

## **Governance Reports for Council and Avon Pension Fund, and Audited Statement of Accounts 2017/18 Update Note**

Following completion of the audit of the Avon Pension Fund Accounts, some amendments to the notes to Accounts have been agreed. These are highlighted in Annex 1 to this update note. An amended recommendation No 2.2 will be moved at the meeting to incorporate this as follows:

### **RECOMMENDATION**

The Corporate Audit Committee agrees that:

2.1 the issues contained within the Audit Findings Reports for the Council and Avon Pension Fund are noted.

2.2 the audited Statement of Accounts, incorporating the changes in the Avon Pension Fund notes (see Annex 1 of the update note), Annual Governance Statement and the Letter of Representation for Bath & North East Somerset Council and the Avon Pension Fund for 2017/18 are approved.

### **Annex 1 Amendments to Pension Fund Accounts 2017/18**

#### ***Additional text shown below in bold italics***

##### Net Assets Statement as at 31<sup>st</sup> March 2018

Page 84 (Page 128 of Agenda pack)

The following text added to the bottom of the statement:

***The restatement of the 31<sup>st</sup> March 2017 assets relates to the re-ordering of the assets. There has been no change in the asset values.***

##### Note 1 – Introduction and Statement of Accounting Policies

Page 85 (Page 129 of Agenda pack):

1.10 The Fund's Funding Strategy Statement can be found on the Fund's website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search Funding Strategy Statement) ***and is summarised within the Fund's Annual Report. The purpose of the Funding Strategy Statement is to set out a clear and transparent funding strategy that will identify how each employer's pension liabilities are to be met going forward.***

Page 86 (*Page 130 of Agenda pack*):

1.11 The Fund's Investment Strategy Statement (ISS) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 can be found on the Fund's website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search Investment Strategy Statement) **and is summarised within the Fund's Annual Report**. The first statement was published for 1 April 2017 and it includes a statement on the Fund's approach to pooling its investment assets as required under the regulations. The ISS has since been updated as required.

1.13 The Fund has implemented two investment strategies to manage specific risks within the asset portfolio. These strategies are held within a Qualified Investment Fund (QIF) managed by Blackrock.

(i) A Liability Driven Investment strategy has been implemented to provide a hedge against changes in the value of the pension liabilities within the asset portfolio. This strategy consists of **bonds (specifically Index link gilts)** and derivatives such as gilt repurchase agreements and interest and inflation swaps, structured to achieve the desired hedge profile.

(ii) Additionally within the QIF is a strategy to lock in the gains in equity markets ahead of the 2019 actuarial valuation. Using **Over the Counter** (OTC) equity index option contracts this strategy protects the Fund's developed markets equity assets from a fall in global markets.

#### Note 7 – Management Expenses

Page 90 (final paragraph) (*Page 134 of Agenda pack*):

Management costs in Oversight & Governance Costs include investments, actuarial and accounting staff costs. **Audit fees include; £0.029m external audit fee as set out in the Audit Plan (2016/17 £0.029m), £0.008m internal audit charge (2016/17 £0.008m) and £0.001m additional external fee relating to information provided to the actuary regarding individual employers' IAS19 disclosures (2016/17 £0.001m).**

#### Note 9 – Change In Total Net Assets

Page 92 (Page 136 of Agenda Pack):

The Net Revenue of Fund figure in the above table includes the investment transaction costs as specified below. These are the costs that it has been possible to identify. Additional costs will have been absorbed within pooled investments. **The Net Revenue of Fund equals the Net Withdrawals / additions from dealings with members (£36,050k) plus Investment income (£28,008k) as shown in the Fund account.**

- Above paragraph also relocated to appear before (instead of after) the table "Change In Total Net Assets 2016/17".