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## Avon Pension Fund Annual Report 2011/12

This year's report includes photographs celebrating a year of participation and enthusiasm in sport.

#### Chairman's Foreward

As the Chairman of the Avon Pension Fund Committee I am pleased to present the Fund's Annual Report and Financial Statements for the year ended 31 March 2012.

The Fund is undergoing a period of intense change with the introduction of auto-enrolment during 2012/13 and a new scheme in 2014. The Hutton review in 2011 highlighted the value to employers and staff of well-managed, locally accountable pension funds within the Local Government Pension Scheme. Stemming from this review, we now have a set of proposals for a new scheme that should ensure that it remains viable and affordable in the long term.

Against this background the investment environment has been volatile. The value of pension liabilities is particularly high which negatively affects the funding level (the difference between investment assets and liabilities). However, there is a funding plan in place to return the Fund to full funding over 23 years and this plan will be reviewed in 2013 as part of the triennial valuation.

Having robust strategies and policies in place are vital if the Fund is to successfully meet the challenges it faces. The Administration Strategy is critical in terms of data management and ensuring resources are in place to cope with the increasing number and variety of employers. The well diversified Investment Strategy has protected the Fund against extreme moves in financial markets and has delivered relatively good returns,

above those of the average local authority fund over the last year. Lastly good governance, demonstrated by our high level of compliance with best practice governance standards and the collective knowledge and experience of the Committee, enables the Fund to continuously develop the quality of service it provides.

Finally I would like to take this opportunity to thank the staff for their contribution to delivering a high standard of service throughout the year.

**Paul Fox** 

Chairman, Avon Pension Fund Committee

#### **Review of the Year**



#### **LGPS 2014**

This year has seen the Government, employers and the trades unions making strides towards the reform of public service pension schemes, following the Government's acceptance of the recommendations given in Lord Hutton's independent review of public service pensions.

Although the reforms were intended to become effective from 1 April 2015, the Government had announced in its Comprehensive Spending Review in October 2010 that employee contribution rates would increase for public service schemes by 3.2% on average between April 2012 and April 2015.

The fact that the LGPS (Local Government Pension Scheme) is the only public service scheme that is funded caused concerns that such a significant increase in contributions would lead to large numbers of members electing to opt out of the LGPS resulting in serious issues with sustainability. DCLG (the Department for Communities and Local Government), employers, trade unions and LGPS funds lobbied HM Treasury to agree to the savings being met in other ways. At the end of June 2011, the Government agreed to discuss reforming the LGPS separately from the other public service schemes.

In October 2011, DCLG issued its Statutory Consultation Document which set out options for Scheme amendments to apply from April 2012 proposed by themselves, HM Treasury and the LGA (Local Government Association). The Statutory Consultation Document was released without trades union agree-

ment having been achieved.

During the statutory consultation period there was a growing consensus that, instead of having separate scheme changes coming into effect both in 2012 and 2015, it would be more appropriate to combine them into one set of changes to be effective from April 2014.

In December 2011, the Government set out their views on reform with a preferred scheme design of a Career Average Revalued Earnings (CARE) Scheme with a 60ths accrual rate. The public service pension schemes have each been set individual 'cost ceilings' in order to ensure on-going affordability and sustainability, and each scheme has the freedom to change the scheme design provided it is still within its cost ceiling, subject to the approval of HM Treasury.

As part of agreements made with the Government in December 2011 regarding all public service pension schemes it was decided that, for the LGPS, employers and trades unions would work together to formulate a new scheme that would incorporate all matters to ensure affordability and sustainability provided that the overall financial constraints are met (effective from April 2014).

'The New LGPS 2014 Project' comprising representatives from the LGA and trades unions (GMB, UNISON and Unite), with input from the DCLG, has put forward proposals for the new LGPS. This concentrates, in particular, on member contribution rates, accrual rates and the scheme retirement age.

The proposals for scheme design was submitted to the Government in February and are currently being considered by ministers. A formal consultation is expected in autumn 2012, with draft regulations to be issued early in 2013 and actual regulations to be operative from April 2014.

## Pensions Administration Strategy

Legislation in 2008 empowered LGPS funds to develop a Pensions Administration Strategy (the Strategy) for the purpose of improving the administrative processes within their Fund. Given the complexity of a multi-employer pension fund, the Fund introduced its Strategy from 1 April 2011, following consultation with Scheme employers.

The purpose of the Strategy is to develop best practice in service delivery in order for the Fund and scheme employers to meet future challenges more efficiently. The focus of the Strategy is:

- to improve communications between the Fund and employers
- to increase the utilisation of technology for capturing and processing data
- to provide more training for inhouse staff and for employers' staff dealing with pensions

Integral to the Strategy are the Service Level Agreements between the Fund and individual employers. These agreements set out agreed performance standards for both parties that will be monitored in order that any processing, training or communication issues can be resolved. Several meetings have been held with the main employers during the year to review performance.

In addition, the Avon Pension Fund Committee reviews the summary performance reports to ensure the Strategy is being implemented and the administration process is working efficiently. (More detail is contained in the Administration Report on page11)

#### **Funding Level**

The last triennial valuation reflected the funding situation as at 31 March 2010. At that time the funding level was 82% leaving a deficit of 18% or £552m. Since then there has been significant turmoil in the bond and equity markets; as a result, the funding level (the balance between the investment assets and pension liabilities)has fallen to an estimated 70% as at 31 March 2012.

Much of the deterioration is due to the rise in the value of the liabilities. The value of the liabilities has been affected by the fall in gilt yields, especially since June 2011. UK gilt yields were already at relatively low levels before the Eurozone crisis erupted in mid-2011. As Eurodenominated government debt was deemed 'risky', investors sought relative safety in UK gilts, pushing yields to historic lows. As the discount rate used to value future pension liabilities is based on gilt yields, the value of the pension liabilities rose as the gilt yield fell. In addition, asset returns although positive, were not sufficient to offset the rise in liabilities.

The next valuation is due in March 2013. At this time it is expected that the 'new scheme' changes will be incorporated in the valuation and be reflected in the contribution rate for future service from 2014 onwards.

## Fund Performance and Investment Strategy

Fund assets rose 3.5% to £2.76bn

Fund assets increased by £99 million (or 3.5%) during the year to £2.76 billion at 31 March 2012. Performance was driven largely by strong returns across fixed income assets and to a lesser extent property, with equity markets experiencing mixed returns. Over the last 10 years the Fund's return of 5.8% per annum is marginally below the level of returns assumed by the Fund's funding strategy.

This year's performance was achieved against a background of volatile investment markets. The dominant issue was that of the uncertainty surrounding European government debt given the prospect of sovereign credit default and the potential break-up of the euro. As the year came to an end, the economic outlook was for a long period of low or zero growth in developed markets with European political instability still at the fore.

During the year there was no change to the strategic asset allocation of 60% equities, 20% bonds, 10% hedge funds and 10% property. Changes to the investment structure included implementation of an active currency hedging programme over the Fund's US dollar, euro and yen denominated equity assets with the aim of protecting the sterling value of the portfolio from detrimental movements in exchange rates. In December 2011, the Fund commenced a review of its responsible investment policy which will conclude in 2012.

#### Governance

2011 was an election year across the four unitary councils in the Fund and, as a result, there were a number of changes in the Avon Pension Fund Committee membership (the Committee). However, the inclusion of non-council nominated members provides a significant degree of continuity on both the Committee and Investment Panel.

A series of induction sessions were arranged for new Committee members to gain a broad understanding of the governance and assurance framework, administration, funding and investment strategies.

#### **Change from RPI to CPI**

A group of trade unions and pensioners challenged the Government's decision to change the method of revaluation of public service pensions from the retail prices index (RPI) to the consumer prices index (CPI). However, the High Court ruled that the change was lawful. The case was taken to the Court of Appeal, which ruled that the Government had not acted unlawfully.

## Changes to Scheme Factors (change of Discount rate)

The Government changed the discount rate which, although primarily used by the unfunded public service pension schemes, did have implications for LGPS. As a result, the Government Actuary's Department (GAD) issued revised guidance and factors for a number of LGPS calculations, including transfers, pension sharing on divorce and adjustments for early and late retirements. There were some administrative problems that resulted because of delays in receiving the guidance from GAD and implementing this via our software system.

#### **HMRC** changes

The Government reduced the Annual Allowance from £255,000 to £50,000 for the tax year 2011/12. All affected members must be notified by the administrators of their pensions arrangement within 6 months from the end of the tax year if they exceed the new Annual Allowance limit. Regulations were expected for 'Scheme Pays' whereby a member can elect for any tax payment due exceeding £2,000 to be paid by the Scheme and subsequently deducted off their pension benefits at retirement. However the necessary guidance and factors to operate Scheme Pays' in the LGPS are still awaited from DCLG and GAD.

The Government has also reduced the Lifetime Allowance from £1.8m to £1.5m from 6 April 2012. Scheme members affected by this were notified by Avon Pension Fund that they could apply to HMRC for fixed protection.

# Governance & Management Structure as at 31 March 2012



#### **Administering Authority:**

Bath & North East Somerset Council

#### **Governance:**

Members of the Avon Pension Fund Committee:

#### **Councillor Paul Fox (Chair)**

Bath & North East Somerset Council

#### **Councillor Gabriel Batt**

Bath & North East Somerset Council

#### **Ann Berresford**

Independent Member

#### **Councillor Nicholas Coombes**

Bath & North East Somerset Council

#### **Councillor Mike Drew**

South Gloucestershire Council

#### **Carolan Dobson**

Independent Member

#### **Councillor Charles Gerrish**

Bath & North East Somerset Council

#### **Councillor Katie Hall**

Bath & North East Somerset Council

#### **Rowena Hayward**

**GMB** 

#### **Bill Marshall**

University of the West of England

#### **Councillor Mark Wright**

**Bristol City Council** 

#### **Non - Voting Members:**

#### **Clive Fricker**

Parish & Town Councils

#### **Richard Orton**

Unison

#### **Steve Paines**

Unite the Union

#### **Paul Shiner**

Unite the Union

#### Independent Investment Advisor:

**Tony Earnshaw** 

#### **Council Officers:**

#### **Andrew Pate**

Director of Resources & Support Services

#### **Tony Bartlett**

Head of Business Finance & Pensions

#### **Liz Woodyard**

Investments Manager

#### Steve McMillan

Pensions Manager

#### **Vernon Hitchman**

Monitoring Officer

#### **Investment Managers:**





























#### **Actuary:**

#### **Legal Advisors:**

#### **Investment Consultant:**











#### Bankers:











#### **Fund Governance**



#### **Avon Pension Fund Committee**

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

The Committee is responsible for the following:

- The determination of investment policy objectives
- Ensuring appropriate investment management arrangements are in place
- The appointment of investment managers and the ongoing monitoring of investment performance
- The commissioning of actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations
- Approving requests from organisations wishing to join the Fund as an admitted body
- Making representations to Government as appropriate concerning any proposed changes to the Local Government Pension Scheme;
- All aspects of benefit administration

The Committee structure is shown in Table 1. The Committee membership as at 31 March 2012 is set out on page 5.

The Committee meets formally each quarter and attendance at these meetings during the year was 87.5% for the voting members and 50% for

*Table 1: Committee Structure* 

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

the non-voting members. The attendance record for each Committee member is set out in Table 2.

In addition to the quarterly meetings, the Committee held two workshops in 2011/12 to review:-

- the Fund's policy towards Socially Responsible Investing
- ii. the Interim Actuarial Valuation

#### **Investment Panel**

Given the size of the Committee and complexity of investment issues, the Committee is supported by an Investment Panel (the Panel) which considers investment issues in greater depth. The Panel has no delegated powers, and can only make recommendations to the Committee.

The Panel consists of up to six voting members of the Committee and meets at least four times a year.

The Panel is responsible for the following:

- Recommending strategic investment objectives, policy and strategic asset allocation
- Regularly reviewing in detail

- and assessing the performance of the investment managers, investment advisors, custodian and actuary
- Recommending appointment and termination of investment managers and professional service providers as required
- Reviewing the Statement of Investment Principles and submit to Committee for approval
- Making recommendations to the Committee on matters relating to investment strategy and management as the Panel considers appropriate. This will include issues of a more urgent nature, where the view of the Panel would be taken into consideration. (The section 151 Officer has delegated powers regarding urgent actions, and these would be exercised having consulted the Chair of the Panel).
- Reviewing any legislative changes which have implications for investment governance and make recommendations to the Committee as appropriate

As there was a new Panel from June 2011, only three meetings were held during the year. Overall attendance was 87.5%. In addition the Panel

Table 2: Committee Attendance Record

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

held one workshop as part of a programme to review each of the investment managers over the twelve month period. The rest of these reviews were accommodated within the quarterly meetings.

#### **Training**

The administering authority recognises the importance of training, both for Committee members and pension fund staff responsible for financial management and decision making within the Fund. The Fund provides training for Committee members and staff to ensure they possess an appropriate level of knowledge, skill and understanding to discharge their duties. The Head of Pensions is responsible for ensuring that those responsible for the pension fund have the required level of knowledge to discharge their duties effectively.

The Fund's approach to training is based on the Myners principles for best practice in decision making which highlights the need for administering authorities to ensure:

 that decisions are taken by persons or organisations with the skills, knowledge advice and resources necessary to make them effectively and monitor implementation; and

 those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

The Fund has in place a formal training framework which is based on the Chartered Institute of Public Finance and Accounting (CIPFA) Knowledge and Skills Framework for LGPS funds, which identifies six areas of knowledge as follows:

- Legal and governance context
- Pensions Auditing and Accounting Standards
- Procurement and Relationship Management
- Investment Performance and Risk Management
- Financial Markets and Product Knowledge
- Actuarial Methods, Standards and Practices

Committee training is delivered in a variety of formats, reflecting the strategic importance of the subject matter to the Committee's agenda and the differing level of knowledge and understanding across the Committee. Many of the areas identified by the framework are covered through detailed Committee reports and workshops where the topic is explored greater in detail. The training provided in 2011/12 is shown in Table 3.

In addition, Committee members and staff are encouraged to attend seminars and conferences which broadens their understanding of investments and topics of relevance to the LGPS.

As there were a number of new Committee members appointed after the local elections in May 2011, two Induction Sessions were held for new members tailored to the Fund's agenda. The topics covered included governance, administration strategy, investments, fund solvency and risk management. During the year new Committee members attended the Fundamentals Training Courses offered by the Local Government Pension Committee.

Officers' annual performance review identifies any training needs as well as monitoring individual perform-

ance against objectives. The administering authority's approach is to ensure that the officers responsible for the management of the Fund possess, in aggregate, the skills and knowledge required for them to fulfil their role.

**Governance Compliance Statement** 

The Fund is required under the regulations to publish a Governance Compliance Statement which

demonstrates the extent to which the Fund complies with best practices in pension fund governance. The Fund's latest statement was approved by the Committee in December 2009 and remains current as there have been no changes to the governance arrangements. The statement shows a high level of compliance with best practice and is summarised in Table 4.

Copies of the latest Governance

Compliance Statement can be obtained either from the Fund's website www.avonpensionfund.org.uk or by email from avonpensionfund@bathnes.gov.uk

*Table 3: Training provided in 2011/12* 

Topic	Delivered by:
<ul> <li>Governance</li> <li>Legal responsibility of Committee &amp; Officers</li> <li>Governance &amp; assurance framework</li> <li>Administration Strategy</li> <li>Investment Regulations</li> </ul>	Committee reports External conferences/training course In-house training for new members
<ul><li>Employer and Funding risks</li><li>Admission bodies</li><li>Employer risks</li><li>Funding level/solvency</li></ul>	Committee reports cover funding position and employers risks Interim Actuarial Report & workshop In-house training for new members
<ul> <li>Investment Strategy</li> <li>Asset Allocation</li> <li>Performance monitoring</li> <li>Investment manager monitoring</li> <li>Stewardship activities</li> <li>Responsible investing policy</li> </ul>	Quarterly Committee reports review investment strategy and performance Workshop to review Responsible Investing Policy External conferences In-house training for new members

Table 4: Governance Compliance

Principle	Compliance status	Comment
Governance structure	Compliant	The decision-making structure is clearly defined
Representation	Partial Compliance	There is broad representation of employers and scheme members on the Committee. However admission bodies are not represented as it is difficult to have meaningful representation from such a diverse group of employers.
Selection / role of lay members	Compliant	The role and responsibilities of all members are set out in a Job Description and circulated prior to appointments.
Voting	Compliant	There is a clear policy on voting rights which have been extended to employer and member representatives.
Training / Facility time / Expenses	Compliant	There is a clear policy on training. The Fund pays all approved training courses for all members. The training plan reflects the needs of the Committee agenda.
Meetings	Compliant	Formal meetings are held quarterly and lay members are included in the formal arrangements.
Access	Compliant	All members have equal access to meeting papers and advice.
Scope	Compliant	The terms of reference include all aspects of benefits administration and admissions to the Fund. The Committee reviews the risk register, the internal control reports of key 3rd party suppliers and all statutory policy statements.
Publicity	Compliant	All statutory documents are made available to the public.

### **Risk Management**



Bath & North East Somerset Council is responsible for the administration of the Avon Pension Fund. The Council has delegated this responsibility to the Committee which is responsible for the risk management process and compliance with regulations.

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

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

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

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

#### **Investment Risks**

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

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

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

Committee and/or Panel.

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

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

#### **Actuarial Risks**

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

The potential insolvency of scheme employers, leaving outstanding liabilities in the Fund, is a significant risk to the Fund and other employers. The Fund requires all bodies

that wish to be admitted to the Fund to be guaranteed by a scheme employer(s) or to provide a bond to protect the Fund in the event of insolvency. The Fund monitors the financial sustainability of the scheme employers and takes this into account in the valuation exercise.

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

#### **Financial Risks**

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

A key financial risk is the non-payment of contributions by employers.

The Regulations provide a sanction for late payments. Processes are in place to ensure that contributions are reconciled regularly.

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

#### **Benefits Administration Risks**

The administration risks relate mainly to the inability of the Administrator to meet its obligations to administer the Fund and pay benefits accurately and on time as agreed with employers or under statute. The main areas of risks are non-payment or late payment of members' benefits, incorrect calculation of benefits, breach of Data Protection legislation or failure to comply with Freedom of Information Act requests and Disclosure of Information requirements. All of the above could lead to adverse publicity. loss of reputation and ultimately statutory fines. These are addressed in the Business Continuity Plan and

mitigated in the Risk Register.

#### **Business Continuity Plan**

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

#### **Risk Register**

A summary of the key risks identified in the pension fund's Risk Register are shown in Table 5 below.

Table 5: Key Risks

Risk	Management action
The Fund fails to achieve investment returns sufficient to meet its liabilities.	Set a Fund-specific benchmark which determines the appropriate risk adjusted return strategy to meet the liabilities. Fund performance and funding level monitored each quarter by Committee
Offices and /or systems not accessible. Implications are that failure would cause disruption to benefits processing and delay benefit payments and create backlog of tasks.	Business Continuity and disaster recovery policy and plans are in place. These consider the different scenarios of building, hardware and systems not being available and specify the circumstances in which disaster recovery measures are triggered.
Non-compliance with the Data Protection Act. Implications are that fines could be imposed, risk of criminal/civil prosecutions, adverse publicity and data processing could be suspended.	The Fund is DP registered through the Administering Authority.  Confidentiality Agreements are in place with third parties on restrictions on use of confidential member data.
Insolvency of Participating Employers in the Fund without sufficient monetary guarantees or bonds to make good their outstanding liability. Such liabilities will be absorbed by the Fund and spread across other employers.	Ongoing monitoring of financial standing of all admitted bodies.  Explore options for obtaining stronger guarantee from the employer or sponsoring authority if the employer is in the Fund.
Lack of continuity within Committee which arises because most members face re-election simultaneously.	Appointed two independent members to the Committee (independent from the administering authority, scheme employers and unions)

## Pension Administration



#### New Pensions Administration Strategy implemented

Following consultation with the employers participating in the Fund during autumn 2010, and approval by the Committee in December 2010, the Pension Administration Strategy ("the Strategy") came into effect from 1 April 2011. The Strategy sets out the Fund's policy for administering the Fund, the standard of service to be delivered and the Fund's requirements of the employers. This covers benefits administration, staff and employer training, the IT strategy and the Communications Strategy. Part of the Strategy aims to identify where improvements are required and establish milestones for delivery of notification of member changes in a timely fashion. Significant changes to the LGPS benefit structure are expected over the next 3-5 years and this Strategy will be key to preparing the Fund for these changes.

The primary objective of the Strategy is for the Fund and employers to work together more effectively in order to meet future challenges and to continue to deliver an high quality level of service to members. Key elements are the improvement of communications between employers and the Fund, comprehensive process training for both the Fund's staff and pension staff at the employers, and the more effective utilisation of technology to capture and process data.

The Strategy incorporates performance targets for both the Fund and employers which are set out in Service Level Agreements (SLAs). Larger/medium sized employers already have SLAs in place. However, these will be updated to include agreed 'stretch' targets against which the

performance of both parties will be monitored. Results will be published in Individual Stewardship Reports for the larger employers showing both APF's and employer performance against set targets are produced each quarter and considered at review meetings with those employers. In addition, the Avon Pension Fund Committee has a monitoring role to play and is therefore given a summary performance report which is reviewed at each quarterly meeting.

#### **Technological Advances**

The Fund seeks to maximise technological enhancements wherever possible. The Fund's website has been significantly improved in recent years. A separate employer's website is being developed and is expected to go live in the autumn of 2012.

#### The main initiatives are:

- 1. Self-service modules for members and employers have been introduced:
- Member Self Service ("MSS"):
  The web-based Member Self Service facility allowing members' access to their pensions information with the facility to perform "what if" calculations has generated significant interest and there are now over 2,500 registered members. The number of enquiries has reduced probably as a consequence of this and the more comprehensive information easily available on the Fund's website
- Employer Self Service ("ESS"): Following the success of MSS, a similar access facility for employers was launched in

October 2011 and most employers have signed up. This facility allows employers themselves to carry out calculations for retirement cases and, in the case of redundancy or efficiency, to calculate the Strain on the Fund cost which is an important element for employers when considering such cases. This has reduced the number of estimate requests APF received from employers. The new facility has been well received by employers as it puts them in control and speeds up the process. ESS is provided to employers at no direct cost as costs have been met by APF.

## 2. Proposed Changes to electronic delivery to members

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

A move to reduce these costs, as a first step the Fund is combining with Club Together (a subsidiary of Xaffinity Paymaster) from early 2014 and will be sending its magazine to pensioner members in place of the current "atease" newsletter. A specific newsletter for pension-

ers will still be produced by the Fund to send with the Club Together magazine but Fund's content will be limited to nongeneric articles. It is expected this will save significant printing and postage costs each year.

In a further move, the Fund proposes to move to electronic delivery of all communications with members by 2014. This will be achieved through the rollout of Member Self Service to as many Fund members as possible.

## 3. Electronic delivery by employers

Employers are encouraged to send notification of all changes which affect members' benefits to the Fund electronically thorough a secure portal which ensures protection of the data sent. Several employers including the largest, Bristol City Council with over 40% of the Fund's members, are successfully using this facility and this has improved efficiency for both the employer and the Fund. The Fund produces a 3-year Service Plan and Budget on a rolling basis each year which is approved by Committee. It sets out targets to be achieved by the Fund. Electronic delivery provides an interface with the Fund's own administration software resulting in automatic updating and reducing the number of manual errors and file rejects. A key target in the 2011 Service Plan was to extend electronic delivery to the other large to medium employers.

The Administration Strategy includes targets for electronic delivery by employers of changes to members' pensions data. Some progress has been made and employers have been given an extended target date of March 2013 for setting up electronic delivery. Smaller employers are being encouraged to use ESS from March 2013 when the facility for individual on-line updating of changes to member data will be available. Non-compliance will result in additional charges to employers for APF having to process paper-based changes.

#### **Performance Indicators**

The Fund takes part in the annual Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Administration Benchmarking Club ("the Club"). The published results are used to target areas for improvement in the Service Plan to understand the specific service pressures that the Fund faces and to operate as efficiently and effectively as possible.

Table 6 (below) uses data from the 2012 CIPFA Benchmarking Report which compares the data and performance of local authority pension funds in the Club (62 out of the 99 LGPS funds). It shows performance of LGPS Funds which have chosen to be benchmarked against industry standard targets.

The Fund's own targets are set out in the Service Level Agreements (SLAs) it has in place with its employers covering over 90% of the active members. In many cases these

targets are more challenging than the industry standard. Quarterly SLA review meetings are held with larger employers.

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

#### **Communications**

The Fund publishes its Communication Policy on its website which now forms an integral part of the Administration Strategy.

The Fund believes that clear and meaningful communication with members and employers is vital and it uses various media to achieve effective communication including newsletters for members (Avon Pension News), a separate newsletter for pensioners (atease), and an employers' newsletter.

One of the Fund's objectives is to communicate electronically, where appropriate, in order to reduce printing and postage costs.

#### Website

The Fund has had its own dedicated pension website for over 10 years and this is now a major source of information for members and employers. The site was redesigned in 2008 to provide separate sections for each category of membership and one for employers. This enables the Fund to target its information appropriately for each audience.

The website received an increased

*Table 6: Performance Indicators 2011-12* 

Performance Indicator	LGPC Standard Target	Fund achieved against target %	CIPFA club average
Letter detailing transfer in quote	10 days	79	83
Letter detailing transfer out quote	10 days	87	87
Process refund and issue payment voucher	5 days	77	73
Letter notifying retirement benefit amount – estimates	10 days	94	92
Letter notifying actual retirement benefits	5 days	81	88
Letter acknowledging death of member	5 days	87	95
Letter notifying amount of dependant's benefits	5 days	87	85
Calculate and notify deferred benefits	10 days	58	75







number of 'hits' this year demonstrating Members' and media interest in pensions, particularly following the Hutton Review of Public Sector Pensions. The new Member and Employer Self-Service modules are web-based which increases the usefulness and importance of this medium.

#### **Member Satisfaction**

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

#### **Pension Clinics**

The Fund offers to hold pension clinics for members at employers' sites. At these clinics individual members' queries are addressed with them on a one-to-one basis. During the calendar year 2011, 19 clinics were held and over 250 members were seen. These members were asked to complete satisfaction questionnaires rating the adequacy of staff's response and their helpfulness, the suitability of the venue location and the privacy afforded them. Ratings ranged from 88% to 100% with an average rating of 96%.

#### Retirements

Shortly after retirement, questionnaires are sent to members for feedback on the quality and timeliness of the service they received from the Fund in dealing with their retirement. An overall rating of 98% as good or excellent was received on the quality of service received.

#### Complaints

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

#### **Disagreements Procedure**

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

During the year there was one case in progress under Stage1 (appeals against initial decision of the administering authority). There were two cases completed and two cases in progress under Stage 2 (further appeal where the initial decision and Stage 1 was completed by the em-

ployer).

#### **Key Staffing Indicators**

The Fund is administered by Bath & North East Somerset Council and the administration of the Fund is undertaken 'in house' by the Council. The Pensions Service is split into 3 sections, namely, Investment and Finance, Benefits Administration, Systems Support and Pensions Payments. A detailed Organisation Chart is available on the Avon Pension Fund website: www.avonpensionfund.org.uk

The total number of staff in the Pensions Service administering the Scheme was 38.5 in 2011/12 and of these 19.1 are involved in benefits administration.

Table 7 is an analysis of staff based data from the CIPFA Benchmarking Club 2012 Report. This shows the average number of members dealt with by each of the Benefits Team staff and the average number of cases processed per member of staff.

*Table 7: Key Staffing Indicators 2011-12* 

Key Staffing Indicators	2012	(CIPFA club average)	2011	(CIPFA club average)
Number of staff administering the LGPS scheme	19.1		18.7	
Fund Member / Staff ratio	4,617	(3637)	4,568	(3,484)
Average number of cases dealt with by benefits staff	242		244	

### **Investment Report**



#### 1. Investment Regulations

#### (a) Investment Limits

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

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

The limits relevant to the Fund are:

- no more than 25% may be invested in unit trusts managed by any one body;
- no more than 10% of the Fund may be invested in unlisted securities;
- no more than 10% of the Fund may be invested in a single investment holding;
- no more than 10% of the Fund may be deposited with any one bank;
- loans from the Fund may not exceed 10% of the value of the Fund:
- no more than 35% may be invested in any one insurance contract;
- no more than 5% may be invested in any single partnership;
- investments in partnerships may not exceed 5% of the value of the Fund.

#### (b) Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the investment principles of the Fund and how the investments are managed in line with the principles.

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

- 1. Implementation of the active currency hedging mandate
- 2. Implementation of changes to the hedge fund portfolio following review in March 2011
- 3. Amendment of the statement regarding realisation of investments (paragraph 22), specifically, that the investment strategy will be reviewed to manage the use of income/divestments to meet pension payments.

In July 2010 the FRC published the Stewardship Code, a set of best practice principles that are intended to frame both shareholder engagement with companies, and the disclosure of such activity. The Fund published a statement describing how the principles of the Code have been applied and an explanation where elements of the Code have not been complied with.

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

The latest SIP was approved by the Committee at its meeting in March

2012. A copy of the statement can be obtained either from the website www.avonpensionfund.org.uk or by email from avonpensionfund@bathnes.gov.uk

## Compliance with the Myners Principles

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

The Fund's current compliance with the Myners' Principles is summarised in Table 8, but a full explanation can be found in Appendix 5 to the SIP.

#### 2. Investment Strategy

The objective of the investment strategy is to achieve the investment return required by the funding strategy in order to meet the Fund's liabilities over time and to recover any funding deficit. The strategy must produce investment returns that will help stabilise and minimise employer contribution rates in the long term as well as reflecting the balance between maximising returns, protecting asset values, and matching the liabilities (to minimise investment risk).

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

The Committee reviewed the investment strategy in 2009 and concluded that although the overall asset allocation remained appropriate, the allocation to UK equities should be reduced in favour of overseas equities to enhance the return potential and increase diversification. This was completed during in April 2011 with the funding of a global equity portfolio managed by Schroder Asset Management. The Fund also made changes within the hedge fund portfolio in July and August

2011 following the review of hedge funds completed in early 2011.

During the year the Fund implemented an active currency hedging programme over the Fund's US dollar, euro and yen denominated equity assets (excluding those in emerging markets). Active currency hedging aims to protect the sterling value of the portfolio from detrimental movements in exchange rates (i.e. when sterling is appreciating) whilst allowing the Fund to benefit from favour-

able movements (i.e. when sterling is weakening). In addition, this approach was taken to minimise the potential cash flows arising from a currency hedging process.

Towards the end of 2011 the Fund deviated from its strategic benchmark, increasing its allocation to corporate bonds and reducing the exposure to UK gilts. This tactical position took advantage of the perceived value of corporate bonds compared to UK gilts. The tactical

Table 8: How the Avon Pension Fund achieved compliance with the Myners Principles

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

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

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

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

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

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

Table 9: Strategic Asset Allocation and Actual Asset Allocation

Asset Class	Strategic Allocation	Actual Allocation 31 March 2011	Actual Allocation 31 March 2012
UK Equities	18.0%	24.9%	19.6%
Overseas Equities	42.0%	37.7%	40.3%
Index-Linked Gilts	6.0%	6.0%	6.9%
Fixed Interest Gilts	6.0%	7.2%	4.9%
UK Corporate Bonds	5.0%	5.2%	8.7%
Overseas Fixed Interest	3.0%	2.8%	2.8%
Fund of Hedge Funds	10.0%	8.3%	7.8%
Property	10.0%	6.5%	7.1%
Short term deposits / Other	0.0%	1.4%	1.9%

position remains in place as the year ended.

In December 2011, the Fund commenced a review of its responsible investment policy which will conclude in 2012/13.

#### **Strategic Asset Allocation**

The strategic asset allocation and actual asset allocation as at 31 March 2012 and the previous year is shown in Table 9. Note that as at 31 March 2012, the Fund's overseas property investment manager was still in the process of investing the monies allocated to property, and the tactical allocation to UK corporate bonds from gilts was in place.

## Investment Management Structure

The Fund's investment strategy is implemented by external investment managers. The investment management structure and the amount of assets each manager manages on behalf of the Fund as at 31 March 2012 is set out in Chart 1. Following the 2011 hedge fund review the mandate with Lyster Watson was terminated and the allocation to MAN reduced with the proceeds invested with two of the other managers, Stenham and Signet. In addition, Schroders global equity portfolio of c.6% was funded in April 2011.

#### 3. Market Background

Here we describe the backdrop against which the Fund's asset performance (set out in section 4) was achieved.

2010/11 ended with a month which

saw the devastating earthquake and tsunami in Japan, the political turmoil in the Middle East and concerns over the Portuguese economy and Irish banks. As a result, the outlook at the outset of 2011/12 was for a slowing recovery, with uncertainty remaining and concerns over Europe still at the fore. The year that followed experienced continuing volatility as investors responded to the changing economic information and market sentiment, with investors fluctuating between a "risk-on" outlook (where investors were looking to invest in riskier assets such as equities) and a "risk-off" approach where they seek safe havens such as bonds and eschew risk assets.

The dominant issue of the year was the uncertainty surrounding European sovereign credit defaults and the potential break-up of the euro which was exacerbated by an unwillingness by European policy makers to take substantial action to address the crisis. Finally in December 2011, the European Central Bank commenced it's Long Term Refinancing Operations which stabilised markets, only for uncertainty to resurface early in 2012 as some non periphery countries (France and Holland) faced the prospect of holding elections in the face of rising opposition to austerity measures.

Other themes throughout the year included the threat of a global double dip recession and a slowing of growth in China.

As the year came to an end, the outlook was for a long period of low or zero growth with political instability returning in some Eurozone countries. Despite the US showing signs

of recovery and the potential for growth (albeit lower) within emerging markets, a double dip recession still seemed possible, with the future path of growth in the Chinese economy a key determining factor. In essence, the year ended as it began, with uncertainty the overriding characteristic.

The returns for the individual asset classes and markets in 2011/12 along with the three year returns in sterling are set out in Chart 2. Key characteristics over the year were the strong performance of fixed income assets compared with the relatively poor performance of equity markets, with only north American equities achieving a significant positive return, whilst European equity markets understandably produced the largest negative performance. Property maintained its diversification value producing a positive return, whereas hedge funds failed to generate positive returns in the challenging market environment.

#### 4. Investment Performance

Here we describe the investment performance that was achieved during the year at both fund and individual manager level.

Following a robust performance in 2010/11 of 7.8%, the value of the Fund rose by 3.5% (or £99 million) during 2011/12, to £2.76 billion at 31 March 2012. Performance was driven largely by strong returns across fixed income assets and to a lesser extent property. Equity markets experienced mixed returns with the most striking comparison of North America +6.9% and Europe -11.2%.



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

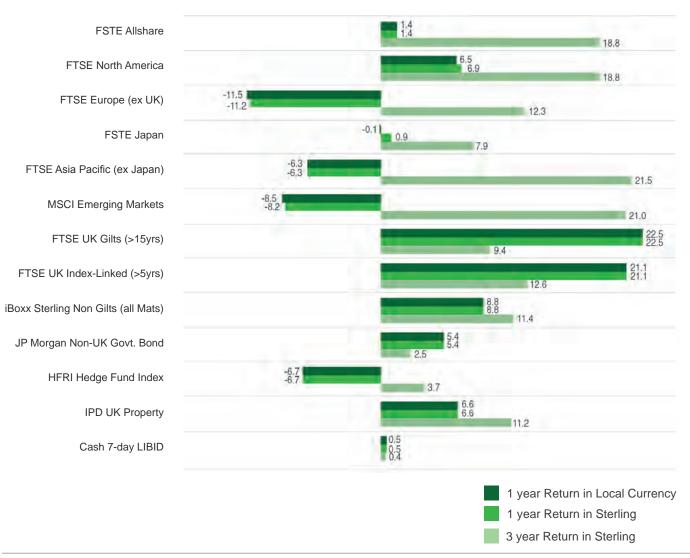
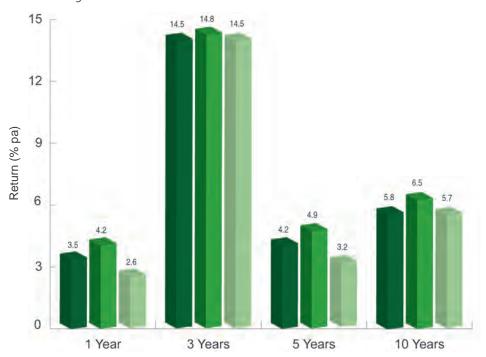


Chart 3: Long Term Performance



Avon Pension Fund
Customised Benchmark
WM Local Authority Average

Over the last three years the Fund returned 14.5% per annum falling to 4.2% per annum when viewed over the last five years. However over ten years the Funds return of 5.8% per annum is marginally below the level of returns assumed by the Fund's funding strategy.

The longer term performance of the Fund is shown in Chart 3 (the returns are annualised). The Fund has a customised benchmark, the return for which is included in the chart together with the return of the WM Local Authority Fund Average (the average local authority pension fund return as calculated by WM Company).

Compared to the WM Local Authority Fund universe, the Fund outperformed the average fund over the year. This was largely due to the Fund's lower than average allocation to equities (equities performed negatively over the year). Over three years the Fund's return of 14.5% per annum was equal to the average fund return, and over longer time periods the Fund has marginally outperformed the average.

The customised benchmark (which measures the relative performance of the managers in aggregate), shows that the Fund's managers in aggregate underperformed their specific index returns over the year. Jupiter, Invesco, Genesis and Part-

ners Group had strong relative performances with Schroder global equity and the hedge funds being the main detractors.

Chart 4 shows the performance of the Fund's external investment managers against their benchmark during 2011/12. Note that the Fund of Hedge Fund Managers have a cash based benchmark rather than an index. Also note that the performance of Partners reflects the fact that they are still part way through investing their portfolio.

## Investment Managers' Voting Record

Managers are expected to vote at all company meetings where possible. The Fund has appointed a vote monitoring agent and they will publish a report on the managers' voting activity later in 2012.

#### 5. Largest Holdings

The 10 largest investment holdings of the Fund at 31 March 2012 are shown in Table 10.

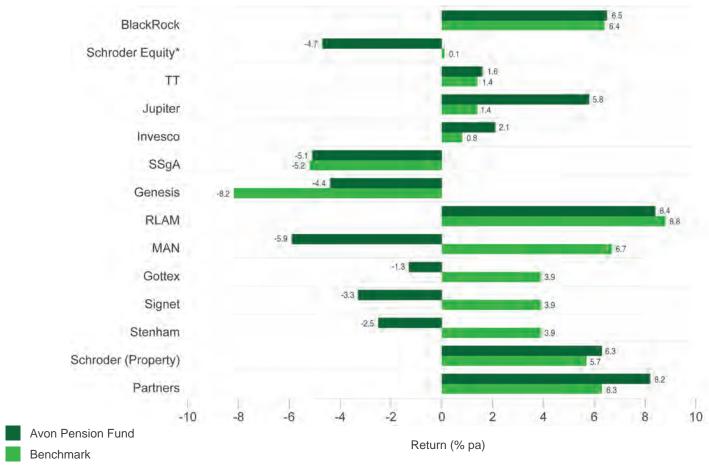
#### **6. Investment Administration**

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

stock lending and investment accounting.

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

Chart 4: Performance by Manager 2011-12



Note: \* Schroder Equity portfolio invested part period only.

Table 10: Top 10 Largest Investment Holdings at 31 March 2012

Top 10 Largest Investment Holdings	£'000s	% of Fund
Aquila Life UK Equity Index Fund (BlackRock)	269,730	9.8%
BlackRock World Index Fund	229,083	8.3%
RLPPC UK Corporate Bond Fund (Royal London)	227,557	8.3%
Invesco Perpetual Global ex UK Enhanced Index Fund	173,236	6.3%
Genesis Emerging Markets Investment Fund	140,717	5.1%
MSCI Equity Index Fund B-US (BlackRock)	129,948	4.7%
BlackRock Europe ex-UK Index Fund	115,541	4.2%
Aquila Life Overseas Bond Index Fund (BlackRock)	77,972	2.8%
Signet Global Fixed Income Fund - GBP Share Class	64,378	2.3%
RMF Investment Strategies SPC Class TM56 Fund (Man)	63,099	2.3%

# Actuarial Report and Funding Strategy Statement

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

The 2010 valuation produced a funding level of 82% leaving a deficit of 18% which is only slightly lower than the funding level of 83% at the previous valuation in 2007. However, in monetary terms the deficit has increased from £459 million in 2007 to £552 million in 2010. The deterioration in the deficit was due to investment returns being less than that assumed in the previous valuation and the rise in the liabilities (due to a rise in longevity and a reduction in the yields on index-linked gilts which reduces the discount rate used to value future benefits).

By 31 March 2012, the funding level is estimated to have fallen to 70% and the deficit is estimated to have risen to £1.1 billion. This is largely due to the rise in liabilities. The future value of the pension liabilities is calculated using a discount rate based on gilt yields. As gilt yields have fallen to historic lows during 2011/12, the value of the liabilities has risen (by approximately 30% since the 2010 valuation), in turn generating a higher deficit. This will pose significant pressure at the next triennial valuation due 31 March 2013, given that public sector employers will still be facing severe reductions in funding.

Over the two years since the 2010 valuation, asset values have risen approximately 12% which has only partially offset the rise in the value of the liabilities.

#### **Funding Strategy Statement**

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

The Regulations provide that the Funding Strategy Statement must

 establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;

- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

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

In addition, to ensure there is no significant underpayment of deficit recovery contributions should payrolls contract given the reduction in the public sector, the deficit recovery contribution (or past service contribution), which has traditionally been expressed as a percentage of pay, has been expressed in annual monetary amounts. At the next triennial valuation, it is expected that any changes arising from the current negotiations to introduce a "new" LGPS, will be incorporated into the actuarial valuation. As the government has committed to preserving accrued pension benefits across the public sector schemes, the new LGPS is not expected to reduce the deficit significantly. However, future service costs should be reduced through a combination of benefit changes and an increase in the retirement age.

A copy of the Funding Strategy Statement can be obtained either from the website www.avonpensionfund.org.uk or from avonpensionfund@bathnes.gov.uk

## Statement of Consulting Actuary

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

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

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

#### Funding position as 31 March 2010 valuation (£m)



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

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

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

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

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

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

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

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

The assets were assessed at market value.

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

#### **Paul Middleman**

Fellow of the Institute of Actuaries, Mercer Limited, May 2012

## **Employer Contribution Rates**



Participating Employers	Contribution Rates			
Year Ended 31st March		2012 2011		2011
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Scheduled Bodies				
Principal Councils and Service Providers				
Avon Fire & Rescue	10.9	£221,500	15.4	-
Bath & North East Somerset Council	12.2	£3,949,400	17.5	-
Bristol City Council	11.8	£12,281,900	17.2	-
North Somerset Council	11.8	£4,224,900	18.6	-
South Gloucestershire Council	11.9	£4,677,000	16.8	-
Further & Higher Education Establishments				
Bath Spa University College	11.2	£365,900	15.9	-
City of Bath College	11.2	£66,600	13.4	-
City of Bristol College	11.4	£414,500	14.6	-
Norton Radstock College	12.3	£32,000	14.0	-
South Gloucestershire & Stroud College	10.4	£173,200	14.3	-
St. Brendan's College	11.4	£24,300	13.8	-
University of the West of England	11.0	£1,484,200	14.5	-
Weston College	10.4	£147,300	14.7	-
Other Education Establishments				
Academy of Trinity	12.5	£1,012	-	-
Backwell School Academy	13.7	£5,666	-	-
Beechen Cliff Academy	12.2	-	-	-
Bristol Cathedral Choir School Academy	13.2	-£4,700	11.7	-
Bristol Free School Trust	13.4	-	-	-
Bristol Music Trust	14.7	-	-	-
Broadoak Mathematics & Computing College	11.6	£9,100	-	-
Cabot Learning Federation of Academies	10.8	-	12.0	-
City Academy Bristol	10.4	£13,400	11.1	-
Churchill Academy	13.0	£47,300	-	-
Clevedon School Academy	12.1	£7,700	-	-
Cotham School Academy	11.8	£27,300	-	-

Participating Employers	Contribution Rates			es
Year Ended 31st March		2012		2011
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Colston Girl's School Academy	14.2	-£650	14.0	-
Elmlea Junior School Academy	12.4	£6,500	-	-
Fosseway Special School	10.2	£22,500	-	-
Gordano School Academy	12.5	£56,700	-	-
Gordano Sports Trust	20.0	-	-	-
Hans Price Academy	12.1	£43,300	-	-
Hayesfield Girls School Academy	12.9	£18,700	-	-
Henleaze Junior School	12.2	£3,600	-	-
Ilminster Avenue E-ACT Academy	15.0	£1,600	-	-
Kings Oak Academy	13.2	£14,000	-	-
Merchant's Academy	11.2	-	13.7	-
Midsomer Norton School Partnership	12.1	73,000	17.5	-
Oasis Academy Brightstowe	11.5	-	12.6	-
Oasis Academy John Williams	12.1	-	13.2	-
Oldfield School Academy Trust	13.9	£10,500	-	-
Priory Community School	11.9	£51,000	-	-
St Bede's School Academy	11.9	£9,833	-	-
St. Ursula's E-ACT Academy	11.8	-	-	-
The Ridings Federation of Academies Winterbourne	11.8	-£19,600	13.0	-
The Ridings Federation of Academies Yate	11.4	-£8,700	11.8	-
Waycroft Junior School	12.9	£13,200	-	-
Wellsway Academy	12.0	£17,700	-	-
West Town Lane Primary School	14.0	£3,100	-	-
Westbury-on-Trym School	12.3	£12,200	-	-
Writhlington Academy	11.0	£24,000	-	-
Designating Bodies				
Bath Tourism Plus	14.1	_	14.0	_
Backwell Parish Council	14.0	£1,100	16.9	_
Bradley Stoke Town Council	13.4	£6,400	16.6	_
Charter Trustees of the City of Bath	14.3	£3,200	15.4	_
Clevedon Town Council	13.2	20,200	14.0	_
Destination Bristol	12.5	£7,100	11.7	_
Dodington Parish Council	14.8	£1,100	14.8	_
Downend and Bromley Heath Parish Council	11.5	£100	10.8	_
Easton in Gordano Parish Council	12.9	2100	14.0	
Filton Town Council	10.2	£1,100	9.6	
Frampton Cotterell Parish Council	14.0	£1,100	16.6	
Hanham Abbots Parish Council	10.0		14.0	
Hanham Parish Council	12.9	£2,800	31.1	_
Keynsham Town Council	14.5	£10,900	20.0	_
Long Ashton Parish Council	24.4	£10,900 £600	24.6	-
•				-
Mangotsfield Rural Parish Council	10.7	£1,500	14.3	-

Participating Employers	Contribution Rates			es
Year Ended 31st March	2012 2011			2011
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Midsomer Norton Town Council	10.8	£6,500	-	-
Nailsea Town Council	14.0	£3,100	16.6	-
Norton Radstock Town Council	-	-	21.3	-
Oldland Parish Council	11.7	£200	11.2	-
Patchway Town Council	12.0	£5,600	15.6	-
Paulton Parish Council	13.4	£1,600	16.0	-
Peasedown St John Parish Council	14.0	-	14.0	-
Portishead & North Weston Town Council	16.2	£2,500	21.3	-
Radstock Town Council	7.5	£3,100	-	-
Saltford Parish Council	13.9	£300	15.0	-
Stoke Gifford Parish Council	14.9	£5,600	19.1	-
Thornbury Town Council	17.1	£10,600	21.8	-
Westerleigh Parish Council	11.9	-	12.5	-
Westfield Parish Council 01/04/11	18.4	£3,300	-	-
Weston Super Mare Town Council	10.6	£4,500	11.0	-
Whitchurch Parish Council	12.3	£100	10.5	-
Winterbourne Parish Council	17.3	£300	17.6	-
Yate Town Council	11.3	£9,000	15.9	-
Yatton Parish Council	14.0	-	14.0	-
Community Admission Bodies				
Ashley House Hostel	14.6	£4,100	18.8	-
Bath & North East Somerset Racial Equality Council	15.3	£500	16.1	-
Centre for Deaf People Bristol	14.9	£19,500	17.0	£26,360
Clifton Suspension Bridge Trust	15.9	£2,300	14.1	-
The Care Quality Commission	16.7	£33,000	18.0	-
Learning Partnership West Limited	11.1	£211,300	14.6	-
Holburne Museum of Art	10.0	£14,000	13.5	-
Merlin Housing Society (SG)	14.2	-	12.5	-
Merlin Housing Society Ltd	15.9	£420,900	17.0	-
NSAH (Alliance Homes) Ltd	13.6	£65,900	11.3	-
Off the Record Bath & North East Somerset	8.9	£10,500	12.1	-
Somer Community Housing Trust	14.6	£211,200	15.0	-
Somer Housing Group Ltd	12.4	£24,400	9.4	-
Southern Brooks Community Partnership	11.0	£4,500	12.1	-
South West Academies	9.9	£300	-	-
Southwest Grid for Learning Trust	11.2	£22,900	12.0	-
University of Bath	11.6	£496,100	14.3	-
West of England Sport Trust	13.8	£12,300	14.6	-
Vision North Somerset	15.5	£8,300	26.8	-
Transferees Admitted Bodies (Scope)				
Active Community Engagement Ltd	13.7	-£3,300	10.2	-
Agilisys Ltd	14.3	-	14.3	-

Participating Employers	Contribution Rates			
Year Ended 31st March	2012		2011	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Agincare BANES Ltd	15.7	-	16.6	-
Aquaterra Leisure	8.8	£28,400	10.5	-
Aramark Ltd	15.6	-	14.4	-
BAM Construct UK Ltd (for Henbury School)	16.6	£8,600	15.4	-
Bespoke Cleaning Services Ltd	15.7	-	16.5	-
Churchill Contract Services Ltd	15.6	-	17.0	-
Circadian Trust (formerly South Glos Leisure)	9.5	£28,800	9.5	-
Circadian Trust No 2 (formerly South Glos Leisure No 2)	9.2	-	8.5	-
Eden Food Services (Initial Catering)	13.8	£75,500	13.7	-
English Landscapes Maintenance Ltd	16.1	£1,400	16.0	-
The Genuine Dining Company Ltd	12.5	-	12.2	-
ISS Mediclean Ltd (Cabot Learning Federation)	16.8	£800	11.9	-
ISS Mediclean (Bristol)	13.9	-	12.6	-
Kier Facilities Services Ltd	14.6	-	14.6	-
Liberata UK Ltd	14.3	-	14.3	-
Mouchel (B&NES School's IT)	11.9	-	11.9	-
Mouchel Business Services Ltd	14.4	£58,500	20.5	-
Mouchel Business Services Ltd (Nailsea IT)	15.4	-	15.1	-
Northgate (Colstons Girls School IT)	-	-	11.2	-
Northgate Information Solutions UK Ltd	-	-	9.1	-
Prospects Services Ltd	13.5	£119,000	13.7	£119,100
Quadron Services Ltd	15.3	-£3,600	13.7	-
RM Data Solutions Ltd	23.5	-£3,900	20.0	-
Shaw Healthcare (North Somerset) Ltd	15.5	£16,100	22.6	-
Sirona Care & Health CIC	14.8	-	-	-
SITA Holdings UK Ltd	21.9	£48,600	15.7	£53,760
Skanska (Cabot Learning Federation)	27.3	£1,600	9.5	-
Skanska Rashleigh Westerfoil	12.7	£500	9.5	-
SLM Community Leisure Charitable Trust	13.8	£4,600	10.9	-
SLM Fitness & Health Ltd	12.4	£4,400	8.7	-
Sodexo Ltd	17.1	-	17.1	-
Team Clean Ltd	13.6	£200	13.3	-
Tone Leisure (Taunton Deane) Limited	13.4	-	-	-
The Brandon Trust	15.2	£22,000	17.3	-

## Statement of Accounts 2011/12

#### Introduction

- 1.1 The following comprises the Statement of Accounts for the Avon Pension Fund (The Fund). The accounts cover the financial year from 1 April 2011 to 31 March 2012.
- 1.2 These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting ('Code of Practice') in the United Kingdom 2011/12 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis. except for certain transfer values as described at 'Statement of Accounting Policies' - item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.
- **1.3** The accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice.
- **1.4** The accounts are set out in the following order:

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

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

assets to the Fund Account.

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

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

#### **Actuarial Valuation**

- 1.5 As required by the Local Government Pension Scheme Regulations 2008 an actuarial valuation of the Fund was carried out as at 31 March 2010. The market value of the Fund's assets at the valuation date was £2,459 million. The Actuary estimated that the value of the Fund was sufficient to meet 82% of its expected future liabilities (of £3,011m) in respect of service completed to 31 March 2010.
- **1.6** The deficit recovery period for the Fund overall is 23 years.
- 1.7 The 2010 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions, on the basis of which employers' contributions are set, are as set out in the table below:
- **1.8** The 2010 valuation set the employer contribution rates effective from 1 April 2011. In previous years

the employer contribution rate has been expressed as a percentage of pay. For the 2010 valuation, due to declining payrolls, the deficit recovery payment has been expressed as a monetary amount payable annually, whereas the future service rate is still expressed as a percentage of pay.

- 1.9 The Actuary has estimated that the funding level as at 31 March 2012 has fallen to 70% from 83% at 31 March 2011. This fall in the funding level is due primarily to the increase in liabilities. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields. As gilt yields fall, the value of these liabilities rises. Gilt yields in the UK are currently near historic lows.
- **1.10** The Fund's Funding Strategy Statement can be found on the Fund's website *www.avonpensionfund.org.uk* or supplied on request from Liz Woodyard, Investments Manager.

## Statement of Investment Principles

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

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

## **Statement of Accounting Policies**

#### **Basis of Preparation**

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

#### **Investments**

- 2.2 Investments are shown in the accounts at market value, which has been determined as follows:
- i. Quoted Securities have been valued at 31 March 2012 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation.
- Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
- iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2012.
- iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2012.
- Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or

- loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.
- vi. Forward foreign exchange contracts outstanding at the yearend are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.
- vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
- viii. Investment debtors and creditors at the year-end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.
- ix. The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

#### **Contributions**

2.3 Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. Employees' contributions have been included at the rates prescribed by the

Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

## Benefits, Refunds of Contributions and Cash Transfer Values

- **2.4** Benefits payable and refunds of contributions have been brought into the accounts as they fall due.
- 2.5 Cash Transfer Values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. Cash Transfer Values have been included in the accounts on the basis of the cheque payment date or "Bath & North East Somerset Council cash office received" date. Accruals are only made when it is certain that a transfer is to take place.
- 2.6 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year.

#### **Investment Income**

2.7 Dividends and interest have been accounted for on an accruals basis. Income on pooled investments is accumulated and reflected in the valuation of the units.

## Investment Management & Administration

2.8 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit Bath & North East Somerset Council to charge administra-

tion costs to the Fund. A proportion of relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business.

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

#### **Taxation**

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

#### **Use of Accounting Estimates**

2.11 The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates. Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 17) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 24d.

## **Events After the Balance Sheet Date**

**2.12** The Statement of Accounts is adjusted to reflect events that occur after the end of the reporting pe-

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

#### **Financial Instruments**

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

## **Fund Account for Year Ended 31 March 2012**

	Notes	2011/12	2010/11
Contributions and Benefits		£'000	£'000
Contributions Receivable	4	137,983	139,519
Transfers In		7,066	9,571
Other Income	5	341	273
		145,390	149,363
Benefits Payable	6	129,155	121,745
Payments to and on account of Leavers	7	5,325	9,094
Administrative Expenses	8	2,359	2,379
		136,839	133,218
Net Additions from dealings with members		8,551	16,145
Returns on Investments			
Investment Income	10	27,667	22,663
Profits and losses on disposal of investments and change in value of investments.	11	71,241	177,861
Investment Management Expenses	9	(9,228)	(7,194)
Net Returns on Investments		89,680	193,330
Net Increase in the net assets available for benefits during the year		98,231	209,475
Net Assets of the Fund			
At 1 April		2,668,063	2,458,588
At 31 March		2,766,294	2,668,063

### **Net Assets Statement at 31 March 2012**

		Notes	31 March 2012		31 March 2011	
Investment Assets			£'000	%	£'000	%
Fixed-interest securitie	s : Public Sector		104,920	3.8	154,494	5.8
Equities			390,014	14.1	246,996	9.3
Index-Linked securities	: Public Sector		189,659	6.9	157,378	5.9
Pooled investment veh	icles :-					
Property	Unit Trusts		75,708	2.8	69,935	2.6
	Unitised Insurance Policies		50,849	1.8	49,875	1.9
	Other Managed Funds		70,394	2.5	52,242	2.0
Property Pooled invest	ment vehicles		196,951		172,052	
Non-Property	Unitised Insurance Policies		791,555	28.6	844,190	31.6
	Other Managed Funds		1,004,658	36.3	1,028,962	38.6
Non-Property Pooled in	nvestment vehicles		1,796,213		1,873,152	
Derivative Contracts: F	TSE Futures		(514)	0.0	542	0.0
Cash deposits			76,595	2.8	50,515	1.9
Other Investment balar	nces		6,734	0.2	4,750	0.2
<b>Investment Liabilities</b>						
Derivative contracts (F	oreign Exchange hedge)		441	0.0	(59)	0.0
Other Investment bala	nces		(3,648)	(0.1)	(1,869)	(0.1)
<b>Total Investment Ass</b>	ets	12	2,757,365		2,657,951	
Net Current Assets						
Current Assets		14	10,881	0.4	11,548	0.4
Current Liabilities		14	(1,952)	(0.1)	(1,436)	(0.1)
Net assets of the schebenefits at the period			2,766,294	100	2,668,063	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2012.

#### Notes to the Accounts - Year Ended 31 March 2012

#### 1. General

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

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 25.

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

#### 2. Membership

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

	31 March 2012	31 March 2011
Employed Members	33,737	33,810
Pensioners	23,631	22,541
Members entitled to Deferred Benefits	28,657	26,868
Total	86,025	83,219

#### 3. Taxation

#### i. Value Added Tax

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

#### ii. Income Tax

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

#### iii. Capital Gains Tax

No capital gains tax is chargeable.

#### iv. Taxation of Overseas Investment Income

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

#### 4. Contributions Receivable

Contributions receivable are analysed below:-

		2011/12		2010/11
Employers' normal contributions		£'000		£'000
Scheduled Bodies	52,749		75,120	
Administering Authority	7,137		11,560	
Admission Bodies	5,252	65,138	7,587	94,267
Employers' deficit Funding				
Scheduled Bodies	25,368		-	
Administering Authority	3,842		35	
Admission Bodies	1,463	30,673	1,963	1,998
Total Employer's normal & deficit funding		95,811		96,265

Employers' contributions - Augmentation				
Scheduled Bodies	4,941		4,226	
Administering Authority	815		825	
Admission Bodies	440	6,196	552	5,603
Members' normal contributions				
Weithbers Hormal Contributions				
Scheduled Bodies	29,112		29,060	
Administering Authority	3,795		4,292	
Admission Bodies	2,481	35,388	3,568	36,920
Members' contributions towards additional benefits				
Scheduled Bodies	480		570	
Administering Authority	78		126	
Admission Bodies	30	588	35	731
Total		137,983		139,519

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

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

#### 5. Other Income

	2011/12	2010/11
	£'000	£'000
Recoveries for services provided	330	262
Cost recoveries	11	11
	341	273

<sup>&#</sup>x27;Recoveries for services provided refers to administrative and accounting services provided to employing bodies. Cost recoveries are the recovery of the cost of calculating Pension Sharing on divorce.

#### 6. Benefits Payable

#### Analysis of Benefits Payable by Type:-

	2011/12	2010/11
	£'000	£'000
Retirement Pensions	97,229	90,317
Commutation of Pensions and Lump Sum Retirement Benefits	29,416	28,734
Lump Sum Death Benefits	2,510	2,694
	129,155	121,745

#### Analysis of Benefits Payable by Employing Body:-

	2011/1	2	2010/11
	£'00	0	£'000
Scheduled & Designating Bodies	108,11	0	102,705
Administering Authority	12,27	7	11,412
Admission Bodies	8,76	8	7,628
	129,15	5	121,745

#### 7. Payments to and on Account of Leavers

	2011/12	2010/11
Leavers	£'000	£'000
Refunds to members leaving service	19	22
Individual Cash Transfer Values to other schemes	5,306	9,072
Bulk Cash Transfers	-	-
	5,325	9,094

There have been no bulk transfers during the year.

#### 8. Administration Expenses

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

	2011/12	2010/11
	£'000	£'000
Administration and processing	1,612	1,638
Actuarial fees	278	271
Audit fees	43	47
Legal and professional fees	-	-
Central recharges from Administering Authority	426	423
	2,359	2,379

#### 9. Investment Expenses

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

	2011/12	2010/11
	£'000	£'000
Portfolio management	8,830	6,840
Global custody	127	78
Investment advisors	168	174
Performance measurement	35	32
Investment accounting	8	15
Investment Administration	60	55
	9,228	7,194

#### 10. investment Income

	2011/12	2010/11
	£'000	£'000
Interest from fixed-interest securities	5,762	6,350
Dividends from equities	12,010	7,051
Income from Index-Linked securities	5,757	6,187
Income from pooled investment vehicles	3,751	2,917
Interest on cash deposits	370	146
Other - Stock lending	17	12
Total	27,667	22,663

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

The value of the stock on loan as at 31 March 2012 was £16.67 million (31 March 2011 £43.67m), comprising of £6.68m equities and £9.99m sovereign debt. This was secured by collateral worth £17.58 million comprising OECD sovereign and supra national debt and equity index baskets from the FTSE 350 index. The Fund does not sell collateral unless there is a default by the owner of the collateral.

#### 11. Change in Total Net Assets

#### Change in Market Value of Investments

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

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

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

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

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

	2011/12			2010/11				
	Purchases	Sales	Other	Total	Purchases	Sales	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees and Taxes	650	31		681	606	1	-	607
Commission	414	446	9	869	159	152	3	314
Total	1,064	477	9	1,550	765	153	3	921

#### 12. investment Assets

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

		31 March 2012		31 March 2011
UK Equities		£'000		£'000
Quoted	224,418		209,686	
Pooled Investments	272,289		415,651	
FTSE Futures	(514)	496,193	543	625,880
Overseas Equities				
Quoted	165,597		37,310	
Pooled Investments	963,933	1,129,530	987,796	1,025,106
UK Fixed-Interest Gilts				
Quoted	104,920		154,494	
Pooled Investments	27,676	132,596	35,247	189,741
UK Index-Linked Gilts				
Quoted	189,658	189,658	157,378	157,378
Sterling Bonds (excluding Gilts)				
Pooled Investments	240,771	240,771	138,079	138,079
Non-Sterling Bonds				
Pooled Investments	77,973	77,973	74,000	74,000
Hedge Funds				
Pooled Investments	213,571	213,571	222,379	222,379
Property				
Pooled Investments	196,951	196,951	172,052	172,052
Cash Deposits				
Sterling	70,728		49,672	
Foreign Currencies	5,867	76,595	843	50,515
Investment Debtors/Creditors				
Investment Income	3,132		3,264	
Sales of Investments	3,602		1,485	
Foreign Exchange Hedge	441		(59)	
Purchases of Investments	(3,648)	3,527	(1,869)	2,821
Total Investment Assets		2,757,365		2,657,951

# **Derivatives Analysis**Open forward currency contract

Settlement	Currency bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
		£'000		'000	£'000	£'000
Up to one month	GBP	1,070	CHF	(1,547)		(2)
Up to one month	GBP	3,884	EUR	(4,660)		(0)
Up to one month	GBP	47,026	USD	(75,100)	16	
Up to one month	GBP	35,527	JPY	(4,418,000)	1,912	
Up to one month	JPY	3,401,000	GBP	(27,666)		(1,789)
Up to one month	USD	48,000	GBP	(30,216)		(170)
One to six months	EUR	206,000	GBP	(180,529)		(8,599)
One to six months	GBP	238,898	EUR	(275,400)	9,035	
One to six months	GBP	125,662	JPY	(15,657,000)	6,326	
One to six months	GBP	438,949	USD	(706,600)		(3,681)
One to six months	JPY	10,407,000	GBP	(85,260)		(5,935)
One to six months	USD	627,696	GBP	(392,696)	435	
Six to twelve months	EUR	119,200	GBP	(100,731)		(994)
Six to twelve months	GBP	164,523	EUR	(196,100)	443	
Six to twelve months	GBP	103,526	JPY	(12,590,000)	7,283	
Six to twelve months	GBP	465,096	USD	(730,000)	7,368	
Six to twelve months	JPY	7,276,000	GBP	(60,374)		(4,775)
Six to twelve months	USD	416,700	GBP	(267,689)		(6,432)
Total					32,818	(32,377)
Net forward currency contracts at 31st March 2012						441
Open forward currency contracts at 31 March 2011 -						(59)
Net forward currency contracts at 31st March 2011						(59)

Note: the greater number of contracts open at 31st March 2012 is due to the implementation of the active currency hedging mandate.

#### Exchange Traded Derivatives held at 31 March 2012:-

Contact Type	Expiration	Book Cost	Unrealised Gain
		£'000	£'000
FTSE Equity Futures	June 2012	15,869	(514)

#### Exchange Traded Derivatives held at 31 March 2011:-

ETCE Equity Euturon	June 2011	15,228	E 10
FTSE Equity Futures	June 2011	15,226	543

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

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

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

The proportion of the market value of investment assets managed by each external manager and in house

Treasury Management at the end of the financial year was:-

	31 March 2012		31 Ma	rch 2011
	£'000	%	£'000	%
BlackRock	1,297,622	47.1	1,469,327	55.3
Residual values held by former Managers	1	0	24	0.0
Record	11,141	0.4	-	-
Jupiter Asset Management	115,721	4.2	109,295	4.1
Genesis Investment Management	140,717	5.1	147,200	5.5
Invesco Perpetual	173,237	6.3	169,742	6.4
State Street Global Advisors	86,241	3.1	91,176	3.4
Partners Group	71,011	2.5	53,129	2.0
Royal London Asset Management	227,558	8.3	131,992	5.0
TT International	134,334	4.9	132,073	5.0
MAN Investments	63,099	2.3	100,418	3.8
Gottex Asset Management	52,820	1.9	53,490	2.0
Stenham Asset Management	33,272	1.2	11,665	0.4
Signet Capital Management	64,379	2.3	47,225	1.8
Lyster Watson Management	799	0.0	10,228	0.4
Schroder Investment Management	270,996	9.8	120,511	4.5
Bank of New York Mellon	7,369	0.3	1,882	0.1
Treasury Management	7,048	0.3	8,574	0.3
Total Investment Assets	2,757,365	100.0	2,657,951	100.0

Residual values held by former Managers Capital International and Wellington Management International relate to reclaimable tax. The residual balance held by Lyster Watson at 31 March 2012 relates to the final settlement of mandate termination proceeds.

#### 13. Single Investments Over 5% Of The Fund

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

Investments	Value at 31st March 2012	Net Assets	Value at 31st March 2011	Net Assets
	£'000	%	£'000	%
Aquila Life UK Equity Index Fund (BlackRock)	269,730,449	9.78%	413,357,332	15.55%
BlackRock World Index Fund	229,083,318	8.31%	238,457,411	8.97%
RLPPC UK Corporate Bond Fund (Royal London)	227,557,302	8.25%	131,992,313	4.97%
Invesco Perpetual Global ex UK Enhanced Index Fund	173,236,861	6.28%	169,742,352	6.39%
Genesis Emerging Markets Investment Fund	140,717,205	5.10%	147,200,459	5.54%

#### 14. Current Assets And Current Liabilities

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2012. Debtors and creditors included in the accounts are analysed below:-

	3	31 March 2012		31 March 2011
Current Assets		£'000		£'000
Contributions Receivable				
- Employers	7,306		7,466	
- Members	2,783		2,963	
Discretionary Early Retirement Costs	640		409	
Other Debtors	152	10,881	710	11,548
Current Liabilities				
Management Fees	(1,119)		(728)	
Lump Sum Retirement Benefits	(720)		(380)	
Other Creditors	(113)	(1,952)	(328)	(1,436)
<b>Total Current Assets</b>		8,929		10,112

#### Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2012		31 March 2011	
Current Assets		£'000		£'000
Local Authorities	8,424		9,068	
NHS Bodies	-		11	
Other Public Bodies	1,764		1,580	
Non Public Sector	693	10,881	889	11,548
Current Liabilities				
Other Public Bodies	(40)			
Non Public Sector	(1,912)	(1,952)	(1,436)	(1,436)
<b>Total Current Assets</b>		8,929		10,112

There were no debtors or creditors of Central Government or traded funds.

#### 15. Contingent Liabilities

There were no contingent liabilities as at 31 March 2012. (March 2011 = NIL).

#### 16. Events After The Balance Sheet Date

On 31st May 2012 the proposals for the new LGPS (for England and Wales) were issued in outline. Formal consultation is scheduled to take place during the Autumn of 2012. If agreed the new scheme will be a Career Average Re-valued Earnings (CARE) scheme using CPI as the revaluation factor and will take effect from 1st April 2014. Details of the future cost management and governance of the proposed scheme are due to be made in the next phase of the LGPS 2014 Project. The cost of the new scheme will be met from employees' and employers' contributions.

#### 17. Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

The following statement is by the Fund's actuary:

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

To assess the value of the benefits on this basis, we have used the following financial assumptions:

	31st March 2012	31st March 2011
	£'000	£'000
Rate of return on investments (discount rate)	4.9% per annum	5.5% per annum
Rate of pay increases *	4.0% per annum	4.4% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.9% per annum

<sup>\*</sup> a corresponding allowance to that made in the actuarial valuation has been made for short-term public sector pay restraint.

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £3,536 million and £3,869 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS 26 purposes at the year- end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS 26 of about £135 million.

#### 18. Transfers In

There was one group transfer in to the fund during the year ending 31st March 2012. This was for £1.146m in respect of staff who transferred from the Learning Skills Council to local authorities with effect from 1 April 2010 and who opted to transfer their accrued benefits from the Principal Civil Service Pension Scheme to the LGPS. All other transfers in during the year were in relation to individuals.

#### 19. Benefits Recharged To Employers

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

	2011/12	2010/11
	£'000	£'000
Benefits Paid and Recharged	6,049	6,025

#### 20. Additional Voluntary Contributions (Avcs)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2011/12 were £1,156 (2010/11 - £4,128). Additional Voluntary Contributions received from employees and paid to Friends Life during 2011/12 were £452,103 (2010/11 - £516,160).

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

	31 March 2012	31 March 2011
	£'000	£'000
Equitable Life		
With-Profits Retirement Benefits	678	784
Unit-Linked Retirement Benefits	310	443
Building Society Benefits	279	319
	1,267	1,546
Death in Service Benefit	151	199

Friends Life		
With-Profits Retirement Benefits	230	173
Unit-Linked Retirement Benefits	3,700	2,307
Cash Fund	442	277
	4,372	2,757

AVC investments are not included in the Fund's financial statements.

#### 21. Related Parties

#### **Committee Member Related:-**

In 2011/12 £37,926 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£39,245 in 2010/11). Six voting members and two non-voting members of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2011/2012. (Four voting members and three non-voting members in 2010/2011, including three B&NES Councillor Members)

#### **Independent Member Related:-**

Two Independent Members were paid allowances of £5,265 and £12,655 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

#### **Employer Related:-**

During the year 2011/12 the Fund paid B&NES Council £253,542 for administrative services (£246,209 in 2010/11) and B&NES Council paid the Fund £28,574 for administrative services (£27,636 in 2010/11). Various Employers paid the fund a total of £136,921 (£98,366 in 2010/11) for pension related services including pension's payroll and compiling data for submission to the actuary.

#### Officer and Manager Related:-

The officers administering the Avon Pension Fund are all eligible to be members of the Avon Pension Fund.

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

#### 22. Outstanding Commitments

As at the 31 March 2012 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £67,254,389.

#### 23. Financial Instruments

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

	31 March 2012	31 March 2011
Financial Assets	£'000	£'000
Loans & Receivables	87,476	62,063
Financial assets at fair value through profit or loss	2,684,932	2,609,364
Total Financial Assets	2,772,408	2,671,427
Financial Liabilities		
Payables	5,600	3,305
Financial liabilities at fair value through profit or loss	514	59
Total Financial Liabilities	6,114	3,364

All investments are disclosed at fair value. Carrying value and fair value are therefore the same. The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows:-

#### Income, Expense, gains and Losses

	Loans & Receivables	Financial assets at fair value through profit or loss	Loans & Receivables	Financial assets at fair value through profit or loss
	201	1/12	201	0/11
	£'000	£'000	£'000	£'000
Interest expense	-		-	-
Losses on derecognition	-	19,427	-	2,321
Reductions in fair value	-	67,447	-	4,788
Fee expense	-	1,550	-	921
Total expense in Fund Account	-	88,424	-	8,030
Interest and dividend income	270	27 207	1.46	22 547
Interest and dividend income	370	27,297	146	22,517
Gains on derecognition	-	72,287	-	31,730
Increases in fair value	-	89,050	-	148,966
Total income in Fund Account	370	188,634	146	203,213
Net gain/(loss) for the year	370	100,210	146	195,183

#### 24. Financial Risk Management Disclosure

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

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

The Fund's investments are managed on behalf of the Fund by the appointed Investment Managers. Each Investment Manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Avon Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each Investment Manager and its Investment Consultant advises on the nature of the investments made and associated risks.

The Fund's investments are held by BNY Mellon Asset Servicing, who act as custodian on behalf of the Fund. Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio. During the year around 2% of assets were switched from the UK gilt portfolio and invested in corporate bonds. The credit risk within the bond portfolio has altered as a result of this technical switch and this is shown in the analysis of credit risk. The risk management process identifies and mitigates the risks arising from the Fund's strategies which are reviewed regularly to reflect changes in market conditions.

#### (a) Market Risk

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

In general, market risk is managed through the diversification of the investments held by asset class, geography and industry sector, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

#### (a) (i) Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general.

Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The Investment Managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

#### (a) (ii) Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the year to 31 March 2012, in consultation with the Fund's advisors. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets which the Fund has determined is reasonably possible for the 2012/13 reporting period. The analysis assumes that all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits valued at 31 March 2012 by the amounts shown below. It should be noted that the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund. Only assets affected by market prices have been included. The exposure is based on the "look through" exposure of the pooled funds.

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Equities	531,761	15.6%	614,716	448,806
Overseas Equities	1,095,720	14.5%	1,254,599	936,841
Total Bonds	451,340	6.8%	482,031	420,649
Index Linked Gilts	189,658	7.8%	204,451	174,865
Property	196,951	3.3%	203,450	190,452
Alternatives	213,571	3.8%	221,687	205,455
	2,679,001		2,980,935	2,377,067

The same analysis for the year ending 31 March 2011 is shown below:

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Equities	641,080	19.9%	768,655	513,505
Overseas Equities	1,025,106	21.3%	1,243,454	806,758
Total Bonds	401,820	9.3%	439,189	364,451
Index Linked Gilts	157,378	11.5%	175,476	139,280
Property	172,052	10.4%	189,945	154,159
Alternatives	222,379	6.8%	237,501	207,257
	2,619,815		3,054,220	2,185,410

#### (a) (iii) Interest Rate Risk

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

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

	31 March 2012	31 March 2011
	£'000	£'000
Cash and Cash Equivalents	76,595	50,515
Fixed-Interest Assets	640,998	559,197
Total	717,593	609,712

#### (a) (iv) Interest Rate Risk - Sensitivity Analysis

The Fund recognised that interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2012 of a 1% change in interest rates (or 100 basis points (bps)). The analysis assumes that all other variables including foreign currency exchange rates remain the same.

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

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

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

The same analysis for the year ending 31 March 2011 is shown below:

	Value	Change in net assets		
As at 31 March 2011	£'000	+100 bps	-100 bps	
Cash and Cash Equivalents	50,515	-	-	
Fixed-Interest	559,197	(69,620)	69,620	
Total	609,712	(69,620)	69,620	

#### (a) (v) Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling, the Fund's base currency, will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. For a Sterling based investor, when Sterling weakens, the Sterling value of foreign currency denominated investments rises. As Sterling strengthens, the Sterling value of foreign currency denominated investments falls.

The Fund's currency risk is monitored regularly as part of the strategic investment policy. The Fund dynamically hedges its exposure to the US Dollar, Yen and Euro in order to mitigate the impact of movements in these exchange rates. The Fund invests in the Fund of Hedge Funds' Sterling share classes which effectively eliminates currency gains and losses from the investment gains and losses.

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

The following tables summarise the Fund's currency exposures within the portfolio. The fair value of each exposure is based on the "look through" exposure of the pooled funds and is based on information provided by the investment managers, except for the global property funds where the share class of the funds held has been used. The funds of hedge funds are not included in this analysis given the share classes held are hedged back to Sterling.

#### Currency risk by asset class:

Currency Exposure – Asset Type	31 March 2012	31 March 2011
	£'000	£'000
Overseas Equities	1,095,720	1,025,106
Overseas Fixed Income	77,934	74,000
Overseas Property	70,333	52,106

#### (a) (vi) Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in currency exchange rates has been analysed using the volatility broadly consistent with a one-standard deviation movement in the currency. The analysis assumes that all other variables including interest rates have a similar experience to that experienced for the year to 31 March 2012. The analysis as at 31 March 2012 assumes a 50% hedge ratio on the US Dollar, Yen and Euro assets to reflect the dynamic hedging strategy whereas the analysis as at 31 March 2011 is un-hedged.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2012 would have decreased the net assets by the amount shown in the tables below and vice versa:

#### Currency Risk by Asset Type:

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Overseas Equities	1,095,720	4.7%	1,147,054	1,044,386
Overseas Fixed Income	77,934	4.7%	81,585	74,283
Overseas Property	70,333	4.7%	73,628	67,038
Total	1,243,987	4.7%	1,302,267	1,185,707

#### Currency Risk by Currency:

Currency	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Australian Dollar	4,828	10.5%	5,335	4,321
Brazilian Real	5,521	12.8%	6,229	4,812
Canadian Dollar	4,075	9.6%	4,467	3,683
Danish Krone	483	8.3%	523	443
Euro*	85,618	4.2%	89,197	82,039
Hong Kong Dollar	8,846	9.6%	9,695	7,997
Japanese Yen*	34,035	6.6%	36,297	31,773
Singapore Dollar	2,354	7.5%	2,530	2,178
South Korean Won	4,576	10.3%	5,046	4,106
Swedish Krona	327	10.2%	360	294
Swiss Franc	9,124	10.2%	10,059	8,189
US Dollar*	120,620	4.9%	126,503	114,739
Global Basket*	229,083	3.3%	236,582	221,584
Global ex UK Basket*	173,220	3.6%	179,411	167,029
North America Basket*	136,466	4.6%	142,775	130,157
Europe ex UK Basket*	144,759	3.9%	150,420	139,098
Asia Pacific Basket*	92,333	4.4%	96,403	88,263
Asia Pacific ex Japan Basket*	47,043	3.6%	48,733	45,353
Emerging Basket	140,675	7.8%	151,699	129,651
Total	1,243,987	4.7%	1,302,267	1,185,707

Notes: (1) currency exposure for segregated assets, overseas property and Overseas bonds is denoted by each currency; currency baskets are used for pooled equity investments.

(2) The \* denotes where a 50% hedge ratio has been assumed

The same analysis for the year ending 31 March 2011 is shown below:

#### Currency Risk by Asset Type:

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Overseas Equities	1,025,106	11.5%	1,142,489	907,723
Overseas Fixed Income	74,000	11.5%	82,474	65,526
Overseas Property	52,106	11.5%	58,073	46,139
Total	1,151,212	11.5%	1,283,036	1,019,388

#### Currency Risk by Currency:

Currency	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Australian Dollar	622	15.4%	718	526
Canadian Dollar	1,532	10.9%	1,700	1,364
Danish Krone	481	13.9%	548	414
Euro	67,351	13.9%	76,690	58,012
Japanese Yen	24,294	19.2%	28,958	19,630
Swedish Krona	377	13.4%	428	326
US Dollar	51,671	12.4%	58,071	45,271
Global Basket	238,457	9.6%	261,453	215,461
Global ex UK Basket	169,742	10.4%	187,390	152,094
North America Basket	135,522	11.9%	151,618	119,426
Europe Basket	6,200	8.8%	6,748	5,652
Europe ex UK Basket	162,468	12.5%	182,829	142,107
Asia Pacific Basket	93,658	13.0%	105,798	81,518
Asia Pacific ex Japan Basket	49,548	10.7%	54,825	44,271
Emerging Basket	149,289	10.7%	165,262	133,316
Total	1,151,212	11.5%	1,283,036	1,019,388

#### (b) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument or transaction will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk.

The market values of investments will reflect an assessment of credit in their pricing and therefore the risk of loss is implicitly provided for in the carrying value of the assets and liabilities.

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

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings.

The Fund's bond portfolios have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2012 was £14.4m. This was held with the following institutions:

	31 March 2012		31 Marc	h 2011
	Rating	£'000	Rating	£'000
Custodian's Liquidity Fund				
Bank of New York Mellon	AAA	7,357	AAA	1,879
Bank Call Accounts				
Barclays Platinum Account	А	3,000	AA-	1,000
Bank of Scotland Corporate Deposit Account	А	3,000	AA-	500
Clydesdale Business Account	BBB+	-	AA-	3,000
NatWest Special Interest Bearing Account	А	1,020	AA-	4,040
Bank Current Accounts				
NatWest	А	14	AA-	22

Since 31st March 2012 the ratings relating to the bank accounts have been downgraded.

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

The fair market value of the financial assets represents the Fund's exposure to credit risk in relation to those assets and is set out below. For derivative positions the credit risk is equal to the net market value of positive (asset) derivative positions.

	31 March 2012	31 March 2011
	£'000	£'000
Equities	1,626,235	1,650,443
Fixed-Interest - Quoted	104,920	154,494
Fixed-Interest - Pooled	346,420	247,326
Index-Linked - Quoted	189,659	157,378
Fund of Hedge Funds	213,571	222,379
Property	196,951	172,052
Cash assets	76,595	50,515
Derivatives FTSE Futures	(514)	543
Forward Foreign Exchange hedge	441	(59)
Investment Debtors/Creditors	3,087	2,880
	2,757,365	2,657,951

The credit risk within the bond portfolios can be analysed using standard industry credit ratings and the analysis as at 31 March 2012 is set out below.

Credit Analysis 31/03/2012	AAA	AA	Α	BBB	ВВ	UNRATED
	£'000	£'000	£'000	£'000	£'000	£'000
UK Gilts	132,596	-	-	-	-	-
UK Index-Linked	189,658	-	-	-	-	-
Overseas Government Bonds	43,439	26,877	7,657	-	-	-
Corporate Bonds	33,668	21,941	79,263	72,607	6,440	26,852
	399,362	48,818	86,920	72,607	6,440	26,852
% of Fixed-Interest Portfolios	62%	8%	14%	11%	1%	4%

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

Credit Analysis 31/03/2011	AAA	AA	Α	BBB	ВВ	UNRATED
	£'000	£'000	£'000	£'000	£'000	£'000
UK Gilts	189,741	-	-	-	-	-
UK Index-Linked	157,378	-	-	-	-	-
Overseas Government Bonds	40,034	33,966	-	-	-	-
Corporate Bonds	15,957	13,511	49,556	36,724	5,436	16,895
	403,110	47,477	49,556	36,724	5,436	16,895
% of Fixed-Interest Portfolios	72%	8%	9%	7%	1%	3%

Through the UK Gilt and Index Linked portfolios the Fund has significant credit exposure to the UK Government. Unrated bonds are bonds that are not rated by any of the rating agencies; traditionally, unrated bonds benefit from security over the assets of the issuer. The reduction in AAA assets as at 31 March 2012 reflects the switch from UK Government gilts (AAA rated) into corporate bonds.

#### (c) Liquidity Risk

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

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liability of the Fund is the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2012 the value of the illiquid assets was £410m, which represented 14.9% of the total Fund assets (31 March 2011: £394m which represented 14.8% of the total Fund assets).

#### (d) Fair Value Hierarchy

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

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

The level in the fair value hierarchy will be determined by the lowest level of input that is appropriate for the

investment. This is particularly relevant for pooled funds where, for this exercise, the fund is classified as a single investment.

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

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

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

**Level 2** - Financial instruments at Level 2 are those where quoted market prices are not available; for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where those techniques use inputs that are based significantly on observable market data.

Therefore in the analysis below, Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities. The Fund's holding in these pooled funds can be realised at net asset value.

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

Such instruments would include unquoted equity, property and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Therefore in the analysis below, Level 3 includes pooled funds such as the property funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs. In addition, the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2012.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equities - Quoted	389,501			389,501
Bonds - Quoted	294,578			294,578
Pooled Investment Vehicles		1,582,642		1,582,642
Fund of Hedge Funds			213,571	213,571
Property			196,951	196,951
Cash	76,595			76,595
Investment Debtors /Creditors	3,527			3,527
	764,201	1,582,642	410,522	2,757,365

The fair value hierarchy as at 31 March 2011 was:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equities - Quoted	247,539			247,539
Bonds - Quoted	311,872			311,872
Pooled Investment Vehicles		1,650,773		1,650,773
Fund of Hedge Funds			222,379	222,379
Property			172,052	172,052
Cash	50,515			50,515
Investment Debtors /Creditors	2,821			2,821
	612,747	1,650,773	394,431	2,657,951

#### 25. Employing Bodies

As at 31 March 2012 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Tuna.	
Scheduled Bodies	
Principal Councils and Service Providers	
Avon Fire & Rescue	
Bath & North East Somerset Council	
Bristol City Council	
North Somerset Council	
South Gloucestershire Council	
Education Establishments	
Academy of Trinity C of E	Illminster Avenue E – Act Academy
Backwell School Academy	Kings Oak Academy
Bath Spa University College	Merchant's Academy
Beechen Cliff School Academy	Midsomer Norton School Partnership
Bradley Stoke Community School	Norton Radstock College
Bristol Cathedral Choir Academy	Oasis Academy Brightstowe
Bristol Free School	Oasis Academy John Williams
Broadoak Mathematic & Computing College	Oldfield School Academy Trust
Cabot Learning Federation of Academies	Priory Community School Academy
Churchill Academy & Sixth Form	South Gloucestershire & Stroud College
City Academy Bristol	St Bede's School Academy
City of Bath College	St. Brendan's 6th Form College
City of Bristol College	University of Bath
Clevedon School Academy	University of the West of England
Colston Girl's School Academy	Waycroft School Academy
Cotham School Academy	Wellsway School Academy
EACT (St Ursula's Academy)	Westbury-on-Trym C of E Academy
Elmlea Junior School Academy	West Town Lane Primary School
Gordano School Academy	Weston College
Fosseway Special School	Winterbourne International Academy
Hans Price Academy	Writhlington School Academy
Hayesfield Girl's School Academy	Yate International Academy
Henleaze Junior School Academy	
Designating Bodies	
Almondsbury Parish Council	Midsomer Norton Town Council
Backwell Parish Council	Nailsea Town Council
Bath Tourism Plus	Oldland Parish Council
Bradley Stoke Town Council	Patchway Town Council
Charter Trustees of the City of Bath	Paulton Parish Council
Clevedon Town Council	Peasedown St John Parish Council
Congresbury Parish Council	Portishead & North Weston Town Council
Destination Bristol	Radstock Town Council
Dodington Parish Council	Saltford Parish Council
Downend & Bromley Heath Parish Council	Stoke Gifford Parish Council
Easton in Gordano Parish Council	Thornbury Town Council

Filton Town Council	Westerleigh Parish Council
Frampton Cotterell Parish Council	Westfield Parish Council
Hanham Parish Council	Weston Super Mare Town Council
Hanham Abbots Parish Council	Whitchurch Parish Council
Keynsham Town Council	Winterbourne Parish Council
Long Ashton Parish Council	Yatton Parish Council
Mangotsfield Parish Council	Yate Town Council

Admission Bodies	
Active Community Engagement Ltd	Merlin Housing Society (SG)
Agilisys Ltd	Mouchel Business Services Ltd*
Agincare BANES Ltd*	Mouchel Business Services Ltd (BANES School IT)*
NSAH (Alliance Homes) Ltd	Mouchel Business Services Ltd (Nailsea IT)*
Aquaterra Leisure	Northgate (Colston Girls School IT)
Aramark Ltd*	Off The Record Bath & North East Somerset
Ashley House Hostel	Prospects Services Ltd*
BAM Construct UK Ltd (Henbury School)*	Quadron Services Ltd*
Bath &NE Somerset Racial Equality Council	RM Data Solutions Ltd
Bespoke Cleaning Services Ltd*	Shaw Healthcare (North Somerset) Ltd*
Bristol Music Trust	Sirona Care & Health CIC
The Care Quality Commission	SITA Holdings UK Ltd*
Centre for Deaf People Bristol	Skanska (Cabot Learning Federation)*
Churchill Contract Services Ltd	Skanska Rashleigh Westerfoil*
Churchill Team Clean	SLM Community Leisure Caritable Trust*
Circadian Trust	SLM Fitness and Health Ltd*
Clifton Suspension Bridge Trust	Sodexo Ltd
Eden Food Services (Initial Catering)*	Somer Community Housing Trust
English Landscapes Maintenance Ltd*	Somer Housing Group Ltd
Genuine Dining Ltd	Southern Brooks Community Partnership
Holburne Museum of Art	South West Academies Ltd
ISS Mediclean Ltd (Bristol)*	Southwest Grid for Learning Trust
ISS Mediclean Ltd (Cabot Learning Federation)*	The Brandon (Taunton Dean) Ltd*
Keir Facilities Services Ltd	Tone Leisure Trust*
Learning Partnership West Ltd	West of England Sports Trust
Liberata UK Limited	Vision North Somerset
Merlin Housing Society Ltd	

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

# The Statement of Responsibilities for the Avon Pension Fund Account

#### **Bath & North East Somerset Council's responsibilities**

The Council is required to:

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

#### **Divisional Director of Finance responsibilities**

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

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

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

The Divisional Director of Finance has also:

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

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Avon Pension Fund at the accounting date and the income and expenditure for the year ended 31 March 2012.

#### Tim Richens

Divisional Director of Finance (S151 Officer) September 2012

# Audit Opinion on the Accounts of the Avon Pension Fund

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

The audit opinion on the Avon Pension Fund provided by the Audit Commission can be found on page 53.

# **Auditors Report**

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

#### Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Bath and North East Somerset Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

# Respective responsibilities of the Divisional Director of Finance and Auditor

As explained more fully in the Statement of Responsibilities for the Accounts, the Divisional Director Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

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

#### **Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

#### **Opinion on other matters**

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

#### Matters on which I report by exception

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

#### Wayne Rickard

**District Auditor** 

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

30 September 2011

# Five Year Summary of Financial Statistics



Year Ended 31 March	2008	2009	2010	2011	2012
Revenue Account	£'m	£'m	£'m	£'m	£'m
Income					
Net Contributions	112.4	125.3	134.7	139.5	138.0
Investment Income	32.6	19.9	16.0	22.6	27.7
Net Cash Transfer	5.5	4.8	0.3	0.5	1.7
	150.5	150.0	151.0	162.6	167.4
Even are differen					
Expenditure					
Pension & Benefits	95.0	105.2	115.1	121.7	129.2
Investment Management Expenses	4.8	5.0	6.9	7.2	9.2
Administration Costs	1.8	2.0	1.9	2.1	2.0
	101.6	112.2	123.9	131.0	140.4
Surplus for the Year	48.9	37.8	27.1	31.6	27.0
Revaluation of Investments	(55.0)	(396.4)	612.4	177.9	71.2
Change in Fund Value	(6.1)	(358.6)	639.5	209.5	98.2
	` ,	` '			
Total Fund Value	2,177.7	1,819.1	2,458.6	2,668.1	2,766.3





Year Begining April	Rate of Increase %	Index
2003	1.7	RPI
2004	2.8	RPI
2005	3.1	RPI
2006	2.7	RPI
2007	3.6	RPI
2008	3.9	RPI
2009	5.0	RPI
2010	0.0	RPI
2011	3.1	CPI
2012	5.2	CPI

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

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

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

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

The increases shown above also apply to deferred pensions.

# **Contact Names**



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

Martin Phillips
Pension Fund Accountant

**Liz Woodyard** Investments Manager

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

**Steve McMillan** Pensions Manager Or you can write to us at:

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

Tel: 01225 477000 Fax: 01225 395258

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

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

# **Appendix**

#### **Local Goverment Pension Scheme**

**How the Local Government Pension Scheme Works** 

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

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

The benefits of all other active members come under the new LGPS Regulations, which mainly came into effect on 1 April 2008. These are:

- LGPS (Benefits, Membership & Contributions) Regulations 2007
- LGPS (Administration) Regulations 2008
- LGPS (Transitional Provisions) Regulations 2008

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

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

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

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

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

#### Contributions

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

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

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

#### **Benefits**

The LGPS provides significant benefits to members. The following summary is provided as an illustrative guide only and is not intended to give full details of all the benefits provided or all of the specific conditions that must be met before benefits can be obtained.

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

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

# **Glossary**

#### **Accrual Rate**

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

#### Actuary

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

#### **Active Investing**

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

#### Annual Allowance

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

#### **Civil Partnership**

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

#### **Consumer Price Index (CPI)**

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

#### **Community Admission Bodies**

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

#### **Corporate Bonds**

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

#### **Customised Benchmark**

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

#### **Deferred Pension**

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

#### **Designating Body**

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

# Discretionary Compensatory Added Years

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

#### **Equities**

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

#### **Final Salary Scheme**

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

#### **Fixed Interest Government**

#### **Securities**

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

#### **Hedge Funds**

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

#### **Independent Members**

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

# Indexed-Linked Government Securities

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

#### **Lifetime Allowance**

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

#### **Market Value**

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

#### **Myners Principles**

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

#### **Nominated Co-habiting Partner**

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

#### **Normal Retirement Age**

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

#### Passive Investing (Indexation)

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

#### **Pooled Funds**

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

#### **Retail Price Index (RPI)**

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

#### Rule of 85

Set up under the 1997 Regulations to determine whether benefits are subject to any actuarial reduction where a member elects to receive benefits before age 65.

If the sum of the member's age and Scheme membership, both in whole years, is 85 or more then the benefits were payable unreduced.

However, this rule was removed from the Regulations in 2006 and does not apply to new Scheme members from 1 October 2006. Members in the LGPS before this date may have acquired certain protections that apply in respect of this rule.

The rule of 85 does not apply where the member is retired on grounds of redundancy, efficiency or ill health, where benefits are paid without reduction.

# Transferee Admission Bodies (Scope Body)

A body, that provides, by means of a contract, a service in connection with the exercise of a function of a Scheme employer, can become an admitted body within the Avon Pension Fund. The Scheme Employer transfering, must act as guarantor for such bodies.

#### **Unlisted Securities**

Holdings in companies which do not form part of the main stock market. They may be developing companies or smaller companies whose shares are not frequently traded. Unlisted securities are usually less liquid than those traded in the main markets.

#### WM Local Authority Average

The average local authority pension fund investment return as calculated by The WM Company. The universe comprises approximately 100 local authority funds.

# Notes