Bath & North East Somerset Council

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21 March 2014
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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, 28th March, 2014

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 28th March, 2014** at **2.00 pm** in the **Council Chamber - Guildhall, Bath.**

The agenda is set out overleaf.

Members are reminded that before the meeting a workshop on the LGPS 2014 scheme will be held in the Council Chamber from 12.30-13.30, which will be followed by a buffet lunch.

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, 28th March, 2014

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

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

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

   (b) The nature of their interest.

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

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

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

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

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

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

7. MINUTES: 13 DECEMBER 2013 (Pages 7 - 26)

STRATEGIC REPORTS

8. 2013 VALUATION & ADMITTED BODIES UPDATE (Pages 27 - 50)

9. LGPS UPDATE AND TPR CONSULTATION (Pages 51 - 62)

10. BUDGET AND SERVICE PLAN 2014/17 (Pages 63 - 86)

11. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 87 - 102)

12. TREASURY MANAGEMENT POLICY (Pages 103 - 106)

MONITORING REPORTS

13. REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 31 DECEMBER 2013 (Pages 107 - 154)

14. PENSION FUND ADMINISTRATION - BUDGET MONITORING 2113/14 AND PERFORMANCE INDICATORS FOR QUARTER ENDING 31 DECEMBER 2013 (Pages 155 - 184)

FOR NOTING

15. WORKPLANS (Pages 185 - 196)

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

Protocol for Decision-making

Guidance for Members when making decisions

When making decisions, the Cabinet/Committee must ensure it has regard only to relevant considerations and disregards those that are not material.

The Cabinet/Committee must ensure that it bears in mind the following legal duties when making its decisions:

- Equalities considerations
- Risk Management considerations
- Crime and Disorder considerations
- Sustainability considerations
- Natural Environment considerations
- Planning Act 2008 considerations
- Human Rights Act 1998 considerations
- Children Act 2004 considerations
- Public Health & Inequalities considerations

Whilst it is the responsibility of the report author and the Council's Monitoring Officer and Chief Financial Officer to assess the applicability of the legal requirements, decision makers should ensure they are satisfied that the information presented to them is consistent with and takes due regard of them.

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 13th December, 2013, 2.00 pm

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

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

Advisors: Tony Earnshaw (Independent Advisor), Paul Middleman (Mercer), Jignesh Sheth (JLT Benefit Solutions) and Julian Brown (JLT Benefit Solutions)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Alan South (Technical and Development Manager), Geoff Cleak (Pensions Benefits Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

34 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

35 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Gabriel Batt, Mike Drew and Ian Gilchrist.

36 DECLARATIONS OF INTEREST

There were none.

37 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

Members considered a letter informing the Committee of a resolution passed by Bristol City Council urging the Mayor of Bristol to press the Avon Pension Fund and its members to disinvest from tobacco products entirely. The Mayor had forwarded the resolution to the Committee without comment.

The Head of Business, Finance and Pensions recalled the various discussions that the Committee had had on this topic and that it would be revisited next year. It was officers' current understanding of the law that the Fund's fiduciary duty to its members was primarily a financial one. However the Law Commission was currently consulting on this issue, following the publication of Professor John Kay's *Final Report on UK Equity Markets and Long Term Decision Making.* The Commission would be making recommendations to the Government next year. In addition, the local authority pensions scheme Shadow Advisory Board had asked a QC for advice on a number of issues, including this one. The Chair said that the Committee's future discussions would be informed by the outcomes of these two reviews.

The Vice-Chair pointed out that if funds were assured that they could choose to disinvest from tobacco, there could be significant falls in tobacco shares.

A Member referred to a recent legal judgement of which he had a copy. The Chair asked him to pass it to officers.

39 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

40 MINUTES: 27 SEPTEMBER 2013

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

41 ACTUARIAL VALUATION OUTCOME

The Investments Manager presented the report. She said that comparative data for the funding levels of other LGPS funds was not currently available, but would be reported to the Committee at a future meeting.

The Fund's actuary, Mr Middleman, gave a presentation on the 2013 valuation results and funding strategy. A copy of his slides is attached as an appendix to these minutes.

Members raised a number of issues during the presentation and in the discussion afterwards.

Deficit Reduction Strategy

Mr Middleman assured a Member who had expressed concern, that his recommendations for new contributions rates would not impose undue burdens in the future, given that the assumptions had been set with a level of prudence within acceptable bounds.

Ill-Health Retirements

Mr Middleman said these had dropped dramatically since the 1980s. They were now much more tightly controlled via LGPS regulations, and this is reflected in the assumptions adopted.

The Discount Rate for Pension Liabilities

In reply to a question from the Chair, Mr Middleman clarified that lower interest rates increased the deficit by about £900m, which was offset by a reduction of about £300m due to lower inflation at the end of March 2013.

Contribution Rates and Deficit Payments

The Investments Manager and Mr Middleman explained that rates were set by the actuary in accordance with the Funding Strategy Statement previously agreed by the Committee.

A Member asked why there appeared to be two valuations, one at 31 March 2013 and one at 31 August 2013, and why contribution rates were being based on the 31 August valuation. Mr Middleman explained that the actuary's fiduciary duty under the Regulations required him to state the valuation position as at 31 March 2013. The figure for August 2013 took account of market movements (in particular increases in the discount rate due to bond yield reversion) and other factors, and allowed lower deficit contribution payments to be set. These lower contribution payments had been stress-tested for sustainability against the target of 100% funding and had been found entirely satisfactory within reasonable bounds of likelihood.

The Actuary advised that the declared valuation as at 31 March 2013 should take account of short term pay restraint as evidenced by most employers.

A Member suggested that pay for some local authority workers might rise more than the Chancellor's limit of 1%, because of pressures to pay a living wage and other factors. The Chair pointed out that the 1% limit applied to the total pay bill; there was a risk that a future government might raise pay more.

A Member expressed concern that some of the Fund's employers might not exist at the time of the next valuation. The Investments Manager said that those not guaranteed were mostly small charities and that their combined liabilities were very small. The funding strategy for those employers had been varied to consider these issues within the bounds of affordability. The Chair asked for a report on this at the next meeting. The Head of Business, Finance and Pensions pointed out that academies were guaranteed by the Secretary of State.

RESOLVED to note the outcome of actuarial valuation 2013.

42 CLG CONSULTATION - POOLING ACADEMIES

The Investments Manager presented the report. She said that the response submitted on behalf of the Fund had taken the line that the Fund's current treatment of academies was transparent, in line with the DfE's guidance and therefore that the Fund did not support pooling.

RESOLVED to note the Fund's response to the consultation paper on pooling arrangements for academies.

43 UPDATE ON 2014 LGPS AND CALL FOR EVIDENCE

The Technical and Compliance Manager presented the report. He said that discussions were still on-going about the future of the Councillors' pension scheme. The following options were being considered:

i) retain the exiting scheme for councillors;
ii) abolish the scheme;
iii) restrict the scheme to certain categories of councillor;
iv) retain the scheme only for existing members;

Regulations were imminently expected, and if the issues surrounding the Councillors scheme were not resolved in time, separate Regulations might have to be issued for the Councillors' scheme in future.

Members discussed the possible restructuring of LGPS funds. The Chair noted that there could be a single fund for all local authorities in Wales. He thought that there was interesting information in the chart on page 57 of the agenda entitled "Gross Value Added". The Investments Manager said that some of the data underlying the chart would be available for consideration in future debates about the structuring of funds. She drew attention to the forward timetable in paragraph 6.12.

RESOLVED

1. To note the current position regarding changes to the LGPS in 2014.

2. To note the information on administration and investment costs.

44 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report. The Panel had recommended that the Committee adopt the policy framework for infrastructure. It had also met Schroder and had set a timetable for evaluating the impact of recent organisational changes on their performance, as detailed in Exempt Appendix 3. A summary of the appointment for the Diversified Growth Fund mandate was given in Exempt Appendix 4.

RESOLVED to note:

1. the draft minutes of the Investment Panel held on 15th November 2013;

2. the recommendations and decisions made by the Panel this quarter as set out in 4.1.

45 INFRASTRUCTURE INVESTMENTS

The Investments Manager presented the report. She said that the proposed policy framework for infrastructure investment was less specific than would be expected for other asset classes, but this represented the nature of infrastructure investment. The evaluation of tenders, however, would be as robust as usual.

Julian Brown said that the JLT report had been well summarised by officers in the covering paper. He thought the framework needed to be wide-ranging in order to secure access to many different specific investments.

A Member said that the briefing session held before today's meeting had been very helpful; he wondered who would set the criteria for the appointment of a manager for infrastructure investment. The Investments Manager said that work was only just beginning on this; it would be discussed with the Investment Panel. Co-operation with other funds in the manager procurement process might result in lower fees.

A Member asked whether it might be beneficial to select more than one infrastructure investment manager. Mr Brown replied that it would be an open tender, which did not preclude appointing more than one manager. However a fund of funds might give the appropriate level of diversification.

RESOLVED to agree the proposed policy framework in section 6.

46 REVIEW OF INVESTMENT PERFORMANCE

The Assistant Investments Manager summarised the headline figures.

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

47 PENSION FUND ADMINISTRATION

The Finance & Systems Manager (Pensions) presented the budget report. Salaries were £20,000 below budget because of delayed appointments. Investment Governance & Member Training were £50,000 below budget. Investment Manager Fees were £821,000 above budget because of strong markets since the budget was set. He tabled an update to Appendix 7 (pages 193-194) to the report. He pointed out that Appendix 8 (risk register) was now more detailed, following comments from a Member at the previous meeting.

The Pensions Benefits Manager presented the administration report. He drew attention to the small increase in active members. The administrative performance of the unitary authorities had remained steady. There were still concerns about the supply of data by Bristol City Council; notification of approximately 400 scheme leavers since April 2013 were outstanding. Pensions staff had met officers of BCC in November. Since March the Pensions Team had trained staff from 57 employers accounting for 71% of Fund members in electronic data delivery. Electronic data delivery would take a significant step forward when South Gloucestershire implemented i-Connect software in 2014. Bristol CC gave notice of redundancy to a large number of staff in November and another batch was expected in the near future. The Pensions Team would support Bristol CC and send staff to pensions surgeries. In 2014 the Pensions Team would participate in member roadshow events about the new LGPS in 2014. It has also planned separate events for employer practitioners with separate sessions targeting both academies and town and parish councils.

The Head of Business, Finance and Pensions gave on an update on the convalescence of the Pensions Manager and his planned return to work.

RESOLVED to note:

1. Administration and management expenditure incurred for 7 months to 31 October 2013.

2. Performance Indicators and Customer Satisfaction feedback for 3 months to 31 October 2013.

48 WORKPLANS

The Investments Manager presented the report.

A Member noted that there was no timescale for the appointment of the Infrastructure Manager. The Investments Manager replied that there was still preparatory work to do on this, including an indicative timetable.

It was noted that the timing of Fund Governance and Assurance on the training plan (page 211) should be June 2014, not June 2015.

RESOLVED to note the workplans for the period to 31 March 2014.

The meeting ended at 4.08 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

MERCER

TALENT • HEALTH • RETIREMENT • INVESTMENTS

2013 VALUATION RESULTS AND FUNDING STRATEGY
AVON PENSION FUND

13 December 2013

Paul Middleman FIA

Liverpool - Exchange Station

MARSH & McLENNAN COMPANIES

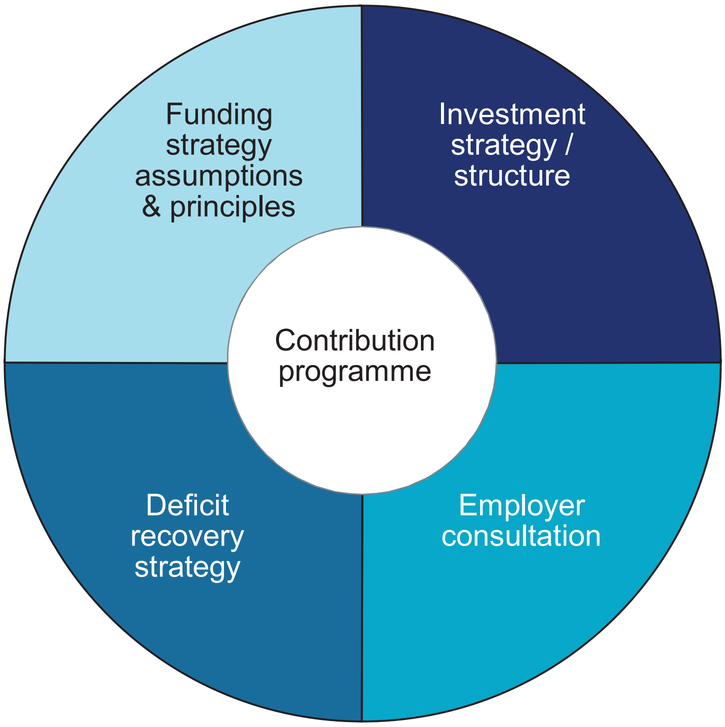
Agenda

- Valuations and FSS
- 2013 valuation - Whole Fund Results
- Stabilisation of Rates and FSS considerations
- Summary and Next steps

- Appendix A – Whole Fund data
- Appendix B – Demographic Analyses
- Appendix C – Actuarial advice and Important Notices

Review of contribution programme

Purpose



2013 Valuation - Whole Fund Results

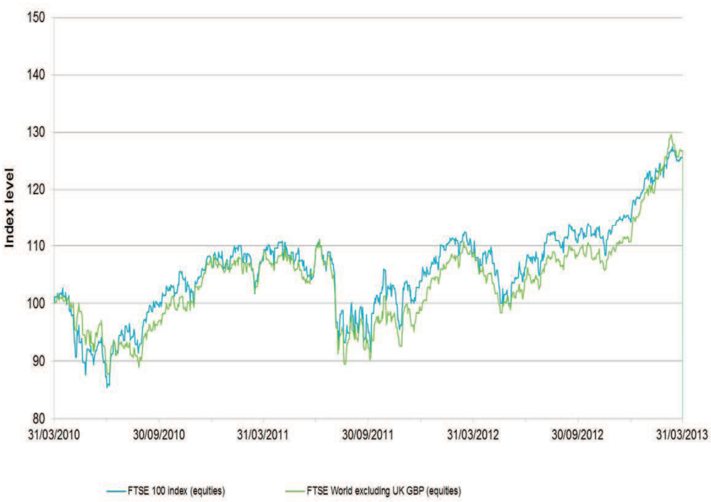
2010 valuation recap
Whole Fund Results

	31 March 2010
Assets	**£2,459m**
Liabilities	**£3,011m**
Deficit	**£552m**
Funding level	**82%**
Future service contribution rate	**11.8% p.a.**
Current deficit contributions over 20 years* (indexed at 4.5% p.a.)	**£33m** p.a.**

*Based on the average 23 year recovery period (from 2010) less 3 years
**Including three years' indexation to 2014/15

Inter-Valuation Financial Markets
Asset and Liability Changes From March 2010

ASSET PERFORMANCE



LIABILITY CHANGES

Over the three-year inter-valuation period, equity and bond returns have been positive, so assets will be higher (APF return c27% over the period). Liability values have increased significantly driven by falling (nominal and real) bond yields. Since the valuation date yields have risen although returns have been volatile.

2013 Valuation
Financial assumptions

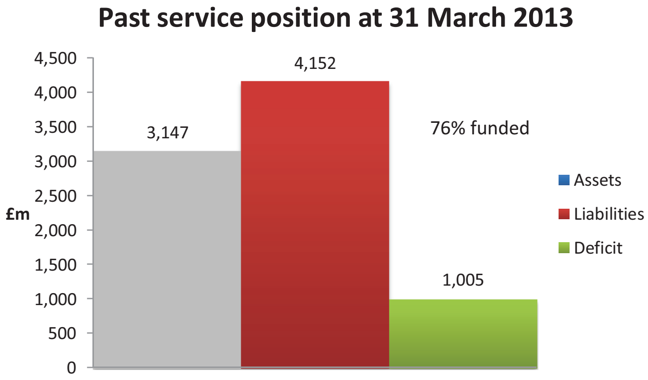
Market data	31 March 2010	31 March 2013 Initial Proposed
Fixed interest gilt yield	4.5% p.a.	3.2% p.a.
Index-linked gilt yield	0.7% p.a.	-0.4% p.a.
Market-implied RPI price inflation (derived by differencing yields on fixed-interest and index-linked gilts)	3.8% p.a.	3.6% p.a.
Adjustment to derive CPI inflation assumptions	*-0.8% p.a.*	*-1.0% p.a.*
Assumptions used for assessment of Liabilities		
Discount rate:	6.1% p.a.	4.8% p.a.*
Inflation: Consumer Prices Index (CPI)	3.0% p.a.	2.6% p.a.
Salary inflation	4.5% p.a.	4.1% p.a.
Pension increases	3.0% p.a.	2.6% p.a.

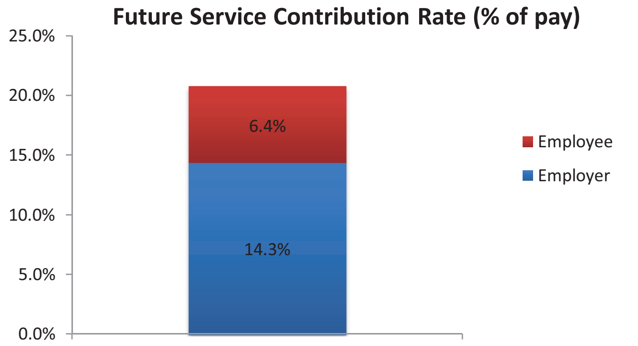
* Future service assumptions are as for liabilities with the exception of the discount rate, which was a long term rate of 6.75% p.a. at 31 March 2010 and is proposed to be 5.6% p.a. at 31 March 2013.

2013 valuation
Demographic assumptions

Life Expectancy	• Analysis has been carried out based on Fund membership. For pre retirement Life Expectancy we are updating based on LG wide experience.
Retirement Age	• Analysis supports increase in retirement age of 1 year – important for Pre 2008 benefits.
Ill health retirements	• Analysis suggests change to 2010 assumptions required based on Fund and LG wide experience
Proportions married	• Analysis supports a small increase in the % of members married at certain ages
Other	• As per 2010 Valuation

2013 Results
2013 Basis - Whole Fund ("Baseline Position")

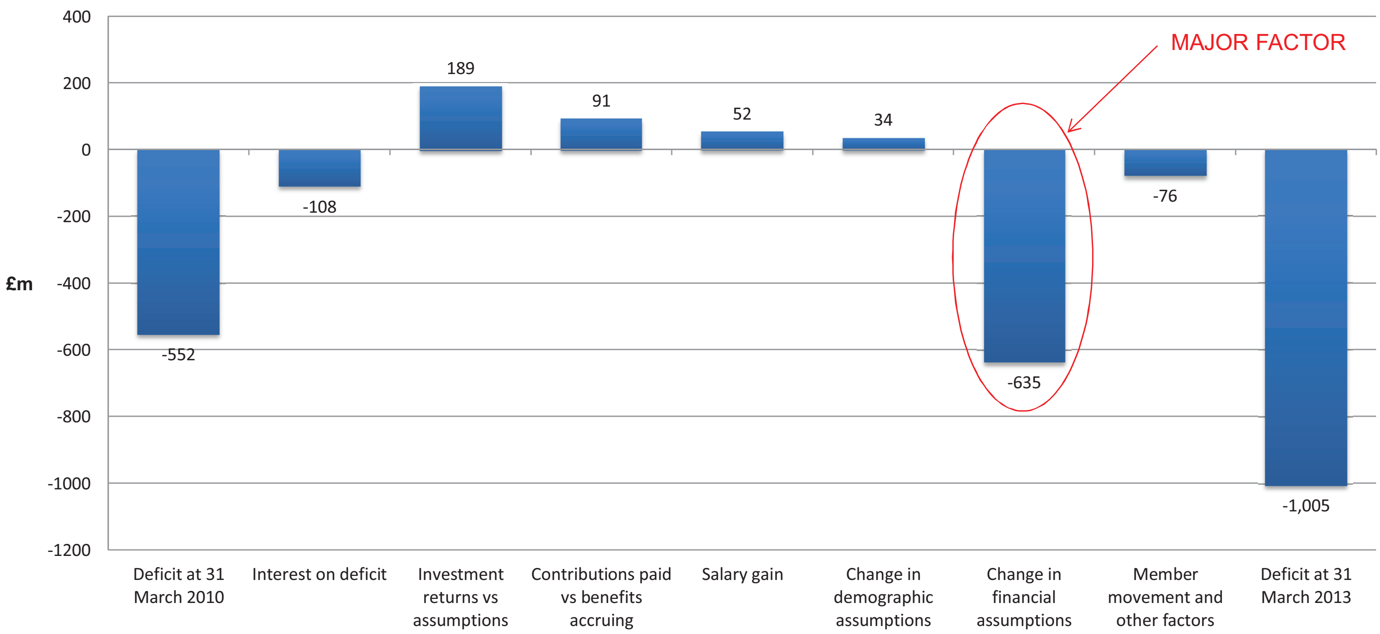




Rates include expenses. Based on post 2014 Scheme and expressed as a % of post 2014 pay based on the draft Regulations and pay provided. The old scheme employee rate would have been 6.3% of pay.

Implied deficit contributions (2010 equivalent deficit contributions of £33m p.a.)	
Recovery period (Whole Years)	Required Payment (increasing with assumed pay growth of 4.1% p.a.)
20	**2014/15 - £56m** **2015/16 - £58m** **2016/17 - £61m**

2013 Results
Analysis of change in 2010 past service position to 2013 baseline position



Page 11

2013 Results

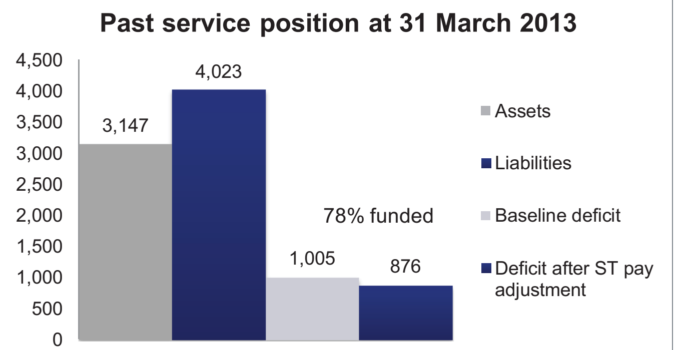
Analysis of change in future service contribution rate from 2010 to 2013

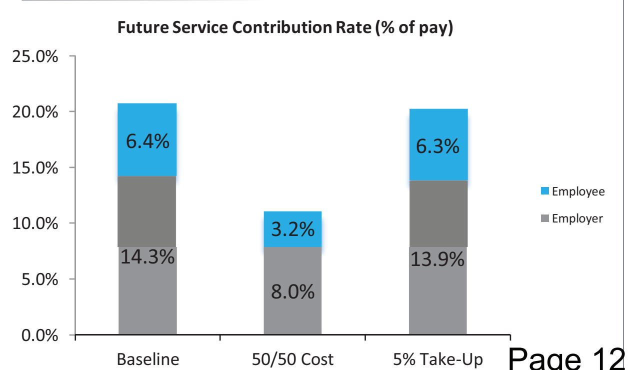
Change in Future Service Rate Analysis	
Average Employer Rate as at 31 March 2010	**11.8% of pay**
Change in profile of membership	neutral
Change in demographic assumptions	+ 0.6% of pay
Change in financial assumptions	+ 3.6% of pay
Impact of 2014 LGPS	- 1.7% of pay
Average Employer Rate as at 31 March 2013	**14.3% of pay**

The impact will differ for each individual employer

2013 Results

Whole Fund – short term pay growth (1% p.a. for 3 years) and 5% (by payroll) take up of 50/50 option





Rates include expenses. Based on post 2014 Scheme and expressed as a % of post 2014 pay based on the draft Regulations and pay provided. No change to baseline rates as CARE scheme

Implied deficit contributions (2010 equivalent deficit contributions of £33m p.a.)	
Recovery period (Whole Years)	Required Payment (increasing with assumed pay growth of 4.1% p.a.)
20	**2014/15 - £49m** **2015/16 - £51m** **2016/17 - £53m**

Stabilisation of Contribution Rates and FSS Considerations

Further considerations
Possible approaches to stabilisation of contributions

SMOOTHING OF FUNDING POSITION

- Extreme smoothing of base funding position does not easily aid objective decision making
- Recognising known post valuation date information is reasonable
- Options include
  - Short term pay growth, significant membership changes etc
  - Market yield changes and future investment expectations possible

STABILISATION OF CONTRIBUTIONS

- Results would be declared as normal but contributions certified could allow for stabilisation mechanisms
- Options include
  - Altering recovery periods
  - Stabilising Future Service Rate – 50:50 take-up?
  - Phasing any increases in contributions
  - Allowing for bond yield changes in deficit recovery plans

Stochastic Testing of funding outcomes

- Employers would not be allowed to reduce £ deficit input (indexed) vs. 2010 funding plan in general

Further considerations
Position at 31 August 2013 - 2014/15 contribution outcomes

	31 March 2013	31 August 2013
	Baseline Position (including short term pay growth)	Update position (including short term pay growth)
Funding Level	78%	83%
Illustrative Deficit (£m)	876	650
Average "Smoothed" Future Service Contribution Rate (% Pensionable Earnings) allowing for 5% 50:50 take-up	13.9%	13.9%
Required Deficit Payment (£m p.a. indexed each year)		
Recovery Period (years) 20	2014/15 - £49m 2015/16 - £51m 2016/17 - £53m	2014/15 - £34m 2015/16 - £35m 2016/17 - £37m

Deficit recovery contributions under the current plan would be £33m p.a. (indexed)

Since 31 March 2013, net yields have risen thus reducing liability values. Asset returns have been positive. The overall impact at 31 August was a c5% increase in funding level.

Funding Strategy Principles
2010 valuation vs 2013 valuation

Maximum recovery period reduced from 30 years at 2010 to 27 years

Minimum deficit contributions to be based on indexed 2010 valuation pattern unless notified otherwise

2013 valuation contributions outcome will take into account post valuation date information for certain employers to aid stability

Allowance for LGPS 2014, including impact of 50/50 option for certain employers where turnover can justify it

Where necessary phasing of any increases in contributions will be allowed

Individual Employers
Range of Outcomes

Individual Employers
Range of Outcomes

Funding Levels and Deficit Recovery

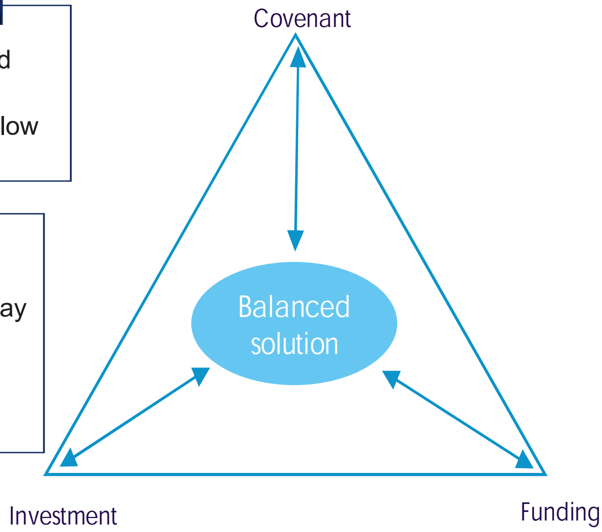
- Range from 10% to 127% depending on start position and history
- Deficit recovery contributions will generally not reduce below 2010 funding plan levels over 2014/17

Future Service Rate requirements

- Not directly linked to market yields except where notified
- Rates range from 7% to 30% of Post 2014 pensionable pay (incl non contractual overtime)
- New Scheme Savings range from 3.8% to a cost of 5.3% depending on profile

Stabilisation of Contributions

- Depends crucially on covenant and time horizon in Fund
- Added security will assist in managing cash requirements vs. affordability
- Certain approaches may not be possible e.g. 50:50 take-up



Summary and next steps

Summary

- Despite positive investment performance, low bond yields have increased the cost of pension provision and the funding deficit has therefore increased significantly. Outcomes will vary for individual employers.
- Administering Authority and Actuary have considered the assumptions used to value the liabilities and also the flexibilities within the Funding Strategy to set future contributions.

Next steps

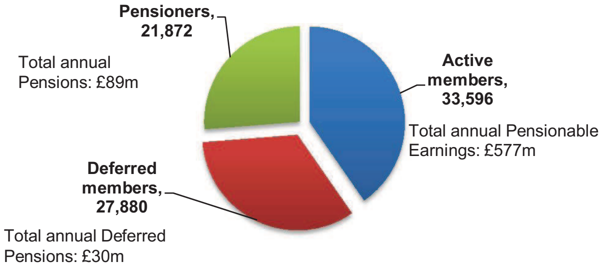
- FSS approved in principle by Committee after consultation with Employers:
  - Financial and demographic assumptions, contribution flexibility agreed
  - Confirmation of final rates to employers in progress

Funding plan for each employer needs to be robust, justifiable and recognise the challenges employers face but not at the expense of the long term financial health of the Fund

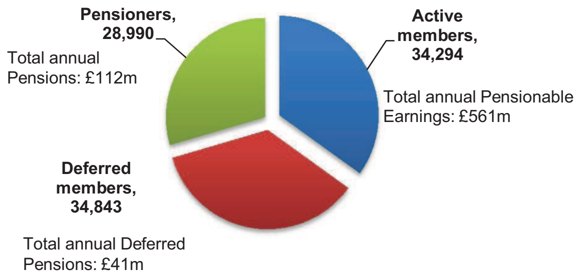
APPENDIX A
WHOLE FUND DATA

Membership development

31 March 2010 total membership



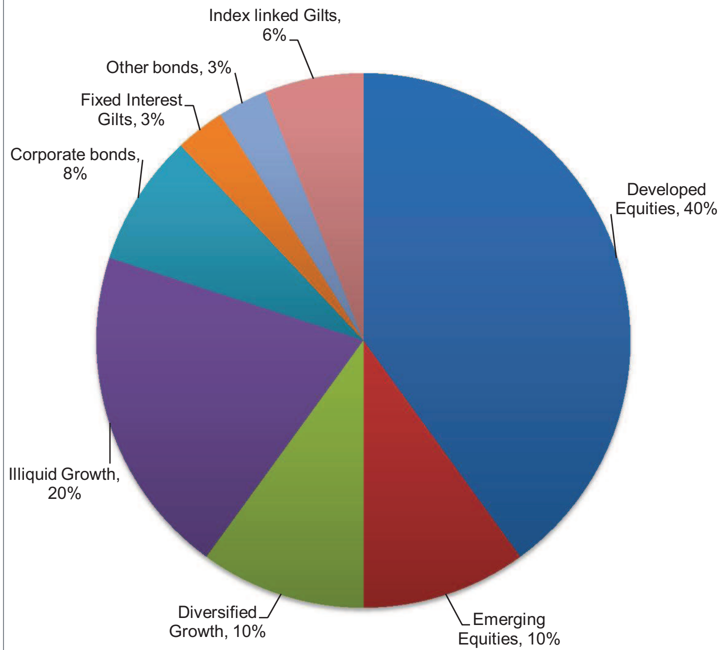
31 March 2013 total membership



Membership data provided by the administering authority (excludes members with leaver options pending). Pension payrolls at 2013 include 2013 increase . **Pay at 2013 does not include non-contractual overtime**

Benchmark at 31 March 2013

Market value of Assets £3,147m



APPENDIX B
DEMOGRAPHIC ANALYSES

Summary of analysis recommendations

Post-retirement mortality base table – updated table based on Fund's profile and experience for both past and future service

Post-retirement mortality future improvements – CMI 2012 model with 1.5% long-term improvements for both past and future service

Death before retirement – adjusted assured lives table based on aggregate LGPS data

Ill health retirement distribution between tiers – maintain 2010 valuation proportions

Ill health retirement rates – based on updated LGPS experience, with a Fund-specific adjustment

Retirement in normal health (pre 1/10/06 joiners) – based on aggregate LGPS experience

Proportions with dependants - revised rates based on 110% of 2010 proportions, with underpin at older ages

Financial Impact

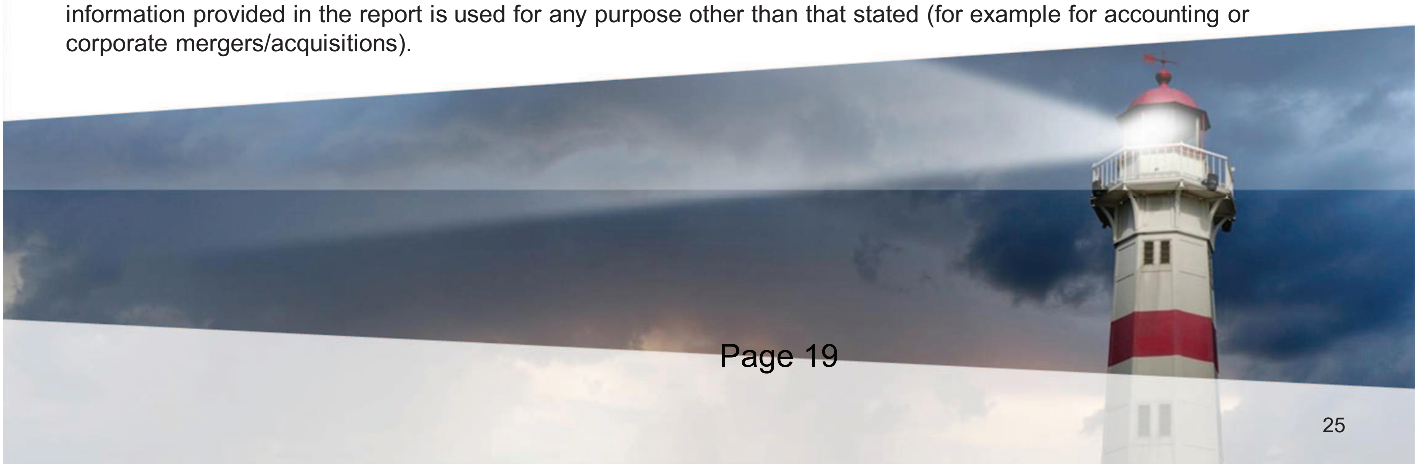
	Effect on total past service liabilities (% of total past service liabilities)	Effect on future service cost (% of pensionable pay)
Post-retirement mortality	+0.1%	+0.4%
Death before retirement	-0.2%	-0.1%
Ill health retirement	+0.1%	+0.3%
Early retirement in normal health	-1.3%	-0.1%
Proportions with dependants on death	+0.5%	+0.1%

Overall financial effect:
- **0.8% *decrease*** in the past service liabilities
- **0.6% *increase*** to future service cost

APPENDIX C
ACTUARIAL ADVICE AND IMPORTANT NOTICES

Actuarial advice

- This presentation contains actuarial advice to the Administering Authority concerning their potential decisions on calculating the liabilities and preparing the Funding Strategy Statement and Contribution Schedule.
- It is covered by and compliant with the following Technical Actuarial Standards (TAS) issued by the Board for Actuarial Standards: TAS R – Reporting Actuarial Information; TAS D – Data; TAS M – Modelling; and Pensions TAS.
- This presentation forms part of a suite of material that will be used by the Administering Authority in making their decision.
- It forms part of the audit trail for the scheme funding valuation and should be read in conjunction with other valuation material provided.
- The calculations referred to in the report use methods and assumptions appropriate for reviewing the financial position of the Scheme and determining an appropriate contribution rate for the future. Mercer does not accept liability to any third party in respect of this report; nor does Mercer accept liability to the Administering Authority if the information provided in the report is used for any purpose other than that stated (for example for accounting or corporate mergers/acquisitions).



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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**28 MARCH 2014**	**AGENDA ITEM NUMBER**
TITLE:	**2013 VALUATION & ADMISSION BODIES UPDATE**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Exempt Appendix 1 – Community Admission Bodies

Exempt Appendix 2 – Update on Community Admission Bodies

Exempt Appendix 3 – Transferee Admission Bodies

Appendix 4 – List of Academies

1 THE ISSUE

1.1 Following the presentation by the Actuary at the December meeting, the Committee requested a report summarising how the Funding Strategy Statement (FSS) has been applied to different groups of employers in the valuation.

1.2 There are a significant number of "admitted" bodies including Transferee Admission Bodies (TABs) and Community Admission Bodies (CABs) in the Fund. Given the significant pressure on their financial position, the admitted bodies, though small in number and in monetary terms, pose a risk to the Fund in terms of recovering the pension liabilities. This report updates the Committee on the admitted bodies and the Fund's policy to managing the risk and recovering outstanding debts in respect of these bodies.

1.3 Three specific policy issues have arisen in light of the valuation; the refunding of any surplus of assets over liabilities when Transferee Admission Bodies exit the Fund; the investment policy for employers funded on the corporate bond basis and the Fund's policy on stopping accruals for eligible members.

2 RECOMMENDATIONS

That the Committee:-

2.1 Notes the report summarising how the FSS has been applied to groups of employers;

2.2 Notes the update on the admitted bodies;

2.3 Agrees the revised approach to implementing the investment policy for certain small employers funded on the corporate bond basis.

2.4 Agrees the amendment to the Fund's policy for stopping accruals for eligible members.

2.5 Instructs Officers to update the FSS to reflect the amended policies as required.

3 FINANCIAL IMPLICATIONS

3.1 There is a significant risk that a few of the CABs may not be able to meet their full liability especially as many of these bodies are primarily funded by local authorities and central government. Where an employer cannot meet their full liability the Regulations allow for the outstanding sum to be recovered from the other bodies in the Fund.

3.2 To put this into perspective, the aggregate deficit of the CABs at the 2013 actuarial valuation was £36m or 4.1% of the total deficit. Over half of this (£21m) relates to one relatively secure entity and a number of the other larger CABs have relatively secure income streams underpinning the deficit.

3.3 The pension liabilities of the TABs are guaranteed by the outsourcing scheme employer (which are typically the unitary authorities) so pose no direct funding risk to the Fund.

3.4 When an employer exits the scheme and the outstanding debt is paid, the Fund resumes responsibility for any deterioration in the funding position at exit. There is no recourse to the former scheme employer.

4 APPLYING THE FSS TO THE 2013 VALUATION

4.1 At the December meeting, the Committee requested further detail of how the FSS was applied to different employers in the valuation. The Regulations require that the valuation is carried out with an effective date of 31 March 2013. Therefore, at a whole Fund level the assets, liabilities and funding position as at 31 March 2013 must be disclosed although the Actuary can state in his report how the funding position has developed up until formal sign off. However, the contribution funding plans i.e. the repayment plan for individual employing bodies can use a number of tools to assist in stabilising any increase in contributions for employers in line with the underlying regulatory requirement for the "desirability of maintaining a contribution rate as nearly as constant as possible". In particular, as new contributions do not come into effect until 1 April 2014, changes in market conditions can be incorporated if the Actuary believes the changes are material and sustainable.

4.2 However, there was one overriding parameter applied across all employing bodies (other than in exceptional circumstances at the discretion of the Administering Authority), within which the use of any tools had to comply; the deficit recovery payments in 2014/15 and beyond could not be lower than the indexed 2010 repayment plan.

4.3 The main parameters or "tools" the FSS permits to stabilise contributions are:

(1) Phasing of the increases in deficit payments and future service rates

(2) Deficit recovery periods

(3) Allowance for Pay restraint

(4) Use of bond yield reversion (observed or anticipated)

4.4 Each employing body's outcome was reviewed and the combined increase in the future service rate (FSR) and deficit payments was taken into account to set the payment plans. Given the large increases in the FSR for some cases (due to the change in the discount rate used and, for some, the minimal savings or extra costs of the new scheme benefit structure) the FSRs were normally phased in over 3 years and in some cases, especially where the new scheme has materially increased costs, over 4 years. Any increase in deficit recovery amounts were phased in over 3 years.

4.5 The FSS has an objective to get all employers to a 15 year deficit recovery period. In general deficit recovery periods have been kept in line with the 2010 plan, i.e. employing bodies have experienced a three year reduction in the recovery period if their recovery period is greater than 15 years.

4.6 The actuary set a long term pay increase assumption of CPI plus 1.5% p.a. (equivalent to 4.1% p.a. for the 2013 valuation based on the long term CPI assumption of 2.6% p.a.). However, with continued pay restraint in the public sector, the Actuary allowed short term pay restraint over the 3 years (equivalent to a total of 1% pa over the period) of the valuation cycle to local authority, town and parish councils and HE/FE colleges on evidence that national pay restraint will apply over the period. As academies can in theory set their own pay awards, pay restraint was not applied to this group of employers or to admitted bodies. In 2010 pay restraint was limited to tax raising employers in line with Government policy.

4.7 Depending on the drivers of the valuation outcome, the length of expected participation in the Fund and the strength of employer covenants, the Actuary will advise accordingly which of these tools he considers to be more appropriate to use, if at all. A key driver of the increase in deficits at 31 March 2013 was the assessment of the liabilities which is based on government bond yields with an allowance for the expected asset returns on the Fund's investment portfolio. Given the assessment was a point estimate at 31 March, consideration was given to whether this was a fair representation of the long term bond market position. After analysing various economic indicators and considering how markets had moved from 1 April 2013 he advised that incorporating a degree of yield reversion into certain employers' funding plans was reasonable and appropriate, where it was necessary to stabilise contribution requirements. **It should be noted that the declared deficit and funding position at 31 March 2013 at the whole Fund or individual employer level will not reflect any allowance for yield reversion, although the effect will be noted in the Actuary's formal report.**

The level of yield reversion depends on a number of factors which includes the level of expectation of interest rate changes already factored into the markets. Between 31 March and 31 August some reversion in yields was observed as they had increased by 0.4% per annum. Market yields have remained at similar levels since then.

4.8 Academies have been treated as individual employers and their FSR and deficits reflect their own experience since inception and the profile of their members. Therefore their FSR in particular will diverge from that of their former LEA. The deficit recovery period has been set in line with that of the former LEA (the policy set when converted to academy status). As a result of individual experience the changes in deficit payments have varied. The FSS has taken the Letter of Guarantee from the DfE into account in the valuation. Appendix 4 lists all the current academies in the Fund for information.

4.9 The parameters used to determine the contribution rates for the TABs have been agreed with the outsourcing employer as there may be implications for the commercial contract. From the Fund's perspective, the outsourcing employer is the guarantor of last resort so it is appropriate for them to have some influence over the parameters under Fund policy.

4.10 CABs guaranteed by scheme employers usually have the same recovery period as the outsourcing employer unless the guarantor instructs otherwise.

4.11 CABs that do not have financial guarantees are assessed on a case by case basis, with a balance required between protecting the Fund and ensuring the employer remains financially viable. Where there are significant assets or other financial resources owned by the employer, the policy is to use the on-going concern basis for determining the funding plan i.e. in line with the other employers in the Fund. Where appropriate the Fund will seek a "charge" on those assets to improve financial security for the Fund. This is an on-going process within the risk management framework. For those bodies without significant assets/resources, the Fund's policy is to move to the corporate bond basis wherever possible. The intention is to give better stability in terms of outcomes for the Fund and employer but at a higher target contribution level.

4.12 To summarise:

Group	Recovery period (years)	Average FSR	% of Fund deficit
Unitary Authorities & Fire	20	14.1%	80%
Universities	20	13.9%	8%
Colleges	17	14.2%	4%
Academies	20	14.7%	4%
Parish/Town Councils & designating bodies	16	17.2%	0.2%
CABs	24	18.0%	4%
TABs	8	18.9%	0.3%
Overall Fund	20	14.3%	

Note: Recovery period weighted by deficit value

5 ADMITTED BODIES UPDATE

5.1 There are presently 22 CABs plus 3 controlled entities in the Fund. These bodies can take various forms but one common feature is that their funding generally comes from the public sector. The security of the funding sources varies which means that, in terms of being able to meet their pension liabilities, some bodies pose a greater risk to the Fund than others.

5.2 All CAB admissions to the Fund must be approved by the Committee. Since December 2005 the Fund's policy is to only admit a body seeking admission to the Fund as a CAB if it is guaranteed by a Scheme Employer or a bond is put in place to protect the Fund.

5.3 The Fund has an on-going process in place to monitor the financial strength of the admitted bodies. This process feeds into the valuation in determining the level of contributions set. The reduction in funding from public sector bodies has exacerbated the financial situation for many of these bodies, making it more difficult for them to manage increases in contributions. Exempt Appendix 1 summarises the key financial and valuation data for the CABs. Exempt Appendix 2 updates the committee on the risk management measures taken by the Fund in respect of individual CABs in more detail.

5.4 There are 38 TABs in the scheme whose pension liabilities are guaranteed by the outsourcing scheme employer. TABs are usually private sector companies where there is a commercial contract in place between them and the outsourcing employer. Some TABs have a bond in place to protect the outsourcing employer in the event of insolvency of the TAB.

5.5 Exempt Appendix 3 summarises key financial and actuarial data of each TAB showing the actuarial position at the 2013 valuation.

6 INVESTMENT POLICY FOR EMPLOYING BODIES FUNDING ON THE CORPORATE BOND BASIS

6.1 For some admitted bodies with no guarantee, the Fund uses the corporate bond funding basis in order to better manage their exposure to investment risk and therefore volatility of funding requirements. The assets backing these liabilities are corporate bond assets held by the Fund. The intention is that the employer pays higher contributions but receives increased certainty over its future funding position and hence a more stable contribution requirement.

6.2 However, given the large shift in bond yields over 2010/13 this approach, adopted to achieve stability, has led to a divergence in contribution requirements. The current practice adopted can lead to a mismatch in assets and liabilities as the assets are invested in corporate bonds that, in most cases, have a shorter duration than the liabilities. When bond yields change materially (as has been the case in the extreme since the 2010 valuation) this mismatch leads to significant shifts in the funding position and therefore contribution requirements. A more practical approach to achieve stability of contributions is to use a "notional" corporate bond investment return that would exactly match the movement in past service liabilities between valuations with any difference between that return and the actual return from the Fund's corporate bonds being absorbed by the Fund.

6.3 At the time the Corporate Bond basis approach was adopted the Actuary advised that using a notional return would provide "investment risk stability" but would lead to a certain level of cross subsidy between employers. Therefore, at the time, the decision was taken not to use notional returns in order to minimise a degree of "cross subsidy" within the Fund.

6.4 The bodies funded on the corporate bond basis account for less than 0.5% of the Fund's assets and consist of small charities (0.06% of assets) and commercial entities or bodies with significant asset backing (0.4% of assets). It is proposed to adopt the notional investment return approach for the small entities where there are no other contingent assets available to protect the Fund in the event of insolvency. The cross subsidy impact of using the notional strategy for these employers is de-minimis in the context of the Fund as a whole and has the real advantage of better "risk" management for these employers which in turn reduces the ongoing governance requirements somewhat. Officers will investigate with the Actuary whether there are more suitable term matching funding strategies for the other commercial entities to achieve the key objective of greater funding stability for these employers.

6.5 The Committee is asked to approve the revised approach to implementing the investment policy for the smaller employers that are funded on the corporate bond basis from this valuation onwards.

7 POLICY FOR REFUNDING SURPLUSES WHEN TAB CONTRACT TERMINATE

7.1 In the 2013 valuation, a number of TABs have a surplus funding position. The Fund's policy is to repay the surplus over the period of the commercial contract until expiry through an offset in the contribution rate. The regulations do provide limited flexibility to the Fund in relation to surpluses (and deficits) on exit.

7.2 The LGPS Regulations were recently amended on 10 February 2014 (with retrospective effect from 1 April 2012) which does make some changes in this context. Having received advice from the Actuary about this, the Fund is obtaining legal advice as to what precisely the new regulations permit. If the Fund's policy needs to be amended as a result of this advice, it will be brought to Committee at a future meeting.

8 FUND POLICY ON STOPPING ACCRUALS FOR ELIGIBLE MEMBERS

8.1 The Fund has in the past received a number of requests from community admission bodies to close the scheme to existing members and for the employer to exit the scheme. Legal opinion was sought which is summarised follows:

(1) The Regulations do not prevent a community admission body from closing the scheme to new accruals.

(2) However, it is only permitted if it is allowed in the admission agreement.

(3) If not permitted in the admission agreement, then the admission would have to be amended by:

a) Restricting the eligibility conditions so that all eligible employees automatically cease to be eligible; or

b) Terminating the agreement if the parties make a provision about termination under such circumstances.

8.2 The Fund's admission agreements do not include provision for admission bodies to stop accruals for eligible members nor do they have a provision allowing termination in those circumstances. Any amendments to the admission agreement to stop accruals for eligible members will therefore require the agreement of the Fund.

8.3 The Fund's policy is to agree to the ceasing of accruals for eligible members having considered the following:

(i) whether the increase in the funding risk of the other employers Fund is material and manageable (as the other employers in the Fund assumes responsibility for any deterioration in the deficit once an employer has exited the scheme);

(ii) Whether the Fund has a duty of care to the members affected.

8.4 When an employer exits the Fund, the Regulations allow the Fund to demand immediate full payment of the outstanding deficit on termination valued on the exit basis.

8.5 Following the 2013 valuation the cost of providing LGPS benefits for a number of admission bodies has become financially unviable given the reduction in their income streams. If these employers are unable to pay the contributions required then at the next valuation, everything else being equal, their deficit will have increased. In order to protect the Fund and keep these organisations financially viable, the recommended option is for them to leave the scheme and stop accruing liabilities (subject to the employing body resolving employment and contractual issues with affected staff). A payment plan would be agreed to ensure the maximum repayment of deficit to the Fund whilst enabling the organisation to remain financially viable. The alternative of not allowing this would likely be the insolvency of the employer and crystallisation of deficits, recovering a far lesser sum.

8.6 The Committee are asked to agree to amend the current policy to allow community admitted bodies to exit the scheme if continuing in the scheme would make the organisation financially unviable where this can be evidenced.

9 RISK MANAGEMENT

9.1 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. Assessing the strength of an employing body's covenant is a crucial component in managing the potential risk of default to the Fund. Accordingly, a formal covenant assessment process has been prepared. Within the Investments Team there are officers with responsibility for monitoring the employers' financial position and to support the Investments Manager in managing the financial and liability risk.

9.2 The overriding concern of the Fund is that these organisations maintain their financial sustainability in order to contribute to their pension obligations over the long term. To support this, the Fund explores a number of options in consultation with the individual bodies to obtain greater security for the liabilities e.g. through a charge on any assets the organisation may have. The aim is to maximise the employer contributions having taken into account the employer's financial situation and at the same time, not unnecessarily increase the financial risk to the organisation represented by the pension liabilities. However, each body is treated on a case-by-case basis as their particular circumstances vary significantly, the relationship with their main funder (usually a local authority or government agency) being a major factor.

In recognition of the risk posed by the liabilities to the Fund, the on-going dialogue with all employers about the risk posed to their operations by the pension deficit has increased.

10 EQUALITIES

10.1 An equalities impact assessment is not necessary.

11 CONSULTATION

11.1 N/a

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 Are contained in the report.

13 ADVICE SOUGHT

13.1 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	Tony Bartlett, Head of Business Finance and Pensions 01225 477302 Liz Woodyard, Investments Manager 01225 395306
Background papers	Mercers Valuation papers Legal advice
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-0447-14

Meeting / Decision: Avon Pension Fund Committee
Date: 28 March 2014

Author: Liz Woodyard
Report Title: 2013 VALUATION & ADMISSION BODIES UPDATE Exempt Appendix Title: Exempt Appendix 1 – Community Admission Bodies Exempt Appendix 2 – Update on Community Admission Bodies Exempt Appendix 3 – Transferee Admission Bodies

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 contain financial information about the organisations which is commercially sensitive and could prejudice the commercial interests of the organisations if released. The exempt appendices also include the observations and opinions of officers on the financial strength of these organisations.

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.

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 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 performance of the fund has been made available on these issues – by way of the main report.

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

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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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of the Local Government Act 1972.

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ACADEMIES

APPENDIX 4

Employer	Date of admission	Deficit / (Surplus)	Recovery Period (years)	FSR
Formerly B&NES				
Academy of Trinity C of E	01/06/11	144,000	20	13.7%
Bath Community Academy Culverhay (CLF)	01/09/12	498,000	22	13.6%
Beechen Cliff School Academy	01/04/11	719,000	20	16.0%
Broadlands School (Academies & Enterprise Trust)	01/12/12	625,000	20	14.2%
Chew Stoke Primary School	01/09/12	103,000	20	15.3%
Fosseway School Academy	01/09/11	1,231,000	20	12.6%
Hayesfield Girls School Academy	01/08/11	735,000	20	15.3%
Midsomer Norton Schools Partnership	01/09/10	2,225,000	20	16.2%
Oldfield School Academy Trust	01/02/11	387,000	20	15.5%
Ralph Allen School Ltd	01/09/12	792,000	20	17.3%
Wellsway School Academy	01/10/11	898,000	20	15.0%
Writhlington Academy Trust	01/10/11	1,379,000	20	12.4%
Formerly BCC				
Bank Leaze Primary School (OCL)	01/09/12	201,000	22	11.5%
Bannerman Road Primary (sponsor Bristol Academy Trust)	01/01/13	335,000	22	13.1%
Bedminster Down School	01/09/12	579,000	22	16.0%
Begbrook Primary School Academy (CLF)	01/09/12	341,000	22	15.5%
Bridge Learning Campus	01/09/12	1,175,000	22	13.5%
Cabot Learning Federation (CLF)	01/09/07	1,172,000	19	13.2%
Christchurch Primary School Academy	01/07/12	209,000	22	16.0%
Colston's Primary School Academy		144,000	22	12.2%
Connaught Primary School (OCL)	01/09/12	254,000	22	13.2%
Cotham School Academy	01/09/11	1,444,000	22	13.7%
Elmlea Junior School Academy	01/07/11	270,000	22	16.2%
Filton Avenue Infants School	01/09/12	367,000	22	13.0%
Fishponds Church of England Academy - (sponsor Bristol Church Academies Trust)	01/09/12	450,000	22	14.8%
Frome Vale Academy - CLF	01/09/12	206,000	22	13.4%
Greenfields Primary School (E-Act)	01/09/12	342,000	22	15.5%
Hareclive Academy	01/08/12	435,000	22	13.7%
Henbury School	01/02/12	627,000	22	14.2%
Henleaze Junior School Academy	01/10/11	270,000	22	15.2%
Ilminster Avenue Academy (E-Act)	01/01/12	236,000	22	14.4%
Little Mead Primary Academy (sponsor Little Mead Academy Trust)	01/11/12	358,000	22	11.7%
Merchants Academy	01/09/12	182,000	15	14.7%
Minerva Primary Academy(CLF)	01/09/12	235,000	22	15.2%
New Oak Primary School (OCL)	01/09/12	308,000	22	12.4%
Oasis Academy Brightstowe	01/09/08	152,000	15	13.2%
Oasis Academy John Williams (formerly Bristol Academy)	01/09/08	59,000	15	13.7%
One World Learning Trust (formerly City Academy)	01/09/03	707,000	15	13.0%

Employer	Date of admission	Deficit / (Surplus)	Recovery Period (years)	FSR
Orchard School	01/09/12	848,000	22	15.2%
Parson Street Primary School	01/11/12	350,000	22	17.8%
Redland Green School Academy	01/10/12	1,419,000	22	12.2%
St Bedes School Academy	01/11/11	856,000	22	13.6%
St Nicholas of Tolentine Primary	01/03/13	228,000	22	15.2%
St Patrick's Catholic School	01/08/12	189,000	22	17.8%
St Teresa Primary School	01/09/12	248,000	22	14.3%
Summerhill Academy - CLF	01/09/12	203,000	22	16.2%
Trust In Learning (Academies)	01/09/12	83,000	22	23.4%
Waycroft Junior School Academy	01/08/11	590,000	22	15.8%
West Town Lane Primary	01/01/12	476,000	22	14.8%
Westbury on Trym C of E Academy	01/08/11	389,000	22	15.8%
Westbury Park Primary School	01/08/12	295,000	22	18.8%
Formerly NSC				
Backwell School Academy	01/04/11	2,224,000	18	16.2%
Broadoak Math & Computing College	01/02/12	1,207,000	18	14.9%
Churchill Academy	01/08/11	1,864,000	18	14.8%
Clevedon School Academy	01/02/12	965,000	18	13.9%
Gordano School Academy	01/07/11	2,128,000	18	16.0%
Hans Price Academy	01/05/11	1,440,000	18	13.3%
Heron's Moor Academy Trust	01/09/12	350,000	18	13.4%
Nailsea School	01/08/12	913,000	18	16.3%
Priory Community School Academy	17/08/11	2,148,000	18	13.9%
Formerly SGC				
Abbeywood Community School Academy	01/09/12	695,000	17	14.4%
Bradley Stoke Community School	01/01/12	1,136,000	17	13.0%
Downend School Academy	01/02/13	561,000	17	16.5%
Kings Oak Academy (CLF)	01/09/11	707,000	17	16.1%
Ridings Fed Winterbourne	01/09/09	(127,000)	27	14.8%
Ridings Federation Yate	01/09/09	241,000	15	14.4%
The Castle School (sponsor Castle School Education Trust)	01/01/13	163,000	17	16.3%
Independent Schools				
Bristol Cathedral Choir School	01/09/08	40,000	15	13.9%
Bristol Free School	01/09/11	4,000	19	15.9%
Colston's Girls' School Trust	01/09/08	(21,000)	17	17.4%
Dolphin Primary School (sponsor Colston Girls' School Trust)	01/09/12	1,000	19	8.9%
St Ursula's Academy (E-ACT)	01/09/11	(5,000)	19	17.3%

Employer	Date of admission	Deficit / (Surplus)	Recovery Period (years)	FSR
New Academies after 1 April 2013 - awaiting revised contributions based on 2103 valuation				
Formerly B&NES				
Three Ways School	01/09/13	740,000	20	9.7%
Formerly BCC				
Henbury Court School	01/04/13	300,000	22	11.5%
Independent Schools				
Cathedral Primary School	01/09/13	0	0	13.6%
Formerly NSC				
Birdwell School	01/04/13	200,000	18	12.6%
Kingshill CoE Primary School	01/04/13	160,000	18	12.3%
Formerly SGC				
Patchway Community College	01/10/13	550,000	17	13.9%
Stoke Lodge Primary	01/10/13	220,000	17	12.9%
Charfield Primary	01/09/13	70,000	17	14.2%
New Academies (after 1 April 2013) awaiting actuarial report				
Ann Harris Academy Trust (B&NES)	01/12/13	n/a	n/a	20.0%
Oasis Academy Long Cross (BCC)	01/01/14	n/a	n/a	20.0%
Wallscourt Farm (CLF)	01/09/13	n/a	n/a	20.0%
BTE Academy (City Bristol College)	01/09/13	n/a	n/a	20.0%
Bristol Church Academies Trust - Central Staff (Independent)	01/10/13	n/a	n/a	20.0%

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**28 March 2014**	**AGENDA ITEM NUMBER** **9**
TITLE:	**LGPS 2014: UPDATE & Information on Related Consultations**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – LGPS 2014 – Transitional Regulations (Protections and Councillors) Appendix 2 – Scheme Shadow Advisory Board Recommendations from the Call for Evidence Appendix 3 – TPR Consultation		

1 THE ISSUE

1.1 The purpose of this report is to update the Committee on the latest position concerning the new Local Government Pension Scheme 2014 [LGPS 2014] and related consultations. All consultations on draft regulations have been reported at previous committees.

1.2 As reported previously, the regulations for the new benefit structure were issued on 20 September 2013 with the Transitional Regulations due in the following few weeks. However, after several delays and a further two sets of draft regulations not for general release, the Local Government Pension Scheme (Transitional Provisions and Amendment) Regulations 2014 were finally released on 10 March 2014. These regulations cover the protections for the current scheme benefits and also including the future of Elected Member's participation within the scheme. The implementation date for the new scheme is 1 April 2014

1.3 At the meeting officers will give a verbal update on the latest developments on LGPS 2014

1.4 There have been other movements with related consultations and these are reported here

2 RECOMMENDATION

That the Committee:

2.1 Notes the current position regarding the LGPS 2014. Regulations and changes

2.2 Notes the information regarding consultations and any responses received

2.3 Notes the efforts of the Pension Staff under increasing pressures because of the lack of complete regulations.

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: Regulations issued

4.1 As reported at the previous meeting in December regulations regarding the LGPS going forward from April 2014 had been received. The Transitional Regulations dealing with the protections for the benefits accrued prior to April 2014 and the future of Councillor Members' eligibility in the Scheme were issued on 10 March 2014. The DCLG have still to release the Government Actuary guidance required within the regulations.

4.2 A summary of the details from the Transitional Regulations is attached as Appendix 1

4.3 The reduced timescale between the regulations coming out and the implementation date has required some changes in producing benefit calculations for post 1 April leavers as software adjustments are still required but these are being controlled to ensure as minimal delay as possible for the Scheme members concerned

5 LGPS 2014: Administration

5.1 The Pension Section has set up a project plan to cover all the administration needed to provide a complete introduction of the new arrangements. The plan covers all aspects of communicating with relevant parties [especially scheme members and employers]. Sessions have already commenced in both these areas. Details of the project plan and basic details of the new scheme will be presented at a workshop prior to this meeting

5.2 Initial response to the Scheme Member sessions has been very encouraging and there are over 100 of these sessions confirmed to date.

5.3 An initial workshop for employers on discretions which included a session from the Pensions Ombudsman's Office was very well received and has resulted in such a very positive response from employers that further sessions are being set up for early April.

5.4 The Committee are asked to note the efforts of the Administration Staff in what has been a very difficult time with the delayed regulations and also the need to be flexible to enable the seminars to be included within the work scheduling.

5.5 Indeed one employer has requested a large number of redundancy estimates with leaving dates both before and after 1 April resulting in the need to be able to adapt to the changes within the new arrangements at very short notice.

6 LGPS 2014: Other Consultations

6.1 As a result of last year's Call for Evidence on the future of the LGPS Funds, the Scheme Shadow Advisory Board issued some recommendations and these have been included in Appendix 2.

6.2 In December 2013 The Pension Regulator issued a consultation for their Code of Practice with a closing date for responses of 17 Feb 2014.

6.3 A draft response was circulated to all Pension Committee Members before the response was sent on the 17 Feb 2014 (Appendix 3).

7 RISK MANAGEMENT

7.1 No specific issues to consider.

8 EQUALITIES

8.1 None as this report is primarily for information only.

9 CONSULTATION

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

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 The issues to consider 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	Alan South Technical Manager (Tel: 01225 395283) Liz Woodyard, Investments Manager (Tel: 01225 395306)
Background papers	*Regulations and accompanying notes;* *Call for Evidence; Shadow Board Recommendations Report* *TPR Consultation*
Please contact the report author if you need to access this report in an alternative format	

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Item 9 – Appendix 1

LGPS (Transitional Provisions and Amendment) Regulations 2014

Final Salary Protection
In line with the Public Service Pensions Act 2013 all rights to the final salary link for earlier scheme benefits will be maintained so long as there is not a break from any public service scheme of 5 years or more

Pensionable Pay
Protects certain members concerning several different historical pay matters (e.g. staff transferred from the Learning Skills Council)

Statutory Underpin
Provides for certain persons to receive transitional protection from the new changes where they would receive lower benefits than under the current scheme arrangements. The protection applies to a scheme member who was an active member on 31 March 2012 and who on 1 April 2012 was 10 years or less from their normal retirement age (age 65 for most but for some age 60)

Ill-health Retirements
Transfers over a protection within the current regulations and safeguards the position of current tier 3 cases that span 1 April 2014

Councillors' Pensions
Regulation 26 reflects the Government's decision that new councillors in England and directly elected mayors should no longer have access to the LGPS after 31 March 2014. The councillors already in the scheme may continue to accrue rights until the end of the term of office which they are serving on 1 April 2014 or age 75 if earlier.

Rule of 85
The regulations carry forward the arrangements made under the 2008 scheme to continue to maintain the protections given to members when the Rule was abolished in 2006. All protections on this matter will be finished by 1 April 2020.

The regulations also cover how members should be treated when electing to draw their benefits between age 55 and 60 where the Rule of 85 would not have been covered under the new scheme regulations.

LGPS Future Legislation

Cost Controls
The LGPS 2014 has been set up on the basis that the contributions total level for employers and members equates to 19’5% of pay [13% employers and 6.5% members] based on a National Model Fund.
It is this level that has determined the benefits available under the scheme and the build-up rate of 1/49. During the next year further regulations will be made to ensure that the scheme continues to be affordable and sustainable by introducing measures of control to ensure that the employers are not paying all of any increasing costs. The controls will outline how the balance of contributions is kept in the same proportion either by adjusting the members contribution rates or by changing the 1/49 build-up rate.

Future of LGPS Funds
In 2013 there was a call for evidence regarding the continuation of maintaining 89 funds and although some results of the responses have been released no further consultations have been issued.

Item 9 – Appendix 2

Update on where we are with restructuring LGPS –

The Shadow Board's 7 recommendations arising from their analysis of the call for evidence

Recommendations
In light of the response to the Call for Evidence the Board makes the following recommendations:

1. The Government should consult on options for reform as soon as possible.

2. The Government and the Board should agree a realistic timescale for implementing reform by the end of Summer 2014.

3. The Board should complete the work on setting an agreed baseline of data and measurements via the Scheme Annual Report process by the end of 2014.

4. The Government should introduce proportionate and appropriate legislation to provide a statutory underpin for both the objectives of reform and the timetable for implementation.

5. In formulating its consultation on high level options for reform the Government should consider (a) alternative methods for managing deficits and (b) analyse the cost/benefits and barriers to greater passive management, Collective Investment Vehicles (CIVs) and in-house investment strategies.

6. The Board will support the Government by (a) developing a shortlist of feasible options for managing deficits and (b) conducting further research on the costs and benefits of the key options for reform.

7. That Government should ensure that any work being undertaken as part of the Call for Evidence is consistent with other strands of LGPS policy work, for example the LGPS 2014 governance regulations and any reform of the investment regulations.

These recommendation were made without them seeing Hyman Robertson's cost analysis.

It is important to note that it was not possible within the given timeframe to validate or independently verify the analysis presented in responses to the Call for Evidence.

The views and evidence in this report are a summary of the responses to the Call for Evidence and are not necessarily those of the Scheme Shadow Advisory Board [SSAB]
.
At present, the SSAB has not had sight of the Department for Communities and Local Government's (DCLG) analysis, nor the report commissioned by DCLG and the Cabinet Office (CO) to analyse the practicality of certain reform options.

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Item 9 – Appendix 3

Consultation questions

Draft public service code

1. Does the code sufficiently address the standards of conduct and practice necessary to evidence compliance with pensions legislation? If not, why not? What improvements would you recommend?

Yes it does sufficiently address the standards and practice necessary to evidence compliance. However, it is not clear that the Code explicitly acknowledges the complexity of large multi-employer schemes such as the LGPS funds and the responsibilities of those employers.

2. Does the level of guidance included in the code provide sufficient detail to enable scheme managers and members of pension boards to comply with pensions legislation and undertake their role effectively?

Yes it does assuming that the "scheme manager" refers to both the administering authority and statutory pensions committee.

3. The code relates only to the specific matters on which we are required to issue a code under section 90A(2) of the Pensions Act 2004. Are there any other legal requirements which you think should be brought within the scope of the code? Are there parts of the code which you think go beyond legal requirements, practical guidance or good practice?

It would be very helpful in the case of LGPS funds if the code recognised the employer's responsibilities to provide accurate and timely information and payments. Employers are an integral part of the process. For example paragraphs 104a the scheme manager has no power to ensure the employers do anything and yet para 110 vests the legal responsibility with the scheme manager. Paragraphs 121 to 123 identify further responsibilities in respect of employers but the only power available to the scheme manager is to report breaches without any statement as to potential remedies. There is clearly a need for specific responsibilities to be attached to employers as key players in the effective administration of the fund and this needs to be addressed.

Questions that are specific to the various sections in the public service code are addressed below.

Section 1: Introduction

This section sets out the status of the code, who it applies to and why we have issued it.

4. Have we targeted the code at the right groups of people? If not, which have been overlooked?

Yes.

5. Is there any further information or explanation you would like to see in the terms used section of the introduction?

Clarity as to whether the "scheme manager" includes both the administering authority and any statutory committee for local LGPS funds.

6. Does the code strike the right balance between being as concise as possible and providing enough practical guidance relating to the underlying legal obligations?

Yes

Section 2: Governing your scheme

This section sets out our expectations about standards of governance including the requirements on members of pension boards, such as reviewing and updating knowledge and understanding, and the need for them to understand their own scheme; the identification, monitoring and management of potential conflicts of interest and publication of information about the pension board.

7. Do we adequately describe the level of knowledge and understanding required of members of pension boards? If not, why not?

For LGPS funds the level of knowledge required for pension committees who are taking decisions may be different to the knowledge required by pension boards whose responsibility is to assist with and ensure compliance with the regulations and codes of practice. Therefore it is not necessarily clear the level of knowledge that the code is setting for pension board members. To understanding the investment and Funding strategy statements, a level of understanding of the underlying technical aspects will be required by pension board members for them to be satisfied that the statements comply with regulations. However, the level of technical knowledge required will not be as high as for those committee members involved in approving the statements.

8. Does the practical guidance adequately address the risks of the different types of conflicts of interest which may occur? Could you provide better examples of key conflicts which should be provided in the code?

It is extremely useful for the guidance to give examples of key conflicts that could occur. However, a potential conflict not explicitly provided is when moral or ethical views can influence a decision, especially in relation to investment decisions. We acknowledge that both the Law Commission and Shadow National Pension Board are currently investigating this issue independently. However, including this potential conflict in this Code once there is greater clarity, or not, would be a positive development for funded schemes.

9. Does the practical guidance in the code sufficiently capture all of the duties, including any fiduciary duties, owed by pension board members? Do you consider that such duties may arise in the context of public service schemes? Please explain your response.

Please see comments to question 8.

Section 3: Managing risks

This section sets out the importance of risk management and the key stages of the risk management process in establishing an effective internal controls framework relevant to public service schemes.

10. Have we set out clearly what actions are expected of scheme managers and members of pension boards in relation to risk management and internal controls?

Yes.

Section 4: Administering your scheme

This section sets out our expectations about standards of administration including record-keeping, data protection, maintaining contributions, processing core financial scheme transactions and administration systems.

11. Does the public service code include sufficient practical guidance on the standards of administration that we expect? Are there any parts of the code that you think are too prescriptive?

Yes sufficient practical guidance on administration standards has been included. However, the Code should not set extra or duplicated standards in contradiction to the LGPS regulations rather that these should be harmonised..

12. We provide examples of what failures to pay contributions are likely to be materially significant to the regulator. Are there any other examples or scenarios that should be included?

We are concerned that (re contributions) the code (paragraphs 141 and 150) states *"the amount deducted is to be paid to the managers of the scheme within 19 days beginning on the day after the deduction is made, or within 22 days if paid electronically (the 'prescribed period').*
Is this a change? On the Pensions Regulators own website they state under the heading "**When you must pay your contributions**" :-
"the law requires that when you deduct contributions from your staff's pay you must pay these to your staff pension scheme no later than the 22nd day (19th if you pay by cheque) of the next month."

If it changes to 19 or 22 days after the deduction (rather than "of the next month") we, as administrators, will have numerous different contribution dates as employers have numerous different payroll dates. This would be administratively difficult and may make the actuaries assumptions on cash flow more complex. I assume this is just an oversight and is not a statement of law, but it is confusing to have inaccurate messages that might be used as points of reference. It should be corrected.

Section 5: Resolving issues

13. Have we made clear the circumstances under which breaches of pensions legislation should be reported to us?

Yes circumstances are clearly defined although should not override or conflict with LGPS regulatory requirements. However paragraph 247 identifies a number of examples which span the spectrum of materiality and whilst the Scheme manager may have a documented dispute resolution process to resolve less serious matters, the only remedy available if the matter persists is to submit a report to the regulator. It would be more helpful if LGPS Administration Strategies were allowed and required to disclose punitive remedies for employer failings to comply with either regulations or requirements set out by the Scheme manager in the first instance rather than report to the Regulator.

Draft public service regulatory strategy

14. Does the strategy, together with the public service code, sufficiently address risks to good governance and administration?

Yes it sufficiently addresses the risks to good governance and administration. However, the LGPS is a heavily regulated scheme with an oversight body (National Scheme Advisory Board) in place to set governance standards and ensure compliance. Therefore there is risk for the LGPS of over regulation or duplicating of regulations / compliance with standards.

15. Does the strategy explain adequately the approach we will take in regulating public service schemes?
Yes

Impact assessment

16. The impact assessment undertaken by the Treasury concluded that the new governance, administration and regulatory oversight provisions should not result in additional costs for schemes. The code gives practical guidance and sets standards of conduct and practice in relation to those new provisions. Do you agree that the public service code and public service regulatory strategy do not place an additional regulatory burden on schemes? If you do not agree, please explain and quantify additional costs.

It is not realistic to assume that new arrangements will not result in additional costs. The combination of the TPR Code and the new governance arrangements for the LGPS funds could increase costs, especially for those funds where governance standards need to be improved. Some funds may have to spend more on training to meet the Regulators standard. However, the additional cost would not be significant.

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**28 MARCH 2014**	AGENDA ITEM NUMBER
TITLE:	**2014 - 17 SERVICE PLAN AND BUDGET**	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1: 2014 – 17 Service Plan and Budget (including 4 Appendices)

1 THE ISSUE

1.1 The purpose of this report is to present to Committee the 3-Year Service Plan and Budget for the period 1 April 2014 to 31 March 2017.

1.2 The Service Plan (Appendix 1) details development proposals that are planned to be undertaken during the next 3 financial years. These are designed to respond to known legislative changes and Committee initiatives as well as to take the Service forward by improving performance and overall quality of service to its stakeholders.

2 RECOMMENDATION

2.1 That the Committee approves the 3-Year Service Plan and Budget for 2014-17 for the Avon Pension Fund.

3 FINANCIAL IMPLICATIONS

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

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

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

4 SERVICE PLAN 2014-17

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

4.2 The initial focus of this plan is the Fund's response to two key government initiatives, the new governance arrangements and the restructuring of the local LGPS funds, and the introduction of the new scheme. In addition, there are investment and funding projects that need to be undertaken as well as further development of the Fund's electronic capability and facilities for stakeholders to access. The later years will focus on consolidation, realising efficiencies and embedding partnership working.

4.3 Full details of the 2014-17 Service Plan are included in the Appendix. Appendix 3 of the Service Plan shows the new medium term targets for 2014/17

5 BUDGET FOR 2014-17

5.1 The Service Plan includes details of the proposed budget over this period. A three-year budget commencing 1 April 2014 is included as **APPENDIX 4A** to the Service Plan. For the first time, this year the budget includes a cash flow forecast for the Fund. A commentary on the budget is given in **APPENDIX 4B**.

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

5.3 The budget approved for Administration, Governance and Compliance in 2013/14 was £3,009,500. In the proposed budget for 2014/15 this has been reduced to £2,834,300. The reduction is mainly due to the removal of one off items included in the 2013/14 budget such as the cost of the Triennial Valuation and the cost of Investment Consultants relating to the Strategic Review. Some, one off costs have been added for 2014/15 where they are required to maintain the level of service. Wherever possible savings have been made and inflation absorbed. The Service Plan includes an analysis of the difference between the 2013/14 budget and the 2014/15 budget.

5.4 The addition of a cash flow forecast in this year's budget reflects the increased need to monitor the Fund's cash flow since it ceased to be continuously cash flow positive. The close monitoring of the Fund's cash flow position is a vital tool in the management of the cash flow that is achieved through its investment strategy.

6 RISK MANAGEMENT

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

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 Are detailed in the report.

10 ADVICE SOUGHT

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

Contact persons	**Budget** – Martin Phillips, Finance & Systems Manager (Pensions) (01225 395259) **Service Plan** -- Tony Bartlett, Head of Business, Finance and Pensions (01225 477302), Geoff Cleak, Pensions Manager (01225 395277), Liz Woodyard, Investments Manager (01225 395306)
Background papers	Various Accounting Records

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Bath & North East Somerset Council

for you, for now, for the future lgps 2014

INVESTOR IN PEOPLE

AVON PENSION FUND

Avon Pension Fund

Service Plan 2014 - 2017

Prepared by: Tony Bartlett, Geoff Cleak, Martin Phillips and Liz Woodyard

March 2014

CONTENTS OF SERVICE PLAN

SECTIONS

APPENDICES

1. INTRODUCTION

The Local Government Pension Scheme continues to face its most significant changes for many years that will impact financially and operationally on all areas of the Avon Pension Fund and its Employing Bodies. The Public Service Pensions Act 2013 sets out the principles for all public sector schemes. The changes to the LGPS will be effective from 1 April 2014 and will affect contributions, benefits and accessibility to pensions. In addition, the 2013 valuation has led to increases in contributions at a time when the funding environment for many of the employing bodies will continue to be challenging over the 3 years of this Service Plan.

During 2013-14 the Government launched two major reviews of the LGPS. Firstly, to comply with the Public Service Pensions Act 2013, there will be changes to the governance framework for LGPS funds. At the national level a National Scheme Advisory Board has been established to set and monitor governance standards across the local funds and to advise the DCLG on changes to the scheme and regulations. In addition, LGPS funds will have to create local Pension Boards to assist the administering authority with complying with scheme regulations. These new arrangements will need to be in place from 2015.

Secondly, the Local Government Minister has begun a “root and branch” review of the structure of the 89 local LGPS funds in England with the intention of announcing the ”direction of travel” in May /June 2014. Whilst this could mean significant structural change, especially in how the investments could be managed, it may be limited to encouraging greater collaborative investing via Collective Investment Vehicles and framework agreements. Once the direction of travel is known the Committee will assess the implications it could have for the management of the Fund.

Increasing longevity pressures together with reductions in public sector funding means affordability remained the focal point for the 2013 valuation. Whether the new scheme has the desired effect on costs in the long term remains to be seen but in the short term the cost of funding pensions has continued to rise due to the effect of historically low government bond yields on the discount rate used to value liabilities. The savings arising from the changes to the benefits structure from 2014 have been taken account in the 2013 Valuation by the actuary. However, some employers have experienced additional costs, not savings, from the new scheme due to their membership profile.

These changes and potentially new initiatives come on top of existing pressures. The new scheme coupled with the implementation of auto-enrolment is putting severe pressure on the administration of both the Fund and employers. The number of employers continues to increase exponentially as Local Authorities divest themselves of services through outsourcing and the creation of academies removes schools from LEA control (there are now over 70 academies in the Fund). The number of employers in the Fund has increased by two-thirds in the last decade and continues to rise. The level of diversification required to manage risk within the investment portfolio has increased the number of fund managers to three times its level in 2006, a period during which the level of scrutiny of the Fund, through regulation and its own governance arrangements, has also increased significantly. Against the background of public sector cuts, the Fund is dealing with the financial difficulties faced by some of its smaller Employers, as well as an increase in demand for information as employers downsize and alter the way they deliver services. In 2013-14 the level of contributions paid into the Fund continued to fall at the same time that pension payments increased. This has caused the Fund to move into negative cashflow which has been led to changes in the investment strategy.

In the main the Fund has coped extremely well with all these challenges. In 2012/13 the Fund took significant steps to prepare for the changes to come which have been embedded during 2013-14, with extra resources in place in both the administration and investments teams.

Following the review of its Investment Strategy in 2012-13, a number of changes to the investment portfolio have already been implemented and further changes will completed during 2014-15.

The revised structure of the administration team will ensure it can continue to deliver a high quality service to members and employers in recognition of the new changing world ahead. The establishment of a Data Management Quality Control (DMQC) team from March 2013 has significantly improved data quality and streamlined processes. The team has responsibility to quality assess member data and clear errors to ensure that the Fund will meet the stringent minimum data quality requirements being brought in April 2015 policed by The Pensions Regulator whose remit has been significantly extended to cover public sector schemes.

The ground work for full electronic delivery of member data changes was laid in 2012 with the purchase of new middleware to enable bulk **automatic monthly** updating of changes to the Fund's pension database for larger employers (i-Connect) and the roll out of Employer Self Service for other employers to facilitate their on-line update of changes. As a result of the establishment of DMQC team, during 2013/14 considerable progress has been made in working with employers with regard to the Funds objectives as set out under the Pensions Administration Strategy of achieving total electronic data transfer. As such, 72% of the Funds membership is now covered by electronic data submission. In addition, 58% of all forms of notification from employers are now received electronically. The upward trend towards total electronic data transfer will advance further over the next year as the Fund continues to invest time and resource in both maximising technological development and improving working processes and procedures, engaging with all stakeholders to achieve its objectives and cost saving opportunities.

During 2014/15 the Council is moving to new offices which will mean all staff will have to adapt to new, more flexible ways of working. Work processes and procedures will need to be reviewed and adapted where necessary.

The 2014-17 Service Plan builds on last years' plan, identifying how the Fund will implement changes to its strategy and operations in order to continue to deliver services efficiently and that costs remain competitive.

Fire Fighters Scheme

The Pension Section also has responsibility for administering the two existing Fire Service pension schemes for Avon Fire and Rescue Service. This, like the LGPS, will have a new CARE based scheme effective a year later from April 2015. Resource will be required as for the LGPS Scheme to communicate the changes to members and to deal with an additional layer of benefit calculations and new software. In addition, in 2013 the government issued a consultation paper regarding eligibility for retrospective pension rights for Retained Firefighters. Legislation regarding this is expected during 2014 and will require resource to implement this exercise. In view of the relatively small number of Firefighter members it is expected that the existing resource will be able to handle these changes. However, both exercises are likely to impact on administration performance for a short time.

2. KEY OBJECTIVES 2014 -17

The Fund's three core strategies, Investment, Funding and Administration are designed to maximise the efficiency and sustainability of the Fund and the success of these is critical. In particular diversification of investments has been a key strength in recent turbulent times but has proved resource and governance intensive; the Funding Strategy has been developed to ensure there is flexibility to manage affordability but not reduce the solvency of the Fund; the Pensions Administration Strategy has set a direction of travel which is perfectly aligned to the developing environment and work has continued with the Fund's key employers to fully realise the benefits for all parties. **Appendix 2** sets out progress made against the key objectives in the 2013-16 service plan.

Within the 2014-17 plan, the first year is particularly busy with the implementation of the new scheme, assessing the impact of governance and structural changes to the LGPS funds and completing the changes to the investment portfolio. The latter years will focus on consolidation, realising efficiencies and developing partnership working.

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

Administration Strategy:

1. To engage fully in all activities relating to the implementation and communication of the New Local Government Pension Scheme. Ensuring all stakeholders are informed of the developing situation
2. To develop further plans addressing all necessary changes to the administration to ensure a seamless transition to the new LGPS in 2014 and new Fire-fighters Pension Scheme in 2015, including systems enhancements and training for both the Fund and its stakeholders.
3. To continue to promote electronic receipt of member data by the availability of on-line updating of member information to employers through *Employer Self Service* and through bulk interfaces through *i-Connect* software.
4. Develop online facilities for receipt of contribution payment information from employers.
5. To carry out a review of working practices and implement necessary changes to support the Office Move in late 2014.
6. Develop and implement ‘auto task assignment’ software and review working processes and procedures of the Pension Benefits team. Moving away from dedicated employer responsibility to ‘one size fits all’. This will support home/remote working arrangements.
7. To progress the move towards electronic delivery of Scheme communications to active members.
8. To redesign and implement the members website area.
9. To improve the quality of member data held to meet The Pension Regulator’s minimum legal requirements expected from April 2015. It will also review data changes as they are submitted by employers clearing errors to streamline the work of the Benefits Processing teams.
10. To review the Pensions Administration Strategy, recognising the new arrangements for electronic service delivery and in particular to deal with issues of poor performance.

Funding Strategy:

11. To further develop the covenant assessment monitoring process to support the funding position.
12. To investigate options for insuring ill-health retirement costs for smaller employers within the Fund.
13. To undertake an interim valuation in 2015 to assess how the funding position has evolved at the whole fund level.

Investment Strategy:

14. To implement changes to the Investment Strategy in line with the principles set out in the Statement of Investment Principles.
15. To develop further the monitoring of the investment strategy and management arrangements in order to support the decision making process.

Governance:

16. To identify opportunities arising from the current review of the structure of the LGPS funds and to embrace partnership opportunities as they arise at both a local and regional level.
17. To review the governance arrangements in light of new governance requirements.
18. To understand The Pension Regulator's Code of Practice, reviewing processes to ensure the Fund can demonstrate compliance.
19. To ensure the Committee is adequately trained in all aspects of the Fund.

Appendix 3 sets out the Key Objectives and targets in the 2014-17 plan.

3. RESOURCE IMPLICATIONS

The 2012-15 service plan strengthened the resources and capacity for the Fund to meet the extra work generated by the new scheme, the increasing number of employers and increasing complexity of the investments strategy. The post of Public Relations & Communications Manager has been introduced to improve the effectiveness of the Avon Pension Fund and promote and facilitate effective communications with stakeholders. This role effectively replaced that of the existing Employer Relations Manager (this role having been absorbed into the Data Management & Quality Control team and Pensions Valuation Advisor).

The entire cost implications of implementing the new scheme arrangements cannot be fully quantified at present, but there are significant IT, communication and training aspects to introducing the new scheme. The additional costs of this change and the costs for implementing the new LGPS Scheme are included in the budget. In contrast the cost saving initiative is progressing to move to full electronic delivery to members.

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

4. BUDGET & CASHFLOW FORECAST 2014 - 17

The three year budget plan is a continuation of the 2013-14 budget including the developments that were incorporated within it. One off items for 2013-14 have been removed and additional one off items for 2014-15 have been included where necessary in order to maintain the level of service. Savings have been made across the budget and wherever possible the effect of inflation has been absorbed.

Within the directly controlled budget for Administration, Governance and Compliance, there is a proposed saving of £175,000.

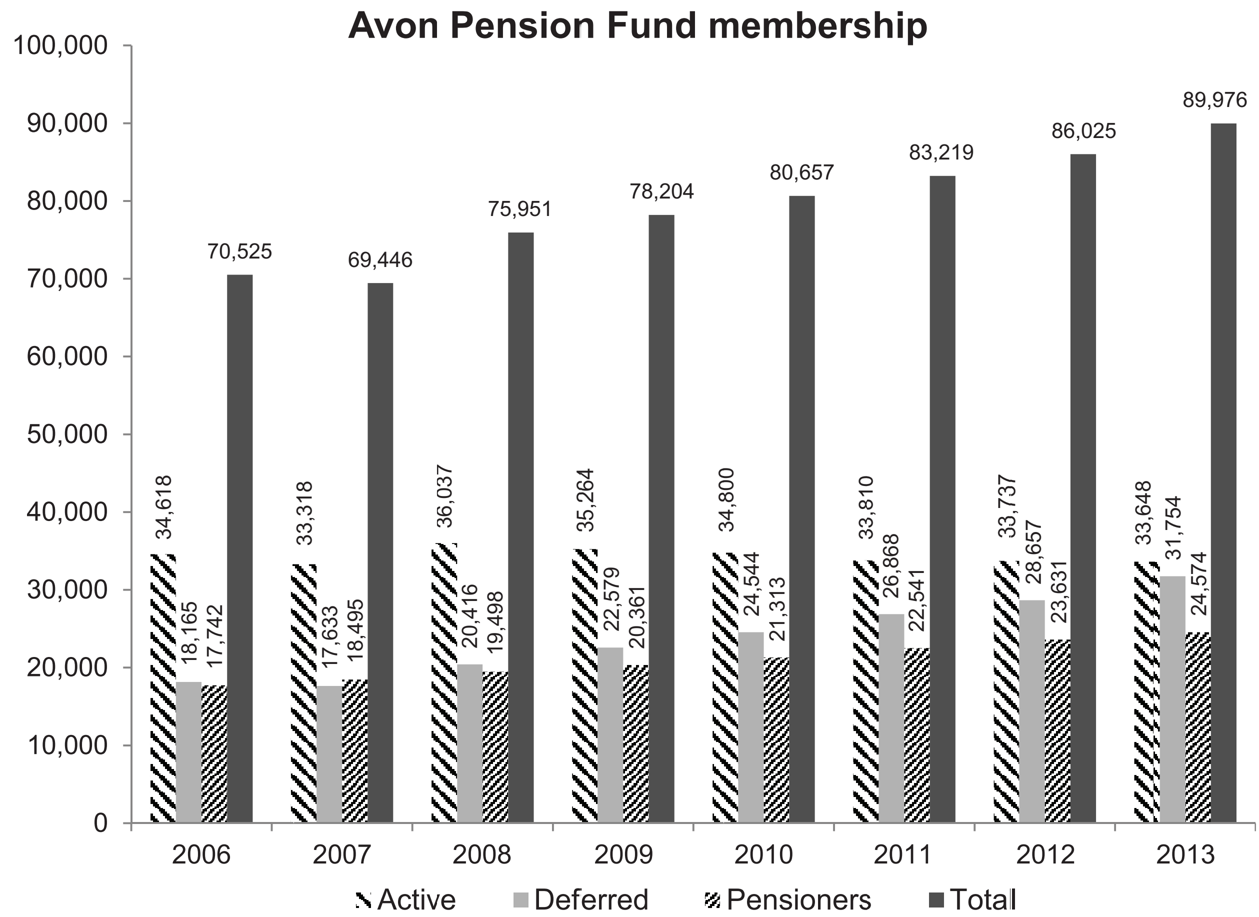
The Investments budget reflects the anticipated 6% growth in asset values and the consequent increase in Investment management fees. Actual expenditure will clearly be lower if this is not the case. The Investments budget also includes the net additional fees following the appointment of the Diversified Growth Fund managers and emerging markets equity manager as well as the anticipated appointment of a new Infrastructure Fund manager.

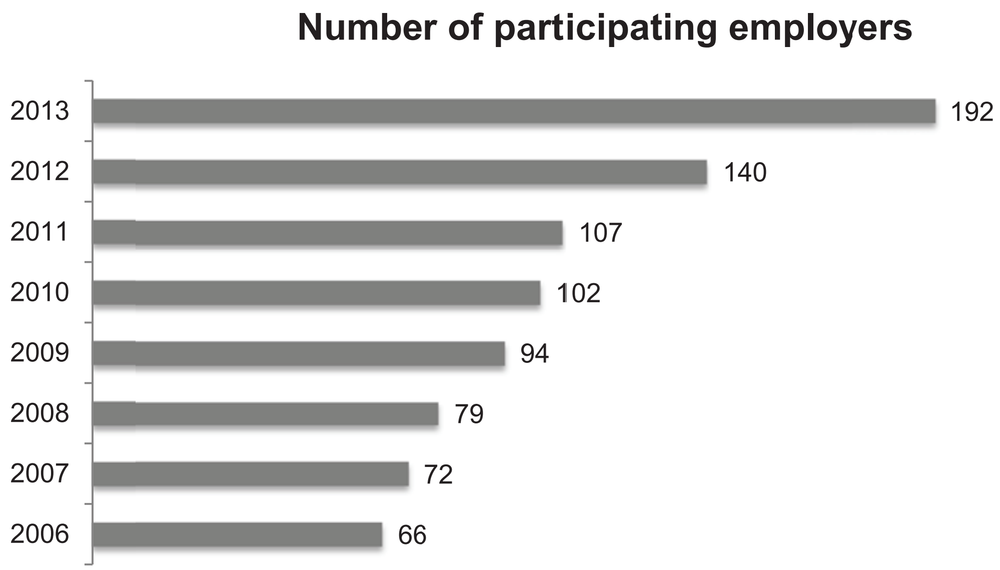
For the first time, this year the budget papers include a three year cash flow forecast for the Fund. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecast of cash flows. The cash flow is currently monitored on a monthly basis. The three year forecast shows that the Fund will be cash flow neutral in 2014-15 if, as expected, some employers pay their three year deficit payments up front as a lump sum. In the following two years the Fund will have net cash out-flows of around £17m and £14m respectively. The negative cash flows will be managed by taking more income from the investment portfolio and possibly divestments.

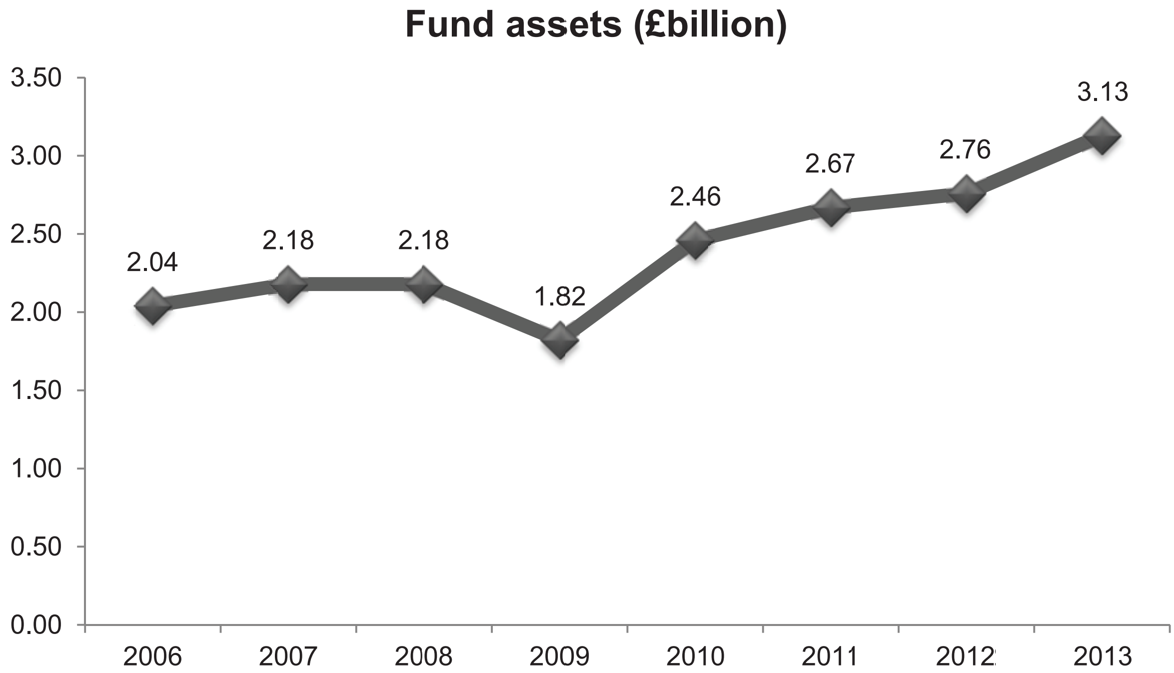
Full details of the budget movements between 2013-14 and 2016-17 together with a cash flow forecast for the whole Fund are given in **Appendix 4A.** A commentary on the budget changes between 201-14 and 2014-15 is given in **Appendix 4B.**

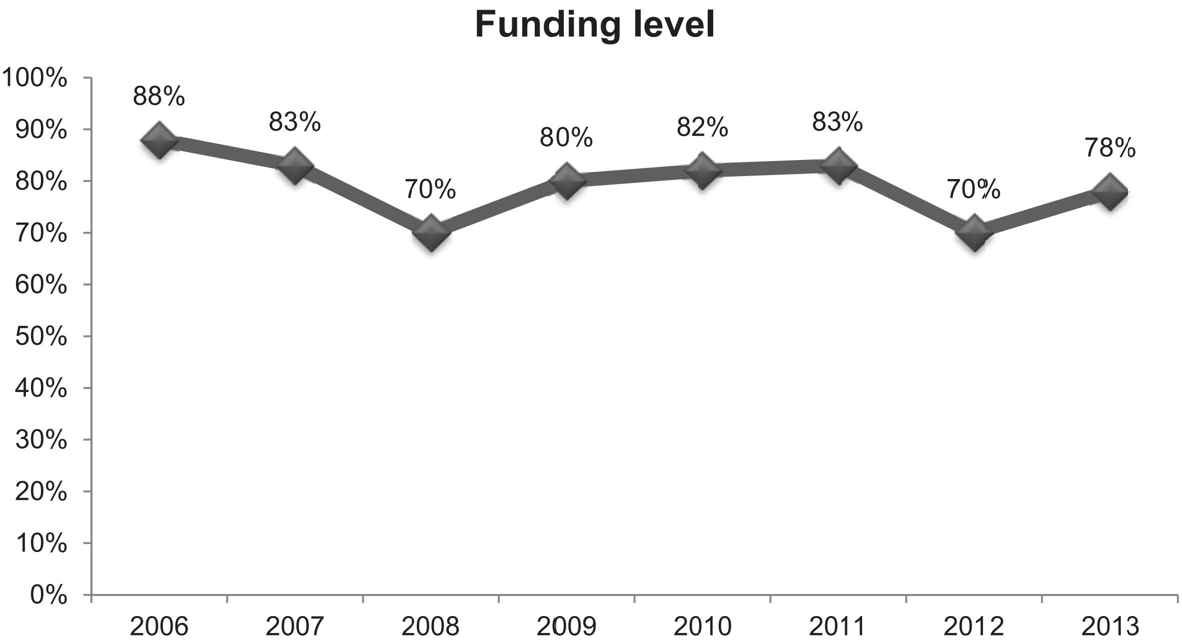
APPENDIX 1

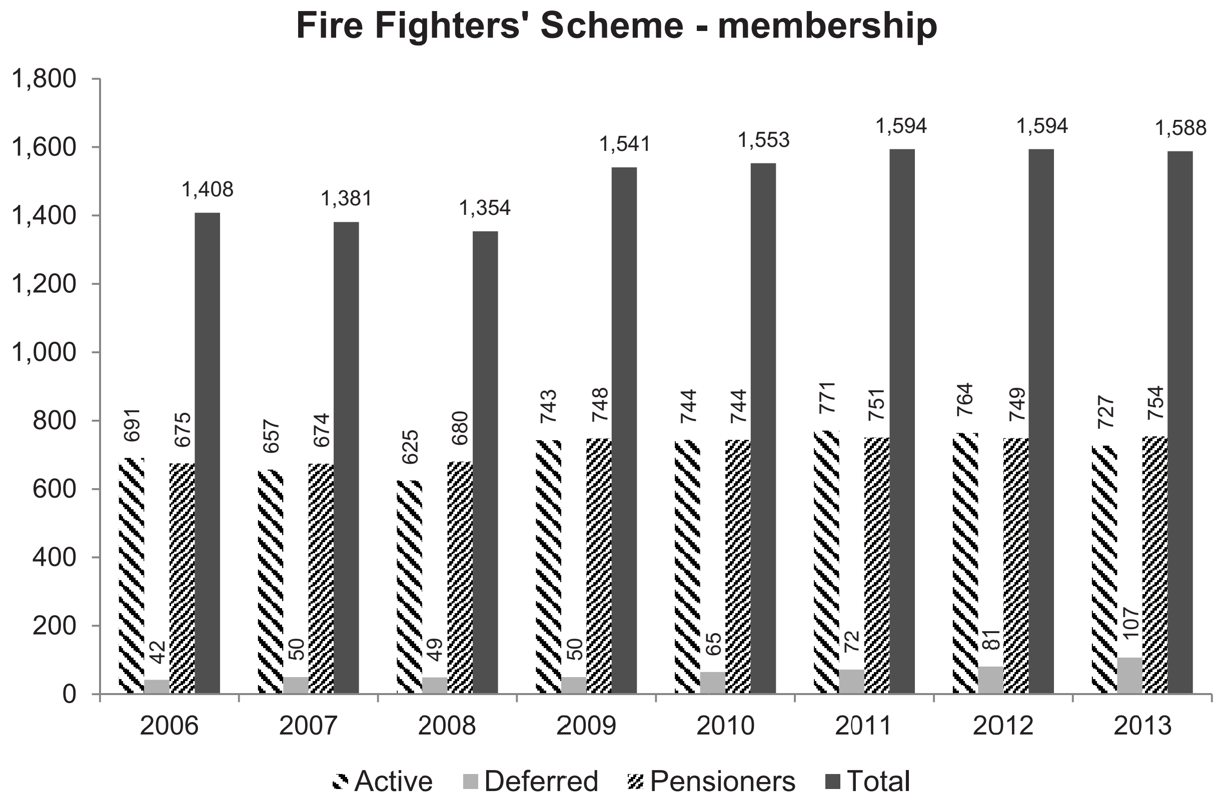
Scope of Avon Pension Fund
(at 31 March 2013)

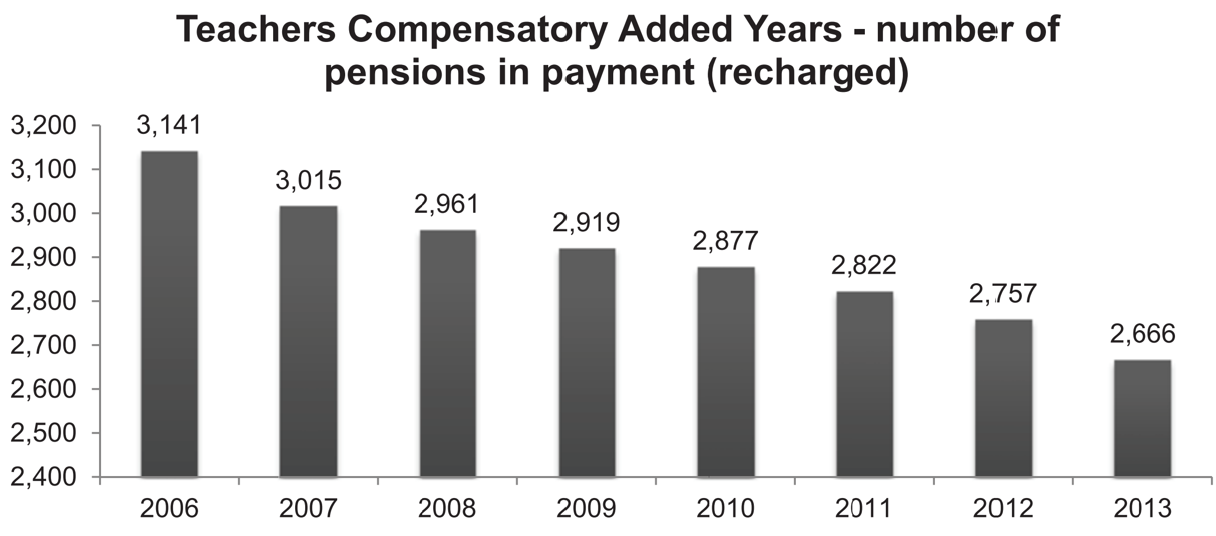





Fund assets (£billion)
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
2.04
2.18
2.18
1.82
2.46
2.67
2.76
3.13
2006
2007
2008
2009
2010
2011
2012
2013


Funding level
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
88%
83%
70%
80%
82%
83%
70%
78%
2006
2007
2008
2009
2010
2011
2012
2013


Fire Fighters' Scheme - membership
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
691
42
675
1,408
657
50
674
1,381
625
49
680
1,354
743
50
748
1,541
744
65
744
1,553
771
72
751
1,594
764
81
749
1,594
727
107
754
1,588
2006
2007
2008
2009
2010
2011
2012
2013
Active
Deferred
Pensioners
Total


Teachers Compensatory Added Years - number of pensions in payment (recharged)
3,200
3,100
3,000
2,900
2,800
2,700
2,600
2,500
2,400
3,141
3,015
2,961
2,919
2,877
2,822
2,757
2,666
2006
2007
2008
2009
2010
2011
2012
2013

Progress Against Key Objectives & Targets in 2013-2016 Plan

Key Objective	Tasks	Progress
1. To undertake the Fund's triennial valuation as at 31/03/2013 and the review the Funding Strategy Statement in light of scheme changes and actuarial findings	• Commission the Valuation process and review of actuarial assumptions • Financial risk assessment of employing bodies • Data Cleanse project • Agreement of employer contributions	GREEN On track Complete 31/7/13 On track to complete 31/3/14
2. Implement changes to the Investment Strategy maintaining compliance with the Funds Investment Principles and Policy	• Projects arising and Implementation process • Revise any investment policies (rebalancing, cash management) to support new strategy • Revise Committee and Panel Terms of Reference to reflect revised governance arrangements	GREEN Implementation on track to be completed during 2014/15 Completed June 2013 Completed June 2013
3. To review the Governance and training arrangements for the Committee in view of the emerging changes	• Review the appointments of Independent Investment Advisor • Appoint new Independent member to the Committee • Training for new members • Committee Training (in-house provision) • Valuation workshop to discuss funding level and assumptions for FSS (3Q13)	AMBER Waiting for new governance arrangements GREEN Completed June 2013 Completed On-going Held July 2013
4. Develop a central document management system for storing financial, legal and actuarial information of individual employers	• Select appropriate software or set up new system to enable central storing of financial /actuarial data and correspondence	AMBER Awaiting rollout of new IT systems at corporate level
5. Build on changes in 2012 to Pension Section organisation structure to build resilience for the future, reduce risk and ensure fitness for purpose	• To embed the new Member Data Quality Control Function team to improve data management to comply with the stringent requirements of the Pensions Regulator effective from April 2015. • To assess the quality of existing data and identify errors/omissions and remedy by 2015	GREEN On track to be completed during 2014/15

6. Seamless introduction of New ***LGPS*** Scheme 2014 adapting to new pension software and successfully communicating with employers and members on changes	• Dealing with the extra administration and complexity of a new CARE Scheme *and* 50/50 Scheme • Adapting to new and radically different pensions software • Communication campaign with members and employers to successfully explain the changes – requiring member & employer roadshows, Scheme newsletters, DVDs and replacement Scheme literature.	AMBER still awaiting transitional regs – otherwise GREEN AS ABOVE GREEN On track to complete by end of June 2014
7. Seamless introduction of New ***Fire fighters*** new Scheme in 2015 adapting to new pension software and successfully communicating with employers and members on changes	• Adapting to new pensions software • Working with Avon Fire Service to put in place a successful communications campaign to explain changes to fire-fighters, requiring roadshows**.**	2Q 14 onwards for 12 months
8. To strengthen the working relationship and process efficiency with employers by moving to full electronic delivery of change in member data through ESS and/or i-Connect	• Complete roll out of Employer Self Service (ESS): - to larger employees - to medium AND smaller employers • Complete installation of i-Connect software for the 4 unitaries and support the process • Market i-Connect to other participating employers in the Fund • Implement employer staff training programme	GREEN Complete during 2014/15 AMBER 1 UA outstanding. Due 1Q14 AMBER Review 2014/15 GREEN
9. To progress to electronic delivery to members as a cost saving measure	• To progress to electronic delivery to active members of generic Scheme communications • Promotion of Member Self-Service to sign up members to enable this	AMBER Progress delayed till 2014/15 due to staff changes & workload AS ABOVE
10. To embrace partnership opportunities as they arise at both a local and regional level.	• Pilot communications opportunities within region to support new scheme implementation	GREEN On-going

Key Objectives & Targets in 2014-2017 Plan

	Key Objective	Tasks	Target Date
1	Potential changes to structure of LGPS funds	• Assess implications for Fund of consultation and DCLG “Direction of Travel” - Consultation from Government - Direction of Travel (expected by June 2014)	1Q14 (?) September 2014
2	To review the Governance arrangements for the Committee in view of the emerging changes	• Review the appointment of Independent Investment Advisor (awaiting governance arrangements from DCLG) • Identify changes to governance arrangements as result of DCLG regulations • Training for new members • Committee Training (in-house provision) • New scheme • Governance arrangements: implications of new public sector scheme requirements	3Q 2014 Possibly 1/2Q14 Commence annually in June March 2014 September 2014
3	Review The Pension Regulators Code of Practice for Public Sector schemes	• Identify areas that need developing e.g. policy documentation • Identify areas of non-compliance	December 2014 (Workshop 3Q14)
4	Implement changes to the Investment Strategy maintaining compliance with the Funds Investment Principles and Policy	• Projects arising and Implementation process - Infrastructure - Liability Driven Investing • Review hedge fund portfolio	Commence 1Q14 Commence educational process 2014 Commence 2Q14
5	Investigate options for insuring ill-health risks	• Commission actuary report on options, costs and funding implications	Commence September 2014
6	Develop a central document management system for storing financial, legal and actuarial information of individual employers	• Select appropriate software or set up new system to enable central storing of financial /actuarial data and correspondence	Commence March 2014
7	Re-tender advisory contracts	• Tender actuarial and investment consultancy contracts under the South West LGPS Advisory Services Framework	Commence 2Q 2014

8	2015 Interim Valuation	• Inter-valuation assessment of funding position at whole fund level only as at 31 March 2015	4Q15
9	Consolidate the Pension Section organisation structure to build resilience for the future, reduce risk and ensure fitness for purpose	• Develop the Data Quality team to improve data management to comply with the stringent requirements of the Pensions Regulator effective from April 2015. • To assess the quality of existing data and identify errors/omissions and remedy by 2015 • Implement auto task assignment. Redesign Benefits team processing procedures	14/15 onwards 14/15 onwards 4Q14 onwards
10	Seamless introduction of New ***LGPS*** Scheme 2014 adapting to new pension software and successfully communicating with employers and members on changes	• Dealing with the extra administration and complexity of a new CARE Scheme *and* 50/50 Scheme • Adapting to new and radically different pensions software • Communication campaign with members and employers to successfully explain the changes – requiring member & employer roadshow presentation events, Scheme newsletters, and replacement Scheme literature.	2Q14 2Q14 4Q13 onwards for 12 months
11	Seamless introduction of New ***Fire fighters*** new Scheme in 2015 adapting to new pension software and successfully communicating with employers and members on changes	• Adapting to new pensions software • Working with Avon Fire Service to put in place a successful communication campaign to explain changes to fire-fighters.	3Q14 onwards for 12 months
12	To strengthen the working relationship and process efficiency with employers by moving to full electronic delivery of change in member data and other information through ESS and/or i-Connect	• Complete roll out of Employer Self Service (ESS): - to larger employees - to medium AND smaller employers • Complete installation of i-Connect software for 1 outstanding unitary and support the process • Market i-Connect to other participating employers in the Fund • Implement employer staff training programme • Develop online forms for receipt of monthly contributions data from employers	 2Q14 3Q14 2Q14 During 14/15 Ongoing Commence 2Q14

		• Roll out to all employers • Consider developing further to incorporate with monthly membership data changes	By end 2014/15 Commence 2015
13	To progress to electronic delivery to members as a cost saving measure	• To progress to electronic delivery to active members of both personal and generic Scheme communications • Promotion of Member Self-Service to sign up members to enable this	3Q14 3Q14 onwards
14	To redesign and launch new Member Website.	• To compliment new employers website – allowing members greater flexibility and access to APF and related sites	4Q14
15	To embrace partnership opportunities as they arise at both a local and regional level.	• Pilot communications opportunities within region to support new scheme implementation	On-going
16	Review AVC arrangements	• Review range of investment choices for members	2/3Q14

Budget and Cash Flow Forecast

APPENDIX 4A

Three Year Budget

	Budget for 2013/14 £	Forecast 2013/14 £	Budget 2014/15 per 2013/14 3 year budget £	Budget 2014/15 £	Budget 2015/16 £	Budget 2016/17 £
Investment Expenses	71,500	75,300	71,500	69,400	70,800	70,100
Administration Costs	76,900	75,500	83,000	78,500	77,000	78,600
Communication Costs	90,100	63,000	72,900	90,100	72,200	73,600
Payroll Communication Costs	81,700	82,500	84,200	81,100	82,700	84,300
Information Systems	246,200	235,300	252,300	255,800	242,000	246,400
Salaries	1,476,500	1,312,300	1,488,200	1,525,300	1,555,900	1,587,000
Central Allocated Costs	425,900	403,200	415,800	425,900	432,000	438,400
Recharges Admin	- 134,300	- 174,000	- 137,700	- 142,500	- 145,400	- 148,300
Total Administration	**2,334,500**	**2,073,100**	**2,330,200**	**2,383,600**	**2,387,200**	**2,430,100**
	-	-	-	-	-	-
Governance Costs	327,800	284,900	244,900	252,600	186,000	179,500
- Members' Allowances	39,100	40,500	40,300	39,100	39,900	40,700
- Independent Members' Costs	28,000	48,800	18,500	18,900	19,300	19,600
Compliance Costs	471,100	482,500	361,600	331,100	337,700	469,500
Compliance Costs recharged	- 191,000	- 300,000	- 196,700	- 191,000	- 194,800	- 198,700
Governance & Compliance	**675,000**	**556,700**	**468,600**	**450,700**	**388,100**	**510,600**
	-	-	-	-	-	-
Global Custodian Fees	129,400	100,000	137,200	82,500	84,100	85,800
Investment Manager Fees	12,525,500	10,053,000	13,250,500	15,978,700	17,447,600	18,494,400
Investment Fees	**12,654,900**	**10,153,000**	**13,387,700**	**16,061,200**	**17,531,700**	**18,580,200**
	-	-	-	-	-	-
NET TOTAL COSTS	**15,664,400**	**12,782,800**	**16,186,500**	**18,895,500**	**20,307,000**	**21,520,900**

Cash Flow Forecast

	2012/13 £'000	Out-turn Forecast 2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Cash Balance 1st April	**19,689**	**19,026**	**13,745**	**26,768**	**23,972**
Outflows					
Benefits — Pensions	(106,197)	(112,457)	(117,447)	(122,932)	(128,683)
Lump sums	(29,247)	(35,041)	(33,226)	(33,890)	(34,568)
Administration costs [1]	(6,126)	(7,071)	(5,537)	(5,765)	(6,006)
Total Outflows	(141,570)	(154,569)	(156,210)	(162,587)	(169,257)
Inflows					
Deficit recovery (allowing for a lump sum in 2014/15)	31,701	32,460	48,141	33,361	37,790
Future service Employers	67,860	71,259	73,618	79,489	85,203
Future service Employees	35,297	35,767	37,318	37,691	38,068
Total Contributions	134,858	139,485	159,077	150,541	161,061
Net Cash Flow (excluding Investment Income)	**(6,712)**	**(15,084)**	**2,867**	**(12,047)**	**(8,196)**
Investment income received as cash	6,049	9,803	10,156	9,250	9,250
Net Cash In-Flow (Out-Flow)	**(663)**	**(5,281)**	**13,023**	**(2,796)**	**1,054**
Cash Balance at 31st March	**19,026**	**13,745**	**26,768**	**23,972**	**25,027**

Notes : Transfers in and out are assumed to net to zero
This forecast includes the anticipated effects of the 2013 Triennial Valuation

[1] Administration costs include administration expenses plus Investment Management Fees that are invoiced

APPENDIX 4B

SERVICE PLAN BUDGET 2014 – 2017

A three year budget for 2014 to 2017 is included as Appendix 4A. The proposed budget is a continuation of the 2013/14 budget with the developments that were incorporated in to the budget in that year, with the removal of one off items and the addition of 2014/15 one off items. The cost of inflation has been absorbed wherever possible.

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

The table below shows the change in the budget for the Fund between 2013/14 and 2014/15, excluding Investment Management and Custody costs that are dependent upon investment performance and the volume of transactions.

Change in Administration, Governance and Compliance Budget	£
Budget for Administration, Governance and Compliance 2013/14	3,009,500
Additional Recurring Costs	
Additional resources for Salaries, mainly the increase in pensions contributions, but also an assumed pay award of 1% and increments where applicable.	48,800
Removal of One Off costs that were required in 2013/14	
Triennial Valuation	-120,000
Investment consultants	-70,000
External legal fees, including actuarial legal fees (reduced)	-20,000
Appointment of Independent Trustees	-10,000
Additional One Off costs required in 2014/15	
AVC Monitoring	3,000
Disaster recovery programme (increase on previous estimated amount)	2,400
Increased cost in developing information system for new scheme	3,100
Investment staff training	1,500
Increased recharges and other minor savings	-14,000
Proposed Administration, Governance and Compliance Budget	**2,834,300**

The budget has been held at the 2013/14 level with additional savings made where possible and additional expenditure added where necessary to maintain the level of service. Savings have been found across the budget, including, where possible, the absorption of the effect of inflation. This has resulted in an overall reduction in the proposed Administration, Governance and Compliance Budget of £175,000. A detailed analysis of the necessary growth, savings and one off items is given below.

Scheme Administration

1. **Salaries**
   There is an increase in salary costs of £48,800. Of this, £26,400 is as a result of increased pension contributions, A further £12,800 is included to cover the cost of an assumed 1% pay award and increments where applicable. There is an additional £13,300 to fund the restoration of a full time post to five day working after it had been temporarily reduced to four days. These costs are partially offset by a saving of £3,600 on National Insurance contributions.

   The 2013/14 assumed 1% increase in pay rates is followed in subsequent years by an assumed 2% increase. This will be reviewed in the preparation of the next three year budget.

2. **Investment Expenses, Administration and Payroll Communications**
   Investment Expenses, Administration and Payroll Communications budgets have all been held at the 2013/14 level, with inflation being absorbed. Minor adjustments within these areas have resulted in a small overall saving.

3. **Communications**
   The Communications budget for 2013/14 included a one off item of £19,300 for the 2014 Change of Scheme booklet. As a result of the delays in the government announcing the details of the scheme this budget has remained unspent. It is now planned to produce this booklet in 2014/15. The budget is therefore being carried forward as a one off item.

4. **Information Systems**
   Information Systems costs have increased by £10,000 on an overall 2013/14 budget of £246,000. This increase includes a £3,000 rise in the estimated cost of developments required as a result of the change in the scheme and a £2,400 increase in the previously estimated cost of the Disaster Recovery Programme.

5. **Central Allocated Costs**
   Central Allocated Costs have been held at the 2013/14 budget level.

6. **Administration Recharges and Compliance Costs Recharged**
   The budget for income has been increased by £8,200. Of this £3,000 is a result of a forecast increase in the number of recharges of pension sharing costs. The remaining £5,200 is largely due to increases in recharges that are calculated on agreed formulae that include the rate of inflation.

Governance and Compliance

7. **Governance**
   The 2014/15 budget for Governance Costs, including Member’s allowances and Independent members’ costs has been reduced by £84,000 due to a combination of factors, mainly:

   - Investment Consultancy fees have reduced by £70,000 as a result of removing the one off costs of the Strategic Review and a reduction in advice for new investment mandates. These reductions were partially offset by the cost of the Hedge Fund review, Liability Driven Investment advice and other ad hoc reviews.

- Removal of the one off £10,000 cost of recruiting a new independent trustee.

8. **Compliance costs**
The 2014/15 budget for Compliance costs has been reduced by £140,000 due to:-

- The removal of the one off actuarial costs of £120,000 for the 2013 Triennial Valuation.
- The reduction of the budget for external legal costs by £15,000 and for external actuarial legal costs by £5,000. It had been anticipated that there may be greater legal costs incurred in relation to new Investment Management agreements following the Strategic Review.

9. **Compliance costs recharged**
The budget for compliance costs recharged has been held at the 2013/14 level. A high proportion of these recharged costs are for actuarial work relating to the conversion of schools to Academies. It is recognised that the rate of conversion may slow down. If this is the case the reduction in income from recharges will largely be offset by the reduction in actuarial fees incurred.

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

<u>Investment Fees</u>

10. **Investments fees**
The investment management fees budget assumes asset values will increase by 6% during 2014/15.

In addition to the assumed 6% growth during 2014/15, the 2014/15 fees have been re-set to reflect the actual asset values at 31/12/13 (the estimated asset value for 2014/15 in the previous year budget was 15% lower than the actual value at 31/12/13). The budget includes the net increase in fees for the new mandates appointed in 2013/14 and for the infrastructure mandate. The fee rates for the Diversified Growth Funds and emerging market equity manager were close to the estimate used in setting the budget last year. However, these investments were funded by selling down index funds that have a lower fee rate whereas the budget assumed a higher offset in fees. The underlying increase in fees due to the changes in the investment structure is c. £900,000 or 0.03% of asset value.

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	28 MARCH 2014	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 26th February 2014

EXEMPT Appendix 2 – Summaries of Investment Panel meetings with Investment Managers

EXEMPT Appendix 3 – Emerging Markets Equity mandate: Appointment decision

1 THE ISSUE

1.1 The Investment Panel is responsible for addressing 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 one formal Investment Panel meeting since the December 2013 committee meeting, on 26th February 2014. The draft minutes of the Investment Panel meeting provides a record of the Panel's debate before reaching any decisions or recommendations. These draft minutes can be found in Appendix 1. The Panel also held a Selection Panel meeting on 4th December 2013 (this was too late in the quarter to be included in last quarter's report) and a Meet the Managers Workshop on 26th February 2014.

1.3 The recommendations and decisions arising from these meetings are set out in paragraph 4.1.

2 RECOMMENDATION

That the Committee notes:

2.1 the draft minutes of the Investment Panel meetings held on 26th February 2014

2.2 the recommendations and decisions made by the Panel since the last quarterly activity report, as set out in 4.1

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 The following decisions were made by the Panel since the last quarterly activity report. There were no recommendations to Committee:

(1) Investment Panel Meeting, 26 February 2014:

a) The Panel agreed the selection process and evaluation criteria for the infrastructure tender process.

b) The Panel agreed the scope for the review of hedge funds

(2) Meet the Manager Workshop, 26 February 2014:

a) Signet - Following weakening performance and Signet's recent acquisition by Morgan Creek, Officers will continue to closely monitor performance and to evaluate the impact of the recent acquisition.

b) Gottex – Following the announcement of a proposed merger, officers will monitor the potential impacts on organisation and team as more information about the merger becomes known.

A summary of the meeting is provided at Exempt Appendix 2.

(3) Selection Panel meeting, 4 December 2013: The Panel appointed Unigestion to manage the Fund's new emerging markets equity mandate. Exempt Appendix 3 provides a brief summary of the decision.

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

Wednesday, 26th February, 2014, 9.30 am

Members: Councillor Charles Gerrish (Chair), Ann Berresford, Councillor Mary Blatchford, Roger Broughton and Councillor Ian Gilchrist
Advisors: Tony Earnshaw (Independent Advisor), John Finch (JLT)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Matthew Clapton (Investments Officer) and Gemma Scane (Assistant Management Accountant - Investments and Custody)

44 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

45 DECLARATIONS OF INTEREST

There were none.

46 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Gabriel Batt.

47 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

49 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

50 MINUTES: 15 NOVEMBER 2013

The public and exempt minutes for the meeting of 15 November 2013 were approved as a correct record, subject to the amendment of the attendance list to indicate that Ann Berresford was present at the meeting.

51 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DEC 2013

The Assistant Investments Manager presented the report. He highlighted the following:

1. Since the last meeting the Fund had invested in three new managers, two of which would be included in the regular reports from the next meeting and the third new manager from the following quarter.

2. There were five managers rated as amber in the monitoring report, three of whom were continuing to improve quite strongly. Schroders Global Equity, whom the Panel are due to meet in September, were approaching their 1-year target. Signet had worsened slightly. Gottex were merging with EIM. The Panel are meeting both Signet and Gottex after today's formal meeting.

3. Only one element of the investment strategy changes remained to be implemented, namely the establishment of the infrastructure portfolio. A paper about the tendering process for this appeared later on today's agenda.

Mr Finch referred to pages 9 and 10 of the JLT performance report and drew attention to the fact that only Partners had underperformed in the quarter, but they had made new investments in this period, and he did not feel there should be concern about them. Genesis had performed extremely well. Over the past three years only three managers had underperformed. TT International had improved significantly over the year.

A Member asked about the hedge funds, all of which had failed to meet their three-year performance targets. Mr Finch thought this was not a cause for alarm, but should be kept under review. The hedge fund industry has had to do a good deal of restructuring since 2008. The Assistants Investments Manager pointed out that there were significant differences between hedge funds in terms of investment strategies and that they needed to be considered individually.

A Member noted that just as the Fund had selected a manager for its additional emerging markets mandate, fears were being expressed about the future performance of these markets. Mr Finch said that while the Fed's winding down of quantitative easing had had some impact on emerging markets, he now thought prices were pretty much at the bottom and that he expected to see strong growth in the longer term; he had no concerns about the Fund's exposure for the longer term.

A Member asked about the impact of currency hedging. The Investments Manager replied that the currency hedges had partially offset the local currency losses.. The Chair suggested that net returns of currency hedging should be given in the performance report. Mr Finch said that this would be done. The Investments Manager reminded Members that the three-year review of currency hedging would begin in September.

In response to a question from a Member, the Assistant Investments Manager said that the allocations listed on page 6 of the JLT report had changed since December, as funds had been moved since then from developed markets into emerging markets. Overall the Fund was still overweight in equities which would be addressed when investing into Infrastructure later in 2014.

A Member noted that there was no allocation for cash. The Investments Manager replied that cash was used as a working fund for various purposes, including the payment of benefits, and was generally very low.

RESOLVED:

1. To note the report.

2. That there were no issues to be notified to the Committee.

52 INFRASTRUCTURE TENDER PROCESS

The Investments Manager presented the report. She reminded Members that the Infrastructure Policy Framework had been agreed at the December meeting of the full Committee. This report set out the tender and selection process in more detail. Section 7 specified the tender evaluation criteria. The tender process for Infrastructure resembled that for hedge funds, in that that the number and nature of the responses could not be predicted at this stage. It was planned that officers would work in close partnership with JLT in the due diligence process.

Mr Finch said that it was essential to know where and when the prospective managers would place investments. He was aware of some 116 infrastructure investment managers raising funds, of whom up to 80 might respond to the Fund's tender. In order to keep fees down, the Fund was cooperating with two other local authorities in information gathering. The Chair suggested that the number of applicants might be reduced, if it was made clear to them that the Fund was not ready to begin investing immediately. Mr Finch, however, replied that the Fund should be looking for managers ready to invest, otherwise it could be paying fees on money not drawn down by the manager and on which no return was being earned. The benefit of diversification through this new asset class would also be lost. He said that it was important to find some means of comparing the prospective infrastructure managers' fees on a common basis. It was not important whether they invested only locally or globally, but it was important to know how widely they had cast their net. A Member raised the possibility of the Fund investing in a manager who was not chosen to fund the project the infrastructure fund was hoping to invest in. Mr Finch said that managers' track record in securing deals was a factor that should be taken into account in the selection process.

The Investments Manager asked Members for their views on how the selection process should be structured. She felt that a one-day selection based on one-hour presentations would be inadequate. The due diligence process would probably take one or two days, so that by the time the shortlist was prepared officers and JLT would know the applicants very well. These considerations might lead the Panel to prefer option 6.5(2), a selection panel comprising officers, JLT and those Panel Members wishing to attend, rather than option 6.5(1), a meeting of the full Panel.

The Chair felt that the complexity of the evaluation process required a wide range of expertise and that Members of the Panel had individual strengths they could contribute. He therefore felt that the selection should be done by the full Panel. He also felt that all applicants should be seen on the same day, so that comparisons could be made when all the details were still fresh in the mind. He suggested that the selection meeting should be preceded by a half-day briefing session. Other Members agreed with him. The Chair and Councillor Gilchrist pointed out that they would not be available on any of the suggested dates for the selection meeting. It was agreed that officers should propose new dates for the meetings.

RESOLVED

1. To agree the selection process and evaluation criteria for the Infrastructure tender process.

2. To agree that the selection meeting should be a meeting of the full Panel and should take place on dates in June/July to be arranged.

53 HEDGE FUND REVIEW - SCOPE

The Investments Manger presented the report. She reminded Members that 5% of the Fund was allocated to Hedge Funds in the new investment strategy with a strategic range of 0%-7.5%. At the June meeting the Panel would review the current allocation in response to a mixed performance within the hedge fund portfolio and to changes within the hedge fund managers and the hedge fund industry as a whole. Section 5 of the report set out the objectives and scope of the review.

RESOLVED to agree the scope for the Review of Hedge Fund Investments as set out in section 5.

54 WORKPLAN

RESOLVED

1. To note the workplan to be included in the Committee papers.

2. To note the proposed manager meeting schedule.

The meeting ended at Time Not Specified

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA-0528-14

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 28 March 2014

Author: Matt Betts
Report Title: Investment Panel Activity Appendix 1 – Minutes from Investment Panel meeting held 26th February 2014 EXEMPT Appendix 2 – Summaries of Investment Panel meetings with Investment Managers EXEMPT Appendix 3 – Emerging Markets Equity mandate: Appointment decision

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.

<u>PUBLIC INTEREST TEST</u>

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 contain 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.

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

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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: **28 MARCH 2014**	**AGENDA ITEM NUMBER**	
TITLE: **TREASURY MANAGEMENT POLICY**		
WARD: **'ALL'**		
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1** The proposed Treasury Management Policy		

THE ISSUE

1.1 The Fund's Treasury Management policy was approved in March 2013. The policy closely mirrors the Council's policy set out in the Councils' Annual Investment Strategy.

1.2 The Committee are asked to renew their approval of the Treasury Management policy each year.

1.3 The policy proposed for 2014/15 is unchanged from the policy approved in March 2013. The proposed policy is set out in Appendix 1.

2. RECOMMENDATION

2.1 That the Committee approves the Treasury Management Policy as set out in Appendix 1

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

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

5. RISK MANAGEMENT

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

6. EQUALITIES

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

7. CONSULTATION

7.1 None appropriate.

8. ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues are detailed in the report.

9. ADVICE SOUGHT

1.1 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	Martin Phillips Finance & Systems Manager (Pensions)) (*Budgets*) Tel: 01225 395259.
Background papers	Various Accounting and Statistical Records

Appendix 1

AVON PENSION FUND

– DRAFT TREASURY MANAGEMENT POLICY 2014

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There are a further three levels of C ratings.

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

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

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**28 MARCH 2014**
TITLE:	**REVIEW OF INVESTMENT PERFORMANCE (for periods ending 31 December 2013)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – JLT performance monitoring report Appendix 3 - LAPFF Quarterly Engagement Monitoring Report	

1 THE ISSUE

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

4.2 Key points from the analysis are:

(1) Since 31 March 2013 the funding position has risen to 87% from 78% (and from 84% at 30/9/13) and the deficit has contracted to £515m from £876m (and from £606m at 30/9/13).

(2) The improvement is due to a higher discount rate and better than expected investment returns. Since 31 March 2013 real bond yields have risen by c. 0.4%; nominal bond yields have risen from 3.2% to 3.6% and market implied inflation is unchanged at 3.6%. Investment returns in excess of 5.5% are ahead of the valuation assumption year to date since March.

(3) The funding level improved during the quarter due to investment returns exceeding expectations. Real bond yields were unchanged.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £129m (c. 4%) in the quarter, giving a value for the investment Fund of £3,299m at 31 December 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 31 December 2013

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	4.1%	15.2%	n/a
Avon Pension Fund (excl. currency hedging)	3.6%	14.9%	7.8%
Strategic benchmark (no currency hedging) *(Fund incl hedging, relative to benchmark)*	2.6% *(+1.4%)*	12.2% ***(+2.7%)***	6.6% *n/a*
Local Authority Average Fund *(Fund incl hedging, relative to benchmark)*	3.7% *(+0.4%)*	15.0% ***(+0.2%)***	7.7% *n/a*

5.2 **Fund Investment Return:** Asset class returns were mixed in the quarter with rises in most equity markets and a small decline in Emerging Market equities. Bond markets fell as bond yields rose.

5.3 Over the one year period there have been very positive returns across most equity markets, emerging markets the exception, posting a negative return. Bond markets were flat to down with UK fixed interest gilts and overseas fixed interest bonds declining the most. Property returns have improved whereas hedge funds are still showing the weakest positive returns within the growth portfolio.

5.4 Over three years developed market equities and bond assets have outperformed the strategic assumptions whilst fund of hedge funds and emerging market equities have underperformed assumptions. Longer term bond returns are beginning to tail off as yields begin to rise. Therefore, 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.

5.5 **Fund Performance versus Benchmark: +2.7% over 12 months, attributed to**

(1) Asset Allocation: The contribution to outperformance from asset allocation was **1.1%** over the 12 months. This was due to the underweight to fixed income gilts within the bond portfolio; underweight to hedge funds; overweight in developed equities and underweight to emerging markets in final quarter The currency hedging programme contributed **0.3%** over 1 year.

(2) Manager Performance: In aggregate, manager performance contributed **1.2%** of the outperformance over the 12 month period, relative to the strategic benchmark.

5.6 **Versus Local Authority Average Fund:** Over one year, the Fund marginally outperformed the average fund due to higher allocations to property and global equities which both performed strongly (this is despite a larger than average allocation to bonds which performed poorly).

5.7 **Currency Hedging:** This quarter Sterling strengthened against the Dollar, Euro and Yen resulting in the returns from equity assets denominated in these currencies decreasing in Sterling terms. On the c.£796m assets in the programme (which has decreased since investing in the two DGF managers), the total effect of underlying currency movements had a negative impact of -2.8% over the quarter, with the hedging programme offsetting this by 1.9% resulting in a net currency return on the assets in the programme of -0.9%. In terms of the Fund's total return, the hedging programme added 0.5% to the Fund's total return in the quarter and 0.3% over the year.

B – Investment Manager Performance

5.8 In aggregate over the 3 year period the managers' performance is marginally ahead of the benchmark. 10 mandates met or exceeded their 3 year performance benchmark, which offset underperformance by the Hedge Funds and TT, whose performance has improved significantly. Genesis, RLAM, and Jupiter all continue to perform particularly well against their 3 year performance targets.

5.9 As part of the 'Meet the Managers' programme, the Panel met with Gottex and Signet on 26th February 2014. The summary of the Panel's conclusions can be found in Exempt Appendix 3 to the Investment Panel Activity Report.

5.10 Under the 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.** 5 managers are amber rated, 3 of which are showing progress towards achieving a green rating.

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	DGF Mandates	Complete: Investments made during the quarter. Focus is now on setting up reporting and monitoring.
2	Emerging Market Equity Mandate	Complete: Selection decision made w/c 2 December 2013. Investments made in January 2014. Focus is now on setting up reporting and monitoring.
3	Restructuring passive equity portfolio	Complete: Converted to income distributing funds for a number of the passive equity funds managed by BlackRock.
4	Rebalancing bond portfolio	Complete: Strategic allocation between UK gilts and corporate bonds implemented 16 August
5	Infrastructure	On Track: Tender process underway.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 The rebalancing policy requires automatic rebalancing between the allocations to Liquid Growth assets (equities and diversified growth funds) and Stabilising assets (Bonds) to occur when the liquid growth portion deviates from 75% by +/- 5%, and allows for tactical rebalancing between deviations of +/- 2 to +/- 5%, on advice from the Investment Consultant. The implementation of this policy is delegated to Officers.

7.2 Following the rebalancing undertaken in October 2013 to reduce the overweight to equities (as the allocation was approaching the automatic trigger point for rebalancing), there has been no further rebalancing. The latest Equity:Bond allocation is 78.3 : 21.7 as at 17 February 2014. This remains within the tactical range for rebalancing. Officers will continue to incorporate any rebalancing considerations 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. Your Committee are being recommended to approve the Treasury Management Policy for 2014/15, elsewhere on this meeting’s agenda. The Treasury Management policy for 2014/15 is unchanged from the Treasury Management Policy for 2013/14.

7.5 The Fund continues to deposit internally managed cash on call with NatWest, 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.

7.6 During the quarter there was a net cash outflow of c. £0.3m 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. Specific months vary from this average largely due to the varying value of total Lump Sums paid and net Transfers. The model forecasts an average monthly outflow of c. £0.9m over the year to 31 March 2014, and greater outflows in subsequent years. However it is anticipated that c.£17m may be paid up front in April 2014 for three year’s deficit recovery payments. This will give the Fund a temporary cash boost that will be offset by lower deficit recovery payments in the following two years. Other factors that will affect the average monthly cash flow are auto enrolment and LGPS 2014. Elsewhere on this meeting’s agenda The Service Plan budget includes details of the Fund’s three year cash forecast incorporating the anticipated effects of the 2013 Triennial Valuation.

8 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted:	126
Resolutions voted:	1,309
Votes For:	1,279
Votes Against:	20
Abstained:	0
Withheld* vote:	10

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

8.2 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. LAPFF's activity in the quarter is summarised in their quarterly engagement report at Appendix 3.

9 RISK MANAGEMENT

9.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. This report monitors (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.

10 EQUALITIES

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

11 CONSULTATION

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

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

13.1 The Council's Monitoring Officer (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	

APPENDIX 1

AVON PENSION FUND VALUATION - 31 DECEMBER 2013

	Passive Multi-Asset		**Active Equities**				**Enhanced Indexation**		**Active Bonds**	**Funds of Hedge Funds**	**DGFs**		**Property**		**In House Cash**	**TOTAL**	**Avon Asset Mix %**
All figures in £m	BlackRock	BlackRock #2	TT Int'l	Jupiter (SRI)	Genesis	Schroder Global	Invesco	SSgA	Royal London		Barings	Pyrford	Schroder	Partners	Currency Hedging		
EQUITIES																	
UK	299.4	12.9	183.9	154.1		23.1										673.4	20.4%
North America	171.1	5.9				120.1										297.1	9.0%
Europe	154.6					29.7		39.9								224.2	6.8%
Japan	42.5					14.9		38.2								95.6	2.9%
Pacific Rim	52.3					9.7		29.7								91.7	2.8%
Emerging Markets					145.7	14.0										159.7	4.8%
Global ex-UK							236.6									236.6	7.2%
Global inc-UK	79.9														9.1	89.0	2.7%
Total Overseas	***500.4***	***5.9***	***0.0***	***0.0***	***145.7***	***188.4***	***236.6***	***107.8***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***9.1***	***1193.9***	**36.2%**
Total Equities	**799.8**	**18.8**	**183.9**	**154.1**	**145.7**	**211.5**	**236.6**	**107.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**9.1**	**1867.3**	**56.6%**
DGFs											**210.9**	**104.3**				**315.2**	**9.6%**
BONDS																	
Index Linked Gilts	183.9															183.9	5.6%
Conventional Gilts	91.1	13.8														104.9	3.2%
Corporate Bonds	17.7								242.1							259.8	7.9%
Overseas Bonds	73.1															73.1	2.2%
Total Bonds	**365.8**	**13.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**242.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**621.7**	**18.9%**
Hedge Funds										162.7						162.7	4.9%
Property													145	105.9		250.9	7.6%
Cash	5.0	13.4	1.8	9.5		4.0							1.2		46.2	81.1	2.5%
TOTAL	**1170.6**	**46.0**	**185.7**	**163.6**	**145.7**	**215.5**	**236.6**	**107.8**	**242.1**	**162.7**	**210.9**	**104.3**	**146.2**	**105.9**	**55.3**	**3298.9**	**100.0%**

N.B.
(i) Valued at BID (where appropriate)
(ii) In-house cash = short term deposits at NatWest managed on our behalf by B&NES plus general cash held at Custodian
(iii) BlackRock 2 = represents the assets to be invested in property, temporarily managed by BlackRock

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Avon Pension Fund

Review for period to 31 December 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 3% over the fourth quarter of 2013.
- The drivers of the improvement were:
  - A positive asset return, following positive returns from most managers, in particular from the equity-based funds.
  - A smaller negative effect from the liabilities, as inflation-linked liabilities rose due to higher inflation expectations. Additionally, the valuation interest rate was slightly increased, reducing the value placed on liabilities, however this effect was offset by the unwinding of the liabilities.

Fund performance

- The value of the Fund's assets increased by £129m over the fourth quarter of 2013 to £3,299m. The total Fund (including the impact of currency hedging) outperformed the Fund's strategic benchmark over the quarter by 1.4%, producing an absolute return of 4.1%.

Strategy

- Equity markets were generally positive over the last quarter. The highest returns were from the USA (+7.9%) with other Western developed markets returning around 5%. Emerging market equities fell by 0.7%, whereas Japanese and Asia Pacific equities returned 0.1% and 0.0% respectively.
- The USA was also the best performer in equity markets over the last twelve months, at 30.4%. UK, European and Japanese equities all produced returns in excess of 20%. Emerging market equities (-5.3%) and Asia Pacific (1.3%) lagged.
- The three year developed market equity returns remained ahead of the assumed strategic return but the emerging market equity return is significantly behind its assumed strategic return over 3 years.
- Gilt and corporate bond markets produced small negative returns as bond yields rose. Over the three year period returns remain ahead of the assumed strategic return as poor 2010 returns fell out of the rolling three year period.
- The Overseas Fixed Interest return has fallen to -0.7% p.a. over three years. This has been affected by rising yields within European bonds, and more recently by healthy US economic data and the announcement that the US Federal Reserve would start to scale back its asset purchase programme.
- Hedge funds remain below the assumed strategic returns but the Property return is now just ahead as returns improve.

Managers

- Returns from all managers were positive in absolute terms over the last quarter, with the exception of Genesis (-0.3%) and SSgA Pacific (-0.2%). The best performing funds were the UK equity funds, TT (8.8%) and Jupiter (7.6%).
- The highest one-year returns also came from the UK equity managers, with Jupiter at 31.0% and TT at 28.3%.
- Over three years, SSgA Pacific and Genesis were affected by relatively poor returns in Asia and the emerging markets. SSgA Pacific's return has fallen from 8.1% p.a. to 4.3% p.a. and Genesis' return has fallen from 1.8% p.a. to -0.9% p.a. This is due to market returns and both managers have actually outperformed their benchmarks over this period, meeting their objectives.
- TT outperformed over three years but did not meet their three-year target.
- The only other managers to not meet their three-year target were the hedge fund managers, who each produced negative relative returns over 3 years, but Stenham and Gottex both outperforming 1 year targets.
- Both the SSgA Europe ex UK and Pacific incl Japan enhanced equity pooled funds remain 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.

Key points for consideration

- Emerging market equities could continue to suffer negative sentiment as growth rates slow and the US tapers its asset purchase programme.
  - Most commentators suggest weak returns are due to negative sentiment rather than fundamental structural concerns;
  - With the recent increase in the strategic allocation to this area, the Panel should consider these factors in the context of the long-term outlook for outperformance versus developed markets despite short term sentiment and volatility.
- Whilst it is too short a period to draw any concrete conclusions, there does not appear to have been any immediate negative impact on the performance of the Schroder Global Equity Portfolio following the departure of Virginie Maisonneuve.
- In January 2014, State Street were fined £22.9m by the FCA for overcharging six clients that used its transition management service between June 2010 and September 2011. We note that this was a different part of the business to their fund management and does not affect the funds.

2 Market Background

The figures below cover the three months, 1 year and 3 years to the end of December 2013.

Market Statistics

Yields as at 31 December 2013	% p.a.
UK Equities	3.28
UK Gilts (>15 yrs)	3.58
Real Yield (>5 yrs ILG)	0.03
Corporate Bonds (>15 yrs AA)	4.42
Non-Gilts (>15 yrs)	4.63

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	-0.13	-0.29	0.39
UK Gilts (>15 yrs)	0.17	0.58	-0.56
Index-Linked Gilts (>5 yrs)	0.07	0.10	-0.46
Corporate Bonds (>15 yrs AA)	0.11	0.35	-1.00
Non-Gilts (>15 yrs)	0.12	0.41	-0.77

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	-1.8	-5.9	6.9
Index-Linked Gilts (>5 yrs)	-0.9	0.6	7.6
Corporate Bonds (>15 yrs AA)	-0.3	0.0	7.8
Non-Gilts (>15 yrs)	-0.3	-0.6	8.0

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	5.5	20.8	9.4
Overseas Equities	5.0	21.2	8.1
USA	7.9	30.4	14.1
Europe	5.2	24.0	7.4
Japan	0.1	25.0	4.0
Asia Pacific (ex Japan)	0.0	1.3	0.5
Emerging Markets	-0.7	-5.3	-4.5
Property	4.7	10.9	7.1
Hedge Funds	4.2	10.0	5.2
Commodities	-2.5	-3.1	-2.6
High Yield	1.5	6.0	7.7
Emerging Market Debt	1.5	-5.3	6.1
Senior Secured Loans	2.2	9.2	6.3
Cash	0.1	0.4	0.5

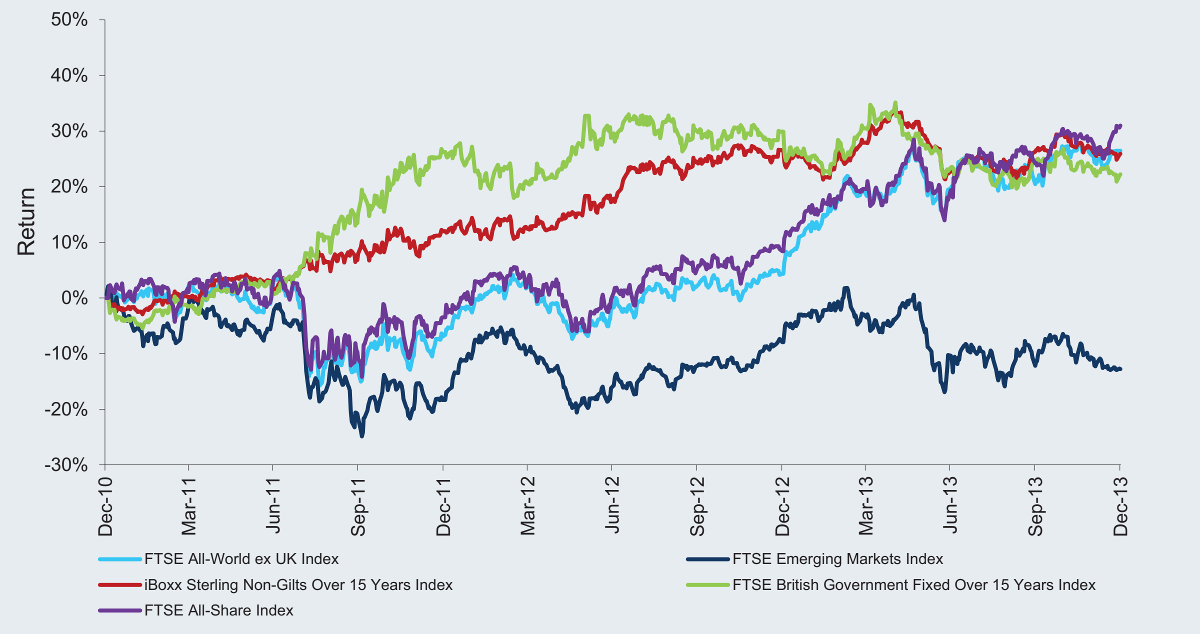
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	2.3	1.9	1.9
Against Euro	0.5	-2.5	1.0
Against Yen	9.6	23.9	11.1

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.6	2.7	3.5
Price Inflation – CPI	0.5	2.0	3.0
Earnings Inflation *	-0.1	0.8	1.4

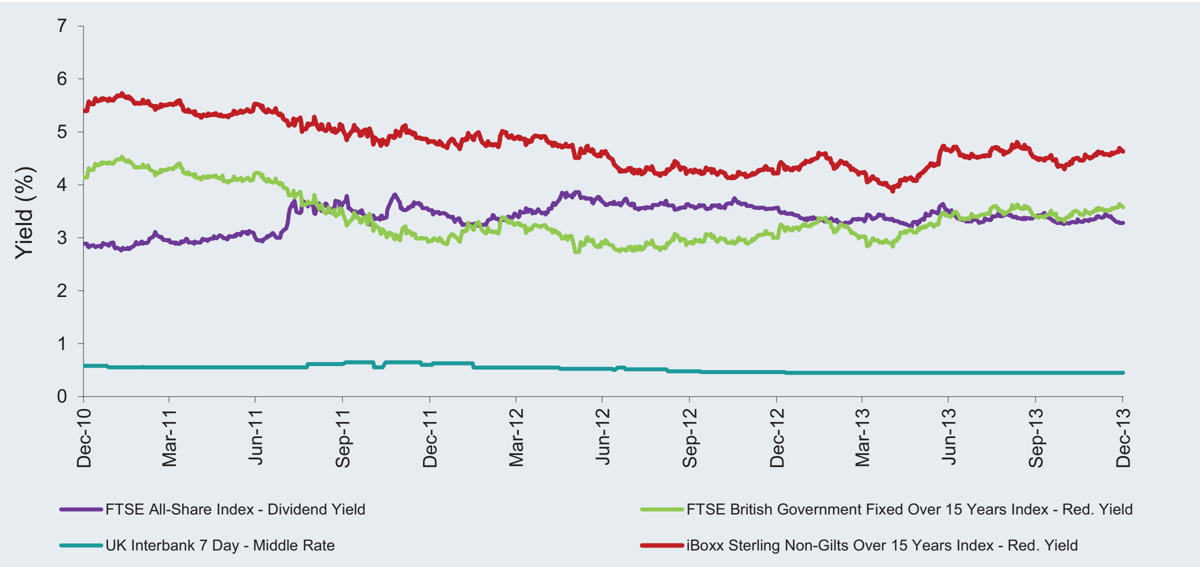
* Subject to 1 month lag

Source: Thomson Reuters and Bloomberg

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 trend over the last 3 years until the end of April 2013 shows falling UK gilts and corporate bond yields, whilst the dividend yield on the FTSE All-Share Index has risen. Bond yields have increased slightly in the last 8 months whilst the dividend yield has remained relatively flat.

The table below compares general market returns (i.e. not achieved Fund returns) to 31 December 2013, with assumptions about returns made in the Investment Strategy agreed in 2013.

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities	8.25	8.8	Ahead of the assumed strategic return following strong returns throughout the period apart from mid-2011. This quarter, markets have continued to rise although not as strongly as in Q4 2010 (which has fallen out of the 3-year return), hence returns are lower than in the last report.
Emerging Market Equities	8.75	-4.5	In contrast to long term performance, the 3-year return from emerging market equities has fallen significantly due to negative sentiment from slowing growth and the withdrawal of capital as the US begins to taper its asset purchase programme.
UK Gilts	4.5	6.9	Ahead of the assumed strategic return as gilt yields fell significantly during 2011. Index-linked returns fell over the last quarter as UK inflation continued to decline.
Index Linked Gilts	4.25	7.6	
UK Corporate Bonds	5.5	6.8	
Overseas Fixed Interest	5.5	-0.7	Behind the assumed strategic return, falling to a negative absolute return. In the last quarter, healthy US economic data and speculation over when the Federal Reserve would scale back its asset purchase programme put upward pressure on US bond yields. "Core" European bonds followed the US lead, whilst Europe's peripheral markets (Italy, Spain, Portugal, Ireland and Greece) delivered good quarterly performance but their three year returns were still affected by rising yields.
Fund of Hedge Funds	6.0	2.7	Behind the assumed strategic return following a negative return in 2011. More recently returns have been improving, with the return over the last twelve months being 7.7%.
Property	7.0	7.1	This is now slightly ahead of the assumed strategic return and continues to improve as property prices begin to rise.

Source: Statement of Investment Principles, Thomson Reuters.

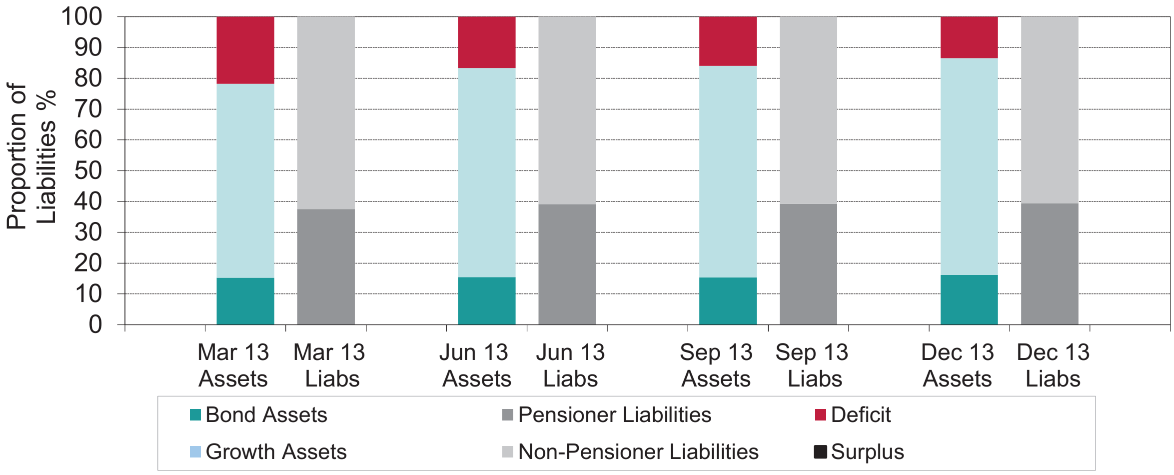
See appendix A for economic data and commentary.

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

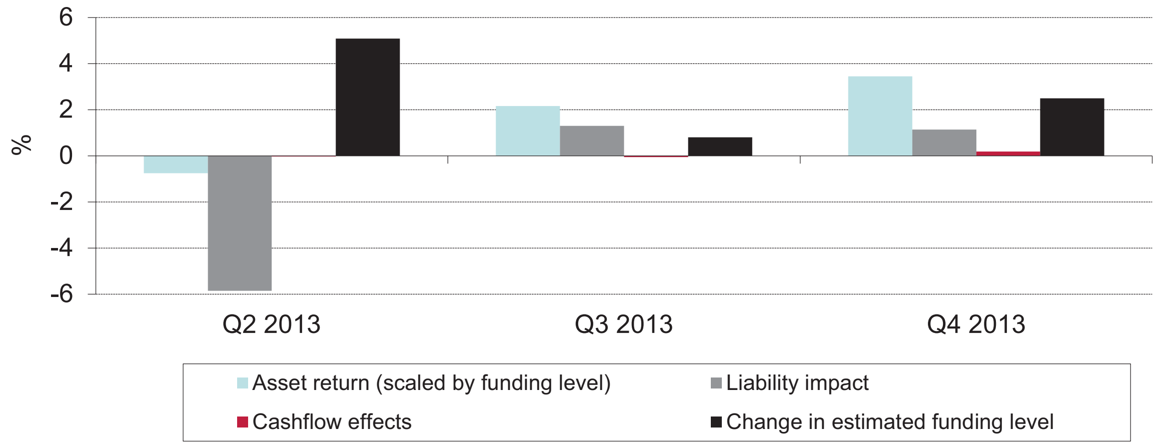
- The chart below shows the allocation of the Fund to Bond and Growth assets against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield used for the liabilities is the Mercer Gilt yield (see appendix for definition). The liability benchmark is based on the valuation results from 31 March 2013.
- 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 3% over the fourth quarter of 2013, all else being equal. This was driven by:
  - » A positive asset return, following positive returns from most managers, in particular from the equity-based funds.
  - » A smaller negative effect from the liabilities, as inflation-linked liabilities rose due to higher inflation expectations. Additionally, the valuation interest rate was slightly increased, reducing the value placed on liabilities, however this effect was offset by the unwinding of the liabilities.
- At the valuation date, 31 March 2013, the Scheme was 78% funded. Since then financial market movements, actual cashflows, and investment returns are expected to have increased the overall funding level to 87%. This improvement has come from both positive asset returns and a reduced value placed on the liabilities, due to a higher interest rate assumption.

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.

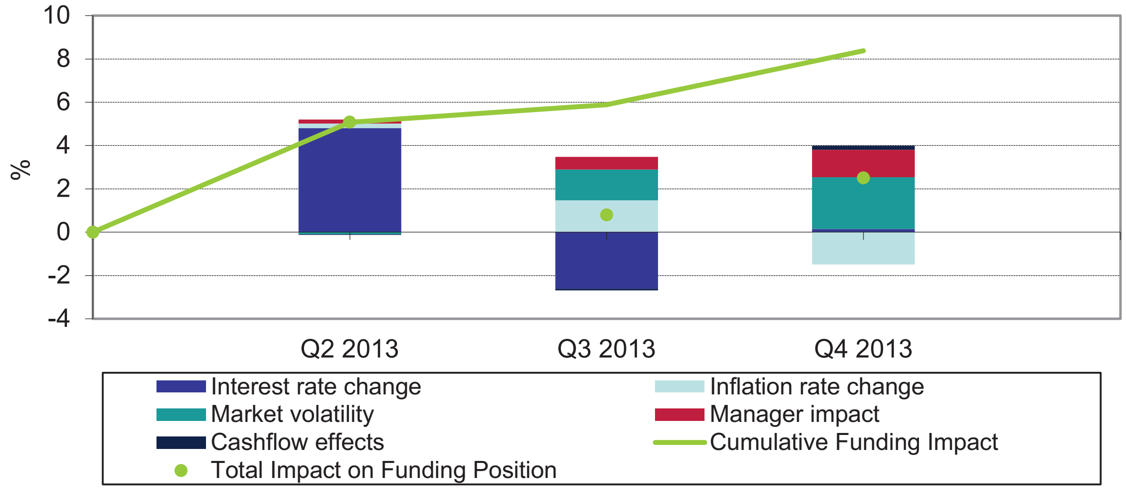


Note : A decrease in liabilities and an increase in assets improves the funding level and vice-versa.

- The graph above shows that the Fund's assets, scaled to take into account the estimated funding level, have produced an absolute return of 3.4%, over the last quarter.
- The value placed on the liabilities increased by 1.1% due to a small increase in the inflation assumption used to value inflation-linked liabilities.
- Overall, the combined effect has led to an increase in the estimated funding level to 87% (from 84% at 30/09/2013).

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.



- 'Interest rate change' reflects the impact caused by the difference in the duration of the liabilities compared to the assets. As the liabilities have a longer duration than the assets, when yields rise, this has a positive impact, as in Q2 2013. Over Q4 2013 there was a small rise in yields but this effect was offset by the unwinding of the liabilities, giving a negligible 'interest rate change' effect this quarter.
- The Market Implied (RPI) inflation assumption rose by 0.1% p.a. over the quarter. This gives a negative contribution as future inflation-linked payments are higher.
- 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 positive impact over the quarter as equity markets posted positive returns.
- 'Manager impact' is the investment performance compared to the strategic benchmark. This was positive over the last quarter.
- The small 'cashflow effects' reflect factors such as pension payments, contributions and disinvestments. This was negligible over the last three quarters.
- Overall the investment factors have had a positive impact on the estimated funding level of the Fund over the last quarter.
- Over the nine month period since 31 March 2013, investment factors have had a positive effect, due both to a reduced value placed on the liabilities ('interest rate change') and positive asset returns from both markets ('market volatility') and manager outperformance ('manager impact').

4 Fund Valuations

The table below shows the asset allocation of the Fund as at 31 December 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	31 December 2013 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
Developed Market Equities	1,721,609	52.2	40.0
Emerging Market Equities	145,731	4.4	10.0
Diversified Growth Funds (DGF)	315,186	9.6	10.0
Bonds	621,730	18.8	20.0
Fund of Hedge Funds	162,737	4.9	5.0
Infrastructure	-	-	5.0
Cash (including currency instruments)	81,021	2.5	-
Property	250,853	7.6	10.0
TOTAL FUND VALUE	**3,298,868**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £129m over the fourth quarter of 2013 to £3,299m. Approximately £315m was invested into DGF.
- In terms of the asset allocation, the move from Man and Blackrock into Pyford, Barings and RLAM has reduced the developed market equity allocation and hedge fund allocation and introduced DGFs.
- Deviations from the strategic benchmark weight will continue during the period that changes to the investment strategy, agreed in 2013, are implemented. The overweight position to developed market equities relative to emerging market equities is expected to be reduced during Q1 2014.
- An allocation to infrastructure is expected to be built up over time.

Manager	Asset Class	30 September 2013 Value £'000	30 September 2013 Proportion of Total %	Net new money £'000	31 December 2013 Value £'000	31 December 2013 Proportion of Total %
Jupiter	UK Equities	151,976	4.8	-	163,577	5.0
TT International	UK Equities	171,207	5.4	-	185,688	5.6
Invesco	Global ex-UK Equities	223,388	7.0	-	236,622	7.2
Schroder	Global Equities	203,330	6.4	-	215,489	6.5
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	105,517	3.3	-	107,799	3.3
Genesis	Emerging Market Equities	146,181	4.6	-	145,731	4.4
MAN	Fund of Hedge Funds	63,607	2.0	-61,898	1,651	0.1
Signet	Fund of Hedge Funds	65,903	2.1	-	66,477	2.0
Stenham	Fund of Hedge Funds	35,966	1.1	-	37,657	1.1
Gottex	Fund of Hedge Funds	55,755	1.8	-	56,953	1.7
BlackRock	Passive Multi-asset	1,430,170	45.2	-307,013	1,170,637	35.5
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	51,032	1.6	-6,300	45,915	1.4
RLAM	Bonds	196,005	6.2	45,000	242,148	7.3
Schroder	UK Property	139,246	4.4	-	146,148	4.4
Partners	Property	97,169	3.1	6,800	105,871	3.2
Record Currency Mgmt	Dynamic Currency Hedging	7,877	0.2	-	21,421	0.6
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	7,426	0.2	-	9,092	0.3
Pyrford	DGF	-	-	105,000	104,320	3.2
Barings	DGF	-	-	210,000	210,866	6.4
Internal Cash	Cash	17,970	0.6	8,411	24,807	0.8
Rounding		-	-	-	-1	-
TOTAL		**3,169,725**	**100.0**	**0**	**3,298,868**	**100.0**

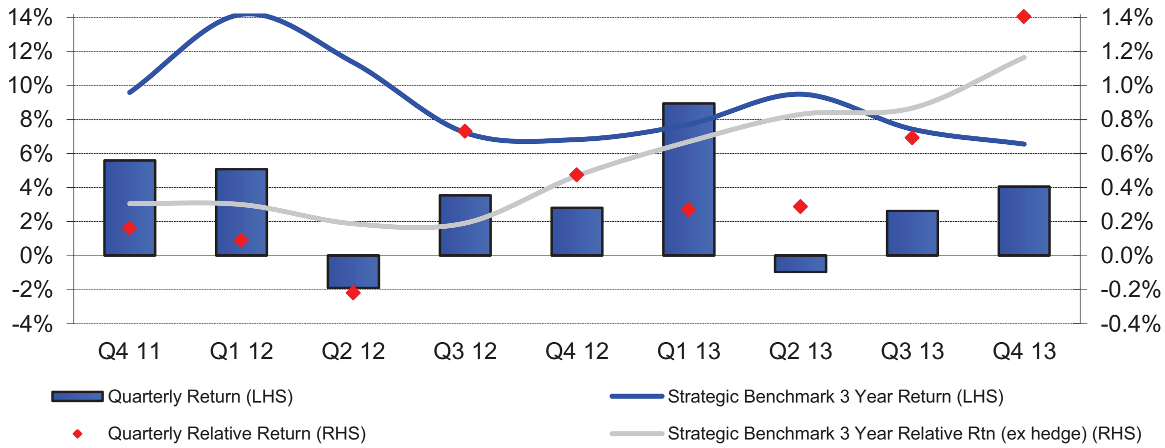
Source: Avon Pension Fund Data provided by WM Performance Services

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



fund	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	4.1	15.2	N/a
Total Fund (ex currency hedge)	3.6	14.9	7.8
Strategic Benchmark (no currency hedge)	2.6	12.2	6.6
Relative (inc currency hedge)	+1.4	+2.7	N/a

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 31 December 2013.

Asset Class	Weight in Strategic Benchmark		Index returns	Contribution to total benchmark	Index returns	Contribution to total benchmark
	Sep 13	Dec 13	Q4 2013	(quarter)	1 year	(1 year)
UK Equities	18%	15%	5.5%	0.8%	20.8%	3.5%
Overseas Equities	42%	25%	5.7%	1.4%	20.2%	7.5%
Emerging Market Equities	-	10%	-0.4%	-0.0%	n/a	-0.0%
Diversified Growth Funds	-	10%	1.1%	0.1%	n/a	0.1%
UK Government Bonds	6%	3%	-1.8%	-0.1%	-5.9%	-0.3%
UK Corporate Bonds	5%	8%	0.0%	0.0%	0.9%	0.0%
Index Linked Gilts	6%	6%	-0.9%	-0.1%	0.6%	0.0%
Overseas Fixed Interest	3%	3%	-3.6%	-0.1%	-6.4%	-0.2%
Fund of Hedge Funds	10%	10%	1.1%	0.1%	5.6%	0.6%
Property	10%	10%	4.3%	0.4%	9.1%	0.9%
Total Fund	**100%**	**100%**		**2.6%**		**12.2%**

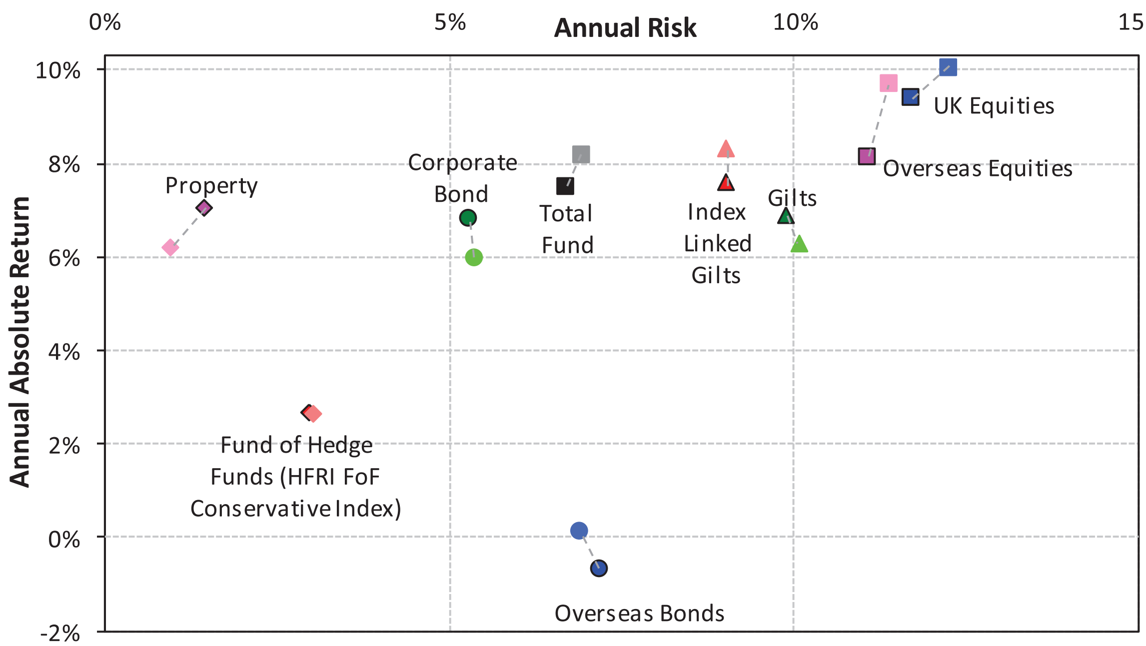
- The December 2013 benchmark return is that held by WM to partly reflect the changes to the investment strategy, agreed in 2013, whilst they are implemented. Over 2014, UK and Overseas equities will be combined into "developed equity" and 5% of the benchmark allocation to Fund of Hedge Funds will be replaced by infrastructure.
- **Market impact:** Developed Equities continued to provide strong returns over quarter four, led by the US due to healthy economic data.
- Emerging market equity returns were subdued following negative sentiment from slowing growth and the withdrawal of capital as the US begins to taper its asset purchase programme.
- UK Government bonds posted a negative return over the quarter and year as yields rose. Corporate bonds continued to outperform as investors sought higher yields. The indications that the US would scale back its asset purchase programme caused overseas bond yields to rise, and hence prices to fall.
- Property posted a strong return over the last quarter as prices began to rise.
- **Currency impact:** The above Overseas Equities returns are in Sterling terms and therefore lower than they would have been, because Sterling strengthened relative to the US Dollar, Yen and Euro over the three month period; and relative to the US Dollar and Yen over the one year period (offsetting slight Euro strengthening over the one year period).
  - Record's hedging activity added 1.9% and 1.3% to US, Euro and Japanese equity returns over the three month and one year periods respectively.
- **Strategic Benchmark:** Over both the three month and one year periods the strategic benchmark was driven by equities, with the Fund benefiting from a high allocation to the asset class.
- Property also contributed to the strategic benchmark, particularly over the last quarter.

Risk Return Analysis

The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 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 13.

3 Year Risk v 3 Year Return to 31 December 2013

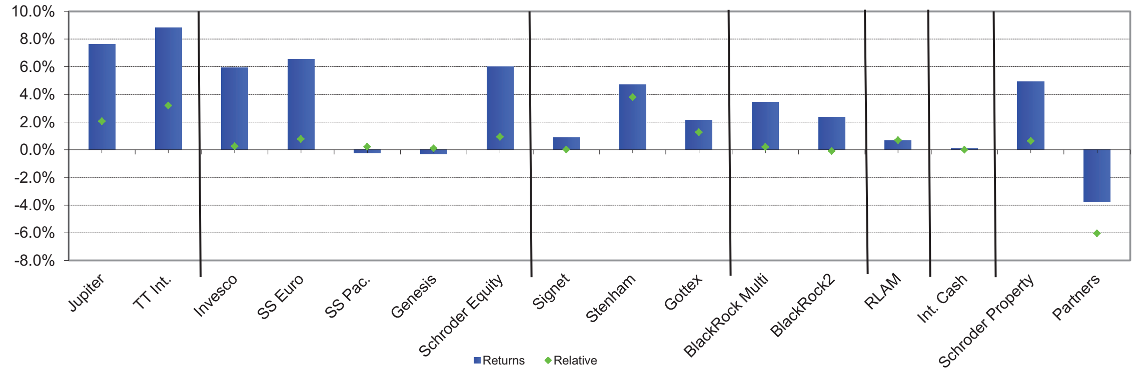


- All of the underlying benchmarks except overseas bonds have produced a positive return over the period (3 years p.a.).
- The three year return has decreased for both UK and overseas equities but increased for gilts and corporate bonds. Equities produced positive returns over the final quarter of 2013, but the higher returns of Q4 2010 have fallen out of the analysis. Conversely, bonds fell in the final quarter of 2013 as yields rose, but there were larger falls in Q4 2010.
- Equities remain the best performing asset class over three years, followed by index-linked gilts, property and conventional gilts.
- The property return continues to increase.
- The hedge funds index continues to produce steady returns, with very little change in the rolling 3 year return.
- Overseas bonds moved to a negative 3 year absolute return as US bond yields rose.
- In terms of risk, the three-year volatility has decreased slightly for each of the asset classes apart from property and overseas bonds.
- The three-year return on UK equities, gilts, index-linked gilts and corporate bonds remain above their assumed strategic return. Overseas bonds and hedge funds remain below their assumed strategic return, whist property is now marginally ahead of its assumed strategic return

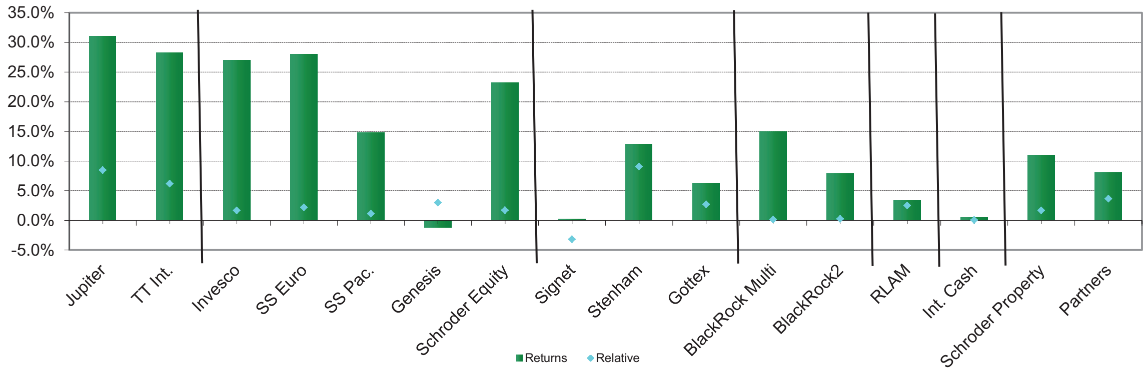
Aggregate manager performance

The charts below show the absolute return for each manager over the quarter, one year and three years to the end of December 2013. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

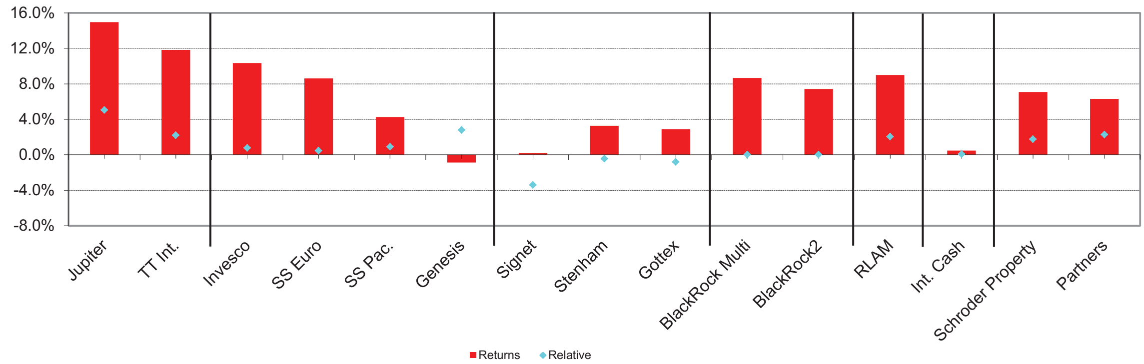
Absolute and relative performance - **Quarter to 31 December 2013**



Absolute and relative performance - **Year to 31 December 2013**



Absolute and relative performance - **3 years to 31 December 2013**



Source: Data provided by WM Performance Services

The table below shows the relative returns of each of the funds over the quarter, one year and three years to the end of December 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.

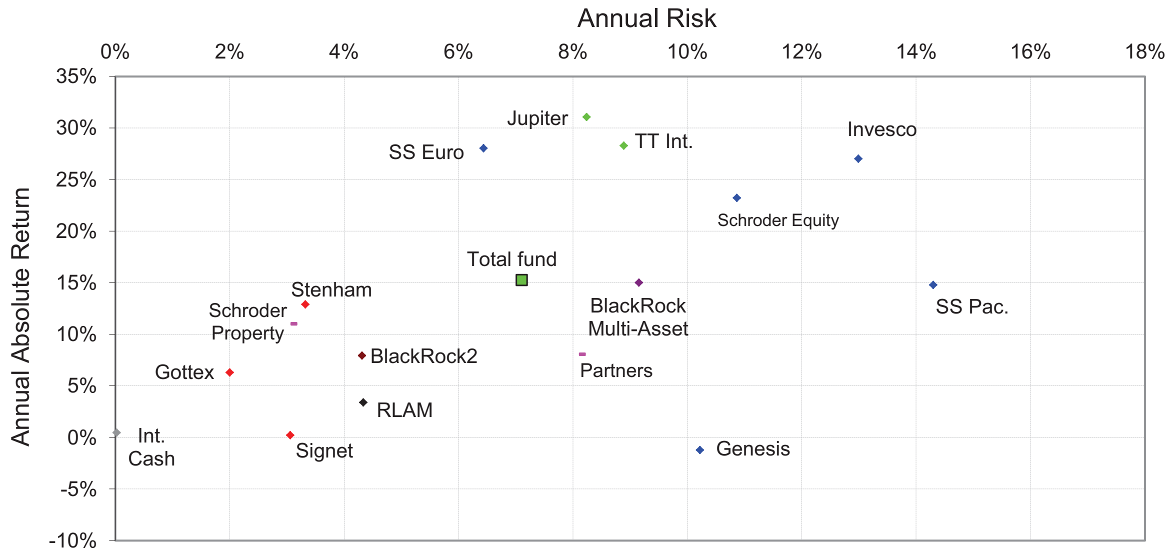
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+2.1	+8.5	+5.1	Target met
TT International	+3.2	+6.2	+2.2	Target not met
Invesco	+0.2	+1.7	+0.8	Target met
SSgA Europe	+0.8	+2.2	+0.5	Target met
SSgA Pacific	+0.2	+1.1	+0.9	Target met
Genesis	+0.1	+3.0	+2.8	Target met
Schroder Equity	+0.9	+1.7	NA	N/A
Signet	0.0	-3.2	-3.4	Target not met
Stenham	+3.8	+9.1	-0.4	Target not met
Gottex	+1.3	+2.7	-0.8	Target not met
BlackRock Multi - Asset	+0.2	+0.1	0.0	Target met
BlackRock 2	-0.1	+0.3	0.0	Target met
RLAM	+0.7	+2.5	+2.1	Target met
Internal Cash	0.0	+0.1	+0.1	N/A
Schroder Property	+0.6	+1.7	+1.8	Target met
Partners Property	-6.0	+3.7	+2.3	N/A

Source: Data provided by WM Performance Services

Manager and Total Fund risk v return

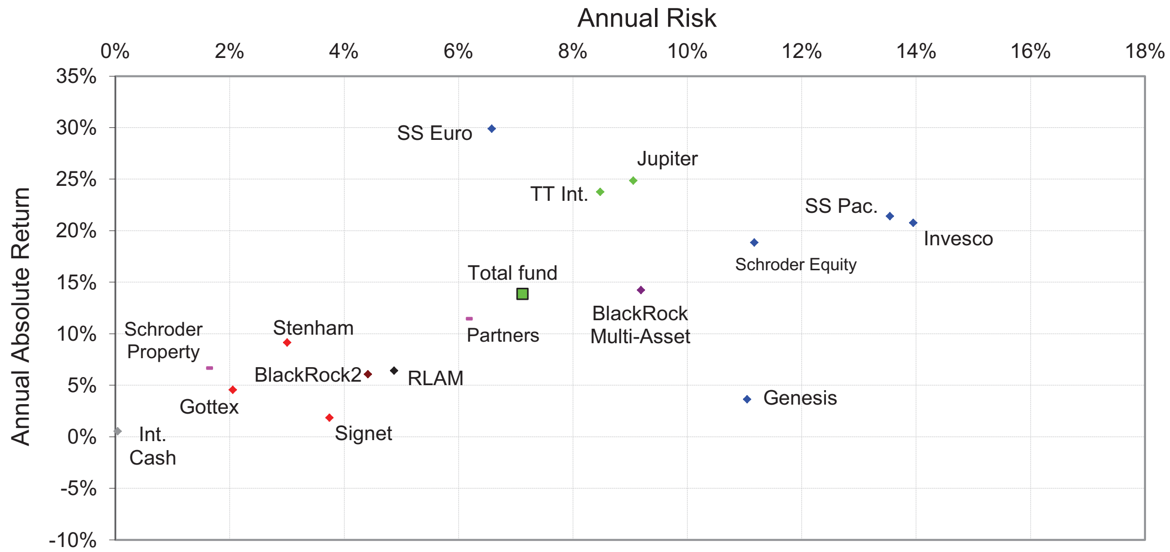
The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2013 of each of the funds. We also show the same chart, but with data to 30 September 2013 for comparison.

1 Year Risk v 1 Year Return to 31 December 2013



Source: Data provided by WM Performance Services

1 Year Risk v 1 Year Return to 30 September 2013



Source: Data provided by WM Performance Services

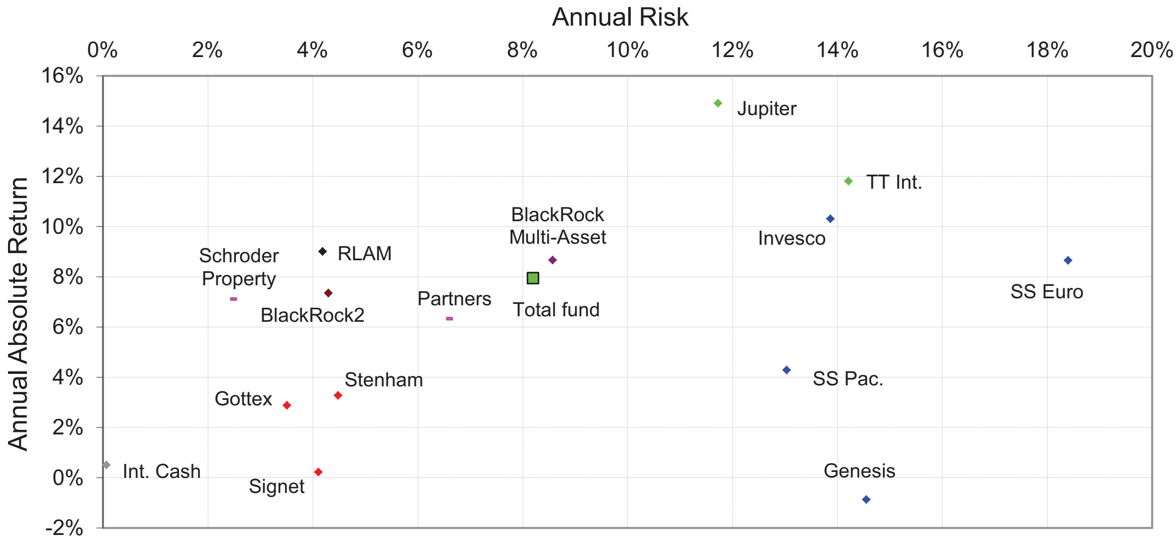
The managers are colour coded by asset class, as follows:

- 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 highest one-year returns came from the UK equity managers, with Jupiter at 31.0% and TT at 28.3%. Marginally behind were Invesco, SSgA Europe and Schroder equity, all with returns above 20%.
- SSgA Pacific and Genesis were affected by relatively poor returns in Asia and the emerging markets. The Genesis emerging equity return has fallen from 3.6% to -1.2%.
- Other notable movements in the one-year return were Schroders Property (up from 6.7% to 11.0%) and RLAM (down from 6.4% to 3.4%)
- The one year-risk figures have remained reasonably stable, apart from Schroders Property (up from 1.6% to 3.1%) as last quarter's return was significantly higher than the more stable lower returns of the previous four quarters.

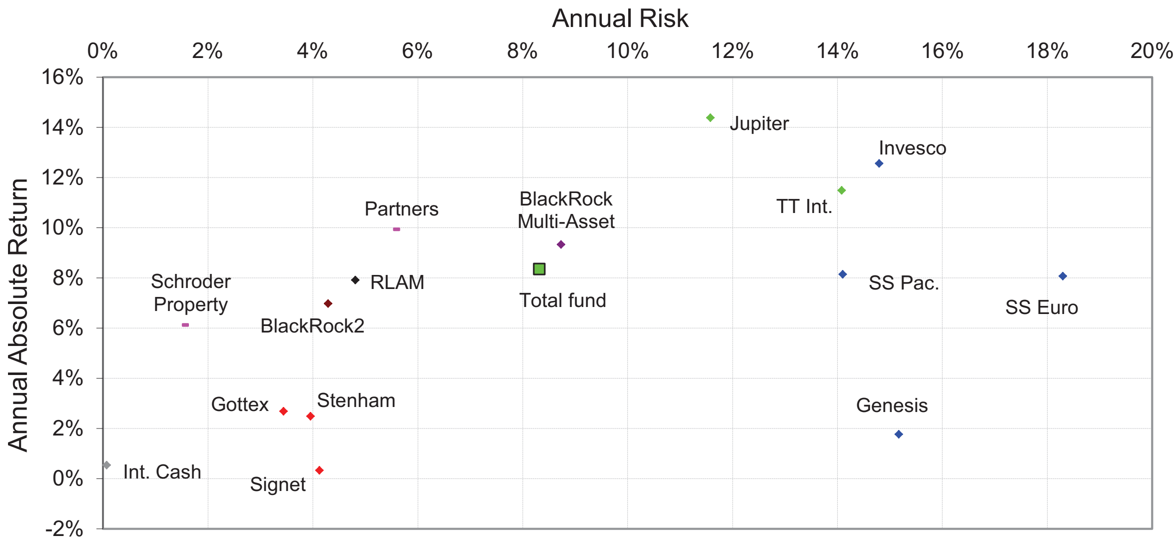
The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2013 of each of the funds. We also show the same chart, but with data to 30 September 2013 for comparison.

3 Year Risk v 3 Year Return to 31 December 2013



Source: Data provided by WM Performance Services

3 Year Risk v 3 Year Return to 30 September 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 three-year returns have remained reasonably stable apart from the emerging market and Asia equity managers.
- SSgA Pacific's return has fallen from 8.1% p.a. to 4.3% p.a. and Genesis from 1.8% p.a. to -0.9% p.a. Both managers continue to outperform their respective benchmarks.
- The three-year risk figures have also remained stable. 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 8.

Conclusion

- The strongest returns over the one year period are from the equity funds. The one-year return was positive in absolute terms from all managers except for Genesis.
- Over three years, the best performer remains Jupiter at 15.0% p.a., some margin above the second best, TT, at 11.8% p.a.
- Hedge fund returns remain the lowest at around -2% p.a to 3% p.a. together with Genesis at -0.9% p.a.
- Generally returns were broadly consistent with those seen last quarter, with the exception of Genesis emerging markets equity and SSgA Pacific equity.
- The Fund of Hedge Fund and property managers continue to provide low volatility over both the 1 and three year period. However, over the longer three year period Fund of Hedge Funds have underperformed their assumed strategic return.

Appendix 1: Market Events

Asset Class	What happened? Positive Factors	Negative Factors
UK Equities	■ Business confidence, as measured by the Purchasing Managers Index (PMI), rose to 73.5 in December, its highest since March 2010. The PMI for the services sector stood at 58.8 in December, well above the 50 mark, separating growth from contraction. ■ The British Chamber of Commerce Quarterly Economic Survey, a major economic indicator closely watched by the Bank of England (BoE) and the Treasury upgraded its GDP growth forecast for 2014 to 2.7% in Q4 2013 from 2.2% in Q3 2013. ■ Unemployment fell more than expected in October to 7.4% (the lowest level since early 2009) from 7.6% a month earlier. The BoE has issued forward guidance indicating that interest rates are unlikely to increase above the current level of 0.5% until the unemployment rate falls to 7%.	■ Equity dividends have enjoyed an impressive lead over bond yields for some time. However, with gilt yields now on an upward trajectory and investment grade bond yields also on the rise, UK equities might face some headwinds. ■ Britain's trade deficit, plus the losses UK plc. made on its overseas ventures, rose to GBP 21 billion in Q3 from a deficit of GBP 6 billion in the previous quarter. As a percentage of GDP, the deficit was 5.1%, the largest share in more than 20 years.
Overseas Equities:		
North America	■ The US Federal Reserve (Fed) announced that it will scale back its asset purchase programme from the current USD 85 billion per month to USD 75 billion per month beginning January 2014. ■ The Fed also signalled that if the employment and inflation environment remains stable, it expects similar monthly cutbacks over the course of 2014. This would lead to a formal end to the quantitative easing programme towards the fourth quarter of 2014. ■ GDP grew by a robust 3.6% (revised) in the fourth quarter, while the unemployment level fell to 7.0% by the end of November. ■ The US congress passed a budget deal aimed at rolling back sharp spending cuts, known as the sequester, over the next two years. This will reduce the likelihood of another government shutdown in the near term.	■ The 10-year treasury yield (the benchmark interest rate) spiked over the 3% mark for the first time since July 2011 after the Fed's announcement that it plans to taper its bond-buying program. Higher interest rates could increase the cost of borrowing for the corporates and jeopardise the nascent recovery in the economy. ■ Following a 30% rally in the S&P 500 through 2013, there is some concern that equity valuations appear unsustainable.

Asset Class	What happened? Positive Factors	Negative Factors
Europe	■ The ECB surprised markets in November by cutting its main refinancing rate to a record low of 0.25%, and while it is not expected to cut the rate again, it is likely to flood the markets with another round of cheap cash early 2014. ■ Business activity in the Eurozone, as measured by the PMI, rose to 52.1 in December, recording the second-highest reading since mid-2011. ■ Ireland became the first country to exit the EU bailout programme without a precautionary credit line on December 15.	■ The PMI for the services sector, which makes up a majority of the Eurozone's economy, dipped to 51.0 in December from 51.2 in November confounding expectations for a rise to 51.5. This indicated that growth in this sector has been weaker than anticipated. ■ Services firms cut prices again in the month of November, as they have done over the last two years, to facilitate business. The output price index rose to 48.6 from 47.9, still below the break-even mark.
Japan	■ The Japanese economy grew at an annualised pace of 1.9% in Q3 2013, the fourth successive quarter of growth, lending more credibility to the expansionary monetary policy embarked upon by Prime Minister Shinzo Abe. ■ The government dropped the word 'Deflation' in its description of the economy for the first time in four years as core consumer inflation hit a five year high—past the halfway mark of the 2% target. ■ According to BOJ's quarterly survey, business confidence amongst large manufacturers surpassed expectations and rose from 12 points in Q3 to 16 points in Q4, the highest level since 2007, suggesting that economic prospects largely remain upbeat.	■ Concerns remain over the ripple effects on the economy due to the proposed sales tax hike from the current 5% to 8% beginning April 2014. ■ The real wage scenario in the country could pose a serious challenge, as rising inflation coupled with less than desired wage increases will start to erode household spending power.
Asia Pacific	■ South Korea recorded its 23rd consecutive month of trade surplus owing to strong exports, which grew by 2.2% year-on-year. This marked the highest level of annual exports in the country's history.	■ Australia's GDP grew at an annualised rate of 2.3% in the third quarter of 2013, well below the consensus forecast of 2.6%. Economists argue that the nation needs to grow at a pace above 3% to curb the recent increases in the unemployment rate which currently stands at 5.7%.

Asset Class	What happened? Positive Factors	Negative Factors
Emerging Markets	■ China, in its Third Plenum, announced sweeping reforms aimed at steering the nation from an investment-led developing nation to a consumption driven economy. The 60 point reform plan aims to achieve a sustainable growth and liberalise Chinese markets. ■ After weak performance through 2013, the emerging market space appears to be attractive from a valuation perspective. ■ China edged out the United States as the biggest trader of goods in 2013 as the value of its imports and exports crossed the USD 4 trillion mark for the year. The change in the pecking order reflects China's growing dominance in global trade. ■ India's current account deficit fell to 1.2% from 5% a year ago as the government's efforts to curb exports of non-essential commodities, particularly gold, started to yield the desired results.	■ In China, concerns grew over the domino effects of the ailments in the banking system as asset repurchase rates surged to record highs after a government official warned about possible bank failures in the coming year. ■ Taiwan cut its growth forecast for 2014 to 2.6%, down from its earlier projection of 3.4%, reflecting weak prospects for one of the most export-oriented economies in the region. ■ Most emerging market economies still face headwinds due to inflationary pressures and are raising interest rates to combat high prices. Brazil raised its interest rates for the sixth time since March 2012, while Indonesia raised interest rates to the highest level since 2009. ■ Brazil's GDP shrank in Q3 2013 by 0.5% due to worsening fiscal imbalances, higher than target inflation and rising interest rates in the economy.
Gilts	■ UK's GDP expanded by 0.8% in the third quarter, the strongest reading in over three years. Meanwhile, the International Monetary Fund (IMF) significantly upgraded Britain's growth outlook to 1.4% in 2013 and 1.9% in 2014.	■ Market interest rates are expected to rise much sooner than expected as the BoE has brought forward its forecast for a drop in the unemployment to 7% by around 18 months from what was previously expected.
Index Linked Gilts	■ With limited supply of paper and investors continuing to seek inflation protection, demand for index-linked gilts remains high, thus supporting prices.	■ UK inflation continued to decline, reaching 2.0% in December 2013, affecting returns on index-linked instruments. ■ In an environment where central banks are able to control inflation within a target range, there is a limited upside to the return expectations on these instruments.
Corporate Bonds	■ Corporations continue to maintain healthy balance sheets. While, the relatively attractive yield from parts of the corporate bond market continue to attract investor interest.	■ The corporate bond market still suffers from liquidity constraints while uncertainty looms over interest rate increases.

Asset Class	What happened?	
	Positive Factors	**Negative Factors**
Property	▪ In November 2013, the UK commercial property values registered their highest monthly gain since March 2010, marking seven consecutive months of rises in values. ▪ Mortgage approvals in the UK rose to about a six-year high in November 2013. House prices are rising across the country with the fastest growth rate seen in London where prices are now 14% above their previous peak in 2007. ▪ The Construction PMI hit 62.6 in November 2013—the highest reading since August 2007.	▪ According to the changes to the capital gains tax structure announced by the chancellor George Osborne, foreign owners will be required to pay tax on gains in value on the UK properties starting April 2015. This move may dampen overseas investor sentiment into UK property market.

Economic statistics

	Quarter to 31 December 2013			Year to 31 December 2013		
	UK	**Europe[1]**	**US**	**UK**	**Europe[1]**	**US**
Real GDP growth	0.7%	n/a	0.8%	2.8%	n/a	2.7%
Unemployment rate	7.1%	11.1%[4]	6.7%	7.1%	11.1%[4]	6.7%
Previous	*7.7%*	*11.1%*	*7.3%*	*7.7%*	*11.0%*	*7.8%*
Inflation change[2]	0.5%	0.2%	-0.5%	2.0%	0.9%	1.5%
Manufacturing Purchasing Managers' Index	57.3	52.7	57.0	57.3	52.7	57.0
Previous	*56.7*	*51.1*	*56.2*	*51.4*	*47.5*	*50.7*
Quantitative Easing / LTRO [3]	£375bn	€1,018bn	$3,794bn	£375bn	€1,018bn	$3,794bn
Previous	*£375bn*	*€1,018bn*	*$3,539bn*	*£375bn*	*€1,018bn*	*$2,774bn*

Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. All figures to 31 December 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 Nov 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	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Cash	Internally Managed	7 day LIBID	

JLT Employee Benefits

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QUARTERLY ENGAGEMENT REPORT

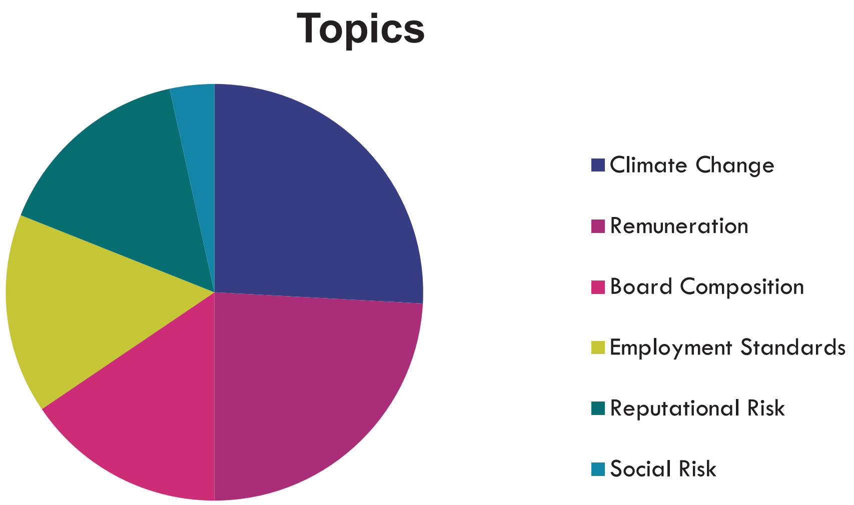
OCTOBER TO DECEMBER 2013

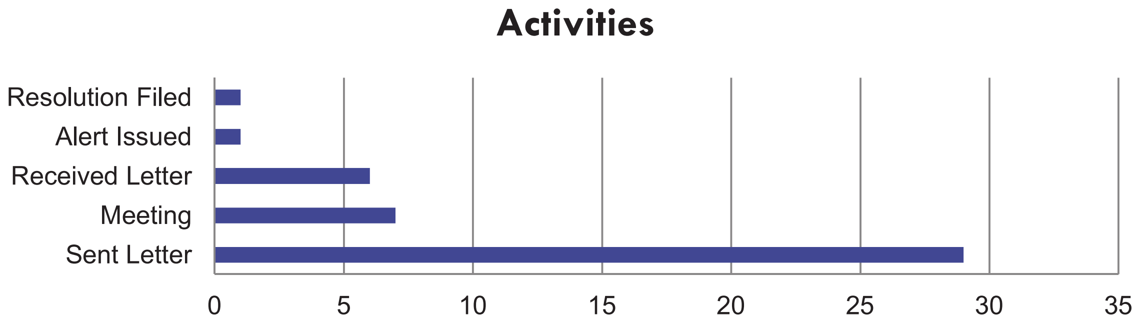
Local Authority Pension Fund Forum

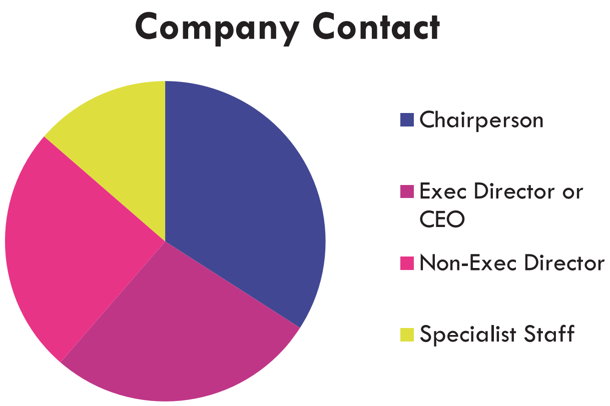
LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of local authority pension funds in the UK with combined assets of over £120 billion.

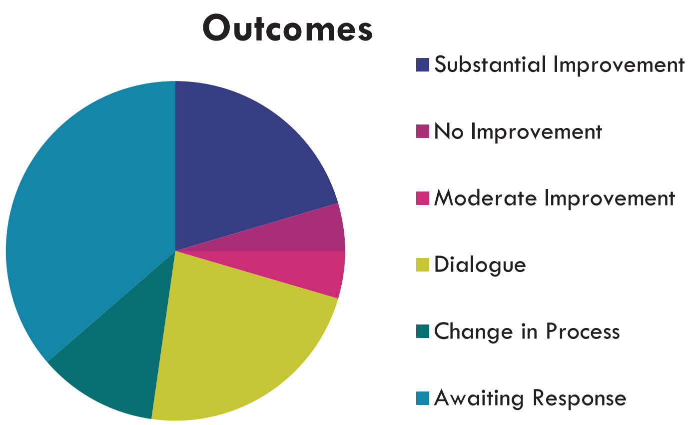
ENGAGEMENT SUMMARY

OCTOBER TO DECEMBER 2013









ACHIEVEMENTS

- Met with **Standard Chartered, M&S** and **Burberry** to discuss remuneration issues and get company feedback on LAPFF's 'Expectations for Executive Pay' document.
- Corresponded with **Afren**, **easyJet** and **G4S** regarding pay practices and pay complexity and to seek further meetings.
- Explored the impact of governance changes at **Twenty-First Century Fox** since the split from News Corporation and discussed the approach to the ongoing phone hacking scandal.
- Focussed on 'stranded assets', carbon management strategies and CDP performance scores with **BP**. A meeting with **GlencoreXstrata** also initiated a discussion on these issues.
- Sent a letter to **Oracle** outlining LAPFF's concerns about executive pay. The Company lost its pay vote for the second year in a row, but the Board remains defiant.
- Co-signed letters to major US, European and Japanese consumer companies in the **palm oil** supply chain on the sustainability of their supplies.
- Responded to a **FRC** consultation on the strategic report raising concerns about its status and compatibility with UK Company Law, and to a FRC consultation on directors' remuneration. Provided input to the **SEC** on pay ratio disclosure.

THE FORUM IN THE NEWS

Investor pressure for mandatory auditor rotation
Professional Pensions

LAPFF joins investors in demand for an independent chairman at 21st Century Fox
The Telegraph

Two new local authority pension funds join LAPFF
Professional Pensions

LAPFF joins investors to renew push for mandatory audit rotation
Professional Pensions

Legal concerns over IFRS
Economia

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

The Forum met with Rod Eddington, the lead independent director of **21st Century Fox** (formerly **News Corporation**) at the start of October, shortly before the company's AGM. LAPFF repeated its belief that the company would benefit from the appointment of an independent chair, and that this could aid the succession process. At the company's AGM in the middle of the month, two thirds of independent shareholders backed a resolution calling on the company to appoint an independent chair. LAPFF had issued an alert advising members to support the resolution.

LAPFF is a member of the Investor Group of the 30% club which co-ordinates the investment community's approach to engaging with companies on board gender diversity. Together with four other investors in this group, LAPFF has written to **Vedanta, Antofagasta** and **London Stock Exchange** as companies that currently have no women on their boards, to request a meeting. A meeting with the chairman of the London Stock Exchange has been arranged.

Following a request from a member fund, LAPFF has undertaken work on the issue of blacklisting. At the October business meeting it was agreed to write to the major construction firms, and to encourage them to press ahead with the creation and implementation of a compensation scheme for those workers who had been affected by blacklisting.

PROMOTING GOOD GOVERNANCE

Global Focus List

LAPFF first corresponded with **Burberry** in December 2012, due to concerns over board and committee independence as well as concerns over remuneration targets and termination payments. At that time the company did not respond and the Forum issued a voting alert for the AGM to flag up these concerns. Eventually a meeting was arranged, at which company views were sought on pay practices, particularly regarding the potential for excessive rewards, guaranteed termination payments, and use of adjusted profit measures. Just days following the meeting, it was announced that the CEO Ms Ahrendts had resigned from Burberry to join Apple.

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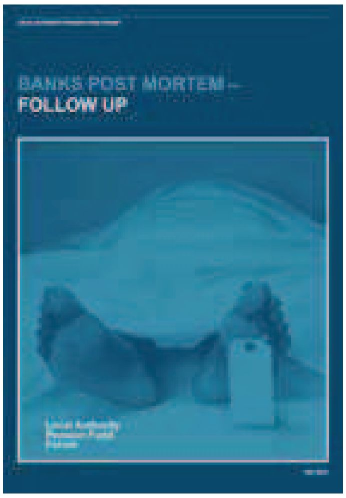
Financial Reporting & Audit

Launched at the LAPFF conference, the Banks Post Mortem follow-up provides a summary of LAPFF's concerns over the consequences of the implementation of International Financial Reporting Standards (IFRS) and the link to the collapse of the capital adequacy regime of banks in UK and the Republic of Ireland.



In the summer of 2013, LAPFF, together with a consortium of other asset owners, sought Counsel's Opinion on the consistency between IFRS and the Companies Act 2006. The Opinion from Mr George Bompas QC cast doubt on the requirements under IFRS compared to applicable law under the Companies Act 2006. The Opinion also addressed whether Martin Moore QC's 2008 Opinion for the Financial Reporting Council (FRC) could be relied upon. Mr Moore responded on behalf of the FRC in October 2013. The Bank Post Mortem follow-up provides a detailed analysis of Mr Moore's response and sets out the Forum's view that an independent enquiry into the failures of the IFRS standard setting and adoption process is needed to settle matters within an appropriate timescale.

In October, the **Competition Commission** issued a final report on proposed changes to open up the UK audit market to greater competition. The proposals include that companies must retender the audit every ten years with a five year period preferred. LAPFF, in conjunction with other investors, had written to the Competition Commission in May 2013 reiterating support for a regulatory backstop to audit tenure as well as limits to non-audit fees. Other changes include that there must be a shareholders' vote at the AGM on whether Audit Committee Reports in company annual reports are satisfactory. LAPFF had called for a statutory shareholder vote on audit committee reports in 2010 noting that it allows investors to review the quality of reporting and indicate to the company when it is perceived as inadequate.

Executive Pay

Meetings continued with companies to solicit feedback to LAPFF's Expectations for Executive Pay document. The Remuneration committee chair at **Marks & Spencer**, who is also the chief executive of National Grid, provided extensive and practical feedback on LAPFF's approach, supporting some proposals whilst agreeing to differ on others. Particularly useful was his perspective on the differing approaches of US shareholders. **Standard Chartered**'s chairman provided a useful company perspective on global pay practices and the pay matrices used by the company for executive remuneration. The discussion also covered ongoing board transition and succession planning.

A meeting has been arranged with **BT Group** to discuss the 'Expectations' document, prompted by the company's decision to reduce the short-term bonus opportunity for the Chief Executive of BT Retail. The Forum has also corresponded with **Afren**, **easyJet** and **G4S** regarding pay practices and pay complexity and to seek further meetings.

MANAGING ENVIRONMENTAL RISK

Carbon Asset Risk

Earlier this year, LAPFF joined other global investors to write the 50 largest energy and power companies, asking for disclosure on capital expenditure (capex) plans and the risks associated with development and use of reserves in light of the emerging stranded assets debate.

LAPFF, together with a group of UK investors, met with **BP** representatives to explore further the investment issues raised by this letter and to determine the company's approach to capex on reserves in the future. BP has announced a focus on value over volume, recognising that demand risk is directly linked to price risk, and is preparing a response to the investor group's request.

Following the merger earlier in the year, the new **Glencore Xstrata** presented the new group sustainability approach to a gathering of investors in a morning session followed by 'one-on-one' meetings in the afternoon. LAPFF noted its appreciation of the attendance by two board directors. The meeting covered a range of issues including business ethics, safety and human rights as well as the company's approach to carbon asset risk.

Palm oil

The Forum has engaged with UK companies on the use of sustainable palm oil for a number of years, and continues to raise this in relevant company meetings. Support for emerging standards by investors can be critical in moving the industry forward and several companies are making significant progress towards 100% certified sustainable sources. LAPFF has joined a number of institutional investors in contacting major consumer companies in the palm oil supply chain to open a conversation on the sustainability of their palm oil supplies. These companies are mainly based in the US, but also Europe and Japan.

Unilever announces that 100% of the palm oil it buys will be traceable to known sources by end 2014

(Dec 2013)

TARGETING SOCIAL ISSUES

Employment Standards

LAPFF continued to engage with companies on the impact of the RANA Plaza factory collapse and how they have changed their approaches to factory safety. Following our meetings with Sainsbury's and Next last quarter, the Forum sought a meeting with **N Brown Group** to find out how the board has responded to the increased scrutiny on Bangladesh.

The chairman of **Tesco** provided a written response providing detailed information on actions taken since the disaster and further commitments made to improve standards. At a meeting with **Burberry,** the company noted it deliberately does not use suppliers from Bangladesh, considering it a very difficult country to work in.

Following media coverage on **Lonmin's** actions during the 2012 Marikana mine incident, the Forum corresponded again with the company to hear their side of the story. The company responded noting that the 2013 annual report would have cover a range of socio-economic issues and an update would be provided on the five social initiatives at the 2014 AGM.

During the quarter, a campaign was initiated by ShareAction to raise awareness of the Living Wage amongst pension funds. LAPFF has raised the issue of the Living Wage in its engagement with a number of companies, and a briefing has been made available to members providing details of this engagement in order for members to respond.

Earlier in the year, LAPFF had met with **Deutsche Post** to encourage the company to commit to towards applying the same high employee standards as exhibited by its German operations to its operations in other countries. In October it was announced that the company had given union recognition to its Turkish supply chain staff.

Following three years of engagement with **National Express** on its approach to unionisation in the US, some LAPFF funds have joined other investors in co-filing a resolution to the company's May 2014 AGM to support improved oversight of its human capital strategy.

CONSULTATIONS & PUBLIC POLICY

ENGAGING WITH POLICY-MAKERS

The LAPFF chair met with a delegation from the **Japanese Ministry of Economy, Trade and Industry (METI)** headed by Mr. Yukihiro Sato, Chairman of Corporate Financial Executive Committee. METI had sought the meeting due to a persistent concern about IFRS within Japan and was aware of the view expressed by LAPFF and work undertaken in this regard. Japan has decided to allow companies to use IFRS, but are carefully assessing which standards should be used, whether Japanese GAAP or IFRS only on a consolidated basis, and which standards should be improved and how.

LAPFF continues to respond to proposed changes to the structure of Local Government Pension Schemes with a report submitted to the investment and engagement sub-committee of the **Shadow Pensions Board** on LAPFF's unique contribution to stewardship of pension fund assets.

CONSULTATION RESPONSES

The **Financial Reporting Council** issued Guidance on the Strategic Report for consultation which the Forum responded to in November. In its response, LAPFF raised fundamental questions about the status and compatibility of the proposed Report with UK Company Law and the preparation of annual accounts for shareholder approval. LAPFF also contributed to the response of the Investor Group of the **30% Club** of which the Forum is a member. This response included the recommendation that companies report on female representation not only on the executive committee, but also for two levels below this.

The Forum also responded to an **FRC** consultation on Directors' remuneration, looking at whether certain amendments to the UK Corporate Governance Code would be required to address some potential issues on executive remuneration. The response reflected a number of views as set out in LAPFF's 'Expectations on Executive Pay' as well as the overall approach of the report 'People and Investment Value'.

Continuing to promote improvements to the regulatory framework on governance, LAPFF responded to a consultation by the **Securities and Exchange Commission (SEC)** consultation on disclosure of pay ratios. The Forum supported SEC action to facilitate meaningful corporate disclosure of executive pay ratios and flagged up various points to consider in developing guidance for the implementation methodology. All LAPFF consultation responses can be viewed at: http://www.lapfforum.org/consultations.

In support of those member funds who are also PRI signatories, LAPFF provided input on Forum engagement activity for the on-line reporting tool, a reporting framework which signatories must complete.

NETWORKS & EVENTS

The sell-out LAPFF 2013 conference '***Licence to Operate: Holding Companies to Account***' was presided over the LAPFF chair who led debate on the future of the Local Government Pension Scheme. Discussions with active investors on enhancing company value were followed by Josh Hardie of Tesco providing a company perspective on community responsibilities. A session on climate risk and 'stranded assets' included topical contributions from both an investor and company perspective. Lord Myners closed the conference setting out lucidly why capitalism without owners will fail. Other events attended included:

- **Achieving zero emissions** – lecture by OECD Secretary General
- **Green Light Report Launch** – hosted by ShareAction
- **BP Business Reception 2013**
- **Women in the workplace** – hosted by Rt Hon Maria Miller MP
- **Law Commission Fiduciary Duty Event** – hosted by UKSIF
- **GlencoreXstrata sustainability presentation**

COMPANY PROGRESS REPORT

Company	Topics	Outcome
Afren	Remuneration	Change in Process
Antofagasta	Board Composition	Awaiting Response
Bellway	Governance (General), Board Composition	Substantial Improvement
BP	Climate Change	Moderate Improvement
BT Group	Remuneration	Dialogue
Burberry	Remuneration, Board Composition	No Improvement
easyJet	Remuneration	Dialogue
Exxon Mobil	Climate Change	Dialogue
G4S	Remuneration	Dialogue
General Mills	Climate Change	Awaiting Response
Glaxo Smithkline	Remuneration	Moderate Improvement
Hormel Foods	Sustainable Palm Oil	Awaiting Response
J.M. Smucker	Sustainable Palm Oil	Awaiting Response
Kellogg Company	Sustainable Palm Oil	Awaiting Response
Kraft Foods	Sustainable Palm Oil	Awaiting Response
London Stock Exchange	Board Composition	Awaiting Response
Lonmin	Employment Standards, Social Risk	Dialogue
Marks & Spencer	Remuneration	Substantial Improvement
Mondelez International	Sustainable Palm Oil	Awaiting Response
N Brown Group	Employment Standards, Reputational Risk	Dialogue
National Grid	Climate Change	Substantial Improvement
Nestle SA	Climate Change	Awaiting Response
Oracle	Remuneration	Awaiting Response
PepsiCo	Sustainable Palm Oil	Awaiting Response
Rio Tinto	Climate Change	Substantial Improvement
Standard Chartered	Remuneration	Substantial Improvement
Tesco	Employment Standards, Reputational Risk	Substantial Improvement
The Hershey Company	Sustainable Palm Oil	Awaiting Response
The Hillshire Brands Company	Sustainable Palm Oil	Awaiting Response
Toyo Suisan Kaisha	Sustainable Palm Oil	Awaiting Response
Twenty-First Century Fox	Board Composition, Reputational Risk	Change in Process
Vedanta	Board Composition	Awaiting Response

Companies LAPFF has not previously engaged with are indicated in bold. ‘Awaiting response’ indicates a letter was sent to the company in the quarter and a response not received in this period.

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 £120 billion.

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

PIRC

www.lapfforum.org

Aberdeen City Council
Avon Pension Fund
Barking and Dagenham LB
Bedfordshire Pension Fund
Camden LB
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Cumbria Pension Scheme
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
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 ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**28 MARCH 2014**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) EXPENDITURE FOR 10 MONTHS TO 31 JANUARY 2014;** **(2) PERFORMANCE INDICATORS 3 MONTHS TO 31 January 2014;** **(3) SUMMARY PERFORMANCE REPORT (1 APR 2011 TO 31 January 2014)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 Summary Financial Accounts: 10 months to 31 January 2014
Appendix 2 Summary Budget Variances: 10 months to 31 January 2014
Appendix 3A Balanced Scorecard : 3 months to 31 January 2014 (narrative)
Appendix 3B Balanced Scorecard in 3A: Graphs only for *selected* items
Appendix 4 Customer Satisfaction Feedback in the 3 months to 31 January 2014 *(Retirements from ACTIVE and DEFFERED status)*
Appendix 5 Active membership statistics over 57 months to 31 January 2014
Appendix 6 Joiners & Leavers statistics over 12 months to 31 January 2014
Appendix 7 Summary Performance Report on Scheme Employers/APF performance for the period to 31 January 2014 (including late payers) – Annex 1 *Retirements* & Annex 2 *Deferreds*
Appendix 8 New LGPS 2014 Engagement Activity
Appendix 9 Risk Register

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 10 months to 31 January 2014. 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 January 2014 and Summary Performance Reports on Employer and APF performance from 1 April 2011 to 31 January 2014 as well as the Risk Register. In addition, this report also includes a summary of engagement activity with stakeholders on the communication of the New LGPSA 2014.

2 RECOMMENDATION

That the Committee notes:

2.2 Administration and management expenditure incurred for 10 months to 31 January 2014

2.3 Performance Indicators & Customer Satisfaction feedback for 3 months to 31 January 2014

2.4 Summary Performance Report for period from 1 April 2011 to 31 January 2014,

2.5 Member roadshow events and employer training sessions undertaken to communicate the New LGPS 2014, including sample customer feedback.

2.6 Risk Register.

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 10 months to 31 January 2014 are contained in **Appendix 1.**

4.2 The forecast for the year to 31 March 2014 is for net expenditure to be £1,590,300 over budget. Within the directly controlled Administration budget the forecast is for expenditure to be below budget by £69,000 mainly due to delays in producing the new scheme leaflet, the late appointments of staff in the Benefits and Data Quality teams and delays in developing an employer data base. In that part of the budget that is not directly controlled expenditure is forecast to exceed the original budget by £1,659,300. This is due to increased Investment management fees resulting from the rise in 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 January 2014

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 C4 and graphs 4-6 of **Appendix 3A and 3B**) in the 3 month period is reported by showing what *percentage* of the work is outstanding. In this period 4505 new cases were received and 4675 were cleared representing 103.77% of outstanding cases.

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

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

6.4 CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 31 October 2013

6.4.1 *Retirement Questionnaires*

Appendix 4 reports on the customer satisfaction based on 76 questionnaires returned from members retiring from both active and deferred status (out of a total of 268 questionnaires issued in respect of the reporting period). 98% reported that the information provided by the Fund was both clear and concise with 96% rating the service as good or excellent.

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 261 members with more than 3 months service opted out over the 46 month period to 31 January 2013. When annualised this is 68 and expressed as percentage of the total membership of 35,000 this is only 0.19 % and is an encouraging sign that significant numbers of members are not leaving the LGPS.

7.3 The additional introduction of an alternative 50/50 scheme will also give those a cheaper option for '*when times are tough*'. This bodes 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 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 57 months period from 1 May 2009 to 31 January 2014 are shown in a graph format in **Appendix 5**.

8.3 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 AVON PENSION FUND & 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 their own and APF's administration performance against agreed targets set in the SLA.

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 January 2014 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 31 January 2014.

- Report on any late pension contributions by employers to the Fund due for the 3 months to 31 January 2014.

10 SIGNIFICANT EVENTS SINCE LAST COMMITTEE REPORT

10.1 The Fund is continuing to progress towards electronic receipt of all member data change information:

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 (starters/leavers/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 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. As at 31 January 2014 58% of employers had received full training on ESS data submission – representing 72% of total scheme membership.

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. Both Bristol CC and B&NES have been live since before the previous Committee Report.

10.4 The latest developments since the last Committee Report are:-

- **North Somerset Council** finalised its payroll data extract and the service went live in January 2014.
- **South Gloucestershire Council**: had requested deferment on taking i-Connect pending the revised extract specification requirements needed to incorporate the new LGPS 2014. Following testing, It is expected that the service will go live within the next 4 months.
- **One World Learning (Academy employer)**: Has now signed for i-Connect. Data extract testing is currently being undertaken and it is expected that the service will go live shortly.

10.5 **LGPS 2014 Engagement Activity**

- Member Roadshow Events: Avon Pension Fund is visiting employers to deliver a one hour presentation (including a question & answer session) to employee members about the new LGPS 2014. Member Self Service (MSS) is also promoted. These events have been advertised and booked online via the APF employers' website. Roadshow events commenced in February and will continue until mid-July. A summary of the impact on APF available staff resource during this time is reported in **Appendix 8**.
- Employer Training Events: A series of training sessions specifically aimed at employer HR and Payroll staff have been arranged. Six sessions have so far taken place, with 71 employer organisations attending. One session was specifically targeted at academies (22 academies attended) and another aimed at town and parish councils.

- A series of workshops have also been arranged for employers. An LGPS Discretions Policy workshop, with a representative from the Pensions Ombudsman Office, took place in February with over 50 employers in attendance. Feedback was extremely positive and a further 3 employer framework events are planned for April.

11 RISK REGISTER

11.1 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.

11.2 The Risk Register was reviewed by the pension management team in October 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

11.3 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.

11.4 The top 10 risks, including their likelihood, financial impact and mitigating actions are set out in **Appendix 9.**

11.5 The Risk Register is updated quarterly by officers and reported to Committee annually or when there is a change in significant risks. The move to new offices by November 2014 has been added to the register and is included in the table in Appendix 8 for information (risk impact is low).

12 INTERNAL AUDIT REPORTS

12.1 **Pensions Administration (Pensions Payroll)**: Internal audit completed its final review of Pensions Payroll in January 2014. The audit returned an Assurance Rating Level 4 (Good) with 3 low level weakness areas identified for action.

13 RISK MANAGEMENT

13.1 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.

14 EQUALITIES

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

15 CONSULTATION

15.1 None appropriate.

16 ISSUES TO CONSIDER IN REACHING THE DECISION

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

17 ADVICE SOUGHT

17.1 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	Martin Phillips Finance & Systems Manager (Pensions)) (*Budgets*) Tel: 01225 395259. Geoff Cleak, Acting Pensions Manager (*All except budgets*) Tel: 01225 395277
Background papers	Various Accounting and Statistical Records
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2014

	TEN MONTHS TO JANUARY 2014			FULL YEAR 2013/14		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
Administration						
Investment Expenses	61,693	60,846	(847)	71,483	71,483	0
Administration Costs	64,120	51,709	(12,411)	76,944	76,944	0
Communication Costs	75,111	4,102	(71,009)	90,133	70,133	(20,000)
Payroll Communication Costs	68,096	60,931	(7,165)	81,716	81,716	0
Information Systems	205,176	189,305	(15,871)	246,211	246,211	0
Salaries	1,230,426	1,195,791	(34,635)	1,476,511	1,441,511	(35,000)
Central Allocated Costs	354,876	347,659	(7,217)	425,851	415,851	(10,000)
Miscellaneous Recoveries/Income	(111,940)	(88,179)	23,761	(134,328)	(138,328)	(4,000)
Total Administration	**1,947,557**	**1,822,164**	**(125,393)**	**2,334,521**	**2,265,521**	**(69,000)**
Governance & Compliance						
Investment Governance & Member Training	273,129	116,360	(156,769)	327,755	277,755	(50,000)
Members' Allowances	32,588	17,955	(14,633)	39,105	39,105	0
Independent Members' Costs	23,333	21,970	(1,363)	28,000	28,000	0
Compliance Costs	392,606	425,644	33,038	471,127	491,127	20,000
Compliance Costs recharged	(159,167)	(226,023)	(66,857)	(191,000)	(256,000)	(65,000)
Total Governance & Compliance	**562,489**	**355,906**	**(206,583)**	**674,987**	**579,987**	**(95,000)**
Investment Fees						
Global Custodian Fees	107,833	78,317	(29,517)	129,400	129,400	0
Investment Manager Fees	10,437,917	11,364,028	926,111	12,525,500	14,279,827	1,754,327
Total Investment Fees	**10,545,750**	**11,442,345**	**896,595**	**12,654,900**	**14,409,227**	**1,754,327**
NET TOTAL COSTS	**13,055,796**	**13,620,414**	**564,618**	**15,664,408**	**17,254,735**	**1,590,327**

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APPENDIX 2

Summary of main budget variances: Forecast for full year at 31 January 2014

Variances Analysis of the full year forecast expenditure or income, against budget to the year end.

Expenditure Heading	Variance	Most Significant Reasons for
Communication Costs	(20,000)	Production of 2014 new scheme leaflet postponed until 2014/15 due to delays in government announcements regarding details of the scheme.
Salaries	(35,000)	Reduced expenditure following delayed appointments of staff to Benefits and Data Quality sections. Positions are now filled.
Central Allocated Costs	(10,000)	The budget included £10,000 for an Employer's data base. This has not yet been developed. It is proposed that the 2014/15 budget will include a provision for this.
Miscellaneous recoveries	(4,000)	There has been an increase in the number of Pension Sharing cases, the costs of which are recharged.
Administration	**(69,000)**	

Investment Governance & Member Training	(50,000)	The budget for investment advice in relation to the new mandate searches included a contingency which will not be required.
Compliance Costs	20,000	Additional actuarial fees have been incurred in relation to the Triennial Valuation and to the production of FRS17 / IAS19 statements required for employer's end of year Statements of Accounts. The FRS17 / IAS19 costs are passed on to the employers (see below).
Compliance Costs Recharged	(65,000)	A greater amount of actuarial costs than anticipated were at the discretion of employers and therefore rechargeable.
Investment Manager Fees	1,754,300	Investment Manager fees are forecast to be above budget as a result of the investment returns (+15%) exceeding those assumed in setting the budget which was based on asset values as at December 2012.
Expenditure Outside Direct Control	**1,659,300**	
Total Forecast Overspend	**1,590,300**	

***() variance represents an under-spend, or recovery of income over budget**
+ve variance represents an over-spend, or recovery of income below budget

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PENSIONS SECTION ADMINISTRATION

Key Performance Indicators

APPENDIX 3A to Pension Fund Administration Report at 31 Jan 2014

	INDICATOR	Green Red Amber	2012/13 Actual	Target for 2013/14	Actual 3 months to 31/01/2014	Comments	
A	**Customer Perspective**						
1	Clarity of Information Provided by APF - retirees feedback	G	97%	97%	98%	Good response from retirees	**Appendix 4**
2a	Service Standards - Processing tasks within internal targets (SLA)						
	Deaths [12 days]	G	59%	90%	91.43%	32 of 35 Tasks were completed within target	
	Retirements [15 days]	G	83%	90%	92.50%	493 of 533 Tasks were completed within target	
	Leavers (Deferreds) [20 days]	G	68%	75%	80.72%	988 of 1224 Tasks were completed within target	
	Refunds [5 days]	G	80%	75%	88.11%	215 of 244 Tasks were completed within target	
	Transfer Ins [20 days]	G	45%	75%	75.86%	154 of 203 Tasks were completed within target	
	Transfer Outs [15 days]	G	67%	75%	86.92%	93 of 107 Tasks were completed within target	
	Estimates [10 days]	G	95%	90%	97.52%	628 of 644 Tasks were completed within target	
2b	Service Standards Processing tasks within statutory limits	G	100%	100%	100%		
3	Number of complaints	G			0	No complaints received in the period	
4	Pensions paid on time	G			100%	All paid on time	
5	Statutory Returns sent in on time (SF3/CIPFA)	G			100%	Due Q2 2014/15	
6	Number of hits per period on APF website	G	51511 (4292 p/m)	3000 pcm	13,395	4465 per calendar month for reporting period	**3B Graph 1**
7	Advising members of Reg Changes within 3 months of implementation	G			N/A	Due Q1 2014/15	
8	Issue of Newsletter (Active & Pensioners)	G			100%	Active member newsletter issued February 2014	
9	Annual Benefit Statements distributed by year end	G	98%	100%	100%	All due statements issued by deadline	
B	**People Perspective**						
1	% Sickness Absence — a) Short Term — b) Long Term	G	a) 1.30% b) 0%		a) 1.89% b) 2.48%	Within corporate target	**3B Graph 2**
C	**Process Perspective**						
1	a) Services actually delivered electronically to members — b) Services *capable* of delivery to members	A	a) 0.3% b) 100%		a) 0.3% b) 100%	a) 0.03% represents the members who have agreed receive the Newsletter electronically. b) Section able to deliver all targeted services electronically	
2	a) Active membership covered by employer EDI — b) % of employers sending data electronically	G	0%	100% of 25 largest employers	a) 72% b) 58%	96% of 25 largest employers achieved (excl South Glos)	
3	% Telephone calls answered within 20 seconds	G	97%		97.1%	7699 calls, 7474 answered within 20 seconds	**3B Graph 3**
4	Maintain work in progress/outstanding at **below 10%**	G	20658 created 20892 cleared		103.77%	4505 created, 4675 cleared	**3B Graphs (4 5 & 6)**
5	Year End update procedures (conts & salaries due by 30.04.14)	G	85%	100%	98%	Next due Q1 2014/15	
6	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	A	89%	90%	89.00%	Business Financial Services (inc Pensions)	
2	Temp Staff levels (% of workforce)	G	0.74%		4.00%	Within target	

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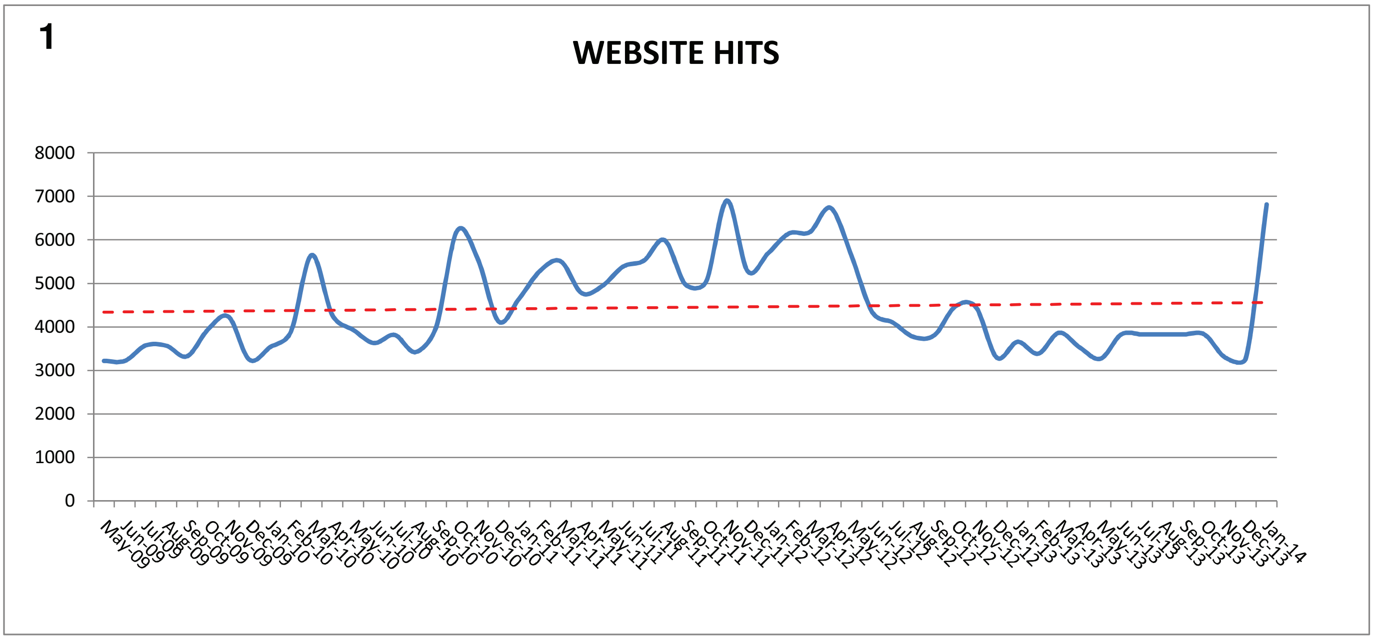
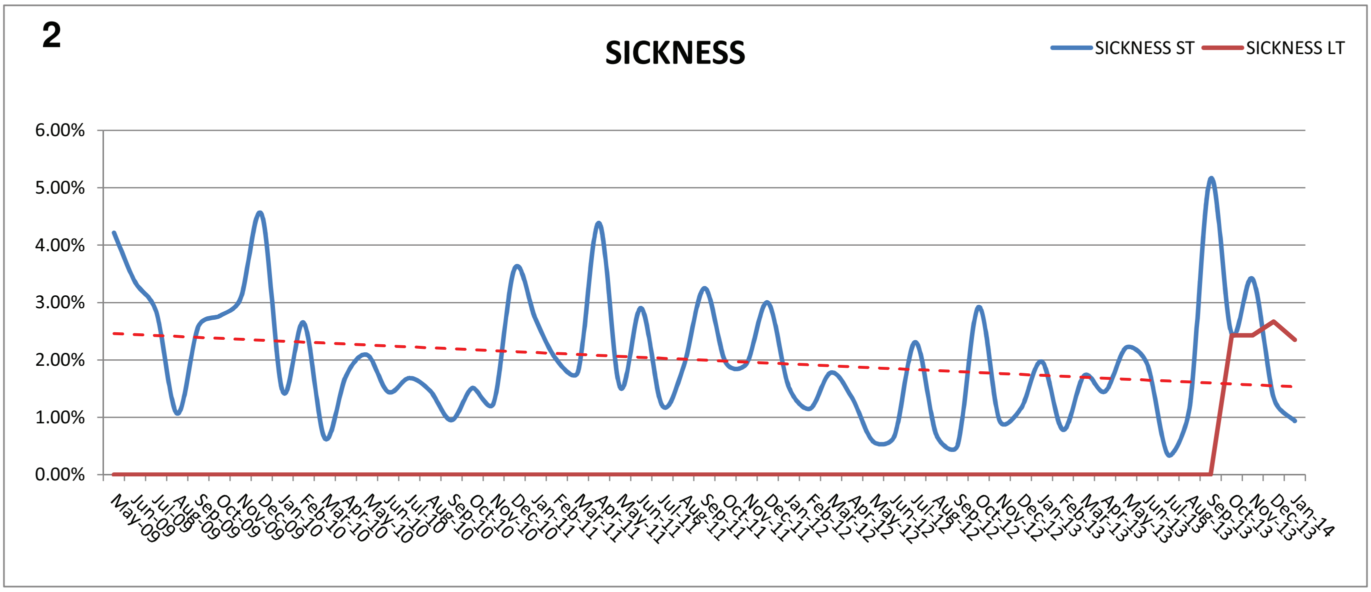
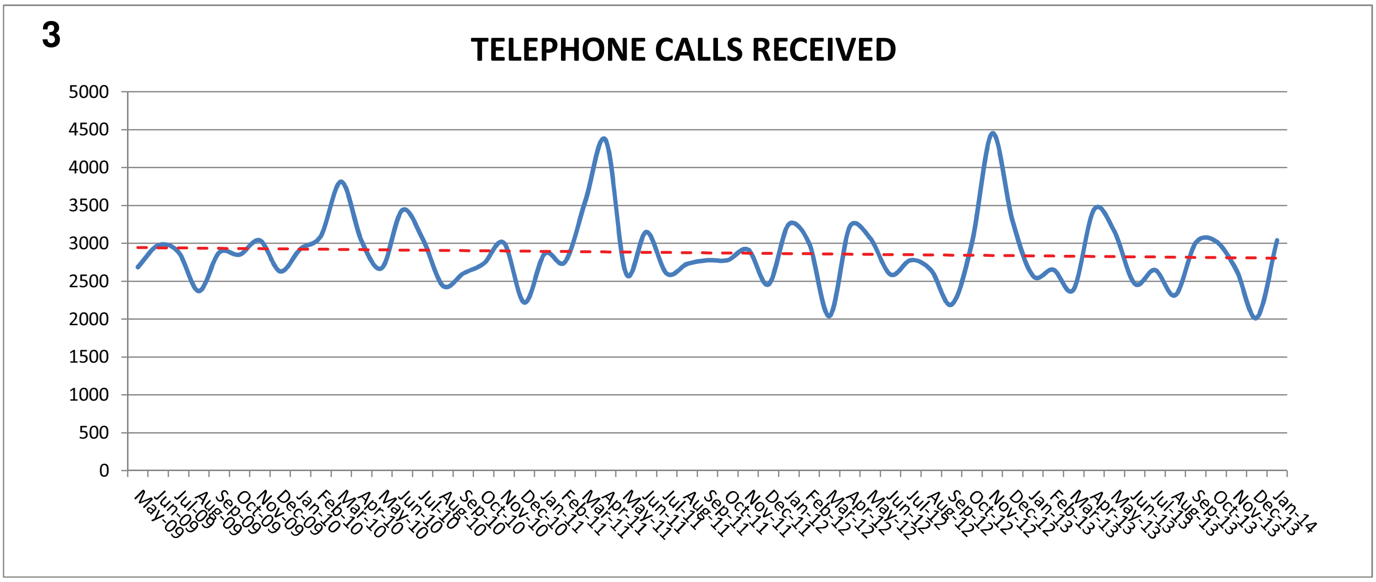
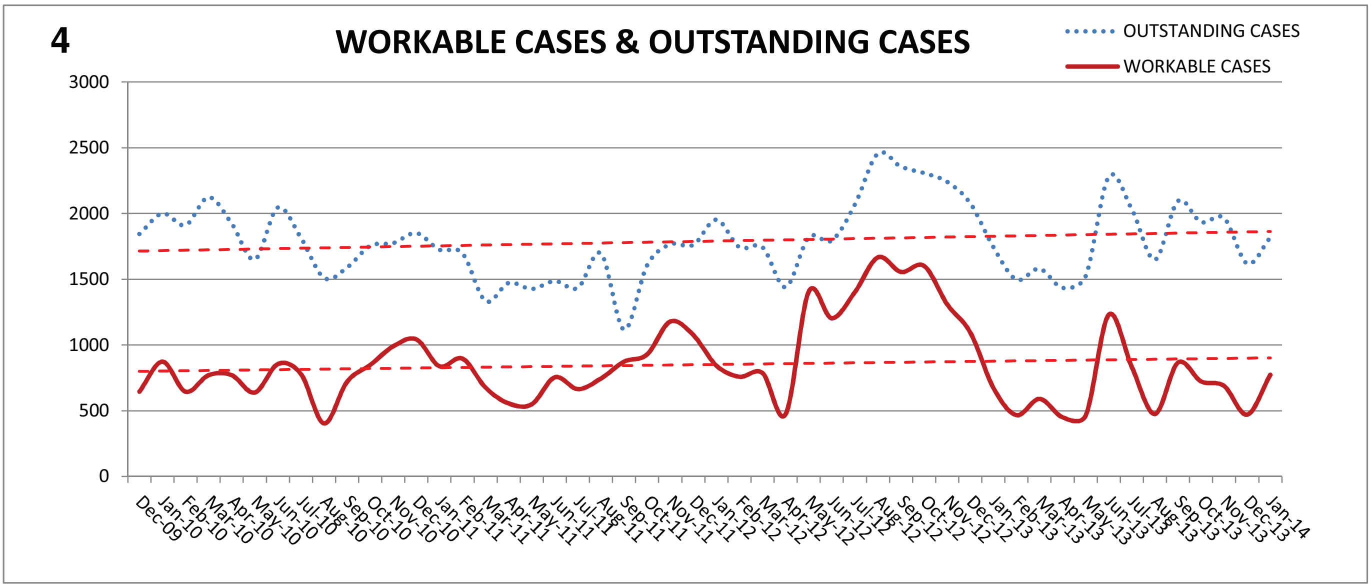
Pensions Admin Report Balanced Scorecard Appendix 3B - GRAPHS only @31st January 2014

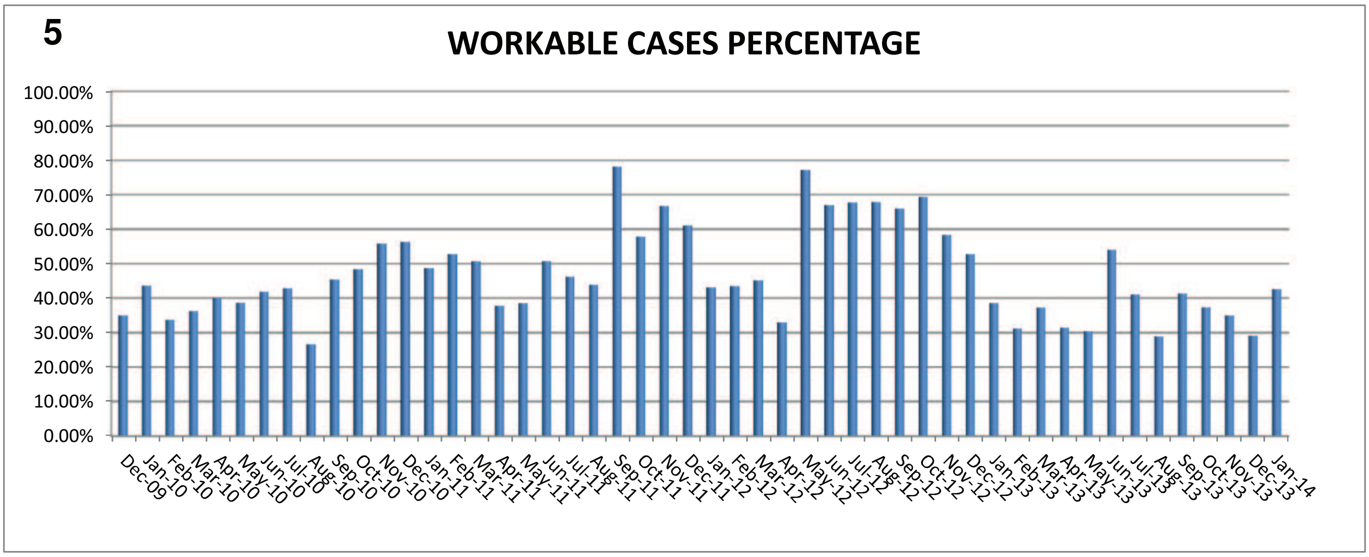


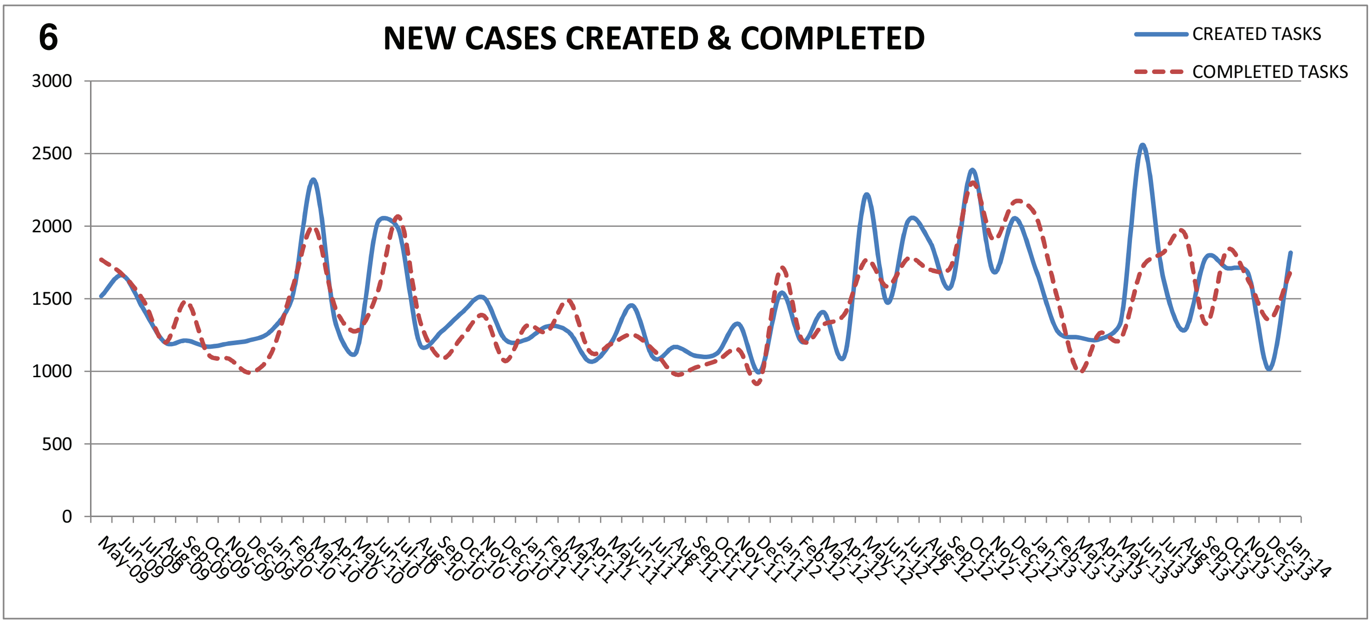




Pensions Admin Report Balanced Scorecard Appendix 3B - GRAPHS only @31st January 2014





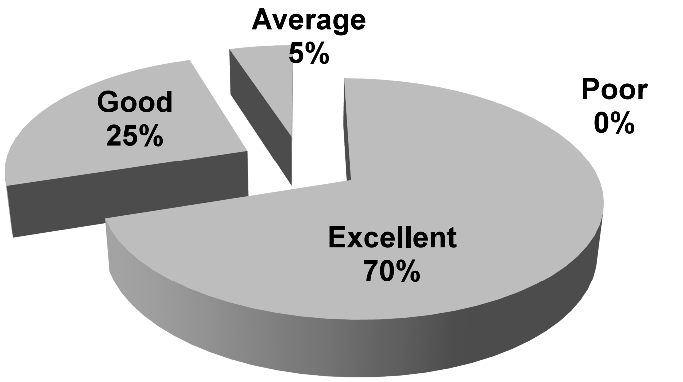


Agenda Item 14 - Appendix 4

Responses to customer feedback
Nov 2013 – Jan 2014

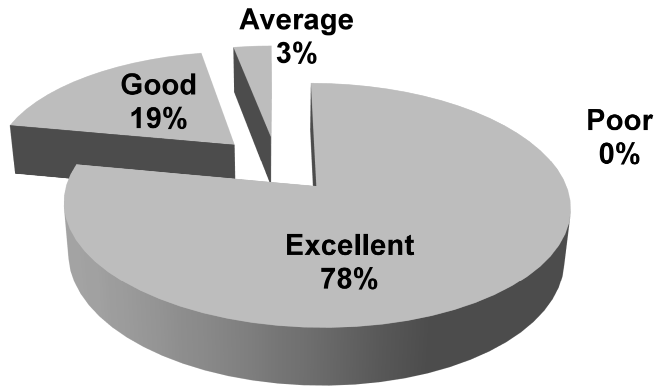
Retirement from Active status
109 members
44 responses
40% response rate

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



Deferred into payment
159 members
32 responses
20% response rate

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



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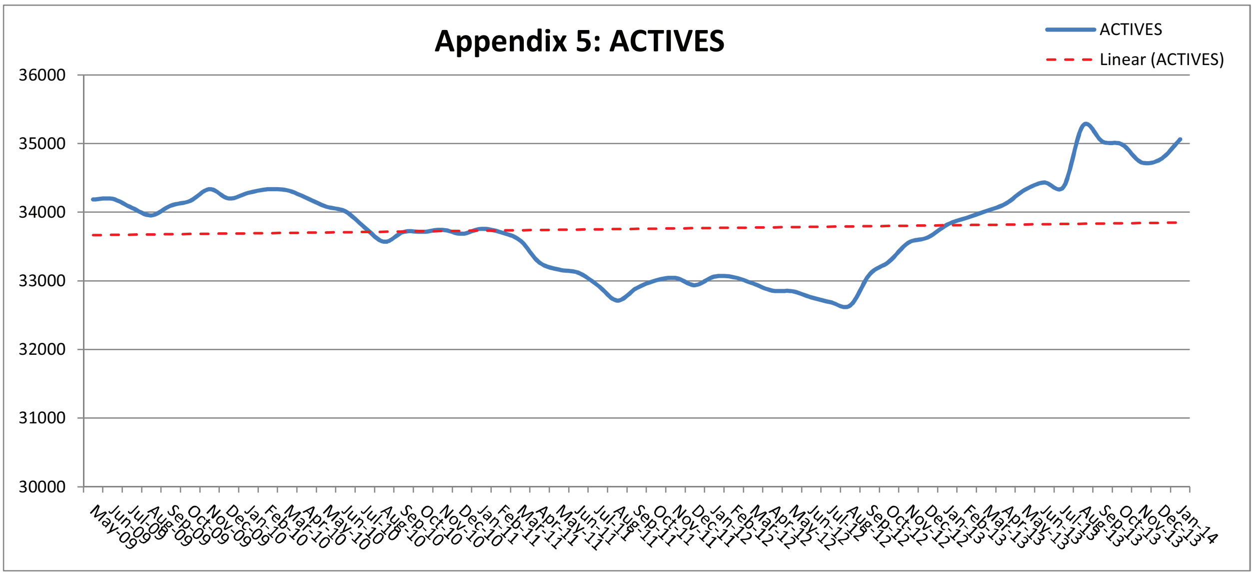
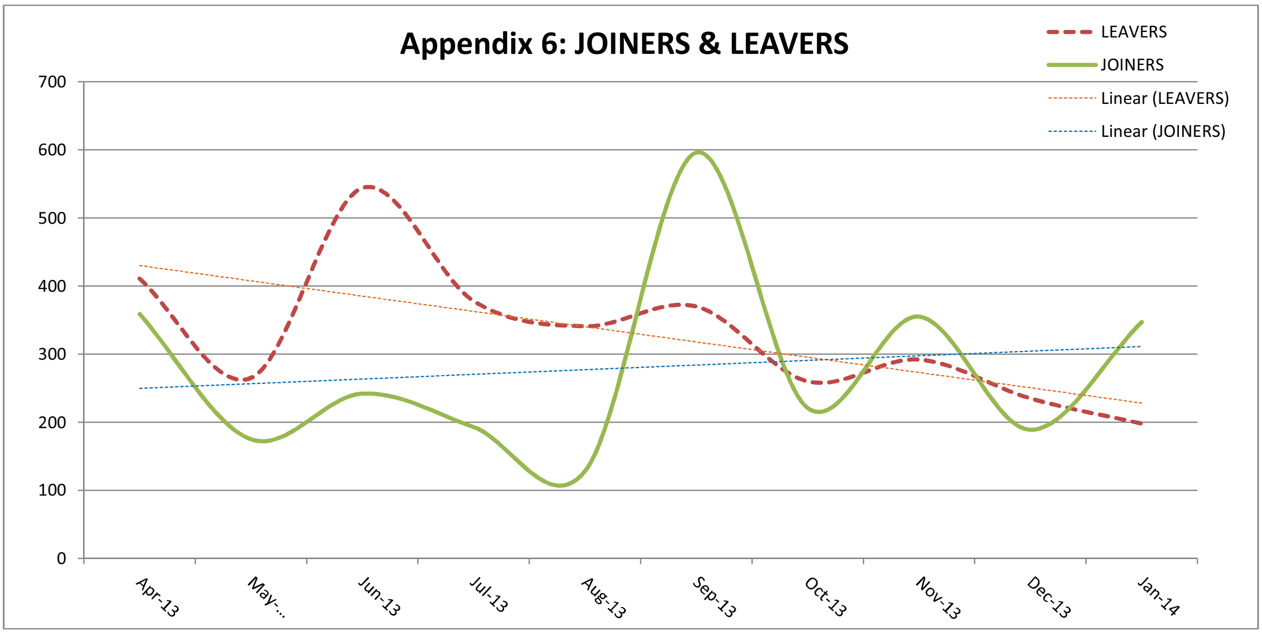
Admin Reports - Appendices 5 and 6. Actives, Joiners and Leavers to 31st January 2014





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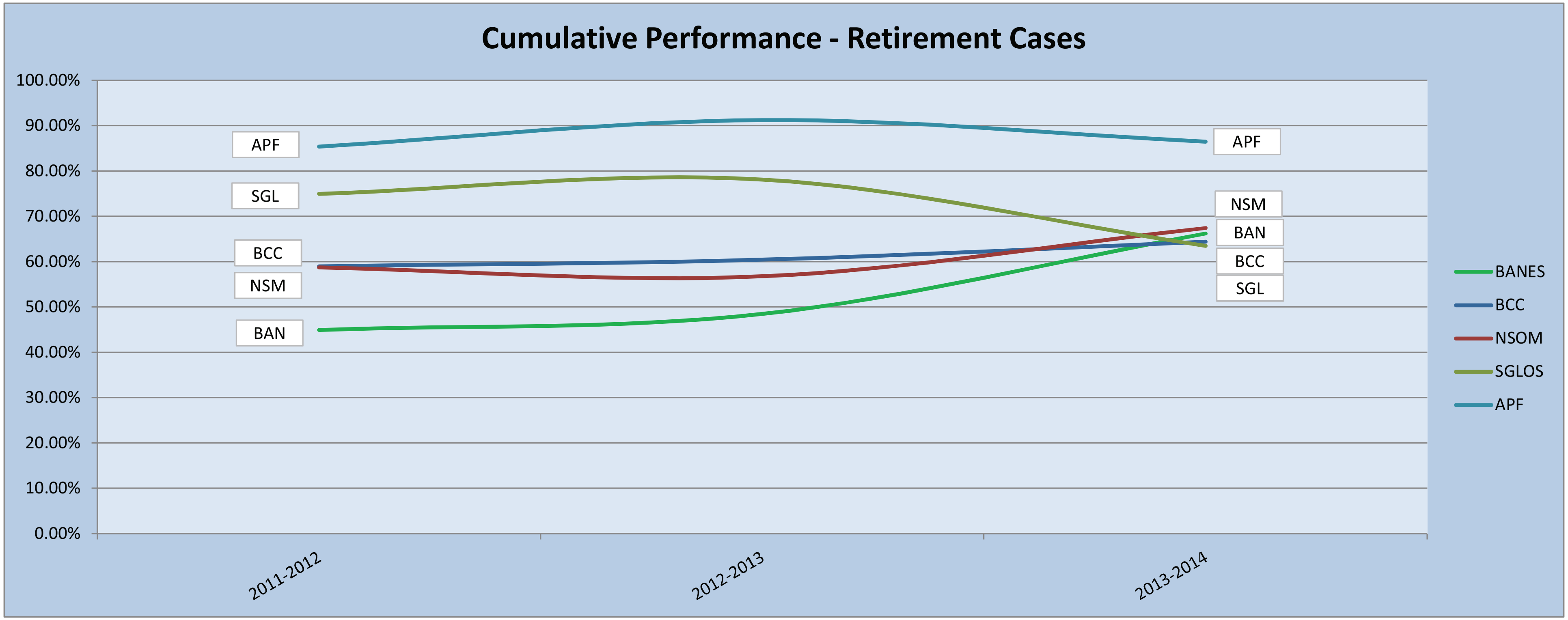
Employer Performance to 31st January 2014

Annex 1 to Appendix 7 of Admin Report



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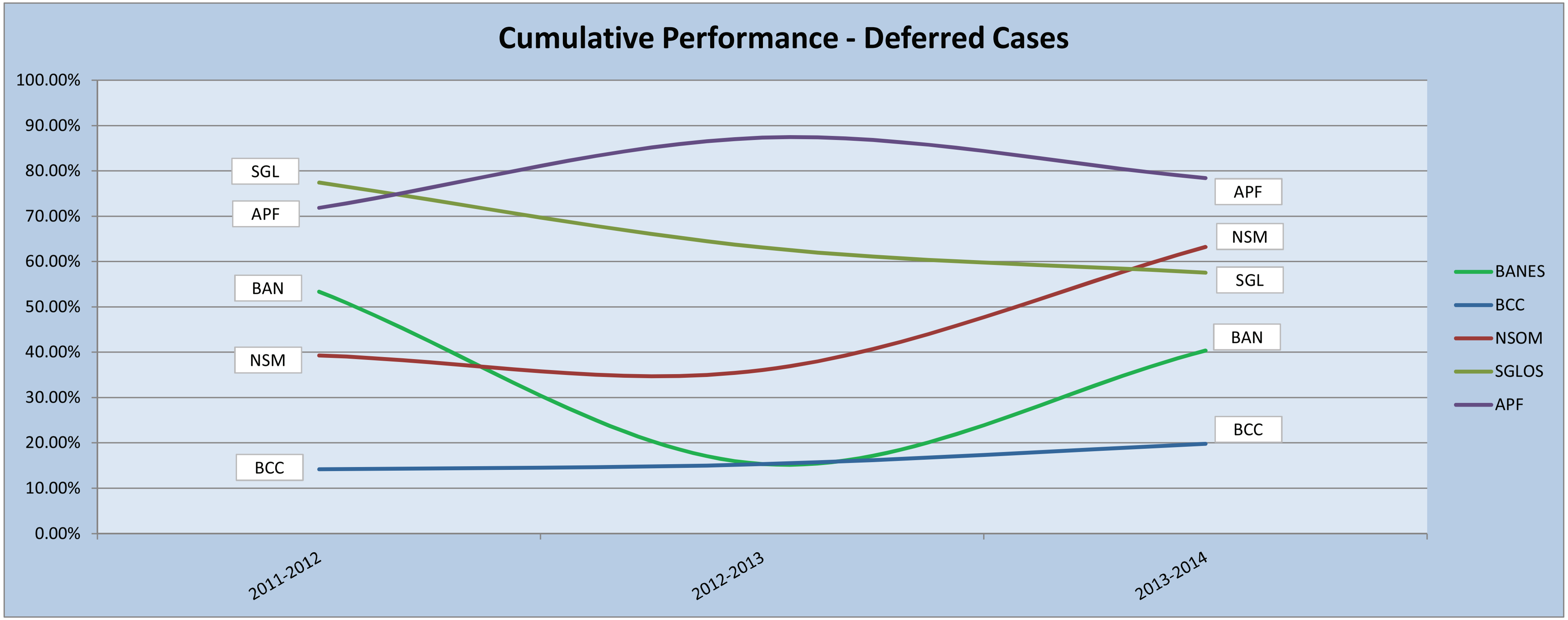
Employer Performance to 31st January 2014 Annex 2 to Appendix 7 of Admin Report



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APPENDIX 7 (to Pension Fund Administration Report Agenda Item 14)

COMMITTEE SUMMARY PERFORMANCE REPORT

This is the ninth 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 early leavers). (Annexes 1 & 2) expressed annually from 1 April 2011 to 31st January 2014.

2. Report of late payers of pension contributions (employers) in the 3 month period 1st November 2013 to 31st January 2014

* **Smaller Employers:** Performance of the remaining employers is not included in this report at 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.

2. Late payers of Pension contributions

Late payment of contributions due in 3 months to 31st January 2014:

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
The Park Community Trust	October 2013	22	£3,128.29p
Frampton Cotterell Parish Council	December 2013	10	£4,244.83p

Total number of employers = 197
Total contributions received in period = £34,404,000
Total late contributions = £7,373.12p (0.02% 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**. 2013/14 Year end Returns –Annual Benefit Statements**

Details of the data requirements for year end 2013/14 were issued electronically to all employer lead officers on 14th February 2014. The deadline for data returns has been set at 30th April 2014. Annual Benefit Statements are due by the legal deadline of 5th October 2014.

Reporting details on the receipt of employers' year end data will be contained in the next Committee report.

.

------------END--------------

APPENDIX 8

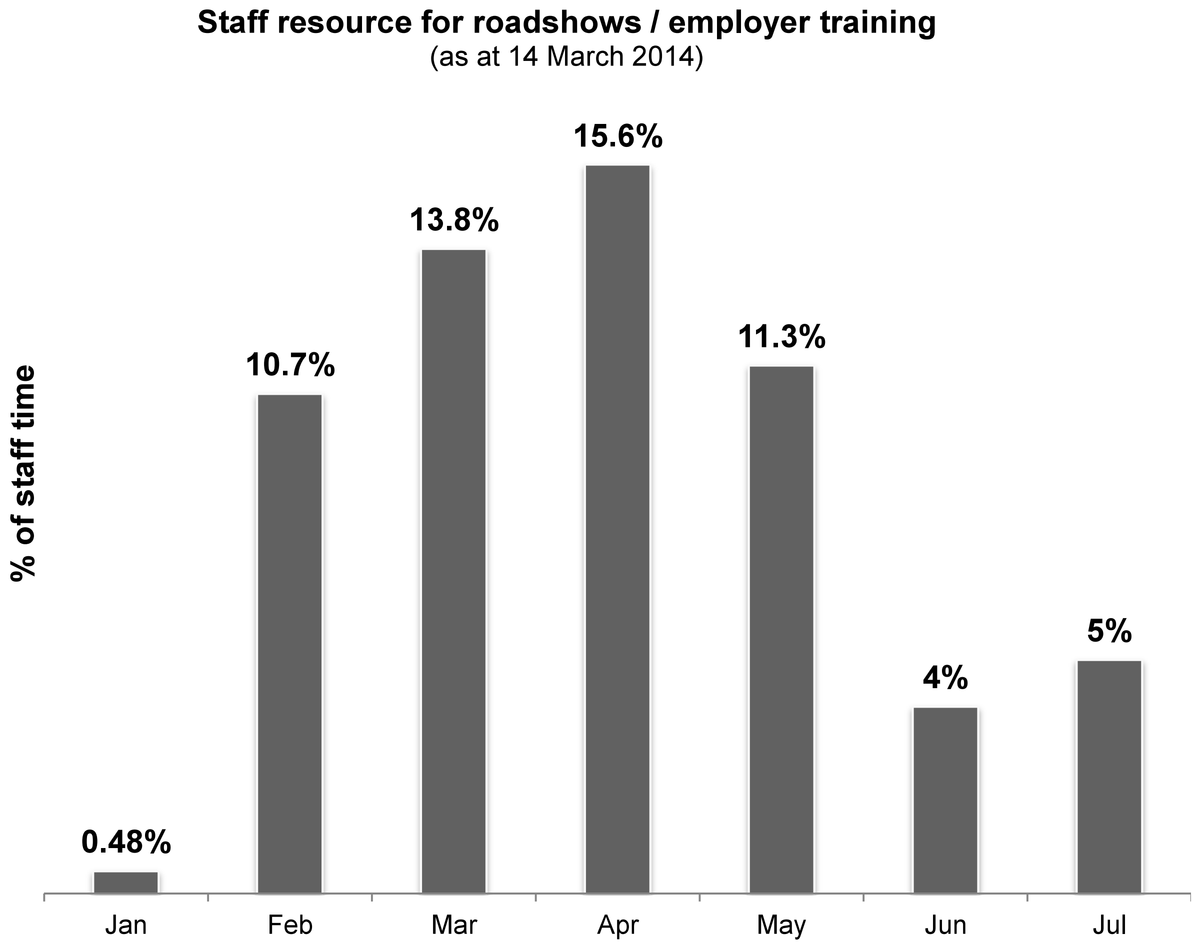
LGPS 2014 engagement activity

Member roadshows

All figures quoted below are as of 14 March.

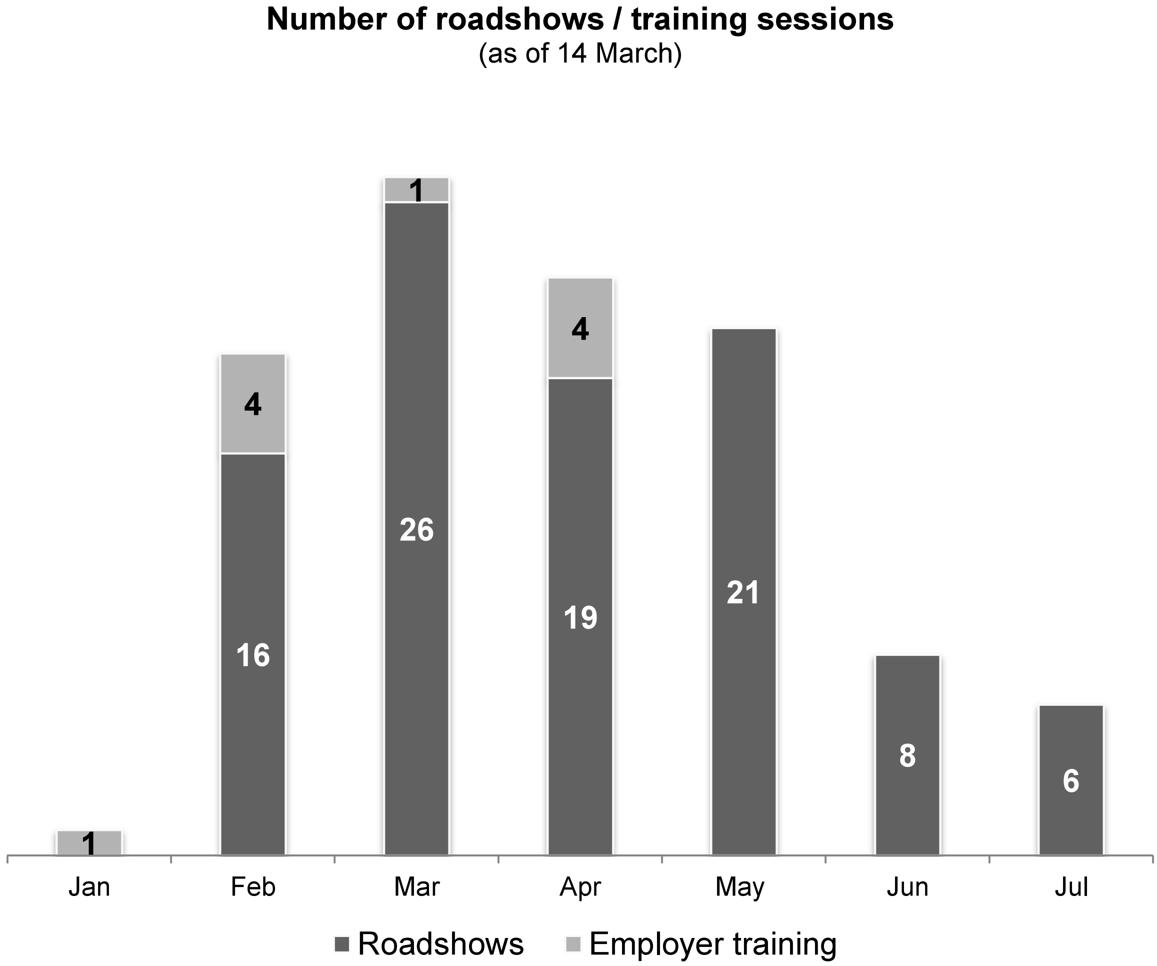
Number of roadshows booked	100
Number of roadshows held	27
Number of employers booking roadshows	66
Number of attendees	657

Staff resource for roadshows and employer training sessions



The above is based on available working days for each month / number of events each month / APF resource / average event duration.

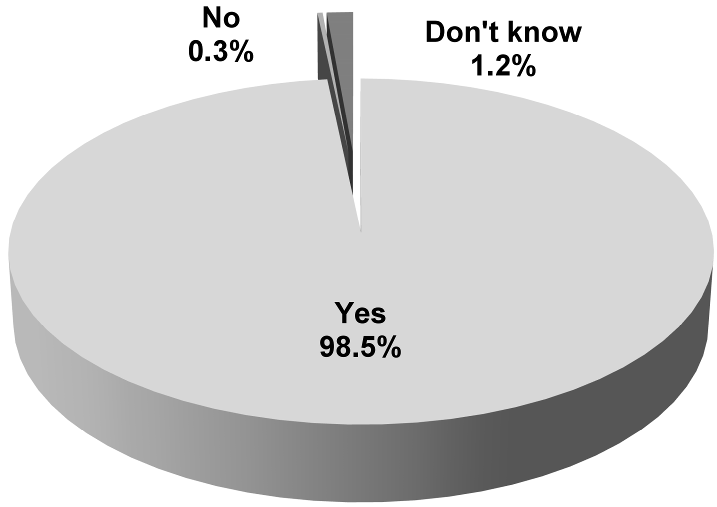
Roadshows and employer training sessions



Roadshow feedback

Feedback forms are distributed at the events. So far 380 have been completed (response rate of 58%)

Do you feel we have provided you with a good overview of the 20124 scheme?



Some comments include:

"Good presentation – it highlights some areas of benefits I was unaware of"
"Clearly presented, giving us time for info to sink in – thanks"
"My questions were answered, but I think I need to find out more"
"Clear presentation – looks like it's a clearer scheme – like the 50/50 option"
"All really clear. Thanks it was useful"
"Really pleased this was arranged as I find reading information difficult"

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AVON PENSION FUND RISK REGISTER - TOP 10 RISKS **APPENDIX 9**

			Likelihood					Impact					Risk	RAG	Scale of	Funded by
			1	2	3	4	5	1	2	3	4	5	Score		Financial	
	Risk	**Management Actions**	L		M	H		L		M	H				Impact	
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. Periodic reviews of investment strategy. Annual and quarterly monitoring of strategic allocation, investment returns and tactical opportunities.			3						4		12	A	>£1m	Increases in Employer contribution
2	Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions. This could result in the committee not making decisions in the best interest of the Fund or being unable to make decisions.	Have well defined investment policies in place setting out investment objectives and criteria. Engaging with the government through the consultation process, giving a consistent message.				4				3			12	A	>£1m	Unclear but potentially increases in employer contribution
3	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					3			9	A	>£1m	Increases in Employer contribution
4	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.			3					3			9	A	>£1m	Annual budget
5	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.			3					3			9	A	>£1m	Increases in Employer contribution

6	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.		**2**							**4**		**8**	**A**	**£10,000 to 100,000**	**Annual budget**
7	Dependence on electronic data from scheme employers. This could lead to inaccurate or incomplete data.	Internal audit to review the employer processes. Training is given to employers as to data requirements.		**2**							**4**		**8**	**A**	**£10,000 to 100,000**	**Annual budget**
8	Non compliance with the data protection act or the Pensions Regulator's codes of practice or standards. This could lead to fines, prosecutions and adverse publicity.	Pensions Manager is responsible officer for DPA. Have confidentiality agreements in place with the Fund's agents. The Fund complies with the Council's DPA policies. All personal data is transmitted from the Fund by secure portals.		**2**						**3**			**6**	**G**	**£100,000 to £1m**	**Annual budget**
9	Incorrect or late contributions from employers. This could adversely affect short term cash flow, could mean under/over funding of liabilities, breach of obligations could lead to fines.	Monthly contributions received are reconciled to employer return (and authorisation is verified). Annual reconciliation of contributions received to member records. Late payers followed up and included in quarterly monitoring report to Committee.		**2**						**3**			**6**	**G**	**£100,000 to £1m**	**Fines, penalties recharged to employer**
10	Lack of adequate resources / knowledge at scheme employers leading to a failure to comply with obligations to the pension fund and staff members leading to disproportionate work and adverse impact on productivity.	Provision of timely information and training for new employers and refresher sessions for existing employers. Enforce the penalties allowed in administration strategy for repetitive non-compliance with obligations resulting in disproportionate work.		**2**						**3**			**6**	**G**	**< £10,000**	**Annual budget. Penalties charged to employers.**
	NEW Office move: service moving to new council offices by November 2014. Risk that move delayed; physical move causes delays to work; access to systems for flexible working not fully operational by move date.	Prepare teams for new flexible working environment prior to move (review filing, start working flexibly, restructure work processes for fully electronic working). Test systems thoroughly before move to identify issues and put work around solutions in place. Have identified "movers & shakers" to engage actively with Council project team and feed back requirements to management team.		**2**					**2**				**4**	**G**	**< £10,000**	**Annual budget**

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**28 MARCH 2014**
TITLE:	**WORKPLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Investments Workplan to 31 March 2015** **Appendix 2 – Pensions Benefits Workplan to 31 March 2015** **Appendix 3 – Committee Workplan to 31 March 2015** **Appendix 4 – Investments Panel Workplan to 31 March 2015** **Appendix 5 – Training Programme 2014-15**	

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 2015 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 2014 - 15 is included as Appendix 5.

1.4 The workplans are consistent with the 2014 - 17 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 2015 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 2014-15 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 Geoff Cleak, Pensions Manager, 01225 395277
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 2015

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. • Emerging markets tender – New mandate funded in January 2014 • Infrastructure – tender to be issued in March • Review of hedge funds – start 2Q14 • Liability hedging – preliminary work to start in 2014	On track
Triennial valuation	Finalise valuation report with Actuary	1Q14
Re-tender actuarial and investment advisory contracts	Separate contracts; both will be re-tendered under the SW LGPS funds advisory framework	Commence 2Q14
Monitoring of employer covenants	Annual monitoring of changes in employers financial position	On-going
Review AVC arrangements	Review choice of investment funds offered for members	2/3Q14
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	Annually 3rd quarter
Investment Forum	To discuss funding and investment strategies and issues	Next due 4Q14
Ill health insurance options	Investigate options for insuring ill-health pension costs for smaller employers	Commence 3Q14
Employer Database	Create structure for document management system ready for using Council solution or Altair	Commence March 2014

Develop online form for receipt of contributions	Develop online form for employers to send contribution information (LGPS50 form). Roll out during year with aim of only accepting online forms from 1/4/15.	Commence March; roll out during year
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

APPENDIX 2

PENSION ADMINISTRATION TEAM WORKPLAN TO 31 MARCH 2015

Project	**Proposed Action**	**Report**
Employer Self Service rollout	Employer Self Service rolling out of all remaining employers to enable full electronic data delivery by the end of Q4 2014/5 including employer training	4 Q 14
i-Connect software – to update member data on ALTAIR pension database automatically monthly	*i-Connect* middleware to provide monthly update to APF pension database purchased by the Fund and four unitary authorities. Remaining project to admit final unitary authority and then assess requirements for on-going support. Market to other employers during 2014/15 once complete.	2/3 Q14
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). Campaign to increase the sign up of members to Member Self Service (*My Pension on line)* to allow electronic access to documents	2/3 Q14
Successfully Communicate proposed government changes to LGPS benefits	To follow through the project plan to effectively communicate the New LGPS 2014 and what it will mean for members/employers utilising electronic (website), paper and face to face meetings with employers' and their staff.	On track to end 2/3Q 14
Historic Status 9 Cases (Old member leaver cases with no pension entitlement. Previously untraced)	Identify cases and contact former members (tracing agent) concerning pension refund payment.	Report quarterly
2013/14 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 6.10.2014	3Q 14
Review Workflow & Data Processing	Implement new Task Management procedure and Workflow Arrangements. Introducing new software – Auto Task assignment.	4Q 14
TPR Requirements	Data Quality Management Control – ensure processes & procedures in place to satisfy TPR minimum requirements.	3 /4 Q 14

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Appendix 3

Committee Workplan to 31 March 2015

JUNE 2014
Roles & Responsibilities of the Committee
Review of Investment Performance for Year Ending 31 March 2014
Pension Fund Administration – Budget Outturn 2013/14, Performance Indicators for Quarter/Year Ending 31 March 2013 and Risk Register Action Plan
Annual Review of Investment Strategy (By Investment Consultant)
Report on Investment Panel Activity
Annual Responsible Investing Report
Approval of Draft Accounts 2013/14 prior to formal approval by Corporate Audit Committee and noting of Audit Plan 2013/14
Review of AVC Arrangements
DCLG Consultation on Governance Arrangements (depending on DCLG)
DCLG consultation on future structure of LGPS funds (depending on DCLG)
Approval of Committee's Annual report to Council
Workplans
Planned Workshops: None

SEPTEMBER 2014
Review of Investment Performance for Quarter Ending 30 June 2014 (including review of Internal Control Reports)
Pension Fund Administration – Budget Monitoring 2014/15, Performance Indicators for Quarter Ending 30 June 2014 and Risk Register Action Plan
Report on Investment Panel Activity
Approval of Final Accounts 2013/14 prior to formal approval by Corporate Audit Committee
Workplans
Planned Workshops : Implications of new governance arrangements

DECEMBER 2014
Review of Investment Performance for Quarter Ending 30 September 2014
Pension Fund Administration – Budget Monitoring 2014/15, Performance Indicators for Quarter Ending 30 September 2014 and Risk Register Action Plan

Committee Workplan to 31 March 2015

Report on Investment Panel Activity
Review options for Ill health insurance for smaller employing bodies
Workplans
Planned Workshops

MARCH 2014
Review of Investment Performance for Quarter Ending 31 December 2014
Pension Fund Administration – Budget Monitoring 2014/15, Performance Indicators for Quarter Ending 31 December 2014 and Risk Register Action Plan
Budget and Service Plan 2015/18
Report on Investment Panel Activity
Audit Plan 2014/15
Workplans
Planned Workshops

Appendix 4

INVESTMENT PANEL WORKPLAN to 31 March 2015

Panel meeting / workshop	Proposed reports
4 June 2014	• Review mangers performance to March 2014 • Review of Hedge Fund portfolio • *Review AVC arrangements* • Meet the managers workshop (Stenham, Schroder property)
3 September 2014	• Review mangers performance to June 2014 • Meet the managers workshop (Schroder equity, Record)
21 November 2014	• Review mangers performance to September 2014 • Meet the managers workshop (Jupiter, TT, Partners)
February 2015 (TBA)	• Review mangers performance to December 2014 • Meet the managers workshop (tbd)

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Avon Pension Fund Committee Training Programme 2014-15

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	Ongoing by Panel in quarterly monitoring of manager performance Annual report to Committee by Investment Consultant

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 investing in different assets e.g. Infrastructure, Liability investing
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	Funding update reports quarterly to Committee 2015 interim valuation