Bath & North East Somerset Council

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17 June 2016
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To: All Members of the Avon Pension Fund Committee

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Cherry Beath, Shaun Stephenson-McGall and Lisa O'Brien

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, 24th June, 2016

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 24th June, 2016** at **11.00 am** in the **Kaposvar Room - Guildhall, Bath.**

A buffet lunch for Members will be served at 1 pm. The meeting will recommence at 2 pm.

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, 24th June, 2016

at 11.00 am in the Kaposvar Room - 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: 18 MARCH 2016 (Pages 7 - 28)

If the Committee wishes to discuss the exempt minutes of the previous meeting, it is advised to pass the following resolution:

> 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, resolves that

the public shall be excluded from the meeting for the discussion of the exempt minutes of the previous meeting because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

8. ROLES AND RESPONSIBILITIES OF THE COMMITTEE (Pages 29 - 44)

9. DRAFT FUNDING STRATEGY STATEMENT (Pages 45 - 90)

10. FRAMEWORK FOR LIABILITY DRIVEN INVESTMENT (Pages 91 - 180)

If the Committee wishes to discuss Exempt Appendix 1, it is advised to pass the following resolution:

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, resolves that the public shall be excluded from the meeting for the discussion of Exempt Appendix 1 business because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

11. POOLING OF INVESTMENT ASSETS - VERBAL UPDATE

12. REPORT ON INVESTMENT PANEL ACTIVITY (Pages 181 - 194)

If the Committee wishes to discuss the exempt minutes of the Investment Panel, it is advised to pass the following resolution:

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, resolves that the public shall be excluded from the meeting for the discussion of the exempt minutes of the meeting of the Investment Panel of 25 May 2016 because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

13. ANNUAL REVIEW OF INVESTMENT STRATEGY AND PERFORMANCE (Pages 195 - 260)

14. APPROVAL OF DRAFT ACCOUNTS 2015/16 (Pages 261 - 298)

15. BUDGET AND CASHFLOW OUTTURN 2015/16 (Pages 299 - 308)

16. PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR YEAR AND QUARTER ENDING 30 APRIL 2016 AND RISK REGISTER ACTION PLAN (Pages 309 - 344)

17. LGPS REGULATORY UPDATE (Pages 345 - 364)

18. WORKPLANS (Pages 365 - 376)

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

Protocol for Decision-making

Guidance for Members when making decisions

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

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

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

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

Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 18th March, 2016, 2.00 pm

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

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

Co-opted Non-voting Members: Wendy Weston (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor) and James Giles (Mercer)

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

64 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

65 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cheryl Kirby.

66 DECLARATIONS OF INTEREST

There were none.

67 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

Councillor Lin Patterson made a statement urging the Fund to divest from fossil fuels. A copy of her statement is attached to these Minutes.

The following members of the public made statements urging the Fund to divest from fossil fuels:

Jack Lloyd (Fossil Free Bristol)
Holly Templer (Fossil Free Bristol)
Elaine Ashley (Fossil Free Bristol)
David Searby (Fossil Free B&NES)
Simon Griffiths (Fossil Free B&NES)

The Chair thanked Councillor Patterson and the members of the public for their statements and assured them that they would be given due consideration. He asked the members of the public if they could email copies of their statements to the Democratic Services Officer, so that they could be attached to the minutes. Statements from Fossil Free Bristol, David Searby and Simon Griffiths are attached to these minutes.

69 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

70 MINUTES: 3RD FEBRUARY 2016

The public and exempt Minutes of the meeting of 3rd February 2016 were approved as a correct record and signed by the Chair.

71 AUDIT PLAN 2015/16

The Finance & Systems Manager (Pensions) introduced the report. He invited Members to note the Audit Plan 2015/16, which was attached as Appendix 1 to the report. He introduced Julie Masci from Grant Thornton, who commented in detail on the plan.

A Member noted the reference to Level 3 investments as a significant risk. He said that some of the Fund's investment managers would be open to this type of risk and wondered how this would be reported by the external auditors. He said that this type of risk would arise in the case of fossil fuels and he that he would like to know how it was possible to have confidence in the valuations put on these investments by the markets and by managers. Similar issues applied to other types of investment. The risk might not always be material, but was something of which the Fund should be aware. In his response the Head of Business, Finance and Pensions noted that the public speakers had stated that some fossil fuel assets were overpriced and that this represented a risk to the Fund. But there were valuation risks associated with all asset classes. What the external auditors would be focussing on was the process of risk assessment and whether valuations were reasonable in the light of that risk assessment and of advice received. The Member said that he disagreed. He thought the whole point of active management was to buy shares when you thought they were undervalued and to sell them when you thought they were overpriced.

A Member said that one of the biggest risks now facing the Fund was pooling, involving the transfer of substantial assets to a collective investment vehicle, yet this was not included in the plan. Ms Marci responded that pooling of investments had been mentioned in the plan as part of the background to the business of the Fund in 2015/16, but no transfers had taken place in 2015/16 and the timing of the commencement of transfers was uncertain, so it was not possible to predict the impact on the 2016/17 accounts.

A Member asked about the level of the audit fee (£28,000). He wondered whether this was enough to do allow the auditor to do all the work that needed to be done. Ms Marci replied that external auditors had very specific responsibilities and that the level of fee was based on the national scale set by Public Sector Audit Appointments Limited.

RESOLVED to note the Audit Plan for the accounts for the year ended 31st March 2016.

72 SEPARATE IDENTIFICATION OF PENSION FUND TRANSACTIONS AND BALANCES

The Finance & Systems Manager (Pensions) presented the report. He invited Members to note the steps to be taken to comply with the recommendation of the external auditors in their audit of the 2014/15 accounts that it should be easier to identify Pension Fund transactions and balances separately from those of the Council. In reply to questions from Members he said:

- The external auditors had confirmed that they were satisfied with the proposal to address the issue by creating a separate journal identifier for Pension Fund transactions.

- The cash balances of the Fund were held and invested separately from those of the Council.

RESOLVED to note 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.

73 LGPS POOLING OF INVESTMENTS - UPDATE

A Member spoke against the motion to take this item in exempt session. He said that he did not think the contents of the report justified this, and he felt very strongly that members of the Fund had a right to know what it was proposed to do with their money. He thought that Fund members should have free access to this information.

After Members had debated the motion, it was **RESOLVED** by 8 votes in favour, 1 vote against and with 2 abstentions that the Committee having been satisfied that the public interest would be better served by not disclosing relevant information, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972 the public shall be excluded from the meeting for this item of business, and the reporting of this item shall be prevented under section 100A(5A), because of the likely disclosure of exempt information as defined in paragraphs 1 and 2 of Part 1 of Schedule 12A of the Act as amended.

After discussion, it was **RESOLVED** to agree the recommendations in the report.

74 BUDGET AND SERVICE PLAN 2016/19

The Head of Business, Finance and Pensions presented the report.

He said that the some of the key issues facing the Fund in the next three years were:

- pooling – the Committee had already agreed to provide additional resources, but there were the as-yet-unknown costs of implementation, which were not reflected in the Budget and Service Plan

- following the 2016 Budget, an acceleration in the Academies programme, resulting in the possible creation of 293 additional Academies, each of which could be a separate employer; there would be additional work in securing administrative compliance and in training; recruitment for additional posts would take place this year. It would help the Fund if schools becoming Academies joined Multi Academy Trusts.

- the valuation

It was proposed to create specific member and employer focussed services within the Administration team.

Staff turnover had been, and was likely to remain, a serious concern.

Members discussed the report and made comments and asked questions, to which officers responded

Staff retention

Could retention allowances be paid to staff?

There would need to be discussion with the Council's Human Resources Team. In the meantime attention will be given to job grading and flexibility.

How many apprentices are working in the Administration Team?

There are two at present, which will be doubled to four.

Increase in employers

The admission of Academies and the increase in employers will raise costs for the Fund. The Fund should investigate whether there were best practice models for dealing with Academies. A higher quality of data is demanded by the CARE scheme.

0.4% of employer contributions are earmarked for administration costs. This might not be enough, and will have to be examined as part of the valuation process. A great deal more is now being spent on compliance and regulation. In accordance with the Administration Policy, charges will be levied on employers who impose excessive additional administrative burdens. Efforts will be made to identify more efficient practices that employers could adopt, and consideration given to charging them supplementary fees if they fail to adopt them. As for best practice, administration staff visit schools about to become Academies and give training and help with thepensions software systems. The Fund needs smarter technology; discussions are ongoing with software suppliers about how to manage the increase in employers. All funds are facing the same issue. 53% of smaller employers are now sending data electronically. Member self-service needs to be encouraged to free up staff resources. Currently 10,000 scheme members are signed up for self-service; this needs to be increased to at least 80,000. The new member website will be launched next week.

Investment Strategy

The review of the Investment Strategy has been delayed because of work on pooling. The original target date was September 2016. There was a suggestion that there would be no new investments until the new Strategy had been agreed. There are serious issues in relation to the new Strategy that might not be resolved for many months. Would it be possible to agree an interim Investment Strategy?

The review of Responsible Investing Policy is due to complete as planned. Following the valuation the Investment Strategy will need to be reviewed for the change in the liabilitiy profile and this is due to take place early in 2017. The review of Responsible Investing Policy must be done thoroughly and cover all aspects and needs to take into account of what may be possible from pooling.

Transfer of Fire Rescue Service funding from DCLG to Home Office and merger of Police and Fire Service

The Fire Brigade Pension Scheme is an entirely separate scheme; Avon only administers it. Avon could continue to administer it, or the administration could be transferred to another organisation.

RESOLVED to approve the 3-year Service Plan and Budget for 2016-19 for the Avon Pension Fund.

75 TREASURY MANAGEMENT POLICY

The Finance & Systems Manager (Pensions) presented the report. He said there were no changes to the policy in Appendix 1, which was last approved by the Committee in July 2015. The Committee was not being invited to approve the list of counterparties in Appendix 2, which is simply a list of counterparties which meet the current criteria.

RESOLVED to approve the Treasury Management Policy as set out in Appendix 1.

76 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report. He said that the Panel had made no recommendations to the Committee. The Committee was invited to the note the minutes of the latest meeting of the Panel on 24th February.

RESOLVED to note the minutes of the Investment Panel meeting on 24th February 2016 at Appendix 1.

77 INVESTMENT PERFORMANCE AND STRATEGY MONITORING REPORT- PERIOD ENDING 31ST DECEMBER 2015

The Assistant Investments Manager summarised the key information in the report.

Mr Giles commented on Mercer's Investment Performance Report.

A Member asked Mr Giles whether he had any view on the assumptions made in the Fund's Investment Strategy. He was concerned about the Fund setting targets that were not achievable. Mr Giles referred to agenda page 119, which tabulated Strategy Assumed Returns against the 3-year Index Returns with comments. The Investment Manager said that return expectations would be considered in the valuation process.

RESOLVED:

1. To note the information set out in the report.

2. To note the LAPFF Quarterly Engagement Report.

78 BUDGET AND CASHFLOW MONITORING REPORT - PERIOD ENDING 31ST DECEMBER 2015

The Finance & Systems Manager (Pensions) presented the report.

RESOLVED:

1. To note administration and management expenditure incurred for 10 months to 31 January 2016.

2. To note the Cash Flow Forecast to 31 March 2016.

79 PENSION FUND ADMINISTRATION - PERFORMANCE INDICATORS FOR QUARTER ENDING 31ST DECEMBER 2015 AND RISK REGISTER

The Acting Pensions Manager presented the report.

RESOLVED to note:

1. Summary Performance Report to 31 January 2016;
2. Performance Indicators and Customer Satisfaction feedback for 4 months to 31 January 2016;
3. Progress on the Data Improvement Plan;
4. Risk Register.

80 BREACHES PROCEDURE

The Acting Pensions Manager presented the report.

The Head of Business, Finance and Pensions said that the draft Breaches Procedure had been considered by the Pensions Board. The Chair of the Board had suggested that second paragraph on page 198 should require serious breaches to be reported to the Pensions Regulator “immediately” rather than “as soon as practicable”. He, however, suggested that the current wording should be retained, because it would not be known what precisely was to be reported until an investigation had taken place.

RESOLVED to approve the Breaches Procedure as outlined in the report.

81 LGPS UPDATE: ADMINISTRATION AND PROPOSED LEGISLATION CHANGES

The Acting Pensions Manager presented the report.

RESOLVED to note:

1. The current position regarding the potential changes that would affect the administration of the Fund;

2. The information regarding HM Treasury consultations.

82 WORKPLANS

The Investments Manager presented the report.

She requested Members to complete and return the training self-assessment form by the end of the month.

RESOLVED:

1. To note the workplans.

2. That Members will undertake a self-assessment of their knowledge to inform the training plan 2016-2018.

The meeting ended at 4.44 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

In my first statement before this committee, I wish to do something a little unusual. I am not speaking to you in your heavy role as responsible to your fiduciary pledge to profit or to your loyalty to a party rationale, but to the part of you which is that of God. If you prefer a substitute word, (Spirit, Higher power, Source of Life, Love, etc,) call it what you will. Whether you care to know it or not, as a Quaker, I know there is that of God in each of you which may or may not be reached.

And I do not envy you in a role with extreme tension between the still, small callings of that and your obligations enmeshed in a system which puts other values above it. The clear path consistent with that of God, or good, in you is one which strenuously begins the divestment process from fossil fuels. As Bill McKibben says, "If it is wrong to wreck the climate, it is wrong to profit from it."

As you will hear from others, it is not a risk to profits to choose to disinvest. But if you say it is, I answer that if we choose to focus on profit as the "bottom line" we ignore the humanising purpose of God as discerned by those closest to God through history. This is a capitalist heresy, not heresy to a written dogma, but to the depths of truth within us. Profit is not the "bottom line." As creatures of God, we have as our divine vocation the achievement of human well-being, and the well-being of other life facing extinction, not existing for ourselves, but belonging to the God who ordains sufficiency for all.*

I know this is peculiar language in these surroundings. We all compartmentalise in order to adapt to a disjointed and diseased system based on profit for the few which impacts so cruelly on so many, as well as the whole of the planet. But other organisations are now divesting and surviving, and they will be the survivors who align with a future consistent with the welfare of all, as the emerging truth insists. In a quiet moment, please remember this call to your finest self and turn towards divestment as your greatest contribution in your capacity on the Pension Fund Committee.

*This paragraph draws on the work of Walter Wink in The Powers That Be, Theology for a new Millennium, page 50

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Statement presented by Fossil Free Bristol to APF committee on the 18th March 2016

Paris

In Paris at the COP21, world leaders agreed that we need to hold global warming below 2°C. We can only achieve this if we stop burning fossil fuels - we need to leave 80% of it unburned if we are to have even a 75% chance of staying within that limit.

You know the share prices of these fossil fuel companies are based on them extracting and burning ALL of their reserves, which they simply cannot do if we are to have a liveable planet. Therefore these shares are hugely overinflated - a carbon bubble' - and if we don't act soon, we could be left with stranded assets. We've already seen oil, gas and coal prices drop dramatically, and the Bank of England has warned investors of the risks.A recent Citibank report stated that the fossil fuel industry will 'bottom out' in 2016. Your members savings are at risk if you do not divest from fossil fuels. Don't delay the decision.

Fossil fuel share prices can only be negatively impacted by the growing world wide divestment movement and recent NASA data detailing record rises in the average global surface temperatures (https://www.theguardian.com/science/2016/mar/14/february-breaks-global-temperature-records-by-shocking-amount)

Divestment Updates

More than 500 different institutions around the world have now divested over $3.4 trillion from fossil fuels. That includes 50 pension funds. In the UK, Haringey and South Yorkshire local government pension funds have now joined the Environment Agency pension fund in making divestment commitments.

The South Yorkshire Pension Fund has acknowledged that 'there should be a long term tilt towards a low carbon economy within its portfolios' and 'agreed to monitor carbon risk.' It has also formally confirmed that it has divested from 'pure' coal and tar sands companies, noting that coal is the 'most polluting' fossil fuel.

In January, Haringey Council Pensions Committee pledged to invest £200 million of their equity funds into a Low Carbon Fund. This means that the council will no longer have any investments in coal industries anywhere in the world, and also comes with an agreement to explore making specific investment in the low carbon economy, such as renewable energy.

Our petition

We have listened to your concerns that you cannot make a formal “divestment commitment” but we disagree. By selling your direct investments in coal, oil and gas extraction companies, and instead investing in the solutions to climate change you could achieve full and transparent divestment. Later this month your advisor’s Mercers are releasing their research into investments that tackle climate change.

There is not just our voice behind the divestment plea; many other fund members and citizens in the Avon area support our concerns. As testament to this we can report that a petition is ongoing which calls on the fund management to
Immediately freeze any new investments in fossil fuels
Divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within 5 years.
We would request that this statement is taken into consideration in the ongoing review of the Responsible investment policy.

As an addition to what was said at the committee meeting, we would like to make one further comment. If there was any hesitation from the investment managers to sell oil stocks at a time when share prices are so low, we ask the committee to consider the predictions of Ian Taylor, the CEO of Vitol Oil (the world’s largest energy trader). Mr. Taylor stated that he foresees a price band of crude oil between $40 and $60 a barrel and that he “can see that band lasting for five to ten years”. With this in mind, it seems even more pertinent to include immediate divestment in fossil fuels in Avon Pension Fund’s Responsible Investment Policy.

Citation:
http://www.bloomberg.com/news/articles/2016-02-08/world-s-largest-energy-trader-sees-a-decade-of-low-oil-prices

Fossil free B&NES – presentation to Avon Pension Fund - 18th March – David Searby

Ladies and gentlemen, thank you for this opportunity to address the committee

Fossil Free B&NES maintains that there is a strong case for APF to divest from fossil fuels on financial as well as moral grounds.

As the concepts of climate risk, the 'carbon bubble' and 'stranded assets' become more widely understood and fossil-free funds can be shown to outperform more conventional ones, the perception that fossil fuel investments are a sound choice for pension funds is being broken.

STRANDED ASSETS

- Pioneering work by the Carbon Tracker Initiative in their **'Unburnable Carbon'** report identified that proven fossil fuel reserves (2,795 gigatons of CO2) exceed the total carbon budget we are able to burn (565 gigatons) by a factor of 5. http://carbontracker.live.kiln.digital/Unburnable-Carbon-2-Web-Version.pdf
- Because these 'proven' reserves have been factored into the share price of the fossil fuel companies already, this represents a serious overvaluing of these companies' share prices.
- These 80% of 'unburnable' fossil fuel reserves run a high risk of becoming a 'stranded' or worthless asset and a poor investment.
- The size of this 'Carbon Bubble' has been estimated at $27tr.
- At a speech to Lloyds of London in September last year, the governor of the Bank of England issued a stark warning that investors face "potentially huge" losses from climate change legislation that could make vast reserves of oil, coal and gas "literally unburnable". He said: "The exposure of UK investors, including insurance companies, to these shifts is potentially huge," http://www.bankofengland.co.uk/publications/Pages/speeches/2015/844.aspx http://www.theguardian.com/environment/2015/sep/29/carney-warns-of-risks-from-climate-change-tragedy-of-the-horizon
- While climate legislation that limits fossil fuel extraction is a considerable driver for stranding these assets, there are economic and physical as well as regulatory factors.
- For example the falling price of oil contrasts with the increasing cost of extraction through more extreme environments or extraction techniques and the rise and rise of renewable energy.
- A report by Carbon Tracker in May 2014 showed that, over the next decade, oil companies could invest $1.1tr in projects that require market oil prices of $95/bbl or more to earn a decent return.

COAL

- The coal industry is understood to be in terminal decline, with US coal industry losing 76% of its value in the last 5 years. http://www.theguardian.com/environment/2015/mar/24/us-coal-sector-in-terminal-decline-financial-analysts-say

- Wall Street banking giant JPMorgan Chase recently announced that it would avoid financing new coal projects in advanced economies due to their contribution to global warming.

  http://www.nation.co.ke/business/corporates/JPMorgan-to-avoid-financing-coal-projects/-/1954162/3107626/-/ukmb1jz/-/index.html

OIL AND GAS

- The gas industry is also increasingly under criticism, despite often being framed as the 'safest' of the fossil fuels. This new report from Carbon Tracker shows that gas prices are likely to stay depressed and in particular there there is oversupply of LNG into the European market which is likely to depress the spot price over the next few years.
- A recent report by Chatham House has also highlighted the high levels of uncertainty in oil investments due to the unknown potential impacts of changing demand and legislation to address climate change. The report stated "As long as the uncertainty over policy prevails, oil is in limbo and investment in it remains risky" https://www.chathamhouse.org/publication/oil-and-gas-mismatches-finance-investment-and-climate-policy

PERFORMANCE OF FOSSIL FREE FUNDS

- While historically fossil fuel investments have been highly profitable and considered a safe bet, there is now a significant body of evidence that fossil-free funds are performing much better.
- MSCI, who run global indices used by 6000 pension and hedge funds, found that investors who divested from fossil-fuel equities would have earned an average return of 13% a year since 2010, compared to the 11.8%-a-year return earned by "conventional investors."

  https://www.msci.com/resources/factsheets/index_fact_sheet/msci-acwi-ex-fossil-fuels-index-gbp-gross.pdf
- Insurance giant Aviva recently announced plans to invest £500m a year for the next five years in low-carbon infrastructure. http://www.businessgreen.com/bg/news/2419204/aviva-commits-to-gbp25bn-low-carbon-investment-push#
- Solar power costs are tumbling so fast the technology is likely to fast outstrip mainstream energy forecasts. That is the conclusion of Oxford University researchers, based on a new forecasting model published in Research Policy.

The UK's biggest energy lobbying group, Energy UK, has recently shifted its position on green energy and will start campaigning for low-carbon alternatives for the first time, in what environmental campaigners are describing as a watershed moment. The group, which represents big six providers, says it now supports phasing out coal-fired stations, after years of defending use of fossil fuels.

So we have is a happy coincidence of what is morally right and fiscally prudent.

Email: Fossilfreebanes@gmail.com

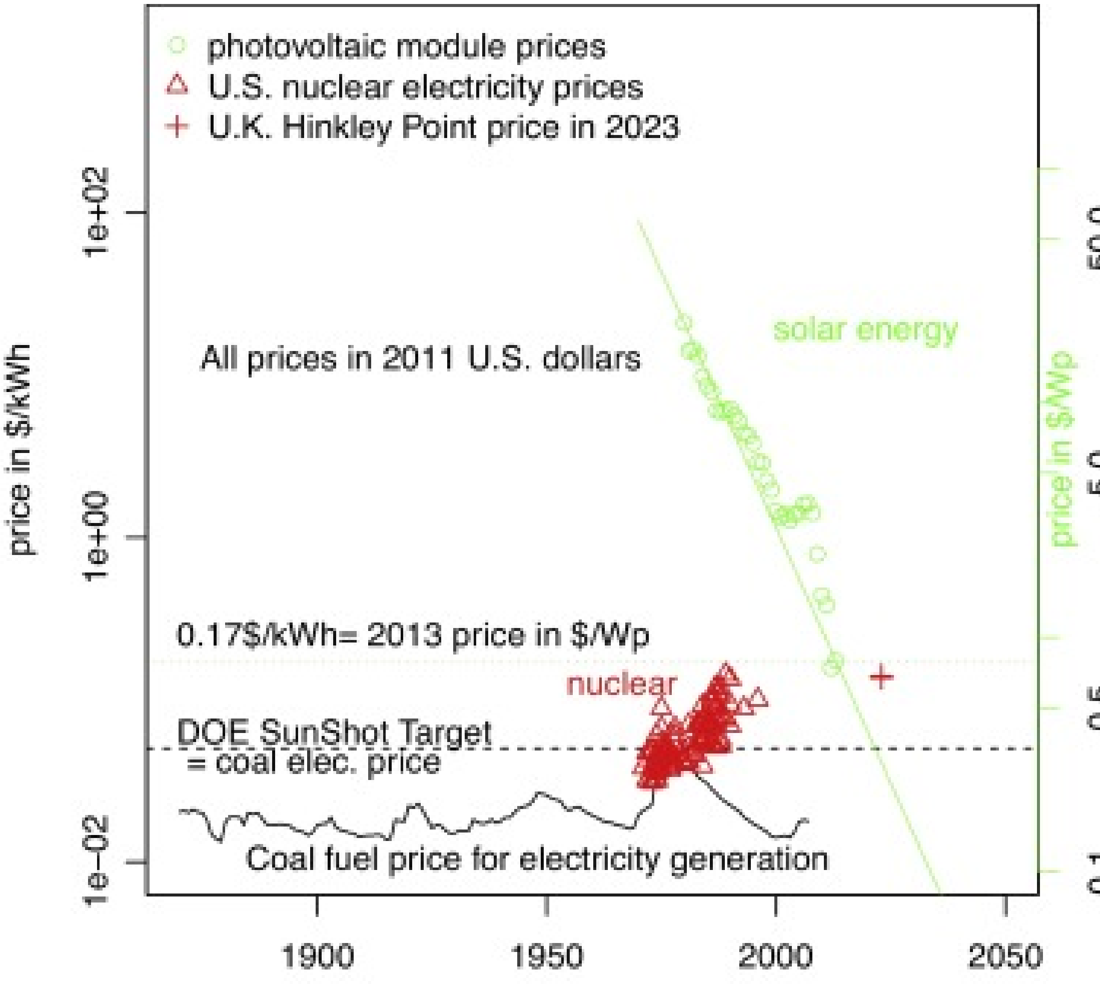

Fig. 1.
A comparison of long-term price trends for coal, nuclear power and solar photovoltaic modules. Prices for coal and nuclear power are costs in the US in dollars per kilowatt hour (scale on the left) whereas solar modules are in dollars per watt-peak, i.e. the cost for the capacity to generate a watt of electricity in full sunlight (scale on the right). For coal we use units of the cost of the coal that would need to be burned in a modern US plant if it were necessary to buy the coal at its inflation-adjusted price at different points in the past. Nuclear prices are Busbar costs for US nuclear plants in the year in which they became operational (from Cooper (2009)). The alignment of the left and right vertical axes is purely suggestive; based on recent estimates of levelized costs, we took \$0.177/kW h = \$0.82/Wp in 2013 (2013\$). The number \$0.177/kW h is a global value produced as a projection for 2013 by the International Energy Agency (Table 4 in International Energy Agency (2014)). We note that it is compatible with estimated values (Table 1 in Baker et al. (2013), Fig. 4 in International Energy Agency (2014)). The red cross is the agreed price for the planned UK Nuclear power plant at Hinkley Point which is scheduled to come online in 2023 (£ 0.0925 ≈ \$0.14). The dashed line corresponds to an earlier target of \$0.05/kW h set by the U.S. Department of Energy.

Simon Griffiths - Fri 18th March - Avon Pension Fund
I address this committee as a resident of Bath, one whose partner has a pension with the Avon Pension Fund.

While you are no doubt aware of your responsibilities in the administration of this fund, I ask you to consider these duties within the context of resilient investment portfolios, ones which are able to withstand the long-term challenges posed by climate change.

Historically, fossil fuel investments have been highly profitable, however, given that the link between fossil fuel use and climate change is now a scientifically and politically accepted reality, we can no longer assume that fossil fuels are a sound investment.

The tendency of asset managers to look at historic returns is especially wrong in the context of climate change. We are moving to a very different, low-carbon world. In this new world fossil fuel companies will end up with stranded reserves and over-valued shares.

We need to ask how such companies are addressing the challenges of this low-carbon world, and whether they are companies we really want to hold over a 5 to 20 year period?

This new world, and the new normal of extreme weather conditions are clearly visible in the flooding of Bath city centre, and the Somerset levels, over the Christmas of 2013.

While the council is to be congratulated on it's vision with the Bath Quays Waterside Project, which acknowledges and responds to the new reality of climate change, it's also worth noting the fact that planning policy requires this project to take into account the increased risk of flooding due to climate change.

So, in order for the redevelopment of the Lower Bristol Road area to proceed, the project must reduce the risk of flooding from a 1 in 50 chance to a 1 in 100 chance.

Is there not, however, an inherent contradiction in building flood defences that acknowledge and mitigate the worst effects of climate change, while also exposing this pension fund to the risks now associated with fossil fuel investments?

I do not believe we have the luxury to both acknowledge and deny the reality of climate change. I believe that such cherry picking will prove to be financially irresponsible.

A major reallocation of the Avon Pension fund, away from fossil fuels, and into climate resilient sectors, is both necessary and possible. I ask that today you show such vision and begin this reallocation.

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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**24 JUNE 2016**	**AGENDA ITEM NUMBER**
TITLE:	**ROLES & RESPONSIBILITIES OF MEMBERS, ADVISORS AND OFFICERS and GOVERNANCE FRAMEWORK**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Terms of Reference for Committee and Investment Panel Appendix 2 – Governance Compliance Statement		

1 THE ISSUE

1.1 This report is to remind members of the roles and responsibilities of members, advisors and officers of the Avon Pension Fund and the governance framework for the Fund as a whole.

1.2 The Terms of Reference for the Committee and Investment Panel are set out in Appendix 1. The Terms of Reference was approved by the Council at its meeting on 12 May 2016.

1.3 Although the Governance Compliance Statement is unchanged since June 2015 committee meeting, the Committee is asked to approve in line with best practice.

1.4 The report invites members to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, given the nature of the Panel's work, it is not expected that the membership will alter from year to year.

1.5 Members are invited to nominate themselves as the Fund's representative on the Local Authority Pension Fund Forum.

1.6 It should be noted that the Fund's governance arrangements will be reviewed in 2017 once the arrangements for the pooling of investment assets have been agreed and the governance implications known.

2 RECOMMENDATION

The Committee:

2.1 Notes the:

a) Roles and responsibilities of the members, advisors and officers

b) Terms of Reference of the Committee and Investment Panel

2.2 Approves the Governance Compliance Statement

2.3 Agrees the membership of the Investment Panel

2.4 Agrees the member(s) to represent the fund on the Local Authority Pension Fund Forum.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations as this report is for information only.

4 ROLES & RESPONSIBLITIES

4.1 The members, advisors and officers all have definitive roles and responsibilities within the pension fund's governance structure.

The Committee and Investment Panel:

4.2 The Terms of Reference for the Committee, including the Investment Panel, as agreed by Council can be found in Appendix 1. There are no revisions to the version agreed in 2015 which was updated for the creation of the Pension Board.

4.3 The Committee's role is strategic in nature, setting the policy framework and monitoring compliance within that framework. Due to the wide scope of the Committee's remit, investment issues are delegated to the Investment Panel, (a sub-committee of the Committee) which explores the issues in greater detail before making decisions and/or recommendations to the Committee. The implementation of strategic decisions is delegated to Officers.

4.4 Membership of the Investment Panel is drawn from the voting members of the committee.

4.5 The ToR for the Committee and Panel will be reviewed once the arrangements for pooling the investment assets have been agreed. The Chair of the Committee is the Fund's representative on the Shadow Oversight Board of the Brunel Pension Partnership (the pooling project).

4.6 Committee and Investment Panel meetings are held in open session and, where required, papers are taken in exempt session. Committee workshops are held to discuss strategic issues in greater depth as necessary.

4.7 Non-voting members are given full access to papers, meetings and workshops including internal training sessions.

4.8 Members are encouraged to undertake training to ensure they can discharge their responsibilities. The Pensions Regulator's (TPR) Code of Practice for public sector pension funds will require greater disclosure of member training and will require all members to attain a satisfactory level of knowledge in order to discharge their duties. As a result all committee members will be required to undergo the TPR Knowledge & Skills Toolkit for the public sector funds within the first year they are appointed to the committee.

4.9 The Committee Training plan for 2016-18 will be updated at the September meeting. It will include training sessions and workshops to support the committee agenda as well as wider knowledge and skills and is in addition to TPR Knowledge & Skills Toolkit.

Fund Advisors:

4.10 The LGPS (Management and Investment of Funds) Regulations 2009, regulation 11(5) states "the (administering) authority must obtain proper advice at reasonable intervals about its investments" and regulation (6) states "the authority must consider such advice in taking any steps in relation to its investments."

4.11 The Myners' report on effective decision-making for pension funds supports these regulations by setting out best practice standards for decision-making bodies (guidance for LGPS funds provided by CIPFA/CLG).

Myners' Principle 1: Effective decision-making - requires that "administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively… and those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive…".

4.12 All advisory appointments are appointed under a separate procurement process which will follow the Council's procurement policy.

4.13 The Fund appoints an Investment Consultant (Mercer) to provide investment advice to the fund to ensure that the Committee and/or Panel have all the relevant information before making a decision. The Committee's agenda determines the advice provided by the consultant in addition to the ongoing monitoring of the Fund's investment strategy and the managers' performance.

4.14 In addition the Fund has an Independent Investment Advisor. The advisor is independent of the officers and investment consultant, their role being to ensure the members get all the appropriate advice and that the advice is adequately challenged.

4.15 The Fund appoints an Actuary (Mercer) to advise on all actuarial issues and to undertake valuations as required by the regulations.

Fund Officers:

4.16 The officers' role within the governance structure is to ensure that all decision-making complies with the regulations, that the Fund fulfils its statutory requirements, and that all information regarding investment, financial and administrative issues is provided to the Committee/Panel. In addition, the officers are responsible for implementing Fund policy. The Council's Section 151 Officer is responsible for ensuring that the Fund complies with the financial regulations and that an adequate inspection framework, provided by internal and external audit, is in place. The Council's Monitoring officer is responsible for the legal aspects of the Fund and the Committee.

4.17 The Section 151 Officer has delegated powers regarding urgent actions, and these would be exercised having consulted with the Chair of the Committee where possible. For investment policy issues the Section 151 Officer will also consult with the Chair of the Investment Panel where possible.

5 GOVERNANCE COMPLIANCE STATEMENT

5.1 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change. There have been no amendments to the statement since June 2015.

5.2 The LGPS regulations require the Fund to publish a Governance Compliance Statement when there is a material change. The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 require all LGPS funds to establish a Pension Board. As a result this statement has been updated to reflect the creation of the Avon Pension Fund Pension Board (the "Board"). *(Note: The guidance for the Governenance Compliance Statement has not yet been revised to incorporate Pension Boards; the statement may need to be revised once this guidance is issued in the future).*

5.3 The Governance Compliance Statement will need to be reviewed once the arrangements for pooling investment assets have been agreed.

5.4 The Committee are asked to approve the Statement in Appendix 2 in line with guidance from Internal Audit.

6 NOMINATIONS TO INVESTMENT PANEL

6.1 Committee co-opted members with voting rights are requested to nominate themselves to the Investment Panel. The term of appointment to the Panel is for one year; however, it is not envisaged that the Panel membership should change each year.

6.2 The Panel shall comprise a maximum of 6 voting Members of the Committee, 3 of whom shall be B&NES Councillors. Membership shall include the Chairman of the APFC and /or the Vice- Chair. The appointment of B&NES Councillors to the Panel is subject to the rules of political proportionality of the Council which does not apply to the non-B&NES members of the Panel. Political proportionality for the B&NES members of 2 Conservative Members, 1 Liberal Democrat Member (with a Conservative Group nominee chairing the Panel) on the Panel was agreed by B&NES Council at its meeting on 12 May 2016.

6.3 It is the responsibility of the Investment Panel members to nominate the Vice-Chair of the Panel if they wish to have one; either per meeting, or for the ensuing Council year. This will be done at the first Panel meeting.

6.4 Members are invited to nominate themselves to the Panel.

7 NOMINATIONS TO REPRESENT THE FUND AT THE LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) MEEETINGS

7.1 The Fund is a member of LAPFF, a collaborative organisation acting on behalf of LGPS funds to promote their long term investment interests and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest. LAPFF undertakes significant engagement with companies on governance, environmental and social issues that could materially affect the financial performance of a company. It also advises it members on contentious voting issues and sponsors or supports shareholder resolutions where it believes it is the most effective way to implement change.

7.2 The Forum holds 4 meetings a year. Committee members supported by officers are encouraged to attend these meetings. Councillor Mike Drew and Richard Orton have represented the fund at these meetings during the past year. Members are invited to nominate themselves to represent the fund at these meetings (there can be up to two member representatives from the Fund).

8 RISK MANAGEMENT

8.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

9 EQUALITIES

9.1 For information only.

10 CONSULTATION

10.1 No relevant.

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 The relevant information is set out in the report.

12 ADVICE SOUGHT

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

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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Appendix 1

TERMS OF REFERENCE

1 Avon Pension Fund Committee

Bath and North East Somerset Council, in its role as administering authority, has executive responsibility for the Avon Pension Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee which is the formal decision making body for the Fund.

Function and Duties

To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of all Fund specific policies concerning the administration of the Fund, investing of Fund monies and the management of the Fund's solvency level. In addition, the Committee is responsible for all financial and regulatory aspects of the Fund. At all times, the Committee must discharge its responsibility in the best interest of the Avon Pension Fund.

The key duties in discharging this role are:

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

Delegations

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

Membership of the Committee

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

The Council will nominate the Chair of the Committee.

Meetings

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

Quorum

The quorum of the Committee shall be 5 voting members, who shall include at least one Member who is not a Bath & North East Somerset Councillor.

Substitution

Named substitutes to the Committee are allowed.

2 Investment Panel

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

The Investment Panel will:

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

and have delegated authority to:

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

8. Monitor investment managers' investment performance and make decision to terminate mandates on performance grounds.
9. Delegate specific decisions to Officers as appropriate.

Panel Membership

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

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

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

The Council will nominate the Chair of the Panel.

Panel Meetings

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

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

Panel Quorum

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

Panel Substitution

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

Panel Minutes

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

3 Officer Delegations

Officers are responsible for:

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

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

4. The Section 151 Officer has authority to suspend policy (in consultation with the Chairs of Committee and Panel) in times of extreme market volatility where protection of capital is paramount
5. Under its wider delegated powers, the Section 151 Officer has delegated authority to effectively manage the liabilities of the Fund including the recovery of debt.
6. Exercising the discretions specified in the Local Government Pension Scheme Regulations in connection with deciding entitlement to pension benefits or the award or distribution thereof.

May 2016

Appendix 2

Avon Pension Fund - Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013 (as amended) require the administering authority to prepare a Governance Compliance Statement. This statement should be read in conjunction with the Avon Pension Fund Terms of Reference.

Statutory Governance Principles	**Compliance status and justification of non-compliance**
A - Structure	**Compliant**
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Bath & North East Somerset Council, as administering authority, has executive responsibility for the Fund. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee (APFC) which is the formal decision making body for the Fund. The committee is subject to Terms of Reference as agreed by the Council, the Council's standing orders and financial regulations including the Codes of Practice.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	The APFC consists of 12 voting members, viz: - 5 elected members from Bath & North East Somerset Council - 3 elected members from the other West Of England unitary councils - 1 nominated by the trades unions - 1 nominated by the Higher/Further education bodies - 2 independent members and 4 non-voting members, viz: - 3 nominated by the trades unions - 1 nominated by the Parish/Town Councils
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	The Avon Pension Fund has a sub-committee, the Investment Panel, to consider matters relating to the management and investment of the assets of the Fund in greater detail. The Investment Panel is made up of members of the main committee. The Panel has delegated powers to take decisions on specific issues and otherwise makes recommendations to the Committee. The minutes

	of Investment Panel meetings form part of the main committee agenda.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Every member of the Investment Panel is a member of the main committee.
e) The terms, structure and operational procedures relating to the Avon Pension Fund Pension Board have been established	The Board's remit is to assist the administering authority to (i) secure compliance with the LGPS regulations, any other legislation relating to the governance and administration of the Scheme, the requirements imposed by the Pensions Regulator in relation to the Scheme and (ii) ensure the effective and efficient governance and administration of the Scheme. The Pension Board comprises 7 members, 3 employee members, 3 employer members and an independent chairperson. Employer and employee members have voting rights. The Board will publish an annual report to Council containing any recommendations on process or governance. The Board will report any material concerns to the Strategic Director of Resources. Board minutes will be circulated to the administering authority (the pension committee), S151 Officer and Monitoring Officer. The Board is required to report breaches of law or material (and not actioned) breaches of the Code of Practice to the Pensions Regulator. Where any breach of duty is committed or alleged to have been committed by the Administering Authority (the Pensions Committee) the Board shall: 1. Discuss the breach or alleged breach that is identified with Pension Committee Chair and the proposed actions to be taken by the Board 2. Enable the Chair of the Committee to review the issue and report back to the Board on the breach

	3. The Board will determine action and if sufficiently material will report the breach to the Pensions Regulator or the Scheme Advisory Board as set out in the regulations.
B – Representation	**Partial Compliance**
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:	
i) employing authorities (including non-scheme employers , e.g. admission bodies);	There are 9 voting members representing the employer bodies and 1 non-voting member representing the Parish /Town Councils. Admission Bodies are not formally represented within the committee structure it is difficult from a purely practical perspective to have meaningful representation from such a diverse group of employers. The appointment of independent members was, in part, to provide representation on the committee independent of all the employing bodies. All employing bodies are included in all consultation exercises that the Fund undertakes with its stakeholders. There are arrangements in place for the public, including employing bodies and members of the Avon Pension Fund to make representations to the committee at the committee meetings.
ii) scheme members (including deferred and pensioner scheme members);	There are 4 trades union representatives (1 with voting rights and 3 non-voting), nominated by the individual trades unions on the committee. These committee members also represent the deferred and pensioner members.
iii) where appropriate, independent professional observers;	The Fund has not appointed an independent professional observer. The committee has procedures in place to monitor and control risk and there is significant external oversight of the Fund, committee and decision-making process. The Fund has an external Independent Investment Advisor who attends all committee and panel meetings and ensures relevant information and advice is provided to the Committee. Furthermore, two members are appointed to the committee independent of the administering authority and other

iv) expert advisors. b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	stakeholders to strengthen the independence of the governance process. Lastly the pension fund and its governance processes are scrutinised annually by the external audit. The Fund's independent investment advisor attends all meetings. The Fund's investment consultant attends all committee and panel meetings and other expert advisors attend on an adhoc basis when appropriate. All members of the committee are treated equally in terms of access to papers, meetings and training. Although some members do not have voting rights, they are given full opportunity to undertake training and contribute to the decision making process.
C – Selection and role of lay members	**Compliant**
a) That the committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	The Fund has separate job descriptions for the voting and non-voting members, which set out the role and responsibilities for each position within the committee. These are circulated to the relevant bodies prior to members being appointed to the committee. Declarations of interest is a standing item on every committee agenda.
D – Voting	**Compliant**
a) The policy of individual administering authorities on voting rights is clear and transparent, including justification for not extending voting rights to each body or group on main LGPS committees.	The Fund has a clear policy on voting rights and has extended the voting franchise to non-administering authority employers and scheme member representatives.

E – Training/Facility time/ Expenses	Compliant
a) That in relation to the way in which statutory and related decisions are taken by the administrating authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	The Fund has a clear policy on training and maintains a training log. The costs of approved external training courses are paid by the Fund for all members. All members are invited to workshops organised by the Fund. Expenses are paid in line with the allowances scheme for each employer/stakeholder.
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	See above.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training.	The Fund requires new members without prior experience of the Local Government Pension Scheme to attend a customised training course. A formal training plan is not set on an annual basis as it is responsive to the needs of the committee agenda. A training log is maintained.

F – Meetings (frequency/quorum)	Compliant
a) That an administering authority's main committee or committees meet at least quarterly.	The committee meetings are held quarterly.
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	The Investment Panel meets at least quarterly, synchronised to occur ahead of the main committee meetings.
c) That administering authorities who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Lay members are included in the formal arrangements.

G – Access	Compliant
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels has equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the committee have equal access to meeting papers and advice.
H - Scope	**Compliant**
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The terms of reference include all aspects of benefits administration and admissions to the Fund.
I – Publicity	**Compliant**
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	All statutory documents including the Governance Compliance Statement are made available to the public via the Avon Pension Fund's website or are available on request from the Investments Manager. A summary of the governance compliance statement is included in the Annual Report.

To be Approved by Avon Pension Fund Committee on 24 June 2016

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**24 JUNE 2016**	**AGENDA ITEM NUMBER**
TITLE:	**DRAFT FUNDING STRATEGY STATEMENT 2016**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Draft Funding Strategy Statement		

1 THE ISSUE

1.1 The Local Government Pension Scheme (LGPS) regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The FSS sets out the key assumptions which the actuary has used in preparing the actuarial valuation and the policies adopted by the Administering Authority.

1.2 A Committee workshop was held on 8 March 2016 to discuss the broad principles in the FSS prior to it being prepared.

1.3 The actuary will present the draft FSS at the meeting. Once the Committee has agreed the draft, it will be circulated to the employing bodies for comment. The comments arising from the consultation will be reported to the September Committee meeting when the FSS will be approved.

1.4 The actuarial outcome will be reported to Committee at December 2016 meeting

1.5 Individual employer results will be disseminated in October and November. A Forum to explain the outcome (at the Fund level) to employers will be arranged for 4Q16.

2 RECOMMENDATION

The Committee:

2.1 **Approves the draft Funding Strategy Statement as set out in Appendix 1, subject to the insertion of information which can only be included when the actuarial valuation is complete, for consultation to employing bodies**.

3 FINANCIAL IMPLICATIONS

3.1 The actuarial costs for reviewing the FSS are included in the 2016 actuarial valuation fee and are provided for in the 2016/17 budget.

4 BACKGROUND AND PROCESS

4.1 The LGPS regulations require each administering authority to prepare and publish a FSS. The key points of the regulation for the FSS are as follows:-

- After consultation with all employing bodies, the administering authority must prepare and publish their funding strategy
- In preparing the FSS, the administering authority must have regard to:
  - (i) Guidance issued by CIPFA for this purpose
  - (ii) The Statement of Investment Principles[1] (or Investment Strategy Statement (ISS) under Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2016 if this is published within this time period)
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles/ISS.
- The Fund's actuary must have regard to the FSS as part of the valuation process.

[1] The LGPS (Management and Investment of Funds) Regulations 2016, which require funds to have an ISS, have yet to be published hence the Statement of Investment Principles is still the statutory document.

4.2 The FSS sets out all the key assumptions which the actuary will use in preparing the actuarial valuation, together with the Administering Authority's policies in the areas where it has discretion to manage the funding position of the Fund.

4.3 The draft FSS attached as Appendix 1 is based on preliminary information that can only be finalised once the valuation and associated analysis has been completed.

4.4 The draft FSS will be circulated to employers for consultation during July and August. Comments will be considered by Officers and reported to the Committee at the September meeting where the FSS will be approved. Under the governing regulations, the Fund's actuary cannot finalise the valuation until the FSS has been approved by the Committee.

4.5 The 2016 valuation outcome will be reported to Committee in December 2016 together with a review of the covenant assessment process and update on scheduled and admitted bodies within the scheme.

5 FUNDING STRATEGY STATEMENT

5.1 At the Committee workshop on 8 March 2016, the actuary gave a presentation on the FSS covering the broad principles, how it relates to the actuarial valuation process and the basis for the assumptions to be used in the valuation.

5.2 The FSS is an important document for the Fund and its employers. It sets out a clear and transparent funding strategy that will identify how each employer's pension liabilities will be met going forward. Therefore the policies and information contained within the FSS will have a financial and operational impact on all participating employers within the Fund. In addition it contains the key policies by which the Fund manages funding and financial risk.

5.3 The FSS is the key governance document as it sets out the risk management strategy by which the administering authority ensures the solvency of the Fund for all employers. The other key strategy, the investment strategy, influences the FSS as the Actuary must allow for the investment return expectations when finalising the discount rate assumption adopted in the funding strategy.

5.4 The objective of the FSS is to secure the solvency and long term cost efficiency of the Fund. In doing this it seeks to balance solvency with affordability of the employing bodies.

5.5 The key financial and demographic assumptions in the FSS are set following advice from the Scheme Actuary after consultation with the administering authority. Some of the demographic assumptions have yet to be finalised but the Actuary has done some preliminary analysis to inform on the “direction of travel”.

5.6 In the draft FSS 2016 the following changes are being incorporated:

(1) Discount Rate basis for past service liabilities (funding target)

The key assumption which drives the value of the pension Fund liabilities (the future benefit payments) and therefore deficit is the discount rate. This is set by the Actuary to reflect the overall investment return which we expect to achieve on the Fund’s assets over the long term with a suitable and necessary allowance for prudence. In terms of setting contributions, the relationship of the expected investment return on assets compared to the rate of expected future increases in benefit payments (i.e. CPI inflation) is critical (in other words we need to reflect the “real” investment return expected on the Fund assets).

Historically the discount rate/investment return assumption was derived as gilts plus a fixed asset out performance (which is reviewed at each valuation) to arrive at the overall expected return at that time. However, long term real gilt yields have been very volatile and have fallen significantly over the last three years, whilst the expected real return on the assets held by the Fund has remained broadly constant based on the analysis performed. Therefore, simply using this same “mathematical” approach to derive the discount rate/investment return assumption would result in a significantly lower discount rate than at 2013 (despite the expected return on assets remaining broadly similar) and therefore a higher value of the liabilities. The Actuary advises that this builds in too much “prudence” into the funding strategy given the long term objectives of the Fund.

The Actuary has therefore recommended expressing the discount rate for the 2016 valuation based on the “real” expected asset return above the CPI baseline assumption when assessing the long term solvency target. Importantly this discount rate would build in the same level of real return above CPI as that used in 2013 valuation, meaning that there is consistency in the assumed level of future asset returns and therefore level of prudence versus the long term investment strategy expectations.

(2) Future service rate (FSR) discount rate basis:

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

For these reasons the FSR is based on a higher assumed real return. In 2013 this was CPI +3%. The Actuary's view is that this real return is too optimistic given the investment outlook and advises an initial discount rate of CPI +2.75% per annum is adopted. The Actuary also notes that if the future economic and return outlook persists the discount rate may need to reduce further. As a result there will be upward pressure on FSRs (all other things equal).

(3) 50:50 Scheme

Based on current information the Actuary will not make any allowance for members to join the 50:50 scheme in future as uptake has been minimal. In 2013 an uptake of 5% was assumed when calculating the liabilities at the whole fund level. The assumption of a 5% uptake was only applied to the unitary authorities. However, the Actuary will take into account those members that have already opted for the 50/50 scheme when assessing the contribution rates.

(4) Mortality assumption

The baseline and short term trend in mortality will be adjusted to reflect the scheme's experience since 2013. Based on preliminary analysis for the Fund mortality rates have risen slightly since 2013 so life expectancy has fallen, which would reduce the baseline liabilities. There is no evidence that the long term mortality trend has deteriorated. The assumption in 2013 includes a 1.5% p.a. long-term improvement (i.e. reduction) in mortality rates. This improvement rate allowance may be increased if industry and LGPS data suggest it is prudent to do so. Analysis is being carried out to determine the appropriate assumptions to adopt but overall it is expected that liabilities will fall.

(5) Deficit Recovery Period

The average deficit recovery period is proposed to reduce from the 2013 by at least three years to 17 years; plus the medium term aspirational target recovery period will also contract by three years to 12 years.

5.7 Employer covenants within the scheme are diverging as the public sector and its funding regimes change. Therefore the covenant assessment process is now a key element of the valuation and the objectives of this are included in the FSS.

5.8 The FSS has been re-drafted to also reference the requirements under the Public Service Pensions Act 2013.

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.

6.2 A specific liability risk management framework is being considered for implementation. This will be designed to reduce risk and provide more stability/certainty of outcome for funding. This would be done on an opportunistic basis to ensure the most efficient and cost effective approach is taken. This is subject to approval by the Committee. This could have implications on future actuarial valuations but does not impact on the 2016 valuation approach. Reference has been made to the framework in the draft FSS. Further detail is contained in the separate Committee paper.

7 EQUALITIES

7.1 An equalities impact assessment is not necessary.

8 CONSULTATION

8.1 This is reporting the outcome of a consultation process.

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

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	CIPFA Pensions Panel (guidance on preparing FSS) Correspondence with actuary
Please contact the report author if you need to access this report in an alternative format	

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FUNDING STRATEGY STATEMENT

AVON PENSION FUND

{MONTH} 2016

BATH AND NORTH EAST SOMERSET COUNCIL

This Funding Strategy Statement has been prepared by Bath and North East Somerset Council (the Administering Authority) to set out the funding strategy for the Avon Pension Fund (“the Fund”), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

EXECUTIVE SUMMARY

Ensuring that the Avon Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (**BATH AND NORTH EAST SOMERSET COUNCIL**). The Funding Strategy adopted by the Avon Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Avon Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Avon Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into account all comments and feedback received.

THE FUND'S OBJECTIVE

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered for on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members' accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency implies that the rate must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

DEFICIT RECOVERY PLAN

As the solvency level of the Fund is [tbc%] at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonable afford given other competing cost pressures. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The medium term objective is to recover any deficit over an average period of [12] years, and this will be periodically reviewed with a view to reducing this in a reasonable manner. Any reductions to current deficit contribution levels arising from an improvement in the funding position at this and future valuations will be first used to reduce the deficit recovery periods thereby maintaining the deficit contributions at the expected monetary levels from the preceding valuation. Full details are set out in this FSS.

The average recovery period for the Fund as a whole is [17] years at this valuation which is [3] years shorter than the average recovery period from the previous valuation.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits are set out in Appendix to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is [2.2]% per annum and for determining the future service ("primary") contribution rates is [2.75]% per annum.

For certain employers with a weaker covenant their asset share is linked to corporate bond investment assets. In these circumstances the discount rate is directly linked to the yields on corporate bonds of appropriate duration.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation and necessarily make some approximations in the timing of cashflows and allocation of investment returns.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's approach and polices in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner and their ability to meet their obligations in the short and long term will be considered when determining an individual employer's funding strategy.

The Fund will continue to monitor changes in covenant in conjunction with the funding position over the inter-valuation period which will enable the Fund to anticipate and pre-empt employer any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the relevant appendix in this statement.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

- Scheme Employers - for example new academies (see later section)
- Designated bodies - those that are permitted to join if they pass a resolution

– Admission bodies - usually arising as a result of an outsourcing or an entity that provides some form of public service and their funding primarily derives from local or central government.

The key objective for the Fund is to only admit employers where the risk to the Fund is mitigated as far as possible. The different employers pose different risks to the Fund and the risk management policy for existing and new employers applied is set out in Appendix E.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed.

3. New academy conversions and multi-academy trusts

Current Fund policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's share of the historic local authority deficit prior to its conversion. This deficit is calculated as the capitalised deficit funding contributions (based on the local authority deficit recovery period) the school would have made to the Fund had it not converted to academy status, subject to a minimum asset share of nil.

In cases where numerous academies which participate in the Fund are in the same Multi-Academy Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply. Notwithstanding this, the Fund will continue to track the constituent academies separately on an approximate basis, in the interests of transparency and clarity around entry and exit of individual academies to the Trust in future.

The full policy is shown in Appendix D.

4. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to corporate bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

5. Insurance arrangements

The Fund is currently considering whether ill health retirement costs can be insured either through a third party insurer or by setting up an internal captive insurance arrangement which pools these risks for eligible employers. If such an arrangement is implemented it will be operated as per the objectives set out in Appendix G and the relevant employer contribution rates will be adjusted accordingly.

CONTENTS

APPENDICES

1
INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Avon Pension Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS)for the Scheme published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016(as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Avon Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Avon Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

PRIMARY RATE

The “primary rate” of an employer’s contribution for the whole Fund is the amount in respect of the cost of future accruals which should be paid to the Fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.

SECONDARY RATE

The “secondary rate” of an employer’s contributions is any percentage or amount by which, in the actuary’s opinion, contributions at the primary rate should be increased or reduced by reason of any circumstances peculiar to that employer.

2

PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3
AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016).

4
RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain an FSS and a ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5

SOLVENCY FUNDING TARGET

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, the employer rate would ultimately revert to the Future Service or Primary Rate of contributions.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency implies that the rate must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency" of the Scheme so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in Appendix B.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful taking into account any changes in funding after the valuation date up to the finalisation of the valuation.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for deficit contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.
- In addition, as a general rule the deficit recovery period will reduce by at least [3] years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in Appendix B). This has resulted in an average recovery period of [17] years being adopted across all employers.
- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a [12] year period in line with the medium term recover period target for the whole Fund, subject to a total contribution minimum of zero. If an employer is expected to exit the Fund before this period, contribution requirements will be set to target a nil termination deficit within reasonable expectations (subject to periodic review).
- The employer contributions will be expressed and certified as two separate elements:
  - a percentage of pensionable payroll in respect of the future accrual of benefit (the “primary rate”)
  - a schedule of lump sum amounts over 2017/20 in respect of the past service deficit subject to review from April 2020 based on the results of the 2019 actuarial valuation (the “secondary rate”).
- Where increases (or decrease) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of [3] years. Any step up in <u>future service</u> contributions will be implemented in steps of at least [0.5]% of pay per annum.

- On the cessation of an employer’s participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. The termination policy is summarised set out in Appendix C.

7

LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be [85]% covered by the current assets, with the funding deficit of [15]% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

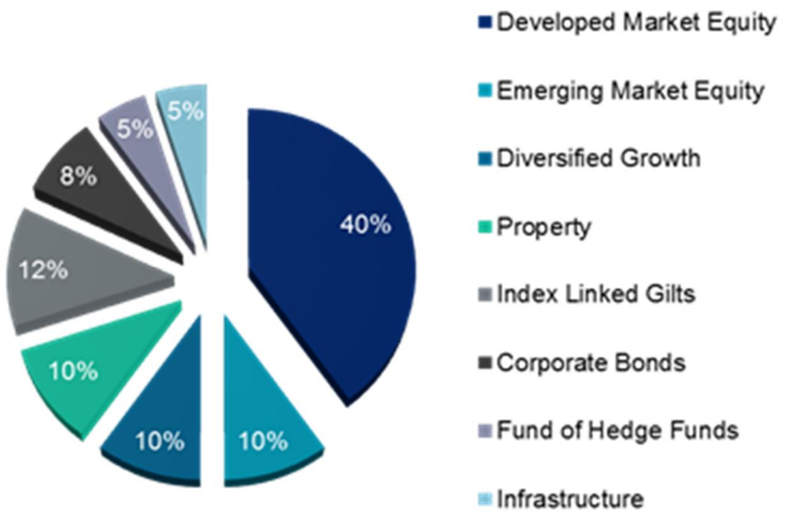
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of [xx]%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is:



As documented in the ISS, the investment strategy and return expectations set out above equate to an overall best estimate average expected return of [3.5]% per annum in excess of CPI inflation. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

[RISK MANAGEMENT STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority is implementing a risk management framework, using liability driven investment techniques. The principal aim of this risk management strategy is to effectively look to provide more certainty of real investment returns vs CPI inflation. It is designed to reduce risk and provide more stability/certainty of outcome for funding and ultimately employer contribution rates. This will be done on an opportunistic basis to ensure the most efficient and cost effective approach is taken. This could have implications on future actuarial valuations and the assumptions adopted but does not impact on the 2016 valuation approach. Full details of the framework are shown in the separate ISS.]

[Note: Framework is subject to Committee approval]

8
IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the Scheme is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

The information below illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation.

[INSERT TABLE OR GRAPHIC OF QUANTUM OF FINANCIAL RISK IN THE FINAL FSS WHEN PRELIMINARY WHOLE FUND RESULTS ARE COMPLETED]

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

To the extent that employer contribution rates need to increase as a result of these risks, there will in turn be an impact on service delivery and the financial position of admitted/scheduled bodies.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund, the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund. More detail on how the Fund is considering insurance of ill health costs is set out in Appendix G.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments and placed a copy on the Fund's website. The first draft was approved at the Committee's meeting on 24th June 2016 and finalised on 23 September 2016 after the Fund received feedback from the employing bodies.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. the implementation of iConnect for transferring data from employers), but in most cases the outsourcing employer, rather than the Fund as a whole, bears the risk.

9
MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group over the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets base on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of [2.2]% per annum above CPI inflation i.e. a real return of [2.2]% per annum i.e. a total discount rate of [4.4]% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

For those employers who are funding on a corporate bond based the discount rate used will be linked directly to the yields available of corporate bond assets of an appropriate duration. An example discount rate used at the valuation date is [x.x]% per annum.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is [1.0]% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of [1.5]% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. For example for public sector employers this results in a total salary increase of 1% per annum to 2019/20 in line with Government policy.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age [4] years older whereas for existing ill health retirees we assume this is at an age [3] years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of [1.5]% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of [ill health retirements, withdrawal rates and the proportions married/civil partnership assumption] have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 5% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding [0.5]% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the

Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of [2.75]% per annum above the long term average assumption for consumer price inflation of [2.2]% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation and necessarily make some approximations in the timing of cashflows and allocation of investment returns.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	[3.2]% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	[4.4]% p.a.
CPI price inflation	[2.2]% p.a.
Long Term Salary increases	[3.7]% p.a.
Pension increases/indexation of CARE benefits	[2.2]% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	[4.95]% p.a.
CPI price inflation	[2.2]% p.a.
Long Term Salary increases	[3.7]% p.a.
Pension increases/indexation of CARE benefits	[2.2]% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

[INSERT TABLE WHEN ANALYSIS COMPLETED]

Other demographic assumptions are set out in the Actuary's formal report.

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Average Deficit Recovery Period	Derivation
Unitary Authority Councils	[x] years	Determined by reducing the period from the preceding valuation by at least [3] years and to ensure deficit contributions do not reduce versus those expected from the existing recovery plan.
Other Tax-raising Scheduled and Designating Bodies (except Bath Tourism Plus and Destination Bristol)	[x] years	Determined by reducing the period from the preceding valuation by at least [3] years and to ensure deficit contributions do not reduce versus those expected from the existing recovery plan.
Academies and Multi-Academy Trusts	[x] years	In line with their original LEA schools groups i.e. the UA councils
Higher Education Bodies (Universities)	[x] years	Determined by reducing the period from the preceding valuation by at least [3] years and to ensure deficit contributions do not reduce versus those expected from the existing recovery plan.
Further Education Bodies (Colleges)	[x] years	Determined by reducing the period from the preceding valuation by at least [3] years and to ensure deficit contributions do not reduce versus those expected from the existing recovery plan.
Community Admission Bodies (guaranteed by another Scheme Employer within the Fund)	[x] years	Subject to agreement with guarantor but will be no longer than the recovery period of the guarantor
Community Admission Bodies (with no guarantee), Bath Tourism Plus and Destination Bristol	[x] years	Determined on a case-by-case basis based on reasonable affordability

Transferee Admission Bodies (guaranteed by the letting Scheme Employers)	[x] years	Deficit recovery period to be agreed with the letting scheme employer but will be no longer than the letting scheme employer recovery period

The medium term objective is to recover any deficit over a maximum of [12] years, and this will be periodically reviewed. Any reductions to current deficit contribution levels arising from an improvement in the funding position at this and future valuations will be used to reduce the deficit recovery periods. Only after the medium term target period has been achieved (subject to employer specific circumstances), will any reductions in employer contribution rates be considered.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C - ADMISSION AND TERMINATION POLICY

ENTRY TO THE FUND

SCHEDULED BODIES

All scheduled bodies are entitled to join the scheme under the regulations. Academies are scheduled bodies under the regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income).

DESIGNATING BODIES

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies, other than connected entities, are not required under the regulations to provide a guarantee. These bodies usually have tax raising powers.

ADMISSION BODIES

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the administering authority, it will then have an "admission agreement". In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if

- They provide an service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are "not for profit" organisations (formerly known as Community Admission Bodies).

Admitted bodies may only join the Fund if they are guaranteed by a scheme employer. When the agreement or service provision ceases, the Fund's policy is that the assets and liabilities of the admission body will in all cases revert to the outsourcing scheme employer or guaranteeing employer. If the outsourcing scheme employer or guaranteeing employer wishes to recover any deficit from the admission body, it is a matter between themselves and the admission body. The Fund will require appropriate instruction from the guarantor regarding any outstanding deficit to recover from the outgoing body.

Where an admission agreement involves multiple guarantors (typically under (ii) above), who may not all be employers in the Fund, it may not be practical for any deficit on closure to be transferred to another employer in the Fund. Where this is the case, the Corporate Bond valuation basis would apply for valuing the liabilities from the outset.

CONNECTED ENTITIES

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer.

Although connected entities are "Designating Bodies" under the regulations, they have similar characteristics to admitted bodies (in that there is an "outsourcing employer"). However, the regulations do not strictly require such bodies to have a guarantee from a scheme employer.

To limit the risk to the Fund, the corporate bond funding basis for calculating the liabilities will apply to all new connected entities. In the event that a scheme employer provides a guarantee for their connected entity, the ongoing funding basis will be applied to value the liabilities.

CHILDREN'S CENTRE TRANSFER TO ACADEMY TRUSTS

Local education authorities have an obligation to provide Children's Centres under the Childcare Act 2006. The Act places duties on these authorities in relation to establishing and running Children's Centres and therefore the financial obligation to cover the LGPS costs of eligible staff remains a responsibility of the local education authority regardless of service delivery vehicle. The local education authority is liable for all the LGPS liabilities of the Children's Centre.

As the staff cannot be employed directly by an Academy or Academy Trust, the Avon Pension Fund will permit admission of a separate participating employer (with its own contribution rate requirements based on the transferring staff), through a tri-partite admission agreement between the Avon Pension Fund, the Local Education Authority of the ceding Council and the body responsible for managing the Children's Centre (this could be an Academy Trust or private sector employer).

SECOND GENERATION OUTSOURCINGS FOR STAFF NOT EMPLOYED BY THE SCHEME EMPLOYER CONTRACTING THE SERVICES TO AN ADMITTED BODY

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the unitary authorities, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a 'Related Employer' for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor

"Related employer" is defined as "any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)".

LGPS REGULATIONS 2013: SCHEDULE 2 PART 3, PARA 8

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

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

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

> *(d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—*
>
> *(i) the transfer of the service or assets by means of a contract or other arrangement,*
>
> *(ii) a direction made under section 15 of the Local Government Act 1999 (115) (Secretary of State's powers),*
>
> *(iii) directions made under section 497A of the Education Act 1996 (116)* ;

(c) a person who—

(i) owns, or

(ii) controls the exercise of the functions of, the admission body; or

In accordance with the above regulations, the Fund requires a guarantee from the related employer. The related employer may seek a bond from the admitted body taking into account the risk assessment carried out by the Fund actuary.

EXITING THE FUND

TERMINATION POLICY

An employer ceases to participate within the Fund when the last active member leaves the Fund, including where the employer ceases to be eligible for membership e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation. The employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a termination contribution certificate.

The regulations give power to the Fund to set a payment plan to recover the outstanding debt at its discretion. However, under the regulations, once set this plan is fixed it cannot be adjusted at subsequent valuations.

The Fund's policy for termination payment plans is as follows:

- The default position is for exit payments to be paid immediately in full.

- At the discretion of the administering authority, instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.

The corporate bond funding basis is used for assessing liabilities on termination unless the Administering Authority agrees otherwise based on the advice of the Actuary. This basis mitigates against financial market risks as an investment strategy to run off these liabilities could be constructed to minimise fluctuations due to market shifts. In the event that the corporate bond basis produces a higher discount rate than the ongoing valuation basis, the ongoing basis will be used.

The assumptions used will be consistent with the previous valuation assumptions, updated for market yields and inflation applying at the cessation date but for the corporate bond basis, the discount rate will be based on the long dated Sterling AA Corporate Bond yield of appropriate duration and allowing for any further margins the Administering Authority deems appropriate based on the advice of the Actuary. At the valuation date the discount rate used would have been [x]% per annum.

However, this does not provide against future adverse demographic experience relative to the assumptions which could emerge at future triennial valuations. This risk is managed by including a higher level of prudence in the demographic assumptions on termination to further protect the remaining employers.

The termination basis for an outgoing employer currently includes an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to [2]% p.a. from [1.5]% used in the 2016 valuation for ongoing funding and contribution purposes.

CONNECTED ENTITIES

In the event of cessation, the connected entity will be required to meet any outstanding liabilities valued in line with the approach outlined above. In the event there is a shortfall, the assets and liabilities will revert to the Fund as a whole (i.e. all current active employers).

In the event that a scheme employer provides a guarantee for their connected entity, the assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit.

APPENDIX D - ACADEMIES / MULTI-ACADEMY TRUSTS

ACADEMY CONVERSIONS AND DEFICIT TRANSFERS

The Fund's policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's share of the historic local authority deficit prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools.

Therefore, the transferring deficit is calculated as the capitalised amount of deficit funding contributions (based on the local authority deficit recovery period) the school would have made to the Fund had it not converted to academy status. This deficit amount is subject to a limit to ensure that the minimum asset share of the new academy is nil.

MULTI ACADEMY TRUSTS

Multi Academy Trusts (MATS) are groups of Academies managed and operated by one proprietor. The employer of non-teaching staff in Academies is the proprietor of the Academy Trust and not the individual Academy within the Trust. It is therefore the proprietor who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the pool.

Within a MAT all Academies are governed by one Trust and a Board of Directors. The MAT holds ultimate responsibility for all decisions regarding the running of the individual Academies, however, the governing bodies of the individual academies remain in place and the MAT will need to decide the extent to which it delegates functions to these governing bodies to enable more focused local control.

Multi-Academy Trusts are set up to cover a number of academies across England. The employees of the former schools can be employed directly by the Trust so they can be deployed across different academy schools in the Trust if necessary.

In cases where numerous academies are operated by the same managing Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply to all constituent academies. Notwithstanding this, the Fund will continue to track the constituent academies separately, in the interests of transparency and clarity around entry and exit events.

APPROACH TO SETTING CONTRIBUTION RATES

The Avon Pension Fund must have a separate employer number for each academy for transparency of cashflows, managing risks should an academy need to leave one Trust for another and for FRS reporting where disaggregated disclosure reports are required. It should also be noted that, at the present time, the Department for Education (DfE) guarantee relates to individual academies, not MATs.

The Avon Pension Fund will explore with the actuary the possibility of having a common FS contribution rate for all the academies within the trust if the MAT is willing to settle for that approach bearing in mind that the risks of under and over payments will be shared by all academies in the MAT pool. The Fund has requested confirmation from the DfE that the guarantee extends to MATs. In the event that MATs are not guaranteed, the Fund will review any option for MATs to have a common FSR.

The past service deficit will still be assessed at an individual academy level so that it only relates to the staff of the respective academy. The ceding local authority requires a corresponding adjustment for the share of the deficit that transfers on conversion therefore individual academy figures will be required.

Any new academies joining an existing MAT pool in the Avon Pension Fund can contribute at the employer contribution rate already established for the MAT but an actuarial assessment will still need to be carried out to determine the deficit applicable to the transferring staff.

OUTSOURCINGS BY MULTI ACADEMY TRUSTS

The Avon Pension Fund's current policy is in accordance with the regulations requiring a separate admission agreement in respect of separate contracts.

Under **Schedule 2, Part 3, paragraph 5. of the 2013 Regulations**, if the admission body is exercising the functions of the Scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

With the development of MATs, there is a case for the Fund to allow a MAT to enter into a single admission agreement with the contractor providing similar services at various sites provided the outsourcing is covered by a single commercial contract. There are obvious advantages to this although it is not without its complications and further work will be necessary before such a facility can be put in place.

The Fund will need to have sight of the contract in order to satisfy the regulatory requirement that the Admission Agreement covers one contract. The Admission Agreement will need to have provision for adding future employees should any academies join the MAT subsequent to the commencement date.

The Scheme employer, the Multi Academy Trust in this instance, needs to be a party to any admission agreement and, as such, is the ultimate guarantor. In the event of contractor failure, the LGPS regulations provide that the outstanding liabilities assessed by the Fund's actuary can be called from the Scheme employer i.e. the Multi Academy Trust.

If academies are to comply with "new" Fair Deal guidance, employees carrying out a service on behalf of the Academies must be allowed continued access to the LGPS. This can be achieved by entering into an Admission Agreement with the Administering Authority, Multi Academy Trust and the contractor (admitted body).

At every triennial valuation the actuary reviews the funding level of the admitted body and adjusts its employer contribution rate as required. Once either the service contract comes to an end or all the LGPS members have left, the admission agreement terminates and the Fund actuary will normally perform a cessation valuation to determine whether a funding surplus or deficit exists. In accordance with Fund policy, the academy becomes responsible for the assets and liabilities of and liabilities standing to the account of the admitted body when the admission agreement ceases.

APPENDIX E - RISK MANAGEMENT POLICY FOR NON-SCHEDULED BODIES

ADMISSION BODIES AS A RESULT OF OUTSOURCINGS

The Fund has always required bodies admitted to the Fund as a result of an outsourcing of services to be guaranteed (formerly transferee admission bodies). Therefore these employers pose less financial risk to the Fund.

The Fund's policy is that the liabilities of such an admission body will in all cases revert to the outsourcing scheme employer when the agreement ceases.

The administering authority will discuss the appropriate deficit recovery period for the admission body with the outsourcing scheme employer. If the scheme employer is retaining the financial risk, the deficit recovery period applied can be the same as the scheme employer's. Otherwise the deficit recovery period will be the length of the commercial contract left to expiry.

ADMISSION BODIES PROVIDING A SERVICE TO THE COMMUNITY

These admission bodies are a diverse group. Some are financially very secure in that they receive funding from either the government or local authorities on a quasi-permanent basis. Others either have short-term funding contracts with local authorities, which may not be renewed when they expire, or depend heavily on various forms of fund raising.

The Fund's policy has been to require a guarantee from a scheme employer and for this reason they are treated in the same way as those bodies admitted due to an outsourcing.

For historical reasons those which were admitted prior to 2004 have no guarantee and, as such, constitute a potential risk to the Fund. This is because they may cease operations with insufficient residual assets to meet their pension liabilities.

The risks associated with admitted bodies have always existed but these risks have assumed a higher profile recently because most of these bodies have a deficit of assets relative to liabilities.

The tools available to manage these risks are limited to using a more prudent valuation basis (such as the corporate bond yield related basis) which minimises the deficit on exit; obtaining charges on assets in favour of the Fund; setting up escrow accounts and other security. The approach to agreeing the funding plans of these bodies will have regard to the financial strength of each individual body. The aim will be to achieve a balance between securing the solvency of the Fund and the sustainability of the organisation. For those with less secure income streams, the Fund will consider how it can manage contributions into the Fund in the short to medium term without compromising the financial stability of the organisation. Where there are assets or reserves, the administering authority will explore how these contingent assets could be used to assist in funding the liabilities or providing security to the Fund and its employing bodies.

Where there are no contingent assets the policy is to move over time to the corporate bond funding basis and to shorten the deficit recovery period. However, this will need to be weighed against the ability of that body to pay higher contribution rates.

CONTROLLED ENTITIES

There are employers that were “controlled entities” under the previous regulations. These do not qualify as connected entities under the new regulations and in the absence of government advice to the contrary, they remain controlled entities. As they are not guaranteed by a scheme employer, to protect the Fund, the funding basis will be moved to the corporate bond basis on a managed basis over time.

APPENDIX F – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

> Type of body and its origins
> Nature and enforceability of legal agreements
> Whether there is a bond in place and the level of the bond
> Whether a more accelerated recovery plan should be enforced
> Whether there is an option to call in contingent assets
> Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis (e.g. the termination basis)
3. Shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX G – INSURANCE ARRANGEMENTS

[TO BE COMPLETED ONCE SEPARATE POLICY AGREED OR DELETED IF NOT AGREED]

APPENDIX H - GLOSSARY

[TO BE EXPANDED AND UPDATED AS PART OF CONSULTATION]

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Corporate Bond Basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of high quality corporate bond investments (usually at least AA rated) based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differs from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer Covenant: the degree to which an employer participating in an occupational pension scheme is willing and able to meet the funding requirements of the scheme.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Equities: shares in a company which are bought and sold on a stock exchange.

Solvency/Funding Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: This is a key governance document that outlines how the administering authority will manage employer's contributions to the Fund.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the past service liabilities assessed on the ongoing concern basis.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Past Service Liabilities: this is the present value of the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation requires the assumptions adopted for an actuarial valuation to be prudent.

Real Return or Real Discount Rate: a rate of return or discount rate net of CPI inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period", as set out in the Funding Strategy Statement.

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**24 JUNE 2016**
TITLE:	**LIABILITY RISK MANAGEMENT – PROPOSED FRAMEWORK**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Exempt Appendix 1 – Mercer Report: Risk Management – Implementation Framework Appendix 2 - Committee Workshop: Managing Liabilities Through The Investment Portfolio, Mercer, March 2016	

1 THE ISSUE

1.1 The Committee requested that the Investment Panel review the way in which the risks arising from the liabilities are managed within the asset portfolio.

1.2 Liability risks arise because the value placed on the Fund's liabilities can change significantly over time due to changes in the assumptions used to value the liabilities. Some of these assumptions are derived from financial markets so they vary as market conditions change. This causes volatility in the funding level and contribution rates.

1.3 The Fund manages the liability risk by investing in Stabilising Assets (currently bonds) within the investment portfolio. These assets help moderate the volatility in the funding level as their value changes in a similar way over time to the value of the liabilities. The review evaluated options to manage these liability risks more effectively within the asset portfolio.

1.4 The liabilities can only be funded over time through contributions and the returns generated on the investment portfolio. Given the funding environment facing scheme employers, affordability of contribution levels is a critical consideration when agreeing the funding strategy. As a result, the investment portfolio will become ever more important in managing the liability risk in the future.

1.5 Exempt Appendix 1 provides and explains the proposed Liability Risk Management Framework for agreement. Appendix 2 contains the slides from the Committee Workshop session on Managing Liabilities from March 2016.

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1 **Agree the Liability Risk Management Framework recommended by the Investment Panel summarised on pages 13 and 14 of Exempt Appendix 1**

2.2 **Delegate the implementation to Officers in consultation with Investment Panel**

3 FINANCIAL IMPLICATIONS

3.1 The triennial valuation of the Fund's liabilities and assets determines the contribution levels. The extent to which changes in the value of the Fund's liabilities can be managed and the cost of doing so will affect the next triennial valuation in 2016.

3.2 The costs of a review have been provided for in the budget. The estimated costs of implementing the proposed framework are included in Exempt Appendix 1, they comprise transaction costs, manager fees and advisory costs.

3.3 Regular cash flows arising once the framework is implemented will be managed on a daily basis by the investment manager. These cash flows will be both positive and negative and the portfolio will be structured to withstand large movements in interest rates and inflation to assist in managing cash calls/refunds. Where required the asset portfolio will be used to realise cash if needed to meet the requirements of the hedging activity.

4 LIABILITY RISK MANAGEMENT

4.1 Pension liabilities are the accrued benefits that will be paid out in the future. The monetary values of these future cashflows are known. The funding strategy calculates how much must be paid into the Fund to fully fund these cashflows as they fall due. However, the "net present value" of these liabilities changes over time and the investment strategy only partially matches these cashflows, i.e. there is a "mismatch".

4.2 **Why manage these risks?** By managing the mismatch between the change in value of assets and liabilities over time, the Fund can minimise funding level volatility and stabilise employer contribution rates more effectively. The volatility in contributions and affordability of contributions are posing an ever greater financial risk to employers and the Fund. However the Fund has few tools with which to manage the risks. A Liability Risk Management framework will provide additional options for managing this risk: as the mismatch is reduced, the Fund would be able to reduce the investment risk by reducing the allocation to growth assets or increase affordability for employers by increasing the discount rate used to value liabilities or a combination of the two.

4.3 **Why manage these risks now?** The investment strategy has two distinct drivers of value, the growth portfolio and the stabilising portfolio. The majority of assets are invested in "growth assets" that generate higher returns. These "excess" returns help reduce the deficit contributions and employer contribution rates within the funding strategy. The stabilising portfolio seeks to reduce volatility in the valuation outcome by investing in assets that behave more like the liabilities. Although the investment strategy has delivered excess returns to those assumed in the funding strategy over recent years, it has not been sufficient to offset the rise in liabilities over the same period. Therefore the investment strategy needs to focus more on its "stabilising assets" to improve the "hedging" of the liabilities within the investment portfolio.

4.4 **What are the causes of such risks?** The largest factors affecting changes in the value of liabilities are as follows:

(1) Changes in interest rate – higher interest rates increase the discount rate used to value liabilities, thereby reducing the current value put on future liabilities (and vice versa)

(2) Changes in inflation rate – higher rates of inflation lead to larger benefits payments to members

(3) Changes in longevity – a rise in life expectation increases the future liabilities as it is assumed on average they have to be paid for longer (and vice versa).

4.5 **How can we manage these risks?** The impact of these risks on the funding level and contributions can be reduced by investing in assets whose value responds to changes in interest rates, inflation rates or longevity, in a similar way as the value of liabilities responds to such changes (i.e. by improving the 'matching characteristics' within the stabilising portfolio to the liabilities).

4.6 **What extra risks will this investment approach entail?** Each investment strategy adopted by the Fund brings its own set of risks. However, utilising a framework as proposed by the investment advisor is not unusual for defined benefit pension funds. A number of LGPS funds already have similar strategies in place.

Implementation of the strategy will be delegated to a manager and the mandate will be monitored in line with the other investment mandates. The manager will be appointed following due diligence of its capabilities to manage all the risks associated with this strategy. In particular, emphasis will be on collateral management, leverage and cash management, all of which are critical elements of the strategy. The Fund already has a currency overlay mandate that is exposed to these risks so officers have experience of implementing and monitoring such mandates and in managing cash flows with the manager.

The triggers to increase the level of hedging within the portfolio will be set by the investment advisor consistent with the market outlook to ensure the triggers are appropriate and aligned to the Fund's strategic objective. The portfolio will be structured to withstand large movements in interest rates and inflation to assist in managing cash calls/refunds.

4.7 **What are the costs of the strategy?** Compared to other strategies the costs are low as it is a passive, buy and hold type strategy. There will be initial implementation costs as advice will be needed to structure the cashflows that need to be matched.

4.8 **Framework Objective: To increase the certainty of achieving the real return objective by increasing the level of liability matching within the investments portfolio.**

5 REVIEW – SCOPE, PROCESS AND OUTCOME

5.1 **Scope** - Following an analysis of the investment portfolio's matching properties, the review considered the range of investment options available to more effectively manage these liability risks, how they may be implemented and the cost.

5.2 **Process** – The Committee delegated the task of undertaking the review to the Panel. The Panel then considered the following reports before coming to their recommendations:

(1) Report to September 2015 Panel meeting: Managing Liabilities, with Mercer Report 'Risk Management Framework'.

(2) Report to November 2015 Panel meeting: Managing Liabilities - Scenario analysis, with Mercer Report 'Further training and scenario analysis'

(3) Report to May 2016 Panel meeting: Liability Risk Management Framework, with Mercer Report 'Liability Risk Management – Implementation Framework.

5.3 **Outcome** – The Panel concluded that more effective liability matching will be beneficial, and agreed a framework for the implementation of interest rate and inflation rate hedging to be proposed to Committee. The liability risk management framework establishes a target level of hedging and a plan for how that target level can be reached over time by setting a yield trigger framework which requires action as each trigger is reached. The Panel have proposed the types of trigger, reference rates, how triggers are set and how it will work in practice.

6 RECOMMENDATIONS FOR AGREEMENT BY COMMITTEE

6.1 **The Panel recommend the Liability Risk Management Framework summarised on pages 13 and 14 of Exempt Appendix 1.**

<u>Rationale</u> – *The proposed framework delivers greater certainty of achieving a real return above inflation. This greater certainty allows the Fund to either improve affordability (by increasing the asset outperformance assumption in the funding strategy to reduce the cost of providing the benefits), or increase stability (by reducing the variability associated with growth asset exposure i.e. de-risking by reducing the allocation to growth assets). In practice a balance of both benefits can be realised subject to the degree of certainty achieved.*

The minutes of the previous Panel meeting (to be found in another appendix item) detail much of the discussion by the Panel in arriving at this recommendation.

6.2 **The Panel recommend that the implementation of the framework be delegated to Officers in consultation with the Investment Panel.**

7 RISK MANAGEMENT

7.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before managers are appointed. An Investment Panel has been established to consider in greater detail investment performance and related matters and report back to the committee on a regular basis.

8 EQUALITIES

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

9 CONSULTATION

9.1 This report is 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 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.

<table>
<tr><td>Contact person</td><td>Liz Woodyard, Investments Manager (Tel: 01225 395306)</td></tr>
<tr><td>Background papers</td><td>Committee Papers and Investment Panel minutes</td></tr>
<tr><td colspan="2">Please contact the report author if you need to access this report in an alternative format</td></tr>
</table>

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1021/16

Meeting / Decision: AVON PENSION FUND COMMITTEE
Date: 24th June 2016

Author: Liz Woodyard
Report Title: Item - Liability Risk Management - Proposed Framework Exempt Appendix 1 – Mercer Report: Risk Management – Implementation Framework

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.

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information 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 has been served by the fact that a significant amount of information regarding the Report has been made available – by way of the main report. 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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AVON PENSION FUND

WORKSHOP: MANAGING LIABILITIES THROUGH THE INVESTMENT PORTFOLIO

8 MARCH 2016

STEVE TURNER
JAMES GILES

MAKE TOMORROW, TODAY MERCER

AGENDA

- Introduction *APF*
- Concepts *Mercer*
  – Risk management framework for liabilities
  – Identifying main risks
  – Interaction with valuation
- Coffee break
- Risk management *Mercer*
  – Market aware risk management
  – Use of leverage & synthetic instruments
- Next steps *APF*

CONCEPTS

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RISK MANAGEMENT FRAMEWORK FOR LIABILITIES

Stable and affordable contribution rate

versus

Achieve investment returns required under funding arrangements

Objectives are two-fold but conflicting

- Risk needs to be taken in order to achieve returns but risk does not guarantee returns

Need to ensure a reasonable balance between the two objectives

- No need to take the same level of risk when 70% funded (say) than when 100% funded

RISK MANAGEMENT FRAMEWORK FOR LIABILITIES

Maintaining required expected return	+	Better Liability Risk Management	=	Improved long-term affordability and sustainability in the cost of pension provision

Strategic Rationale

- Will help reduce deficit volatility which is high (as is the case with most LGPS funds), through better alignment of investment strategy and funding basis (i.e. greater certainty of achieving required returns)
- Overall return on the investment policy is expected to remain broadly the same given proposed initial structure (i.e. no reduction, which is needed to help reduce the deficit over the long-term)

Forward Looking

- Initial emphasis on putting in place “the plumbing” to facilitate future de-risking in a timely fashion, following improvements in the funding level and / or increases in market yields

IDENTIFYING MAIN RISKS

Risk	Manage, reduce or monitor?	How?
Equity and growth asset risk	Monitor (and potentially reduce) We expect to be rewarded for this risk but could reduce if we get ahead of funding plan	Performance monitoring + de-risking if affordable
Credit risk	Monitor (and potentially reduce) We expect to be rewarded for this risk but could reduce if we get ahead of funding plan	Performance monitoring
Active manager risk	Monitor We expect to be rewarded for this risk	Performance monitoring
Real return risk (generating above inflation returns)	**Monitor and look to manage over time when market conditions are more favourable**	**Use index-linked gilts initially and LDI techniques later**
Longevity risk	Monitor	As part of the actuarial valuation
Covenant risk	Manage and monitor	Develop employer specific investment strategies

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INTERACTION WITH 2016 VALUATION

	£m	
	31 March 2013	31 March 2010
Total assets	3,146	2,459
Liabilities:		
Active members	1,528	1,300
Deferred pensioners	749	451
Pensioners	1,745	1,260
Total liabilities	4,023	3,011
Past service surplus / (shortfall)	(876)	(552)
Funding level	78%	82%

Covenant (Affordability)

Funding Strategy

Investment Policy

All three aspects are interlinked

More certainty of outcomes (e.g. around deficit volatility and contributions) can be achieved by investing in a more liability aware manner

INTERACTION WITH 2016 VALUATION
COMPARISON OF MEASUREMENT

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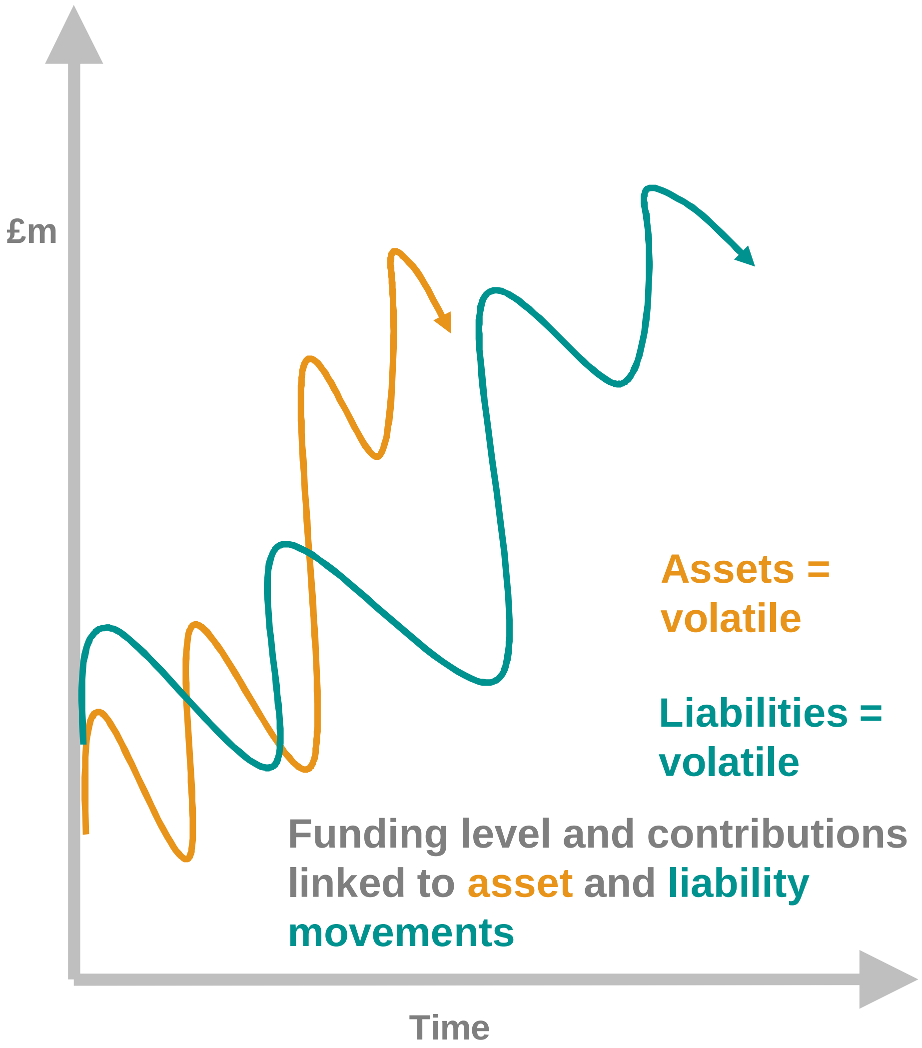
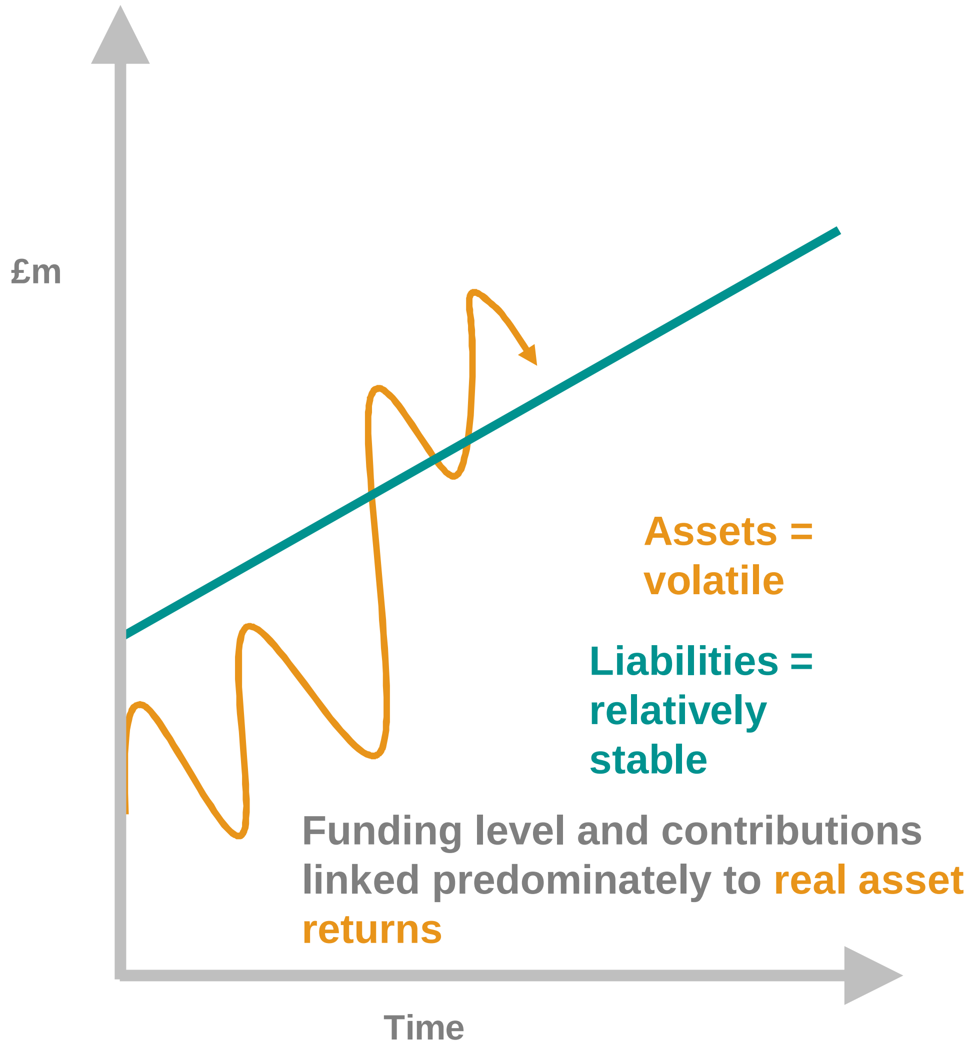
	Gilt + Fixed AOA	CPI+ (Fixed) Real Return	Comments
Assets	Based on market value of assets	Based on market value of assets	No smoothing, to maintain transparency
Liabilities	Directly Impacted by changes in real gilt yields Level of prudence critical	**Not** directly impacted by changes in real gilt yields Level of prudence critical	Ultimate goal of generating real returns vs CPI is unchanged but measurement of liabilities more stable in between valuations
Funding level	**Impacted by:** Investment performance (assets) Gilt yields and future expectations of returns (liabilities)	**Impacted by:** Investment performance (assets) Future expectations of real returns (liabilities)	**Direct and measurable link to the real returns on the assets relative to observed and expected CPI**
Contributions			
Investment strategy	Can reduce funding level and deficit volatility by hedging real interest rates (i.e. buying index-linked gilts)	Can increase certainty of achieving the required real return by buying index-linked gilts (for example) at the right price	**Emphasis not focussed on short-term volatility from gilt yields but on "locking in" to attractive inflation plus returns**

INTERACTION WITH 2016 VALUATION
IMPACT OF MEASUREMENT

Gilts + fixed AOA based discount rate (no hedging)	CPI + fixed real return based discount rate (no hedging)





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INTERACTION WITH 2016 VALUATION
FOCUS ON REAL RETURNS

	Illustrative Expected return	Generate a long term real return?	Volatility of real returns
Equities	CPI + 4%	Yes	High
Property	CPI + 3%	Yes	Moderate
Corporate Bonds	CPI + 1%	No	Moderate
Index-Linked Gilts	CPI + 0%	Yes	Very low

Ideally want high and stable real returns

Some assets are more real than others

Challenge will be to balance return requirement with desire for certainty

Liability Driven Investment ("LDI") techniques can be used to add inflation protection to increase certainty – particularly to assets that aren't naturally real in nature. LDI techniques can also be used to increase certainty by "locking in" to attractive low risk real returns but there is a need to be "market aware"

INTERACTION WITH 2016 VALUATION

- The proposed CPI basis will reduce short term volatility and places reliance on the assets to generate the required long term level of real returns (which is true of the current approach as well). Ultimately the only way to increase certainty in the long term is to invest in assets that generate the required level of return in a low risk manner.

- If we adopt a "CPI+" basis, then the hedging focus is more towards generating a certain level of real return with a lower level of volatility. In practice, there will be a degree of uncertainty for a considerable period of time as the Fund will need to take risk to generate the required level of returns. Even then the Fund will want to take some risk to manage costs.

- LDI therefore remains appropriate as it can increase certainty in two ways:
    1. By allowing us to "**add inflation**" to non-real assets such as corporate bonds
    2. By allowing us to "**lock in**" to low risk inflation linked returns

- In both cases above it will be important to take a market aware approach to implementing LDI. We would support the adoption of triggers to add inflation and lock into attractive CPI linked returns. **This is likely to mean adopting both inflation and interest rate triggers at appropriate market levels.**

- We look at how this could be achieved in the next section.

RISK MANAGEMENT

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CPI REAL RETURNS*
ESTIMATE BASED ON INDEX-LINKED GILTS

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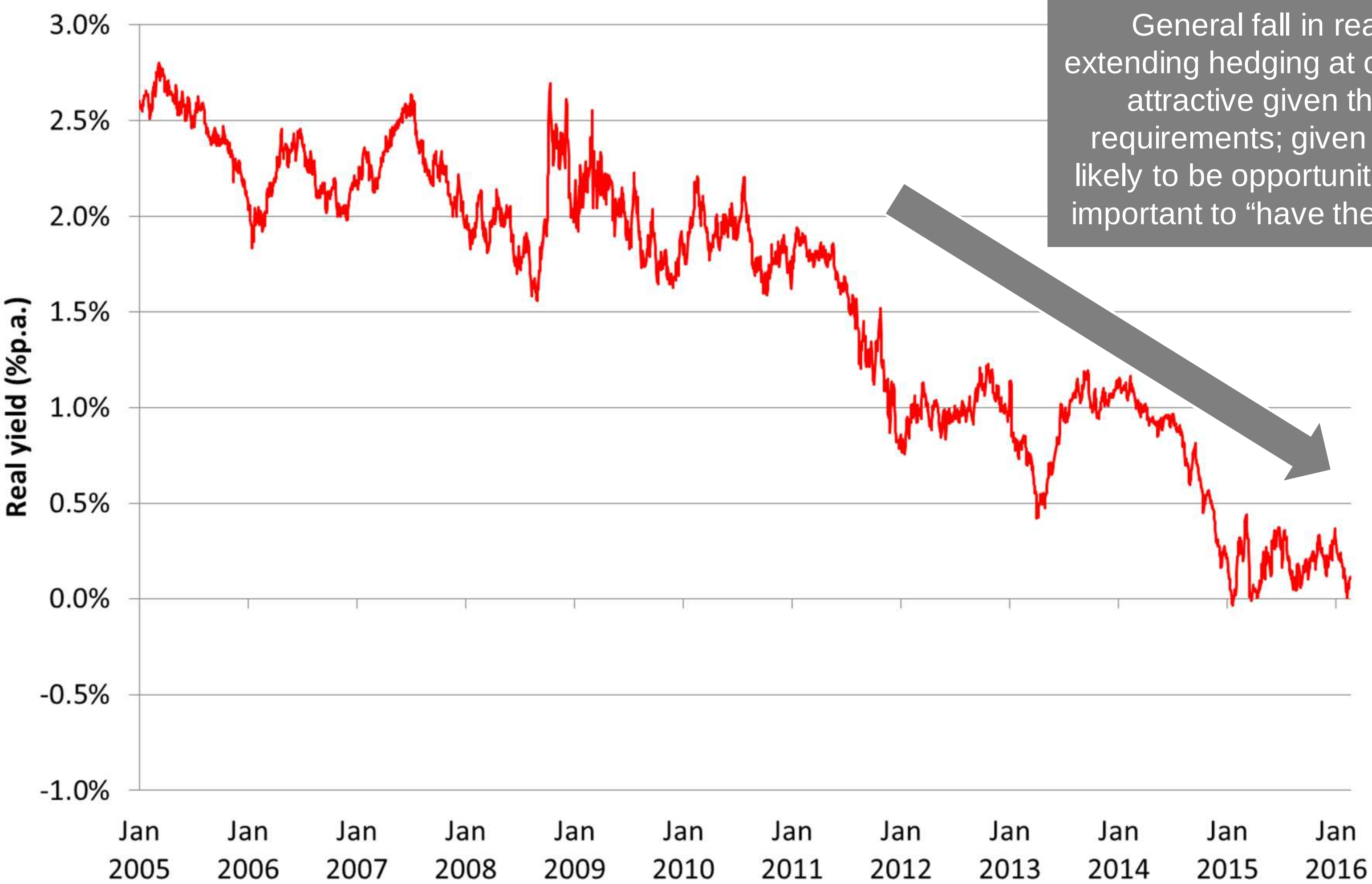


General fall in real yields means extending hedging at current yields is less attractive given the Fund's return requirements; given volatility there are likely to be opportunities in the future, so important to "have the plumbing in place"

*ANALYSIS ASSUMES CPI IS 1% P.A. LESS THAN RPI

CPI REAL RETURNS
CAPTURING AN ATTRACTIVE REAL YIELD

SIMPLICITY
CERTAINTY OF ACTION

MARKET AWARE

IMMEDIATE EXECUTION

Immediate switch from the current to the target strategy, irrespective of the price (e.g. yield levels)

PHASED OVER TIME

Phase the switching over time by splitting the trade into tranches. The switches are done irrespective of price.

TRIGGER BASED

Set minimum pricing criteria (e.g. real yield trigger level or levels) which, once satisfied, will action switches towards the target strategy.

Using triggers allows us to increase certainty of achieving the required real return by locking in to real yields when considered attractive

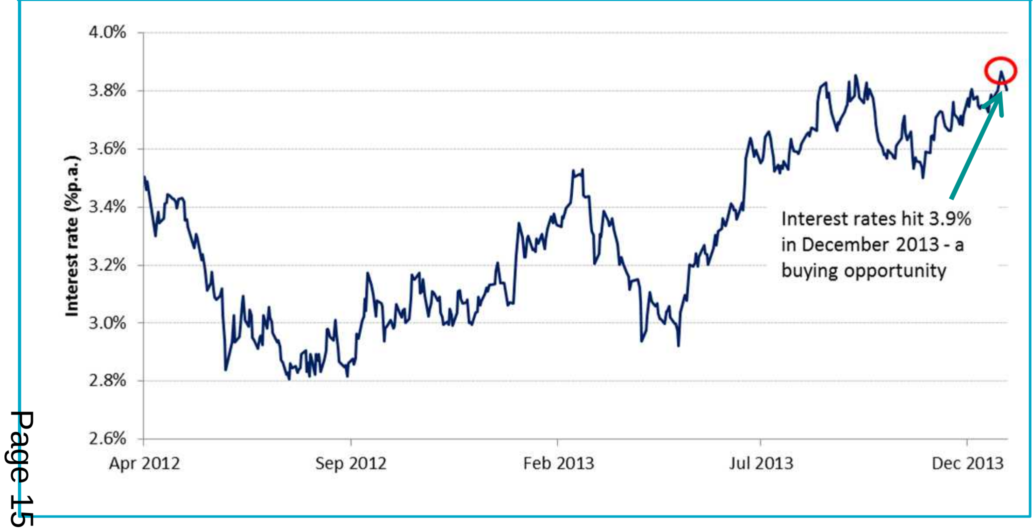
CPI REAL RETURNS
TYPES OF TRIGGER

Type of Trigger	Pros	Cons
Yield based	• Protection is increased when the price of hedging assets becomes more attractive • Increases in yields are likely to result in improvements in the funding level, so broadly expected to result in de-risking when the funding level has improved (although not always the case) • Can set real interest rate triggers, or split into interest rate and inflation triggers (see overleaf)	• Possibility of triggers not being achieved and no risk reduction • Work to set up and monitor (but less complex than funding level approach); can be delegated to manager.
Funding level based	• Level of protection is increased as the funding level improves, helping to “lock in gains” • Potential to increase protection earlier than expected if funding level improves	• Could lead to missed opportunities in some scenarios (e.g. if yields rose but equity market falls meant the funding level did not improve to the same extent) • Work required to set up and monitor • More naturally suited to setting triggers for switching from growth to stabilising assets than increasing level of protection from existing stabilising assets

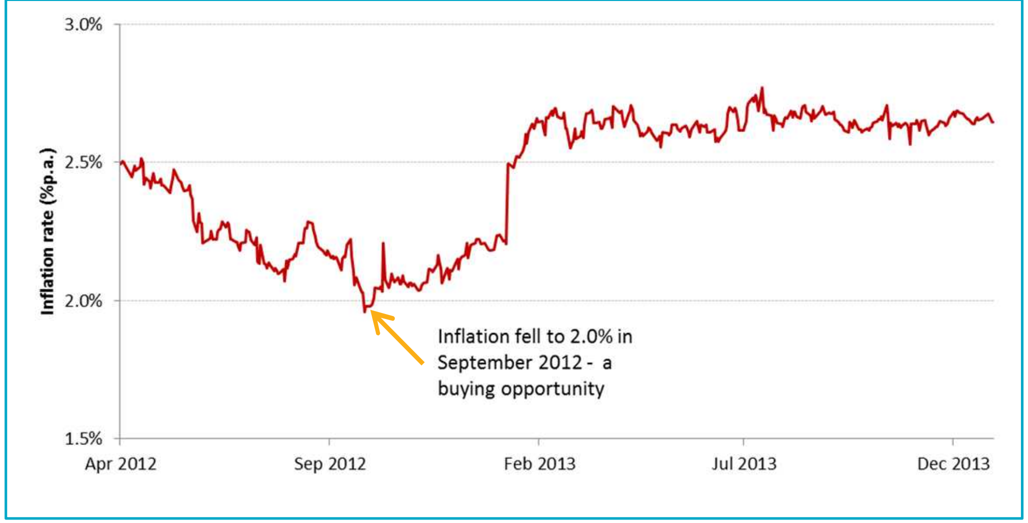
CPI REAL RETURNS

CAPTURING AN ATTRACTIVE REAL YIELD

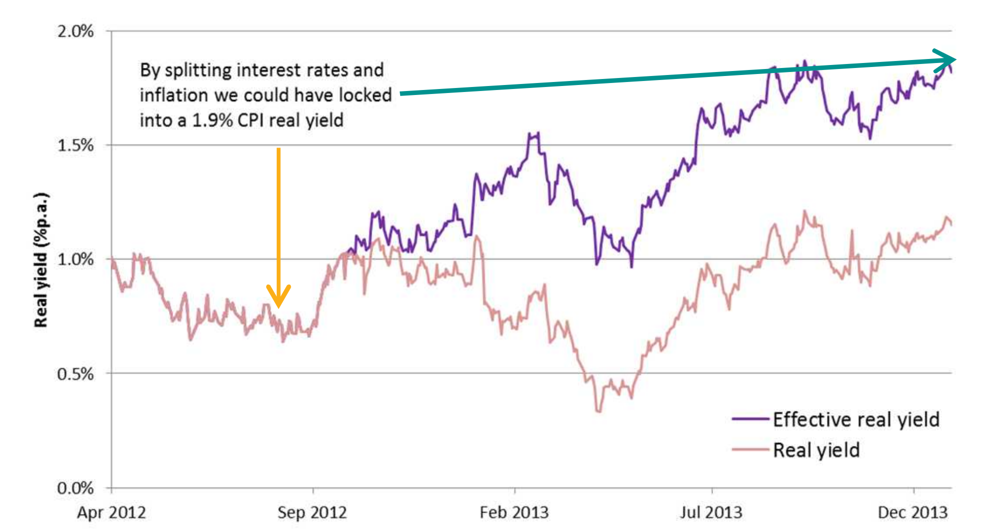
Long dated gilt interest rate



Long dated swap inflation (converted to CPI)



Capturing an attractive CPI yield



Comments

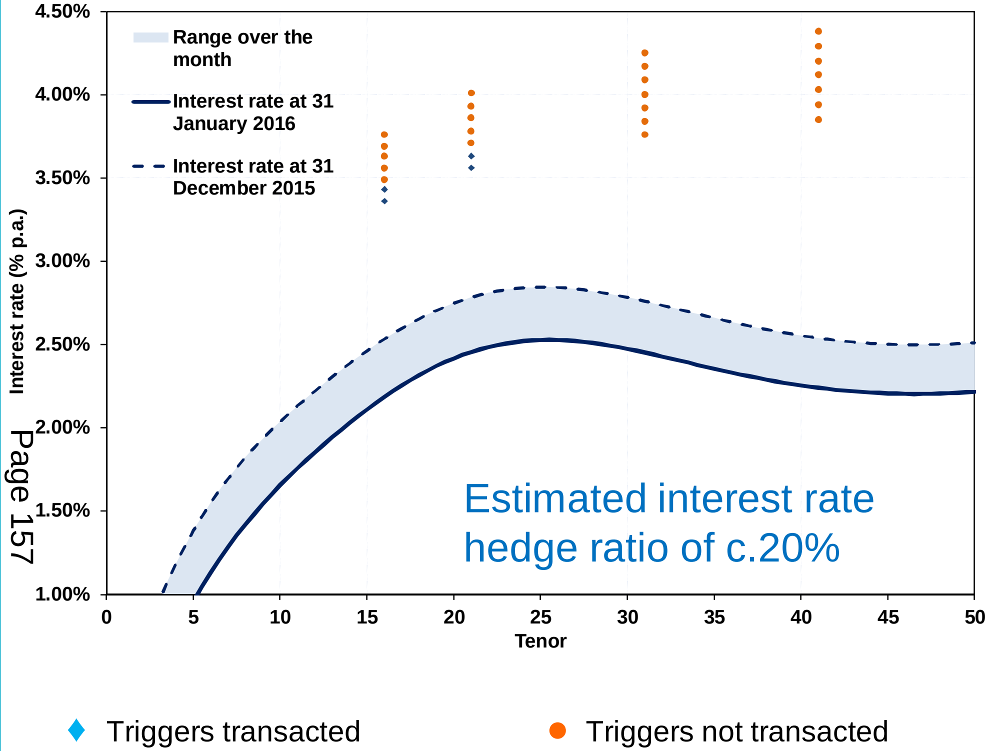
A real return can be split into two parts – interest rates and inflation. By splitting the two components we can increase the range of potential hedging opportunities.

Example shows we could have locked into a real yield of c.1.9% by taking advantage of interest rate and inflation markets that occurred at different times. This shows splitting triggers into interest rate and inflation components increases the opportunity set but also increases the level of complexity in the overall structure.

An alternative is to set "real yield" triggers but as shown on the previous page there have been fewer opportunities to hedge at attractive levels in the recent past.

EXAMPLE LGPS STRATEGY

Interest rate hedging activity



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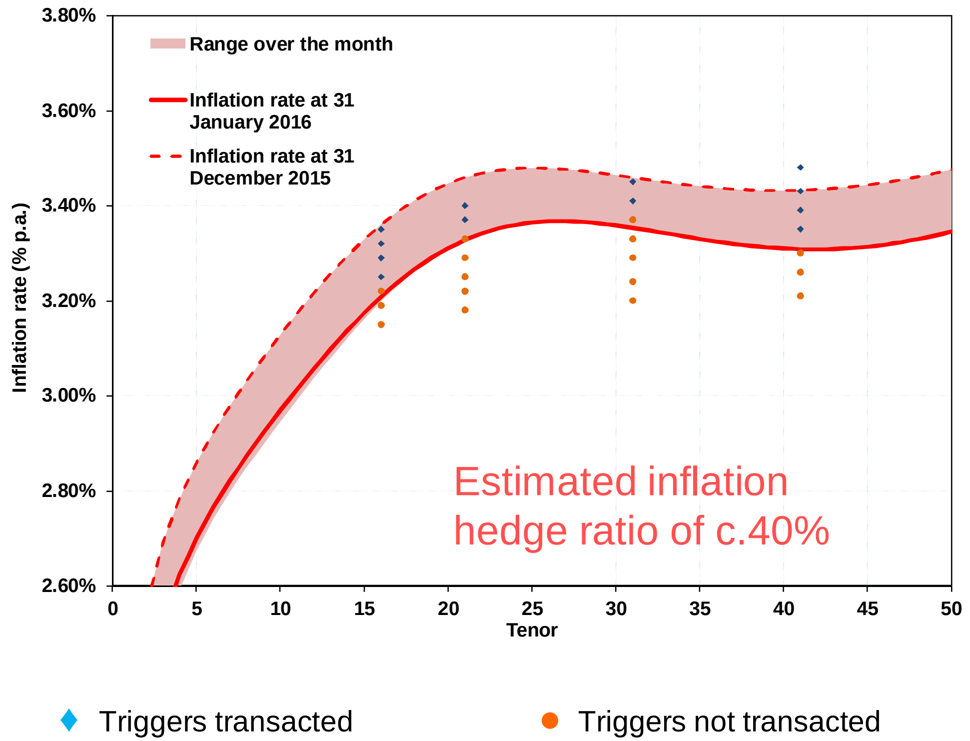
	Band 1	Band 2	Band 3	Band 4
Hedge ratio at 31 January 2016	36.8%	33.0%	13.0%	13.0%

Inflation hedging activity (note: different scale)



	Band 1	Band 2	Band 3	Band 4
Hedge ratio at 31 January 2016	51.1%	30.0%	30.0%	50.0%

By splitting the interest rate and inflation triggers this Fund's deficit is £70m lower (i.e. the Fund is better off) than if the strategy had been implemented with "just" real yield triggers

HEDGING INSTRUMENTS

Physical Instruments
(1:1 exposure)

- Physical instruments require a capital investment at outset (i.e. funded)
- Liquidity varies by instrument
- Pricing is typically transparent and standard instruments are traded
- Commonly held by pension schemes and generally well understood

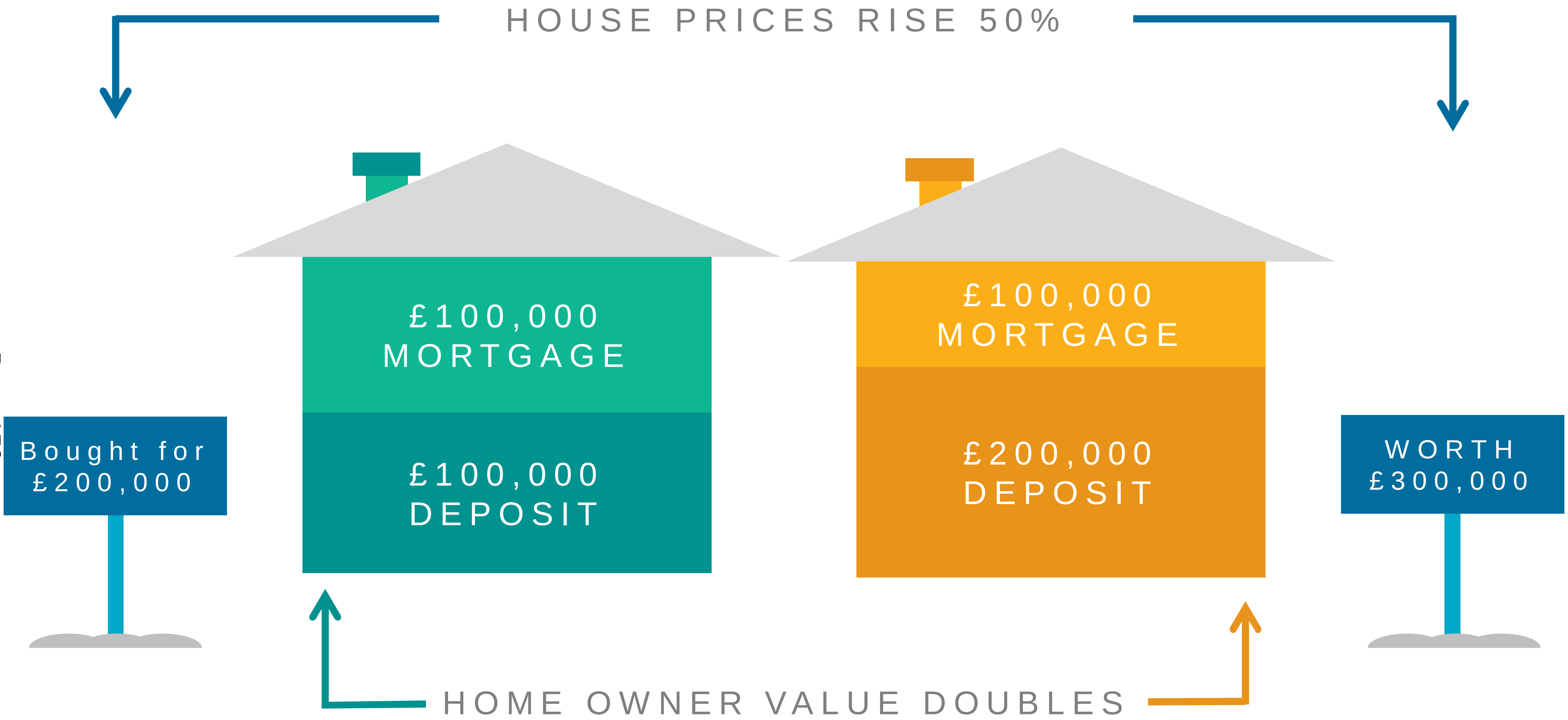
Fixed-Interest Gilts | **Corporate Bonds** | **Index-Linked Gilts**

Synthetic / Derivative Instruments
(allows leveraged exposure)

- Can be funded (i.e. capital commitment is made) or unfunded (i.e. geared or leveraged)
- Typically these are Over the Counter ("OTC", i.e. bespoke) although some exchange traded versions also exist
- Liquidity varies by instrument and within each type, some are highly illiquid and could be more illiquid than physicals
- Less transparency on pricing for OTC contracts, although some standard contracts address this
- Can offer more efficient hedging – i.e. more liability hedging per pound invested

Interest Rate Swaps | **Inflation Swaps** | **Gilt repos**

EVERY DAY EXAMPLE OF LEVERAGE



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Exposed to £200,000 of movements in house prices, but only requires £100,000 of investment – “two times leveraged”

LEVERAGE EXPLAINED

Funded vs Unfunded exposure

Funded exposure

- It is said that the position is funded (or unleveraged) if the amount of assets (i.e. collateral*) invested in the hedging portfolio is backing the same amount of risk exposure
- e.g. £100 of collateral is backing £100 of risk

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Unfunded exposure

- If amount of collateral invested is less than the amount of liabilities being hedged then the hedging portfolio is said to be levered
- e.g. £100 of assets hedging £300 of risk

Why use leverage? To “free up” assets to use elsewhere in the portfolio, i.e. for return seeking purposes

*Collateral: a term used to describe the underlying assets invested in the LDI funds. The assets are typically high quality and liquid assets such as cash instruments and government bonds, and are “on deposit” as security. These assets would be used to offset the potential loss should either counterparty default on its obligation under a swap or gilt repo.

LEVERAGE EXPLAINED

What if?

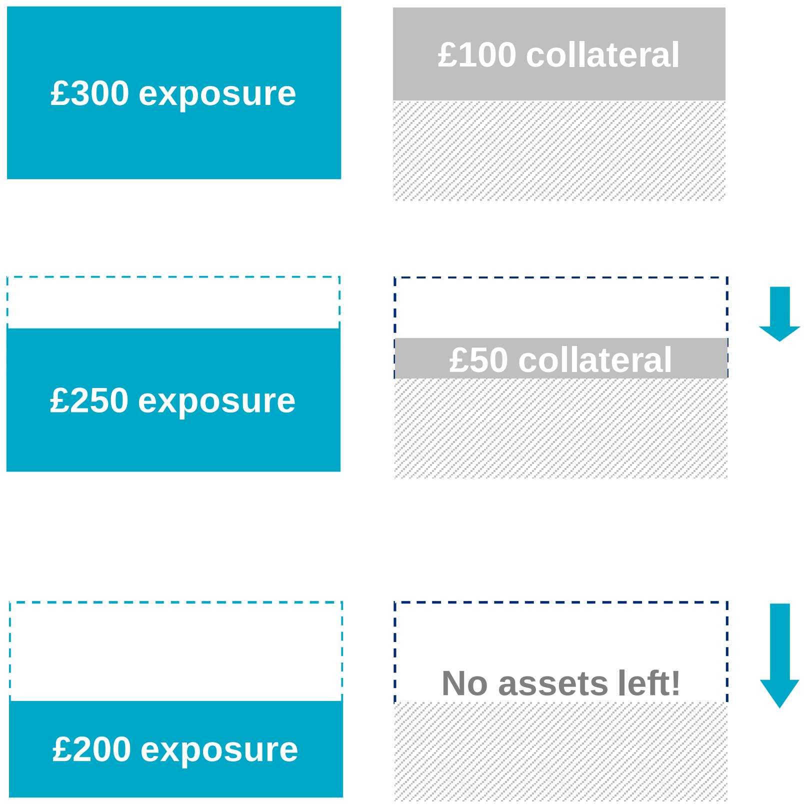
- Starting position: £300 of interest rate exposure
- Obtained using £100 of collateral (e.g. cash)
- i.e. **3** times levered (i.e. 3 times more sensitive to movements in rates)

If yields rise by 1%, it increases leverage

- Loss on interest rate exposure of £50
- So value of collateral drops from £100 to £50
- Leverage is £250 / £50 = **5** times (up from 3)

If yields rise by 2%, collateral extinguished(!)

- Loss on interest rate exposure of £100
- Value of collateral drops from £100 to zero
- More collateral required or close position
- In practice, collateral should be replenished long before this point is reached.



Leverage will rise / fall as net interest rates rise / fall

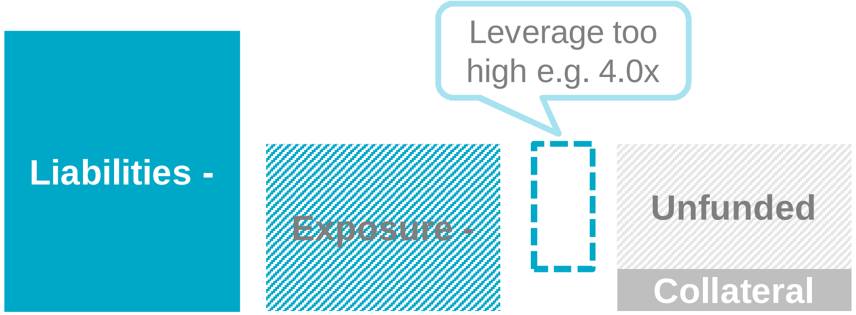
RECAPITALISATION / RE-LEVERAGING EVENTS

If yields rise or fall beyond certain points the leverage may be too high or low to be managed efficiently. Once certain levels are breached a **recapitalisation** or **re-leveraging** event may be triggered.

Recapitalisation

An increase in yields means that leverage levels increase.

If this level becomes too high, the value of the fund may be too volatile as increasingly small changes in yields can decrease the level of collateral materially.



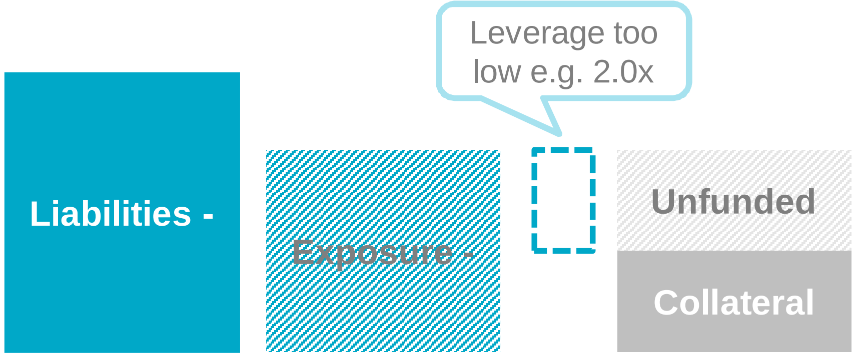
A manager may require that collateral be "topped up" within a particular timeframe. This additional money decreases the unfunded exposure.

This additional capital would have to be funded from the Fund's holdings in growth assets or corporate bonds, which would reduce the expected return on assets. However, in this scenario yields have risen and so the funding level of the Fund has improved. All else being equal, less risk needs to be taken to achieve the existing funding objective

Re-leveraging

A reduction in yields means that leverage levels fall.

If this level becomes too low, the LDI portfolio may be seen as inefficient as additional liabilities could be hedged with the same level of collateral.



A manager may "return" to the Fund cash to invest, whilst maintaining the level of liability matching.

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BASICS OF IMPLEMENTATION

Increasingly bespoke

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Physical Assets

Synthetic Assets

Client-specific Pooled Fund

- A Fund specific, tailored ‘pooled fund for a single investor’.
- Only an IMA is required. Other documentation is done by the manager.
- Typically set up as Dublin registered Qualified Investor Fund (“QIF”).

Multi-client Pooled Funds

- LDI providers offer a variety of ranges of pooled funds. These include
  - Gilt-based LDI funds (real and nominal, various durations)
  - Swap-based LDI funds (real and nominal, various durations)
  - Dynamic LDI funds (instrument selection / curve positioning)

Simplicity

Can be comfortably implemented using pooled funds, but more bespoke options are also worth considering

Not concerned over manager concentration risk at these levels and initially using 12% of assets (currently all held with one manager anyway); re-evaluate this if and when increasing further (and consider if a bespoke pooled fund is more efficient)

Currently use income on segregated bond holdings to pay benefits; this will not be available from pooled leveraged funds, and so disinvestments from elsewhere will be needed

ALTERNATIVE RISK MANAGEMENT APPROACHES FOR SPECIFIC EMPLOYERS

ALTERNATIVE RISK MANAGEMENT APPROACHES
EMPLOYER SPECIFIC STRATEGIES

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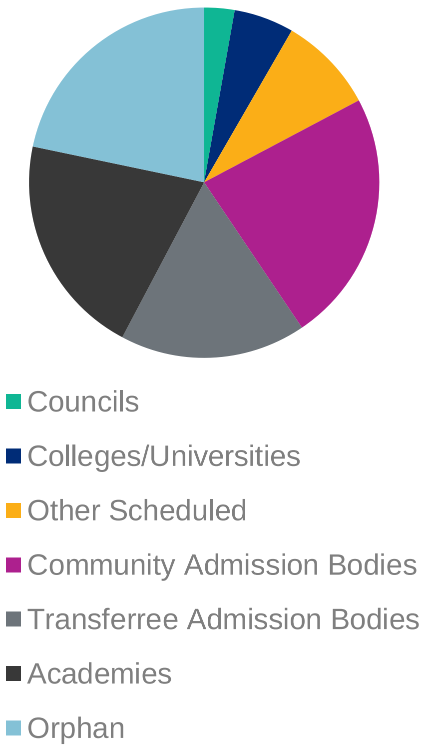
EMPLOYERS



KEY EMPLOYER FEATURES:

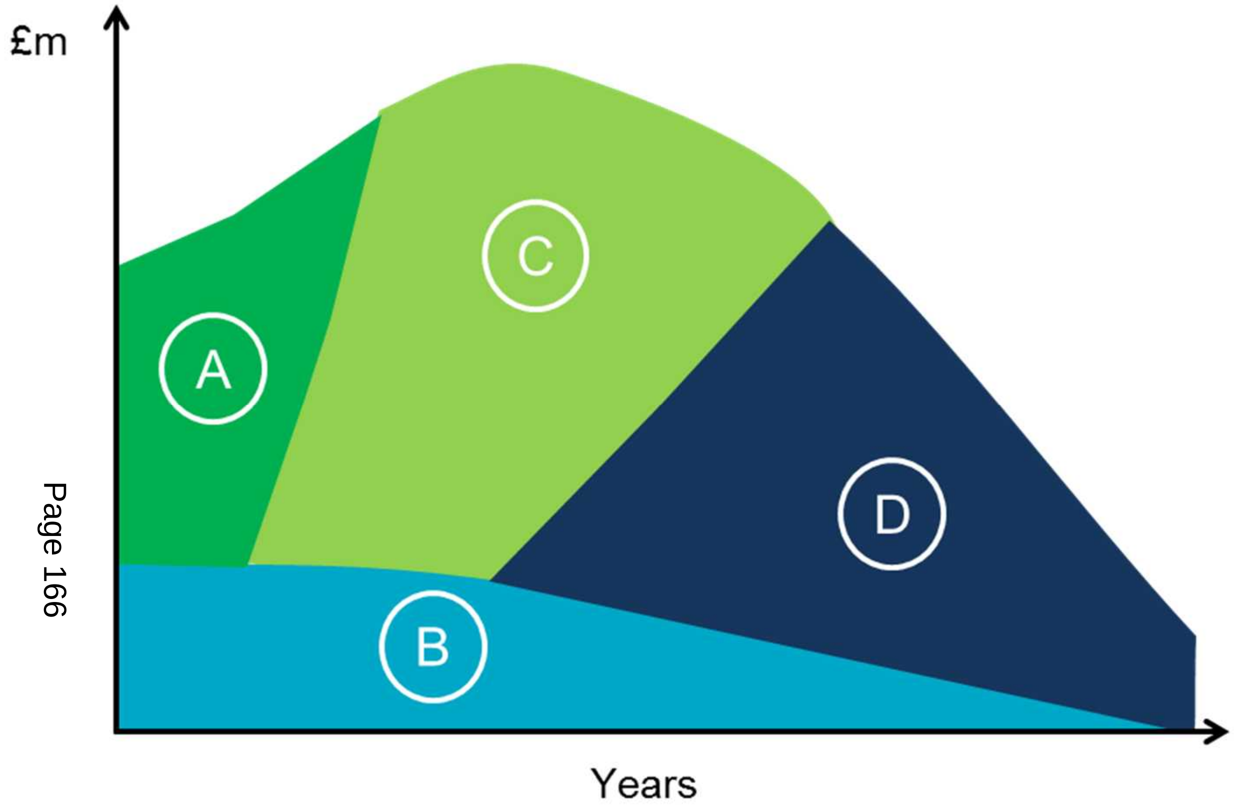
- FUNDING LEVEL
- SIZE & MATURITY
- COVENANT
- EMPLOYER OBJECTIVES

HIGH RISK

MEDIUM RISK

LOW RISK

EXAMPLE LOWER RISK INVESTMENT STRATEGY
ORPHAN LIABILITIES, FULLY FUNDED EMPLOYERS



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Ⓐ : Higher yielding credit

Ⓑ : Income-producing illiquid assets

Ⓒ : Investment grade corporate bonds

Ⓓ : Gilts & hedging instruments

Cashflow Matching

- Strategy would aim to match actual cashflows by investing in income generating investments
- Total return limited, but income known in advance (assuming no defaults)
- Emphasis is on income generation – consistent with expenditure requirements
- Existing "real" assets (infrastructure and property) could fit in to strategy
- Segregated accounts and custodian necessary for accurate cashflow matching
- Significant proportion of assets "locked up" for an extended period of time – aim is to benefit from the illiquidity premium
- Funding position very stable if discount rate linked to yield on assets held
- Residual risks remain including: re-investment risk, default risk and mortality risk
- Some implementation challenges that would need to be addressed

EXAMPLE LOWER RISK INVESTMENT STRATEGY
ORPHAN LIABILITIES, FULLY FUNDED EMPLOYERS

Current Investment strategy

- Growth portfolio aims to provide sufficient return for recovery plan
- Matching portfolio aims to reduce risk by matching characteristics of liabilities
- Total returns unconstrained since dependent on success of growth assets
- Assets invested in diversified range of asset classes with a range of return sources
- De-risking possible for specific tranches of liabilities given prudence in funding basis
- Funding position can be volatile hence a greater need for prudence to control outcomes

Cashflow matching

- No real growth portfolio – all investments in bond-like instruments
- Strategy would aim to match actual cashflows by investing in income generating investments
- Total return limited, but income known in advance (assuming no defaults)
- Emphasis is on income generation – consistent with expenditure requirements
- Segregated accounts and custodian necessary for accurate cashflow matching
- Significant proportion of assets “locked up” for an extended period of time – aim is to benefit from the illiquidity premium
- Funding position very stable if discount rate linked to yield on assets held

EXAMPLE LOWER RISK INVESTMENT STRATEGY
"REAL ASSETS"

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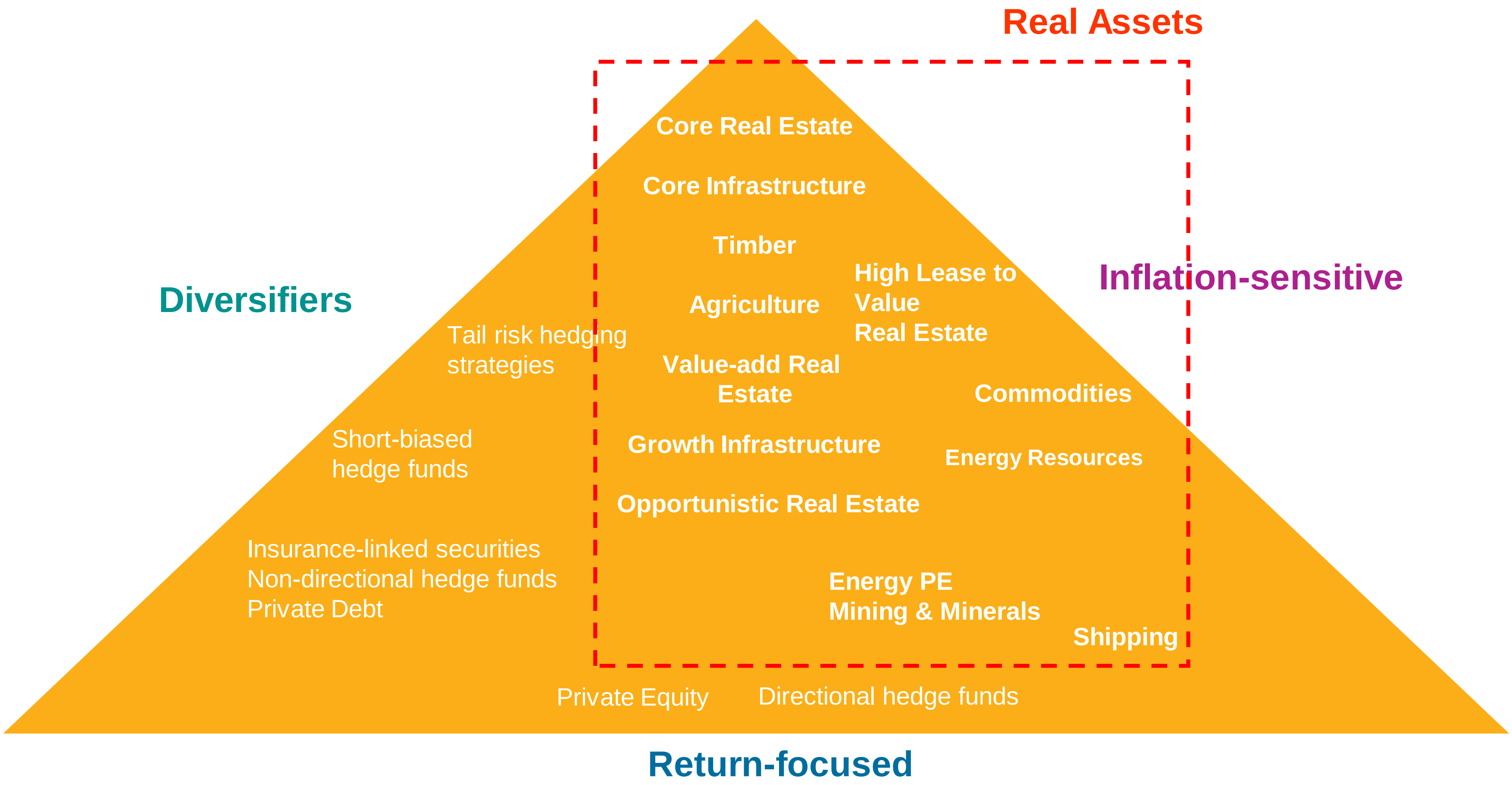

QUESTIONS?

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APPENDIX

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IMPORTANT TERMS

- **Interest Rate Swap** – Two parties exchanging two sets of cashflows, usually based on one party paying a “fixed” rate (e.g. 3% p.a.) and the other paying a “floating” rate (e.g. Bank of England Base Rate + 2%)
- **Repurchase Agreement (Repo)** – An agreement to sell a security (usually a bond) to another party with the promise to buy it back at a specified date and price
- **Repo Rate** – The interest rate charged to the seller of the security in a repo
- **Basis Risk** – Risk that arises when an investor aims to hedge a position using an instrument that has an underlying security whose risk is being hedged. For example, a pension fund using bonds to hedge liabilities they do not perfectly match

WHAT IS A GILT REPO? (1)

A gilt repurchase agreement is a liability hedging instrument which allows investors to employ leverage, that is to hedge a higher level of liabilities than the value of the underlying assets.

Gilt repo contracts work as follows

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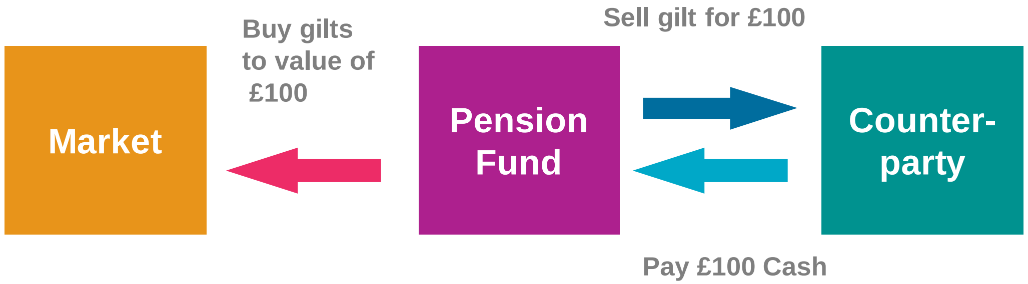
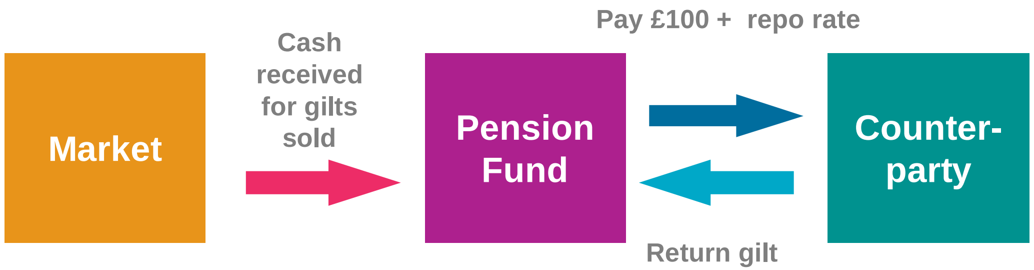
Day of the trade



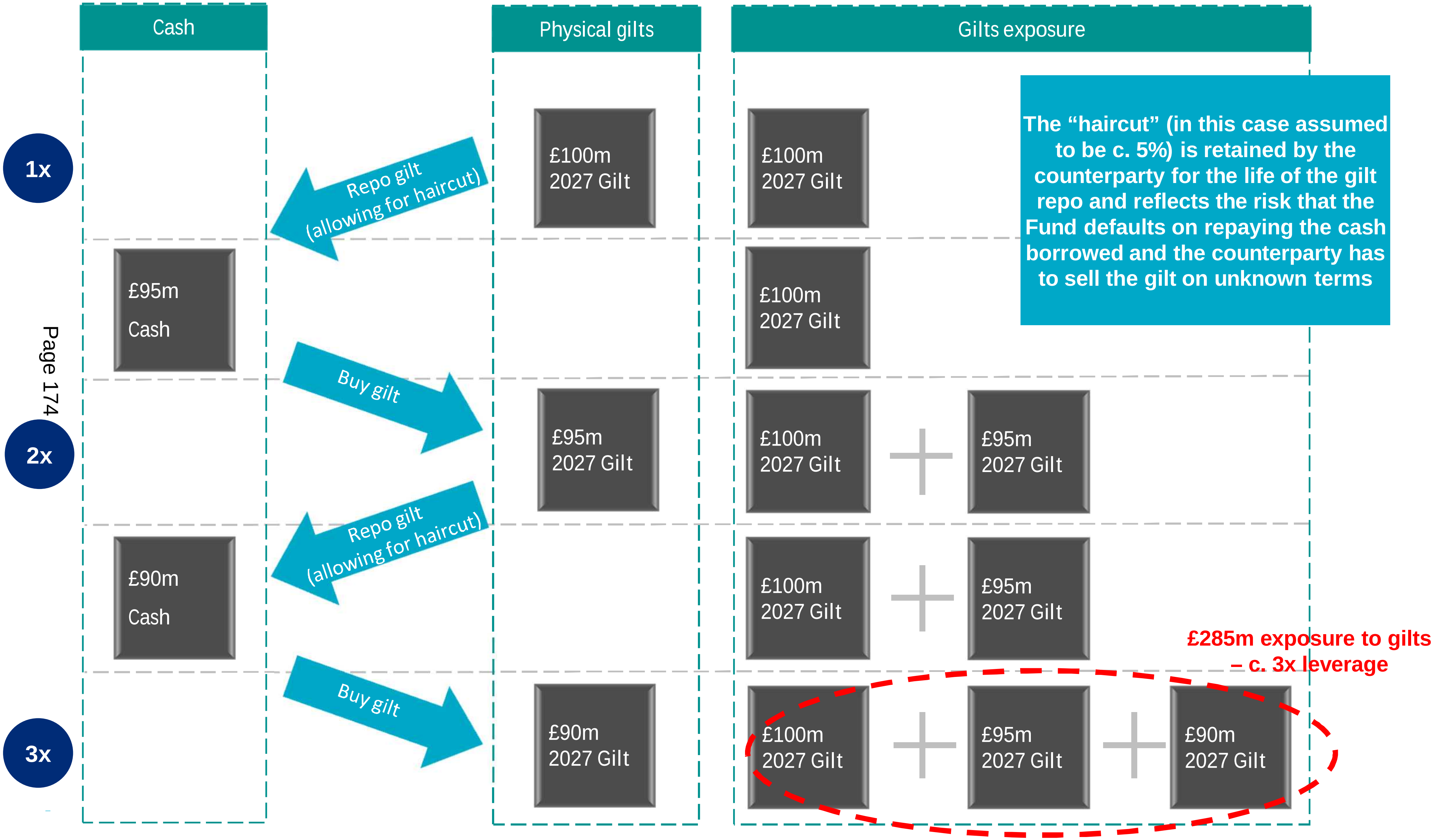
- A pension scheme buys a gilt and subsequently "sells" it to a counterparty.
- The pension scheme agrees to repurchase it ("repo") at a pre-fixed price in the future. The cash received may be subject to a "haircut" retained by counterparty.
- The pension scheme can use the cash to purchase another gilt (and use repo again if desired).
- Exposure to the changing value of the gilt is retained.

End of contract



- The pension scheme re-purchases the gilt at the pre-determined price.
- Gilt coupons received during the term of the contract are passed to the pension scheme.
- The pension scheme benefits/loses from increases/falls in the market value of the gilts.
- At the end of the contract a repo arrangement can occur again.

WHAT IS A GILT REPO? (2)



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KEY RISKS ASSOCIATED WITH REPO

	Challenges	Mitigants
Roll/liquidity risk	Roll risk is the risk that it becomes either: • very/too expensive to re-transact the position (i.e. repo rates rise); or • it becomes impossible to roll the position (i.e. counterparties refuse to transact); and there is insufficient liquidity available to purchase the gilt securities outright to preserve the hedge – **see overleaf for more detail**	This risk can be partially mitigated through laddering the repo maturity dates, reducing gilt repo exposure in favour of using other (potentially less efficient) instruments and/or ensuring that there is sufficient access to liquidity to purchase the gilts outright.
Counterparty risk	The risk that the investment bank on the other side of the repo transaction defaults on its obligation.	This risk can be mitigated (but not removed) by regular collateralisation of the repo position. We note that since repo contracts can be short term in nature, exposure could be moved away from counterparties with deteriorating credit quality (but this clearly would not work in a jump-to-default situation).
Collateral adequacy risk	Most market participants trade gilt repo under documentation that specifies that collateral be posted in the form of either cash or gilts. Collateral needs to be posted to cover any mark-to-market losses on the gilt repo positions and collateral adequacy risk is the risk that sufficient eligible collateral is not available (forcing sales of other assets).	The more cash/gilts retained as collateral, the lower collateral adequacy risk will be.

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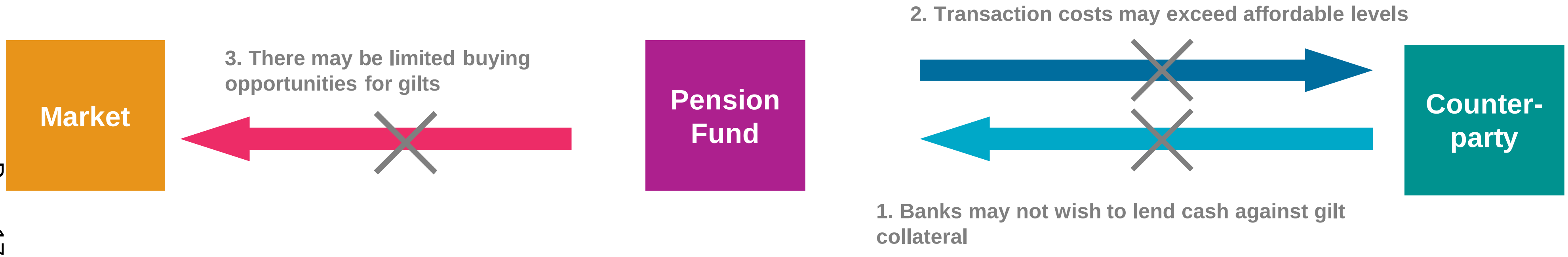
WHAT IS ROLL RISK?

Why do gilt repos need to roll?

Although the maturity of gilts are many years in to the future, gilt repurchase agreements often have terms of up to 12 months. If a pension scheme uses gilt repo as a liability hedging instrument the gilt exposure may have to be rolled many times during the life of the hedge. This introduces roll risk.

Examples of roll risk



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- Supply of gilt repurchase agreements can reduce if banks lose the desire to lend cash against gilt collateral
- The trading costs for gilt repo could increase. Impact of changes in bank regulation.
- During economic downturn, liquidity in the bond markets can decrease (although gilt repo market held up well in 2008)
- In a pooled arrangement, the pooled fund sits between the pension fund and the counterparty.

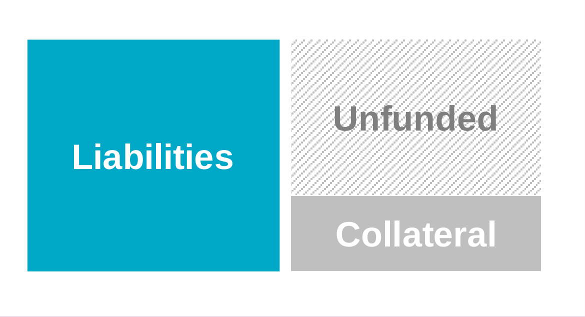
What happens if repo cannot be rolled?

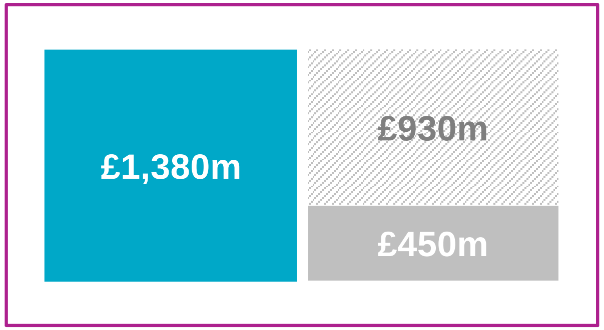
- Reduce level of liability hedging until market more attractive
- Replace gilt exposures with swaps when required
- Diversify initial hedge with gilts and swaps
- Reduce leverage by investing in physical gilts if funding position improves
- Reduce leverage by synthesising growth assets (e.g. equity total return swaps) and investing in gilts

RECAPITALISATION EVENT – WORKED EXAMPLE

STARTING POSITION

- Assume that the Fund invests £450m in the BlackRock 2032 Leveraged Index Linked Gilt fund (currently **3.07x** leveraged, i.e. effectively hedging approximately £1,380m of liabilities).
- In practice, the Fund would invest in a number of LDI funds rather than just one.





RATES RISE

INITIAL IMAPCT – LEVERAGE INCREASES

- Gilt yields rise (by 0.94%*), and the value of the leveraged fund falls by £190m to £260m
- The value of the liabilities hedged also falls to £1,190m
- Net result, the leverage increases from 3.07x to **4.6x** (at BlackRock's limit for the fund).

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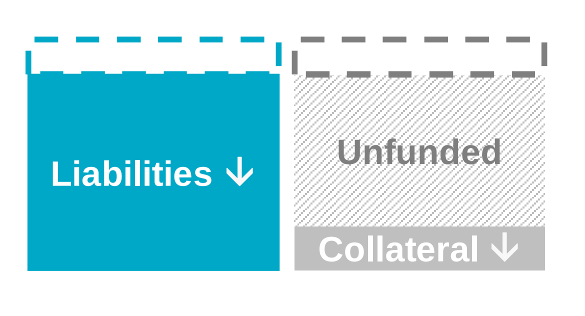
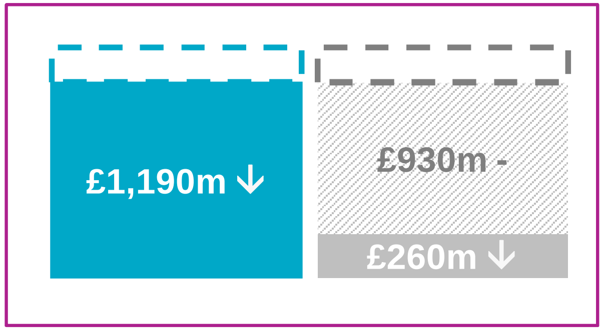
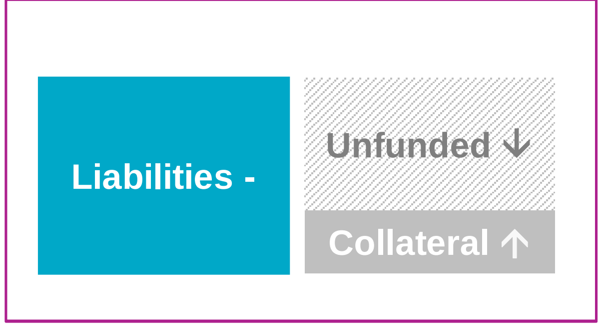


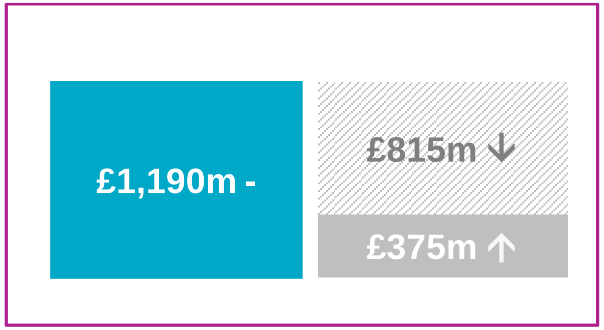


MANAGER REQUIRES £115m

"RECAPITALISATION" EVENT OCCURS

- Manager requires £115m within an agreed timeframe (to be taken from pre-agreed source).
- The level of hedging provided by the fund remains unchanged, while the collateral in the fund is increased.
- Leverage moves from 4.6x to **3.2x**



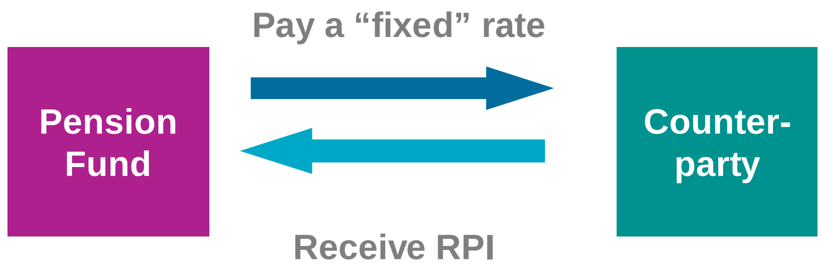


Summary: liabilities have fallen, and so have matching assets; collateral is reduced and so additional assets required to replenish capital.

*Based on recent market conditions – the actual rise in yields to trigger a recapitalisation event will depend on the specific funds invested in, and market conditions at the time of investment.

WHAT IS A "SWAP"?

- An Over-The-Counter ("OTC") transaction between a pension fund and counterparty bank.
- Using an inflation swap as an example:
- One party (usually the pension fund, but not always):
  - pays a fixed "swap" rate
  - receives a floating Retail Price Index (RPI) rate.
- The other party (usually the bank) pays the floating RPI and receives the fixed rate.
- The fixed rate varies by maturity and rates are quoted by many banks.
- Creates *inflation rate exposure* similar to that of a bond
- Fixed and floating cash flows have equal value (apart from transaction costs) at outset – no initial payment required.



For LGPS funds, swaps typically not held directly but through pooled funds.

MAKE TOMORROW, TODAY

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**24 JUNE 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 25 May 2016 Exempt Appendix 2 – Exempt Minutes from Investment Panel meeting held 25 May 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 March 2016 committee meeting, on 25 May 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 and Exempt Appendix 2.

1.3 There was one recommendation arising from this meeting which is covered in depth in the agenda item 'Liability Risk Management – Proposed Framework'.

2 RECOMMENDATION

That the Committee:

2.1 Notes the minutes of the Investment Panel meeting on 25th May 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 was one recommendation made by the Panel at the Investment Panel meeting on 25 May 2016, which is covered in depth in the agenda item ‘Liability Risk Management – Proposed Framework’.

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, 25th May, 2016, 2.00 pm

Members: Councillor Christopher Pearce (Chair), Councillor David Veale, Councillor Cherry Beath, Ann Berresford, Councillor Mary Blatchford 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), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager) and Helen Price (Investments Officer)

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 DECLARATIONS OF INTEREST

There were none.

3 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 24TH FEBRUARY 2016

A Member raised a query about the third bullet point in the third paragraph of page 9:

> “there was no manager so bad that Members would want to disinvest from them in the next three to six months”

It was agreed that this was true only on the basis of the information available to the Panel at that time, and was not a restriction on the ability of the Panel to disinvest from any manager if it appeared appropriate to do so at a future date.

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

8 LIABILITY RISK MANAGEMENT FRAMEWORK

The Assistant Investments Manager introduced this item.

He said this was the next step in the process of developing a liability risk framework, which the Panel had already considered at two previous meetings. The representatives from Mercer would comment in detail on the proposal. The key issues were the target levels for hedging and the trigger levels and their implementation. The Panel would be invited to recommend to the Committee that it approve the proposed framework and delegate its implementation to officers in consultation with the Panel.

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

Mr Turner and Mr Giles commented on the proposal set out in Appendix 1.

After discussion, the Panel **RESOLVED** to recommend to the Committee

1. The liability risk management framework summarised on pages 24 and 25 of Exempt Appendix 1.

2. that the implementation of the framework be delegated to officers in consultation with the Panel.

9 REVIEW OF INVESTMENT PERFORMANCE

[Shirley Marsh left the meeting.]

The Assistant Investments Manager introduced this item.

He asked Members to note two changes to the reports. In Appendix 1 an extra column had been added for currency hedging to make it more transparent and in Exempt Appendix 3 three years of performance data had been added to facilitate the monitoring of changes over time.

He said that it had been quite a challenging quarter for managers in terms of absolute returns and relative performance. Schroders global equity and Standard Life are underperforming their three-year targets. IFM had drawn down $195m of the Fund’s $300m commitment. All active managers were underweight in oil and gas. This will be picked up in the next SRI review.

A Member said that she had asked Unigestion a question at their last meeting with the Panel about their investments in oil and gas. At a conference last week they said that they had reviewed their framework and were disinvesting from two stocks to reduce their carbon risk, and that the review had been prompted by her question.

The Assistant Investments Manager said that managers value feedback on how they are addressing issues – another example being the questions the Fund raised with managers recently about the funding of terrorism.

Mr Turner commented on the Mercer performance report.

RESOLVED

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

2. To note the information as set out in the reports.

10 WORKPLAN

The Investment Manager presented the report.

RESOLVED to note the workplan to be included in the Committee papers.

The meeting ended at 4.53 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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

Document is Restricted

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**24 JUNE 2016**
TITLE:	**Annual Review of Investment Strategy & Performance (for periods ending 31 March 2016)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 – Fund Valuation

Appendix 2 – Mercer Annual Investment Review

Appendix 3 – LAPFF Quarterly Engagement Monitoring Report

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 31 March 2016.

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

Section 4. Funding Level Update
Section 5. Annual Investment Review
Section 6. Investment Performance: A - Fund, B - Investment Managers
Section 7. Investment Strategy
Section 8. Portfolio Rebalancing and Cash Management
Section 9. Corporate Governance and Responsible Investment (RI) Update

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

2.1 **Note the information set out in the report**

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund from 1 April 2013 will affect the next triennial valuation in 2016. Section 4 of this report discusses the trends in the Fund's liabilities and the funding level.

4 FUNDING LEVEL

4.1 Using information provided by the Actuary, 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.5% over the year to 83% based on the preliminary financial assumptions proposed for the 2016 valuation, with an estimated deficit of £750m. Investment returns contributed negatively to the funding position but this was offset by the reduction in the value of the liabilities.

(2) For completeness the funding level using the gilts basis fell to 72% on a consistent basis with the 2013 valuation. This reduction has come mainly from the fall in gilt yields which increased the present value of the liabilities over the period, together with the negative return on assets.

5 ANNUAL INVESTMENT REVIEW

5.1 This quarter Mercer has provided an annual investment review of the year to 31 March 2016 (see Appendix 2) rather than the normal quarterly performance report. It was agreed as part of the strategic investment review in 2013 to provide an annual report to the Committee following the delegation of some investment decisions to the Investment Panel.

5.2 The purpose of this report is to inform the Committee as to how the strategy has performed over the last year, whether the underlying assumptions of the investment strategy remain valid, and whether the investment manager structure is delivering against expectations.

6 INVESTMENT PERFORMANCE

A – Fund Performance

6.1 The Fund's assets decreased by £86m (a return of -2.1%) in the year, giving a value for the investment Fund of £3,743m at 31 March 2016. 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 March 2016

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	0.9%	-2.1%	5.8%
Avon Pension Fund (excl. currency hedging)	1.9%	-0.2%	6.1%
Strategic benchmark (no currency hedging) *(Fund incl hedging, relative to benchmark)*	3.1% *(-2.2%)*	1.5% ***(-3.6%)***	6.3% *(-0.5%)*
Local Authority Average Fund *(Fund incl hedging, relative to benchmark)*	1.8% *(-0.9%)*	0.2% ***(-2.3)***	6.4% *(-0.6%)*

6.2 **Fund Investment Return:** Returns from Equity markets were disappointing over the year with only the US achieving a small positive return in sterling terms with all other regions producing negative returns. Property performed well over the year with the bond portfolio also contributing positive returns with gilts outperforming UK corporate bonds.

6.3 Over 3 years all asset classes outperformed their strategic return assumption, with the exception of Emerging Market equities, corporate bonds, and hedge funds.

6.4 **Fund Performance versus Benchmark: -3.6% over 12 months, attributed to**

(1) **Asset Allocation:** The contribution to outperformance from asset allocation was -**0.6%** over the 12 months. This was due to the underweights to Hedge Funds and Property, and an overweight in developed overseas equities. The currency hedging programme **detracted 1.9%** over 1 year.

(2) **Manager Performance:** In aggregate, manager performance **detracted 1.0%** of the outperformance over the 12 month period, relative to the strategic benchmark, driven by under performance in overseas equities, property and diversified growth versus their individual benchmarks; this is despite a significant outperformance by UK equity managers.

6.5 **Versus Local Authority Average Fund:** Over one year, the Fund underperformed the average fund. Note that as from next quarter the Local Authority average return will no longer be available due to the provider with-drawing this service.

6.6 **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 has detracted 1% from the total Fund return over the quarter and 1.9% over the year.

B – Investment Manager Performance

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

6.8 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 1 manager is amber rated, Schroder (global equity).

7 INVESTMENT STRATEGY

7.1 **Asset Class Returns**: Returns from developed equities, index linked gilts, gilts and property outperformed the strategic assumptions over three years, the latter 2 were significantly ahead of the assumed return. Emerging market equities and hedge funds underperformed significantly whilst the UK corporate bond return is marginally below the three year strategic assumption.

7.2 **Infrastructure**: $195m of the Fund's $300m commitment to infrastructure was drawdown in the fund managed by IFM on 1st April.

7.3 **Bond Portfolio**: Changes to the bond portfolio agreed at the previous meetings have now been fully implemented.

8 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

8.1 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. Following a large drawdown by the infrastructure manager, the overweight to equities has been reduced to within the rebalancing range. As at 8 June there are no allocations outside the rebalancing ranges.

Cash Management

8.2 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.

8.3 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.

8.4 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.

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

9 CORPORATE GOVERNANCE UPDATE

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

Companies Meetings Voted:	55
Resolutions voted:	598
Votes For:	421
Votes Against:	9
Abstained:	1
Withheld* vote:	0

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

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

10 RISK MANAGEMENT

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

11 EQUALITIES

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

12 CONSULTATION

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

13 ISSUES TO CONSIDER IN REACHING THE DECISION

13.1 The issues to consider are contained in the report.

14 ADVICE SOUGHT

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

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	LAPPF Member Bulletins, Data supplied by The WM Company Mercer report on 2014 Budget flexibilities
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 MARCH 2016

	Passive Multi-Asset	**Active Equities**					**Enhanced Indexation**		**Active Bonds**	**Funds of Hedge Funds**		**DGFs**		**Property**		**Infra-stucture**	**Currency Hedging**	**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	IFM	Record	General Cash		
EQUITIES																				
UK	167.8	189.4	162.9			32.0													552.1	14.75%
North America	165.7					142.8													308.5	8.2%
Europe	118.1					30.7		42.6											191.4	5.1%
Japan	24.3					20.7		45.3											90.3	2.4%
Pacific Rim	40.8					5.1		31.9											77.9	2.1%
Emerging Markets				149.2	178.1	20.8												0.0	348.1	9.3%
Global ex-UK							289.7												289.7	7.7%
Global inc-UK																	11.3		11.3	0.3%
Total Overseas	***348.9***	***0.0***	***0.0***	***149.2***	***178.1***	***220.1***	***289.7***	***119.8***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***11.3***	***0.0***	***1317.2***	**35.2%**
Total Equities	**516.7**	**189.4**	**162.9**	**149.2**	**178.1**	**252.2**	**289.7**	**119.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**11.3**	**0.0**	***1869.3***	**49.9%**
DGFs												**126.9**	**234.0**						**360.9**	**9.6%**
Hedge Funds										**187.7**	**5.0**								**192.7**	**5.1%**
Property														**195.1**	**171.8**				**366.9**	**9.8%**
Infrastructure																			**0.0**	**0.0%**
BONDS																				
Index Linked Gilts	435.9																		435.9	11.6%
Conventional Gilts																			0.0	0.0%
Corporate Bonds	66.8								289.6										356.4	9.5%
Overseas Bonds																			0.0	0.0%
Total Bonds	**502.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**289.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**792.3**	**21.2%**
Cash	6.1	12.6	11.0			1.6								0.8		136.7		32.3	**201.1**	**5.4%**
FX Hedging																	-40.6		**-40.6**	**-1.1%**
TOTAL	**1025.6**	**202.0**	**173.9**	**149.2**	**178.1**	**253.8**	**289.7**	**119.8**	**289.6**	**187.7**	**5.0**	**126.9**	**234.0**	**195.9**	**171.8**	**136.7**	**-29.3**	**32.3**	**3742.7**	**100.0%**

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HEALTH WEALTH CAREER

AVON PENSION FUND

ANNUAL INVESTMENT REVIEW TO 31 MARCH 2016

JUNE 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

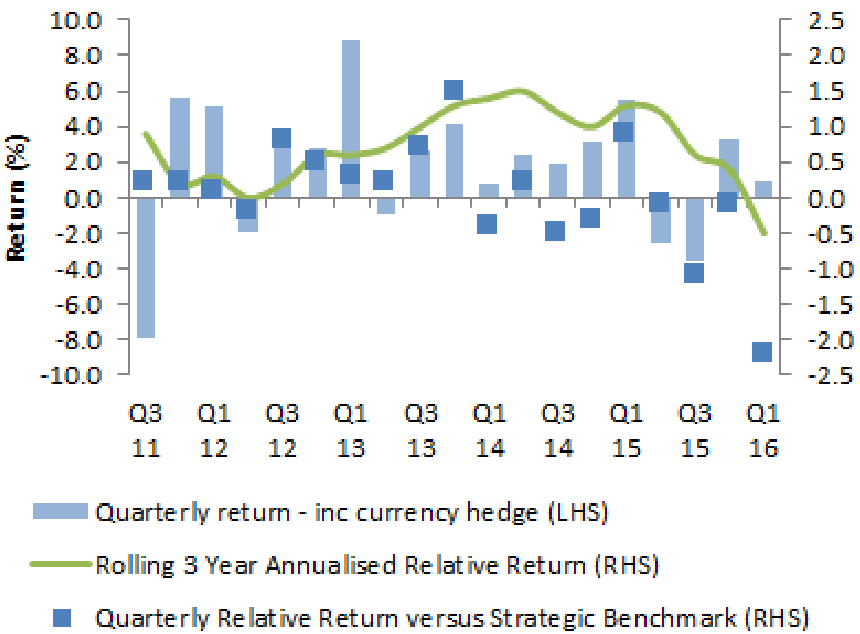
SECTION 1

EXECUTIVE SUMMARY

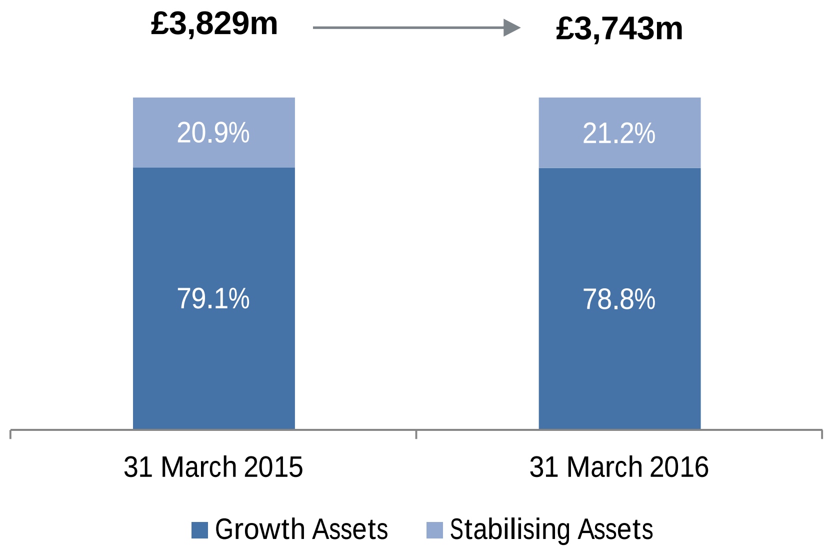
EXECUTIVE SUMMARY

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	0.9	-2.1	5.8
Total Fund (ex currency hedge)	1.9	-0.2	6.1
Strategic Benchmark (no currency hedge)	3.1	1.5	6.3
Relative (inc currency hedge)	**-2.2**	**-3.6**	**-0.5**

Excess Return Chart



Asset Allocation



Commentary

Over the year total Fund assets (including currency hedging) decreased from £3,829m (31 March 2015) to £3,743m.

This decrease was primarily due to the negative performance from most growth asset classes (particularly equities).

At a strategic level, the Fund was within the tolerance ranges in the Statement of Investment Principles for all asset classes at the end of the year. On 24 March £146m was disinvested from developed market equities to fund the infrastructure mandate (held as cash at 31 March 2016).

The Fund underperformed the unhedged strategic benchmark return (which excludes currency hedging) over the year. Approximately half of this underperformance has come from the currency hedge (as sterling depreciated over the year, while the other half is largely as a result of the relative underperformance when compared to their strategic benchmark returns of the Standard Life GARS, property and overseas equity mandates.

Underperformance of the Fund return when the currency hedge with Record is included is higher than when the currency hedging is excluded due to the significant depreciation of sterling over the year.

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 Actuary has estimated that the funding level as at 31 March 2016 has risen to 83% from 78% at 31 March 2015 based on the preliminary financial assumptions proposed for the 2016 valuation. Investment returns contributed negatively to the funding position but this was offset by the reduction in the value of the liabilities. Preliminary discussions with the Scheme Actuary about the 2016 valuation indicate a discount rate based on CPI and a real investment return of 2.2% better reflects the prudent expected return from the long term investment strategy than using the unadjusted gilts basis below.

- The funding level using the gilts basis fell to 72% on a consistent basis with the 2013 valuation. This reduction has come mainly from the fall in gilt yields which increased the present value of the liabilities over the period, together with the negative return on assets.

Fund performance

- The value of the Fund's assets decreased by £86m over the year, to £3,743m at 31 March 2016. The Fund's assets returned -2.1% over the year (-0.1% excluding the Record currency hedging mandate, given the depreciation of sterling over the year). This underperformance of the Strategic Benchmark return of 3.6% was due to the depreciation of sterling, and the underperformance of the Fund's equity, DGF and property funds.

Strategy

- Global (developed) equity returns over the last three years at 9.3% p.a. have been 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).
- The three year return from emerging market equities was -1.8% p.a. The three year return remains well below the assumed strategic return (of 8.75% p.a.) as returns have been affected by the general emerging markets weakness in recent years, although performance in Q1 was strong compared to developed markets, largely due to the weakening US dollar and increasing commodities prices. As with developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.
- UK government bond returns over the three years to 31 March 2016 remain above the long term strategic assumed returns (with fixed interest gilts returning 8.6% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 5.6% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high.
- UK corporate bonds returned 5.0% 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, and as active managers in general have struggled to generate meaningful returns.

Strategy (continued)

- With most listed assets looking close to fully valued, if not fully valued, we would continue to 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. We also see opportunities for more dynamic and active strategies to add value, and continue to 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.
- Brexit concerns and market expectations of a slower economic recovery and deferral of expected rate increase contributed to a weakening of sterling versus other major currencies; as a result, the currency hedging overlay detracted value over the quarter. In the event of a strengthening pound, for example possibly following a vote to 'remain' in June, it will be expected to add value.

Managers

- With the exception of property, returns over the year to 31 March 2016 were generally muted. The equity mandates (with the exception of TT) delivered negative absolute returns despite a strong Q1. Emerging market returns for the year were disappointing, with Genesis and Unigestion returning -6.5% and -7.1% respectively (although both still met their outperformance target despite the negative returns).
- Over three years, all mandates with a three year track record produced positive absolute returns (with the exception of Genesis), with only Schroder global equity and Partners failing to beat their benchmarks (although see comments on the measurement of Partners' performance later). In addition, Schroder property failed to achieve the three-year performance objective, despite beating the benchmarks. The remainder of the active managers achieved their objectives.

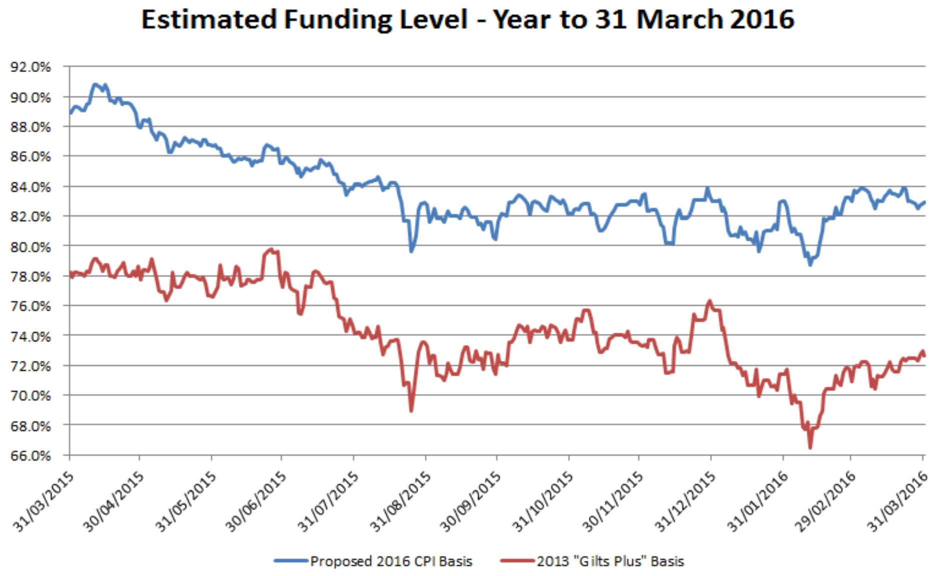
Key points for consideration

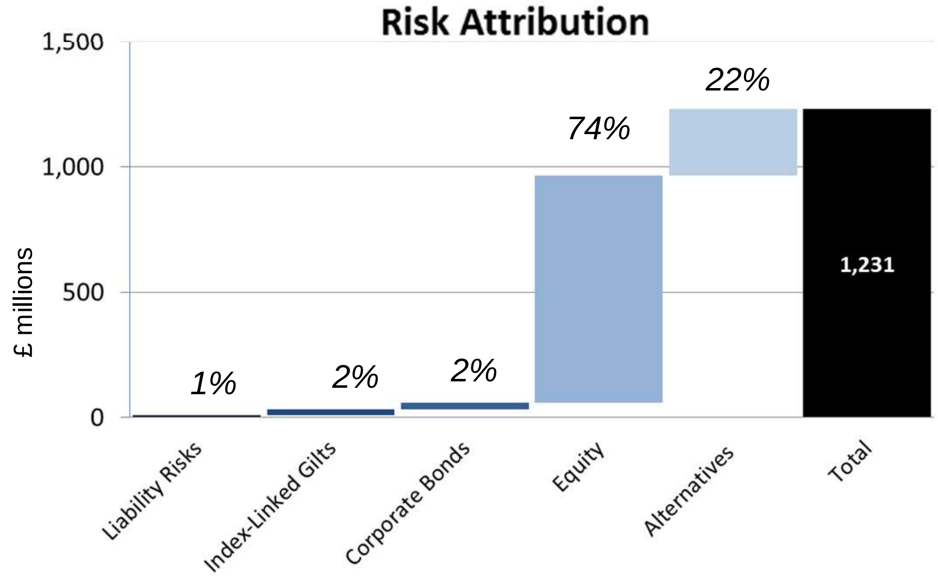
- Starting in Q3 2015, the Fund disinvested from the Fund of Hedge Funds mandates held with Signet, Stenham and Gottex, and the proceeds were transferred into the new JP Morgan Fund of Hedge Funds managed account.
- Initial funding has begun for the infrastructure mandate, which has a 5% strategic benchmark allocation. On 24 March, £146m of passive developed market equities were sold to fund the investment of $195m in infrastructure. This was held as cash by IFM and invested on 1 April. A currency hedging overlay has been put in place with Record to hedge the underlying currency exposures.
- Over the year, changes took place in the Stabilising Asset portfolio as fixed interest gilts and overseas government bonds were fully transitioned to index-linked gilts to better match the Fund's liability profile. Current holdings in index-linked gilts are approximately £436m, or 11.7% of the Fund.
- The funding level on the 2013 actuarial valuation basis decreased over the year from 78% to 72%, due to a negative total Fund return and a fall in the valuation discount rate (increasing liabilities).
- The funding level on the proposed 2016 actuarial valuation basis was c. 83% as at 31 March 2016.

SECTION 2

CONSIDERATION OF FUNDING LEVEL

CONSIDERATION OF FUNDING LEVEL YEAR TO 31 MARCH 2016





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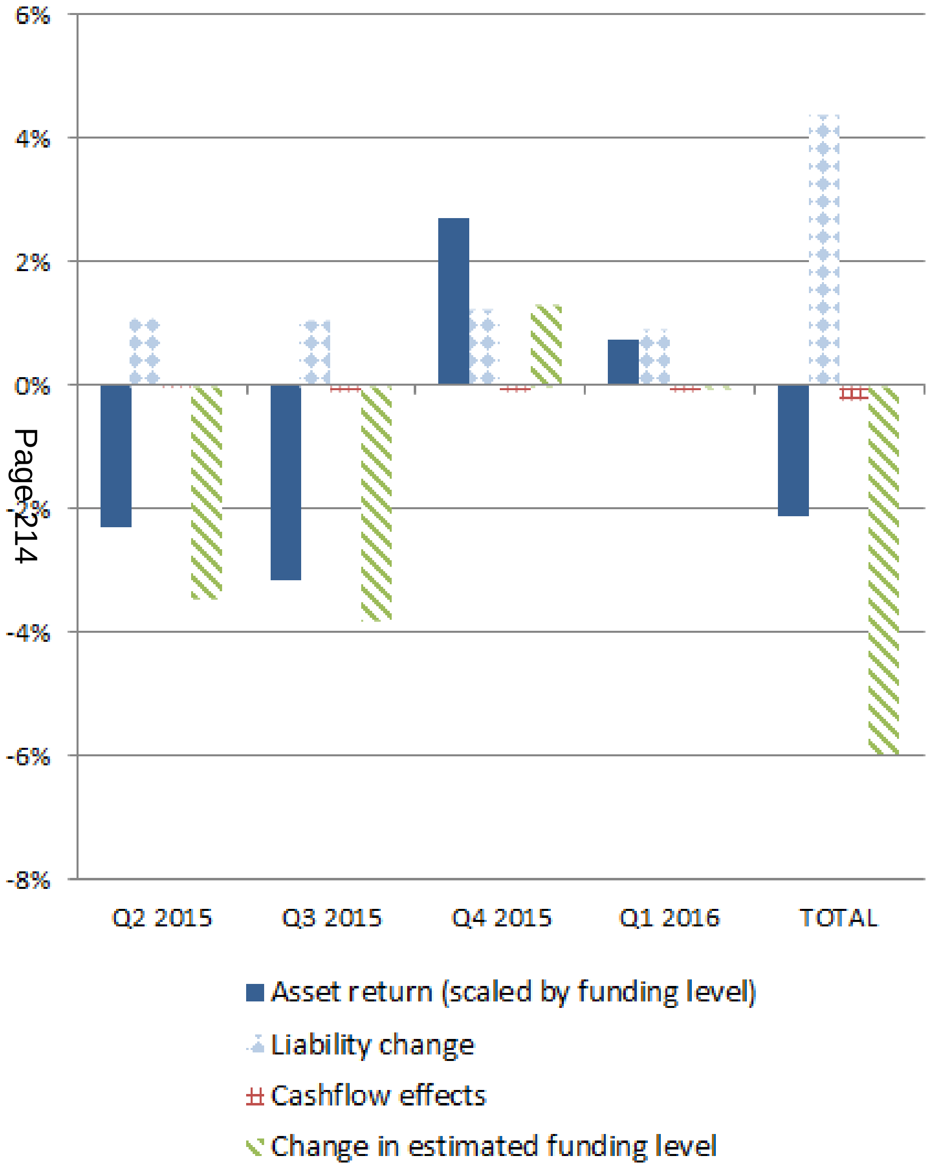
The charts above illustrate the estimated progression of the funding level (on both the 2013 actuarial valuation basis, and the proposed 2016 funding basis) over the year to 31 March 2016 on the left hand side, and on the right the main risks the Fund is exposed to on the proposed 2016 funding basis (which is why the funding position is volatile) and also the size of these risks in the context of the deficit position. The purpose of showing this chart is to provide 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 this chart shows the estimated 95th percentile Value at Risk figure over a three-year period. In other words, if we consider the worst case outcome which has a 1 in 20 chance of occurring, this is the impact on the deficit relative to our "best estimate" of what the deficit would be in three years' time. As at 31 March 2016, the chart shows that if a 1 in 20 "downside event" occurred, we would expect that in three years' time, the deficit would increase by an additional **£1,231m** on top of the expected deficit at that time.

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). **It should be noted that while these figures indicate levels of volatility on the downside, there is also a potential upside benefit from taking these risks.**

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.

CONSIDERATION OF FUNDING LEVEL
FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



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- Over the 12 month period to 31 March 2016, the funding level on the proposed 2016 funding basis has fallen by c6%, as returns on assets failed to match the "CPI+" growth in the liabilities, returning -2.1%,
- The other (less significant) contribution to the fall in the funding level was the "cashflow effect", whereby contributions were lower than the cost of benefits accrued over the year.

SECTION 3
FUND VALUATIONS

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FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation							
Asset Class	**31/03/2015 (£'000)**	**31/03/2016 (£'000)**	**31/03/2015 (%)**	**31/03/2016 (%)**	**Target Strategic Benchmark (%)**	**Ranges (%)**	**Difference (%)**
Developed Market Equities	1,769,396	1,545,029	46.2	41.3	40.0	35 - 45	+1.3
Emerging Market Equities	351,961	327,299	9.2	8.7	10.0	5 - 15	-1.3
Diversified Growth Funds	368,177	360,928	9.6	9.6	10.0	5 - 15	-0.4
Fund of Hedge Funds	162,792	192,715	4.3	5.1	5.0	0 - 7.5	+0.1
Property	306,177	366,896	8.0	9.8	10.0	5 - 15	-0.2
Infrastructure	-	-	-	-	5.0	0 - 7.5	-5.0
Bonds	798,547	792,149	20.9	21.2	20.0	15 - 35	+1.2
Cash (including currency instruments)	71,606	157,675	1.9	4.2	-	0 - 5	+4.2
Total	**3,828,656**	**3,742,691**	**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 decreased over the year by £86m due to negative returns from most growth asset classes (particularly equities). At the start of the year, developed equities were overweight relative to benchmark (and outside the range in the SIP) awaiting the funding of the infrastructure mandate. At 31 March 2016 they remained overweight but within the agreed tolerance ranges. £146m was disinvested from developed market equities to fund the infrastructure mandate (held as cash at 31 March 2016).

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation

Manager	Asset Class	31/03/2015 (£'000)	31/03/2016 (£'000)	31/03/2015 (%)	31/03/2016 (%)
BlackRock	Passive Multi-Asset	1,216,557	1,025,565	31.8	27.4
Jupiter	UK Equities	175,562	173,896	4.6	4.6
TT International	UK Equities	194,929	201,993	5.1	5.4
Schroder	Global Equities	256,314	253,764	6.7	6.8
Genesis	Emerging Market Equities	160,236	149,181	4.2	4.0
Unigestion	Emerging Market Equities	191,725	178,118	5.0	4.8
Invesco	Global ex-UK Equities	291,423	289,696	7.6	7.7
SSgA	Europe ex-UK & Pacific inc. Japan Equities	124,517	119,803	3.3	3.2
Pyrford	DGF	124,700	126,947	3.3	3.4
Standard Life	DGF	243,477	233,981	6.4	6.3

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

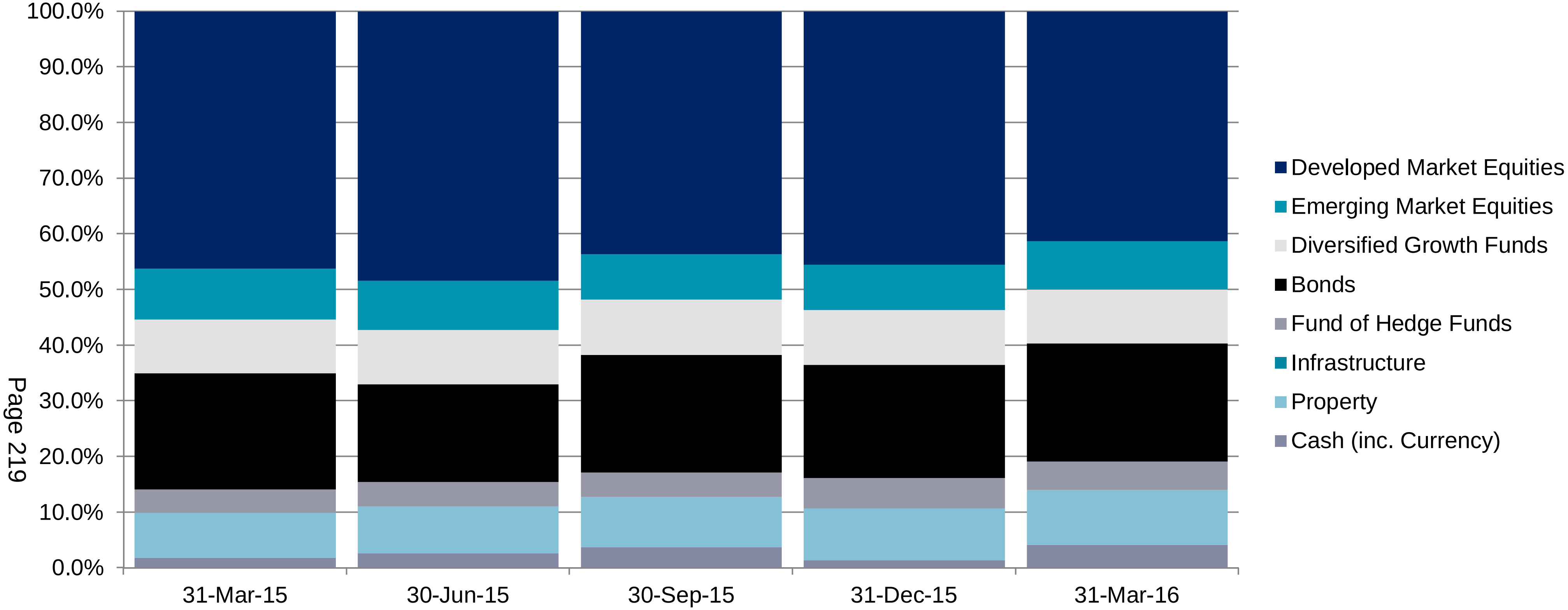
FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation

Manager	Asset Class	31/03/2015 (£'000)	31/03/2016 (£'000)	31/03/2015 (%)	31/03/2016 (%)
MAN	Fund of Hedge Funds	549	422	0.0	0.0
Signet	Fund of Hedge Funds	63,441	1,056*	1.7	0.0
Stenham	Fund of Hedge Funds	39,661	-	1.0	-
Gottex	Fund of Hedge Funds	59,141	3,542	1.5	0.1
JP Morgan	Fund of Hedge Funds	-	187,695	-	5.0
Schroder	UK Property	177,723	195,868	4.6	5.2
Partners	Property	136,985	171,811	3.6	4.6
RLAM	Bonds	308,883	289,662	8.1	7.7
Record Currency Management	Currency Hedging	20,608	-29,293	0.5	-0.8
Internal Cash	Cash	42,224	169,023**	1.1	4.5
Total		**3,828,656**	**3,742,691**	**100.0**	**100.0**

Source: WM Services, Avon. Totals may not sum due to rounding.
* Change in valuation methodology from using Net Asset Value to listed price.
** Includes £136m to be transferred into the IFM infrastructure fund on 1 April.

COMMENTARY ON CHANGE IN ASSET ALLOCATION OVER THE YEAR



There were a number of changes made to the Fund's asset allocation over the year. Starting in Q3 2015, the Fund disinvested from the Fund of Hedge Funds mandates held with Signet, Stenham and Gottex, and the proceeds were transferred into the JP Morgan Fund of Hedge Funds. A new IFM Infrastructure fund, whose proceeds were sourced from BlackRock developed market equities end March 2016, was funded on 1st April 2016. Changes also took place in the Stabilising Asset portfolio as fixed interest gilts and overseas government bonds were fully transitioned to index-linked gilts over Q1 2016.

Cash allocations were higher in Q3 2015 and Q1 2016 as they include monies kept as cash to be transferred to the JP Morgan fund and to IFM Infrastructure fund respectively.

SECTION 4

MARKET BACKGROUND

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MARKET BACKGROUND
INDEX PERFORMANCE OVER THE YEAR TO 31 MARCH 2016

Equity Market Review

Financial markets suffered from volatility over the period, with sharp sell offs in summer 2015 and the beginning of 2016 due to concerns over slow global economic growth of US monetary policy tightening. Over the 12 months to 31 March 2016, global equities generally posted disappointing returns over the year, with the FTSE All World returning -0.5% in sterling terms and -4.2% in local currency terms (as sterling depreciated).

At a regional level, most major equity markets recorded negative returns in sterling terms. European markets returned -4.2%. UK stocks returned -3.9% while the FTSE Japan index returned -3.3%. The FTSE USA index was the main exception to this trend, delivering a positive return of 4.2% due to the strengthening of the US Dollar relative to sterling. Emerging markets performed disappointingly with the strength of the dollar and falling oil prices, returning -8.9%.

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Bond Market Review

UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned 3.3%, while long dated issues as measured by the corresponding Over 15 Year Index generated a return of 4.0% over the year. The yield on the FTSE Gilts All Stocks index fell over the year from 2.0% to 1.9% p.a.

Real yields also fell marginally over the year, with the FTSE All Stocks Index Linked Gilts index returning 1.7% with the corresponding over 15 year index delivering a return of 2.4%.

In a broad risk-off environment, credit spreads widened over the year resulted in a total return of 0.4% for UK corporate bonds. Gilt yields saw a slightly decrease over the period.

Currency Market Review

Over the 12 month period to 31 March 2016, Sterling fell 3.2% against the US Dollar from \$1.49 to \$1.44. Sterling depreciated 9.3% against the Yen from ¥178.03 to ¥161.55. Sterling depreciated against the Euro by 8.8% from €1.38 to €1.26 over the same period.

Commodity Market Review

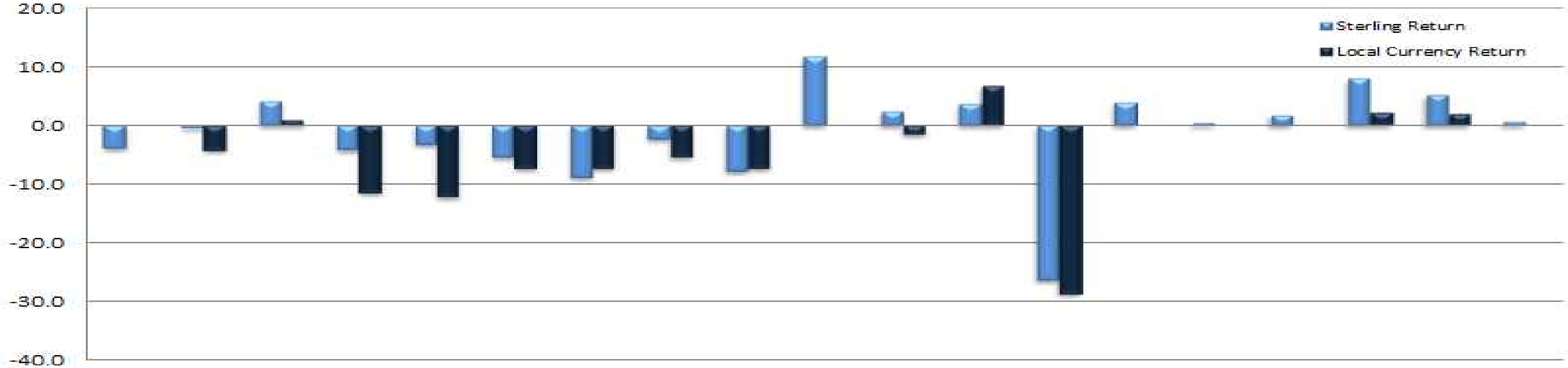
The price of Brent Crude fell by 26.8% from \$54.56 to \$39.95 per barrel over the one year period to 31 March 2016. Over the same period, the price of Gold rose by 3.9% from \$1,187.60 per troy ounce to \$1,234.34.

The S&P GSCI Commodity Spot Index fell by 15.8% over the one year period to 31 March 2016 in sterling terms.

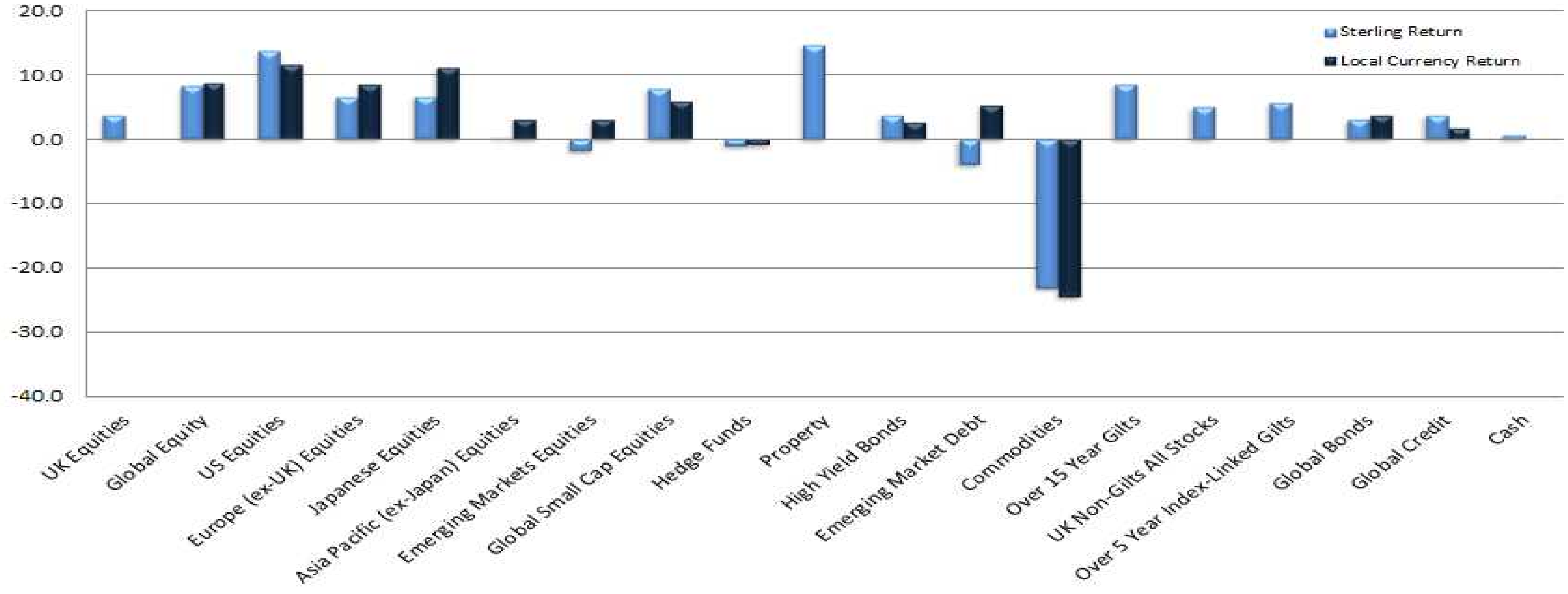
Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE

Return over the 12 months to 31 March 2016



Return p.a. over the 3 years to 31 March 2016



Source: Thomson Reuters Datastream.

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SECTION 5

PERFORMANCE SUMMARY

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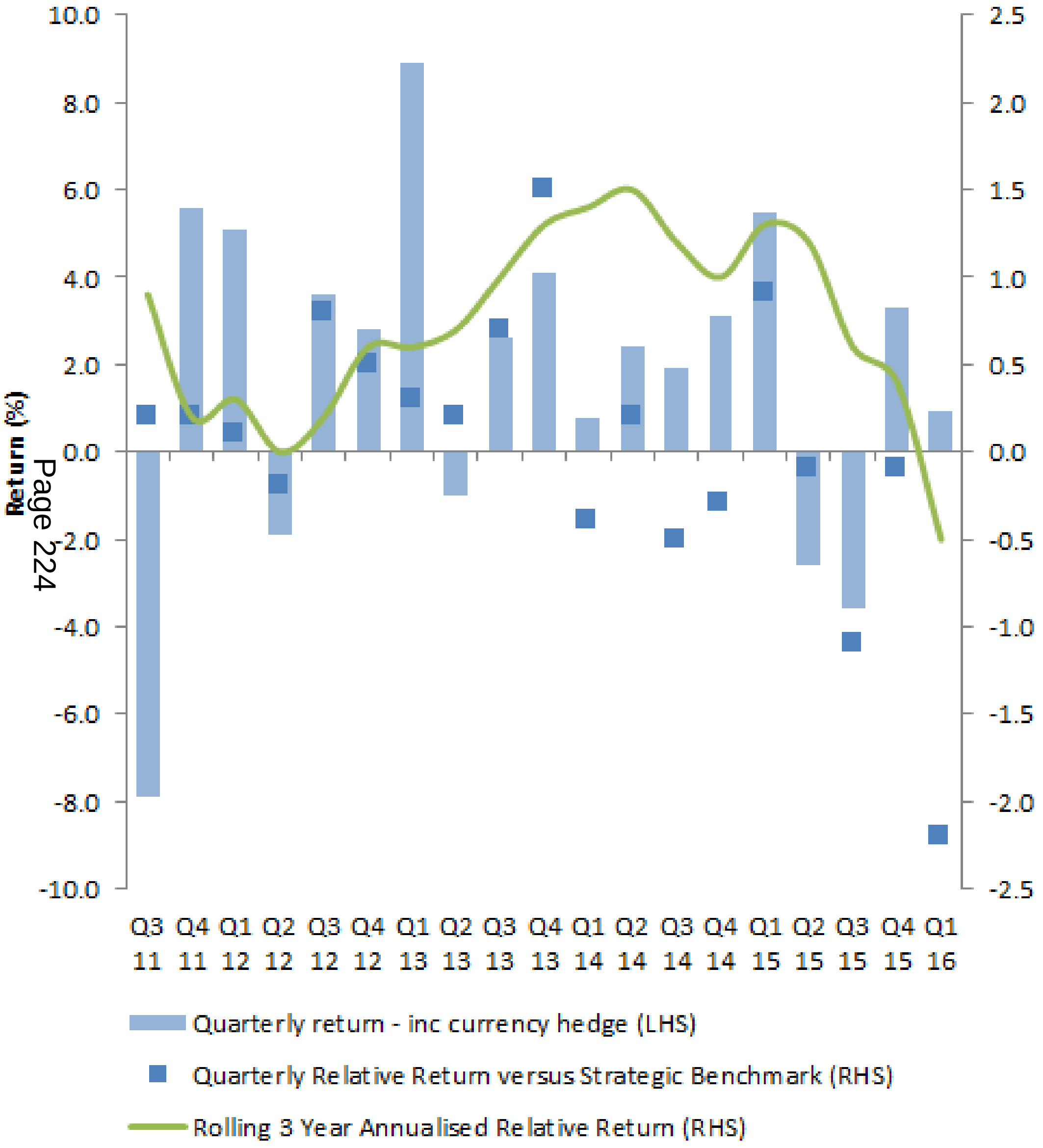
PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE



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	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	0.9	-2.1	5.8
Total Fund (ex currency hedge)	1.9	-0.2	6.1
Strategic Benchmark (no currency hedge)	3.1	1.5	6.3
Relative (inc currency hedge)	**-2.2**	**-3.6**	**-0.5**

- Over the year, the Fund underperformed its Strategic Benchmark by 3.6% when including the currency hedge and by 1.7% excluding the currency hedge.
- The latest quarter's underperformance and the outperformance of Q1 2013 falling out of the 3-year period meant the rolling three year outperformance of 0.4% p.a. (at the end of 2015) is now an underperformance of 0.5% p.a.
- The Fund underperformed the unhedged strategic benchmark return (which excludes currency hedging) over the year. Approximately half of this underperformance has come from the currency hedge (as sterling depreciated over the year, while the other half is largely as a result of the relative underperformance when compared to their strategic benchmark returns of the Standard Life GARS, property and overseas equity mandates.
- Underperformance of the Fund return when the currency hedge with Record is included is higher than when the currency hedging is excluded due to the significant depreciation of sterling over the year.

PERFORMANCE SUMMARY
INDEX PERFORMANCE VS. ASSUMED STRATEGIC RETURN

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	9.3	*Remains ahead of the assumed strategic return.* *This has decreased from 13.6% p.a. last quarter as the latest quarter's return of 2.4% was considerably lower than the 15.1% return of Q1 2013, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	-1.8	*The three year return from emerging market equities has increased from -2.9% p.a. last quarter, as the return of 8.8% experienced last quarter was higher than the quarter that fell out of the period (5.4%). The three year return remains considerably below the assumed strategic return.*
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 6.6	*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 and low inflation means that both benchmarks have significantly underperformed the long term expected return from equity. During periods of strong equity returns, such as the last three year period, we would expect DGF to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	8.6	*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 the quarter that fell out of the 3-year return offset the fall in yields (and hence positive total returns) experienced in the last quarter. Corporate bond returns have increased this quarter, but over three years continue to be below the strategic assumed return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	5.6	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	5.0	
Overseas Fixed Interest (JP Morgan Global Government Bonds ex UK)	5.5	2.6	*Although still lagging the strategic assumed return, the 3 year performance from overseas fixed interest increased over the quarter due to a strong quarterly return of 9.8%.*
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	-1.0	*Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. 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.

PERFORMANCE SUMMARY
INDEX PERFORMANCE VS. ASSUMED STRATEGIC RETURN

Asset Class	Weight in Strategic Benchmark (From October 2013)[1] (%)	Index returns 1 year (%)	Contribution to total benchmark 1 year (%)	Index returns 3 years (% p.a.)	Contribution to total benchmark 3 years (% p.a.)	Assumed strategic return: Return (% p.a.)	Assumed strategic return: Contribution[2] (% p.a.)
UK Equities	**15.0**	-3.9	-0.6	**3.7**	0.6	**8.25**	-0.7
Overseas Equities	**25.0**	0.2	0.0	**10.1**	2.8	**8.25**	0.5
Emerging Market Equities	**10.0**	-9.1	-0.9	**-2.4**	-0.1	**8.75**	-0.9
Diversified Growth Funds	**10.0**	4.6	0.5	**4.6**	0.2	**4.6**	-0.2
UK Government Bonds	**3.0**	4.0	0.1	**8.6**	0.2	**4.5**	0.1
UK Corporate Bonds	**8.0**	0.4	0.0	**5.0**	0.4	**5.5**	0.0
Index Linked Gilts	**6.0**	1.8	0.1	**5.6**	0.4	**4.25**	0.1
Overseas Fixed Interest	**3.0**	9.8	0.3	**2.6**	0.1	**5.5**	-0.1
Fund of Hedge Funds	**10.0**	4.6	0.5	**4.6**	0.2	**6.0**	-0.4
Property	**10.0**	15.1	1.5	**13.0**	1.4	**7.0**	0.7
Total Fund	**100.0**		**1.5**		**6.3**	**6.9**	**-0.7**

Source: WM and Mercer estimates. May not sum due to rounding.
1. Allocations used by WM to calculate the total strategic benchmark return BEFORE the agreed investment in infrastructure.
2. Contribution to total difference between strategic benchmark return over last three years (6.3% p.a.) and overall assumed strategic return (6.9% p.a.) – weighted by strategic benchmark.

MANAGER MONITORING
RISK RETURN ANALYSIS

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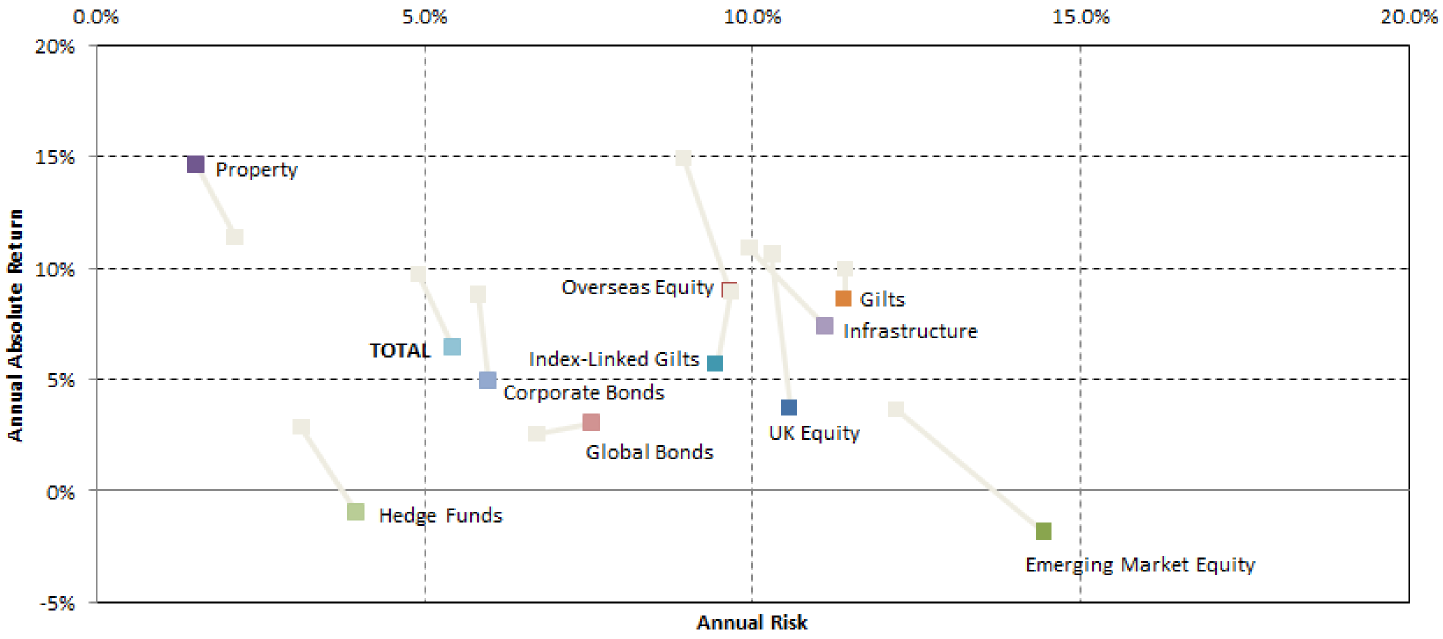
3 Year Risk v 3 Year Return to 31 March 2016 (31 March 2015 in grey)



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of March 2016, 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 31 March 2015, in grey.

Comments

- *The most significant shifts in observed returns and volatilities over the year were in equities, in particular emerging markets equities which saw returns decreasing and volatility increasing considerably.*
- *Observed returns from hedge funds and index-linked gilts also decreased significantly.*
- *Property saw its return increasing with a slight decrease in volatility.*

ACTIVE INVESTMENT MANAGER CONTRIBUTION YEAR TO 31 MARCH 2016

Asset Class	Weight in Strategic Benchmark Start (%)	Weight in Strategic Benchmark End (%)	Average overweight position (%)	Fund return (%)	Index return (Strategic Benchmark) (%)	Asset allocation impact (%)	Active management's impact (%)
UK Equities	15.0	15.0	-1.3	-1.0	-3.9	-	+0.5
Overseas Equities	25.0	25.0	4.2	-0.9	0.2	-0.1	-0.3
Emerging Market Equities	10.0	10.0	-1.1	-6.8	-9.1	+0.1	+0.2
Diversified Growth Funds	10.0	10.0	-0.4	-2.0	4.6	-	-0.6
UK Government Bonds	3.0	3.0	-1.5	2.4	4.0	-	-
UK Corporate Bonds	8.0	8.0	1.0	0.5	0.4	-	-
Index Linked Gilts	6.0	6.0	2.2	1.9	1.8	-0.1	-
Overseas Fixed Interest	3.0	3.0	-1.5	7.4	9.8	-	-
Fund of Hedge Funds	10.0	10.0	-5.4	0.5	3.2	-0.1	-0.1
Property	10.0	10.0	-1.2	8.3	15.1	-0.2	-0.5
Total Fund	**100.0**	**100.0**		**-0.2**	**1.5**	**-0.6**	**-1.0**

The table above compares the actual returns experienced by the Fund versus the returns under the strategic benchmark (rather than each mandate's specific benchmark) in order to analyse the difference between the Fund's total return of -0.2% over the year versus the Strategic Benchmark return of +1.5% (both excluding the impact of currency hedging).

Of the total underperformance of 1.7% over the year, c. 1.0% was as a result of individual returns being lower on average than the index returns in the strategic benchmark. This has varied among mandates, with strong relative performance from the two UK equity managers and the emerging market mandates, but underperformance versus the strategic benchmark in particular for diversified growth funds (which are compared to a long-term target of LIBOR + 4% p.a.) and property.

Asset allocation also detracted from returns (with the Fund on average 1.2% underweight in property, which experienced strong returns over the year, and overweight to overseas equities, which underperformed the total benchmark return.

Source: WM and Mercer estimates. May not sum due to rounding. Numbers exclude cash.
Average overweight position taken as the average of the beginning and end of year weights.

MANAGER MONITORING
MANAGER PERFORMANCE TO 31 MARCH 2016

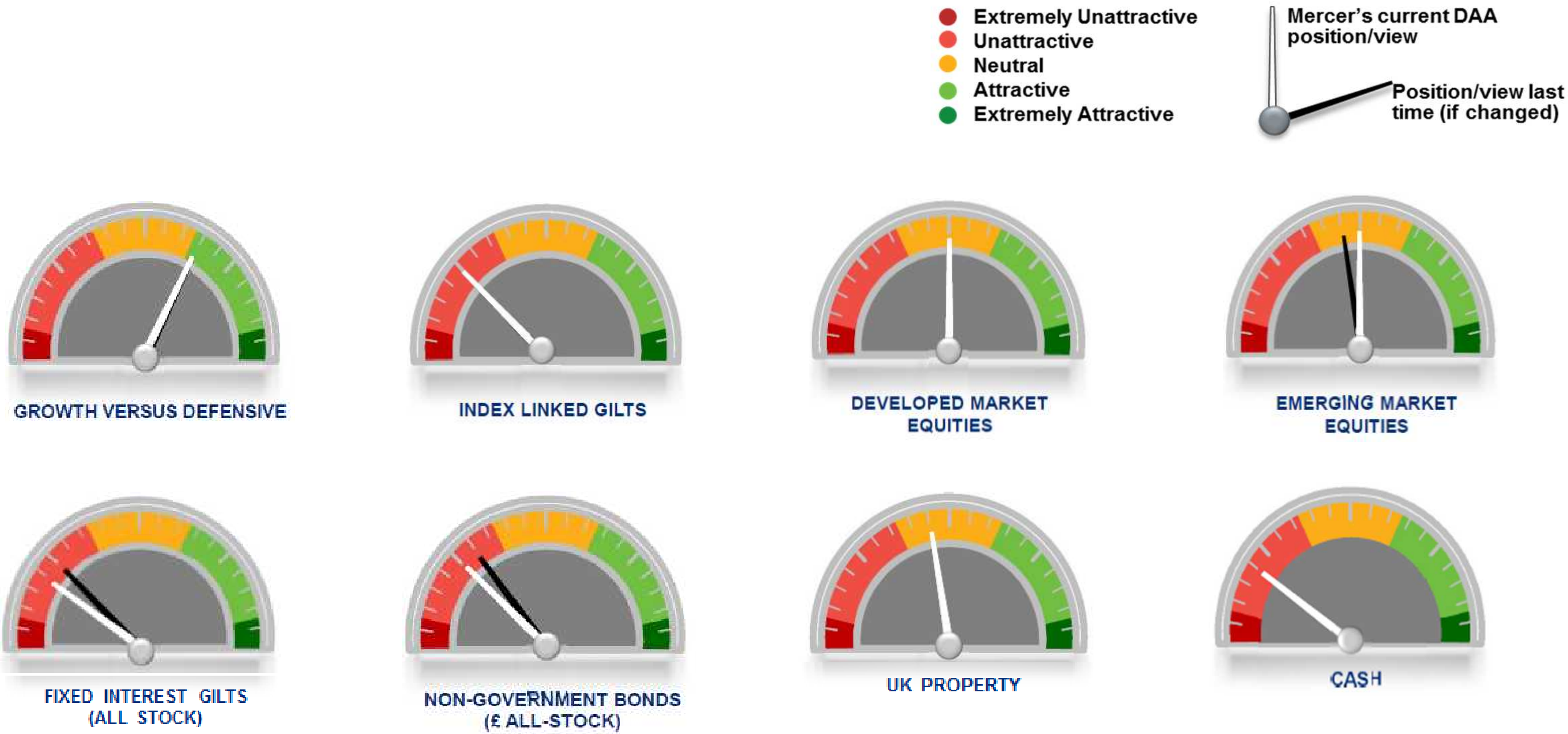
Manager / fund	3 months (%)			1 year (%)			3 year (% p.a.)			3 year outperformance target (% p.a.)	3 year performance versus target
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative		
BlackRock Multi-Asset	3.5	3.7	-0.1	0.6	0.5	+0.1	7.1	6.9	+0.2	-	Target met
Jupiter	-1.3	-0.4	-0.9	-1.4	-3.9	+2.6	7.2	3.7	+3.4	+2	Target met
TT International	-2.0	-0.4	-1.6	3.4	-3.9	+7.6	7.3	3.7	+3.5	+3-4	Target met
Schroder Equity	0.1	2.9	-2.7	-1.5	-0.6	-0.9	7.9	8.0	-0.1	+4	Target not met
Genesis	9.3	8.4	+0.8	-6.5	-8.8	+2.5	-1.9	-2.4	+0.5	-	Target met
Unigestion	7.1	8.4	-1.2	-7.1	-9.1	+2.2	N/A	N/A	N/A	+2-4	N/A
Invesco	1.9	2.3	-0.4	-0.6	0.2	-0.8	9.9	9.4	+0.5	+0.5	Target met
SSgA Europe	0.1	0.0	+0.1	-4.0	-5.0	+1.1	7.2	5.9	+1.2	+0.5	Target met
SSgA Pacific	-0.3	-0.5	+0.2	-4.1	-4.4	+0.3	3.8	3.1	+0.7	+0.5	Target met
Pyrford	2.6	1.4	+1.1	1.8	6.6	-4.5	N/A	N/A	N/A	-	N/A
Standard Life	-3.3	1.4	-4.6	-4.5	5.6	-9.6	N/A	N/A	N/A	-	N/A
JP Morgan	0.6	0.9	-0.3	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Schroder Property	1.2	1.1	+0.1	10.5	10.6	-0.1	13.5	13.0	+0.5	+1	Target not met
Partners Property	2.9	1.1	+1.8	4.5	8.6	-3.8	6.5	11.6	-4.5	+2	Target not met
RLAM	2.7	3.2	-0.5	0.4	0.4	0.0	5.8	4.9	+0.9	+0.8	Target met
Internal Cash	0.1	0.1	0.0	0.3	0.3	0.0	0.4	0.3	+0.1	-	N/A

Source: WM Services, Avon, Mercer estimates.
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.

Note that the benchmark of the DGFs includes their outperformance target above cash. Growth asset returns over the year have been subdued, meaning opportunities to hit the high performance targets has been limited; it should be remembered that these are longer-term targets and should be considered over a full market cycle.

The benchmark for the Partners mandate changed over the year; up to 30 September 2015 the funds returned were reported versus the UK IPD Pooled Property Funds All Balanced Funds Index (consistent with the benchmark for the Schroder UK property mandate); from 30 September 2015 the benchmark used is 6m LIBOR + 4% p.a.

FORWARD LOOKING RETURN EXPECTATIONS 31 MARCH 2016



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The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Fund to make frequent tactical changes to their asset allocation based upon these views.

FORWARD LOOKING RETURN EXPECTATIONS CHANGES OVER THE LAST YEAR

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

APPENDIX 1
MANAGER MONITORING

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MANAGER MONITORING
UK EQUITIES

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance *	Fund	B'mark	Relative	Target	Contribution to outperformance *
Jupiter	-1.4	-3.9	+2.6	+0.12	7.2	3.7	+3.4	+2	+0.16
TT International	3.4	-3.9	+7.6	+0.38	7.3	3.7	+3.5	+3-4	+0.18

Source: WM Services / Mercer estimates.
* "Contribution to outperformance" is the annualised impact on total return of the individual managers' performance relative to their benchmark over the periods measured, and provides an indication of the relative impact of manager out- or under-performance.

Market Commentary

- UK Equities fell over the year, returning -3.9%, driven by investor concerns over a slowing global economy and the looming EU referendum. This lagged global markets which returned -0.5% in sterling terms.

Performance Commentary

- Jupiter have outperformed the benchmark and target over the one and three year periods. Tracking error has stayed between c3.5% and 3.6% over the year. The fund performed in line with the median UK active manager in Mercer's universe over the year.
- Jupiter's holdings remain noticeably different from the benchmark, due in large part to its Socially Responsible Investment objectives – having a significant underweight to large cap stocks and overweight to midcap stocks.
- TT's unconstrained mandate significantly outperformed over the year by 7.6% and over the three year period by 3.5% p.a., meeting the target, with strong stock selection being a significant driver of returns. Over the year, the portfolio has held underweight positions in the Oil & Gas and Basic Materials (which includes mining companies). Both of these sectors saw negative returns over the year as commodity prices fell significantly.

MANAGER MONITORING
DEVELOPED GLOBAL EQUITIES

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Invesco	-0.6	0.2	-0.8	-0.05	9.9	9.4	+0.5	+0.5	+0.04
SSgA Europe	-4.0	-5.0	+1.1	+0.01	7.2	5.9	+1.2	+0.5	+0.01
SSgA Pacific	-4.1	-4.4	+0.4	+0.01	3.8	3.1	+0.7	+0.5	+0.02
Schroder	-1.5	-0.6	-0.9	-0.08	7.9	8.0	-0.1	-	-0.01

Source: WM Services / Mercer estimates.

Market Commentary

- Performance of global equities was broadly muted over the year, with a -0.5% return in sterling terms, however performance across regions varied significantly. US equities delivered a positive return (+4.2%), whilst Europe (-4.2%), Japan (-3.3%) and the UK (-3.9%) all delivered negative returns (again, in sterling terms)

Performance Commentary

- Invesco underperformed over the year but outperformed over the three year period, matching the target. Invesco's tracking error remains small at 1.5% p.a. since inception, while sector and country allocations remain relatively close to benchmark weightings (as would be expected for an enhanced indexation product), with all within +/- 1.0% at 31 March 2016.
- Both SSgA funds outperformed over the year and three year periods.
- Schroder underperformed over the year and three year periods, with a three year tracking error of 2.7%.

MANAGER MONITORING
EMERGING MARKET EQUITIES

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Genesis	-6.5	-8.8	+2.5	+0.09	-1.9	-2.4	+0.5	-	+0.02
Unigestion	-7.1	-9.1	+2.2	+0.08	N/A	N/A	N/A	+2-4	+0.06

Source: WM Services / Mercer estimates.

Market Commentary

- Emerging market equities, measured by FTSE All World Emerging, fell by 8.9% over the year, underperforming their developed market counterparts (FTSE All World Developed) which returned 0.3%, as falling commodity prices and concerns over slowing economic growth affected a number of countries in this region significantly.

Performance Commentary

- Genesis outperformed by 2.5% over the year. This was largely due to outperformance in Q3 2015 and Q1 2016, when the portfolio benefitted from its underweight position in China, although this remains as the largest regional weighting of the portfolio. The fund also outperformed over the three years, by 0.5%.
- Unigestion outperformed by 2.2% over the year. Over the period since inception (in January 2014), they have returned 3.3% p.a. against a benchmark return of 1.8% p.a. They have achieved this with lower volatility than the benchmark (16.3% p.a. vs 18.9% p.a.). The largest regional weighting of the portfolio is in South Korea (22%) and the vast majority of holdings (82.1%) are in mega- or large-cap stocks.

MANAGER MONITORING
FUND OF HEDGE FUNDS

Manager / fund	1 Year (%) *				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
JP Morgan	4.2 (-4.0)	2.4	+1.8	+0.02	N/A	N/A	N/A	-	N/A

Source: WM Services / JP Morgan / Mercer estimates. US dollar return in brackets.
* Returns since inception on 1 August 2015 shown as fund has not been invested for the whole period.

Market Commentary

- Fund of Hedge Funds have generally lagged equity markets over the year and three years; over the year to 31 March 2016 the HFRI index fell 5.5%, the HFRX index returned -7.4% and the Dow Jones Credit Suisse Hedge Fund Index returned -5.2% (USD returns).
- Looking at specific sectors, relative value strategies produced modest negative returns with fixed income and convertible arbitrage strategies returning -0.5% and 0.0% over the year.
- Long/short equity strategies performed poorly given the modestly positive backdrop from directional exposure returning -2.2%, while market neutral strategies benefited from volatility, returning 3.9% over the year. Event driven strategies continued to struggle in light of the lack of deal progress and reduced credit market liquidity, returning -11.9%,although merger arbitrage strategies held up better on the back of robust global M&A activity, with a record-setting $5.7 trillion in announced deals during 2015.
- The broad global macro universe also produced negative returns (of -6.2%) in volatile markets.
- We continued to see dispersion in manager results across strategies.
- Returns are in USD; source: Credit Suisse Hedge Index LLC.

Performance Commentary

- JP Morgan returned 4.2% over the period since inception on 1 August 2015 (in sterling terms), against a benchmark of 2.4%. This however masks the underlying USD returns, which were -4.0% over the same period. Relative value strategies were the biggest contributors to performance over the period while long/short equity strategies were the biggest detractor.

MANAGER MONITORING
MULTI-ASSET AND DGF

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
BlackRock	0.6	0.5	+0.1	-0.03	7.1	6.9	+0.2	-	+0.04
Pyrford	1.8	6.6	-4.5	-0.14	N/A	N/A	N/A	-	N/A
Standard Life	-4.5	5.6	-9.6	-0.65	N/A	N/A	N/A	-	N/A

Source: WM Services / Mercer estimates.

Performance Commentary

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- The passive multi-asset mandate managed by BlackRock continues to perform broadly in line with underlying indices (as expected).
- Over the last year, equity and bond markets provided low returns, affecting the returns of the multi-asset funds. Both Pyrford and Standard Life significantly underperformed their benchmarks over the year, by 4.5% and 9.6% respectively.
- The benchmark used for the DGFs includes their outperformance target above cash. Growth asset returns over the year have been subdued, meaning opportunities to hit the high performance targets has been limited. These targets are set over the longer term, however and conclusions cannot be drawn over a 12 month period.
- Pyrford has increased its portfolio allocation to equities over the year (from 29% to 37%). This decision was made by Pyrford's Investment Strategy Committee in Q1 2016 in light of sharp falls in equity markets. The target allocation is now 35% in equities, 62% in fixed income and 3% in cash.
- It has been a difficult period for Standard Life since the Fund's investment was made. Three out of four quarters have seen negative performance, with Q1 2016 being the most challenging quarter as performance suffered from the Fund being overweight equities and underweight duration.

MANAGER MONITORING
CORPORATE BONDS

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
RLAM	0.4	0.4	0.0	-0.01	5.8	4.9	+0.9	+0.8	+0.06

Source: WM Services / Mercer estimates.

Market Commentary

- In a broad risk-off environment, credit spreads widened over the year resulted in a total return of 0.4% for UK corporate bonds. Gilt yields saw a slightly decrease over the period.

Performance Commentary

- RLAM have performed in line with the benchmark over the year and outperformed over three year period by 0.9%, meaning they met the performance target.
- Relative to the benchmark the portfolio has a shorter duration (7.5 years vs 7.8), a higher weighted average gross redemption yield (3.7% vs 2.8%) and a significantly more concentrated portfolio of stocks (at 301 vs 1,019).
- This reflects the positioning of the strategy, which has been consistently overweight BBB and BB bonds at the expense of AAA and AA, and with a sizable allocation to unrated bond (reflecting their longstanding view that higher yielding, lower rated bonds will outperform investment grade credit).

MANAGER MONITORING
PROPERTY

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Schroder	10.5	10.6	-0.1	0.00	13.5	13.0	+0.5	+1	+0.03
Partners	4.5	8.6	-3.8	-0.13	6.5	11.6	-4.5	+2	-0.17

Source: WM Services / Mercer estimates.

Market Commentary

- The UK property market was strong over the year, returning 10.6% (measured by the UK IPD PPF All Balanced Funds Index – the benchmark for the Schroder mandate. This comes with an improving UK economy as rental rates in commercial property increased, boosting property valuations.
- The benchmark for the Partners mandate changed over the year; up to 30 September 2015 the funds returned were reported versus the same benchmark as the Schroder UK property mandate; from 30 September 2015 the benchmark used is 6m LIBOR + 4% p.a.

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Performance Commentary

- Schroder slightly underperformed the benchmark over the year and failed to meet the target over the three year period (albeit they outperformed the benchmark over the period). Partners underperformed the benchmark over the year and three year periods.
- Schroder's outperformance over the three year period was largely due to strong performance from Value Add strategies, with holdings in central London offices and the industrial sector being the main positive drivers of returns.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2016 at 8.4% p.a. (in local currency) is below their target of 10% p.a.

MANAGER MONITORING CURRENCY

Market Commentary

- Over the 12 month period to 31 March 2016, Sterling fell 3.2% against the US Dollar from $1.49 to $1.44. Sterling depreciated 9.3% against the Yen from ¥178.03 to ¥161.55. Sterling depreciated against the Euro by 8.8% from €1.38 to €1.26 over the same period.
- More recently, over the last quarter, sterling depreciated significantly against its major counterparts as Brexit fears sparked investor concerns.

Performance Commentary

- On 30 October 2015, the dynamic hedging mandate was closed and a new passive mandate was initiated to hedge 50% of the currency exposure on developed global equities (dollar, euro and yen), and 100% on the hedge fund and global property mandates; in practice, as the change to the hedging policy for equities was agreed earlier in the month, Record effectively “froze” their dynamic hedging ratios in mid October when the dynamic hedge was near 50%.
- Over the period since inception, the three initiated hedging mandates have all slightly outperformed their informal benchmark returns.

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Currency Hedging 12 Month Performance (£ terms)

Dynamic Hedge *- terminated on 30 October 2015*

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)	Net Return (%)
USD	559,047,385	0	(3.88%)	1.95%	(2.02%)	(5.71%)
EUR	207,358,854	0	(1.13%)	0.69%	(1.33%)	(2.30%)
JPY	147,838,770	0	(4.48%)	2.33%	1.39%	(2.83%)
Total	**914,245,009**	**0**	**(3.34%)**	**1.74%**	**(1.28%)**	**(4.46%)**

Passive Developed Equity Hedge *- started on 30 October 2015*

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	519,385,896	572,761,642	7.45%	(3.42%)	(3.37%)	4.03%
EUR	202,510,453	188,644,012	10.84%	(4.81%)	(4.82%)	5.75%
JPY	130,307,306	130,089,526	15.37%	(6.78%)	(6.76%)	8.21%
Total	**852,203,655**	**891,495,180**	**9.33%**	**(4.17%)**	**(4.14%)**	**4.99%**

Passive Hedge Fund Hedge *- started on 30 October 2015*

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	59,388,255	194,312,572	7.45%	(6.85%)	(6.83%)	0.39%
Total	**59,388,255**	**194,312,572**	**7.45%**	**(6.85%)**	**(6.83%)**	**0.39%**

Passive Property Hedge *- started on 30 October 2015*

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	31,856,476	36,421,737	7.45%	(6.91%)	(6.74%)	0.57%
EUR	118,279,395	134,164,968	10.84%	(9.65%)	(9.61%)	0.52%
Total	**150,135,871**	**170,586,705**	**10.11%**	**(9.00%)**	**(8.93%)**	**0.53%**

APPENDIX 2
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	3 Month LIBOR +4% p.a.	-
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 3

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 4

CHANGES IN YIELDS

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CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 March 2016	31 December 2015	31 March 2015	31 March 2013
UK Equities	3.77	3.70	3.33	3.35
Over 15 Year Gilts	2.17	2.57	2.23	3.02
Over 5 Year Index-Linked Gilts	-0.97	-0.70	-0.91	-0.41
Sterling Non Gilts	2.90	3.23	2.65	3.28

- UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned 3.3%, while long dated issues as measured by the corresponding Over 15 Year Index generated a return of 4.0% over the year. The yield for the FTSE Gilts All Stocks index fell over the year from 2.0% to 1.9%.
- The FTSE All Stocks Index Linked Gilts index returned 1.7% with the corresponding over 15 year index delivering a return of 2.4%.
- Corporate debt as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index returned 0.4%.
- In a broad risk-off environment, credit spreads widened over the year resulted in a total return of 0.4% for UK corporate bonds. Gilt yields saw a slightly decrease over the period.

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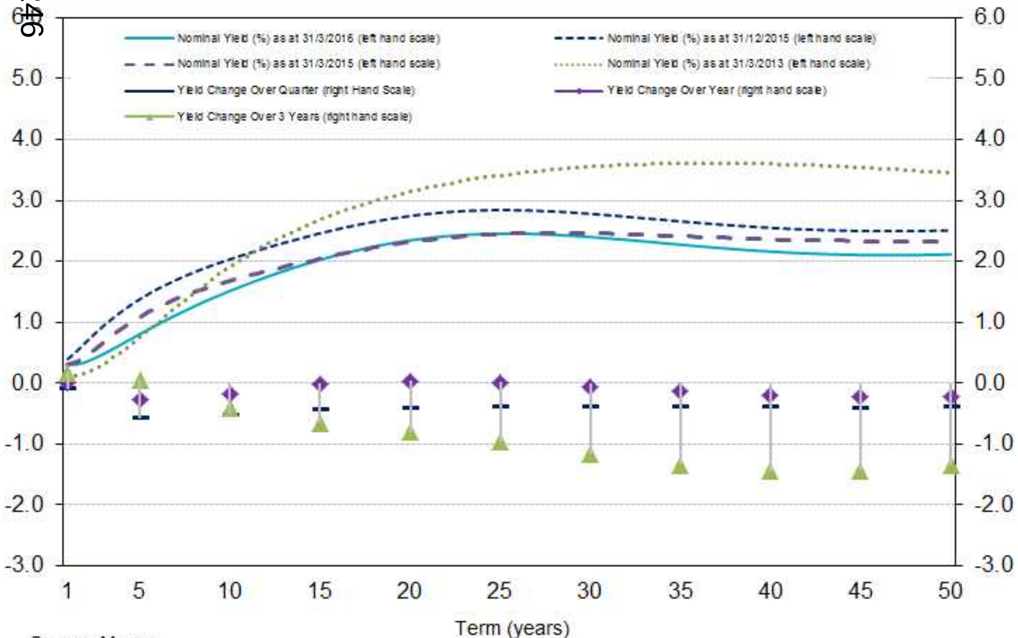
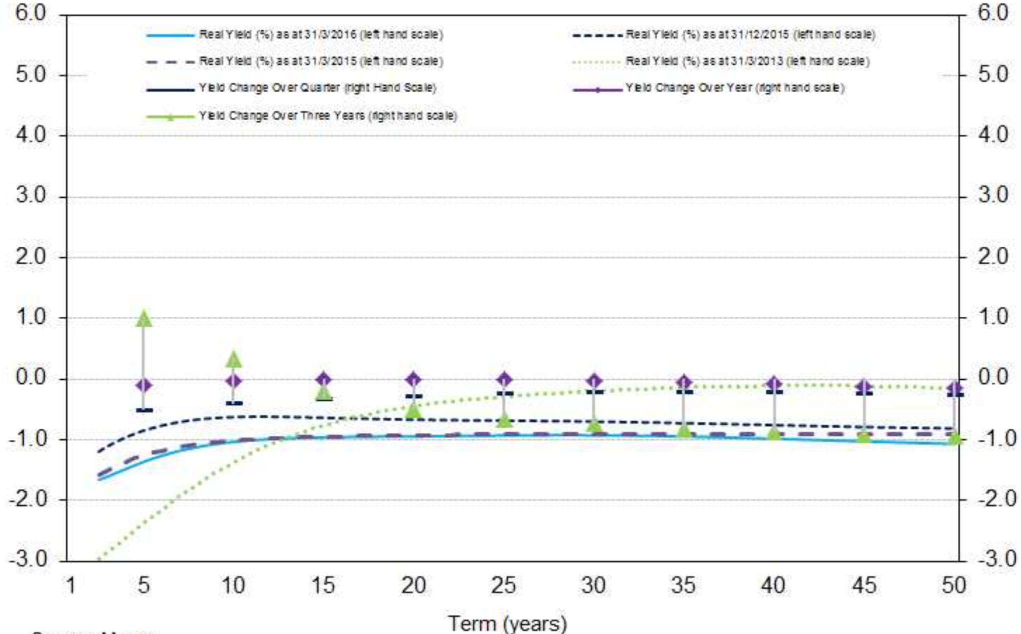
Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

APPENDIX 5

HEDGE FUND INDICES

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HEDGE FUND INDICES

HFRI Diversified Fund of Fund Index

- The Diversified Fund of Fund Index is an equally-weighted index comprising fund of fund managers that satisfy the following criteria: Invest in a variety of strategies across multiple managers, exhibit standard deviation and returns correlation similar to the HFR Fund of Funds composite index. The trailing four months' performance figures are left as estimates and are subject to change; performance beyond four months is locked and not subject to change. If a fund liquidates or closes, that fund's performance will be included in the index as of the fund's last reported performance. There is no minimum asset size or minimum track record length requirement for inclusion in the index. Both domestic and offshore funds are included

HFRX Global Hedge Fund Index

- The HFRX Global Hedge Fund Index is an "investible" index designed to be representative of the overall composition of the hedge fund universe (it is termed "investible" because investors are able to access all of the underlying funds and as such generate a return in line with the index). It is comprised of eight strategies: convertible arbitrage, merger arbitrage, equity hedge, equity market neutral, relative value arbitrage, event driven, distressed securities, and global macro. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

Credit Suisse Hedge Fund Index

- The Credit Suisse Hedge Fund Index (formerly the Dow Jones Credit Suisse/Tremont Hedge Fund Index) is an asset weighted index of hedge funds. Funds in the Dow Jones Credit Suisse Hedge Fund universe must have a minimum of US $10 million assets under management ("AUM"), a minimum one-year track record and current audited financial statements

MAKE TOMORROW, TODAY

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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 public sector pension funds in the UK with combined assets of over £175 billion.

QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2016

This quarter, LAPFF membership reached 70, welcoming Sutton as its newest member

LAPFF Chairman, Cllr Kieran Quinn, cited for work on promoting the legal standard of true and fair view for accounting standards

Strategic resilience resolutions co-filed to Rio Tinto, Anglo American and Glencore supported by all three company Boards

Corporate Tax Transparency Initiative engagement meetings yield fruitful information

LAPFF welcomes new members to the Executive Committee

LAPFF remembers former LAPFF chair and Lord Mayor of Bradford, Cllr Bob Sowman

Achievements

LAPFF Chairman, Kieran Quinn, listed as number 17 on Accountancy Age's Financial Power List for 2016

Cllr Quinn has been included on this list for his work on promoting the legal standard of true and fair view for accounting standards. This ranking demonstrates LAPFF's growing traction in promoting the legal standard of a true and fair view of accounts in the UK's accounting industry. The Forum's initiative is also growing in prominence at the European level, with LAPFF's latest communication to Lord Hill, Commissioner for Financial Stability, Financial Services and Capital Markets Union, calling for a clarification of the European Financial Reporting Advisory Group (EFRAG)'s position on IFRS 9.

Strategic Resilience Resolutions co-filed by LAPFF funds supported by Boards

The boards of the three integrated mining companies, Anglo American, Rio Tinto and Glencore have confirmed they are advising investors to vote in favour of strategic resilience resolutions being put to their 2016 AGMs. The resolutions request reporting on company actions in the face of the carbon transition, including how the companies will manage their assets to be resilient to future energy scenarios. LAPFF member funds made up half of the largest co-filers by shares held at Anglo American, with eighteen funds co-filing across the three companies.

Trends begin to emerge from tax engagements

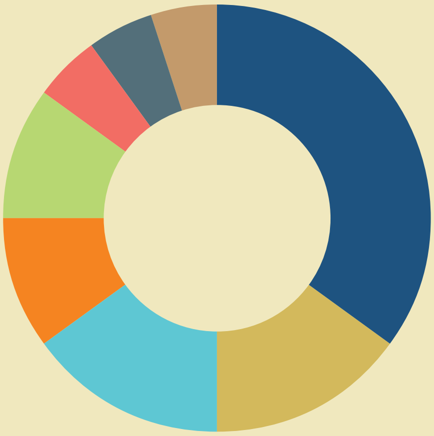
LAPFF received three more responses and met with three companies in relation to the Forum's Corporate Tax Transparency Initiative (CTTI). These engagements reveal a continued reluctance to increase disclosure of tax practices, even by companies already doing relatively well in this area. Despite this concern, a number of companies are planning to increase disclosure although investors are not yet requesting tax information to the extent they could.

Nestlé agrees to LAPFF request to review human rights reporting in light of Modern Slavery Act requirements

At **Nestlé**'s recent investor roundtable, New LAPFF Executive member, Cllr Mukesh Malhotra, asked Nestlé Chairman, Peter Brabeck-Letmathe, to consider reporting in alignment with the new UK Modern Slavery Act requirements. Mr Braceck-Letmathe agreed to look into doing so. This commitment is particularly important as the Company faces litigation before the U.S. Supreme Court relating to child labour in its supply chain.

Company Engagement

ENGAGEMENT TOPICS



Tax	7
Social risk	3
Environmental risk	3
Climate change	2
Board composition	2
Governance	1
Remuneration	1
Employment standards	1

HOLDINGS-BASED ENGAGEMENT

Although climate change strategic resilience resolution efforts have shifted in part to Glencore, Anglo American and Rio Tinto, engagement continued with **BP** to assess how the company is responding to the resolution requests from last year. A meeting with a number of BP's senior management including Head of Long-Term Planning and Head Economist took place at the end of February with colleagues from the Aiming for A coalition. Cllr Richard Greening attended on behalf of LAPFF. While BP was supportive of the resolution ahead of last year's AGM, there are concerns that its commitment to implementing the requests in the resolution are stalling. Therefore, BP's disclosure of its 'faster transition' was a welcome response to one of the resolution's components.

Engagement with another integrated miner, **BHP Billiton**, had previously been around the resolution asks on strategic resilience and the carbon transition. However, with the company issuing its 'Climate Change Portfolio Analysis' in 2015, investor focus shifted to the mining dam collapse at the Company's Samarco project in Brazil, which left at least twelve people dead, eleven missing, and untold damage to property, causing significant reputational damage for BHP. The dam is operated by Samarco as a joint venture between BHP and Vale.

Jane Firth from the LAPFF Executive spoke with BHP representatives about the Company's community engagement efforts, particularly at the Cerrejon mine in Colombia, and its responses to the Samarco disaster, in Brazil. This conversation followed Ms Firth's attendance at the BHP Billiton AGM last year, where she welcomed the Company's Portfolio Analysis report and asked about the Company's membership of industry groups with approaches to climate change at variance with Company statements. While BHP has taken a number of steps to engage effectively with communities in relation to project development, it is worrying that the Company identified a Samarco-type disaster as a risk in its annual report the year prior to the mine dam collapsing. This course of events suggests that while BHP has an effective risk identification program, it is not equally effective in taking measures to prevent these risks from materialising.

PROMOTING GOOD GOVERNANCE

LAPFF met with **Kier Group** to discuss the Company's remuneration practices. This meeting follows on from an initial meeting in 2014 regarding Kier's past involvement with blacklisting and Chairman Phil White's well-received presentation at the 2015 LAPFF Annual Conference. The latest meeting took place with Amanda Mellor, the chair of Kier's remuneration committee. The meeting achieved its aims of gaining an understanding of the Company's approach to its specific remuneration challenges; providing support for challenges to the status quo in executive pay, and pressing where LAPFF considers Kier could move further in the direction of the Forum's beliefs on executive pay. The Company's approach to non-monetary incentives was explored in line with the Forum's views on People and Investment Value.

Responsible tax payment has rapidly become a significant governance issue for investors over the last couple of years. LAPFF has been engaging with the FTSE 100 companies on tax through the Forum's Corporate Tax Transparency Initiative (CTTI) questionnaire. During the quarter, LAPFF received questionnaire responses from **Dixons Carphone, Admiral Group** and **SSE** and met with **ITV, Tesco** and **Direct Line Group** to discuss what needs to happen for companies to report more fully on their tax practices. LAPFF has employed eminent tax expert, Richard Murphy, to consult on this engagement, and the outcomes of these discussions are starting to feed into ideas for overcoming a disclosure barrier on tax.

LAPFF also wrote to **Google** following revelations that the Company had failed to pay adequate tax in the UK but as yet has had no response. Google UK had argued it was exempt from paying tax on share options. The Company's effective tax rate is allegedly between 2% and 3% as compared with the standard 20% rate for corporation tax.

PEOPLE AND INVESTMENT VALUE AND EMPLOYMENT STANDARDS

After attending last year's **Nestlé** investor roundtable, LAPFF was again invited to this event hosted in Central London. New LAPFF Executive Member, Cllr Mukesh Malhotra, succeeded at his first LAPFF engagement meeting in getting the Nestlé Chairman, Peter Brabeck-Letmathe, to agree to review the Company's reporting on labour rights in the supply chain so that the Company is compliant with the reporting requirements in the new Modern Slavery Act.

LAPFF attended another investor roundtable, this time held by unions, to learn about a shareholder resolution filed with **Pearson**, an education company. Teachers and parents in the US and the UK have expressed concern that Pearson is driving a system of educational testing that is unduly stressful for teachers, parents and students and does not achieve appropriate educational outcomes. These testing concerns have been coupled with poor financial performance over the last few years, prompting union pension funds to request that the Company re-visit its business strategy to ensure that its products and services are meeting both basic human rights and shareholder needs.

LAPFF is also finalized its policies on human capital which should help to guide engagements relating to people and investment value. A human capital policies paper was presented to both the LAPFF Executive and LAPFF Membership for approval and covers topics such as zero hour contracts and supply chain transparency. The paper draws on both legal developments and recent research clarifying the link between human capital and investment value.

ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

Building on success after last year's results at the Shell and BP AGMs, three strategic resilience resolutions have been co-filed for the 2016 AGMs of **Glencore, Anglo American,** and **Rio Tinto**. This result was no small feat, with extra efforts by LAPFF and its coalition partners needed to rally Anglo American shareholders and push the resolution with this Company over the co-filing threshold. The Anglo resolution was the first in the UK to be supported by 5% of voting shares. The Rio Tinto resolution is another first in that all 100 co-filers have the Company as part of their main investment portfolio. As was the case last year, there has been not only shareholder support for the resolutions, but company support as well with all three boards backing the resolutions. Once again, a process of voting declarations in advance of the resolutions, acts as a spur to indicate active shareholder support rather than the default position of supporting management automatically. LAPFF member funds made up half of the largest co-filers by shares held at Anglo American, with a total of 18 LAPFF funds co-filing across the three companies. With the range of other investors, the total assets under management backing these resolutions amounts to £8 trillion.

Since filing shareholder resolutions are prohibitively complex in France, LAPFF joined other investors in writing to **Total**, asking the Company for a commitment to disclose according to the five elements of the strategic resilience resolution. This disclosure covers asset portfolio resilience according to the International Energy Agency Scenarios, which include the 450 ppm/two degree scenario. In March, minutes of the Total board meeting were released indicating that the directors had agreed to publish this information in a document at the May AGM. This disclosure will also address other elements requested such as R&D in low-carbon energies as well as Total's engagement with public policies addressing climate change.

Other engagement avenues to address the required low carbon transition have included tackling company involvement in lobbying activities. LAPFF has written to a number of companies – **Johnson Matthey, EDF**, and **Proctor and Gamble** – requesting information regarding their membership in industry organisations that have denied or failed to promote action on climate change. This engagement was undertaken with other investors concerned that industry bodies are often laggards in their climate change policies and strategies. Overall, the companies approached have been forthcoming with their views on balancing their climate change work with partners who are not engaging as well in this area as the companies would like. In relation to industry organisations, the challenge is fostering responsible climate change approaches while maintaining membership in groups with varied work and purposes. P&G responded to the LAPFF letter in January along these lines.

LAPFF has also joined other investment institutions in correspondence to the Financial Reporting Council (FRC) to set out long-term investors' expectations that fossil fuel dependent companies (notably oil, gas and coal companies) should address climate-related risks in the newly introduced viability statements in their annual reports.

MEDIA COVERAGE

Climate Change
FT: Anglo American pressed on climate change disclosure [subscription only]

Chief Investment Officer: $8T Investor Coalition Turns Up Heat on Miners

Edie.net: Investors Demand Climate Transparency from Mining Firms

Blue & Green Tomorrow: Unprecedented Investor Call for Climate Risk Transparency from Mining Giants

Professional Pensions: UK schemes join global battle against mining giants over climate change [subscription only]

Governance
FT: Murdoch's return to helm of Sky set to raise governance questions [subscription only]

Human rights
Electronic Intifada: Has the UK Really Banned Boycotts?

Reliable accounts
Financial Director: All's true and fair in accounting standards battle

Accountancy Age: The Financial Power List 2016

Investment and Pensions Europe: MEPs reignite war of words over prudent accounting standards

Lider Press (Hungary): a piece including a reference to LAPFF's work on true and fair view and the Bompas Opinion

Tax
The Times: Pension funds step up the pressure in tax row [subscription only]

NETWORKS AND EVENTS

Some of the events and meetings attended by LAPFF representatives during the quarter:

Devon, Somerset, Wiltshire and Falkirk committees: Presentations to LAPFF member funds on shareholder engagement, LAPFF activities and positive outcomes.

SPS – Keith Bray, LAPFF's Forum Officer, attended an event hosted by SPS titled "Reviewing Investments & Funding at a Time of Change" to represent LAPFF

Goldman Sachs/Local Government Chronicle (LGC) – On behalf of LAPFF, Mr Bray also chaired a LGC roundtable hosted by Goldman Sachs. This discussion focussed on ESG issues and included LGPS participants, as well as representatives from GM.

CDP – post-COP 21 update and 'deep-dive' on miners meeting

ClientEarth/Preventable Surprises roundtable – LAPFF representatives attended a meeting hosted by CCLA on Investor Strategy Post COP21

Carbon Tracker – International Investor meeting on strategies for 2016 and beyond

Extractives Industry Transparency Initiative (EITI) – call, the focus of which was to recruit a new investor representative to sit on the EITI Board. Recruitment of an investor representative has proved very difficult but is important as the EITI framework finds its way into legislation such as the Dodd-Frank Act provisions on conflict minerals. However, there are concerns about the efficacy of the EITI as well, which might account for the lack of investor interest.

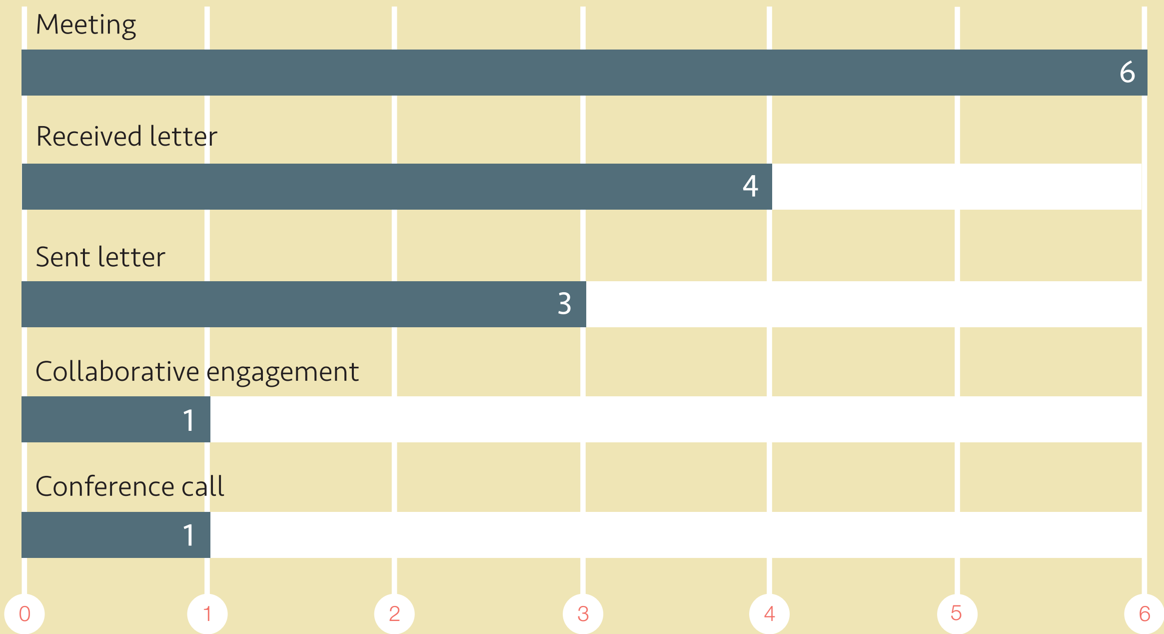
University College London – on a related topic, an international law professor critiqued the Dodd-Frank conflict mineral provisions, stating that they are ill-conceived at law and in practice. Her assessment is that the pending EU conflict minerals regulations are vastly better than their US counterparts.

Rockefeller – human capital webinar exploring the link between human capital and shareholder value.

Q1 2016 ENGAGEMENT DATA

	Company	Topics	Activity/Outcome	Domicile
1	**Dixons Carphone**	Tax	No Improvement	United Kingdom
2	**Admiral Group**	Tax	Small Improvement	United Kingdom
3	**SSE**	Tax	Dialogue	United Kingdom
4	**BHP Billiton**	Social Risk/Environment	Satisfactory Response	UK/Australia
5	**P&G**	Climate Change	Dialogue	United States
6	**ITV**	Tax	Dialogue	United Kingdom
7	**Kier Group**	Remuneration	Moderate Improvement	United Kingdom
8	**Tesco**	Tax	Dialogue	United Kingdom
9	**Google**	Tax	Dialogue	United States
10	**Weir Group**	Board Composition	Dialogue	United Kingdom
11	**Direct Line**	Tax	Moderate Improvement	United Kingdom
12	**Nestlé**	Employment Standards/ Board Composition	Moderate Improvement	Switzerland
13	**BP**	Climate Change	Moderate Improvement	United Kingdom

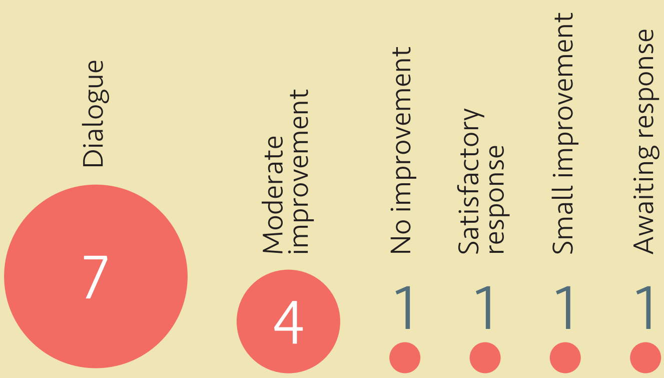
COMPANY ENGAGEMENT ACTIVITIES



COMPANY DOMICILES

POSITION ENGAGED

OUTCOMES



NEW LAPFF EXECUTIVE MEMBERS

LAPFF would like to welcome new Executive Committee members, Cllr Mukesh Malhotra, London Borough of Hounslow Pension Fund, Cllr Doug McMurdo, Bedfordshire Pension Fund, and officer Faith Ward, Environment Agency Pension Fund.

Cllr Mukesh Malhotra

Cllr Doug McMurdo

Faith Ward

REMEMBERING CLLR BOB SOWMAN

A tribute by LAPFF Vice Chair, Ian Greenwood

Many long term members will have been saddened by the news of the death of Cllr Bob Sowman. Bob was a Bradford Councillor for 30 years and held a number of senior managerial posts in the engineering industry. He was the Chair of West Yorkshire Pension Fund for many years and Chair of LAPFF from 1999 till 2004. He was my friend for nearly 40 years. Bob was a larger than life character who cared passionately about equality and believed that everybody should have a decent pension. He was an early advocate of responsible ownership and engagement and under his chairmanship LAPFF made great strides. His leadership and vision made a great contribution to LAPFF becoming the organisation it is today. He was a wonderful man who will be missed by many.

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
- Sutton (London Borough of)
- Teesside Pension Fund
- The Environment Agency 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

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**24 JUNE 2016**	**AGENDA ITEM NUMBER**
TITLE:	**DRAFT STATEMENT OF ACCOUNTS FOR 2015 / 2016**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **Appendix 1 Draft Statement of Accounts for the year to 31 March 2016**		

1. THE ISSUE

The Draft Statement of Accounts for the Avon Pension Fund for the year to 31 March 2016 is attached as **Appendix 1.**

1.1. The Draft Statement of Accounts for the year to 31 March 2016 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts are now subject to external audit.

1.2. In accordance with the Accounts and Audit (England) Regulations 2011 the Draft Statement of Accounts for the year to 31 March 2016 must be signed off by the Council's Section 151 Officer by the 30 June. The Final Statement of Accounts will be presented to the Corporate Audit Committee at its meeting on 27th September 2016 as the Audit Committee is charged with the governance of the pension fund. The Pension Fund Committee will be asked to approve The Final Statement of Accounts at its meeting on 23 September 2016.

2. RECOMMENDATION

That the Committee notes

2.1 The Draft Statement of Accounts for the year to 31 March 2016 for audit.

3. FINANCIAL IMPLICATIONS

3.1. There is a requirement that the Avon Pension Fund Statement of Accounts are included in the Council's accounts and presented to the Corporate Audit Committee.

4. COMMENT ON THE DRAFT STATEMENT OF ACCOUNTS

4.1. The financial accounts reflect a gradually maturing pension fund, with total Benefit payments tending to rise as total contributions fall. As a result the Fund is becoming cash flow negative. This is reflected in the Fund Account as described in points 4.3 c) and d) below. This underlying structural shift from cash flow positive to negative requires greater focus on cash management, both in the long term when considering investment strategy over 5-10 years and in the short term to ensure income or proceeds from selling assets are used efficiently. The Fund's cash flow position for the next three years will become clearer after the completion of the 2016 Valuation following which there will be a strategic investment review.

4.2. The accounts show a decrease in the total net assets of the Fund from just over £3.8bn to just over £3.7bn. This decrease was almost entirely due to the fall in market value of investments.

4.3. The highlights of the Draft Final accounts are:

a) Total net assets of the fund are valued at £3,736m made up of investment assets of £3,742m less net Current Assets of (£5.6m).

b) Contributions receivable were abnormally high in 2014/15 due to several payments of three years deficit recovery contributions in advance. The subsequent absence of these deficit recovery payments in 2015/16 has made the contributions for the year lower than they would otherwise have been.

c) The absence of some deficit recovery contributions as described above has also resulted in the "Net Additions from dealings with members" figure being a negative £15.8m. Without the advance deficit recovery payments being made in 2014/15 this would have been closer to zero, with contributions offsetting the cost of benefits paid.

d) The reduction in Benefits Payable when compared to 2014/15 is due to an abnormally high level of lump sum payments in 2014/15 as a result of Bristol City Council's redundancy exercise. Excluding the effect of lump sums the level of Benefits Payable would have shown an increase over the 2014/15 level.

e) Payments to and on account of leavers includes £2.5m in respect of the group transfer out of former employees of the Probation Service to Greater Manchester Pension Fund.

f) Investment Income as reported in the Fund Account is reduced from the 2014/15 level. However the Investment Income figures do not include the income from pooled funds that accumulate income within the fund rather than distribute to investors.

g) The Net Asset Statement shows the Fund holding over £209m in cash deposits as at 31 March 2016. This includes £135m that was in the process of being transferred to the infrastructure manager for investing on 1 April 2016.

h) The £7.7m of debtors included in the Current Assets at 31 March 2016 is mainly made up of contributions that relate to the year to 31 March 2016 but were not due for payment until April 2016. This is lower than the equivalent figure at 31 March 2015 due to the payment of some April 2016 monthly contributions earlier than required.

i) Current liabilities as at 31 March 2015 included £4.5m owed to Bristol City Council as a refund of overpaid contributions. The refund was paid in 2015/16. The rise in current liabilities, excluding the Bristol City Council refund liability, is mainly due to the increased provision for accumulated Investment Manager performance fees. These fees have been accrued but are subject to phased payments or are not payable until the related assets are realised. These performance fees remain subject to possible variation as a result of future performance.

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	

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APPENDIX 1

PENSION FUND ACCOUNTS 2015/16

Statement of Accounts

Introduction

1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2015 to 31 March 2016.

1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2015/16 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.7. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 The accounts are set out in the following order:

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

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

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

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

1.4 In compliance with CIPFA guidance the presentation of the accounts includes the following changes from previous years:-

For greater clarity The Fund Account is split between "Dealings with members, employers and others directly involved in the fund" and "Returns on investments". For the same reason Management expenses, Other Income, and Investment Expenses are included under the single heading "Management Expenses".

Management expenses, Other Income, and Investment Expenses are shown in a single note (note 7) analysed between Administration Costs, Investment Management Expenses and Oversight and Governance Costs. This note also includes a more detailed analysis following previous practice.

Investment transaction costs have been included in the Investment Management Expenses. These do not include underlying transaction costs incurred within pooled investments.

Agency Services (note 17) in respect of benefits recharged to other employers now includes a note of payments made on behalf of the Fire Service and Teachers pensions schemes.

Financial Instruments (note 22) are analysed between those carried at Fair Value, Loans & Receivables and Financial Liabilities at Amortised Cost. There is no longer a requirement to analyse Financial Instruments according to their carrying value and the fair value since it is recognised that for most of the Fund's assets and liabilities these are the same.

Actuarial Valuation

1.5 As required by the Local Government Pension Scheme (Administration) Regulations 2008 an actuarial valuation of the Fund was carried out as at 31 March 2013. The market value of the Fund's assets at the valuation date was £3,146 million. The Actuary estimated that the value of the Fund was sufficient to meet 78% of its expected future liabilities of £4,023 million in respect of service completed to 31 March 2013.

1.6 At the 2013 valuation the deficit recovery period for the Fund overall was set at 20 years.

1.7 The 2013 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions used to set employers' contributions, are set out in the table below:

	Past service liabilities	**Future service liabilities**
Rate of Discount	4.8% per annum	5.6% per annum
Rate of pensionable pay inflation	4.1% per annum	4.1% per annum
Rate of price inflation	2.6% per annum	2.6% per annum

1.8 The 2013 triennial valuation was completed during 2013/14 using market prices and membership data as at 31 March 2013. The 2013 valuation set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2014.

1.9 The Actuary has estimated that the funding level as at 31 March 2016 has risen to 83% from 78% at 31 March 2015 based on the preliminary financial assumptions proposed for the 2016 valuation. Investment returns contributed negatively to the funding position but this was offset by the reduction in the value of the liabilities. Preliminary discussions with the Scheme Actuary about the 2016 valuation indicate a discount rate based on CPI and a real investment return of 2.2% better reflects the prudent expected return from the long term investment strategy than using the unadjusted gilts basis below.

The funding level using the gilts basis fell to 72% on a consistent basis with the 2013 valuation. This reduction has come mainly from the fall in gilt yields which increase the present value of the liabilities over the period.

1.10 Note 15 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS26 using the assumptions and methodology of IAS

19. The discount rate referenced for IAS19 is the Corporate Bond yield. The discount rate used for the Actuarial Valuation references the Fund's investment strategy.

1.11 The Fund's Funding Strategy Statement can be found on the Fund's website www.avonpensionfund.org.uk (search Funding Strategy Statement).

Statement of Investment Principles

1.12 The Fund's Statement of Investment Principles as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 can be found on the Fund's website www.avonpensionfund.org.uk (search Statement of Investment Principles).

Statement of Accounting Policies

Basis of Preparation

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

Investments

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

i. Quoted Securities have been valued at 31 March 2016 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation. All these valuations are subject to the custodian's and fund manager's internal control reports and external auditors.

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

iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2016.

iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2016.

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

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

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

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

ix. The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

2.3 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. The last such valuation was at 31 March 2013. Currently employer contribution rates range from 7.0% to 30.2%. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme Regulations 2013. The employee contribution rates range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016.

2.4 Normal contributions both from members and the employer are accounted for on an accruals basis in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Benefits, Refunds of Contributions and Cash Transfer Values

2.5 From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

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

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

2.8 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year. The charges are index linked to pension's increases to ensure that the Fund receives the full value.

Investment Income

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

Investment Management & Administration

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

2.11 The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. A provision is been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

Taxation

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

Use of Accounting Estimates

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

Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 17) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 25d.

Events After the Balance Sheet Date

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

Financial Instruments

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

Fund Account
For the Year Ended 31 March 2016

	Notes	2015/16	2014/15
		£'000	**£'000**
Dealings with members, employers and others directly involved in the fund			
Contributions Receivable	4	**143,578**	**202,100**
Transfers In	16	**4,170**	**4,794**
		147,748	**206,894**
Benefits Payable	5	**155,695**	**157,156**
Payments to and on account of Leavers	6	**7,861**	**5,001**
		163,556	**162,157**
Net additions/ (withdrawals) from dealings with member		**(15,808)**	**44,737**
Management Expenses	7	**21,358**	**21,810**
		(37,166)	**22,927**
Net additions/ (withdrawals) from dealings with members			
Returns on Investments			
Investment Income	8	**24,399**	**28,104**
Profits and losses on disposal of investments and change in value of investments.	9	**(85,119)**	**437,550**
Net Returns on Investments		**(60,720)**	**465,654**
Net Increase in the net assets available for benefits during the year		**(97,886)**	**488,581**
Opening Net Assets of the Fund		**3,834,792**	**3,346,211**
Closing Net Assets of the Fund		**3,736,906**	**3,834,792**

The comparator figures for 2014/15 were re-stated to comply with CIPFA's Accounting for Local Government Pension Scheme Costs. The re-statement reflects the grossing up of investment transaction costs previously netted off the "Profits and losses on disposal of investments and change in the value of investments". They are now included in "Management Expenses" together with Other Income, Administrative Expenses, Investment Management Expenses and Fund Management Performance Fees. A full analysis is shown in note 7.

Net Assets Statement at 31 March 2016

	Note	31 March 2016 £'000	%	31 March 2015 £'000	%
INVESTMENT ASSETS					
Fixed interest securities : Public Sector		-	-	111,675	2.9
Equities		598,343	16.0	603,222	15.7
Diversified Growth Funds		360,928	9.7	368,177	9.6
Index Linked securities : Public Sector		433,798	11.6	238,962	6.2
Pooled investment vehicles :-					
- Property : Unit Trusts		132,549	3.6	111,753	2.9
: Unitised Insurance		62,554	1.7	57,075	1.5
: Other Managed Funds		171,811	4.6	146,839	3.8
Property Pooled Investment Vehicles		366,914		315,667	
- Non Property : Unitised Insurance		710,765	19.0	903,760	23.5
: Other Managed Funds		1,099,271	29.4	1,202,443	31.3
Non Property Pooled Investment Vehicles		1,810,036		2,106,203	
Cash deposits		209,518	5.6	94,416	2.4
Other Investment balances		3,748	0.1	4,805	0.1
INVESTMENT LIABILITIES					
Derivative contracts (Foreign Exchange hedge)		(40,415)	(1.1)	1,874	0.1
Derivative Contracts: FTSE Futures		(44)	0.0	152	0.0
Other Investment balances		(394)	(0.0)	(5,281)	(0.1)
TOTAL INVESTMENT ASSETS	12	3,742,432		3,839,872	
Net Current Assets					
Current Assets	14	7,679	0.2	10,592	0.3
Current Liabilities	14	(13,205)	(0.4)	(15,672)	(0.2)
Net assets of the scheme available to fund benefits at the period end		3,736,906	100	3,834,792	100

The Fund’s financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2016.

Notes to the Accounts - Year Ended 31 March 2016

1, GENERAL

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

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:
– The Local Government Pension Scheme Regulations 2013 (as amended)
– The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
– The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 26.

Employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary. The employees' contribution rate is payable in accordance with the Local Government Pension Scheme Regulations 2013.

2, MEMBERSHIP

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

	31 March 2016	31 March 2015
Employed Members	**37,899**	**34,765**
Pensioners	**28,079**	**26,006**
Members entitled to Deferred Benefits	**40,711**	**35,714**
TOTAL	**106,689**	**96,485**

A further estimated 770 ex-members whose membership was for up to 2 years before 1st April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

3, TAXATION

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

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

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

iv. Taxation of Overseas Investment Income

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

4, CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

		2015/16		**2014/15**
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	**63,792**		58,507	
Administering Authority	**8,008**		7,704	
Admission Bodies	**7,508**	**79,308**	7,784	73,995
Employers' deficit Funding				
Scheduled Bodies	**12,336**		67,052	
Administering Authority	**-**		14,042	
Admission Bodies	**11,406**	**23,742**	3,496	84,590
Total Employer's normal & deficit funding		**103,050**		158,585
Employers' contributions- Augmentation				
Scheduled Bodies	**2,071**		5,446	
Administering Authority	**319**		489	
Admission Bodies	**178**	**2,568**	138	6,073
Members' normal contributions				
Scheduled Bodies	**30,374**		29,491	
Administering Authority	**3,981**		3,798	
Admission Bodies	**2,984**	**37,339**	3,313	36,602
Members' contributions towards additional benefits				
Scheduled Bodies	**463**		685	
Administering Authority	**82**		123	
Admission Bodies	**76**	**621**	32	840
Total		**143,578**		202,100

Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service. In 2014/15 the deficit funding contributions included £73,947k of discounted contributions that the actuary has calculated to cover the required deficit contributions for the three years commencing 2014/15.

The Members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme. Augmentation contributions are paid by employers to meet the cost of early retirements.

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

5, BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2015/16 £'000	2014/15 £'000
Retirement Pensions	**126,123**	**121,095**
Commutation of pensions and		
Lump Sum Retirement Benefits	**26,546**	**32,246**
Lump Sum Death Benefits	**3,026**	**3,815**
	155,695	**157,156**

Analysis of Benefits Payable by Employing Body:-

	2015/16 £'000	2014/15 £'000
Scheduled & Designating Bodies	**128,202**	**132,416**
Administering Authority	**15,036**	**14,342**
Admission Bodies	**12,457**	**10,398**
	155,695	**157,156**

6, PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2015/16	2014/15
Leavers	**£'000**	**£'000**
Refunds to members leaving service	**672**	**543**
Individual Cash Transfer Values to other schemes	**4,628**	**4,458**
Group Transfers	**2,561**	**-**
	7,861	**5,001**

7, MANAGEMENT EXPENSES

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

	2015/16 £'000	2014/15 £'000
Administrative Costs	1,564	1,609
Investment Management Expenses	18,779	19,157
Oversight & Governance Costs	1,015	1,044
	21,358	**21,810**

Further Analysis of Management Expenses:-

Administrative Costs		
Management costs	959	1,010
Administration and Processing	526	415
Service from Administrating Body	352	383
Fees and Income	(273)	(200)
	1,564	1,608
Investment Management Expenses		
Fund Manager Base Fees	15,017	15,384
Fund Manager Performance Fees	1,964	1,802
Investment Transaction Costs	1,690	1,905
Global custody	108	66
	18,779	19,157
Oversight & Governance Costs		
Management costs	469	473
Specialist advice and Governance	713	831
Actuarial recharges	(204)	(296)
Audit fees	37	37
	1,015	1,045
	21,358	**21,810**

The table above replaces previous years' notes 5,8 &9 for Other Income, Administration Expenses & Investment Expenses.

The comparator figures for 2014/15 were re-stated to comply with CIPFA's Accounting for Local Government Pension Scheme Costs. The re-statement reflects the grossing up of investment transaction costs previously netted off the "Profits and losses on disposal of investments and change in the value of investments" in the Fund Account.

Fund Manager Performance Fees include fees that have been accrued but are subject to phased payment or not due to be paid until the realisation of the related assets. Unpaid fees remain subject to variation as a result of future performance. Total fund manager fees include management charges for pooled investments that are settled directly within the pooled vehicles in accordance with the investment management agreement.

Investment transaction costs do not include the underlying transaction costs within pooled funds.
Management costs in Oversight & Governance Costs include actuarial and accounting staff.

8, INVESTMENT INCOME

	2015/16 £'000	2014/15 £'000
Interest from fixed interest securities	**1,754**	**3,482**
Dividends from equities	**15,890**	**16,628**
Income from Index Linked securities	**2,461**	**3,019**
Income from pooled investment vehicles	**3,822**	**4,521**
Interest on cash deposits	**330**	**405**
Other - Stock lending	**142**	**49**
	24,399	**28,104**

The Fund has an arrangement with its custodian (BNY Mellon) to lend eligible securities from its portfolio to third parties in return for which the third parties pay fees to the fund. The third parties provide collateral to the Fund which is held during the period of the loan. This stock lending programme was introduced with effect from July 2004. The Fund may terminate any loan of securities by giving notice of not less than the standard settlement time for those securities.
The value of the stock on loan as at 31 March 2016 was £7.3 million (31 March 2015 £14.57m), comprising of equities and sovereign debt. This was secured by collateral worth £7.8 million comprising equities and sovereign debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

9, CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments	Value at 31/03/15 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Value at 31/03/16 £'000**
Fixed Interest Securities	111,675	10,408	(120,275)	(1,808)	**-**
Equities	603,222	360,901	(353,625)	(12154)	**598,344**
Index linked Securities	238,961	222,236	(29,813)	2,414	**433,798**
Pooled Investments -					
- Property	315,668	100,975	(83,810)	34,081	**366,914**
- Non Property	2,474,380	421,380	(682,111)	(42,686)	**2,170,963**
Derivatives	2,026	188,758	(157,550)	(73,693)	**(40,459)**
	3,745,932	1,304,658	(1,427,184)	(93,846)	**3,529,560**
Cash Deposits	94,416	559,331	(441,664)	(2,565)	**209,518**
Net Purchases & Sales		1,863,989	(1,868,848)	(4,859)	
Investment Debtors & Creditors	(476)			3,830	**3,354**
Total Investment Assets	3,839,872				**3,742,432**
Current Assets	(5,080)			(446)	**(5,526)**
Less Net Revenue of Fund				12,767	
Total Net Assets	3,834,792			**(85,119)**	**3,736,906**

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

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

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

Change in Total Net Assets 2014/15

Change in Market Value of Investments	Value at 31/03/14 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	**Value at 31/03/15 £'000**
Fixed Interest Securities	92,694	10,951	(13,868)	21,898	**111,675**
Equities	542,777	379,470	(368,729)	49,704	**603,222**
Index linked Securities	189,176	73,272	(65,761)	42,274	**238,961**
Pooled Investments -					
- Property	260,986	96,802	(66,363)	24,243	**315,668**
- Non Property	2,143,925	327,298	(262,842)	265,999	**2,474,380**
Derivatives	12,361	89,107	(109,820)	10,378	**2,026**
	3,241,919	976,900	(887,383)	414,496	**3,745,932**
Cash Deposits	85,023	691,405	(683,328)	1,316	**94,416**
Net Purchases & Sales		1,668,305	1,570,711)	97,594	
Investment Debtors & Creditors	4,264			(4,740)	**(476)**
Total Investment Assets	3,331,206				**3,839,872**
Current Assets	15,005			(20,085)	**(5,080)**
Less Net Revenue of Fund				(51,031)	
Total Net Assets	3,346,211			**437,550**	**3,834,792**

The comparator figures for 2014/15 were re-stated to comply with CIPFA's Accounting for Local Government Pension Scheme Costs. The re-statement reflects the grossing up of investment transaction costs previously netted off the "Profits and losses on disposal of investments and change in the value of investments" in the Fund Account and now included in the Net Revenue of Fund as specified below:

Investment Transaction Costs.

	2015/16				2014/15			
	Purchases £'000	**Sales £'000**	**Other £'000**	**Total £'000**	Purchases £'000	Sales £'000	Other £'000	Total £'000
Fees & Taxes	**1,020**	**5**	**-**	**1,025**	**1,069**	**4**	**-**	**1,073**
Commission	**328**	**329**	**8**	**665**	**408**	**416**	**8**	**832**
TOTAL	**1,348**	**334**	**8**	**1,690**	**1,477**	**420**	**8**	**1,905**

10, INVESTMENT ASSETS

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

		31 March 2016		31 March 2015
		£'000		£'000
UK Equities				
Quoted	**313,922**		320,758	
Pooled Investments	**171,812**		232,321	
FTSE Futures	**(44)**	**485,690**	152	553,231
Diversified Growth Funds				
Pooled Investments	**360,928**	**360,928**	368,177	368,177
Overseas Equities				
Quoted	**284,421**		282,464	
Pooled Investments	**1,087,924**	**1,372,345**	1,265,573	1,548,037
UK Fixed Interest Gilts				
Quoted	**-**		111,675	
Pooled Investments	**-**	**-**	-	111,675
UK Index Linked Gilts				
Quoted	**433,798**	**433,798**	238,961	238,961
Sterling Bonds (excluding Gilts)				
Pooled Investments	**358,029**	**358,029**	332,615	332,615
Non-Sterling Bonds				
Pooled Investments	**-**	**-**	113,325	113,325
Hedge Funds				
Pooled Investments	**192,271**	**192,271**	162,368	162,368
Property				
Pooled Investments	**366,914**	**366,914**	315,668	315,668
Cash Deposits				
Sterling	**66,961**		81,503	
Foreign Currencies	**142,557**	**209,518**	12,913	94,416
Investment Debtors/Creditors				
Investment Income	**3,558**		3,807	
Sales of Investments	**190**		998	
Foreign Exchange Hedge	**(40,415)**		1,874	
Purchases of Investments	**(394)**	**(37,061)**	(5,280)	1,399
TOTAL INVESTMENT ASSETS		**3,742,432**		3,839,872

DERIVATIVES ANALYSIS

Open forward currency contracts

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000's	Liability Value £000's
Up to one month	GBP	80,198	EUR	(110,233)	(7,253)	
Up to one month	EUR	101,295	GBP	(76,880)		3,484
Up to one month	JPY	8,205,200	GBP	(46,237)		4,591
Up to one month	USD	157,695	GBP	(108,103)		1,606
Up to one month	GBP	44,290	JPY	(8,205,200)	(6,538)	
Up to one month	EUR	92	USD	(105)		1
Up to one month	GBP	104,014	USD	(157,695)	(5,695)	
One to six months	GBP	359,908	EUR	(492,263)	(31,503)	
One to six months	EUR	253,988	GBP	(184,992)		16,888
One to six months	JPY	19,434,300	GBP	(104,576)		15,996
One to six months	USD	257,694	GBP	(167,850)		11,357
One to six months	GBP	151,123	JPY	(27,756,300)	(21,129)	
One to six months	GBP	564,827	USD	(843,924)	(22,027)	
Six to twelve months	GBP	37,834	EUR	(47,655)	(171)	
Six to twelve months	GBP	10,362	JPY	(1,664,400)	(3)	
Six to twelve months	GBP	81,451	USD	(117,246)	(19)	
Total					**(94,338)**	**53,923**
					Net forward currency contracts at 31 March 2016	**(40,415)**

Open forward currency contracts at 31 March 2015	**(29,488)**	**31,362**
Net forward currency contracts at 31 March 2015		**1,874**

<u>Exchange Traded Derivatives held at 31 March 2016:-</u>

Contract Type	Expiration	Book Cost £'000	Unrealised Gain £'000
FTSE equity futures	**June 2016**	**11,309**	**-44**

<u>Exchange Traded Derivatives held at 31 March 2015:-</u>

FTSE equity futures	**June 2015**	**18,836**	**152**

A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.
The UK Equity futures contracts are held to facilitate efficient portfolio management for a passively managed investment where the costs of investing directly in UK equities would be significant.
Forward "over the counter" foreign exchange contracts are held to reduce the impact of fluctuations in the exchange rate between sterling and the other currency.

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

	31 March 2016 £'000	%	31 March 2015 £'000	%
Blackrock	**1,024,650**	**27.4**	1,216,272	31.7
Standard Life	**233,981**	**6.2**	243,477	6.4
Record	**(29,095)**	**(0.8)**	20,651	0.5
Jupiter Asset Management	**173,863**	**4.7**	175,662	4.6
Genesis Investment Management	**149,257**	**4.0**	160,247	4.2
Invesco Perpetual	**289,696**	**7.7**	291,423	7.6
State Street Global Advisors	**119,803**	**3.2**	124,517	3.2
Partners Group	**175,511**	**4.7**	154,212	4.0
Royal London Asset Management	**291,222**	**7.8**	310,439	8.1
TT International	**201,993**	**5.4**	195,021	5.1
Gottex Asset Management	**3,483**	**0.1**	59,188	1.5
Stenham Asset Management	**0**	**0.0**	39,645	1.0
Signet Capital Management	**1,057**	**0.0**	63,535	1.7
IFM Investors	**135,671**	**3.6**	0	0
Pyrford International	**126,947**	**3.4**	124,700	3.2
Unigestion UK Ltd	**178,118**	**4.8**	191,725	5.0
Schroder Investment Management	**449,901**	**12.0**	434,251	11.3
JP Morgan	**187,732**	**5.0**	0	0
Bank of New York Mellon	**17,603**	**0.5**	23,362	0.6
Treasury Management	**11,039**	**0.3**	11,545	0.3
TOTAL INVESTMENT ASSETS	**3,742,432**	**100.0**	3,839,872	100.0

11, SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	Value at 31st March 2016 £'000	% of Net Assets	Value at 31st March 2015 £'000	% of Net Assets
RLPPC UK Corporate Bond Fund (Royal London)	**291,222**	**7.80%**	**310,439**	**8.11%**
Invesco Perpetual Global ex UK Enhanced Index Fund	**289,696**	**7.76%**	**291,423**	**7.61%**
Standard Life Global Absolute	**233,980**	**6.27%**	**243,477**	**6.36%**
Blackrock Advisors UK Ltd. (Aquila Life UK Equity Index Fund)	**167,793**	**4.50%**	**227,789**	**5.95%**
MSCI Equity Index Fund B-US (BlackRock)	**165,701**	**4.44%**	**219,389**	**5.73%**
Unigestion Uni-Global – Equity Emerging Mkt SAC GBP	**178,118**	**4.77%**	**191,725**	**5.01%**

12, CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2016. Debtors and creditors included in the accounts are analysed below:-

		31 March 2016 £'000		31 March 2015 £'000
CURRENT ASSETS				
Contributions Receivable :-				
- Employers	**4,636**		**6,431**	
- Members	**2,010**		**2,968**	
Transfer Values Receivable	**-**		**-**	
Discretionary Early Retirement Costs	**308**		**351**	
Other Debtors	**725**	**7,679**	**842**	**10,592**
CURRENT LIABILITIES				
Management Fees	**(1,249)**		**(1,639)**	
Provision for Performance Fees	**(8,422)**		**(5,510)**	
Transfer Values Payable	**-**		**(1)**	
Lump Sum Retirement Benefits	**(1,692)**		**(1,447)**	
Other Creditors	**(1,842)**	**(13,205)**	**(7,075)**	**(15,672)**
NET CURRENT ASSETS		**(5,526)**		**(5,080)**

The provision for Performance Fees includes fees that have been incurred but are subject to phased payment or not due to be paid until the realisation of the related assets. They remain subject to variation as a result of future performance. At 31 March 2015 Other Creditors includes a £4,524k refund due to Bristol City Council for overpaid contributions.

Analysis of Debtors and Creditors by public sector bodies:-

CURRENT ASSETS		31 March 2016 £'000		31 March 2015 £'000
Local Authorities	**3,007**		**6,920**	
NHS Bodies	**1**		**11**	
Other Public Bodies	**2,117**		**2,794**	
Non Public Sector	**2,554**	**7,679**	**867**	**10,592**
CURRENT LIABILITIES				
Local Authorities	**(10)**		**(5,313)**	
Other Public Bodies	**(1,569)**		**(1,512)**	
Non Public Sector	**(11,626)**	**(13,205)**	**(8,847)**	**(15,672)**
NET CURRENT ASSETS		**(5,526)**		**(5,080)**

13, CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2016. (March 2015 = NIL).

14, EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2016 that require any adjustment to these accounts. Investments are valued at fair value and any gain or loss is only realised upon sale consequently any change is considered a non-adjusting event.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2016	**31 March 2015**
Rate of return on investments (discount rate)	3.6% per annum	3.3% per annum
Rate of pay increases	3.5% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.0% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields rose, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.6% per annum versus 3.3% per annum). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year end than at the beginning of the year (2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £5,315 million.

The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by *c*£366 million. Adding interest over the year increases the liabilities by *c*£176 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further *c*£34 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is £5,159 million.

16, TRANSFERS IN

During the year ending 31 March 2016 there were no group transfers in to the fund.

17, AGENCY SERVICES

The Fund makes payments with regard to added year benefits awarded by the Employer to LGPS members, including related pension increases. The Fund also pays a small number of other pension supplements. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account.

	2015/16	**2014/15**
	£'000	£'000
Benefits Paid and Recharged	**6,193**	**6,312**

The Fund also administers £23.4m *(£22.4m in 2014/15)* pension payments on behalf of the Fire Service and the Teacher's pension schemes. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account. The Fire Service and Teacher's employers also pay for the cost of providing this service.

18, ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2015/16 were £131 (2014/15 -

£274). Additional Voluntary Contributions received from employees and paid to Friends Life during 2015/16 were £308,237 (2014/15 - £371,799).

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

	31 March 2016	31 March 2015
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	**384**	**417**
Unit Linked Retirement Benefits	**171**	**271**
Building Society Benefits	**171**	**195**
	726	**883**
Death in Service Benefit	**82**	**82**
Friends Life		
With Profits Retirement Benefits	**115**	**123**
Unit Linked Retirement Benefits	**4,349**	**3,762**
Cash Fund	**385**	**315**
	4,849	**4,200**

AVC investments are not included in the Fund's financial statements in accordance with Regulation 4(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

19, RELATED PARTIES

Committee Member Related:-

In 2015/16 £34,176 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee *(£37,516 in 2014/15)*. Four voting members and one non- voting member of the Avon Pension Fund Committee (including two B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2015/2016*. (Eight voting members and no non-voting member in 2014/2015, including five B&NES Councillor Members*)

Independent Member Related:-

Two Independent Members were paid allowances of £9,631 and £12,074 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are entitled to claim reasonable expenses which are included in the above allowances. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-
During the year 2015/16 the Fund paid B&NES Council £287,848 for administrative services *(£309,649 in 2014/15*) and B&NES Council paid the Fund £28,266 for administrative services (*£25,341 in 2014/15*). Various Employers paid the fund a total of £222,662 for pension related services including pension's payroll and compiling data for submission to the actuary *(£166,848 in 2014/15)*.

Pension Board Related:-
The Pension Board came in to operation in July 2015. In 2015/16 £5,446 was charged to the Fund in respect of Allowances and expenses paid to the Members of the Pension Board. Five members of the Pension Board were members of the Local Government Pension Scheme during the financial year 2015/2016.

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

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

20, OUTSTANDING COMMITMENTS

As at the 31 March 2016 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £149,355,935 (31st March 2015 £151,284,981).

A further outstanding commitment of $US105,000,000 (31st March 2015 $US300,000,000) relating to investments in a pooled fund of underlying infrastructure assets will be drawn down in tranches by the Investment Managers.

21, KEY MANAGEMENT REMUNERATION

Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These consisted of:
- part of the Head of Business Finance and Pensions salary, fees and allowances £50,167 (2014/15 £16,948) and their employer's pension contributions £9,498 (2014/15 £3,552).
- part of the Divisional Director Business Support's salary, fees and allowances £9,763 (2014/15 £33,523) and their employer's pension contributions £1,835 (2014/15 £7,017).

22, FINANCIAL INSTRUMENTS

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

2015/16	**Designated as fair value**	**Loans & receivables**	**Financial liabilities at amortised cost**
	£'000s	**£'000s**	**£'000s**
Financial assets			
Index Linked securities	433,799		
Equities	598,344		
Diversified Growth Funds	360,928		
Pooled investments	2,176,949		
Cash		209,518	
Other investment balances	3748		
Debtors		7,679	
Financial liabilities			
Derivative contracts	- 40,460		
Other investment balances	-394		
Creditors			- 13,205
	3,532,914	**217,197**	**-13,205**

2014/15	**Designated as fair value**	**Loans & receivables**	**Financial liabilities at amortised cost**
	£'000s	**£'000s**	**£'000s**
Financial assets			
Fixed Interest securities	111,675		
Index Linked securities	238,962		
Equities	603,222		
Diversified Growth Funds	368,177		
Pooled investments	2,421,870		
Derivative contracts	2,026		
Cash		94,416	
Other investment balances	4,805		
Debtors		10,592	
Financial liabilities			
Other investment balances	- 5,281		
Creditors			- 15,672
	3,745,456	**105,008**	**- 15,672**

23, FINANCIAL RISK MANAGEMENT DISCLOSURE

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

To achieve its investment objective the Fund invests across a diverse range of assets such as equities, bonds, property and other alternative investments. As a result the Fund is exposed to a variety of financial risks including market risk (price, interest rate and currency risk), credit risk and liquidity risk.

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

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

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

(a) Market Risk

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

Volatility in market risk is primarily managed through diversification across asset class and investment managers

Market Price Risk

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

All investments present a risk of loss of capital. By diversifying its investments across asset classes, geography and industry sectors, investment mandate guidelines and Investment Managers the Fund aims to reduce its exposure to price risk. Diversification seeks to reduce the correlation of price movements. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

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

Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund's advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2016. These movements in market prices have been judged as possible for the 2015/16 reporting period. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. However, the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund. The volatility figure at Total Assets level incorporates the impact of correlation across the asset classes; therefore the Total Assets increase /decrease is not the sum of the parts.

The analysis for the year ending 31 March 2016:

Asset Type	**Value (£'000)**	**% Change**	**Value on Increase**	**Value on Decrease**
UK Equities	485,690	10.3%	536,007	435,373
Overseas Equities	1,150636	9.7%	1,262,133	1,039,139
Global inc. UK	221,710	10.4%	244,857	198,563
UK Bonds	358,029	7.2%	383,700	332,358
Index Linked Gilts	433,798	9.3%	474,228	393,368
Pooled Multi Asset	360,928	4.2%	376,015	345,841
Property	366,914	1.6%	372,711	361,117
Alternatives	192,271	3.4%	198,731	185,811
Cash	209,518	0.0%	209,539	209,497
Total Assets	**3,779,494**	**6.3%**	**4,019,114**	**3,539,874**

The analysis for the year ending 31 March 2015 is shown below:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	527,446	10.1%	580,824	474,068
Overseas Equities	1,323,210	9.3%	1,446,401	1,200,019
Global inc. UK	250,612	9.6%	274,721	226,503
UK Bonds	444,290	7.2%	476,412	412,168
Overseas Bonds	113,325	7.3%	121,643	105,007
Index Linked Gilts	238,961	9.7%	262,092	215,830
Pooled Multi Asset	368,177	3.3%	380,400	355,954
Property	315,668	1.9%	321,634	309,702
Alternatives	162,368	2.6%	166,590	158,146
Cash	94,416	0.0%	94,425	94,407
Total Assets	**3,838,473**	**6.1%**	**4,071,069**	**3,605,847**

Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities.

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

	31 March 2016 £'000	31 March 2015 £'000
Cash and Cash Equivalents	209,518	94,416
Bonds	791,827	796,576
Total	**1,001,345**	**890,992**

Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the Bonds as at 31 March 2016 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

An increase or decrease of 100 basis points (bps) in interest rates would have increased or decreased the net assets by the amount shown below.

	Value	Change in net assets	
As at 31 March 2016	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	209,518	-	-
Bonds	791,827	(114,472)	114,472
Total	**1,001,345**	**(114,472)**	**114,472**

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

The same analysis for the year ending 31 March 2015 is shown below:

	Value	Change in net assets	
As at 31 March 2015	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	94,416	-	-
Bonds	796,576	(110,405)	110,405
Total	**890,992**	**(110,405)**	**110,405**

Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund's equity portfolio is invested in overseas stocks, overseas property and hedge funds (where the shares are denominated in US dollars). When sterling depreciates the sterling value of foreign currency denominated investments will rise and when sterling appreciates the sterling value for foreign denominated investments will fall. The Fund has a passive hedging arrangement in place which reduces the volatility of returns over the longer term (the hedging programme hedges the exposure to the US Dollar, Yen and Euro).

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

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

Currency risk by asset class:

Currency Exposure – Asset Type	Asset value as at 31 March 2016 £'000	Asset value as at 31 March 2015 £'000
Overseas Equities	1,372,345	1,548,037
Overseas Fixed Income	0	113,325
Overseas Property	171,811	154,212
Alternatives	192,271	0

Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency rates has been analysed using the volatility which is broadly consistent with a one-standard deviation movement in the currency and incorporates the impact of correlation across currencies.

The analysis assumes a 50% hedge ratio on the equity and bond assets to reflect the passive hedging strategy.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2016 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,372,345	3.8%	1,424,583	1,320,107
Overseas Property	171,811	3.8%	178,351	165,271
Alternatives	192,271	3.8%	199,590	184,952

The same analysis for the year ending 31 March 2015 is shown below:

Currency Risk by Asset Type:

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
Overseas Equities	1,548,037	3.8%	1,606,655	1,489,419
Overseas Fixed Income	113,325	3.8%	117,616	109,034
Overseas Property	154,212	3.8%	160,051	148,373

(b) Credit Risk

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

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

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

Forward currency contracts are entered into by the Fund's managers, especially the currency hedging manager, Record. These contracts are subject to credit risk in relation to the counterparties of the contracts. The responsibility for managing these contracts and counterparty risk rests with the managers. Counterparty management is evaluated as part of the due diligence process prior to appointing a manager.

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2016 was £28.6m. This was held with the following institutions:

	31 March 2016		31 March 2015	
	Rating	£'000	Rating	£'000
Custodian's Liquidity Fund				
Bank of New York Mellon	AAA	17,591	AAA	23,361
Bank Call Accounts				
Handelsbanken	AA-	5,090	AA-	0
Bank of Scotland Corporate Deposit Account	A+	500	A	2,950
Goldman Sachs Global Treasury Fund	AAA	4,710	AAA	8,230
NatWest Special Interest Bearing Account	BBB+	710	BBB+	300
Bank Current Accounts				
NatWest	BBB+	8	BBB+	6

A securities lending programme is managed by the Fund's custodian BNY Mellon who manage and monitor the counterparty risk, collateral risk and the overall lending programme. Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. The current collateral the Avon Pension Fund accepts is AAA rated supranational debt, AA rated sovereign debt and FTSE Equity DBV. Cash collateral is not permitted. Securities lending is capped by investment regulations and statutory limits ensure no more than 25% of eligible assets can be on loan at any time.

(c) Liquidity Risk

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

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2016 the value of the illiquid assets was £793.2m, which represented 21% of the total Fund assets (31 March 2015: £722m which represented 19% of the total Fund assets).

(d) Fair Value Hierarchy

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

• Level 1 - easy to price securities. Unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.

• Level 2 - moderately difficult to price. Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value. Therefore Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities including the Diversified Growth Fund that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset value.

• Level 3 - difficult to price. Unobservable inputs for the asset or liability used to measure fair value that rely on the Fund’s assumptions concerning the assumptions that market participants would use in pricing an asset or liability. Therefore Level 3 includes pooled funds such as the property funds, other Diversified Growth Funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2016.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	598,344			598,344
Bonds - Quoted	433,798			433,798
Pooled Investment Vehicles		1,617,764		1,617,764
Fund of Hedge Funds			192,271	192,271
Diversified Growth Funds		126,947	233,981	360,928
Property			366,914	366,914
Cash	209,518			209,518
Derivatives: Forward FX	-40,415			-40,415
Derivatives: Futures	-44			-44
Investment Debtors /Creditors	3,354			3,354
	1,204,555	1,744,711	793,165	3,742,432

The fair value hierarchy as at 31 March 2015 was:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities – Quoted	603,222			603,222
Bonds - Quoted	350,636			350,636
Pooled Investment Vehicles		1,943,834		1,943,834
Fund of Hedge Funds			162,368	162,368
Diversified Growth Funds		124,700	243,477	368,177
Property			315,668	315,668
Cash	94,416			94,416
Derivatives: Forward FX	1,874			1,874
Derivatives: Futures	152			152
Investment Debtors /Creditors	-475			-475
	1,049,825	2,068,534	721,513	3,839,872

24, EMPLOYING BODIES

As at 31 March 2016 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Principal Councils and Service Providers

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

Further & Higher Education Establishments

Bath Spa University College
City of Bath College
City of Bristol College
South Gloucestershire & Stroud College
St. Brendan's College
University of the West of England
Weston College

Education Establishments

Abbeywood Community School Academy
Academy of Trinity
Ann Harris Academy Trust
Aspire Academy
Backwell School Academy
Bannerman Road Community Academy
Barton Hill Academy
Bath Community Academy
Bedminster Down School Academy
Beechen Cliff Academy
Begbrook Primary Academy
Birdwell Primary School Academy
Bradley Stoke Community School
Bridge Learning Campus Foundation
Bristol Free School Trust
Bristol Futures Trust
Bristol Technology & Engineering Academy
Broadlands Academy
Broadoak Mathematics & Computing College
Cabot Learning Federation
Callicroft Primary Academy
Castle School Education Trust
Cathedral School Trust
Charborough Road Primary School
Charfield Primary School
Chew Stoke Church School
Christ Church C of E Primary School
City Academy
Churchill Academy
Clevedon School Academy
Clutton Primary School Academy
Colston Girl's School Trust
Colston's Primary School Academy
Cotham School Academy
Court de Wyck
IKB Studio School
Ilminster Avenue E-ACT Academy
Kingshill Academy
Kings Oak Academy
Little Mead Primary School
Mangotsfield School
Marlwood School
Meadow Brook Primary School
Merchant's Academy
Midsomer Norton School Partnership
Minerva Primary Academy
Nailsea School Academy
North Somerset Learning and Technology College
Oasis Academy Bank Leaze
Oasis Academy Brightstowe
Oasis Academy Connaught
Oasis Academy John Williams
Oasis Academy Long Cross
Oasis Academy New Oak
Oasis Academy Brislington Enterprise College
Oasis Academy Marksbury Road
Oldfield School Academy Trust
Orchard Academy
Parson Street Primary School
Patchway Community College
Priory Community School
Ralph Allen Academy
Redland Green School Academy
Redfield Educate Together Primary Academy
Severn Beach Primary School
Sir Bernard Lovell School
Steiner Academy
St Bedes School Academy
St Johns CEVC Primary School
St. Nicholas of Tolentine Catholic Primary

School
Digitech Studio School
Diocese of Bristol Academies Trust
Downend School
Dundry C of E Primary
Easton C of E Academy
Elmlea Junior School Academy
Fairfield School
Fairlawn School
Filton Avenue Primary School Academy
Fishponds Church of England Academy
Four Acres Primary School
Fosseway School
Frome Vale Academy
Gordano School Academy
Greenfield Primary School Academy
Hanham Woods School
Hans Price Academy
Hareclive Academy
Hayesfield Girls School Academy
Henbury Court School
Henbury School Academy
Henleaze Junior School
Heron's Moor Community School
High Littleton C of E Primary
Hotwells Primary School
St. Patrick's Academy
St. Teresa's Catholic Primary School
St. Ursula's E-ACT Academy
Stoke Bishop C of E Primary School
Stoke Lodge Academy
Summerhill Academy
The Bath Studio Academy
The Dolphin Academy
The Kingfisher School
The Ridings Federation Winterbourne
The Ridings Federation Yate
Threeways School
Tickenham Primary School
Trinity Primary
Trust in Learning
Wallscourt Farm Academy
Waycroft School Academy
Wellsway School Academy
West Town Lane Primary School
Westbury Park Primary School Academy
Westbury-on-Trym C of E Academy
Wicklea Academy
Woodlands Academy
Writhlington School Academy
Yeo Moor Primary School

Designating Bodies
Almondsbury Parish Council
Backwell Parish Council
Bath Tourism Plus
Bristol Waste Company
Bradley Stoke Town Council
Charter Trustees of the City of Bath
Clevedon Town Council
Congresbury Parish Council
Destination Bristol
Dodington Parish Council
Downend and Bromley Heath Parish Council
Filton Town Council
Frampton Cotterell Parish Council
Hanham Abbots Parish Council
Hanham Parish Council
Keynsham Town Council
Emersons Green Town Council
Midsomer Norton Town Council
Oldland Parish Council
Patchway Town Council
Paulton Parish Council
Peasedown St John Parish Council
Pill & Easton in Gordano Parish Council
Portishead & North Weston Town Council
Radstock Town Council
Saltford Parish Council
Stoke Gifford Parish Council
Thornbury Town Council
Westerleigh Parish Council
Westfield Parish Council
Weston Super Mare Town Council
Whitchurch Parish Council
Winterbourne Parish Council
Yate Town Council
Yatton Parish Council

Community Admission Bodies
Alliance Homes
Ashley House Hostel
Bristol Disability Equality Forum
Bristol Music Trust
Clifton Suspension Bridge Trust
Sirona Care & Health CIC (B&NES)
Sirona Care & Health CIC
Southwest Grid for Learning Trust
The Care Quality Commission
The Park Community Trust

Holburne Museum of Art
Learning Partnership West Limited
Merlin Housing Society (SG)
Merlin Housing Society Ltd
University of Bath
Vision North Somerset
West of England Sport Trust
Writhlington Trust

Transferees Admitted Bodies

Action For Children
Active Community Engagement Ltd
Agilisys
Agilisys 2015
ARAMARK
Aspens (CLF – Hanham Woods)
Aspens (CLF – Kings Oak)
Aspens (CLF - Begbrook)
Aspens (CLF - Summerhill)
Aspens (CLF – Frome Vale)
Aspens (CLF – Minerva)
BAM Construct UK Ltd
Caterlink
Churchill Contract Services Ltd (South Gloucestershire and Stroud College)
Churchill Contract Services Ltd (BCC)
Churchill Contract Services Ltd (Milton Park)
Churchill Contract Services Ltd (Westhaven)
Circadian Trust
Circadian Trust No 2
Creative Youth Networks (Lot 4)
Eden Food Services
Fit For Sport (Trinity School)
Fit For Sport NSC (St Peters Primary)
Greenwich Leisure Ltd
HCT Group
ISS Mediclean (CLF)
ISS Mediclean (Bristol)
Kier Facilities Services
Learning Partnership West (Lot 1)
Learning Partnership West (Lot 2)
Learning Partnership West (Lot 3)
Learning Partnership West (Lot 7)
Liberata UK Ltd
Prestige Cleaning & Maintenance Ltd
Ridge Crest Cleaning Limited
Shaw Healthcare (North Somerset) Ltd (Petersfield)
Shaw Healthcare (North Somerset) Ltd (The Granary)
SITA Holdings UK Ltd
Skanska Rashleigh Westerfoil
SLM Community Leisure
SLM Fitness & Health
Sodexo
The Brandon Trust
Tone Leisure (Trust) Limited

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**24 JUNE 2016**
TITLE:	**PENSION FUND BUDGET AND CASH FLOW MONITORING** **(1) EXPENDITURE FOR YEAR TO 31 MARCH 2016** **(2) CASHFLOW REPORT**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	

List of attachments to this report:

Appendix 1 Summary Financial Accounts: Year to 31 March 2016
Appendix 1A Summary Budget Variances: Year to 31 March 2016
Appendix 2 Cash Flow Report: Year to 31 March 2016

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 year to 31 March 2016. This information is set out in Appendices1 and 1A**.**

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

2 RECOMMENDATION

That the Committee notes:

2.1 Administration and management expenditure incurred for the year to 31 March 2016.

2.2 Cash Flow Report for the year 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 year to 31 March 2016 are contained in **Appendix 1.**

4.2 The expenditure for the year to 31 March 2016 was £1,898,000 under budget. Within the directly controlled Administration budget expenditure was £253,000 below budget. The underspend in directly controlled expenditure resulted from holding a team leader post open pending restructure and delays in appointing staff to assist in the GMP data reconciliation project and to fill the vacant Custody & Finance Officer post.

There were also savings in Communication Costs through greater use of on line access. The imposition of fines for non-compliance by employers increased income although it is hoped that this source of income will fall in future as greater compliance is achieved. Some spending on the IT Strategy was delayed in order to take advantage of future new software releases.

4.2 In that part of the budget that is not directly controlled, expenditure was £1,645,000 under budget. The underspend mainly related to Investment manager fees. The reduced spending was due to changes in mandates leading to lower fee rates and markets performing below the level assumed in the preparation of the budget. This was partially offset by higher performance fees than provided for in the budget (some of these fees relate to previous years but were payable in 2015/16).

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

5 CASH FLOW REPORT

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 for the year to 31 March 2016 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 for the year was a net outflow of £14m producing a variance of £10m smaller outflow. 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 including 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 more of our Investment Managers now invoice their fees as opposed to deducting them at source.

In summary the variance of a £10m 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

	FULL YEAR 2015/16		
	BUDGET £	ACTUAL £	VARIANCE £
Administration			
Investment Expenses	68,359	64,097	(4,262)
Administration Costs	73,411	63,266	(10,145)
Communication Costs	67,750	23,877	(43,873)
Payroll Communication Costs	76,555	81,319	4,764
Information Systems	268,247	254,489	(13,758)
Salaries	1,501,284	1,402,078	(99,206)
Central Allocated Costs	402,081	393,273	(8,808)
Miscellaneous Recoveries/Income	(222,200)	(273,154)	(50,954)
IT Strategy	147,614	120,880	(26,734)
Total Administration	**2,383,101**	**2,130,125**	**(252,976)**
Governance & Compliance			
Investment Governance & Member Training	295,660	228,852	(66,808)
Members' Allowances	39,966	33,811	(6,155)
Independent Members' Costs	19,264	21,706	2,442
Compliance Costs	423,400	361,649	(61,751)
Compliance Costs recharged	(250,000)	(204,360)	45,640
Pensions Board	37,400	18,386	(19,014)
Total Governance & Compliance	**565,690**	**460,044**	**(105,646)**
Investment Fees			
Global Custodian Fees	84,150	107,979	23,829
Investment Manager Fees	18,532,259	16,969,266	(1,562,993)
Total Investment Fees	**18,616,409**	**17,077,245**	**(1,539,164)**
NET TOTAL COSTS	**21,565,200**	**19,667,414**	**(1,897,786)**

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APPENDIX 1A

Summary of main budget variances: Year to 31 March 2016

Variances Analysis of the full year expenditure and income, against budget.

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(99,000)	Reduced salaries expenditure due to:- - Initial delays in the appointment of additional staff resources to meet the requirements of the GMP reconciliation. - Initial delays in the appointment of a Custody & Finance Officer. - A Team Leader post being held open pending the restructure of Benefits.
Communication Costs	(44,000)	Savings have been made on guides, leaflets, newsletters and the annual report through greater use of on-line access. There have also been savings on the cost of the employer conference and through web site development being carried out in-house.
Information Systems	(14,000)	The budget included a provision for new hardware that was not required in the year.
Central Allocated Costs	(9,000)	Savings in accommodation costs have been achieved through flexible working.
Miscellaneous Recoveries / Income	(51,000)	The increased income was mainly due to the imposition of fines on employers for non-compliance in the provision of year end data. The fines are intended to promote future compliance, allowing efficient processing. They are not intended to be a source of income.
IT Strategy	(27,000)	Reduced expenditure in 2015/16 due to some system development being held over to 2016/17 in order to be included in a new software release, particularly in relation to Employer Self Service.
Administration	**(253,000)**	(Total includes minor variances not included above)

Investment Governance & Member Training	(67,000)	Reduced expenditure due to later timing of Responsible Investment Review into 2016/17 and underspend on member training.
Compliance Costs & Compliance Costs recharged	(16,000)	The lower than budgeted expenditure on compliance costs was largely offset by the consequent reduction in the recharges of compliance costs.
Global Custodian Fees	24,000	Higher transaction costs arising from the change to passive currency hedging and the inclusion of property and hedge fund portfolios in the revised currency hedging policy as agreed at Sept Committee meeting.

Investment Manager Fees	(1,563,000)	The reduction is due to changes to mandates that have led to lower fee rates and the market 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	(19,000)	Expenditure on allowances and training fell below the provision for the new board that was included in the budget.
Expenditure Outside Direct Control	**(1,645,000)**	(Total includes minor variances not included above)
Total Underspend	**(1,898,000)**	

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

APPENDIX 2

AVON PENSION FUND

Cash Flow Forecast

		FULL YEAR 2015/16		
		Forecast Per Service Plan	**Out-turn**	**Variance**
		£'000	**£'000**	**£'000**
Outflows				
Benefits	Pensions	(123,869)	(129,104)	(5,236)
	Lump sums	(33,890)	(26,155)	7,736
Administration costs		(5,765)	(11,068)	(5,302)
Total Outflows		**(163,524)**	**(166,326)**	**(2,802)**
Inflows				
Deficit recovery		7,278	23,678	16,400
Future service Contributions		116,784	117,855	1,071
Total Contributions		**124,062**	**141,532**	**17,471**
Net Cash Flow (excluding Investment Income and Transfers In and Out)		**(39,462)**	**(24,794)**	**14,668**
Net Transfers In & Out (budgetted as zero)		-	(3,928)	(3,928)
Investment income received as cash		15,243	14,746	(497)
Net Cash In-Flow (Out-Flow)		**(24,219)**	**(13,977)**	**10,243**

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**24 June 2016**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) SUMMARY PERFORMANCE REPORT to 30 April 2016** **(2) PERFORMANCE INDICATORS - 3 MONTHS TO 30 April 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 30 April 2016
Appendix 2 Active membership statistics over 12 months to 30 April 2016
Appendix 3 Joiners & leavers statistics over 12 months to 30 April 2016
Appendix 3A & 3B Active members demographic as at 30 April 2016
Appendix 4 Late payers report – up to 31 March 2016
Appendix 5 Balanced Scorecard : KPI's - 3 months to 30 April 2016
Appendix 5A Annex 1 & 2 Admin case workload status as at 30 April 2016
Appendix 6 Customer satisfaction – Feedback in the 3 months to 30 April 2016
Appendix 7 IDRP Schedule
Appendix 8 TPR – Data Improvement Plan – to 30 April 2016
Appendix 9 Risk Register – Top 10 Risks
Appendix 10 Data Protection – Breach Report

1 THE ISSUE

1.1 The purpose of this report is to inform Committee of Performance Indicators and Customer Satisfaction feedback for 3 months to 30 April 2016 and Summary Performance Reports on Employer and APF performance over 4 years to 30 April 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 30 April 2016.
2.2 Performance Indicators & Customer Satisfaction feedback for 3 months to 30 April 2016
2.3 Progress on the Data Improvement Plan
2.4 Risk Register Top 10 risks

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 30 April 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 performance reports will be available at the September Pensions Committee following completion of phases 1and 2 of the Task Workflow project.

3.5 **TASK WORKFLOW**

3.6 A new member leaver form checking process has been introduced from March which will immediately flag employer data submission errors and omissions. It also addresses any issues at point of receipt enabling a prompt communication back with employers where necessary.

3.7 During the period 1st March to 30th April a total of 1623 leaver forms have been received with an average error rate of 35.6%. Reporting on types of errors and by employer is now possible. This will enable the Fund to analyse the data and work with employers to improve the quality of their leaver forms.

3.8 So far the biggest percentage of errors is from incorrect pay calculations and employers submitting blank leaver forms via Employer Self Service.

3.9 From feedback received from employers so far, the leaver form is being reviewed to improve the layout and provide more guidance notes for employers. Although a training course is already in place to teach employers how to submit leaver forms via ESS, the course is being reviewed to take employers through the leaver form in more detail and will include intensive training on pay calculations. Where necessary training at employer sites will also be offered.

3.10 From the data it has also been identified that some employers who have been trained to use ESS are still sending leaver forms via paper and this will be addressed with employers.

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 30th April reflects an increase in in the number of part-time workers and workers with multiple employment posts. **Appendix 3A & 3B** provides a 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. The increasing number of new smaller employers to the Fund as part of the fragmentation of the employer base (newly created Academies and Transferee Admitted Bodies) has a direct impact on the administration workload with increased movement between employers, especially within the education sector. 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 March 2015. None of the late payments during this period 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 is a statutory requirement for employers to provide the Fund with membership data. The data is used to provide members with their Annual Benefit Statement by the statutory deadline of 31st August and used by the Fund Actuary as part of the Tri-annual valuation process, which determines individual employer contribution rates.

6.2 The process began in November with initial communication to all employers reminding them about the process and their responsibilities. Four YE training sessions were held in January, February and March – these were well attended. These were supplemented by information factsheets, FAQs and website content. To assist employers APF produced specific data spreadsheets of their membership data that is held on our system. This was sent to employers in January. They were then asked to review and update if required. On 1 April a final updated spreadsheet was sent to employers, with a deadline of 30 April to return it with completed payroll information. As of 30 April deadline 11 employers, from the 240+ employer base had not submitted their data.

6.3 A period of data cleansing is now underway. Significant dates are 30 June, for the YE data to be submitted to the Fund's Actuary, Mercers for the Triennial Valuation and 31 August for all active and deferred members to receive their Annual Benefit Statement. This year APF is also providing statements for the Avon Fire Service. Currently the Fund is on track to fulfil these requirements.

6.4 **Breaches**

6.5 As required under TPR Code of Practice No. 14 the Fund has implemented an approved Breaches Policy. Employers who have failed to meet set deadlines for the submission of data or for incomplete/incorrect data will be subject to further action under the policy. A detailed report will be included in the next paper to LPB and Pensions Committee

6.6 **Data Protection**

6.7 Unfortunately, during the year end process there was a breach of data protection caused by the Fund administration and resulting in membership data from one scheme employer being made available to another scheme employer. Details of the breach have been reported in accordance with council guidance and the approved breaches policy.

6.8 The determination of the councils Information Governance officer and that of Head of Pensions was that the breach should be considered as a non-material breach by the admin authority. As such the breach has been recorded by the Pensions Manager and improvement actions agreed with Head of Pensions to mitigate further occurrences. A report into the Data Protection Breach is attached as **Appendix 10**

7. Avon Pension Fund – Administration Performance

7.1 Balanced Scorecard detailing Key Performance Indicators for the 3 Months to 30th April 2016

7.2 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.

7.3 Full details of *performance against target,* in tabular and graph format, are shown in **Appendix 5.** Reports are currently 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 either September or December 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 30 April 2016 there were 5220 cases outstanding of which 44.06% represents actual workable cases and 55.94% represents cases that are part complete, pending a third party response. This represents an overall increase of 720 cases outstanding compared with the previous quarter and can be attributed in the main by the increase in data cleansing/member leaver notifications as a result of the year end exercise.

9. CUSTOMER SATISFACTION FEEDBACK IN 3 MONTHS TO 30th April 2016

9.1 **Appendix 6** reports on the customer satisfaction based on 21 questionnaires returned from members retiring from both active and deferred status (out of a total of

212 questionnaires issued in respect of the reporting period). 100% of deferred members rated the service as good or excellent, with 82% of actives rating the service as good or excellent.

9.2 In March the APF re-launched its member website, with an online customer service questionnaire for recent retirees. Therefore the next reporting period will begin to reflect the online survey results as the ‘paper’ format’ is phased out.

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 Summary of Data Improvement Plan Data as at 30th April 2016 is shown below with a comprehensive breakdown attached in **Appendix 8**

Summary of Data Improvement Plan Data as at 30 April 2016

Data type	**Cases brought forward**	**New cases in period**	**Completed in period**	**Outstanding**	**Completeness of date as % of membership**
Actives	**2365**	**233**	**1014**	**1584**	**99.51%**
Deferred	**4673**	**365**	**276**	**4762**	**98.86%**
Pensioners	**292**	**4**	**120**	**176**	**99.83%**
Dependants	**67**	**9**	**8**	**68**	**99.74%**
Total	**7397**	**611**	**1418**	**6590**	**99.49%**

11.2 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. There has been a net reduction of 807 queries over the last quarter.

113 Over a 1000 errors have been corrected for active members over the period after a good response from employers resolving queries as part of their year end preparation, particularly in respect of starters and leavers from the year end exercise 2015/16. Work has also continued to trace deferred and pensioner members with missing addresses.

11.4 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 May 2016. A new risk specifically for the Brunel Pension Partnership was added. The main risks are that the proposal is rejected by government; that not all the funds approve the proposal; that the work delivering the proposal is delayed; that key resource is unavailable. These risks are mitigated by

(i) BPP has its own risk register

(ii) Shadow governance structure has been established to ensure engagement with all stakeholders

(iii) Expert advice has been commissioned to assist in developing the proposal

(iv) The workplan has detailed work streams which is managed and co-ordinated by a dedicated project manager

(v) The Investments Team has added resources to support through team through the project.

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	

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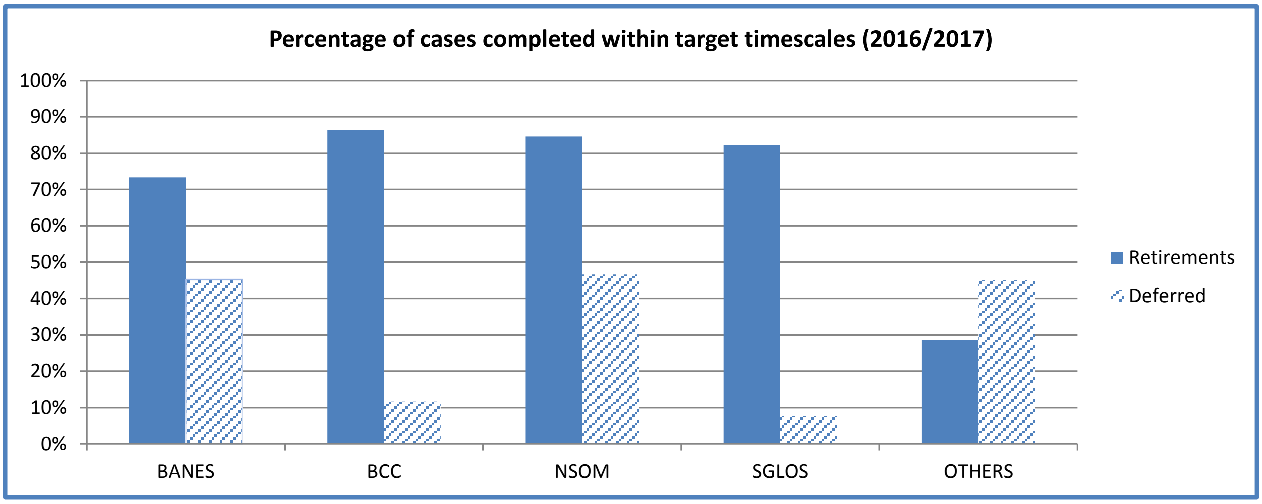
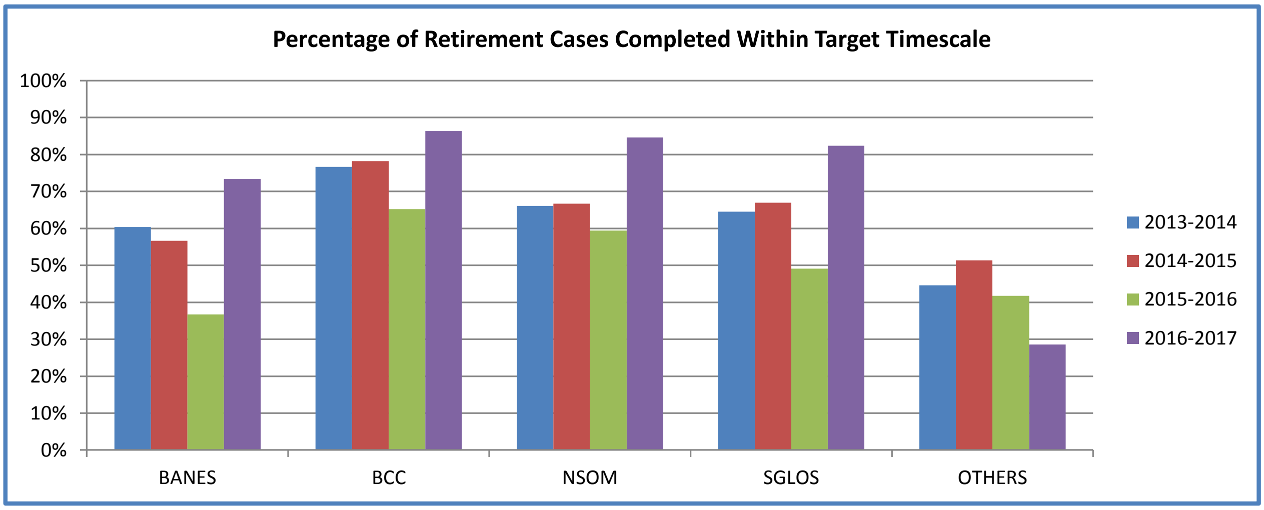
Admin Report: Appendix 1

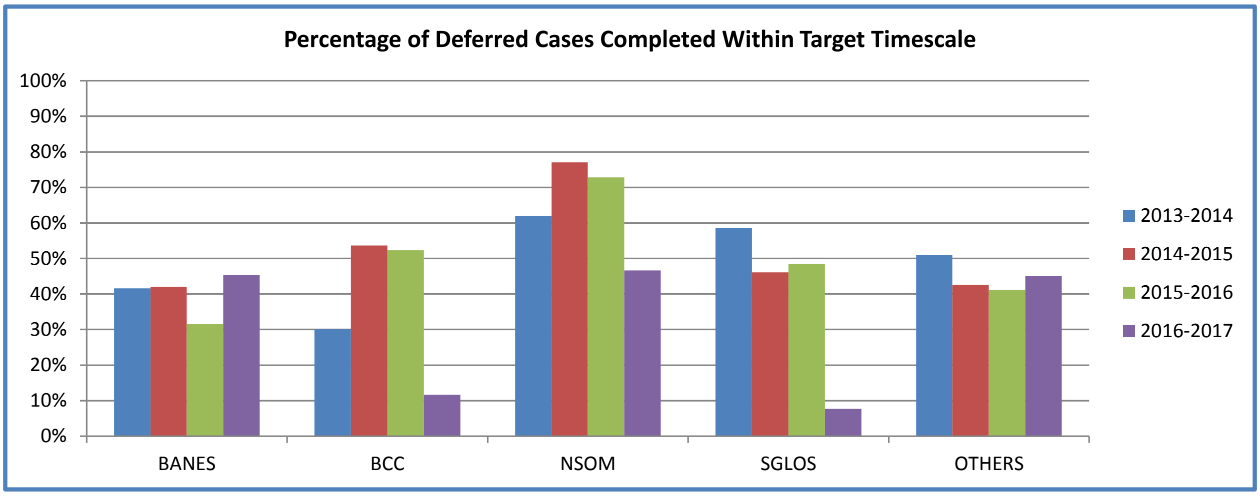
Annex 1



Annex 2



Annex 3



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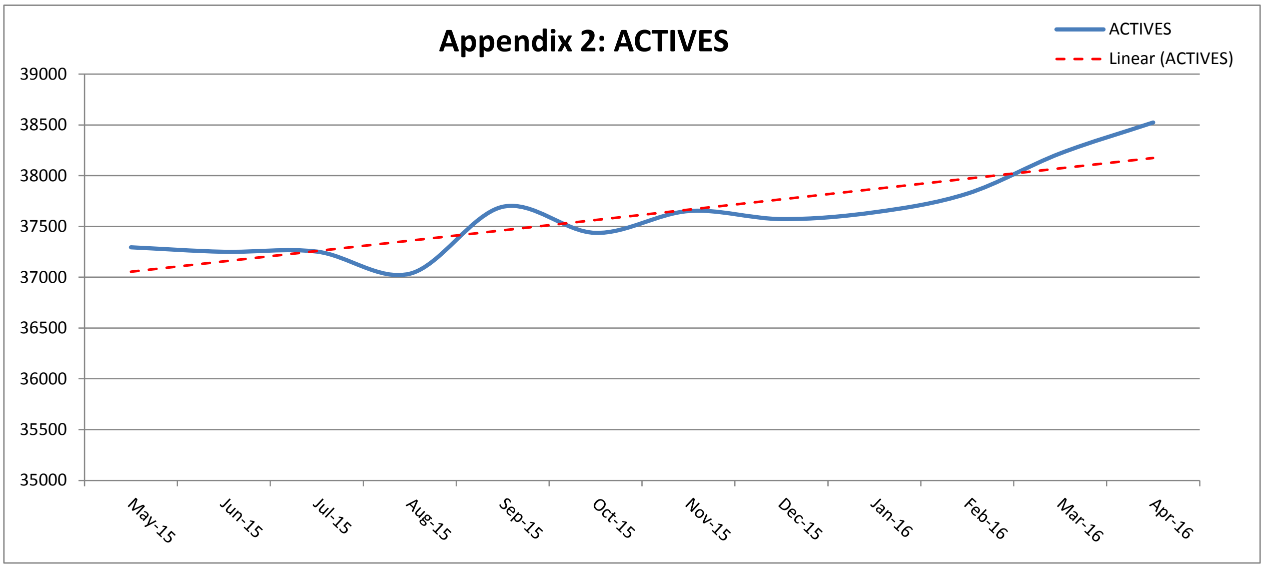
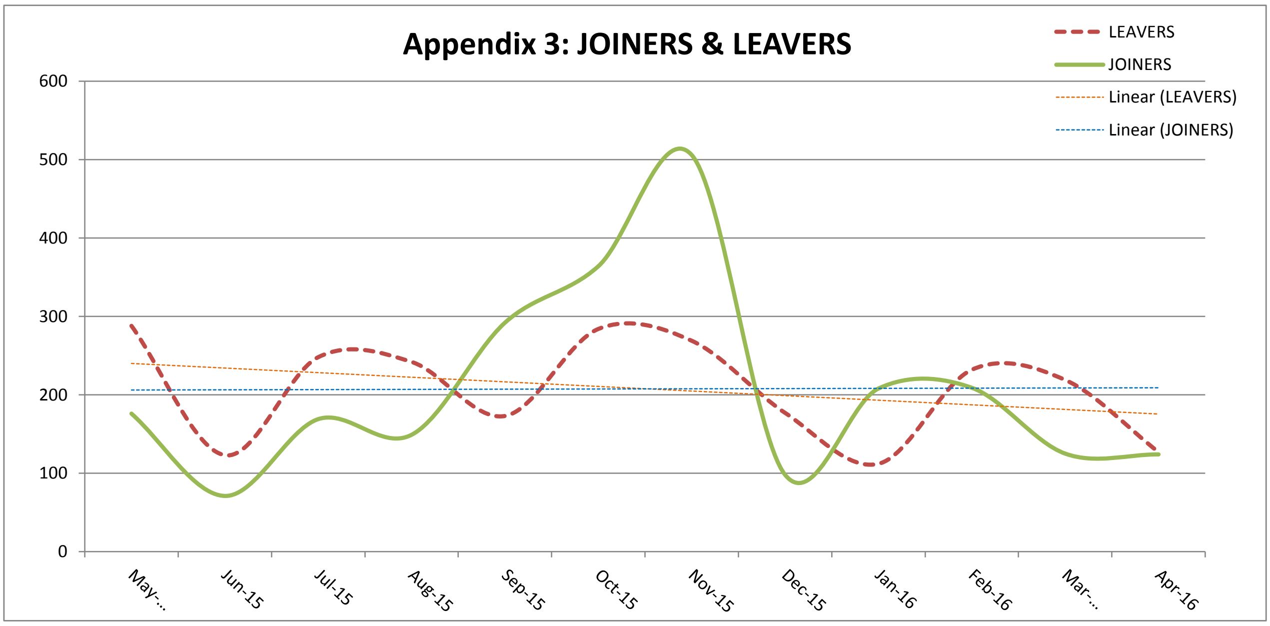
Admin Reports - Appendices 2 and 3.   Actives, Joiners and Leavers to 30th Apr 2016





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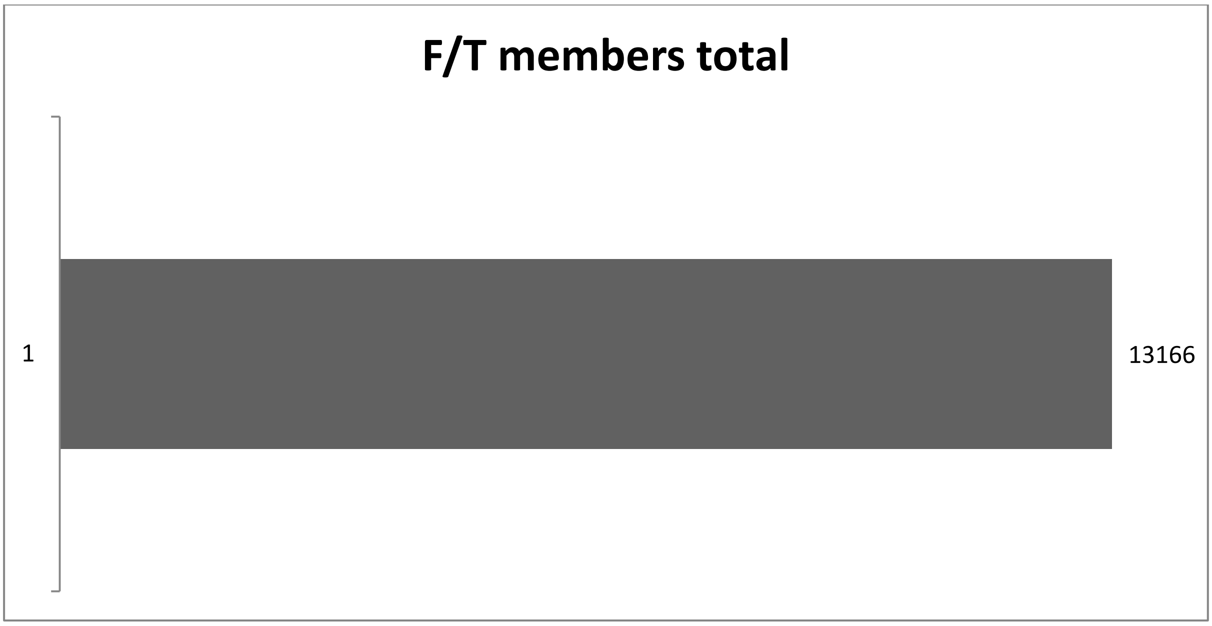
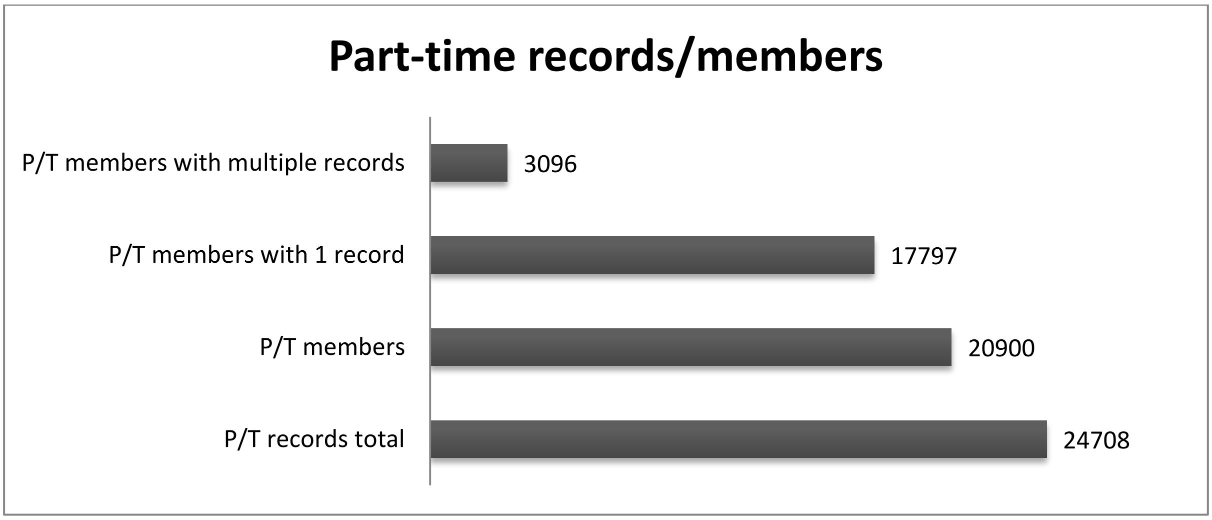
Active membership





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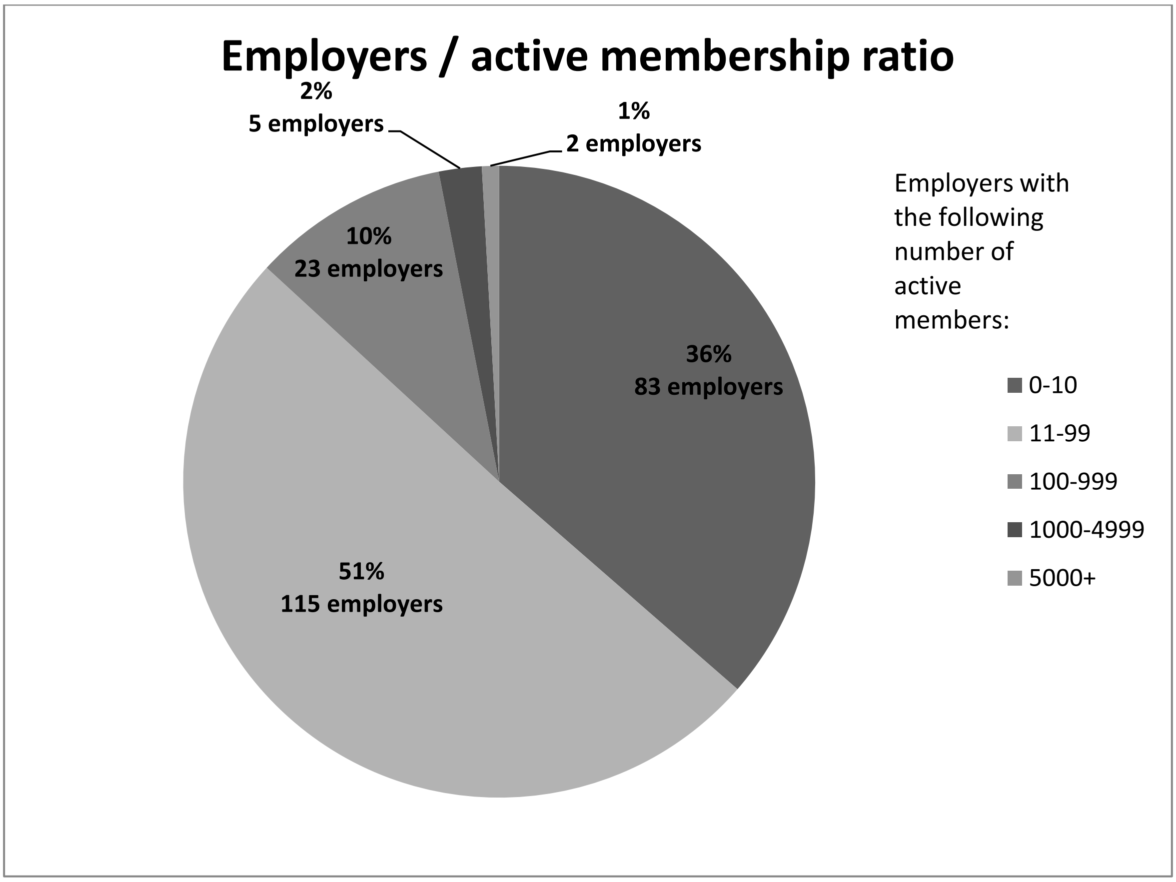
Employer/active membership ratio by numbers **Appendix 3B**

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	115
Number of employers with 0 - 10 members	83
Total	**228**



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APPENDIX 4

Employer	Payroll Month	Days late	Cumulative occasions	Amount	Significance	Reason / Action
Bristol Waste Company	January	**8**	3	26,358.97	Significant Value and days late.	Systems have been put in place to avoid late payments in future. March contributions were paid early.
Steiner Academy	January	**6**	1	1,046.61	Significant days late.	They are having problems reconciling their contributions. The Fund are assisting in resolving these issues. They have been reminded of their obligation to pay by 22nd of the month.
Bath Tourism Plus	February	**13**	2	2,674.90	Significant days late.	Oversight by employer. The company finance director will in future ensure that contributions are made on time.
Bristol Futures Academy	February	**7**	1	3,353.50	Significant days late.	An error in their BACS processing was not picked up until a week later.
Steiner Academy	March	**7**	2	3,144.14	Significant days late.	The Academy believe they have now resolved problems reconciling their contributions (see above). The March payment included a correction of previous underpayments.
City of Bath College	March	**7**	1	75,906.80	Significant Value and days late.	Payment was delayed due to staff sickness. The College have now brought forward the scheduling of the process in order to avoid such problems resulting in late payments in the future.
Prestige Cleaning	March	**12**	1	759.03	Significant days late.	Problems with sudden loss of staff. They have been reminded of their obligation to pay by 22nd of the month.
Kier Limited	March	**36**	1	1,852.98	Significant days late.	Late payment due to a payroll system error. This has now been resolved. April was paid early
Total Days		**96**		**115,096.93**		
			Total Contributions in Period	**30,868,064.61**	**Late Payments as Percentage of total 0.37%**	**Late Payments from 7 out of a total of 228 employers**

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 30 April 2016

	INDICATOR	Red Amber Green	2015/16 Actual	Target	Actual 3 Months to 30/04/2016	Comments
A	**Customer Perspective**					
1	General Satisfaction with Service - retirees' feedback	**G**	97%	97%	94%	21 Responses Received from 212 Retirees (Appendix 6)
2	Service Standards - Processing tasks within internal targets (SLA)					
	Deaths	**A**	91%	92%	84%	12 of 14 Cases completed within target
	Retirements	**A**	89%	90%	76%	339 of 449 Tasks completed within target
	Leavers (Deferreds)	**G**	81%	75%	75%	807 of 1069 Tasks completed within target
	Refunds	**G**	82%	80%	86%	341 of 397 Tasks completed within target
	Transfers In	**A**	74%	75%	59%	10 of 17 Tasks completed within target
	Transfers Out	**A**	77%	75%	72%	51 of 71 Tasks completed within target
	Estimates	**A**	95%	90%	67%	572 of 857 Tasks completed within target
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**	51511/4292pcm		15,503	5168 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	n/a	none due this period
9	Annual Benefit Statements distributed by 31 August					Report due September 2016
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%	**A**	30053 created 27944 cleared	<40%	44%	5925 created, 4747 cleared - **see Appendix 5A Annex 1 & 2**
5	Year End data receipt	**G**		100%	90%	217 out of 241 Submitted by initial deadline of 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%		6.0%	

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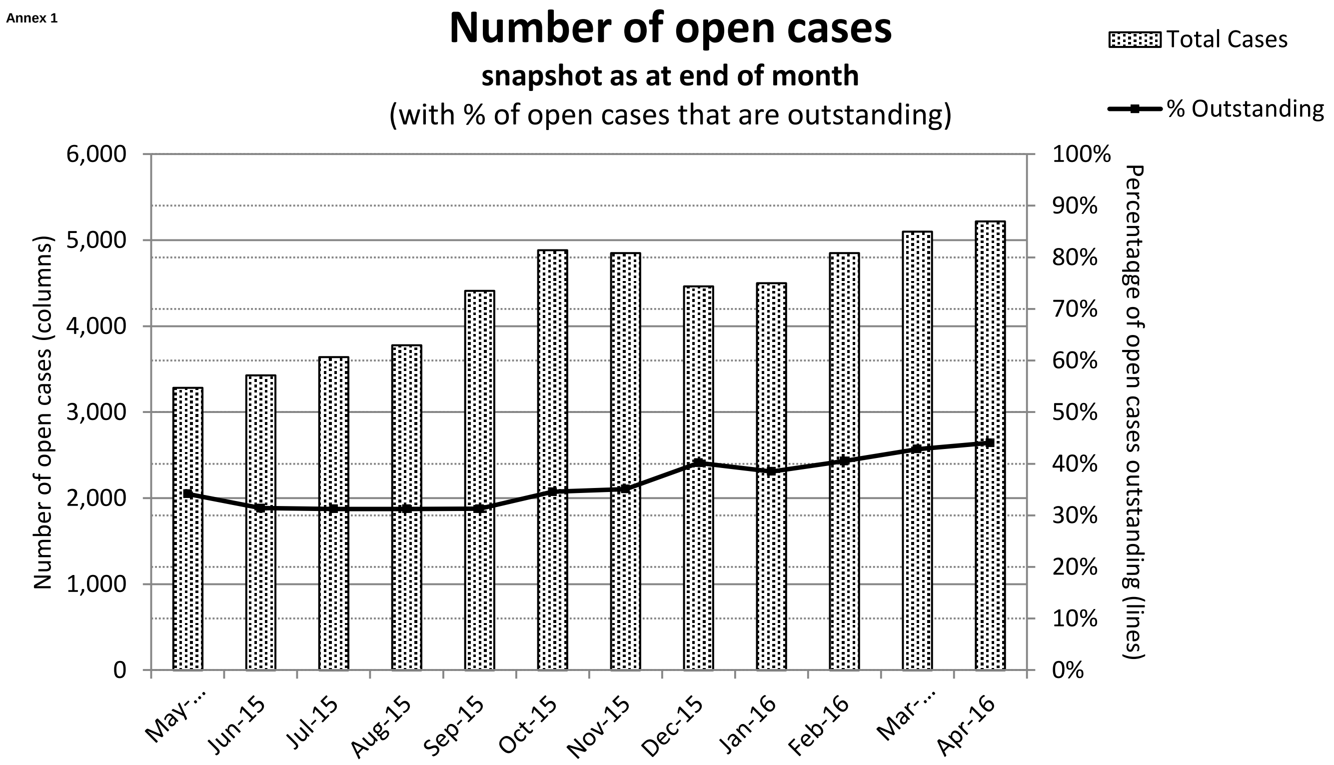
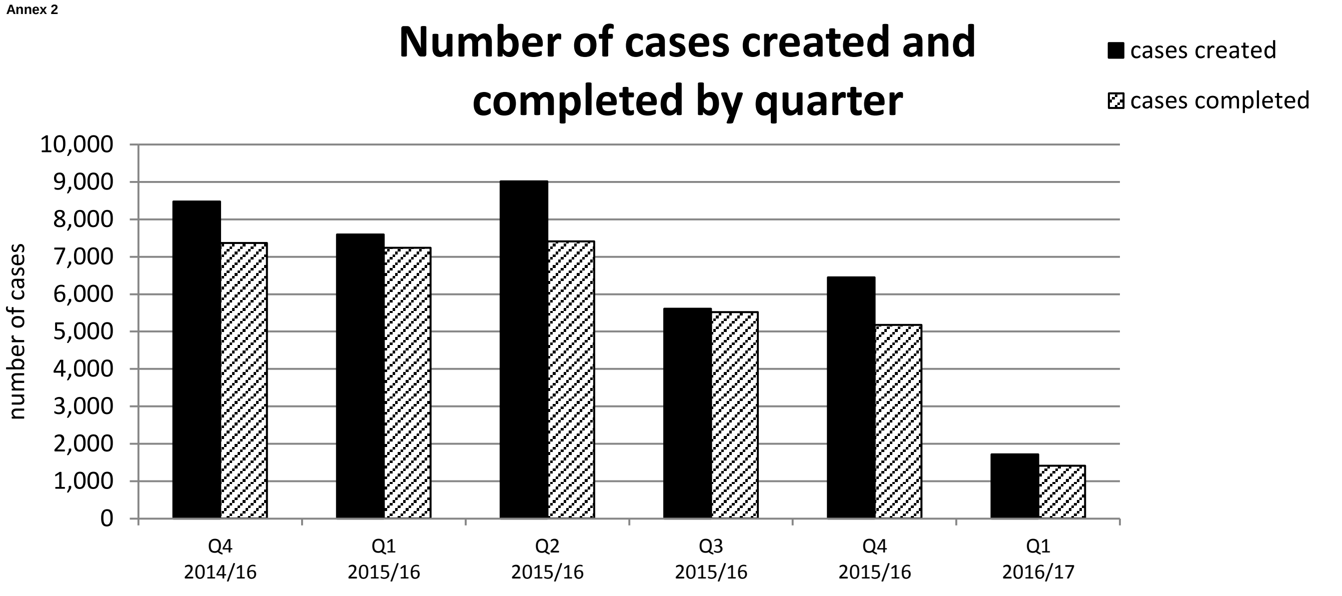
Pension Fund Administration report: Case Workload **Appendix 5A**

Annex 1



Annex 2

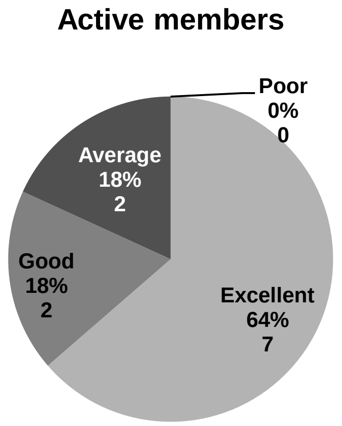


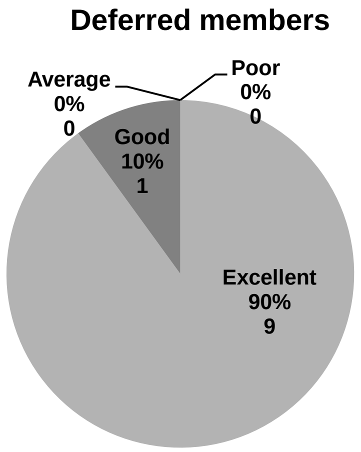
Appendix 6

Customer satisfaction (1 Feb 2016 – 30 Apr 2016)
Paper survey results

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

Active members		**Deferred members**	
Number retiring	110	Number retiring	102
Questionnaires received	11	Questionnaires received	10
Response rate	10%	Response rate	10%





Online retirement questionnaire
In March the APF re-launched its member website, with an online customer service questionnaire for recent retirees. Therefore the next reporting period will begin to reflect the online survey results as the 'paper' is phased out.

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IDRP	Current

As at 26/05/2016

AVON PENSION FUND STAGES 1 and 2

Reason	Stage1						
	Stage 1 Form received	Date For Review Completion	Delay letter Sent	Review Completed	Decision	By	Last Date for Stage 2 Appeal
Not allowing delaying payment of pension	17/02/2016	17/04/2016	15/04/2016	28/04/2016	Not Upheld	Technical Manager [Pensions]	28/10/2016

Employer Stage 1 - Avon PF Stage 2

Reason	Employer for Stage 1	Stage 2 Form received	Date For Review Completion	Delayed for further information	Review Completed	Review Completed	By	Decision
Ill Health Retirement Tier level	North Somerset 2nd IDRP Stage 1 waived	18/03/2016	17/05/2016	22/05/2016	TBC	In Progress	Council's Principal Solicitor and Monitoring Office	TBC

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Appendix 8

TPR Data Improvement Plan as at 30 April 2016

Data type	Cases brought forward	New cases in period	Completed in period	Outstanding	Completeness of date as % of membership
ACTIVES Total = 37012					
Addresses	364	99	80	383	98.97
Forename	3	0	1	2	99.99%
Surname	0	0	0	0	100%
Date of birth	2	2	2	2	99.99%
NI number	54	2	4	52	99.86%
Title	0	5	5	0	100%
Sex mismatch	13	25	21	17	99.95%
Format of hours	12	21	33	0	100.00%
Date joined Fund missing	0	0	0	0	100.00%
Payroll ref missing	122	6	65	63	99.83%
Casual hours missing	749	0	232	517	98.60%
Leaver forms missing	925	73	495	503	98.64%
Starters missing	121	0	76	45	99.88%
Total	**2365**	**233**	**1014**	**1584**	**99.51%**
DEFERREDS Total = 40815					
Addresses	3834	365	220	3979	90.25%
Forename	8	0	0	8	99.98%
Surname	0	0	0	0	100.00%
Date of birth	2	0	0	2	99.99%
NI number	2	0	0	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	0	0	0	0	100%
Historic refunds	827	0	56	771	98.11%
Total	**4673**	**365**	**276**	**4762**	**98.86%**

PENSIONERS Total = 24304					
Addresses	286	4	117	173	99.29%
Forename	4	0	2	2	99.98%
Surname	0	0	0	0	100.00%
Date of birth	0	0	0	0	100.00%
NI number	1	0	0	1	99.99%
Title	0	0	0	0	100.00%
Sex mismatch	1	0	1	0	99.99%
Total	**292**	**4**	**120**	**176**	**99.83%**
DEPENDANTS Total = 3745					
Addresess	41	2	2	41	98.91%
Forename	0	0	0	0	100.00%
Surname	0	0	0	0	100.00%
Date of birth	0	0	0	0	100.00%
NI number	25	5	3	27	99.34%
Title	0	0	0	0	100.00%
Sex mismatch	1	2	3	0	99.99%
Total	**67**	**9**	**8**	**68**	**99.74%**

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

				Likelihood					Impact					Risk	RAG	Scale of	Funded by
	Risk			1	2	3	4	5	1	2	3	4	5	score		financial	
	#	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 investment objective.			3						4		12	A	Greater than £1m	Increases in employer contribution

4	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
5	R54	The Fund is a participating fund in the Brunel Pension Partnership (BPP) for pooling its assets. There is a risk that the government rejects BPP proposal; that there are delays to finalising the proposal; that a participating fund committee rejects the proposal; that key resources become unavailable. Any of the above could seriously impact the Fund's ability to meet the government's agenda.	Established governance arrangements for BPP in shadow form. Detailed workplan managed and co-ordinated by Project manager. Committee and other stakeholder engagement on-going. Added resource to Investment team to support Investments manager through project.		2							4		8	A	£100,001 to £1m	Fund will have to meet costs of setting up any pooling structure
6	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.		2						3			6	A	Greater than £1m	Potentially through employer contribution, investment income and divestment of assets
7	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		2						3			6	G	£100,001 to £1m	Annual budget

			provided to third parties for the detection / prevention of fraud viz. National Fraud Initiative. On-going training of employers in their TPR obligations														
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 assessment of financial standing of all employers in the Fund. Includes review of all employers to identify whether guarantee arrangements are adequate. Explore options for obtaining guarantee, bond or contingent assets if appropriate. Fund policy is to only admit 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

Appendix 10

Report into Data Protection Breach

Background:

As part of the Year End process all employers are required to submit membership data to the Avon Pension Fund (APF). This is done through GlobalSCAPE, a secure, password-protected data transfer portal provided by Bath and North East Somerset Council. Each employer has an individual folder on GlobalSCAPE into which data is uploaded and downloaded between that employer and APF. This system complies with Audit requirements.

Issue:

On 29 April, a representative for Backwell School uploaded the school's Year End data via the GlobalSCAPE.

This file was uploaded in error to the Backwell Parish Council folder rather than the Backwell School folder.

This occurred because when the individual was set up for GlobalSCAPE, they were allocated access to Backwell Parish Council rather than Backwell School. This was an APF administrative error.

When files are uploaded and downloaded email notifications are instantly sent to the Fund (as the receiver) and the sender. At this point both parties were alerted to the issue.

As well as the automated alerts the parish council contacted the school, who in turn contacted the Fund to alert us.

Actions taken:

<u>Immediate</u>
On notification, APF took these steps

- The school's file was removed from the incorrect folder
- The school's representative was given access to the school's folder, enabling correct submission and receipt of the data
- The school and the parish council were telephoned to notify them about the issue and the steps taken to ensure data security.

The parish council have since confirmed to APF in writing that did not open the data file or downloaded it to their system. They did open a declaration form relating to it. This does not contain any member information/data.

<u>Subsequent</u>

- APF has now implemented a secondary check when setting up employer user GlobalSCAPE access.

The email request from an employer for GlobalSCAPE access is now passed from the Support Team to the Data Quality Team for checking and validation. The Support Team email request to Bath and North East Somerset Council's IT (who actually set up the GlobalSCAPE access) is copied into the Data Quality Team (for additional checking). The email confirmation from IT (with password details) is also now checked by Data Quality.

APF has written to Backwell School to apologise and explain what happened, how it happened and the actions taken. As a matter of courtesy, APF will also write to Backwell Parish Council, along similar lines.

Future actions:
APF is now actively looking to see if the sign up access process to GlobalSCAPE process can be automated and fulfilled by an online form on the employers' website.

APF is also reviewing with IT the current folder structure to see if improvements can be made.

Reporting:
Information Governance
Bath and North East Somerset Council's Information Governance team was notified with regard to the issue and a subsequent meeting took place on 10 May, between the Information Governance Manager, the Acting Pension Manager and the Communication and PR Manager.

The Information Governance Manager advised that the incident will be logged as a Data Protection Breach and reported internally, but advised that no further action needs to be taken due to the mitigating actions APF immediately undertook.

Local Pension Board and Pensions Committee
This report is being presented to the Avon Pension Fund Pension Board at its meeting on 19 May and to the Pensions Committee on 24 June.

The issue has been recorded by the Pensions Manager according to the Avon Pension Fund Breaches Procedure.

Material/non material significance:
Background:
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.

Opinion

- The breach was caused by an accidental human error with no fraudulent intent
- The effect was minimal as the data was not downloaded
- The APF reaction to the breach was immediate and the situation resolved
- Professional advice was sought and advice given was that a breach would be reported internally, but no further action would take place.

For the above reasons this should be considered as a **Non Material Breach 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. 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.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**24 June 2016**	**AGENDA ITEM NUMBER** **17**
TITLE:	**LGPS: Regulatory update**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 –List of forthcoming regulatory changes that will affect administration Appendix 2a DCLG Consultation on Draft LGPS Amendments (Summary) Appendix 2b –:DCLG Consultations – Fair Deal Proposals Appendix 3 - Response Letter Consultation on Recovery of Public Sector Exit Payments		

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. This includes any responses to consultations that have been made.

1.2 It is also to obtain approval from the committee where a discretionary policy is required under the regulations

1.3 A list of current issues that will affect administration is set out in Appendix 1

1.4 As previously reported HM Treasury consulted on Exit Payments within the public sector. A response was sent on behalf of Avon Pension Fund

1.5 The Committee are also required to approve a discretionary policy under the regulations.

2 RECOMMENDATIONS

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

2.3 Approves the discretionary policy set out for transfer requests made after the 12 month of scheme entry as follows

The decision to be delegated to specified officers who must consider

Whether it would be detrimental to the Avon Pension Fund

Whether the delay was the result of actions or non actions of the scheme employer or administering authority

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 As reported in March there were a number of issues that we were awaiting the Communities and Local Government [DCLG] to issue a consultation to the draft regulations and this has subsequently been released on 27 May 2016

4.2 These draft regulations amend the main LGPS regulations to provide clarifications that have been requested by practitioners and improve the operation of the regulations. These also include the changes intended to incorporate Freedom and Choice within some elements of the LGPS. A summary is included in Appendix 2a

4.3 They also introduce the Fair Deal for Staff Pensions, for employees, in the Local Government Pension Scheme, who are compulsorily transferred to another service provider in response to the Treasury 'Fair Deal for Staff Pensions' policy issued in October 2013. This part of the consultation is included as Appendix 2b

4.4 A response will be submitted on these provisions put forward.

4.5 On 29 April 2016, GAD issued about 20 sets of revised guidance / factors with immediate effect which will cause some temporary administrative problems whilst the software provider updates the system

5 Treasury Consultations on Exit Payments

5.1 In March details were given on the current position on the three consultations regarding changes to public sector exit payments on leaving employment early issued by HM Treasury

Consultation on a Public Sector Exit Payment Cap

Consultation on a Recovery of Public Sector Exit Payments

Consultation on reforms to public sector exit payments

5.2 The current position on these is shown in the table in Appendix 1:

The response on behalf of Avon Pension Fund to the third consultation is attached as Appendix 3

6 Additional Discretionary Policy

6.1 Under the previous regulations a request from a scheme member to transfer previous pension rights into the Fund had to be made within 12 months of joining the Fund. This period could be extended by the scheme employer.

6.2 Regulation 100(6) of the current regulations provides that the 12 month period can be extended “as the Scheme employer and administering authority may allow”.

6.3 There may be genuine reasons why a transfer request was delayed and in some cases it may be as a result of some action or non-action by the scheme employer or administering authority. In such cases there may be a valid case to exercise a discretion to extend the period.

6.4 However there are occasions where a scheme member will make such a request after a substantial period because there may be a potential redundancy and the member would then get these transferred benefits paid immediately. The ultimate cost of this could be high and would initially be a cost to the scheme employer. However there may be some occasion whereby an employer is unable to continue due to financial difficulties and here there could be a potential cost put on the Fund if a transfer was allowed to someone being made redundant. The administering authority would need to consider the full implications of any such discretion made.

6.5 It is therefore recommended that any discretion in respect of Regulation 100(6) be delegated to specified officers as set out for other discretions at the June 2015 Committee and that when considering the decision the following is taken into account

Whether it would be detrimental to the Avon Pension Fund

Whether the delay was the result of actions or non actions of the scheme employer or administering authority

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;* *DCLG Consultation May 2016* *LGPS Regulations 2013*
Please contact the report author if you need to access this report in an alternative format	

Body Involved	Subject	Description	Current Position	APF Response	APF
H M Treasury [HMT]	Public Sector Exit Payments				Await implementation
	Re employment	Recovery of exit payment if member is re-employed within public sector within 1 year where earning on leaving exceeded £80,000	Operative date was from 1 April 2016	date delayed	Communicate amendments to LGPS
	Exit Cap	To set out maximum cap for the total cost of all forms of exit payments available to individuals leaving employment at £95,000.	Enterprise Act [Royal assent given on 4/5/2016]	Operative date tbc by HMT	Await government response to comments
	Other restrictions	Comment requested on suggested possible changes to	Consultation closed 3 May 2016	Awaiting HMT views on responses	
DCLG	Amendment regulations	Changing anomalies from scheme Changing the way service is aggregated between LGPS Employers	Consultation on draft regulations issued 27 May 2016	Responses by 20 August 2016	Response to be drawn up
	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			
DCLG/ GAD	Guidance and Factor changes	20 sets of changes was issued on 29 April 2016 with immediate effect	As a result of SCAPE changes in budget	Administration software provider incorporate changes by	Monitor information given to members a~nd communicate changes

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Changes to the 2013 Scheme Regulations

We are also consulting on specific draft regulations that would provide members with more options for using their Additional Voluntary Contributions in the Scheme following the introduction of the Government's policy 'Freedom and Choice in Pensions. Other draft regulations deal with how the Scheme operates within the Public Sector Transfer Club, while there are a number of draft amending regulations that are intended to improve the administration of the Scheme.

Local Government Service and Fair Deal – Draft Regulations 3 to 5

Temporary Reduction in Contributions- Draft Regulation 6

Contributions During absence from work - Draft Regulation 7

Additional Voluntary Contributions (AVC) - Draft Regulation 8 & 9

Assumed Pensionable Pay- Draft Regulation 10
The current method of calculating assumed pensionable pay can produce anomalous results for a member whose pay varies over time. This amendment sets out to remove such inconsistencies

Pension Accounts- Draft Regulation 11
This is to prevent situations occurring where automatically aggregated pensions accounts have to be delayed or disaggregated and reverts back to the policy in the 2008 Scheme which worked more smoothly.

Retirement Benefits - Draft Regulation 12
A member with both deferred and active pensions accounts has to take benefits relating to both accounts where employment is terminated due to redundancy or business efficiency and the member is required to take retirement benefits because they are aged over 55. It is proposed to amend this requirement so that the member is required to take only benefits from the active pension account in those circumstances.

Election for Lump Sum instead of pension – Draft Regulation 13
As a consequence of the introduction of new Regulation 17A provisions for AVCs as result of Freedom and Choice

Survivor Benefits - Draft Regulation 14

Special Circumstances Where Revised Actuarial Valuations and Certificates Must Be Obtained - Draft Regulation 15
It is proposed to amend Regulation 64 to allow for exit credits to be paid to employers that no longer have active members in a pensions fund which was not previously provided for. This will give more flexibility for administering authorities to manage liabilities when employers leave the Scheme.

Employer's Further Payments - Draft Regulation 16
To complete the list of circumstances when an administering authority can require an employer to make payments in addition to regular employer contributions, it is proposed to amend regulation 68(2) to include occasions when a member takes early retirement and the employer has waived the actuarial reduction to the member's benefits that would otherwise have been made.

Transfers

Rights to payments out of the pension fund, and inward transfers of pension rights – Draft regulations 17 & 18
it is proposed to amend regulation 96 so that the relevant administering authority calculates the transfer in accordance with provisions in the Public Sector Club Memorandum, during both the transfer out and the transfer in of the accrued rights.

Effect of acceptance of a transfer value – draft regulation 19
Where there has been an inward transfer of pension rights, Regulation 101 is being amended to require that the amount of earned pension is calculated either in accordance with the Club Memorandum if the transfer is under the Public Sector Transfer Club and in any other case, in accordance with actuarial guidance issued by the Secretary of State.

General
Interpretation – Draft Regulation 20
Introduces the necessary definitions relating to the Public Sector Transfer Club and associated revaluation arrangements, and a protected transferee and protected transferee employer. In addition, the definition of statutory pay is amended to include statutory sick pay, and the definition of partner is no longer restricted to partners of active members.

Scheme employers - Draft Regulation 21
Removes certain non-local authority employers from the criteria covering ‘An entity connected with a local authority’.

It is intended to put beyond doubt that administering authorities are able to agree that an admission agreement can have retrospective effect.

It is proposed that administering authorities are no longer required to inform the Secretary of State when they enter into admission agreements, this will no longer be necessary as draft regulation 4 requires administering authorities to publish a list of admission agreements that they have entered into.

Pension funds Draft Regulation 22
21. A reference to ‘the local authority or local authorities’ is removed from the table in Part 2 of Schedule 3, as this is no longer needed following the amendment to paragraph 5 of Part 2 of Schedule 2 (see Draft regulation 20).

Amendments to the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 covering benefits pre April 2014

Membership before 1st April 2014 - Draft Regulation 24

Consultees are invited to comment on whether the Regulations should be further amended to remove the requirement for employer’s consent for members aged between 55 and 60 with deferred benefits under earlier revoked regulations and how that might be achieved.

It is also proposed to amend regulation 3 to specify that the normal pension age for deferred benefits accrued before 1 October 2006 is age 65. Without such an amendment, a member would be in a better position under the 2013 Scheme Regulations than he would have been had the 2007 Benefits and Contribution Regulations remained in force, and that was not the intention.

Transfers - Draft Regulation 25

Covers the underpin and is to ensure that the member is in a no worse position under the 2014 Scheme than they would have been had the member joined the final salary arrangement under the 2008 Scheme.

Interfund Adjustments etc. - Draft Regulation 26

It is intended to give a member, with deferred benefits accrued before 1 April 2014 and who became a member of the 2014 Scheme on a date after 1st April 2014, 12 months, or such longer period as the employer permits, to elect to receive a transfer value payment in relation to the deferred benefits into their active pension account. This would make it consistent with other regulations

Contributions - Draft Regulation 27

Clarify that contributions returned to members should include additional contributions made under Earlier Schemes that have been aggregated into an active account.

Additional Contributions – Draft Regulation 28

. It is the intention that the additional options for taking benefits accrued by making additional voluntary contributions are consistent with the main scheme regulations.

Rule of 85 - Draft Regulation 29

Ensures consistency with members between the ages of 55 and 59 who take early retirement under regulation 30(5) of the 2013 Regulations, so that members between the ages of 55 and 59 who choose to take early pension under regulations 30(1) or 30A of the Local Government Pension Scheme (Benefits, Membership and Contributions) 2007, may also benefit from the ‘rule of 85’ with their employer’s consent.

Transitional Provisions- Draft Regulation 30

Clarifies that admission agreements that continue when these regulations come into force are deemed to be a determination under section 25 (5) of the Public Service Pensions Act 2013

Each administering authority has 12 months to publish a list of admissions agreements that they have entered into at the time that these regulations come into force.

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The ‘Fair Deal’ proposals

Fair Deal for Staff Pensions sets out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. The Government announced in December 2011 that the Fair Deal policy, introduced in 1999, was to be retained but delivered in a different way. Staff transferring from the public sector will have continued access to their public service pension scheme rather than being offered a broadly comparable private pension scheme, as was previously the case.

The Treasury published its revised guidance, Fair Deal for Staff Pensions: staff transfers from central Government, in October 2013. It covers central Government departments and their agencies, the NHS, schools that are not local authority maintained, academies, and any other parts of the public sector under the control of Ministers where staff are eligible to be members of a public service pension scheme.

In local government, the Best Value Staff Transfers (Pensions Direction) 2007 sets out the current level of pension protection for employees of English best value authorities (and Welsh police authorities) where the provision of services are contracted out, and staff transferred under TUPE to an independent provider. The Pensions Direction ensures that the employee has the right to acquire pension benefits that are the same as or count as being broadly comparable to or better than those that he had as an employee of the authority. It is now proposed that the 2013 Regulations will contain provisions to permit all transferring members to remain in the Scheme. The Pensions Direction will be revoked in due course and the associated primary legislation will be repealed.

4. When considering how best to implement the reformed Fair Deal in the Local Government Pension Scheme, account was taken of the existing admitted body regulatory framework which has been operating for over 15 years. The admitted body status framework includes safeguards to protect other employers in the Scheme by requiring appropriate risk assessments and the need for a bond, indemnity or guarantee where risks are identified. Admitted bodies are required to pay the appropriate amounts to the Scheme to meet the pensions that accrue for the members they employ. In view of this, the draft regulations build on admitted body status. **However, if there are better ways to adopt the reformed Fair Deal in local government, consultees are invited to recommend an alternative approach and say why they consider this to be preferable.**

5. Employees who would be covered by these draft regulations are those eligible for the Scheme and compulsorily transferred from local authorities and other employers listed on the face of the 2013 Regulations. This includes those employees who are designated as eligible and employees of other bodies that participate in the Scheme through an admission agreement (admitted bodies).

Higher and Further Education Institutions and other exempt bodies
Fair Deal does not apply to higher and further education institutions, which are classified as private sector bodies, as the Fair Deal policy applies to transfers from the public sector. Police and Crime Commissioner are not required to adopt Fair Deal, as they are not best value authorities like a Police Authority. A PCC would not be precluded from adopting the principles of Fair Deal should they wish to.

Introducing a protected transferee and a protected transferee employer
The category of person covered by Fair Deal is an employee of a current Scheme employer referred to in paragraphs 5 and who is compulsorily transferred to an independent service provider who does not offer a public service pension scheme. This category of member will be a ‘protected transferee’ and would remain so as long as that member remains wholly or mainly employed on the delivery of the service or function transferred.

The regulations introduce a new category of Scheme employer, a ‘protected transferee employer’ who is obliged to participate in the Scheme under the 2013 Regulations for those staff they receive that are ‘protected transferees’. These employers will, generally, be providing a service or function under contract with a Scheme employer and can be profit-making bodies as well as not-for-profit or voluntary organisations.

It is envisaged that a ‘protected transferee employer’ can itself transfer staff to a new provider and these staff would also be regarded as ‘protected transferees’. The original ‘protected transferee employer’ will be regarded as a Scheme employer for these purposes as will the receiving second ‘protected transferee employer’.

Admitted body status
Admitted body status arrangements have been a feature of the Scheme for many years and is the means for independent service providers to become employers in the Scheme. The 2013 Regulations will be amended to align more closely with the provisions in the Public Service Pensions Act 2013 (“the 2013 Act”) dealing with eligibility for membership of a public service pension scheme. For local government, a person will be eligible for membership if actually employed in local government service; if deemed by the regulations to be employed in local government service; or if, despite not being employed in local government service, is subject to a “determination” under section 25(5) of the 2013 Act.

A determination under section 25(5) of the 2013 Act is made when an administering authority enters into an admission agreement with an independent provider of services. Alignment of the 2013 Regulations with the provisions in the 2013 Act will require no changes to the existing process for entering into admission agreements and no alteration to the status of any existing admission agreements.

Under the proposed regulations, independent service providers will be obliged to enter into an admission agreement so that the protected transferee can retain their eligibility for the Scheme. The costs of providing a local government pension to transferring staff should be clearly set out in the tender documentation. Those seeking to provide public services or functions for the first time will be obliged to offer membership of the Scheme for staff they receive under the compulsory transfer but all bidding organisations would be under the same pension obligations.

There are already provisions in the Scheme to mitigate the risks of participating employers falling into insolvency or simply failing to meet their financial obligations under the Scheme Regulations which could have the effect of requiring other employers sharing the debt left by the failing body or, ultimately, financial pressures on local tax payers. The risk assessment regime is provided for in the 2013 Regulations in Schedule 2, Part 3, paragraphs 6 – 8 and, if the level of risk identified by the assessment based on actuarial advice requires it, the protected transferee employer would have to provide a bond, indemnity or a guarantee. This will apply to a ‘protected transferee employer’ as it would apply to any admission body and provides a proportionate means to mitigate any risks identified and this is permitted by section 25(8) of the 2013 Act.

The provisions dealing with ceasing participation in the Scheme, for example when a contract ends, would apply to this category of Scheme employer as it does to other employers in the Scheme. This means that when the amounts needed to meet all liabilities falling to the exiting employer cannot be made by the assets held in the administering authority’s pension fund, an exit payment must be paid to that administering authority to address the shortfall.

Retenders of contracts involving members who were previously transferred out to a new provider and joined the provider’s broadly comparable pension scheme

A member who has moved out of the Scheme under an earlier transfer may still be in that provider's broadly comparable pension arrangement permitted under the Best Value Authorities (Pensions) Direction 2007 (see paragraph 3 above) and retains the Pensions Direction protections when a contract is retendered. The Treasury code: Fair Deal for Staff Pensions states that contracting authorities should (where this is compatible with their obligations under the Public Contracts Regulations 2006) require bidders to provide them with access to the appropriate public service scheme. The legal position is not the same for local government as it would require explicit statutory powers to achieve this. The draft regulations do not include a requirement that, at retender, the formerly transferred member becomes a protected transferee member and the successful bidder becomes a protected transferee employer. This is because the individual is not being transferred out of the public sector at that point as they are employed by the current external provider. It will remain the case that new providers at a retender can access the Scheme should they wish to by seeking admitted body status but it is not proposed that they will be required to do so.

16. **Views are sought on whether this is the right approach.** If consultees recommend an alternative approach, they are asked to say why that approach should be considered and how that might be achieved from a practical perspective eg how would accrued rights transfer from the provider's Scheme to the Local Government Pension Scheme?

Publishing lists of members participating in the Scheme

17. Section 25(5) of the 2013 Act, requires the publication of a list of persons to whom the Scheme relates and the list must be kept up to date. This does not require publication of the names of individual members of the Scheme but would be a list of the determinations that have been made under that section (that is to say admission agreements entered into). The draft Regulations delegate the obligations to publish this list to the relevant administering authority. The provision in the 2013 Regulations in Schedule 2, Part 3, paragraph 11 (which requires individual notification of admission agreements to the Secretary of State) is no longer required and will be removed.

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Item 17 Appendix 3

Bath & North East Somerset Council

for you, for now, for the future

lgps 2014

AVON PENSION FUND

Consultation on Exit Payment Reforms
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: 3 May 2016

Dear Sir

Consultation on Exit Payment Reforms

With reference to the current consultation regarding exit payment reforms, 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 third consultation regarding exit payments to have been issued in the last few months, the others being recovery on re-entering public sector employment and the introduction of the cap of £95k. The response in this paper will reflect on comments made in these previous consultations as there is a common theme within each.

It does appear that the subject of public sector exit payments is high on the Government's agenda, however rather than issuing several separate consultations for discussion each generating its own legislative requirements it would have been more constructive to have just one consultation taking into account all the areas collectively for comment. Any resulting legislation could have had the same operative date .Indeed the original date for the repayment of certain exit payments due to re-employment within the public sector has already been delayed from its proposed date of 1 April 2016.

Different commencement dates puts employers in a difficult position when planning future workforce levels as estimates currently being given may become obsolete if restrictions are introduced in a relative short period of time. It is unclear if transitional arrangements will apply in any or all parts. These proposals suggest that agreed arrangements will be honoured whereas it has been suggested that this will not be the case with the exit cap of £95,000

The attached [enclosure 1] sets out the proposals with comments included as to how they relate to previous experiences to outline if they are already being operated or how they could be incorporated.

Our previous responses on exit payments did cover whether the proposals actually dealt with the intended individuals as employees on relatively low incomes would be included within the restrictions.

This issue was raised during the discussions in Parliament on the Enterprise Bill where it was discussed that even individuals earning £27,000 could be affected by the exit cap and thus show that it was not only the targeted high earners who would be restricted.

Also raised previously was the interpretation of what constitute a public sector employer and although whilst some bodies, predominately private outsourced nuclear power employers are freezing redundancies until the new criteria sets in, the position of other publically owned bodies remain excluded such as banks, media and regulatory bodies .

As regards these latest proposals they do again set out further controls that may be put in place for public sector employees on top of the other austerity measures already imposed with restricted pay awards not only affecting income but also having an effect on the pensions being accrued. These may seek to delay the age at which immediate benefits are payable.

Public sector employers are required to save more costs each year which ultimately leads to redundancies. These changes do not assist the process.

These measures add further restrictions if a member is made redundant as any exit payment will be assessed with any pension strain costs or may be scaled down because of age.

Although people are living longer and as a result working longer there appears to be little concern for their income at what could be a very stressful time in their life, especially as all the new proposals on exit payments could lead to more compulsory rather than voluntary redundancies

These proposals do not appear to be just aimed at high earners as they could potentially affect all employees who are made redundant regardless of pay especially those approaching their normal retirement age.

Also there would be a dilemma for an employee who needs to decide whether to opt for voluntary redundancy because if they decide not to apply they may still be compulsory made redundant and as there may be a time delay between the 2 processes may be subject to an even further reduced exit payment as they would be nearer retirement.

The attached [enclosure 2] sets out a table to show that the proposals for all changes to exit cap will add even further administration to both employers and administering authorities in a period where changes are constantly being made. The intention of making all schools become academies will increased the situation further with a high number of new employers becoming scheme employers and the need to ensure their compliance with the regulation.

The key points to consider are

1. Whether it would be appropriate to consolidate the exit payment legislation into one to simplify process in one place

2. Whether employers are already using controls within the current legislation and further restrictions could hinder their current flexibility to manage workforce change.

3. Whether any changes to pension schemes especially the LGPS will have an effect on the overall cost control of the scheme and whether other changes will be required to balance the scheme cost levels of benefits removed

4. Whether there are other methods to prevent adding further administrative challenges in addition to the ones currently being faced by administering authorities and employers.

I trust that if some areas are taken up then a further consultation will be given to discuss the finer points and how the legislation can be adopted efficiently

Yours sincerely

Alan South

Alan South
Technical and Compliance Manager
Avon Pension Fund

Setting the maximum tariff for calculating exit payments at 3 weeks' pay per year of service.

It would be appropriate to regulate the maximum levels across the public sector but not to impose restrictive levels that limit the scope for an employer. Although the local authority maximum level is 104 weeks, this would only be used once the employer has reviewed the costs of any redundancy exercise. In particular this level was set to assist in reorganisation within local government.

In some instances it is how the employer can manage the position to get maximum overall savings rather than getting a quick gain.

From Hansard 8 March 2016 [Enterprise Bill on Exit Cap]

"This provision will also hit middle-income earners, who are not meant to be the target. The local authority that I belonged to periodically operated a teacher refresh scheme to allow older, more experienced teachers to be considered for early retirement and replaced by younger teachers. That represents a virtuous circle of creating vacancies for young teachers, protecting the pensions of retiring teachers, and saving the taxpayer money overall due to the lower wages that are paid to new starts. Good governance is needed, not an exit cap that, in its current format, is too much of a blunt instrument."

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 to the latter. Likewise, where employers offer voluntary exit packages that are not classed as redundancies there may be a case for applying a slightly higher limit to those as part of an overall package.

There should be a consistent approach on exit payments to avoid any employer manipulations around any of the restrictions.

Setting a maximum salary for the calculation of exit payments. This limit could be set at various levels and could potentially align with the NHS redundancy scheme's salary cap of £80,000.

This concept has already been adopted by some local authorities.

Enabling the amount of lump sum compensation an individual is entitled to receive to be tapered as they get close to the normal pension age or target retirement age of the pension scheme to which they belong, or could belong, in that employment.

This change does raise some conflicts with how employment conditions have changed over the years. The LGPS used to have a provision that when a member reached age 65 their employment ceased unless the employer gave an extension. There is now no specific age at which an employee must retire. Some individuals have to work beyond their State Pension Age for economic reasons. It would seem unfair to restrict redundancy payments to a specific date by tapering.

Reducing the cost of employer-funded pension top up payments, such as limiting the amount of employer funded top ups for early retirement, or removing access to them, and / or increasing the minimum age at which an employee is able to receive an employer funded pension top up. The latter would link the minimum age more closely with the individual's Normal Pension Age in the scheme in which they are currently accruing, or have accrued, pension benefits.

Local government has come a long way from the days of routinely awarding 10 compensatory added years to a pension at age 50. From 1998 the employers had to pay the cost of this upfront and the awarding of service became an exception. Since the move over to career average pensions there is no longer the provision to top up service but purchasing extra pension is an option. However, most employers' discretionary policies only allow this in extenuating circumstances. This may be offered to facilitate an employee leaving without going through the tribunal route which may result in greater expense.

Could affect the cost control levels which is contained in the benefit package set out

Increase of Administration due to Exit Payment Changes **Enclosure 2**

	Expectation	Changes	Admin
LGPS	Payable from age 55	Remove this automatic right Increase age when payable [e.g. 10yrs before NRD]	Need to give what members deferred benefits are and also reduced May get frequent requests for estimates between leaving and NRD Workforces up for redundancy could have different NRD dates and therefore different amounts
Exit payments including strain costs	Exit payments are separate from pension	Strain cost is included within Exit Payments	Employer needs to give options as to which elements can be taken and which can be given up. Administering authorities will be required to give full range of alternatives Some members may be subject to Annual and Lifetime Allowance decisions and therefore this will add to the administration further with comparisons required to see all the options available
Exit payments	Standard payments for redundancy and any under Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006.	Put in taper for those nearing NRD	As NRD now varies for members depending on date of birth employers would require information on these dates especially when going through a transition like age 66 to age 67 with varying dates within the transition Non LGPS employees would have to be compared within the scheme rules so monitoring of employers understanding of NRD will be essential

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**24 JUNE 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 2016** **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.

2 RECOMMENDATION

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

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations to consider.

4 THE REPORT

4.1 The purpose of the workplans is to enable members to have a better appreciation of their future workload and the associated timetable. In effect they represent an on-going review of the Service Plan while including a little more detail. The plans are however subject to change to reflect either a change in priorities or opportunities / issues arising from the markets. 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 The Committee has been in place for 12 months and basic training has been undertaken. Members have completed a self assessment of their knowledge so that the training plan for 2016-18 can be updated to meet individual requirements. The plan will be updated for September 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 MARCH 2017

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 for implementation or further investigation. • Liability hedging – preliminary work started; bring to committee 2Q16 • LDI Implementation • RI Policy Review	In progress Panel meetings Committee 3/4Q16
Pooling of investments	Participate in Brunel Pension Partnership Next proposal due July 2016 Full business case, 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 Funding Strategy Statement consultation Valuation Results to employers	Preparatory work starts 2Q16 July to September from October 2016

Statement of Investment Principles / Investment Strategy Statement	Revise following any change in Fund strategy/policies. Publish new Investment Strategy Statement by ? (was September 2016; new regulations not published)	On-going Early 2017
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 Align with new BCC software(including Fire scheme) Onboarding North Somerset Onboarding B&NES	Due 2016/2017 June/Sept 2016 July/Sept 2016 July/Sept 2016
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

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
Scheme and Admitted Employer update
Annual Responsible Investing Report
Approval of Committee's Annual Report to council
Review options for Ill health insurance for smaller employing bodies
Planned Workshops: Responsible Investing (2)

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

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Appendix 4

INVESTMENT PANEL WORKPLAN to December 2016

Panel meeting / workshop	Proposed agenda
Panel meeting 5 Sept 2016	• Review managers performance to June 2016 • LDI implementation • Pooling – update Workshop: Meet the managers
Panel meeting 14 Nov 2016	• Review managers performance to September 2016 • Pooling - update 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; 2016 valuation, covenant and funding policies workshop