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11 March 2016
Democratic_Services@bathnes.gov.uk

To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Paul Myers, Cherry Beath and Shaun McGall

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

Co-opted Non-voting Members: Cheryl Kirby (Parish and Town Councils), Steve Paines (Trade Unions) and Wendy Weston (Trade Unions)

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 18th March, 2016

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 18th March, 2016** at **2.00 pm** in the **Council Chamber - Guildhall, Bath**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

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

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

1. **Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Guildhall Bath (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. **Recording at Meetings**:-

   The Openness of Local Government Bodies Regulations 2014 now allows filming and recording by anyone attending a meeting. This is not within the Council's control.

   Some of our meetings are webcast. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

   To comply with the Data Protection Act 1998, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator

   The Council will broadcast the images and sound live via the internet www.bathnes.gov.uk/webcast An archived recording of the proceedings will also be available for viewing after the meeting. The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. **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 - Reception: Civic Centre - Keynsham,- 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.

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

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

7. **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, 18th March, 2016

at 2.00 pm in the Council Chamber - Guildhall, Bath

A G E N D A

1. EMERGENCY EVACUATION PROCEDURE

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

3. DECLARATIONS OF INTEREST

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 complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) 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 or a member of his staff 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: 3RD FEBRUARY 2016 (Pages 7 - 16)

8. AUDIT PLAN 2015/16 (Pages 17 - 34)

9. SEPARATE IDENTIFICATION OF PENSION FUND TRANSACTIONS AND BALANCES (Pages 35 - 38)

10. LGPS POOLING OF INVESTMENTS - UPDATE (Pages 39 - 48)

11. BUDGET AND SERVICE PLAN 2016/19 (Pages 49 - 80)

12. TREASURY MANAGEMENT POLICY (Pages 81 - 88)

13. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 89 - 96)

14. INVESTMENT PERFORMANCE AND STRATEGY MONITORING REPORT- PERIOD ENDING 31ST DECEMBER 2015 (Pages 97 - 152)

15. BUDGET AND CASHFLOW MONITORING REPORT - PERIOD ENDING 31ST DECEMBER 2015 (Pages 153 - 162)

16. PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR QUARTER ENDING 31ST DECEMBER 2015 AND RISK REGISTER (Pages 163 - 190)

17. BREACHES PROCEDURE (Pages 191 - 202)

18. LGPS UPDATE: ADMINISTRATION AND PROPOSED LEGISLATION CHANGES (Pages 203 - 224)

19. WORKPLANS (Pages 225 - 236)

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

Wednesday, 3rd February, 2016, 3.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Paul Myers, Cherry Beath and Shaun McGall

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

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

Advisors: Tony Earnshaw (Independent Advisor)

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

54 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

55 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from William Liew, Cheryl Kirby and Wendy Weston.

56 DECLARATIONS OF INTEREST

There were none.

57 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

59 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

60 MINUTES: 11TH DECEMBER 2015

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

A Member requested an update on Minute 46 (MFID II – Implications for LGPS Funds). The Assistant Investments Manager replied that the criteria by which the Fund would be classified either as a professional or a retail investor were still not known. It was also unclear when the Regulations would come into effect; there was still talk about them being delayed for at least a year. The Head of Business, Finance and Pensions said that impression given at an LGA meeting in January was that the Treasury was unconcerned about the proposal, and would not take any steps to counter it.

61 EXCLUSION OF THE PUBLIC

The Committee having been satisfied that the public interest would be better served by not disclosing relevant information and in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, **RESOLVED** that the public should be excluded from the meeting for agenda items 8 and 9 and the reporting of these items be prevented under Section 100A(5A), because of the likely disclosure of exempt information as defined in paragraph 1 and 2 of Part 1 of Schedule 12A of the Act, as amended.

62 LGPS POOLING OF INVESTMENTS - PROPOSAL

The Head of Business, Finance and Pensions introduced this item.

After discussion, it was **RESOLVED** to agree the recommendations with one amendment.

63 DRAFT INVESTMENT REGULATIONS - CONSULTATION

The Assistant Investments Manager introduced this item.

After discussion it was **RESOLVED** to delegate approval of the final response to the consultation to the Chair.

The meeting ended at 5.18 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

Document is Restricted

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**18 MARCH 2016**	**AGENDA ITEM NUMBER**
TITLE:	**AUDIT PLAN FOR THE YEAR ENDING 31st MARCH 2016**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 Audit Plan**		

1. THE ISSUE

1.1. The Pension Fund Audit Plan, attached as **Appendix 1** was prepared by the external auditors Grant Thornton.

1.2. A representative of the audit team will be present to answer any questions regarding the plan at the meeting.

2. RECOMMENDATION

That the Committee notes

2.1 The Audit Plan for the accounts for the year ended 31 March 2016.

3. FINANCIAL IMPLICATIONS

3.1. The financial implications of the audit report are primarily related to the fees for the external audit.

5. AUDIT PLAN

5.1 The audit plan sets out the work which Grant Thornton intend to carry out for the 2015/16 audit of the Pension Fund accounts. The Plan is compiled from a risk based approach to audit planning and the document sets out the key risks which may potentially impact on the auditors work and the dates for its completion.

5.2 The indicative fee for the 2015/16 audit is £30,116. This is made up of the £28,805 quoted in the Audit Plan plus £1,311 variation reflecting the additional assurances that the auditors are required to provide to the auditors of third party organisations. The indicative rate for the 2014/15 audit was £30,116 but was later reduced by a rebate.

6. RISK MANAGEMENT

6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

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 contained in the report.

10. ADVICE SOUGHT

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

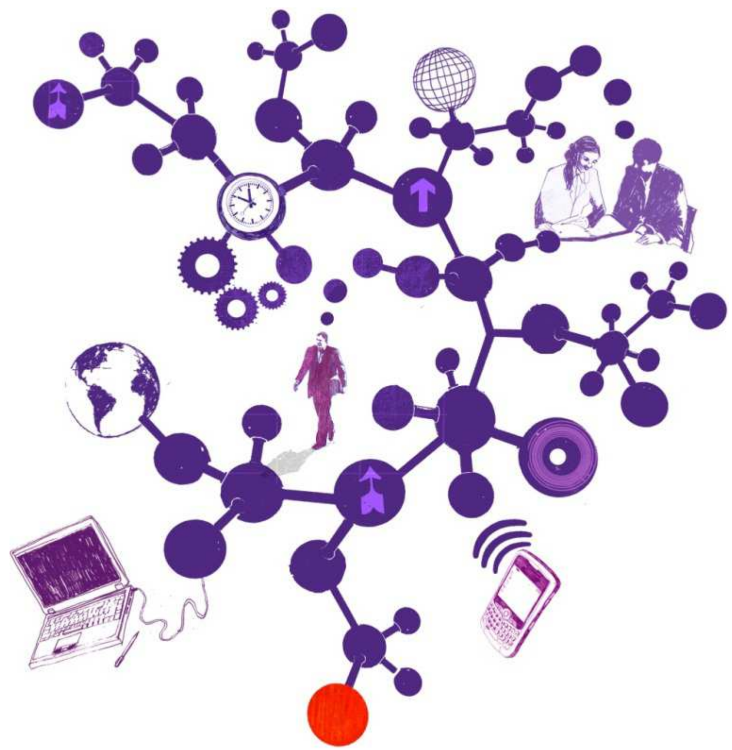
Contact person	Martin Phillips Finance & Systems Manager (Pensions)) Tel: 01225 395369.
Background papers	Various Accounting Records
Please contact the report author if you need to access this report in an alternative format	

Grant Thornton

The Audit Plan for Avon Pension Fund

Year ending 31 March 2016

18 February 2016



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18 February 2016

Dear Members of the Avon Pension Fund Committee

Audit Plan for Avon Pension Fund for the year ending 31 March 2016

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This Audit Plan sets out for the benefit of those charged with governance (in the case of Avon Pension Fund, the Pension Fund Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Pension Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Fund's financial statements
- give an opinion on the Pension Fund Annual Report.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Julie Masci

Associate Director

Contents

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Pooling of Investments

- As part of the summer budget 2015 the government has invited LGPS administering authorities to submit proposals for investing their assets through pools of at least £25 billion, with the intention of reducing investment management costs and potentially improving returns.
- The government anticipates that this will improve both capacity and capability to invest in large scale infrastructure projects.
- Initial proposals are to be submitted to DCLG by mid February, with final plans agreed by 15 July 2016.

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2. Changes to the investment regulations

- In November 2015, DCLG published draft proposals in relation to the investment regulations governing LGPS funds.
- The proposals seek to remove some of the existing prescribed means of securing a diversified investment strategy and instead give funds greater responsibility to determine the balance of their investments and take account of risk.

3. Governance arrangements

- Local pension boards have been in place since April 2015, and were introduced to assist with compliance and effective governance and administration of the scheme.
- There remains a continued focus on the affordability, cost and management of the scheme, and as such it remains critical that appropriate governance arrangements are in place for the fund.

4. Local Government Outsourcing

- As many Councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.

5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require funds to bring forward the approval of draft accounts and the audit of financial statements to the 31 May and 31 July respectively by the 2017/18 financial year.

Our response

1.
- We will continue to discuss with officers their plans for asset pooling and the implications that this will have on both the investment policy and governance arrangements of the fund.

2.
- We will discuss with officers their plans to respond to these changes and consider the impact on the fund's investment strategy and its risk management approach to investments.

3.
- We will continue our on-going dialogue with officers around their governance arrangements, particularly in light of their proposals for pooling investments.
- We will continue to share emerging good practice with officers.

4.
- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the fund.

5.
- We will work with you to identify areas of your accounts production where you can learn from good practice in others.
- We aim to complete all substantive work in our audit of your financial statements by mid August 2016 this year, in line with previous years.

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets.

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2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2016, however the Pension Fund needs to ensure ongoing compliance with the Code.

3. LGPS 2014

- Funds have implemented the requirements of LGPS 2014 and moved to a career average scheme.
- This will continue to increase the complexity of the benefit calculations and the arrangements needed to ensure the correct payment of contributions.
- In addition, this places greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems In place to maintain and report on this data.

4. Accounting for Fund management costs

- There continues to be a spotlight on the costs of managing the LGPS, and in particular investment management costs.
- Last year CIPFA produced guidance aimed at improving the transparency of management cost data and suggested that funds should include in the notes to the accounts a breakdown of management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.
- This guidance is currently being updated.

Our response

1. Financial Pressures

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

2. Financial Reporting

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

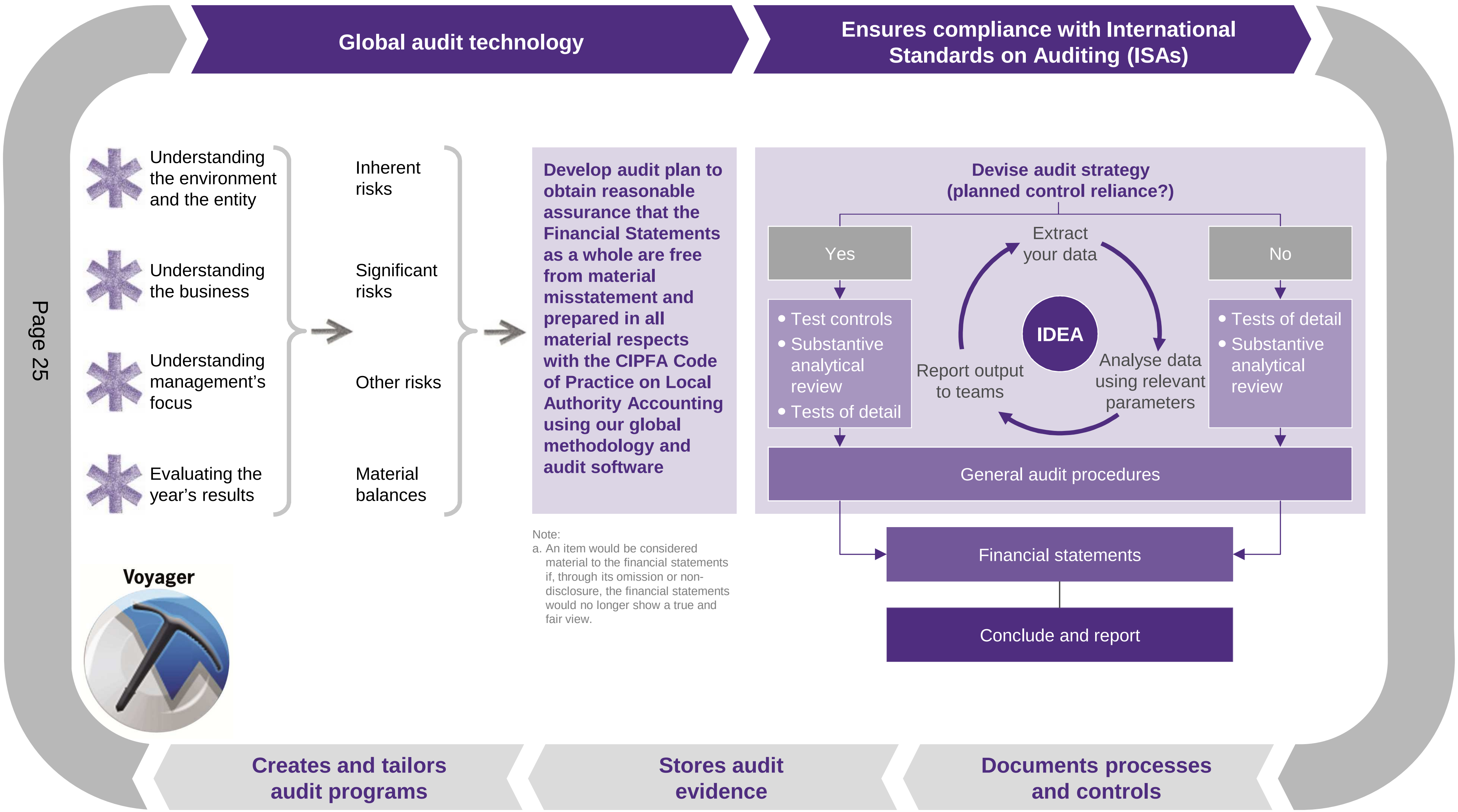
3. LGPS 2014

- We will continue to review the arrangements that the fund has in place for the quality of its membership data.

4. Accounting for Fund management costs

- We will continue to discuss with officers their plans for increasing the level of transparency associated with the costs of managing the fund.

Our audit approach



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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in pension schemes, we have determined materiality for the statements as a whole as a proportion of net assets for the fund. For purposes of planning the audit we have determined overall materiality to be £38.348m (being 1% of net assets). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

In the previous year, we determined materiality to be £38.393m (being 1% of net assets).

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £1.917m.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified no items where separate materiality levels are appropriate.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Avon Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Bath & North East Somerset Council as the administering authority, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** • Review of accounting estimates, judgments and decisions made by management • Commencement of journals testing • Review of unusual significant transactions **Further work planned:** • Completion of the testing of journal entries to year end • Review of unusual significant transactions to year end

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Level 3 Investments – Valuation is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	**Work completed to date:** • We have updated our understanding and discussed the cycle with relevant personnel from the team during the interim audit. **Further work planned:** • To perform walkthrough tests of controls. • For a sample of investments, test valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. • To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Investment purchases and sales	Investment activity not valid. Investment valuation not correct	**Further work planned:** • We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances.
Investment values – Level 2 investments	Valuation is incorrect (Valuation net)	**Further work planned:** • We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances.
Contributions	Recorded contributions not correct (Occurrence)	**Further work planned:** • Controls testing over occurrence, completeness and accuracy of contributions, • We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	**Further work planned:** • Controls testing over, completeness, accuracy and occurrence of benefit payments, • Test a sample of individual pensions in payment by reference to member files. • We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.
Member Data	Member data not correct. (Rights and Obligations)	**Further work planned:** • Sample testing of changes to member data made during the year to source documentation

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Other risks identified (continued)

Other material balances and transactions

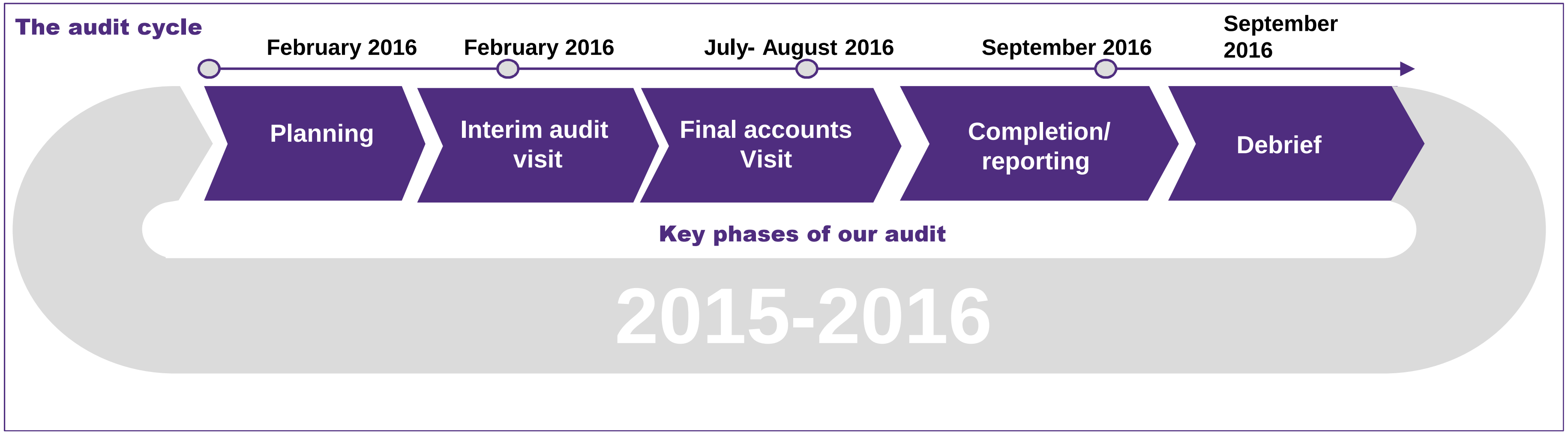
Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include :

- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments

Interim audit work

We have commenced our interim audit and we shall be reporting the results of this work to the next pension fund committee.

Key dates



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Date	Activity
February 2016	Planning
February 2016	Interim site visit
18 March 2016	Presentation of audit plan to Pension Fund Committee
July- August 2016	Year end fieldwork
August 2016	Audit findings clearance meeting with Avon Pension Fund Finance & Systems Manager
27 September 2016	Report audit findings to those charged with governance (B&NES Corporate Audit Committee)
27 September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Pension Fund Scale Fee	28,805
Proposed fee variation – IAS 19 Assurances	-
Total audit fees (excluding VAT)	**28,805**

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Fund and its activities, have not changed significantly.
- The Fund will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and the Annual Audit Letter of the Administering Authority.

Independence and ethics

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

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the fund's key risks when reaching our conclusions under the Code.

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

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

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Bath & North East Somerset Council			
MEETING:	**AVON PENSION FUND COMMITTEE**	**AGENDA ITEM NUMBER**	
MEETING DATE:	**18 MARCH 2015**		
TITLE:	**SEPARATE IDENTIFICATION OF PENSION FUND TRANSACTIONS AND BALANCES**		
WARD:	**'ALL'**		
AN OPEN PUBLIC ITEM			
List of attachments to this report: **None**			

1 THE ISSUE

1.1 In its Audit Findings Report for the year ended 31 March 2015 the external auditors made a medium priority recommendation that the Council consider action to allow Pension Fund transactions and balances to be more easily identified separately from the Council's transactions and balances.

2 RECOMMENDATION

2.1 That the Committee notes the additional controls to be set up in the Council's Financial Management system to more easily identify Avon Pension Fund journal transactions as outlined in the report.

3 FINANCIAL IMPLICATIONS

3.1 The amendments required to the system will be carried out by the Finance Systems Team as part of its maintenance and support of the Financial Management System and no further costs would be incurred by the Avon Pension Fund. The alternative, to set up a separate company within the Financial Management System would require the diversion of significant staff resources.

4 THE REPORT

4.1 The Pension Fund accounting system includes the following journals:

a) Those that are entirely contained within the Pension Fund accounts

b) Those that are between the Pension Fund and the Council accounts. An example of this is the recharging to the Fund by the Council for accommodation costs which is done via a journal in both the pension fund accounts and the Council's.

4.2 During the audit of the Pension Fund final accounts of 31 March 2015 the external auditors required the identification of all the journals (and consequently transactions and balances) that related to the Pension Fund. They were able to extract journals that exclusively related to the Pension Fund and excluded the rest of the Council. They could also extract all journals that related to the whole Council including the Pension Fund. However they could not extract journals that related to both the Council and the Pension Fund without including all other journals of the Council. This could only be achieved by extracting all journals and manually removing journals that did not relate to the Pension Fund.

4.3 The Audit Findings Report for the year ended 31 March 2015 included a medium priority recommendation that the Council consider separating the Pension Fund within the Agresso ledger system to allow Pension Fund journals and consequently transactions and balances, to be separately identified.

4.4 Avon Pension Fund has used the Council's core Financial Management System, Agresso Business World, since 2003. The Avon Pension Fund accounts sit within the Council's reporting hierarchy on the Financial Management System, but the Fund is not set up as a 'standalone company'. Avon Pension Fund accounts are identified separately within the Chart of Accounts with unique identifiers, ensuring a clear separation from the accounts of the Council. The unique identifiers relate to both cost centres and account codes. Further measures to ensure separation include separate supplier references and a holding account with accumulated transactions and balances.

4.5 Staff from the Pension Fund and the Council's Financial Systems Team have investigated two options as to how journals could be separately identified within the Financial management system.

4.5 One option considered was to create a totally separate company for the pension fund within the Financial Management system. This would most clearly separate the Fund from the Council in the Financial Management System. The Council does not currently have any separate companies within the system consequently the full implications of this would require further detailed research. A major project would be required including the creation of a separate structure of accounts and new processes to replace the financial controls that are currently part of the Council's financial management system. Establishing a separate company within Agresso would break the continuity of transactions between pre and post separation. This is particularly significant for the Pension Fund that frequently refers to historic data.

4.6 The second option considered was to maintain the Pension Fund within the current structure of the Financial Management System and to create a separate journal type identifier. This would allow all transactions relating to the Pension Fund to be separately identifiable and for all transactions unrelated to the Fund to be excluded without manual intervention.

4.7 The creation of a separate journal identifier and the development of reports utilising that identifier will meet the concerns expressed in the audit recommendation and can be achieved by the Finance Systems Team within its planned maintenance and support of the Financial Management system.

4.8 The creation of a separate company within the Financial Management System would lead to a loss of the continuity of historic data and would require significant staff time during a period when the Fund and the Council are under considerable pressure. The creation of a separate journal identifier would meet the concerns of the Auditors and could be achieved within current resources. For the reasons stated, the system will be amended to use separate journal identifiers.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6 EQUALITIES

6.1 This report provides recommendations about the Fund’s Financial Management System and no specific equalities impact assessment was carried out.

7. CONSULTATION

7.1 The External Auditors were consulted over the recommendation in this report.

8. ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 The issues are detailed in the report.

9. ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - 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) Tel: 01225 395259.
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 503/16

Meeting / Decision: Avon Pension Fund Committee
Date: 18th March 2016

Author: Tony Bartlett and Liz Woodyard
Exempt Report Title: LGPS Pooling of Investments - Update Exempt Appendix Title: Appendix 1 – Shadow Joint Committee Oversight Board – Draft Terms of Reference

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 Report and Appendices contains strategic and financial information about the proposal, which is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals 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 is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

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	AGENDA ITEM NUMBER **11**
MEETING DATE:	**18 MARCH 2016**	
TITLE:	**2016 - 19 SERVICE PLAN AND BUDGET**	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Annex 1: 2016 – 19 Service Plan and Budget (including 5 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 2016 to 31 March 2019.

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 2016-19 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 2016-19

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, risk management and compliance and improvements in the administration of the Fund.

4.2 The main focus of this plan is as follows:

(i) To fully engage in the development of pooled funds in the interest of the Avon Pension Fund

(ii) to strengthen the resources available to cope with future demand pressures and manage risk and compliance

(iii) to continue implementation of the IT strategy to achieve a digital step change in service delivery and to mitigate service demand growth;

(iv) to deliver the valuation and revised funding strategy

(v) to continue work on Liability Driven Investment and undertake an asset liability review to ensure the Fund manages its cashflows effectively.

(vi) to continue to support the introduction of Pension Boards

The later years will focus on consolidation, realising efficiencies and embedding partnership working with stakeholders.

4.3 Full details of the 2016-19 Service Plan are included in the Annex. Appendix 3 of the Service Plan shows the new medium term targets for 2016-19

5 BUDGET FOR 2015-18

5.1 The Service Plan includes details of the proposed budget and cash flow forecast over this period. The three-year budget and cash flow forecast commencing 1 April 2016 are included as **APPENDIX 4A** to the Service Plan. 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 and compliance expenses which are a consequence of the Fund's policy response to regulations and investment strategy. The budget also includes the estimated costs of the pension board. The LGPS regulations require the costs of local pension boards to be met by the local fund.

5.3 The budget approved for Administration in 2015/16 was £2,412,100. In the proposed budget for 2016/17 this has been increased to £2,657,200. The budget includes gross savings of £80,000 that have been made through changes in working arrangements and the greater adoption of digital technology. These savings have contributed to the additional costs included to meet the pressures of dealing with the increasing number of employers. The other major additional cost pressure arises from the government's change in the system of making NI contributions. Year on year savings approved in the 2015/16 budget will continue to be invested in the three year IT Strategy that will further develop use of digital technology resulting in further future reductions in costs. Wherever possible inflation has been absorbed. Appendix A includes a table of the main "one off" expenditure items and ongoing savings over the three years of the budget period.

5.4 The inclusion of the three year cash flow forecast reflects the 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 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

Annex 1

THE AVON PENSION FUND

SERVICE PLAN

2016 - 2019

PREPARED BY:

TONY BARTLETT, GEOFF CLEAK, MARTIN PHILLIPS and LIZ WOODYARD

MARCH 2016

CONTENTS OF SERVICE PLAN

SECTIONS

APPENDICES

AVON PENSION FUND SERVICE PLAN 2016-2019

1. BACKGROUND

In the 2015 Service plan, the Pensions Committee agreed a clear direction of travel for the three key Fund Strategies namely Administration, Funding and Investment. This recognised that the Fund would come under greater scrutiny from the Pensions Regulator and the then soon to be created Pensions Board. The plan recognised the difficult economic outlook and continued austerity that would create difficulties for employers with a valuation fast approaching and agreed to continue with the development of the investment strategy to better align liabilities and cash flows whilst recognising that issue of government prescription over investment strategy had not gone away!

Since the election in May 2015 there have been two announcements that will have a significant operational impact on the Fund going forward;

- The requirement that funds pool their assets to create super pools of £25b
- The requirement that all schools will become academies by the end of the current parliament

Pooled Funds

Whilst the Committee have agreed to work with the Southwest Funds to produce a pooling proposal for submission to government by 16th July, the work involved in unwinding assets particularly liquid funds will take many years and it is unlikely that savings will emerge until this work is near completion. Indeed for a number of years the Fund will have two operate on a two tier basis holding pooled and non-pooled assets. Provision has already been agreed by Committee to support this work to the July submission, but undoubtedly there will be more upfront costs as the implementation plan for pooling unfolds.

New governance structures will need to be put in place for the Pools and the impacts on the Investment Panel and Committee' s own governance structure and terms will have to be considered appropriately.

Academies

Whilst there has been a steady flow of schools converting to academy status over the past few years, there are already signs of increasing numbers preparing to convert since the government announced its intention that all schools should become academies. It is anticipated that this could happen as early as the end of 2018. Clearly this creates a lot of work in respect of Fund admissions for fund officers and actuaries alike, but this is an evolving scenario with ongoing school mergers into Multi Academy Trusts and outsourcing of support functions presenting further complications. It is likely that the number of employers within the fund will rise to around 450 over the next two years and the administration therefore needs to be resourced effectively to deal with not only the flows of member information but the ongoing training and compliance matters that continually arise.

Austerity

Public sector organisations have been planning for the impact of ongoing austerity to different degrees, but the impacts on resources are not necessarily fully developed, which is compounded by the direction of travel for schools. What is clear is that it is impacting the Fund in three key areas;

- The need to support employers and their members through the process of downsizing which is set to continue for the next few years
- The need to support ongoing outsourcing and alternative service delivery arrangements through management of the admissions process
- The need to protect the Fund and minimise future financial risk.

Given this direction of travel, the need to ensure the Pensions Regulators compliance requirements are met and to properly manage fund risk, greater attention must be paid to Employer Services not at a cost to member services but in addition to it. During the last valuation the Fund Actuary recognised the increasing costs arising from compliance and fragmentation of the employer base but did not raise the administration contribution rate which has been static for almost a decade. This will have to be seriously considered in 2016 in order to maintain an effective administration and fully compliant service.

It is therefore proposed to restructure the Administration function to create specific member and employer focused services and strengthen the Actuarial service within the Investment Function to enable it to more effectively manage employer risk. The Administration Strategy will also be reviewed to examine further opportunities for direct charging of services.

Staff Retention

Of increasing concern is the Funds inability to retain staff with 15 staff leaving the organisation over the past 18 months. This is the result largely of higher paying competitors and is unlikely to change with continued low levels of public sector pay awards. In order to combat this trend, it is proposed to build upon the successful apprentice scheme and to examine opportunities for role redesign – which is necessary anyway - as part of the structural review.

Valuation and Funding Strategy

Ongoing austerity and low bond yields will present significant challenges in setting the Funding strategy this year and it is unlikely that the Government will use the cost sharing mechanism in 2016 to adjust the balance of liabilities. Maintaining a robust funding position is key to the Funds' deficit management but equally important will be the need to review the asset/liability positon once the Actuary has completed the valuation. This will ensure that the Fund is able to manage the ongoing call on cash as the Fund continues to mature and examine opportunities to enhance the investment strategy. Similarly further examination of opportunities to minimise liability risk will be explored.

Compliance

The Fund will continue to support the work of the Pensions Board and it is anticipated that both the Pensions Regulator and Scheme Advisory Board will increase their scrutiny of LGPS activities focusing on specific areas, with any resourcing or service impacts reported as they arise.

2. KEY OBJECTIVES 2016-19

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 been resource and governance intensive; the emergence of Pooled funds will impact on this position but not immediately and is likely to incur one off upfront costs initially. The Funding Strategy has been developed to ensure there is flexibility to manage affordability but will be severely challenged going forward in the continued period of austerity; the Administration Strategy has set a direction of travel which is perfectly aligned to the developing operating environment and has to some extent reflected the increasing governance requirements, however it is the growing demands of employers which now have to be addressed. **Appendix 2** sets out progress made against the key objectives in the 2015-18 service plan.

The **Key Objectives** for the Fund during the 2016-19 Service Plan period will be as follows:

Administration Strategy:

1. To continue to implement the agreed published Administration Strategy to ensure the requirements of the Pensions Regulator are properly addressed in respect of both the Fund and Employers responsibilities in accordance with TPR code of practice.
2. To continue to implement planned IT Strategy designed to achieve a digital step change in service delivery and mitigate service demand growth.
3. To undertake a review of the charging basis for Fire Scheme Pension. Current charge does not reflect complexity of Fire Schemes administration or volume of work and resource involved in supporting the service. Develop revised service offer and SLA.
4. To provide ongoing "as required" support to the local LGPS and Fire Service Pension Boards.

5. To complete redesign development of website services and information for employers which is fully integrated with self-service provision.
6. To complete the rollout of Employer self-service and i-Connect to achieve 99% pension data receipt in 2016.
7. To continue GMP data reconciliation exercise as required by DWP to ensure the fund is not at risk of pension overpayment or erroneous pension liability.
8. To undertake review of pensioner member 'pots' to identify potential commutation opportunity in line with Government Budget announcement. Trivial commutations
9. To complete the move towards electronic delivery of Scheme communications to active members.
10. To continue to improve the quality of member data held to meet The Pension Regulator's minimum legal requirements as agreed within the Data Improvement Plan.
11. To complete the review support service arrangements to ensure the fund receives value for money services
12. To put in place the necessary structural changes to support the evolving operating arrangements and the growing need of employers within the fund

Funding Strategy:

13. To complete covenant assessment analysis for incorporating into the funding strategy and funding plans.
14. To set the Funding Strategy Statement that protects the solvency of the Fund but is affordable for employers.
15. To investigate options for insuring ill-health retirement costs for smaller employers or employer clusters within the Fund.
16. To continue to mitigate the risks to small employers of funding variations.

Investment Strategy:

17. To develop and agree the pooling of assets proposal for DCLG and implementation of the transition plan.
18. Review strategic allocation to ensure
    - it meets long term objectives post 2016 valuation
    - the pooling arrangements can deliver the strategy over time.
19. To implement any changes to the Investment Strategy in line with the principles set out in the Statement of Investment Principles.
20. To examine the risks and benefits of Liability Driven Investment as a mechanism for reducing future liabilities.
21. Review the Responsible Investing Policy to ensure it addresses emerging risks and opportunities.
22. Agree the new Investment Strategy Statement in line with new regulations.

Governance:

23. Review governance arrangements following the pooling of assets and creation of Pensions Board.
24. To ensure the relationship between the Committee and the Pensions Board operates effectively and in the best interests of the Fund.

25. To ensure the new committee and the Pensions Board is fully briefed on current strategies and operations and in position to scrutinise and make decisions effectively.
26. Ensure effective engagement with Committee on the proposal to pool assets and its implementation.
27. Appoint independent member to Committee when current term expires in May 2017.

3. RESOURCE IMPLICATIONS

It will be apparent from the preceding paragraphs that the Fund continues to undergo significant changes to its investment structure, risk management and regulatory compliance operations, a situation which is further fuelled by the growing demands of employers who are still coming to terms with their own pension's responsibilities.

Addressing these issues requires not only increasing resources but some different skills requirements to ensure that the combined operations of employers and the Fund result in compliant and relevant services for Fund members. The Fund will continue to invest in the training and development of its staff and increase its level of professional training undertaken.

However given the level of demand and staff turnover, the Fund now needs to not only increase resources in key areas but needs to prepare for future demand and continuing turnover. In the circumstances structural changes will be undertaken to reorganise the administration into member and Employer focused teams strengthening the later by 3.5 FTE's and in addition extend the pool of apprentices/trainees from 2 to 4 which will be essential to sustain operations. On the investments team there is an increase in resources to deal with the growing actuarial workload relating to scheme admissions and risk management and the proposal is to increase this by 1FTE.. To some extent the building blocks for some of these changes were put in place last year, but since May 2015 the dynamic has completely changed. It is also intended to review some of the higher risk support functions to examine alternative methods of delivery and where possible work in conjunction with other Funds to share and mitigate risk. The full financial impact of these changes will not be apparent until 2017/18.

In respect of investments, the development of Pooled Investment Funds will have impacts on investment operations but given that the focus will be on establishment and then transition, the full implications are unlikely to materialise for some time. That said there is clearly an initial upfront cost to establishing the pool and its operating arrangements and changes over and above what the Committee has already agreed will be notified as they materialise.

4. BUDGET & CASHFLOW FORECAST 2016 – 19

Budget:

The current service plan includes the reinvestment of savings in the IT Strategy to 2017/18 and further savings have been achieved in areas of support services and accommodation, the latter as a result of increasing flexible working arrangements. In the areas of Governance and Compliance and Investment Management, where expenditure cannot be directly controlled the budget reflects the expected volumes of work and fees. Wherever possible the effect of inflation has been absorbed.

Estimated costs of increased staffing requirements to meet current and future demands are £293,000 in 2016/17. This includes one off additional funding that has been agreed to support Project Brunel but has been reduced to reflect the fact that it is unlikely that the recruitment will all be achieved until 2017/18.

The budget level (excluding investment costs) proposed for 2016/17 is £3,633,000 including current expenditure levels, one off costs, new savings and growth.

Within the directly controlled budget for Administration there is a proposed increase in net expenditure of £245,000. This increase includes the resources approved during 2015/16 for the 2016/17 costs of pooling and actuarial support. A further £158,000 is being invested in the IT Strategy funded from the ongoing savings identified in the 2015/16 budget.

The Investments budget reflects savings that have been achieved following changes in Investment mandates that have led to lower fee rates. These are partially offset by the anticipated growth in asset values and the consequent increase in Investment management fees. Actual expenditure will clearly depend on the level of this growth. The higher investments budgets in 2017/18 and 2018/19 result from the cost of performance fees relating to earlier years that will become payable.

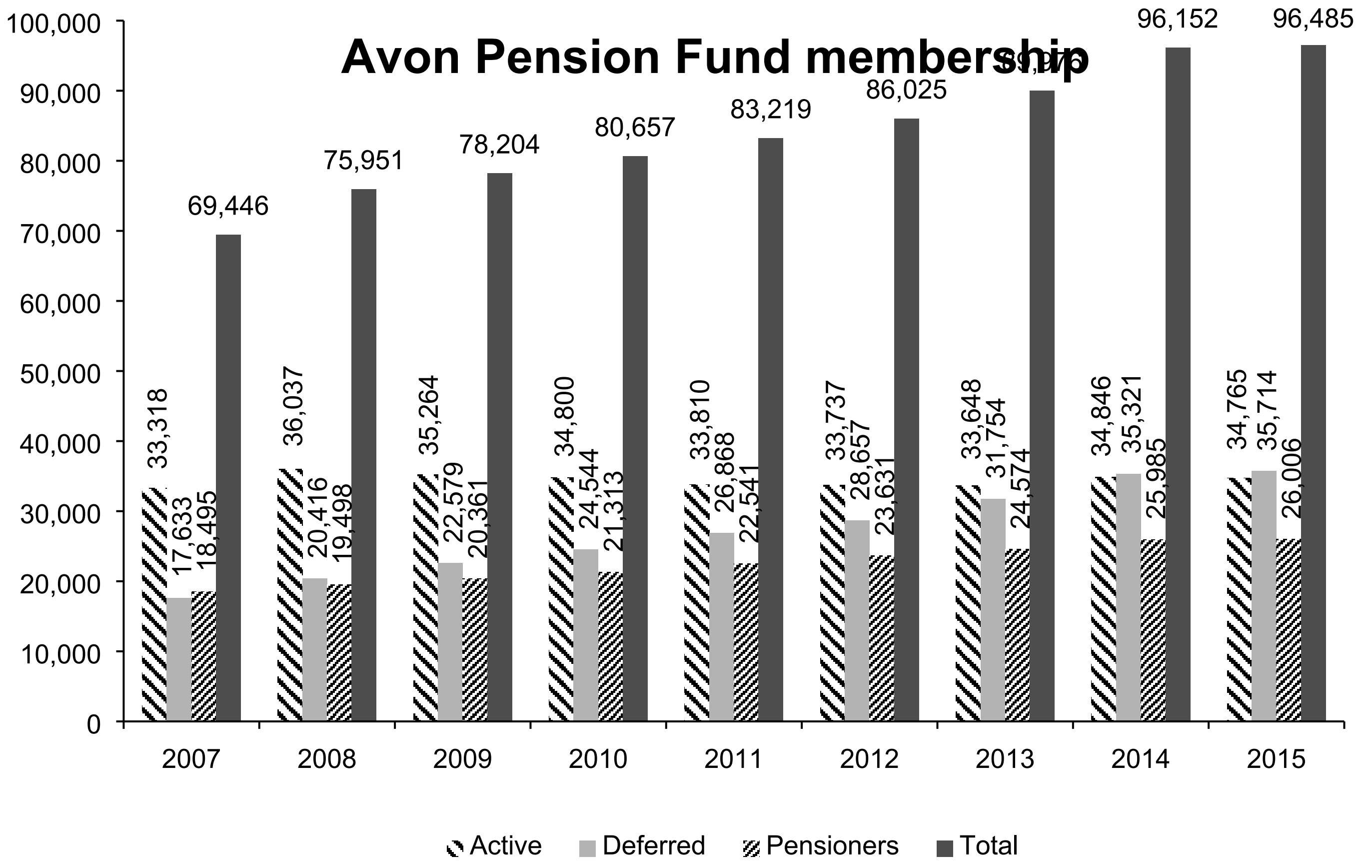
The Pension Fund is required to meet the costs of the Pensions Board that became operational in July 2015. The estimated full year costs for 2016/17 to 2018/19 have been added to the overall cost to the Fund for the three year budget. .

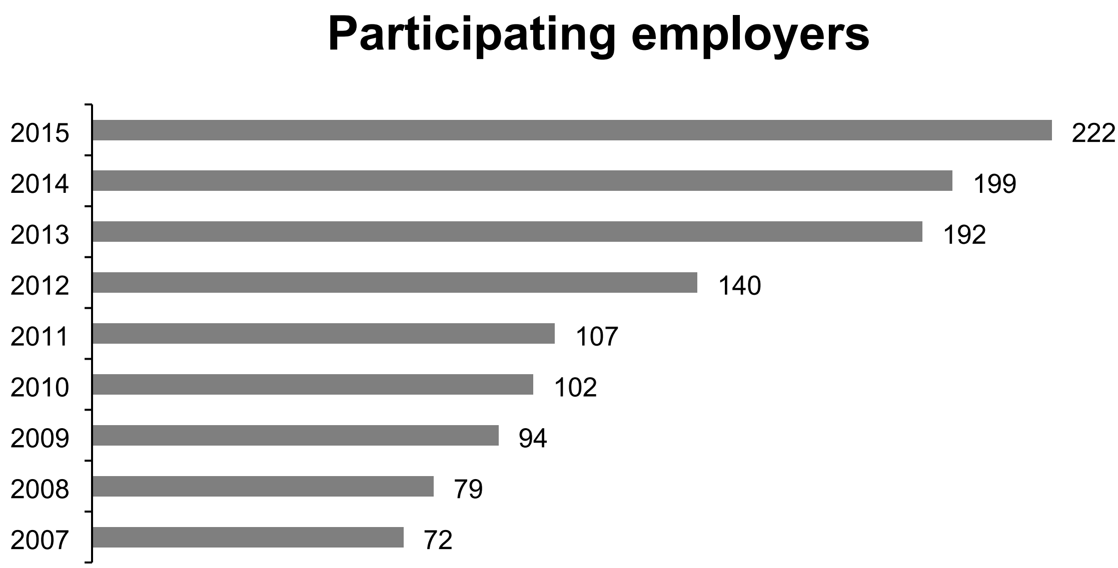
Cash flow:

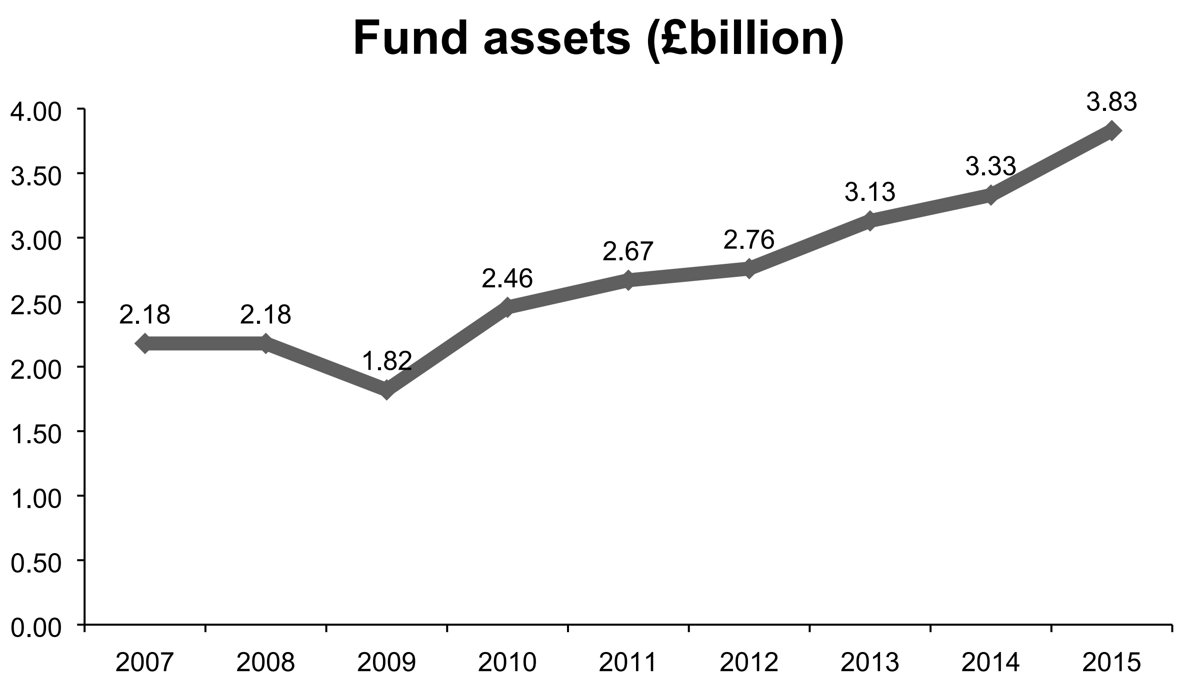
In recognition of the increasing importance of cash flow monitoring the Fund prepares a three year cash flow forecast. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The cash flow is currently monitored on a monthly basis and reported quarterly to Committee. As a result of the advance lump sum deficit payments made by the major employers in April 2014 the Fund had large cash in-flows. However the consequent absence of the deficit payments that will continue throughout 2016/17 has exacerbated the negative annual cash flows. The negative cash flows will be managed by using income from the investment portfolio and divestments (of the lump sums already invested) if required.

Full details of the budget between 2016-17 and 2018-19 together with a cash flow forecast for the payment of benefits and the receipt of contributions are given in **Appendix 4A.** A commentary on the budget changes between 2015 -16 and 2016-17 is given in **Appendix 4B.**

Appendix 1 – Scope of Avon Pension Fund
(at 31 March 2015)



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2.50
2.00
1.50
1.00
0.50
0.00
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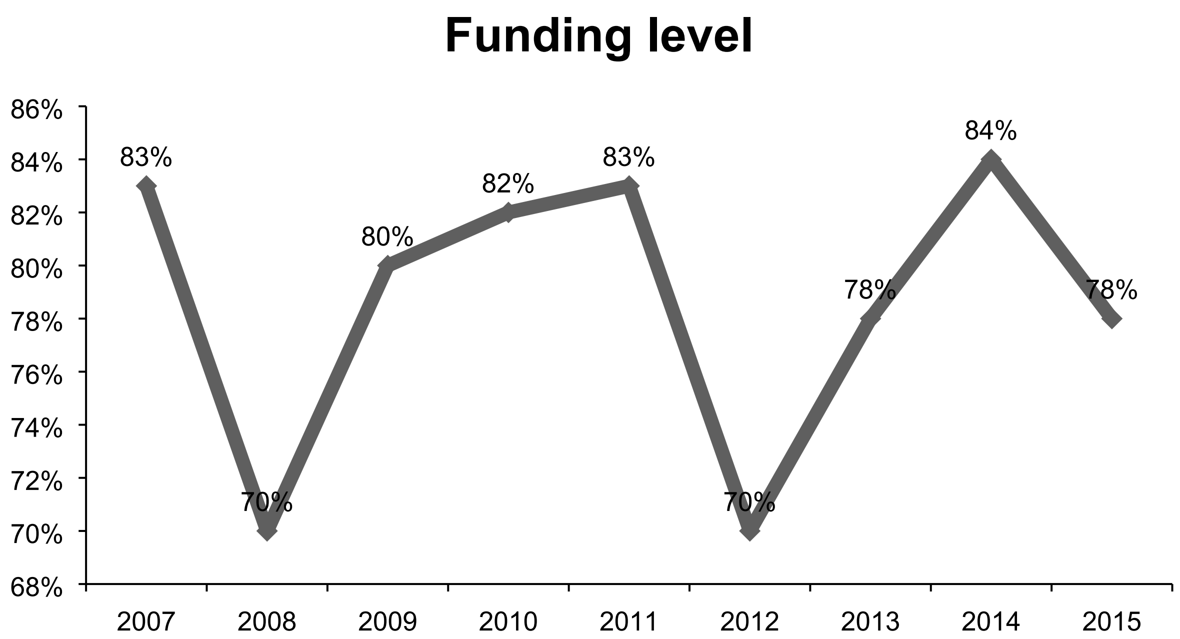
2014
2015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82%
80%
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76%
74%
72%
70%
68%
83%
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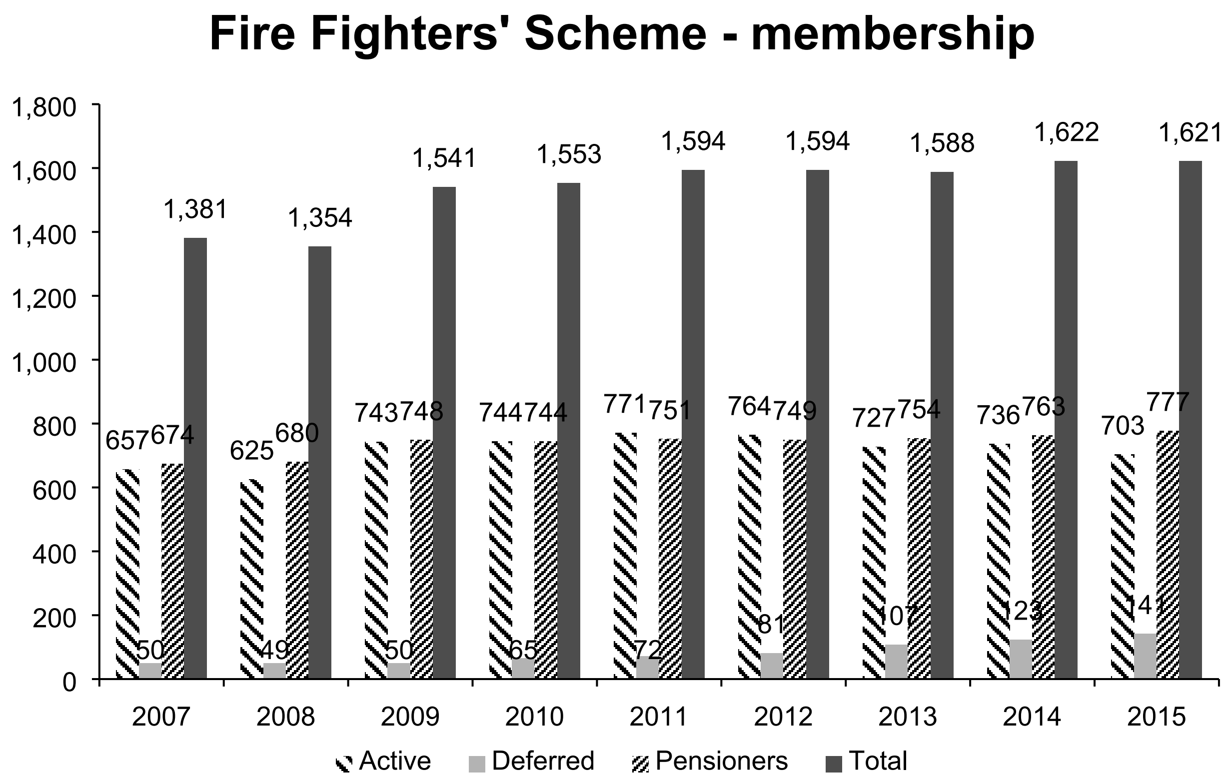
2011
2012
2013
2014
2015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1,600
1,400
1,200
1,000
800
600
400
200
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1,541
1,553
1,594
1,594
1,588
1,622
1,621
657
674
625
680
743
748
744
744
771
751
764
749
727
754
736
763
703
777
50
49
50
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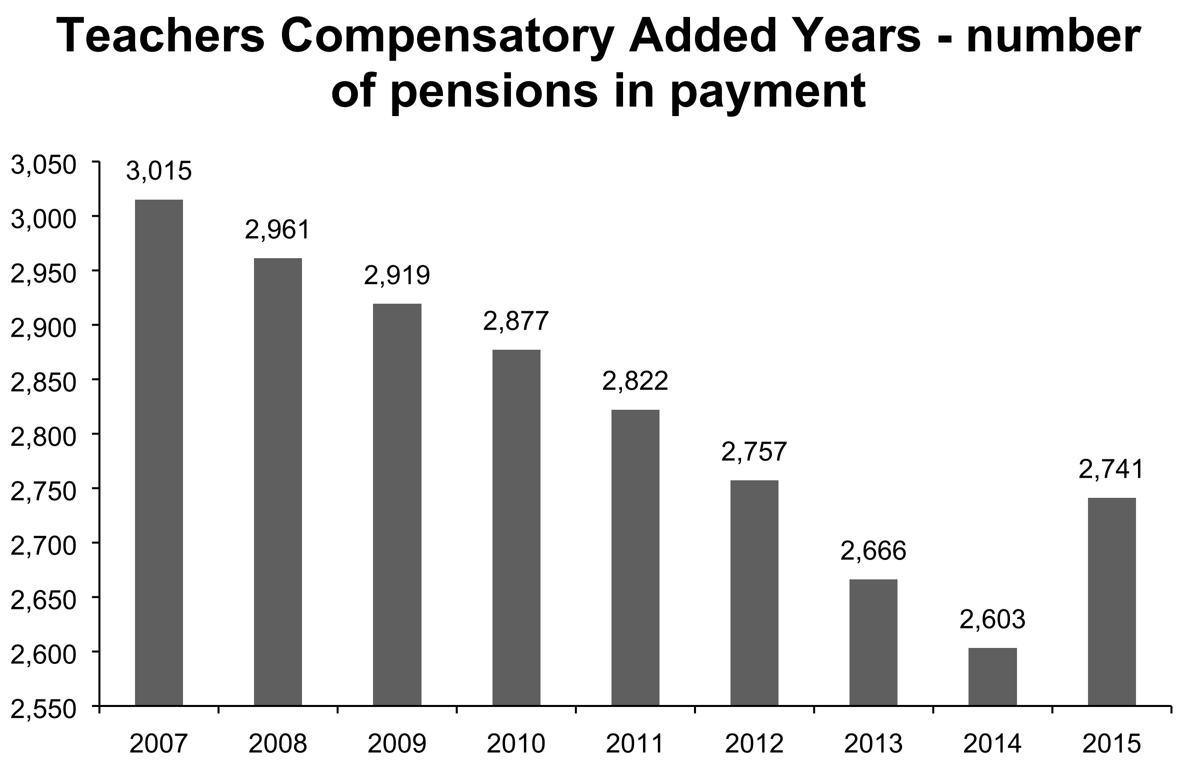
Active
Deferred
Pensioners
Total


Teachers Compensatory Added Years - number of pensions in payment
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2,950
2,900
2,850
2,800
2,750
2,700
2,650
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2,961
2,919
2,877
2,822
2,757
2,666
2,603
2,741
2007
2008
2009
2010
2011
2012
2013
2014
2015

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Progress against Key Objectives & Targets in 2015-2018 Plan

	Key Objective	Tasks	Progress
Administration Strategy			
1	Implement IT Strategy to increase efficiency of …	Workstreams: 1. Establish necessary IT support structure 2. Create Shared Dev'ment Agenda • Use the actuary's online valuation modelling tools • Develop Document Management System 3. Progress employer electronic data delivery 4. Develop employer & member website and member services	GREEN Completed Ongoing Ongoing GREEN On Track GREEN (member website completed February). Member services on track & in development
2	Review and revise Fire Service charging model	• Review of cost basis • Undertake consultation exercise with Fire Service • Develop revised service offer and SLA	Amber Commence March July 2016 July 2016
3	Embrace partnership and collaborative opportunities as they arise at both regional and national level	• Pilot communications opportunities within region • Use of national and regional frameworks for services	Ongoing Ongoing
4	Implement new SLAs	• Revise employer SLA document and reporting suite incorporating TPR Improvement Plan	GREEN On Track Completion August 2016
5	Revise Administration Performance reporting and TPR Improvement plan	• Develop reporting data to reflect membership mix, workload, performance and employer profiling	GREEN Commenced Due June 2016
6	GMP data reconciliation project	• Data match exercise with DWP to mitigate risk of pension overpayment/erroneous pension liability	GREEN Ongoing 2015/16 up to Dec 2018
7	Trivial Commutation	• Review pensioner member pension pots to identify potential commutation opportunity following 2014 Gov't Budget announcement.	AMBER Review on Hold Re-visit post 2016 Valuation exercise

Funding Strategy			
8	Further development of covenant assessment process to support valuations	• Review current process and develop further using input from advisors • Agree framework for ongoing monitoring by employer/ groups of employers	GREEN Framework in place for 2016 assessment
9	Investigate ill –health insurance options	• Commission actuary report on options, costs and funding implications	GREEN Initial work completed
10	Interim Valuation 2015	• Commission inter-valuation assessment of funding position at whole fund level as at 31/3/15 • Use outcome to develop medium term funding strategy for 2016 & 2019 valuations	GREEN Completed
11	Review AVC arrangements	• Review range of investment choices for members	AMBER Review on hold
12	2016 Triennial Valuation	• Initial outcome at Fund level • Disseminate individual outcomes to employers	GREEN On track
Investment Strategy			
13	Implement changes to the Investment strategy maintaining compliance with the Fund's Investment Principles and Policies	Potential projects • Liability Driven Investing • Use of tactical allocation ranges • Review decision to hedge foreign exchange exposure	GREEN Commenced Completed Completed
14	Retender Vote Monitoring contract	• Re-tender contract for start 1 Feb 2016	GREEN Will tender once National Framework established
Governance			
15	Review governance arrangements following creation of Pension Board	• Review appointment of Independent Investment Advisor	2015/16

16	Ensure Committee members have knowledge and skills required	• Training for new members
		• Committee training
		  ○ Liability driven investing
		  ○ Interim valuation
		  ○ TPR Codes of Practice & Improvement Plan
			GREEN
			Commenced
			
			Due 1Q16
			Completed
			Completed

17	Potential changes to the structure of LGPS funds	• Engage in any consultations • Assess implications for the Fund if any proposals put forward	GREEN ongoing
18	Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board	• Determine reporting requirement for both boards • Support education and training needs as required	GREEN In progress
19	Independent Members on Committee	• Current term of the two Independent Members ends 31 May 2017 • Appoint at least one new independent member	GREEN Start October 2016

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APPENDIX 3

Key Objectives & Targets in 2016-2019 Plan

	Key Objective	Tasks	Target Date
Administration Strategy			
1	Delivery of IT Strategy to increase efficiency of …	Workstreams: 1. Create Shared Dev'ment Agenda • Use the actuary's online valuation modelling tools • Develop Document Management System 2. Progress full employer electronic data delivery 3. Develop employer website and member services	March 2017 March2017 By end 2016 Ongoing
2	Review and revise Fire Service charging model	• Review of cost basis • Undertake consultation exercise with Fire Service • Develop revised service offer and SLA	Commenced July 2016 September 2016
3	Embrace partnership and collaborative opportunities as they arise at both regional and national level	• Pilot communications opportunities within region • Use of national and regional frameworks for services	Ongoing Ongoing
4	Implement new SLAs	• Revise employer SLA document and reporting suite incorporating TPR Improvement Plan	By August 2016
5	Revise Administration Performance reporting and TPR Improvement plan	• Develop reporting data to reflect membership mix, workload, performance and employer profiling	Commenced due completion August 2016
6	GMP data reconciliation project	• Data match exercise with DWP to mitigate risk of pension overpayment/erroneous pension liability	Commenced 2015/16 due completion Dec 2018
7	Trivial Commutation	• Review pensioner member pension pots to identify potential commutation opportunity following 2014 Gov't Budget announcement.	By end 2016
8	Administration Structure Change	• Review administration structure to support the Funds increasing employer portfolio and evolving operational arrangements and growing needs of employers within the Fund	2016/2017
Funding Strategy			
9	Covenant assessment of employers to support 2016 valuation	• Analyse covenants for incorporation into Funding Strategy • Explore options with employers to mitigate covenant risks	By September 2016

10	2016 Triennial Valuation	• Approve Funding Strategy Statement • Initial outcome at Fund level • Disseminate individual outcomes to employers	September 2016 4Q16 4Q16/1Q17
11	Investigate ill –health insurance options	• Commission actuary report on options, costs and funding implications	By September 2016
12	Review AVC arrangements	• Review range of investment choices for members	Recommence once corporate changes at Friends Life finalised (merging with Aviva)
Investment Strategy			
13	Pooling of assets	• Develop and agree final proposal for DCLG • Work with pool to implement proposals	July 2016 Commence July 2016
14	Implement investment strategy projects maintaining compliance with the Fund's Investment Principles and Policies	Agreed projects • Liability Driven Investing • Review Responsible Investing Policy	 ongoing by end 2016
15	Agree Investment Strategy Statement in line with new regulations	• Replaces Statement of Investment Principles	By October 2016
16	Review Investment Strategy to ensure it meets long term objectives and takes pooling arrangements into consideration	• Review strategic allocation to ensure the pooling arrangements can deliver the strategy over longer term • Review strategy post 2016 valuation	By March 2016
17	Retender Vote Monitoring contract	• Re-tender contract once National ESG framework in place	Framework expected to be in place in 2016
Governance			
18	Review governance arrangements following the pooling of assets and creation of Pension Board	• Review ToR of Committee and Investment Panel • Review appointment of Independent Investment Advisor	2016/17

19	Ensure Committee members have knowledge and skills required	• Training for new members
		
		• Committee training
		  ○ Liability driven investing
		  ○ Funding Strategy & valuation
			Start after May 2015
			
			1&2Q16
			Through 2016

20	Pooling of assets	• Engage with Committee on proposal for July 2016 • Engage with committee on	2Q16 Ongoing once

		implementation	proposal approved
21	Reporting to Avon Pension Fund Pension Board and Fire Service Pension Board	• Determine reporting requirement for both boards • Support education and training needs as required	By end 2016 Ongoing
22	Independent Members on Committee	• Current term of the two Independent Members ends 31 May 2017 • Appoint at least one new independent member	Start October 2016

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Three Year Budget	Budget for 2015/16 £	Forecast 2015/16 £	Budget 2016/17 £	Budget 2017/18 £	Budget 2018/19 £
Investment Expenses	68,400	68,400	63,100	61,200	61,800
Administration Costs	68,400	73,400	83,900	82,100	83,300
Communication Costs	67,800	47,800	56,700	57,200	57,800
Payroll Communication Costs	76,600	42,400	39,000	39,500	40,000
Information Systems	268,200	302,400	271,400	276,800	282,400
Salaries	1,534,800	1,451,200	1,827,700	1,887,000	1,874,700
Central Allocated Costs	402,100	392,100	371,100	371,100	371,100
IT Strategy	147,600	147,600	158,600	87,200	0
Recharges: Administration	(221,800)	(222,200)	(214,300)	(218,600)	(222,800)
Total Administration	**2,412,100**	**2,303,100**	**2,657,200**	**2,643,500**	**2,548,300**
Governance Costs	295,500	295,700	418,300	293,000	291,100
- Members' Allowances	40,000	40,000	40,000	40,400	40,800
- Independent Members' Costs	19,300	19,300	45,300	25,600	25,800
Compliance Costs	428,000	423,300	681,500	489,300	437,100
Compliance Costs recharged	(250,000)	(250,000)	(250,000)	(252,500)	(255,000)
Governance & Compliance	532,800	528,300	935,100	595,800	539,800
Pensions Board	**37,400**	**34,400**	**40,600**	**41,100**	**41,700**
	2,982,300	**2,865,800**	**3,632,900**	**3,280,400**	**3,129,800**
Global Custodian Fees	84,100	84,200	87,500	89,300	91,000
Investment Manager Fees	18,532,300	17,179,200	17,229,100	18,611,400	18,797,500
Investment Fees	**18,616,400**	**17,263,400**	**17,316,600**	**18,700,700**	**18,888,500**
TOTAL COST TO FUND	**21,598,700**	**20,129,200**	**20,949,500**	**21,981,100**	**22,018,300**

The 2015/16 budget includes additional approvals made during 2015/16

The 2016/17 - 2018/19 Budget includes the following Savings and One Off expenditure

	2016/17	2017/18	2018/19
One Off Expenditure			
IT Strategy	158,600	87,200	
Pooling	80,000	20,000	
Independent Member Recruitment	25,800		
Triennial valuation	250,000	50,000	
Savings			
Payroll and Communications	- 47,400	- 39,000	- 32,300
Central Services	- 33,000	- 30,100	- 30,100

Cash Flow Forecast

(Excluding Administration and Investment costs)

		Estimated Out-turn 2015/16 £'000	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
Benefits Outflows					
Benefits	Pensions	(128,904)	(129,664)	(135,654)	(141,920)
	Lump sums	(25,796)	(34,568)	(35,260)	(35,965)
Total Benefits Outflows		**(154,700)**	**(164,232)**	**(170,913)**	**(177,885)**
Contributions Inflows					
Deficit recovery		23,514	14,109	94,719	17,071
Future service Contributions		114,399	121,262	128,538	136,250
Total Contributions		137,912	135,371	223,258	153,322
Net Cash Flow (excluding Administration & Investment costs)		(16,787)	(28,861)	52,344	(24,563)
Investment income received as cash		14,954	14,954	14,954	14,954
Net Pension Transfers In / Out		(4,818)	0	0	0
Cost of administering the Fund		(3,545)	(3,545)	(3,545)	(3,545)
Net Cash Flow (Out-Flow)		**(10,197)**	**(17,452)**	**63,753**	**(13,155)**

Note : Transfers in and out forecast assumed to net to zero

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SERVICE PLAN 2016 – 2019: BUDGET COMMENTARY

A three year budget for 2016 to 2019 is in Appendix 4A. It shows for comparison the budget for 2015/16 including approvals made during the year and the forecast out-turn for 2015/16. Major one off expenditure and new ongoing savings are also shown.

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 compliance and governance expenses which are a consequence of the Fund's policy response to regulations and investment strategy.

Administration Budget

The increased expenditure budgeted for 2016/17 reflects the Funds response to the increasing pressure of dealing with the continued growth in the number of employers, the anticipated cost of the triennial valuation and the costs involved in the pooling of investments (Project Brunel). Savings have been made through changes in working arrangements and the adoption of digital technology to promote efficiency while maintaining the level of service. Wherever possible the effect of inflation has been absorbed. Ongoing savings made in 2015/16 are to be invested in the IT Strategy that will realise further savings and or mitigate cost pressures in future years.

Scheme Administration

1. Salaries

The 2016/17 increase in salary costs reflects the need for additional resources to maintain the standards of data quality and to manage the continued increase in the number of employers. The 2016/17 cost is partially reduced to reflect the likely timing of recruitments. The subsequent years show the full year costs, but these will coincide with the completion of the IT Strategy and the consequent reduction in expenditure in that area. The increased costs of salaries also allows for the change in the system of paying employer's National Insurance, increments and the expected pay award.

2. Investment Expenses and Administration

The reduction in the Investment Expenses budget is due to the redefinition of governance related subscriptions as Consultants fees. The increase in the Administration Costs budget is due to the increase in the training budget. This will be used to provide the necessary training relating to the increased resources required to maintain the standards of data quality and to manage the continued increase in the number of employers.

3. Communications

The increased use of electronic means of delivery and new arrangements for the distribution of newsletters has allowed further savings to be made in Communications.

4. Information Systems and Payroll Communication Costs

The completion of the development of Information Systems relating to changes in the Fire Fighters scheme and the new LGPS 2014 scheme has allowed a reduction in the budget. All costs relating specifically to the Fire Fighters pensions are recharged to Avon Fire and Rescue (see Administration Recharges below).

5. **Central Allocated Costs**

Central Allocated Costs for Accommodation, IT, Financial Management etc. have been reduced by £33,000 when compared with the 2015/16 budget level. The savings are largely a result of flexible working.

6. **IT Strategy**

2016/17 is the second year of the three year IT Strategy funded from ongoing savings largely identified in the 2015/16 budget. Costs include the use of consultants, systems set up, development support and maintenance, training, and the cost of additional support staff salaries.

7. **Administration Recharges**

The budget for income has been reduced reflecting the end of the secondment of a Senior Projects Officer to Bristol City Council and the completion of work changes in the Fire Fighter's scheme. These have been partially offset by the proposed recharging of a dedicated post to the Fire Service.

<u>Governance and Compliance</u>

8. **Governance**

The budget has been increased by £123,000 to provide for consultants fees mainly relating to

(i) advice for Liability Driven Investing,

(ii) advice for the Asset Liability Review,

(iii) the expenditure on Responsible Investing Review moving from 2015/16 to 2016/17

(iv) Project Brunel.

The budget also includes an additional £25,000 provision for the cost of recruiting an Independent Member (term expires 2017).

9. **Compliance costs and Compliance costs recharged**

The budget includes an additional £250,000 to meet the actuarial costs of the triennial valuation. The budget also includes provision for any other Actuarial Fees incurred either for the Fund or for the benefit of specific employers. Wherever these fees can be recharged they are and the recharges include an allowance for the time spent by the Fund in preparing data for the actuarial work.

Additional Legal fees have been included to provide the Fund with investment related advice as a result of Project Brunel.

<u>Investment Fees</u>

10. **Investments fees**

Expenditure on investment management fees is subject to the performance of the investment assets. In addition the Fund incurs performance fees which are subject to various arrangements which are usually phased over a number of years following the performance period. The budget includes savings that have been achieved following the appointment of new investment managers.

The Pensions Board

The Pension Fund is required to fund the costs of the Pensions Board. The Board became operational in July 2015. An initial budget for the operation of the Board of £37,400 was set. The budget for 2016/17 is set out below. The budget has been increased to allow for a full year of operation. This increase is partially offset by the reduced need for member training and by the reduction in communications costs following the completion of the required new developments.

Pensions Board

	2016/17
Chairman's Allowance & Member's Expenses	12,000
Training	3,000
Meetings	8,000
Officer Support	17,000
Communications	600
	40,600

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Bath & North East Somerset Council		
MEETING: **AVON PENSION FUND COMMITTEE** MEETING DATE: **18 MARCH 2015**	**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 **Appendix 2** Counterparties currently acceptable under the policy and their Credit ratings		

THE ISSUE

1.1 The Fund's Treasury Management policy was approved in June 2015. The policy closely mirrors the Council's policy set out in the Councils' Annual Investment Strategy.

1.2 The Committee are asked to approve the Treasury Management policy each year.

1.3 The policy proposed for 2016/17 is a continuation of the policy approved in June 2015. The policy restricts the use of counterparties to those meeting the necessary credit ratings that are based outside the Eurozone. The proposed policy is set out in Appendix 1. Counterparties currently acceptable under the policy and their Credit ratings are shown in Appendix 2.

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.

4.2 The Fund makes extensive use of Call accounts at Handelsbanken, Golman Sachs and the Bank of Scotland. The rules of access to these accounts particularly suit the Fund's cash flow requirements.

4.3 The Pension Fund's Treasury Management Policy was originally restricted to UK banks because it was not expected that the Fund would require many counterparties. In June 2015 the Committee approved the use of Counterparties outside the Eurozone in response to a shortage of counterparties within the UK with a sufficiently high credit rating. The credit ratings of non UK banks reflect any issues around the regulations and jurisdiction governing those banks. Consequently there is no difference in the level of risk between UK banks and non UK banks with equal credit ratings. All potential counterparties are continuously monitored using the advice of external consultants.

4.4 The Committee are asked to approve the Treasury Management Policy. The permitted counterparties shown in Appendix 2 are those that currently meet the criteria as a result of the policy.

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 2016

1 The management of the pension fund cash will be delegated to B&NES Council 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**
Banks and building societies based outside the Eurozone 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) based outside the Eurozone 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 A guide to the rating agencies equivalent ratings and to the credit ratings themselves is given 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.

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

12, The current credit ratings of counter-parties that would be accepted under the proposed policy are given in Appendix 2.

APPENDIX 2

Proposed Counterparty List - Unsecured Bank Investements

2016/17

CRITERIA			**FITCH RATINGS**			**Moody's Ratings**		**S&P Ratings**	
	Duration	**Council Limit (£m)**	**S/Term**	**L/Term**	**Support**	**S/Term**	**L/Term**	**S/Term**	**L/Term**
UK Banks	**Sovereign Rating**			**AA+**			**Aa1**		**AAA**
Barclays Bank plc	1 Year	10	F1	A	5	P-1	A2	A-2	A
Close Brothers Ltd	1 Year	10	F1	A	5	P-1	Aa3		
Goldman Sachs International	1 Year	10	F1	A		P-1	A1	A-1	A
HSBC Bank plc	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Lloyds Banking Group									
Lloyds Bank plc	2 Years	10	F1	A+	5	P-1	A1	A-1	A
Bank of Scotland plc	2 Years	10	F1	A+	5	P-1	A1	A-1	A
Royal Bank of Scotland Group									
National Westminster Bank plc	3 Months	5	F2	BBB+	5	P-2	A3	A-2	BBB+
Royal Bank of Scotland plc	3 Months	5	F2	BBB+	5	P-2	A3	A-2	BBB+
Santander UK plc **(domiciled in UK)**	1 Year	10	F1	A	2	P-1	A1	A-1	A
Standard Chartered Bank	2 Years	10	F1	A+	5	P-1	Aa2	A-1	A+
UK Building Societies									
Nationwide	1 Year	10	F1	A	5	P-1	A1	A-1	A
Yorkshire	3 Months	5	F1	A	5	P-2	Baa1	-	-
Coventry	1 Year	10	F1	A	5	P-1	A2	-	-
Leeds	1 Year	10	F1	A	5	P-1	A2	-	-
Foreign Banks									
Australia	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Australia & New Zealand Banking Group	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Commonwealth Bank of Australia	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
National Australia Bank Group									
National Australia Bank Ltd	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Westpac Banking Corporation	3 Years	10	F1+	AA-	1	P-1	Aa2	A-1+	AA-
Canada	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Bank of Montreal	2 Years	10	F1+	AA-	2	P-1	Aa3	A-1	A+
Bank of Nova Scotia	2 Years	10	F1+	AA-	2	P-1	Aa2	A-1	A+
Canadian Imperial Bank of Commerce	2 Years	10	F1+	AA-	2	P-1	Aa3	A-1	A+
Royal Bank of Canada	3 Years	10	F1+	AA	2	P-1	Aa3	A-1+	AA-
Toronto-Dominion Bank	3 Years	10	F1+	AA-	2	P-1	Aa1	A-1+	AA-
Singapore	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Development Bank of Singapore Ltd	3 Years	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Oversea-Chinese Banking Corp	3 Years	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
United Overseas Bank Ltd	3 Years	10	F1+	AA-	1	P-1	Aa1	A-1+	AA-
Sweden	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Svenska Handelsbanken	3 Years	10	F1+	AA-	2	P-1	Aa2	A-1+	AA-
Nordea Bank NV	3 Years	10	F1+	AA-	2	P-1	Aa3	A-1+	AA-
Switzerland	**Sovereign Rating**			**AAA**			**Aaa**		**AAA**
Credit Suisse AG	1 Year	10	F1	A	5	P-1	A1	A-1	A
USA	**Sovereign Rating**			**AAA**			**Aaa**		**AA+**
J P Morgan Chase Bank NA	2 Years	10	F1+	AA-	5	P-1	Aa3	A-1	A+
Supernational									
Council of Europe Development	5 Years	10	F1+	AA+	-	P-1	Aa1	A-1+	AA+
European Bank for Reconstruction & Dev	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
European Investment Bank	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Inter-American Development Bank	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
IBRD (World Bank)	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Kreditanstalt Fuer Wiefrauf	5 Years	10	F1+	AAA	-	P-1	Aaa	A-1+	AAA
Nordic Investment Bank	5 Years	10	-	-	-	P-1	Aaa	A-1+	AAA

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**18 MARCH 2016**	**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 24 February 2016		

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 meeting since the December 2015 committee meeting, on 24 February 2016. The draft minutes of this meeting provides a record of the Panel's debate before reaching any decisions or recommendations and can be found in Appendix 1.

1.3 There were no recommendations or decisions arising from this meeting.

2 RECOMMENDATION

That the Committee:

2.1 Notes the minutes of the Investment Panel meeting on 24th February at Appendix 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 There were no recommendations or decisions made by the Panel at the Investment Panel meeting on 24 February 2016.

5 INVESTMENT PANEL DELEGATION

5.1 The activity was undertaken under in line with the delegation set out in the Fund's Terms of Reference approved in May 2015:

The Investment Panel will:

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

and have delegated authority to:

4. *Approve and monitor tactical positions within strategic allocation ranges.*
5. *Approve investments in emerging opportunities within strategic allocations.*
6. *Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.*
7. *Approve amendments to investment mandates within existing return and risk parameters.*
8. *Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.*
9. *Delegate specific decisions to Officers as appropriate.*

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. 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.

6.2 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.

7 EQUALITIES

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

8 CONSULTATION

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

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – 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, 24th February, 2016, 2.00 pm

Members: Councillor David Veale, Councillor Mary Blatchford, Ann Beresford and Shirley Marsh
Advisors: Steve Turner (Mercer), James Giles (Mercer) and Tony Earnshaw (Independent Advisor)
Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions) and Matt Betts (Assistant Investments Manager)

22 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

23 DECLARATIONS OF INTEREST

There were none.

24 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Chris Pearce and Councillor Cherry Beath.

25 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

27 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

28 MINUTES: 18 NOVEMBER 2015

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

29 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 31 DEC 2015

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

- After a fall in the previous quarter, the Fund's assets increased by £104m in the quarter ending 31st December 2015. However since the end of the quarter there had been significant volatility in markets.

- JP Morgan Hedge Fund mandate was now fully funded.

- The agreed changes to the bond portfolio were being implemented and it was hope that this would be completed by the end of the current quarter, subject to market conditions.

- Two managers were rated as amber: Schroder Global Equity, though their relative performance had continued to improve during the quarter and Partners Group. Partner's IRR return was 8.8% p.a., compared to their IRR target of 10%. They were thus within their tolerance for a green rating on the basis of IRR returns. They were rated amber because they were behind the cash + 4% benchmark over 3 years. It was expected that over time that the IRR and cash + 4% performance would converge. The IRR figure was probably a truer measure of performance of this type of mandate.

Members agreed to focus on IRR returns versus IRR target in future reporting of Partners performance.

- Two allocations were outside the normal range under the new rebalancing policy. Developed market equities were overweight pending the drawdown of investments for the infrastructure mandate. Emerging market equities were underweight; because of the recent volatility in emerging markets officers were monitoring the position closely.

- As requested at the previous meeting Mercer had provided the ESG rating for each manager.

- The implementation of MIFID II had been delayed until January 2018.

Mr Turner introduced the Mercer performance report. He said that the performance of equity markets so far this year had probably been the worst ever, though they had rallied recently. Overall they were down about 7%. Developing markets had done a bit better than developed markets. The fall in equities had as usual encouraged a move into gilts. Gilt yields, which had been low, had consequently fallen further. Index-linked gilts were the best proxy for the Fund's liabilities. The result was that the liabilities of the Fund had probably risen about 6%, while the value of its assets had dropped about 5%. This was in the context of the actuarial valuation taking place on 31st March this year. However, the liabilities might not be as great as they appeared on a gilt basis, because of the changes in the way they would be valued.

Mr Giles commented on the performance of managers and asset classes. He said that the majority of managers had outperformed over the longer term and that Schroders were improving. The allocation to JP Morgan Hedge Fund was now fully in place. There were still some illiquid assets with Man Group that needed to be phased out over time. He drew attention to the summary of manager performance on agenda pages 27 and 28.

Members asked about the ESG ratings. Mr Turner explained that 1 was the highest rating, and that an N in the ESG column meant that Mercer had not formally tested that manager. A Member was disappointed to note that Invesco was only rated 4. The Assistant Investments Manager said that Invesco's investment style did not give them scope for achieving high ratings, but that over the past few years Invesco had employed an engagement overlay service to engage with companies through correspondence rather than face-to-face, but it was an improvement on their previous practice.

Members discussed the SRI mandate. Mr Turner replied that Mercer would not positively rate a manager simply because of investment exclusions, e.g. not investing in armaments or nuclear power. Mercer was looking for best practice. A Member suggested that there was a difference between ESG and SRI; ESG was about processes, not about the nature of the assets in which investments were made. The Member, however, agreed with the suggestion that ESG had to be taken account of in assessing SRI. Mr Turner said that the demand for SRI mandates was not high. Jupiter was performing well and it was hard to say whether this was down to skill or their exclusion criteria.

Members and officers discussed how the performance of managers should be taken into account in decisions about pooling. The following points were made:

- Pooling could mean reducing the number of managers currently employed by the participating funds to manage a particular asset class from 10 to 2 or 3. We would not wish to disinvest from managers who were performing well.

- Transaction costs had to be minimised.

- There was no manager so bad that that Members would want to disinvest from them in the next three to six months.

The Head of Business, Finance and Pensions said that pooling would be implemented over a period of years and a series of decisions about investment managers would have to be taken. Other funds in the pool would have to input into these decisions. However, the timetable for pooling was not entirely in the control of funds; the Government expected funds to pool their assets, and at some point would start having conversations with funds which appeared slow in doing so.

There was discussion about opportunities for investment in energy companies and in debt.

Mr Turner distributed a set of slides on current topics in investment and commented on them. The slides reviewed 2015 and identified key themes for 2016. The review of 2015 identified things that worked as:

- diversification
- style factor investing
- property
- equity options

Things that did not work were:

- emerging market debt and equity
- hedge funds
- commodities

Key themes identified for 2016 were;

- reduced market liquidity
- a maturing credit cycle
- tilt from alpha to beta
- need to think long term
- EU referendum and "Brexit"

Mr Turner said that Mercer believed that the impact of a vote for Brexit would be less than that of major market events, e.g. a sharp fall in the markets in China. He did not believe that the Fund should alter its portfolios in anticipation of the outcome of the referendum. The Head of Business, Finance and Pensions said that even if there was a vote for Brexit, the impact would only be felt over the longer term, because of the time it would take to reconfigure the UK's international relationships.

Mr Giles commented on the section of the document dealing with the impact of going cashflow negative. The Head of Business, Finance and Pensions noted that the Fund was facing a "double whammy" with a maturing scheme and a shrinking payroll base. In reply to a comment from a Member the Assistant Investments Manager explained that local government funds would not be pooling their liabilities. The Head of Business, Finance and Pensions said that the exit cap would be a serious deterrent against leaving the Fund early and could lead to an increase in the age profile of members.

RESOLVED

(i) to note the information as set out in the report;

(ii) that there are no issues to be notified to the Committee.

The meeting ended at 3.51 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**18 MARCH 2016**
TITLE:	**INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 31 December 2015)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 – Fund Valuation

Appendix 2 – Mercer 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 30 September 2015.

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**

2.2 **Note LAPFF Quarterly Engagement Report at Appendix 3**

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, Mercer has analysed the funding position as part of the report at Appendix 2 (section 2). 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) The funding level has risen c.3% over the quarter from 73% to c. 76% and the deficit has fallen from c. £1.35bn to c. £1.2bn.

(2) The improvement over the quarter was largely due to positive returns from major asset classes over the quarter and a rise in the discount rate from 4.0% to 4.2% reducing the value of liabilities.

Note: this estimated funding level is based on the 2013 valuation assumptions.

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £108m (a return of 3.3%) in the quarter, giving a value for the investment Fund of £3,705m at 31 December 2015. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers. Manager performance is monitored in detail by the Panel. The Fund's investment return and performance relative to benchmark is summarised below.

Table 1: Fund Investment Returns
Periods to 31 December 2015

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	3.3%	2.3%	8.5%
Avon Pension Fund (excl. currency hedging)	3.9%	3.2%	8.7%
Strategic benchmark (no currency hedging) *(Fund incl hedging, relative to benchmark)*	3.4% *(-0.1%)*	2.9% ***(-0.6%)***	8.1% *(+0.4%)*
Local Authority Average Fund *(Fund incl hedging, relative to benchmark)*	4.5% *(-1.2%)*	3.9% ***(-1.6)***	9.1% *(-0.6%)*

5.2 **Fund Investment Return:** All Equity markets produced positive returns over the quarter in Sterling terms. Emerging Markets was again the worst performing region (+3.1%) whilst the UK All Share Index rose by 4%. Bond yields rose across all maturities over the quarter leading to negative returns from Gilts. Corporate bonds made a small positive performance over the quarter (+0.4%).

5.3 **Fund Performance versus Benchmark: -0.6% over 12 months, attributed to**

(1) **Asset Allocation:** The contribution to outperformance from asset allocation was **-0.1** over the 12 months. This was largely due to the small underweight to property which performed well over the year. The currency hedging programme detracted -**0.9%** over 1 year.

(2) **Manager Performance:** In aggregate, the contribution of manager performance was **0.4%** over the 12 month period, relative to the strategic benchmark, driven by strong performance in UK and overseas equities mandates offsetting underperformance in diversified growth and property versus their individual benchmarks.

5.4 **Versus Local Authority Average Fund:** Over one and three years, the Fund underperformed the average fund.

5.5 **Currency Hedging:** The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme detracted -0.6% to the total Fund return over the quarter and -0.9% over the year.

B – Investment Manager Performance

5.6 Eight mandates met or exceeded their three year performance target, which offset underperformance by Partners, Schroder Global Equity and Schroder Property. Jupiter, RLAM, and TT all continue to perform particularly well against their three year performance targets.

5.7 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 no changes have been made to any managers rating.** Currently 2 managers are amber rated, Schroder (global equity) and Partners. The Panel are monitoring the performance of both mandates.

6 INVESTMENT STRATEGY

6.1 **Liability Driven Investing**: The Investment Panel is undertaking a review of the Fund's management of liability risk which will form a significant part of the workplan over the coming months.

6.2 **Asset Class Returns**: Returns from developed equities and property significantly outperformed the strategic assumptions over three years, whilst emerging market equities and hedge funds underperformed significantly. The corporate bond return has fallen marginally below the three year strategic assumption this quarter.

6.3 **Fund of Hedge Funds**: JPMorgan mandate is now fully funded following drawdown of the final tranche in December, funded from the realisation of the outgoing fund of hedge fund mandates.

6.4 **Infrastructure**: The Fund's investments in infrastructure are awaiting drawdown by the manager IFM who anticipate the first tranche of funds being drawn down in the first half of 2016.

6.5 **Bond Portfolio**: Changes to the bond portfolio agreed at the previous meeting are in the process of being implemented.

6.6 **MIFID II Update**: The implementation of MiFID II has been formally delayed by a year until 3 January 2018 by the European Commission.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 The Fund's new Rebalancing Policy was approved by Committee in December and now looks at the allocations to each asset class rather than just the equity:bond ratio. The following allocations were discussed at the Investment Panel meeting on 24th February:

(1) Developed market equities were overweight (c.1.9% above maximum neutral range of 42%) - this overweight will remain pending drawdown of investments for the infrastructure mandate.

(2) Emerging market equities are underweight (c.0.4% below the minimum neutral range of 9%) – yet to rebalance as Mercer outlook is 'neutral' but moving towards 'unattractive'. Given the recent volatility in emerging markets officers are monitoring the position closely.

Cash Management

7.2 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.

7.3 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.

7.4 The Fund continues to deposit internally managed cash on call with NatWest, Bank of Scotland and Svenska Handelsbanken. The Fund also deposits cash with the Goldman Sachs Asset Management Global Treasury Fund (AAA rated). In addition The Fund has access to the Government's Debt Management Office, however the interest paid currently may not cover the transfer and administration costs incurred.

7.5 During the period there were no breaches of the Fund's Treasury Management Policy (approved June 2015).

7.6 The 2015/16 Service Plan forecast an average cash outflow of c. £2m each month during the year to 31 March 2016, making a total outflow of £24m for the year to 31st march 2016. Unbudgeted inflows during the year including the Curo termination payment partly offset by unbudgeted outflows such as Bristol City Council recouping their previous overpayments have led to a revised cash flow forecast for the year to 31st March 2016 of a £16m outflow.

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:	48
Resolutions voted:	397
Votes For:	372
Votes Against:	13
Abstained:	1
Withheld* vote:	11

** 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	

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APPENDIX 1

AVON PENSION FUND VALUATION - 31 DECEMBER 2015

	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	TT Int'l	Jupiter (SRI)	Genesis	Unigestion	Schroder Global	Invesco	SSgA	Royal London	JP Morgan	Terminating mandates	Pyrford	Standard Life	Schroder - UK	Partners - Overseas	Currency Hedging		
EQUITIES																		
UK	204.0	203.6	165.0			36.2											608.8	16.43%
North America	220.9					124.9											345.8	9.3%
Europe	153.7					43.1		42.6									239.4	6.5%
Japan	39.2					22.7		43.8									105.7	2.9%
Pacific Rim	39.0					6.0		33.5									78.5	2.1%
Emerging Markets				136.4	166.3	15.8										0.0	318.4	8.6%
Global ex-UK							284.4										284.4	7.7%
Global inc-UK																11.6	11.6	0.3%
Total Overseas	***452.8***	***0.0***	***0.0***	***136.4***	***166.3***	***212.6***	***284.4***	***119.9***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***11.6***	***1383.8***	***37.4%***
Total Equities	**656.7**	**203.6**	**165.0**	**136.4**	**166.3**	**248.8**	**284.4**	**119.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**11.6**	**1992.6**	**53.8%**
DGFs												**123.8**	**241.5**				**365.2**	**9.9%**
BONDS																		
Index Linked Gilts	228.1																228.1	6.2%
Conventional Gilts	66.1																66.1	1.8%
Corporate Bonds	63.7								282.0								345.7	9.3%
Overseas Bonds	113.3																113.3	3.1%
Total Bonds	**471.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**282.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**753.3**	**20.3%**
Hedge Funds										186.3	15.6						**201.8**	**5.4%**
Property														192.3	151.6		**343.9**	**9.3%**
Cash	5.4	2.4	11.0			4.4								1.7		23.2	**48.1**	**1.3%**
TOTAL	**1133.4**	**206.0**	**176.1**	**136.4**	**166.3**	**253.2**	**284.4**	**119.9**	**282.0**	**186.3**	**15.6**	**123.8**	**241.5**	**194.0**	**151.6**	**34.8**	**3,705.0**	**100.0%**

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HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 31 DECEMBER 2015

FEBRUARY 2016

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Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

CONTENTS

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SECTION 1
EXECUTIVE SUMMARY

Page 108

EXECUTIVE SUMMARY

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	3.3	2.3	8.5
Total Fund (ex currency hedge)	3.9	3.2	8.7
Strategic Benchmark (no currency hedge)	3.4	2.9	8.1
Relative (inc currency hedge)	**-0.1**	**-0.6**	**+0.4**

Excess Return Chart

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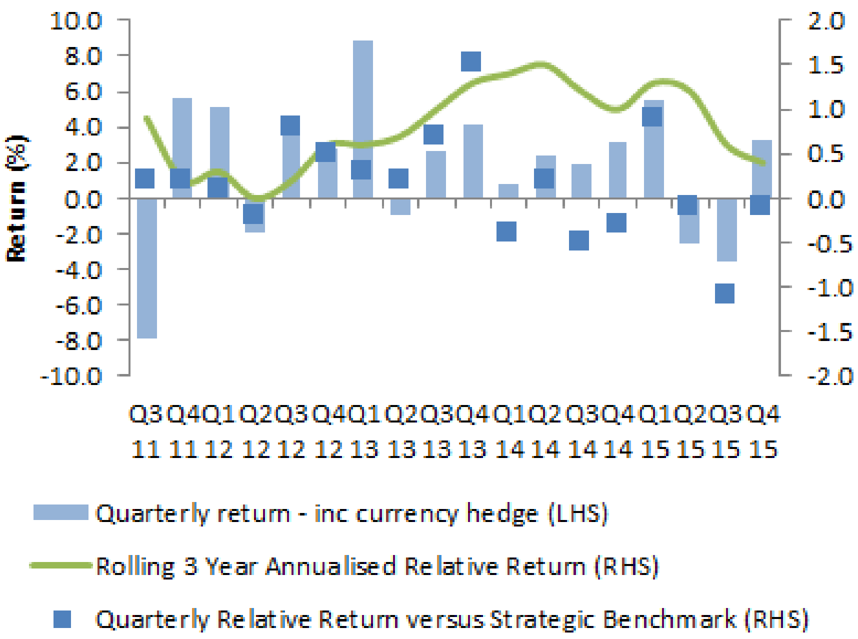
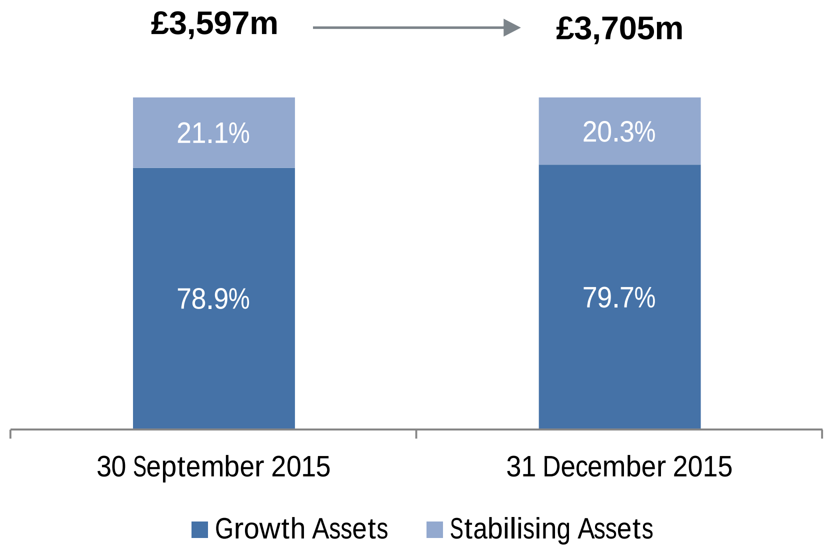


Asset Allocation



Commentary

Over the quarter total Fund assets (including currency hedging) increased from £3,597m (30 September 2015) to £3,705m.

This increase was primarily due to the positive performance across all strategies held (with the exception of the currency hedging mandate).

At a strategic level, the Fund was within the tolerance ranges in the Statement of Investment Principles for all asset classes, with the exception of developed market equities which were overweight relative to benchmark (and outside the range in the SIP) at the end of the quarter; this will be drawn down to fund the Infrastructure mandate.

The slight underperformance of the Fund return (when the currency hedge with Record is included) relative to the unhedged strategic benchmark return (which excludes currency hedging) over the quarter was largely a result of sterling depreciating over the quarter. The Fund return excluding currency hedging was 0.5% ahead of the unhedged strategic benchmark.

EXECUTIVE SUMMARY

This report has been prepared for the Avon Pension Fund ("the Fund"), to assess the performance and risks of the Fund's investments.

Funding level

- The estimated funding level increased by c. 3% over the fourth quarter of 2015, due to positive returns from growth assets over the quarter and a rise in the valuation discount rate (decreasing liabilities).

Fund performance

- The value of the Fund's assets increased by £108m over the quarter, to £3,705m at 31 December 2015. The Fund's assets returned 3.3% over the quarter (3.9% excluding the Record currency hedging mandate, given the depreciation of sterling over the quarter), as a result of positive returns from all strategies. This slightly underperformed (but outperformed when excluding currency hedge) the Strategic Benchmark return of 3.4%.

Strategy

- Global (developed) equity returns over the last three years at 13.6% p.a. have been significantly ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We remain neutral in our medium term outlook for developed market equities (over the next one to three years), and expect returns to be more modest over the next three years.

- The three year return from emerging market equities has fallen to -2.9% p.a. from -2.2% p.a. last quarter. The three year return remains well below the assumed strategic return (of 8.75% p.a.) as returns were affected by an ongoing commodity price slump, a stronger US dollar and slowing growth in China. As with developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.

Strategy (continued)

- UK government bond returns over the three years to 31 December 2015 remain above the long term strategic assumed returns (with fixed interest gilts returning 5.9% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 6.4% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high. Whilst from an absolute return perspective government bonds remain unattractive due to the low yields available, we continue to believe that their role in the context of the overall portfolio is important from a liability risk management perspective.
- UK corporate bonds returned 4.5% p.a. over the three year period, falling behind their assumed return of 5.5% p.a., while property returns of 14.6% continue to be substantially above the assumed strategic return of 7% p.a.
- Hedge fund returns remain below long term averages and the strategic return of 6% p.a., as they are affected by low cash rates.
- With most listed assets looking close to fully valued, if not fully valued, we would expect ‘alpha’ driven investments such as hedge funds and dynamic multi-asset strategies to play an increasingly important role in return generation over the coming three years, particularly if ‘beta’ (i.e. market-driven) returns are lower looking forward. In light of reduced market liquidity, we also see opportunities for more dynamic and active strategies to add value, and believe that there are likely to be opportunities arising in distressed debt given the maturing credit cycle. Asset classes that can provide a reliable source of income such as Long Lease Property, Private Debt and Infrastructure also offer relatively attractive sources of return, in our view, given the current market outlook.

Managers

- Absolute returns of the managers over the quarter were all positive. Unlike Q3, risky assets had a positive quarter, in particular equities. State Street's Asia Pacific equity mandate delivered the highest positive return, whilst JP Morgan had the biggest relative return (at 4.1% relative to a benchmark return of 0.9%).
- Returns over the year were also positive. The Fund's global equity mandates in particular fared well, however emerging market returns for the year were disappointing given the turmoil in China, the strong dollar and plummeting oil prices, with Genesis and Unigestion returning -10.0% and -7.5% respectively, (the latter still meeting its outperformance target despite the negative return, reflecting its lower volatility premise).
- Over three years, all mandates with a three year track record produced positive absolute returns (with the exception of Genesis), with Partners failing to beat its benchmark. In addition, Schroder failed to achieve its three-year performance objective for the property and global equity mandates, despite both beating their benchmarks. The remainder of the active managers achieved their objectives.
- Over the quarter, Jupiter announced that Chris Watt (the portfolio manager for their Responsible Income Fund) is leaving the firm. While this doesn't directly affect the Fund's segregated mandate, which are managed by Charlie Thomas (rather than Watt), Thomas will be taking over Watt's role on the Responsible Income Fund, which could be a stretch on his time. It also brings into question whether Jupiter's Environmental and Sustainability investment team will be sufficiently resourced. Our researchers will be following up with Jupiter to determine if there has been any change to the ESG process. Our rating of 'B' is not being changed as a result, but we suggest the strategy is monitored.

Key points for consideration

- Over the quarter, the transition of the hedge fund mandate to JP Morgan was largely completed. A major divestment of £49.2m was taken from Gottex on 16 November 2015, whilst £33.0m was divested from Signet. As at the end of the quarter, residual balances remain in these two funds until conditions to sell these down are met.

- Global and regional equity markets produced positive performance over the quarter, leading to the Fund's asset level increase. Over the quarter, this positive experience was helped by rising gilt yields, meaning the present value of the liabilities is expected to have decreased.

- The beginning of 2016 has however seen considerable volatility, with the FTSE All World returning -6.4% YTD to 5 February 2016, more than offsetting the gain of 4% made over 2015. Index-Linked Gilts (a proxy for the liabilities on the current funding basis) returned 5.6% YTD to 5 February 2016 as real yields fell.

- The Fund is in the process reviewing the Stabilising Asset portfolio and, as agreed at the last Panel meeting, is transitioning the current fixed interest gilts and overseas government bonds to index-linked gilts. This is expected to be completed in Q1 2016, depending on market conditions. Further discussion on liability risk management will be undertaken at the March 2016 funding and investment Committee workshop.

- The infrastructure mandate remains unfunded as yet, with the Fund having a commensurate overweight holding in developed equities.

SECTION 2
MARKET BACKGROUND

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MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

All major equity markets posted a positive return over the quarter with global equities delivering a return of 8.1% and 5.9% in sterling and local currency terms respectively. Small capitalisation stocks, as measured by the FTSE World Small Cap Index, posted a positive return but underperformed the broader equity market, returning 6.7% and 3.8% respectively in sterling and local currency terms.

Japan was the strongest performing equity market, returning 12.5% in sterling and 9.9% in local currency terms, remaining supported by the extremely accommodative monetary policy regime and exceptional growth of corporate profits. In contrast, emerging markets were the worst performing region, returning 3.1% and 1.2% in sterling and local currency terms respectively.

In the UK, the FTSE All-Share Index delivered a positive return of 4.0% over the quarter but underperformed the global equity market, partly due to a relative overweight to oil and gas stocks and a relative underweight to technology stocks. Within the UK, large capitalisation stocks, as represented by the FTSE 100 Index, continued to underperform the smaller segments of the market represented by the FTSE 250 and FTSE Small Cap indices, largely due to the ongoing weakness of resource-led stocks which constitute a significantly larger proportion of the FTSE 100 Index.

Bond Market Review

Bond yields rose across all maturities over the quarter, resulting in negative returns for investors.

In the UK, government bond yields increased by c.10-20 bps across the curve, with the increase most pronounced at medium to long end of the curve. Despite this, nominal yields remain well below long-term average levels.

Real yields also rose over the quarter, with the Over 5 Year Index-Linked Gilts Index posting a negative return of 3.3%.

Credit spreads narrowed over the quarter by c.10 bps and amounted to c.1.4% for both the Sterling Non-Gilts All Stocks and Sterling Non-Gilts Over 10 Year indices at the end of December. The benefit from the narrowing of credit spreads along with the income earned on corporate bond investment more than offset the negative impact of a rise in gilt yields, leading UK credit assets to post a positive return of 0.5% in sterling terms.

Currency Market Review

Over the quarter, sterling depreciated by 2.7% and 2.3% against the US dollar and Japanese yen, respectively, but stayed largely unchanged against the euro. The relative appreciation of the US dollar was due to strengthening economic fundamentals in the US and the Federal Reserve Bank’s decision to raise short-term policy rates.

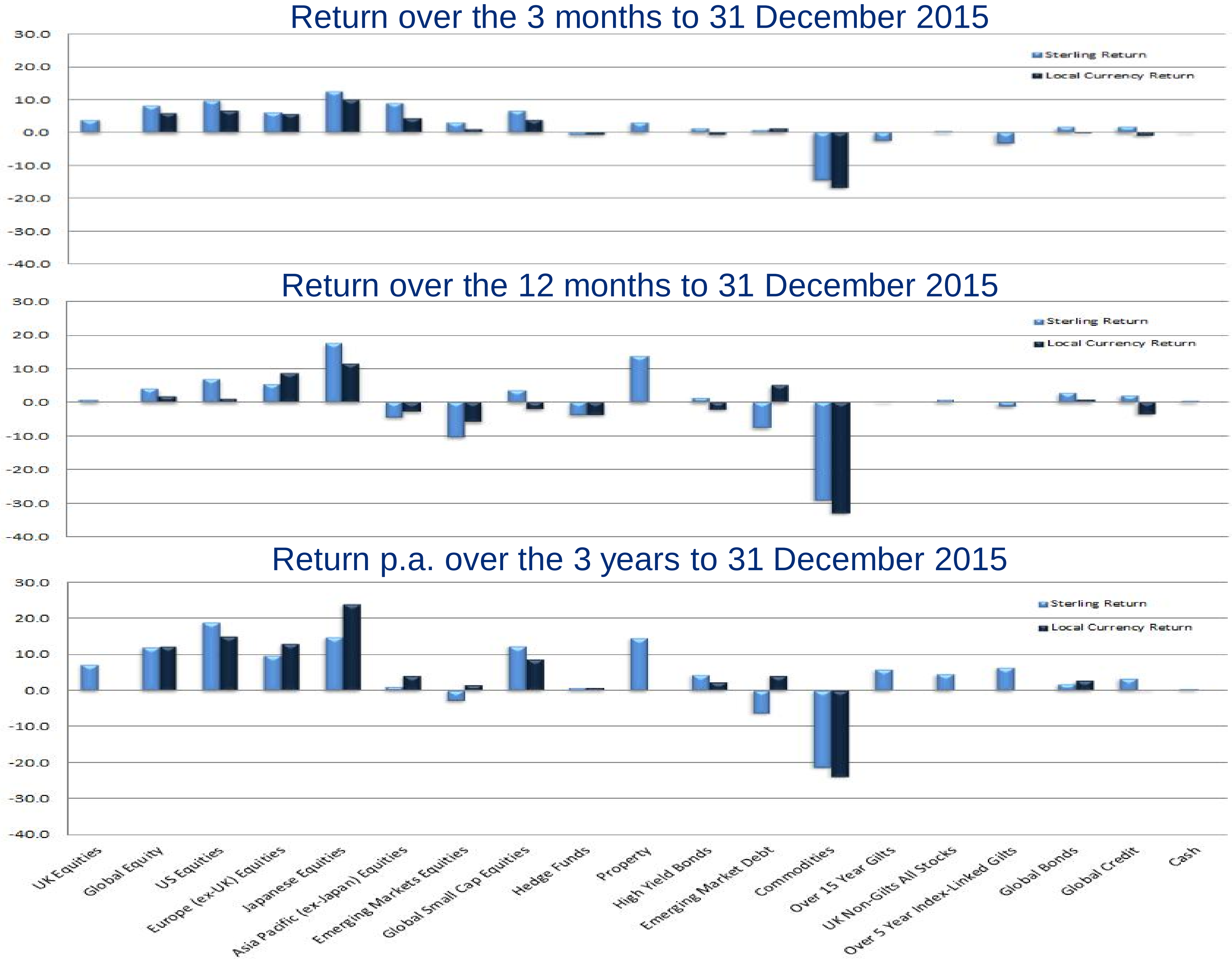
Commodity Market Review

Commodity prices continued their fall over the quarter with energy prices leading the decline on the back of concerns over an energy supply glut, wavering consumer demand and US dollar strength. As at end December, Brent Crude Oil traded around $35.70/barrel, a decrease of c.24.9% over the quarter.

The negative price impact from the stronger US dollar also led to a fall in gold prices over the period by 4.7% with gold trading at $1,062/oz at end December.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE



Source: Thomson Reuters Datastream.

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SECTION 3
STRATEGIC CONSIDERATIONS

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STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION

30 September 2015

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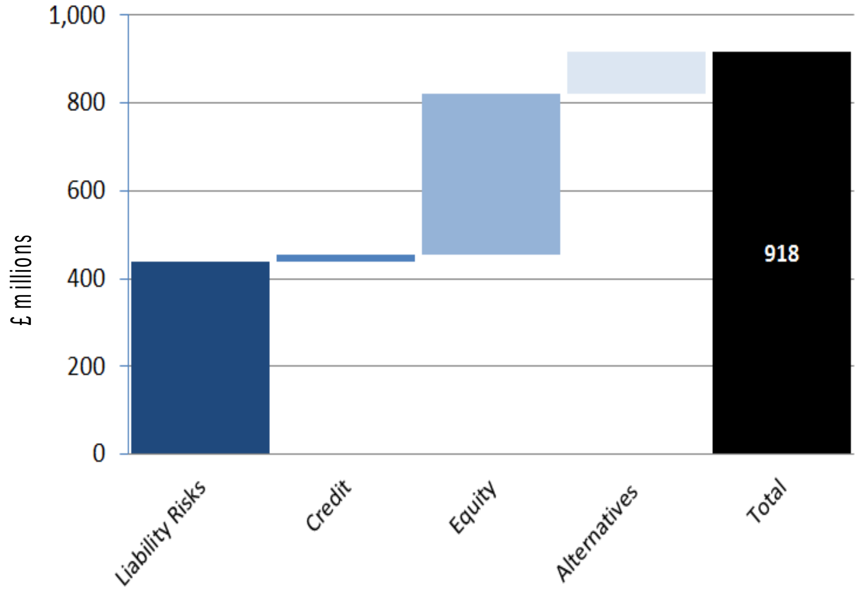
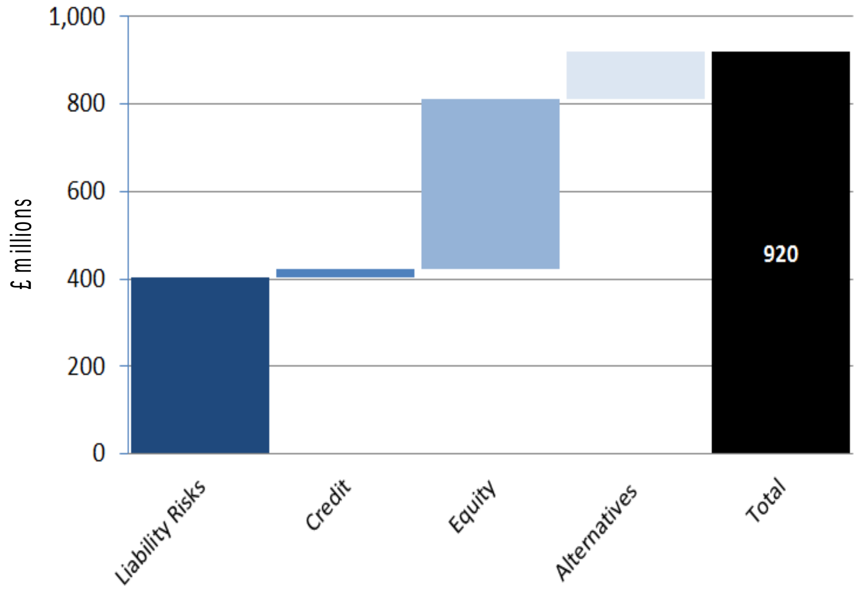


31 December 2015



The two charts to the left illustrate not only the main risks the Fund is exposed to on the 2013 funding basis (which is why the funding position is volatile) but also the size of these risks in the context of the change in the deficit position.

The purpose of showing these charts is not to alarm, rather to ensure there is an awareness of the risks faced and how they change over time and to initiate debate on an ongoing basis, around how to best manage these risks, so as not to lose sight of the “big picture”.

The black column on the right hand side of each chart shows the estimated 95th percentile Value at Risk figure over a one-year period. In other words, if we consider a downside scenario which has a 1 in 20 chance of occurring, what would be the impact on the deficit relative to our “best estimate” of what the deficit would be in one years time.

If we focus on the chart at 31 December 2015, the chart shows that if a 1 in 20 “downside event” occurred, we would expect that in one year’s time, the deficit would increase by an additional **£920m** on top of the current deficit of **£1.2b**, creating a deficit of c. **£2.1b**.

Each bar to the left of the black bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads and volatility of equity markets and alternative assets).

The two charts show that the one-year risk over the quarter has stayed broadly the same. This reflects an increased contribution from growth asset volatility (as absolute holdings increased over the quarter), offset somewhat by an increased allocation to index-linked gilts and the currency hedging.

The contributions to the total risk from the various return drivers have, as expected, changed little. Liability risks (i.e. interest rate) and equity market risk dominate.

The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	13.6	*Remains significantly ahead of the assumed strategic return.* *This has increased from 11.3% p.a. as the latest quarter's return of 8.6% was considerably higher than the 2.2% return of Q4 2012, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	-2.9	*The three year return from emerging market equities has fallen from -2.2% p.a. last quarter, despite a return of 3.1% experienced last quarter as this was lower than the quarter that fell out (5.1%). The three year return remains considerably below the assumed strategic return.*
Diversified Growth	Libor + 4% / RPI + 5%	4.5 / 6.8	*DGFs are expected to produce an equity like return over the long term but with lower volatility – this is the basis for the Libor and RPI based benchmarks. Low cash rates means that the Libor based benchmark has significantly underperformed the inflation (RPI) based benchmark and the long term expected return from equity. During periods of strong equity returns, such as the recent three year period, we would expect DGF to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	5.9	*UK gilt returns remain above the long term strategic assumed return as yields remain low relative to historic averages. Returns have decreased compared to the previous quarter as a result of the rise in yields (and hence negative total returns) experienced in the last quarter. Corporate bond returns have also reduced this quarter, and looking back over three years continue to be below the strategic assumed return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	6.4	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	4.5	
Overseas Fixed Interest (JP Morgan Global Government Bonds ex UK)	5.5	0.9	*Although still lagging the strategic assumed return, the 3 year performance from overseas fixed interest is now in positive territory due to positive returns this quarter.*
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	0.8	*Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. Volatility remains low and recent returns have fallen slightly. It should be noted that the index includes a wide variety of strategies that may have had very divergent returns.*
Property (IPD UK Monthly)	7.0	14.6	*Property returns continue to be above the expected returns, driven by the economic recovery in the US and the UK.*

Source: Thomson Reuters Datastream.

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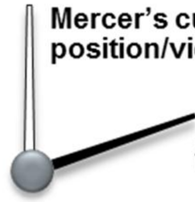
DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q1 2016

- Extremely Unattractive
- Unattractive
- Neutral
- Attractive
- Extremely Attractive



Mercer's current DAA position/view

Position/view last time (if changed)

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DEVELOPED MARKET EQUITIES

- Monetary policy remains generally supportive of equity markets
- Valuations have risen and, in the US in particular, are looking more expensive
- Continued concerns over global growth have led to a deterioration in market sentiment and increased volatility

EMERGING MARKET EQUITIES

- Valuations are well below long-term averages, though vary by region and country
- Risk of further currency depreciation including devaluation of Chinese Renminbi
- Interrelated headwinds include slowing Chinese growth, weak commodity prices and strong US dollar

These charts summarise Mercer's views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent tactical changes to their asset allocation based upon these views. These are also based from the view of an absolute return investor, and so do not take into account pension scheme liabilities.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q1 2016

FIXED INTEREST GILTS (ALL STOCK)

- ✓ Ongoing extraordinary monetary policy and concerns over slowing growth continues to restrain upward yield moves
- ! Valuations remain stretched by historical norms
- ! US monetary policy normalising could hurt performance of fixed income assets

INDEX-LINKED GILTS

- ✓ Real yields continue to trade below long-term averages
- ✓ Breakeven inflation levels at cyclical lows due to weak commodity prices
- ! Core inflation expectations continue to fall amid concerns China may remain a deflationary force at the global level

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q1 2016

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NON-GOVERNMENT BONDS (£ ALL-STOCK)

- While credit spreads have tightened marginally over the quarter, these remain favourable relative to current default rates
- Yields remain historically low and lack of trading liquidity has led to risk of increased volatility
- General consensus that credit cycle is fairly mature and prospective returns are relatively limited

UK PROPERTY

- Yields remain reasonable relative to other assets, despite a decrease in Q4
- Supply starting to come to market, leading to less favourable supply-demand imbalances
- Cautious of opportunistic strategies, and of London market over-heating

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q1 2016

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Asset Class	July 2015	Oct 2015	Jan 2016
Fixed Interest Gilts	Unattractive	Unattractive	Unattractive
Index-Linked Gilts	Unattractive	Unattractive	Unattractive
Eurozone Government Bonds	Unattractive	Unattractive	Unattractive
Non-Government Bonds (£ All-Stocks)	Unattractive	Unattractive	Unattractive
Non-Government Bonds (€ All-Stocks)	Unattractive	Unattractive	Unattractive
Global Equities	Neutral	Neutral	Neutral
Emerging Market Equities	Neutral	Neutral	Neutral
Small Cap Equities	Neutral	Neutral	Neutral
Low Volatility Equities	Neutral	Neutral	Neutral
UK Property	Neutral	Neutral	Neutral
High yield bonds	Neutral	Neutral	Neutral
Local currency emerging market debt	Neutral	Unattractive	Unattractive

SECTION 4

CONSIDERATION OF FUNDING LEVEL

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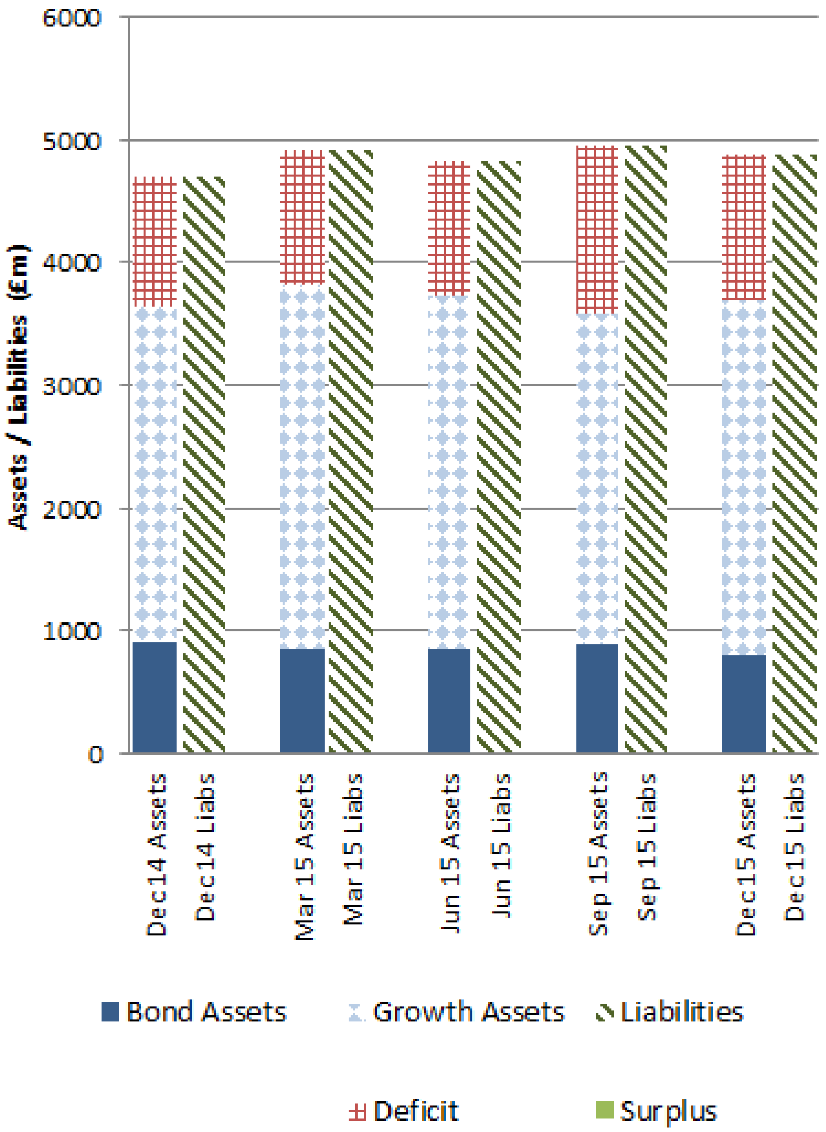
CONSIDERATION OF FUNDING LEVEL
ASSET ALLOCATION AND FUNDING LEVEL



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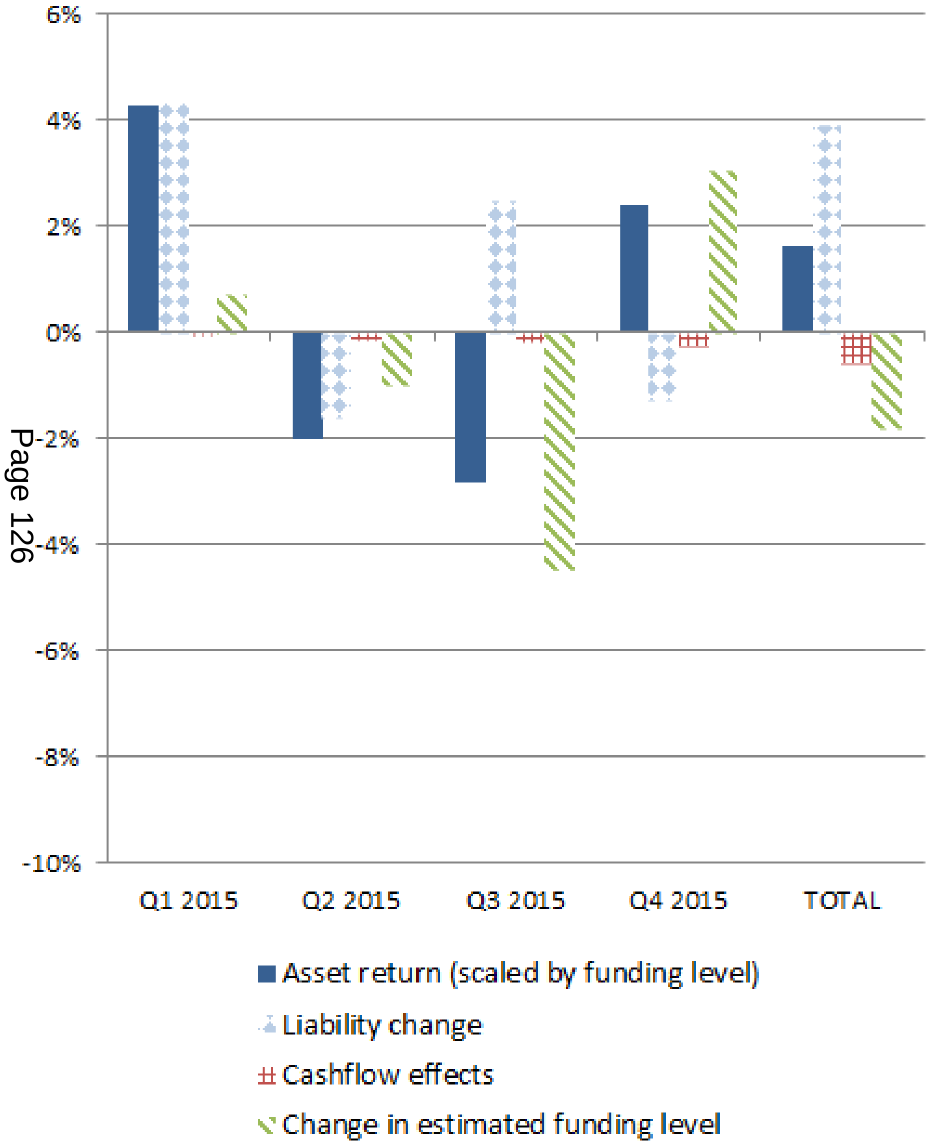
- Based on financial markets, investment returns and cashflows into the Fund, the estimated funding level increased by c. 3% over the fourth quarter of 2015, all else being equal, from 73% to 76%. This was driven by:
  - A positive asset return on growth assets;
  - A positive effect from the liabilities, as the discount rate increased, decreasing the present value placed on 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 decreased the overall funding level to 76%. This reduction has come mainly from the increase in the present value of the liabilities over the period (due to the falling discount rate).

CONSIDERATION OF FUNDING LEVEL
FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



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- The Fund's assets returned 3.3% over the quarter, which, when allowing for the funding position, increased the funding level by 2.4%.
- In addition, the Fund's estimated liabilities decreased by 1.3% over the quarter (primarily due to an increase in the discount rate).
- Over this quarter, the "cashflow effect" from contributions was negligible.
- Overall, the combined effect has led to a increase in the estimated funding level to 76% (from 73% at 30 September 2015).
- Over the 12 month period, the funding level has fallen by 1.7% primarily due a moderate fall in real yields, and interest on the liabilities exceeding investment returns.

SECTION 5
FUND VALUATIONS

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Target Strategic Benchmark (%)	Ranges (%)	Difference (%)
Developed Market Equities	1,568,521	1,685,268	43.6	45.5	40.0	35 - 45	+5.5
Emerging Market Equities	293,957	302,627	8.2	8.2	10.0	5 - 15	-1.8
Diversified Growth Funds	357,914	365,235	9.9	9.9	10.0	5 - 15	-0.1
Fund of Hedge Funds	157,291	201,841	4.4	5.4	5.0	0 - 7.5	+0.4
Property	324,421	343,969	9.0	9.3	10.0	5 - 15	-0.7
Infrastructure	-	-	-	-	5.0	0 - 7.5	-5.0
Bonds	761,311	753,425	21.2	20.3	20.0	15 - 35	+0.3
Cash (including currency instruments)	133,923	52,665	3.7	1.4	-	0 - 5	+1.4
Total	**3,597,158**	**3,705,031**	**100.0**	**100.0**	**100.0**		**0.0**

Source: WM Performance Services, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

Invested assets increased over the quarter by £108m due to positive returns across growth assets. At the end of the quarter, developed market equities were overweight relative to benchmark (and outside the range in the SIP); this will be drawn down to fund the Infrastructure mandate.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Passive Multi-Asset	1,099,762	-3,012	1,133,399	30.6	30.6
Jupiter	UK Equities	168,771	-	176,056	4.7	4.8
TT International	UK Equities	193,736	-	205,993	5.4	5.6
Schroder	Global Equities	232,442	-	253,171	6.5	6.8
Genesis	Emerging Market Equities	132,393	-	136,357	3.7	3.7
Unigestion	Emerging Market Equities	161,564	-	166,270	4.5	4.5
Invesco	Global ex-UK Equities	260,036	-	284,392	7.2	7.7
SSgA	Europe ex-UK & Pacific inc. Japan Equities	109,756	-	119,872	3.1	3.2
Pyrford	DGF	120,916	-	123,750	3.4	3.3
Standard Life	DGF	236,999	-	241,485	6.6	6.5

Source: WM Services, Avon. Totals may not sum due to rounding.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation

Manager	Asset Class	Start of Quarter (£'000)	Cashflows** (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
MAN	Fund of Hedge Funds	593	-	814	0.0	0.0
Signet	Fund of Hedge Funds	38,877	-32,957	5,186	1.1	0.1
Gottex	Fund of Hedge Funds	58,405	-49,249	9,564	1.6	0.3
JP Morgan	Fund of Hedge Funds	59,416	119,391*	186,277	1.7	5.0
Schroder	UK Property	189,410	-	194,007	5.3	5.2
Partners	Property	146,896	4,610	151,610	4.1	4.1
RLAM	Bonds	281,004	-	282,045	7.8	7.6
Record Currency Management	Currency Hedging	3,430	-	-17,595	0.1	-0.5
Internal Cash	Cash	102,710	-38,783*	52,377	2.9	1.4
Total		**3,597,158**	**-**	**3,705,031**	**100.0**	**100.0**

Source: WM Services, Avon. Totals may not sum due to rounding.
*Includes £59.6m in transition from internal cash to JP Morgan as at 30 September 2015, which was counted as cash in the Q3 2015 report and included in the Internal Cash figure above as at the start of the quarter.
** The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total fund.

SECTION 6

PERFORMANCE SUMMARY

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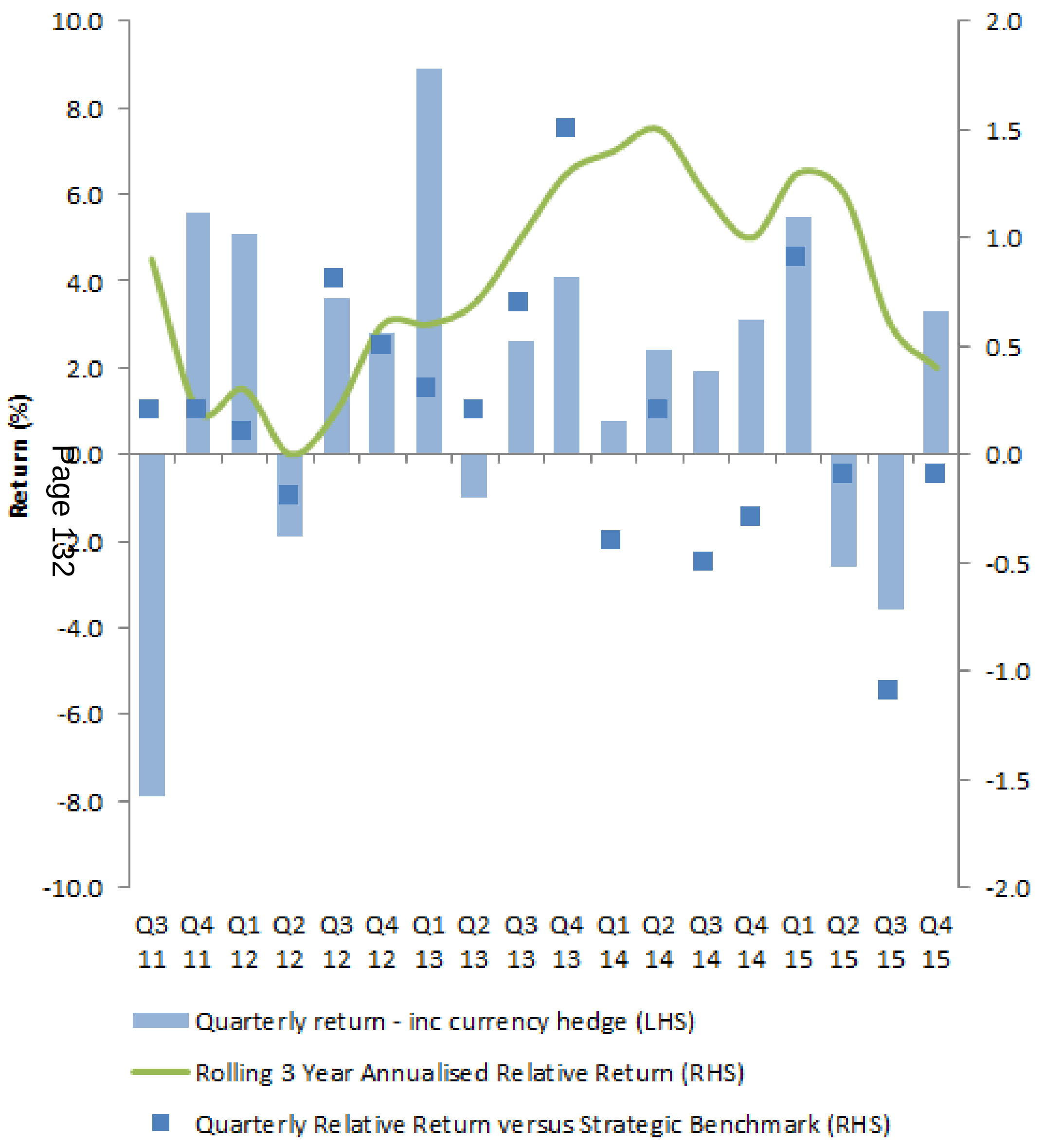
PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE



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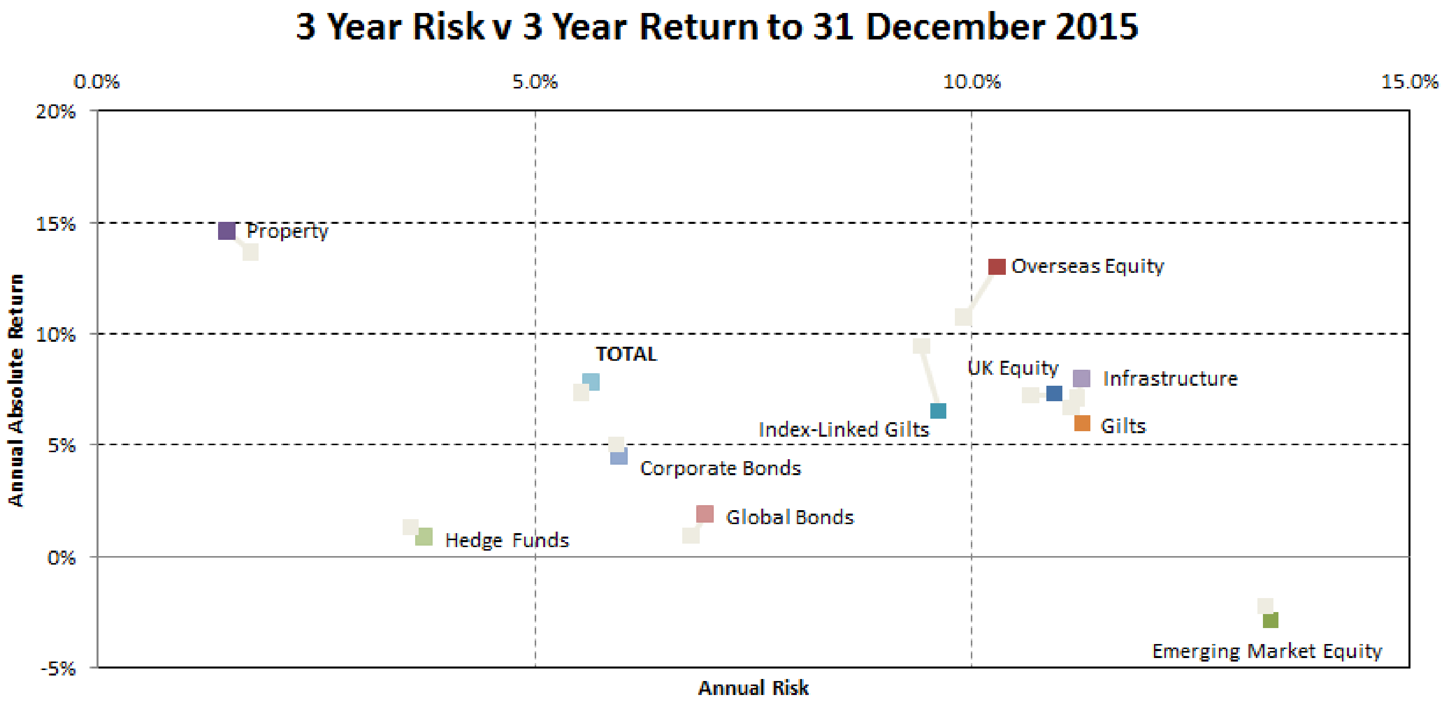
	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	3.3	2.3	8.5
Total Fund (ex currency hedge)	3.9	3.2	8.7
Strategic Benchmark (no currency hedge)	3.4	2.9	8.1
Relative (inc currency hedge)	**-0.1**	**-0.6**	**+0.4**

- Over Q4 2015, the Fund slightly underperformed its Strategic Benchmark by 0.1% when including the currency hedge but outperformed by 0.5% excluding the currency hedge.
- The Fund has underperformed the Strategic Benchmark over the year by 0.6% but outperformed over the three year period by 0.4% p.a.
- The latest quarter’s underperformance has reduced the rolling three year outperformance from 0.6% p.a. to 0.4% p.a.
- The slight underperformance of the Fund (when the currency hedge with Record is included) relative to the unhedged strategic benchmark over the quarter was due to having the currency hedging mandate in place, as sterling depreciated over the quarter.



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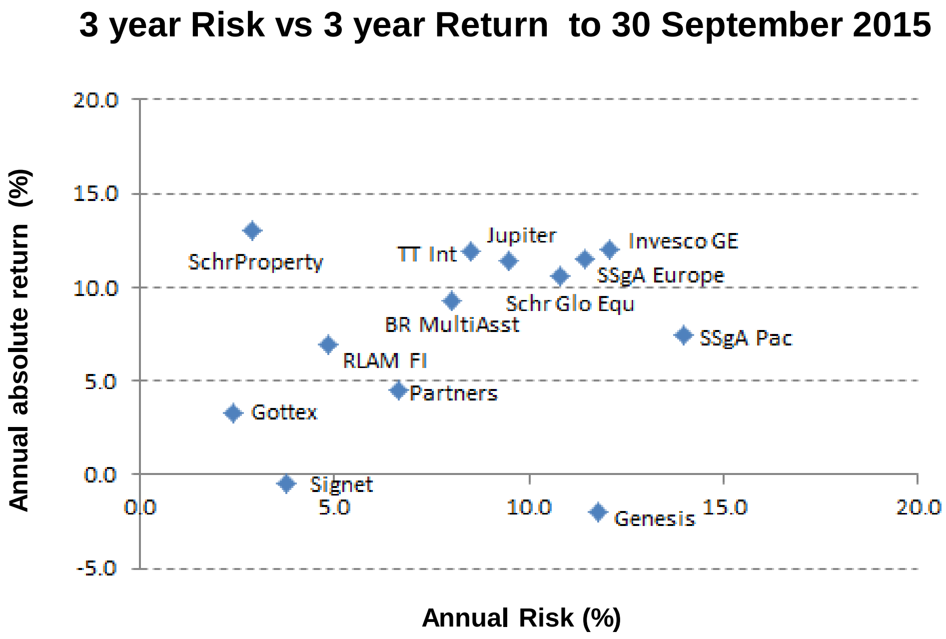
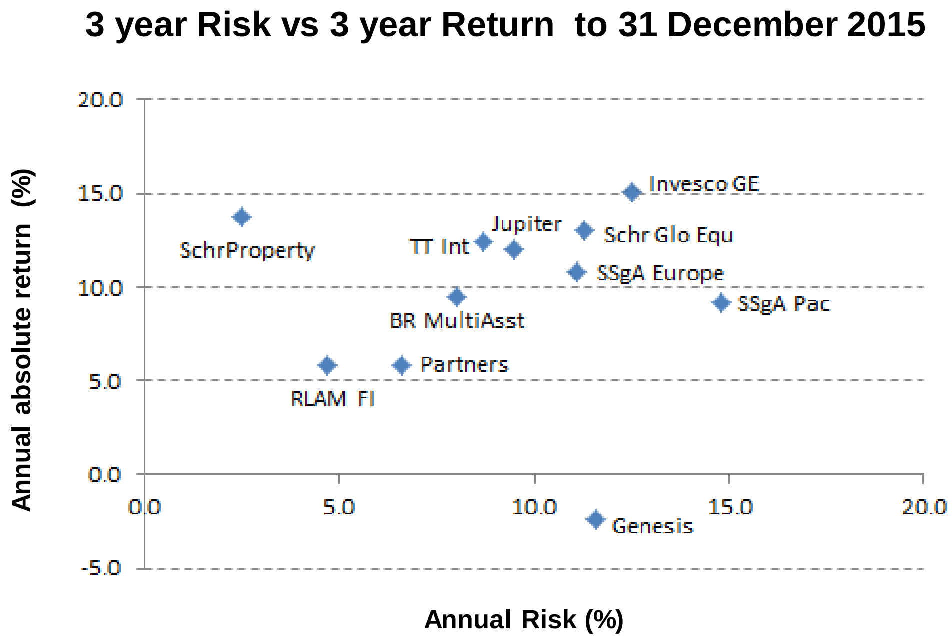
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of December 2015, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from WM Services). We also show the positions as at last quarter, in grey.

Comments

- *There were limited shifts in observed returns and volatilities over the quarter, the two significant movements being an increase in returns and volatility for overseas equity (on the back of observed strong performance), and a drop in observed returns for gilts as yields rose.*

MANAGER MONITORING
RISK RETURN ANALYSIS





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Comments

- *In general absolute returns of the funds increased over the quarter, whilst volatility remained relatively stable. This impact was most noticeable in Schroder and Invesco global equity funds as well as SSgA Pacific inc. Japan equity fund given the significantly positive returns delivered by those equity markets.*

MANAGER MONITORING
MANAGER PERFORMANCE TO 31 DECEMBER 2015

Manager / fund	3 months (%)			1 year (%)			3 year (% p.a.)			3 year outperformance target (% p.a.)	3 year performance versus target
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative		
BlackRock Multi-Asset	3.4	3.4	0.0	2.8	2.7	0.1	9.6	9.5	0.1	-	Target met
Jupiter	4.2	4.0	0.2	5.4	1.0	4.4	12.2	7.3	4.6	+2	Target met
TT International	6.3	4.0	2.2	9.9	1.0	8.8	12.5	7.3	4.9	+3-4	Target met
Schroder Equity	8.7	8.1	0.6	6.7	3.8	2.8	12.9	11.8	1.0	+4	Target not met
Genesis	3.4	3.5	-0.1	-10.0	-9.7	-0.4	-2.6	-3.4	0.8	-	Target met
Unigestion	2.9	3.5	-0.5	-7.5	-10.0	2.7	N/A	N/A	N/A	+2-4	N/A
Invesco	9.4	8.8	0.5	5.5	5.5	0.0	15.2	14.0	1.0	+0.5	Target met
SSgA Europe	6.1	6.2	-0.1	6.5	5.2	1.2	10.9	10.1	0.8	+0.5	Target met
SSgA Pacific	10.9	11.6	-0.6	8.5	8.5	0.0	9.3	8.3	1.0	+0.5	Target met
Pyrford	2.3	1.6	0.7	2.1	6.2	-3.9	N/A	N/A	N/A	-	N/A
Standard Life	1.7	1.4	0.4	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
JP Morgan	4.1	0.9	3.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Schroder Property	2.5	2.8	-0.3	11.9	12.5	-0.5	13.6	12.9	0.6	+1	Target not met
Partners Property	3.2	1.1	2.1	5.8	12.3	-5.8	5.9	11.0	-4.6	+2	Target not met
RLAM	0.4	0.4	0.0	1.0	0.5	0.5	5.8	4.4	1.4	+0.8	Target met
Internal Cash	0.1	0.1	0.0	0.3	0.3	0.0	0.4	0.4	0.0	-	N/A

Source: WM Services, Avon.
In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
A summary of the benchmarks for each of the mandates is given in Appendix 1.

APPENDIX 1
SUMMARY OF MANDATES

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SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance target (p.a.)
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Invesco	Global ex-UK Equities (Enhanced Indexation)	MSCI World ex UK NDR	+0.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	6 Month LIBOR +5% p.a.	-
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	IPD Global Pooled	+2%
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 2

MARKET STATISTICS INDICES

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MARKET STATISTICS INDICES

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts All Stocks
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

APPENDIX 3

CHANGES IN YIELDS

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CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 December 2015	30 September 2015	31 December 2014	31 December 2013
UK Equities	3.70	3.71	3.37	3.28
Over 15 Year Gilts	2.57	2.38	2.42	3.58
Over 5 Year Index-Linked Gilts	-0.70	-0.83	-0.75	0.05
Sterling Non Gilts	3.23	3.16	2.99	3.85

- Bond yields rose across all maturities over the quarter, resulting in negative returns for investors.
- In the UK, government bond yields increased by c.10-20 bps across the curve, with the increase most pronounced at medium to long end of the curve. Despite this, nominal yields remain well below long-term average levels.
- Real yields also rose over the quarter, with the Over 5 Year Index-Linked Gilts Index posting a negative return of 3.3%.
- Credit spreads narrowed over the quarter by c.10 bps and amounted to c.1.4% for both the Sterling Non-Gilts All Stocks and Sterling Non-Gilts Over 10 Year indices at the end of December. The benefit from the narrowing of credit spreads along with the income earned on corporate bond investment more than offset the negative impact of a rise in gilt yields, leading UK credit assets to post a positive return of 0.5% in sterling terms.

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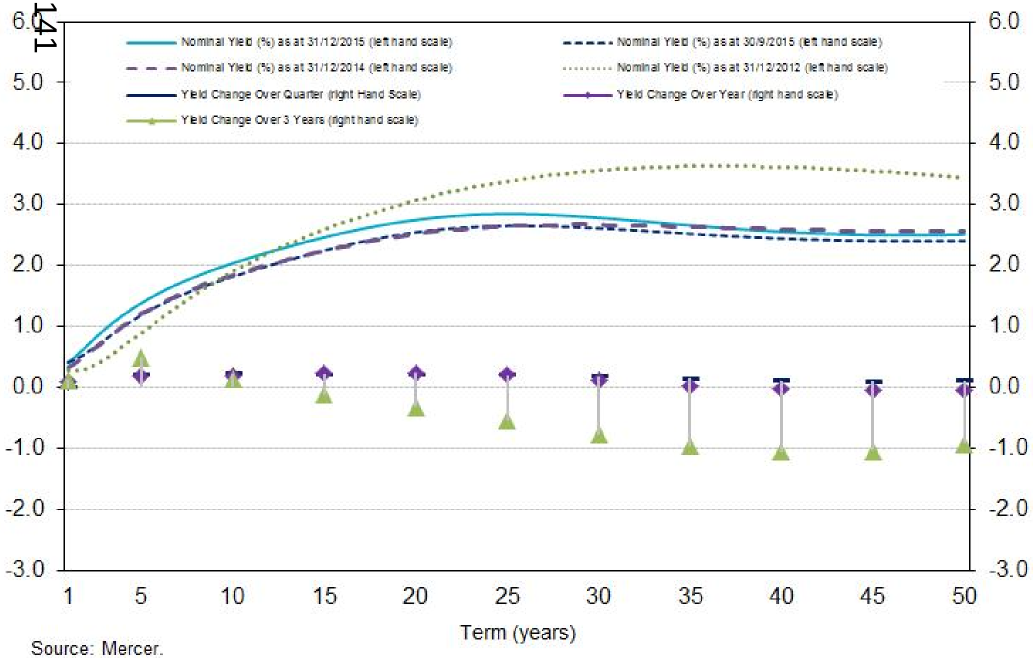
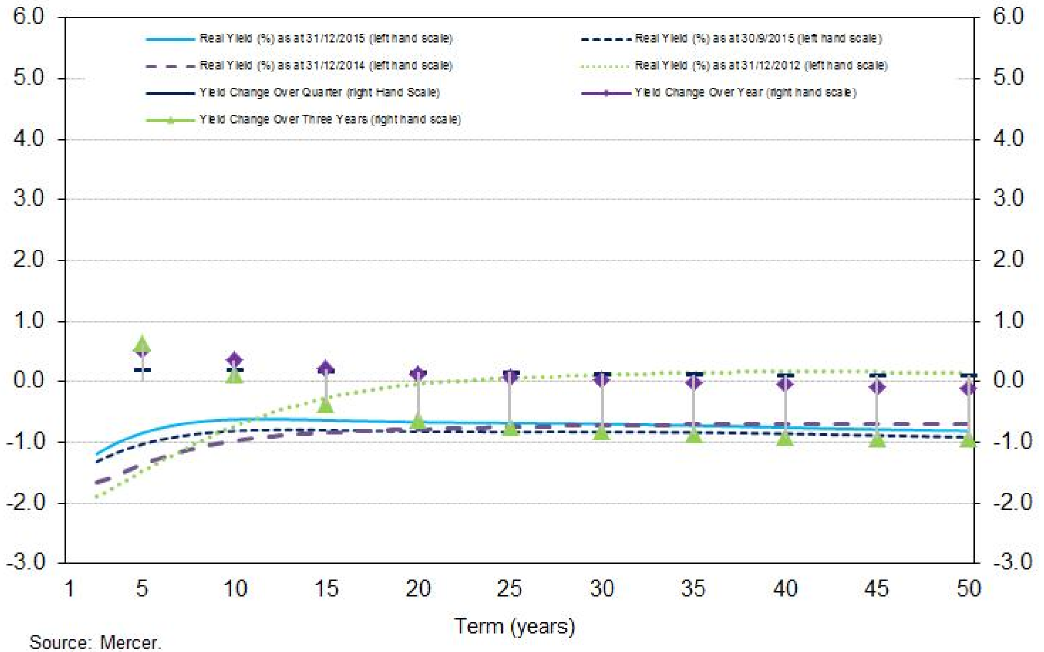
Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

MAKE
TOMORROW,
TODAY

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of member funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at companies in which they invest. Formed in 1990, LAPFF brings together a diverse range of local authority pension funds in the UK with combined assets of over £175 billion.

QUARTERLY ENGAGEMENT REPORT

OCTOBER TO DECEMBER 2015

LGPS seminar
(Left to right) Cllr Kieran Quinn (LAPFF Chair), Cllr Denise Le Gal (Surrey Pension Fund), Cllr Rob Chapman (Hackney Pension Fund) and Brian Bailey (PIRC Chair).

LAPFF 20th Annual Conference: 20 Years of Responsible Investment – Where Next?

ST Engineering quits cluster munitions in part due to LAPFF engagement

LAPFF contacts all FTSE350 companies regarding IFRS 9

Co-filing strategic resilience resolutions with Rio Tinto, Anglo American and Glencore

Corporate Tax Transparency Initiative engagement begins next phase

Achievements

LAPFF 20th Annual Conference: '20 Years of Responsible Investment – Where Next?'

In December, LAPFF celebrated both its 25th anniversary, and the 20th anniversary of the annual LAPFF conference. Over three days, 200 delegates attended sessions ranging from the dynamics of successful boards to responses to proposed changes in the Local Government Pension Scheme (LGPS), to International Financial Reporting Standards (IFRS) 9. LAPFF is grateful to all of its members who attended and to those who spoke or chaired sessions at the conference, as well as to those who attended from outside of the Forum. These included Martin Gilbert (CEO Aberdeen Asset Management), Daniel Balint-Kurti (Global Witness), Martyn Day (Senior Partner, Leigh Day LLP), Mark Campanale (Founder, Carbon Tracker), Matthew Knight (Siemens), Bob Holloway (Department for Communities and Local Government), Amanda Mellor (Company Secretary, Marks & Spencer), Syed Kamall MEP and Richard Murphy (Director, Tax Research LLP). More information on the conference and a selection of the presentations are available here.

ST Engineering quits cluster munitions in part due to LAPFF engagement

In 2014, the Forum engaged with nine aerospace and defence companies, including ST Engineering, about the sale and production of cluster munitions. This quarter, the Forum received a letter from ST Engineering stating that the company is 'no longer in the business of designing, producing and selling anti-personnel mines and cluster munitions or any related components.' The company specifically referred to LAPFF's influence on the company in reaching this decision, showing the benefits of the Forum's positive engagement approach.

LAPFF contacts all FTSE350 companies regarding accountancy regulation and standards

In November, LAPFF wrote to all FTSE 350 companies indicating that they should disregard guidance and statements from the Financial Reporting Council in order for directors to meet their legal obligations. The letters were widely reported and LAPFF is in the process of collating and analysing the responses. In December, LAPFF published 'Sorry, Wrong Number', which sets out how central figures in the accounting profession have consistently argued that the law was different to what the legislation provided; a clear example of regulatory capture. A copy of this paper was enclosed in a letter LAPFF recently sent to Lord Hill, the Commissioner for Financial Stability, Financial Services and Capital Markets Union at the European Commission.

In LAPFF's paper 'Banks Post Mortem – Follow Up' (December 2013), LAPFF set out how IFRS had caused the failure of the Basel capital adequacy regime for British banks. Explicit admission of this was finally given by the CEO of the Prudential Regulatory Authority, Andrew Bailey, during questioning by Steve Baker MP at the Treasury Select Committee on 15th December 2015 into the role of the accounts audited by KPMG in the failure of HBOS. In a recent article commenting on this issue, the Daily Mail called for the FRC to be disbanded.

'Carbon transition management: how should investors respond?' Climate change panel (LAPFF conference)
(Left to right) Mark Campanale (Founder, Carbon Tracker), Matthew Knight (Director of Strategy and Government Affairs, Siemens), Dawn Turner (Head of Pension Fund Management, Environment Agency Pension Fund), Cllr Cameron Rose (Lothian Pension Fund, LAPFF Vice Chair) and Tom Harrington (Senior Investment Manager, Greater Manchester Pension Fund).

LAPFF hosts seminar on developments in the Local Government Pension Scheme

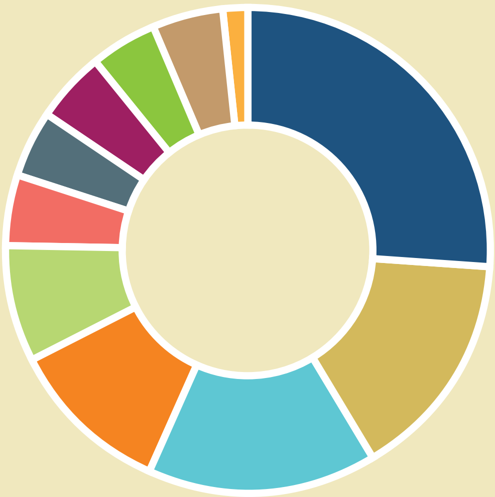
Following the Chancellor's announcement of proposed reforms to the LGPS over the summer, LAPFF hosted a seminar on 23 November open to all local authority pension funds on the proposed changes. Bob Holloway, from the Department for Communities and Local Government, started the discussions by describing the proposals and responding to numerous questions from the floor. This discussion was followed by a number of presentations from LAPFF member funds discussing their perspectives on the proposed reforms. At the LAPFF conference, LAPFF facilitated further discussion on the recently launched government consultation on the proposals.

Three more pension funds join LAPFF

In the final quarter of 2015, the Cambridgeshire Pension Fund, The City and County of Swansea Pension Fund, and the Gloucestershire Pension Fund all joined LAPFF, bringing the total number of member funds up to 68. We look forward to welcoming all new member fund representatives to LAPFF meetings in 2016.

Company Engagement

ENGAGEMENT TOPICS



Climate change	**17**
Reputational risk	**10**
Tax	**10**
Employment standards	**7**
Other	**5**
Environmental risk	**3**
Governance (general)	**3**
Human rights	**3**
Social risk	**3**
Incentivising executives	**3**
Finance & accounting*	**1**

*In addition, LAPFF wrote to the Chairs of each of the FTSE350 companies regarding reliable accounting, and received 44 written responses

HOLDINGS-BASED ENGAGEMENT

In November, LAPFF attended the **BP** SRI day, particularly keen to hear about the impact of the strategic resilience resolution that LAPFF funds co-filed earlier this year. The company stated that the resolution has had a positive impact in bringing focus to, and making public, existing work that the company was undertaking on climate change resilience. The company noted a number of steps that it is taking to mitigate its climate change impacts, including: calling on governments to implement a carbon price; increasing the use of natural gas; developing a material renewable business in biofuel and wind; improving energy efficiency; and contributing to research and development.

In November and December, LAPFF also participated in two investor meetings with **Shell**. At the first of these meetings, LAPFF vice-chairman, Ian Greenwood, discussed with the Vice President of Safety and Environment, Rupert Thomas, the impact of politics on the oil price and the importance of communicating climate change science simply and clearly to investors. LAPFF also asked about the impact of the strategic resilience resolution on company disclosure practices. The company indicated that it would be disclosing information, signposted by the various aspects of the resolution, next year. At the second meeting, with the Chair of Shell, Chad Holliday, the focus was on the proposed BG acquisition, with Shell also confirming its increasing focus on integrated gas, in anticipation of declining demand for coal.

Towards the end of November, Cllr Barney Crockett and Cllr Cameron Rose met with the CEO of **SSE** plc. The aims were to gain an understanding of: the company's succession planning process; whether or not it was looking to 'decouple' profits from energy use; and its adoption of progressive tax and living wage policies. There was a discussion around the merits of home efficiency versus decoupling profits from carbon production, as well as carbon capture and storage. With regard to the living wage, the Company is an early adopter of this standard and a leader in the sector.

In December, LAPFF met with **Toyota**, one of the most significant Japanese companies that the Forum has engaged with, and in which 30 LAPFF funds hold shares. Cllr Cameron Rose led the meeting and discussed a number of issues ranging from the recent VW scandal and product recalls, to renewable energy and board diversity. It was a very productive meeting and has laid the groundwork for further meetings in the future.

PROMOTING GOOD GOVERNANCE

LAPFF attended the **Sky** plc AGM in November, in order to ask the board about the concentration of 21st Century Fox representatives on the Sky board. Notwithstanding that two 21st Century Fox representatives stepped down from the Sky board, the appointment of John Nallen, 21st Century Fox's Chief Financial Officer, increased the proportion of 21st Century Fox representatives on the Sky board to 25 per cent. The Chair did not provide a detailed answer, but suggested that these board members were helpful given that Sky purchases content from the US. This board make-up remains problematic, however, in the face of anti-trust litigation against Sky.

Following tax expert Richard Murphy's analysis of company responses to LAPFF's Corporate Tax Transparency Initiative (CTTI) questionnaire, LAPFF has now invited some of the responding companies to meetings in order to better understand their tax processes. This selection of companies includes those whose survey responses suggested both good and bad tax practices and is particularly timely given the OECD's publication of the final Base Erosion and Profit Shifting (BEPS) package of reform, in October. In addition, UNPRI has recently issued guidance for investors with some straight forward questions to ask companies about their tax practices.

During October, LAPFF had a call with other members of the Investor Clinical Trials Initiative regarding engagement meetings with Roche, Astrazeneca, Bayer, Novartis, AbbVie, and Johnson & Johnson. The companies are at varying stages of disclosing clinical trials data, but are overwhelmingly opposed to disclosing historical data. This opposition stems from a concern about public backlash as data standards were raised about twenty years ago. A new European Union Clinical Trials Regulation is due to come into force in around May 2016, and an AllTrials research report is due to be launched in January 2016. Therefore, developments in clinical trials transparency could be forthcoming during 2016.

PEOPLE AND INVESTMENT VALUE AND EMPLOYMENT STANDARDS

LAPFF also had a further meeting with the **Equality and Human Rights Commission**, following Cllr Mary Barnett's participation in the Equality and Human Rights Commission Inquiry roundtable in the previous quarter. The latest meeting addressed LAPFF's experiences of recruitment and appointment of board directors. In particular, the meeting highlighted that directors are drawn from a very limited pool, which often excludes or overlooks female candidates, and that head-hunters can play a very negative role in exacerbating this issue. LAPFF has previously engaged with FTSE100 companies on board diversity, and will be extending this engagement to FTSE350 companies during the course of 2016.

On the back of a LAPFF voting alert issued in September of this year, LAPFF has written to **Sports Direct** to follow up on concerns about the company's use of zero hour contracts. There continue to be concerns that Sports Direct's use of these contracts leads, amongst other things, to low pay, uncertain hours, and a large amount of stress on employees unsure of whether they will have enough hours to earn a sufficient living. Public pressure on the company on this issue is building and, in December, the Chair of Parliament's Public Accounts Committee called for an investigation into low pay and working conditions at the company. The company's recent statements on employment issues are currently being scrutinised.

ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

Engagement with **Rio Tinto** progressed during the fourth quarter, including a meeting with the Chair, Jan du Plessis, attended by LAPFF Executive Committee member Rodney Barton. The proposed strategic resilience shareholder resolution was discussed, which requests reporting on various elements of company actions in the face of the carbon transition, including how the company manages its portfolio of assets to be resilient to future energy scenarios.

At least a dozen member funds are currently co-filing similar resolutions with two other diversified mining companies, Anglo American and Glencore, for the 2016 AGMs. This engagement is co-ordinated with other investor members of the Aiming for A Coalition which, earlier this year, co-filed strategic resilience resolutions with Shell and BP. These resolutions obtained support from both boards and 98% of voting shareholders. Building on this success, asset managers such as Aviva Investors and BNP Paribas Investment Partners, who publicly supported the BP/Shell resolutions, have now taken the next step of co-filing on the 2016 resolutions. Co-filing investors now represent total assets under management of USD 6.5 trillion.

LAPFF Executive Committee member, Jane Firth, attended the **BHP Billiton** AGM in October. Ms Firth welcomed the company's recent report 'Climate Change: Portfolio Analysis', but queried the company's membership of industry associations, particularly the Minerals Council of Australia, whose position on climate change appears regressive and inconsistent with the company's stated policies. Jac Nasser, the Chair, responded that, as the largest company in Australia, it is important to be part of industry associations in order to advocate across a broad range of issues over the longer-term. The Forum has also joined other investors in engaging with BHP Billiton on the effects of the mining dam that collapsed in Brazil in November and as part of the UN PRI investor group, to consider the company's impacts as a result of its fracking business.

Following on from LAPFF's letter, with other investors, to the Roundtable on Sustainable Palm Oil, LAPFF has co-signed a letter to **President Joko 'Jokowi' Widodo of**

Indonesia, expressing concern about peatland degradation and deforestation in Indonesia and supporting the President's efforts to adopt regulatory reform in this area. 60 investors signed the letter in total, representing USD 2 trillion AUM. The letter was drafted by Green Century Capital Management and supported by the advisory committee of UN PRI's sustainable palm oil investor working group.

LAPFF also co-signed a letter to the UK Financial Reporting Council (FRC), drafted by ClientEarth and Sarasin & Partners. The letter sets out investors' expectations that fossil fuel dependent companies should address climate-related risks in the newly introduced 'viability statements' in their annual report.

Investor engagement panel – LAPFF conference
(Left to right) Cllr Kieran Quinn (LAPFF Chair), Paul Hackett (Smith Institute) and Martin Gilbert (CEO, Aberdeen Asset Management). The panel session was titled: 'Investor engagement: does it work?'

MEDIA COVERAGE

Climate Change
FT: Investors put pressure on miners over Paris climate deal [subscription only]

Reuters: Investors put pressure on miners to respond to climate change

Governance
The Guardian: Sky investors challenge appointment of another Fox board member

Human rights
Coventry Telegraph: Coventry council pension fund pressures weapons firm to stop making banned cluster bombs

Reliable accounts
FT: HBOS review offers the chance to expose the flaws in our accounting system [subscription only]

Investment & Pensions Europe: LAPFF presses FTSE companies to ignore 'illegal' FRC guidance

The Times: Disgruntled investors attack FRC [subscription only]

Reuters: UK pension funds urge firms to disregard certain regulator guidance

Financial Director: True and fair remains at heart of battle over bank accounting rules

Investment & Pensions Europe: Pensions Accounting – Is it Enough?

Investment & Pensions Europe: LAPFF trades blows with EU accounting adviser in IFRS 9 row

Tax
Investor Daily: Investors urge G20 to reform global tax system

NETWORKS AND EVENTS

LAPFF and the Smith Institute hosted a party fringe meeting in Scotland, at the **SNP party conference** in October with the theme: **'The Banks are Back: What Should Scotland's Response Be?'** This event followed very successful party fringe meetings with similar themes at both the Labour party conference and the Conservative party conference.

The LAPFF chair, Cllr Quinn, spoke on a panel at **'Managing Value At Risk for Portfolios From Climate Change: the financial implications of COP 21'**. Christiana Figueres, Executive Secretary of the UN Framework Convention on Climate Change, was one of the key note speakers.

Cllr Quinn also spoke at the **CIPFA National Housing Conference**, describing the role of pension funds in funding infrastructure projects and Manchester's innovative approach to investment and housing.

LAPFF fielded three speakers for a Socially Responsible Investing event hosted by Camden Pension Fund. Presentations were given on LAPFF's engagement approach, reliable accounts and engagement on carbon risk.

A LAPFF representative also spoke on the Forum's UK Corporate Tax Transparency Initiative (CTTI) work at a seminar focussing on Multinational Tax Avoidance and the case of Chevron Corporation, sponsored by the International Transport Workers' Federation (ITF). The meeting also heard from Richard Murphy (founder of the Tax Justice Network and director of Tax Research LLP), who is advising LAPFF on its CTTI work.

Other events and meetings attended by LAPFF representatives during the quarter include:

'A briefing on **'Understanding Modern Slavery Reporting'**, hosted by Ergon Associates, which considered the Modern Slavery Act 2015 reporting requirements, which came into force in October.

A community meeting, hosted by the London Mining Network and attended by Cllr Greening, to consider the negative community impacts of **BHP Billiton's Cerrejon Mine** in Colombia.

CDP's UK Results Event, with speakers from the Environment Agency Pension Fund, SSE and Travis Perkins and **Carbon Tracker Initiative (CTI)**'s pre-launch of its 'Energy Demand Assumptions' research report.

Cllr Quinn attends a Conservative party fringe meeting

A **Tax Avoidance Event**, hosted by Share Action and Christian Aid, at which John Cridland, Director General of the Confederation of British Industry, suggested that if companies cannot explain their tax practices in two or three minutes at their AGMs, they should re-write their tax plans.

Human Capital Reporting Event, hosted by Helen Morrisey, founder of the 30% Club on board diversity, and of which LAPFF is a member. At the event, Professor Alex Edman argued that companies with good human capital management outperform their peers by two to three percent a year, although these effects may take four to five years to take hold.

Launch of AMNT's **Red Line Voting**, which seeks to enable pension schemes to direct their fund managers to engage and vote on their investments on specific issues, as prescribed by the Red Lines.

LAPFF PUBLICATIONS

As members may be aware, following LAPFF members' responses to the 2015 Communications Survey, it was decided that the LAPFF quarterly newsletter ('View From The Forum') should be merged into the Quarterly Engagement Report (QER), as an online publication. This is the first QER since that decision was made and, as such, takes on a slightly different format and content to previous editions. LAPFF offers its warm thanks to Keith Bray, LAPFF Forum Officer, who was responsible for the newsletter which was an informative and well-read publication, particularly helpful in drawing in new members. We also thank him for his assistance in merging that newsletter with the current QER and for his ongoing assistance in shaping this publication.

Q4 2015 ENGAGEMENT DATA

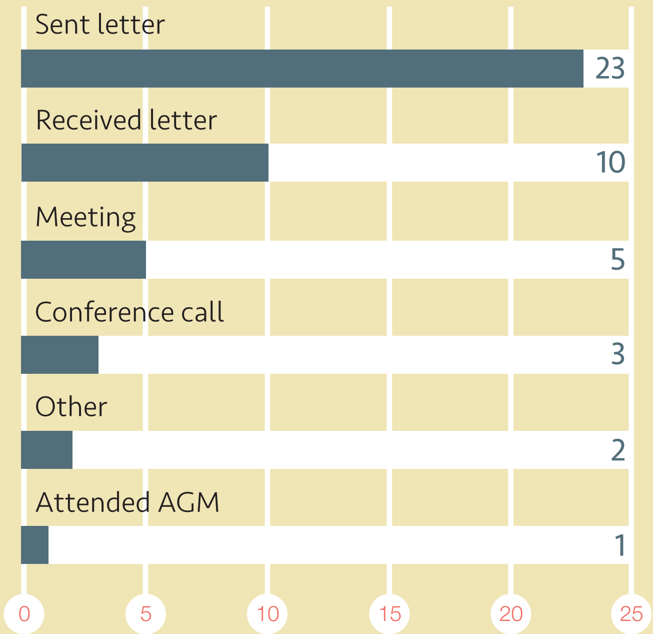
	Company	Topics	Activity	Outcome	Domicile
1	**Toyota**	Environmental Risk/ Employment Standards/ Climate Change/Governance	Received letter/ meeting	Dialogue	Japan
2	**BHP Billiton**	Social Risk/Climate Change/ Environmental Risk	Conference Call/ Attended AGM/ Sent Letter/ Received Letter/ Conference Call	Moderate Improvement	UK/Australia
3	**Rio Tinto**	Climate Change	Sent Letter/ Meeting/Conference Call/Sent Letter	Moderate Improvement	UK/Australia
4	**Johnson Matthey**	Climate Change	Sent Letter	Dialogue	United Kingdom
5	**Sports Direct**	Employment Standards	Sent Letter	Dialogue	United Kingdom
6	**Hays**	Employment Standards/ Incentivising Execs	Other/Received Letter/Sent Letter	Dialogue	United Kingdom
7	**AIA Group**	Governance (General)	Sent Letter	Dialogue	China
8	**Barclays**	Finance & Accounting	Sent Letter	Dialogue	United Kingdom
9	**Singapore Technologies**	Human Rights	Received Letter/ Sent Letter	Substantial Improvement	Singapore
10	**BP**	Climate Change	Other	Moderate Improvement	United Kingdom
11	**Prosegur**	Employment Standards/ Human Rights	Sent Letter	Dialogue	Spain
12	**Shell**	Climate Change/ Environmental Risk	Meeting	Dialogue	UK/Holland
13	**SSE**	Employment Standards/ Governance (General)	Meeting	Dialogue	United Kingdom
14	**Centrica**	Climate Change	Sent Letter	Dialogue	United Kingdom
15	**Morrisons**	Reputational Risk/Tax	Sent Letter/ Received Letter	Dialogue	United Kingdom
16	**Dixons Carphone**	Reputational Risk/Tax	Sent Letter	Dialogue	United Kingdom
17	**Next**	Reputational Risk/Tax	Sent Letter	Dialogue	United Kingdom
18	**ITV**	Reputational Risk/Tax	Sent Letter	Dialogue	United Kingdom
19	**Admiral**	Reputational Risk/Tax	Sent Letter	Dialogue	United Kingdom

Q4 2016 ENGAGEMENT DATA

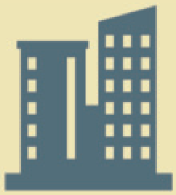
	Company	Topics	Activity	Outcome	Domicile
20	**L&G**	Reputational Risk/Tax	Sent Letter	Dialogue	United Kingdom
21	**M&S**	Reputational Risk/Tax	Sent Letter	Dialogue	United Kingdom
22	**Sky**	Reputational Risk/Tax/Other	Sent Letter/ Received Letter	Dialogue	United Kingdom
23	**Direct Line Insurance**	Reputational Risk/Tax/Other	Sent Letter/ Received Letter	Substantial Improvement	United Kingdom
24	**Tesco**	Reputational Risk/Tax/Other	Sent Letter/ Received Letter	Dialogue	United Kingdom
25	**P&G**	Climate Change	Sent Letter	Dialogue	United States
26	**EDF**	Climate Change	Sent Letter/ Received Letter	Satisfactory	France
27	**Experian**	Other	Received Letter	Dialogue	United Kingdom

In addition, LAPFF wrote to the Chairs of each of the FTSE350 companies regarding reliable accounting, and received 44 written responses

COMPANY ENGAGEMENT ACTIVITIES



TOTAL NUMBER OF COMPANIES ENGAGED WITH



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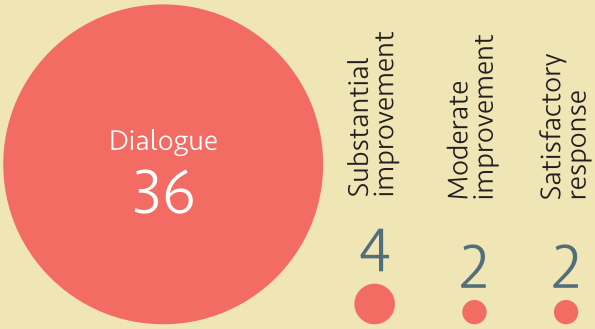
OUTCOMES



COMPANY DOMICILES

United Kingdom 27

UK/ Australia 7

France 2

Japan 2

Singapore 2

China 1

Spain 1

UK/ Holland 1

United States 1

POSITION ENGAGED

Chairperson 24

Specialist staff 19

Executive director 1

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham (London Borough of)
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden (London Borough of)
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon (London Borough of)
- Cumbria Pension Scheme
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- Ealing (London Borough of)
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield (London Borough of)
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney (London Borough of)
- Haringey (London Borough of)
- Harrow (London Borough of)
- Hertfordshire
- Hounslow (London Borough of)
- Islington (London Borough of)
- Lambeth (London Borough of)
- Lancashire County Pension Fund
- Lewisham (London Borough of)
- Lincolnshire County Council
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham (London Borough of)
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire County Council Pension Fund
- Northamptonshire County Council
- NILGOSC
- Nottinghamshire County Council
- Powys County Council Pension Fund
- Rhondda Cynon Taf
- Somerset County Council
- Sheffield City Region Combined Authority
- Shropshire Council
- South Yorkshire Pensions Authority
- Southwark (London Borough of)
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey County Council
- Teesside Pension Fund
- Tower Hamlets (London Borough of)
- Tyne and Wear Pension Fund
- Waltham Forest (London Borough of)
- Wandsworth (London Borough of)
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	18 MARCH 2016
TITLE:	PENSION FUND BUDGET AND CASH FLOW MONITORING (1) EXPENDITURE FOR YEAR TO 31 JANUARY 2016 (2) CASHFLOW FORECAST
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 Summary Financial Accounts: Year to 31 January 2016 Appendix 1A Summary Budget Variances: Year to 31 January 2016 Appendix 2 Cash Flow Forecast	

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 2016. This information is set out in Appendices1 and 1A**.**

1.2 This report also contains the Cash Flow forecast for the year to 31 March 2016.

2 RECOMMENDATION

That the Committee notes:

2.1 Administration and management expenditure incurred for 10 months to 31 January 2016.

2.2 Cash Flow Forecast to 31 March 2016.

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 2016 are contained in **Appendix 1.**

The forecast for the year to 31 March 2016 is for expenditure to be £1,494,000 under budget. Within the directly controlled Administration budget expenditure is forecast to be £98,000 below budget. The forecast reduction in directly controlled expenditure mainly results from the delay in appointing staff to assist in the GMP data reconciliation project and the delay in appointing a Custody & Finance Officer. In Communications there have been savings in the cost of distributing newsletters and in Central Allocated Costs there have been savings as a result of flexible working. Further potential savings in this area are being investigated. The IT Strategy actual expenditure is expected to accelerate during the final quarter of the year as projects are put in to action. The full year spend on the strategy is therefore expected to be on budget.

4.2 In that part of the budget that is not directly controlled, expenditure is forecast to be under budget by £1,396,000. This underspend mainly relates to lower Investment manager fees caused by market returns being lower than assumed when the budget was set. This is slightly offset by performance fees relating to previous years but payable in 2015/16 being higher than anticipated. In addition there have been reduction in the fee rates applied to a couple of mandates due to changes in these mandates. There is also reduced forecast spending on investment consultancy costs largely due to the postponement of the Responsible Investment review and for member training.

4.3 Explanations of the most significant variances are contained in Appendix 1A to this Report.

5 CASH FLOW FORECAST

5.1 The Service Plan includes a cash flow forecast which is monitored within this report. 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 forecasting of cash flows. Negative cash flows are managed by taking more income from the investment portfolio. Details of the cash flow forecast for the whole Fund are given in **Appendix 2.**

5.2 The 2015-2018 Service Plan included a cash flow forecast showing a net outflow in 2015/16 of just over £24m.

The actual cash flow to 31 January was a net outflow of £9.5m against a budgeted outflow of £20.2m for the same period. The variance was mainly due to the receipt of a large termination deficit payment from an employer exiting the Fund and one employer paying their deficit contributions annually rather than triennially as assumed in the Service Plan. These factors were partially offset by higher than budgeted transfers out of the fund. These transfers included the £2.6m bulk transfer payment relating to Probation Service members transferring to the Greater Manchester Fund.

Pension payments were higher than expected, but this was more than offset by lower lump sum payments.

Higher than forecast cash outflows relating to administration costs reflect the fact that an Investment Manager appointed during the year invoice their fees, replacing a mandate where fees were deducted at source. Future service contributions are slightly lower than budgeted due to Bristol City Council recouping their £4.5m overpayments that were previously reported to Committee.

The current forecast for the full year is for a net outflow of £16.1m against a budgeted outflow of £24.2m. The forecast variance of a £8.1m smaller net outflow over the whole year is the net result of higher pension payments, invoiced investment management fees and transfers out, offset by lower lump sum payments, a large termination deficit payment in and a large deficit contribution being paid in annually as opposed to triennially as assumed in the 2015/16 Service Plan.

6 EQUALITIES

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

7 CONSULTATION

7.3 None appropriate.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

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

9 ADVICE SOUGHT

9.3 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
Please contact the report author if you need to access this report in an alternative format	

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APPENDIX 1

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2016

	10 MONTHS TO 31 JANUARY 2016			FULL YEAR 2015/16		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
Administration						
Investment Expenses	56,966	65,341	8,376	68,359	68,359	0
Administration Costs	61,176	55,426	(5,750)	73,411	73,411	0
Communication Costs	56,458	23,877	(32,581)	67,750	29,750	(38,000)
Payroll Communication Costs	35,348	45,151	9,803	42,418	42,418	0
Information Systems	251,987	231,347	(20,639)	302,384	302,384	0
Salaries	1,251,070	1,176,042	(75,028)	1,501,284	1,451,284	(50,000)
Central Allocated Costs	335,068	335,068	0	402,081	392,081	(10,000)
Miscellaneous Recoveries/Income	(185,167)	(217,132)	(31,965)	(222,200)	(222,200)	0
IT Strategy	123,012	20,210	(102,802)	147,614	147,614	0
Total Administration	**1,985,918**	**1,735,331**	**(250,587)**	**2,383,101**	**2,285,101**	**(98,000)**
Governance & Compliance						
Investment Governance & Member Training	246,383	194,886	(51,497)	295,660	255,660	(40,000)
Members' Allowances	33,305	19,042	(14,263)	39,966	39,966	0
Independent Members' Costs	16,053	17,605	1,552	19,264	19,264	0
Compliance Costs	352,833	294,136	(58,697)	423,400	423,400	0
Compliance Costs recharged	(208,333)	(201,855)	6,479	(250,000)	(250,000)	0
Pensions Board	31,167	7,461	(23,705)	37,400	34,400	(3,000)
Total Governance & Compliance	**471,408**	**331,276**	**(140,132)**	**565,690**	**522,690**	**(43,000)**
Investment Fees						
Global Custodian Fees	70,125	73,789	3,664	84,150	84,150	0
Investment Manager Fees	15,443,549	7,129,284	(8,314,265)	18,532,259	17,179,259	(1,353,000)
Total Investment Fees	**15,513,674**	**7,203,073**	**(8,310,601)**	**18,616,409**	**17,263,409**	**(1,353,000)**
NET TOTAL COSTS	**17,971,000**	**9,269,680**	**(8,701,320)**	**21,565,200**	**20,071,200**	**(1,494,000)**

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APPENDIX 1A

Summary of main budget variances: Year to 31 January 2016

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

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(50,000)	Reduced salaries expenditure due to:- - The appointment of additional staff resources to meet the requirements of the GMP reconciliation initially delayed but appointments now completed. - The appointment of a Custody & Finance Officer initially delayed but now completed.
Communication Costs	(38,000)	Savings have been made on the cost of distributing guides, leaflets and newsletters and on the annual report through greater use of on-line access. There have also been savings on the cost of the employer conference.
Central Allocated Costs	(10,000)	Savings in accommodation costs have been achieved through flexible working. Other central costs are being reviewed with the prospect of further potential savings.
Administration	**(98,000)**	
Investment Governance & Member Training	(40,000)	Reduced forecast expenditure due to later timing of Responsible Investment Review into 2016/17 and underspend on member training.
Investment Manager Fees	(1,353,000)	The reduction is due to changes to mandates that has led to lower fee rates and the markets generating lower returns than was assumed in the preparation of the budget. This has been partially offset by higher than estimated performance related fees payable in 2015/16. The expenditure on fees does not include performance related fees that relate to the period but are not paid in the period.
Pensions Board	(3,000)	Expenditure on allowances and training is currently forecast to be below budget.
Expenditure Outside Direct Control	**(1,396,000)**	
Total Forecast Underspend	**(1,494,000)**	

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

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APPENDIX 2

AVON PENSION FUND

Cash Flow Forecast

		TEN MONTHS TO 31 JANUARY 2016			FULL YEAR 2015/16		
		Forecast Per Service Plan	Actual	Variance	Forecast Per Service Plan	Out-turn Forecast	Variance
		£'000	£'000	£'000	£'000	£'000	£'000
Outflows							
Benefits	Pensions	(103,224)	(107,420)	(4,196)	(123,869)	(128,904)	(5,035)
	Lump sums	(28,242)	(21,497)	6,745	(33,890)	(25,796)	8,094
Administration costs		(4,804)	(7,890)	(3,086)	(5,765)	(9,468)	(3,703)
Total Outflows		(136,270)	**(136,807)**	**(537)**	**(163,524)**	**(164,168)**	**(644)**
Inflows							
Deficit recovery		6,065	22,712	16,647	7,278	23,514	16,236
Future service Contributions		97,320	94,582	(2,738)	116,784	114,399	(2,385)
Total Contributions		103,385	**117,294**	**13,909**	**124,062**	**137,912**	**13,851**
Net Cash Flow (excluding Investment Income and Transfers In and Out)		(32,885)	(19,513)	13,372	(39,462)	(26,256)	13,207
Net Transfers In & Out (budgetted as zero)		-	(4,448)	(4,448)	-	(4,818)	(4,818)
Investment income received as cash		12,703	14,466	1,764	15,243	14,954	(289)
Net Cash In-Flow (Out-Flow)		(20,183)	**(9,495)**	**10,688**	**(24,219)**	**(16,120)**	**8,099**

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**18 MARCH 2016**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) SUMMARY PERFORMANCE REPORT to 31 January 2016** **(2) PERFORMANCE INDICATORS 4 MONTHS TO 31 January 2016** **(3) TPR COMPLIANCE**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:-

Appendix 1	Employer/APF - scheme leaver performance report to 31 January 2016
Appendix 2	Active membership statistics over 12 months to 31 January 2016
Appendix 3	Joiners & leavers statistics over 12 months to 31 January 2016
Appendix 3A	Active members demographic as at 31 January 2016
Appendix 4	Late payers report – up to 31 December 2015
Appendix 5	Balanced Scorecard : KPI's - 4 months to 31 January 2016
Appendix 5A	Annex 1 & 2 Admin case workload status as at 31 January 2016
Appendix 6	Customer satisfaction – Feedback in the 4 months to 31 January 2016
Appendix 7	IDRP Schedule
Appendix 8	TPR – Data Improvement Plan – to 31 January 2016
Appendix 9	Risk Register

1 THE ISSUE

1.1 The purpose of this report is to inform Committee of Performance Indicators and Customer Satisfaction feedback for 4 months to 31 January 2016 and Summary Performance Reports on Employer and APF performance over 4 years to 31 January 2016 as well as the Risk Register.

1.2 Further to the introduction of The Pension Regulator (TPR) Code of Practise 14 and The Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 this report also includes progress on the Data Improvement Plan plus level of employer compliance.

2 RECOMMENDATION

That the Committee notes:

2.1 Summary Performance Report to 31 January 2016.

2.2 Performance Indicators & Customer Satisfaction feedback for 4 months to 31 January 2016.

2.3 Progress on the Data Improvement Plan

2.4 Risk Register

3. Employer Performance

3.1 As part of the Pensions Administration Strategy which came into effect in April 2011 a **Performance Report** is sent monthly to each of the four unitary authorities to report on their own and APF's administration performance against agreed targets set in the SLA.

3.2 A summary report to the Committee is a requirement of the Pensions Administration Strategy. The Report for the period to 31 January 2016 is included as **Appendix 1. (Annex 1,2 &3)**

3.3 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

3.4 Separate bar charts are displayed for APF and each of the four Unitary Authorities and collectively 'Other' employers reporting an event during the period. Performance against retirements and early leavers is measured against agreed SLA targets. **Annex 1** shows achievement within target over the current quartile. **Annexes 2 and 3** are comparator reports over the previous 4 year period. It should be noted that for the current year reports for are currently reflecting targets set under the previous SLA (April 2011) and do not take into consideration the increased allowance incorporated in the revised Pensions Admin Strategy (June 2015) reflecting the complexities of the new CARE scheme arrangements. Revised reports will be available at the June Pensions Committee following completion of phase 1 of the Task Workflow project in February 2016.

3.5 Implementation of the Task Project will result in quality and completeness checks of leaver forms on day of receipt. This will enable better recording of data on employer performance, enabling more targeted support & training for employers to submit complete & accurate data first time.

4. Trends in Membership/Joiners & Leavers

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

4.2 The Committee will be kept informed of the ongoing changes and the effect it is having on LGPS membership. In the event that the funding position of the Scheme is significantly affected this will also be reported.

4.3 The active membership statistics are shown in graph format in **Appendix 2** and the numbers of joiners and leavers feeding into this also in graph format in **Appendix 3.** The increase in membership over the twelve months to 31st January reflects an increase in in the number of part-time workers and workers with multiple employment posts. **Appendix 3A** provides a more detailed breakdown of employer/member ratio and split between whole time and part-time membership as well as a snapshot of individual employer and member make up. Continued development of data reporting going forward will enable further understanding of the demographic nature of employer type and associated member make up as employers continue to evolve.

5. Late Payers Report

5.1 The Fund is required to monitor the receipt of contributions and report materially significant late payments to the Pensions Regulator.

5.2 The Fund maintains a record of all late payments, showing the days late, the amount of payment and reason for delay and whether the amount is of significance.

5.3 **Appendix 4** reports late payers in the 3 month period to 31st December 2015. None of the late payments during the three months to 31st December are considered to be a material breach and consequently they will not be reported to the Pensions Regulator at this time. The fund considers a material breach to be the product of repeated breaches. A single breach will only be considered material if it is deliberate or there is dishonesty or there is no expectation that it will be corrected.

6. Year End Data Receipt & Provision of Annual Benefit Statements

6.1 The Year End (YE) process requires all employers within the scheme to submit member data for the Fund year ending 31 March. Timely and accurate completion of the YE process is a regulatory requirement. The data is used to:

- to provide members with their Annual Benefit Statement by 31 August
- to notify members if they exceed the HMRC Annual Allowance by 5 October
- for the build-up of members' pension accounts
- by the Actuary to calculate employer contribution rates (tri-annual valuation)

6.2 **2014/2015 Exercise**

6.3 Following the 2015 YE process a number of employers failed to meet the required criteria for accurate and timely data provision. As such, the Fund issued penalty charges in accordance with its published Pensions Admin Strategy. A full report and breakdown of penalty charges imposed will be presented at the next meeting once the process has been completed.

6.4 **2015/2016 Exercise**

6.5 The 2016 YE exercise has already commenced and the Fund has communicated employer factsheets and expected timetable for successful completion of the process. In addition each employer has been provided with a breakdown of its membership as held by the scheme which will enable cross checking and data cleansing to be undertaken prior to actual YE. Additionally, the Fund has arranged employer and payroll provider training sessions for YE data completion. Following on from penalty charges issued to employers as a result of the 2015 YE exercise an additional 3 training sessions have been added to this years' events programme

6.6 Details of the progress of 2016 exercise will be reported at subsequent meetings.

7. Avon Pension Fund – Administration Performance

Balanced Scorecard detailing Key Performance Indicators for the 4 Months to 31st January2016

7.1 The information provided in this report is based on the Avon Pension Fund's Service Level Agreement which falls in line with the industry standards set out by the LGPC & used in CIPFA benchmarking. All standards fall within the regulatory guidelines set out in The Occupational & Personal Pension Schemes (Disclosure of Information) Regulations 2015 which require provision of information to members.

7.2 Full details of *performance against target,* in tabular and graph format, are shown in **Appendix 5.** All reports are being reviewed as part of the Task Workflow Project and it is expected that new and updated versions will be available for approval by the Committee in June 2016.

8. Admin Case Workload

8.1 The level of work outstanding from tasks set up in the period (Item C4 and associated annex 1 & 2) in the 3 month period is reported in **Appendix 5A** by showing what *percentage* of the work is outstanding. As a snapshot, at 31st January 2016 there were 4,500 cases outstanding of which 38.5% represents actual workable cases and 61.5% represents cases that are part complete, pending a third party response. All reports are being reviewed as part of the Task Workflow Project and it is expected that new and updated versions will be available for approval by the Committee in June 2016.

9. CUSTOMER SATISFACTION FEEDBACK IN 4 MONTHS TO 31st January 2016 – Retirements

9.1 **Appendix 6** reports on the customer satisfaction based on 50 questionnaires returned from members retiring from both active and deferred status (out of a total of 299 questionnaires issued in respect of the reporting period). 100% of deferred members rated the service as good or excellent, with 88% of actives rating the service as good or excellent.

10. IDRP Report

10.1 Under the LGPS Regulations there is the provision that Scheme Members can exercise a right of appeal for any disagreement that cannot be resolved.

This is done under an IDRP. The table in **Appendix 7** shows the cases going through at the present time.

11. The pensions Regulator Data Improvement Plan

11.1 Initial testing as at 1 August 2015 of core data, against TPR's requirement of 100% completeness of data, identified 8887 queries, equating to 99.13% completeness of data.

11.2 There has been a net reduction of 1444 queries over the last quarter. This has mainly been due to ongoing work to resolve missing casual hours from records, tracing and payment of historical frozen refunds, tracing deferred member addresses as well as the ongoing exercise from last year end to resolve missing starter and leaver forms from employers.

11.3 With the initial year end 2016 spreadsheets all employers have been provided with a list of their outstanding TPR queries with a request to investigate these as part of their year-end preparation.

11.4 A Summary of data improvement plan data as at 31 January 2016 is shown below with a comprehensive breakdown attached in **Appendix 8**

Data type	Cases brought forward	New cases in period	Completed in period	Outstanding	Completeness of date as % of membership
Actives	**3348**	**209**	**1192**	**2365**	**99.50%**
Deferreds	**5082**	**138**	**547**	**4673**	**98.83%**
Pensioners	**339**	**9**	**56**	**292**	**99.83%**
Dependants	**72**	**6**	**11**	**67**	**99.75%**
Total	**8841**	**362**	**1806**	**7397**	**99.48%**

11.5 Data improvement reports will be updated on a monthly basis and reported to Committee quarterly. Reports will be developed to demonstrate work undertaken on the correction of historic cases already identified and new cases identified during each reporting period.

12 RISK REGISTER

12.1 The Risk Register follows the Council's format 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. Risks identified cannot be eliminated but can be treated via monitoring.

12.2 The risks identified fall into the following general categories:

(i) Fund administration & control of operational processes and strategic governance processes and TPR compliance – mitigated by having appropriate policies and procedures in place, use of electronic means to receive and send data and information

(ii) Service delivery partners not delivering in line with their contracts or SLAs – mitigated by monitoring and measuring performance

(iii) Financial loss due to payments in error, loss of assets due to investment strategy and/or managers failing to deliver required return, fraud or negligence of investment managers or custodian – mitigated by processes to reconcile payments, regular review of strategic return and manager performance and annual review of investment strategy, robust legal contracts to protect against fraud & negligence

(iv) Changes to the scheme – mitigated by project plans with defined milestones and responsibilities, progress reviewed periodically by management team

(v) Increasing political pressure to reform scheme structure and governance frameworks and direct investment decisions – mitigated by having well defined investment policies and by engaging with the government through the consultation process

12.3 The Fund continues to invest significantly in systems and resources to ensure the risks are managed effectively and resilience is built into the service. The arrangements in place are supported by external and internal audit reviews.

12.4 The Fund reviews all risks annually and the top 10 risks and changes quarterly with the latest review in January 2016.

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

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

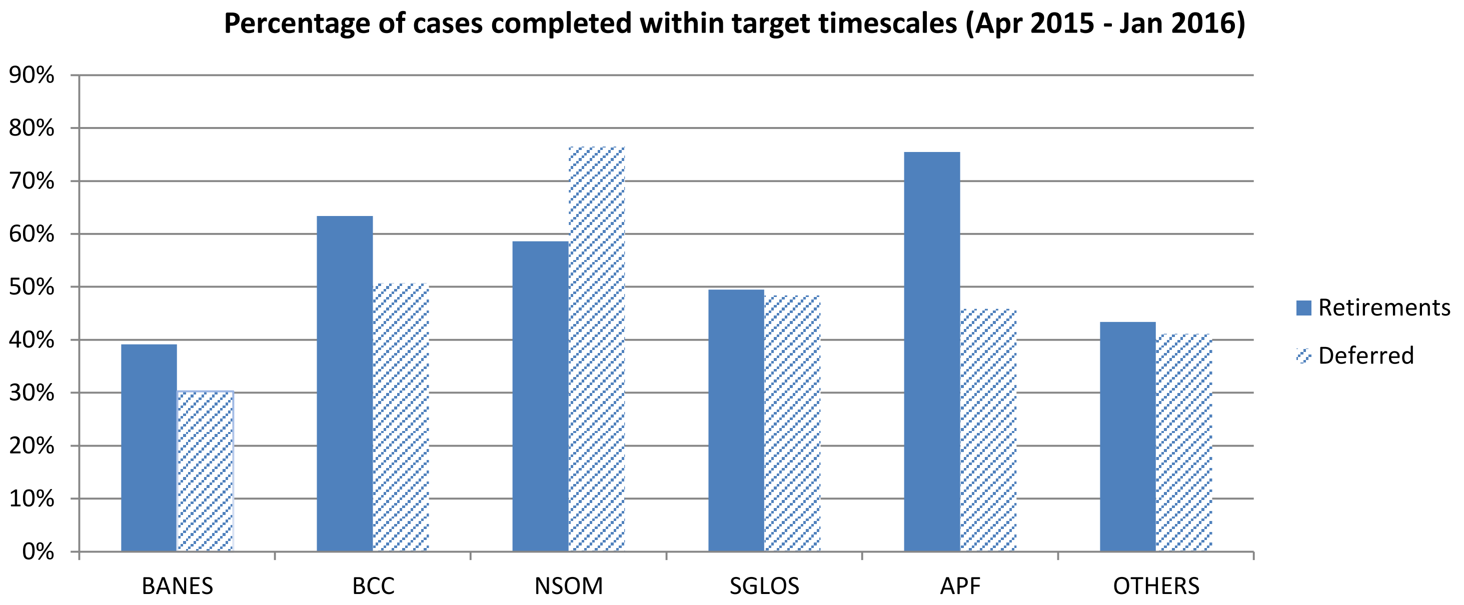
16.1 There are no other issues to consider not mentioned in this Report.

17 ADVICE SOUGHT

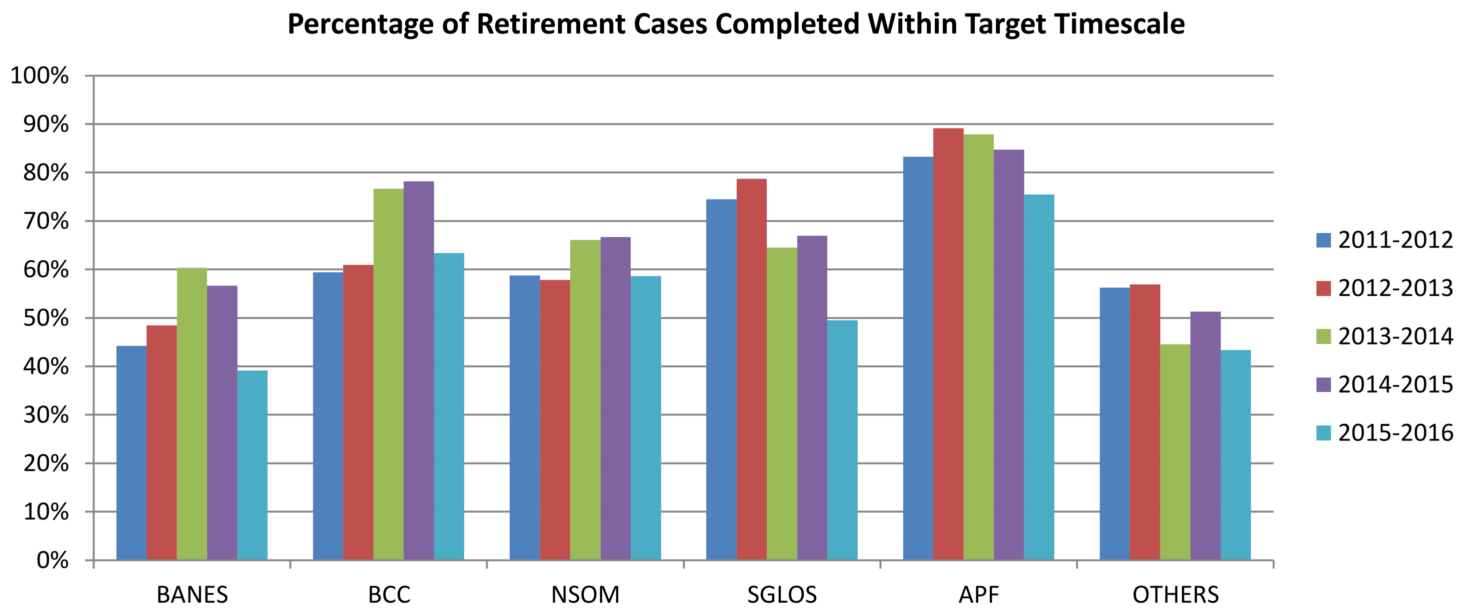
17.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Geoff Cleak, Acting Pensions Manager Tel: 01225 395277
Background papers	Various Statistical Records
Please contact the report author if you need to access this report in an alternative format	

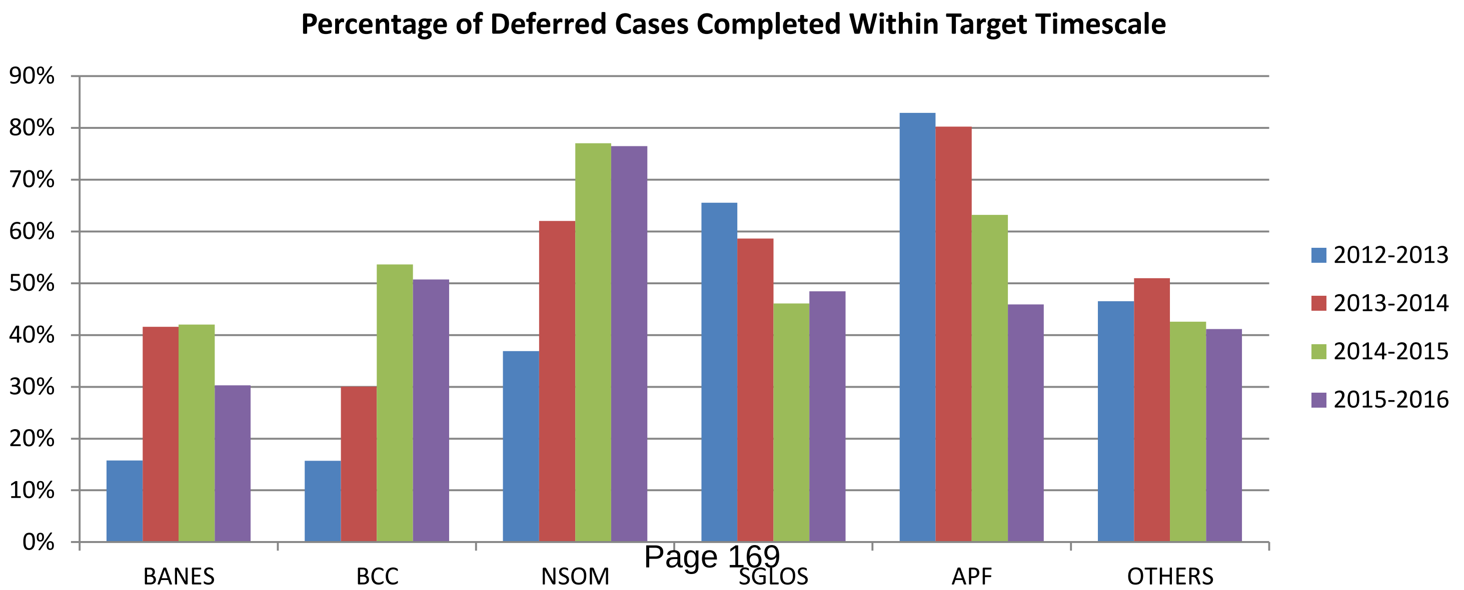
Admin Report: Appendix 1
Annex 1



Annex 2



Annex 3



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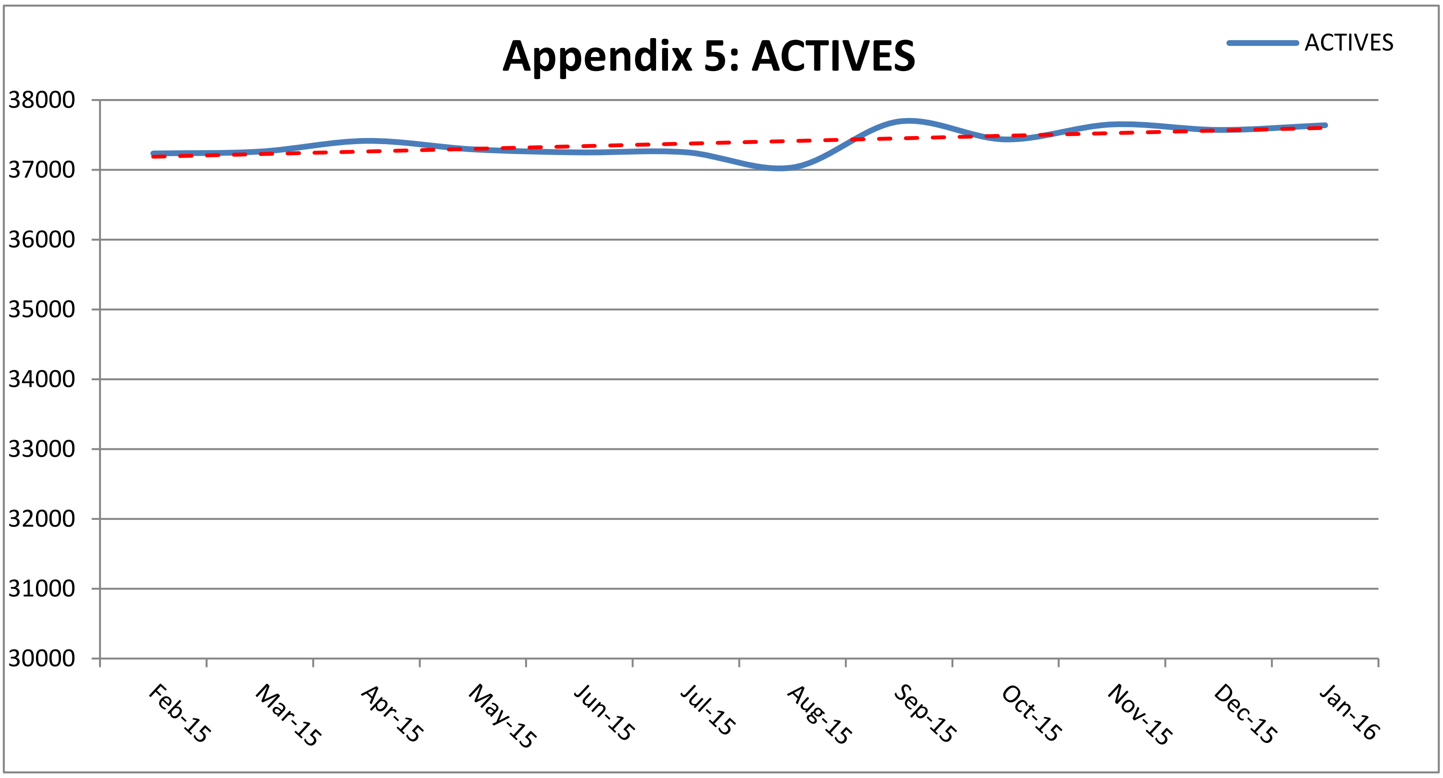
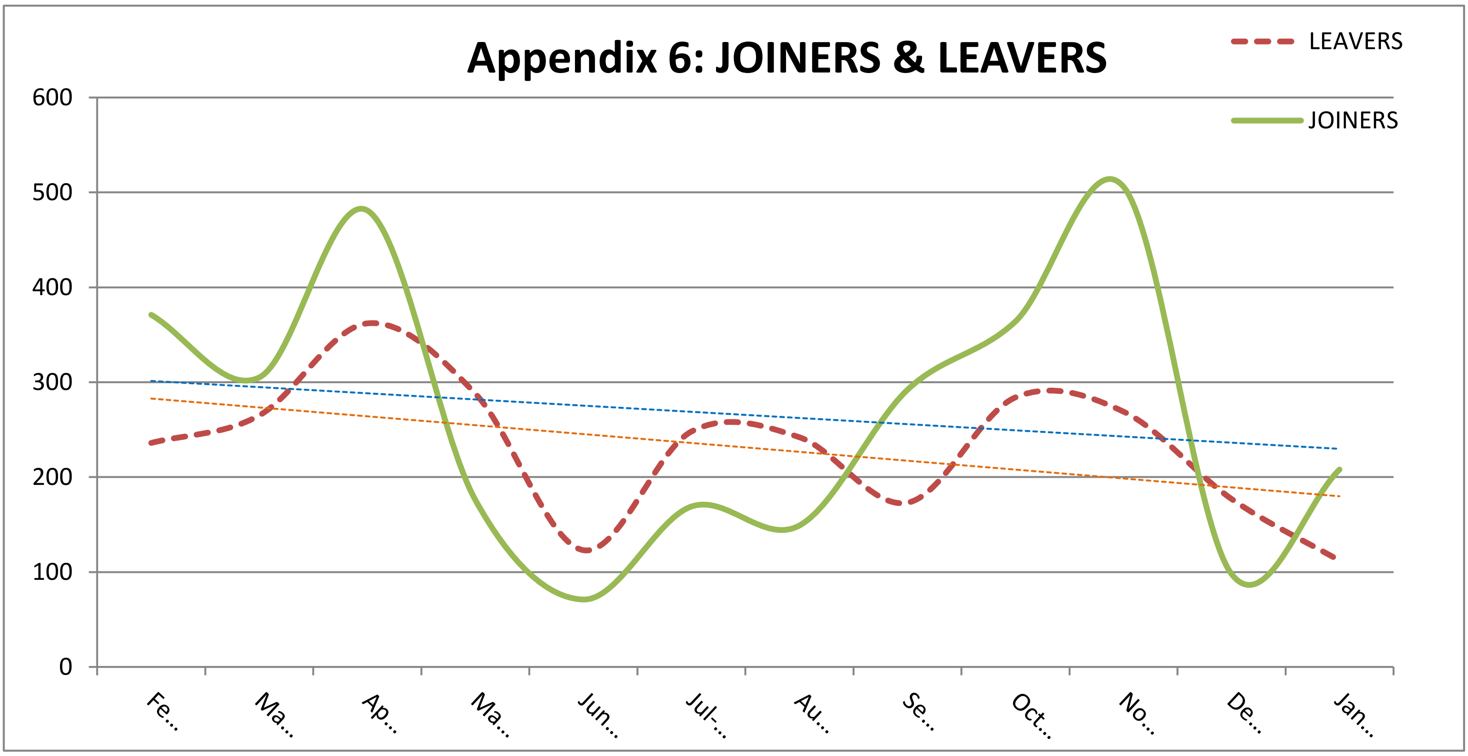
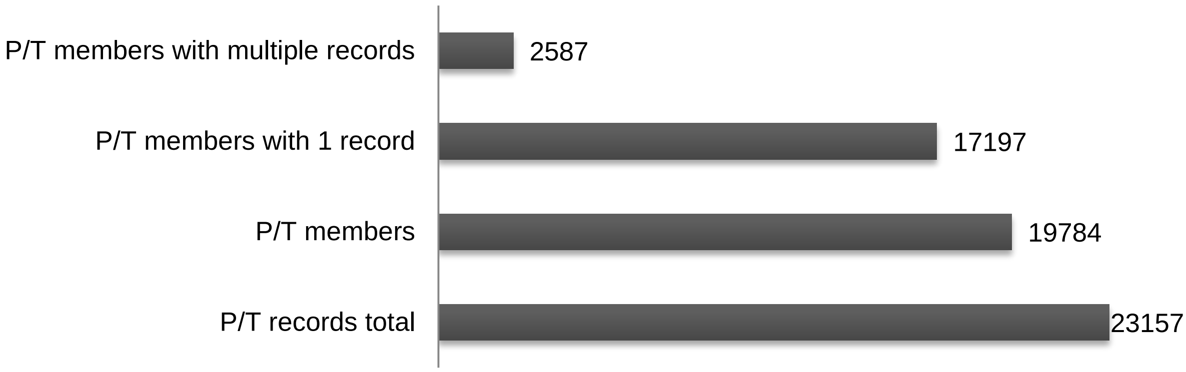
Admin Report - Appendices 2 and 3:- Actives, Joiners and Leavers at 31st January 2016





Full-time records/members

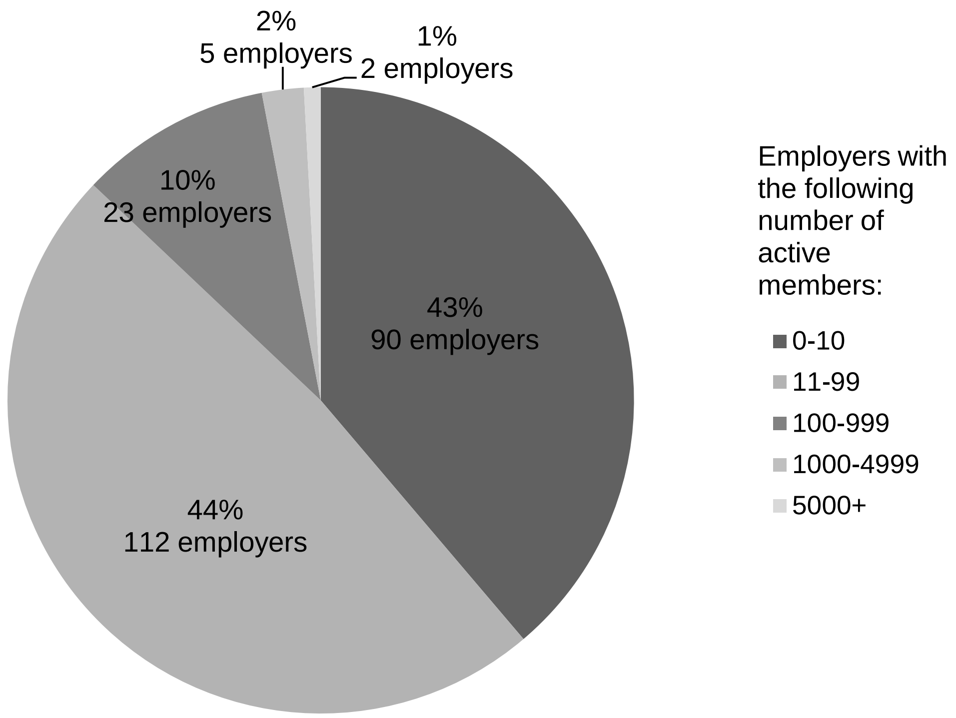
Part-time records/members



Employer/active membership ratio by numbers

Number of employers with 5000+ members	2
Number of employers with between 1000 – 4999 members	5
Number of employers with between 100 – 999 members	23
Number of employers with 11 - 99 members	112
Number of employers with 0 - 10 members	90
Total	**232**

Employers/active membership ratio %



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APPENDIX 4

Employer	Payroll Month	Days late	Cumulative occasions	Amount	Significance	Reason / Action
Bath Tourism	October	**2**	1	3,272.30	Value / days late not significant.	Clerical error. They have been reminded of their obligation to pay by 22nd of the month.
Circadian Trust	October	**4**	1	34,103.70	Significant Value.	Payroll provider supplied wrong payroll information. They have been reminded of their obligation to pay by 22nd of the month.
Bristol Waste Company	November	**2**	1	26,051.42	Significant Value.	New employer with problems setting up payroll and payments systems. January contributions were paid on time.
South West Grid for Learning	November	**2**	1	4,794.06	Value / days late not significant.	Misunderstood BACS timing. This has now been explained to them.
The Park Community Centre	November	**8**	1	2,766.62	Significant days late.	Cash shortage over Christmas. The matter has been discussed with them and they have been reminded of their obligation to pay by 22nd of the month.
Destination Bristol	November	**17**	1	7,672.40	Significant days late.	Administrative errors were prolonged due to Christmas & New Year break. Systems are being put in place to avoid this in future.
Frampton Cotterell	December	**3**	1	1,702.46	Value / days late not significant.	Misunderstood BACS timing. This has now been explained to them.
South West Grid for Learning	December	**3**	2	4,794.06	Value / days late not significant.	Misunderstood BACS timing. This has now been explained to them.
Bristol Waste Company	December	**4**	2	20,561.71	Significant Value.	New employer had problems setting up payments systems. These are now resolved and January contributions were paid on time.
Total Days		**45**		**105,718.73**		
Total Contributions in Quarter				**28,911,000**	**Late Payments as Percentage of total 0.37%**	

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 regulations.

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PENSIONS SECTION ADMINISTRATION

Key Performance Indicators

APPENDIX 5 to Pension Fund Administration Report at 31 January 2016

	INDICATOR	Red Amber Green	2014/15 Actual	Target for 2015/16	Actual 4 Months to 31/01/2016	Comments
A	**Customer Perspective**					
1	General Satisfaction with Service - retirees' feedback	A	97%	97%	94%	50 responses recived from 299 retirees in period - **see Appendix 6**
2a	Service Standards - Processing tasks within internal targets (SLA)					
	Deaths [12 days]	A	91%	92%	88%	15 of 17 Cases completed within target
	Retirements [15 days]	A	89%	90%	85%	314 of 369 Tasks completed within target
	Leavers (Deferreds) [20 days]	A	81%	75%	54%	677 of 1253 Tasks completed within target
	Refunds [5 days]	A	82%	80%	75%	203 of 270 Tasks completed within target
	Transfers In [20 days]	G	74%	75%	75%	29 of 39 Tasks completed within target
	Transfers Out [15 days]	A	77%	75%	68%	66 of 97 Tasks completed within target
	Estimates [10 days]	G	95%	90%	92%	721 of 787 Tasks completed within target
2b	Service Standards Processing tasks within statutory limits	G	100%	100%	100%	
3	Number of complaints	G			Nil	No complaints received in the period
4	Pensions paid on time	G		100%	100%	All paid on time
5	Statutory Returns sent in on time (SF3/CIPFA)	G			n/a	none due this period
6	Number of hits per period on APF website	G	55898/4658pcm		18,348	4587 per calendar month for reporting period
7	Advising members of Reg Changes within 3 months of implementation				n/a	none this period
8	Issue of Newsletter (Active & Pensioners)			0	Yes	Active member news letter issued December 2015
9	Annual Benefit Statements distributed by 31 August	G				99.7% issued by 31st August 2015
B	**People Perspective**					
1	% of new staff leaving within 3 months of joining				0%	
2	% Sickness Absence a) Short Term	G	1.3%	3%	1%	Ahead of corporate target of 5%
	% Sickness Absence b) Long Term	G	0%	2%	0%	
C	**Process Perspective**					
1	Services actually delivered electronically	G			12.1%	12.1% represents eligible users who have signed up to My Pension Online. 10,337 members now have electronic access.
2	a) Active membership covered by employer ESS	G	72%	90%	75%	
	b) % of employers submitting data electronically	G	58%	70%	60%	
3	% Telephone calls answered within 20 seconds	G	97%	95%	98.7%	9160 calls, 9044 answered within 20 seconds
4	Maintain work outstanding at below 40%	G	30053 created 27944 cleared	<40%	38%	7855 created, 7359 cleared - **see Appendix 5A Annex 1 & 2**
5	Year End data receipt	G		100%		2015/16 due by 30 April 2016
D	**Resource Perspective**					
1	% Supplier Invoices paid within 30 day or mutually agreed terms	G	89%	90%	91%	Business Financial Services (inc Pensions).
2	Temp Staff levels (% of workforce)	G	0.74%		4.5%	Temp Officer - GMP Reconcilliation Project/Temp Accountancy Assistant

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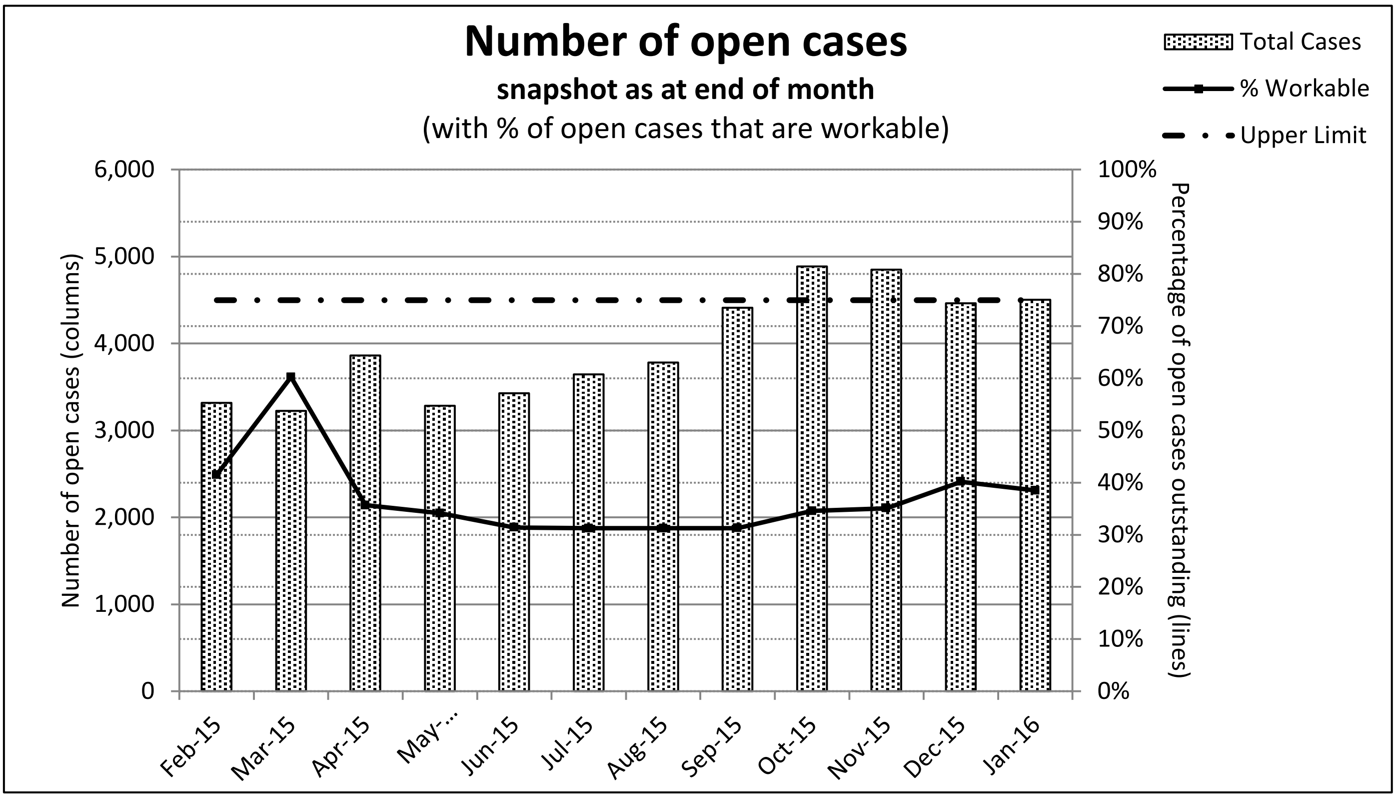
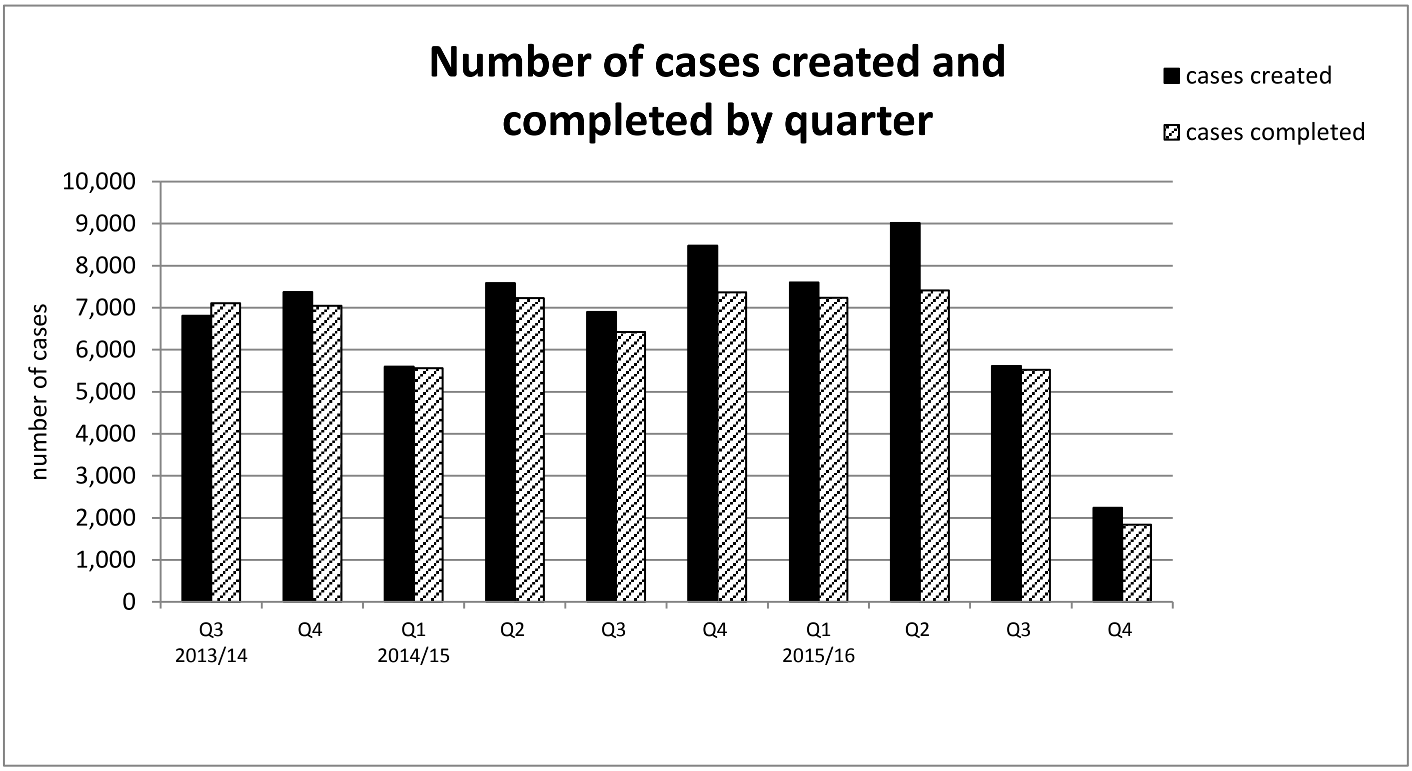
Pension Fund Administration report: Appendix 5A
Case Workload





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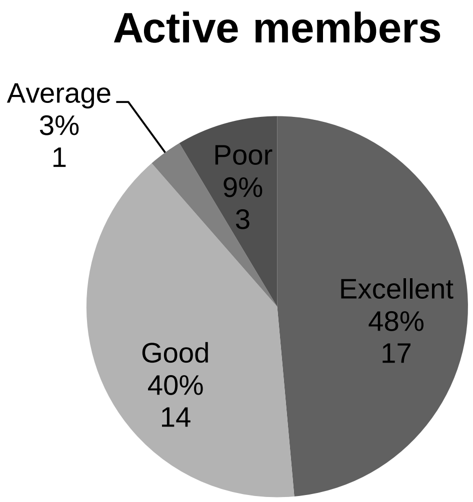
Appendix 6

Customer satisfaction (Oct 2015 - Jan 2016)

Responses to the question **"Overall, how would you rate the service you received from Avon Pension Fund?"**

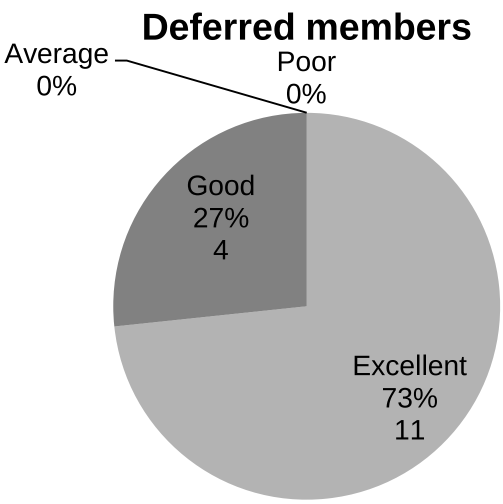
Active members

Number retiring	170
Questionnaires received	35
Response rate	20%



Deferred members

Number retiring	129
Questionnaires received	15
Response rate	11%



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IDRP	From April 2015

As at 15/2/2016

AVON PENSION FUND STAGES 1 and 2

	Stage1			
Reason	Stage 1 Form received	Date For Review Completion	Review Completed	Decision
Value of Benefits	17/08/2015	16/10/2015	08/10/2015	Not Upheld

Stage 2				
Received Monitoring Officer	Date For Review Completion	Review Completed	Decision	By
26/10/2015	25/12/2015	24/12/2015	Not Upheld	Council's Principal Solicitor and Monitoring Officer

Employer Stage 1 - Avon PF Stage 2

Reason	Employer for Stage 1	Stage 2 Form received	Date For Review Completion	Review Completed	Decision	
Ill Health	Merlin	07/07/2015	05/09/2015	04/09/2015	referred back	Still within 6mths period for possible appeal to Pensions Ombudsman
Calculation of Pay [APP]	Bristol	24/08/2015	23/10/2015	21/09/2015	not upheld	

TPR Improvement Plan: Data at 31 Jan 2016 APPENDIX 8

Data type	Cases brought forward	New cases in period	Completed in period	Outstanding	Completeness of date as % of membership
ACTIVES Total = 36730					
Addresses	374	54	64	364	99.00%
Forename	3	0	0	3	99.99%
Surname	0	0	0	0	100%
Date of birth	2	0	0	2	99.99%
NI number	4	56	6	54	99.85%
Title	0	2	2	0	
Sex mismatch	2	12	1	13	99.96%
Format of hours	17	18	23	12	99.97%
Date joined Fund missing	0	0	0	0	100.00%
Payroll ref missing	76	58	12	122	99.67%
Leaver forms missing	1068	9	152	925	97.48%
Leaver forms in error	Starting 2/16	n/a	n/a	n/a	n/a
Casual hours missing	1633	0	884	749	97.96%
Starters in error	Starting 2/16	n/a	n/a	n/a	n/a
Starters missing	169	0	48	121	99.67%
Total	**3348**	**209**	**1192**	**2365**	**99.50%**
DEFERREDS Total = 40101					
Addresses	4127	138	431	3834	90.44%
Forename	9	0	1	8	99.98%
Surname	0	0	0	0	100.00%
Date of birth	3	0	1	2	99.99%
NI number	56	0	54	2	99.99%
Title	0	0	0	0	100.00%
Sex mismatch	0	0	0	0	100.00%
Format of hours	0	0	0	0	100.00%
Date joined Fund missing	3	0	3	0	100%
Historic refunds	884	0	57	827	97.94%
Total	**5082**	**138**	**547**	**4673**	**98.83%**

PENSIONERS Total = 24630					
Addresses	328	7	49	286	98.84%
Forename	10	0	6	4	99.98%
Surname	0	0	0	0	100.00%
Date of birth	0	0	0	0	100.00%
NI number	0	2	1	1	99.99%
Title	0	0	0	0	100.00%
Sex mismatch	1	0	0	1	99.99%
Total	**339**	**9**	**56**	**292**	**99.83%**
DEPENDANTS Total = 3760					
Addresess	43	1	3	41	98.91%
Forename	1	0	1	0	100.00%
Surname	0	0	0	0	100.00%
Date of birth	0	0	0	0	100.00%
NI number	28	4	7	25	99.34%
Title	0	0	0	0	100.00%
Sex mismatch	0	1	0	1	99.99%
Total	**72**	**6**	**11**	**67**	**99.75%**

AVON PENSION FUND RISK REGISTER – TOP 10 RISKS **APPENDIX 16**

				Likelihood					Impact					Risk	RAG	Scale of	Funded by
				1	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**	**score**		**financial**	
	Risk #	**Risk**	**Management actions**	**L**		**M**	**H**		**L**		**M**	**H**				**impact**	
1	R42	Increasing political pressure to reform scheme structure and governance frameworks and to direct investment decisions. Specifically government asked LGPS funds to pool their investment assets. If fund does not have robust plan for change, government may legislate to enforce change: 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, with consistent message. Exploring options for pooling assets with other likeminded funds.				4					4		16	R	Greater than £1m	Fund will have to meet costs of setting up any pooling structure
2	R25	Lack of continuity and knowledge within Avon Pension Fund Committee. (This risk arises mainly because some members face re-election simultaneously). Until the new members are fully trained, there may be a delay in decision-making.	Wide representation on Committee including two Independent Members not subject to electoral cycle. Training made available to new members Hold workshops for committee to explore aspects of the fund in more detail to facilitate decision making. Periodically assess training needs and have training plan in place that is reported to committee quarterly.				4				3			12	A	Greater than £1m	Annual budget
3	R26	The Fund fails to achieve investment returns sufficient to meet its liabilities. This could negatively affect the contributions paid by the employing bodies.	Periodic reviews of investment strategy against the funding position and strategy. Annual and quarterly monitoring of strategic allocation, investment returns and tactical opportunities. Strategic issues or tactical opportunities are considered at quarterly meetings of Panel and /or Committee. Ensure specialist advice is taken prior to any investment decisions are made to ensure decisions are in line with Statement of Investment Principles and contribute to			3						4		12	A	Greater than £1m	Increases in employer contribution

			investment objective.														
4	R45	Pension legislation allows people to withdraw their pension "pot" from age 55. This will apply to the LGPS. Although tax penalties may reduce the attractiveness of this option, there is a risk that it matures the fund more quickly than assumed in the 2013 valuation. Cash flow could become more negative due to transfers out.	Work with actuary to understand potential consequences on maturity profile of fund, funding of liabilities and understand the basis for valuing the transferring pension "pots". Incorporate into 2016 valuation. Initial report prepared by actuary in June 2015. Ongoing review as experience develops.			3					3			9	A	Greater than £1m	Potentially through employer contribution, investment income and divestment of assets
5	R51	Risk of Fund retaining incorrect pension liability - GMP Reconciliation Exercise. Following the abolishment of contracting out earnings effective from April 2016, requirement to undertake a reconciliation of GMP liability between Fund and HMRC. Completion date due end 2018	Manage resource requirements over timeframe. Develop project plan to manage data reconciliation process and outcomes including volume metrics. Monitor and report progress and actions taken. Communicate with HMRC and members regarding actions undertaken (ongoing).			3					3			9	A	£100,001 to £1m	Annual budget
6	R05	Non-compliance with Data Protection Act and The Pension Regulators codes of practices and standards. This could lead to fines being imposed, criminal/civil prosecutions, data processing suspended or adverse publicity.	The Pensions Manager is responsible officer for DPA. Confidentiality agreements are in place with the Fund's agents. Ongoing monitoring of the Fund's compliance with the Council's DP policies. All personal data is transmitted from the Fund through secure portals. Members including pensioner members are informed regularly (via payslips & newsletters) that data is provided to third parties for the detection / prevention of fraud viz. National Fraud Initiative. On-going training of employers in their TPR obligations		2						3			6	G	£100,001 to £1m	Annual budget

7	R10	Contributions from Employing bodies to the Fund are incorrect in value or late. This could adversely affect short term cash flow, could mean under/over funding of liabilities, and breach of obligations could lead to TPR 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	£100,001 to £1m	Fines and penalties recharged to employer
8	R19	Lack of adequate resources/ knowledge at scheme employers leading to a failure to comply with obligations to pension fund and employee members, and TPR code	Ensure all information is provided to employers in an accessible and timely manner. Training tailored for employers' staff is provided for all new employers and refresher sessions for existing employers. Enforce penalties allowed under Administration Strategy for repetitive non-compliance with obligations / disproportionate work. Employer training obligations are set out in the Administration Strategy. TPR improvement plan highlights areas of employer failure.		2						3			6	G	£10,000 to £100,000	Annual budget
9	R23	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 rates.	Covenant assessment monitoring process in place for on-going assessment of financial standing of all employers in the 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 Fund policy is to only admit Transferee and Community Admission bodies where the pension liabilities are guaranteed by a scheme employer. Exit and termination policies in place to ensure financial risk to the Fund is minimised when scheme employers cease to be active employers.			3				2				6	G	Greater than £1m	Increases in employer contribution

10	R27	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 & managing the performance of the managers is delegated to the Panel. The RAG performance monitoring framework is 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. The impact of underperformance by any individual manager is limited given diversification within investment management structure.			3				2				6	G	Greater than £1m	Increases in employer contribution

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**18 March 2016**	**AGENDA ITEM NUMBER** **16**
TITLE:	**Breaches Procedure**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Annex 1: Avon Pension Fund: Breaches Procedure Appendix 1 – Reporting Employer Breaches Appendix 2 – Reporting Fund Administration Breaches Appendix 3 – Reporting Material Breaches		

1 THE ISSUE

1.1 The purpose of this item is to report to the Committee the proposed procedure for dealing with and reporting breaches of the law.

1.2 This procedure takes into account guidance received from the Pensions Regulator (tPR) as set out in its Code of Practice 14.

1.3 The procedure affects all those who are subject to the reporting requirements as determined by the Pensions Regulator.

2 RECOMMENDATION

That the Committee:

2.1 Approves the Breaches Procedure as outlined in this report

3 BREACHES PROCEDURE – BACKGROUND

3.1 There is a legal requirement on all Pension Fund Committee Members, LPB Members, officers, employers and advisors to report any significant breaches of the law to the pensions Regulator (tPR) where they are likely to be of material significance to them.

3.2 TPR Code of Practice 14 (Governance and administration of public service pension schemes) states there should be a procedure in place within each fund to identify and assess these breaches as they occur.

3.3 The Fund will adopt a pragmatic approach to dealing with employer related non-material breaches where identified in the first instance. Undertaking to work with and support employers to ensure they are fully aware of their responsibilities and have appropriate arrangements in place to comply with them

3.4 The attached Breaches Procedure sets out these responsibilities and provide a framework for the Fund to identify, manage and where necessary report breaches of the law applying to the management and administration of the Fund.

3.5 Where a breach of law is identified action will be undertaken in accordance with the significance of the breach as set out in the attached procedure.

3.6 A summary of breaches reported will be included with future administration reports to both Pensions Committee and LPB.

3.7 The breaches procedure will be reviewed on a regular basis and any amendments put forward for approval.

4 FINANCIAL IMPLICATIONS

5 There are no specific financial implications.

6 RISK MANAGEMENT

6.1 The implementation of this procedure will mitigate the risk of the Fund breaching the regulations and failing to report this or taking appropriate remedial action.

7 EQUALITIES

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

8 CONSULTATION

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

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

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

Contact person	Geoff Cleak – Acting Pensions Manager (Tel: 01225 395277)
Background papers	*The Pension Regulator: Code of Practice no 14*
Please contact the report author if you need to access this report in an alternative format	

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Annex 1

Avon Pension Fund

Breaches Procedure

Procedure for the review and reporting of Regulatory Breaches

The introduction of the Pensions Act 2013 extended the powers of the Pensions Regulator to public sector schemes from 1st April 2014. The Pension Regulator introduced Code of Practice 14 for the administration of public sector schemes in 2014 which amongst other things addressed the issue of Regulatory Breaches and reporting requirements.

This document deals with the process of identifying, recording and determining if breaches of the pension's regulations should be reported to the Pension's Regulator.

The Duty to report – legal requirement

The duty to report breaches is contained within the Pensions Act 2004 section 70. Within this Act certain people have a legal duty to report breaches to the Pensions Regulator where they believe that:

- a legal duty relevant to the administration of the scheme hasn't been or isn't being complied with: this could relate for instance to keeping records, internal controls, calculating benefits and, for funded schemes, includes investment governance and administration matters
- the failure to comply is likely to be of 'material significance' to the regulator in the exercise of its functions.

The people with a legal duty to report are

- pension board members
- any other person involved in the administration of the scheme (which includes Committee members)
- employers
- professional advisers including auditors, actuaries, legal advisers and fund managers
- any other person involved in advising the scheme manager in relation to the scheme

The duty to report overrides other obligations, such as confidentiality, except where legal professional privilege applies. Failure to report a breach without reasonable excuse, can lead to civil penalties.

What is a breach of the law?

- A breach of the law is "an act of breaking or failing to observe a law, agreement, or code of conduct." In the context of the Local Government Pension Scheme (LGPS) it can encompass many aspects of the management and administration of the LGPS, including failure:
- to do anything required under the Regulations;
- to do anything required under overriding legislation, applicable statutory guidance or codes of practice;
- to maintain accurate records;
- to act on any fraudulent act or omission that is identified;
- to comply with policies and procedures (e.g. the Fund's statement of investment principles, funding strategy, discretionary policies, etc.);
- of an employer to pay over member and employer contributions on time;
- to pay member benefits either accurately or in a timely manner;
- to issue annual benefit statements on time or non-compliance with the Code.

For breaches to be reported to the Pensions Regulator they need to be of **material significance** and specifically would include;

- dishonesty
- poor governance or administration
- slow or inappropriate decision making practices
- incomplete or inaccurate advice, or
- acting (or failing to act) in deliberate contravention of the law
- pension board members not having the appropriate degree of knowledge and understanding, which may result in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements
- pension board members having a conflict of interest, which may result in them being prejudiced in the way that they carry out their role, ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements
- adequate internal controls not being established and operated, which may lead to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time
- accurate information about benefits and scheme administration not being provided to scheme members and others, which may result in members not being able to effectively plan or make decisions about their retirement
- appropriate records not being maintained, which may result in member benefits being calculated incorrectly and / or not being paid to the right person at the right time
- pension board members misappropriating any assets of the scheme or being likely to do so, which may result in scheme assets not being safeguarded,
- where a breach has been identified and those involved do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence; are not pursuing corrective action to a proper conclusion, or fail to notify affected scheme members where it would have been appropriate to do so.

Breaches can therefor include failure to adhere to requirements set out by Administering Authority to support the maintenance of records requirements or policy or procedural requirements.

Material Significance

In deciding whether a breach is likely to be of material significance to the Pensions Regulator, the following should be considered:

- cause of the breach;
- effect of the breach;
- reaction to the breach; and
- the wider implications of the breach

When deciding whether to report, those responsible should consider these points together. Reporters should take into account expert or professional advice where appropriate, when deciding whether the breach is likely to be of material significance to the Regulator.

Recording of Breaches

The **Pensions Manager** is responsible for maintaining a record of all breaches including those which are not reported to the Regulator. The templates for recording breaches are attached as follows:

- Appendix 1: Breaches caused by employer
- Appendix 2: Breaches caused by APF as administrator
- Appendix 3: Material Breaches

Given the scope of potential breaches and the complexity of LGPS administration for Employers and the Administering Authority it is necessary to take a pragmatic approach to remediation of non- material breaches based on support, training and guidance together with remedies available to the Fund through its Administration Strategy

Resolution of non- material Employer breaches

Many non-material breaches may be resolvable through a variety of mechanisms and where necessary the Fund will support employers to ensure they are fully aware of their responsibilities and have appropriate arrangements in place to comply with them. This may be achieved through training, the issue of guidance notes and or process review to ensure that best practice is implemented. All such arrangements will be implemented according to an agreed plan and timescale. The agreed support will be recorded against the breach and will be formally notified to the employer.

If the employer then fails to improve a formal notification will be issued with a fine for persistent breach and if that fails then consideration will be given to formally reporting the failing to the Pensions Regulator

Material Breaches by Employers

Where it is considered that there is a material breach by an employer then the Pensions Manager will produce a report for the Head of Pensions, who will consider the breach in line with the Code of Practice, investigate as necessary and obtain legal advice where required in determining the necessity to report. The Chairs of the Pensions Committee and the Pensions Board will be provided with a copy of the report and notified of the action taken by the **Head of Pensions** within 10 days of receipt of the report.

Serious breaches identified such as fraud and misappropriation will be notified to the Regulator as soon as practicable and appropriate auditors/police authority for investigation. Arrangements will be made with the Regulator to support the determination of any action once the investigations have concluded.

Non Material Breaches by the Admin Authority

Such breaches will recorded by the **Pensions Manager** and improvement actions agreed with the **Head of Pensions** for inclusion in ongoing Improvement plans, Services plans or Administration Strategy as appropriate.

Material Breaches by the Admin Authority

These breaches or suspected breaches will be reported to the **S151 officer and/or the Police** for formal investigation. The investigation will be carried out by internal audit section and/or the police as required and the Pensions Regulator notified as soon as practicable and in accordance with TPR guidance.

Reporting of Breaches

In addition to the requirement to report Material breaches to the Pensions Regulator, the Pensions Manager will formally report all breaches to the Avon Pension Fund Committee and the Pension Board on a quarterly basis, notifying the chairs of both of any significant issues as appropriate.

If at any time the Committee or the Board disagree with the actions taken by the Head of Pensions, then escalation will be to the S151 officer and or the Strategic Director for Resources.

Full details of the Legal responsibilities and duties in respect of Breaches of the Law can be found in Code of Practice 14

http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes

APPENDIX 1

EMPLOYER BREACHES

Employer name	Employer number	Breach type	Breach description	Potential penalty	Notification of breach (1st notice)	Agreed action	Notification of penalty (2nd notice)	Agreed action	Penalty issued (date)	Penalty issued (£)	TPR notification (3rd notice)	Action	Material significance (Yes/No)	TPR notification approval/sign off

APPENDIX 2

APF BREACHES

Breach type	Breach description	Potential penalty	Action	Material significance (Yes/No)	Pension Committee notification	Pension Board notification	TPR notification

APPENDIX 3

MATERIAL BREACHES

Employer / APF breach	Breach type	Breach description	Action	Pension Committee notified	Pension Board notified	TPR notified

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Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	18 March 2016	AGENDA ITEM NUMBER **18**
TITLE:	LGPS Update: Administration and Proposed Legislation Changes	
WARD:	ALL	
AN OPEN PUBLIC ITEM		

List of attachments to this report:

Appendix 1 – List of expected/proposed legislation including Consultations and other impacting issues

Appendix 2 – :Consultations: Recovery of Public Sector Exit Payments Draft Regulations

Appendix 3 Response Letter Consultation on Recovery of Public Sector Exit Payments

Appendix 4 Guaranteed Minimum Pension and Indexing

1 THE ISSUES

1.1 The purpose of this report is to update the Committee on the latest position concerning the Local Government Pension Scheme [LGPS] and proposed regulatory matters that affect scheme administration.

1.2 Whilst there has already been one set of amendment regulations, Department for the Communities and Local Government [DCLG] are expecting to issue another consultation for draft regulations covering a number of issues within the LGPS and also incorporating items required by the Public Services Pension Schemes Act 2013.

1.3 Other connected items are impacting or will impact on the future administration of the scheme; these include consultations on future legislation changes not initiated by DCLG.

1.4 HM Treasury has issued some short term provisions on the indexing of Guaranteed Minimum Pensions

1.5 A list of current areas that will impact on the administrations is set out in Appendix 1

2 RECOMMENDATION

That the Committee:

2.1 Notes the current position regarding the potential changes that would affect the administration of the Fund.

2.2 Notes the information regarding HM Treasury consultations

3 FINANCIAL IMPLICATIONS

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

3.2 Some of the issues being proposed is intended to reduce costs on certain payments employers make on early retirements

3.3 Any other specific areas will be reported as required.

4 LGPS 2014: Further Regulations Amendments

4.1 Whilst the LGPS benefit regulations were completed some alterations are still required to aid administrations whilst other overriding legislation or do or will affect the LGPS

4.2 Some areas have been reported to a previous Committee but the complete details are still awaited.

4.3 The next set of amendment regulations will cover a number of different areas

Addressing certain technical matters causing practical problems since April 2014

As result of the Freedom and Choice provision outlined in the 2014 Budget introducing regulations on what and how this can be incorporated in the LGPS

How the Fair Deal guidance, issued for other public sector bodies in October 2013, will be incorporated for Best Value employers under the Direction Order. This will include a regulation change to allow scheme members subject to a TUPE outsourcing to opt to remain in the LGPS on transferring.

4.4 Latest information from DCLG in mid-February was that although it was intended to issue the consultation with draft regulations in January 2016 there had been a further delay and recommendations were about to be made to the minister to issue them.

5 HM Treasury Consultations [online links are set out in appendix 2]

5.1 Three consultations concerning exit payments on leaving employment early have been issued by HM Treasury

a) Consultation on a Public Sector Exit Payment Cap

This set out the criteria for limiting exit payments to £95,000 including any strain on fund payments due from early payment of pension benefits. The response to this consultation was presented at the September 2015 Committee.

b) Consultation on a Recovery of Public Sector Exit Payments

This consultation was in respect of recovering exit payments made where the employee was earning over a specific salary and retuned to public sector employment within one year following responses the government issued draft regulations for comment. The main changes from the initial consultation was that the level of earnings should be lowered from £100,000 to £80,000 and that strain on the fund costs from the LGPS should be taken into account as part of the exit payments. Responses were required by 25 January 2016 and the response sent from Avon Pension Fund is attached as Appendix 3

c) Consultation on reforms to public sector exit payments

This consultation proposes further restrictions on Public Sector exit payments covering the following:

Setting a maximum tariff for calculating exit payments. This maximum tariff would be three weeks' pay per year of service. Employers could apply tariff rates below these limits.

Capping the maximum number of months' salary that can be used when calculating redundancy payments to 15 months. Where employers distinguish between voluntary and compulsory redundancies there may be a case for maintaining a differential by applying a lower limit. Likewise, where employers offer voluntary exit packages that are not classed as redundancies there may be a case for applying a slightly higher limit, as part of an overall package. Employers could apply lower limits, as some do at present.

Setting a maximum salary on which an exit payment can be based. This could be set at various levels and could potentially align with the NHS scheme salary limit of £80,000.

Tapering the amount of lump sum compensation an individual is entitled to receive as they get closer to their pension retirement age.

Requiring employer-funded early access to pension to be limited or ended, through one or more of a range of measures that would considerably reduce such costs, such as:

- capping the amount of employer funded pension 'tops ups' to no more than the amount of the redundancy lump sum to which that individual would otherwise be entitled;
- removing the ability of employers to make such top ups altogether;
- Increasing the minimum age at which an employee is able to receive an employer funded pension top up, so that this minimum age is linked more closely with the individual's Normal Pension Age in the scheme in which they are currently accruing pension benefits or to which they would be entitled to belong if they were accruing benefits**.**

These potential changes will require additional administration involvement as employers requesting estimates for redundancies will require a full understanding of how the new provisions will impact any decision to be made as to which employees can be released early. Also there would need to be some monitoring where scheme members become re-employed after receiving exit payments

6 HM TREASURY PRESS NOTICE ON GUARANTEED MINIMUM PENSION [GMP} INDEXING

6.1 On 1 March 2016, HM Treasury released a press notice to provide assurances on the indexing of GMPs for public sector Pension members reaching state pension age in the period immediately after the introduction of the Single State Scheme Pension.

Details explaining GMPs and indexing together with the potential impact is attached as Appendix 4

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) *[Geoff Cleak Acting Pension manager 01225 395277]*
Background papers	*Regulations and accompanying notes;* *HM Treasury Consultation Documents* *HM Treasury: Press notice 1 March 2016*
Please contact the report author if you need to access this report in an alternative format	

List of recent Consultations and Issues expected to affect Scheme Administration ITEM 18 Appendix 1

Body Involved	Subject	Description	Relevant Date	APF response	Follow up
H M Treasury	Consultation on a Public Sector Exit Payment Cap	• To cap the total cost of all forms of exit payments available to individuals leaving employment to £95,000. • apply the cap to all types of arrangement for determining exit payments. Expected implementation: Autumn 2016	27/08/2015	Yes	HM Treasury Response to consultation issued 16/09/2015 Part of Enterprise Bill now going through Parliament
H M Treasury	Consultation: Public Sector exit payment recovery regulations:	Draft regulations for the recovery of exit payments for employees earning over £85,000 who are re-employed	25/01/2016	Yes	Expected to be operative from 01/04/2016
H M Treasury	Strengthening the incentive to save: a consultation on pensions tax relief	To get views on how pension savings should be treated for tax relief	30/09/2015	Yes	Further considerations expected in March budget
H M Treasury	March and Summer Budgets 2015 Changes to HMRC Allowances	Introduction of restricted annual allowance for members earning over £150,000 and Lifetime allowance reduction to £1m	06/04/2016	N/A	Implementation from 2016/17 tax year
The Pensions Regulator	Public service governance and administration survey 2015	To inform TPR where Administering authorities were with implementing Code of Practice 14	07/09/2015	Yes	Further survey to follow Valuation exercise
DCLG	Amendment regulations	Changing anomalies from scheme Changing the way service is aggregated between LGPS Employers	As specified in regs	When regulations issued	Awaiting DCLG to issue draft regs soon
	Consultation on Best Value and staff transfer direction Order	The government published guidance for Fair Deal on outsourcing from public Sector schemes excluding local government in Oct 2013 DCLG are to set out how this will affect Best Value employers	Awaited as part of amendment regulations		"all the issues have now been resolved and awaited for permission to get the Minister's agreement to start the consultation" [DCLG at 16 2 2016]

List of recent Consultations and Issues expected to affect Scheme Administration ITEM 18 Appendix 1

Scheme Advisory Board	LGPS Fund benchmarking exercise 2015	a national exercise the performance of all LGPS funds in England and Wales during late 2015 mandatory exercise linked to 2016 triennial valuations.	31/10/2015	Yes	Findings to be considered during Dec 2015 to submit recommendations to DCLG for 2016 Valuation process
Scheme Board sub committee	Review of ill Health retirement IDRP	Views requested from Scheme Employers Recommendations to be submitted to Scheme Advisory Board	12/10/2015	N/A	On hold until review of ill health process for all public sector schemes
LGA Pensions	The Markets in Financial Instruments Directive (MiFID II)	its impact on LGPS investments	03/01/2018	Yes	Report will be send to committee and all fund managers contacted
DCLG	Consultation on proposals to revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009	1. A package of reforms that propose to remove some of the existing prescribed means of securing a diversified investment strategy and instead place the onus on authorities to determine the balance of their investments and take account of risk. 2. The introduction of safeguards to ensure that the more flexible legislation proposed is used appropriately and that the guidance on pooling assets is adhered to. This includes a suggested power to allow the Secretary of State to intervene in the investment function of an administering authority when necessary.	19/02/2016	Yes Having been presented to Committee & sent by 15/02/2016	DCLG to review responses and issue regulations
DCLG	Local Government Pension Scheme: Investment Reform Criteria and Guidance	Guidance on Pooling investments	Initial Proposals by 19/02/2016 More detailed by 15/07/2016	Yes after Initial discussions with other LGPS funds in South West	DCLG can impose on authorities if process not sufficiently adopted Discussions still ongoing

Item 18 Appendix 2

On-line access to the Public Sector Exit Payments Consultations

1. Consultation on a Public Sector Exit Payment Cap
(Restricting exit payments to £95,000)

https://www.gov.uk/government/consultations/consultation-on-a-public-sector-exit-paymentcap/
consultation-on-a-public-sector-exit-payment-cap

2. Recovery of Public Sector Exit Payments
(Recovering exit payments if re-employed within 1 year and leaving earning was over £80,000)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487523/151218_Consultation_on_clawback_of_exit_payment_regulations.pdf

3. Consultation on reforms to public sector exit payments
Issued 5 February 2016 Response required by 3 May 2016

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/498106/FINAL_Consultation_on_public_sector_exit_payment_reforms_4_February_pdf_....pdf

Any input to alan_south@bathnes.gov.uk by 15 April 2016

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Calculation of Exit Payment

Member

Annex 1

D of B	September 1960
Date joined fund	17/10/1983

provisional redundancy date	31/03/2016		pension	£17,581.91
AGE at Leaving date	55 Yrs		lump sum	£35,981.75
Service	32Yrs	159 Days		
Final Salary	£39,267.00			
Actual Pay per wk	£755.13		Redundancy Pay	£20,388.63
Statutory Pay on redundancy	£475.00			
wks for redundancy	27		Stat Red pay	£12,825.00

Redundancy Weeks		Multiplier	wks for redundancy
yrs age 41 +	14	1.5	21
yrs age 22-41	6	1	6
			27

Exit Payment

excess red pay	£7,563.63
Strain Costs	£101,599.02

Calculated Strain on fund cost	£101,599.02

Exit Payment	£109,162.65
Exit Cap	£95,000.00
excess over cap	£14,162.65

How will this be recovered from scheme benefits?

The exit payment only covers strain on fund cost and excess Redundancy Pay on using actual pay over

	mar		3272	
CARE Balance	feb		3272	13089
	jan		3272	
	dec		3272	
last posted	nov		3272	
	oct		3272	
	sep		3272	
	aug		3272	
	jul		3272	
	jun		3272	
	may		3272	
	apr		3272	26178
		755.135		39267.00

Consultation on Public Sector Exit Payment
Recovery Regulations,
Workforce, Pay and Pensions Team
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Ask for: Alan South
Telephone: 01225 395283
Email: alan_south@bathnes.gov.uk
Our ref.: Pens/AGS

Date: 25 January 2016

Dear Sir

Consultation: Exit Payments

With reference to the current consultation regarding exit payments and the introduction of a clawback provision on re-employment, this is the response from Bath and North East Somerset Council as the administering authority for Avon Pension Fund which represents 36,370 actives, 40,050 deferred beneficiaries and 28,000 pensioners [incl. dependants].

This is the second consultation regarding exit payments to have been issued in the last few months, the other being the introduction of the cap of £95k. The response in this paper is in respect exit cap provisions from both consultations as they are connected.

It is of major concern to the Fund that there is an apparent rush to introduce these provisions. The exit cap consultation was conducted over a reduced period during the holiday season last August and the government's reply to the responses was issued within about three weeks which is such an exceptionally short time .If the current consultation has the same effect it could certainly give the impression that the outcomes have already been decided, regardless of any input from stakeholders.

The key areas to consider actions are as follows:

1. Complexity of Administration
2. Creation of Inequality

Administration

The exit cap proposals now in draft regulations are a clear indication of the continued financial pressures under which the public sector is being placed.

The introduction of career average into the new scheme in 2014 brought many administrative changes especially from a scheme employer viewpoint and the proposed changes will add even more complexities to an already complex scheme. Many of these requirements are to be implemented with relatively short timescales, need to be communicated to scheme members and will undoubtedly add to continuing member confusion.

The following table outlines some areas of increased complexity that have been introduced or are being proposed

1	End of year	Additional information required as two types of benefits Final Salary / Career Average
2	information	
a	Annual Benefit Statements	Tighter timescales for supplying information deadline recently changed and must be now be provided each year by end of August [previously September]
b	Government Actuary Department	Requiring information for Model Funds earlier
3	HMRC	
a	Lifetime Allowance	Ever reducing level bringing more members within the scope
b	Annual Allowance	further complex changes imminent in an already complicated area
4	Exit Payments	
a	£95k Cap	Operational complications for employers to understand members may not come forward voluntarily as previously Complex issue for members and employers to understand
b	Clawback	Two employers in each case need to be aware of issues and their responsibilities
5	Scrutiny	
a	The Pensions Regulator	Ensuring that administration conforms with the Code of Practice in meeting legislative requirements Compliance proven but producing evidence
b	Local Pension Board	Overviewing governance of Funds

In all these cases it is for the administrators of the Pension Arrangements to oversee matters and educate employers and members with more and more complicated information. There is a serious and growing challenge for administrators in explaining the complexities of the scheme in plain English. This is at a time when scheme members are being told by independent financial advisers that they themselves do not fully understand the public sector schemes particularly with all the different changes in recent years?

There has been a clear aspiration from successive governments that people should now be able to plan for their future retirement and its funding. These changes will make this more difficult for individuals.

Employers will need to be satisfied that they fully understand the impact the proposed legislation will have on a scheme member's benefits and decisions that may be made in connection with any redundancy exercise.

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Creation of Inequality

Employer inequalities

Public sector bodies were set up to provide services and are not intended for profit or gain but their staff are having an increasing number of restrictions applied to their pay and benefits, whilst other publically owned employers [e.g. banks and media companies] are excluded and yet these seem to be the organisations that generate the very payments that government is trying to curtail.

There now appears to be a three tier system proposed for LGPS employers;

Public sector included

Public Sector exempted

Private Sector [including contractors within public sector pension schemes]

With contracts moving from public to private sector and vice versa there could also be an additional sub- category as employers involved in these transfers will be uncertain of their position in redundancy situations.

It is also difficult to understand why Housing Associations that were originally set up from the housing departments of local authorities are to be reclassified as private sector.

One key area that could be challenged is which employers are considered to be “public sector”. There appears to be a deliberate intention to operate a two tier system within the public sector where some employers from a public sector scheme are included in the proposed legislation whereas other are excluded. For instance Universities are exempt but University training colleges are included. The Local Government Pension Scheme will have some of the employers within their Fund subject to the conditions and others who are not.

An inequitable scenario also occurs where a local authority puts a service up for tender. If it is retained in-house then any scheme member subsequently made redundant will be subject to the exit payment restrictions, whereas if the contract is outsourced to a private contractor there could possibly be no restrictions imposed on any exit payments made even though the payments could be the same. On contracts brought back in-house do employees retain protection if the original transfer out was before the new conditions?

Clearly there is the likelihood that two employees in the same service within an organisation could be treated very differently on redundancy which would be difficult to explain and could result in a legal challenge.

Another concern is which employers have been exempted, as there does appear to be a very definite objective to put restrictions on the more basic public sector staff whereas other publically owned bodies such as banks and media companies are excluded. There is no valid reason to exclude these employers from austerity measures.

It does appear that employers are also being restricted in how they manage their workforce. There can no longer be a recruitment package which can include the pension arrangements as a benefit that can be relied on in the future, if it is subject to constant future changes.

Managing downsizing will be affected with the process of redundancies taking on a different slant in that employers must be aware of the implications of these new proposals for employees. It is more than likely that there will be fewer volunteers to take severance on redundancy as a result, leading to more compulsory redundancies and adding to already difficult downsizing challenges.

Scheme Member inequalities

Following Lord Hutton's review of public sector pensions in 2011, there was a Heads of Agreement made in December 2011. As a result all the respective public sector departments went into discussions with relevant employers and trade unions to produce an appropriate pension scheme within its cost ceiling for each workforce.

Each element of the scheme was costed so that the specific package agreed was within the cost ceiling.

All the public sector pension schemes were each separately negotiated and agreed between Departments, Employers and Unions and then submitted for HM Treasury approval, and yet within 18 months of the new LGPS becoming operational, new restrictions are now to be imposed changing the scheme structure which is certainly at odds with the previous comments of the Chief Secretary to the Treasury that the schemes would be around for 25 years.

Under the existing pension scheme at that time the LGPS had a provision that on leaving on grounds of redundancy /efficiency over the age of 55 any pension benefits accrued would be payable immediately.

Other public sector schemes such as Teachers and NHS had the provision that the member had to elect to receive benefits and suffer any reduction for early payment. It was expected that for the new scheme arrangement in 2014 that the same condition would be introduced within the LGPS but no such change was forthcoming. As a result, it can only be presumed that all parties were in agreement with this decision.

As stated above there is a difference between certain public sector pension schemes as regards being entitled to immediate benefits if reason for leaving is redundancy.

As those schemes that do not allow immediate benefits give the member the right to decide whether to take a reduced benefit, will other schemes like the LGPS, be changed to allow the member to receive redundancy and severance payments but defer receiving their pension benefits until the total exit payment cost is below the cap level? If so will the benefits still be unreduced from this point?

There are several points that need to be considered here as the retirement conditions of these schemes were not exactly the same and it would be unfair to disadvantage members of the LGPS. [LGPS abolished its early retirement rule of 85 with some limited protection whereas the other schemes kept retirement at 60 for existing members.]

There needs to be some clear understanding as to how the cap will be operated as the draft regulations do not give any indications on which to respond. Areas that need to be address are as follows:

1. The LGPS does not allow an individual to defer. All the draft regulations provide is that a payment can be made which does seem to imply that delaying is not an option. There is no detail as to how the payment is to be made or calculated so an employer could decide to recover from the pension over a period.

2. If actuarial guidance is to be provided there may be no way to respond to the basis of this calculation until after the regulations are passed.

3. By setting an exit cap of £95,000 automatically introduces inequality as members of the LGPS will in some circumstances have higher strain on fund costs because of the way public schemes dealt with protections for early retirement. The LGPS uses actuarial reductions to age 65 whereas others only to age 60.

The major reason given for the change to introduce an exit cap is to curb exit payments for high profile retirements particularly those scheme members with high salaries, it would seem from the consultations that employees earning above £80,000 are deemed high earners. The cap suggested of £95,000 can be shown to be flawed in that other members who have been in the scheme for a substantial period would only have to be on a salary of around £40,000 to be affected by the intended exit cap provisions.

An example showing this is attached as Annex 1. This member over the past 30 plus years has seen their pension expectations reduce over this time. The abolition of the rule of 85 has meant that part of the benefits will now be reduced if retirement is before age 65 and for some part age 66.

On entering the scheme part of the benefit package was that if made redundant immediate benefits would be paid if redundancy occurred after age 50. This age was then increased to age 55 which is the current age but instead of getting full accrued benefits on redundancy it is now intended that the benefits are either reduced or delayed. This member has served local government for over 30 years with increasing pressures being applied to local authorities in recent years with financial restrictions and staff cuts or pay restrictions and would now be penalised further. The restrictions on pay also affects their pension growth so there is a multiple impact on that member's pension value As mentioned earlier there is no explanation of how the excess of £14,000 in the example is to be recovered from the member..

During the period of this membership not only did members receive full immediate benefits on redundancy after age 50 but a significant number were even given additional service up to a further 10 years to compensate loss of potential pension. No action has ever been proposed to get these individuals to pay towards this.

There is no indication of an intention to phase in the cap but merely come straight in with the proposed cliff edge approach. Any scheme member within 10 years of age 60 will find it difficult to make provision to compensate any potential reductions in benefits should redundancy occur

Managers who have been downsizing their departments over the past few years will find themselves caught by these restrictions if they happen to be last out the door. It would appear that despite their efforts in the process they will have their benefits reduced just because they leave after these restrictions take effect.

If the intention is to prevent adverse publicity and public perception due to exit payments being made following ineffective work practises then it would seem more appropriate to review the conditions whereby pension benefits are forfeited. This could then be directed to cover all publically owned employers [including institutions like banks and media] as well as private employers working on public sector contracts. Most of the high profile payoffs in recent years have come within these areas and excessively greater amounts than within the classified employers.

Within the public sector, exit payments are used in the most sensitive cases but before such agreements are made the employer will have key decisions to make regarding an individual. Cost of the severance payment will have to be weighed against the potential other costs that may arise from a legal challenge including the legal costs themselves. So it would appear that the cases the government is determined to curtail may well be the very cases that in fact will still proceed.

Although there is a provision that a full council could provide an exemption to the cap applying this would not help the general long serving members as in most cases within local authorities where discretions are made it is usually only the high profile cases that are considered and usually this would already be with full council approval.

Exit Payment Clawback

The first area on clawback that needs consideration is whether the salary of £80,000 should only relate to the outgoing post or also be applied to the new employment or either. There could situations that appear to be quite inequitable.

The table below shows that if the salary is only restricted to the exiting employment there would appear to be anomalies:

Member	A	B
PAY ON EXITING	£79,950	£80,000
Service (yrs)	35	25
NEW PAY	£100,000	£25,000
Clawback	No?	Yes?

The strain costs here could be very similar but only one individual may be affected by the clawback. Consideration should therefore to given to the financial situation in each case and legislate a fairer system as to benefit gained by the subsequent re-employment.

Before April 1998 the LGPS had a provision that a pension would be abated on re-employment with a new LGPS employer if the new pay plus pension exceeded the pay at retirement. This compulsory provision was changed in 1998 so that administering authorities could decide whether to abate and whether this would be in all or specified cases. When flexible retirement was introduced abatement was specifically excluded in such cases.

This consultation intends to deal with members who have retired with exit costs to the employer having to repay these costs if they become reemployed within one year by a specified public sector employer. Why no clawback if outside the one year period? Such a short period could lead to manipulations.

The direction of legislation here seems at odds with the actual pension provisions, where decisions on abatement have gone from compulsion to discretion and now introducing a new threshold for compulsion.

As previously referred to the employers classified as being included seem to suggest that there are two distinct types of public controlled bodies and one type is always subject to restrictions for both pay and pensions while other more high profile get exempted. It seems inequitable that the private sector is not regulated in the same way.

Employer perspective

This report has been shown to the lead officer on employment matters for Bath and North Somerset Council and whilst agreeing to points raised by the administering authority here also wanted to add the following:

> *"My Council is in the process of setting its budgets for 2016/17 and has to be mindful of the proposed changes and the impact this may have upon its plans and implementation but is equally concerned to ensure that equitable and workable arrangements are put into place to reflect the value placed in this country on public services."*

Conclusions

It is the opinion of Avon Pension Fund that these intended changes with regards earnings cap need to be considered against the following

Administration

Further level of complexity to go with many others whilst dealing with austerity

Communications: Requirement to explain this in simple terms to all members when independent financial advisors struggle to cope with the scheme complexity.

Explaining to members and employees

Supporting members in key decisions

Inequality

The selective classification of employers with so many different tiers with some employers being given preferential treatment

Unintended consequences: Effects on benefits on long serving non high profile members who get drawn in accidentally.

Scheme Member

Long term planning: constant changes to pension structures which counters the government's aim of enabling individuals to manage their finances in retirement

Understanding: additional complexities on top of Freedom or Choice, HMRC Allowances following on from scheme changes

Employer difficulties

Recruitment and redundancy processes: devaluing of pensions as part of the remuneration package. Potential reluctance of employees to volunteer for redundancy

Outsourcing issues: Further added complexities to an already complex area by not classifying employers the same way.

This legislation appears to show a direction of Government in respect of the public sector and its pension schemes which may be unintended. Classifications appear to show the break-up of services and the profitable ones will be reclassified as private sector like the Housing Associations.

Some public sector schemes such as police and fire have recently lost key legal battles in certain cases resulting in additional administration required to rectify matters. This could potentially happen with these proposed introductions if the inequalities are not addressed sufficiently.

When Lord Hutton set out to review public sector pensions there was a consensus that they should be regarded as a standard and that there should not be race to the bottom with regards pension provision. The review certainly set out the recommendation that the public sector schemes should be fair and transparent.

It is important therefore that before any of the proposed legislation becomes operative that full consideration is given to all points raised by all respondents as to whether it is currently able to deliver the objectives required in a manner that is fair and tranparent.

Also there are some issues still outstanding as to the mechanism of recovery of payment from scheme members that have not been released and therefore have not as yet been consulted on.

Yours sincerely

Alan South

Alan South
Technical and Compliance Manager
Avon Pension Fund

Annex 1 Example

Guaranteed Minimum Pension and Indexing

Until 5 April 2016, the LGPS is a contracted-out pension scheme Avon Pension Fund has incurred obligations as to certain pension provisions connected with the State Second Pension.

From 6 April 1978 to 5 April 1997 pensions paid had to cover the equivalent pension that the member would have accrued if they had been receiving the State Second Pension. This pension is known as the Guaranteed Minimum Pension [GMP].

If the pension calculated under LGPS regulations was less than the GMP amount Avon Pension Fund [APF] would be required to pay an additional amount to cover the shortfall.

As from the member's State Pension Age, the responsibility for increases on the GMP element was split between the Fund and the Government as follows:

Pension	Increases made by	
	Fund	Government
GMP element from 06/04/1978 to 06/04/1988	No	Yes all
GMP element post 5/4/1988	Yes first 3%	Yes excess over 3%
Excess pension over GMP	Yes	No

With the introduction of the Single State Pension in April 2016, contracted-out status will cease. HMRC will phase out its contracted-out section by April 2018.

Discussions are taking place between HM Treasury and Public Sector Pension Schemes as to how indexing of GMPs will be covered once contracting out ceases.

On Tuesday 1 March 2016, the government issued a Press Notice, announcing that public service schemes would be required to pick up the cost of fully indexing GMPs in respect of members who reach State Pension Age from 6th April 2016 to 5th December 2018.

For members reaching State Pension Age from 6th December 2018, HM Treasury intends to consult later this year on a solution to the indexation issue and GMP equalisation for the public service schemes and their members.

WHAT IS THE FINANCIAL IMPACT?

In January, it was commented that if full indexation had been implemented for all members who reached State Pension Age from 6 April 2016, the burden for the LGPS would have been additional liabilities of around £1 billion which equated to around 0.5% of the Scheme's total liabilities.

Based on this initial shorter window of pensioners, we estimate that the current impact on the LGPS will now be additional liabilities of the order of £225 million, which will have to be reflected in the forthcoming 2016 valuation: The impact will vary for individual employers, depending on their membership profile, and again this is something to be costed in the valuation.

PRACTICAL IMPACT?

From an administration/pensioner payroll perspective there will be a need to identify affected members and set up processes for them in order to apply the correct increases going forward when they reach State Pension Age with potentially different treatment again from 2018.

The first increase for these individuals will be due in April 2017

It remains to be seen how this will play out in the longer term. Some private sector companies who operate public sector style "mirror" schemes have been lobbying government to prevent the full requirement from being imposed on public service schemes and therefore their own as well. It is anticipated that they will respond strongly to the consultation on this.

Further updates will be made once the consultation details are published and will remain in close contact with HM Treasury in the meantime

Members potentially included for GMP indexing protection

	Members
Pensioners	**1270**
Deferreds	**156**
Actives	**302**
Total	**1728**

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**18 March 2016**
TITLE:	**WORKPLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Investments Workplan to December 2016** **Appendix 2 – Pensions Benefits Workplan to December 2015** **Appendix 3 – Committee Workplan to December 2016** **Appendix 4 – Investments Panel Workplan to December 2016** **Appendix 5 – Training Programme 2015 - 2017**	

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 through 2015-17 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 2015-17 is included as Appendix 5.

1.4 The workplans are consistent with the 2016 -19 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.

1.6 Member attendance at training events is recorded and reported annually in the Annual Report and Accounts. This will include a record of those members that have completed The Pension Regulators Knowledge and Skills Toolkit.

1.7 In order to identify the training required for 2016-2018, members will be asked to complete a self-assessment form which will be distributed at the meeting.

2 RECOMMENDATION

2.1 That the workplans and training programme for the relevant periods be noted.

2.2 That members undertake a self-assessment of their knowledge to inform the training plan 2016-2018.

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. There are a number of workshops planned for 2016 included in the Committee workplan.

4.2 The workplans and training plan will be updated with projects arising when these are agreed.

4.3 The provisional training programme for 2015-17 is also included so that Members are aware of intended training sessions and workshops. This plan will be updated quarterly. It also includes a summary of the work the committee undertakes to meet the requirements of CIPFA's Knowledge and Skills Toolkit.

4.4 Please note that member attendance at training events is recorded and reported annually in the Annual Report and Accounts. This will include a record of those members that have completed The Pension Regulators Knowledge and Skills Toolkit.

4.5 As the Committee has been in place for 6 months and basic training has been undertaken, members are asked to complete a self-assessment of their knowledge so that the training plan for 2016-18 can be updated to meet individual requirements. The self-assessment form will be distributed at the meeting.

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 DECEMBER 2016

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 Training programme for new members in place	On-going
Review manager performance	Officers to formally meet managers as part of monitoring process See IP workplan for Panel meetings	Ongoing
Investment strategy & projects	Projects delegated to Panel for implementation or further investigation further. • Liability hedging – preliminary work started; bring to committee 2Q16 • Use of tactical ranges and "others" • RI Policy Review	In progress Panel reports late 2016 Committee 3Q16
Pooling of investments	Participate in Project Brunel Final proposals due July 2016 Implementation and transition from 3Q16 onwards	On-going
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	Late 2016
Review AAF 01/06 & SAS70 reports	Annual review of external providers internal control reports	Annually
Investment Forum	To discuss funding and investment strategies and issues	4Q16 following valuation
Ill health insurance options	Investigate options for insuring ill-health pension costs for smaller employers	In progress
Pensions Board	Training plan	Ongoing
Document Management System	Create structure for document management system ready for using Council solution or alternative provider	dependent on corporate solution
2016 Actuarial Valuation	As at 31 March 2016 Review Funding Strategy Statement (FSS)	Preparatory work starts 2Q16 Committee FSS

	Results to employers	workshop 1Q16 from October 2016
Statement of Investment Principles / Investment Strategy Statement	Revise following any change in Fund strategy/policies. Publish new Investment Strategy Statement by Sept 2016	On-going Sept 2016
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 December 2016

Project	**Proposed Action**	**Report**
Employer Self Service rollout	Employer Self Service roll-out and training of all remaining employers to enable full electronic data delivery. Due completion 2016/2017.	Ongoing
i-Connect software – to update member data on ALTAIR pension database automatically monthly	All Unitary Authorities Live On-boarding and set up of Avon Fire & UWE Market to other employers during 2016/17 once U/A's complete.	June 2016 June 2016 Commence 2Q16
Move to Electronic Delivery of generic information to members	Continue 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 online)*	Ongoing Ongoing
Successfully Implement New Fire Scheme Pension Reform	To follow through Project Plan to effectively implement and communicate the New Fire Scheme. Including staff training & member presentation sessions	Completed Completed
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.	Ongoing Completion due 16/17
TPR Requirements	Data Quality Management Control – ensure processes and reporting in place to reflect TPR compliance.	Completed
Guaranteed Minimum Pension (GMP) Data Reconciliation Exercise Following cessation of Contracting out section April 2016	Carry out full reconciliation with HMRC records to mitigate risk from holding incorrect GMP liability	Ongoing Update Report to Committee Sept 2016
2015/16 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 01/09/2016	Ongoing
Review Workflow & Data Processing	Implement new Task Workflow Arrangements . (Phase 1- new leaver process) . (Phase 2 – transfer process) Introducing new software – Process Automation	Completed Feb 16 Due Q3 2016 Due Q4 2016

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Appendix 3

Committee Workplan to 31 December 2016

JUNE 2016 (this meeting will start earlier due to length of agenda)
Roles & Responsibilities of the Committee – reference only
Pooling of investment assets - update
Agree draft Funding Strategy Statement
Scheme and Admitted Employer update
Agree framework for Liability Driven Investing
Pension Fund Administration – Performance Indicators for Year & Quarter Ending 31 March 2016 and Risk Register Action Plan – monitoring report
Budget & Cashflow Outturn 2015/16 – monitoring report
Annual Review of Investment Strategy & Performance – monitoring report
Report on Investment Panel Activity
Annual Responsible Investing Report
Approval of draft Accounts 2015/16 and noting of audit plan
Approval of Committee's Annual Report to council
Review options for Ill health insurance for smaller employing bodies
Workplans
Planned Workshops:

SEPTEMBER 2016
Review of Investment Performance for Quarter Ending 30 June 2016
Pension Fund Administration –Performance Indicators for Quarter Ending 30 June 2016 and Risk Register Action Plan
Budget & Cashflow Monitoring 2016/17
Report on Investment Panel Activity
Approval of Final Accounts 2015/16
Approval of Funding Strategy Statement
Workplans
Planned Workshops: Responsible Investing (2)

Appendix 3

Committee Workplan to 31 December 2016

DECEMBER 2016
Review of Investment Performance for Quarter Ending 30 September 2016
Pension Fund Administration –Performance Indicators for Quarter Ending 30 September 2016 and Risk Register Action Plan
Budget & Cashflow Monitoring 2016/17
2016 Actuarial Valuation outcome
Report on Investment Panel Activity
Approval of Responsible Investing Policy
Review of AVC arrangements
Workplans
Planned Workshops: Responsible Investing – agree policy and framework

Appendix 4

INVESTMENT PANEL WORKPLAN to December 2016

Panel meeting / workshop	Proposed agenda
Panel Meeting 24 Feb 2016	• Review managers performance to December 2015 • Managing liabilities – further work
Panel meeting 25 May 2016	• Review managers performance to March 2016 • Managing liabilities – agree recommendation to Committee Workshop: Meet the managers
Panel meeting 5 Sept 2016	• Review managers performance to June 2016 • AVC review Workshop: Meet the managers
Panel meeting 14 Nov 2016	• Review managers performance to September 2016 Workshop: Meet the managers

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Appendix 5

Committee training programme 2015-17

	Topic	Content	Format	Timing
1	Governance	Overview of governance structure Overview of Fund LGPS Scheme Advisory Board The Pensions Regulator Codes Agenda for June Committee meeting	Committee Workshop	Morning of June 2015 Committee meeting
2	Overview of Fund Strategies	Scheme outline and structure Administration Strategy Communications Strategy Risk Register	Committee Workshop	Morning of 25 September 2015 Committee meeting
3	Actuarial Valuations	Valuation methodology Recap on 2013 valuation 2015 interim valuation outcome LGPS Cost Cap Mechanism	Committee Workshop	12 October 2015
4	Funding Strategy Statement, covenants, admission and exit policies	Funding Strategy and 2016 valuation Covenant assessment process Admission and exit policies and funding basis used	Committee Workshop	8 March 2016
5	Investment strategy	Asset allocation & Statement of Investment Principles Investment strategies e.g. active vs. passive Investment management structure Process for appointing managers Monitoring managers and performance measurement Fees	Investment Panel Workshop	Morning of 11 September 2015 Panel meeting (and on adhoc basis)
6	Managing liabilities	Understanding objective Potential solutions Impact on bond portfolio Impact on funding level Proposed framework Recommendation: Objective and proposed framework	Investment Panel meetings Committee workshop Committee Meeting	 8 March 2016 June 2016
7	Responsible Investing	Objective and rationale Review Current policy	Committee Workshops	Workshops through 2016

Training Programme and the CIPFA Knowledge & Skills Framework (2015/16)

Topic	Related CIPFA Knowledge & Skills Framework areas:	Timing
Fund Governance and Assurance	Legislative & Governance, Auditing & Accounting Standards, Procurement & Relationship Management	June committee meeting (through committee paper on responsibilities and new committee training); introductory workshops
Manager selection and monitoring	Investment Performance & Risk Management	Ongoing by Panel in quarterly monitoring of manager performance Annual report to Committee by Investment Consultant (June Committee meeting)
Asset Allocation	Investment Performance & Risk Management, Financial Markets & Products	On-going through monitoring of strategy, Workshops on investing in different assets, strategic allocation e.g. Liability investing, responsible investing
Actuarial valuation and practices	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee 2015 interim valuation workshop; valuation, covenant and funding policies workshop