Bath & North East Somerset Council

Democratic Services
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2 December 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), Ann Berresford (Independent Member), Shirley Marsh (Independent Member) and Wendy Weston (Trade Unions)

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

Chief Executive and other appropriate officers
Press and Public

Dear Member

Avon Pension Fund Committee: Friday, 9th December, 2016

You are invited to attend a meeting of the **Avon Pension Fund Committee**, to be held on **Friday, 9th December, 2016** at **12.00 pm** in the **Kaposvar Room - Guildhall, Bath**

The agenda is set out overleaf.

A buffet lunch will be provided for Members at 1.15 pm and the afternoon session will commence at 2pm.

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, 9th December, 2016

at 12.00 pm 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: 24 NOVEMBER 2016 (Pages 9 - 18)

   Members are invited to approve the Public and Exempt Minutes of the meeting of 24 November 2016. Before discussing the Exempt Minutes the Committee is invited to pass the following resolution:

   > the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVES** that the public shall be excluded from the meeting for the discussion of the Exempt Minutes of the

meeting of 24 November 2016 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.

8. AMENDMENT OF THE MINUTES OF THE MEETING OF 11TH DECEMBER 2015 (Pages 19 - 20)

To invite the Committee to agree that the Minutes of the meeting of 11th December 2015 approved and signed by the Chairman be amended to correct an omission subsequently discovered:

In minute 48 to add to the resolution:

"*3. To agree the recommendation to adopt the proposed rebalancing policy as at 4.3 a)".*

The full minute for this item is included in the papers.

The original report to Committee can be viewed here:

https://democracy.bathnes.gov.uk/ieListDocuments.aspx?CId=212&MId=4249&Ver=4

9. INVESTMENT PANEL ACTIVITY (Pages 21 - 36)

Before discussing the Exempt Minutes of the Panel the Committee is invited to pass the following resolution:

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

10. REVIEW OF INVESTMENT PERFORMANCE (Pages 37 - 96)

Before discussing Exempt Appendix 3 to this item the Committee is invited to pass the following resolution:

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

11. BUDGET AND CASHFLOW MONITORING 2016/17 (Pages 97 - 106)

12. PENSION FUND ADMINISTRATION (Pages 107 - 132)

13. LGPS REGULATORY UPDATE (Pages 133 - 146)

14. WORKPLANS (Pages 147 - 158)

15. POOLING OF INVESTMENTS - FULL BUSINESS CASE (Pages 159 - 354)

Before discussing the Exempt Appendices to this item, the Committee is invited to pass the following resolution:

> the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVES** that the public shall be excluded from the meeting for the discussion of the Exempt Appendices 2-6, 8 and 9 of this item in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraphs 3 and 5 of Part 1 of Schedule 12A of the Act as amended.

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.

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Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Thursday, 24th November, 2016, 2.00 pm

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 Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), William Liew (HFE Employers), Ann Berresford (Independent Member), Shirley Marsh (Independent Member) and Wendy Weston (Trade Unions)

Co-opted Non-voting Members: Richard Orton (Trade Unions) and Cheryl Kirby (Parish and Town Councils)

Advisors: Tony Earnshaw (Independent Advisor), Steve Turner (Mercer) and Kate Brett (Mercer)

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)

44 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised the meeting of the procedure.

45 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Steve Paines.

Councillor Stephenson-McGall had given notice that he would be delayed because he had to attend another meeting. He arrived shortly before the end of the Committee meeting.

46 DECLARATIONS OF INTEREST

There were none.

47 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

49 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

50 MINUTES: 23RD SEPTEMBER 2016

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

51 RESPONSIBLE INVESTING POLICY

The Assistant Investments Manager introduced this item. He drew attention to the summary in section 4 of the covering report of the previous stages of the review process and the range of background information taken into account in drafting the new policy. The Committee was invited to approve the draft policy and its appendix, which were contained in Exempt Appendices 1 and 2 to the report.

He gave a presentation summarising the current policy and evidence of its application and impact. He reminded Members that the Annual Responsible Investing Report, which had been considered at the September meeting of the Committee, had contained a detailed account of responsible investment activities in 2015/16.

The Chair proposed that the Committee should go into exempt session before beginning consideration of Exempt Appendices 1, 2 and 3. A Member asked for clarification of the rationale for excluding the public. After discussion the motion was put and it was **RESOLVED** by 8 votes in favour with 2 abstentions that

> the Committee, having been satisfied that the public interest would be better served by not disclosing relevant information, the public shall be excluded from the meeting for the discussion of the Exempt Appendices 1, 2 and 3 of this item in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

After discussion it was **RESOLVED:**

1. To approve the revised Responsible Investing Policy at Exempt Appendix 1 with the amendments agreed by the Committee.

2. To approve Appendix 1 to the Responsible Investing Policy at Exempt Appendix 2 with the amendments agreed by the Committee.

3. To delegate action to the Panel and Officers as appropriate.

The meeting ended at 4.22 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.

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Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 11th December, 2015, 2.00 pm

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

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

Co-opted Non-voting Members:

Advisors: Tony Earnshaw (Independent Advisor) and Steve Turner (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))

48 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

<u>Liability Management</u>

He reminded Members that the aim was to put a framework in place to manage the mismatch between the changes in the value of assets and liabilities over time, thus allowing the Fund to minimise funding level volatility and stabilise employer contribution rates more effectively. In June the Committee had requested the Panel reviewed the range of investment options available to more effectively manage liability risks, how they could be implemented and the cost. The Panel had taken two decisions as noted at 4.2 a) and 4.2 b). The interim step recommended in 4.2 a) would be beneficial irrespective of whether the full proposal was eventually implemented, and would not reduce the expected return on assets.

<u>Rebalancing policy</u>

The policy of the Fund is to rebalance the portfolio back to the target allocations after market movements cause allocations to vary by a certain amount. Rebalancing is important because it ensures that the Fund is invested in accordance with strategic asset allocations. It can also add value over time as it forces selling of relatively expensive assets and the purchasing of relatively cheaper assets. The Committee was invited to agree the recommended changes to the rebalancing policy as set out in 4.3 a) of the report.

A Member expressed concern about the potential for overtrading. He was unable to find information in the papers about how often illiquid assets would be rebalanced. The Investments Manager referred to line 7 of the table on page 171 of the agenda. Mr Turner said that he did not think overtrading would take place; he considered that the proposed new policy would establish a much clearer framework for decision making. The Member requested that the Investment Panel should monitor trading frequency. Mr Turner suggested that the main issue would be ensuring that the Fund was close to the target allocation of some asset classes, which depended on the draw-down period and whether the manager had called on all the capital that the Fund had committed. The Fund might also find that it was below a target allocation, because the value of other assets had risen, in which case it would a question of catching up, rather than rebalancing back.

The Investments Manager said that it was proposed that a workshop on the funding strategy should be combined with a workshop on the concept of liability-driven investment (LDI), after which Mercer would draft a framework to be considered by the Panel before it came to Committee. The LDI strategy should be considered as part of the valuation debate.

RESOLVED:

1. To agree the recommendation to increase the benchmark allocation and allocation range to index-linked gilts as at paragraph 4.2 a) of the report, to better match liabilities.

2. To note the decision by the Panel to prepare a framework to more effectively use the investment assets to match the liabilities, as set out in paragraph 4.2 b) of the report.

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	9 DECEMBER 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 14 November 2016

EXEMPT Appendix 2 – Exempt Minutes from Investment Panel meeting held 14 November 2016

EXEMPT Appendix 3 - Summaries of Investment Panel meetings with Managers

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 September 2016 committee meeting, on 14 November 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 The Panel also held a Meet the Managers Workshop on 14 November 2016, a summary of the meetings is at Exempt Appendix 3.

1.4 The recommendations and decisions arising from these meetings are set out in paragraphs 4.2 and 4.3.

2 RECOMMENDATION

That the Committee:

2.1 Notes the decision taken as summarised in paragraph 4.2(1)

2.2 Notes the minutes of the Investment Panel meeting on 14 November at Appendix 1 and Exempt Appendix 2 and the summary of the Meet the Managers Workshop at Exempt Appendix 3.

3 FINANCIAL IMPLICATIONS

3.1 In general the financial impact of decisions made by the Panel will have been provided for in the budget or separately approved by the Committee when authorising the Panel to make the decision.

3.2 There are transactional costs involved in appointing and terminating managers. Where these arise from a strategic review allowance will be made in the budget. Unplanned changes in the investment manager structure may give rise to transition costs which will not be allowed for in the budget.

4 RECOMMENDATIONS AND DECISIONS

4.1 The following decisions and recommendations were made by the Panel at the Investment Panel meeting on 14 November 2016:

4.2 Implementation of Liability Management Framework

Committee delegated the implementation of the liability risk management framework to Officers in consultation with the Panel. The setting of yield-based triggers is an important element of the risk management framework. Triggers are designed to increase the Fund's exposure to interest rates and inflation to the target level of liability matching over time, and it is the triggers that ultimately determine the real rates of return that the programme will lock-in.

Following the Panel discussion (included in the minutes in the Appendices) the Panel noted the amendment to the trigger framework proposed by Mercer and made the following decision:

(1) Decision for noting – to delegate setting of triggers to Officers in consultation with Investment Consultant, Actuary and Manager.

Rationale: Market conditions impact the appropriate trigger levels. Given the volatility in the market it is necessary to finalise the trigger levels at the point of implementation and in the future as becomes necessary. The delegation enables the setting of triggers to be done at the appropriate time by Officers in consultation with the Investment Consultant, Actuary and the Manager.

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

Monday, 14th November, 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), Nathan Rollinson (Assistant Investments Manager) and Helen Price (Investments Officer)

20 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer advised Members of the procedure.

21 DECLARATIONS OF INTEREST

There were none.

22 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

23 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

25 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

26 MINUTES: 5TH SEPTEMBER 2016

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

27 LIABILITY RISK MANAGEMENT FRAMEWORK - IMPLEMENTATION

The Assistant Investment Manager introduced this item. He reminded Members that the trigger levels were a crucial part of the LDI framework. They determined the time and price at which hedging instruments would be purchased. There had been a significant change in yields since May, when the Panel had recommended to the Committee that the setting of triggers should be delegated to Officers in consultation with the Panel. In the Exempt Appendix Mercer explained their recommendations for amending the LDI framework they had originally proposed in the light of changes in market conditions. Yields were volatile and could change significantly in a short time. Therefore the Panel was now being invited to delegate the setting of triggers to Officers in consultation with the professional advisers, both at the time of implementation and on an ongoing basis. Regular reports would be made to the Panel on trigger levels and any changes made.

Before considering Exempt Appendix 1 the Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED**, in accordance with the provisions of Section 100 (A) (4) of the Local Government Act 1972, that the public should be excluded from the meeting for the discussion of Exempt Appendix 1, because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

After discussion it was **RESOLVED:**

1. To note the amendment to the setting of the triggers summarised on page 3 and explained on page 5 of Exempt Appendix 1.

2. To delegate the setting of the trigger levels to Officers in consultation with the Investment Consultant, Actuary and Manager, at the time of implementation.

3. To delegate ongoing review and revision of trigger levels to Officers in consultation with the Investment Consultant, Actuary and Manager, as necessary.

4. That Panel Members should be notified when triggers were changed or activated

28 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2016

The Panel returned to open session.

The Assistant Investments Manager introduced this item. He asked Members to note that three managers were rated amber. There were also a few were hovering around the tolerance threshold. There were no strategic issues to note. It was expected that final drawdown of infrastructure investment would take place early in the new year.

Mr Giles commented on the Mercer investment report.

A Member noted the underperformance of active managers: none of them seemed to be achieving what the Fund wanted. Mr Turner replied that active management could add value if done in the right way, though it was true that all the active managers had underperformed in this period. This might be a coincidence; detailed analysis would be required to establish what the reasons were. Genesis might be underperforming because they were underweight in China, but overweight in India, for example. He thought there was still a place for active managers, but the Fund should review whether it had the right combination. For example, one investing style that had not done well at all over the past five years was value management, but with rising interest rates and a shift in emphasis from monetary policy to fiscal policy it might do much better. With a change in the economic environment the Fund might find itself underweight in value stocks. It was difficult to know at any time what the ideal allocations were, but the aim should be to achieve a balanced exposure.

The Investment Manager said that markets had been so volatile over the past six months that investment managers were having a very difficult time. For some mangers it may be that the volatility means the timing of their decisions is affected in the short term.

The Chair said that the Fund seemed to have done reasonably well over the quarter judging by the increase in its value despite the volatility in markets. He asked the Mercer representatives whether they were generally satisfied with the Fund's strategy and mix of portfolios. Mr Turner replied that he would not recommend any immediate changes, but there was opportunity for a review next year when the Investment Strategy was considered.

In preparation for the Panel's meeting with Royal London Asset Management after the public meeting Mr Giles commented on their performance summary on agenda page 82.

RESOLVED

1. to note the information as set out in the reports;

2. that there were no issues to report to the Committee.

29 WORKPLAN

The Investment Manager presented the report.

RESOLVED to note the workplan.

The meeting ended at 3.32 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.

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1951/16

Meeting / Decision: Avon Pension Fund Committee
Date: 9th December 2016

Author: Matt Betts
Report Title: Investment Panel Activity Exempt Appendix Title: Exempt Appendix 3 - Summaries of Investment Panel meetings with Managers.

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

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

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

<u>PUBLIC INTEREST TEST</u>

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

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

Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

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.

Document is Restricted

Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**9 DECEMBER 2016**
TITLE:	**INVESTMENT PERFORMANCE AND STRATEGY MONITORING (for periods ending 30 September 2016)**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Performance Monitoring Report EXEMPT Appendix 3 – Changes in RAG status of Investment Managers Appendix 4 – LAPFF Quarterly Engagement Monitoring Report	

1 THE ISSUE

1.1 This paper reports on the investment performance of the Fund and seeks to update the Committee on routine strategic aspects of the Fund's investments and funding level. This report contains performance statistics for periods ending 30 September 2016.

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

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

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

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

2.2 **Note LAPFF Quarterly Engagement Report at Appendix 4**

3 FINANCIAL IMPLICATIONS

3.1 The returns achieved by the Fund from 1 April 2016 will affect the next triennial valuation in 2019. 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.4% over the quarter from 85% to c. 89%

(2) The improvement over the quarter was due to the return from assets exceeding the increase in liabilities (6.2% vs 1.1% respectively).

5 INVESTMENT PERFORMANCE

A – Fund Performance

5.1 The Fund's assets increased by £223m (c. 6.2%) in the quarter ending 30 September 2016 giving a value for the investment Fund of £4,121m. 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 30 September 2016

	3 months	12 months	3 years (p.a.)
Avon Pension Fund (incl. currency hedging)	6.2%	15.2%	8.8%
Avon Pension Fund (excl. currency hedging)	6.8%	19.5%	10.1%
Strategic benchmark (no currency hedging) *(Fund incl hedging, relative to benchmark)*	6.6% *(-0.4%)*	20.5% ***(-5.3%)***	10.4% *(-1.6%)*

5.2 **Fund Investment Return:** Developed market equities delivered positive returns over the quarter largely as a result of accommodative central bank policy in the aftermath of the EU referendum. Positive returns were magnified by Sterling's poor performance where large-cap UK listed names benefitted on repatriation of overseas revenues. Emerging market equities posted equally as impressive returns driven by the prospect of a delayed US interest rate hike and general demand for higher yielding assets. Emerging market economies that derive their value from the price of oil benefitted from a concession by OPEC that crude oil production would likely decrease. Following the announcement of the base rate cut from the Bank of England and increased quantitative easing measures in August, UK Government 10 year bond yields dropped to lows of 0.52%, generating a sharp increase in the value of the Fund's index-linked Gilt holdings. Corporate bonds benefitted from this move to a lesser extent. Both fixed interest bearing assets remain above the Fund's long-term assumed return. Uncertainty around Brexit may create challenges in the UK property market in future, but for now it continues to outperform the assumed strategic return by 5.6%. Hedge Funds struggle to generate significant absolute returns where yields on cash remain exceptionally low.

5.3 **Fund Performance versus Benchmark: -0.4% over the quarter, attributed to**

(1) **Asset Allocation:** The contribution to outperformance from asset allocation was **neutral** over the quarter. The currency hedging programme detracted -**0.6%** over the quarter.

(2) **Manager Performance:** In aggregate, the contribution of manager performance was +**0.2%** over the quarter, relative to the strategic benchmark, driven by combined positive returns across all asset classes, with strong returns in particular from global equities.

5.4 **Versus Local Authority Average Fund:** Note that due to the withdrawal of State Street WM from the performance measurement market, there is no longer a local authority average return analysis available.

5.5 **Currency Hedging:** The hedging programme is in place to manage the volatility arising from overseas currency exposure, in particular to protect the Fund as sterling strengthens and returns from foreign denominated assets reduce in sterling terms. The hedging programme detracted -0.6% to the total Fund return over the quarter and -4.3% over the year.

B – Investment Manager Performance

5.6 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 1 manager has been upgraded from Amber to Green rating (explained in Exempt Appendix 3).** Therefore, currently 3 managers are amber rated, Schroder (global equity), Jupiter and TT.

5.7 All managers with the exception of Schroder Property posted positive absolute returns over the quarter. On a rolling 3 year basis SSgA (Europe and Pacific) was the only manager to outperform their target. Genesis, Invesco, Partners and RLAM were marginally below their performance target but within the tolerance range for a Green RAG rating.

6 INVESTMENT STRATEGY

6.1 **Liability Driven Investing**: Progress on the implementation of the Liability Risk Management Framework is set out in the Investment Panel Activity Paper.

6.2 **Asset Class Returns**: Returns from developed equities, corporate bonds, index linked gilts and property outperformed the strategic assumptions over three years; the latter two were significantly ahead of the assumed return. Emerging market equities improved on last quarter due to strong performance throughout Q3 and are now only marginally behind their assumed return. Infrastructure is well ahead of expected returns. Hedge Funds lag their assumed return significantly due to exceptionally low cash rates.

6.3 **Currency Hedging Policy:** Since the result of the EU referendum, Sterling has fallen significantly against other major currencies (increasing the local market value of non-sterling assets). Therefore, the currency hedge on the non-sterling assets has detracted from local currency returns on the four mandates that are hedged. The Consultant and Officers reaffirmed their position on currency hedging at September Panel.

7 PORTFOLIO REBALANCING AND CASH MANAGEMENT

Portfolio Rebalancing

7.1 As at 23 November the Fund was marginally overweight in developed market equities by 0.77%. Officers did not undertake any rebalancing activity in anticipation that the overweight in developed market equities will be used to fund the remaining IFM drawdown.

Cash Management

7.2 Cash is held by the managers at their discretion within their investment guidelines, and internally to meet working requirements. The officers closely monitor the management of the Fund's cash held by the managers and custodian with a particular emphasis on the security of the cash.

7.3 Management of the cash held internally by the Fund to meet working requirements is delegated to the Council's Treasury Management Team. The monies are invested separately from the Council's monies.

7.4 The Fund continues to deposit internally managed cash on call with 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. Deposits with NatWest (the Council / Fund's banker) are kept to the minimum necessary for day to day management.

7.5 During the period there were no breaches of the Fund's Treasury Management Policy (approved March 2016).

7.6 The 2016/17 Service Plan forecast an average cash outflow of c. £1.5m each month during the year to 31 March 2017, making a total outflow of £17.5m for the year to 31 March 2017. The current forecast is for a cash out-flow for the year of £20.5m. Further details are provided in the pension fund budget and cash flow monitoring report to this Committee.

8 RESPONSIBLE INVESTMENT UPDATE

8.1 The Fund has published on its website a revised Responsible Investment Policy agreed by Committee on 24 November 2016.

8.2 The Financial Reporting Council (FRC) notified the Fund that the Fund's Statement of Compliance with the FRC's UK Stewardship Code (approved by the Fund in September 2016) achieved a tier 1 rating (the highest rating) assessed as meeting reporting expectations, including clear and meaningful explanations.

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

Companies Meetings Voted:	157
Resolutions voted:	2,120
Votes For:	2,090
Votes Against:	30

Abstained: 11
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.*

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

9 RISK MANAGEMENT

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

10 EQUALITIES

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

11 CONSULTATION

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

12 ISSUES TO CONSIDER IN REACHING THE DECISION

12.1 The issues to consider are contained in the report.

13 ADVICE SOUGHT

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

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
Background papers	Data supplied by BNY Performance Services
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 - 30 September 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	185.1	209.0	177.5			23.8													595.3	14.45%
North America	180.5					174.8													355.3	8.6%
Europe	127.1					40.2		48.8											216.1	5.2%
Japan	29.3					22.7		54.9											106.9	2.6%
Pacific Rim	48.6					9.5		38.7											96.8	2.3%
Emerging Markets				179.2	206.1	26.5												0.0	411.7	10.0%
Global ex-UK							337.8												337.8	8.2%
Global inc-UK																	11.4		11.4	0.3%
Total Overseas	***385.5***	***0.0***	***0.0***	***179.2***	***206.1***	***273.7***	***337.8***	***142.3***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***11.4***	***0.0***	***1536.0***	**37.3%**
Total Equities	**570.6**	**209.0**	**177.5**	**179.2**	**206.1**	**297.5**	**337.8**	**142.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**11.4**	**0.0**	***2131.4***	**51.7%**
DGFs												**135.2**	**233.4**						**368.7**	**8.9%**
Hedge Funds										**211.0**	**4.7**								**215.7**	**5.2%**
Property														**184.1**	**188.1**				**372.3**	**9.0%**
Infrastructure																**153.8**			**153.8**	**3.7%**
BONDS																				
Index Linked Gilts	517.1																		517.1	12.5%
Conventional Gilts																			0.0	0.0%
Corporate Bonds	83.0								258.6										341.6	8.3%
Overseas Bonds																			0.0	0.0%
Total Bonds	**600.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**258.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**858.7**	**20.8%**
Cash	5.9	13.5	11.4			4.0								10.0				49.3	**94.1**	**2.3%**
FX Hedging																	-73.8		**-73.8**	**-1.8%**
TOTAL	**1176.62**	**222.41**	**188.91**	**179.16**	**206.06**	**301.49**	**337.78**	**142.33**	**258.58**	**210.97**	**4.74**	**135.24**	**233.43**	**194.15**	**188.14**	**153.77**	**-62.32**	**49.34**	**4120.80**	**100.0%**

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HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 30 SEPTEMBER 2016

NOVEMBER 2016

MAKE TOMORROW, TODAY MERCER

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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

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EXECUTIVE SUMMARY

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	6.2	15.2	8.8
Total Fund (ex currency hedge)	6.8	19.5	10.1
Strategic Benchmark (no currency hedge)	6.6	20.5	10.4
Relative (inc currency hedge)	**-0.4**	**-5.3**	**-1.6**

Excess Return Chart

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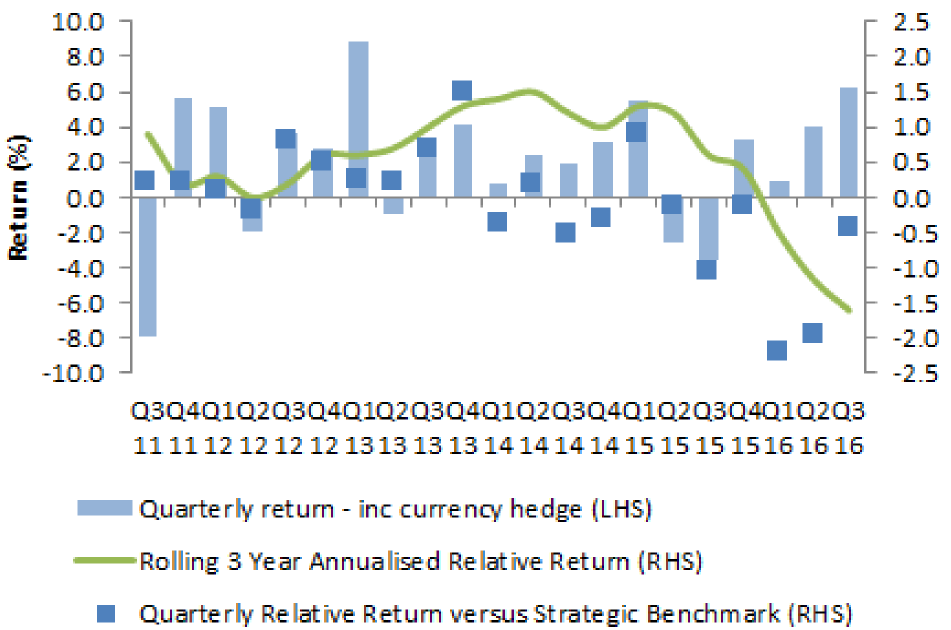
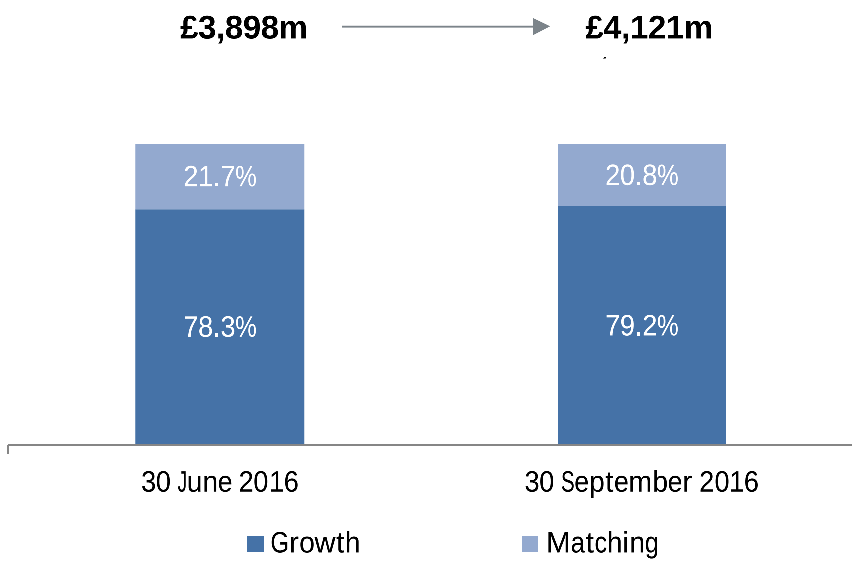


Asset Allocation



Quarterly Commentary

Over the quarter, total Fund assets increased from £3,898m (30 June 2016) to £4,121m.

This increase was primarily due to positive performance across all asset classes.

At a strategic level, all asset class allocations were within the agreed tolerance ranges at the end of the quarter.

The underperformance of the Fund return (when the currency hedge with Record is included) relative to the unhedged strategic benchmark return (which excludes currency hedging) over the quarter was largely a result of sterling depreciating. The Fund return excluding currency hedging was 0.2% above the unhedged strategic benchmark.

EXECUTIVE SUMMARY

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

Funding level

- The estimated funding level increased by c. 4% over the third quarter of 2016 to 89%, as the return on the assets exceeded the increase in liabilities.

Fund performance

- The value of the Fund's assets increased by £223m over the quarter, to £4,121m at 30 September 2016. The Fund's assets returned 6.2% over the quarter (6.8% excluding the Record currency hedging mandate, given the depreciation of sterling over the quarter), as a result of positive returns from both defensive and growth assets, with strong returns in particular from global equities. This underperformed the Strategic Benchmark return of 6.6%.

Strategy

- Global (developed) equity returns over the last three years at 14.4% p.a. have been ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We remain broadly neutral in our medium term outlook for developed market equities (over the next one to three years). Accommodative monetary policy remains generally supportive of equity markets but uninspiring earnings growth and downwards revisions to earnings estimates persist.

- The three year return from emerging market equities has increased to 8.4% p.a. from 3.8 % p.a. last quarter. The three year return remains 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 the last three quarters was strong. As with developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.

Strategy (continued)

- UK government bond returns over the three years to 30 September 2016 remain significantly above the long term strategic assumed returns (with fixed interest gilts returning 16.0% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 16.0% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high (and following the announcement I Q3 of the extension of the Bank of England's QE programme, and a reduction in base rates to 0.25% p.a.)
- UK corporate bonds returned 8.7% p.a. over the three year period, being above their assumed return of 5.5% p.a., while UK property returns of 12.6% continue to be substantially above the assumed strategic return of 7% p.a. However, the result of the EU referendum and uncertainty created by the terms of Brexit may lead to challenges in the UK property market.
- 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.
- 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 a valuable role in return generation over the coming three years, particularly if 'beta' (i.e. market-driven) returns are lower looking forward. In light of reduced market liquidity, we also see opportunities for more dynamic and active strategies to add value, and 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.

Managers

- Absolute returns of the managers over the quarter were largely positive. The only exception was Schroder Property that delivered a return of -0.3%. SSgA Pacific Equities delivered the highest absolute return over the quarter, while Genesis and Unigestion Emerging Markets Equities underperformed their benchmarks. After a period of negative performance, Standard Life GARS' performance was positive this quarter but remained below their performance objective over the period since inception.
- The EU Referendum result led to a significant depreciation of the pound; as a result, the currency hedging mandates in place detracted value. In the event of a strengthening pound they will be expected to add value. As a reminder, the currency hedging mandate is in place to reduce volatility, and is not intended to generate excess returns.
- Absolute returns over the year to 30 September 2016 were strong. All mandates (with the exception of Standard Life GARS) delivered positive absolute returns; in particular, all overseas equities mandates returned over 20%.
- Over three years, all mandates with a three year track record produced positive absolute returns and beat their benchmarks, with the exception of Schroder Global Equities, Genesis and Partners (although see comments on the measurement of Partners' performance later). Nonetheless, only the SSgA mandates achieved their three-year performance objectives. The remainder of the active managers underperformed their performance objectives despite achieving benchmark returns net of fees.

Key points for consideration

- The stand-out point to note this quarter is that the majority of equity strategies held by the Fund underperformed their benchmarks over the year to 30 September 2016, despite generating significant double digit returns (largely due to the dramatic depreciation of sterling over the year as a result of the EU Referendum vote in June).

- In some cases this is expected (for example, as Unigestion's emerging market mandate is expected to have a low beta, and so would naturally underperform the rising markets we have seen).

- While this could just be a coincidence of timing, we would suggest that as part of the upcoming strategy review, further analysis is made of the Fund's equity exposures and the managers' tilts towards the various underlying drivers of returns (growth, value, small cap, low volatility etc) to ensure that the combination of strategies provides the diverse exposure desired.

- At the same time, the Fund should be looking to ensure that the strategy is consistent with the funding basis, which requires assets to generate secure returns above CPI inflation.

- From a strategic perspective, the continued fall in bond yields over the quarter following the EU Referendum result (see page 10) will have had limited direct impact on the liabilities of the new funding basis (as gilt yields do not directly affect the valuation of the liabilities in the same way as they did on the 2013 funding basis).

SECTION 2

MARKET BACKGROUND

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MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

The major equity markets benefitted from the “risk on” environment and further loose monetary policy, and consequently posted strong positive returns in local currency terms over the quarter. Returns in sterling terms were further boosted by the depreciation of sterling against its main counterparts.

Within UK equities, large capitalisation stocks, as measured by the FTSE 100 index, returned 7.1% over the quarter amid a return of investor risk appetite. Small and mid-sized companies, as measured by the FTSE Small Cap Index and FTSE 250 Index, rose significantly, by 12.1% and 10.7% respectively over the quarter, as both segments rebounded from the losses posted last quarter in the aftermath of the EU Referendum result.

Within global equity markets, Japanese equities led gains in local currency terms as the equity market rebounded from a negative performance in the previous quarter. Emerging markets also performed strongly as economic conditions appeared to stabilise in key countries in the region. China was among the strongest markets over the quarter, benefitting from the release of positive trade and manufacturing data as well as a more accommodative monetary stance by the People’s Bank of China. Brazil and Russia also performed well over the quarter whereas Turkey and the Philippines underperformed on the back of unfavourable political developments. US and European equities posted positive returns in local currency terms, but underperformed the broader equity market. Deutsche Bank in particular became a focus towards the end of the quarter after US regulators levied a $14bn fine on it for alleged mis-selling of mortgage-backed securities before the financial crisis.

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Bond Market Review

Bond yields fell across all maturities over the quarter, resulting in positive absolute returns for investors.

In the UK, further loosening of monetary policy by the Bank of England and subdued growth expectations led to a downward shift in government bond yields at the medium to long tenors over the quarter. As a result, the Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a positive return of 4.2%.

Real yields also decreased over the quarter by an extent of c.30 to 50 bps on the back of lower nominal yields and an increase in breakeven inflation rates. The Over 5 Year Index-Linked Gilts Index posted a strong positive return of 11.0% over the quarter.

Credit spreads tightened by c.40 bps, with the sterling Non-Gilts All Stocks and sterling Non-Gilts All Stocks over 10 years indices both ending the quarter at c.1.2%. This, along with a decrease in government bond yields, led to UK credit assets posting a positive return of 6.0% over the quarter, outperforming the broader global credit market.

Currency Market Review

Over the quarter, continued Brexit uncertainty, and the Bank of England’s decision to cut rates, led to sterling extending its depreciation against the US dollar, euro and the Japanese yen; it depreciated against these currencies by c.2.8%, c.3.9% and c.4.1% respectively.

Commodity Market Review

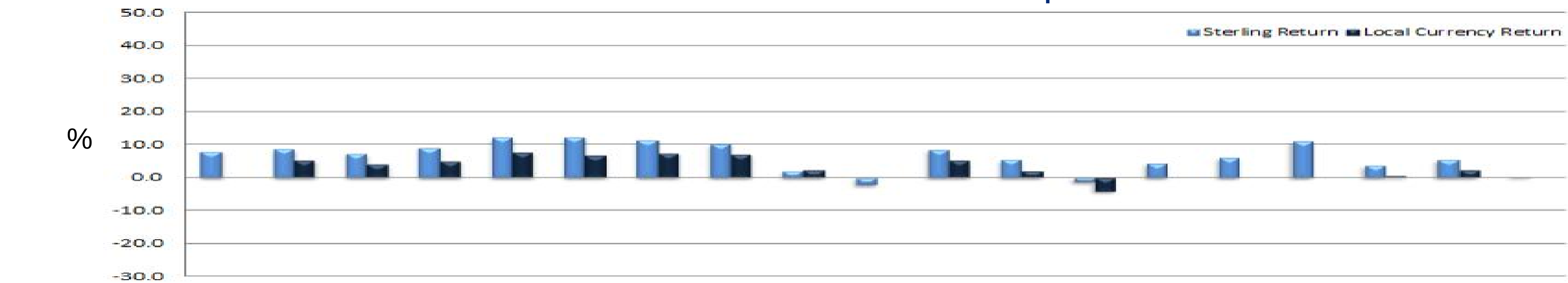
Global commodities fell significantly over the quarter with this fall led primarily by the livestock and agriculture sectors which suffered losses of 19.0% and 7.5% respectively in US dollar terms. All other commodity sectors fell over the quarter, with the exception of industrial metals which benefitted from supply concerns, returning 3.7% in US dollar terms.

Brent Crude Oil price fell slightly over the quarter, decreasing by c.1.3% from US$49.62/barrel to US$48.97/barrel. While gold prices ended the quarter largely unchanged at c.$1,321/oz, there was considerable intra-quarter volatility.

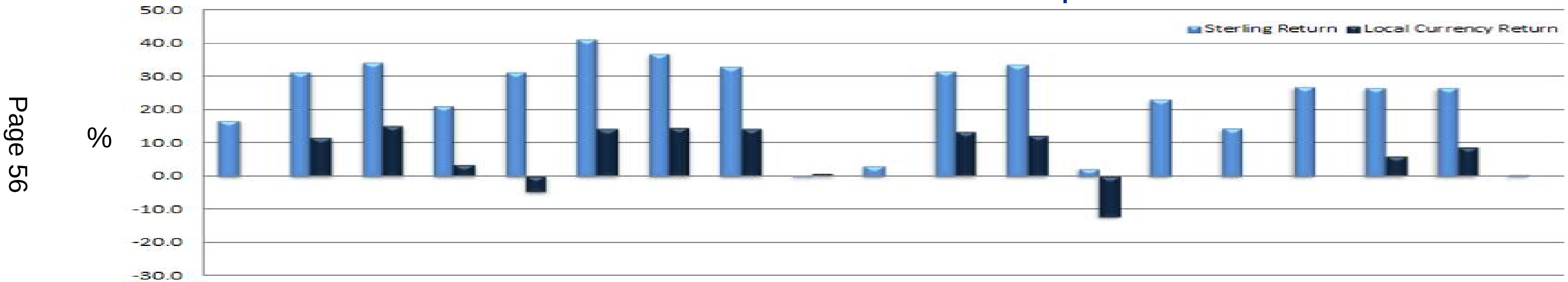
Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE

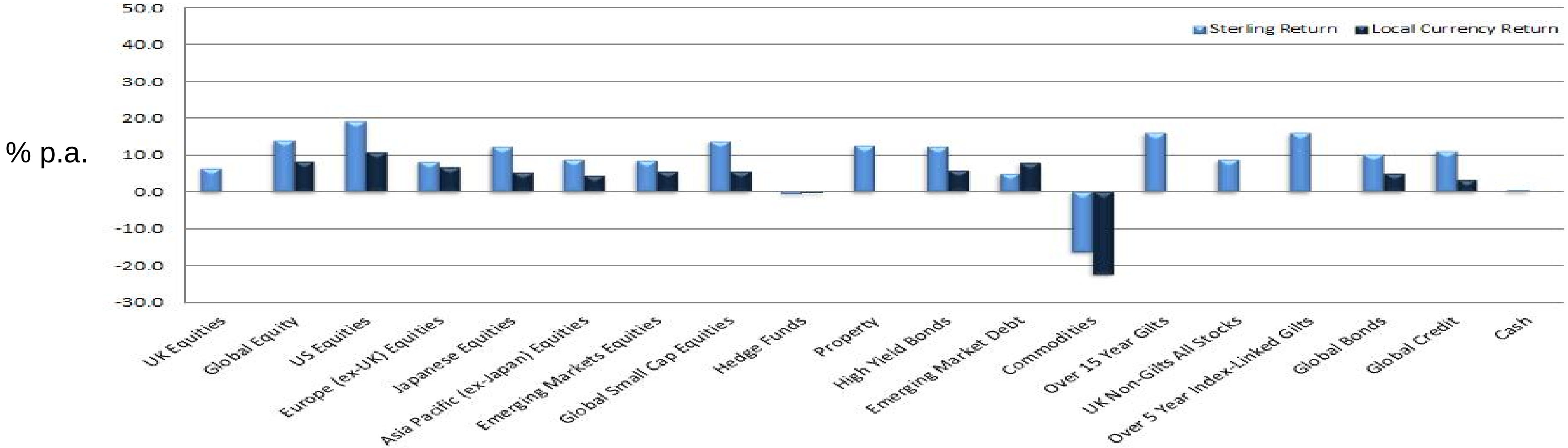
Return over the 3 months to 30 September 2016



Return over the 12 months to 30 September 2016



Return p.a. over the 3 years to 30 September 2016



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Source: Thomson Reuters Datastream.

SECTION 3

STRATEGIC CONSIDERATIONS

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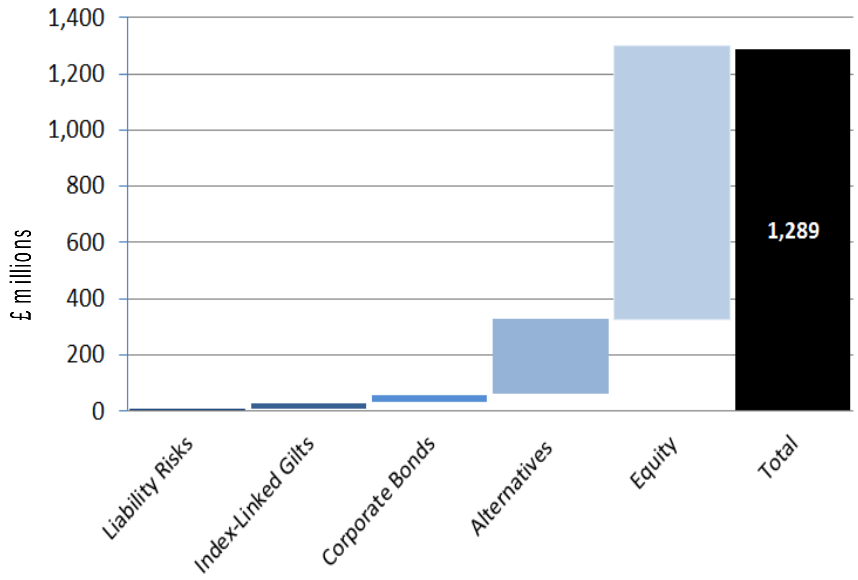
STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION

30 June 2016



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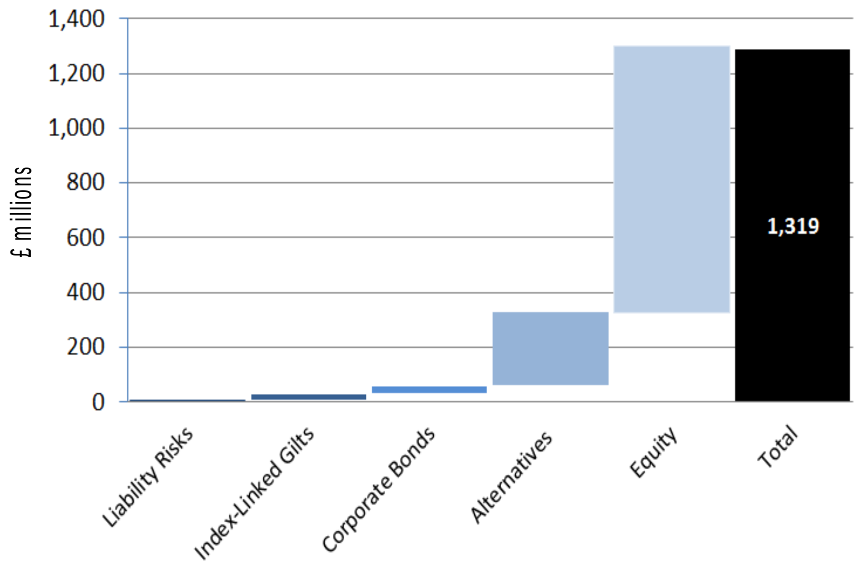
30 September 2016



The two charts to the left illustrate the main risks that the Fund is exposed to on the proposed 2016 funding basis and the size of these risks in the context of the change in the deficit position.

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

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

If we focus on the chart at 30 September 2016, it 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 **£1.3b** on top of the current deficit of **£0.5b**, creating a deficit of c. **£1.8b**.

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

The two charts show that the one-year risk over the quarter has increased slightly. This largely reflects an increased contribution from equity volatility, as asset values have increased.

The contributions to the total risk from the various return drivers have, as expected, changed little. Equity market risk dominates.

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

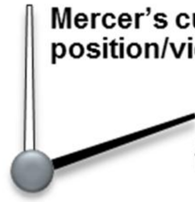
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	14.4	*Remains ahead of the assumed strategic return.* *This has increased from 12.0% p.a. last quarter as the latest quarter's return of 8.2% was considerably higher than the 1.5% return of Q3 2013, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	8.4	*The three year return from emerging market equities has increased from 3.8% p.a. last quarter, as the return of 11.2% experienced last quarter was significantly higher than the quarter that fell out of the period (-2.2%), in large part due to dramatic currency movements. The three year return is now close to the assumed strategic return.*
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 6.7	*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 we would expect DGF to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	16.0	*UK gilt returns remain considerably above the long term strategic assumed return as yields remain low relative to historic averages, and returns have increased compared to the previous quarter as yields fell over Q3. Corporate bond returns are also ahead of the strategic assumed return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	16.0	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	8.7	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	-0.5	*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	12.6	*Property returns continue to be above the expected returns, driven by the strong performance up to the EU Referendum. Since then, the surprise result and slowing rental growth have meant fundamentals have weakened and a more cautious outlook may be required.*
Infrastructure (S&P Global Infrastructure)	7.0	15.2	*Infrastructure returns are well ahead of the expected returns, driven by a strong return since start of 2016. This return was in part driven by currency as sterling depreciated over the year.*

Source: Thomson Reuters Datastream. Returns are in sterling terms.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2016

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



DEVELOPED MARKET EQUITIES

- ✔ Accommodative monetary policy remains generally supportive of equity markets
- ! Valuations have continued to trend upwards and on the whole, are at the upper range relative to historical averages
- ! Uninspiring earnings growth and downwards revisions to earnings estimates persist

EMERGING MARKET EQUITIES

- ✔ Valuations remain around or slightly below long-term averages, though have risen significantly over the year
- ✔ Positive earnings surprises and diminishing headwinds from key economies (e.g. China)
- ! US monetary policy normalisation and / or appreciation of US Dollar could hurt the asset class

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

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2016

FIXED INTEREST GILTS (ALL STOCK)

- Ongoing extraordinary monetary policy and heightened geopolitical downside risk may restrain upward yield moves in medium term
- ! Valuations remain expensive, with nominal yields well below long-term average levels

INDEX-LINKED GILTS

- Breakeven inflation levels rose over the quarter, benefitting from a weaker Sterling and central bank easing
- ! Valuations remain expensive, with real yields well below long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2016

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NON-GOVERNMENT BONDS (£ ALL-STOCK)

- Despite narrowing over the quarter, credit spreads provide adequate coverage given expectations for the downgrade environment to remain benign
- Yields remain historically low and prospective total returns appear to be relatively limited
- Risk of increased volatility due to reduction in trading liquidity and heightened geopolitical downside risk

UK PROPERTY

- Relative to other asset classes, some parts of the market still present attractive opportunities (e.g. HLV property)
- Valuations remain expensive despite a slight rise in yields in most sectors
- ‘Brexit’ and slowing rental growth have meant fundamentals have weakened and a more cautious outlook may be required

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2016

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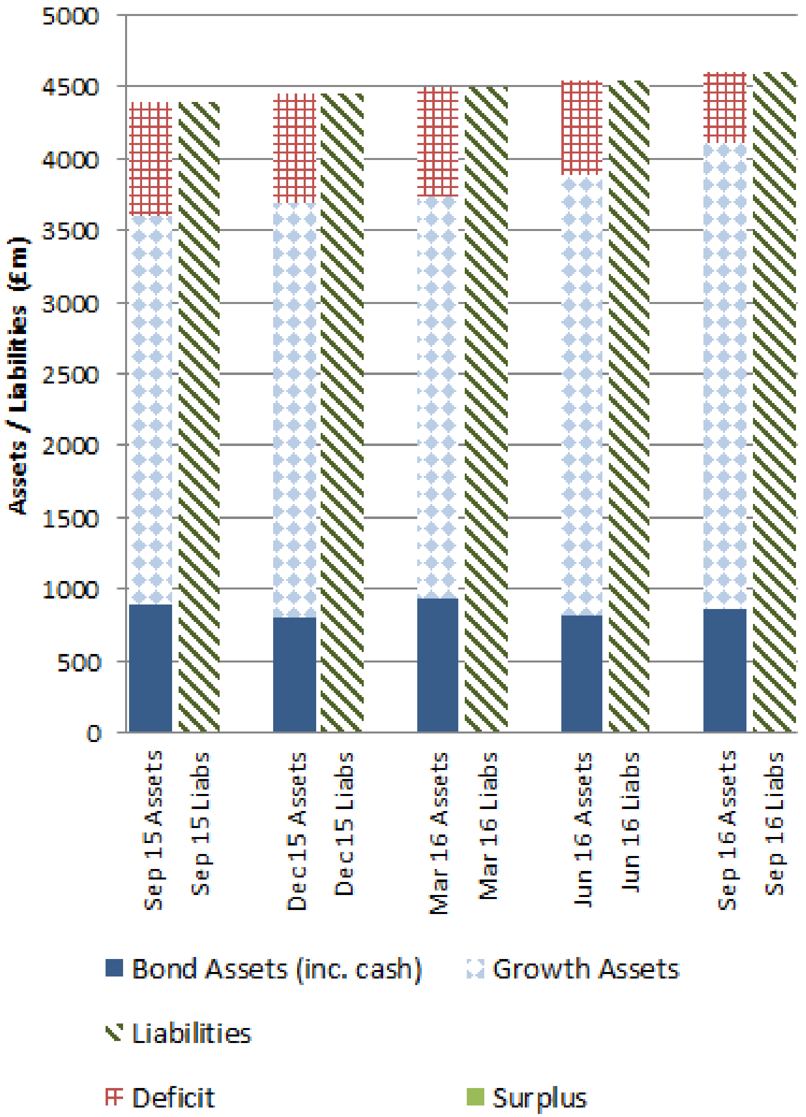
Asset Class	Apr 2016	Jul 2016	Oct 2016
Fixed Interest Gilts	Unattractive	Unattractive	Unattractive
Index-Linked Gilts	Unattractive	Unattractive	Unattractive
Non-Government Bonds (£ All-Stocks)	Unattractive	Unattractive	Unattractive
Non-Government Bonds (€ All-Stocks)	Unattractive	Unattractive	Unattractive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

SECTION 4

CONSIDERATION OF FUNDING LEVEL

CONSIDERATION OF FUNDING LEVEL
ASSET ALLOCATION AND FUNDING LEVEL



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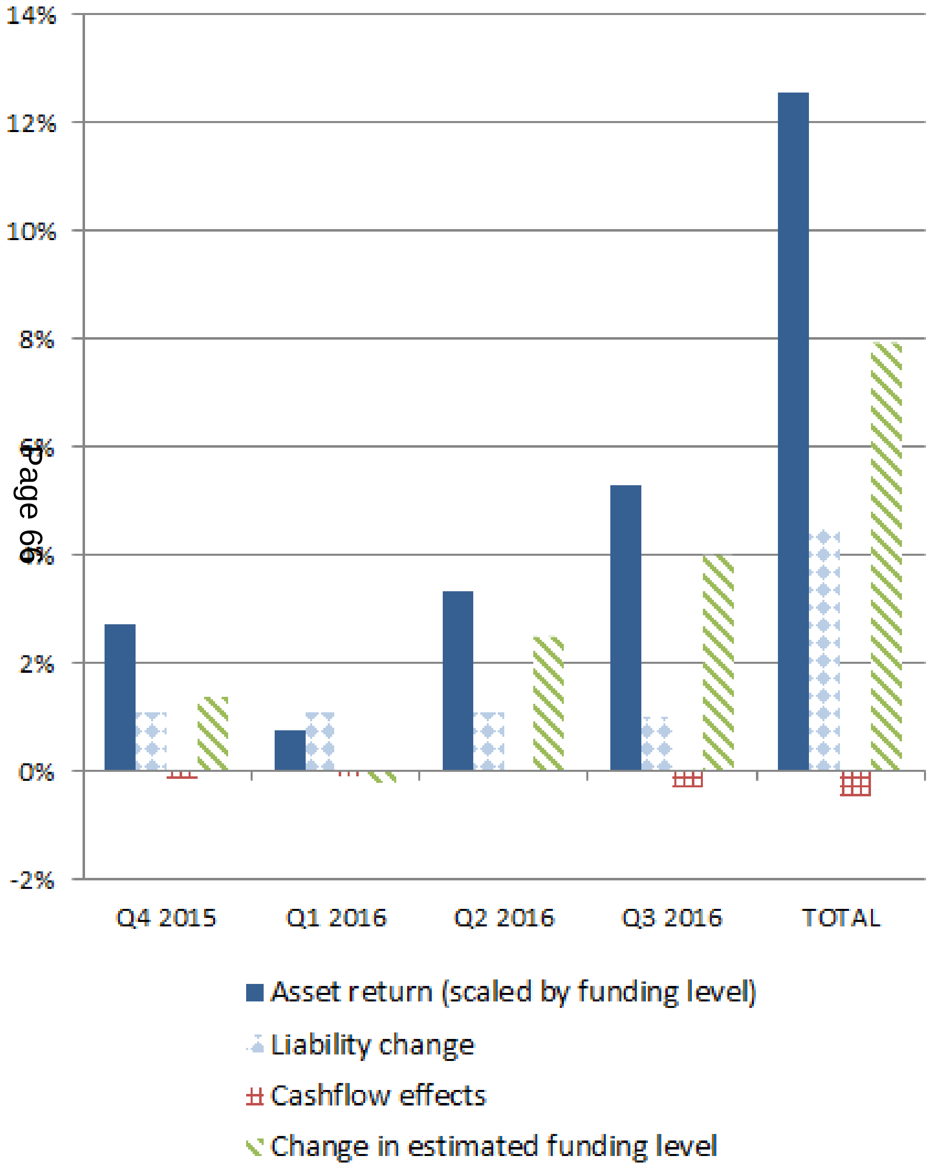
- Based on financial markets, investment returns and net cashflows into the Fund, the estimated funding level increased by c. 4% over the third quarter of 2016, all else being equal, from 85% to 89%.
- This was driven by the positive return on the Fund’s assets exceeding the increase in the present value of the liabilities over the quarter.
- This is calculated using the new actuarial valuation as at 31 March 2016 and the “CPI plus” discount basis.

CONSIDERATION OF FUNDING LEVEL
FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



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- The Fund’s assets returned 6.2% over the quarter which, when allowing for the funding position, increased the funding level by 5.3%.
- The Fund’s estimated liabilities increased by 1.1% over the quarter.
- Over this quarter, the “cashflow effect” from contributions was negative but small.
- Overall, the combined effect has led to a increase in the estimated funding level to 89% (from 85% at 30 June 2016).
- Over the 12 month period, the estimated funding level has risen by c.8%.

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SECTION 5
FUND VALUATIONS

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation							
Asset Class	**Start of Quarter (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**	**Target Strategic Benchmark (%)**	**Ranges (%)**	**Difference (%)**
Developed Market Equities	1,611,123	1,752,287	41.3	42.5	40.0	35 - 45	+2.5
Emerging Market Equities	358,238	385,222	9.2	9.3	10.0	5 - 15	-0.7
Diversified Growth Funds	363,166	368,673	9.3	8.9	10.0	5 - 15	-1.1
Fund of Hedge Funds	208,736	215,363	5.4	5.2	5.0	0 - 7.5	+0.2
Property	380,524	372,582	9.8	9.0	10.0	5 - 15	-1.0
Infrastructure	149,161	153,772	3.8	3.7	5.0	0 - 7.5	-1.3
Bonds	847,704	858,641	21.7	20.8	20.0	15 - 35	+0.8
Cash (including currency instruments)	-20,793	14,011	-0.5	0.3	-	0 - 5	+0.4
Total	**3,897,860**	**4,120,797**	**100.0**	**100.0**	**100.0**		**0.0**

Source: BNY Mellon, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

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Invested assets increased over the quarter by £223m due to positive returns from all asset classes. At the end of the quarter, all asset classes were within the agreed tolerance ranges.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Passive Multi-Asset	1,081,129	-560	1,176,622	27.7	28.6
Jupiter	UK Equities	174,182	-	188,908	4.5	4.6
TT International	UK Equities	208,744	-	222,410	5.4	5.4
Schroder	Global Equities	277,115	-	301,486	7.1	7.3
Genesis	Emerging Market Equities	166,886	-	179,161	4.3	4.3
Unigestion	Emerging Market Equities	191,352	-	206,060	4.9	5.0
Invesco	Global ex-UK Equities	307,650	-	337,782	7.9	8.2
SSgA	Europe ex-UK & Pacific inc. Japan Equities	127,575	-	142,333	3.3	3.5
Pyrford	DGF	131,310	-	135,239	3.4	3.3
Standard Life	DGF	231,856	-	233,435	5.9	5.7

Source: BNY Mellon, Avon. Totals may not sum due to rounding.

FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
MAN	Fund of Hedge Funds	446	-	404	0.0	0.0
Signet	Fund of Hedge Funds	913	-135	1,000	0.0	0.0
Gottex	Fund of Hedge Funds	2,933	-	3,334	0.1	0.1
JP Morgan	Fund of Hedge Funds	204,444	-	210,966	5.2	5.1
Schroder	UK Property	194,598	-	194,155	5.0	4.7
Partners	Property	188,066	-7,785	188,135	4.8	4.6
IFM	Infrastructure	149,161	-	153,772	3.8	3.7
RLAM	Bonds	300,968	-60,000	258,577	7.7	6.3
Record Currency Management	Currency Hedging	-72,552	40,000	-62,320	-1.9	-1.5
Internal Cash	Cash	31,083	28,481	49,337	0.8	1.2
Total		**3,897,860**	**-**	**4,120,797**	**100.0**	**100.0**

Source: BNY Mellon, Avon. Totals may not sum due to rounding.
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total fund.

SECTION 6

PERFORMANCE SUMMARY

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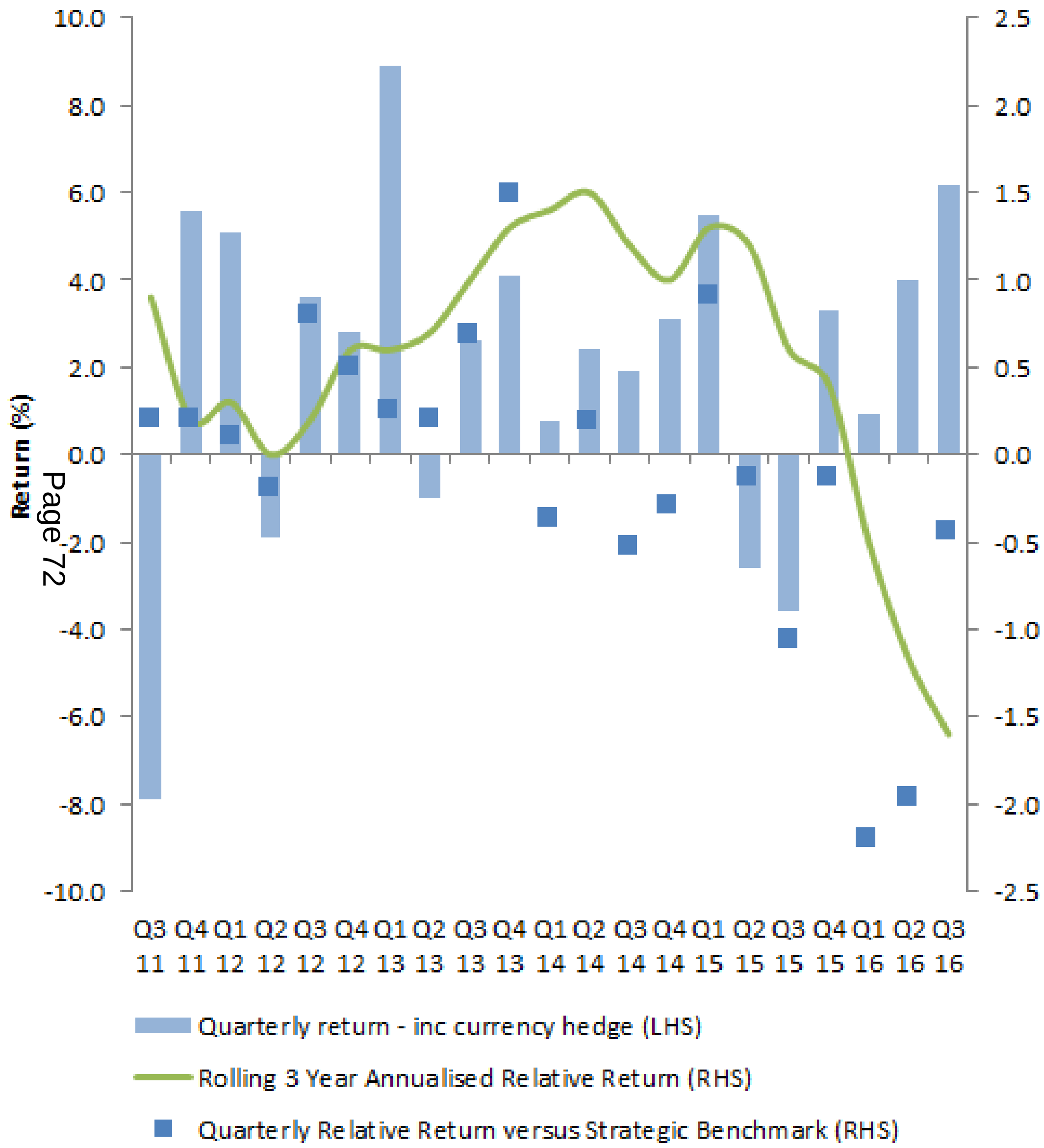
PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE

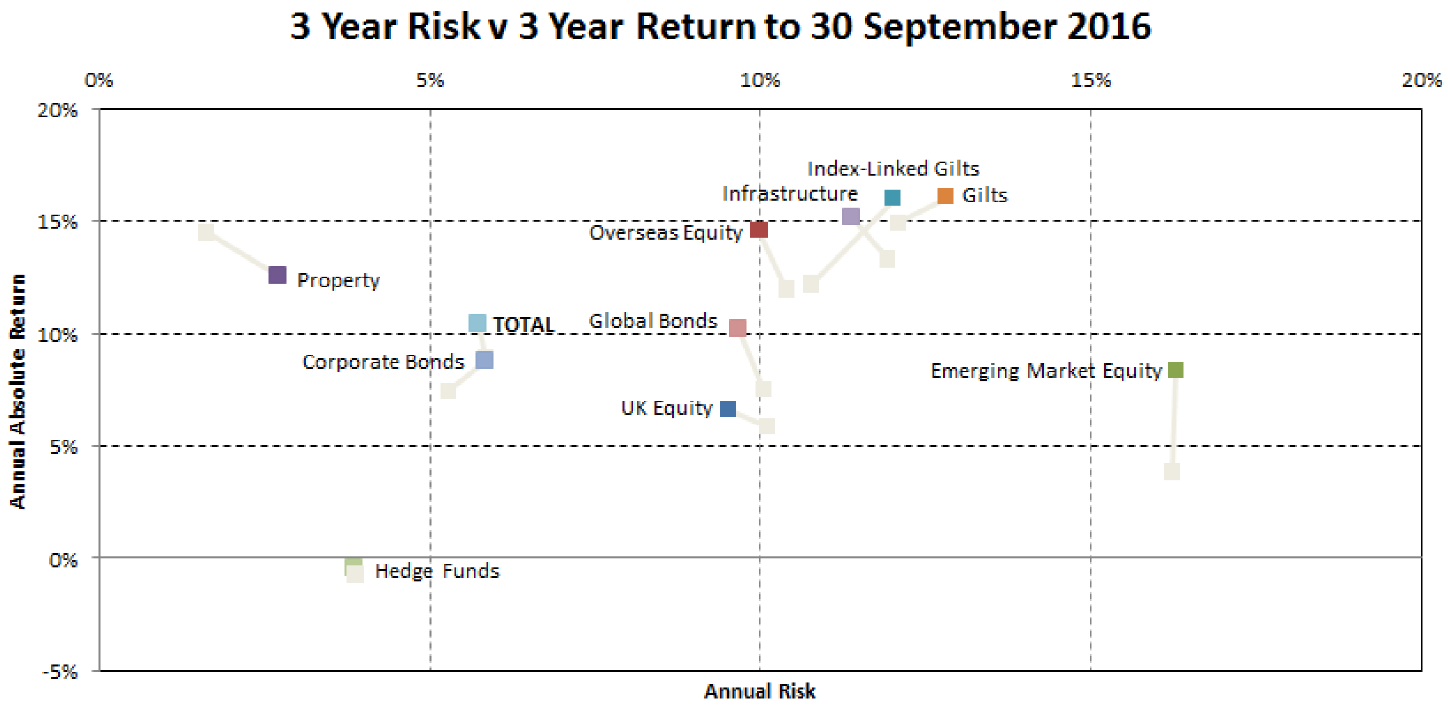


	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	6.2	15.2	8.8
Total Fund (ex currency hedge)	6.8	19.5	10.1
Strategic Benchmark (no currency hedge)	6.6	20.5	10.4
Relative (inc currency hedge)	**-0.4**	**-5.3**	**-1.6**

- Over Q3 2016, the Fund underperformed its Strategic Benchmark by 0.4% when including the currency hedge but outperformed by 0.2% excluding the currency hedge (as Sterling continued to weaken).

- The Fund has underperformed the Strategic Benchmark over the year by 5.3% and by 1.6% p.a. over the three year period. Over the year, this was mostly due to the recent weakening of sterling and to a lesser degree manager underperformance (mainly in equities and Standard Life GARS).

- Due to the latest quarter's underperformance, the rolling three year underperformance went from -1.2% p.a. to -1.6% p.a.



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of September 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 BNY Mellon). We also show the positions as at last quarter, in grey.

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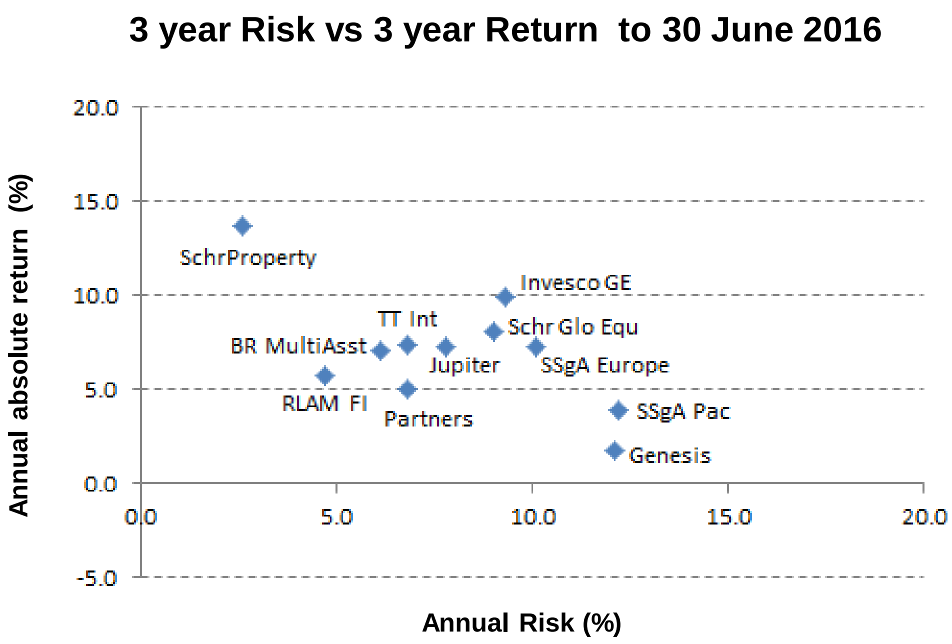
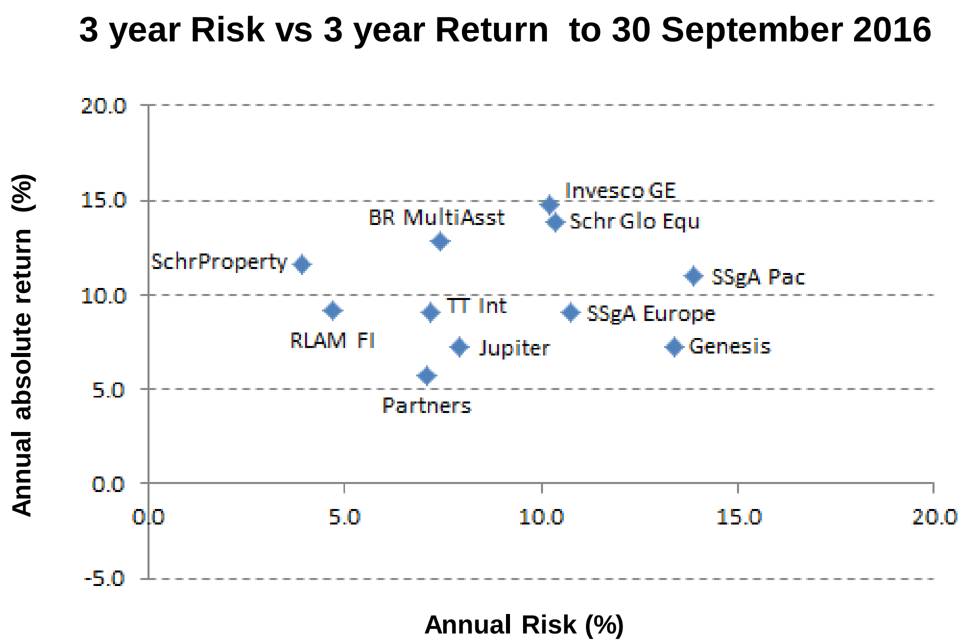
Comments

- *There were limited changes in observed returns and volatilities over the quarter. Returns increased for bonds and gilts as well as international equities. Property saw a decrease in observed return and an increase in volatility as a result (following a sustained period of consistent growth).*

MANAGER MONITORING
RISK RETURN ANALYSIS





Comments

- *Absolute returns for equities and fixed income mandates increased over the quarter (consistent with the picture seen on page 28). On the other hand, property absolute return decreased.*

MANAGER PERFORMANCE TO 30 SEPTEMBER 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	9.0	8.9	+0.1	25.7	25.7	-0.1	12.8	12.7	+0.2	-	Target met
Jupiter	8.3	7.8	+0.5	11.4	16.8	-4.6	7.1	6.6	+0.5	+2	Target not met
TT International	6.5	7.8	-1.2	14.5	16.8	-2.0	9.0	6.6	+2.3	+3-4	Target not met
Schroder Equity	8.7	8.5	+0.1	29.0	31.4	-1.8	13.5	13.8	-0.2	+4	Target not met
Genesis	8.3	12.3	-3.6	35.6	36.7	-0.8	7.2	7.4	-0.2	-	Target not met
Unigestion	7.7	12.2	-4.0	27.5	36.2	-6.3	N/A	N/A	N/A	+2-4	N/A
Invesco	9.8	8.0	+1.7	29.9	30.8	-0.7	14.8	14.7	+0.1	+0.5	Target not met
SSgA Europe	9.8	9.1	+0.6	21.4	21.0	+0.3	9.0	8.4	+0.6	+0.5	Target met
SSgA Pacific	12.4	12.2	+0.2	34.0	35.1	-0.9	11.0	10.4	+0.5	+0.5	Target met
Pyrford	3.0	1.9	+1.1	11.9	7.1	+4.5	N/A	N/A	N/A	-	N/A
Standard Life	0.5	1.4	-0.8	-1.8	5.7	-7.1	N/A	N/A	N/A	-	N/A
JP Morgan	4.1	0.9	+3.2	17.6	3.6	+13.5	N/A	N/A	N/A	-	N/A
Schroder Property	-0.3	-0.7	+0.4	2.8	3.4	-0.6	11.6	11.4	+0.2	+1	Target not met
Partners Property	6.4	1.1	+5.2	20.5	4.6	+15.3	7.3	11.6	-3.9	+2	Target not met
IFM	4.0	0.7	+3.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
RLAM	5.7	5.6	+0.1	13.2	14.0	-0.6	9.1	8.6	+0.5	+0.8	Target not met
Internal Cash	0.1	0.1	0.0	0.3	0.3	0.0	0.4	0.3	0.0	-	N/A

- Source: BNY Mellon, Avon, Mercer estimates.
- Returns are in GBP terms, consistent with overall fund return calculations before currency hedging in applied.
- 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); totals may not sum due to rounding.
- Partners fund performance shown in this table are time-weighted returns in sterling terms. Benchmark performance is 3 Month LIBOR +4% p.a. since its change in Q4 2015.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.

APPENDIX 1
SUMMARY OF MANDATES

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SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance target (p.a.)
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Invesco	Global ex-UK Equities (Enhanced Indexation)	MSCI World ex UK NDR	+0.5%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	6 Month LIBOR +5% p.a.	-
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	3 Month LIBOR +4% p.a.	-
IFM	Infrastructure	6 Month LIBOR +2.5% 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 2

MARKET STATISTICS INDICES

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MARKET STATISTICS INDICES

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

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

APPENDIX 3
CHANGES IN YIELDS

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CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 September 2016	30 June 2016	30 September 2015	30 September 2014
UK Equities	3.46	3.66	3.71	3.34
Over 15 Year Gilts	1.42	1.61	2.38	2.98
Over 5 Year Index-Linked Gilts	-1.78	-1.38	-0.83	-0.35
Sterling Non Gilts	1.99	2.55	3.16	3.39

- Bond yields fell across all maturities over the quarter, resulting in positive absolute returns for investors.
- In the UK, further loosening of monetary policy by the Bank of England and subdued growth expectations led to a downward shift in government bond yields at the medium to long tenors over the quarter. As a result, the Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a positive return of 4.2%.
- Real yields also decreased over the quarter by an extent of c.30 to 50 bps on the back of lower nominal yields and an increase in breakeven inflation rates. The Over 5 Year Index-Linked Gilts Index posted a strong positive return of 11.0% over the quarter.
- Credit spreads tightened by c.40 bps, with the sterling Non-Gilts All Stocks and sterling Non-Gilts All Stocks over 10 years indices both ending the quarter at c.1.2%. This, along with a decrease in government bond yields, led to UK credit assets posting a positive return of 6.0% over the quarter, outperforming the broader global credit market.

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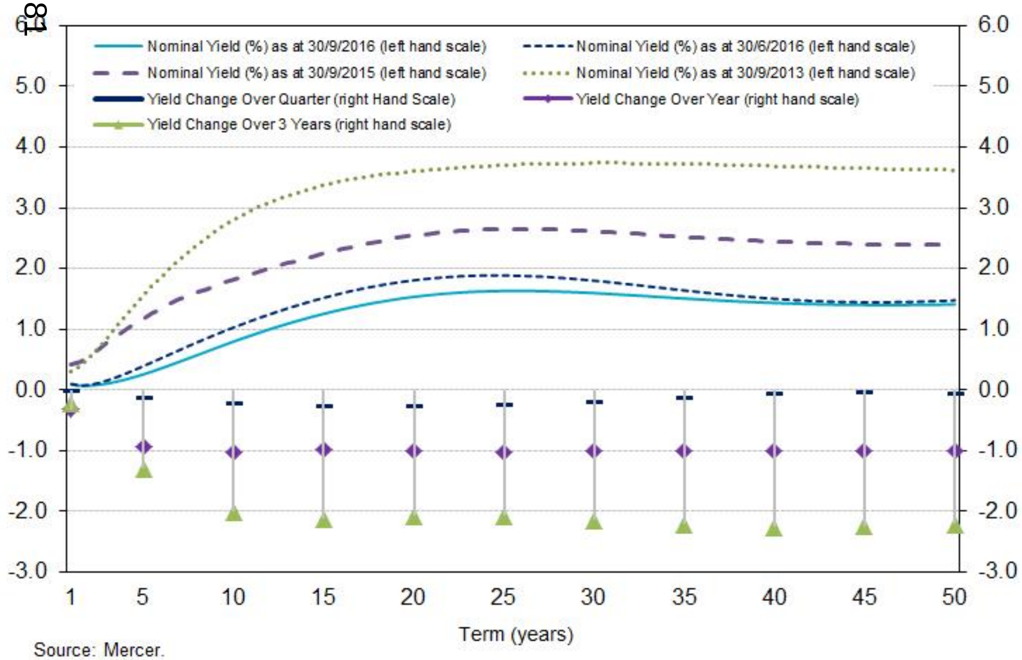
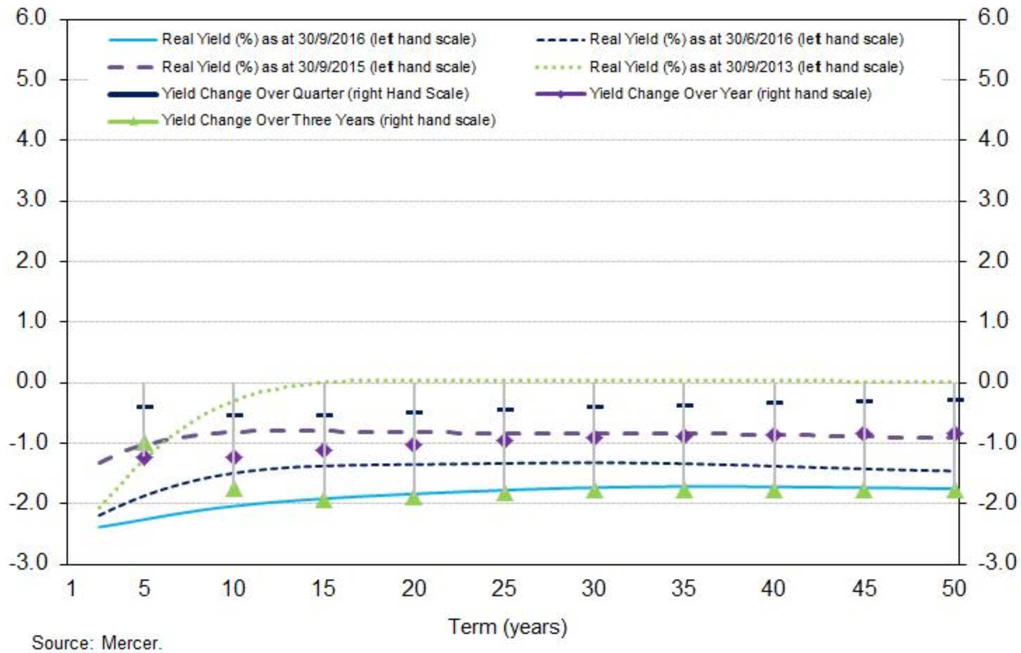
Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

MAKE TOMORROW, TODAY

MERCER

Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1951/16

Meeting / Decision: Avon Pension Fund Committee
Date: 9th December 2016

Author: Matt Betts
Report Title: Investment performance and strategy monitoring (for periods ending 30th September 2016) Exempt Appendix Title: Exempt Appendix 3 - Changes in RAG status of Investment Managers.

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

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

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

<u>PUBLIC INTEREST TEST</u>

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local

Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

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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Local Authority
Pension Fund
Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 71 public sector pension funds in the UK with combined assets of over £175 billion.

QUARTERLY ENGAGEMENT REPORT

JULY TO SEPTEMBER 2016

Report launch on why a 2˚c business model is less risky than 'business-as-usual' for oil companies

National Grid publishes scope three emissions after LAPFF's request

LAPFF work with UNITE starts to pay off at Sports Direct

National Express meets with LAPFF after contentious AGM

Achievements

LAPFF and Carbon Tracker (CTI) launch of 'Engaging for a Low Carbon Transition'

Cllr Kieran Quinn and Mark Campanale of Carbon Tracker

In July, LAPFF and Carbon Tracker Initiative launched the report *'Engaging for a Low Carbon Transition'* which sets out how a 2˚C business model can be less risky than 'business-as-usual' for oil and gas companies. The LAPFF chair, Cllr Quinn, welcomed over sixty attendees and introduced the report author, Paul Spedding, who set out how to determine the degree to which investments are 'two-degree' compliant and the implications for shareholder value. The report gives very practical 'hands-on' guidance on how to respond to 'shibboleths' encountered in engagement with company representatives.

National Grid publishes scope three emissions upon LAPFF's request

In 2014, LAPFF attended the National Grid AGM and raised the issue of the Company reporting its Scope 3 emissions, mainly those associated with sold products, ie gas and electricity in the US. At the time, National Grid said this was an interesting question that no other investor had inquired about. LAPFF inquired about this again at the 2015 AGM and was told that the Company would likely publish this data within the year. By the 2016 AGM, National Grid had published Scope 3 emissions data in the annual report. This data is important information to understand the full extent of a company's global emissions, so this development is an important step forward.

LAPFF work with UNITE starts to pay off at Sports Direct

LAPFF was one of a number of shareholders and shareholder groups supporting a UNITE-backed resolution at the Sports Direct AGM that called for an independent review of the Company's human capital management strategy. The AGM received a lot of media coverage, and LAPFF's Executive Committee member, Jane Firth, spoke about the Forum's support for the independent human capital assessment for Channel Five, BBC TV and Radio Five Live. At the AGM, most investors focused on replacing Keith Hellawell as Chair, but in the aftermath, the focus has been on the shareholder resolution. The latest development is a promise from Sports Direct that it will replace its lawyers, RPC, as the party to conduct the next independent review of workplace practices and corporate governance. It remains to be seen whether this promise is kept and the review is actually independent, but oversight of employee management seems to be moving in a better direction.

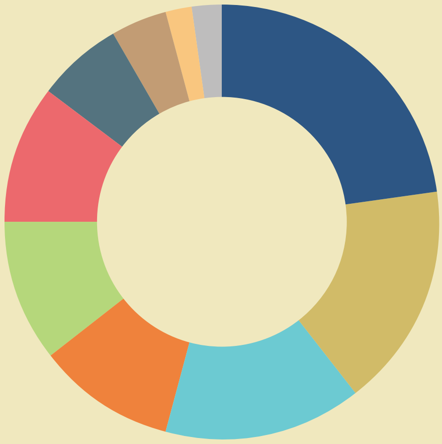
Jane Firth spoke about the Forum's support for the independent human capital assessment for Channel Five, BBC TV and Radio Five Live

National Express meets with LAPFF after contentious AGM

For the last three years, LAPFF has either supported shareholder resolutions with National Express requesting an independent assessment of labour conditions in the Company's US subsidiary, Durham School Services, or individual LAPFF funds have co-filed this resolution. When the Company refused to accept the resolution on this year's AGM ballot, there was some frustration on the part of LAPFF and the unions. This development comes alongside a US Federal Court decision that found a union organising campaign in Santa Rosa, Florida to have been legitimate. National Express has now said it will accept this ruling and will bargain collectively with the union at the Santa Rosa site. A number of similar rulings have been made against the Company in the past couple of months. LAPFF subsequently met with the Company to discuss these issues.

Company Engagement

ENGAGEMENT TOPICS



Governance (general)	**11**
Board composition	**8**
Climate change	**7**
Employment standards	**5**
Remuneration	**5**
Human rights	**5**
Other	**3**
Environmental risk	**2**
Supply chain management	**1**
Campaign (general)	**1**

PEOPLE AND INVESTMENT VALUE AND EMPLOYMENT STANDARDS

In addition to hosting the AGM, **Sports Direct**'s Deputy Executive Chairman, Mike Ashley, led a walk-through of the Company's Shirebrook facility for press and investors. Participants got to see the warehouse floor and the controversial security check workers go through to enter and exit the warehouse. Mr Ashley continually emphasised the size of the facility and how hard it is to manage such a large operation. Mr Ashley and the Sports Direct Board then hosted a meeting with investors to answer further questions. At one point, both the Chairman, Keith Hellawell, and Mr Ashley left the room for an extended period without explaining why they had left. At the end of the session, a Sports Direct employee stood up to sing the praises of the Company. Overall, the day had a very contrived feel.

Following the **SSE** AGM, LAPFF also met with Helen Mahy, a non-executive director and SSE's Director of Sustainability, Rachel McEwen, to discuss the company's human capital management approach. SSE has been cited in a number of circles for having a good approach to human capital management. Unlike most other companies, it has also developed a methodology to quantify how much value SSE staff contributes to the business. This methodology suggests that SSE's staff is its second largest asset – behind windfarms. Based on the insightful conversation, LAPFF has invited Ms McEwen to speak at the LAPFF conference.

LAPFF also continued with its engagement to promote women on boards, having meetings with **Weir Group, Tullow Oil** and **Telecom Plus**. Weir Group showed itself to be a leader in the field, with very proactive approaches to managing diversity and a critical approach to Chairs who stand in the way of this. Tullow Oil and Telecom Plus candidly discussed some of the challenges they face in achieving a more diverse board and workforce but Tullow Oil, in particular, was very open to further engagement to seek to improve in this area.

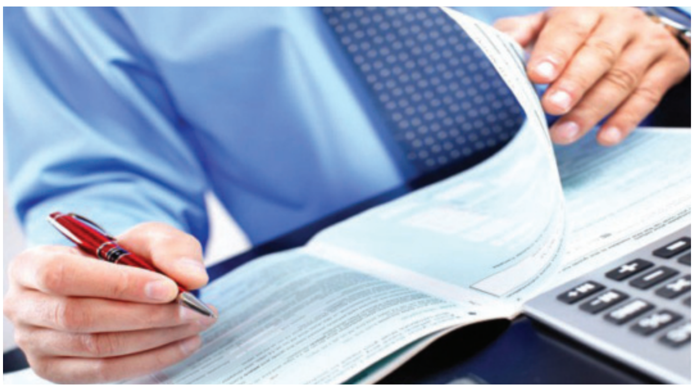
LAPFF also proposed that the Investor Group of the 30% Club submit a letter to the FT calling for increased action with companies on reaching more gender diverse boards and praising Halfords in this regard. Published in early August, it was followed by a response from Sir Philip Hampton and Dame Helen Alexander, Chair and Vice Chair of the 'Women on Boards Review' supporting the Investor Group's efforts to promote stronger diversity at companies and calling for other stakeholders to join the action.

In total, LAPFF attended eight AGMs this quarter – **Sainsbury, BT, British Land, SSE, Vodafone, National Grid, Vedanta** and **Sports Direct**. At least four of these, Sainsbury, BT, SSE and Vedanta, have led to further engagements with the companies. It remains to be seen whether Sports Direct keeps its promise to engage with LAPFF, given at the 2016 AGM, after many years of the Forum being unable to secure a meeting with board members. Cllr Richard Greening asked about Vedanta's human rights practices at the AGM. While the Company has a poor human rights record, it has shown a willingness to engage with LAPFF on this topic.

Given that the above AGMs took place just after the Brexit vote, there were a number of Brexit-related questions asked of the respective company boards. The issue of free movement of workers was raised on a number of occasions by companies. For example, at the BT AGM the Chairman expressed his worry that a restriction on this movement would affect the Company's talent base and ability to execute its contracts on behalf of customers.

RELIABLE ACCOUNTS

LAPFF was in the media in September for its latest round of letters to the FTSE350 on reliable accounting, which urged FTSE350 Chairs to disregard the Financial Reporting Council (FRC)'s guidance on accounting standards. A Freedom Of Information request revealed that although the FRC had made public efforts to suggest that the UK Government concurred with the FRC position, it hadn't. These letters were covered extensively by national press.



HOLDINGS-BASED ENGAGEMENT

Following attendance at the Unilever AGM, Cllr Doug McMurdo of the LAPFF Executive met with Andrew Stephen and Clare Cavana of **Unilever** to discuss the Company's business model and Sustainable Living Plan. Unilever has been held up in many quarters as a leader in integrating environmental, social and governance issues into its business model and strategy. This meeting led to a further meeting on tax and LAPFF looks to have progressed in establishing an engagement relationship with Unilever.

©www.unilever.com

M&A engagement gets underway with Rentokil
LAPFF has recently issued a report setting out issues investors should consider in evaluating companies' approaches to mergers and acquisitions. Using elements of the approach set out in the guide, Cllr Toby Simon met with representatives of Rentokil Initial, which has a reputation for doing mergers and acquisitions well, in order to learn from best practice and to assess performance in line with LAPFF guidance. Feedback from Rentokil was extremely positive, and LAPFF will look to engage with other companies to test the guide further.

TAX

LAPFF, with consultant, Richard Murphy, met **Sainsbury** to hear about the Company's approach to tax risk and governance. Mr Murphy's assessment is that it would not take much for Sainsbury to qualify for the FairTax Mark. The Company's policy statement and reporting on tax havens is good, but there could be further reporting on country-by-country tax disclosure, and on how the Company ensures it has not engaged in tax avoidance. LAPFF Executive member, Cllr Doug McMurdo, also went with Mr Murphy to meet Janine Juggins of **Unilever** about tax.

In addition to the company meetings on tax, on the back of its own letter to the company, LAPFF has co-signed a letter with other investors to **Alphabet**, parent company to Google, requesting further disclosure about its tax practices. Google has faced a number of legal challenges to the amount of tax it pays in various countries.

PEOPLE PAY AND INVESTMENT VALUE

In the run-up to binding votes on remuneration policy at most companies' 2017 AGMs, LAPFF has maintained a focus on executive pay policies and how companies apply them in practice.

In 2015, much of LAPFF's engagement with **BP** focused on the five elements of the Company's strategic resilience to climate change. One of these, remuneration, has surfaced as a big issue for BP during 2016, and following Ian Greenwood's attendance at the BP AGM and media comments on the Company's approach to remuneration, LAPFF held a meeting with BP Chair, Carl Svanberg, to discuss concerns. Whilst it is clear that a large portion of the remuneration this year was attributed to pension contributions, LAPFF stressed that BP's disclosure should improve so that the composition of pay was more transparent for shareholders to analyse. Mr Greenwood also encouraged BP to do more to 'stress test' its pay before finalising it, to assess how shareholders will react, particularly in a difficult financial environment where workers are being made redundant.

At the **British Land** AGM, Cllr Doug McMurdo noted that the existing remuneration policy, allows for granting of a high level of awards and a longer notice period on recruitment. He asked the Chair if the Company did not consider the quality of British Land's brand and internal culture should be sufficient to attract high calibre candidates without such inducements. The Chair noted the wish to keep flexibility in being able to attract and recruit staff in senior positions, and that the company should be able to compensate an individual for loss where they have to forego pay at a previous employer.

ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

Collaborative engagement with oil & gas, integrated mining and utility companies has continued through the 'Aiming for A' investor group with LAPFF separately also meeting with **BP** and **Anglo American** in the last quarter. The utility, **SSE**, is one of the largest UK emitters, and Cllr Cameron Rose attended the AGM to ask about the Company's approach to carbon capture and storage (CCS) in light of the government's failure to fund further efforts around this technology. The Company was disappointed with the government's position but still sees CCS as a technology to consider in future.

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Cllr Toby Simon met with Anglo American following attendance at the Company's AGM and to follow up on elements of the strategic resilience shareholder resolution. Cllr Simon met with Anglo Chairman, Sir John Parker, as well as Head of Social Performance and Engagement, Jon Samuel, and Investor Relations Manager, Ed Kite. Anglo has had a difficult time over the last year, first seeing its share price drop precipitously then rise significantly just prior to the Company's AGM. Anglo has been in the process of disposing assets and re-organising the business, so it was interesting to discuss these developments as well as how sustainability concerns were being considered while this structural overhaul continues.

©twicopy.org/cameronrose/

Cllr Cameron Rose asking about connecting renewables to the grid and Brexit at National Grid's AGM

At the **National Grid** AGM, Cllr Cameron Rose noted the Company's statement that the biggest impact it could make to the environment was by connecting low carbon and renewable energy to the network and asked what were the biggest challenges faced in doing this. The CEO, John Pettigrew commented on how the network needs to operate which will be very different from how it has been done in the last 50 years. It will entail encouraging demand-side response and also starting to introduce fast frequency and battery responses. He also noted that the company is working much more closely in the distribution networks with providers of renewables, particularly solar and wind with 9 gwatts of additional generation.

In an initiative coordinated by the Investor Network on Climate Risk, LAPFF joined other investors in writing to the US Securities and Exchange Commission (SEC) relating to improving reporting of material sustainability risks in issuers' SEC filings. In particular it flagged up the 2010 guidance on climate change-related disclosure, on which very few comment letters have been issued by the SEC and no enforcement actions taken for failure to meet these requirements.

NETWORKS AND EVENTS

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

Labour Party Fringe meeting: 'Has Banker Bashing Gone Too Far?'. Speakers included Cllr Kieran Quinn (Chair, LAPFF), Dominic Lindley (New City Agenda), Mike Kane MP, formerly Treasury Select Committee and Joanne Segars Chief Executive PLSA.

Carbon Tracker/LAPFF Report launch: An economic and financial justification for moving away from investment in oil was presented. LAPFF representatives also attended a CTI event where the risk implications for fossil fuel demand were explored.

Presentation to East Sussex Pension Committee: LAPFF representatives heard a petition on fossil fuel divestment put to the Committee and spoke about LAPFF's recent work on carbon management, executive remuneration, tax and human capital management.

Omnia Strategy on gender pay reporting: A LAPFF representative participated in this round-table co-chaired by Cherie Blair of Omnia and Ann Francke of the Chartered Management Institute to evaluate the new gender pay reporting rules and what they mean for business.

Client Earth/ShareAction Fiduciary Duty Event: Speakers considered how pension fund trustees can take into account financial and non-financial factors in their investment decisions.

Sports Direct briefing: TUSO and UNITE held a briefing for investors to explain the human capital shareholder resolution that garnered 53% support from independent shareholders at the AGM.

Board Intelligence Seminar: Participants discussed the FRC's research into culture with the Chartered Institute of Internal Auditors.

ShareAction Air Pollution and Pharmaceuticals events: Discussions took place on air pollution as a problem from both health and economic perspectives, with associated climate change implications and on the unsustainable business model of global pharmaceutical companies highlighted by poor pricing strategies.

MEDIA COVERAGE

Quarter Highlight: A Russian piece about LAPFF's concern with IFRS and the FRC's guidance - http://gaap.ru/news/151262/, with English translation

Sports Direct
Channel Five interview with Jane Firth, https://www.youtube.com/watch?v=XtTQJGp8qo8

Five Live interview with Jane Firth at 1h 10min, http://www.bbc.co.uk/programmes/b07rkgmz

Yahoo Finance, Investor group rebukes Sports Direct, wants review of management (25 Aug 2016)

International Business Times, Sports Direct's working practices called into question by shareholders' group (24 Aug 2016)

LocalGov, Council pension fund supports working practices review of Sports Direct (24 Aug 2016)

The Guardian, Sports Direct faces more pressure over working practices review (23 Aug 2016)

Accounting standards
CCH Daily, Pension funds group slams FRC dividends advice as 'defective' (6 Sep 2016)

Accountancy Age, LAPFF urges FTSE 350 companies to disregard the FRC (2 Sep 2016)

The Times, Pension schemes attack accountancy watchdog (1 Sep 2016)

Economia, LAPFF steps up row with FRC over true and fair (1 Sep 2016)

BBC News, Adopt Swedish-style shareholder committee on pay, says MP (1 Sep 2016)

IPE, LAPFF urges FTSE 350 firms to disregard 'defective' accounting advice (1 Sep 2016)

Carbon Management
LAPFF/Carbon Tracker report, Engaging for a Low Carbon Transition

IPE, Report offers hope for energy companies (8 Aug 2016)

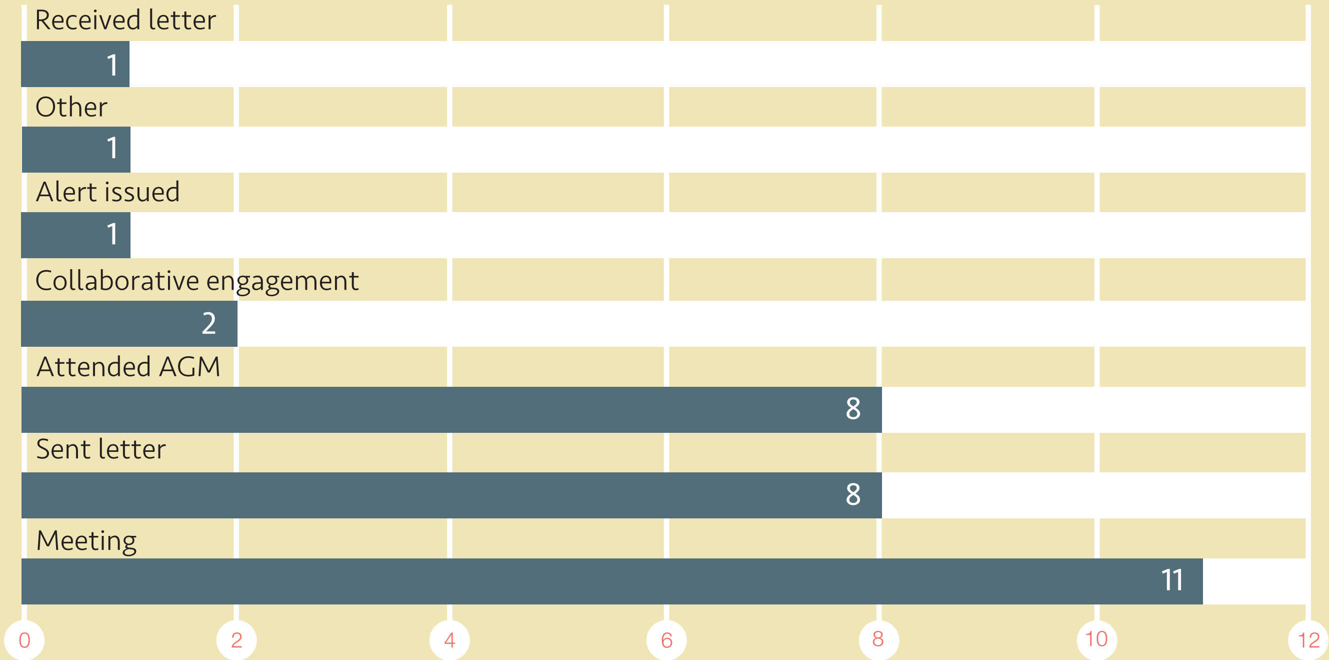
COMPANY PROGRESS REPORT

21 Companies engaged over the quarter

Q3 2016 ENGAGEMENT DATA

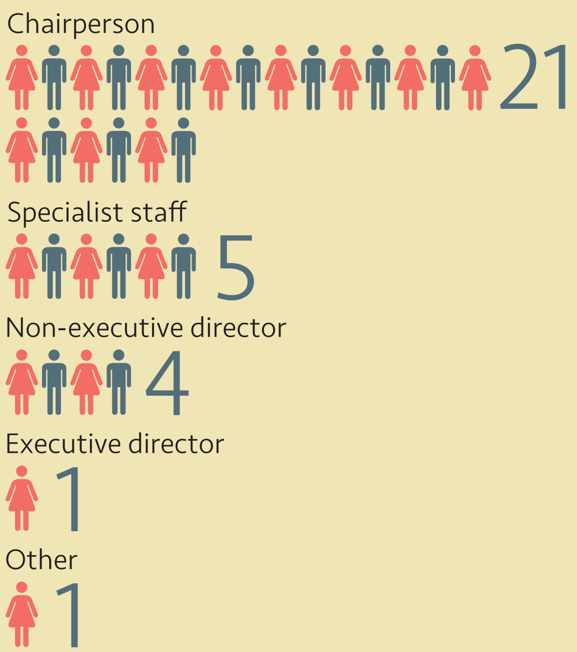
	Company	Topics	Activity	Outcome
1	Anglo American	Climate Change/ Governance (General)	Meeting	Change in Process
2	BP	Remuneration	Meeting	Meeting
3	British Land	Remuneration	AGM	Dialogue
4	BT	Governance (General)	AGM	Dialogue
5	Euromoney Institutional Investor	Board Composition	Sent letter	Awaiting Response
6	G4S	Human Rights/Governance	Collaborative Engagement	Dialogue
7	Google	Governance	Sent Letter	Awaiting Response
8	M&S	Climate Change/Supply Chain	Meeting	Dialogue
9	National Express	Employment Standards	Meeting	Small Improvement
10	National Grid	Climate Change	AGM	Substantial Improvement
11	Rentokil	M&A/ Governance	Meeting	Satisfactory Outcome
12	Rolls-Royce	Governance/Environment	Sent Letter	Meeting Set
13	Sainsbury	Tax/ Governance	Meeting	Small Improvement
14	Sports Direct	Employment Standards	Alert Issued/ AGM	Moderate Improvement
15	SSE	Climate Change/Employment	AGM	Dialogue
16	Telecom Plus	Board Composition/ Climate Change	Meeting	Small Improvement
17	The Weir Group	Board Composition/ Remuneration	Meeting	Satisfactory Outcome
18	Tullow Oil	Board Composition	Sent Letter	Engagement Completed
19	Unilever	Human Rights/Tax	Meetings	Small Improvement/ Dialogue
20	Vedanta	Human Rights	AGM	Dialogue
21	Vodafone	Governance (General)	AGM	Dialogue

COMPANY ENGAGEMENT ACTIVITIES



COMPANY DOMICILES

POSITION ENGAGED



OUTCOMES

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 County Council Pension Fund
- 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
- Redbridge (London Borough of)
- Rhondda Cynon Taf
- Sheffield City Region Combined Authority
- Shropshire Council
- Somerset County 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:	**9 DECEMBER 2016**
TITLE:	**PENSION FUND BUDGET AND CASH FLOW MONITORING** **(1) EXPENDITURE FOR YEAR TO 31 OCTOBER 2016** **(2) CASHFLOW FORECAST**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 Summary Financial Accounts: Year to 31 October 2016 Appendix 1A Summary Budget Variances: Year to 31 October 2016 Appendix 2 Cash Flow Forecast	

1 THE ISSUE

1.1 The purpose of this report is to inform the Committee of administration and management expenditure incurred against budget for the 7 months to 31 October 2016. This information is set out in Appendices1 and 1A**.**

1.2 This report also contains the Cash Flow forecast for the year to 31 March 2017.

2 RECOMMENDATION

That the Committee notes:

2.1 The administration and management expenditure incurred for 7 months to 31 October 2016.

2.3 The Cash Flow Forecast to 31 March 2017.

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 7 months to 31 October 2016 are contained in **Appendix 1.**

The forecast for the year to 31 March 2017 is for expenditure to be £1,355,200 over budget. Within the directly controlled Administration budget expenditure is forecast to be £205,400 below budget. The forecast reduction in directly controlled expenditure is mainly due to the holding over of expenditure on the IT strategy as the product offer regarding Employer Self Service is being revised. There is also forecast reduced expenditure on salaries as a result of the delayed appointment of staff and there are expected savings in Communications.

4.2 In that part of the budget that is not directly controlled, expenditure is forecast to be over budget by £1,560,600 mainly due to increased Investment Manager Fees as a result of the 6% increase in asset values in the quarter. Custody fees are also higher than budgeted as more portfolios are now included in the hedging programme and this has increased transaction costs.

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

5 CASH FLOW FORECAST

5.1 The Service Plan includes a cash flow forecast which is monitored within this report. In recent years the Fund has changed from being cash flow positive (accumulating cash from contributions at a greater rate than paying out cash in benefits and expenses) to being cash flow negative. This is part of the normal life cycle of a pension fund. The change has necessitated a much closer monitoring and forecasting of cash flows. Negative cash flows are managed by taking more income from the investment portfolio. Details of the cash flow forecast for the whole Fund are given in **Appendix 2.**

5.2 The 2016 - 2019 Service Plan included a cash flow forecast showing a gross in-flow of c£150m and a gross out-flow of c£167m giving a net outflow in 2016/17 of just over £17.4m.

The actual cash flow to 31 October was an outflow of c£6.6m against a budgeted outflow of c£10m for the same period. The difference was due to lower lump sum payments than were expected and some deficit recovery contributions being paid for the whole year in April. These were partially offset by lower than budgeted future service payments. The effect of the advance contribution payments unwinds during the year and so has no effect overall in the full year. The proportion of management fees invoiced (as opposed to being deducted at source) was greater than forecast in the Service Plan resulting in additional cash out-flow.

The expected outturn for the year to 31 March 2017 is currently forecast to be a cash outflow of c£3m more than forecast in the Service Plan if the current trends continue.

6 EQUALITIES

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

7 CONSULTATION

7.1 None appropriate.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

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

9 ADVICE SOUGHT

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

Contact person	Martin Phillips Finance & Systems Manager (Pensions)) Tel: 01225 395259.
Background papers	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

AVON PENSION FUND

SUMMARY FINANCIAL ACCOUNT : YEAR ENDING 31 MARCH 2017

	7 MONTHS TO OCTOBER 2016			FULL YEAR 2016/17		
	BUDGET £	ACTUAL £	VARIANCE £	BUDGET £	FORECAST £	VARIANCE £
Administration						
Investment Expenses	36,787	30,996	(5,792)	63,064	63,064	0
Administration Costs	48,959	36,415	(12,544)	83,930	83,930	0
Communication Costs	33,046	22,880	(10,166)	56,650	41,250	(15,400)
Payroll Communication Costs	42,663	68,121	25,458	73,137	73,137	0
Information Systems	138,403	235,560	97,157	237,261	237,261	0
Salaries	1,066,153	968,515	(97,638)	1,827,692	1,737,692	(90,000)
Central Allocated Costs	216,488	346,110	129,622	371,123	371,123	0
Miscellaneous Recoveries/Income	(125,033)	(93,339)	31,694	(214,342)	(214,342)	0
IT Strategy	92,512	33,888	(58,625)	158,593	58,593	(100,000)
Total Administration	**1,549,980**	**1,649,145**	**99,165**	**2,657,108**	**2,451,708**	**(205,400)**
Governance & Compliance						
Investment Governance & Member Training	223,563	161,422	(62,141)	383,250	383,250	0
Members' Allowances	23,313	110	(23,203)	39,965	39,965	0
Independent Members' Costs	26,425	17,873	(8,552)	45,300	45,300	0
Compliance Costs	397,569	265,835	(131,734)	681,546	681,546	0
Compliance Costs recharged	(145,833)	(189,450)	(43,617)	(250,000)	(250,000)	0
Pensions Board	23,683	5,173	(18,511)	40,600	40,600	0
Project Brunel	64,167	26,382	(37,784)	110,000	110,000	0
Total Governance & Compliance	**612,885**	**287,345**	**(325,541)**	**1,050,661**	**1,050,661**	**0**
Investment Fees						
Global Custodian Fees	51,042	63,777	12,735	87,500	133,000	45,500
Investment Manager Fees	10,050,323	11,038,976	988,653	17,229,125	18,744,225	1,515,100
Total Investment Fees	**10,101,365**	**11,102,753**	**1,001,389**	**17,316,625**	**18,877,225**	**1,560,600**
NET TOTAL COSTS	**12,264,230**	**13,039,243**	**775,013**	**21,024,394**	**22,379,594**	**1,355,200**

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APPENDIX 1A

Summary of main budget variances: Year to 31 October 2016

Variances Analysis of the full year expenditure and income, against budget.

Expenditure Heading	Variance £*	Most Significant Reasons for Variance
Salaries	(40,000) (50,000)	Reduced salaries expenditure due to:- - Benefits : Posts being held open pending the restructure. - Investments: Delayed appointment of actuarial team post, maternity leave and residual left from extra resources allowed to support pooling.
Communication Costs	(15,400)	Savings on the Employer Conference and through the distribution of newsletters at the same time as Annual Benefit Statements and P60's.
IT Strategy	(100,000)	Expenditure is expected to be delayed and the budget carried over to 2017/18 as the product offer from the supplier for Employer Self Service is revised.
Administration	**(205,400)**	
Global Custodian Fees	45,500	Custody fees forecast has been increased to reflect higher than anticipated transaction fees in the currency hedging portfolio following the decision to extend the hedge to include overseas property, hedge fund and infrastructure mandates.
Investment Manager Fees	1,515.100	The larger than expected rise in asset values over the year to date (especially in quarter ending 30 September) have resulted in the forecast for fees to rise.
Expenditure Outside Direct Control	**1,560.600**	
Total	**1,355,200)**	

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

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APPENDIX 2

AVON PENSION FUND

Cash Flow Forecast

		SEVEN MONTHS TO 31 OCTOBER 2016			FULL YEAR 2016/17		
		Forecast Per Service Plan	**Actual**	**Variance**	**Forecast Per Service Plan**	**Out-turn Forecast**	**Variance**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Outflows							
Benefits	Pensions	(75,637)	(76,645)	(1,008)	(129,664)	(131,391)	(1,727)
	Lump sums	(20,165)	(13,254)	6,910	(34,568)	(22,722)	11,846
Total Benefits Outflows		(95,802)	(89,899)	5,903	(164,232)	(154,113)	10,119
Inflows							
Deficit recovery		8,230	11,766	3,536	14,109	14,788	679
Future service Contributions		70,736	66,715	(4,022)	121,262	114,368	(6,894)
Total Contributions		78,966	**78,481**	**(485)**	**135,371**	**129,155**	**(6,216)**
Net Cash Flow (Benefits and Contributions)		**(16,836)**	**(11,418)**	**5,418**	**(28,861)**	**(24,957)**	**3,904**
Net Transfers In & Out (budgetted as zero)		-	(283)	(283)	-	(485)	(485)
Investment income received as cash		8,723	9,884	1,161	14,954	13,096	(1,858)
Administration costs		(2,068)	(4,774)	(2,706)	(3,545)	(8,185)	(4,640)
Net Cash In-Flow (Out-Flow)		**(10,180)**	**(6,591)**	**3,590**	**(17,452)**	**(20,531)**	**(3,079)**

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**9 December 2016**
TITLE:	**PENSION FUND ADMINISTRATION** **(1) SUMMARY PERFORMANCE REPORT to 30 September 2016** **(2) PERFORMANCE INDICATORS - 3 MONTHS TO 30 September 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 Sept 2016
Appendix 2 Active membership statistics over 12 months to 30 September 2016
Appendix 3 Joiners & leavers statistics over 12 months to 30 September 2016
Appendix 3A Active members demographic as at September 2016
Appendix 4 Late payers report – up to 30 September 2016
Appendix 5 Balanced Scorecard : KPI's - 3 months to 30 September 2016
Appendix 5A Annex 1 & 2 Admin case workload status as at 30 September 2016
Appendix 6 IDRP Schedule
Appendix 7 TPR – Data Improvement Plan – to 30 September 2016 2016
Appendix 8 Risk Register

1 THE ISSUE

1.1 The purpose of this report is to inform Committee of Performance Indicators for 3 months to 30 September 2016 and Summary Performance Reports on Employer and APF performance over 4 years to 30 September 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 and Performance Indicators to 30 September 2016.
2.2 Customer Satisfaction feedback to 30 September 2016
2.3 Progress on the Data Improvement Plan
2.4 Risk Register

3. Employer Performance

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

3.2 A summary report to the Committee is a requirement of the Pensions Administration Strategy. The Report for the period to 30 September is included as **Appendix 1.**

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 are currently being finalised and will be presented at the next Pensions Committee following completion of the Task Workflow project in November 2016.

3.5 **TASK WORKFLOW**

3.6 A new member leaver form checking process has been introduced from March which immediately flags 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 from 1 July to 30 September a total of 2147 leaver forms were received with an average error rate of 25.57%. Reporting on types of errors and by employer is now possible. This has enabled the Fund to analyse the data and work with employers to improve the quality of their leaver forms. This improvement is now evident with a reduction from 34.21% error rate for the period April to June to 25.57% error rate for the period July to September.

3.8 For this period the biggest percentage of errors is from incorrect pay calculations and National Insurance / Contribution figures.

3.9 The new leaver form has now been implemented with positive feedback from employers. A training course has been put together to guide employers through the leaver form in more detail and includes comprehensive training on pay calculations. The new form and the training session were piloted with Banes & North Somerset Payroll Departments. An ongoing programme of training courses has now been set up.

4 CUSTOMER FEEDBACK – Retirements

4.1 Following the launch of the online questionnaire for recent retirees, we have had a small number of responses, allowing us to report initial levels of customer satisfaction with the APF to 30 September 2016.

83% of respondents indicated that they were very satisfied (67%) or fairly satisfied (16%) with service they received from the Avon Pension Fund. Comments included: "*The service I received was perfect! Everything was explained very clearly. Thank you!*" and "*The staff at the Keynsham Civic Centre were very helpful*"

We are continuing to explore ways to gather more customer feedback and will report to the Committee on progress.

4.2 Trends in Membership/Joiners & Leavers

4.3 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.

4.4 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.

4.5 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 June 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 30th September 2016. 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 statutory deadline for members (both deferred and active) to be sent their Annual Benefit Statement (ABS) was 31 August. By this date 100% of active ABS's with complete data set (appx 32,000) were sent. 92.43% of deferred members (around 30,500) were sent by 31July, with the remaining 7.57% (2,500) by 2 September.

6.2 The two day delay in sending the 2,500 deferred members was due to them leaving and deferring their pension in 2015/16 and having to highlight on their statement that, due to negative revaluation, their figures would be subject to a slight amendment. The calculation software is not yet available for this calculation to be made. Affected members will be updated as soon as this calculation is available.

6.3 The fund can only provide an accurate ABS based on the data currently held. The TPR improvement plan identifies areas where data from the employer is missing or incomplete (and therefore an ABS cannot be produced). For the 2015/16 ABS run data was not available for approximately 1,400 members (4.18% of active members). This figure represents a mixture of Year End CARE data and leaver forms still outstanding from the employer and leavers with our admin section, awaiting calculation or a response from the member.

6.4 The table below highlights the % of members where CARE data was not submitted as at 31st March 2016 by key employers

Employer	**BANES**	**BCC**	**NSC**	**SGLOS**	**Others**
% of members where CARE not submitted	7.14%	2.18%	0.87%	1.17%	6.90%

6.5 These queries are being dealt with as part of the Funds ongoing TPR data improvement plan.

6.6 Breaches – Year End 2015/16 Employer Breaches

6.7 The following employers breached the deadline of 30 April set by APF for submission of their Year End data. The employers did eventually supply the required data to enable the Annual Benefit Statements for members to be produced and for the Actuarial Valuation. However this was a number of weeks/months after the deadline date and despite a number of recorded attempts by APF to request the information. Therefore these five employers will be invoiced for the penalty fine amounts indicated below.

Employer	**Year**	**Breach type**	**Breach description**	**Penalty**
Employer A	2015/16	Year End 2015/16	30/04 data submission deadline missed	£250
Employer B	2015/16	Year End 2015/16	30/04 data submission deadline missed	£250
Employer C	2015/16	Year End 2015/16	30/04 data submission deadline missed	£250
Employer D	2015/16	Year End 2015/16	30/04 data submission deadline missed	£250
Employer E	2015/16	Year End 2015/16	30/04 data submission deadline missed	£250

6.8 A further 30 employers breached the data queries exceeding 10% of membership levels set by the APF. We will communicate with these offering them the option of taking up a bespoke training workshop to improve performance or if they decline this, the penalty fine (£250) will be levied. These letters/emails will be sent in the next few weeks and the breaches control spreadsheet will be updated according to the employer's response. We will update the Board accordingly.

6.9 The above breaches are not considered material breaches. They will be reported to the Pensions Board and Pensions Committee, but are not considered of a significant nature to be reported to the Pensions Regulator.

6.10 The number of breaches for 2015/16 are significantly lower than previous year, indicating that promotion to all employers of their Year End responsibilities, the breaches policy, potential penalty fines as well as training opportunities and support from APF are proving effective.

7. Avon Pension Fund – Administration Performance

7.1 Balanced Scorecard detailing Key Performance Indicators for the 3 Months to 30th September 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.

8. Admin Case Workload

8.1 The level of work outstanding from tasks set up in the 3 month period is reported in **Appendix 5A** by showing what *percentage* of the work is outstanding. As a snapshot, at 30th September 2016 there were 6559 cases outstanding of which 73% represents actual workable cases and 27% represents cases that are part complete, pending a third party response.

8.2 The increase in workable cases is due to a combination of events:

- The checking of leaver forms was moved from the Data Quality Team to the Benefits Team at the start of September. Although the forms are now being checked the same day, the Team have had less resource available to work on other outstanding cases. 2 team members have now moved from the Data Quality Team to the Benefits Team to help reduce the outstanding work.
- The volume of incoming work has increased due to the ongoing impact of employers' clearing up outstanding leaver forms at year end.
- App 2000 linking tasks have been set up. A process for dealing with all new linking cases has been rolled out to the Benefits Team and a monthly report

will now be run to pick up new cases. The 2000 cases includes the remaining backlog of cases built up between April 2014 and September 2016 which were not cleared as part of the project. The Fund's software provider, Heywood only updated the pensions system (Altair) to allow correct processing of these cases in May 2016.

- A project has started to reduce the number of cases held at 'reply due' stage. As at the end of June 2900 cases were at 'reply due'. At the end of September this had reduced to 1767 cases.

8.3 All reports are being reviewed as part of the Task Workflow Project and it is expected that new and updated versions will be available for approval by the Committee in Spring 2017. The majority of workflow tasks and processes have now been reviewed and the project is due to end in November. The ongoing maintenance of the workflows and procedures will form part of the new Quality Assurance Team following the re-structure.

9. IDRP Report

9.1 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 6** shows the cases going through at the present time.

10. The Pensions Regulator Data Improvement Plan

10.1 Summary of Data Improvement Plan Data as at 30 September 2016 is shown below with a comprehensive breakdown attached in **Appendix 7**

Data type	**Cases brought forward**	**New cases**	**Completed**	**Outstanding**	**Completeness as % of membership**
Actives	2,144	296	763	1,677	99.65%
Deferreds	4,777	151	286	4,642	98.88%
Pensioners	170	4	78	96	99.94%
Dependants	66	23	78	11	99.96%
Total	**7,157**	**474**	**1205**	**6,426**	**99.61%**

10.2 All the year end queries have now been requested from employers along with any other TPR queries for active members. Therefore it is expected that the active member TPR queries will reduce over the next few months. Work is still continuing to establish all queries for Banes and North Somerset with a view to working with a dedicated resource at APF and at the employer sites to resolve all queries before the end of the year and before they resume data provision via IConnect.

10.3 Following the year end process contact is being made with all employers who had over 10% errors to arrange further training on responsibilities and data provision.

10.4 The Pension Payroll Team have considerably reduced the queries in respect of out of date addresses. So far searches for missing addresses have been mainly on an individual basis using Tracesmart (Lexis Nexis) and therefore progress has been slow.

In order to reduce the missing addresses for deferred members a bulk request of 100 addresses a time will be made using Accurate Data Services Ltd (Heirtrace)

10.5 As at 30 September 95.66% of active members had CARE pay loaded and 94.63% of members had pension remuneration figures posted.

11 RISK REGISTER

11.1 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.

11.2 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

11.3 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.

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

11.5 The top 10 risks, including their likelihood, financial impact and mitigating actions are set out in **Appendix 8.**

12 RISK MANAGEMENT

12.1 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.

13 EQUALITIES

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

14 CONSULTATION

14.1 None appropriate.

15 ISSUES TO CONSIDER IN REACHING THE DECISION

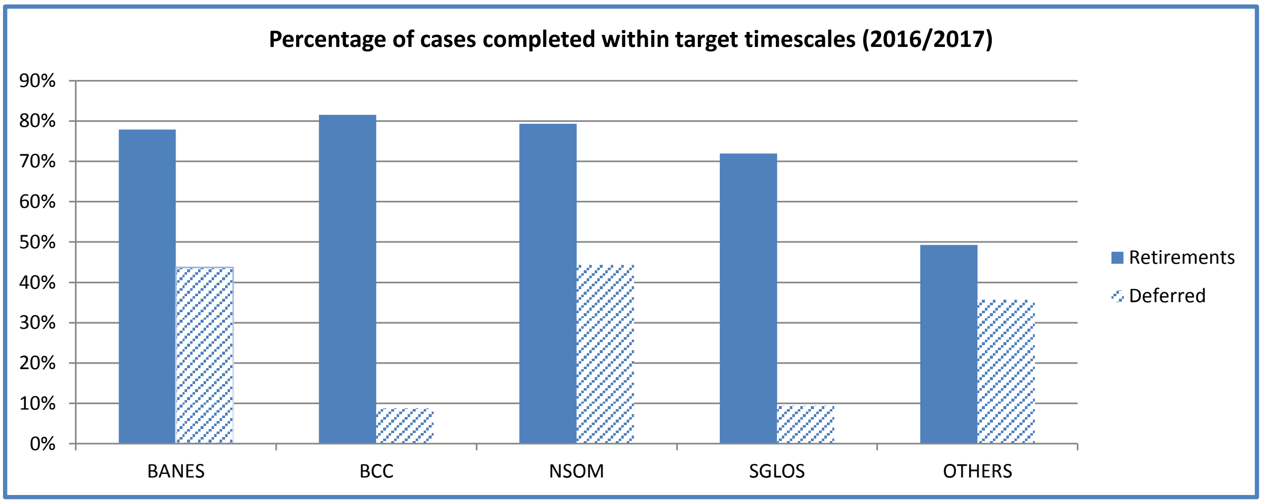
15.1 There are no other issues to consider not mentioned in this Report.

16 ADVICE SOUGHT

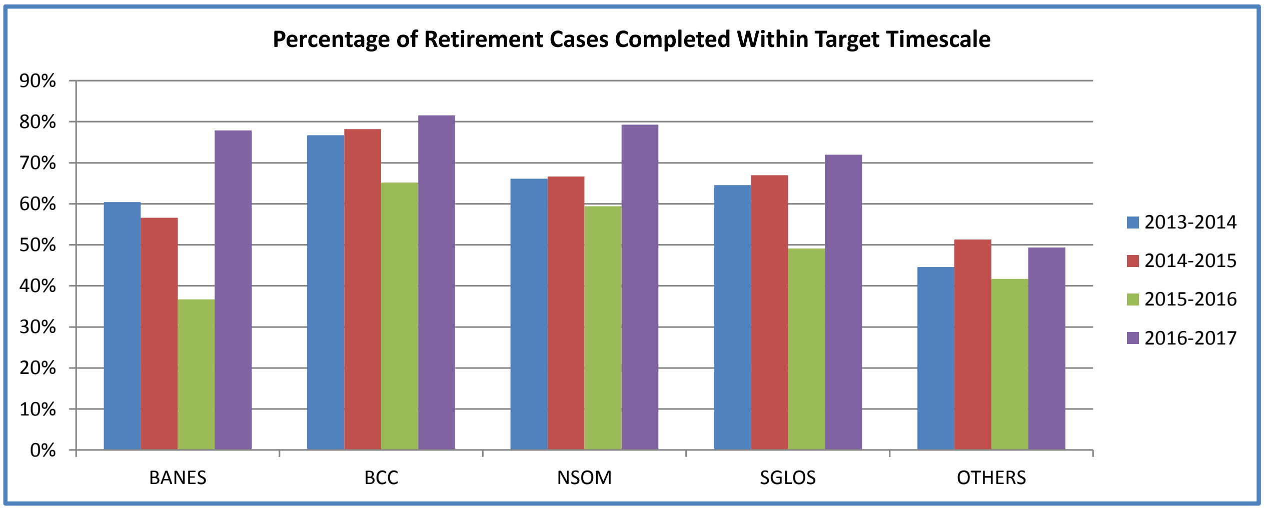
16.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director - Business Support) have had the opportunity to input to this report and have cleared it for publication.

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

Admin Report: Appendix 1
Annex 1



Annex 2



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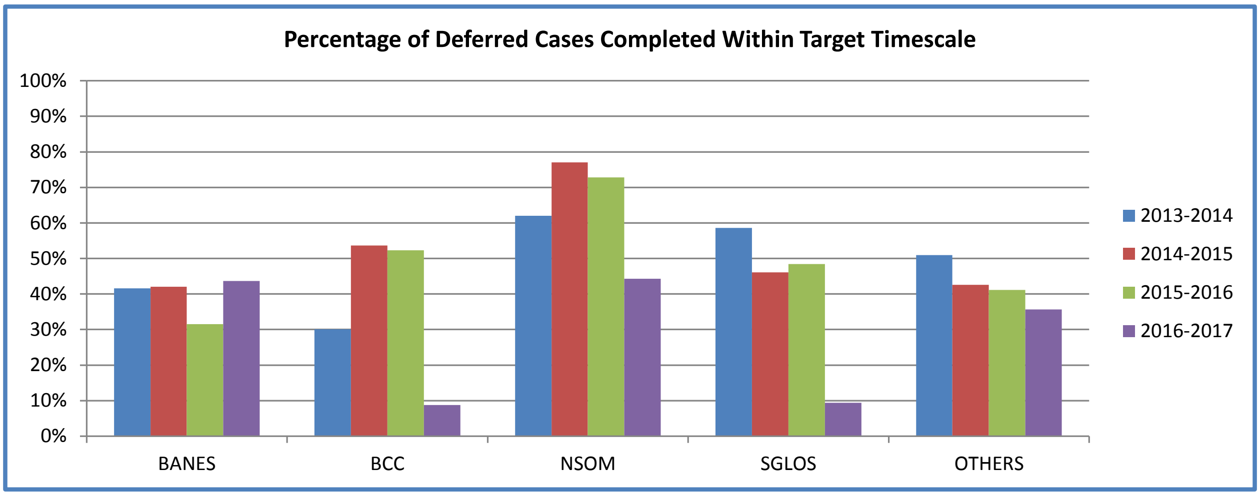

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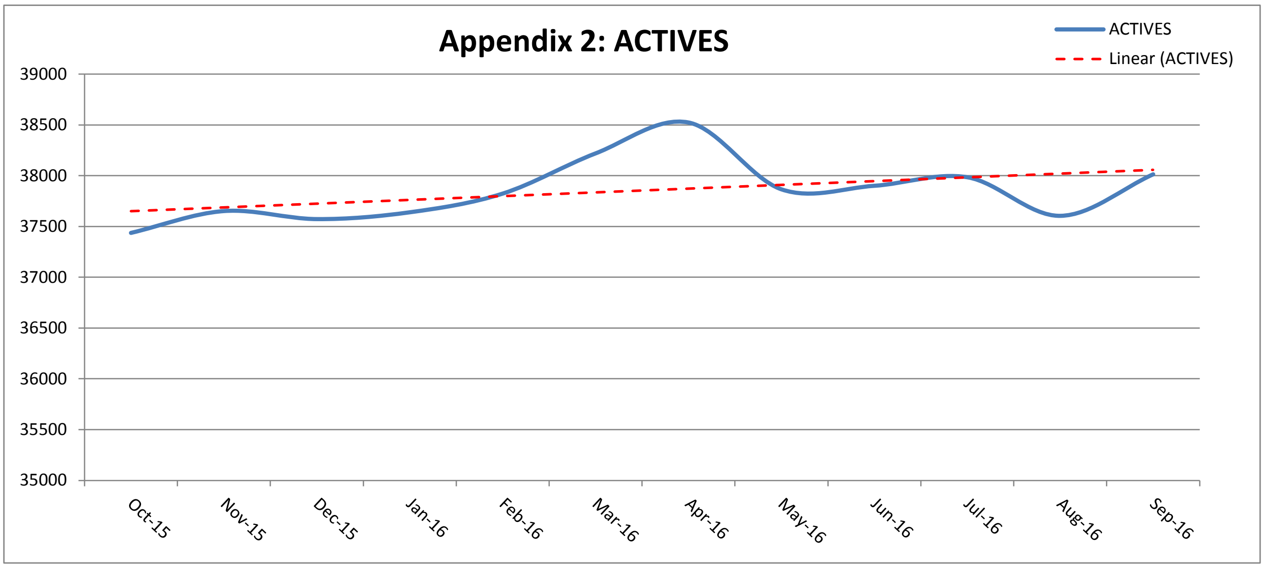
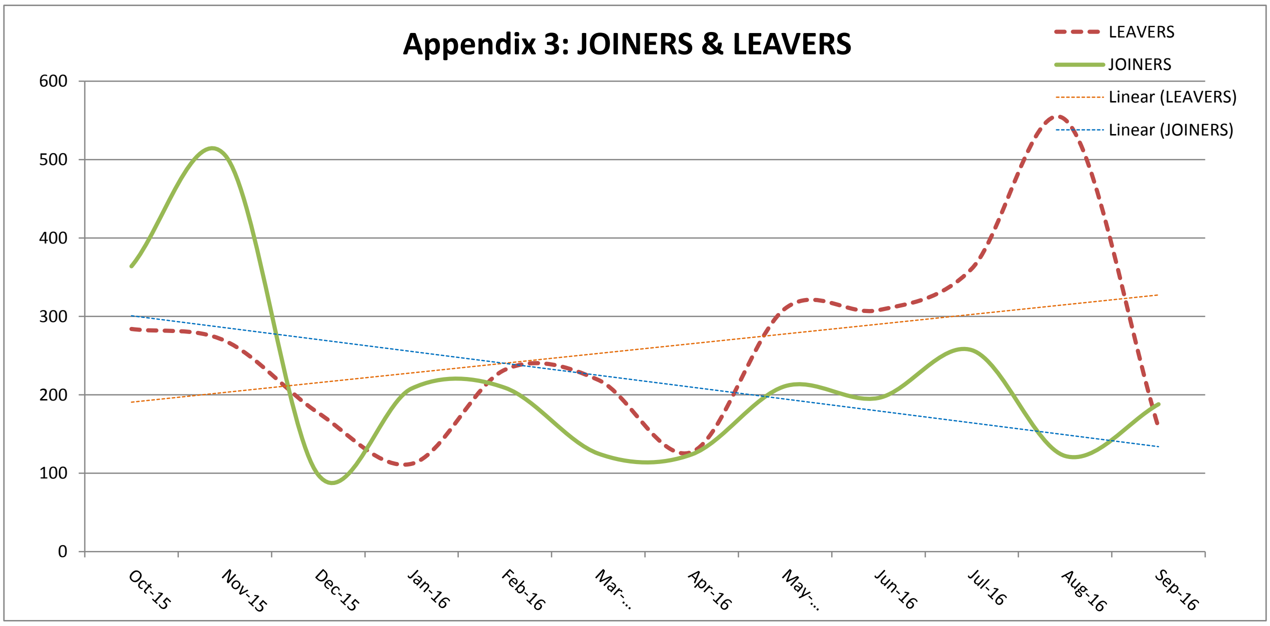
Admin Reports - Appendices 2 and 3.   Actives, Joiners and Leavers to 30th Sep 2016





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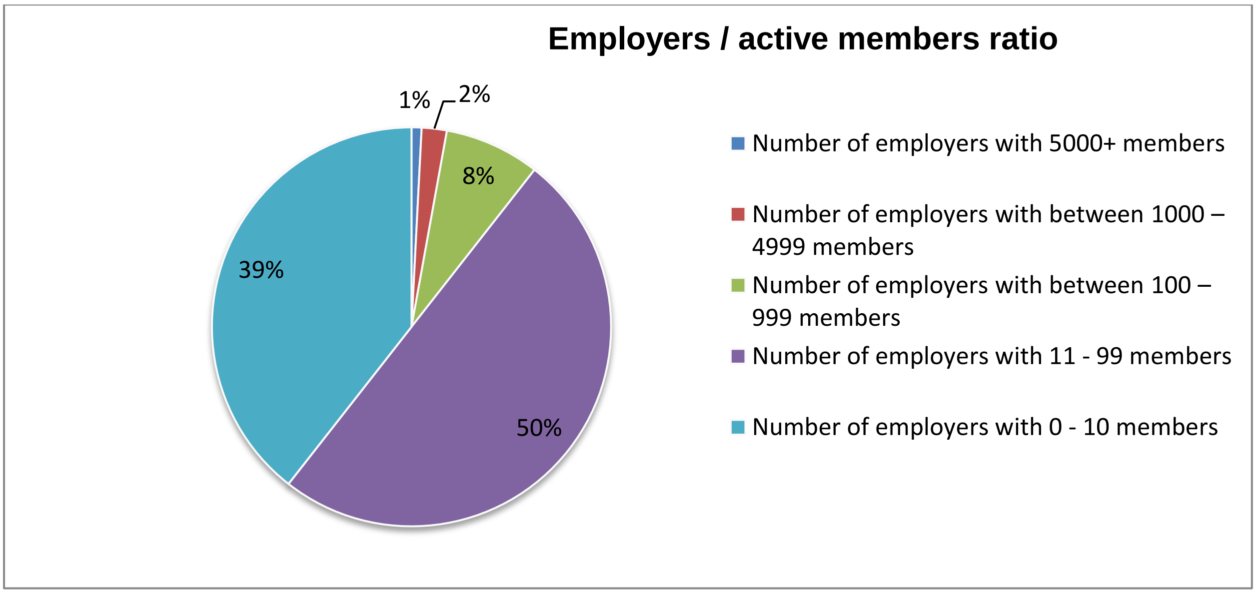
Annex 1 - **Active membership**

Active membership	
Full time records	13,685
Part-time records/members total	24,361
Part-time members	20,778
Part-time members with 1 record	17,838
Part-time members with multiple records	2,940

Annex 2 - **Employers / active member ratio**

Employers / active members ratio	
Number of employers with 5000+ members	2
Number of employers with between 1000 – 4999 members	5
Number of employers with between 100 – 999 members	19
Number of employers with 11 - 99 members	123
Number of employers with 0 - 10 members	97
Total	**246**



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APPENDIX 4

Employer	Payroll Month	Days late	Cumulative occasions	Amount	Significance	Reason / Action
Bristol Futures Academy	July	**4**	1	697.52	Value/days late not material	Delayed payment due to problems with new payroll system
North Somerset Enterprise & Technology College	July	**4**	1	3,503.87	Value/days late not material	
St Katherine's School	July	**4**	1	20,636.97	Significant value	
Bristol Waste Company	August	**5**	2	26,543.87	Significant value	Previous issues have been corrected. August's payment was set up in time but there was an oversight in approving the bank transfer. September's contributions were paid three weeks early.
Clifton Suspension Bridge	September	**3**	2	4,582.27	Value/days late not material	Employer has been reminded of obligation to pay in time and asked to take measures to avoid late payment. October contributions were paid early.
	Total Days	**20**		**55,964.50**		
			Total Contributions in Period	**30,897,598**	**Late Payments as Percentage of total = 0.18%. Late Payments from 5 out of a total of 265 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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Key Performance Indicators at 30 September 2016 Appendix 5

#	Indicator	Current Red Amber Green	Periods ago 1	2	3	2015/16 actual	2016/17 target	Actual 3 months to 30/09/16	Comments
1	Service standards - processing tasks within internal targets (SLAs):								
	a) Deaths	A	A	A	G	91%	92%	58%	7 of 12 tasks completed within target
	b) Retirements	A	A	A	G	89%	90%	67%	461 of 688 tasks completed within target
	c) Leavers (Deferreds)	G	G	G	A	81%	75%	79%	265 of 334 tasks completed within target
	d) Refunds	G	G	G	A	82%	80%	87%	809 of 931 tasks completed within target
	e) Transfers In	A	A	A	G	74%	75%	21%	8 of 39 tasks completed within target
	f) Transfers Out	A	A	A	A	77%	75%	9%	0 of 12 tasks completed within target
	g) Estimates	A	A	A	G	95%	90%	77%	102 of 191 tasks completed within target
2	Pensions paid on time	G	G	G	G	100%	100%	100%	All paid on time
3	Number of complaints	G	G	G	G				Nil
4	Maintain work outstanding at below (40%)	A	A	G	G		40%	84%	9,063 created / 7,611 cleared
5	% telephone calls answered with 20 seconds	G	G	G	G	97%	95%	98.9%	7,509 calls, 7,428 answered within target
6	Digital service delivery (employers)								
	a) % of active membership covered by employer electronic self-service (ESS)	A				72%	90%	75%	
	b) % of employers submitting electronic data	A				58%	70%	60%	
	Digital service delivery (Members) % of total members signed up to member self-service (MSS)	G						14%	12,238 members signed up
	Annual Benefit Statements issued by 31 August deadline	G				99.7%	100%	100%	All with complete data set issued by 31 Aug deadline
	% Sickness absence:								
	a) Short term								
	b) Long term								
10	Temp staff levels (% of workforce)								
11	Customer service satisfaction (retirees)	G					65%	83%	New online survey – level of satisfaction with APF service
12	Communications:								
	a) Member newsletters issued	G				2	2	1	Newsletter issued with ABS in Aug
	b) Employer newsletter /bulletins	G				4	4	2	2 newsletter bulletins issued
	c) Member website sessions	G	G	G	G	51,511 (4292 p/m)	4,000	16,646	5548 per calendar month for reporting period

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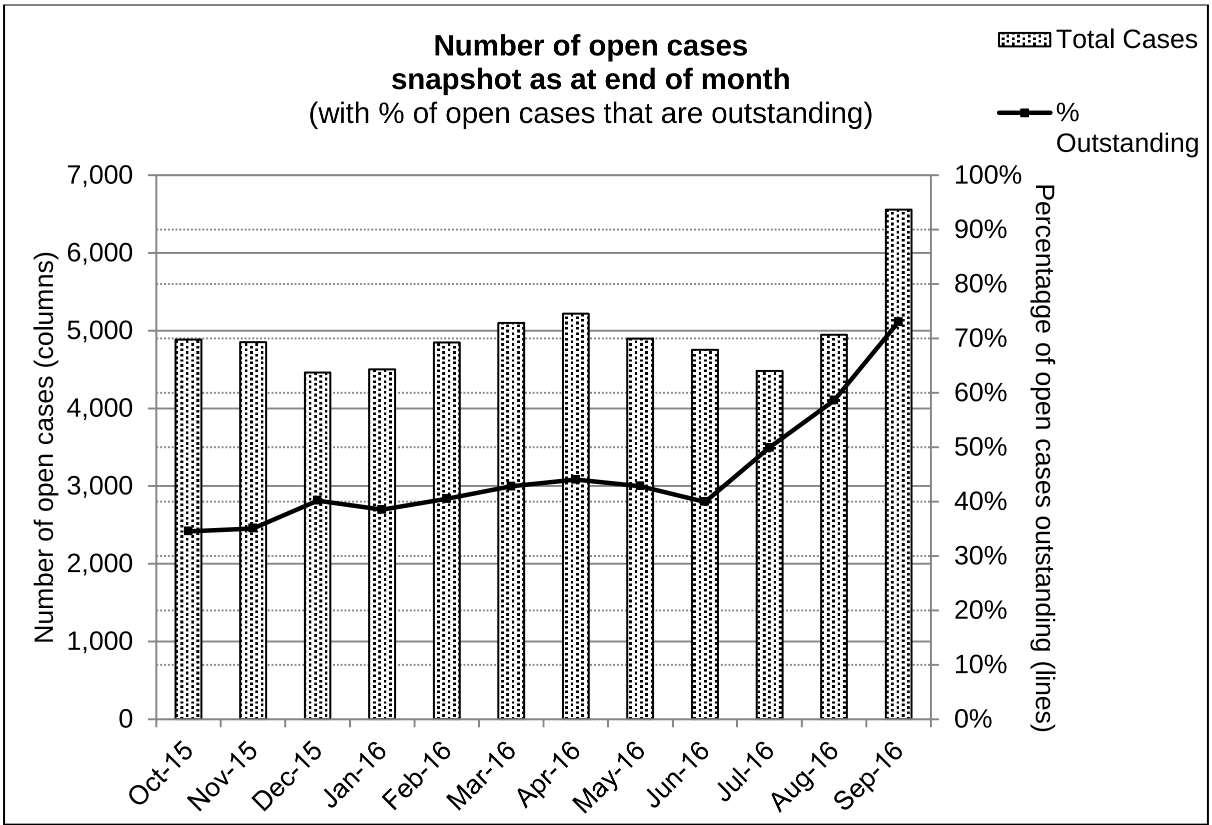
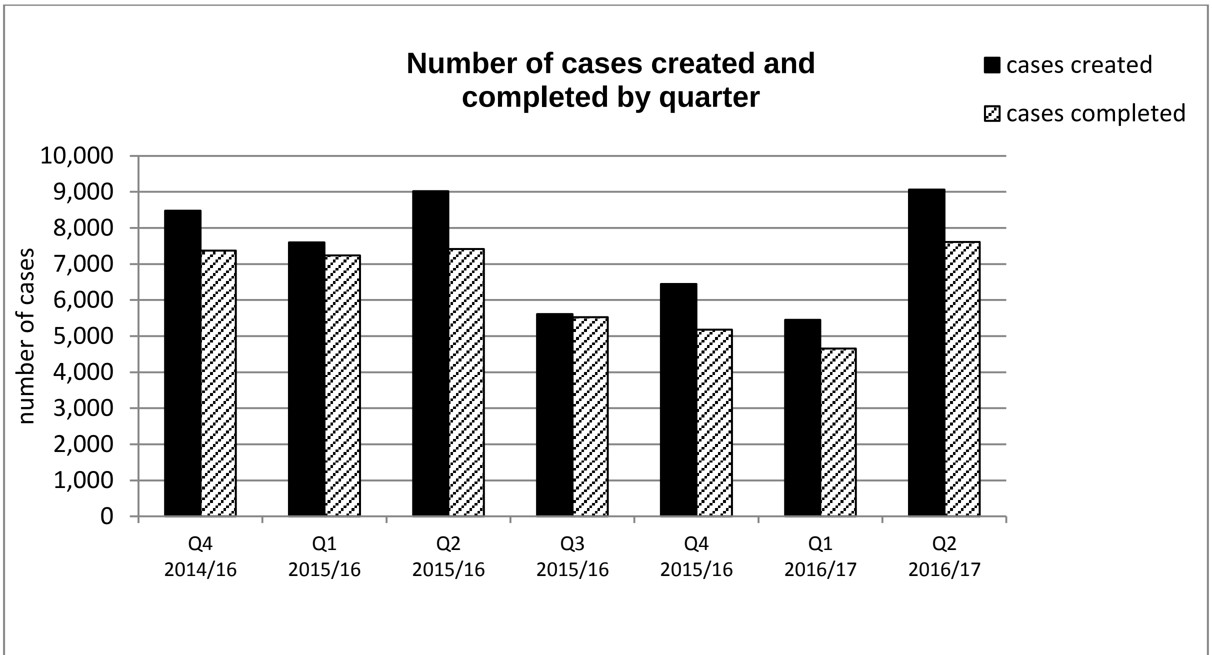
Case Workload Appendix 5A

Annex 1



Annex 2



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AVON PENSION FUND: IDRP STAGES 1 and 2

		Current Cases							
Stage	Reason	IDRP Form Received	Stage 1 by	Date For Review Completion	Delay letter Sent	Review Completed	Not Upheld [NU] Upheld and referred back[URB]	By	Last Date for Next Stage Appeal
1	Not allowing pension to be delayed	17/02/2016	APF	17/04/2016	15/04/2016	28/04/2016	NU	Technical Manager [Pensions]	28/10/2016 appeal received 7/11/2016
2	Ill Health Retirement Tier level 2nd IDRP	18/03/2016	Employer	17/05/2016	22/05/2016	26/09/2016	URB	Council's Principal Solicitor and Monitoring Office	Referred back to N Somerset TPO now awaiting NSom decision
2	Ill health decision	14/10/2016	Employer	13/12/2016				Technical Manager [Pensions]	
2	Compensation for potential loss following misinformation	07/11/2016	APF	06/01/2017				Council's Principal Solicitor and Monitoring Office	
1	Transfer procedures	14/11/2016	APF	13/01/2017					

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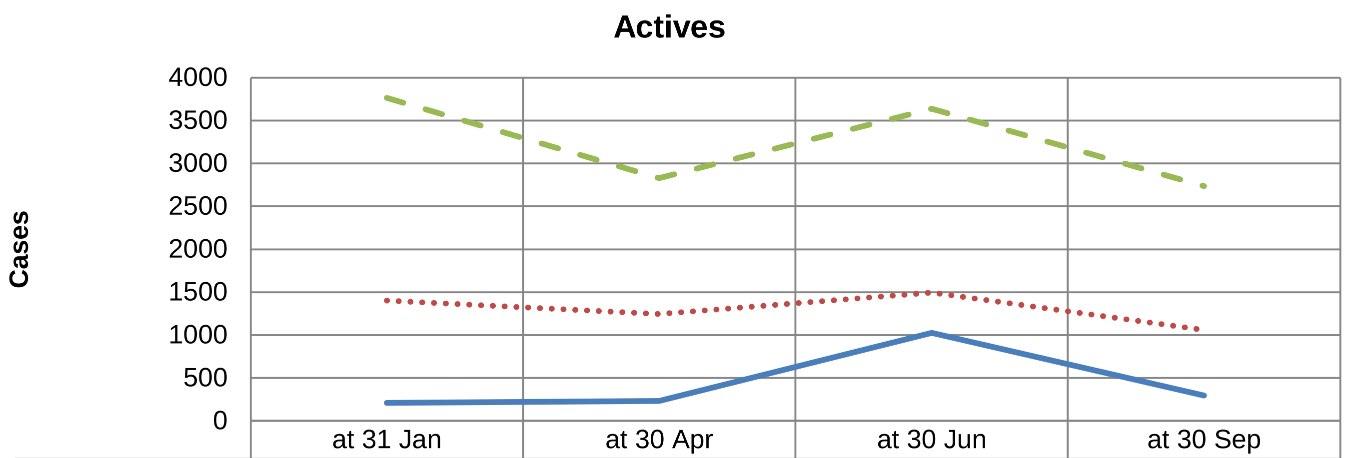
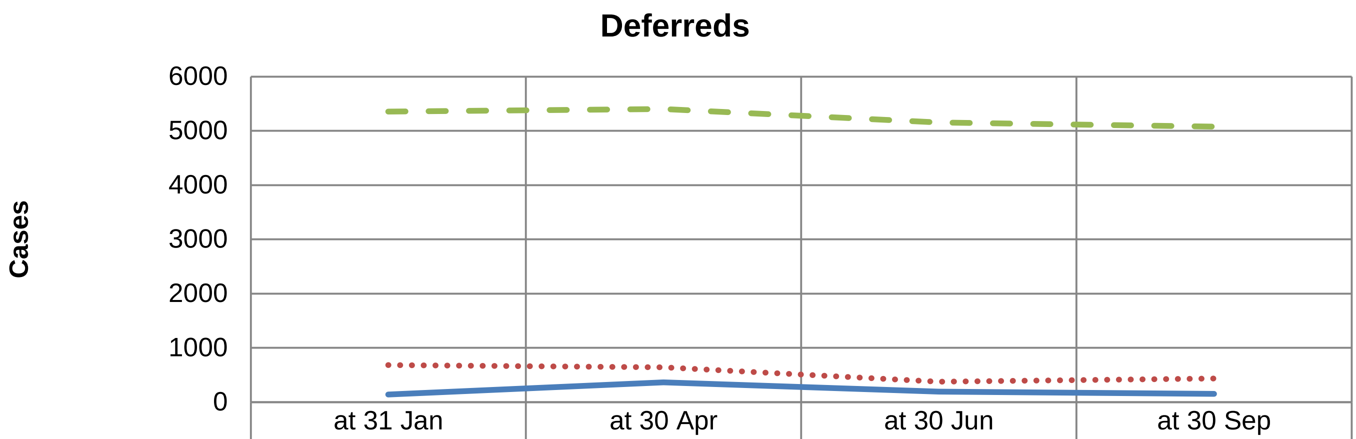
Annex 1 – Data

Data type	Cases brought forward	New cases	Completed	Outstanding	Completeness as % of membership
ACTIVES					
37,350					
Addresses	405	70	91	384	98.97%
Forename	2	1	3	0	100.00%
Surname	0	0	0	0	100%
Date of birth	4	3	6	1	99.99%
NI number	54	5	6	53	99.86%
Title	0	14	1	13	99.97%
Sex mismatch	30	5	23	12	99.97%
Format of hours	15	39	34	20	99.95%
Date joined Fund missing	0	0	0	0	100%
Payroll ref missing	38	18	31	25	99.93%
Casual hours missing	451	2	44	409	98.90%
Leaver forms missing	746	139	195	690	98.15%
Starters missing	399	0	329	70	99.81%
Total	**2,144**	**296**	**763**	**1,677**	**99.63%**
DEFERREDS					
41,328					
Addresses	4,006	150	192	3,964	90.41%
Forename	8	0	7	1	99.99%
Surname	0	0	0	0	100%
Date of birth	2	0	0	2	99.99%
NI number	3	1	3	1	99.99%
Title	0	0	0	0	100%
Sex mismatch	0	0	0	0	100%
Format of hours	0	0	0	0	100%
Date joined Fund missing	0	0	0	0	100%
Historic refunds	758	0	84	674	98.37%
Total	**4,777**	**151**	**286**	**4,642**	**98.88%**
PENSIONERS					
24,957					
Addresses	167	4	76	95	99.62%
Forename	2	0	2	0	100.00%
Surname	0	0	0	0	100%
Date of birth	0	0	0	0	100%
NI number	1	0	0	1	99.99%
Title	0	0	0	0	100%
Sex mismatch	0	0	0	0	100%
Total	**170**	**4**	**78**	**96**	**99.94%**
DEPENDANTS					
3,801					
Addresses	40	1	40	1	99.99%
Forename	0	1	1	0	100%
Surname	0	0	0	0	100%
Date of birth	0	0	0	0	100%
NI number	26	19	35	10	99.74%
Title	0	2	2	0	100%
Sex mismatch	0	0	0	0	100%
Total	**66**	**23**	**78**	**11**	**99.96%**

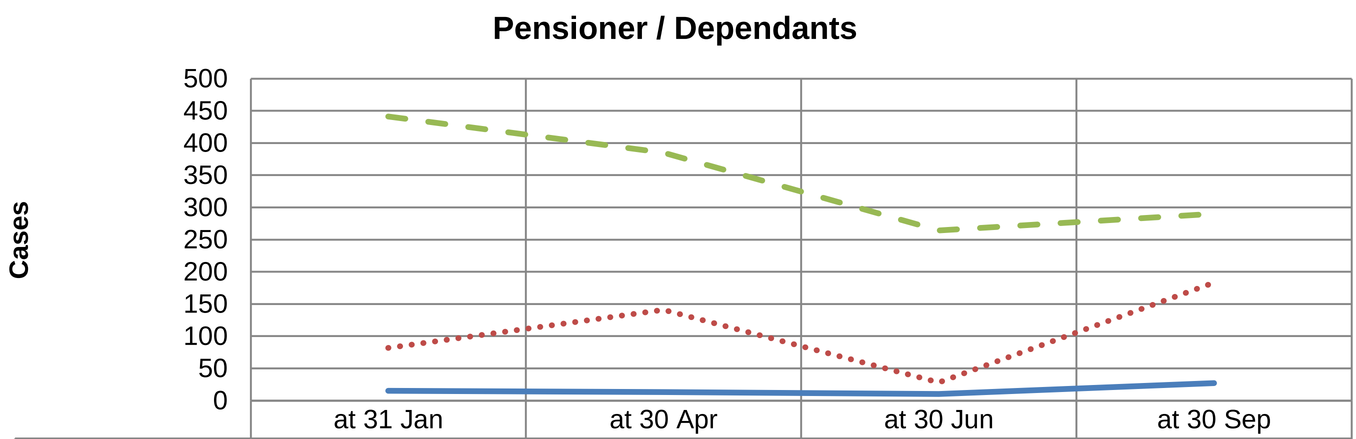
Annex 2 - Quarterly performance charts



	at 31 Jan	at 30 Apr	at 30 Jun	at 30 Sep
Outstanding	2,365	1,584	2,144	1,677
Completed	1,192	1,014	467	763
New cases	209	233	1,027	296



	at 31 Jan	at 30 Apr	at 30 Jun	at 30 Sep
Outstanding	4,673	4,762	4,777	4,642
Completed	547	276	181	286
New cases	138	365	196	151



	at 31 Jan	at 30 Apr	at 30 Jun	at 30 Sep
Outstanding	359	244	236	107
Completed	67	128	18	156
New cases	15	13	10	27

Bath & North East Somerset Council FUND RISK REGISTER - OCTOBER 2016 - QUARTER 2 - 2016/17 **(APPENDIX 8)**

HIGH LEVEL DASHBOARD

Nr	TOP PENSION FUND RISKS - SUMMARY	RISK OWNER	Likelihood 1	Likelihood 2	Likelihood 3	Likelihood 4	Likelihood 5	Impact 1	Impact 2	Impact 3	Impact 4	Impact 5	CURRENT OVERALL STATUS	PERIODS AGO 1	PERIODS AGO 2	PERIODS AGO 3	COMMENTARY ON CURRENT STATUS	KEY UPDATES OR CHANGES TO ACTIONS DURING PERIOD	Re-affirm view on level of risk and current action status and overall status Level of Risk - 1 - Very Low 5 to 5 - Ciritical affecting servcies directly; Action Status - 1 - All on track no delays to 5 No plans or mostly off-track; Overall Status post actions High - Remains as a significant impact on Council to Low being managed and minimal impact
1	**Project Brunel (Pooling) - Failure to deliver on the government's intended plans to pool Pension Fund Investments from different schemes and deliver potential additional efficiencies**	**Pensions Intestments Manager**											**HIGH**	H	H		Established shadow governance structure to ensure the project is effectively managed. There is a shadow Oversight Board comprising of chairs of committees; the shadow Operations Group comprises investment Managers/Heads of pensions. S151 officers are working collectively on the project.	Expert advice has been commissioned to advise on the legal structure required, FCA authorisation and related issues. Advice will be commissioned as required. A project manager has been appointed to co-oprdinate and control the workplan. SOB representatives to engage with local committees to get buy in. Workstreams within workplan enable work to be shared accross funds in line with resource capacity. APF has backfilled the Investment team to provide cover for Ivestments Manager.	
2	**Academies - Failure of the Pension Fund to be in a position to respond appropriately to the potential large increase in new employers from the government's Academies agenda**	**Pensions Admin Manager**											**HIGH**	H			Additional governance and administration risk if all schools convert to academies. Employer base would like increase from circa 250 to +500. Regular communication with UA's to determine volumetrics and timeframe. APF attend periodic education/school forums.	Review of Admin structure undertaken with creation of dedicated Employer Services section. Expected effective from January 2017.	
3	**Employers - Failure of the Pension Fund to ensure employers deal with their obligations to the fund, i.e. paying correct contributions, their skills and competencies and overall solvency**	**Pensions Admin Manager**											**MEDIUM**	M	M	M	Pensions Admin Strategy revised in 2015 to ensure the Governance and administration requirements of TPR are propoerly addressed as they fall to the Fund and Employers. Key objectives/strategies set (Communications, Training, ICT & Performance Framework) Agreed SLA's in place. TPR Compliance review undertaken - April 2016	Task workflow and reporting project due completion in November 2016. MSS 2 development in progress.	
4	**Investment - Failure of the Pension Fund to ensure that investments achieve expected returns - resulting in potential contribution increases**	**Pensions Intestments Manager**											**MEDIUM**	M	M	M	The Fund periodically undertakes an asset liability study which determines the appropriate risk adjusted return investment strategy required to meet the liabilities. The investment strategy is reviewed annually by the committee to ensure it remains appropriate. Strategic issues or tactical opportunities are considered at quarterly meetings of Panel and /or Committee.		
5	**Liabilities - Failure of the Pension Fund to ensure that the GMP reconcilation exercise does not lead to liabilities between the Pension Fund and HMRC**	**Tech & Compliance Manager**											**MEDIUM**	M	M	M	Time frame for exercise (Oct 2014 to December 2018) Project has been set up and 1.5 FTE temp. resource identified/appointed. Initial work on data matching (LGPS/HMRC) undertaken.	Review scope of project. Need to agree policies for tolerances with Committee	
6	**Staff - Failure of the Pension Fund to ensure it has adequate resources and staff with the requisite skills and competencies to administer the Fund**	**All Managers**											**MEDIUM**	M	M	M	Officers are trained and updated in key areas. Attendance at relevant national courses and internal training with peers. Sucession planning to build resilance and minimise risk of losing skilled/specialist staff. Introduction of Apprentice programme from April 2017.	Introduction of skills & knowledge training plan following Admin restructure (Jan 2017)	
7	**Brexit - May have both negative implications for the investment strategy and expected returns/risk levels. Short term impact is mainly via depreciation of sterling. Medium/longer term impacts may be from inflation and interest rates as well as regulatory changes.**	**Pensions Intestments Manager**											**LOW**				New Risk (August 16) The impact will be assessed at quarterly Panel and Committee meetings when strategy is monitored.	Strategic investment review in 2017 will reset investment expectations and evaluate investment opportunities having assessed the impact of Brexit on investment markets and liabilities.	
8	**Fraud - Failure of the Pension Fund to ensure all aspects of its governance and internal control framework can prevent or mitigate losses through Fraud and poor control**	**Pensions Admin Manager**											**MEDIUM**	M	M	M	APF has introduced TPR control framework and data improvement plan. Data is reported quarterly to both Pensions Committee and LPB. National TPR compliance review undertaken in April 2016 with RAG indicator.	Governance Audit planned for November 2016.	
9	**Data Protection - Failure to secure and manage personal data held by the Pension Fund in an appropriate manner and in line with statutory responsibilties**	**Pensions Admin Manager**											**LOW**	L	L	L	All staff undertake to share personal data with 3rd parties through controlled framework in compliance with B&NES DP policies. Awareness of potential risk in not doing so.	Further staff training to be implemented following recent DP breach (non-material significant).	
10	**System Failure - Failure of the Pension Fund to ensure that it has adequate and robust systems to ensure Pensions are administered and paid in accordance with its obligations and statute**	**Finance Systems Manager**											**LOW**	L	L	L	Policies in place: (i) SLA with B&NES IT for corporate systems (ii) SLA with Heywood for pensions system (iii) APF DR policy (iv) B&NES BCP (v) Daily system backup.	Exploring possibility of hosted service with software provider	

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**9 December 2016**	**AGENDA ITEM NUMBER** **12**
TITLE:	**LGPS: Regulatory update**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – List of current developments affecting or expected to affect Scheme Administration Appendix 2 – Exit Payments – Current Position Nov 2016		

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 any proposed regulatory matters that could affect scheme administration. This includes any responses to consultations that have been made.

1.2 It also updates the position on HM Treasury position on the three consultations on Exit Payments within the public sector.

1.3 Appendix 1 sets out a list of current areas that are or will potentially affect administration as reported to the Pension Board

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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 current position regarding HM Treasury consultations and pending commencement dates

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

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4.1 Following the consultation on the draft for these amendments as reported at the previous committee the actual regulations were expected by the end of December 2016. As a result of comments made on the consultation there is concern as to whether the regulations relating to "Fair Deal" are adequate and it is expected that this part will be separated pending further discussions.

4.2 . There are some lesser concerns relating to the Freedom and Choice changes for Additional Voluntary Contribution contracts and further discussion are to be held in early 2017 with the amendment regulations released by end of March 2017. A major concern in this area is the almost complete lack of resources now available within DCLG.

5 Treasury Consultations on Exit Payments

5.1 As reported in September, the introduction of these provisions has been delayed

5.2 The current situation is as follows:

1) Recovery Regulations are expected to be laid before Parliament by the end of December 2016, and if that happens, the effective date is expected to be in early 2017.

2) Exit pay cap: current understanding is that the Government intend to undertake another consultation governing the exit payment cap and this will be released in early 2017. The cap will come into force soon after the consultation but it is unlikely to be before March/April 2017 as the regulations must be passed by both Houses of Parliament. The current understanding is that the Government do not intend to backdate the implementation date [i.e. they will apply from a future date onwards.]

3) The third consultation aimed at making "public sector exit compensation terms 'fairer, more modern and more consistent'" ended in February 2016 and the Government responded at the end of September 2016. Although it plans to continue to proceed with these reforms, individual department have been asked to put forward proposals for reforms that fit within certain public sector-wide guidelines.

5.3 The Scheme Advisory Board sub-committee has set up a working group in connection with this which met on 28th November 2016. Whilst discussing this it became a concern that there could be many different options available which could prove difficult to communicate to members. There was also concern expressed as to the limits set out and what had already been breached by one of the other public sector bodies. LGA to clarify this point with HM Treasury and get back to Group

A more detailed account on exit payments is attached as Appendix 2.

6 RISK MANAGEMENT

6.1 No specific issues to consider.

7 EQUALITIES

7.1 None as this 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	Alan South Technical Manager (Tel: 01225 395283) *[Geoff Cleak Pension manager 01225 395277]*
Background papers	*Regulations and accompanying notes;* *DCLG Consultation May 2016* *LGPS Regulations 2013* *Exit Payment Consultations*
Please contact the report author if you need to access this report in an alternative format	

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List of current developments affecting or expected to affect Scheme Administration NOV 2016

Body Involved	Subject	Description	Current Position	Follow up
H M Treasury	Consultations on a Public Sector Exit Payments Cap	Recovery of exit payment if member is re-employed within public sector within 1 year where earning on leaving exceeded £80,000 To set out maximum cap for the total cost of all forms of exit payments available to individuals leaving employment at £95,000. Comment requested on suggested possible changes to 3rd consultation has just had responses from Government to comments on consultation	Originally to be operational from 1 4 2016 but regulations not in place so date delayed Current Position : 1) Recovery Regulations: to be laid before Parliament before the New Year, so the effective date should be early 2017. 2) Exit pay cap: new draft regulations and guidance is expected by the new year for a 4 to 6 week consultation., so probably looking at spring next year for the effective date, provided that timetable holds. 3) Government intends to proceed with planned proposals and has asked for Government Departments to submit their intended proposals that fit with the guidelines set out for public sector. Proposals by 26 December 2016 with necessary amendments made within nine months [26 June 2016	Scheme Advisory Board sub-committee have set up working party to comment on Government response Clarification being sought from HM Treasury
DCLG	Amendment regulations	Changing anomalies from scheme Changing the way service is aggregated between LGPS Employers	Some concern over whether Fair Deal regulations are adequate as a result these could be separated from other changes. Freedom and Choice arrangements for AVC contracts need some work to them so not expecting amendment regulations before April 2017 Another problem is the almost total lack of resource currently at DCLG	
	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		

List of current developments affecting or expected to affect Scheme Administration NOV 2016

DCLG	Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.. Operational From 1 November 2016 http://www.legislation.gov.uk/uksi/2016/946/contents/made	New prudential framework for investment strategy	Regulations effective 1 November 2016 Required to publish Investment Strategy Statement (replaces Statement of Investment Principles) by 1 April 2017		Issue ISS by 1 April 2017
DCLG	Local Government Pension Scheme: Investment Reform Criteria and Guidance	Guidance on Pooling investments: this provided the criteria to LGPS funds on the government's expectations for pooling assets. There was no formal consultation by government.	Avon one of 10 funds submitted proposal as part of Brunel Pension Partnership (BPP) Full Business Case being considered by authorities (Nov 2106- Feb 2017) Committee being briefed regularly on developments		Shadow Oversight Board, comprising the Chairs of local committees, established to provide oversight to the project
HM Treasury/ DCLG	Local Democracy, Economic Development and Construction Act 2009, amended by the Cities and Local Government Devolution Act 2016.	Setting up of Mayoral Combined Authority [B&NES/Bristol CC and S Gloucestershire] Effect of Legislation on LGPS pensions and Avon Pension Fund	Subject to Parliament approval Proposed operation 1 April 2017	Employees within this Authority are eligible for LGPS membership just as if a local authority	

Exit payment reforms

Key points to note

- The Government is in the process of introducing a series of reforms to the exit payments payable to an individual where they exit a public sector employment.
- Such reforms will apply to employers listed as public sector by The Office for National Statistics
- These reforms are intended to achieve better value for the public purse and to increase consistency in treatment across the different parts of the public sector.
- The reforms will have impacts on the LGPS, particularly where a member is 55 or over and is made redundant. Currently such members would become entitled to the immediate payment of their full retirement pension and this would usually involve the payment of a strain cost by their employer.
- The implementation timescales for the reforms have been subject to change in recent months, but currently the secretariat expect that the reforms will become effective in stages in the first half of 2017. Further detail is outlined in the body of the report.

Summary

- Under **exit payment recovery**, where an individual with a salary of more than £80,000 leaves a public sector employment and re-joins the public sector within 12 months, they may be required to pay back some or all of the exit payments they received from their former employer.
- Under the **exit payment cap**, where an individual leaves a public sector employment, the total exit payments that their employer can make in respect of that exit will be capped at £95k. This cap includes the strain cost payable in respect of an LGPS pension coming into payment early.
- The Government consulted earlier this year on making **further reforms** to how public sector exit payments are calculated. The Government responded to its consultation in September 2016 and that response sets out certain guidelines within which it expects individual departments to make reforms. Departments have until the end of December 2016 to make initial proposals for reform and then must implement the changes by the end of June 2017.

Exit payment recovery

1. The primary legislation that provides for the introduction of exit payment recovery is contained in the Small Business, Enterprise and Employment Act 2015.

2. Under exit payment recovery, where an individual with a salary of more than £80,000 leaves a public sector employment and re-joins the public sector within 12 months, they may be required to pay back some or all of the exit payments paid in respect of that exit by their former employer.

3. Any LGPS strain cost paid by the individual’s former employer in respect of the cost of putting a redundancy pension into payment will count toward the total amount that the individual has to pay back to their employer.

4. Under draft regulations the Government consulted on earlier this year, the repayment amount will be calculated by reference to the individual’s salary at leaving their prior employment, tapered by the gap between the two public sector employments (see the example below).

5. The regulations that would bring exit payment recovery into effect are affirmative and must therefore be passed by resolutions of both Houses of Parliament in order to come into force. The secretariat understand that the Government hope that the regulations will pass through Parliament before the end of the year in order to become effective early in 2017.

6. We also understand that the Government do not plan for the recovery regulations to apply retrospectively – i.e. the regulations will only apply for exits happening from a specified future date onwards.

<u>Example</u>
A 56 year old individual working full time with an annual salary of £85,000 is made redundant from public sector employer A. After the deduction of the income tax and NICs paid by the individual over the final year of their employment, their pay is £56,626.

The member receives a £25,000 redundancy payment from their employer and the employer pays a £70,000 strain cost to the member’s LGPS pension fund in respect of the cost of putting the member’ pension into payment early. The member’s exit payments total £95,000.

150 days later, the individual returns to full time employment with public sector employer B. As 150 days have passed since the member left their prior employment, the amount they must pay back to their employer is calculate as follows:

A – total exit payments
B – member’s actual final pay after income tax and NIC deductions
C – days between leaving former employer and joining new employer
D – 365
E – total amount to be recovered

A – (B x (C / D) = **E**

£95,000 – (£56,626 x (150/365)) = **£71,729.04**

Exit payment cap

7. The primary legislation that provides for the introduction of an exit payment cap is contained in the Enterprise Act 2016.

8. Under the exit payment cap, where an individual leaves a public sector employment, the total exit payments that their employer can make in respect of that exit will be capped at £95k.

9. The exit payments that count towards the cap will include the strain cost payable in respect of an LGPS pension coming into payment early - for instance, where a scheme member aged 55 or over is made redundant and has an entitlement to the immediate payment of an unreduced pension.

10. To achieve the effective introduction of the cap, amendments to the LGPS Regulations 2013 are required. Schedule 6 of the Enterprise Act 2016 includes a number of proposed amendments which will become effective when the cap comes into force.

11. After the introduction of the cap, where the payment of an LGPS strain payment would cause the cap to be breached, the amount that the employer will be able to pay to the pension fund will be limited. In such cases, the individual's retirement pension would by default be put into payment at a reduced rate to reflect the reduced amount that their employer has paid to the pension fund.

12. However, the expected changes to the LGPS Regulations 2013 will allow members the option to make up the gap in the strain cost where the £95k cap would mean that the individual's employer would be unable to fund the cost entirely themselves.

13. Additionally, an individual will be able to ask their employer to prioritise the payment of a certain type of 'exit payment' if they, for example, would prefer to receive payment of an unreduced pension instead of their full redundancy payment (see the example below).

14. However the envisaged changes would not allow for a member aged 55 or over to opt to defer their pension and take the full amount exit payment as cash.

15. Under the Act, HM Treasury have the power to make regulations to increase the cap from the current level in the future.

16. The secretariat understand that the Government intend to undertake another consultation on the regulations that will govern the exit payment cap and that this is planned to take place in early 2017. It is understood that the cap will come into force soon after this period of consultation.

17. The regulations that would bring the exit payment cap into effect are subject to the affirmative resolution procedure and must therefore be passed by resolutions of both Houses of Parliament in order to come into force. We understand that the Government do not plan for the cap regulations to apply retrospectively – i.e. the regulations will only apply for exits happening from a specified future date onwards.

<u>Example</u>
A 58 year old employee of a district council is informed that they are to be made redundant from their post. The individual's redundancy payment will total £35,000 (including a statutory redundancy component of £14,370) and the LGPS pension fund has informed the employer that the strain cost that would be payable to fund the payment of the individual's full retirement pension totals £85,000.

Overall, the employee's exit payments would come to £120,000, exceeding the cap by £25,000. The individual does not plan on going back to work and wants to maximise the total retirement pension they receive. They ask their employer to reduce their redundancy payment in order that their employer can put more money towards the LGPS strain cost.

The statutory component cannot be foregone so the individual must still be paid their £14,370 statutory redundancy payment. After accounting for this, the amount available to the employer to fund the individual's pension within the cap is £80,630 (£95,000 - £14,370).

As this is less than the total amount needed to fund the individual's strain cost (£85,000), the individual is given the opportunity to pay the remaining £4,370 directly to the pension fund in order to avoid having their retirement pension reduced. If they choose not to, the pension they receive will be put into payment with actuarial reductions applied.

Further reforms to the calculation of exit payments

18. In February 2016, the Government consulted on further proposals to reform exit payments across the public sector with the stated aim of making public sector exit compensation terms 'fairer, more modern and more consistent'.

19. In September 2016, the Government responded to the consultation to announce that it planned to proceed with the reforms and would ask individual departments to come forward with proposals for reforms that fit within certain public sector-wide guidelines.

20. Specifically, individual departments have been asked to ensure their proposals fall within the following criteria:
    a. a maximum tariff for calculating exit payments of three weeks' pay per year of service. Employers could apply tariff rates below these limits
    b. a ceiling of 15 months on the maximum number of months' salary that can be paid as a redundancy payment.
    c. a maximum salary on which an exit payment can be based. As a starting point the government will expect this to align with the existing NHS scheme salary limit of £80,000.
    d. a taper on the amount of lump sum compensation an individual is entitled to receive as they get closer to their normal pension age
    e. action to limit or end employer-funded early access to pension within exit packages.

21. The government will consider the case for transitional protection for those with exits formally agreed on terms that applied before new workforce exit compensation arrangements come into effect.
22. In the September 2016 consultation response the Government confirmed that they expects departments to produce packages consistent with the framework above and consult on these where appropriate.

23. The government will expect departments to produce proposals within three months of the publication of the response (i.e. by 26 December 2016) and to have completed negotiations and made the necessary amendments to exit arrangements within nine months of the publication of the government

response (i.e. by 26 June 2017). Given that compensation arrangements and employer-funded early access to pension are both contained within statutory instruments for the LGPS this will be a challenging timetable.

Examples

Example 1 £25,000 10 years service					
Pre reform	Age	Redundancy	Deferred Pension	Immediate Pensions	Total Cost
	less than 55	£14,400	£4,300	£0	£14,400
	at age 55	£14,400		£4,300	£45,200
Post reform					
	less than 55	£14,400	£4,300	£0	£14,400
	at age 55	£14,400		£2,500	£14,400
	or	£0		£3,500	£14,400
	or	£14,000	£4,300		£14,400
Example 2 £100,000 30 years service					
Pre reform	Age	Redundancy	Deferred Pension	Immediate Pensions	Total Cost
	less than 55	£51,900	£42,300	£0	£51,900
	at age 55	£51,900		£42,300	£153,100
Post reform					
	less than 55	£62,500	£42,300	£0	£62,500
	at age 55	£62,500		£28,900	£62,500
	or	£0		£36,900	£62,500
	or	£62,500	£42,300		£62,500

The chart at the end of this paper provides some estimated figures demonstrating how exit packages would differ from current packages under the new framework. The chart contains examples for members of different age and service profiles. Cells highlighted yellow indicate where a CER payment alone would breach the £95k cap, those highlighted orange indicate where the CER plus the CRM breach £95k..

In the chart the following terms are used:

- Cost of Early Release (CER) – this refers to the LGPS strain payment payable by an employer under the current system where an individual aged 55 or over is made redundant. The estimates in the document are for a male aged 55 years old and have been supplied by an actuarial firm.
- Common Redundancy Maximum (CRM) – this refers to the redundancy payment paid by local government employers under the current system. In the document, the figures assume that the calculations are done on actual pay and use double the statutory minimum weeks.
- Proposed Maximum Payment (PMP) – this refers to our estimate of the maximum payment which employers will be allowed to make under the new system. Calculations of the figures are based on a maximum salary of £80,000, three weeks' pay per year of employment and a total limit set at 15 months' pay.

Devolved administrations

24. The reforms referred to in this document apply to public sector employers in England.

25. The Government have stated that it will be up to the devolved administrations in Wales, Scotland and Northern Ireland to determine if and how they want to take forward similar arrangements in relation to workforces in their jurisdictions.

26. Nevertheless, as the LGPS in England and Wales is one pension scheme with one set of regulations, the implementation of the changes referred to in this document may mean that some Welsh employers will be impacted by the reforms as a consequence of changes to the scheme's governing regulations.

Matters for consideration

27. Under the cap proposals members aged 55 and over would not have the choice to defer their pension while taking a maximum cash exit payment. Should this flexibility be available under a further reformed arrangement?

28. The further reform proposals ask for either cash or strain cost to be available to the member (limited to the amount of the redundancy payment). In the majority of cases a member who gives up the cash in lieu of strain will still suffer a reduction in pension. Should this be addressed by seeking to increase redundancy payments for all members or by requesting an ability for employers to pay a 'top up' strain cost up to the £95k cap?

29. Should the members ability to meet the strain cost themselves be extended beyond redundancy to all those who choose to take their pension from aged 55 onwards?

November 2016

Comparing Cost of Early Release (CER) with Common Redundancy Maximum (CRM) and Proposed Maximum Payment (PMP)

	CER	CRM	PMP	CER	CRM	PMP	CER	CRM	PMP	CER	CRM	PMP	CER	CRM	PMP
Pay	£10,000			£15,000			£20,000			£25,000			£30,000		
Service Yrs 2	£2,864	£1,154	£1,154	£4,295	£1,731	£1,731	£5,727	£2,308	£2,308	£7,159	£2,885	£2,885	£8,591	£3,462	£3,462
5	£6,334	£2,885	£2,885	£9,501	£4,327	£4,327	£12,668	£5,769	£5,769	£15,835	£7,212	£7,212	£19,002	£8,654	£8,654
10	£11,235	£5,769	£5,769	£16,852	£8,654	£8,654	£22,470	£11,538	£11,538	£28,087	£14,423	£14,423	£33,704	£17,308	£17,308
15	£14,561	£8,462	£8,654	£21,841	£12,692	£12,981	£29,122	£16,923	£17,308	£36,402	£21,154	£21,635	£43,682	£25,385	£25,962
20	£15,563	£10,385	£11,538	£23,344	£15,577	£17,308	£31,126	£20,769	£23,077	£38,907	£25,962	£28,846	£46,688	£31,154	£34,615
25	£17,904	£10,385	£12,500	£26,857	£15,577	£18,750	£35,809	£20,769	£25,000	£44,761	£25,962	£31,250	£53,713	£31,154	£37,500
30	£20,246	£10,385	£12,500	£30,369	£15,577	£18,750	£40,492	£20,769	£25,000	£50,615	£25,962	£31,250	£60,738	£31,154	£37,500
35	£22,588	£10,385	£12,500	£33,881	£15,577	£18,750	£45,175	£20,769	£25,000	£56,469	£25,962	£31,250	£67,763	£31,154	£37,500

	CER	CRM	PMP	CER	CRM	PMP	CER	CRM	PMP	CER	CRM	PMP	CER	CRM	PMP
Service Yrs / Pay	£35,000			£50,000			£75,000			£100,000			£150,000		
2	£11,454	£4,038	£4,038	£14,318	£5,769	£5,769	£21,477	£8,654	£8,654	£28,636	£11,538	£9,231	£42,954	£17,308	£9,231
5	£25,336	£10,096	£10,096	£31,670	£14,423	£14,423	£47,505	£21,635	£21,635	£63,340	£28,846	£23,077	£95,010	£43,269	£23,077
10	£44,939	£20,192	£20,192	£56,174	£28,846	£28,846	£84,261	£43,269	£43,269	£112,348	£57,692	£46,154	£168,521	£86,538	£46,154
15	£58,243	£29,615	£30,288	£72,804	£42,308	£43,269	£109,206	£63,462	£64,904	£145,608	£84,615	£69,231	£218,412	£126,923	£69,231
20	£62,251	£36,346	£40,385	£77,814	£51,923	£57,692	£116,721	£77,885	£86,538	£155,628	£103,846	£92,308	£233,442	£155,769	£92,308
25	£71,618	£36,346	£43,750	£89,522	£51,923	£62,500	£134,283	£77,885	£93,750	£179,044	£103,846	£95,000	£268,566	£155,769	£95,000
30	£80,984	£36,346	£43,750	£101,230	£51,923	£62,500	£151,845	£77,885	£93,750	£202,460	£103,846	£95,000	£303,690	£155,769	£95,000
35	£90,350	£36,346	£43,750	£112,938	£51,923	£62,500	£169,407	£77,885	£93,750	£225,876	£103,846	£95,000	£338,814	£155,769	£95,000

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**9 December 2016**
TITLE:	**WORKPLANS**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Investments Workplan to December 2017** **Appendix 2 – Pensions Benefits Workplan to March 2017** **Appendix 3 – Committee Workplan to June 2017** **Appendix 4 – Investments Panel Workplan to December 2017** **Appendix 5 – Training Programme 2017 - 2018**	

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 to late 2017 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 2017-18 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. A number of workshops will need to be arranged for 2017.

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

4.3 The provisional training programme for 2017-18 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.

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.

<table>
<tr><td>Contact person</td><td>Liz Woodyard, Investments Manager; 01225 395306
Geoff Cleak, Pensions Manager, 01225 395277</td></tr>
<tr><td>Background papers</td><td>None</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>

Appendix 1

INVESTMENTS TEAM WORKPLAN TO DECEMBER 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. • LDI Implementation • RI Policy Review • Strategic review (post valuation) • Investment strategy for CB funded bodies	 In progress Completed Start 1Q17 Start 2Q17
Pooling of investments	Participate in Brunel Pension Partnership Full business case, implementation and transition from 3Q16 onwards Review governance arrangements to cover pooling Review team resource and structure as a result of pooling	On-going 1&2Q17 From 1H17
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	2Q17
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	4Q17
Ill health insurance options	Investigate options for insuring ill-health pension costs for smaller employers	In progress for March 2017 committee
Pensions Board	Training plan	Ongoing
Document Management System	Create structure for document management system ready for using Council solution or alternative provider	Delayed
2016 Actuarial	As at 31 March 2016	

Valuation	Funding Strategy Statement consultation Valuation Results to employers	Completed In progress
Statement of Investment Principles / Investment Strategy Statement	Revise following any change in Fund strategy/policies. Publish new Investment Strategy Statement by 1 April 2017	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 March 2017

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) ** {on hold pending review] Onboarding North Somerset Onboarding B&NES	Due 2016/2017 TBC Dec/March 2017 Dec/March 2017
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 17/18
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 Mar 2017
2015/16 Year End Process	Ensure complete data receipt from employers and carry out reconciliation process. Issue member ABS prior to 01/09/2016	Completed
Review Workflow & Data Processing	Implement new Task Workflow Arrangements . (Phase 1 leaver process/Phase 2 trans process). (Phase 3) – Divorce & Death) (Phase 4) – member estimates (link to MSS 2 project plan) Introducing new software – Process Automation	Completed Due Nov 2016 Due April 2017 Due 2017/18

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Appendix 3

Committee Workplan to March 2017

MARCH 2017
Review of Investment Performance for Quarter Ending 31 December 2016
Pension Fund Administration – Budget Monitoring 2016/17, Performance Indicators for Quarter Ending 31 December 2016 and Risk Register Action Plan
Approve Investment Strategy Statement
Budget and Service Plan 2017/20
Audit Plan 2016/17
Budget & Cashflow Monitoring 2016/17
Report on Investment Panel Activity
2016 Actuarial Valuation outcome & scheme employer update
Review options for Ill health insurance for smaller employing bodies
Update on Legislation
Update on pooling – review Committee ToR
Workplans
Planned Workshops: Tba for Strategic Investment Review

JUNE 2017
Roles & Responsibilities of the Committee – reference only
Review of AVC arrangements
Pension Fund Administration – Performance Indicators for Year & Quarter Ending 31 March 2017 and Risk Register Action Plan – monitoring report
Budget & Cashflow Monitoring 2016/17 – outcome
Strategic Investment Review - outcomes
Annual Review of Investment Strategy & Performance – monitoring report
Report on Investment Panel Activity
Approval of draft Accounts 2016/17
Update on Legislation
Update on pooling
Workplans
Planned Workshops:

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Appendix 4

INVESTMENT PANEL WORKPLAN to May 2017

Panel meeting / workshop	Proposed agenda
Panel Meeting 22 February 2017	• Review managers performance to December 2016 • Responsible Investing – Outcomes from policy review • Pooling – potential implications for investment strategy
Panel Meeting 24 May 2017	• Review managers performance to March 2017 • Meet the Manager TBC
Panel Meeting 4 Sept 2017	• Review managers performance to June 2017

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Committee training programme 2017-18

	Topic	Content	Format	Timing
1	Governance	Overview of governance structure LGPS Scheme Advisory Board	Committee	June 2017 Committee meeting
2	Overview of Fund Strategies	Scheme outline and structure Administration Strategy Communications Strategy Risk Register	Committee	Committee papers
3	Actuarial Valuations	Valuation methodology 2018 interim valuation outcome LGPS Cost Cap Mechanism	Committee Workshop	Committee reports Interim valuation workshop 2Q18
4	Funding Strategy Statement, covenants, admission and exit policies	Funding Strategy Covenant assessment process Admission and exit policies and funding basis used	Committee	Committee reports Annual update on scheme employers
5	Investment strategy	Asset allocation & Investment strategy Statement Investment strategies e.g. active vs. passive Investment management structure Process for appointing managers Monitoring managers and performance measurement Fees	Committee Workshop	Strategic Investment Review 1H17
6	Managing liabilities	Implementation of LDI framework Review of Investment Strategy for Corporate Bond bodies	Investment Panel Investment Panel	Panel reports
7	Responsible Investment Policy	Policy principles Implementation	Committee	Annual RI report

Training Programme and the CIPFA Knowledge & Skills Framework (2017/18)

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 member training);
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
Actuarial valuation and practices	Actuarial Methods, Standards and Practices	Funding update reports quarterly to Committee 2018 interim valuation workshop

Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**9 December 2016**	**AGENDA ITEM NUMBER**
TITLE:	**LGPS Pooling of Investments – Review of Full Business Case**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Full Business Case for Avon Pension Fund Exempt Appendices 2 – 6 Detailed sections of Full Business Case Appendix 7 - Summary BPP Risk Register Exempt Appendix 8 – Detailed BPP Risk Register Exempt Appendix 9 – Financial model (circulated separately to papers)		

1 THE ISSUE

1.1 The Local Governments Pension Fund (Management and Investment of Funds) Regulations 2016 (the Regulations) effective 1 November 2016 require LGPS funds to pool their investment assets.

1.2 To meet this requirement the Avon Pension Fund is participating in Brunel Pension Partnership (BPP).

1.3 The Full Business Case (FBC) for BPP has now been finalised. It has been reviewed by the Chief Finance and Legal Officer Group and ratified by the Shadow Oversight Board.

1.4 The summary of the FBC can be found in Appendix 1. The detailed sections of the FBC can be found in Exempt Appendices 2-6. In addition the Summary and detailed risk register is included as appendices. The Financial model will be circulated separately to the papers.

1.5 Committee are asked to consider the FBC in respect of the Avon Pension Fund in order to recommend it to Council.

2 RECOMMENDATION

That the Avon Pension Fund Committee recommends the following to Council:

2.1 **In its capacity as the Administering Authority for the Avon Pension Fund, and having received and reviewed the Full Business Case relating to the proposed Brunel Pension Partnership, the Council hereby resolves to enter into investment pooling with respect to the Avon Pension Fund.**

Such resolution is made on and subject to the following terms and conditions:

1) That the Brunel Pension Partnership investment pool is developed, funded and implemented substantially in accordance with provisions in the Full Business Case and more particularly that:

- **A FCA regulated company to be named Brunel Pension Partnership Limited be established and operated substantially in accordance with provisions in the Full Business Case as to its ownership, structure, governance and services capability;**
- **A new supervisory body be established comprising the Council and all other Administering Authority participants in the Brunel Pension Partnership to act to ensure effective oversight of the Council's investment and participation in the Brunel Pension Partnership.**

2) The Avon Pension Fund Committee be authorised and granted delegated powers to undertake such tasks as it thinks appropriate to progress implementation of investment pooling, and to take such decisions and do all other things deemed necessary in order to promote the interests of the Council with respect to pooling, which without limitation shall include participation in the development of Terms of Reference and the role of the supervisory board and agreeing and authorising financial expenditure or investment that may be required consequential upon the Council's participation in the Brunel Pension Partnership.

3) That the Chief Finance Officer, Chief Legal Officer and Head of Business Finance and Pensions be authorised and granted delegated powers to undertake such tasks as it thinks appropriate to progress implementation of investment pooling, and to take such decisions and do all other things deemed necessary in order to support the Avon Pension Fund Committee with respect to pooling, which without limitation shall include agreeing and authorising documentation and contracts, and informing and advising the Committee on the continued viability and suitability of investment pooling in light of any developments, financial or otherwise, in the period up to the establishment of the Brunel Pension Partnership.

4) That subject to the above, all such matters be carried out with the aim of achieving a target date for investment pooling of 1 April 2018, and otherwise subject to such intermediate steps and timescales as may be considered appropriate and necessary by the Avon Pension Fund Committee.

3 FINANCIAL IMPLICATIONS

3.1 There is provision in the 2016-17 budget for the work to complete the FBC. Spending is in line with the budget. To date the full cost to APF has been £120k, in line with budgeted costs.

3.2 Included in the FBC are the development costs to establish the company, working capital and regulatory capital up to April 2018. APF share of these costs is £330k (including working and regulatory capital for Brunel company of £200k).

3.3 The Regulations state that all costs are to be met from the pension fund assets.

4 BACKGROUND

4.1 In the July 2015 budget statement the government announced that the LGPS funds were to put forward proposals to pool their assets in order to reduce investment costs and increase their capacity to invest in infrastructure.

4.2 The new Regulations require funds to set out in their Investment Strategy Statement their approach to pooling. In addition, the Regulations provide the Secretary of State with back-stop powers to intervene if they deem the fund has not complied with the Regulations and related guidance.

4.3 The Regulations are clear that responsibility for individual fund investment strategy remains with the individual Administering authorities; the FCA regulated company (Brunel company) set up by the pool will be responsible for implementing the asset allocation decisions.

4.4 In response to the government agenda BPP was set up to explore the options for pooling. BPP comprises of the following 10 funds: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset and Wiltshire with combined assets of c. £23bn at 31 March 2015.

4.5 The Committee has received regular updates on progress and reviewed the two proposals submitted by the 10 participating funds to the DCLG; the initial proposal in February 2016 and the outline business case in July 2016.

4.6 Since July a detailed FBC has been developed for approval by the administering authorities to establish Brunel company and the new governance arrangements for the pool.

5 FULL BUSINESS CASE – ASSURANCE PROCESS

5.1 The officer group has developed the FBC alongside a range of advisors specialising is specific aspects of the project as follows:

a) PWC – financial advice and assurance including the financial model

b) Osborne Clarke – legal advice and assurance

c) Bfinance – advised on investment fee savings and transition costs

d) Alpha Financial Markets Consulting – advised on financial market and FCA authorisation aspects

5.2 The FBC has been reviewed in detail by the Finance and Legal Assurance Group (FLAG) comprising the chief finance and legal officers of each authority. The role of this group is to ensure the FBC is robust and sustainable. FLAG agreed the final FBC on 8 November 2016.

5.3 The FBC was reviewed by the Shadow Oversight Board on 23 November 2016 and they agreed to recommend it to the 10 administering authorities. The SOB however remain concerned about the costs incurred to develop and implement the pooling arrangements and the taxation costs that will arise when transitioning the assets. They will continue to engage with government on these issues on behalf of the funds.

5.4 Internal approval process: the Committee is being asked to approve the FBC and make a recommendation to Council to establish Brunel company and associated governance arrangements including delegations. The Council is scheduled to consider the Committee's recommendation at its meeting on 14 February 2016.

5.5 Each of the 10 participating authorities in BPP is also in the process of obtaining approval from their Council or Board.

6 FULL BUSINESS CASE – KEY ASPECTS

6.1 Appendix 1 contains the FBC for Avon Pension Fund.

6.2 The FBC includes the following sections:

a) **The strategic case**: focuses on the legal requirements, the regulatory imperative for pooling, and how BPP meets the pooling criteria. This has been updated since the July submission to include revised cost and saving forecasts.

b) **The financial case**: drawn from the core financial model developed by PWC. It includes the development costs to establish the pool, regulatory capital and operating costs of Brunel company, costs of transitioning the assets, operational savings at each fund and fee savings.

The financial case focuses on 3 key metrics

(i) The net annual savings once initial structural development and transition costs have been met

(ii) The breakeven year

(iii) The cumulative net savings over a 20 year period

A sensitivity analysis of the core model metrics has been undertaken to assess the impact of differing scenarios on the business case. The core case makes no assumptions for improved investment performance and financial opportunities as a result of pooling. These are discussed in the detailed Financial Case.

c) **The economic case**: examines the rationale and options for the pool, specifically whether to rent or build the operator against 3 groups of issues; accountability, procurement and staffing; and costs. The analysis concluded that the build model had advantages over the rental model, especially with regard to accountability.

d) **The commercial case**: sets out the proposed structural arrangements of BPP including relevant ownership, governance and contractual matters. The detail of the contractual documents, shareholder agreements, articles of association and Terms of Reference (ToR) are still to be agreed; this will be the focus of work during the next phase of the project.

The Oversight Board will be comprised of representatives from each of the Administering Authorities. It will have an agreed constitution and ToR; however it will not be a Joint Committee under S102 LGA but an oversight body responsible for monitoring and overseeing Brunel company, acting on behalf of the Administering Authorities.

Brunel company will be wholly owned by the Administering Authorities. Legal advice confirms that the procurement of the services of Brunel company by the Administering Authorities will be exempt from the application of the public contract procurement procedures.

e) **The management case:** considers the project management still required to:

(i) Set up Brunel company through to FCA authorisation;

(ii) Establish the governance arrangements of BPP and

(iii) Implement client side governance, resource and process changes.

7 AVON PENSION FUND FINANCIAL CASE

7.1 The costs and benefits are derived from the financial model. The level savings and breakeven date are determined by the starting point, that is, the current asset allocation and existing fee levels, and the asset transition timetable as this affects how quickly each fund will realise fee savings.

7.2 The core model forecasts the following key metrics for the combined pool and Avon Pension Fund are shown in the table below.

Core Model	Breakeven Year	Total 20 years net gain to FY36		Running annual rate of net savings in FY25	
		£m	Discounted value £m	£m	Basis points of AUM
AVON	**FY24**	**73.3**	**36.4**	**3.5**	**6.8**
Combined Pool	FY23	550.1	279.5	27.8	8.9

It should be noted that the savings quoted includes savings from lower fees that have already been negotiated as a result of pooling of c. £200k p.a. from 1 April 2017 (c. £100k in 2016/17).

7.3 The sensitivity analysis provides an indication of how the key metrics could change under various scenarios. The results for Avon Pension Fund are in the following table. The most positive/negative impacts arise if forecast fee savings or asset performance differs from the core model assumptions. The first will be determined by Brunel company's ability to negotiate lower fees; the latter is outside the control of the pool. Different asset transition costs/delay or higher operating costs of Brunel company have a lesser impact.

AVON		Break -even Year	Total 20 years net gain to FY36		Running annual rate of net savings in FY25	
			£m	Discounted value £m	£m	Basis points of AUM
Core Model		**FY24**	**73.3**	**36.4**	**3.5**	**6.8**
Variable 1: fee savings	-2 bps pa saving	FY26	46.6	21.3	2.3	4.5
	+2 bps pa saving	FY22	100.2	51.4	4.7	9.1
Variable 2: asset transition costs	+£15m on total transitional costs	FY25	70.6	33.9	3.5	6.8
	-£15m on total transitional costs	FY23	75.9	38.8	3.5	6.8
Variable 3 + £1m pa Brunel company running costs		FY24	70.2	34.1	3.4	6.5
Variable 4: Transition delay		FY25	66.7	32.8	3.4	6.5
Variable 5: asset performance	Equity market crash FY20	FY24	63.9	31.1	3.1	6.7
	-1%pa (3% pa total)	FY24	58.3	28.0	3.1	6.6
	+1% pa (5% pa total)	FY24	91.2	46.3	4.0	7.0

7.4 The S151 Officer and Monitoring Officer support the financial case to pool. The FBC for Avon Pension Fund indicates that there are significant financial benefits in the longer term, derived principally from increased economies of scale, skills and resources that pooling will bring.

7.5 Furthermore the cumulative discounted savings to FY36 of £36.4m should be considered against the funding position. At 31 March 2016 the funding deficit was £597m (discounted at a higher rate than the FBC savings) to be paid over 17 years to FY34. Thus over time the cumulative savings generated from pooling should reduce the cost burden to employers by around £26m (using the discount rate consistent with the actuarial valuation 2016).

8 RISK MANAGEMENT

8.1 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. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

9 EQUALITIES

9.1 An equalities impact assessment is not necessary.

10 CONSULTATION

10.1 N/a.

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 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	Tony Bartlett, Head of Pensions 01225 477203 Liz Woodyard, Investments Manager 01225 395306
Background papers	Supporting Information to BPP
Please contact the report author if you need to access this report in an alternative format	

Project Title: Project Brunel

Brunel Pension Partnership

Full Business Case – Avon

VERSION HISTORY

Version	Date Issued	Brief Summary of Change	Owner's Name
Final Draft	08/11/16	Final Draft presented to BPP Finance and Legal Assurance Group (FLAG)	Dawn Turner
Final V1.0	15/11/16	Updates from FLAG feedback	OC/PwC/Project Office
Final v1.1	17/11/16	Incorporating feedback following FLAG review	Project Office
Final v1.2 Avon	22/11/16	Updated in line with Financial model v5 Individual fund details and annex references for PCs included.	Project Office

Contents

1. INTRODUCTION

1.1 Background and Context

The Full Business Case **(FBC)** has been prepared to inform a decision by the BANES Council on a proposal for Pension Fund investment pooling by means of a newly established pooling arrangement, to be called the Brunel Pension Partnership **(the BPP**). At its core will be a new Financial Conduct Authority **(FCA)** regulated company, Brunel Pension Partnership Limited **(the Brunel company).**

Having first explained the background to investment pooling for Pension Funds in the Local Government Pension Scheme (**LGPS**), and also the essential features of the BPP proposal, the main focus of the FBC is on the financial viability and economic merits of that proposal. The outcomes of a detailed Financial Model are set out and have been subjected to ***independent professional assurance***. The impacts of legal and other matters relating to the formation, governance and operation of the BPP and the Brunel company are also set out and subjected to ***independent professional assurance***. All aspects have also been subjected to review by Chief Finance Officer/ Chief Legal Officer representatives from the 10 bodies engaged in the Brunel pool.

A summary of the key conclusions emerging from the FBC is provided immediately below. A major point to be emphasised at the outset is that ***the FBC indicates that there are significant financial savings and other efficiencies to be gained which support accepting the proposal to continue to establish an investment pool for the 10 bodies*** (i.e. quite apart from any regulatory imperative to pool). These derive principally from the ***enhancement in scale, skills, and resources that investment pooling will bring***. The pooled investment of approximately £25bn of assets under the BPP model ***will open up new opportunities across a range of performance metrics***.

Having listed the key conclusions, the remainder of this FBC is divided into five sections dealing with the Strategic, Financial, Economic, Commercial and Management Cases. Detailed consideration of these has been undertaken by Chief Finance and Chief Legal Officers on behalf of the BANES Council.

1.2 Key conclusions from the Full Business Case

These are, as follows:

- On an aggregated basis, the Financial Model indicates that net savings exceeding £0.5 billion are achievable by 2036, with annual savings exceeding annual costs by March 2021 and breakeven two years later. The timing is largely down to the timetable to transition active fund management after 2019 as this yields the largest saving potential.

- On an individual Fund basis, the Financial Model indicates that net savings are achievable, with the level of such savings varying between Funds mainly to reflect the historic differing approaches to investment and risk resulting in different portfolios. This means there will inevitably be differing savings that will be obtained on fee renegotiations.

- New Regulations have set out a clear legal framework making investment pooling mandatory for all LGPS funds in England and Wales, from April 2018.

- Regulations are very clear that the responsibility for individual fund investment strategy remains with the individual Administering Authorities.

- The BPP will represent a collaboration of the BANES Council and nine other LGPS Administering Authorities based broadly in the South West of England.

- The Brunel company will be set up as a new FCA regulated entity, to be owned equally by each of the ten Administering Authorities.

- The Brunel company will implement the investment strategy of each BPP Pension Fund by selecting and monitoring external Manager Operated Funds.

- An initial review of the set-up, governance and operation of the BPP investment pool has confirmed its legal robustness and viability.

- Further development work, including on financial, legal and FCA regulatory matters, will be undertaken in the next development phase of the BPP investment proposal (i.e. up to anticipated implementation in April 2018).

- The current proposals and the documents associated with the current proposals are first drafts which are yet to be properly discussed and scrutinised by the Administering Authorities.

- The next phase of the BPP project will be work-intensive, and continued project resource will be required to ensure its successful delivery.

1.3 Professional advice and assurance

Professional advice and assurance on the financial elements of the BPP investment pooling proposal has been provided by PricewaterhouseCoopers LLP (**PwC**) and other advisers. From PwC, this has primarily related to preparation of the Financial Model and its outcomes, the financial case and taxation advice. Bfinance UK Limited (**bfinance**) has advised on potential investment fee savings and investment transition costs. Additional financial markets advice has been provided by Alpha Financial Markets Consulting (**Alpha**).

Professional advice and assurance on the legal elements of the BPP investment pooling proposal has been provided by Osborne Clarke LLP (**Osborne Clarke**). This has primarily related to the law and investment pooling, the set-up of the Brunel company, FCA authorisation, procurement and employment matters. Further legal assurance has been provided by obtaining the legally privileged opinions of Leading Counsel (QCs) on the FCA authorisation and procurement law aspects.

Both PwC and Osborne Clarke have provided a statement of assurance to each of the BPP Administering Authorities.

2. STRATEGIC CASE

2.1 Introduction

The purpose of the Strategic Case is to identify the drivers for investment pooling. It sets out the case for change, taking into account in particular the Government's policy imperatives and the regulatory requirements relating to pooling.

2.2 Background to LGPS investment pooling

In May 2014, the Government published a consultation which set out how savings might be achieved by LGPS funds through greater use of passive management and pooled investment. Following that consultation, the Government invited all LGPS Administering Authorities to develop ambitious proposals for pooling of their assets.

In July 2015 the Budget Red Book contained a statement as to what was required, and in November 2015 more detailed guidance was issued. A key point to emerge was that each pool should have assets of around £25 billion.

The proposal to establish the BPP developed accordingly. Through project based joint-working initiatives led by the local pension officers and overseen by two sponsoring bodies[1] the 10 Administering Authorities comprising the BPP have collaborated to test the proposition of establishing a new LGPS investment pool. This will include the Funds of the Environment Agency (Active and Closed) and those of nine Local Authorities (Avon,

[1] Shadow Oversight Board with representatives from each Administering Authority; and Finance and Legal Assurance Group comprised of Chief Finance Officers and Chief Legal Officers.

Buckinghamshire, Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Somerset and Wiltshire).

In February 2016 eight pools, including the BPP, submitted their proposals to the Government. These submissions were strategic statements of intent. They were followed in July 2016 by much more detailed submissions from each pool, setting out how they were intending to pool their assets and the rationale for the approach being adopted. Each of the Administering Authority's Pensions Committees approved the BPP submission to Government.

The BPP submission included details about the key structural elements for the BPP pool. Since July, work has been ongoing to develop the BPP proposal in readiness for launching the new pool in April 2018.

2.3 Regulatory reform

The regulatory framework for investment pooling has been confirmed in the recently made Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (**LGPS Investment Regulations 2016**). These provide that each Administering Authority must formulate an Investment Strategy Statement which must (a) be in accordance with Secretary of State (**SoS**) guidance, and (b) include "the authority's approach to pooling of investments, including the use of collective investment vehicles and shared services". The guidance states that "all authorities must commit to a suitable pool to achieve benefits of scale", and they "must confirm that their chosen investment pool meets the investment reform and criteria published in November 2015".

The SoS is given back-stop powers to intervene if an authority fails to act in accordance with the guidance and following consultation with the authority. These permit the SoS to make a direction requiring: that the authority changes investment strategy; that the authority invests specified assets as directed; that the investment functions of the authority are exercised by the SoS; that the authority complies with an instruction from the SoS relating to the exercise of its investment functions.

Legal advice from Osborne Clarke has confirmed that these regulatory provisions mean that the Government has set out a clear framework making investment pooling mandatory for all LGPS funds in England and Wales.

2.4 The case for change

The consultation for the new draft LGPS Investment Regulations 2016 was accompanied by criteria for pooling. This outlined four areas that underpin the case for change. These are now described, along with a brief statement (in bold) of how the BPP measures up against those criteria:

- Benefits from economies of scale to be derived from large pools of assets of a minimum of £25 billion. The total LGPS assets under management (**AUM**) in England and Wales at that time were in the region of £180 billion.

  Funds in the BPP pool had assets of about £23 billion at 31 March 2015, and these were valued at over £25 billion at 31 October 2016.

- Improved decision making and better risk management, achieved from stronger governance, for the long-term interest of Funds' members.

  The BPP has agreed 12 investment principles that will underpin all the governance and operating arrangements across the whole partnership. These were reported to all fund Committees/ Boards in earlier phases of this project and include long termism, responsible stewardship and openness and transparency. The BPP's governance arrangements will be constructed to meet the highest standards, including those required by the FCA for a regulated entity.

- Reduction in costs and improved value for money from both the fee savings achieved by funds investing together and reducing manager churn by focusing on long term performance.

  The BPP Funds currently have almost 100 different managers and around 170 mandates between them. These will be replaced by about 22 outcome focused investment portfolios, which will deliver the BPP Funds' investment strategy requirements and significantly reduce the number of managers and mandates. Annual fee savings of £20 million are projected to be made by March 2021, rising to £30 million by March 2027.

- Increasing capacity and capability to invest in infrastructure by making long term strategic collaborative plans across the LGPS to invest in infrastructure making this asset allocation more attractive (lower risk) and beneficial (increased returns for less cost).

  The eight LGPS pools have formed a Cross Pool Collaboration Group, with an Infrastructure sub-group looking at a national approach to infrastructure. While in its infancy, this is likely to yield improved access to better infrastructure investment, both from the collective opportunity BPP brings as well as a national investment vehicle.

2.5 Imperative of investment pooling

The main strategic driver for investment pooling is the Government's decision to progress this as a policy, as now required under the LGPS Investment Regulations 2016. The case for change is underpinned by legal advice from

Osborne Clarke, and has been recognised by all other Administering Authorities in England and Wales and the other pools they have formed or are now forming.

3. FINANCIAL CASE

3.1 Introduction

The purpose of the Financial Case is to set out the financial implications of investment pooling. It is informed by a detailed Financial Model, which focuses on the estimated savings from pooling both on a whole pool basis and an individual Fund basis. It represents the key evidence supporting this Business Case and the BPP proposal generally.

3.2 The BPP financial model – three key metrics

PwC have created a sophisticated Financial Model that has been provided to each Administering Authority's pension and financial officers. The Financial Model compares the current situation for each Administering Authority to the situation following the transition of assets into the Brunel company, projecting annual net costs or net savings until 2036.

There are three key metrics from the Financial Model:

- **The annual running rate of net saving once the initial structural development and asset transition costs have been met**. Net savings are fee savings plus other savings less operational costs, each evaluated on an annual basis. The metric can be expressed as a cash amount or as a percentage of assets under management in the relevant year: we have used the year to March 2025 (FY25).
- **The year of breakeven**. This metric estimates when each of the BPP Pension Funds will reach the point when the anticipated fee and other savings will start to exceed the set-up (structural development and asset transition) costs and operational costs.
- **The total net savings measured against a broadly 20 year period** to financial year ending 31 March 2036 (FY36). This metric measures the net savings each of the Brunel Funds will accrue, both on a discounted and an undiscounted basis, over that period.

The information and assumptions underlying the Financial Model are described in more detail in the Financial Case.

3.3 The core model

The core model presents a base case of the financial outputs, and is intended as a prudent and reasonable projection of the total anticipated savings from the transitioning of assets into the BPP pool. The core model relies on the key assumption that fee savings will be driven by fewer investment mandates and an extensive programme of fee negotiations, with other savings accruing from reduced expenditure by Administering Authorities.

On that basis, the core model projects-:

- that annual net savings by FY25 will be **£27.8 million pa** across the Administering Authorities, representing 0.089% (**8.9** basis points **bps pa**) of assets then under management;
- the breakeven year, by which cumulative savings will have exceeded cumulative costs will be the year to March 2023, **FY23,** in fact relatively early in that year; and
- an aggregate net saving to FY36 across all ten Administering Authorities of **£550 million**, which has a discounted present value of **£280 million**.

The position on the three metrics (i.e. the annual running rate of net savings, the breakeven year, and the net savings by FY36) differs between the ten Administering Authorities, depending mainly on differing projected fee savings. These differing fee savings depend on the differences between the projected fee levels, after renegotiation, and existing fee levels, with fee savings harder to achieve if existing fee levels are already low. This is largely due to individual Administering Authorities having historically taken differing approaches to investment strategy and risk. This independence will remain and the base core model simply looks at savings from today's position. The other information on which projections are based varies much less between Administering Authorities.

For ease of comparison, the following table states assets under management (AUM) in March 2016 and the annual running rates of savings projected by the core model for FY25, both on a combined pool basis and on an individual Administering Authority basis.

Core model	Assets under management (AUM, £m, at 31 March 2016)	Running annual rate of net saving in FY25	
		£m	bps of projected AUM in FY25
Avon	3,739	3.5	6.8
Buckinghamshire	2,164	6.1	20.4
Cornwall	1,464	1.1	5.6
Devon	3,299	5.2	11.3
Dorset	2,273	3.7	11.8
Environment Agency*	2,954	2.8	7.4
Gloucestershire	1,687	0.7	3.0
Oxfordshire	1,824	1.1	4.2
Somerset	1,592	1.5	6.6
Wiltshire	1,826	2.1	8.3
Combined Pool	**22,822**	**27.8**	**8.9**

*includes £219m for the EAPF Closed Fund which is not expected to benefit from fee savings. Therefore the Closed Fund assets are not used in the calculation of the net saving as expressed in basis points of AUM.

On an individual fund basis this would mean a breakeven point for the combined fund of 2023 and for Avon of 2024 as follows:

Core model	Breakeven year	Total 20 years net gain to FY36		Running annual rate of net saving in FY25	
		£m	Discounted value £m	£m	bps of AUM
Avon Pension Fund	FY24	73.3	36.4	3.5	6.8
Combined Pool	**FY23**	**550.1**	**279.5**	**27.8**	**8.9**

PwC has provided financial assurance to the Administering Authorities that the core model has been constructed using prudent and reasonable assumptions. More detail of such assumptions and the modelling methodology is set out in the Financial Case. This has been checked and assessed by each Administering Authority's Chief Finance Officer/ Section 151 Officer.

3.4 Sensitivity on core model

A sensitivity analysis of the core model metrics has been undertaken. This analysis has considered several important variables, as follows:

- Variable 1: fee savings achieved by the Brunel company being plus/minus 2 basis points (0.02%) when compared with the midpoint the fee savings identified in the core model for each Administering Authority (the overall midpoint being 8.9 bps for the Combined Pool).

- Variable 2: asset transition costs, which include tax costs, being in total plus/minus £15 million when compared with the asset transition costs used for the core model.
- Variable 3: annual operational costs for the Brunel company being £1 million pa higher than the annual operational costs used for the core model.
- Variable 4: a transition delay such that liquid assets take three years to restructure rather than the two years used in the core model.
- Variable 5: underlying market asset performance differing significantly from the steady 4% pa growth used for the core model. Three variations are considered: a 20% equity market crash in 2020, and steady growth at rates of either 3% pa or 5% pa.

The table on the following page expresses the impact of these five variables on a combined pool basis. The top row, shaded, shows the core model. Other rows show individual variations, with downside sensitivities lightly shaded and upside sensitivities unshaded:

Table 1.3.4a Impact on Core Model of 5 Variables – Combined Pool Basis

Combined (all ten Administering Authorities)		Breakeven year	Total 20 years net gain to FY36		Running annual rate of net saving in FY25	
			£m	Discounted value £m	£m	bps of AUM
Core model		FY23	550	280	27.8	8.9
Variable 1: fee savings	**- 2 bps pa saving**	FY24	387	188	20.5	6.5
	+ 2 bps pa saving	FY22	714	371	35.2	11.2
Variable 2: asset transition costs, incl tax	**+£15m on total transitional costs**	FY24	535	266	27.8	8.9
	- £15m on total transitional costs	FY22	565	293	27.8	8.9
Variable 3: + £1m pa Brunel Company running costs		FY23	526	263	26.6	8.5
Variable 4: transition delay		FY24	507	256	26.3	8.4
Variable 5: market asset performance	**Equity market crash in FY20**	FY23	458	228	23.5	8.7
	-1% pa (3% pa total)	FY23	441	219	24.6	8.6
	+1% pa (5% pa total)	FY23	680	352	31.3	9.2

The key conclusions emerging from the sensitivity analysis are as follows, including comments on mitigation:

- **The fee renegotiations will be critical to the overall results.** The core model targets an overall improvement in fee savings that leads to net savings, after operational costs, of 8.9 basis points (0.09%) by FY25. A reduction of 2 basis points (0.02%) in savings in variable 1 is the largest effect illustrated, impacting all three key metrics of running annual rate of net saving, breakeven and 20 year net gain.

- **Fee renegotiations are a largely symmetrical sensitivity.** Hence the upside potential on the three key metrics in variable 1 further emphasises the importance of successful fee negotiations.

- **Asset performance by the markets is crucial.** The more assets under the aegis of the Brunel company, the more pooling will deliver; conversely, a lower asset base will render pooling less beneficial. There is an element of a fixed cost being spread here, as evidenced by the annual running rate of saving in FY25, if expressed as basis points of AUM (assets under management), changing little between the three scenarios considered within variable 5. At a high level, investment performance by markets cannot be altered by the Brunel company: some mitigation may be possible through strategic asset allocation at the Administering Authority level. Ultimately, investment performance has balancing contribution implications that have not been modelled.

- **Transition delay should be avoided.** Delay by a year, variable 4, would outweigh the impact of £15 million higher asset transition costs, variable 2. This can be seen in both breakeven year and total gain over 20 years. Neither variable has much impact on the running annual rate of saving projected by FY25.

- **Asset transition costs including tax could push back the breakeven year.** The £15 million extra indicated just moves breakeven from FY23 to FY24, so that there would be a substantial gain by the end of FY24. There will be choice as to how much cost to incur: more radical asset reorganisation may be justified in terms of higher fee savings or higher performance expectations. However, action to pursue recognition of this impact and alternative arrangements for UK tax impacts should and will be pursued with Central Government to see if some of this variable can be mitigated.

- **Asset transition costs including tax are a broadly symmetrical sensitivity**. So the upside potential demonstrates that a saving is possible. There would be a concern that pursuing some saving could reduce the longer term effectiveness of portfolio construction.

- **Brunel company operating costs should be controlled**. If they changed by £1 million a year as illustrated by variable 3, they would have a somewhat greater impact on the 20 year net gain than transitional costs increasing by £15 million

The table on the following page expresses the impact of these the five variables for the Avon Pension Fund only. Commentary is being provided in individual covering papers and the text of this document, other than for the table itself, is not being altered between Administering Authorities:

Table 1.3.4b Impact on Core Model of 5 Variables – Avon Pension Fund Only

Avon Pension Fund		Breakeven year	Total 20 years net gain to FY36		Running annual rate of net saving in FY25	
			£m	Discounted value £m	£m	bps of AUM
Core model		FY24	73.3	36.4	3.5	6.8
Variable 1: fee savings	**- 2 bps pa saving**	FY26	46.6	21.3	2.3	4.5
	+ 2 bps pa saving	FY22	100.2	51.4	4.7	9.1
Variable 2: asset transition costs	**+£15m on total transitional costs**	FY25	70.6	33.9	3.5	6.8
	- £15m on total transitional costs	FY23	75.9	38.8	3.5	6.8
Variable 3: + £1m pa Brunel Company running costs		FY24	70.2	34.1	3.4	6.5
Variable 4: transition delay		FY25	66.7	32.8	3.4	6.5
Variable 5: asset performance	**Equity market crash in FY20**	FY24	63.9	31.1	3.1	6.7
	-1% pa (3% pa total)	FY24	58.3	28.0	3.1	6.6
	+1% pa (5% pa total)	FY24	91.2	46.3	4.0	7.0

3.5 Future opportunities – risk mitigation

There is international evidence that investment at greater scale can provide opportunities to improve overall investment performance through a range of mechanisms, including risk mitigation. This has not been examined in the core model. Nonetheless, the potential can be seen by considering the core model sensitivity analysis: if the opportunity can be captured to the extent of just 5 basis points (0.05%), then the total net gain projected by FY36 would increase by approximately 60%.

3.6 Future opportunities – internal management

Additional analysis has been undertaken to assess the opportunities that may be available if the Brunel company undertakes internal management (i.e. undertaking dealings in individual stocks and other assets, in addition to making investments into Manager Operated Funds). A move to internal management could only happen with the consent of all the Administering Authorities based on circumstances at the time. It is therefore only a prospective and contingent opportunity at this point.

Subject to that, the Financial Case analyses the potential opportunities that may be offered by internal management, which in summary are greater savings owing to the potential substantial reduction in fees.

Any decision to move to internal management would require the case to be made that the fee savings would be accompanied by investment performance expectations remaining at least in line with those that external managers were providing. Such a case would be easier to make for some asset classes than others.

3.7 Core model – foundation of the Full Business Case

The core model, including the sensitivity analysis outlined above, is foundational to the FBC. It is this core model which should substantially inform a decision to proceed with the BPP investment pooling proposal.

This section of the FBC has dealt with the headline points relating to the core model, and sets out the main conclusions. Further and more detailed analysis is set out in the Financial Case.

4. ECONOMIC CASE

4.1 Introduction

The purpose of the Economic Case is to describe the options considered for investment pooling, and to provide evidence that the most economically advantageous approach to meet the Administering Authorities service needs on a value for money basis.

4.2 Options considered for the pooling entity

The Project Brunel initial proposal, submitted in February 2016, suggested a structure whereby a Collective Asset Pool would be overseen by a Joint Committee. This proposed structure was an alternative to an overarching Authorised Collective Scheme (**ACS**), which would have had additional complexities and costs of establishment and operation and would not have provided a structure consistent with all types of pooling

This proposed structure was later developed following the Secretary of State's March 2016 response. This required that a single and separate entity be at the heart of final pooling proposals, and that it should have responsibility for selecting and contracting with investment managers independently of Administering Authorities (which would retain responsibility for setting their detailed Strategic Asset Allocation). A further clear requirement set out in the Secretary of State's response was that the pooling entity must be FCA regulated.

The Secretary of State's response led to a discussion of how best to operate this entity, now conceptualised as the Brunel company. Two models were under consideration, being either to rent it from a commercial provider or for the Administering Authorities to build it and shape its structure and governance through a shared ownership arrangement.

A detailed analysis was carried out by PwC to consider the relative merits and limitations of each model, examining them against three groups of issues: accountability; procurement and staffing; and costs. The PwC analysis showed that the build model would have advantages over the rental model, especially on accountability. It would also generate less uncertainty around the future roles of investment officers.

It was recognised that the build model brought its own challenges, particularly around procurement and staffing. These are considered further in the Commercial Case section that follows. Overall, however, the build model was the preferred option under the PwC analysis.

4.3 Operational costs of the Brunel company

Whilst the Commercial Case examines a wide range of issues, the Economic Case evaluates how the Brunel company development and operational costs affect the Financial Case. The key point has been consolidated into the sensitivity analysis in the Financial Case: additional operational costs will need to be evaluated against the additional asset performance or fee saving they can generate.

PwC has identified that the most economic case would suggest that the Brunel company is situated in the Bristol area (a formulation which includes Bath). This followed analysis that compared several geographies, including London, Swindon, Taunton and Exeter, evaluating them under the headings of infrastructure, human resources and operational matters.

The Bristol area includes the largest city in the Brunel geography, with good transport links to the Administering Authorities and acceptable links to suppliers, notably those in London. Office space is relatively affordable and staffing implications, including remuneration levels, are favourable. In building up costs used in the core model therefore, indicative costs have been used for prices of accommodation in the Bristol/ Bath area.

5. COMMERCIAL CASE

5.1 Introduction

The purpose of the Commercial Case is to set out the proposed structural arrangements for the BPP. The focus is on relevant ownership, governance and contractual matters, and how these will serve the requirements of the BPP Administering Authorities.

5.2 Brunel Pension Partnership structure

The main structural components of the BPP are, in summary:

- **BPP Administering Authorities:** They will each retain sole responsibility for setting the detailed Strategic Asset Allocation for their Fund and allocating their assets to the investment portfolios provided by the Brunel company.

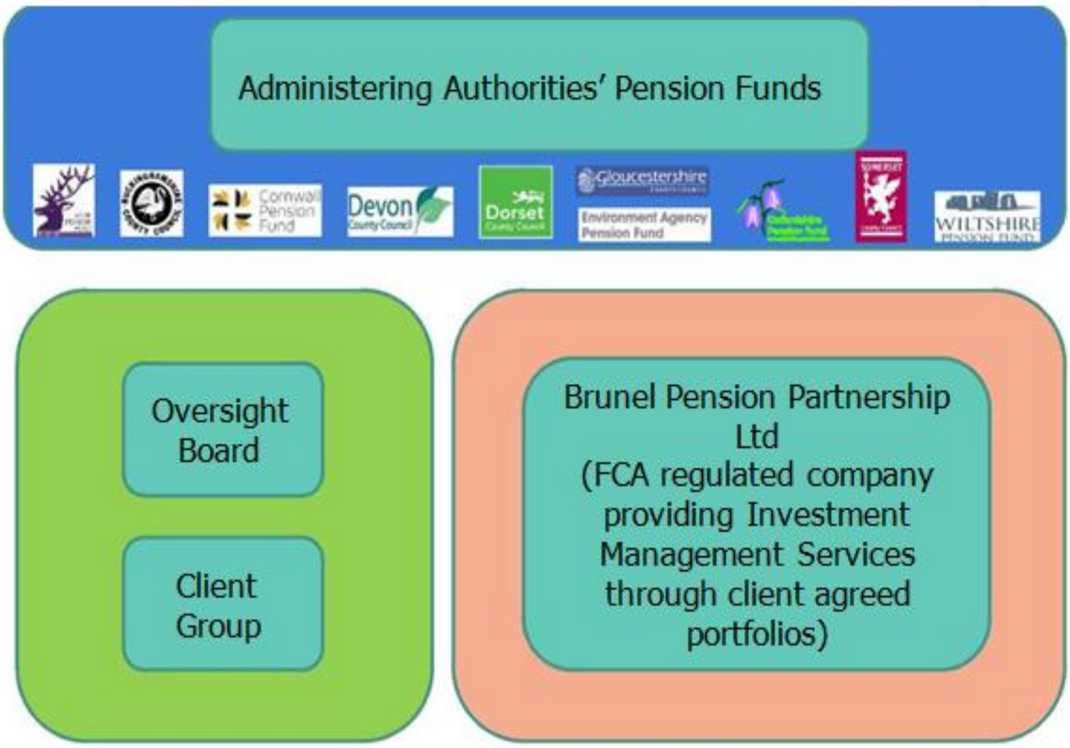
- **Brunel Pension Partnership Limited:** This will be a new FCA regulated company which will be wholly owned by the Administering Authorities. It will be responsible for implementing the detailed Strategic Asset Allocations of the BPP Funds by investing Funds assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers.

- **Oversight Board:** This will be comprised of representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference (however, it will not be a Joint Committee under S102 LGA). Acting for the Administering Authorities, it will have ultimate responsibility for ensuring that the Brunel company delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function.

  Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually. Further work on issues such as how this will operate, the Shareholder Agreement, and appointments will be clarified and brought back to each Administering Authority to approve at a later date.

- **Client Group:** This will be comprised primarily of pension investment officers drawn from each of the Administering Authorities. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function. In effect, it will provide a client-side link between the Oversight Board and the Brunel company, and will draw on Administering Authorities finance and legal officers from time to time.

The following illustration shows the key structural components of the Brunel Pension Partnership in diagrammatic form:



5.3 Governance arrangements

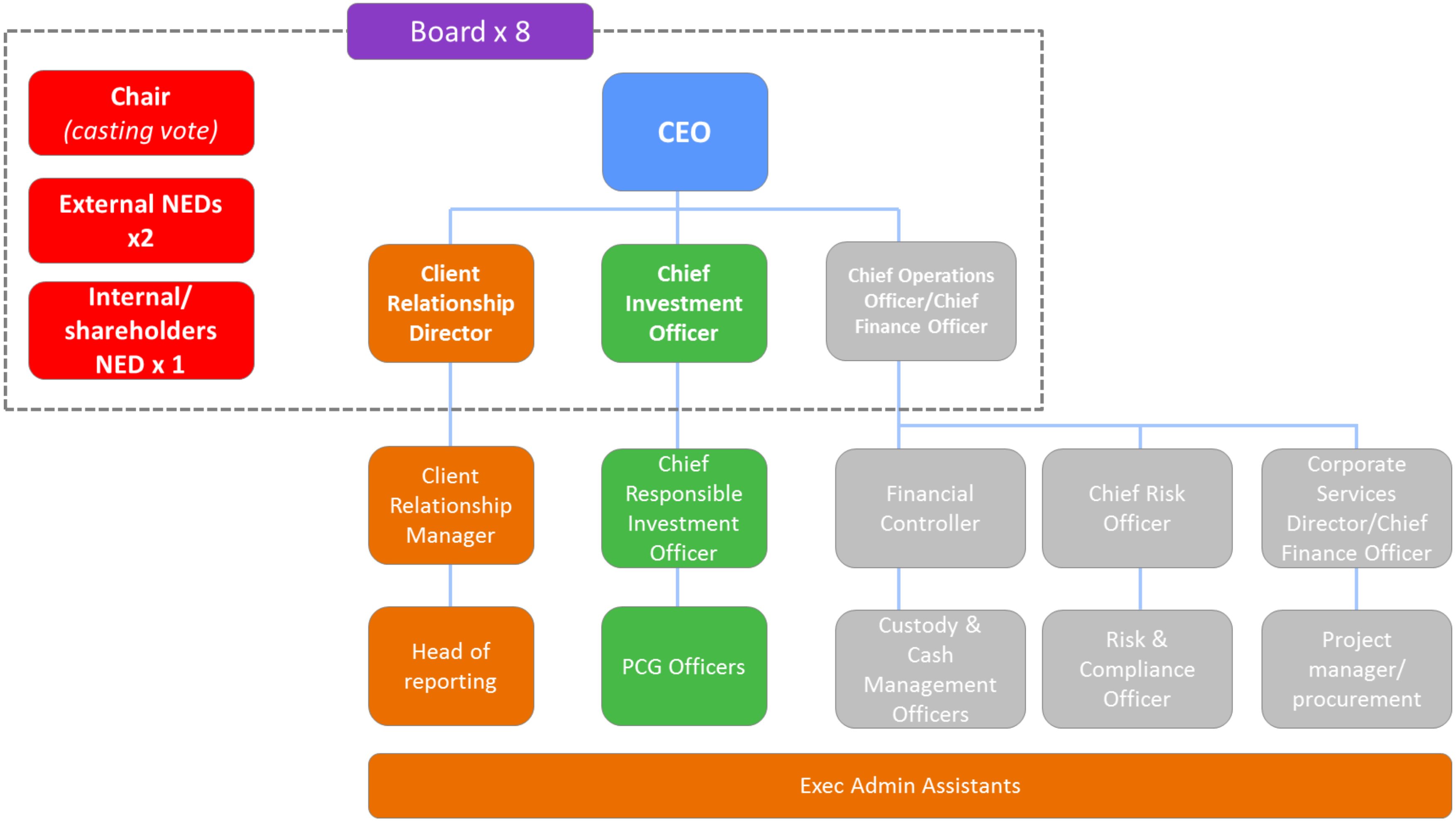
Much of the detail relating to the BPP's governance arrangements will be set out in three key documents: **Articles of Association** of the Brunel company; **Shareholders' Agreement** between the Administering Authorities; **Terms of Reference** for the Oversight Board. These documents will address issues such as powers of the company, shareholder control through reserved matters, exit arrangements and procedures of the company. The current proposals that are reflected in the commercial case are based on a first draft of documents produced by Osborne Clarke which are yet to be properly discussed and scrutinised. Osborne Clarke will advise on the drafting of these documents, working with Chief Legal Officers accordingly. The project timetable has an indicative time for these to be put in place of Spring 2017.

Standing behind these key documents will be the other requisite documents such as conflict of interest policy and terms of reference for the Brunel company's committees. Its FCA regulated status will require it to have high standards of internal governance and compliance, with a particular focus on risk management.

The proposed operating model for the Brunel company includes a board which will be made up of four non-executive directors (independent chair, plus two externally recruited non-executives and one shareholder representative non-executive), with three or four executive directors (chief executive officer, chief finance/operations officer, chief investment officer and (yet to be confirmed) client relationship director). Various committees (audit, remuneration, risk and compliance) will be required, as will other statutory roles, such a company / board secretary.

This board will be responsible for three business units, which will relate to the following: investments (including responsible investments), operations and finance (including risk and compliance), and client relationships (including reporting). A programme of external and internal recruitments will be implemented to ensure that the senior and other supporting roles are staffed by suitably qualified and experienced personnel.

The operational structure diagram below set outs the proposed high level operating structure of the Brunel Company.


Board x 8
Chair
(casting vote)
External NEDs x2
Internal/ shareholders NED x 1
CEO
Client Relationship Director
Chief Investment Officer
Chief Operations Officer/Chief Finance Officer
Client Relationship Manager
Chief Responsible Investment Officer
Financial Controller
Chief Risk Officer
Corporate Services Director/Chief Finance Officer
Head of reporting
PCG Officers
Custody & Cash Management Officers
Risk & Compliance Officer
Project manager/ procurement
Exec Admin Assistants

5.4 Contractual arrangements

The contractual relationship between the Administering Authorities and the BPP will be set out in a comprehensive **Services Agreement.** It will define the investment pooling and related services which the Brunel company will perform, and the contractual terms which will apply to the delivery of those services.

The core contractual obligation of the Brunel company will be to define and set up portfolios reflecting the detailed Strategic Asset Allocations of the BPP Administering Authorities, and to select investment managers who are capable of operating suitable Manager Operated Funds for each portfolio. The Brunel company will be required contractually to maintain its FCA regulated status.

In support of that core contractual obligation, the Brunel company will offer a number of subsidiary services to the Administering Authorities. These services will cover such matters as custody and investment administration, financial performance reporting, responsible investment, investment research, investment accounting, risk management, transition management, cash management, etc. Where appropriate and necessary, the Brunel company will contract with third party service providers to procure services that will not be provided internally (e.g. custody, transition management, HR services).

5.5 Brunel company and procurement issues

A legal review has concluded that a decision by the Administering Authorities to enter into the Services Agreement, and thereby procure the services of the Brunel company, will be exempt from the application of the public contract procurement procedures (as set out in the Public Contracts Regulations 2015). This legal review was undertaken by Osborne Clarke, and included obtaining a legally privileged opinion from Leading Counsel (a QC) who specialises in procurement law. The Osborne Clarke advice and the QC opinion have been provided to Chief Legal Officers.

5.6 Brunel company and FCA authorisation

In order to meet this core contractual obligation the Brunel company will need to be FCA regulated. A key consideration in that respect is being clear on the FCA permissions that will be required, taking into account the Brunel company's activities. A legal review has concluded that there is a very strong likelihood that the BPP will involve the creation of a Collective Investment Scheme, with the Brunel Company acting as the operator. This legal review was undertaken by Osborne Clarke, and included obtaining an opinion from Leading Counsel (a QC) who specialises in FCA regulatory law. The Osborne Clarke advice and the QC opinion have been provided to Chief Legal Officers.

The project timetable allows for the appropriate permissions to be obtained from the FCA. The Brunel company will be required contractually to maintain its FCA regulated status, and as such its board of directors will have to maintain compliance with the FCA's applicable rules and procedures for a regulated entity carrying out activities of the type envisaged.

5.7 Personnel implications

A legal review by Osborne Clarke of the relevant employment law has reached an initial conclusion that the Transfer of Undertakings (Protection of Employment) Regulations 2006 **("TUPE")** will not apply if employees currently employed in the pension functions of any of the Administering Authorities move to the Brunel company as a result of any selection and employment process. The position on TUPE will be confirmed when any employee migration from an Administering Authority to the Brunel company takes place.

The Cabinet Office Guidance on Staff Transfers in the Public Sector **(COSOP)** sets out a framework for TUPE-style protections to be afforded to employees involved in public sector reorganisations, in circumstances where there is not a relevant transfer within the meaning of the TUPE legislation. While local authorities are not legally bound to observe COSOP, it is intended that, so far as possible, the principles of COSOP will be adhered to.

In summary, subject to the detailed legal advice, it is envisaged at this stage any employees who move from employment with an Administering Authority to the Brunel company will receive TUPE-equivalent protection.

5.8 Risk allocation

Under the BPP structure, the Administering Authorities will retain the key investment risk of designing the detailed Strategic Asset Allocation for their Fund. Taking that into account, the Brunel company will provide to the Administering Authorities the key investment management services of selecting, appointing and monitoring the investment managers operating the various Manager Operated Funds. Related services, also provided by the Brunel company, will include such matters as custody, performance reporting and transition management services.

While as noted the key investment risk will be retained by the Funds, it is apparent that the Brunel company will take on a contractual risk for providing investment management and related services to the Administering Authorities. Previously, the tasks of selecting, appointing and monitoring fund managers has been undertaken by local pension funds, with input from external professional advisers where necessary.

Where relevant services cannot be provided by the in-house resources of the Brunel company third party service providers will be appointed (for example, providers of custody, performance analytics, data management and investment accounting services). To that extent, the risk transfer to the Brunel company will be mitigated by the appointment of third party service providers.

The directors of the Brunel company will owe the normal fiduciary and other duties that any director owes to an FCA regulated company. Additionally, all staff will owe contractual duties to the Brunel company as their employer, and as set out in their individual employment contracts. During the next development phase the use of possible risk mitigation arrangements, including Directors' & Officers' liability insurance and Professional Indemnity insurance, will be investigated and agreed.

5.9 Charging mechanism

In the Financial Model, Brunel company costs are assumed to be split between the ten Administering Authorities using an equitable approach to cost sharing. This allows for approximately half of the costs to be split equally between the ten Administering Authorities and the remainder to be split in proportion to assets under management. This modelling is intended to capture the ultimate reality of Brunel company operation, when the pricing policy for its services is likely to contain both fixed and marginal elements.

The charging mechanism that will actually apply when the BPP becomes operational will be decided after taking into account a range of alternative charging methodologies, and will be determined by agreement between the Administering Authorities.

5.10 Development costs and implementation timescale

Under the project timetable the indicative time for the Brunel company to be set up with appropriate ownership and governance arrangements is Spring 2017. Work on the development of its operational capability will continue in the interim period.

The Memorandum of Understanding (MoU) agreed between the Administering Authorities in September 2015 stated that the Brunel project development costs would be split equally between the participating funds (i.e. a tenth each). It has cost £1.2m (£0.12m per fund) to take matters to the FBC stage, including the preceding Strategic and Outline Business Cases (submissions to Government in February and July).

A new MoU has been drawn up and reviewed by the Finance and Legal Assurance Group (to be ratified by the Shadow Oversight Board), to cover the period from December 2016 until the permanent Brunel company arrangements are in place. This update will refresh arrangements on collaborative working, decision-making and cost allocation during that period. The MoU includes provision for charging the time of officers assigned to BPP project roles. Up to this point the cost of such officer time has been absorbed by each Administering Authority.

Development costs will continue to be allocated to Administering Authorities on an equal share basis. The initial projected future development costs up to April 2018 are £3.3m (£0.33m per fund). This includes working and regulatory capital for the Brunel company of £2.0m (£0.2m per fund). Any change in the development budget will be subject to approval by Administering Authorities. The Brunel company will also have operating costs as it builds capability from its inception in 2017, which will be invoiced separately.

6. MANAGEMENT CASE

6.1 Introduction

The purpose of the Management Case is to describe how the BPP proposal will be delivered successfully. The focus is on effective project management during the next phase, including proposals for addressing relevant risks for the Administering Authorities and the successful delivery of the challenges of change management for a project of this nature.

6.2 Project management arrangements

The level of project management resource required to ensure the successful delivery of the BPP proposal will be kept under regular review. The next development phase is likely to be demanding with a significant amount of work to be done on a range of matters. These will include setting up the Brunel company's governance and contractual arrangements, addressing all relevant operational matters including staff recruitment, and preparing for submission of the FCA application.

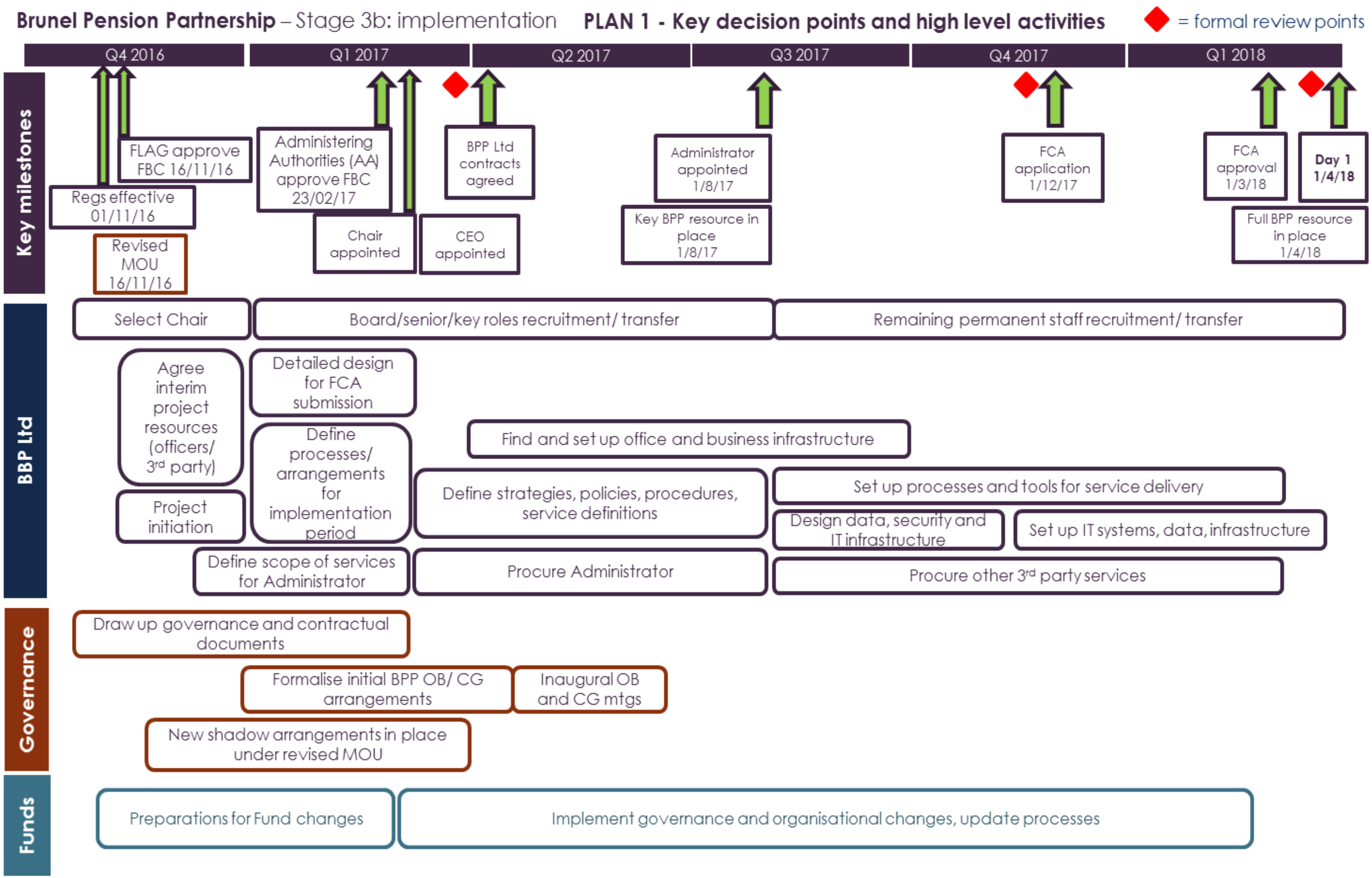
A particular challenge will be ensuring that these tasks can be delivered in parallel with the appointment of the Brunel company's leadership team, including the Chair. The permanent staff appointments will take place throughout the remainder of the project, so the project structure will evolve during the lifecycle of the project. They will be key in providing continuity of leadership and direction while other resource changes are underway.

Any non-permanent assignments of officers to support the Brunel company set-up and resourcing will be progressed on an interim basis.

Conflicts of interest may emerge, and if so they will be carefully managed by establishing clear accountabilities and resource allocation.

The following diagram provides an indicative overview of the programme activities and the key milestones:

Brunel Pension Partnership – Stage 3b: implementation **PLAN 1 - Key decision points and high level activities**



6.3 Benefits realisation and risk management

The delivery of the expected benefits of pooling will be through the operation of the Brunel company and the services it delivers to the Brunel Funds. It will be monitored by the Oversight Board and Client Group, using the reporting activities provided by the Brunel company.

A comprehensive risks register is already in place and will continue to be maintained by the Project Office. The risks will be further categorised to identify those risks directly to the Funds and those directly applicable to the Brunel company. The risks will be reported to the programme and project management teams through regular status reports. Very high risks or those requiring urgent action to manage will be escalated as needed. A summary of the risks and a copy of the risk register is attached at Annex 2.9.3a and 2.9.3b.

6.4 Project milestones and gateways

Meetings of the Brunel Administering Authorities are scheduled to take place between 2 December 2016 and 23 February 2017. At these meetings Resolutions for in principle decisions to approve investment pooling will be considered, with appropriate delegations being granted to progress the next development phase. The approval by Administering Authorities of these Resolutions will mark a key milestone in the establishment of the BPP investment pool.

Further formal reviews that the project has progressed in line with the provisions agreed in the FBC will be held prior to the key milestones. These include the appointment of the Brunel company Chair (early 2017), set-up of the Brunel company and agreement of the key shareholder and other corporate documents (by Spring 2017), submission of the Brunel company's FCA application (by November 2017), and operational readiness for commencement of pooling (by April 2018).

Bath & North East
Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1950/16

Meeting / Decision: Avon Pension Fund Committee
Date: 9th December 2016
Author: Tony Bartlett
Report Title: LGPS Pooling of Investments – Full Review of Business Case Appendix 1 – Full Business Case for Avon Pension Fund Exempt Appendices 2 – 6 Detailed sections of Full Business Case Appendix 7 - Summary BPP Risk Register Exempt Appendix 8 – Detailed BPP Risk Register Exempt Appendix 9 – Financial model (circulated separately to papers)

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).*

5. *Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.*

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

PUBLIC INTEREST TEST

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

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

Weighed against this is the fact that the exempt appendices contain strategic and financial information about the proposal, which is commercially sensitive and could prejudice the commercial interests of the organisation if released. This information also pertains to other bodies. 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.

Paragraph 5 of the revised Schedule 12A of the 1972 Act exempts information which relates to Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings. The officer responsible for this item believes that this information falls within the exemption under paragraph 5 and this has been confirmed by the Council's Information Compliance Manager. It is also important that public authorities be allowed to conduct a free exchange of views as to their legal rights and obligations with those advising them without fear of intrusion. Without such confidence, there are risks of lack of openness between client and lawyer and threats to the administration of justice. This thereby enables a public body to have confidence that legal issues are being discussed fully. There is an important public interest in such confidence.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Project Title: Project Brunel
Brunel Pension Partnership
Full Business Case
Annex 2.9.3a [for PC] [Annex 2 for Council / Board]
Risk Register Summary

The Brunel Pension Partnership has created a formal risk register for the project and has assessed 31 risks with each being classified using a standard methodology; assigning a score of 1-5 in both Impact and Likelihood of each risk creating 5 levels of risk from very low to very high. The scoring criteria is provided below.

The individual risks can be viewed in the following ways:

Risk Category	**Risk group**	**Timescale to realise target risk score**	**Risk Score**
Our integrity	Pool Structure and Sustainability	4 months (end FBC review period)	Very low
Capacity to deliver	External drivers	9 months (Brunel company key appointments completed)	Low
	Resources and skills	12 months (FCA application)	Medium
	Governance	Stage 3b (programme implementation period)	High
	Assets and performance	Stage 3b & 4	Very high
		Stage 4 (transition of assets period)	

The number of risks from each category is shown in the table below.

Risk Count	Category	VH	H	M	L	VL	Total
Current	All	0	14	15	2	0	31
Target	All	0	0	10	18	3	31
Risk Count	**Timescale to realise target risk score**	**VH**	**H**	**M**	**L**	**VL**	**Total**
Current	4 months	0	3	3	0	0	6
Target	4 months	0	0	2	4	0	6
Current	9 months	0	1	0	0	0	1
Target	9 months	0	0	0	1	0	1
Current	12 months	0	1	1	0	0	2
Target	12 months	0	0	1	1	0	2
Current	Stage 3b	0	5	7	1	0	13
Target	Stage 3b	0	0	5	5	3	13
Current	Stage 3b&4	0	1	2	1	0	4
Target	Stage 3b&4	0	0	1	3	0	4
Current	Stage 4	0	3	2	0	0	5
Target	Stage 4	0	0	1	4	0	5
Risk Count	**Risk Category**	**VH**	**H**	**M**	**L**	**VL**	**Total**
Current	Our integrity	0	5	8	0	0	13
Target	Our integrity	0	0	2	9	2	13
Current	Capacity to Deliver	0	9	7	2	0	18
Target	Capacity to Deliver	0	0	8	9	1	18
Risk Count	**Risk Group**	**VH**	**H**	**M**	**L**	**VL**	**Total**
Current	Pool Structure and Sustainability	0	3	2	0	0	5
Target	Pool Structure and Sustainability	0	0	1	4	0	5
Current	External Drivers	0	1	2	1	0	4
Target	External Drivers	0	0	0	4	0	4
Current	Resources and Skills	0	5	3	1	0	9
Target	Resources and Skills	0	0	4	4	1	9
Current	Governance	0	2	4	0	0	6
Target	Governance	0	0	2	3	1	6
Current	Assets and Performance	0	3	4	0	0	7
Target	Assets and Performance	0	0	3	3	1	7

The details of all the risks are provided below, including the mitigating actions that are being taken to reduce or manage the risks to an acceptable level. During the development of the full business case very high risks have been mitigated. There are currently 14 high risks. The mitigating actions identified aim to reduce all the high risks.

The 3 high risks that need to be reduced by the time the AAs become shareholders of the Brunel company are:
• Pool Structure and Sustainability: the collaboration/ partnership between the funds breaks down
• Resources and Skills: resources required for BPP implementation are not engaged in line with the project schedule or become unavailable
• Governance: the legal requirements or delegations for each Fund to pool are not in place or insufficiently scoped

The 2 high risks that need to be reduced in the next 9 – 12 months:
• Resources and Skills: key resources in funds become unavailable
• Resources and Skills: funds are unable to retain or recruit staff

The 5 high risks that need to be reduced by the time Brunel company is fully operational and ready to start transitioning assets are:
• Pool Structure and Sustainability: proposal is rejected by one or more administering authorities
• Pool Structure and Sustainability: FCA authorisation not achieved
• External drivers: changes in local government impact on decision making
• Resources and Skills: delays to delivery of key products impact critical path or interdependencies
• Resources and Skills: BPP Ltd is unable to recruit or retain staff

The remaining four high risks will need to be reduced either during stage 3b and or stage 4:
• Governance: the pool does not meet its liabilities and/or does not deliver on the SLA with a fund or funds
• Assets and performance: cost benefit ratio not achievable in pool
• Assets and performance: transition management is ineffective or excessive in costs
• Assets and performance: increased investment with "large" managers squeezes out smaller fund managers from market

The risk grids for current risk scores and target risk scores are shown below indicating the number of risks in each risk group that fall within the 25 possible outcomes of assessing likelihood and impact of risk.

CURRENT RISK SCORE

Impact							
	5	PSS	1	2			
		ED					
		RS					
		G	1	1	1		
		AP					
	4	PSS		1	1		
		ED	1	2	1		
		RS			5		
		G		1			
		AP		1	3		
	3	PSS					
		ED					
		RS		1	2		
		G		1	1		
		AP		2	1		
	2	PSS	0				
		ED	0				
		RS	0				
		G	0				
		AP	0				
	1	PSS	0	0			
		ED	0	0			
		RS	0	0	1		
		G	0	0			
		AP	0	0			
			1	2	3	4	5
			Likelihood				

OFFICIAL SENSITIVE FOR LGPS ADMINSITRATING AUTHORITIES PENSION COMMITTEES, COUNCILS OR BOARDS

TARGET RISK SCORE

Impact							
	5	PSS	1				
		ED					
		RS					
		G					
		AP					
	4	PSS	3				
		ED					
		RS					
		G					
		AP					
	3	PSS	1				
		ED	3				
		RS		3	1		
		G	1	2			
		AP		3			
	2	PSS					
		ED		1			
		RS		4			
		G	1	2			
		AP	1	3			
	1	PSS					
		ED					
		RS	1				
		G					
		AP					
			1	2	3	4	5
			Likelihood				

Project Brunel risk scoring

Likelihood scoring

Score	Description	Estimated probability	History
5	**Very high**	More than 80% chance of occurring.	A regular occurrence, circumstances found frequently.
4	**High**	51 - 80% chance of occurring.	Has occurred from time to time and may do so again in the future.
3	**Medium**	21 - 50% chance of occurring.	Has occurred previously but not often and may have been in a limited way.
2	**Low**	6 - 20% chance of occurring.	Has only happened in a very limited way.
1	**Very low**	Less than 5% chance of occurring.	Has rarely or never happened.

Impact scoring

Score	Description	Our integrity	Capacity to deliver
5	**Very high** Requires almost total management attention to manage.	o Serious operational failure/disruption - > 1 month recovery.	o Total failure to achieve aims/objectives.
		o Long term effect and difficult and/or expensive to recover.	o Prevents continuing with "business as usual".
		o Prolonged national attention and media coverage.	o Financial impact on assets/liabilities > £100m
		o Substantial reputation damage.	o Massive intellectual impact linked to impairment to key people/skills/judgement/time
		o Serious stakeholder concern.	o Massive increase in cost of servicing funds - staff related costs/use of advisors/IT.
		o Serious fraud, corruption or irregularity.	o National Audit Office qualifies the accounts.
4	**High** Requires major effort in terms of resource, time and urgency to manage.	o Significant operational failure/disruption - =< 1 week recovery	o Significant impact on the achievement of aims/objectives
		o Medium to long term effect and difficult and/or expensive to recover.	o Significant damage to ability to continue "business as usual".
		o Prolonged internal attention (including corporate) with specialist pension media coverage.	o Financial impact on assets/liabilities > £30m
		o Significant reputation damage.	o Substantial intellectual impact linked to impairment to key people/skills/judgement/time
		o Significant stakeholder concern.	o Substantial increase in cost of servicing funds - staff related costs/use of advisors/IT.
		o Moderate fraud, corruption or irregularity	o National Audit Office Management Letter identifies issues.
3	**Medium** Requires some immediate resource commitment to manage.	o Moderate operational failure/disruption - =< 24 hours recovery	o Moderate impact on the achievement of aims/objectives.
		o Medium term effect which may be difficult and /or expensive to recover.	o Moderate damage ability to continue "business as usual".
		o Prolonged internal attention with brief media coverage.	o Financial impact on assets/liabilities > £10m
		o Some reputation damage.	o Moderate intellectual impact linked to impairment to key people/skills/judgement/time
		o Moderate stakeholder concern.	o Moderate increase in cost of servicing funds - staff related costs/use of advisors/IT.
		o Some fraud, corruption or irregularity.	o National Audit Office comment on the accounts.
2	**Low** Requires some non-urgent resource commitment to manage.	o Minor operational failure/disruption - =<1 hour recovery	o Minor impact on the achievement of aims/objectives.
		o Short to medium term effect.	o Manageable inconveniences to "business as usual".
		o Attention within local operations; no media coverage.	o Financial impact on assets/liabilities > £3m
		o Minor reputation damage.	o Small intellectual impact linked to impairment to key people/skills/judgement/time
		o Minor stakeholder concern.	o Small increase in cost of servicing funds - staff related costs/use of advisors/IT.
1	**Very low** No or minimal resource impact.	o Insignificant operational failure/disruption.	o No/minimal impact on the achievement of aims/objectives.
		o Minor or no effect.	o Does not damage ability to continue "business as usual".
		o Does not damage ability to continue "business as usual".	o Financial impact on assets/liabilities > £1m
		o Contained within the business unit.	o Minimal or no intellectual impact linked to impairment to key people/skills/judgement/time
		o No/minimal stakeholder concern.	o Minimal or no increase in cost of servicing funds - staff related costs/use of advisors/IT.

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