Bath & North East Somerset Council

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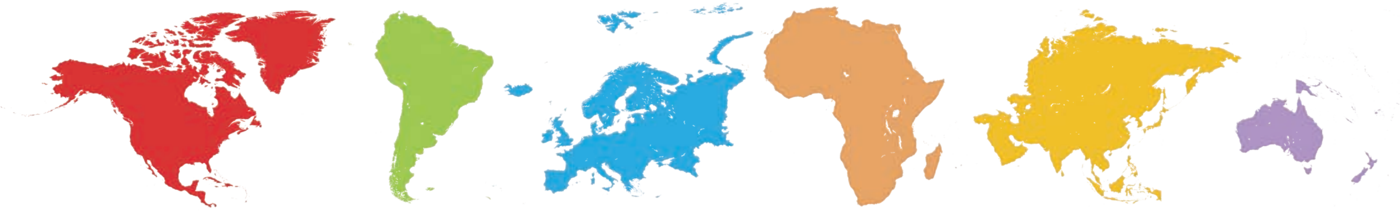
AVON PENSION FUND

Avon Pension Fund

Annual Report 2010/2011



Avon Pension Fund Annual Report 2010/11

This year's report includes photographs celebrating UNESCO World Heritage sites, including Bath and Stonehenge. This theme was selected to highlight the Fund's increased commitment to global equity and property investments.

Contents

Forward by Resources Director

Roman Baths © Bath Tourism Plus

The Roman Baths, Bath, UK

Foward by Strategic Director

It has been another challenging year for the Fund as public sector pension schemes including the Local Government Pension Scheme (LGPS) underwent significant public scrutiny as a result of the Hutton Commission Review.

The Commission's report addressing the sustainability and affordability of public sector pensions has been accepted by the Government but we still await definitive proposals to be brought forward.

The difficulty for the LGPS is that many of the recommendations are based on the requirements of the other unfunded public sector schemes and there is a risk that the strengths of the LGPS could be diluted as a result of the exercise. In the meantime the Fund is putting plans in place to manage the expected changes to the LGPS, as any changes will need to be communicated to members and employers alike.

The Fund launched its Administration Strategy in 2011, with the aim of improving the quality and efficiency of the service provided through more effective partnership working with the Fund's employing bodies. Rolling out of this strategy over the next few years will be critical to meeting the challenges ahead.

2010/11 also saw the 2010 triennial valuation which sets the contribution rates for the next three years. This was obviously done against a difficult funding background for our employers which face reductions in budgets over the foreseeable future. The valuation took these circumstances into account by keeping employer contribution rates stable where possible but within parameters that will ensure the ongoing solvency of the Fund.

Since March 2011, significant volatility has returned to global markets due to fears over government debt levels and the risk of recession in the developed economies. The Fund remains vigilant to these threats; however, the Fund has a long term investment perspective and has a well diversified portfolio which should help minimise the impact of negative market returns.

The May 2011 local elections have resulted in a number of members leaving the Committee, including our Chairman for the last four years, Councillor Gordon Wood. I would like to thank all our Committee members for the valuable input they have provided over the last few years.

The governance structure means the Fund retains significant expertise and experience over this transition and the officers look forward to working with the new Committee over the next few years.

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

Andrew Pate
Director of Resources and Support Services

Stonehenge and Avebury, Wiltshire, UK

Review of the Year

- **Hutton Commission recommends Scheme changes**
- **2010 funding level 82%**
- **Asset Value increases 7.8%**

Hutton Commission

New Scheme expected by 2015

In March 2011, the Independent Public Service Pension Commission, led by Lord Hutton, issued its final report. The most significant recommendations for the LGPS were as follows:

- replacing the final salary scheme with a career average (CARE) scheme with annual increases linked to pay awards
- benefits accrued up to the date of change to retain the final salary link
- retaining the funded status
- similar benefit framework as other public sector schemes
- partnership working to be encouraged to minimise costs

The government has accepted Lord Hutton's recommendations and, subject to consultation on the details for each scheme, intends to publish a consultation document on its proposals for the reform of public sector pensions in the autumn of 2011. The aim is to have new schemes in place by 2015.

However, the government has also announced that for all public sector pension schemes, employee contributions will be increased to achieve savings equivalent to around 3% of Pensionable pay by 2014/15. Following significant opposition from employers, unions and LGPS funds, the government agreed that the savings target for the LGPS will be achieved through a package of measures that will not be limited to increases in employee contribution rates. At the time of writing this review, the proposed measures have not been agreed.

2010 Actuarial Valuation

Employer contribution rates stabilised in 2010 valuation

The 2010 triennial valuation using values as at 31 March 2010 sets the employer contribution rates for the three years beginning 1 April 2011.

At 31 March 2010, the funding level was 82% leaving a deficit of 18% or £552m. This compares to a funding level of 83% in 2007. In the event the outcome was more favourable than anticipated mainly due to the Government's announcement in 2010 that all public sector pension payments will be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) in the future. As the CPI has historically been lower than the RPI, this change meant that the inflation assumption used for valuing the Fund's liabilities was lower. As a result, the deterioration in the funding level was less than expected and the Fund was able to maintain stable employer contribution rates at the total Fund level. The 2010 valuation is discussed in more detail on page 23.

At the time of writing this report, global markets are once again experiencing significant volatility due to heightened fears of a sovereign debt crisis amid a slowing economic background. As a result equity markets have fallen in value and the funding level will have fallen from the 82% level calculated at 31 March 2010.

Investment Markets & Fund Performance

Fund Assets rose 7.8% to £2.66 billion

After stellar investment returns in 2009/10, investment markets performed well in 2010/11, albeit more muted, underpinned by low interest rates around the world and good earnings growth as companies continued to recover from the economic slowdown of 2009.

Economic growth has remained fragile in most of the developed world and, as a result, the US Federal Reserve has continued with its programme to inject liquidity into the banking system. This in turn has left interest rates at historically low levels, as central banks around the world delay raising official interest rates in fear of stalling the fragile recovery.

The markets have dealt with a number of crises during the year. The fiscal problems in Europe, caused by excessive government borrowing, have resulted in EU-led bailouts of Greece, Ireland and Portugal. The earthquake, tsunami and nuclear crisis in Japan temporarily undermined equity markets but the impact on economic growth has yet to be ascertained. Lastly, the uprisings in north Africa and the Middle East have caused a significant rise in oil prices, which is one reason why inflation has again come to the fore as a risk to economic stability.

Against this background, the Fund had a reasonable year. The Fund's assets rose £208m or 7.8% to £2.66 billion. The asset mix at the year end was 63% in equities, 21% in bonds, 8% in hedge funds, 7% in property and 1% in cash. The WM Local Authority Average Fund Return of was 8.2%.

Investment Strategy

During 2010/11 the Fund implemented the changes to its investment structure that arose from the strategic review undertaken in 2009/10. Following a competitive tender, Schroders Asset Management was appointed to manage a global equity portfolio of c. 6% of total assets. In addition, the allocation between passively managed UK and overseas equities was altered in favour of overseas equities where it is felt there are superior growth prospects in the long term. The Fund also agreed to hedge its currency exposure to reduce the impact of currency fluctuations on the Fund's return over time.

A review of the hedge fund portfolio in 2011 confirmed the strategic allocation of 10% to hedge funds and recommended a reallocation between the Fund's Fund of Hedge Fund managers. These changes will be implemented in 2011. The Fund's target strategic asset allocation of 60% in equities, 20% in bonds, 10% in property and 10% in hedge funds remains unchanged.

During the year, the Fund appointed an agent to monitor the execution of voting rights by Investment Managers on behalf of the Fund, with the aim of improving transparency and reporting in this area. This will strengthen the Fund's compliance with the new FRC Stewardship code (a set of best practice principles for shareholder engagement with companies, and the disclosure of such activity). The Fund issued a statement of compliance with the new Stewardship Code in January 2011.

Administration Strategy

Legislation introduced in 2008 empowers LPGS funds to develop an Administration Strategy for the purpose of improving the administrative processes within their Fund. Given the complexity that arises from the multi-employer nature of the Fund, the Avon Pension Fund has introduced an Administration Strategy effective from 1 April 2011.

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
- increase the utilisation of technology for capturing and processing data
- provide more training for in-house staff and for employers' staff dealing with pensions

Integral to the Administration 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. In addition, the Avon Pension Fund Committee will review the performance reports to ensure the Strategy is being implemented and the administration process is working efficiently.

Scheme Regulations

During the year, the coalition government introduced several changes that affect the way pension schemes operate. The most high-profiled of these was the change in the method by which pensions increases are assessed. With effect from April 2011, all deferred pension benefits and pensions in payment have their annual increase linked to the Consumer Price Index (CPI) instead of the Retail Price Index (RPI).

The implications of the change to CPI were far-reaching as the Government Actuary's Department had to revise all factor tables that had been based with assumptions on prospective pension increases. Various calculations including transfer values, pension sharing on divorce and the purchase of Additional Regular Contributions (ARC's) were affected by the change as the anticipated reduction in the cost of providing pension benefits had to be accounted for.

Review of the Year

The Swiss Alps, Switzerland

Unfortunately there was a considerable delay before the revised tables were issued, and in respect of transfer values there was a period of between four and six months in which the Avon Pension Fund was unable to process transfers in or out of the Fund. Revised factors for calculating ARC contributions were still awaited at the end of the year.

Following responses to the HM Treasury discussion paper, pension tax relief was reformed with a reduction in the Annual Allowance from £155,000 to £50,000, effective from April 2011, and the Lifetime Allowance set to reduce to £1.5 million the following April. A small number of scheme members may now incur a tax charge if their pension entitlement increases substantially in one year, for example high earners or members with long service whose pay increases substantially over the year.

A discussion document was issued in March 2011 to review the Fair Deal policy, with responses invited by 15th June. If Fair Deal were to be abolished it could have an impact on pension provision for employer outsourcings and also potentially have serious funding implications for LGPS funds in the future.

Fund Governance

During the year the year the Committee undertook a self-assessment of the effectiveness of its own decision-making process. The outcome of the assessment concluded that the Committee members have confidence that the decision-making process enables them to effectively discharge their responsibilities. It also identified areas where the process could be improved and an action plan to address these issues has been agreed, including a formal training programme (see pages 7-9 for more details).

Governance & Management Structure as at 31 March 2011

Administering Authority:

Bath & North East Somerset Council

Governance:

Members of the Avon Pension Fund Committee:

Councillor Gordon Wood (Chair)
Bath & North East Somerset Council

Councillor Tim Ball
Bath & North East Somerset Council

Councillor Gabriel Batt
Bath & North East Somerset Council

Councillor David Bellotti
Bath & North East Somerset Council

Ann Berresford
Independent Member

Councillor Mary Blatchford
North Somerset Council

Councillor Victor Clarke
Bath & North East Somerset Council

Councillor Mike Drew
South Gloucestershire Council

Carolan Dobson
Independent Member

Councillor Tim Kent
Bristol City Council

Bill Marshall
University of the West of England

Steve Paines
Unite the Union

Non - Voting Members:

Rowena Hayward
GMB

Councillor Keith Kirwan
Parish & Town Councils

Richard Orton
Unison

Paul Shiner
Unite the Union

Council Officers:

Andrew Pate
Director of Resources & Support Services

Tony Bartlett
Head of Business Finance & Pensions

Liz Feinstein
Investments Manager

Steve McMillan
Pensions Manager

Vernon Hitchman
Solicitor to the Council

Independent Investment Advisor:

Tony Earnshaw

Investment Managers:

BlackRock
Genesis
Gottex Fund Management
Invesco
Jupiter
Lyster Watson
Man Investments
rlam royal london asset management
Partners Group
Schroders
Signet
SSgA State Street Global Advisors
Stenham
TT International

Actuary:

Mercer

Legal Advisors:

Osborne Clarke

Investment Consultant:

JLT

Global Custodian:

BNY Mellon Asset Servicing

Bankers:

NatWest
The Bank of New York Mellon

AVC Providers:

Friends Life
Equitable Life

The Parthenon of Athens, Greece

Fund Governance

Avon Pension Fund Committee

As administering authority, Bath and North East Somerset Council, 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 Avon Pension Fund Committee, which is the formal decision-making body for the Fund. The terms of reference for the Avon Pension Fund Committee are as follows:

"To discharge the responsibilities of Bath and North East Somerset Council in its role as lead authority for the administration of the Avon Pension Fund. These include determination of investment policy objectives, ensuring appropriate investment management arrangements are in place including the appointment of investment managers and monitoring investment performance; commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations; considering requests from organisations wishing to join the Fund as admitted bodies; making representations to Government as appropriate concerning any proposed changes to the Local Government Pension Scheme; and all aspects of benefit administration. At all times, the Committee must discharge its responsibility in the best interests of the Avon Pension Fund."

The Committee structure is shown in Table 1 above.

The Committee membership as at 31 March 2011 is set out on page 6. The Committee meets formally each quarter and attendance at these meetings during the year was 83% for the voting members and 56% for the non-voting members. In addition to the quarterly meetings, the Committee held two workshops in 2010/11 to review specific investment issues in greater detail.

- **Training framework implemented**

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 (4):	1 nominated from the Parish Councils
	3 nominated from the Trades Unions

Fund Governance

Investment Panel

Given the size of the Committee and complexity of investment issues, there is an Investment 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 terms of reference for the Panel are:

"The role of the Avon Pension Fund Committee (APFC) Investment Panel shall be to consider, in greater detail than the APFC is able, matters relating to the management and investment of the assets of the Avon Pension Fund and to advise the APFC on such matters.

Among other things, the Panel shall:

- *recommend strategic investment objectives, policy and strategic asset allocation*
- *regularly review in detail and assess the performance of the investment managers, investment advisors, custodian and actuary*
- *recommend appointment and termination of investment managers and professional service providers as required*
- *review the Statement of Investment Principles and submit to APFC for approval*
- *make recommendations to the APFC 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).*
- *review any legislative changes which have implications for investment governance and make recommendations to the APFC as appropriate."*

During the year the Panel held four meetings where the attendance over the year was 96%. In addition the Panel held four workshops as part of a programme to review each of the investment managers over a twelve month period. The rest of these reviews were accommodated within the quarterly meetings.

The attendance record for each Committee member is set out in table 2 below.

Table 2: Committee Attendance Record

	Committee		Investment Panel
	Meeting	Workshop	
Number of Meetings during year	4	2	4
Voting Members			
Councillor Gordon Wood (Chair)	4	1	4
Councillor Tim Ball	4	2	N/A
Councillor Gabriel Batt	4	2	3
Councillor David Bellotti	4	2	4
Ann Berresford	4	1	4
Councillor Mary Blatchford	4	2	4
Councillor Vic Clarke	4	0	N/A
Carolan Dobson	2	1	N/A
Councillor Mike Drew	3	2	N/A
Councillor Tim Kent	4	0	N/A
Bill Marshall	1	1	4
Steve Paines	2	1	N/A
Non-voting members			
Rowena Hayward	1	0	N/A
Keith Kirwan	2	1	N/A
Richard Orton	4	1	N/A
Paul Shiner	2	1	N/A

Training

Members training framework established

During 2010 the framework for training was formalised to ensure Committee members' knowledge is maintained at a satisfactory level on an ongoing basis in order that they are able to discharge their responsibilities as required. The training is based on CIPFA's (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds. This 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.

Many of the areas identified by the framework are covered through detailed Committee reports, workshops and presentations by experts. For example, an annual Committee report sets out the governance structure and role and responsibilities of Committee members, advisors and officers; investment performance and risk is reviewed at each quarterly meeting.

In 2010/11 two Committee workshops were held. One focussed on the 2010 actuarial valuation and Funding Strategy Statement. The other reviewed the strategic allocation to hedge funds and the structure of the hedge fund portfolio.

Members are encouraged to attend seminars and conferences to increase their understanding of investments and workshops are organised to explore more complex issues in greater detail than is possible at a Committee meeting.

In addition, the Fund requires all members to undertake formal training and during the year new Committee members attended the Fundamentals Training Courses offered by the Local Government Pension Committee.

The training programme for the Committee to be delivered over the next 24 months was agreed in March 2011, subject to topical issues being introduced as required.

The CIPFA Knowledge and Skills Framework also applies to the officers responsible to the fund. The framework assists in assessing and identifying key competencies accross the service areas. Training needs can then be incorporated into learning and development plans ensuring the requisite knowledge and skills are obtained. All pension fund staff recieve an annual appraisal where training plans are agreed.

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, approved by the Avon Pension Fund Committee in December 2009, shows a high level of compliance with best practice and is summarised in Table 3 below:

Copies of the latest Governance Compliance Statement approved in December 2009 can be obtained either from the Fund's website *www.avonpensionfund.org.uk* or from *avon_pension@bathnes.gov.uk*

Table 3: 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 Avon Pension Fund 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 in 2009 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 annually 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 assess 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. One of the principal ways in which the Fund manages risk is through the diversification of assets, the approaches to investment (for example passive investing or active investing) and managers.

The provision of expert advice is crucial to the decision-making and risk management-processes. The Fund has appointed JLT Actuaries and Consultants to provide ongoing investment advice. This will include advising on managers' performance as well as strategic advice. The Fund's appointed actuary, Mercer, provides 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, the Fund is committed to the principle of training and the Committee members are required to undertake training in order to discharge their duties. An Independent Investment Advisor supports the Committee and Investment Panel members. Their role is to ensure that all the relevant advice

Table 4: 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
Information Security: virus attack damaging data causing retrieval problems and service failure issues	The Administering Authority maintains a solid systems of controls including virus checkers and firewall which are constantly monitored.
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.
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)

has been presented to the 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 effect 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 which 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 Regulations 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 4 opposite.

Pensions Administration

- **Administration Strategy Introduced**
- **Technological Developments**

The Avon Pension Fund is administered by Bath & North East Somerset Council and the administration of the Fund is undertaken in-house by the Pensions Department of the Council. The department is split into three sections: Investment and Accounting, Benefits Administration and the Systems Support and Payments Team. A detailed Organisation Chart is available on the Avon Pension Fund website *www.avonpensionfund.org.uk*

3-Year Service Plan 2010/13

Each year the pension Fund prepares a rolling 3-Year Service Plan which sets out the Fund's objectives in the medium-term and reviews its performance in the previous year against these objectives. It also includes a 3-year financial budget. The Service Plan is submitted to the Avon Pension Fund Committee each year for approval and is published on the Fund's website.

Operational Improvements

New Pensions Administration Strategy

Recent legislation allowed local government pension schemes to draw up a Pensions Administration Strategy for implementation, after adequate employer consultation. Following a consultation exercise with employers, the Strategy was approved by the Committee in December 2010 and came into effect from April 2011. Significant changes to the LGPS benefit structure are expected over the next 3 to 5 years and the Strategy will be key to preparing the Fund for these changes.

The primary objective of the Strategy is for the Fund and more employers to work together more effectively in order to meet future challenges and to continue to deliver an excellent level of service. Key elements are the improvement of communications between employers and the Fund, comprehensive training of both in-house staff and the pensions staff at the employers and utilisation of technology to capture and process data changes.

The Strategy incorporates performance targets for both the Fund and employers which are set out in Service Level Agreements (SLAs). Large and medium-sized employers already have SLAs in place and as part of the Strategy all employers will be asked to sign an SLA. These will include challenging but achievable targets against which the performance of both parties will be monitored. Results will be published in Stewardship Reports which will be considered at regular review meetings with large and medium-sized employers. In addition, summary performance will be monitored quarterly by the Committee once sufficient data has been compiled.

Avon Pension Fund is one of only a small number of the 99 local authority pension funds to have taken advantage of this initiative, as it is considered a vital tool if the Fund is to successfully deal with the challenges of the most significant scheme changes in the history of the LGPS.

In recent years a number of significant technical advancements have become available which can improve the delivery of the service to members and employers. The Fund is keen to adopt these wherever possible to help improve and streamline its service to members and employers.

Technological Advances

During the year the Fund made the following significant changes:

- **Pensions Administration Software:** updated the Heywood software to a web-based version providing easier access which is more user-friendly.
- **Member Self-Service (MSS):** switched providers to Heywood thus providing additional facilities for members including a pension benefit calculator. In addition, once registered for MSS, members will be able to update certain basic personal information on-line.
- **Secure two-way portal:** a two-way portal for data transfer from and to employers was established. The Fund uses Globalscape which provides a simple-to-use secure means of transferring encrypted data. This new facility, popular with employers, has significantly improved data security and further streamlined processes.

Enabling both members and employers to have access to relevant member information with the ability to change or update this online in a controlled environment is seen as a major advancement as it will speed up processing and remove manual processing errors.

Employer Self-service (ESS)

With this in mind, and Employer Self-Service module was purchased from Heywood during the year. Once registered, employers can now carry out basic calculations and obtain pension costs immediately instead of having to request them from the Fund.

An additional important facility in ESS will be available from October. This will allow employers to update starters, changes and leavers online (in a Fund-controlled environment) thus significantly improving information flows to the Fund, assisting in streamlining processes and improving service delivery to members.

Communications

The Fund publishes its Communications Policy on its website. This now forms an integral part of the Pensions Administration Strategy.

The Fund believes that clear and meaningful communication with members and employers is vital and it uses various media to achieve

Pensions Administration

effective communication including newsletters for members (Avon Pension News) and a separate newsletter for pensioners (at*ease*). In addition, employers receive regular electronic newsletters and updates to keep them informed of all changes that affect them.

The Fund's objective is to provide information electronically where appropriate. As a pilot, the most recent copy of the members' newsletter was sent electronically by one employer to its staff.

The Fund is currently developing a strategy to increase its use of electronic delivery for both generic information (such as member and employer newsletters) and individual information (such as Annual Benefit Statements) in an appropriately secure manner in line with the Disclosure of Information Regulations 2010. It is accepted that a significant number of the Fund's members do not have email access at their workplace and they can opt to continue to receive information in a printed format. Notwithstanding this, significant future savings are expected in reduced printing and postage costs.

Website

The Fund has had its own dedicated pension website for over ten years and this is now a major source of information for members and employers. The site has separate sections for each category of membership and also one for employers.

The website received an increased number of 'hits' this year demonstrating an increased interest in pensions following media coverage of the Hutton Review of public sector pensions, which has significantly highlighted the profile of pensions.

The new Member and Employer Self-Service modules are web-based which increases the usefulness and importance of this media.

Member Satisfaction

The Fund places considerable importance on the feedback it receives from members on the service provided. Obtained at pension clinics and from retirees, this information is analysed and, where appropriate, comments and suggestions are used to improve service delivery. The Fund also makes a point of regularly publishing satisfaction results back to its members in the Fund's newsletters.

Pension Clinics

The Fund offers to hold pension clinics for members of all employers, normally at their sites, at least once a year. During the calendar year 2010, 15 clinics were held and 350 members were seen on an individual basis. These members were asked to complete satisfaction questionnaires rating the adequacy of the Fund's response, the helpfulness of the Fund's staff, the suitability of

Table 5: Performance Indicators 2010-11

Performance Indicator	LGPC Standard Target	Fund achieved against target %	CIPFA club average
Letter detailing transfer in quote	10 days	99.3%	85.6%
Letter detailing transfer out quote	10 days	98.5%	83.7%
Process refund and issue payment voucher	5 days	93.5%	90.1%
Letter notifying retirement benefit amount – **estimates**	10 days	98.0%	91.2%
Letter notifying **actual** retirement benefits	5 days	99.8%	93.2%
Letter acknowledging death of member	5 days	76.1%	93.8%
Letter notifying amount of dependant's benefits	5 days	95.7%	90.0%
Calculate and notify deferred benefits	10 days	95.4%	80.6%

the location and the privacy afforded them. Ratings of good/excellent ranged from 85% for the venue to 100% for the helpfulness, with an average rating of good/excellent across the board of 98%.

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 95% as good or excellent was received on the quality of the service provided by the Fund. The Fund received no formal com-

Complaints

plaints about its service during the year.

Disagreements Procedure

(Formally known as the Internal Dispute Procedure)

The Fund operates a Disagreement Procedure, the terms of which are defined by statute. The 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 were no Stage 1 cases (appeals against a decision of the administering authority). There were two cases in progress under Stage 2 (further appeal where Stage 1 was completed by the employer).

Performance Indicators

Performance Comparison against other local authority funds – CIPFA Benchmarking

The Fund participates in the annual CIPFA Pensions Administration Benchmarking Club. This data is used to target areas for improvement in the Service Plan, to understand the specific service pressures that the Avon Pension Fund faces and to operate as efficiently and effectively as possible.

Table 5 uses data from the CIPFA Benchmarking Club 2011 Report which compares the data and performance of local authority pension funds in the Club (over 40 out of 99 LGPS funds). It shows performance against industry standard targets.

In most areas the Avon Pension Fund has exceeded the industry standard targets. The Fund's own targets are determined by the SLAs it has in place with its large to medium-sized employers, covering over 90% of the active members. In many cases these targets are more challenging than the industry standard. Regular SLA meetings are held with medium to large employers to review performance.

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

Key Staffing Indicators

The total number of staff in the Pension Service administering the LGPS was 38.4 in 2010/11 (38.5 in 2009/10) and, of these, 18.7 deal with pension benefits administration.

Table 6 is an analysis of staff-based data from the CIPFA Benchmarking Club 2011 Report. This shows the average number of pension members dealt with by each of the benefits staff and the average number of cases processed per member of staff.

Table 6: Key Staffing Indicators 2010-11

Key Staffing Indicators	2010	(CIPFA club average)	2009	(CIPFA club average)
Number of staff administering the LGPS scheme	18.7		18.4	
Fund Member / Staff ratio	4,568	(3,500)	4,502	(3,404)
Average number of cases dealt with by benefits staff	244		244	

The Taj Mahal, India

Investment Report

- **Asset Value increases 7.8%**
- **3 year Investment return of 6.3% per annum**
- **New Management appointed**

1. Investment Regulations

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.

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. Key elements include: social, environmental and ethical considerations; exercise of voting rights; stock lending policy; and compliance with the Myners principles.

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

1. A further change in the strategic asset allocation from UK equities to Overseas equities
2. The adoption of the Financial Reporting Council (FRC) UK Stewardship Code
3. The appointment of Manifest to monitor the Fund's voting activity

The changes in the strategic asset allocation are explained in section 2 - Investment Strategy.

Investment Report

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.

The Fund's recent appointment of Manifest, an independent vote-monitoring service provider, will improve the analysis and reporting of how the Fund's Investment Managers are executing voting rights on behalf of the Fund. The voting activity will be reported to Committee quarterly and an annual report will be published. This will serve to strengthen the Fund's compliance with the recently published FRC Stewardship Code with regard to monitoring and disclosure of voting activity.

In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative body which 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

Table 7: 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	✓
Job descriptions setting out the role and responsibilities of all Committee members	✓
Committee members undertake training on ongoing basis	✓
A forward looking three-year business plan	✓

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

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

5 Responsible Ownership	**Compliance**
Managers adopt the Institutional Shareholders' Committee Statement of Principles	✓
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.	✓
All documents and statements made available, annual report contains information and data relevant to its many, diverse stakeholders.	✓

Table 8: Strategic Asset Allocation and Actual Asset Allocation

Asset Class	Strategic Allocation 31 March 2011	Actual Allocation 31 March 2011	Actual Allocation 31 March 2010
UK Equities	18.0%	24.9%	28.2%
Overseas Equities	42.0%	37.7%	35.1%
Index-Linked Gilts	6.0%	6.0%	6.1%
Fixed Interest Gilts	6.0%	7.2%	7.6%
UK Corporate Bonds	5.0%	5.2%	5.1%
Overseas Fixed Interest	3.0%	2.8%	3.0%
Fund of Hedge Funds	10.0%	8.3%	8.7%
Property	10.0%	6.5%	4.2%
Short term deposits / Other	0.0%	1.4%	2.2%

amongst the pension funds.

Compliance with Myners Principles

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 original Myners Principles were published in October 2001 following a government review in response to concerns that the behaviour of investment institutions was distorting economic decision-making to the detriment of small and medium sized enterprises. They set out 10 investment principles codifying a model of best practice for investors.

Following a review in October 2008 the Treasury published a revised set of 6 Principles with the intention of giving greater 'industry ownership' of the principles and to place the onus on trustees or their equivalent to report their own practices. It is intended that a smaller number of higher level principles provides greater flexibility for pension schemes.

The Fund's current compliance with the Myners' principles has been updated to reflect the latest guidance issued by CIPFA on applying the revised Myners Principles to LGPS funds, and is summarised in Table 7.

To further strengthen the level of compliance the Fund will be implementing a training framework for members over the next twelve months.

The latest SIP was approved by the Avon Pension Fund Committee at its meeting in March 2011. A copy of the statement can be obtained either from the website *www.avonpensionfund.org.uk* or by email from *avon_pension@bathnes.gov.uk*

2. Investment Strategy

Strategic Asset Allocation

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 reflects 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 Avon Pension Fund Committee periodically reviews its investment strategy in order to ensure the Strategy reflects the Fund's liability profile.

Following the decision in 2009 to reduce the allocation to UK equities in favour of overseas equities Schroder Asset Management was appointed to manage a Global Equity portfolio which was funded in April 2011.

During the year, the Fund reviewed its allocation to hedge funds, concluding that the 10% allocation remained appropriate. However, the allocation of monies within the portfolio between the Fund of Hedge Fund managers was altered to reflect the preferred investment strategy profile for the portfolio and the managers' performance.

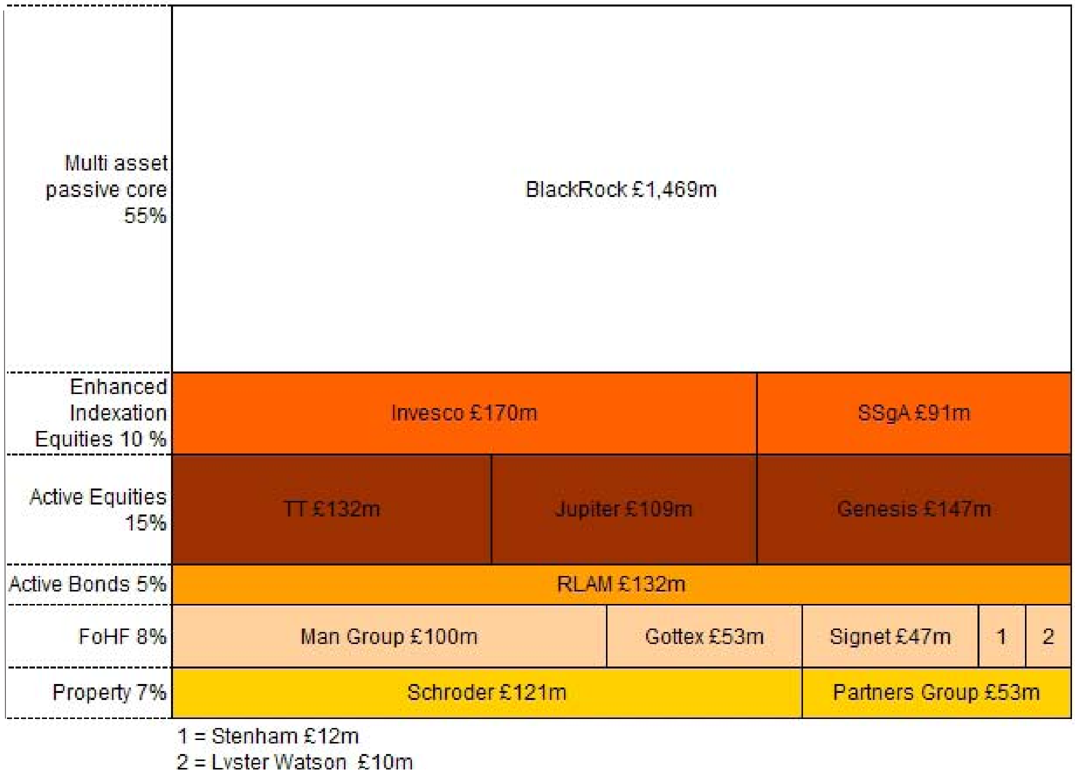
The strategic asset allocation at 31 March 2011 and actual asset allocation at 31 March 2011 and the previous year is shown in Table 8. Note that as at 31 March 2011, the Fund's property investment managers were still in the process of investing the monies allocated to property, and the increased strategic allocation to overseas equities was still being implemented. Once the switch between UK and overseas equities was implemented in April 2011 the allocation to UK equities was 20% and overseas equities 42.7%.

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 2011 is set out in Chart 1. During the year the following changes to the Investment Management Structure

Investment Report

Chart 1: Strategic Asset Allocation by Manager 31 March 2011



were made.

- As a result of the review of hedge funds the mandate with Lyster Watson was terminated and the allocation to MAN reduced (to be implemented in July 2011) with the proceeds to be invested with two of the other Fund of Hedge Fund managers, Stenham and Signet.
- Schroders were appointed to manage an actively invested global equity portfolio of c.6% of the Fund's assets which will be funded early in the 2011/2012 financial year.

3. Market Background

Following a year characterised by recovering markets and high returns, the outlook for the coming year at 31 March 2010 balanced two contrasting scenarios: the threat of a double-dip recession versus the likelihood of a continued recovery. In actual fact, neither scenario has come to pass. Instead, investors have found themselves reacting to a continually changing landscape of conflicting economic information and market sentiment, with many fluctuating between a "risk-on" outlook, where investors seek assets that benefit from a risk premium such as equities, and a "risk-off" approach where they seek safe havens such as bonds and eschew risk assets. When the events of March 2011 are added-in, (a month which saw the devastating earthquake and tsunami in Japan, the turmoil in the Middle East and concerns over the Portuguese economy and Irish banks), the year ends as it began, with uncertainty the overriding characteristic.

Whilst unable to match the remarkable returns of the previous year, all asset classes delivered significant positive returns over the year with the exception of Japanese equities and cash. The returns for the individual assets and markets in 2010/11 are set out in Chart 2 along with the 3 year returns in sterling.

Equity markets produced a solid return over the year despite a poor second quarter of 2010 when the rally suffered a brief setback due to a slowing in the pace of economic recovery, concerns over European sovereign debt and policy tightening in emerging economies. However, better than expected corporate profits saw equities bounce back in the following two quarters, only for the events of March 2011 to herald a return of uncertainty to dampen the equity market as the financial year came to a close. UK equities performed broadly in line with the other developed markets, delivering a return of 8.7%. Asia Pacific (excluding Japan) rose 13.1% outperforming emerging markets which rose 11.9%, whilst Japanese equities were the only asset class to generate negative returns over the 12 months.

UK government bonds had a better year in general (6.9% return) as the economic uncertainty meant the 'safe haven' of government bonds became valued. Although the higher yields of corporate bonds continued to attract investors, they were unable to match their impressive performance of the previous year but still returned 6% over the year.

UK Property, hedge funds and commodities all outperformed equities delivering returns of 12.1%, 12.6% and 16.1% respectively. UK Property posted positive returns in each quarter during the year, driven by increasing investor interest based on the belief that the UK property market bottomed out in mid-2009, rather than any significant improve-

Investment Report

ment in underlying fundamentals. Hedge funds outperformed their cash-based benchmarks for a second successive year and commodities achieved a positive return on the back of a strong rally in Q1 2011 across a broad spectrum of commodities. Oil prices increased steadily over the year and gold continued to be valued at record highs, ending the year at over $1,400 an ounce.

Sterling continued it's appreciation versus the US dollar, whilst a final-quarter depreciation against the Euro returned the £/€ exchange rate to levels seen at the start of the year. Official interest rates in the US, Europe and the UK have remained at historic lows in an effort by the central banks to stimulate economic growth. UK inflation remained low for the majority of the year but experienced a rise in the final quarter, reflecting higher VAT and rising fuel costs although wage pressures remained subdued. This acceleration in UK inflation alongside smaller rises in European and US inflation rates, prompted many commentators to cite the threat of global inflation as a key risk for 2011/12. Inflation rates are also increasing in many emerging markets fuelled by wages and higher input prices.

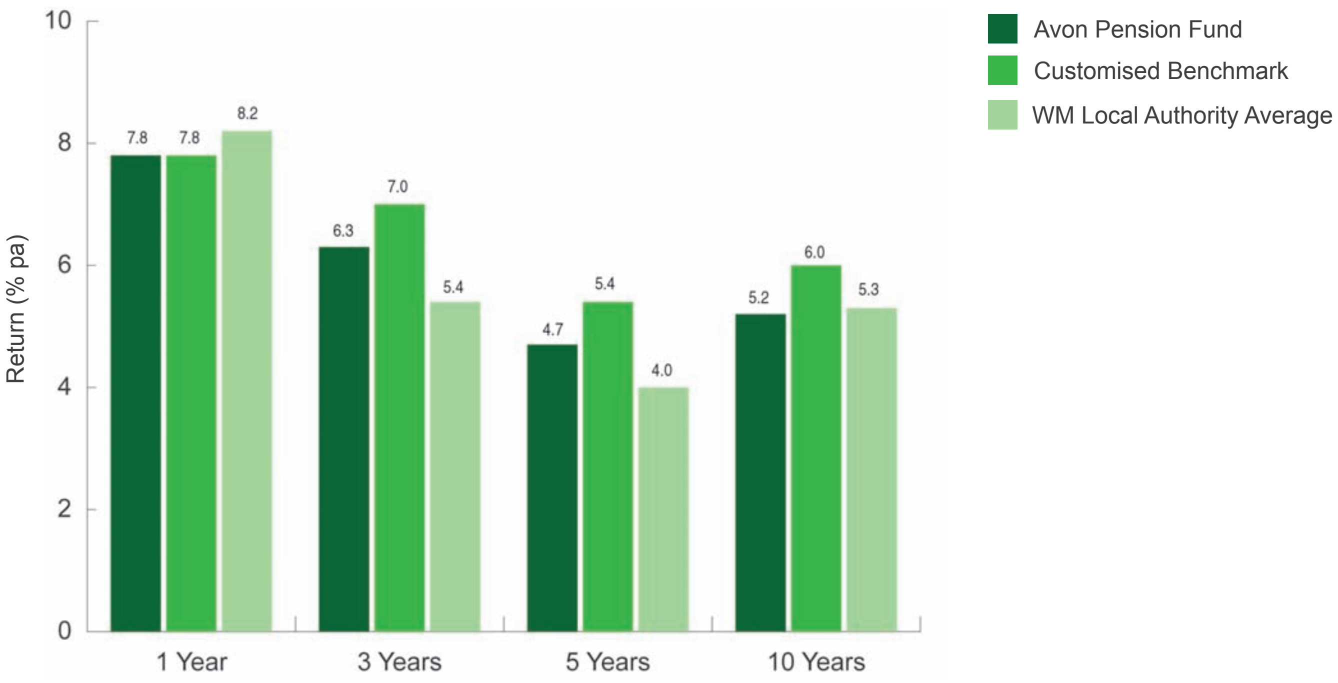
As the year under review came to a close, March proved to be a particulary turbulent month. Equities came under pressure from contagion concerns surrounding political turmoil in the Middle East. Risk assets then suffered a further decline after the devastating earthquake and subsequent tsunami hit Japan. As fears of a nuclear spill unfolded the situation deteriorated rapidly. However, despite a significant fall initially, commodity and equity markets, finished the month strongly as investors gained confidence that the necessary rebuild in Japan would likely boost GDP growth and nuclear meltdown would be averted. Central bank intervention to stabilise the Yen and the UN-imposed no-fly-zone in Libya both helped reduce volatility in the markets by the end of the month.

The outlook is for the global economic recovery to continue but at a slower rate than in the previous 12 months. Uncertainty remains in the markets, especially over the peripheral European markets. However, this did not deter the ECB from signalling a rise in interest rates in response to rising inflation as we enter 2011/12.

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

Investment Report

Chart 3: Long Term Performance



4. Investment Performance

Following a strong 2009/10 where the value of the Fund's assets increased by 34.5%, in 2010/11 the value of the Fund rose by £208 million (or 7.8%) to £2.66 billion at 31 March 2011. This was driven by positive returns across all asset classes and portfolios, in particular the equity portfolios and property. Over the last 3 years the Fund's return is 6.3% per annum falling to 4.7% per annum when viewed over the last 5 years. However, over 10 years the Fund's return of 3.5% per annum is below that required to maintain satisfactory funding levels.

The long-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 underperformed the average fund over the year. This was due to the Fund's lower than average allocation to equities (equities performed positively over the year), and the overweight position in hedge funds (hedge funds lagged equities in absolute returns).

The customised benchmark (which measures the relative performance of the managers in aggregate), shows that the Fund's managers in aggregate matched their specific index returns over the year. Jupiter, Royal London and Partners Group in particular had strong relative performances with TT being the main detractor. Within the Fund of Hedge Fund portfolio, Signet and Gottex achieved their performance targets.

Chart 4 shows the performance of the Fund's external investment managers, against their benchmark during 2010/11. The Fund of Hedge Fund Managers have a cash based benchmark rather than an index. The performance of Partners and Schroders reflects the fact that they are still part-way through investing their portfolios.

Investment Managers' Voting Record

Table 9 summarises the voting activity undertaken by the Fund's external investment managers in respect of the company shares they hold on the Fund's behalf.

5. Largest Holdings

The 10 largest investment and equity holdings of the Fund at 31 March 2011 are shown in the tables 10 and 11.

6. Investment Administration

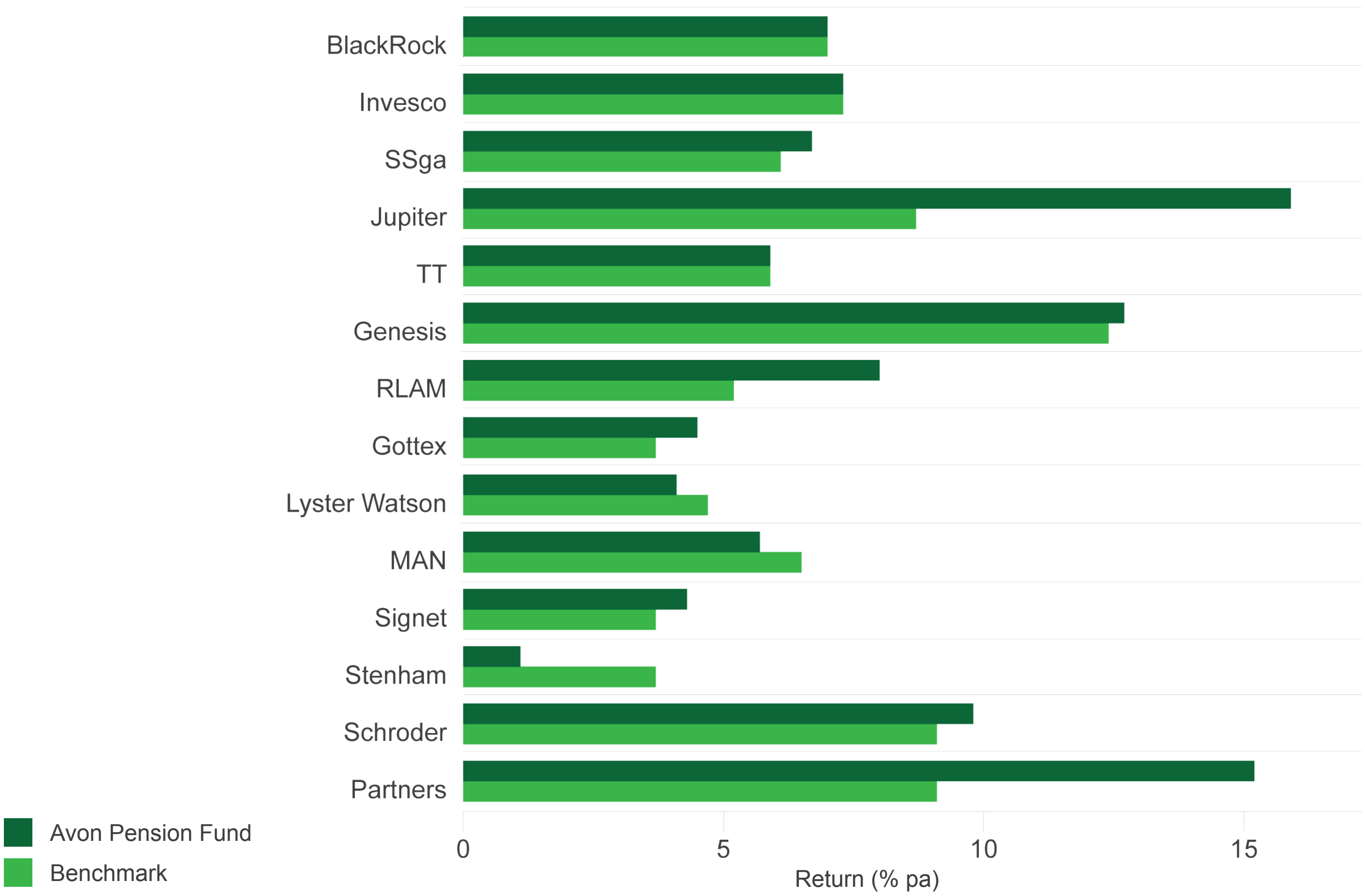
The Fund's custodian is responsible for the safe–keeping of the Fund's assets and acts as the Fund's bank, settling transactions and collecting income. In addition they provide a range of support services including stock lending and investment accounting.

Since April 2009 the Fund has had a separate bank account to improve the transparency and accountability of the Fund's and Council's banking arrangements. In addition, the Fund has a separate Treasury Management Policy as a result of regulations prohibiting the co-mingling of the investment cash of the pension fund and Council. The management of the pension fund's investment cash is still delegated to the Council.

Investment Report

Juscelino Kubitschek bridge in Brasilia City the capital of Brazil

Chart 4: Performance by Manager 2010-11



Investment Report

Table 9: Voting Summary 2010/2011

		Percentage of meetings where:		
Manager	**Number of meetings voted at**	**Voted entirely with management**	**Made a vote against management**	**Recorded an abstention**
BlackRock	3,111	62%	33%	4%
Genesis Investment Management	113	53%	33%	14%
Invesco Perpetual	67	55%	43%	2%
Jupiter Asset Management	82	87%	11%	2%
State Street Global Advisors	738	92%	7%	1%
TT International	57	33%	67%	0%

Table 10: Top 10 Largest Investment Holdings at 31 March 2011

Top 10 Largest Investment Holdings		**% of Fund**
Aquila Life UK Equity Index Fund (BlackRock)	£413,357,332.28	15.49%
BlackRock World Index Fund	£238,457,411.11	8.94%
Invesco Pertual Global ex UK Enhanced Index Fund	£169,742,352.03	6.36%
Genesis Emerging Markets Investment Fund	£147,200,459.27	5.52%
RLPPC UK Corporate Bond Fund (Royal London)	£131,992,312.63	4.95%
BlackRock Europe ex-UK Index Fund	£129,622,422.5	4.86%
MSCI Equity Index Fund B-US (BlackRock)	£119,266,039.49	4.47%
RMF Investment Strategies SPC (MAN)	£100,429,104.07	3.76%
Aquila Life Overseas Bond Index Fund (BlackRock)	£73,999,756.98	2.77%
MPF Pacific Enhanced Equity Index Fund (SSgA)	£58,330,688.22	2.19%

Table 11: Top 10 Largest Investment Direct Equity Holdings at 31 March 2011

Top 10 Largest Direct Equity Holdings		**% of Fund**
Vodafone Group	£13,799,031	0.52%
HSBC	£10,854,552	0.41%
BG Group	£9,628,109	0.36%
Rio Tinto	£7,765,620	0.29%
BP	£7,683,444	0.29%
Royal Dutch Shell	£5,734,441	0.21%
Tesco	£5,733,099	0.21%
Xstrata	£5,532,311	0.21%
Barclays	£5,272,852	0.20%
GlaxoSmithKline	£4,928,476	0.18%

Actuarial Report and Funding Strategy Statement

- **2010 funding level at 82%**
- **Stable employer contribution rates**
- **Hutton recommendations to alter scheme benefits**

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 sets the employer contribution rates for the period from 1 April 2011 to 31 March 2014.

The valuation produced a funding level of 82% leaving a deficit of 18%, a slightly lower funding level than the 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. This increase in the deficit is due to investment returns being less than those which were assumed in the previous valuation and a rise in the liabilities. This was 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.

However, the deterioration in the funding level would have been far worse had it not been for the decision by the government to link public sector pension benefits to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) in the future. As the CPI has historically been lower than the RPI, this change meant that the inflation assumption used for valuing the Fund's liabilities was lower.

The 2010 valuation was undertaken against 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;
- support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- 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, given the expected reduction in pensionable payroll over the next three years for most of the employing bodies, 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. This is to ensure that there is no significant underpayment of deficit recovery contributions should payrolls contract.

The Hutton Commission reported back during the year on the future of the public sector pension schemes. Although long-term sustainability was the main issue, short term cost pressures also influenced the report's conclusions. A number of recommendations were put forward which the government have accepted but have yet to announce how they will be implemented.

The Commission's main recommendation proposes that final salary schemes are closed with accrued rights fully protected and all current members move to a Career Average Re-valued Earnings based scheme (or a CARE scheme) for future service. CARE schemes are considered fairer for members on lower salaries and those that have less career progression whereas final salary schemes favour those on higher salaries and those promoted throughout their careers. However, there was no recommendation from the Commission on the detail of the new structure, such as accrual rates and contribution levels. This decision has been left to the government; ultimately the new scheme structure will be designed to meet the cost parameters set out by the government. There were other recommendations including linking the normal retirement age to the State Pension Age and establishing an independent commission to oversee public sector pensions. As primary legislation is expected to be required to bring in the new changes, it is doubtful if the new scheme will be fully reflected in the next triennial valuation in 2013.

Separate to the Hutton report, in the 2010 Comprehensive Spending Review the government announced that the LGPS had to achieve savings of £900m per year by 2015 to be achieved by increasing employee contributions by c. 3% of pay. In July 2011 the government announced that given the funded nature of the LGPS, these savings could be achieved through a combination of employee contribution increases and benefit changes. The Department for Communities and Local Government will consult with stakeholders over the summer as to how these savings will be realised.

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

The Iguaçu Falls span the border between Argentina and Brazil

Statement of Consulting Actuary

This is the statement required 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. The results of the valuation are contained in our report dated 31 March 2011.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £2,459 million represented 82% of the Funding Target of £3,011 million at the valuation date. 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 of 4.8% of pensionable pay for 23 years. This would imply an average employer contribution rate of 16.6% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. 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). In particular, there were variations in the approach adopted in setting the Funding Target for certain employers. Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

Statement of Consulting Actuary

As a result of the valuation, a revised Rates and Adjustments Certificate was prepared for the three years commencing 1 April 2011. The rates payable by the Unitary Authorities were certified as follows:-

	Future Service Rate (% of pay) plus lump sum (£)		
	2011/12	2012/13	2013/14
Bristol City Council	11.8% plus £12,281,900	11.8% plus £12,834,600	11.8% plus £13,412,200
Bath & North East Somerset Council	12.2% plus £4,146,600	12.2% plus £4,333,200	12.2% plus £4,528,200
North Somerset Council	11.8% plus £4,508,000	11.8% plus £4,710,000	11.8% plus £4,922,000
South Gloucestershire Council	11.9% plus £4,677,000	11.9% plus £4,888,000	11.9% plus £5,108,000

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	For future service liabilities
Rate of return on investments:		
- 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

The assets were assessed at market value.

The Administering Authority determined that certain employers with a lesser financial covenant (based on criteria set by the Administering Authority) would have their contribution requirement assessed with reference to more cautious actuarial assumptions based on corporate bond yields. Further details surrounding this approach can be found in the FSS along with full details of the assumptions adopted being set out in our actuarial valuation report.

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.

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

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

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the promised retirement benefits as at 31 March 2010 is £3,318 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value for IAS 26 purposes of the Fund's promised retirement benefits at that date was £2,962 million.

Paul Middleman

Fellow of the Institute of Actuaries,
Mercer Limited, May 2011

Employer Contribution Rates

Participating Employers	Contribution Rates	
Year Ended 31st March	2011	2010
	%	%
Scheduled Bodies		
Principal Councils and Service Providers		
Avon Fire & Rescue	15.4	15.4
Bath & North East Somerset Council	17.5	17.5
Bristol City Council	17.2	16.3
North Somerset Council	18.6	17.7
South Gloucestershire Council	16.8	15.9
Further & Higher Education Establishments		
Bath Spa University College	15.9	15.9
City of Bath College	13.4	13.0
City of Bristol College	14.6	14.2
Filton College	14.3	13.1
Norton Radstock College	14.0	12.9
St. Brendan’s College	13.8	13.8
University of the West of England	14.5	14.5
Weston College	14.7	14.0
Other Education Establishments		
Beechen Cliff School	17.5	17.5
Bristol Cathedral Choir School Academy	11.7	11.7
Cabot Learning Federation of Academies	12.0	12.0
City Academy Bristol	11.1	10.6
Colston Girl’s School Academy	14.0	14.0
Merchant’s Academy	13.7	13.7
Midsomer Norton School Partnership	17.5	17.5
Oasis Academy Brightstowe	12.6	12.6
Oasis Academy Bristol	13.2	13.2
Oldfield School	17.5	17.5
The Ridings Federation of Academies Winterbourne	13.0	13.0
The Ridings Federation of Academies Yate	11.8	11.8
Designating Bodies		
Bath Tourism Plus	14.0	14.0
Backwell Parish Council	16.9	16.4
Bradley Stoke Town Council	16.6	16.6
Charter Trustees of the City of Bath	15.4	13.8
Clevedon Town Council	14.0	14.0
Destination Bristol	11.7	11.3

Employer Contribution Rate

Participating Employers	Contribution Rates	
Year Ended 31st March	2011	2010
	%	%
Dodington Parish Council	14.8	14.8
Downend and Bromley Heath Parish Council	10.8	9.8
Easton in Gordano Parish Council	14.0	14.0
Filton Town Council	9.6	9.2
Frampton Cotterell Parish Council	16.6	14.0
Hanham Parish Council	31.1	24.8
Hanham Abbots Parish Council	14.0	14.0
Keynsham Town Council	20.0	20.0
Long Ashton Parish Council	24.6	24.6
Mangotsfield Rural Parish Council	14.3	14.3
Nailsea Town Council	16.6	16.6
Norton Radstock Town Council	21.3	19.6
Oldland Parish Council	11.2	10.5
Patchway Town Council	15.6	15.6
Paulton Parish Council	16.0	14.1
Peasedown St John Parish Council	14.0	-
Portishead & North Weston Town Council	21.3	18.8
Saltford Parish Council	15.0	14.0
Stoke Gifford Parish Council	19.1	17.9
Thornbury Town Council	21.8	21.0
Westerleigh Parish Council	12.5	12.5
Weston Super Mare Town Council	11.0	10.3
Whitchurch Parish Council	10.5	10.5
Winterbourne Parish Council	17.6	15.8
Yate Town Council	15.9	15.9
Yatton Parish Council	14.0	-
Community Admission Bodies		
Ashley House Hostel	18.8	16.1
Bath & North East Somerset Racial Equality Council	16.1	14.5
Brislington Neighbourhood Centre	9.2	8.4
Centre For Deaf People	17% + £26,360	17% + £16,140
Clifton Suspension Bridge Trust	14.1	13.5
The Care Quality Commission	18.0	16.9
Learning Partnership West Limited	14.6	14.6
Holburne Museum of Art	13.5	11.6
Merlin Housing Society (SG)	12.5	12.5
Merlin Housing Society Ltd	17.0	14.8
North Somerset Housing	11.3	10.8
Off the Record Bath & North East Somerset	12.1	10.8
Somer Community Housing Trust	15.0	15.0
Somer Housing Group Ltd	9.4	9.4

Employer Contribution Rate

Participating Employers	Contribution Rates	
Year Ended 31st March	2011	2010
	%	%
Southern Brooks Community Partnership	12.1	10.8
Southwest Grid for Learning Trust	12.0	12.0
University of Bath	14.3	14.3
West of England Sport Trust	14.6	14.6
Vision North Somerset	26.8	24.2
Transferees Admitted Bodies (Scope)		
Active Community Engagement Ltd	10.2	10.2
Agilisys	14.3	14.3
Agincare	16.6	16.6
Aquaterra Leisure Ltd.	10.5	10.5
ARAMARK	14.4	14.4
BAM Construct UK Ltd (for Henbury School)	15.4	15.4
Bespoke Cleaning	16.5	16.5
Churchill Contract Services	17.0	17.0
Eden Food Services (Initial Catering)	13.7	13.7
English Landscapes	16.0	16.0
RM Data Solutions Ltd	20.0	20.0
ISS Mediclean	11.9	11.9
ISS Mediclean (Bristol)	12.6	12.6
Kier Facilities Services	14.6	14.6
Liberata UK Ltd	14.3	14.3
Mouchel Business Services Ltd	20.5	18.6
Mouchel Business Services Ltd (Nailsea IT)	15.1	15.1
Northgate Colston Girls School IT	11.2	-
Northgate Information Solutions	9.1	9.1
Prospect Services Ltd	13.7% + £119,100	13.7% + £119,100
Quadron Services	13.7	13.7
Shaw Healthcare (North Somerset) Ltd	22.6	21.5
SITA Holdings UK Ltd	15.7% + £53,760	15.7% + £53,760
Skanska Rashleigh Wsterfoil	9.5	9.5
SLM Community Leisure	10.9	10.9
SLM Fitness & Health	8.7	8.7
Sodexo	17.1	17.1
South Gloucestershire Leisure Trust	8.5	7.5
Team Clean Ltd	13.3	13.3
The Brandon Trust	17.3	16.9
Yes Dining Ltd	12.2	12.2

Statement of Accounts 2010/11

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 2010 to 31 March 2011.

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 2010 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 This is the first year in which the accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice. There is no material difference in the Net Assets as at 1 April 2009 that would effect the 2009/10 accounts, shown for comparison with the 2010/11 accounts.

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 gives supporting detail 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 2011 has marginally increased to 83% from 82% at 31 March 2010. The increase in the asset value exceeded the rise in liabilities, which was caused by the unwinding of the discount rate by one year.

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 Feinstein, 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 Feinstein, Investments Manager.

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 2011 by the Fund's custodian using internationally recognised 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

	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

Fund Managers valuation..

ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.

iii. Pooled investments are stated at their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2011.

iv. Foriegn 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 2011.

v. Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. The amounts included in the change in market value are the realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.

vi. Forward foreign exchange contracts outstanding at the year end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. Foreign currency transactions are recorded at the prevailing rate at the date of transaction.

vii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.

viii. Investment debtors and creditors at the year end are included in investment assets in accordance with the CIPFA code of practice on local authority accounting.

ix. The Fund's surplus cash is treated as an investment asset. Prior to 1 April 2010 the Fund's surplus cash was managed together with the surplus cash of B&NES Council, consequently this balance was shown as a debtor in the Fund's accounts. Since 1 April 2010 the Fund's surplus cash has been managed separately and consequently is now 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 administration costs to the Fund. A proportion of relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business.

2.9 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 Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 16) in which the actuarial calculation of the liability is subject to the professional judgement of the Fund Actuary.

Statement of Accounts 2010/11

Fund Account for Year Ended 31 March 2011

	Notes	**2010/11**	2009/10
Contributions and Benefits		**£'000**	£'000
Contributions Receivable	4	139,519	134,681
Transfers In		9,571	14,934
Other Income	5	273	361
		149,363	149,976
Benefits Payable	6	121,745	115,101
Payments to and on account of Leavers	7	9,094	14,618
Administrative Expenses	8	2,379	2,340
		133,218	132,059
Net Additions from dealings with members		**16,145**	17,917
Returns on Investments			
Investment Income	10	22,663	16,014
Profits and losses on disposal of investments and change in value of investments.	11	177,861	612,435
Investment Management Expenses	9	(7,194)	(6,860)
Net Returns on Investments		**193,330**	621,589
Net Increase in the net assets available for benefits during the year		**209,475**	639,506
Net Assets of the Fund			
At 1 April		**2,458,588**	1,819,082
At 31 March		**2,668,063**	2,458,588

Statement of Accounts 2010/11

Net Assets Statement at 31 March 2011

		Notes	31 March 2011		31 March 2010	
INVESTMENT ASSETS			**£'000**	**%**	£'000	%
Fixed-interest securities : Public Sector			**154,494**	**5.8**	134,999	5.5
Equities			**246,996**	**9.3**	241,265	9.8
Index-Linked securities : Public Sector			**157,378**	**5.9**	147,483	6.0
Pooled investment vehicles :-						
Property	Unit Trusts		**69,935**	**2.6**	43,608	1.8
	Unitised Insurance Policies		**49,875**	**1.9**	33,034	1.3
	Other Managed Funds		**52,242**	**2.0**	26,071	1.1
Property Pooled investment vehicles			**172,052**		102,713	
Non-Property	Unitised Insurance Policies		**844,190**	**31.6**	873,040	35.5
	Other Managed Funds		**1,028,962**	**38.6**	873,533	35.5
Non-Property Pooled investment vehicles			**1,873,152**		1,746,573	
Derivative Contracts: FTSE Futures			**542**	**0.0**	152	0.0
Cash deposits			**50,515**	**1.9**	63,042	2.5
Other Investment balances			**4,750**	**0.2**	4,150	0.2
INVESTMENT LIABILITIES						
Derivative contracts (Foreign Exchange hedge)			**(59)**	**0.0**	0	0.0
Other Investment balances			**(1,869)**	**(0.1)**	(738)	(0.0)
TOTAL INVESTMENT ASSETS		12	**2,657,951**		2,439,639	

Net Current Assets					
Current Assets	14	**11,548**	**0.4**	21,149	0.9
Current Liabilities	14	**(1,436)**	**(0.1)**	(2,200)	(0.1)
Net assets of the scheme available to fund benefits at the period end		**2,668,063**	**100**	2,458,588	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2011.

Statement of Accounts 2010/11

Notes to Accounts - Year Ended 31 March 2011

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 eligible employees of designating admission bodies. A list of employers with contributing scheme members can be found in note 24.

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 2011	31 March 2010
Employed Members	**33,810**	34,800
Pensioners	**22,541**	21,313
Members entitled to Deferred Benefits	**26,868**	24,544
TOTAL	**83,219**	80,657

3. Taxation

i. **Value Added Tax**
The Fund's administering authority Bath & North East Somerset Council is reimbursed VAT by H. M. Revenue and Customs and the accounts are shown exclusive of VAT.

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

iii. **Capital Gains Tax**
No capital gains tax is chargeable.

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

4. Contributions Receivable

Contributions receivable are analysed below:-

		2010/11		2009/10
Employers' normal contributions		£'000		£'000
Scheduled Bodies	**75,120**		72,746	
Administering Authority	**11,560**		11,648	
Admission Bodies	**7,587**	**94,267**	7,564	91,958

Statement of Accounts 2010/11

Employers' contributions - Augmentation				
Scheduled Bodies	**4,226**		3,042	
Administering Authority	**825**		506	
Admission Bodies	**552**	**5,603**	814	4,362
Employers' Deficit Funding				
Administering Authority	**35**		0	
Admission Bodies	**1,963**	**1,998**	241	241
Members' normal contributions				
Scheduled Bodies	**29,060**		29,306	
Administering Authority	**4,292**		4,276	
Admission Bodies	**3,568**	**36,920**	3,595	37,177
Members' contributions towards additional benefits				
Scheduled Bodies	**570**		784	
Administering Authority	**126**		117	
Admission Bodies	**35**	**731**	42	943
Total		**139,519**		134,681

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 some 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 19.

5. Other Income

	2010/11	2009/10
	£'000	£'000
Recoveries for services provided	**262**	356
Cost recoveries	**11**	5
	273	361

'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:-

		2010/11		2009/10
		£'000		£'000
Retirement Pensions		90,317		86,016
Commutation of pensions and Lump Sum Retirement Benefits		28,734		26,536
Lump Sum Death Benefits		2,694		2,549
		121,745		115,101

Statement of Accounts 2010/11

Analysis of Benefits Payable by Employing Body:-

	2010/11	2009/10
	£'000	£'000
Scheduled & Designating Bodies	**102,705**	97,682
Administering Authority	**11,412**	9,418
Admission Bodies	**7,628**	8,001
	121,745	115,101

7. Payments to and on Account Leavers

	2010/11	2009/10
Leavers	£'000	£'000
Refunds to members leaving service	**22**	77
Individual Cash Transfer Values to other schemes	**9,072**	14,541
Bulk Cash Transfers	**-**	-
	9,094	14,618

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.

	2010/11	2009/10
	£'000	£'000
Administration and processing	**1,638**	1,680
Actuarial fees	**271**	178
Audit fees	**47**	71
Legal and professional fees	**-**	1
Central recharges from Administering Authority	**423**	410
	2,379	2,340

9. Investment Expenses

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

	2010/11	2009/10
	£'000	£'000
Portfolio management	**6,840**	6,469
Global custody	**78**	74
Investment advisors	**174**	171
Performance measurement	**32**	33
Investment accounting	**15**	22
Investment Administration	**55**	91
	7,194	6,860

Statement of Accounts 2010/11

10. Investment Income

	2010/11	2009/10
	£'000	£'000
Interest from fixed-interest securities	**6,350**	4,135
Dividends from equities	**7,051**	6,275
Income from Index-Linked securities	**6,187**	3,840
Income from pooled investment vehicles	**2,917**	1,574
Interest on cash deposits	**146**	172
Other - Stock lending	**12**	18
TOTAL	**22,663**	16,014

Dividends from equities in the year to 31 March 2011 includes tax reclaims from former managers of £275,598 received in the year ending 31 March 2009 but not previously recognised as income in the accounts.

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 2011 was £43.67 million (31 March 2010 £9.42m), comprising of £5.56m equities and £38.11m sovereign debt. This was secured by collateral worth £45.21 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 31/03/10	Purchases at Cost	Sales Proceeds	Change in Market Value	**Value at 31/03/11**
	£'000	£'000	£'000	£'000	**£'000**
Fixed-Interest Securities	134,999	36,541	(20,446)	3,400	**154,494**
Equities	241,265	117,633	(128,049)	16,147	**246,996**
Index-Linked Securities	147,483	30,450	(24,322)	3,767	**157,378**
Pooled Investments -					
- Property	102,713	85,169	(27,383)	11,553	**172,052**
- Non-Property	1,746,573	97,871	(108,188)	136,896	**1,873,152**
Derivatives	152	1,922	(3,415)	1,824	**483**
	2,373,185	369,586	(311,803)	173,587	**2,604,555**
Cash Deposits	63,042	232,606	(244,154)	(979)	**50,515**
Net Purchases & Sales		602,192	(555,957)	46,235	

Change in Creditors, Debtors and Revenue

Investment Debtors/Creditors	3,412			(531)	**2,881**
Total Investment Assets	2,439,639				**2,657,951**
Adjustments for Revenue, Debtors & Creditors	18,949			(8,837)	**10,112**
Less Net Revenue of Fund				(31,614)	
Total Net Assets	2,458,588			**177,861**	**2,668,063**

Statement of Accounts 2010/11

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:

	Purchases	Sales	Other	Total
	£'000	£'000	£'000	£'000
Fees and Taxes	606	1	-	607
Commission	159	152	3	314
TOTAL	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 2011		31 March 2010
UK Equities		**£'000**		£'000
Quoted	**209,686**		191,718	
Pooled Investments	**415,651**		456,708	
FTSE Futures	**543**	**625,880**	152	648,578
Overseas Equities				
Quoted	**37,310**		49,546	
Pooled Investments	**987,796**	**1,025,106**	830,704	880,250
UK Fixed-Interest Gilts				
Quoted	**154,494**		134,999	
Pooled Investments	**35,247**	**189,741**	49,413	184,412
UK Index-Linked Gilts				
Quoted	**157,378**	**157,378**	147,483	147,483
Sterling Bonds (excluding Gilts)				
Pooled Investments	**138,079**	**138,079**	124,427	124,427
Non-Sterling Bonds				
Pooled Investments	**74,000**	**74,000**	72,348	72,348
Hedge Funds				
Pooled Investments	**222,379**	**222,379**	212,973	212,973
Property				
Pooled Investments	**172,052**	**172,052**	102,713	102,713
Cash Deposits				
Sterling	**49,672**		52,627	
Foreign Currencies	**843**	**50,515**	10,415	63,042

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Investment Debtors/Creditors				
Investment Income	**3,264**		3,231	
Sales of Investments	**1,485**		919	
Foreign Exchange Hedge	**(59)**		-	
Purchases of Investments	**(1,869)**	**2,821**	(737)	3,413
TOTAL INVESTMENT ASSETS		**2,657,951**		2,439,639

DERIVATIVES ANALYSIS		31 March 2011
"Over The Counter"		**£'000**
Forward Foreign Exchange Hedge :	Receivable in Sterling	3,774
Forward Foreign Exchange Hedge :	Payable in Euros	(3,786)
Forward Foreign Exchange Hedge :	Payable in Sterling	(132)
Forward Foreign Exchange Hedge :	Receivable in Euros	133
		(11)
Forward Foreign Exchange Hedge :	Receivable in Sterling	9,523
Forward Foreign Exchange Hedge :	Payable in U.S. Dollars	(9,571)
		(48)
		(59)

There were no "Over The Counter" derivatives held as at 31 March 2010

Exchange Traded Derivatives held at 31 March 2011:-

Contact Type	Expiration	Book Cost	Unrealised Gain
		£'000	£'000
FTSE Equity Futures	June 2011	15,228	543

Exchange Traded Derivatives held at 31 March 2010:-

FTSE Equity Futures	June 2010	20,887	152

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

The UK Equity futures contracts are held to facilitate efficient portfolio management for a 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. Other foreign exchange contracts are held by the Fund to hedge the US Dollar demonstrated share class of the Lyster Watson fund.

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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 2011		31 March 2010	
	£'000	**%**	£'000	%
BlackRock	**1,469,327**	**55.3**	1,402,836	57.5
Residual values held by former Managers	**24**	**0.0**	79	0
Jupiter Asset Management	**109,295**	**4.1**	94,451	3.9
Genesis Investment Management	**147,200**	**5.5**	130,211	5.3
Invesco Perpetual	**169,742**	**6.4**	158,223	6.5
State Street Global Advisors	**91,176**	**3.4**	85,675	3.5
Partners Group	**53,129**	**2.0**	26,100	1.1
Royal London Asset Management	**131,992**	**5.0**	122,185	5.0
TT International	**132,073**	**5.0**	124,756	5.1
MAN Investments	**100,418**	**3.8**	95,047	3.9
Gottex Asset Management	**53,490**	**2.0**	51,280	2.1
Stenham Asset Management	**11,665**	**0.4**	11,544	0.5
Signet Capital Management	**47,225**	**1.8**	45,279	1.9
Lyster Watson Management	**10,228**	**0.4**	9,823	0.4
Schroder Investment Management	**120,511**	**4.5**	76,798	3.1
Bank of New York Mellon	**1,882**	**0.1**	5,352	0.2
Treasury Management	**8,574**	**0.3**	-	0.2
TOTAL INVESTMENT ASSETS	**2,657,951**	**100.0**	2,439,639	100.0

Residual values held by former managers Capital International, Threadneedle Pensions and Wellington Management International relate to reclaimable tax.

13. Single Investments over 5% of Asset Class

The following investment holdings amounted to 5% or more of their asset class excluding pooled funds. If pooled funds were included the only holding to exceed 5% of its asset class would be the Index linked 2.5% July 2016 which would be 5.01% of its class. The percentage of asset class only relates to the assets held on a segregated basis.

Fixed-Interest Securities	Value £'000	% of Asset Class
UK Government 4.250% 07-JUN-2032	13,819,909	8.9%
UK Government 4.750% 07-DEC-2038	13,801,303	8.9%
UK Government 4.250% 07-DEC-2027	13,788,096	8.9%
UK Government 4.750% 07-DEC-2030	13,288,963	8.6%
UK Government 4.250% 07-DEC-2055	12,279,623	7.9%
UK Government 4.250% 07-MAR-2036	12,048,891	7.8%
UK Government 6.000% 07-DEC-2028	11,851,040	7.7%
UK Government 4.250% 07-DEC-2046	10,883,067	7.0%
UK Government 4.500% 07-DEC-2042	10,637,834	6.9%
UK Government 4.250% 07-DEC-2049	9,992,587	6.5%
UK Government 4.500% 09/07/2034	9,434,179	6.1%
UK Government 4.250% 09/09/2039	8,736,240	5.7%
UK Government 4.250% 12/07/2040	8,048,473	5.2%

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Index Linked Securities	Value £'000	% of Asset Class
UK Government 2.500% 26-JUL-2016	17,391,647	11.1%
UK Government 2.500% 16-APR-2020	14,602,053	9.3%
UK Government VAR RT 17-JUL-2024	13,276,979	8.4%
UK Government 1.250% 22-NOV-2027	12,612,039	8.0%
UK Government 1.875% 22-NOV-2022	11,698,426	7.4%
UK Government 2.000% 26-JAN-2035	11,103,557	7.1%
UK Government 1.250% 22-NOV-2055	10,751,199	6.8%
UK Government 1.250% 22-NOV-2017	10,534,918	6.7%
UK Government 1.250% 22-NOV-2032	10,288,052	6.5%
UK Government 4.125% 22-JUL-2030	9,633,243	6.1%
UK Government 1.125% 22-NOV-2037	9,242,996	5.9%

UK Equities	Value £'000	% of Asset Class
Vodafone Group	13,799,031	6.6%
HSBC Hldgs ord USD0.50 (UK)	10,854,552	5.2%

Overseas Equities	Value £'000	% of Asset Class
Royal Dutch Shell 'A'	5,734,441	15.4%
Xstrata com stk	5,532,311	14.8%
Bayer ag ord npv	3,071,731	8.2%
WPP plc ord	2,082,094	5.6%

14. Current Assets and Current Liabilities

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2011. Debtors and creditors included in the accounts are analysed below:-

	31 March 2011		31 March 2010	
CURRENT ASSETS		**£'000**		£'000
Bath & North East Somerset Council	**-**		10,027	
Contributions Receivable				
- Employers	**7,466**		7,267	
- Members	**2,963**		2,985	
Discretionary Early Retirement Costs	**409**		498	
Other Debtors	**710**	**11,548**	372	21,149
CURRENT LIABILITIES				
Management Fees	**(728)**		(393)	
Lump Sum Retirement Benefits	**(380)**		(1,712)	
Other Creditors	**(328)**	**(1,436)**	(95)	(2,200)
		10,112		18,949

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The 31 March 2010 debtor with Bath & North East Somerset Council represents monies held by the Administering Authority on which a commercial rate of interest was paid. From 1 April 2010 the Fund has managed its surplus cash separately from the Council, consequently this debtor no longer occurs. Surplus cash is now included within the Total Investment Assets.

The Lump Sum Retirement Benefits creditor was lower at 31 March 2011 because longer notice was given to the Fund of the number of members taking early retirement following redundancy, than was given at 31 March 2010.

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2011		31 March 2010	
CURRENT ASSETS		**£'000**		£'000
Local Authorities	**9,068**		18,961	
NHS Bodies	**11**		10	
Other Public Bodies	**1,580**		1,674	
Non Public Sector	**889**	**11,548**	504	21,149
CURRENT LIABILITIES				
Non Public Sector	**(1,436)**	**(1,436)**	(2,200)	(2,200)
NET CURRENT ASSETS		**10,112**		18,949

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

15. Contingent Liabilities

There were no contingent liabilities as at 31 March 2011. (March 2010 = NIL).

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

In compliance with IAS 26 the following statement has been prepared 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.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement rather than the rates as outlined in section 1.7. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the promised retirement benefits as at 31 March 2010 is £3,318 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value for IAS 26 purposes of the Fund's promised retirement benefits at that date was £2,962 million. The net assets available to meet this liability are currently £2,668 million. The triennial valuation of the fund by the actuary sets contribution rates at the level required to recover the deficit. The assumption required for the purposes of IAS 26 and those required for the triennial valuation are different, consequently the value of the liability in each case is not the same.

17. Transfers In

Transfers-In during the year were all in relation to individuals. There were no transfers-in to the Fund during the year ending 31 March 2011.

18. 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.

	2010/11	2009/10
	£'000	£'000
Benefits Paid and Recharged	**6,025**	6,131

19. 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 2010/11 were £4,128 (2009/10 - £7,319). Additional Voluntary Contributions received from employees and paid to Friends Life during 2010/11 were £516,160 (2009/10 - £527,655).

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

	31 March 2011	31 March 2010
	£'000	£'000
Equitable Life		
With-Profits Retirement Benefits	**784**	917
Unit-Linked Retirement Benefits	**443**	449
Building Society Benefits	**319**	327
	1,546	1,693
Death in Service Benefit	**199**	296
Friends Life		
With-Profits Retirement Benefits	**173**	263
Unit-Linked Retirement Benefits	**2,307**	3,227
Cash Fund	**277**	482
	2,757	3,972

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

20. Related Parties

Committee Member Related:-
In 2010/11 £39,245 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£36,893 in 2009/10). Four voting members and three non-voting members of the Committee (including three B&NES Councillor Members) were members of the LGPS during the financial year 2010/2011. (Five voting members and three non voting members in 2009/2010, including three B&NES Councillor Members)

Independent Member Related:-
Two Independent Members were paid allowances of £6,380 and £12,379 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 LGPS.

Employer Related:-
During the year 2010/11 the Fund paid B&NES Council £246,209 for administrative services (£239,878 in 2009/10) and B&NES Council paid the Fund £6,091 for administrative services (£1,528 in 2009/10). Various Employers requiring IAS 19 disclosures and other actuarial work paid the Fund a total of £3,266 (£1,665 in 2009/10) for their services in 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.

There are no other related party transactions except as already disclosed elsewhere.

21. Outstanding Commitments

As at the 31 March 2011 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £86,867,061.

22. Financial Instruments

	31 March 2011	31 March 2010
Financial Assets	**£'000**	£'000
Loans & Receivables	**62,063**	84,191
Financial assets at fair value through profit or loss	**2,609,364**	2,377,335
Total Financial Assets	**2,671,427**	2,461,526
Financial Liabilities		
Payables	**3,305**	2,938
Financial liabilities at fair value through profit or loss	**59**	-
Total Financial Liabilities	**3,364**	2,938

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
	2010/11		2009/10	
	£'000	£'000	£'000	£'000
Interest expense	-	-	-	-
Losses on derecognition	-	2,321	-	1,463
Reductions in fair value	-	4,788	-	11,549
Fee expense	-	921	-	831
Total expense in Fund Account	-	8,030	-	13,843
Interest and dividend income	**146**	**22,517**	172	15,842
Gains on derecognition	-	**31,730**	-	33,951
Increases in fair value	-	**148,966**	-	585,624
Total income in Fund Account	**146**	**203,213**	172	635,417
Net gain/(loss) for the year	**146**	**195,183**	172	621,574

23. 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. Therefore the Fund holds financial instruments such as securities (equities, bonds), collective investment schemes (pooled funds) and cash and cash equivalents. In addition debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

The main risks from the Fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and currency risk.

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.

(a) Market Risks

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. 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, 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.

(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 2011. The volatility data has been provided by JLT Benefit Solutions and is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables including interest rates and foreign currency exchange rates have a similar experience to that experienced for the year to 31 March 2011.

Movements in market prices could have increased or decreased the net assets valued at 31 March 2011 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.

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As at 31 March 2011	Value	Volatility of Return	Increase	Decrease
	£'000	%	£'000	£'000
BlackRock	1,389,499	14%	195,919	(195,919)
BlackRock No 2 Fund	79,828	7%	5,827	(5,827)
Jupiter UK Equities	109,295	12%	13,225	(13,225)
TT UK Equities	132,073	17%	22,452	(22,452)
Invesco Global ex-UK Equities	169,742	15%	24,782	(24,782)
State Street Europe Equities	32,846	20%	6,504	(6,504)
State Street Pacific Rim Equities	58,330	13%	7,583	(7,583)
Genesis Emerging Market Equities	147,200	15%	21,344	(21,344)
RLAM Corporate Bonds	131,992	5%	7,128	(7,128)
MAN Fund of Hedge Funds	100,418	6%	5,925	(5,925)
Gottex Fund of Hedge Funds	53,490	2%	1,337	(1,337)
Signet Fund of Hedge Funds	47,225	3%	1,417	(1,417)
Stenham Fund of Hedge Funds	11,665	4%	443	(443)
Lyster Watson Fund of Hedge Funds	10,228	9%	941	(941)
Schroder Uk Property	120,511	2%	2,049	(2,049)
Partners Overseas Property	53,129	4%	2,125	(2,125)
Internal Cash	10,456	0%	21	(21)
Deferred Assets (previous managers)	24	-	-	-
TOTAL	**2,657,951**	**12%**	**319,002**	**(319,002)**

(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 at 31 March 2011 are provided below. Cash includes the cash deposits held against futures contracts.

	31 March 2011 - £'000
Cash and Cash Equivalents	50,515
Fixed-Interest Assets	559,197
Loans	-
Total	**609,712**

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

The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the affect on the fair value of the fixed-income securities as at 31 March 2011 of a 1% change in interest rates (or 100 basis points (bps)). The analysis assumes that all other variables including foreign currency exchange rates have a similar experience to that experienced for the year to 31 March 2011.

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.

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	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
Loans	-	-	-
Total	**609,712**	**(69,620)**	**69,620**

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 fair value of cash balances but they will affect the interest income received.

(a) (v) Foreign Currency Risk

Foreign 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 current policy is not to hedge its foreign currency exposure to mitigate the impact of movements in foreign exchange rates, except for the Fund of Hedge Funds. The Fund invests in the Fund of Hedge Funds' Sterling share classes. This effectively eliminates currency gains and losses from the investment gains and losses. The Fund implements the US Dollar Sterling hedge for the Lyster Watson Fund of Hedge Funds. It should be noted that the Fund will implement active currency hedging over the currency exposure arising from its overseas equity portfolios from 2011/12.

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

The following tables summarise the Fund's exposure at 31 March 2011 to the US Dollar, Japanese Yen and Euro (expressed in Sterling values) which are the main 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 Fund of Hedge Funds are not included in this analysis given the share classes held are hedged back to Sterling.

As at 31 March 2011	US Dollar	Euro	Yen
Assets held at Fair Value (£000s)	371,103	220,131	126,700
FX Contracts (£'000s)	-9,571	-3,653	0
Net Currency Exposure	**361,532**	**216,478**	**126,700**

(a) (vi) Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in foreign currency exchange rates has been analysed using the volatility experienced by each currency against Sterling during the year to 31 March 2011. The volatility data has been provided by JLT Benefit Solutions and is 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 2011.

A strengthening of Sterling against the various currencies by one standard-deviation (expressed as a percentage) at 31 March 2011 would have decreased the net assets by the amount shown below and vice versa:

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As at 31 March 2011	Percentage Change	Assets held at Fair Value	Change in net assets + 1 Standard Deviation	- 1 Standard Deviation
	%	£'000	£'000	£'000
US Dollar	12%	361,532	(43,745)	43,745
Euro	9%	216,478	(20,349)	20,349
Yen	17%	126,700	(21,412)	21,412
Total			**(85,506)**	**85,506**

(b) Credit Risk

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

The 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. The Fund's contractual exposure to credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the position in the event of a counterparty default. Bankruptcy or insolvency of the custodian may affect the Fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore can not be claimed by creditors of the custodian. The Fund manages its risk by monitoring the credit quality and financial position of the custodian. The investment managers' research process for selecting and monitoring securities or funds for investment mitigates the risk of fraud.

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). However, it should be noted from historical data that the probability of default of investment grade bonds is 6.7% over a twenty year period (Source: Moody's 1920-2010). This means that in a portfolio of a hundred investment grade bonds held for twenty years, seven would have defaulted by the end of the period.

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.

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.
Foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts which are primarily banks. The maximum credit exposure on foreign currency contracts is the full amount of the contractual settlement should the counterparty fail to meet it obligations to the Fund when it falls due.

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.

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	31 March 2011
	£'000
Equities	1,650,443
Fixed-Interest – Quoted	154,494
Fixed-Interest – Pooled	247,326
Index-Linked - Quoted	157,378
Fund of Hedge Funds	222,379
Property	172,052
Cash assets	50,515
Derivatives FTSE Futures	543
Forward Foreign Exchange hedge	-59
Investment Debtors/Creditors	2,880
	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 2011 is set out below.

Credit Analysis 31/03/2011	AAA	AA	A	BBB	BB	UNRATED
	£'000	£'000	£'000	£'000	£'000	£'000
UK Gilts	189,741	-	-	-	-	-
UK Index-Linked	157,378	-	-	-	-	-
Overseas Government Bonds	39,886	33,966	-	-	-	-
Corporate Bonds	16,228	13,511	49,556	36,724	5,436	16,895
	403,233	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.

(c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. 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. However, the main liability of the Fund is the benefits payable which 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 can not be considered as liquid as the other investments. The Fund maintains a cash balance to meet working requirements.

The following table analyses the Fund's financial liabilities, grouped into relevant maturity dates.

	Carrying Amount	Less than 12 Months	Greater than 12 Months
As at 31 March 2011	**£'000**	**£'000**	**£'000**
Accounts Payable	3,305	3,305	-
Benefits Payable	380	380	-
Vested Benefits	3,318,000	3,318,000	-
Derivative financial liabilities settled gross			-
Inflows	29,200	29,200	-
Outflows	(28,717)	(28,717)	-
	483	**483**	**-**

Statement of Accounts 2010/11

Vested benefits are categorised as due within 12 months because any individual benefit could become due in that time. In reality these benefits will become due over the life times of the members.

(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 inputs - Quoted prices (unadjusted) in active, liquid markets for an identical instrument. These include active listed equities, exchange traded derivatives, government bonds. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and those prices represent regularly occurring market transactions.

Therefore in the analysis below, Level 1 includes quoted equities and government bonds, which are liquid and readily realisable investments but excludes pooled funds that invest in these securities.

Level 2 inputs - Valuation techniques used to price securities are based on observable inputs. This includes instruments valued using quoted market prices for similar instruments, quoted prices for similar instruments in markets that are less active, or other valuation techniques where all significant inputs are observable from 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 inputs - Valuation techniques using significant unobservable inputs for the valuation of financial instruments and where there is little market activity. These inputs require management judgement or estimation and include financial instruments that are valued based on unobservable adjustments or assumptions to reflect differences between instruments for which there is no active market.

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.

Statement of Accounts 2010/11

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 2011.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
UK Equities - Quoted	247,539			247,539
Fixed-Interest - 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**

24. Employing Bodies

As at 31 March 2011 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Scheduled Bodies	
Principal Councils and Service Providers	
Avon Fire Brigade	
Bath & North East Somerset Council	
Bristol City Council	
North Somerset Council	
South Gloucestershire Council	

Education Establishments	
Bath Spa University College	Oasis Academy Bristol
Bristol Cathedral Choir School	Oldfield School Academy Trust
Cabot Learning Federation	Midsomer Norton School Partnership
City Academy Bristol	Norton Radstock College
City of Bath College	St. Brendan's College
City of Bristol College	The Ridings Federation Winterbourne
Colston Girl's School Academy	The Ridings Federation Yate
Filton College	University of the West of England
Merchant's Academy	Weston College
Oasis Academy Brightstowe	

Designating Bodies	
Bath Tourism Plus	Nailsea Town Council
Backwell Parish Council	Norton Radstock Town Council
Bradley Stoke Town Council	Oldland Parish Council
Charter Trustees of the City of Bath	Patchway Town Council
Clevedon Town Council	Paulton Parish Council
Destination Bristol	Peasedown St John Parish Council
Dodington Parish Council	Portishead & North Weston Town Council
Downend & Bromley Heath Parish Council	Saltford Parish Council

The Statement of Responsibilities for the Avon Pension Fund

Easton in Gordano Parish Council	Stoke Gifford Parish Council
Filton Town Council	Thornbury Town Council
Frampton Cotterell Parish Council	Westerleigh 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	Mouchel Business Srvices Ltd (Nailsea IT)*
Agilisys	Northgate Information Solutions *
Agincare Ltd. *	Northgate Colston Girls School IT
Aquaterra Leisure	North Somerset Housing
Aramark Ltd *	Off The Record Bath & Nrth East Somerset
Ashley House Hostel	Prospect Services Ltd *
BAM Construct UK Ltd (Henbury School) *	Quadron Services*
Bath &NE Somerset Racial Equality Council	RM Data Solutions
Bespoke Cleaning Services Ltd *	Shaw Healthcare (North Somerset) Ltd*
The Care Quality Commission	SITA Holdings UK Ltd. *
Centre For Deaf People	Skanska (Cabot Learning Federation)*
Churchill Contract Services	Skanska Rashleigh Westerfoil *
Churchill Team Clean	SLM Community Leisure *
Clifton Suspension Bridge Trust	SLM Fitness and Health *
Eden Food Services *	Sodexo Ltd
English Landscapes*	Somer Community Housing Trust
Holburne Museum of Art	Somer Housing Group Ltd.
ISS Mediclean (Bristol)*	South Gloucestershire Leisure Trust *
ISS Mediclean Cabot Learning Federation*	Southern Brooks Community partnership
Keir Facilities Services	Southwest Grid for Learning Trust
Liberata UK Limited	The Brandon Trust *
Learning Partnership West Ltd	University of Bath
Merlin Housing Society Ltd	West of England Sports Trust
Merlin Housing Society (SG)	Woodspring Association for Blind People
Mouchel *	Yes Dining Ltd *
Mouchel Business Services *	

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

The Statement of Responsibilities for the Avon Pension Fund

Sukhothai, Thailand

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.

Statement of the Divisional Director of Finance

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 2011.

Tim Richens

Divisional Director of Finance (S151 Officer)

September 2011

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

The Sydney Opera House, Australia

Auditors Report

Independent auditor's report to the Members of Bath & 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 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

Auditors Report

Machu Picchu, Peru

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

Statue of liberty, New York, United States of America

Five Year Summary of Financial Statistics

Year Ended 31 March	2007	2008	2009	2010	2011
Revenue Account	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Income					
Net Contributions	105.1	112.4	125.3	134.7	139.5
Investment Income	44.2	32.6	19.9	16.0	22.6
Net Cash Transfer	5.7	5.5	4.8	0.3	0.5
	155.0	**150.5**	**150.0**	**151.0**	**162.6**
Expenditure					
Pension & Benefits	88.1	95.0	105.2	115.1	121.7
Investment Management Expenses	4.3	4.8	5.0	6.9	7.2
Administration Costs	1.8	1.8	2.0	1.9	2.1
	94.2	**101.6**	**112.2**	**123.9**	**131.0**
Surplus for the Year	60.8	48.9	37.8	27.1	31.6
Revaluation of Investments	79.7	(55.0)	(396.4)	612.4	177.9
Change in Fund Value	**140.5**	**(6.1)**	**(358.6)**	**639.5**	**209.5**
Total Fund Value	**2,183.8**	**2,177.7**	**1,819.1**	**2,458.6**	**2,668.1**

Yosemite National Park, California, United States of America

Pension Increase

Increases in pensions (excluding the State Guaranteed Minimum Pension) are now 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, any 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.

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

Year Begining April	Rate of Increase %
2002	1.7
2003	1.7
2004	2.8
2005	3.1
2006	2.7
2007	3.6
2008	3.9
2009	5.0
2010	0.0
2011	3.1

The Fund is responsible for increases in 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.

Nara, Japan

Contact Names

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

Martin Phillips
Pension Fund Accountant

Liz Feinstein
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
avon_pension@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 Strategic Director – Resources, 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 110 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 26-28.

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 56.
- 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 percentage of final salary which is payable as pension for each year of service accrued. For example, under the new 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.

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)

Similar to RPI, 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 Trustees

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 their professional careers.

It is convenient to refer to these members as "independent trustees" even though they are not trustees in the strict legal sense (the Pension Fund is not constituted as a trust).

Glossary

Administration of the Avon Pension Fund is a statutory responsibility of Bath & North East Somerset Council and the Avon Pension Fund Committee has been established by the Council to discharge this function on its behalf. The voting members of the Committee perform a role that is similar to that of trustees in the private sector in that they act in the interests of the Fund's stakeholders' rather than the Council itself.

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.

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 these 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.

Scope Bodies (Transferee Admission 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 transferring, 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.