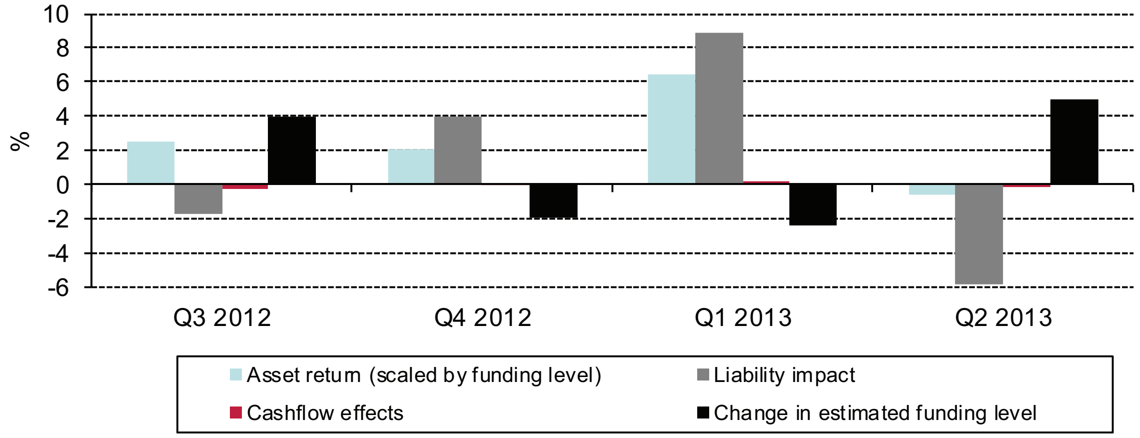
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix for definition). The liability benchmark is based on the valuation results from 31 March 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 increased by around 5% over the second quarter of 2013, all else being equal. This was driven by:
  - A sharp rise in the discount rate assumption used to project the liabilities. This reduces the value placed on future pension payments and hence decreases the value placed on the liabilities, all else being equal.
  - This improvement was despite a small negative return from the assets, in particular from emerging market equities and bonds.
- 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. Most of the deterioration came in the second half of 2011, when bond yields fell sharply, but there has been some correction of this impact over the last quarter.

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.

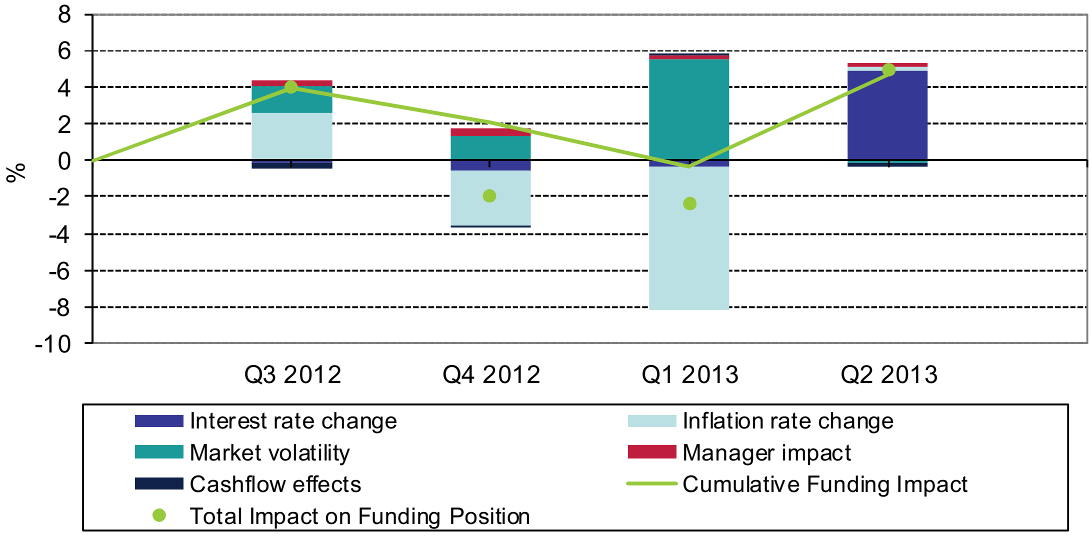


Note : A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of -0.7%, over the last quarter.
- The value placed on the liabilities decreased by 5.8% mainly due to an increase in the Actuary's discount rate assumption.
- Overall, the combined effect has led to an increase in the estimated funding level to 74% (from 69% at 31/03/2013).

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.



- The main impact over the last quarter has been 'interest rate change', which reflects the effect of the difference in the duration of the liabilities compared to the assets. As the liabilities have a longer duration than the assets, when yields rise (as in Q2 2013), this has a positive impact.
- The Market Implied (RPI) inflation assumption remained unchanged at 3.6% p.a. over the quarter. This gives an almost zero contribution - the small positive contribution on the chart is the 'experience' effect for the quarter due to actual national earnings inflation being lower than the absolute level assumed in the actuarial valuation.
- For Growth assets, 'Market volatility' is simply the (benchmark) return on the assets; for Bond assets it is the return less the return that would be expected given the changes in bond yields. This has had a very small negative impact over the quarter as, overall, markets were reasonably flat.
- 'Manager impact' is the investment performance compared to the strategic benchmark. This was positive over the last quarter but gave a relatively small contribution, as expected, compared to the other factors.
- The small 'cashflow effects' reflect factors such as pension payments and contributions/disinvestments.
- Overall the investment factors (i.e. all the factors included in the chart above) have had a positive impact on the estimated funding level of the Fund over the last quarter.
- Over the last twelve months, the investment factors have had a positive effect mainly due to the 'interest rate change' effect over the last quarter and generally rising markets (the 'market volatility' bars). There was also a contribution from the managers' outperformance. The main detractor was the increase in the inflation assumption during the first quarter of 2013.

4 Fund Valuations

The table below shows the asset allocation of the Fund as at 30 June 2013, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets "ring fenced" for investment in property) split between the relevant asset classes.

Asset Class	30 June 2013 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	629,591	20.3	18.0
Overseas Equities	1,380,640	44.6	42.0
Bonds	580,204	18.7	20.0
Fund of Hedge Funds	220,407	7.1	10.0
Cash (including currency instruments)	51,222	1.7	-
Property	237,079	7.6	10.0
TOTAL FUND VALUE	**3,099,143**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets decreased by £36m over the second quarter of 2013 to £3,099m. Each asset class (except for Property) contributed to the fall with the majority (£31m) coming from bonds.
- In terms of the asset allocation, market movements resulted in a shift away from bonds and towards property and overseas equities as bonds produced a return of around -5%. This moved the bond allocation further away from the strategic benchmark weight but the property allocation closer.
- The Fund remains overweight in equities and underweight in bonds, hedge funds and property.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	31 March 2013 Value £'000	31 March 2013 Proportion of Total %	Net new money £'000	30 June 2013 Value £'000	30 June 2013 Proportion of Total %
Jupiter	UK Equities	139,815	4.5	-	140,717	4.5
TT International	UK Equities	162,741	5.2	-	163,649	5.3
Invesco	Global ex-UK Equities	218,121	7.0	-	221,159	7.1
Schroder	Global Equities	199,613	6.4	-	201,966	6.5
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	103,009	3.3	-	101,947	3.3
Genesis	Emerging Market Equities	158,436	5.1	-	147,236	4.8
MAN	Fund of Hedge Funds	63,955	2.0	-	64,160	2.1
Signet	Fund of Hedge Funds	67,197	2.1	-	65,478	2.1
Stenham	Fund of Hedge Funds	34,937	1.1	-	35,591	1.1
Gottex	Fund of Hedge Funds	55,059	1.8	-	55,178	1.8
BlackRock	Passive Multi-asset	1,446,466	46.1	1,000	1,418,832	45.8
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	60,652	1.9	-4,800	55,380	1.8
RLAM	Bonds	176,526	5.6	-	171,978	5.5
Schroder	UK Property	132,500	4.2	-	135,421	4.4
Partners	Property	95,729	3.1	3,800	104,279	3.4
Record Currency Mgmt	Dynamic Currency Hedging	-3,117	-0.1	-	-3,609	-0.1
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	7,955	0.3	-	6,832	0.2
Internal Cash	Cash	15,836	0.5	-	12,949	0.4
Rounding		-1	-0.1	-	-	-
TOTAL		**3,135,429**	**100.0**	**0**	**3,099,143**	**100.0**

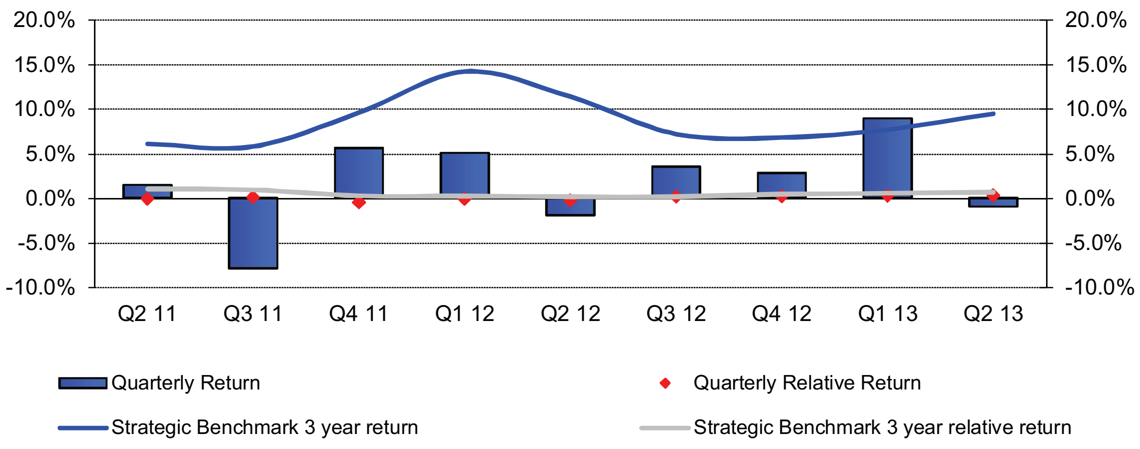
Source: Avon Pension Fund Data provided by WM Performance Services

5 Performance Summary

Total Fund performance

The chart below shows the absolute performance of the total Fund's assets over the last 3 years.

Total Fund absolute and relative performance



Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	-1.0	14.9	N/a
Total Fund (ex currency hedge)	-0.9	14.9	10.4
Strategic Benchmark	-1.2	12.8	9.5
Relative (inc currency hedge)	+0.2	+1.9	N/a
Relative (ex currency hedge)	+0.3	+1.8	+0.8

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 June 2013.

Asset Class	Weight in Strategic Benchmark	Index returns	Contribution to total benchmark	Index returns	Contribution to total benchmark
		Q2 2013	(quarter)	1 year	(1 year)
UK Equities	18%	-1.7%	-0.3%	17.9%	3.2%
Overseas Equities	42%	-0.7%	-0.3%	20.9%	8.8%
Index Linked Gilts	6%	-7.3%	-0.4%	2.7%	0.2%
Fixed Coupon Gilts	6%	-5.9%	-0.4%	-4.7%	-0.3%
UK Corporate Bonds	5%	-2.9%	-0.1%	6.5%	0.3%
Overseas Fixed Interest	3%	-2.9%	-0.1%	-1.7%	-0.0%
Fund of Hedge Funds	10%	2.1%	0.2%	6.6%	0.7%
Property	10%	1.4%	0.1%	2.2%	0.2%
Total Fund	100%				

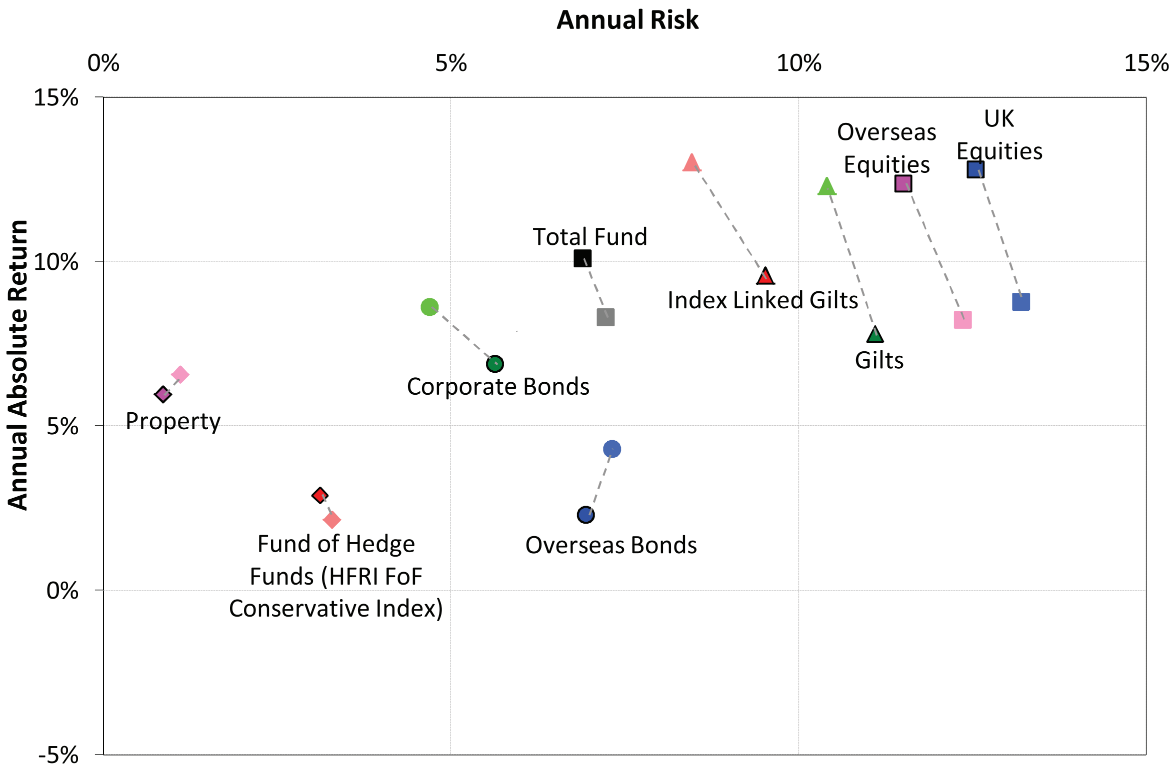
- **Market impact:** After a strong start to the quarter, global equities fell in June following the suggestion that US Quantitative Easing would be reduced if their economy continued to recover.
- Asia Pacific and emerging market equities were affected by the strength of the US Dollar, which reduced the competitiveness of these economies. These regions were also affected by weak Chinese economic data.
- Both Government and corporate bond markets were affected by rises in gilt yields. There has been a reduction in corporate bond spreads, meaning that corporate bonds performed better than gilts.
- The property market has been driven by improving rental yields. House prices have risen across the country, particularly in London.
- **Strategic Benchmark:** Over the quarter, performance of the strategic benchmark was driven by a small negative contribution from most asset classes. Over the year, equities made the largest contribution, with overseas equities, which make up the bulk of the benchmark allocation, providing the largest driver to the benchmark.
- Hedge funds and property made small positive contributions, 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 June 2013 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 18.

3 Year Risk v 3 Year Return to 30 June 2013

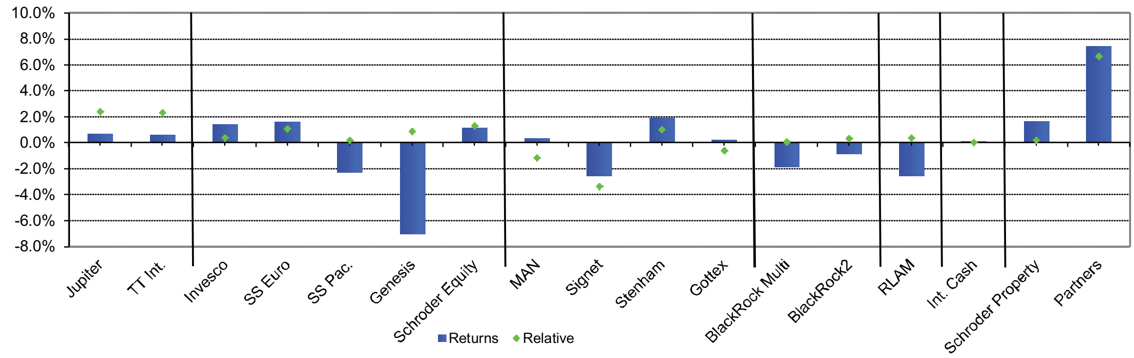


- All of the underlying benchmarks have produced a positive return over the period (3 years p.a.).
- 3-year equity returns increased by 4% p.a. to over 12% p.a. as the sharp falls of Q2 2010 fell out of the analysis. This was also despite a slight fall in UK equities over the last quarter.
- The Property return continued to fall, although not as sharply as in previous quarters as returns begin to show some improvement.
- Hedge funds continue to produce a steady, albeit low, return, with returns stabilising over the last year.
- Both gilt and index-linked gilt 3-year returns fell as yields rose over the last quarter and led to negative quarterly returns. Corporate Bond and Overseas Bond returns were also affected by yield rises.
- In terms of risk, the 3-year equity volatility decreased as negative Q2 2010 returns were replaced by more steady returns, with the opposite occurring for Gilts, Index-linked Gilts and Corporate Bonds.
- The three-year return on equities, gilts, index-linked gilts and corporate bonds are above their assumed strategic return. Property, overseas fixed interest and hedge funds remain below their assumed strategic return.

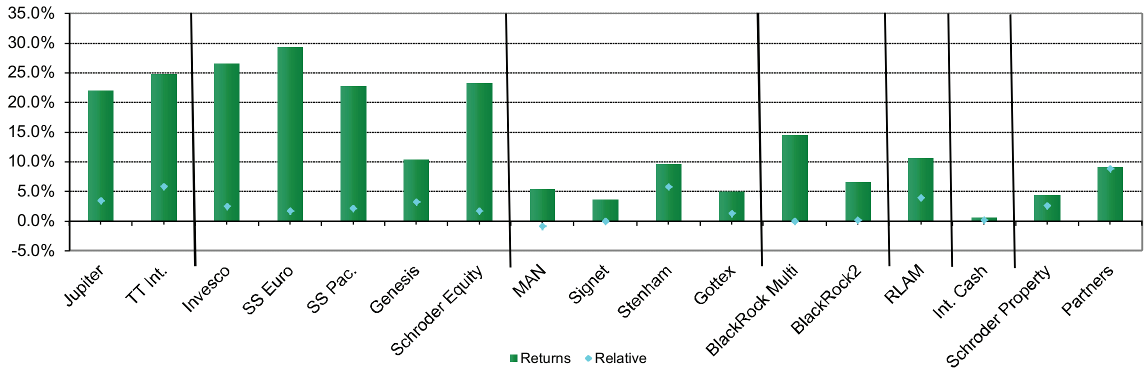
Aggregate manager performance

The charts below show the absolute return for each manager over the quarter, one year and three years to the end of June 2013. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

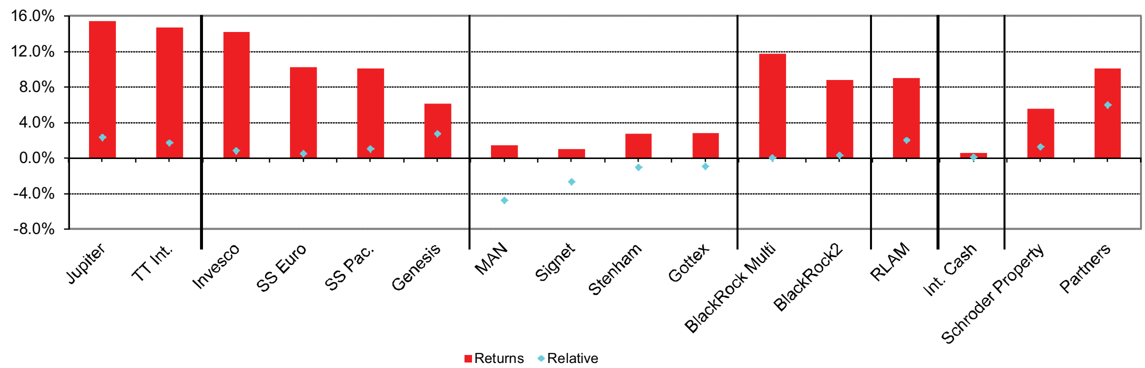
Absolute and relative performance - **Quarter to 30 June 2013**



Absolute and relative performance - **Year to 30 June 2013**



Absolute and relative performance – **3 years to 30 June 2013**



Source: Data provided by WM Performance Services

Partners returns are lagged by 1 quarter.

The table below shows the relative returns of each of the funds over the quarter, one year and three years to the end of June 2013. 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.

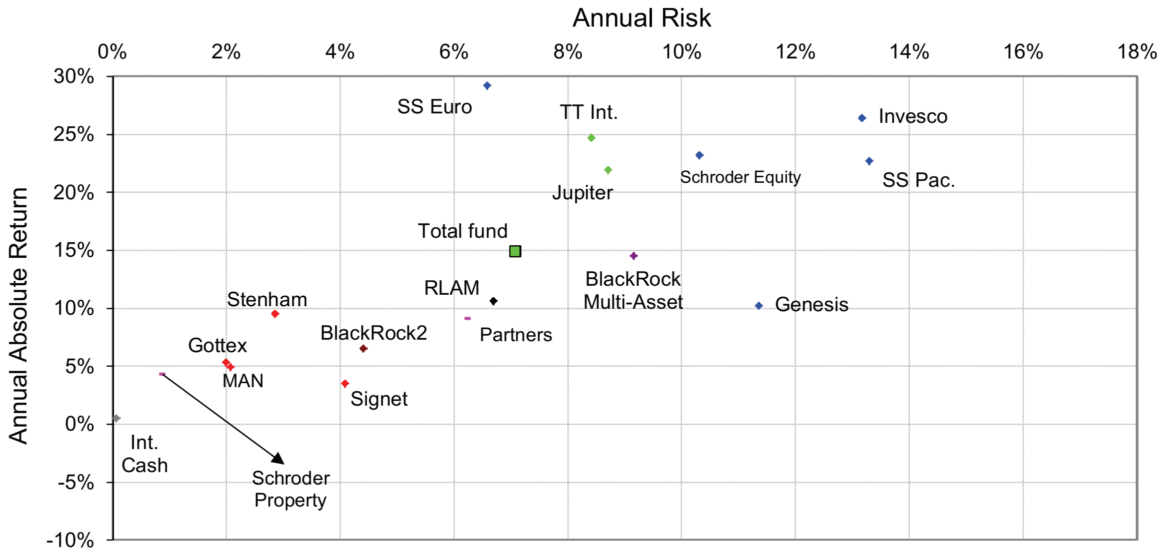
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+2.3	+3.4	+2.3	Target met
TT International	+2.3	+5.8	+1.7	Target not met
Invesco	+0.3	+2.4	+0.8	Target met
SSgA Europe	+1.0	+1.7	+0.5	Target met
SSgA Pacific	+0.2	+2.1	+1.0	Target met
Genesis	+0.8	+3.2	+2.7	Target met
Schroder Equity	+1.3	+1.7	N/A	N/A
Man	-1.2	-0.9	-4.8	Target not met
Signet	-3.4	-0.1	-2.7	Target not met
Stenham	+1.0	+5.7	-1.1	Target not met
Gottex	-0.6	+1.3	-1.0	Target not met
BlackRock Multi - Asset	0.0	-0.1	0.0	Target met
BlackRock 2	+0.3	+0.1	+0.3	Target met
RLAM	+0.3	+3.8	+2.0	Target met
Internal Cash	0.0	+0.1	+0.1	N/A
Schroder Property	+0.2	+2.6	+1.2	Target met
Partners Property	+6.6	+8.8	+6.0	Target met

Source: Data provided by WM Performance Services

Manager and Total Fund risk v return

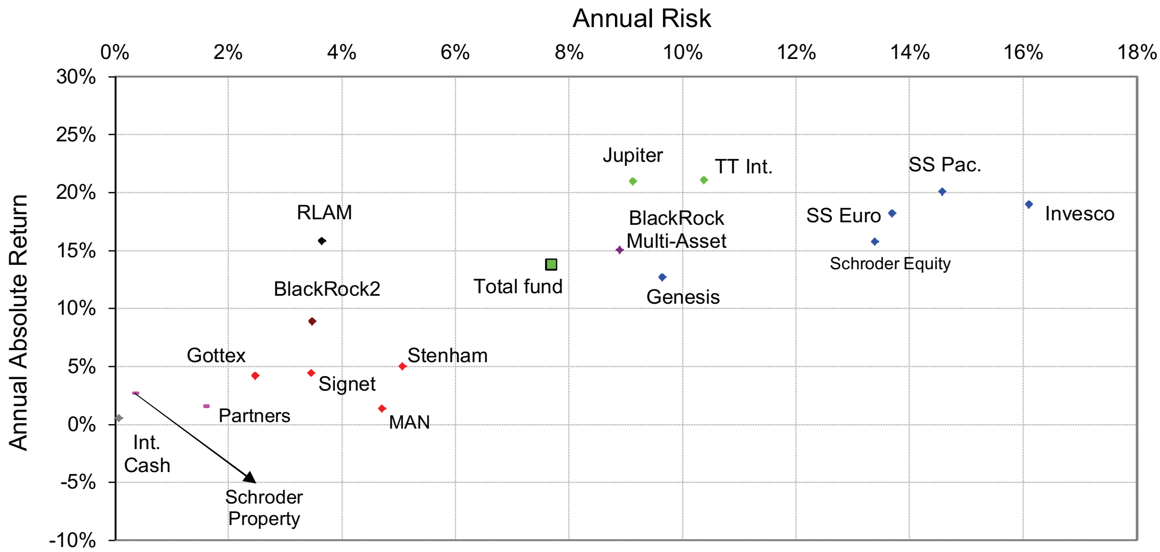
The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2013 of each of the funds. We also show the same chart, but with data to 31 March 2013 for comparison.

1 Year Risk v 1 Year Return to 30 June 2013



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 31 March 2013

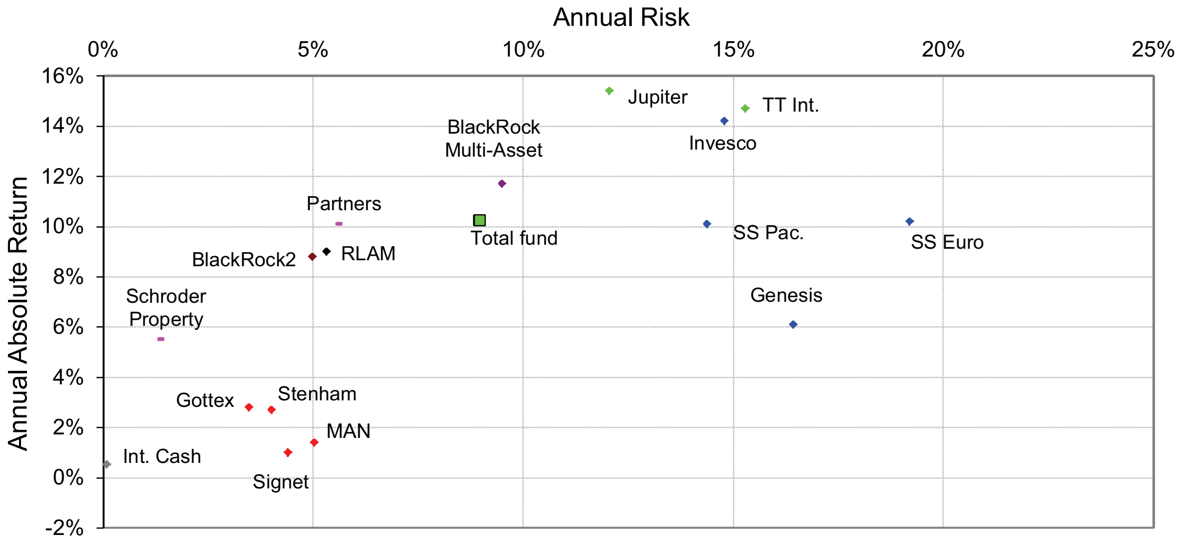


Source: Data provided by WM Performance Services

- 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 of each of the developed equity managers have risen to above 20%, with the risk falling. Conversely, the return of the emerging equity manager, Genesis, has fallen from 12.6% to 10.2%, with its risk increasing.
- Stenham have seen their one-year returns significantly increase following the changes made in December 2012.
- RLAM's one-year return has fallen from 15.7% to 10.6%.

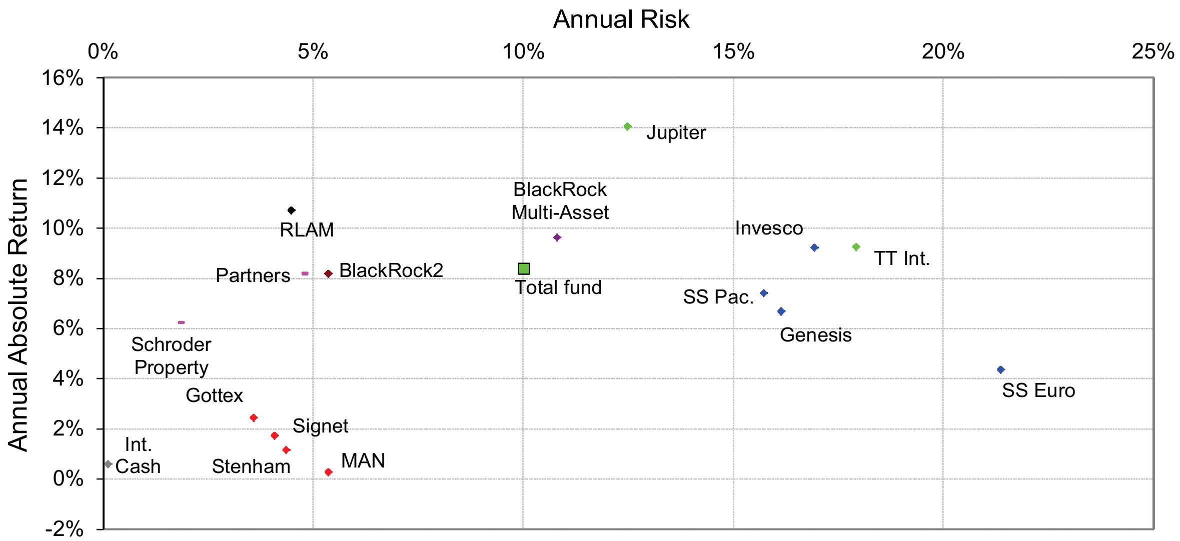
The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of June 2013 of each of the funds. We also show the same chart, but with data to 31 March 2013 for comparison.

3 Year Risk v 3 Year Return to 30 June 2013



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 31 March 2013



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 change in the three-year chart since last quarter is similar to that seen in the one-year chart.
- The three-year return from the developed equity managers has improved, with risk reducing, whereas Genesis's return has reduced and risk increased.
- RLAM's three-year return has decreased from 10.7% p.a. to 9.0% p.a.
- Three-year returns from the hedge fund managers have improved apart from Signet.
- The 3-year risk figures have remained at a broadly consistent level for non-equity returns. 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 13.

Conclusion

- The strongest returns over the 1 year period are from equity funds, Blackrock Multi-asset and corporate bonds (RLAM). Each of these produced a double-digit return.
- Over three years, the best performer remains Jupiter at 15.4% p.a., closely followed by TT and Invesco. Whilst the hedge fund returns improved, they were still the lowest at 1-3% p.a.
- The Fund of Hedge Fund and property managers have provided low volatility over both the 1 and 3 year period. However, over the longer 3 year period they have each underperformed their assumed strategic return. Each of the equity-based funds has outperformed the assumed strategic return over 3 years.

Appendix 1: Market Events

Asset Class	What happened? Positive Factors	What happened? Negative Factors
UK Equities	■ Comments from the new Governor of the Bank of England (BOE), suggests that he is more concerned about stimulating economic growth rather than bringing the rate of CPI inflation down to the target level of 2%. ■ UK Equities do not look expensive by historical standards, especially after the fall in prices in June, and dividend yields compare favourably with the yield on gilts. ■ UK corporate earnings and dividends are still rising, in particular those of 'blue chip' companies. The low level of interest rates and the recent improvement in GDP figures also benefited the equity market. ■ The BOE's £80bn Funding for Lending Scheme (FLS) has been extended to January 2015. This has led to an increase in the availability of mortgage products and a reduction in the interest rate payable for fixed rate mortgages.	■ The mere suggestion by the Chairman of the US Federal Reserve that the current level of Quantitative Easing ('QE') would be reduced if the US economy continued to recover (so called 'tapering' of QE) caused a global rapid retreat in equity prices towards the end of the quarter, with the UK equity market falling to a five month low. ■ Fears surrounding the deteriorating outlook for Chinese GDP growth also weighed on investor sentiment. ■ The Chancellor's Spending Review, set out further government spending cuts in many sectors of the UK economy. ■ The FLS has also contributed to the reduction in savings rates as banks become less reliant upon savers to fund their lending activity.
Overseas Equities:		
North America	■ Underpinned by the policy of QE, the S&P 500 index rose to a record high in May and, despite the fall in June, the performance in the first half of 2013, was the best first half performance since 1998. ■ Assuming the economy continues to grow, equities do not look expensive. ■ Investors have switched billions of dollars out of cash into bond funds and equity funds on the back of an improvement in sentiment and encouraged by hopes of a sustainable economic recovery. ■ There has been a significant improvement in the US housing market.	■ The Chairman of the US Federal Reserve hinted that there might be a 'tapering' of QE later this year and that QE might come to an end in 2014 with a possible rise in interest rates in 2015. ■ These comments led to an increase in Treasury bond yields and equity markets experienced a major sell off in June. ■ Whilst US corporate earnings have been growing, this has often been the result of cost cutting measures and tax changes – revenues in many cases have been static or declining. ■ US GDP has been adversely affected by a drop in federal spending, suggesting that the cuts could limit future economic growth.

Asset Class	What happened?	
	Positive Factors	Negative Factors
Europe	▪ In September, there is a presidential election in Germany and the German Constitutional Court is expected to provide a judgement it is legal for the European Central Bank ('ECB') to buy, without limit, the government bonds of troubled Eurozone countries. ▪ In an attempt to boost economic growth, the ECB reduced the Eurozone's interest rate from 0.75% to 0.50%. ▪ The Eurozone trade surplus was €14.9bn in April compared with €13.3bn in April 2012. ▪ As widely expected, but initially denied, the 'bail out' terms imposed on Cyprus, which included losses for depositors with large cash balances, will become the template for future rescues. ▪ Leading indicators and the low level of company inventories suggest that some boost to GDP is likely to arise from re-stocking in the future.	▪ The suggestion that US QE might be tapered and concerns regarding a slowdown in China led to a fall in European equity markets. ▪ The record high Eurozone unemployment rate of 12% has reduced demand and led to downward pressure on the rate of CPI inflation, which is below the ECB's target rate of 'close to but below 2%'. ▪ Mediobanca, Italy's second largest bank, has said that 'Italy is likely to need an EU bailout within six months as the country slides deeper into crisis and a credit crunch spreads to larger companies'. ▪ Greece became the first developed country to be cut to Emerging Market status by MSCI.
Japan	▪ In his election campaign, the new Japanese prime minister, Mr Abe promised measures to stimulate the economy, measures that have been implemented following the appointment of a new Governor of the Bank Of Japan ('BOJ'). In particular, the BOJ announced that it would pursue a policy of QE amounting to U$1.4 trillion. ▪ Contrary to some expectations, money is not flowing out of Japan in search of higher yields (as has happened in the past) and it seems that, at least in part, cash is entering the real economy and the equity market.	▪ Similar measures have met with varying degrees of success since the peak of the equity market in December 1989. ▪ Although the equity market rose strongly after the announcement of the QE policy, investor confidence and sentiment were adversely affected by poor communications from the BOJ, regarding the new strategy and the reasons for believing that it would be successful in stimulating a lasting economic recovery. QE has led to the Yen appreciating sharply against the Dollar, which will hurt companies that have large export volumes. ▪ In common with the other major equity markets, the Japanese equity market fell sharply after the comments on US QE from the US Federal Reserve and on the deteriorating outlook for the Chinese economy.

Asset Class	What happened?	
	Positive Factors	Negative Factors
Asia Pacific	■ Many Asian companies, especially those selling to domestic consumers, are continuing to prosper with profits and dividends increasing. Notwithstanding the recent slowing of the Chinese economy, the longer term story for the region, including China, has not changed. ■ A decrease in commodity prices has led to an easing of inflationary pressures in the Asian Pacific region.	■ Recent official Chinese economic statistics have given mixed signals which has led to some analysts becoming concerned that the Chinese economy could slow with severe repercussions for the global economy. ■ The flow of weak Chinese economic data has continued with falling consumer demand likely to lead to lower GDP growth, a squeeze on corporate profits and lower wage growth. ■ China's long term currency rating was cut from AA- to A+ by Fitch. The credit rating agency cited underlying structural weakness in the economy and concerns about a rise in debt levels.
Emerging Markets	■ Emerging Market Equities do not look expensive but could fall further if the US dollar continues to strengthen. Exposure to domestic consumption (and the companies that benefit from it) will be particularly important over the next year when investing in this asset class rather than investing in the index stock weightings.	■ The recent strength of the US Dollar has weakened the competitiveness of Emerging Market economies as their exports are usually priced in Dollars, and many of their currencies are still linked, officially or unofficially to the US Dollar.
Gilts	■ The US Federal Reserve has tried to calm markets by suggesting that 'tapering' still depends on the strength of US economic growth and the reduction in the rate of unemployment. ■ Mark Carney took up his appointment as Governor of the BOE on 1 July and seems likely to maintain the current low level of interest rates for some time.	■ No prospect of capital gains in most areas of the fixed income market and every expectation of capital losses over time. Government securities look particularly vulnerable to a rise in yields (fall in price), with the volatility in prices over the past few weeks giving a taste of what might happen.
Index Linked Gilts	■ Fears over rising inflation have underpinned prices.	■ Many stocks offer a negative real yield, which is not appealing to investors.
Corporate Bonds	■ Given the strength of corporate balance sheets and good profitability, the returns available on corporate bonds are attractive relative to those available on gilts.	■ There is a low level of liquidity in this market at present and the reduction in credit spreads over the past few months leaves little room for any further reduction in credit spreads.
Property	■ Rental yields appear to be improving with activity centred around London. ■ Mortgage approvals in the UK rose to a three and a half year high. House prices are rising across the country with the fastest rate of growth seen in London where prices are now 5% above their previous peak.	■ There have been concerns about the increase in the level of voids and a fall in capital values in the Secondary and Tertiary markets.

Economic statistics

	Quarter to 30 June 2013			Year to 30 June 2013		
	UK	Europe[1]	US	UK	Europe[1]	US
Real GDP growth	0.6%	n/a	0.4%	1.4%	n/a	1.4%
Unemployment rate	7.8%	11.2%[4]	7.6%	7.8%	11.2%[4]	7.6%
Previous	*7.9%*	*11.1%*	*7.6%*	*8.1%*	*11.2%*	*8.2%*
Inflation change[2]	0.2%	0.1%	0.3%	2.9%	1.6%	1.8%
Manufacturing Purchasing Managers' Index	52.5	48.8	50.9	52.5	48.8	50.9
Previous	*48.3*	*46.8*	*51.3*	*48.4*	*45.1*	*49.7*
Quantitative Easing / LTRO [3]	£375bn	€1,018bn	$3,284bn	£375bn	€1,018bn	$3,284bn
Previous	*£375bn*	*€1,018bn*	*$3,029bn*	*£325bn*	*€1,018bn*	*$2,654bn*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. All figures to 30 June 2013 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 May 2013.

Appendix 2: Glossary of Terms

Term	Definition
Absolute Return	The actual return, as opposed to the return relative to a benchmark.
Annualised	Figures expressed as applying to 1 year.
Bond Assets	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Growth Assets	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the Growth assets may not.
Duration	The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Funded Liabilities	The value of benefits payable to members that can be paid from the existing assets of the plan (i.e. those liabilities that have assets available to meet them).
High Yield	A type of bond which has a lower credit rating than traditional investment grade corporate bonds or government bonds. These bonds pay a higher yield than investment grade bonds.
Market Statistics Indices	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 3: Summary of Mandates

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Invesco	Global ex-UK Equities Enhanced (En. Indexation)	MSCI World ex UK NDR	+0.5%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
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%
Partners	Global Property	IPD Global pooled	+2%
Cash	Internally Managed	7 day LIBID	

JLT Employee Benefits

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-1144-13

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 27 September 2013

Author: Matt Betts
Report Title: Review Of Investment Performance (for periods ending 30 June 2013) 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 organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

Weighed against this is the fact that the exempt appendix contains the opinions of Council officers and Panel members. It would not be in the public interest if advisors and officers could not express in confidence opinions which are held in good faith and on the basis of the best information available.

The exempt appendix also contains details of the investment processes/strategies of the investment managers. The information to be discussed is commercially sensitive and if disclosed could prejudice the commercial interests of the investment managers.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion relating to the investment managers in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the Investment Panel Activity has been made available – by way of the main report and additional appendices.

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

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QUARTERLY ENGAGEMENT REPORT

APRIL TO JUNE 2013

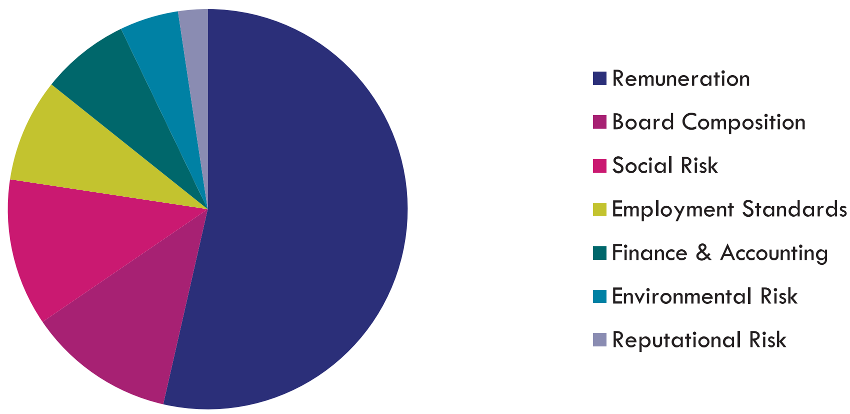
Local Authority Pension Fund Forum

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.

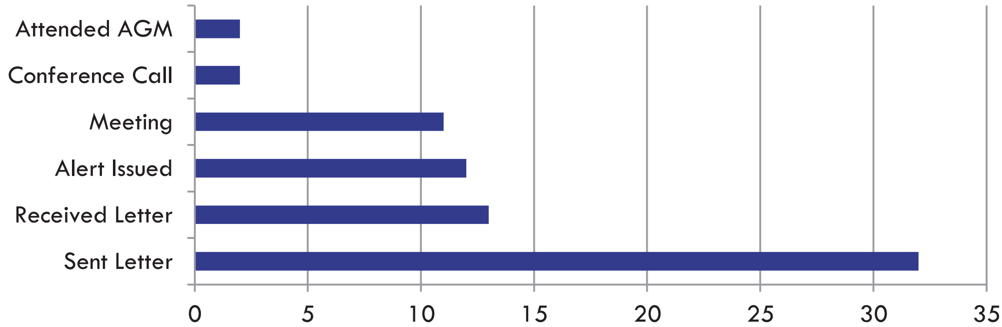
ENGAGEMENT SUMMARY

APRIL TO JUNE 2013

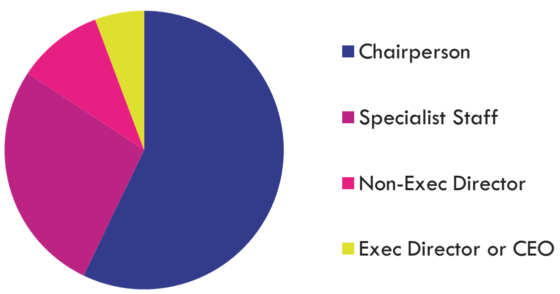
Topics



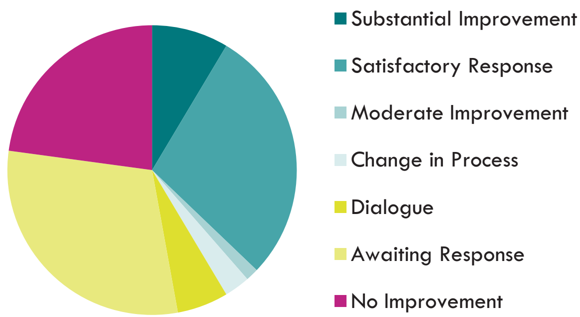
Activities



Company Contact



Outcomes



ACHIEVEMENTS

- Issued 14 voting alerts in the proxy season on a number of issues including on executive pay, joint Chair/CEO and carbon management: **Carnival, AstraZeneca, Barclays, National Express, BAE Systems, Aviva, Royal Bank of Scotland, Prudential, Comcast, JP Morgan, ExxonMobil, WPP, Marks & Spencer,** and **Freeport McMoRan.**
- Attended the AGMs of **Barclays** and **National Express**.
- Met with the Chair of **Associated British Foods** regarding supplier employment standards following the Bangladesh factory tragedy. LAPFF also signed an investor statement calling for improvements to factory standards for workers' safety.
- Sent LAPFF's new **Expectations on Executive Pay** to the FTSE 350 seeking feedback from a list of 16 companies in advance of their AGMs.
- Held meetings with **Société Générale**, **WM Morrison Supermarkets**, and **Legal & General** on executive pay.
- Met with **Imperial Tobacco** to discuss the health risks of tobacco products and the company's harm-reduction strategy.
- Discussed carbon management strategy with representatives of **Rio Tinto. R**eceived feedback from **Centrica** regarding opportunities and risks in the UK shale gas market.
- Met with the Chairman of **Standard Chartered** regarding Board structure and renewal.

THE FORUM IN THE NEWS

Pension funds call for review of accounting standards
The Telegraph, Bloomberg, Reuters, Washington Post, The Guardian

LAPFF questions RBS' accounts
The Times, Financial News, Bloomberg, The Scotsman

Investors push for independent Chair at News Corp
Professional Pensions, The Guardian

LAPFF opposes Barclays' accounts
The Independent, The Wall Street Journal, Fox Business, Bloomberg

LAPFF recommends against AstraZeneca's pay
The Telegraph, Financial Times, Reuters, The Independent, Bloomberg

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

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

In response to member concerns regarding the social and public health concerns associated with tobacco companies, LAPFF met with representatives of **Imperial Tobacco**. The issues discussed included harm reduction initiatives, regulatory risks, marketing and advertising practices, and global supply chain standards.

LAPFF also met with the Chairman of **Standard Chartered** at the Company's request to discuss ongoing changes at the Board level. Increasingly, companies are approaching LAPFF to initiate proactive discussions regarding governance, which demonstrates the progress LAPFF has made in terms of developing mutually beneficial relationships with the companies our members invest in.

We also held a meeting with **Trinity Mirror** to discuss ongoing investigations into phone hacking and the reputational consequences for the media industry.

PROMOTING GOOD GOVERNANCE

Global Focus List Engagement

Engagement with our focus list of companies on governance issues continued this quarter. Our activities focused more on issuing voting alerts in the run up to company annual meetings. We issued an alert on **JP Morgan**, recommending members vote for a shareholder proposal to appoint an independent Chair, and to vote against the re-election of Jamie Dimon, the Company's Chairman and CEO. The shareholder proposal received support from 32% of shareholders. LAPFF first initiated engagement with JP Morgan in 2012 in relation to the joint Chair/CEO role and on executive pay.

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LAPFF issued a similar alert on the joint Chair/CEO role at **Comcast Corporation**, a 2013 Global Focus List company. In this case, LAPFF recommended a vote against the Chairman and CEO, and against the Chairman of the Nomination Committee.

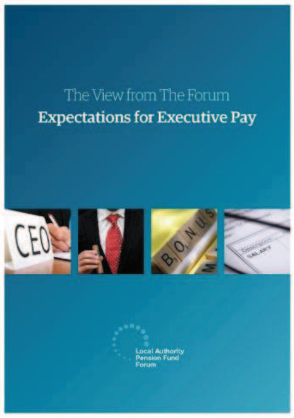
Financial Reporting & Audit

The Forum continues to be one of the leading advocates on the need for accounting standards to properly reflect a true and fair view of companies' financial position. The Forum is concerned that the true and fair view has been misrepresented, equating it to proper reporting against the accounting standards, rather proper reporting in line with the spirit of the law.

This quarter, we issued voting alerts at **Royal Bank of Scotland (RBS)** and **Barclays**, recommending members vote against the report and accounts on the basis that the companies' true financial position is not accurately reflected in their reports due to the use of International Financial Reporting Standards (IFRS). The Forum is concerned that the banks' reporting has implications for capital adequacy, noting that the Financial Policy Committee is making material adjustments to the public accounts. Press reports on the true capital positions of the banks are very similar to numbers LAPFF published in its Bank Post Mortem in 2011. RBS, which has the largest capital gap by both LAPFF's calculations and press reports, has not made any public disclosure of the company's estimate of the size of the gap.

LAPFF submitted evidence to the Commission to the **Parliamentary Commission on Banking Standards**, which reported in June. The QC opinion commissioned by LAPFF and several other investors raises significant concerns regarding the legal position of IFRS adoption and endorsement. The findings of the QC opinion have serious implications for all companies, the Financial Reporting Council, and the International Accounting Standards Board. As a result, the Forum has written to Standard Chartered, Barclays, HSBC and Lloyds seeking the Boards' views on the Opinion. You can view the full text of the QC opinion on the LAPFF website.

Executive Pay



In April, LAPFF launched its "**Expectations for Executive Pay**" document, which outlines LAPFF's new strategy on executive pay. There are a total of fifteen "expectations" set out for companies, some of which reference several long-standing LAPFF policies, such as "no golden hellos," the provision of fair pension arrangements, and exercising "reasonableness" with regard to the quantum of pay. The document also sets out several new policy positions, including the phase out of long-term incentive plans, the consideration of employee views, transparency in the executive recruitment process, and the publication of pay ratios.

Copies of the document were sent to the Chairmen of the FTSE 350 for their information, and a subset of 16 companies was asked for their specific response to our new proposals. Thirteen companies from the FTSE 350 list responded to indicate they had circulated the document to their Remuneration Committees, with two companies (**Centrica** and **Dunelm Mill**) indicating their Committees would specifically consider the document at upcoming Board meetings.

Four voting alerts recommending a vote against companies' remuneration reports were issued on the back of the launch of the Expectations document. At **AstraZeneca**, concerns were raised regarding a golden hello payment to the incoming CEO. For **Aviva**, **BAE Systems** and **Prudential**, LAPFF had concerns regarding the overall quantum of awards. On **Barclays**, LAPFF recommended an abstain vote on the remuneration report, in recognition of the Company's intention to review pay practices next year with a mind to simplifying the bank's pay.

LAPFF also held meetings with **WM Morrisons Supermarkets** and **Legal & General** to receive feedback on the Forum's new approach to pay.

MANAGING ENVIRONMENTAL RISK

Climate Change

LAPFF was joined by the Church Commissioners and the Church of England at a meeting with **Rio Tinto** to discuss the company's approach to carbon management. This is part of a wider investor initiative, 'Aiming for A' which aims to support companies working towards a transition to low-carbon production and to encourage improvement in CDP (carbon disclosure project) scorings. Rio Tinto agreed to continue communications regarding its business strategy for long-term sustainability.

"Adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the Company's products and operations and report to shareholders…on its plans to achieve these goals"

- Shareholder Resolution at ExxonMobil

In keeping with previous years, LAPFF issued a voting alert at **ExxonMobil** recommending a vote in favour of a shareholder proposal asking the Company to set out greenhouse gas emissions reduction goals. The proposal has been filed at the Company for several consecutive years, and last year received 27% shareholder support. A recommendation was also made to vote for a proposal asking Exxon to appoint an independent Chair.

Environmental Risk Management

LAPFF met with **Centrica** this quarter to develop a better understanding of the Company's views on the potential risks and benefits of developing a UK shale gas market. The discovery of shale gas in the UK has the potential to provide a stable source of energy that will help bring energy prices down and supply the UK with energy for 40 years or more. However there are a number of risks associated with the extraction process, which uses hydraulic fracturing. Centrica shared its views on the potential for large scale shale gas development in the UK, and how it believes the environmental and social risks can be managed.

TARGETING SOCIAL ISSUES

Employment Standards

Following the tragic factory collapse in Bangladesh, LAPFF wrote to **Associated British Foods (ABF)** to seek a meeting to discuss the Company's response. ABF and LAPFF have a history of engagement concerning overseas supply chains, and had discussions on this issue several times between 2005 and 2011. After several improvements in the Company's reporting and disclosure, LAPFF determined it was satisfied with the Company's progress. However following the tragedy in Bangladesh, clearly there was a need to re-initiate discussions in an effort to support the Company as it works collaboratively with other companies to improve overseas factory standards.

© ILO RCOMM

In response to a complaint about labour practices filed by unions under the OECD multinational enterprises guidelines, LAPFF held a conference call with the head of investor relations at **Deutsche Post DHL**. The company agreed that employment practices in some markets, such as Turkey, had fallen short of its expectations, and it was looking to roll out global standards across the group. Dialogue will continue once the response to the OECD is clear.

As part of its continuing engagement with **National Express** over employment issues in its US schoolsbus business, LAPFF signed a statement calling on the company to improve oversight and reporting of human capital issues. LAPFF issued an Alert ahead of the AGM, and vice-chair Ian Greenwood attended and spoke at the meeting. The company continues to defend its stance and has offered a further meeting with the LAPFF chair.

The Forum held a meeting with **Tesco** to discuss the announced review of its US business Fresh & Easy. LAPFF had previously engaged with Tesco over employment issues, and the former chair met with Fresh & Easy employees in the US, at which point it became clear that the business was in difficulties and a further meeting was sought. LAPFF asked whether the company had learned lessons from the US experience and could have engaged with employee concerns earlier. The company agreed that earlier engagement may have been beneficial and said that lessons had been learned, but that there had also been benefits to the US experience.

CONSULTATIONS & PUBLIC POLICY

CONSULTATION RESPONSES

The Forum submitted several consultation responses this quarter. We expressed support for the **Financial Reporting Council's (FRC)** proposed reforms to require the auditor's report to address risks of material misstatement, materiality and a summary of the audit scope. LAPFF also issued a response to **The Sharman Inquiry** on Going Concern. In its paper, LAPFF highlighted that assessing going concern requires prudent accounting policies, and that this assessment is not consistent with IFRS in several material respects. LAPFF co-signed a paper to the **UK Competition Commission** to advocate in favour of mandatory audit rotation, and backed a letter to the **Financial Conduct Authority (FCA)** raising concerns regarding the failure of the listing regime to provide basic corporate governance protections for investors.

NETWORKS & EVENTS

Representatives of LAPFF regularly attend conferences and events on behalf of members. A list of recent events is listed below.

- **Barclays annual meeting**
- **National Express annual meeting**
- **Unburnable carbon** - UKSIF sponsored event
- **Commodities trading** – UKSIF sponsored event
- **30% Club Seminar** – hosted by Bloomberg
- **RI Europe Conference** – hosted by responsible-investor.com
- **Investors and Diversity Panel** – hosted by BNY Mellon
- **Board effectiveness** - Centre for Financial Innovation roundtable
- **Access to Nutrition Index** – hosted by F&C

COMPANY PROGRESS REPORT

Company	Topics	Outcome
Anglo American	Remuneration	Satisfactory Response
Associated British Foods	Employment Standards, Social Risk	Satisfactory Response
AstraZeneca	Remuneration	No Improvement
Aviva plc	Remuneration	No Improvement
BAE Systems	Remuneration	No Improvement
Barclays	Finance & Accounting	Awaiting Response
British American Tobacco	Social Risk	Satisfactory Response
British Sky Broadcasting	Remuneration	Awaiting Response
Burberry	Remuneration, Board Composition	Dialogue
Carnival Corp	Remuneration	Awaiting Response
Centrica	Environmental Risk, Social Risk	Satisfactory Response
Comcast Corp	Board Composition	No Improvement
Deutsche Post	Employment Standards	Dialogue
Dunelm Mill	Remuneration	Satisfactory Response
Enterprise Inns	Remuneration	Satisfactory Response
ExxonMobil	Environmental Risk, Board Composition	No Improvement
Freeport McMoran	Board Composition	Moderate Improvement
Fresnillo	Remuneration	Satisfactory Response
Glencore International	Remuneration	Awaiting Response
Hays	Remuneration	Satisfactory Response
HSBC	Finance & Accounting	Awaiting Response
Imagination Technologies	Remuneration	Awaiting Response
Imperial Tobacco	Social Risk, Reputational Risk	Satisfactory Response
JP Morgan	Board Composition	No Improvement
Laird PLC	Remuneration	Satisfactory Response
Land Securities	Remuneration	Satisfactory Response
Legal & General	Remuneration	Substantial Improvement
Lloyds	Finance & Accounting	Awaiting Response
Meggitt	Remuneration	Satisfactory Response
Melrose plc	Remuneration	Satisfactory Response
National Express	Employment Standards	No Improvement
National Grid	Remuneration	Dialogue
Petra Diamonds	Remuneration	Satisfactory Response
Prudential	Remuneration	No Improvement
Resolution Ltd	Remuneration	Awaiting Response
Rio Tinto	Environmental Risk	Change in Process
Royal Bank of Scotland	Finance & Accounting	No Improvement
SABMiller	Remuneration	Awaiting Response
Smith & Nephew	Remuneration	Awaiting Response
Société Générale	Remuneration	Substantial Improvement

Company	Topics	Outcome
Standard Chartered	Board Composition, Remuneration	Satisfactory Response
Tesco	Employment Standards	Change in Process
Trinity Mirror	Reputational Risk, Social risk	Dialogue
Vesuvius (formerly Cookson)	Remuneration	Awaiting Response
Weir Group	Remuneration	Satisfactory Response
WM Morrison Supermarkets	Remuneration	Substantial Improvement
WPP	Remuneration	No Improvement

Local Authority Pension Fund Forum

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

PIRC

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 Council
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich 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
- Staffordshire Pension Fund
- 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

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**27 SEPTEMBER 2013**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE FOR 4 MONTHS TO 31 JULY 2013;** **(2) PERFORMANCE INDICATORS 3 MONTHS TO 31 JULY 2013;** **(3) SUMMARY PERFORMANCE REPORT (1 APR 2011 TO 30 JUNE 2013)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1	Summary Financial Accounts: 4 months to 31 July 2013
Appendix 2	Summary Budget Variances: 4 months to 31 July 2013
Appendix 3A	Balanced Scorecard : 3 months to 31 July 2013 (narrative)
Appendix 3B	Balanced Scorecard in 3A: Graphs only for *selected* items
Appendix 4A	Customer Satisfaction Feedback in the 3 months to 31 July 2013 *(Retirements from ACTIVE status)*
Appendix 4B	Customer Satisfaction Feedback in the 3 months to 31 July 2013 *(Retirements from DEFERRED status)*
Appendix 5	Active membership statistics over 51 months to 31 July 2013
Appendix 6	Joiners & Leavers statistics over 51 months to 31 July 2013
Appendix 7	Summary Performance Report on Scheme Employers/APF performance for the period to 31 July 2013 (including late payers) – Annex 1 *Retirements* & Annex 2 *Deferreds*
Appendix 8	CIPFA Benchmarking Extract – Comparator Report
Appendix 9	Risk Register : Top five risks

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 4 months to 31 July 2013. This information is set out in Appendices1 and 2**.**

2.1 This report also contains Performance Indicators and Customer Satisfaction feedback for 3 months to 31 July 2013 and Summary Performance Reports on Employer and APF performance from 1 April 2011 to 31 July 2013 as well as the Risk Register and 2013 CIPFA Benchmarking Comparators report for noting.

2 RECOMMENDATION

That the Committee notes:

2.2 Administration and management expenditure incurred for 4 months to 31 July 2013

2.3 Performance Indicators & Customer Satisfaction feedback for 3 months to 31 July 2013

2.4 Summary Performance Report for period from 1 April 2011 to 30 July 2013,

2.5 Risk Register and 2013 CIPFA Benchmarking Comparators report.

3 FINANCIAL IMPLICATIONS

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

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

4 COMMENT ON BUDGET

4.1 The summary Financial Accounts for the 4 months to 31 July 2013 are contained in **Appendix 1.**

4.2 The forecast for the year to 31 March 2014 is for net expenditure to be £940,000 over budget. Within the directly controlled Administration budget the forecast is for expenditure to be below budget by £20,000 due to the late appointments of staff in the Benefits and Data Quality teams. In that part of the budget that is not directly controlled expenditure is forecast to exceed the original budget by £960,000 due to increased Investment management fees resulting from the rise in the markets since the budget was set.

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 JULY 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.**

6 ADMINISTRATION PERFORMANCE

6.1 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 reported by showing what *percentage* of the work is outstanding. In this period 5541 new cases were received and 4750 were cleared leaving 14.1% of work outstanding. Although this greater than the 10% target it reflects the fact that the number of cases received in the period was higher than average and that the benefits section were waiting to fill vacant posts

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

- Level of use of the Avon Pension Website fell marginally from 3,681hits on average over the previous period to 3,592 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)*

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

6.4 CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 JULY 2013

6.4.1 *Retirement Questionnaires*

Appendix 4A reports on the customer satisfaction based on 17 questionnaires returned from active members retiring. On average 71% received their lump sum and 82% their first pension payments within "10 day" target (See chart). Item 3 on Appendix 4A does disclose only a 50% success rate for paying the lump sum within

10 days. Although this is disappointing, it needs to be appreciated that this is in respect of only 4 out of the 17 members

Appendix 4B reports on the customer satisfaction based on 11 questionnaires returned from former active members retiring from deferred status. 91% received their lump sum and their first pension payments within "10 day" target (See chart).

6.4.2 ***Customer Service Delivery***

Clarity and preciseness of information provided by Avon Pension Fund was rated at 93% by both active and deferred retirees (See Chart item 1 on both graphs).

Overall Service rating as either good or excellent from actives and deferreds on the service they received from Avon Pension Fund staff handling their retirement was 96%.

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

7 LEVEL OF OPT OUTS FROM THE SCHEME

7.1 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.

7.2 APF's administration processes were amended in 2010 to identify opt outs in a reportable field. Reports run indicate that only 205 members with more than 3 months service opted out over the 40 month period to 31 July 2013. When annualised this is 62 and expressed as percentage of the total membership of 34,500 this is only 0.18 % and is an encouraging sign that significant numbers of members are not leaving the Scheme now that the expected changes to benefits from April 2014 are known.

7.3 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.

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

8 TRENDS IN MEMBERSHIP/JOINERS AND LEAVERS (monitoring Opt Out trends) – EFFECT ON MEMBERSHIP OF THE START OF AUTO ENROLMENT

8.1 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.

8.2 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 48 months period from 1 May 2009 to 31 July 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. However as at 31 July 2013 it had **increased to 34,372 compared to 32,688 a year earlier.** The membership in May 2009 was 34,185, similar to now.

8.3 The Fund's largest employer Bristol City Council took the decision to opt in all those employees who had opted out of the LGPS and remained opted out at that date on 1 June 2013 and this will have impacted significantly on the increase in active membership. It is understood from Bristol C C that of those opt outs put back in the

Scheme 90% have remained as members, which is encouraging. **Appendix 5** shows a large increase in the number of joiners in current quarter (1,722) compared to the previous quarter (1,176) reflecting the re-entry of Bristol CC's opt outs.

8.4 The remaining 3 unitaries have chosen to make use of the auto enrolment "transitional arrangements" which defers re-enrolling their opters-out back in the LGPS until October *2017* so this will not affect the membership figures for a long time.

8.5 The Committee will be kept informed of the on-going changes and the effect it is having on Scheme membership. In the event that the funding position of the Scheme is significantly affected this will also be reported.

9 SUMMARY APF & EMPLOYER PERFORMANCE

9.1 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.

9.2 A Summary report to the Committee is now a requirement of the Pensions Administration Strategy. The Report for the period from 1 April 2011 to 31 July 2013 is included as **Appendix 7**.

9.3 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.

9.4 **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 30 June 2013.
- Report on any late pension contributions by employers to the Fund due for the 3 months to 31 July 2013.

10 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

10.1 The project is progressing towards electronic receipt of all member data change information starting from April 2014:

10.2 **Employer Self Service: Update**

Employers were advised that *Employer Self Service* 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 in over a 12 month period and will only go on line when changes arise. Following this and having received appropriate training on usage those employers who continue to send in changes in paper format will be charged additional administration costs.

10.3 **Auto enrolment / *i-Connect***

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

The Fund's 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. In 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 with the four unitaries and the first employer Bristol C C successfully went live on 10th May 2013 on schedule. **Bristol was the first local authority employer in the UK to go <u>live</u> on *i-Connect*.** This will give the Fund kudos as *i-Connect* are proposing to issue a National Press Release and also to produce a Case Study showcasing the Avon Pension Fund's success. The Fund has also offered to be a *Reference Site* for *i-Connect* for other local authorities.

The latest developments since the last Committee Report are:

- **B&NES** has gone live on *i-Connect* from August 2013.
- **North Somerset Council** is developing its payroll data extract and this is currently in test.
- **South Gloucestershire (SG) Council**: A joint meeting with its payroll providers (Northgate), *i-Connect* and APF took place in August and the cost for provision of a payroll extract *is* being provided to SG by Northgate and it is hoped that progress can be made to it going into test in September/October 2013.

Further 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.

11 CIPFA BENCHMARKING CLUB REPORT 2013

11.1 Each year, the f the Avon Pension Fund participates in the CIPFA Benchmarking Club exercise for Pension Administration. Following completion of an in-depth questionnaire on its administration processes, it receives a report detailing performance and costs comparisons against the other 52 members of the Benchmarking Club.

11.2 The Fund then selects *Comparators* who are similar in structure and size to obtain a reasonable comparison. An extract from the Comparators' Report 2013 is included in **Appendix 8.**

11.3 The Fund's cost per member is very competitive at £17.34 against both the average fund (£21.42) and also the smaller comparator group (£20.45). In 2012/13 the Fund's costs fell by a larger percentage than both comparison groups. The Fund continues to have higher costs than average in areas where resources and investment have been prioritised. Particular factors to note are:

(i) The Fund still spends more than the comparator group on IT. However, the gap is closing as other funds have begun to step up investment in this area. This was to be expected as the Fund invested in upgraded IT systems earlier than most funds.

(ii) The Fund has reduced its communication costs per member as it makes greater use of electronic delivery of communication material – the cost per member is still higher than the comparator funds.

(iii) Staff costs remain competitive demonstrating that the Fund benefits from economies of scale as membership growth has exceeded capacity growth – the benefits administration team handle c. 30% more scheme members per staff member than the comparator group.

(iv) The Fund has more employers than the comparator funds and is managing the fragmentation of the employer base effectively within budget.

(v) The Fund has a lower level of electronically processed tasks. This should improve in the 2013/14 report as electronic facilities (i-Connect and ESS) are rolled out to employers during 2013/14.

(vi) The Fund is below average in dealing with tasks which reflects (a) the greater fragmentation of the employer base and (b) the use of internal measurement standards that have tighter deadlines than industry standards.

12 RISK REGISTER REVIEW

12.1 The Risk Register follows the format of the Council's risk register for each service. It identifies the significant risks that could have a material impact on the Fund in terms of value, reputation, compliance or provision of service and sets out the action taken to manage the risk.

12.2 The Risk Register was reviewed by the complete Pensions management team in September 2013. The risks identified fell into the following general categories:

(i) Fund administration & control of operational processes and strategic governance processes – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information

(ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance

(iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence

(iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team

(v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process

12.3 The Fund has invested significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews.

12.4 The top 5 risks and mitigating actions are set out in **Appendix 9.**

12.5 The Risk Register is updated quarterly by officers and reported to Committee annually or when there is a change in significant risks.

13 INTERNAL AUDIT REPORTS

13.1 Internal audit completed an assessment of the Investments internal control framework in July 2013. On the basis of the work carried out, Internal Audit assessed the framework of internal control for Pensions Investments at Assurance Level 5 - Excellent.

13.2 The audit opinion is summarised below:

Assurance Summary **The key control objectives used to review the framework of internal control are recorded below. For each control objective we have considered the risks and internal controls in place and operating, based on audit review / testing.**	**Assessment of controls in place and operating to ensure achievement of control objectives**
1. Ensure that Cash Transfers to Investment Managers' accounts are subject to adequate scrutiny and are properly authorised (by review of current manual process and proposed electronic system).	Good
2. Ensure that decision making on investments is in accordance with the requirements of the Statement of Investment Principles.	Excellent
3. Ensure that the Pension Fund evidences compliance with the general requirements of the Myners principles.	Excellent
4. Ensure that there is independent monitoring of investments.	Good

13.3 The investments team currently use the custodian’s electronic payments system for receipt of income. As use of this system could be extended to make payments which are currently manually instructed, Internal Audit were requested to review the custodian’s control framework prior to any decision being made.

14 RISK MANAGEMENT

14.1 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.

15 EQUALITIES

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

16 CONSULTATION

16.1 None appropriate.

17 ISSUES TO CONSIDER IN REACHING THE DECISION

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

18 ADVICE SOUGHT

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

<table>
<tr><td>Contact person</td><td>Martin Phillips Finance & Systems Manager (Pensions)) (Budgets)
Tel: 01225 395259.

Steve McMillan, Pensions Manager (All except budgets) Tel: 01225 395254</td></tr>
<tr><td>Background papers</td><td>Various Accounting and Statistical Records</td></tr>
<tr><td colspan="2">Please contact the report author if you need to access this report in an alternative format</td></tr>
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APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2014

	FIVE MONTHS TO JULY 2013			FULL YEAR 2013/14		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
Administration						
Investment Expenses	32,125	27,813	(4,313)	71,483	71,483	0
Administration Costs	25,391	18,826	(6,566)	76,944	76,944	0
Communication Costs	29,744	3,000	(26,744)	90,133	90,133	0
Payroll Communication Costs	26,966	16,925	(10,041)	81,716	81,716	0
Information Systems	81,250	116,748	35,499	246,211	246,211	0
Salaries	487,249	458,139	(29,110)	1,476,511	1,456,511	(20,000)
Central Allocated Costs	140,531	49,181	(91,350)	425,851	425,851	0
Miscellaneous Recoveries/Income	(44,328)	(37,359)	6,969	(134,328)	(134,328)	0
Total Administration	**778,928**	**653,272**	**(125,656)**	**2,334,521**	**2,314,521**	**(20,000)**
Governance & Compliance						
Investment Governance & Member Training	108,159	43,844	(64,315)	327,755	327,755	0
Members' Allowances	12,905	(3,555)	(16,460)	39,105	39,105	0
Independent Members' Costs	9,240	10,758	1,518	28,000	28,000	0
Compliance Costs	155,472	80,481	(74,991)	471,127	471,127	0
Compliance Costs recharged	(63,030)	(37,402)	25,628	(191,000)	(191,000)	0
Total Governance & Compliance	**222,746**	**94,125**	**(128,621)**	**674,987**	**674,987**	**0**
Investment Fees						
Global Custodian Fees	42,702	(21,039)	(63,741)	129,400	129,400	**0**
Investment Manager Fees	4,133,415	3,760,350	(373,065)	12,525,500	13,485,500	960,000
Total Investment Fees	**4,176,117**	**3,739,311**	**(436,806)**	**12,654,900**	**13,614,900**	**960,000**
NET TOTAL COSTS	**5,177,790**	**4,486,708**	**(691,082)**	**15,664,408**	**16,604,183**	**940,000**

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APPENDIX 2

Summary of main budget variances: Forecast for full year as at 31 July 2013

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

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(20,000)	Reduced expenditure following delayed appointments of staff to Benefits and Data Quality sections. Positions have now been filled apart from half of one post.
Administration	**20,000**	

Investment Manager Fees	960,000	Investment Manager fees are currently forecast to be above budget as a result of the positive performance of the financial markets since the setting of the budget (based on estimated asset values at the end of 2012).
Expenditure outside direct control	**960,000**	
Total Forecast Underspend	**(940,000)**	

***() 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 Pension Fund Administration Report at 31 July 2013 **Narrative only**

Key Performance Indicators

	INDICATOR	Green Red Amber	2013 Actual	Target for 2013/14	Actual 3 months to 31/07/2013	Comments	
A	**Customer Perspective**						
1a	General Satisfaction with Service - clinic feedback	G	0%	N/A	N/A	No clinics were held in the period and none are expected in 2013	Graph 1
1b	General Satisfaction with Service - retirees feedback	G	97%	97%	97%	Generally good from response from retirees	
2a	Service Standards - Processing tasks within internal targets (SLA)						
	Deaths [12 days]	A	59%	**90%**	78.95%	15 of 19 Tasks were completed within target	
	Retirements [15 days]	G	83%	**90%**	94.52%	604 of 639 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	G	68%	**75%**	80.50%	809 of 1005 Tasks were completed within target	
	Refunds [5 days]	A	80%	**75%**	53.49%	46 of 86 Tasks were completed within target	
	Transfer Ins [20 days]	A	45%	**75%**	65.81%	77 of 117 Tasks were completed within target	
	Transfer Outs [15 days]	A	67%	**75%**	60.00%	57 of 95 Tasks were completed within target	
	Estimates [10 days]	G	95%	**90%**	93.68%	682 of 728 Tasks were completed within target	
2b	Service Standards Processing tasks within statutory limits	G	100%	100%	100%	Should always be 100%	
3	Number of complaints	G	0	0	0	No complaints received in the period	
4	Pensions paid on time	G	100%	100%	100%	Should always be 100%	
5	Statutory Returns sent in on time (SF3/CIPFA)	G	100%	100%	100%	due next quarter	
6	Number of hits per period on APF website	G	51511 (4292 p/m)	3000 per month	10,923	3641 per calendar month for reporting period	Graph 2
7	Advising members of Reg Changes within 3 months of implementation	G	100%	100%	n/a	none this quarter	
8	Issue of Newsletter (Active & Pensioners)	G	100%	100%	N/A	due next quarter	
9	Annual Benefit Statements distributed by year end	G	98%	100%	N/A	Deadline 5 October 2013 -will be sent by end of September	
B	**People Perspective**						
1	% of new staff leaving within 3 months of joining	G	3%	4%	2%	Ahead of target	
2	% Sickness Absence — a) Short Term — b) Long Term	G	a) 1.30% b) 0%	a) 3% b) 3%	a) 1.49% b) 0%	Ahead of APF target and well ahead of corporate target of 5%	Chart 3
C	**Process Perspective**						
1	a) Services actually delivered electronically — b) Services *capable* of delivery to members	A	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 calls answered within 20 seconds	G	97%	98%	96.5%	8272 calls, 7981 answered within 20 seconds	Graph 4
3	Maintain work in progress/outstanding at below 10%	G	20658 created, 20892 cleared = 1% of backlog cleared	10%	14.30%	5541 Created, 4750 cleared (Leaving 14.30% of workload outstanding). Much higher than average workload received in June - 2557.	Graphs 5 6 & 7)
4	Year End update procedures (conts & salaries due by 30.04.13)	G	85%	100%	`98%	Rest of information received by the end of May- now complete	
5	No. of errors (due to incomplete member data from employers)	G	2%	3%	2%	Acceptable error level	
D	**Resource Perspective**						
1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	89%	90%	89%	Business Financial Services (inc Pensions)	
2	Temp Staff levels (% of workforce)	G	0.74%	3%	5.82%	Within target. Temporary whilst post awaiting filling	

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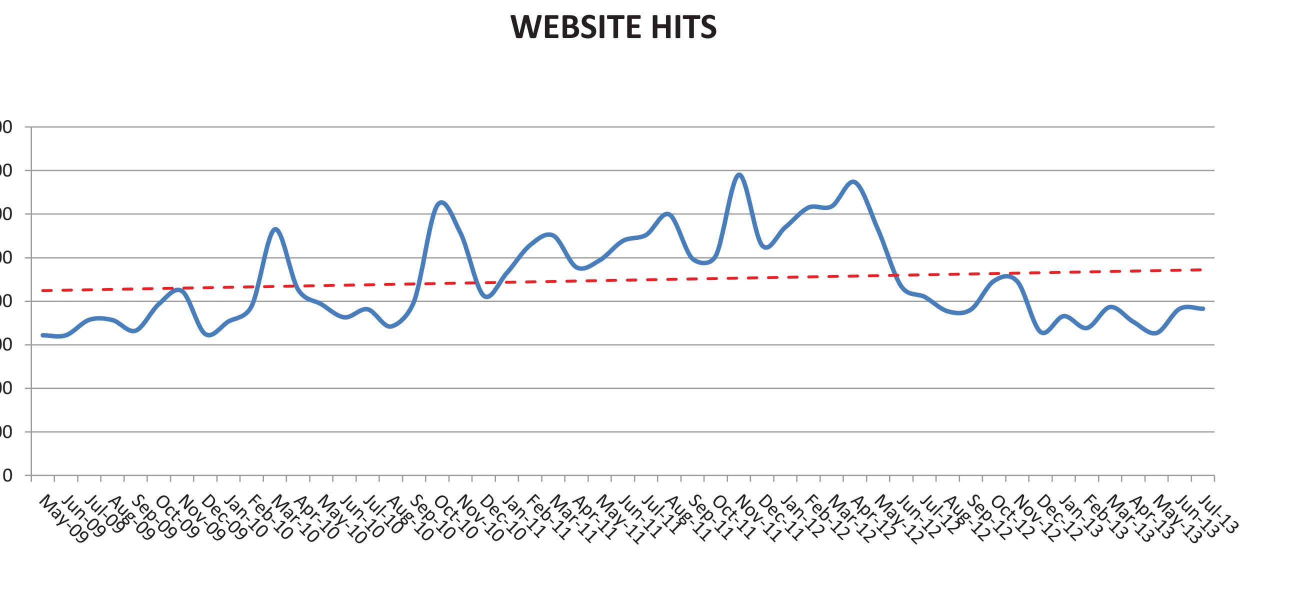
Pensions Admin Report BalancedScorecard Appendix 3B- GRAPHS only @31 July 2013

1



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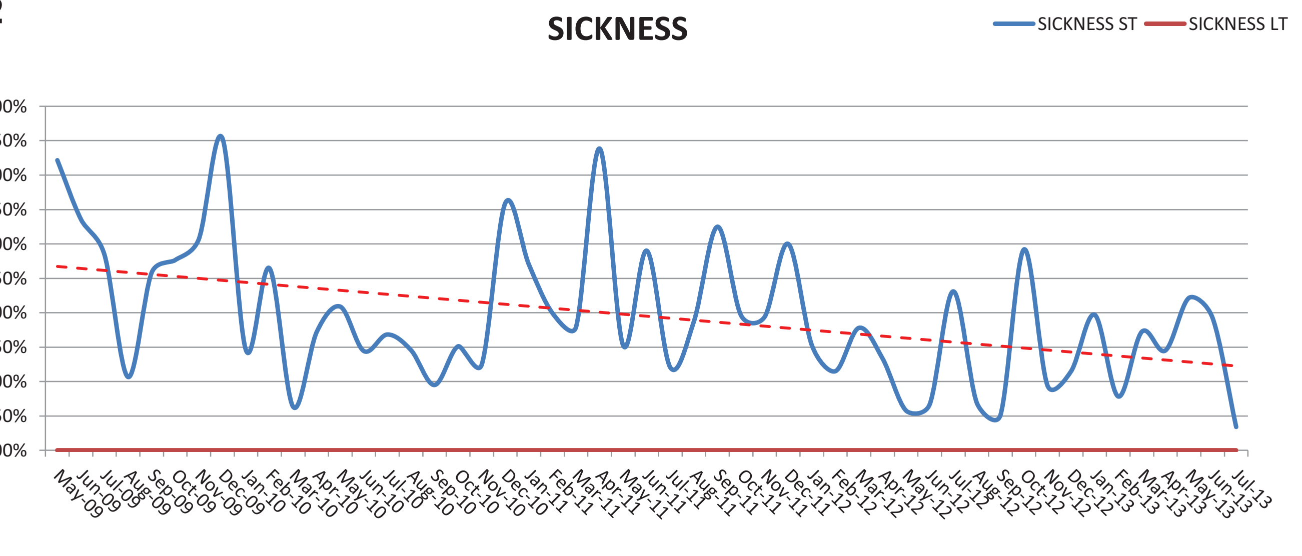

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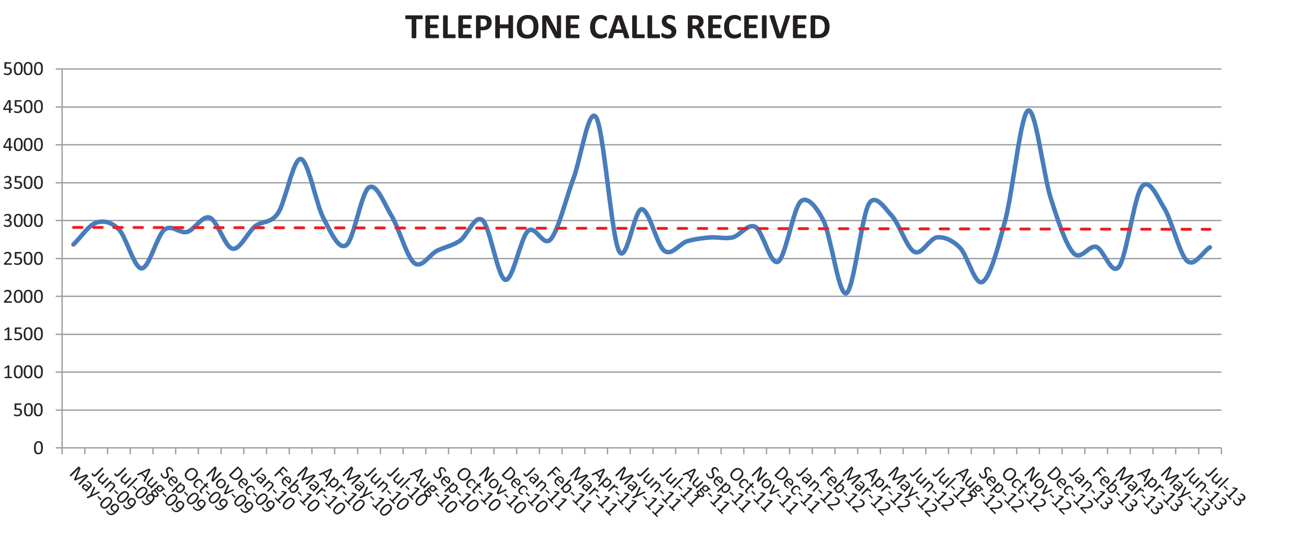
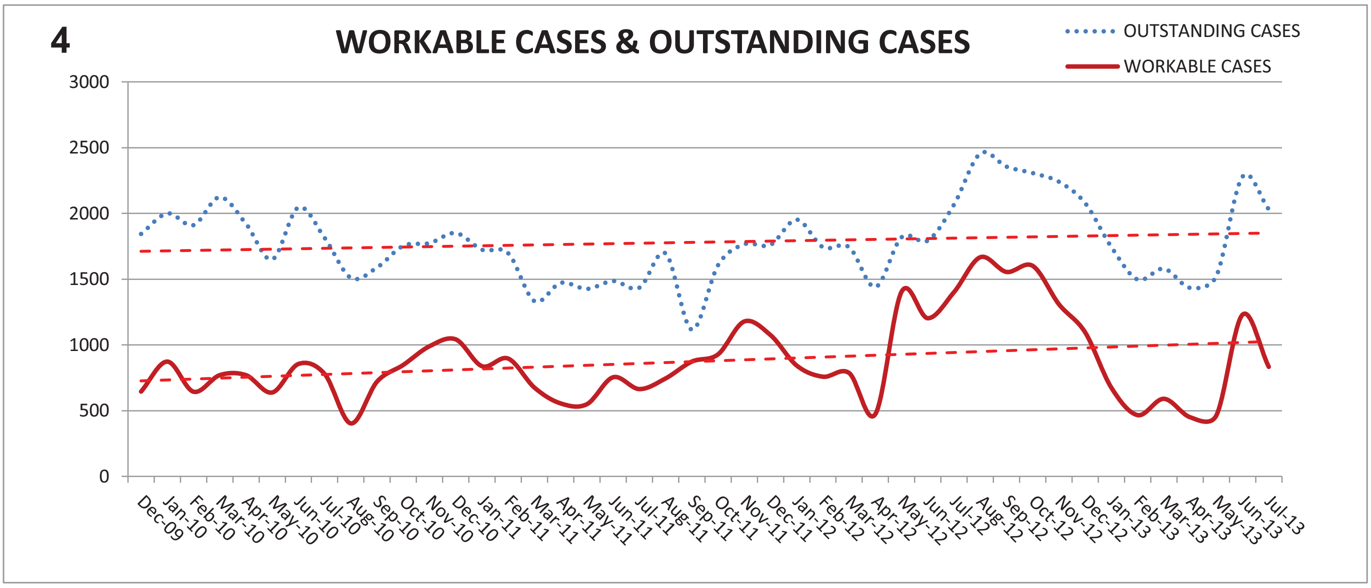
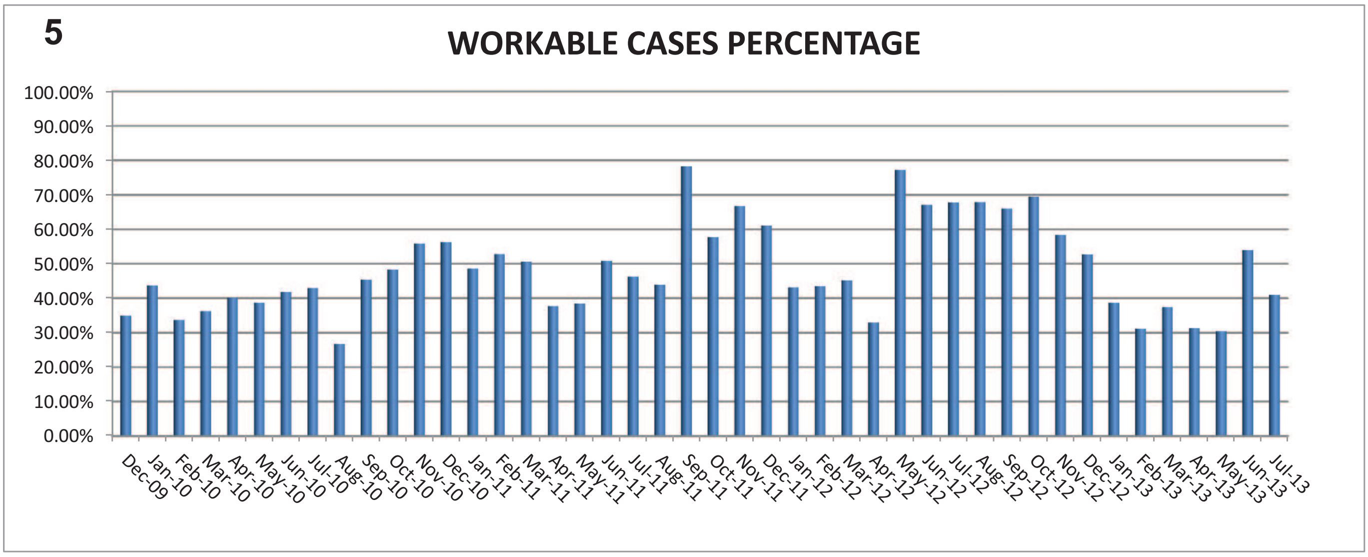
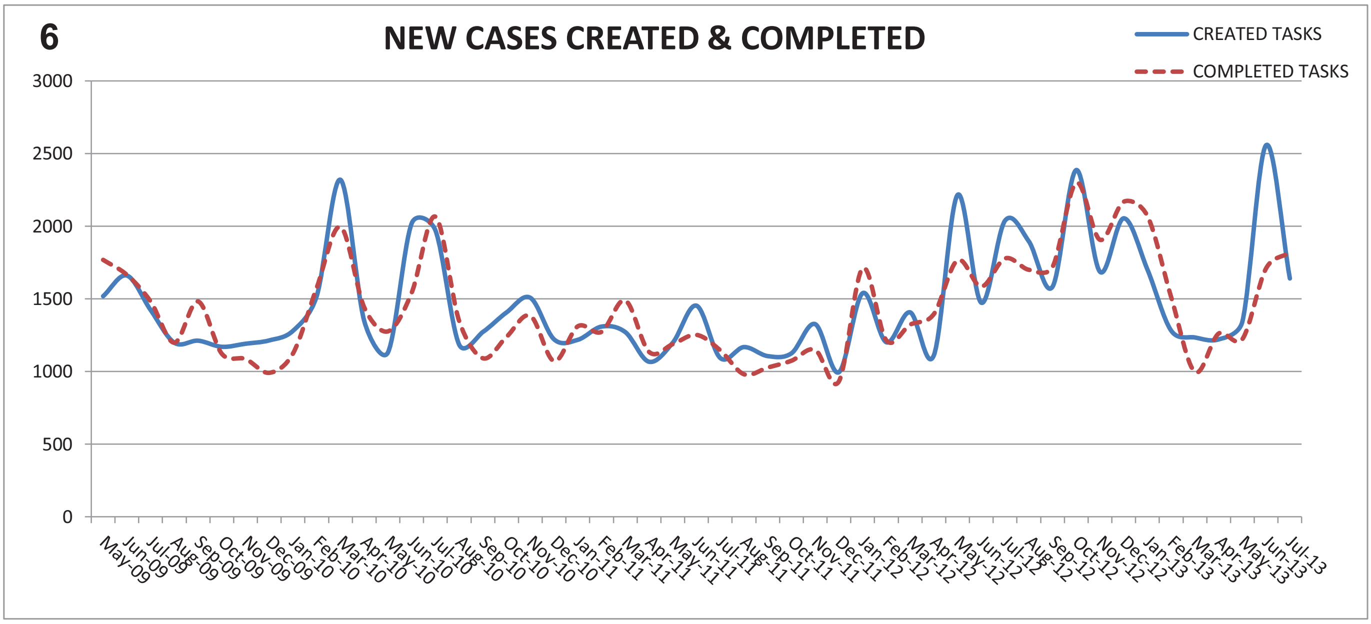


Pensions Admin Report BalancedScorecard Appendix 3B- GRAPHS only @31 July 2013





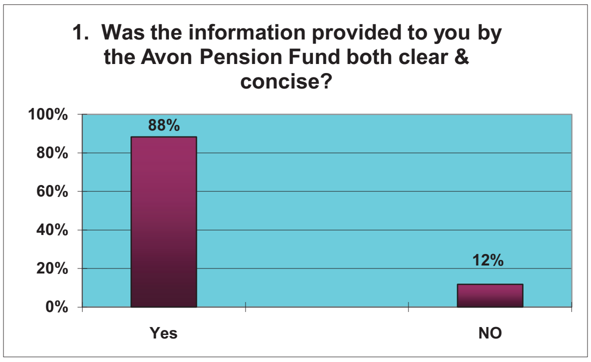


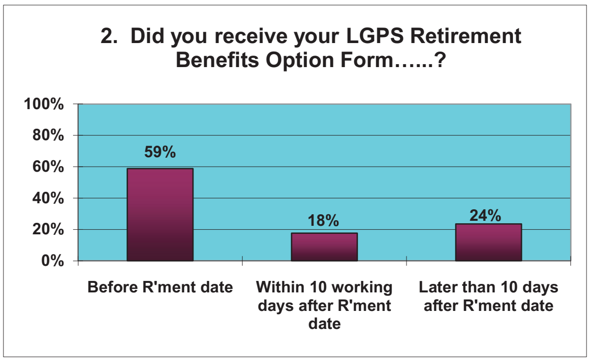
Appendix 4A Customer Feedback May to July 2013 ACTIVES

Responses to Retirement Questionnaire

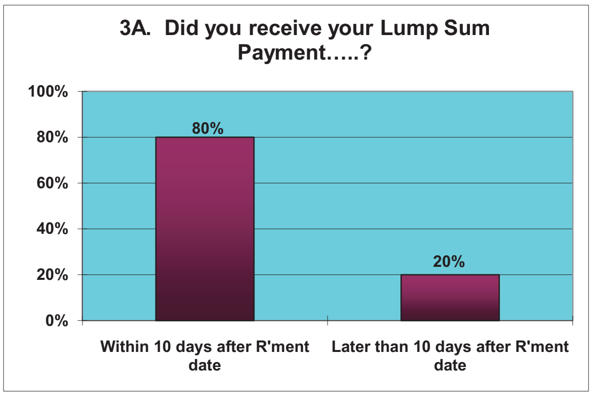
Number of Questionnaires in period	17

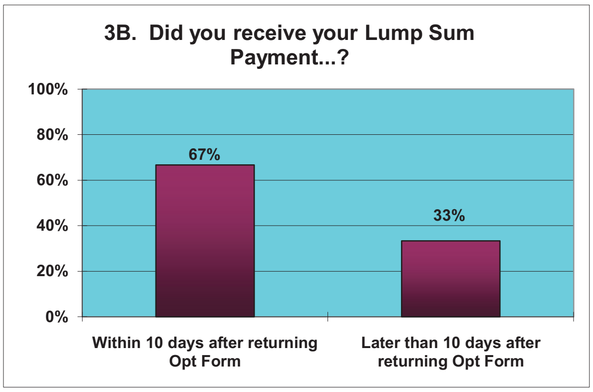
No.	Question		Response	Number	%
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	15	88%
			NO	2	12%
2	Did you receive your LGPS Retirement Benefits Option Form......?	A	Before R'ment date	10	59%
		B	Within 10 working days after R'ment date	3	18%
		C	Later than 10 days after R'ment date	4	24%
3A	Did you receive your Lump Sum Payment....?.		Within 10 days after R'ment date	8	80%
			Later than 10 days after R'ment date	2	20%
3B	Did you receive your Lump Sum Payment....?		Within 10 days after returning Opt Form	2	67%
			Later than 10 days after returning Opt Form	1	33%
3C	Did you receive your Lump Sum Payment....?		Within 10 days after returning Opt Form	2	50%
			Later than 10 days after returning Opt Form	2	50%
4	Did you receive your first Pension Payment...?		Within 1 month after R'ment date	14	82%
			Later than 1 month after R'ment date	3	18%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	10	59%
			Good	7	41%
			Average		0%
			Poor		0%
6	Is there anything we could have done to improve the service we provided?		Yes	3	18%
			No	14	82%
7	Were you treated with sensitivity & fairness?		Yes	17	100%
			No		0%





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





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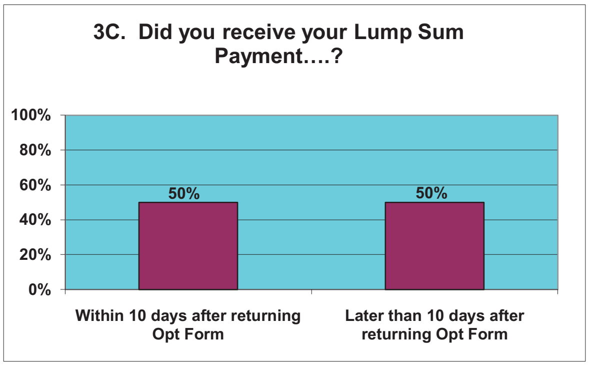
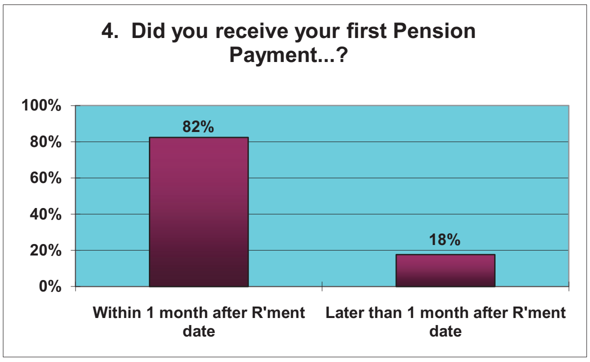
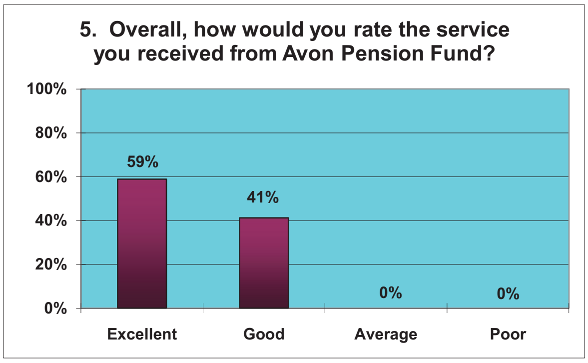
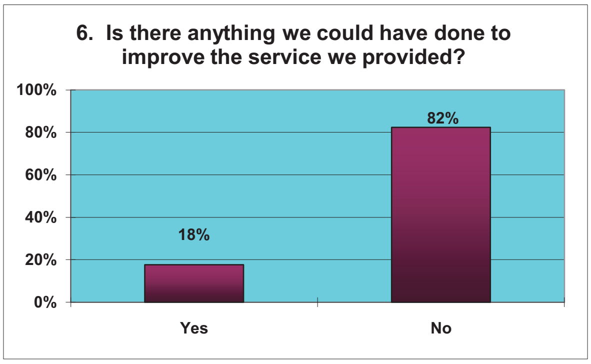
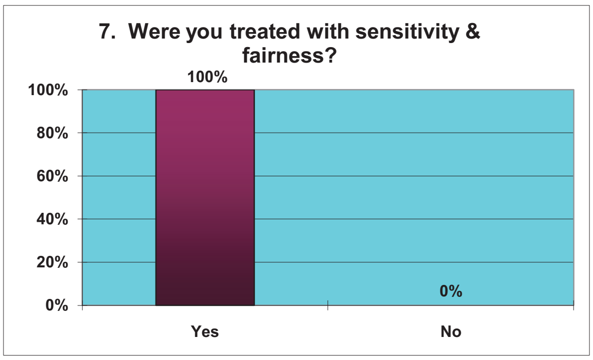










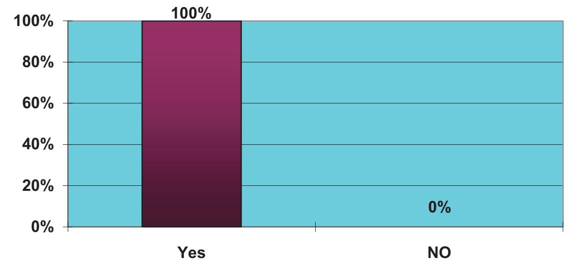
Appendix 4B Customer Feedback May to July 2013 (Narrative)

Responses to Retirement Questionnaire

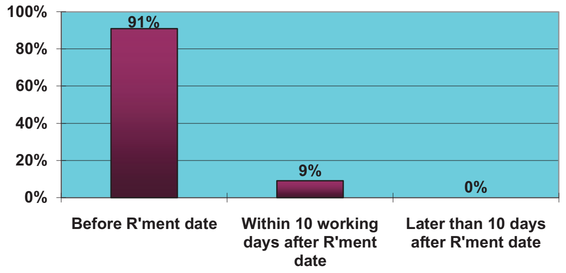
	Number of Questionnaires in period		11		
1	Was the information provided to you bythe Avon Pension Fund both clear & concise?		Yes	11	100%
			NO		0%
2	Did you receive your LGPS Retirement Benefits Option Form…….	A	Before R'ment date	10	91%
		B	Within 10 working days after R'ment date	1	9%
		C	Later than 10 days after R'ment date		0%
3A	Did you receive your Lump Sum Payment…..		Within 10 days after R'ment date	9	90%
			Later than 10 days after R'ment date	1	10%
3B	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	1	100%
			Later than 10 days after returning Opt Form	0	0%
3C	Did you receive your Lump Sum Payment…..		Within 10 days after returning Opt Form	0	N/A
			Later than 10 days after returning Opt Form	0	N/A
4	Did you receive your first Pension Payment….		Within 1 month after R'ment date	10	91%
			Later than 1 month after R'ment date	1	9%
5	Overall, how would you rate the service you received from Avon Pension Fund?		Excellent	7	64%
			Good	3	27%
			Average	1	9%
			Poor		0%
6	Is there anything we could have done to improve the service we provided?		Yes	3	27%
			No	8	73%
7	Were you treated with sensitivity & fairness?		Yes	11	100%
			No		0%

Appendix 4B Customer Feedback May to July 2013 GRAPHS

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

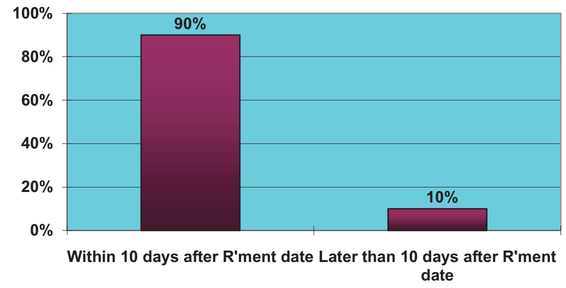


2. Did you receive your LGPS Retirement Benefits Option Form...?



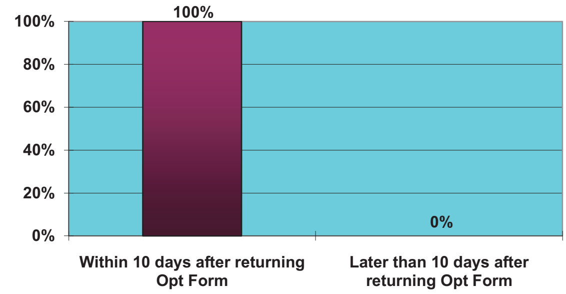
From Question 2 above (column 1)

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



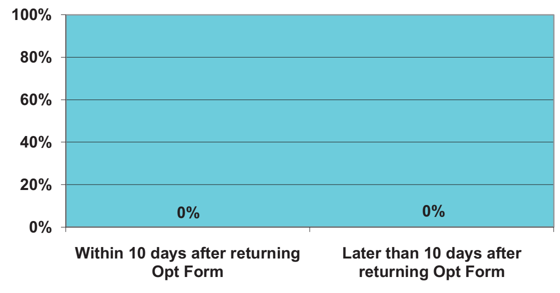
From Question 2 above (column 2)

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

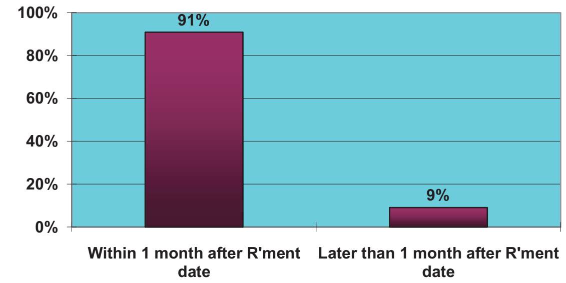


From Question 2 above (column 3)

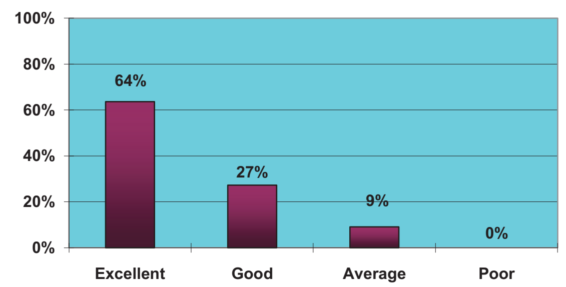
3C. Did you receive your Lump Sum Payment....?



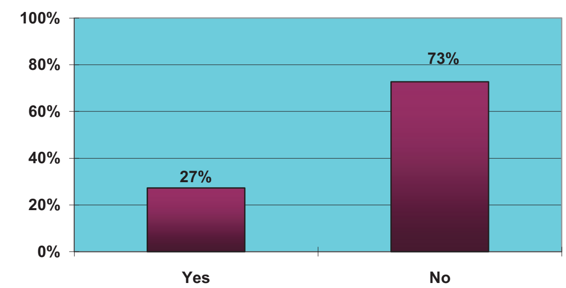
4. Did you receive your First Pension Payment...?



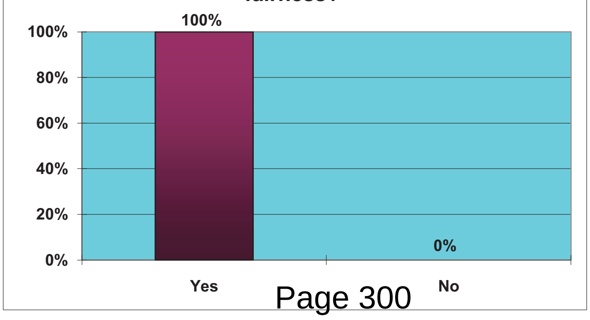
5. Overall, how would you rate the service you received from Avon Pension Fund?



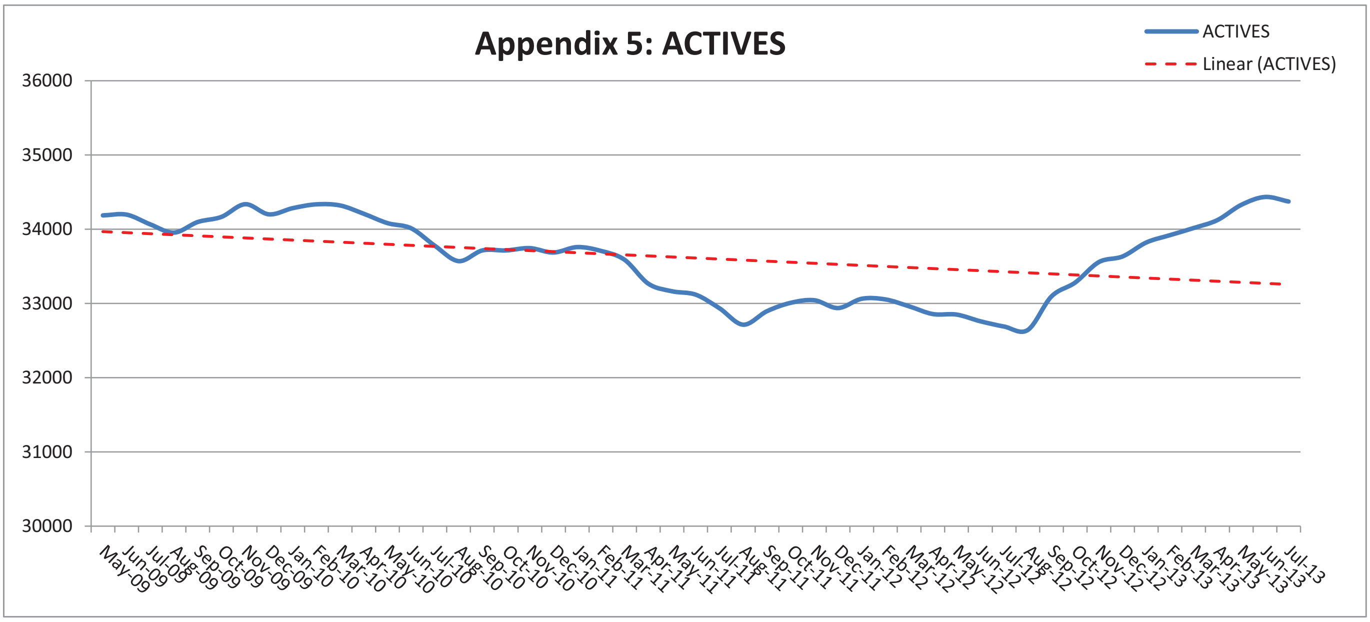
6. Is there anything we could have done to improve the service we provided?

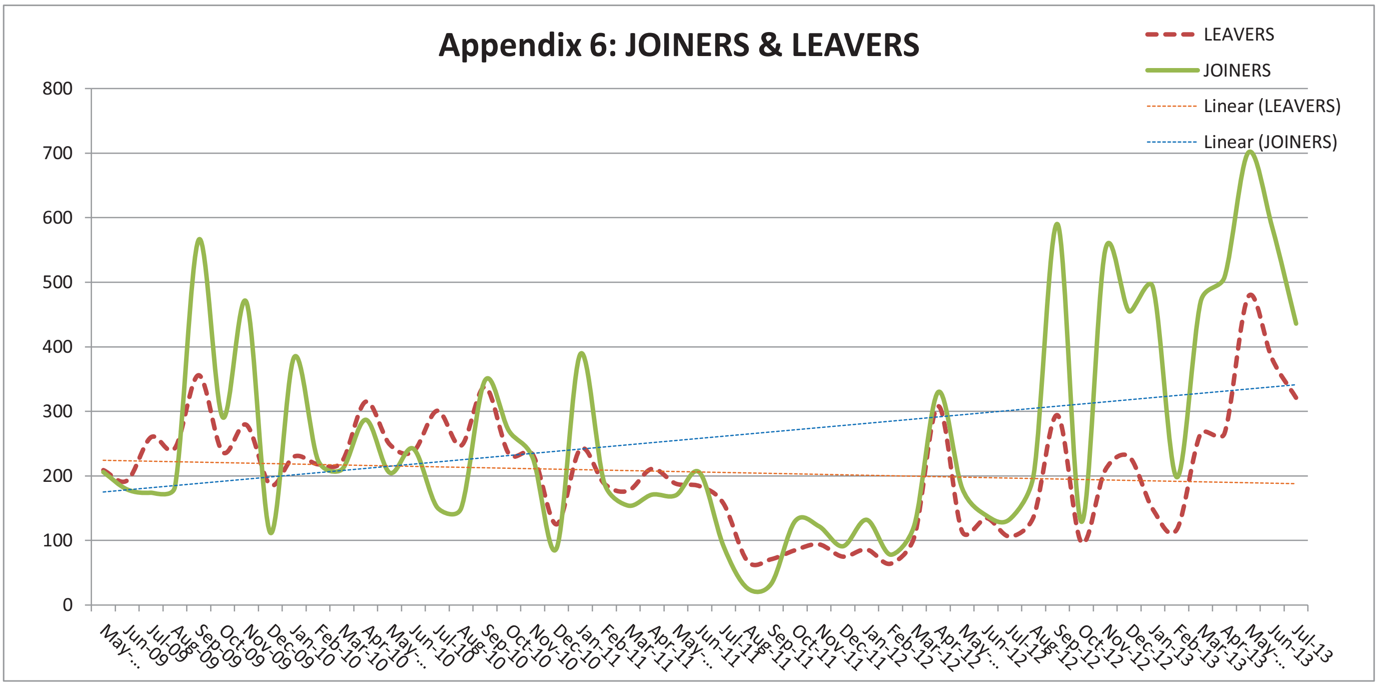


7. Were you treated with sensitivity & fairness?



Admin Report - Appendices 5 and 6 Actives, Joiners and leavers to 31 July 2013





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APPENDIX 7 (to Pension Fund Administration Report)

COMMITTEE SUMMARY PERFORMANCE REPORT

This is the seventh 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 deferreds)***. (Annexes 1 & 2) for the 9 quarter periods from 1 April 2011 to 31st July 2013

2. Report of late payers of **pension contributions** (employers) in the 3 month period 1 May 2013 to 31st July 2013

* *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** this period.

1. Performance on processing leavers

Graphs for each of the largest employers *(viz. 4 unitaries) showing their and APF performance on processing leavers (**Retirements and Deferred**). **(See Annexes 1 & 2 attached)** during the period 1 April 2011 and 31 July 2013.

There has been a significant shift in the performance in this period.

- **Retirements**

A strong improvement from B&NES and North Somerset improved their performance against target from 46% to 65% and 45% to 71% respectively. Although Bristol and South Gloucestershire's performances dipped they both remain above 60%. Although Avon Pension performance fell from 95% to 82% this is still quite acceptable. ***(see Annex 1)***

- **Deferreds**

B&NES remains low at 12% but this reflects clearance of older cases identified during the 2012 data clearance exercise. We are however seeing significant improvement on the other three unitaries in meeting their targets - North Somerset rocketing from 25% to 71%, South Glos form 47 % to 60% and Bristol from 5% to 41%. This is very encouraging and is expected to be maintained as "older" cases disappear from the statistics. Although Avon Pension performance fell from 91% to 81% this is still quite acceptable.***(see Annex 2)***

2. Late payers of Pension contributions

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

Employer	Payroll month	Days late	Payment

There were no late payers during the period

Total number of employers = 191
Total contributions received in period = £33,381,000
Total late contributions = £0 (0.0% 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.

3. 2012/13 Year end Returns –Annual Benefit Statements

Year-end information was required from all employers by the deadline of 30th April 2013. This was earlier than in the previous 2 years as the Triennial Actuarial Valuation of the Scheme by Mercers is due this year and the return of correct member data by 31 July 2013 to the Scheme Actuary means that there was a tight schedule to post and reconcile the information received from employers.

Information was received for 98.28 % of active membership by the April deadline. The remainder of the employers submitted their information by the end of May 2013. This was a major improvement from previous years and owes its success largely to the fines which would be imposed for late submission.

Annual Benefits statements for 2013 have a new legal deadline this year of 5 October. All statements for active and deferred members are being sent out before this deadline.

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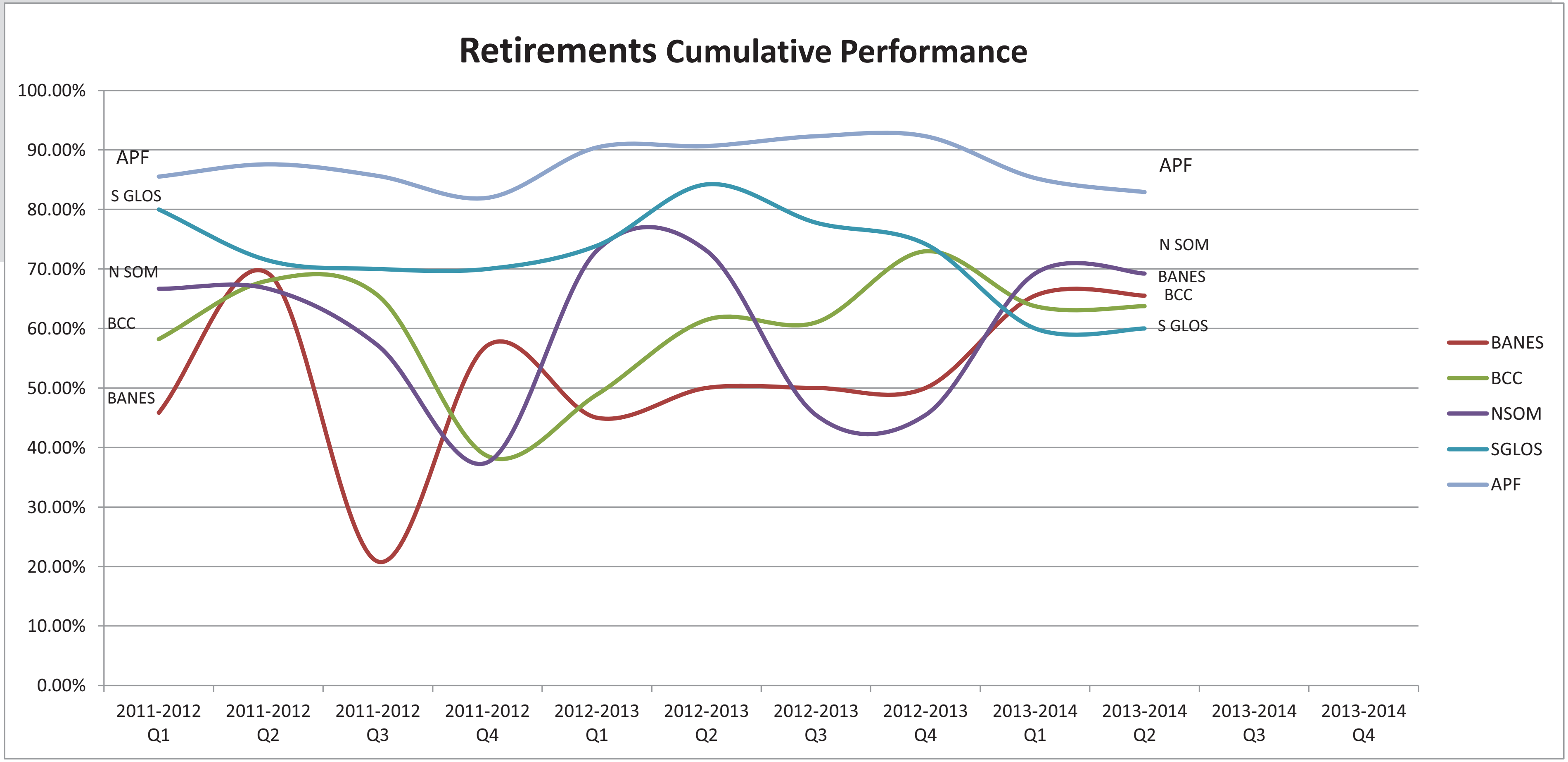
Employer performance to 30th June 2013 **Annex 1 to Appendix 7 of Admin Report**



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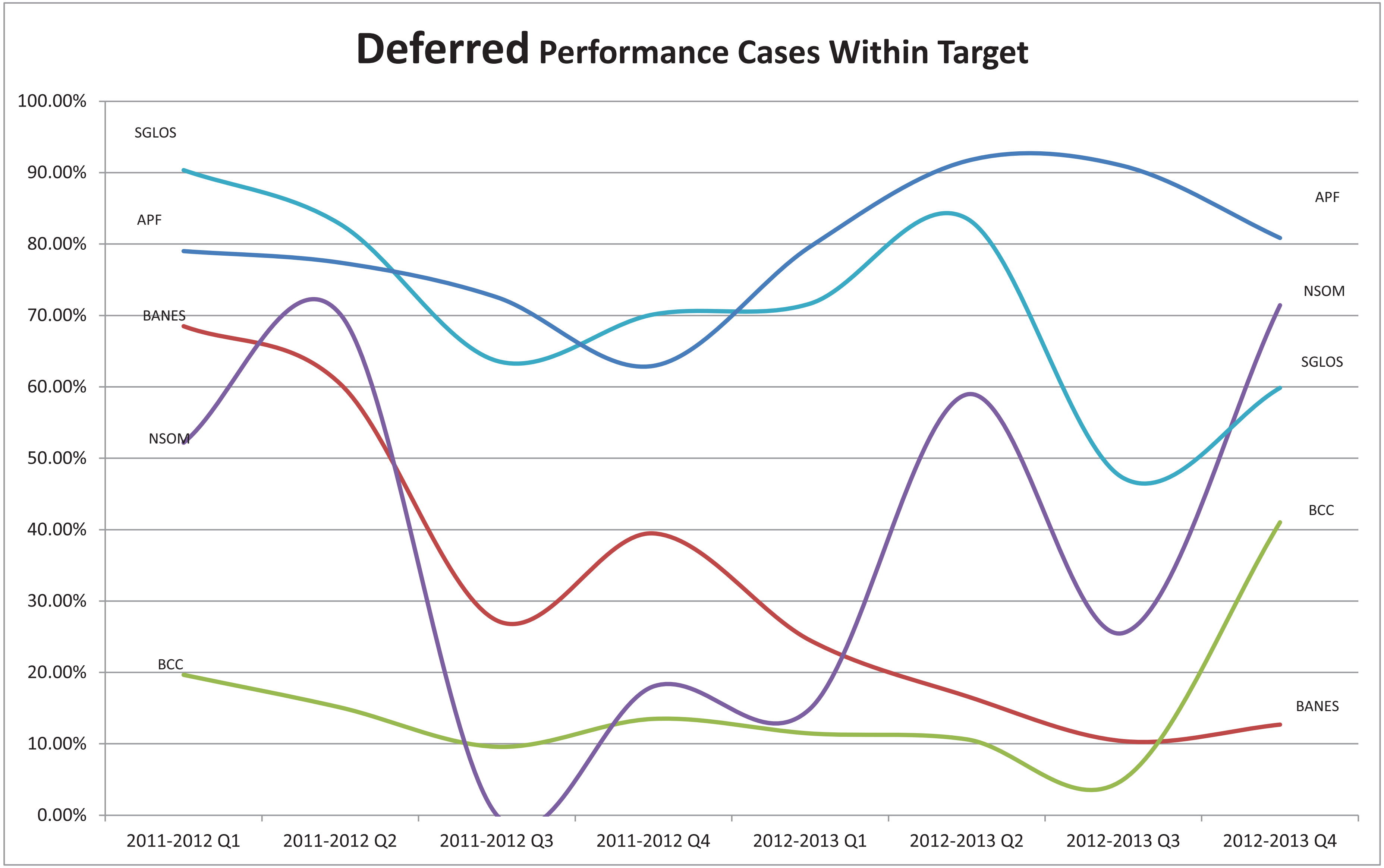
Employer performance to 30th June 2013



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CIPFA performance in public services

Pensions Administration Benchmarking Club 2013

Bath & North East Somerset Council

COMPARATOR REPORT

Bath
Cheshire West and Chester
Cumbria
Dorset
East Sussex
Gloucestershire
Oxfordshire
Staffordshire
Warwickshire
Cambridgeshire
Cornwall
Devon
East Riding
Edinburgh
Northamptonshire
Rhondda
Surrey
Wiltshire

Computed and printed by:
CIPFA Business Limited
3 Robert Street, London, WC2N 6RL
Tel: 0203 117 1840

PREFACE

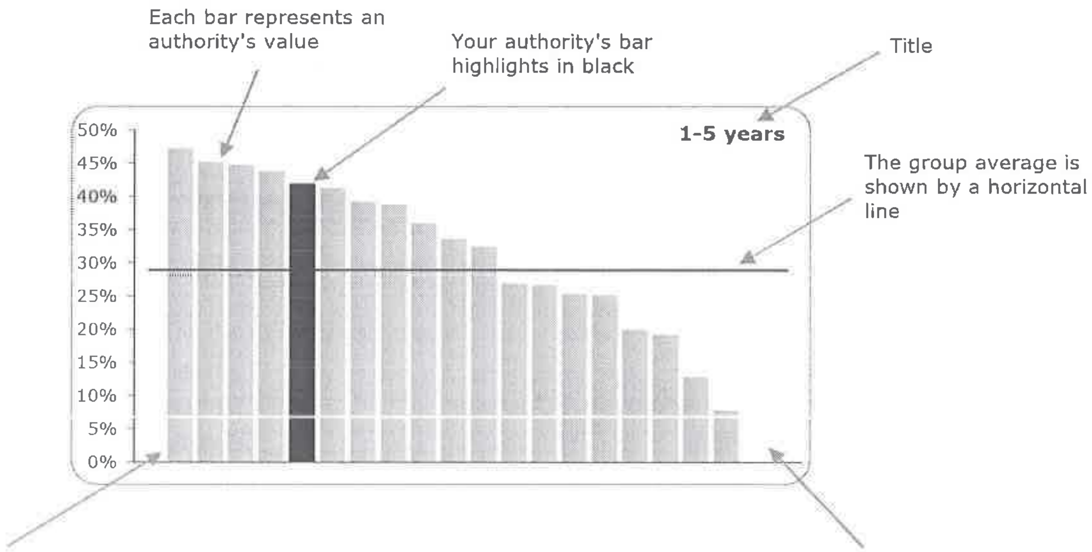
This report compares your data with the group of authorities specified on the title page.

Throughout the report your figures are shown in tables and in graphical form. If you are not familiar with our reports we hope this page will help you to better understand the way we present this data.

Averages: Almost all of our tables and charts compare your figure with a group average. The average is the unweighted mean value for the group. This average value ignores missing data, or data that we have excluded and for this reason sets of averages sometimes do not reconcile precisely.

Charts: We display a large amount of data on charts as this allows us to show the data for the entire group efficiently and gives far more information than a simple average (i.e. range of data, individual authority values etc.). Below we have annotated an example chart to help explain what they are showing.

Bar Charts: These are our standard method of displaying a full set of data



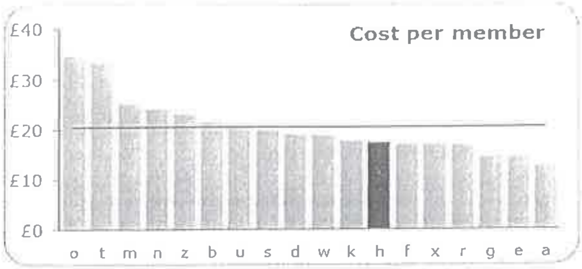
'Missing bars' on the left represent missing data or excluded data and are not included in calculating the average

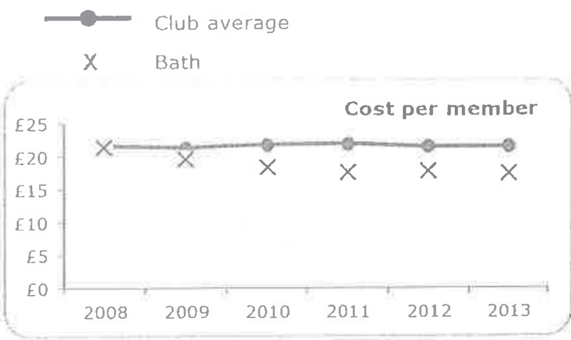
'Missing bars' on the right represent zero values and are included in the average

Staff experience	FTE	%	*Avg*
< 1 year	1.5	10%	*9%*
1-5 years	6.5	42%	*29%*
5-10 years	3.5	23%	*21%*
> 10 yrs	4.0	26%	*41%*
Total	**15.5**		

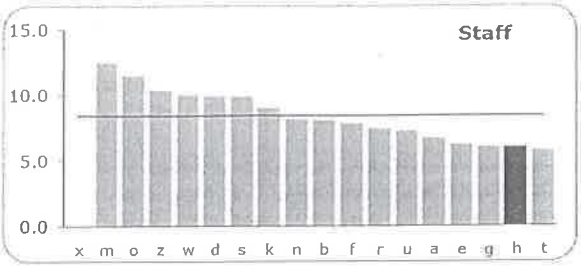
SECTION 1 - SUMMARY 2013

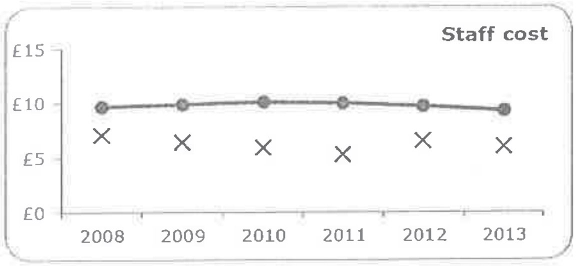
NET COST / MEMBER 2012-13



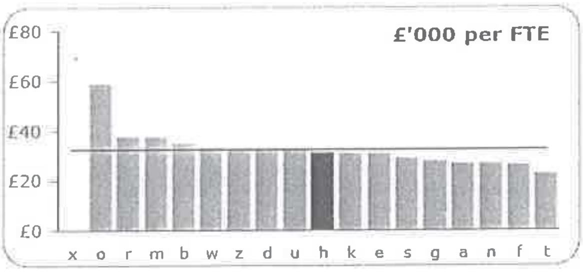


STAFF COST / MEMBER 2012-13

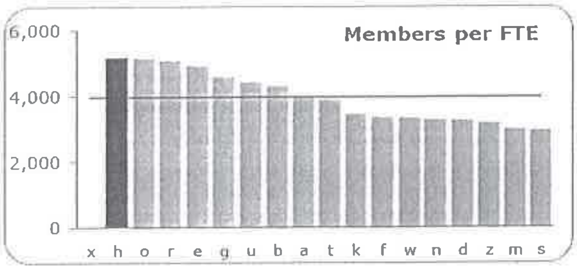




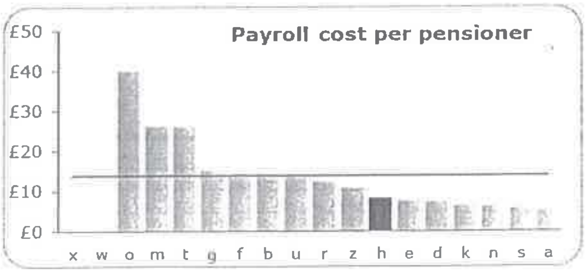
COST £'000 / FTE



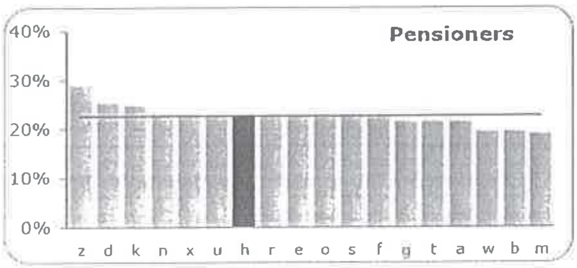
MEMBERS LGPS / ADMIN FTE



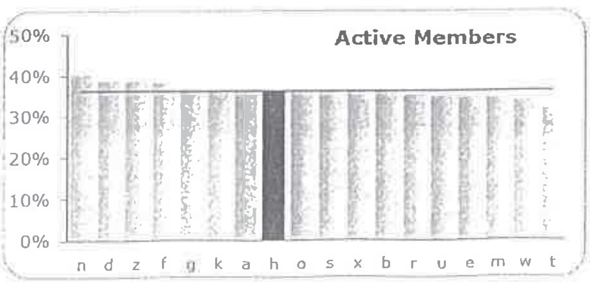
PAYROLL COST / PENSIONER



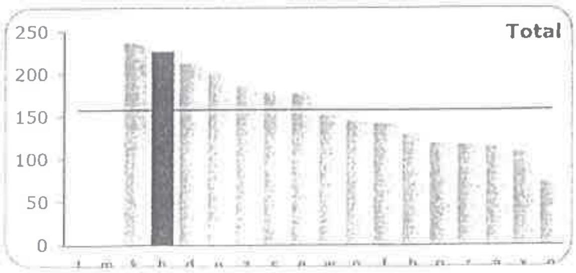
PENSIONERS AS A % MEMBERS



ACTIVES AS A % MEMBERS



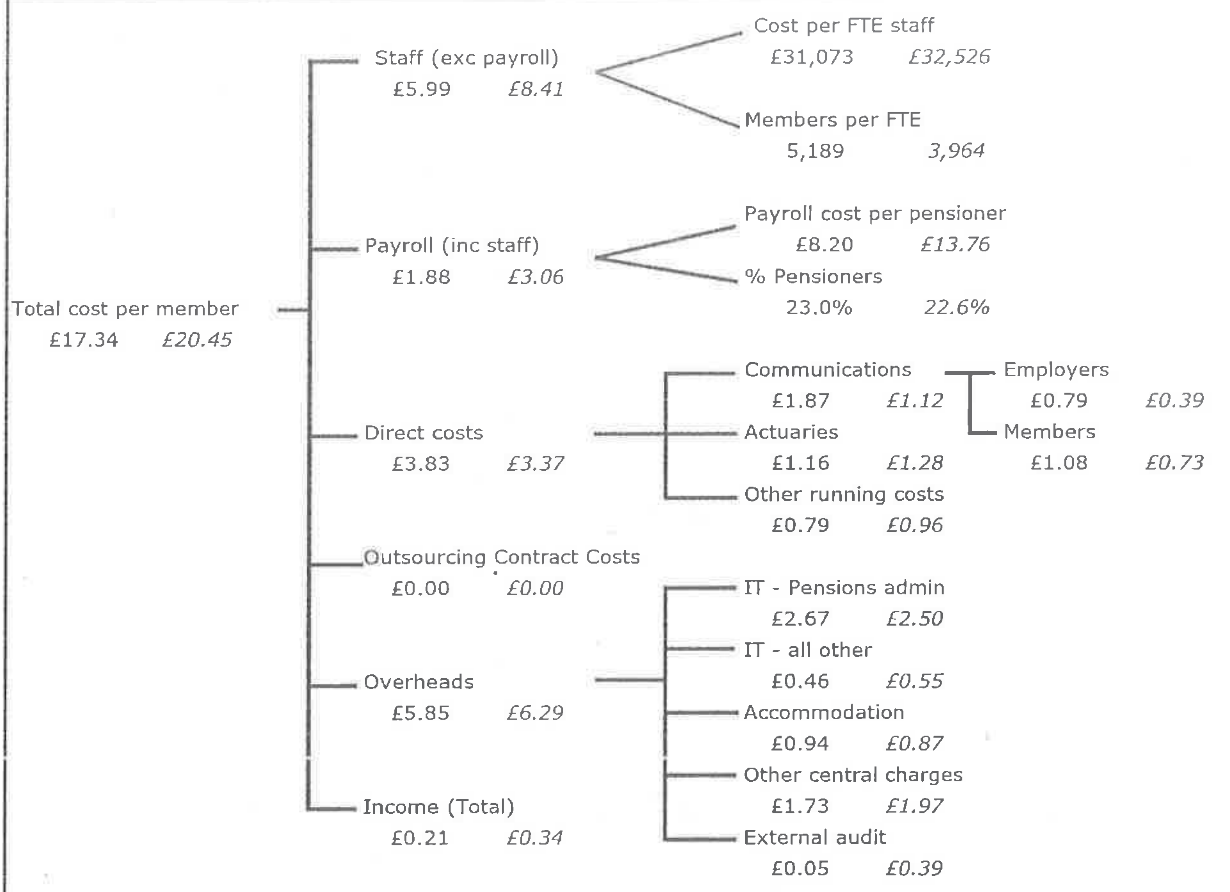
NUMBER OF LGPS EMPLOYERS



SECTION 2 - COST MEASURES

COST/MEMBER TREE 2012-13

This tree diagram analyses the cost per member. For each benchmark two figures are given the first being the authority's cost and the second (in italics) is the group average.



FTE staff	
Pension Section total	39.3
less	
IT staff	3.0
Payroll staff	4.5
Communications staff	2.0
Employing authority work	-
Work for other schemes	1.5
Other work	10.6
Admin of LGPS	**17.7**

Scheme membership	No.
Active full-time	12,301
Active part-time	20,976
Active Elected members	87
Active total	33,364
Deferred - Staff	31,694
Deferred - Elected Members	32
Pensioners	21,088
Dependants	3,545
Frozen refunds	2,128
Leavers unprocessed	-
Total	**91,851**

Costs £'000	£'000
Pension Section total	12,234
less	
Work for other schemes	10
Employing authority work	-
Other work	10,631
Admin of LGPS	**1,593**

Admin of LGPS costs	£'000
Staff - administration	550
Staff - payroll	77
Payroll	96
Communications (Total)	172
Actuaries	107
External audit	5
Outsourcing contract costs	-
Other running costs	73
IT - Pensions admin	245
IT - All other	42
Accommodation	86
Other central charges	159
Income - Members	8
Income - Employers	0
Total	**1,593**

Appendix 9

Risk Register – Top 5 Risks

	Risk	Management Actions
1	The Fund fails to achieve investment returns sufficient to fund its liabilities. This could negative affect the contributions paid by the employing bodies.	Periodic reviews of investment strategy. Annual and quarterly monitoring of strategic allocation, investment returns and tactical opportunities.
2	Insolvency of Participating Employers in the Fund without sufficient monetary guarantees or bonds to make good their outstanding liability. Any liability will be absorbed by the Fund and spread across other employers, increasing overall liabilities and employer contribution rate and reduce the funding level.	Fund policy is to only admit Transferee and Community Admission bodies where the pension liabilities are guaranteed by a scheme employer. Covenant assessment monitoring process in place to annually assess financial standing of all employers in Fund, including review of all employers to identify whether guarantee arrangements are adequate and explore options for obtaining guarantee, bond or contingent assets if appropriate
3	Lack of continuity within the Avon Pension Fund Committee. Until new members fully trained this could delay decision making.	Wide representation on Committee including 2 Independent Members not subject to electoral cycle. Training made available to new members.
4	The investment managers appointed by the Fund to manage the assets fail to achieve their benchmarks. This could cause the Fund to underperform its strategic benchmark and thus fail to achieve the investment returns required to fund the liabilities. This could negatively affect the contribution rates paid by the employing bodies.	Monitoring the performance of the managers is delegated to the Panel. The RAG performance monitoring framework in place to identify managers that are underperforming and issues that could impact future performance. Issues and changes in RAG ratings are reported to the Panel who agree an action plan to address the issue. The Panel reports quarterly to committee on the performance of the managers and changes in RAG ratings.
5	Systems failure or lack of accessibility to systems. This could result in potential loss of data, need to re-process data, fall in productivity, potential corruption of data, delay in payment of pensions	Policies in place with relevant parties to ensure continuity of service issues are addressed within an agreed timeframe. Daily back up of pensions system limits loss of data, re-processing of data. Rely on B&NES systems of control and firewalls to prevent virus attacks.

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**27 SEPTEMBER 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.

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

4.3 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 - Business Support) 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. • DGF tender • Emerging markets tender • Infrastructure • Liability hedging	Commence 2Q13
Triennial valuation	Approve FSS and consult with employers On-going covenant assessment Disseminate results to employers	June/September 2013 3Q13 4Q13
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	September 2013
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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WORK PLAN POSITION AS AT 31 MARCH 2014 **APPENDIX 2**

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

Project	Proposed Action	Report
Pen Admin Strategy & SLAs review	The *Pensions Administration Strategy* effective from April 2011 will be reviewed in autumn 2013 – two and a half years after its first issue . The generic Service Level Agreement (S*LA) will* also be reviewed.	N/A
i-Connect software – to update member data on ALTAIR pension database automatically monthly	*i-Connect* Bristol C C and B&NES have both gone live North Somerset and South Glos are working on their payroll extracts and should go luive later this year. Employers need to go live for these by April 2014 Market to other employers during 2013/14 once testing complete.	N/A
Employer Self Service	Employer Self Service rolling out of top ten employers (size) and then to others so full electronic delivery is achieved by the end of 2013 including employer training	N/A
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 notice 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
Strategy to communicate proposed govt 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.	Sep 2013
Member opt out rates	Monitor and report on these to Committee at each meeting	Every meeting
AVC Strategy	Finalise new AVC Investment Strategy and review the investment report currently being prepared by Mercers on funds investment performance	Dec 2013

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Appendix 3

Committee Workplan to 31 March 2014

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
Report on Investment Panel Activity
2013 Actuarial Valuation results
Review of Administration Strategy
Review of AVC arrangements
Workplans
Planned Workshops: Infrastructure (morning of Dec 13 meeting)

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
Report on Investment Panel Activity
Audit Plan 2013/14
Workplans
Planned Workshops

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Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2014

Panel meeting / workshop	Proposed reports
4 September 2013	• Review mangers performance to June 2013 • Workshop on Infrastructure – Hermes to present
3 October 2013 (Selection Panel)	• Select managers to manage DGF allocation
15 November 2013	• Review mangers performance to September 2013 • Draft policy for Infrastructure • Projects arising from Investment Strategy Review • Meet the managers workshop (Schroder Global Equity and Schroder UK property)
4 December 2013 (Selection Panel)	• Select manager for Emerging markets mandate
26 February 2014	• Review mangers performance to December 2013 • Infrastructure Policy • Projects arising from Investment Strategy Review • Meet the managers workshop (managers tbd)

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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 2014
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	July 2013 Panel session on selecting managers 2013 onwards following Strategic review Quarterly monitoring of manager performance

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 Workshops on Infrastructure
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 December 2013 Valuation outcome report