

Bath & North East  
Somerset Council



# Avon Pension Fund Annual Report 2016/2017



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# Chairman's Foreword



As Chairman of the Avon Pension Fund Committee, I am delighted to present the Fund's Annual Report and Financial Statement for the year ending 31 March 2017.

2016/17 was another busy year for the Fund. The triennial valuation was completed with the contribution rates being set for all employers for the 3 years from 1 April 2017. This is a large project given the number of employers within the Fund, involving a massive data cleansing exercise and communication with employers.

There was significant progress with the project to pool the investment assets within the Brunel Pension Partnership. Important milestones were achieved, including the approval of the Full Business Case by all ten administering authorities and pension committees involved in the pool which enabled work to begin on establishing the company that will manage the assets on behalf of the funds in the pool. Officers have worked tirelessly to ensure the challenging timetable has kept on track to meet the government imposed target to have the arrangements in place by 1 April 2018. A number of stakeholder events were held across the pool during the year to inform committee and pension board members of progress; this was in addition to regular updates at the committee and pension board meetings.

The committee reviewed a number

of key investment policies during the year, namely the currency hedging and Responsible Investing policies. In addition, they considered implementing a new framework for managing the liability risk more effectively. Following the laying of revised regulations, the Fund published its first Investment Strategy Statement which explains the approach the Fund takes to managing its portfolio in terms of both expected returns and risks.

Investment markets performed well during the year following a poor performance in 2015/16. The investment return was 17.2% with all assets contributing positively. The return over the last three years improved to 9.2% per annum.

The Committee agreed an investment package to support the restructure of the Administration function, requiring both an increase in resource and the development of some different skills requirements to ensure continued compliant and relevant service provision to stakeholders.

Further developments in the Fund's governance and management took place during the year.

The local Pension Board, which provides an oversight role to ensure the Fund complies with its legislative obligations, held four formal meetings during the year. The Board's second year of operation was focussed on its statutory responsibilities with a core agenda of key governance themes around the fund's legal compliance, risk management, best practice and benchmarking. The Board's second annual report is included with this report.

Within pensions administration work continued to meet the Pension Regulator's (TPR) Code of Practice requirements on maintaining accurate member data. The Fund completed a detailed review of its data and processes and continued

to make progress against its data improvement plan. We continue to make positive steps with digital delivery of services to members and stakeholders.

Finally on behalf of the Committee, I would like to thank the staff at the Avon Pension Fund for their contribution towards delivering an excellent service throughout the year.



**Councillor David Veal**

Chairman of Avon Pension Fund Committee  
Bath and North East Somerset Council

# Review of the year 2016/17

## INVESTMENTS

During the year the value of the Fund's assets increased by £615 million to £4,358 million at 31 March 2017. The investment return was an impressive 17.2%. The return over the last three years was 9.2% per annum.

The investment return was primarily driven by the significant rise in equity markets which account for 50% of the fund assets and further falls in UK government and corporate bond yields following the EU referendum, although all the assets in the portfolio contributed positively. The depreciation of sterling meant that the impact of hedging the foreign currency exposure within the portfolio detracted from the overall return. Excluding the foreign currency hedge the returns were 20.2% over one year and 10.8% per annum over three years.

During the year the investment in infrastructure was implemented, funded by a reduction in the equity allocation. A review of the currency hedging strategy concluded that the strategic decision to hedge foreign currency exposure to protect the value of the assets in sterling terms should be maintained. The Responsible Investing Policy was reviewed and further developed especially with regard to risks arising from climate change. Lastly, significant work was undertaken to put in place a framework to manage the liability risks more effectively within the investment portfolio to provide greater protection against changes in the values of the liabilities.

The Investment Strategy will be reviewed in 2017/18 following the 2016 actuarial valuation.

## Pooling of Assets

Since 2015 when the government announced that the assets of the LGPS funds should be pooled to

reduce costs and increase the capacity across the LGPS to invest in infrastructure, the Fund has been participating in the Brunel Pension Partnership (BPP), a collaboration of 10 LGPS funds.

Initial proposals were submitted to government in February 2016, with a more detailed proposal submitted in July 2016. The partnership developed a full business case which was approved by all 10 authorities early in 2017. This milestone enabled work to start on setting up the Financial Conduct Authority (FCA) company that will manage the assets on behalf of the funds in the partnership.

Under these new arrangements, the Avon Pension Fund will retain responsibility for setting its investment strategy (or asset allocation), as well as the funding and administration strategies. The FCA company will implement the investment strategy for each fund within the pool; it will be responsible for appointing and monitoring the investment managers. The company BPP Ltd, was established on 18 July 2017 and it is expected to be operating as an FCA authorised company by 1 April 2018.

## Investment Regulations

The revised LGPS (Investment and Management of Funds) Regulations 2016 were issued during the year which introduced a "prudential framework" for managing investment risk. As this approach is essentially deregulated (as existing investment restrictions are being abolished), powers are included to give the regulator, the Secretary of State, power to intervene. The new regulations require all funds to publish an Investment Strategy Statement which will set out how the Fund has determined its investment strategy and that it appropriately takes account of risk. In addition, the regulations underpin the requirement for funds to pool their assets.

The Fund published its first Investment Strategy Statement in March 2017.

## FUNDING STRATEGY

The funding level at 31 March 2017 is estimated to have risen to 95% (from 86% a year earlier) and the deficit to have narrowed to £230m million from £618m. This improvement reflects the significant increase in asset values over the period. The Fund will review its investment strategy during 2017/18 which will take account of the improvement in the funding position.

Each valuation the increase in and diversity of the employer base increases the complexity of the valuation process. The 2016 valuation was no exception and entailed significant resource in agreeing and applying the funding strategy to individual employers. Fortunately, the increases in contribution rates were lower than anticipated; however, employers face significant financial pressures and taking affordability into account was a key element of the funding strategy. The 2016 valuation sets the contribution rates for employers from 1 April 2017 to 31 March 2020.

## PENSIONS ADMINISTRATION

During the year the fund undertook a restructure of its Administration function to create specific member and employer focussed services. The key drivers for change being:

- Continued growth in employer base
- Compliance with the Pension Regulators Code of Practice no. 14 and associated record keeping requirements.
- Compliance with increased scrutiny from Scheme Advisory Board and Local Pension Board.

The Pensions Committee in recognising these challenges agreed a package of investment in the

service to strengthen resources, enhance employer services and create new and enhanced roles.

The restructure and its success will shape the future of the Avon Pension Fund administration and ensure it can deal adequately with significant challenges of its expanding employer portfolio whilst ensuring compliance with the requirements of the Pensions Regulator and Scheme Advisory Board.

### Service Plan and Budget

The forward looking three year Service Plan 2017/20 sets out the key service objectives and milestones. It also reviews the achievement against the previous year's plan. The main focus of the plan is:

- To fully engage in the development and implementation of pooled funds in the interest of the Avon Pension Fund; ensure local governance arrangements are in place to accommodate pooling
- To continue implementation of the IT strategy to achieve a digital step change in service delivery and to mitigate service demand growth.
- undertake a review of investment strategy to ensure it is consistent with updated cash flows post the valuation and investment returns expectations.
- To continue to support the requirements of the Local Pension Board.

The later years will focus on consolidation, realising efficiencies and embedding partnership working with stakeholders.

### The Pensions Regulator – Code of Practice 14

The Pension Regulator's (TPR) Code of Practice 14 and the Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 set out the requirements for public

sector pension funds to maintain comprehensive and accurate data on their members and their member's pension contributions. The Fund has undertaken a detailed review of its core data and processes and assessed its level of compliance with regulation requirements in respect of:

- Scheme record keeping
- Maintaining contributions
- Providing information to members

The regulations require 100% completeness of data across a number of core areas. In 2015, the Fund tested 102,000 membership records through a series of analytical reports and measured the overall level of completeness of data accuracy at 92%. A data improvement plan was produced to address the issues identified over a two year period. Accordingly, the data improvement plan will be further reviewed and updated in 2017/18 following the Local Pension Boards next annual review of compliance.

To ensure continued compliance the Fund has also undertaken to review its existing procedures relating to the monitoring of late payment of monthly contributions from employers and its Internal Dispute Resolution Procedure (IDRP).

Detailed reports on compliance and the data improvement plan are presented to both Pensions Committee and Local Pensions Board on a quarterly basis.

### Budget

During the year to 31 March 2017, total administration costs (excluding governance and investment management costs) were £1.8 million, a saving of £0.2m (12%) on the budget.

Total costs including Investment Management, custody and governance costs, but excluding performance fees that are not

yet due for payment, were £20.5 million, £0.5 million below budget. Governance costs were slightly lower than expected (£0.3m) due to lower than anticipated expenditure on consultants. The investment management and custody fees of £17.4 million equates to 0.40% of the Fund's assets.

## GOVERNANCE

### Pension Board

The Local Pension Board (LPB) has been established since 1 April 2015 within which time it has held nine formal meetings through to July 2017.

With appropriate support and advice, the LPB has made good progress in fulfilling its terms of reference and in turn supported the fund administration in fulfilling its statutory duties.

The second year of operation of the LPB was focussed on its statutory responsibilities with a core agenda of key governance themes around the fund's legal compliance, risk management, best practice and benchmarking.

The second Annual Report of the Pension Board can be found at <http://www.avonpensionfund.org.uk/pension-board>

# Governance & Management Structure as at 31 March 2017

## **Administering Authority:**

Bath & North East Somerset Council

## **Members of the Avon Pension Fund Committee:**

### **Councillor David Veale (Chair)**

Bath & North East Somerset Council

### **Councillor Christopher Pearce (Vice-Chair)**

Bath & North East Somerset Council

### **Councillor Cherry Beath**

Bath & North East Somerset Council

### **Ann Berresford**

Independent Trustee

### **Councillor Mary Blatchford**

North Somerset Council

### **Councillor Mike Drew**

South Gloucestershire Council

### **William Liew**

University of the West of England

### **Shirley Marsh**

Independent Trustee

### **Councillor Lisa O'Brien**

Bath & North East Somerset Council

### **Councillor Steve Pearce**

Bristol City Council

### **Councillor Shaun Stephenson-McGall**

Bath & North East Somerset Council

### **Wendy Weston**

GMB

## **Non-voting Members:**

### **Cheryl Kirby**

Parish & Town Councils

### **Steve Paines**

Unite

### **Richard Orton**

Unison

## **Independent Investment Advisor:**

### **Tony Earnshaw**

## **Council Officers:**

### **Tim Richens**

Divisional Director of Business Support

### **Tony Bartlett**

Head of Business Finance & Pensions

### **Liz Woodyard**

Investments Manager

### **Geoff Cleak**

Pensions Manager

### **Maria Lucas**

Head of Legal and Democratic Services

## Investment Managers:



## Actuary:

## Legal Advisor:

## Bankers:

## AVC Providers:



## Investment Consultant:

## Global Custodian:



# Fund Governance

## Avon Pension Fund Committee

As administering authority, Bath and North East Somerset Council (“the Council”), has legal responsibility for the pension fund as set out in the Local Government Pension Scheme Regulations.

The Council has delegated responsibility for the Fund to the Avon Pension Fund Committee (the “Committee”) which is the formal decision-making body for the Fund. The Committee’s role is strategic in nature, setting policy framework and monitoring implementation and compliance within that framework. Due to the wide scope of the Committee’s remit, it is supported by the Investment Panel (the “Panel”) which considers the investment strategy and investment performance in greater depth. The Committee has delegated authority to the Panel for specific investment decisions.

Table 1: Committee Structure

<b>Voting members (12):</b>	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 by the Trades Unions
<b>Non-voting members (4):</b>	1 nominated from the Parish Councils
	3 nominated from the Trades Unions

The Terms of Reference, agreed by the Council, for the Committee and Panel are set out in Appendix A.

The Committee meets formally each quarter. In 2016-17 three extra committee meetings were held. An informal pooling update followed by a formal approval on the joint submission from the Brunel Pension Partnership (BPP) and a meeting to formalise and approve the Responsible Investment Policy.

In addition to these meetings, the Committee held four workshops during the year:

- Two updates on LGPS pooling of investment
- Two on Responsible Investment

The pooling workshops were delivered in various locations to deliver updates simultaneously across the pool. These workshops were well attended by committee members as were the Responsible Investment Workshops.

## Investment Panel

The Committee is supported by an Investment Panel which considers the investment strategy and investment performance in greater depth. The Committee has delegated authority to the Panel for specific investment decisions; strategic issues are referred to the Committee. The Panel consists of

up to six voting members of the Committee.

The Panel met formally four times during the year and met with selected managers at dedicated workshops where managers presented on their performance and outlook for their portfolio.

The Committee is supported by a number of external advisors; Mercer Limited advised on all actuarial and investment aspects of the fund

(under separate contracts); Osborne Clarke provided legal advice on investment and funding issues.

The Committee, Fund Officers, external advisors, fund managers and administrators all operate in accordance with the relevant regulations namely the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, CIPFA Code and the Pensions Regulator Codes of Practice.

## Training

The administering authority recognises the importance of training, both for Committee members and pension fund staff responsible for financial management and decision making within the Fund. Training is provided to ensure that committee members and staff possess an appropriate level of knowledge, skill and understanding to carry out their duties.

Specifically the administering authority must ensure:

- that decisions are taken by persons or organisations with the skills, knowledge advice and resources necessary to make them effectively monitor implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

The Fund has in place a formal training framework which is based on CIPFA’s (Chartered Institute of Public Finance and Accounting) Knowledge and Skills Framework for LGPS funds. This framework is used to assess the training needs and draw up the annual training plan. The Divisional Director - Business Support is responsible for ensuring that training is implemented.

Table 2: Committee and Panel membership and attendance record (as at 31 March 2017)

	Committee	Investment Panel
	Meeting	Meeting
<b>Number of Meetings during year</b>	6	4
<b>Voting Members</b>		
Councillor David Veale (Chair)	6	4
Councillor Christopher Pearce (Vice-Chair)	5	4
Councillor Lisa O'Brien	6	N/A
Councillor Cherry Beath	6	4
Councillor Shaun Stephenson-McGall	5	N/A
Councillor Steve Pearce	3	N/A
Councillor Mary Blatchford	6	4
Councillor Mike Drew	6	N/A
William Liew	6	N/A
Wendy Weston	6	N/A
Ann Berresford	6	3
Shirley Marsh	6	4
<b>Non-voting members</b>		
Cheryl Kirby	3	N/A
Steve Paines	4	N/A
Richard Orton	6	N/A

Table 3: Training provided in 2016/17

Topic	Delivered by:
<b>Governance</b>	
<ul style="list-style-type: none"> <li>Legal responsibility of Committee and Officers</li> <li>Governance &amp; assurance framework</li> <li>Administration Strategy</li> <li>Investment Regulations</li> </ul>	<ul style="list-style-type: none"> <li>Committee reports monitoring administration performance of Fund and employers</li> <li>Committee reports for audited accounts and governance</li> <li>External conferences/training courses</li> <li>Workshop on pooling of investments</li> <li>Committee reports on pooling of assets and full business case</li> <li>Committee reports on investment regulations</li> <li>Workshops covering an introduction to the fund, benefits administration and TPR requirements</li> <li>Review of responsible investing policy</li> <li>GAD Section 13 report</li> </ul>
<b>Employer and Funding risks</b>	
<ul style="list-style-type: none"> <li>Admitted bodies</li> <li>Employer risks</li> <li>Funding level/solvency</li> </ul>	<ul style="list-style-type: none"> <li>Committee reports cover funding position and 2016 actuarial valuation</li> <li>Review Ill health insurance for smaller employing bodies</li> <li>Valuation and 2017 Funding Strategy Statement</li> <li>LGPS Pooling of assets outcome and employer update</li> </ul>
<b>Investment Strategy</b>	
<ul style="list-style-type: none"> <li>Asset Allocation</li> <li>Performance monitoring</li> <li>Investment manager monitoring</li> <li>Stewardship activities</li> <li>Responsible investing policy</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly Committee &amp; Panel reports review investment strategy and performance</li> <li>Annual report on Responsible Investing and voting activity</li> <li>Statement of compliance with FRC Stewardship code.</li> <li>External conferences</li> <li>Manager meetings with the Investment Panel</li> <li>Framework for Liability Driven Investing</li> <li>Workshop on Responsible Investing</li> </ul>

Committee training is delivered in a variety of formats, reflecting the strategic importance of the subject matter to the Committee's agenda and the differing level of knowledge and understanding across the Committee. Much of the training is delivered through detailed committee reports and workshops where the topic is explored greater in detail.

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

the Fundamentals Training Courses offered by the Local Government Pension Committee and induction sessions arranged by officers. All committee members are encouraged to complete the Pension Regulator's public sector pension online toolkit. Officers' annual performance review identifies any training needs as well as monitoring individual performance against objectives.

### **Governance Compliance Statement**

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

Fund complies with best practices in pension fund governance. The Fund's latest statement was approved by the Avon Pension Fund Committee in June 2016. The statement shows a high level of compliance with best practice and is summarised in Table 5.

The latest Governance Compliance Statement is included as Appendix B and can also be obtained from the Fund's website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search Governance Compliance Statement).

Table 4: Training provided externally

<b>Training</b>	<b>Members</b>
LGPS Fundamentals Training Course	Lisa O'Brien, Wendy Weston
National Association of Pension Funds LGPS conference 2016	Ann Berresford
LGC LGPS Investment Summit	Shirley Marsh, Ann Berresford, Mary Blatchford, Cheryl Kirby
LGC LGPS Investment Seminar	Mary Blatchford, Cheryl Kirby
Local Authority Pension Fund Forum	Mike Drew (attended 2 meetings) Steve Pearce (attended 1 meeting) Richard Orton (attended 3 meeting)

Table 5: Governance Compliance

<b>Principle</b>	<b>Compliance status</b>	<b>Comment</b>
<b>Governance structure</b>	Compliant	The decision-making structure is clearly defined
<b>Representation</b>	Partial Compliance	There is broad representation of employers and scheme members on the Committee. However admitted bodies are not represented as it is difficult to have meaningful representation from such a diverse group of employers.
<b>Selection / role of lay members</b>	Compliant	The role and responsibilities of all members are set out in a Job Description.
<b>Voting</b>	Compliant	There is a clear policy on voting rights which have been extended to employer and member representatives.
<b>Training / Facility time / Expenses</b>	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.
<b>Meetings</b>	Compliant	Formal meetings are held quarterly and lay members are included in the formal arrangements.
<b>Access</b>	Compliant	All members have equal access to meeting papers and advice.
<b>Scope</b>	Compliant	The terms of reference include all aspects of investments, funding, benefits administration and admissions to the Fund.
<b>Publicity</b>	Compliant	All statutory documents are made available to the public.

# Risk Management

The Avon Pension Fund Committee is responsible for ensuring that there is an adequate risk management framework in place to ensure compliance with the regulations and to address the risks faced by the Fund. The Investment Panel strengthens 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. Risk is identified and managed as follows:

**1. The Risk Register:** The Fund's Risk Register identifies the governance, operational, funding and investment risks that the Fund is exposed to and, having evaluated the financial and operational impact of the risk on the Fund's objectives, states the actions taken to mitigate and effectively manage the risk.

The register is reviewed regularly by the management team and is reported quarterly to the Committee. Table 6 shows the Top 10 material risks from the Risk Register.

**2. Internal Control Framework:** Internal controls and processes are in place to manage administration, financial and other operational risks. The Council's Internal Audit annually assesses the processes in place within the Fund in order to provide independent assurance that adequate controls are in place. The findings of all internal audits are reported to the Committee.

During the year Internal Audit completed two audits of the

Audit	Assurance level
Pensions Governance	4 = Good
Pensions Administration (Benefits & Lump Sum Payments)	5 = Excellent

Fund's internal processes as follows:

The Internal Control Report of each 3rd party supplier is reviewed annually to ensure their operational control environment is adequate, the results of which are reported to Committee. Where the Fund invests in an investment fund, the audited accounts of the fund are also reviewed annually.

**3. Financial Management Risk:** The Fund operates within the Council's financial framework with segregation of duties to ensure an effective control structure. 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 and late payers are reported to the Committee.

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

**4. Investment Risk:** The investment decision-making process, supported by expert advice, is designed to ensure investment risks are kept to the minimum necessary to achieve the Fund's long term investment objectives. The Investment Strategy Statement sets out the investment strategy and how investment risks are considered and managed. The Statement of Accounts includes a disclosure on Financial Risk Management with particular reference to the investment strategy.

Investments by their very nature expose the Fund to varying degrees of risk, including market, interest rate, foreign currency, credit and liquidity risks. Such risks are managed through the diversification of assets, how the assets are invested and by managers. The Investment Strategy is reviewed periodically after the triennial valuation. The next review is due in 2017.

In between strategic reviews, the Committee and Investment Panel monitor the performance of the investment strategy, providing flexibility to alter the strategy if required. A robust manager selection process assesses the risks of the investment approach and the manager will pose to the Fund.

The provision of expert advice is a key element of the risk management process. The Fund has appointed investment consultants to provide strategic investment advice as well as advising on managers' performance and manager selection. Other expert or specialist advice, such as tax or legal advice, is commissioned as required.

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 performance and compliance with regulations and mandates.

**5. Funding Risk:** The Funding Strategy Statement sets out the funding strategy and policies for the Fund and it is reviewed at least every three years as it forms the basis for the actuarial valuation.

The potential insolvency of scheme employers, leaving outstanding liabilities in the Fund, is a significant risk. The regulations now require 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.

A key risk for employers is that the employer contribution rate is incorrectly calculated due to inaccurate membership information held by Fund. The Employer Services Team reconciles the membership data to identify and resolve data queries with employers.

Some funding risks can be mitigated by the investment strategy. The funding and investment strategies focus on the expected real returns from the assets, thus slightly mitigating the effect of inflation on the value of the pension liabilities. During the year the Committee explored the use of a liability management framework which would increase the liability "protection" within the investment strategy.

#### **6. Benefits Administration Risk:**

These risks relate mainly to the inability of the Fund to meet its obligations and pay benefits accurately and on time as agreed with employers or under statute. The main risks are:

- non- or late payment of members' benefits
- incorrect calculation of benefits
- breach of Data Protection Regulations
- non-compliance with TPR codes
- 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. In addition, the Fund is dependent on a sole supplier of pension administration software. There are processes in place to mitigate administration risks, as identified in the Risk Register.

**7. Training:** As the body responsible for the Fund, Committee members are required to attain a level of knowledge about pensions, investment and funding strategies sufficient to carry out their duties effectively. Specifically they must be able to challenge and understand the advice provided when making decisions or scrutinising processes. To facilitate this, training is provided to members based on the Committee's workplan. An Independent Advisor supports the Committee and Investment Panel members on investment issues.

**8. Business Continuity:** A 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 and member records. It sets out measures to minimise the risk of disruption to service and specifies what "triggers" the contingency measures coming into effect. The Disaster Recovery process is tested annually.

Table 6: Summary of Risk Register

Risk	Management action
<p>Increase political pressure to reform the scheme &amp; governance, reduce costs and direct investment decisions. If the fund does not have a robust plan for change, risk that government will direct funds. Implications: committee is unable or does not make decisions in best interest of the fund.</p>	<p>The Investment Strategy Statement clearly defines the investment principles and objectives and the strategy in place to deliver. The Fund is actively developing Brunel Pension Partnership (BPP) to meet the government broad agenda to reduce investment fees and increase efficiency. BPP and the LGPS Cross Pool Collaboration Group are actively engaging with government on a wide range of issues related to the government's agenda.</p>
<p>Lack of knowledge and continuity within the Committee (risk arises as some members face re-election simultaneously. Until members are fully trained maybe a delay in decision making).</p>	<p>There is a training plan in place linked to the 3 year Service Plan, which is periodically reviewed. The Committee includes 2 independent members that are not subject to the electoral cycle. An induction programme is provided for all new members, tailored for the Committee agenda for the next 12 months. Periodically as self-assessment of training needs is undertaken to ensure knowledge gaps are identified and addressed in the training plan.</p>
<p>The Fund fails to achieve investment returns sufficient to meet its liabilities as set out in the valuation. This may be due to strategy failure or investment managers appointed for each investment mandate failing to achieve their benchmark. Implications: this could negatively impact employer contribution rates.</p>	<p>A strategic review of the investment strategy is undertaken at least every 3 years. It determines the appropriate strategy to deliver the returns assumed by the actuarial valuation. The Fund adopts a diverse strategy across assets and managers which limits the impact of any one asset class or manager on the performance of the fund. The strategy is reviewed quarterly and annually by Committee (between strategic reviews) when the investment performance is measured against the liabilities, the strategic benchmark and mandate performance targets. The managers are monitored against their mandate guidelines quarterly by the Investments Panel. Recommendations for action are made to Committee or actioned under delegated powers of the Panel. Significant due diligence is undertaken when appointing managers; process ensures there is not undue reliance on past performance. Specialist advice is commissioned covering both strategic issues, ongoing monitoring of strategy and managers and evaluating potential managers during procurement process.</p>
<p>Risk of Fund retaining incorrect pension liability - GMP Reconciliation Exercise. Following the abolishment of contracting out earnings effective from April 2016, requirement to undertake a reconciliation of GMP liability between Fund and HMRC. Completion date due end 2018.</p>	<p>There is a project plan in place linked to 3 year Service Plan which is periodically reviewed. Additional resource identified to carry out reconciliation under management of Technical &amp; Compliance Advisor. Exceptions reported to HMRC and progress/action reports provided periodically to Pensions Committee &amp; LPB.</p>
<p>Significant increase in employers especially if all schools convert to academy status.</p>	<p>Resources have been increased to support employer services within both actuarial and administration teams, reflecting the increase in new schedule bodies and admission bodies.</p>

<p>The Fund is unable to recruit appropriately skilled technical or investment staff given the short supply of such staff regionally in the market. This could be exacerbated by the creation of BPP Ltd. based in Bristol which will manage the fund's assets. This could restrict the Fund's ability to develop and implement the service plan.</p>	<p>Complete the PDR process with all staff to identify training and professional qualification needs based on service requirements.  BPP - know impact on team - consider all options for managing work including buying in resource from BPP. Identify at risk areas and consider succession planning to minimise risk of losing skilled/specialist staff.  Build in resilience by broadening technical knowledge of staff within teams.  Explore options for developing apprentice and graduate level staff.</p>
<p>Staffing – Failure of the Pension Fund to ensure it has adequate resources and staff with the requisite skills and competencies to administer the Fund.</p>	<p>Officers are trained and updated in key areas. Attendance at relevant national courses and internal training with peers. Succession planning to build resilience and minimise risk of losing skilled/specialist staff.  Implementation of skills and knowledge training plan following admin restructure (Jan 2017) and introduction of Apprentice programme (late 2017)</p>
<p>System Failure – Failure of the Fund to ensure it has adequate and robust systems to ensure pensions are administered and paid in accordance with statutory obligations.</p>	<p>The Fund has policies in place which are periodically reviewed to ensure statutory obligations are met. Systems Control team has been incorporated with Financial Systems management to build internal resilience.  Operational agreements in place with/for (i) Financial Systems (ii) SLA with Heywood (software provider) (iii) B&amp;NES IT for corporate systems (iv) APF DR policy (v) B&amp;NES BCP (vi) Daily system back-up.  Move of Altair to a Windows platform due to the existing risk presented to APF by the age of and type of platform of the existing Altair servers 4 -  Java technical platform change for payroll support.</p>
<p>The Fund is a participating fund in the Brunel Pension Partnership for pooling its assets. The project is now in implementing phase with the company established. Key senior staff is being recruited but still risk adequate resources are not available in line with timetable. Any of the above could seriously impact the Fund's and pool's ability to deliver savings according to financial case. Focus in next 12-24 months on operational implementation and transition of assets.</p>	<p>Shadow governance structure will move to formal structure with creation on company (July 2017). Governance structure ensures Committee, Board and officers effectively manage the new relationship. Expert advice has been commissioned to advise on the legal structure required, FCA authorisation and related issues. Advice will continue to be commissioned as required.  Additional resources provided to project team to manage implementation stage.  Local funds have put delegations in place to ensure decisions can be made. Chair and NEDs appointed; Executive team in process of being appointed (July 2017). Rest of team below executive level still to be appointed thus still risk to implementation timetable.</p>
<p>Data Protection – Failure to secure and manage personal data held by the Pension Fund in an appropriate manner and in line with statutory responsibilities.</p>	<p>All staff undertake to share personal data with 3rd parties through controlled framework; compliant with B&amp;NES DP policies. Awareness of potential risk in not doing so. Members including pensioner members are informed regularly (via payslips &amp; newsletters) that data is provided to third parties for the detection / prevention of fraud in accordance with National Fraud Initiative. (On-going)  Further staff training to be undertaken in 2017 to reinforce awareness.</p>

# Pensions Administration & Communications

## Pensions Administration Strategy

The Administration Strategy sets out how the administering authority and scheme employers will work together to provide an improving quality level of service to Fund members.

The strategy ensures the Fund can continue to deliver a high quality pension service at a time when the operating environment is becoming more complex: the employer base has fragmented, especially with the creation of academies, furthermore the increase in the number of third party HR and payroll providers (favoured by a number of local education authority (LEA) schools) has added a further layer to the process and provision of data. The tables overleaf show how the Fund's employer and membership base has changed over time.

The Fund revised its Administration Strategy in 2015 to include a more detailed ICT Strategy and also to ensure the governance and administration requirements of the Pension Regulator are properly addressed as they fall to the Fund and employers.

The key objectives of this Strategy are to ensure that:

- The Fund and employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions (largely defined in Service Level Agreements)
- The Fund operates in accordance with LGPS regulations and is aligned with The Pension Regulator in demonstrating compliance and scheme governance.
- Communication processes are in place to enable both the Fund and employers to proactively and responsively engage with

each other and other partners.

- Accurate records are maintained for the purpose of calculating pensions entitlements and employer liabilities, ensuring all information and data is communicated accurately, timely and in a secure and compliant manner.
- The Fund and employers have appropriate skills and that training is in place to deliver a high quality service and effectively contribute to the changing pensions agenda.
- Standards are set and monitored for the delivery of specified activities in accordance with Regulations and minimum standards as set out in each employer's Service Level Agreement.
- Administrative services are developed and delivered digitally as outlined in the ICT Strategy, in order to streamline processes and maintain costs at below or average levels.

The Fund will undertake a review and update of its Pensions Administration during 2017.

Full details of the Pensions Admin Strategy are available on the website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) and included as Appendix F.

## Greater use of technology

The Fund utilises technology to improve the accuracy and flow of data across all aspects of the Fund and to improve communications with members. One of the administration strategy's objectives is for all data to be received and sent electronically between the Fund and employers.

### **Pensions software developments:**

The pensions software provided by Heywood has self-service modules which have been introduced for both members and employers as follows:

### **Employer Self-Service (ESS)**

This web-based self-service access for employers was launched in October 2011 and most employers have now signed up. This facility allows employers to carry out calculations for retirement cases and, in the case of redundancy or efficiency, to calculate the Strain on the Fund costs. ESS has an interactive facility and the Fund has introduced a revised training programme to enable employers to input member data changes securely via ESS for automatic upload to the pension member database. This has been rolled out to existing employers and is a requirement for any new employers to the Fund. By April 2017, 65% of scheme employers were submitting data to the Fund electronically, representing 98% of the active membership.

The number of employers continues to rise, especially with schools becoming academies. The employer base now stands at 298.

### **Member Self-Service (MSS)**

This web-based member self-service facility introduced in 2010 allows members access to their personal pension information with the facility to perform "what if" calculations. It also provides an opportunity for the Fund to develop as a vehicle for electronic communication to members.

At 31 March 2017 there are 14,000 registered members representing 16% of available membership. As part of ongoing development of this facility and encouraging greater take-up a new more user friendly version of MSS has been introduced to improve the customer experience and allow for more self-service functionality. Development of my pension online continues to be a key part of the work programme for the next year.

### **Electronic delivery to members**

The cost of posting hard-copy



documents to members have been rising steeply in recent years. Greater use of technology can reduce these costs significantly. The Fund's main communication costs arise from the active and pensioner member newsletters (normally twice a year) and Annual Benefit Statements which, in total, requires sending circa 150,000 printed documents at a significant annual cost. The ICT and Communications strategies both look to deliver more electronic communications, through development of MSS and online services.

### Members' newsletters

Newsletters are posted to individual members. With the MSS facility now available, in the future the Fund intends to distribute newsletters electronically where possible. As legislation allows information to be distributed electronically, we continue to promote MSS as the preferred channel of communication. Cost savings to the Fund have already been achieved by combining postal communications. For example the Pensioner newsletter is posted with the annual P60 and one of the

active member newsletters is posted with the Annual Benefit Statements. A deferred member newsletter is now included with the Annual Benefit Statement for deferred members.

### Websites

The Fund has two websites - one for members ([www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk)) and one for employers ([www.apfemployers.org.uk](http://www.apfemployers.org.uk)). Both are key access point for information and for self-service facilities.

The member website was fundamentally re-designed during 2015, with a far more member-focus to it. Launched in March 2016 the new website provides members with content and navigation that is relevant to them. It provides a better platform for self-service functionality going forward. The website was a finalist in the Professional Pensions Pension of the Year Awards 2016.

The employers' website is also undergoing a fundamental redesign and will be relaunched in 2018.

### Chartered Institute of Public Finance & Accountancy (CIPFA)

### Benchmarking (Benefits Administration)

The Fund participates in the annual CIPFA Pensions Administration Benchmarking Club. This compares administration costs and performance indicators against other participating LGPS funds and against a group of funds of similar size. The results are used to identify areas for improvement in the Service Plan, to understand the specific service pressures that the Fund faces and to help the Fund operate as efficiently and effectively as possible. In addition it provides an indication of relative operational costs.

The latest available report for 2015/16 identifies the cost per member for the Fund as £15.79 compared with £16.55 in 2014/15. This is significantly less than the cost for the average fund which is £18.58 per member. The Fund's own performance targets are set out in the SLAs it has in place with employers, covering over 80% of the active membership. In many cases these targets are more challenging than the industry standard. Regular

Table 7: Number of active employers in the fund (2016/17)

	Active	Ceased	Total
Scheduled body	199	0	199
Admitted body	106	2	108
<b>Total</b>	<b>305</b>	<b>2</b>	<b>307</b>

Table 8: Number of members in fund 2013-2017

	2017	2016	2015	2014	2013
Active Members	36,213	37,899	34,765	34,846	33,648
Deferred Members	41,279	40,711	35,714	35,321	31,754
Pensioners	29,464	28,079	26,006	25,985	24,574
<b>Total Membership</b>	<b>106,956</b>	<b>106,689</b>	<b>96,485</b>	<b>96,152</b>	<b>89,976</b>

Table 9: Performance Indicators 2016/17

Performance Indicator	LGPC Standard Target	Fund achieved against target %	CIPFA Club average %
Letter detailing transfer in quote	10 days	84	86.4
Letter detailing transfer out quote	10 days	91	81.1
Process and pay refund	5 days	73	90
Letter notifying estimates of retirement benefits	10 days	94	89
Letter notifying actual retirement benefits	5 days	86	87.8
Initial Letter acknowledging death of member	5 days	92	95.5
Letter notifying amount of dependant's benefits	5 days	87	89.1
Calculate and notify deferred benefits	10 days	60	71.3

SLA review meetings are held with these employers to review each party's performance. The Fund also publishes a Customer Charter on its website. This includes its targets (in working days) for completion of processing of member benefits. Table 9 shows the Fund's performance in meeting LGPC standard targets compared with the Club average.

#### Key staffing indicators

The administration of the Fund is provided by Bath & North East Somerset Council. The pension service is split into two broad management areas:

#### Investments:

- Finance & Accounting
- Investment Management
- Actuarial & Valuation

#### Administration:

- Technical & Compliance
- Communications, Public Relations & Websites

- Employer Services (Employer Relations; Data Control)
- Member Services (Benefits Administration; Quality Assurance; Pensions Payroll)

Following the restructure of the Administration function during 2016/17 the total number of staff in the pension service was 44 FTEs. Of these 30.5 FTEs are involved in benefits administration.

#### Pension Communications

The Fund's communication aims are to:

- provide clear, relevant, accurate, accessible and timely information to all our audiences and stakeholders
- listen and respond appropriately to feedback we receive
- use plain language and avoid unnecessary jargon
- use communication channels which best fit the audience and the information being passed on

- be a more electronic communication-based Fund, utilising new communication technology (web, email, social media)
- support members to enable them to make informed decisions about their pensions by making information available
- be compliant with all legislative requirements with regard to communicating with members, such as the Pensions Regulator and Pensions Board

The Communications Policy outlines the communications we provide to various audiences (our stakeholders, audiences and interested parties). The Fund's Communications Policy was updated in 2015 is available on the website [www. avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) and included as Appendix D.

The Fund's communications activity was awarded Finalist status in the Professional Pensions Pension of the Year Awards 2017.

# Investment Report

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 (Management and Investment Funds) Regulations 2016 require the Fund to produce an Investment Strategy Statement (ISS) which sets out the principles that guide the decision making for investing the Fund's assets. It also sets out the framework for investing the Fund's assets to ensure consistency with the Funding Strategy Statement. A wide range of investments are permitted to ensure the Fund achieves an optimal risk/return profile and that assets are sufficiently diversified. The LGPS regulations no longer list restrictions in particular types of investments but instead seek to transfer decisions and their considerations more fully to the Fund within a new prudential framework.

The ISS replaces the Statement of Investment Principles and sets out the Fund's core beliefs that underpin the investment strategy, the process for ensuring the suitability of investments and the key risks the Fund is exposed to, and how these risks are managed.

Key elements include:

- Investment objective
- Management of the main sources of risk
- Responsible Investing: environmental, social and environmental (ESG) considerations
- Exercise of voting rights
- The Fund's approach to pooling its assets with other funds (Brunel Pension Partnership)
- Compliance with the Investment Governance Principles

The ISS was published in March 2017 and is intended as a working document, flexible enough to incorporate changes to the strategy as they are implemented. The ISS will be a key reference point following the triennial investment strategy review in July 2017 and will include details of investments and the role they play within the strategy.

The ISS can be obtained from the website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search Investment Strategy Statement).

The Fund is a signatory to the FRC UK Stewardship Code and has outlined its approach to stewardship, including voting and engagement, in its Statement of Commitment to the Code. The Fund was evaluated by the FRC as Tier 1 compliant in 2016. A Tier 1 rating is defined as those signatories providing a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.

The Fund's latest statement of compliance can be found on the website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search FRC Stewardship Code).

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds. Both committee members and officers regularly attend the quarterly LAPFF meetings.

## Compliance with the Investment Governance Principles

The Investment Governance Principles codify a model of best practice in decision making for investors. The Fund's current compliance or explanation of non-compliance with the principles

is summarised in Table 11 (a full explanation can be found in the ISS).

## 1. Investment Strategy

The objective of the investment strategy is to achieve the investment return required to fund the pension liabilities over time and to recover any funding deficit as set out in the funding strategy. Specifically the investment strategy is designed to 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 Committee periodically reviews its investment strategy in order to ensure the strategy reflects the Fund's liability profile.

## Asset Allocation

Table 12 shows the Fund's actual asset allocation at 31 March 2017 against the strategic allocation benchmark. The table also shows the returns from each asset class over one and three years to 31 March 2017.

The Fund's assets are managed by external investment managers. The investment management structure and amount of assets managed by each manager as at 31 March 2017 is set out in Chart 1. During the year the investment in infrastructure was funded from a reduction in the allocation to equities. BlackRock were appointed to manage the Fund's liability risk management framework.

## Responsible Investing Policy

As a long term investor the Fund seeks to deliver financially sustainable returns to meet the pension benefits of the scheme members. The Fund has a fiduciary duty in managing the fund assets which includes managing the Environmental, Social and Governance (ESG) risks that may be financially material to the Fund. The Responsible Investing (RI) policy seeks to integrate ESG issues into its strategy in the belief this can positively impact financial performance.

The foundations of the Fund's approach to RI are its RI Principles, which are set out below:

- The Fund is a long-term investor, with liabilities stretching out for decades to come, and seeks to deliver long-term sustainable returns.
- The identification and management of ESG risks that may be financially material is consistent with our fiduciary duty to members.
- The Fund integrates ESG issues at all stages of the Fund's investment decision-making

process, from setting investment strategy to monitoring the Fund's investment managers.

- The Fund seeks to identify innovative and sustainable investment opportunities, in-line with its investment objectives.
- The Fund applies evidence-based decision-making in the implementation of its approach to RI.
- The Fund has a duty to exercise its stewardship and active ownership responsibilities (voting and engagement) effectively by using its influence as a long-term investor.

Table 11: How the Avon Pension Fund achieves compliance with the Investment Governance Principles

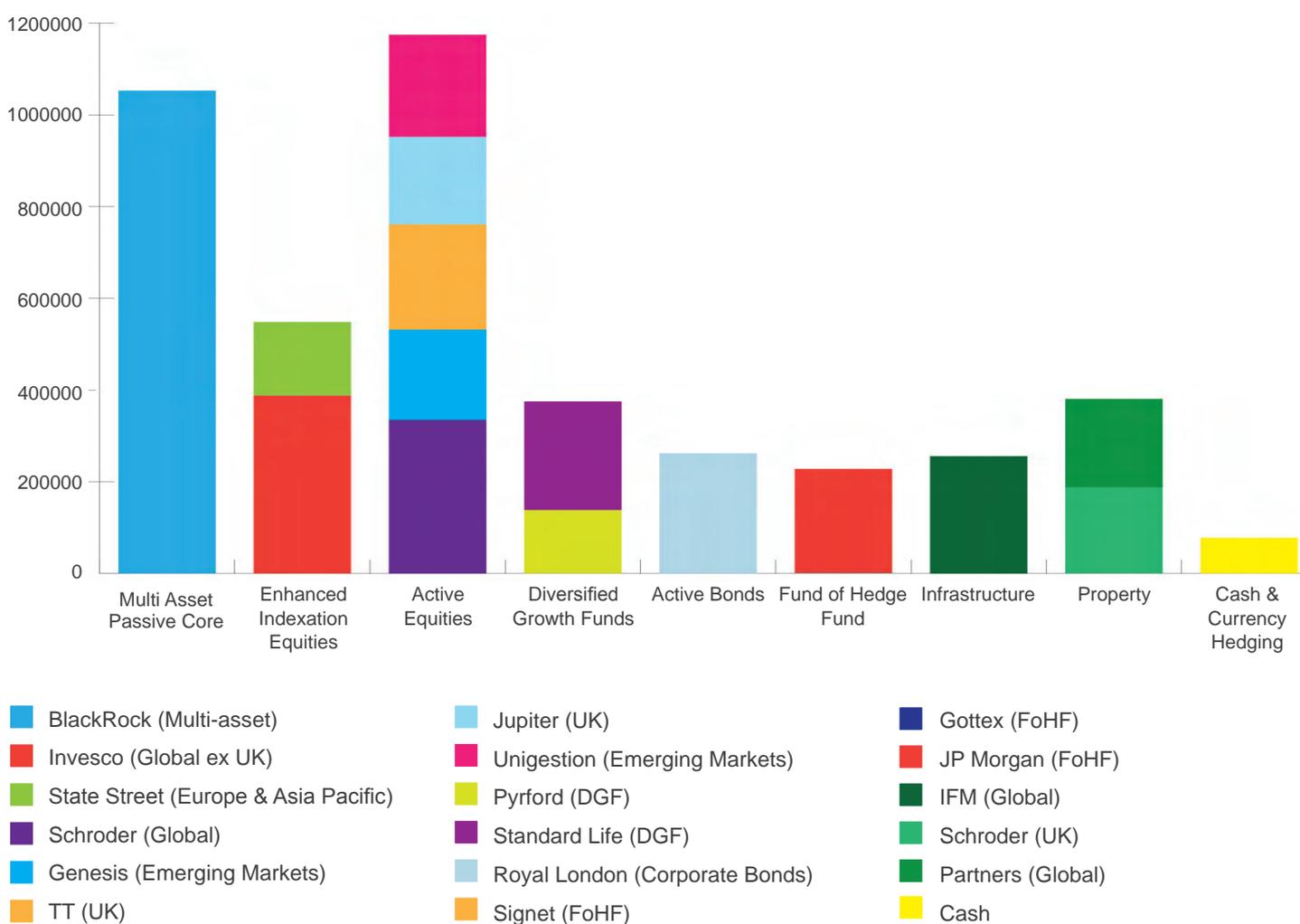
<b>1 Effective decision-making</b>	<b>Compliance</b>
Clear governance structure for decision-making, supported by expert advisors and officers with clear responsibilities	✓
Job descriptions setting out the role and responsibilities of all Committee members	✓
Committee members undertake training on ongoing basis	✓
A forward looking three-year business plan	✓
<b>2 Clear Objectives</b>	<b>Compliance</b>
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	✓
<b>3 Risk and Liabilities</b>	<b>Compliance</b>
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	✓
<b>4 Performance Assessment</b>	<b>Compliance</b>
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	✓
<b>5 Responsible Ownership</b>	<b>Compliance</b>
Managers adopt the Institutional Shareholders' Committee Statement of Principles	✓
Policy on responsible ownership is included in Statement of Investment Principles	✓
<b>6 Transparency and Reporting</b>	<b>Compliance</b>
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 12: Strategic Asset Allocation and Actual Asset Allocation

Asset Class	31 March 2017 Allocation	Strategic Allocation	Range	Asset Class Returns	
				1 year	3 year
UK Equities	14.6%	15%	35-45%	22.0%	7.7%
Developed Overseas Equities	25.3%	25%		33.4%	17.6%
Emerging Market Equities	10.4%	10%	5-15%	35.2%	11.8%
Diversified Growth Fund	8.6%	10%	5-15%	4.5%	4.5%
Infrastructure	5.9%	5%	0-7.5%	28.4%	14.8%
Index-Linked Gilts	11.7%	12%	9-15%	22.0%	14.6%
UK Corporate Bonds	7.8%	8%	4-20%	9.3%	7.5%
Fund of Hedge Funds	5.2%	5%	0-7.5%	4.5%	4.5%
Property	8.7%	10%	5-15%	3.7%	10.2%
Cash	1.6%	0%	0-5%	-	-

Source: Mercer

Chart 1: Asset allocation by Manager 31 March 2017



- to encourage responsible investment behaviour.
- The Fund recognises the importance of collaboration with other investors in order to achieve wider and more effective outcomes.
- The Fund aims to be transparent and accountable by disclosing its RI policy and activity.
- The Fund recognises that climate change is one of the ESG factors that pose a potential long-term financial risk.

The RI Policy sets out the Fund's approach to RI and how the policy is implemented within the investment portfolio. The policy document is available from the website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search Responsible Investment Policy).

## 2. Activity during 2016/17

During the year the Fund reviewed specific aspects of its investment strategy, namely the currency hedging policy, liability risk management and the Responsible Investing policy.

### a. Currency Hedging Policy:

The passive currency hedging strategy was reviewed following the sharp devaluation of sterling following the result of the EU referendum. It was concluded that the rationale for putting the currency hedge in place remained valid and that the Fund should continue to protect the value of the assets in sterling terms. The suitability of the Fund's currency hedging programme will be reassessed as part of the triennial investment strategy review in July 2017.

### b. Liability risk management Policy:

The Fund invests in assets such as fixed interest bonds to provide some matching to the value of the liabilities, in order to reduce the volatility in the funding position. To improve the effectiveness of the "matching" assets the Committee agreed that a liability risk management framework should be implemented. The framework should increase the certainty of the Fund's assets achieving the cash flows required to meet the pension payments as they fall due.

The initial step was to switch the fixed interest gilts into index-linked gilts. The next phase being implemented in 2017/18 is to include synthetic instruments designed to more closely match the Fund's inflation linked cash flows and increase the certainty of asset returns in line with the assumed strategic return.

### c. Responsible Investing Policy:

Working with the Mercers the Fund undertook a review of its Responsible Investment (RI) policy. The Fund's revised RI policy and its strategic priorities around climate change and corporate tax responsibility was communicated to all investment managers.

The Fund sought to manage Responsible Investment and Environmental, Social and Corporate Governance (ESG) risks during the year as follows:

- Following through with issues identified throughout the year by the Committee and Investment Panel. Principally the Fund identified climate change as a potential financial risk and appointed a third party to undertake a full review of the carbon exposure of the Fund's equity portfolio with a view to reducing carbon exposure (decarbonisation) without negatively impacting financial objectives.
- Holding managers to account and querying Responsible Investment / Environmental, Social and Governance factors in their investment process where appropriate.
- Reviewing whether engagement activity of managers was in line with their stated policies.
- Continued participation in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage Responsible Investment (RI) risks. Officers and Committee members attended four business meetings during the year. Through its participation in LAPFF, the Fund co-filed shareholder resolutions on climate change resilience at Rio Tinto in 2016 and as well as

Glencore and Anglo American in 2016 as part of the 'Aiming for A' initiative.

- Independent analysis undertaken by the Fund shows that the Fund's investment managers are more active in expressing concerns through their votes than the average shareholder.
- Feedback given to the Task Force on Climate-related Financial Disclosures in December 2016 and the Fund's investment managers were encouraged to follow suit.
- Continued engagement with the Brunel Pension Partnership on the transition pathway initiative, which assesses how companies are preparing for the transition to a low-carbon economy.

## 3. Investment Performance

### i. 2016/17 performance

For the year ending 31 March 2017 total Fund assets increased by £615m to give a value of £4,358m. The investment return of 17.2% was primarily due to the strong positive performance from global equities owing to accommodative global central bank policy and capital appreciation in fixed interest bearing assets as a direct result of historically low bond yields. Infrastructure also contributed positively to investment returns. Hedge fund returns were negatively impacted by low cash rates and diversified growth funds failed to deliver in line with their absolute return targets. The Fund's currency hedge detracted from performance as sterling depreciated following the result of the EU referendum.

Over the year, the Fund's return of 17.2% (including the impact of the currency hedge) underperformed its strategic benchmark return of 20.1% by 2.9%. Excluding the currency hedge the Fund's return of 20.2% was 0.1% ahead of the strategic benchmark. At the strategic level, asset allocation detracted 0.2% and active portfolio management enhanced returns by 0.3%. The fact active managers were not able to capture the market preference for 'value' stocks (stocks that are more sensitive to the economic cycle) led to minimal contribution to returns. Currency hedging

Chart 2: Long Term Performance

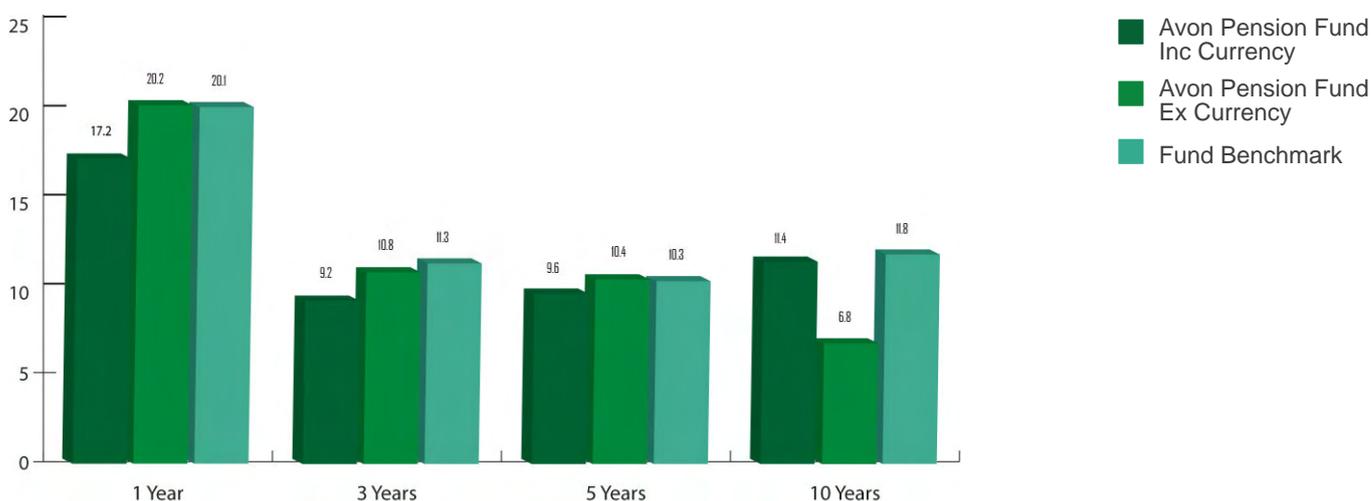


Table 13: Attribution to performance from asset allocation and stock selection

Asset Class	Asset Allocation Impact (p.a)		Stock Selection Impact (p.a)	
	1 Year		1 Year	
Equities	-0.2%		-1.0%	
Bonds	0.0%		-0.3%	
Multi-asset	0.2%		-0.1%	
Property	0.0%		-0.4%	
Hedge Funds	-0.1%		1.0%	
Infrastructure	0.3%		0.8%	
Cash	-3.4% <sup>1</sup>		0.0%	
<b>Total</b>	<b>-3.1%</b>		<b>0.3%</b>	

Source: Source: The Bank of New York Mellon. Note: Columns do not add due to rounding.

<sup>1</sup>-3.0% of the -3.4% cash asset allocation impact is attributable to the Fund's currency hedge

Table 15: Contribution to performance – relative returns of investment managers

	1 Year Relative Return	3 Years Relative Return	5 Years Relative Return
BlackRock	0.4%	0.2%	0.2%
Genesis	-2.6%	-0.9%	0.7%
Invesco	1.1%	0.4%	0.7%
JPMorgan	1.2%	-	-
Jupiter	-5.8%	-0.2%	1.5%
Partners	-1.6% <sup>1</sup>	-	-
Pyrford	0.9%	-0.8%	-
RLAM	1.5%	0.5%	1.5%
Schroder Equity	-0.6%	-0.5%	-0.3%
Schroders Property	-1.1%	-0.2%	0.6%
SSgA - Europe	1.5%	0.6%	0.7%
SSgA - Asia Pacific	0.7%	0.7%	1.0%
Standard Life	-4.7%	-	-
IFM	4.5% <sup>1</sup>	-	-
TT	-4.1%	0.5%	2.0%
Unigestion	-7.0%	-1.0%	-

Note: <sup>1</sup> Performance is shown since inception of the mandate on a Net IRR basis

Table 14: Top 10 Largest Investment Holdings at 31 March 2017

Top 10 Largest Investment Holdings	£'000s	% of Fund
Invesco Perpetual Global ex UK Enhanced Index Fund	388,072	9.0%
Royal London Corporate Bond Fund	262,242	6.1%
IFM Global Infrastructure (UK)	256,002	6.0%
Standard Life Global Absolute Return Fund	236,903	5.5%
Uni-Global Equity Emerging Markets Fund (Unigestion)	223,160	5.2%
Blackrock Advisors (Aquila Life UK Equity Index Fund)	196,829	4.6%
Genesis Emerging Markets Investment Fund	196,601	4.6%
Pyrford Global Total Return Fund	138,487	3.2%
SSGA Managed Pension Fund Asia Pacific Equity Enhanced Indexation	104,919	2.4%
Blackrock Europe ex UK Index Fund	99,617	2.3%

detracted 3.0% from the Fund's return. The annualised contribution to performance by asset class and stock selection over a one-year period can be seen in Table 13.

The investment return impacts the funding or solvency level of the Fund. The strategic benchmark represents a portfolio that, using the long term return expectations, should generate a real return of +3.5% above inflation, 50% of the time (that is, it is the best estimate return generated from the investment strategy). Achieving a real return is important as the pension benefits are linked to inflation. During the year the funding level improved by c. 10% due to the positive return on the Fund's assets exceeding the increase in the present value of the liabilities over the year.

During 2016/17 financial markets were largely driven by central bank policy to maintain low interest rates and geopolitical factors. The EU referendum and the election of President Trump were milestone events that directly impacted returns across asset classes. Strong risk appetite from the investment community drove strong returns in global equities as measured by the FTSE All World return of 33% in sterling terms and 18% in local currency terms (as sterling depreciated). At a regional level, the major equity markets recorded strong returns in sterling terms. European markets returned 28%. UK stocks returned 22% while the FTSE Japan index returned 33%. The US and emerging market equities were top performers, both

returning c. 35%. Global interest rates remained at historically low levels, with the Fed being the only major central bank to begin raising rates marginally toward the end of the period. With government bond yields remaining low throughout the year, credit spreads on corporate bonds tightened as a result of increased investor risk appetite.

#### ii. Longer term performance

The longer term performance of the Fund is shown in Chart 2 (the returns are annualised). The Fund's benchmark return is included in the chart together with the return of the WM Local Authority Fund Average. The Fund return is inclusive of currency hedging whereas the benchmark return excludes currency hedging.

Over three years the Fund's return of 10.8% per annum (excluding currency) is behind the strategic benchmark return of 11.3% per annum. Over the same period returns from UK equities and hedge funds lagged long term expectations, where all other asset classes (most notably overseas equities, index-linked gilts and infrastructure) were significantly ahead of their long term expected returns.

As sterling has depreciated against most currencies over the last three years the currency hedge has detracted 1.7% from the overall return.

Table 15 shows how each of the investment managers have contributed to performance (net of fees). It shows their performance against their specific benchmarks

over one year, three years and five years. Over the three-year period all mandates with a three-year record produced positive absolute returns, however a number of active funds underperformed their benchmarks over the period. The performance of the global property portfolio managed by Partners, which shows the Internal Rate of Return since inception, is impacted by the dilution effect of investing monies during the investment phase of the portfolio, which was reflected in performance of some of the younger funds which remain in the capital raising phase.

#### 4. Largest Holdings

The ten largest investment holdings of the Fund at 31 March 2017 are shown in Table 14.

#### 5. Investment Administration

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

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

# Funding Strategy

## Funding Position

In line with the LGPS regulations, the Fund's funding position is reviewed every three years. The latest triennial valuation based on membership data and asset values as at 31 March 2016, set the employer contribution rates and deficit payment plans for the period from 1 April 2017 to 31 March 2020.

The 2016 valuation produced a funding level (the coverage of liabilities by the assets) of 86% which was an improvement on the funding level of 78% at the previous valuation in 2013. In monetary terms the deficit fell from £876 million in 2013 to £618 million in 2016.

The improvement in the funding level and deficit was due to following:

- A higher than expected investment return over the 3 years (5.6% p.a. compared to the assumption in the 2013 valuation of 4.8%).
- Maintaining the discount rate of CPI +2.2% that was used in the 2013 valuation.

The Future Service Rate (FSR) which is used to value future benefit accruals rose to reflect the fact that investment returns in the future may be lower given that gilt yields have

fallen to historic lows. To build in greater prudence into the FSR, the discount rate was lowered from CPI +3% (used in 2013 valuation) to CPI +2.75%. The result was to increase the average FSR from 13.9% in 2013 valuation to 15.3%.

The funding level will vary over time. The value of the assets and liabilities will vary due to changes in market prices. The non-financial assumptions that determine the liabilities will also change over time, such as longevity or the length of time it is assumed pensions will be paid over the retirement age.

Between the triennial valuations the Committee monitors the funding position each quarter. In addition, an interim valuation is undertaken the year before the next triennial valuation to provide employers with an indication of the potential impact of the next valuation on their budget to help them plan accordingly and to consider potential changes required to the Funding Strategy Statement.

The key assumption which drives the value of the pension liabilities (the future benefit payments) and therefore the deficit is the discount rate which needs to reflect the overall real investment return which the investment assets are expected to achieve over the long term with a suitable allowance for prudence.

Historically, the discount rate used to value the accrued liabilities has been derived as gilts plus a fixed asset out performance to arrive at the overall expected return. However, the significant fall in gilt yields over recent years places a far higher value on the liabilities, the impact of which is to build in too much "prudence" into the funding strategy given the long term objectives of the Fund. As a result in the 2016 valuation the Actuary advised the Fund to adopt a discount rate that reflected the real expected asset return above the CPI when assessing the long term solvency target. To ensure consistency with the level of prudence built into the 2013 valuation, the same level of real return above CPI was adopted namely CPI + 2.2%.

As at 31 March 2017, the estimated funding level has improved further to 95% (with the deficit narrowing to £230m million), driven by strong asset returns over the twelve month period.

The pension fund is maturing gradually and the investment and funding strategies takes this into account. As monthly pensions paid to pensioners exceed contributions received from employers and members, the Fund uses investment income to pay the pensions. The

Table 16: Funding level and asset allocation for the last five valuations

Valuation result	2001	2004	2007	2010	2013	2016
Value of Assets £m	1,563	1,474	2,184	2,459	3,146	3,737
Value of Liabilities £m	1,572	1,841	2,643	3,011	4,023	4,355
Funding level	99%	80%	83%	82%	78%	86%
Asset Allocation %	2001	2004	2007	2010	2013	2016
Equities	75%	74%	77%	63%	63%	50%
Bonds	25%	24%	21%	22%	20%	21%
Diversified Growth Funds	-	-	-	-	-	10%
Property	-	-	-	4%	7%	10%
Hedge Funds	-	-	-	9%	7%	5%
Cash	-	2%	2%	2%	3%	4%

cash flow forecast is included in the Fund's Service Plan which is revised annually. Actual cash flow is monitored against the forecast to manage cash requirements on a monthly basis.

### **Funding Strategy Statement (FSS)**

The FSS is revised each valuation to set the parameters for that valuation. As the 2016 valuation was completed during a particularly difficult time for public sector bodies due to the contraction in public sector funding, the 2016 FSS 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 (to 2019/20).

The regulations in force in 2016 provided that the FSS must:

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

Using the flexibility provided within this framework, in 2016 the Fund kept increases in employer contribution rates to a minimum. The improved funding position meant that increases in deficit payments were minimised and that the average deficit recovery period contract to 16 years (from 20 in 2013). When setting contribution rates and deficit recovery periods for individual employers or groups of employers, the Actuary takes into account as assessment of financial strength and funding sources undertaken by the Fund.

The Future Service Rate (the on-going cost of one year's pension accrual) is expressed as a percentage of pensionable pay. However, to ensure there is no significant underpayment of deficit recovery contributions should payrolls contract during the valuation period, deficit recovery contributions (or past service contributions) are expressed in annual monetary amounts.

The number of employers in the Fund continued to increase due to the creation of academies and the outsourcing of services by scheme employers. As schedule bodies, academies have an automatic right to join the scheme. Employers outsourcing services to an admitted body are required to guarantee the liabilities of the admitted body.

As part of the FSS consultation process, scheme employers were canvassed about introducing insurance for ill-health early retirement costs. Following the valuation, a "captive" insurance scheme has been introduced for smaller scheme employers.

The FSS will be reviewed as part of the 2019 valuation and will be consulted on with scheme employers before being published later in 2019.

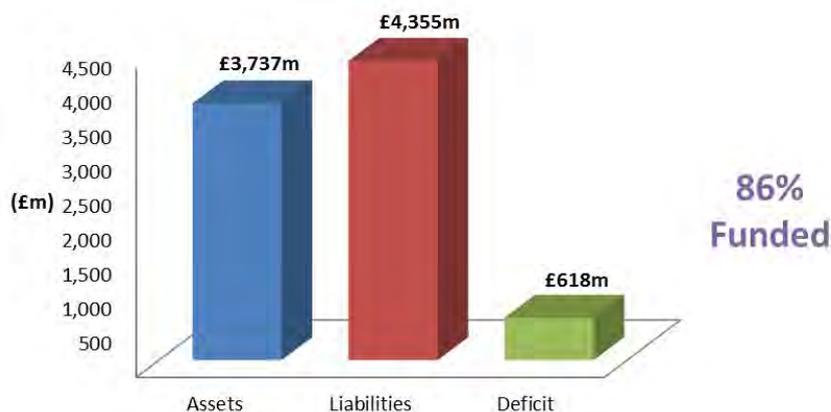
The 2016 Funding Strategy Statement is in Appendix E and can be obtained from the website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search Funding Strategy Statement)

# Statement of the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Avon Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £3,737 million represented 86% of the Fund's past service liabilities of £4,355 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £618 million.



The valuation also showed that a Primary contribution rate of 15.6% of pensionable pay per annum was required from employers. The Primary 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.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 16 years, and the total initial recovery payment (the "Secondary rate") for 2017/18 is approximately £91 million (this allows for some employers to phase in any increases or to make a prepayment in April 2017). For all employers, the Secondary rate will increase at 3.7% per annum, except where phasing has been applied. With the agreement of the Administering Authority employers may also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.4% per annum	4.95% per annum
Rate of pay increases	3.7% per annum*	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

\* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum
Rate of pay increases *	3.5% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

\* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated 31 March 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £5,159 million. Interest over the year increased the liabilities by c£186 million, and allowing for net benefits accrued/paid over the period also increased them by c£22 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £1,092 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £6,459 million.

**Paul Middleman**  
**Fellow of the Institute and Faculty of Actuaries**  
**Mercer Limited**  
**May 2017**

# Employer Contribution Rates

Participating Employers Year Ended 31 March 2017	Contribution Rates				
	2016/17		2015/16		
	Active membership	%	Deficit / Surplus Amount	%	Deficit / Surplus Amount
<b>Scheduled Bodies</b>					
<i>Principal Councils and Service Providers</i>					
Avon Fire & Rescue Service	202	13.6	£343,300	12.7	£304,100
Bath & North East Somerset Council	3654	14.2	-	13.2	-
City of Bristol Council	9204	14	-	13.2	-
North Somerset Council	3057	14.2	£5,412,400	13	£5,198,600
South Gloucestershire Council	5793	14.5	-	13.7	-
<i>Further &amp; Higher Education Establishments</i>					
Bath Spa University	1023	13.7	£589,800	12.8	£515,700
Bath College	238	13.3	£101,700	12.6	£90,500
City of Bristol College	354	14.4	£521,300	13.4	£497,600
South Gloucestershire & Stroud College	450	12.6	£419,900	11.9	£400,900
St. Brendan's Sixth Form College	84	13.8	£39,500	13	£34,400
University of the West of England	1907	13.5	£2,178,600	13	£1,965,700
Weston College	322	12.6	£275,000	11.8	£229,800
<i>Academies and Schools</i>					
Abbeywood Community School Academy	53	14.4	£43,500	13.6	£40,900
Academy of Trinity C of E	26	13.7	£7,900	13.5	£7,100
Aspire Academy	21	14.6	£37,300	14.6	£35,800
Backwell School Academy	64	16.2	£124,400	15.3	£104,600
Bannerman Road Community Academy	39	12.7	£19,200	11.7	£19,200
Barton Hill Academy	31	11.9	£24,300	11.9	£23,300
Bath Community Academy	22	13.6	£27,000	13.4	£22,200
Bedminster Down School	52	16	£32,000	15.2	£31,200
Beechen Cliff School Academy	64	15.1	£39,700	14.2	£35,100
Begbrook Primary School Academy	62	15.5	£18,900	14.5	£18,500
Birdwell Primary School	46	15.9	£20,200	14.8	£17,400
Bradley Stoke Community School	65	13	£70,800	12.3	£62,200
Bridge Learning Campus	72	13.5	£64,600	12.9	£60,800
Bristol Cathedral School Trust	47	13.9	£2,800	13.9	£1,400
Bristol Free School	42	15.9	£200	15	£100
Bristol Futures Academy	11	15	-	15	-
Bristol Technology & Engineering Academy	10	13.4	-	13.4	-
Broadlands School	39	14.2	£37,800	13.1	£37,500
Broadoak Mathematics & Computing College	55	14.6	£71,800	13.6	£67,700
Cabot Learning Federation	222	13.2	£37,300	12.4	£22,000
Callicroft Primary School	50	17.6	£20,200	17.6	£9,700
The Castle School	104	16	£70,000	15	£69,700

Participating Employers	Contribution Rates					
	Year Ended 31 March 2017	2016/17			2015/16	
		Active membership	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Charborough Road Primary School	30	15.5	£19,400	15.5	£18,600	
Charfield Primary School	16	17.8	£7,800	16.6	£6,700	
Chew Stoke Church School	24	15.3	£5,200	14.2	£5,200	
Christ Church C of E Primary School	26	15.2	£11,500	14.2	£10,900	
City Academy	90	13	£25,600	12.1	£21,200	
Churchill Academy	70	14.8	£101,800	14.2	£92,500	
Clevedon School Academy	64	13.9	£56,700	13.3	£54,600	
Clutton Primary School	21	22.9	£7,100	22.9	£6,800	
Colston's Girls' School	36	17.2	-£1,500	16.2	-£1,200	
Colston's Primary School	32	12.2	£7,200	11.9	£6,600	
Combe Down C of E Primary School	40	16.5	£19,700	-	-	
Cotham School Academy	124	13.7	£78,700	13.1	£67,900	
Court de Wyck Church School	18	18.1	£14,500	20	-	
Crockerne C of E Primary School	52	17.7	£17,000	-	-	
Digitech Studio School	15	20	-	20	-	
Diocese of Bristol Academy Trust	4	21.3	-	21.3	-	
Downend School Academy	42	15.4	£40,100	14.3	£40,100	
Dundry C of E Academy	15	26.4	£2,100	26.4	£1,200	
Easton C of E Academy	47	14.8	£47,600	14.8	£45,700	
Elmlea Junior School Academy	18	15.4	£12,800	14.4	£11,000	
Fairfield High School	49	15.4	£60,800	15.4	£58,400	
Fairlawn School	9	20	-	20	-	
Filton Avenue Primary School	53	13	£19,300	12.2	£18,500	
Filton Hill Primary School	17	16.8	£8,500	-	-	
Fishponds Church of England Academy	61	14.8	£23,100	13.8	£22,600	
Four Acres Primary Academy	31	13.4	£28,600	13.4	£27,500	
Fosse Way School	96	12.6	£65,100	11.8	£56,100	
Frome Vale Academy	16	13.4	£11,400	12.6	£11,000	
Gordano School Academy	99	15.5	£121,400	14.5	£106,100	
Greenfields Primary School Academy	48	15.5	£17,200	14.4	£15,800	
Hanham Woods Academy	68	17.3	£64,200	17.3	£61,700	
Hans Price Academy	43	13.3	£85,900	13.1	£72,300	
Hareclive Academy	26	13.7	£21,700	13	£19,700	
Hayesfield Girls School Academy	66	15.3	£39,700	14.5	£36,200	
Haywood Village Academy	12	20	-	-	-	
Henbury Court Primary Academy	37	14	£24,400	13.2	£21,300	
Henbury School	49	14.2	£34,600	13.5	£33,300	
Henleaze Junior School Academy	16	15.2	£13,100	14.2	£11,100	
Heron's Moor Academy	60	13.4	£23,300	12.7	£22,400	
High Down Infant School	49	20	-	-	-	
High Down Junior School	57	18.9	£22,200	-	-	
High Littleton C of E Primary School	17	18.7	£6,900	18.7	£6,700	
Hotwells Primary School	14	15.2	£14,200	15.2	£13,600	
IKB Academy	5	20	-	20	-	
Ilminster Avenue Academy	32	14.4	£12,800	14.4	£10,600	

Participating Employers	Contribution Rates					
	Year Ended 31 March 2017	2016/17			2015/16	
		Active membership	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Inspirational Futures Trust	2	20	-	-	-	
Kingshill Church School	26	14	£12,700	13.5	£11,700	
Kings Oak Academy	67	16.1	£37,700	15.1	£33,200	
Little Mead Primary Academy	57	11.7	£19,700	11.7	£18,500	
Longvernal Primary School	18	16.5	£2,700	-	-	
Lyde Green Primary School	6	20	-	-	-	
Mangotsfield School	50	16.3	£71,500	16.3	£40,100	
Marlwood School	34	16.4	£47,900	16.4	£46,000	
Meadowbrook Primary School	44	15.2	£26,600	15.2	£25,600	
Merchant's Academy	102	14.2	£13,800	13.2	£8,100	
Midsomer Norton Schools Partnership	133	15.1	£111,300	14.1	£99,100	
Minerva Primary Academy	37	15.2	£11,100	14.3	£10,900	
Moorlands Infant School	16	18.6	£7,900	-	-	
Moorlands Junior School	19	17.6	£8,600	-	-	
Nailsea School	51	16.3	£55,500	15.4	£54,400	
North Somerset Enterprise & Technology College	8	20	-	20	-	
Oasis Academy Bank Leaze	22	11.5	£11,100	10.9	£10,900	
Oasis Academy Brightstowe	43	13.2	£11,500	12.6	£6,800	
Oasis Academy Connaught	39	13.2	£13,800	13.2	£11,900	
Oasis Academy John Williams	68	13.7	£4,500	13.2	£2,600	
Oasis Academy Longcross	61	15	£39,900	15	£38,300	
Oasis Academy New Oak	37	12.4	£17,000	11.6	£16,100	
Oasis Academy Brislington	57	15.6	£90,000	20	-	
Oasis Academy Marksbury Road	13	13.4	-	13.4	-	
Oldfield School	41	15.5	£17,600	14.9	£15,200	
Oldfield Park Infant School	32	20	-	-	-	
Oldfield Park Junior School	19	19.6	£5,000	-	-	
Orchard Academy	49	15.2	£46,900	14.1	£46,000	
Parson Street Primary School	33	16.8	£20,100	15.6	£20,100	
Patchway Community College	40	17.6	£59,200	16.4	£50,600	
Peasedown St John Primary School	65	16.3	£43,600	-	-	
Portishead Primary School	49	14.9	£25,600	-	-	
Priory Community School	132	13.9	£120,200	13.3	£105,900	
Ralph Allen School	80	16.4	£41,700	15.4	£41,600	
Redland Green School	63	12.2	£78,200	11.7	£74,800	
Redfield Educate Together Primary Academy	19	9.8	-	9.8	-	
Saltford C of E Primary School	33	17.3	£8,600	-	-	
Severn Beach Primary Academy	11	21.1	£8,000	21.1	£7,700	
Sir Bernard Lovell School	57	14.8	£69,500	14.8	£66,800	
Steiner Academy Bristol	11	13	-	13	-	
St Bede's Catholic College	64	13.6	£42,300	13.1	£35,700	
St Georges Church School	21	18.6	£13,500	-	-	
St John's CEVC Primary Academy (Keynsham)	25	17	£9,600	17	£5,400	
St John the Evangelist Church School	27	17.4	£17,900	-	-	
St John's CofE Primary School (Midsomer Norton)	25	16.2	£21,000	16.2	£20,200	

Participating Employers	Contribution Rates				
	Year Ended 31 March 2017		2016/17		2015/16
	Active membership	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
St Katherine's School	39	16.2	£63,000	-	-
St Mark's Primary School	42	15	£26,900	-	-
St Martin's Garden Primary School	72	14.6	£24,600	-	-
St Mary's CEVA Primary School	9	15.8	£3,700	-	-
St Nicholas of Tolentine RC Primary School	22	15.2	£12,600	14.4	£12,100
St Patrick's Catholic Primary School	18	16.7	£10,400	15.6	£10,000
St Peter's C of E Primary School	50	15.1	£22,700	-	-
St Philip's C of E Primary School	34	20	-	-	-
St Teresa's Catholic Primary School	25	14.3	£12,600	13.5	£12,100
St Ursula's Academy	25	16	-£300	14.6	-£200
Stoke Bishop C of E Primary School	32	16.6	£22,900	15.5	£20,000
Stoke Lodge Primary School	47	15.7	£23,600	14.8	£20,200
Summerhill Academy	40	16.2	£10,300	15.1	£9,500
The Bath Studio School	3	20	-	20	-
The Dolphin School	21	8.9	£100	8.9	£100
The Kingfisher School	19	14.9	£12,000	14	£10,600
Winterbourne International Academy	61	14.8	-£6,600	13.8	-£12,800
Yate International Academy	78	14.4	£3,200	13.4	£1,500
Three Ways School	137	11	£53,200	10.6	£49,100
Tickenham C of E Primary School	15	9.7	£800	9.7	£700
Trinity Church School	38	13.4	£38,900	20	-
Trust in Learning	3	22.7	£4,500	21.7	£4,000
Venturers' Academy	23	14.2	-	-	-
Wallscourt Farm Academy	25	16.9	-	16.9	-
Waycroft Academy	73	15.8	£28,200	14.9	£25,700
Welton Primary School	23	16.4	£17,100	-	-
Wellsway School	80	15	£48,200	14	£44,700
West Town Lane Academy	73	14.8	£25,800	14.8	£21,000
Westbury Park Primary School	42	17.7	£16,200	16.4	£15,500
Westbury-on-Trym C of E Academy	39	15.3	£18,800	14.3	£17,700
Weston All Saints C of E Primary School	64	16.4	£45,800	-	-
Wicklea Academy	24	17	£11,500	17	£11,000
Widcombe C of E Infant School	24	16.2	£11,400	-	-
Widcombe C of E Junior School	22	20	-	-	-
Woodlands Academy	27	13.1	£8,600	20	-
Worle Community School	98	17.5	£9,500	-	-
Writhlington Academy	78	12.4	£75,700	12	£66,600
Yeo Moor Primary School	30	18.2	£20,100	18.2	£19,300
<b>Designating Bodies</b>					
Almondsbury Parish Council	3	14.5	£100	14.5	£100
Backwell Parish Council	3	18.1	£1,900	16.6	£1,600
Bath Tourism Plus	4	17.1	£8,500	16.1	£5,000
Bristol Waste Company	59	22.6	-	22.6	-
Bradley Stoke Town Council	10	17.3	£8,900	16	£8,200

Participating Employers	Contribution Rates				
	2016/17		2015/16		
	Active membership	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Charter Trustees of the City of Bath	2	20.3	£4,000	18.3	£3,800
Congresbury Parish Council	1	20	-	20	-
Clevedon Town Council	2	17.6	£100	16.1	£100
Destination Bristol	12	12	£24,200	12	£17,500
Dodington Parish Council	6	18.1	£1,500	17	£1,400
Downend and Bromley Heath Parish Council	1	14.5	£105	13.5	£105
Emersons Green Town Council	3	15.7	£2,200	14	£2,000
Filton Town Council	13	13.4	£1,900	12.2	£1,600
Frampton Cotterell Parish Council	4	19.9	£1,600	18	£1,500
Hanham Abbots Parish Council	1	12.4	£100	11.6	£100
Hanham Parish Council	1	16.1	£3,400	15	£3,200
Keynsham Town Council	12	17.3	£14,400	16.3	£13,500
Midsomer Norton Town Council	2	13.8	£8,500	12.8	£8,100
Nailsea Town Council	7	19.4	£4,800	17.6	£4,300
Oldland Parish Council	2	15.1	£500	14	£400
Patchway Town Council	6	15	£6,500	14	£6,500
Paulton Parish Council	7	16.4	£1,800	15.4	£1,800
Peasedown St John Parish Council	6	11.3	£600	11.3	£500
Pill & Easton in Gordano Parish Council	1	15.9	£100	14.9	£100
Portishead Town Council	6	14.8	£4,400	14.8	£3,700
Radstock Town Council	3	10.5	£4,100	9.5	£3,800
Saltford Parish Council	1	19.7	£400	17.8	£400
Stoke Gifford Parish Council	6	15.4	£6,500	15.4	£6,500
Thornbury Town Council	14	20.1	£13,600	19.1	£12,900
Westerleigh Parish Council	1	15.2	-£900	14.1	-£800
Westfield Parish Council	3	21.7	£5,500	20.6	£4,700
Weston-super-Mare Town Council	29	13.6	£7,700	12.6	£6,600
Whitchurch Parish Council	1	16	£105	14.7	£105
Winterbourne Parish Council	1	24.2	£700	21.9	£600
Yate Town Council	24	14.3	£12,100	13.3	£11,200
Yatton Parish Council	4	20.6	£700	18.4	£400

<b>Community Admission Bodies</b>					
Alliance Homes	86	16.9	£92,500	15.8	£84,800
Ashley House Hostel	12	22.1	£9,700	19.6	£7,600
Disability Equality Forum	1	23.2	-£100	21.3	-£100
Bristol Music Trust	21	17.7	£10,500	16.7	£6,200
Clifton Suspension Bridge Trust	7	19.5	£4,800	18.3	£3,900
The Holburne Museum	4	15.1	£19,700	13.4	£18,100
Learning Partnership West Ltd	49	20.5	-	20.5	-
Merlin Housing Society Ltd (South Glos. Council)	56	17.2	£10,700	16.2	£10,300
Merlin Housing Society Ltd (New Staff)	113	22.5	£64,500	20.3	£38,100
Sirona Care & Health CIC	8	18.4	-	17.2	-
Sirona Care & Health CIC (New Staff)	138	20	-	20	-
Southwest Grid for Learning Trust	3	11.2	£27,700	11.2	£26,800

Participating Employers	Contribution Rates				
	Year Ended 31 March 2017		2016/17		2015/16
	Active membership	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
The Care Quality Commission	4	20	£56,900	18.9	£48,700
The Park Community Trust Ltd	7	17.2	-£600	16.2	-£600
University of Bath	1050	14.6	-	13.6	-
Vision North Somerset CIO	9	17.6	£13,300	16.9	£11,700
West of England Sport Trust (Wesport)	7	17.4	£36,200	16.2	£27,000
Writhlington Trust	7	26.8	£6,500	-	-

<b>Transferees Admitted Bodies</b>					
Action For Children	1	15.1	-	15.1	-
Active Community Engagement Ltd	5	19	-£6,100	19	-£5,800
Agilisys Limited	58	18	-£1,000	18	-£900
Agilysis Limited 2015	32	18	-	18	-
Alliance Living Care Limited	6	22.4	-	-	-
Aspens Services Limited - Abbeywood Community School	5	21.2	-	-	-
Aspens Services Limited - Bannerman Road Community Academy	1	26.1	-	-	-
Aspens Services Limited - Beacons Rise Primary School	4	21.3	-	-	-
Aspens Services Limited - Begbrook Primary Academy	1	19.9	-	19.9	-
Aspens Services Limited - Blackhorse Primary School	3	20	-	-	-
Aspens Services Limited - Bradley Stoke Community School	5	20.2	-	-	-
Aspens Services Limited - Castle School	4	19.6	-	-	-
Aspens Services Limited - Charborough Primary School	2	16	-	-	-
Aspens Services Limited - Charfield School	1	21.1	-	-	-
Aspens Services Limited - Downend School	4	20.7	-	-	-
Aspens Services Limited - Frampton Cottrell School	1	23	-	-	-
Aspens Services Limited - Frome Vale Academy	1	21.1	-	21.1	-
Aspens Services Limited - Hanham Woods Academy	4	19	-	19	-
Aspens Services Limited - Kings' Forest Primary School		18.7	-	-	-
Aspens Services Limited - King's Oak Academy	8	23.8	-	23.8	-
Aspens Services Limited - Longwell Green Primary School	2	16.4	-	-	-
Aspens Services Limited - Mangotsfield School	8	17.6	-	-	-
Aspens Services Limited - Marlwood School	5	17.8	-	-	-
Aspens Services Limited - Meadowbrook Primary School	4	19.8	-	-	-
Aspens Services Limited - Minerva Academy	3	23.4	-	23.4	-
Aspens Services Limited - Patchway Community College	4	18.9	-	-	-

Participating Employers	Contribution Rates				
	Year Ended 31 March 2017		2016/17		2015/16
	Active membership	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Aspens Services Limited - Shirehampton Primary School	1	27.4	-	-	-
Aspens Services Limited - Summerhill Academy	1	24	-	24	-
Aspens Services Limited - Warmley Park Primary School	4	18	-	-	-
BAM Construction UK Ltd	8	22.4	-£3,000	22.4	-£2,900
Bespoke Cleaning Services Ltd - Filton Hill Primary School	2	21	-	-	-
Bespoke Cleaning Services Ltd - Stoke Lodge Primary School	2	21.3	-	-	-
Brunelcare CIC	2	21.9	-	-	-
Caterlink Ltd	1	20	-	-	-
Churchill Contract Services Ltd - Bristol City Council		21.1	-£100	21.1	-£100
Churchill Contract Services Ltd - Golden Valley Primary School	1	24.8	-	-	-
Churchill Contract Services Ltd - Milton Park Primary School	1	24.2	-	24.2	-
Churchill Contract Services Ltd - South Gloucestershire & Stroud College	3	21.3	-	21.3	-
Churchill Contract Services - Westhaven School	1	22.7	-	22.7	-
Circadian Trust	89	14.3	£76,900	12.7	£58,600
Circadian Trust No 2	2	12.8	£300	11.6	£200
Compass Contract Services (UK) Ltd - Ashton Park School	3	23.8	-	-	-
Compass Contract Services (UK) Ltd - Bristol Cathedral Choir School	1	16.9	-	-	-
Compass Contract Services (UK) Ltd - St Bernard's Catholic Primary School	1	20.6	-	-	-
Compass Contract Services (UK) Ltd - Compass Point South Street School	1	23.6	-	-	-
Compass Contract Services (UK) Ltd - Luckwell Primary School	1	23.6	-	-	-
Compass Contract Services (UK) Ltd - Nova Primary School	1	27.5	-	-	-
Compass Contract Services (UK) Ltd - Sea Mills Primary School	1	19.5	-	-	-
Creative Youth Network (East) - Hillfields Youth Centre	2	16.5	-	16.5	-£2,500
Dolce Ltd - Filton Hill Primary School	2	19.6	-	-	-
Dolce Ltd - Mangotsfield School	4	19.5	-	-	-
Edwards and Ward Ltd	1	29.4	-	-	-
Fit For Sport - Trinity Anglican Methodist Primary School	1	15.7	-	15.7	-
Fit For Sport - St Peter's C of E Primary School	1	18.5	-	18.5	-
Glen Cleaning Company	3	23.1	-	-	-
Greenwich Leisure Ltd - Bath & North East Somerset Council	18	14.9	-	14.9	-

Participating Employers	Contribution Rates				
	Year Ended 31 March 2017		2016/17		2015/16
	Active membership	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Greenwich Leisure Ltd - North Somerset Council	9	18.4	£10,000	18.4	£9,600
HCT Group (CT Plus CIC)	5	23.5	-£21,800	23.5	-£20,900
Interserve Catering Services Ltd - Bristol City Council	2	18.7	£109,200	18.7	£104,900
Interserve Catering Services Ltd - Henleaze Junior School	2	20.5	-	-	-
Interserve Catering Services Ltd - Little Mead Academy	62	25.4	-	-	-
Interserve Catering Services Ltd - St Patrick's School	2	21.3	-	-	-
ISS Mediclean Ltd - Bristol City Council	4	16.5	-£800	16.5	-£700
ISS Mediclean Ltd - Cabot Learning Federation	3	23.8	-£300	23.8	-£300
KGB Cleaning (South West) Ltd - Backwell Academy	2	19.3	-	-	-
Learning Partnership West (Lot 1) - Brentry Youth Centre	1	24.8	-	24.8	-£10,400
Learning Partnership West (Lot 2) - Lockleaze Youth & Play Space	1	12.5	-	12.5	-£9,300
Learning Partnership West (Lot 3) - The Mill	1	17.5	-	17.5	-£12,100
Learning Partnership West (Lot 7) - Hareclive Youth Centre	1	7	-	7	-£1,100
Liberata UK Ltd	39	19.5	£34,900	19.5	£33,500
Prestige Cleaning & Maintenance Limited	4	21.3	-	21.3	-
Relyon Cleaning Services	1	30.1	-	-	-
Ridge Crest Cleaning Ltd - Sir Bernard Lovell School	4	23.3	-	-	-
Ridge Crest Cleaning Ltd – Bristol City Council	3	19.1	-	19.1	-
Shaw Healthcare - Petersfield	1	19.4	£26,300	18.1	£25,300
Shaw Healthcare - The Granary	2	21	£8,600	19.1	£8,200
SITA Holdings UK Ltd	1	30.2	£66,100	30.2	£63,500
Skanska Rashleigh Weatherfoil Ltd	2	15.9	£300	15.9	£300
SLM Community Leisure Trust	70	17.5	£7,200	17.5	£6,900
SLM Fitness & Health Ltd	11	15.5	£6,200	15.5	£5,900
Sodexo Ltd	1	22.6	-	22.6	-£3,200
The Brandon Trust	9	19.1	£4,000	17.8	£14,600

# Statement of Accounts 2016/17

## 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 2016 to 31 March 2017.

**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 2016/17 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.7. They do not take account of liabilities to pay pensions and other benefits in the future.

**1.3** The accounts are set out in the following order:

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

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

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

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

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

In note 8 Income from pooled investments has been analysed between Property and non-property investments.

In note 22 Financial Instruments for pooled investments are split between property and non-property investments.

Note 24 includes an analysis of the sensitivity of the valuations of Level Three assets in the Fair Value Hierarchy and a reconciliation of the change in value measurements within level three over the year. Some of the previous year figures in note 24 have been re-worked to be on a consistent basis with the 31 March 2017 figures. The previous figure for Pooled Investment Vehicles of £1,617,764m in Level 2 has instead been analysed between quoted equities and quoted bonds in Level 2. In the Currency Risk sensitivity analysis assets that are fully hedged are not shown because they have zero sensitivity

## Actuarial Valuation

**1.5** As required by the Local Government Pension Scheme Regulations 2013 an actuarial valuation of the Fund was carried out as at 31 March 2016. The market value of the Fund's assets at the valuation date was £3,737 million. The Actuary estimated that the value of the Fund was sufficient to meet 86% of its expected future liabilities of £4,355 million in respect of service completed to 31 March 2016.

**1.6** At the 2016 valuation the average deficit recovery period for the Fund overall was set at 16 years.

**1.7** The 2016 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions used to set employers' contributions, are set out in the table below:

**1.8** The 2016 triennial valuation was completed during 2016/17 using market prices and membership data as at 31 March 2016. The 2016 valuation set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2017. Historically the discount rate used has been based on gilt yields. However, having taken advice from the Scheme Actuary, the discount rate used in the 2016 valuation is based on CPI plus a real investment return of 2.2% p.a. which better reflects the expected return of the investment portfolio in the long term compared to the gilts basis.

**1.9** The Actuary has estimated that the funding level as at 31 March 2017 has risen to 95% from 86% at 31 March 2016 based on the 2016 valuation financial assumptions. The improvement is due to strong investment returns offsetting a more modest rise in the value of the liabilities.

**1.10** Note 15 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS26 using the assumptions and methodology of IAS 19. The discount rate referenced for IAS19 is the Corporate Bond yield. The discount rate used for the Actuarial Valuation references the

	Past service liabilities	Future service liabilities
Rate of Discount	4.4% per annum	4.95% per annum
Rate of pensionable pay inflation	3.7% per annum	3.7% per annum
Rate of price inflation	2.2% per annum	2.2% per annum

Fund's investment strategy.

**1.11** The Fund's Funding Strategy Statement can be found on the Fund's website [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk) (search Funding Strategy Statement).

## Investment Strategy Statement

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

## 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 2017 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 Fund Manager's valuation. All these valuations are subject to the custodian's and fund manager's internal control reports and external auditors.
- ii. Fixed interest securities exclude interest earned but not paid over at the year end, which is included separately within investment debtors.
- iii. Pooled investments are stated at

their bid price or at the Net Asset Value quoted by their respective managers at 31 March 2017.

- iv. Foreign currency transactions are recorded at the prevailing rate at the date of transaction. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates ruling as at 31 March 2017.
- 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. Overseas properties are valued as at 31 December 2016 with adjustments made for any reduction or addition to the level of investment.
- vii. 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.
- viii. Acquisition costs of investments (e.g. stamp duty and commissions) are treated as part of the investment cost.
- ix. 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.
- x. The Fund's surplus cash is managed separately from the surplus cash of Bath and North east somerset Council (B&NES) and is treated as an investment asset.

### Contributions

**2.3** Contributions represent those amounts receivable from the employing bodies in respect of their own and their pensionable employees' contributions. Employers' contributions are determined by the Actuary on the basis of triennial valuations of the

Fund's assets and liabilities and take into account the Funding Strategy Statement set by the administering authority. The last such valuation was at 31 March 2016. Currently employer contribution rates range from 7.0% to 30.8%. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme Regulations 2013. The employee contribution rates range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017.

**2.4** Normal contributions both from members and the employer are accounted for on an accruals basis in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

### Benefits, Refunds of Contributions and Cash Transfer Values

**2.5** From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

**2.6** Benefits payable and refunds of contributions have been brought into the accounts as they fall due.

**2.7** Cash Transfer Values are those sums paid to or received from other pension schemes and relate to previous periods of pensionable employment. Cash Transfer Values have been included in the accounts on the basis of the cheque payment date or "Bath & North East Somerset Council cash office received" date. Accruals are only made when it is certain that a transfer is to take place.

**2.8** Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and

income to the Fund are both made in the current year. The charges are index linked to pension's increases to ensure that the Fund receives the full value.

## Investment Income

**2.9** Dividends and interest have been accounted for on an accruals basis. Some of the income on pooled investments is accumulated and reflected in the valuation of the units. Some of the income on pooled investments (mainly property) is distributed.

## Investment Management & Administration

**2.10** The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 permit Bath & North East Somerset Council to charge administration costs to the Fund. A proportion of relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business.

**2.11** The fees of the Fund's external investment managers reflect their differing mandates. Fees are linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. Management fees are recognised in the year in which the management services are provided. A provision

has been made for performance fees that have been incurred but are subject to phased payments or are not to be paid until the realisation of the related investments. These remain subject to change as a consequence of future performance. Fees are also payable to the Fund's global custodian and other advisors.

## Taxation

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

## Use of Accounting Estimates

**2.13** The Statement of Accounts contains estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates.

Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 15) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary. The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 24.

## Events After the Balance Sheet Date

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

## Financial Instruments

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

## Fund Account For the Year Ended 31 March 2017

	Notes	2016/17	2015/16
<b>Contributions and Benefits</b>		<b>£'000</b>	<b>£'000</b>
Contributions Receivable	4	146,347	143,578
Transfers In	16	2,911	4,170
		149,258	147,748
Benefits Payable	5	159,775	155,310
Payments to and on account of Leavers	6	4,717	7,861
		164,492	163,171
<b>Net additions/ (withdrawals) from dealings with members</b>		<b>(15,234)</b>	<b>(15,423)</b>
Management Expenses	7	24,498	21,334
		(39,732)	(36,757)
<b>Returns on Investments</b>			
Investment Income	8	29,425	24,399
Profits and losses on disposal of investments and change in value of investments.	9	627,155	(85,504)
<b>Net Returns on Investments</b>		<b>656,580</b>	<b>(61,105)</b>
<b>Net Increase in the net assets available for benefits during the year</b>		<b>616,848</b>	<b>(97,862)</b>
<b>Net Assets of the Fund</b>			
<b>At 1 April</b>		<b>3,736,930</b>	<b>3,834,792</b>
<b>At 31 March</b>		<b>4,353,778</b>	<b>3,736,930</b>

The comparator figures for 2014/15 were re-stated to comply with CIPFA's Accounting for Local Government Pension Scheme Costs. The re-statement reflects the grossing up of investment transaction costs previously netted off the "Profits and losses on disposal of investments and change in the value of investments". They are now included in "Management Expenses" together with Other Income, Administrative Expenses, Investment Management Expenses and Fund Management Performance Fees. A full analysis is shown in note 7.

## Net Assets Statement at 31 March 2017

	Notes	31 March 2017		31 March 2016	
<b>Investment Assets</b>		<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
Fixed interest securities : Public Sector		-	-	-	-
Equities		750,053	17.2	598,343	16.0
Diversified Growth Funds		375,391	8.6	360,928	9.7
Infrastructure		256,003	5.9	-	-
Index Linked securities : Public Sector		509,172	11.7	433,798	11.6
Pooled investment vehicles :-					
- Property	Unit Trusts	135,309	3.1	132,549	3.6
	Unitised Insurance Policies	52,677	1.2	62,554	1.7
	Other Managed Funds	192,923	4.4	171,811	4.6
Property Pooled Investment Vehicles		380,909		366,914	
- Non Property	Unitised Insurance Policies	769,043	17.7	710,765	19.0
	Other Managed Funds	1,238,965	28.5	1,099,271	29.4
Non Property Pooled Investment Vehicles		2,008,008		1,810,036	
Cash deposits		67,712	1.6	209,518	5.6
Other Investment balances		6,103	0.1	3,748	0.1
<b>Investment Liabilities</b>					
Derivative contracts (Foreign Exchange hedge)		5,075	0.1	(40,415)	(1.1)
Derivative Contracts: FTSE Futures		(53)	(0.0)	(44)	0.0
Other Investment balances		(598)	(0.0)	(394)	(0.0)
<b>Total Investment Assets</b>	10	<b>4,357,775</b>		<b>3,742,432</b>	
<b>Net Current Assets</b>					
Current Assets	12	11,255	0.3	7,679	0.2
Current Liabilities	12	(15,252)	(0.4)	(13,181)	(0.4)
<b>Net assets of the scheme available to fund benefits at the period end</b>		<b>4,353,778</b>	<b>100</b>	<b>3,736,930</b>	<b>100</b>

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2017.

# Notes to the Accounts - Year Ended 31 March 2017

## 1. GENERAL

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

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 25.

Employers' contributions are payable at the rate specified for each employing authority by the Fund's actuary. The employees' contribution rate is payable in accordance with the Local Government Pension Scheme Regulations 2013 as amended.

## 2. MEMBERSHIP

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

	31 March 2017	31 March 2016
Employed Members	36,213	37,899
Pensioners	29,464	28,079
Members entitled to Deferred Benefits	41,279	40,711
<b>Total</b>	<b>106,956</b>	106,689

A further 491 ex-members whose membership was for up to 2 years before 1 April 2004 or up to 3 months after that date are due refunds of contributions. It is not possible to put an exact value on this liability until these ex-members have been traced and their entitlement verified.

## 3. TAXATION

### i. Value Added Tax

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

### ii. Income Tax

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

### iii. Capital Gains Tax

No capital gains tax is chargeable.

### iv. Taxation of Overseas Investment Income

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

#### 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are analysed below:-

	2016/17		2015/16	
		£'000		£'000
<b>Employers' normal contributions</b>				
Scheduled Bodies	69,518		63,792	
Administering Authority	8,610		8,008	
Admission Bodies	7,520	85,648	7,508	79,308
<b>Employers' deficit Funding</b>				
Scheduled Bodies	14,022		12,336	
Administering Authority	-		-	
Admission Bodies	710	14,732	11,406	23,742
<b>Total Employer's normal &amp; deficit funding</b>		<b>100,380</b>		<b>103,050</b>
<b>Employers' contributions- Augmentation</b>				
Scheduled Bodies	6,265		2,071	
Administering Authority	1,007		319	
Admission Bodies	155	7,427	178	2,568
<b>Members' normal contributions</b>				
Scheduled Bodies	31,126		30,374	
Administering Authority	4,008		3,981	
Admission Bodies	2,792	37,926	2,984	37,339
<b>Members' contributions towards additional benefits</b>				
Scheduled Bodies	484		463	
Administering Authority	104		82	
Admission Bodies	26	614	76	621
<b>Total</b>		<b>146,347</b>		<b>143,578</b>

The 2015/16 Employer's Deficit Funding for Admission Bodies includes a £10.7m termination payment from an employer exiting the Fund.

Deficit funding contributions have been paid by employers in respect of the recovery of their deficit relating to past service.

The Members' contributions towards additional benefits above represent members' purchase of added years or additional benefits under the Scheme. Augmentation contributions are paid by employers to meet the cost of early retirements.

A further facility is provided whereby members can make Additional Voluntary Contributions, on a money purchase basis, which are invested in insurance policies with The Equitable Life Assurance Society or Friends Life on behalf of the individual members concerned. These contributions are not part of the Pension Fund and are not therefore reflected in the Fund's accounts. A statement of the value of these investments is given in Note 18.

## 5. BENEFITS PAYABLE

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

	2016/17	2015/16
	£'000	£'000
Retirement Pensions	129,796	126,126
Commutation of pensions and Lump Sum Retirement Benefits	27,443	26,158
Lump Sum Death Benefits	2,536	3,026
	159,775	155,310

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

	2016/17	2015/16
	£'000	£'000
Scheduled & Designating Bodies	131,452	127,949
Administering Authority	16,496	15,026
Admission Bodies	11,827	12,335
	159,775	155,310

## 6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2016/17	2015/16
Leavers	£'000	£'000
Refunds to members leaving service	1,165	672
Individual Cash Transfer Values to other schemes	2,890	4,628
Group Transfers	662	2,561
	4,717	7,861

## 7. MANAGEMENT EXPENSES

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

	2016/17	2015/16
	£'000	£'000
Administrative Costs	1,774	1,540
Investment Management Expenses	21,409	18,779
Oversight & Governance Costs	1,315	1,015
	24,498	21,334

### *Further Analysis of Management Expenses:-*

	2016/17	2015/16
Administrative Costs	£'000	£'000
Management costs	1,167	959
Administration and Processing	459	502
Service from Administrating Body	346	352
Fees and Income	(198)	(273)
	1,774	1,540

	2016/17	2015/16
	£'000	£'000
<b>Investment Management Expenses</b>		
Fund Manager Base Fees	15,490	15,017
Fund Manager Performance Fees	4,032	1,964
Investment Transaction Costs	1,760	1,690
Global custody	127	108
	<b>21,409</b>	<b>18,779</b>

<b>Oversight &amp; Governance Costs</b>		
Management costs	550	469
Specialist advice and Governance	1,062	713
Actuarial recharges	(334)	(204)
Audit fees	37	37
	<b>1,315</b>	<b>1,015</b>
	<b>24,498</b>	<b>21,334</b>

Fund Manager Performance Fees include fees that have been accrued but are subject to phased payment or not due to be paid until the realisation of the related assets. Unpaid fees remain subject to variation as a result of future performance. Total fund manager fees include management charges for pooled investments that are settled directly within the pooled vehicles in accordance with the investment management agreement.

Investment transaction costs do not include the underlying transaction costs within pooled funds.

Management costs in Oversight & Governance Costs include investments, actuarial and accounting staff costs.

## 8. INVESTMENT INCOME

	2016/17	2015/16
	£'000	£'000
Interest from fixed interest securities	-	1,754
Dividends from equities	19,815	15,890
Income from Index Linked securities	4,143	2,461
Income from pooled investment vehicles	5,067	3,767
Income from other pooled investment vehicles	63	55
Interest on cash deposits	265	330
Other - Stock lending	72	142
	<b>29,425</b>	<b>24,399</b>

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 2017 was £10.3 million (31 March 2016 £7.3m), comprising of equities and sovereign debt. This was secured by collateral worth £11.0 million comprising equities and sovereign debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

## 9. CHANGE IN TOTAL NET ASSETS

### Change in Market Value of Investments

	Value at 31/03/16	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/17
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	-		-	125,294	<b>750,053</b>
Equities	598,344	326,609	(300,194)	69,943	<b>509,172</b>
Index linked Securities	433,798	24,017	(18,586)		
Pooled Investments -				26,518	<b>380,909</b>
- Property	366,914	39,244	(51,767)	496,086	<b>2,639,401</b>
- Non Property	2,170,963	418,803	(446,451)	(111,764)	<b>5,023</b>
Derivatives	(40,459)	292,558	(135,312)	606,077	<b>4,284,558</b>
	3,529,560	1,101,231	(952,310)	2,582	<b>67,712</b>
Cash Deposits	209,518	514,449	(658,837)	4,533	
Net Purchases & Sales		1,615,680	(1,611,147)		
Investment Debtors & Creditors	3,354			2,151	<b>5,505</b>
<b>Total Investment Assets</b>	3,742,432				<b>4,357,775</b>
Current Assets	(5,502)			1,505	<b>(3,997)</b>
Less Net Revenue of Fund				10,307	
<b>Total Net Assets</b>	3,736,930			<b>627,155</b>	<b>4,353,778</b>

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

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

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

**Change in Total Net Assets 2015/16**  
Change in Market Value of Investments

	Value at 31/03/15	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/16
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	111,675	10,408	(120,275)	(1,808)	-
Equities	603,222	360,901	(353,625)	(12,154)	<b>598,344</b>
Index linked Securities	238,961	222,236	(29,813)	2,414	<b>433,798</b>
Pooled Investments -					
- Property	315,668	100,975	(83,810)	34,081	<b>366,914</b>
- Non Property	2,474,380	421,380	(682,111)	(42,686)	<b>2,170,963</b>
Derivatives	2,026	188,758	(157,550)	(73,693)	<b>(40,459)</b>
	3,745,932	1,304,658	(1,427,184)	(93,846)	<b>3,529,560</b>
Cash Deposits	94,416	559,331	(441,664)	(2,565)	<b>209,518</b>
Net Purchases & Sales		1,863,989	(1,868,848)	(4,859)	
Investment Debtors & Creditors	(476)			3,830	<b>3,354</b>
<b>Total Investment Assets</b>	3,839,872				<b>3,742,432</b>
Current Assets	(5,080)			(422)	<b>(5,502)</b>
Less Net Revenue of Fund				12,358	
<b>Total Net Assets</b>	3,834,792			<b>(85,504)</b>	<b>3,736,930</b>

The Net Revenue of Fund figures in the above tables include the investment transaction costs as specified below:

**Investment Transaction Costs.**

The following transactions costs are included in the above tables:

	2016/17				2015/16			
	Purchases	Sales	Other	Total	Purchases	Sales	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees & Taxes	1,044	10	-	1,054	1,020	5	-	1,025
Commission	359	340	7	706	328	329	8	665
<b>Total</b>	<b>1,403</b>	<b>350</b>	<b>7</b>	<b>1,760</b>	<b>1,348</b>	<b>334</b>	<b>8</b>	<b>1,690</b>

## 10. INVESTMENT ASSETS

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

	31 March 2017		31 March 2016	
		£'000		£'000
<b>UK Equities</b>				
Quoted	331,898		313,922	
Pooled Investments	202,152		171,812	
FTSE Futures	(53)	533,997	(44)	485,690
<b>Diversified Growth Funds</b>				
Pooled Investments	375,391	375,391	360,928	360,928
<b>Infrastructure</b>				
Pooled Investments	256,003	256,003	-	-
<b>Overseas Equities</b>				
Quoted	418,155		284,421	
Pooled Investments	1,234,900	1,653,055	1,087,924	1,372,345
<b>UK Index Linked Gilts</b>				
Quoted	509,172	509,172	433,798	433,798
<b>Sterling Bonds (excluding Gilts)</b>				
Pooled Investments	342,728	342,728	358,029	358,029
<b>Hedge Funds</b>				
Pooled Investments	228,228	228,228	192,271	192,271
<b>Property</b>				
Pooled Investments	380,909	380,909	366,914	366,914
<b>Cash Deposits</b>				
Sterling	55,506		66,961	
Foreign Currencies	12,206	67,712	142,557	209,518
<b>Investment Debtors/Creditors</b>				
Investment Income	4,937		3,558	
Sales of Investments	1,166		190	
Foreign Exchange Hedge	5,075		(40,415)	
Purchases of Investments	(598)	10,580	(394)	(37,061)
<b>Total Investment Assets</b>		<b>4,357,775</b>		<b>3,742,432</b>

## Derivatives Analysis

### Open forward currency contracts

Settlement	Currency bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
	£000's	£000's		000's	£000's	£000's
Up to one month	EUR	48,148	GBP	(55,564)	598	
Up to one month	GBP	55,564	EUR	(47,638)		(88)
Up to one month	GBP	1,790,800	JPY	(12,898)		(40)
Up to one month	GBP	158,785	USD	(127,273)		(463)
Up to one month	JPY	13,634	GBP	(1,790,800)	776	
Up to one month	USD	122,750	GBP	(158,785)		(4,160)
One to six months	EUR	238,938	GBP	(275,028)	3,050	
One to six months	GBP	9,748	EUR	(8,485)		(129)
One to six months	GBP	178,900	JPY	(1,323)		(38)
One to six months	GBP	38,885	USD	(31,166)		(135)
One to six months	JPY	59,119	GBP	(8,158,900)	450	
One to six months	USD	608,944	GBP	(757,670)	4,794	
Six to twelve months	EUR	44,249	GBP	(51,428)	34	
Six to twelve months	JPY	11,493	GBP	(1,596,000)	(6)	
Six to twelve months	USD	114,758	GBP	(143,757)	432	
<b>Total</b>					<b>10,128</b>	<b>(5,053)</b>
<b>Net forward currency contracts at 31 March 2017</b>						<b>5,075</b>
Open forward currency contracts at 31 March 2016					(94,338)	53,923
<b>Net forward currency contracts at 31 March 2017</b>						<b>(40,415)</b>

### Exchange Traded Derivatives held at 31 March 2017:-

Contract Type	Expiration	Book Cost	Unrealised Gain
		£'000	£'000
FTSE equity futures	June 2017	5,602	(53)

### Exchange Traded Derivatives held at 31 March 2016:-

FTSE equity futures	June 2016	11,309	(44)
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A derivative is a financial contract between two parties, the value of which is determined by the underlying asset. Investment in derivatives may only be made if they contribute to a reduction of risks and facilitate efficient portfolio management.

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

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

The proportion of the market value of investment assets managed by each external manager and in house Treasury Management at the end of the financial year was:

	31 March 2017		31 March 2016	
	£'000	%	£'000	%
Blackrock	1,060,113	24.3	1,024,650	27.4
Standard Life	236,903	5.4	233,981	6.3
Record	10,624	0.2	(29,095)	(0.8)
Jupiter Asset Management	199,834	4.6	173,863	4.6
Genesis Investment Management	196,601	4.5	149,257	4.0
Invesco Perpetual	388,073	8.9	289,696	7.7
State Street Global Advisors	160,461	3.7	119,803	3.2
Partners Group	201,487	4.6	175,511	4.7
Royal London Asset Management	262,242	6.0	291,222	7.8
TT International	236,626	5.4	201,993	5.4
Gottex Asset Management	971	0.0	3,483	0.1
Signet Capital Management	1,162	0.0	1,057	0.0
IFM Investors	256,003	5.9	135,671	3.6
Pyrford International	138,487	3.2	126,947	3.4
Unigestion (UK) Ltd	223,160	5.1	178,118	4.8
Schroder Investment Management	539,380	12.4	449,901	12.0
JP Morgan	226,096	5.2	187,732	5.0
Bank of New York Mellon	7,497	0.2	17,603	0.5
Treasury Management	12,055	0.3	11,039	0.3
<b>Total Investment Assets</b>	<b>4,357,775</b>	<b>100.0</b>	<b>3,742,432</b>	<b>100.0</b>

## 11. SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	Value at 31st March 2017	Net Assets	Value at 31st March 2016	Net Assets
	£'000	%	£'000	%
Invesco Perpetual Global ex UK Enhanced Index Fund	388,073	8.91%	289,696	7.74%
RLPPC UK Corporate Bond Fund (Royal London)	262,242	6.02%	291,222	7.78%
IFM Global Infrastructure (UK)	256,003	5.87%	-	-
Standard Life Global Absolute	236,903	5.44%	233,980	6.25%
Unigestion Uni-Global – Equity Emerging Mkt SAC GBP	223,160	5.12%	178,118	4.76%

## 12. CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2017. Debtors and creditors included in the accounts are analysed below:-

	31 March 2017		31 March 2016	
		£'000		£'000
<b>Current Assets</b>				
Contributions Receivable :-				
- Employers	6,784		4,636	
- Members	2,877		2,010	
Transfer Values Receivable	-		-	
Discretionary Early Retirement Costs	526		308	
Other Debtors	1,068	11,255	725	7,679
<b>Current Liabilities</b>				
Management Fees	(1,638)		(1,249)	
Provision for Performance Fees	(10,567)		(8,422)	
Transfer Values Payable	-		-	
Lump Sum Retirement Benefits	(1,068)		(1,692)	
Other Creditors	(1,979)	(15,252)	(1,818)	(13,181)
<b>Net Current Assets</b>		<b>(3,997)</b>		<b>(5,502)</b>

The provision for Performance Fees includes fees that have been incurred but are subject to phased payment or not due to be paid until the realisation of the related assets. They remain subject to variation as a result of future performance.

At 31 March 2016 Debtors were unusually low due to Bristol City Council having paid their March 2016 contributions (due in April 2016) before 31 March 2016.

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

	31 March 2017		31 March 2016	
		£'000		£'000
<b>Current Assets</b>				
Local Authorities	5,034		3,007	
NHS Bodies	-		1	
Other Public Bodies	2,313		2,117	
Non Public Sector	3,908	11,255	2,554	7,679
<b>Current Liabilities</b>				
Local Authorities	(21)		(10)	
Other Public Bodies	(1,569)		(1,569)	
Non Public Sector	(13,662)	(15,252)	(11,602)	(13,181)
<b>Net Current Assets</b>		<b>(3,997)</b>		<b>(5,502)</b>

## 13. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2017. (March 2015 = NIL).

## 14. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2017 that require any adjustment to these accounts.

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## 15. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSES OF IAS 26

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2017	31 March 2016
Rate of return on investments (discount rate)	2.5% per annum	3.6% per annum
Rate of pay increases*	3.8% per annum	3.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.3% per annum	2.0% per annum

\* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year-end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £5,159 million. Interest over the year increased the liabilities by c£186 million, and allowing for net benefits accrued/paid over the period also increased them by c£22 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £1,092 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £6,459 million.

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## 16. TRANSFERS IN

During the year ending 31 March 2017 there were no group transfers in to the fund.

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## 17. AGENCY SERVICES

The Fund makes payments with regard to added year benefits awarded by the Employer to Local Government Pension Scheme members, including related pension increases. The Fund also pays a small number of other pension supplements. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account.

	2016/17	2015/16
	£'000	£'000
Benefits Paid and Recharged	6,024	6,193

The Fund also administers £25.7m (£23.4m in 2015/16) pension payments on behalf of the Fire Service and the Teachers' pension schemes. These are not funded by the Fund and are recharged in full. They are not included in the Fund Account. The Fire Service and Teachers' employers also pay for the cost of providing this service.

## 18. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2016/17 were £55 (2015/16 - £131). Additional Voluntary Contributions received from employees and paid to Friends Life during 2016/17 were £272,810 (2015/16 - £308,237).

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

	31 March 2017	31 March 2016
	£'000	£'000
<b>Equitable Life</b>		
With Profits Retirement Benefits	369	384
Unit Linked Retirement Benefits	362	171
Building Society Benefits	-	171
	731	726
Death in Service Benefit	53	82
	31 March 2017	31 March 2016
	£'000	£'000
<b>Friends Life</b>		
With Profits Retirement Benefits	84	115
Unit Linked Retirement Benefits	4,094	4,349
Cash Fund	309	385
	4,487	4,849

AVC contributions are not included in the Fund's financial statements as they do not come under the requirements of Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016 regarding regulation 69(1)(a) of the Local Government Pension Scheme Regulations 2013.

## 19. RELATED PARTIES

### Committee Member Related:-

In 2016/17 £37,780 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£34,176 in 2015/16). Five voting members and one non-voting member of the Avon Pension Fund Committee (including two B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2016/2017. (Four voting members and one non-voting member in 2015/2016, including two B&NES Councillor Members).

### Independent Member Related:-

Two Independent Members were paid allowances of £13,025 and £15,852 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are entitled to claim reasonable expenses which are included in the above allowances. The Independent Members are not eligible to join the Local Government Pension Scheme.

### Employer Related:-

During the year 2016/17 the Fund paid B&NES Council £265,428 for administrative services (£287,848 in 2015/16) and B&NES Council paid the Fund £35,269 for administrative services (£28,266 in 2015/16). Various Employers paid the fund a total of £224,272 for pension related services including pension's payroll and compiling data for submission to the actuary (£222,662 in 2015/16).

### Pension Board Related:-

The Pension Board came in to operation in July 2015. In 2016/17 £7,067 was charged to the Fund in respect of Allowances and expenses paid to the Members of the Pension Board (£5,446 for the nine months of 2015/16). Five members of the Pension Board were members of the Local Government Pension Scheme during the financial year

2016/2017. (Five members in 2015/2016).

#### Officer and Manager Related:-

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

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

## 20. KEY MANAGEMENT REMUNERATION

Of Bath & North East Somerset Council's key management personnel, some of the remuneration costs were charged to the fund to reflect the time spent. These were unchanged since 2015/16 and consisted of:

- part of the Head of Business Finance and Pensions salary, fees and allowances £50,167 (2015/16 £50,167) and their employer's pension contributions £9,498 (2015/16 £9,498).
- part of the Divisional Director Business Support's salary, fees and allowances £9,763 (2015/16 £9,763) and their employer's pension contributions £1,835 (2015/16 £1,835).

## 21. OUTSTANDING COMMITMENTS

down in tranches by the Investment Managers totalling £145,154,473 (31 March 2016 £149,355,935).

At 31st March 2017 there was no outstanding commitment relating to investments in a pooled fund of underlying infrastructure assets (31 March 2016 \$US105,000,000).

## 22. FINANCIAL INSTRUMENTS

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

2016/17	Fair value through profit and loss	Loans & receivables	Financial liabilities at amortised cost
	£'000	£'000	£'000
<b>Financial assets</b>			
Index Linked securities	509,172		
Equities	750,053		
Pooled investments (non-property)	2,639,402		
Pooled Property investments	380,909		
Derivative contracts	5,075		
Cash		67,712	
Other investment balances	<b>6,103</b>		
Debtors		11,255	
<b>Financial Liabilities</b>			
Derivative contracts	(53)		
Other investment balances	(598)		
Creditors			(15,252)
<b>Total</b>	<b>4,290,063</b>	<b>78,967</b>	<b>(15,252)</b>

2015/16	Fair value through profit and loss	Loans & receivables	Financial liabilities at amortised cost
Financial assets	£'000	£'000	£'000
Index Linked securities	433,799		
Equities	598,344		
Pooled investments (non-property)	2,170,963		
Pooled Property investments	366,914		
Cash		209,518	
Other investment balances	3,748		
Debtors		7,679	
<b>Financial Liabilities</b>			
Derivative contracts	(40,460)		
Other investment balances	(394)		
Creditors			(13,181)
<b>Total</b>	<b>3,532,914</b>	<b>217,197</b>	<b>(13,181)</b>

### 23. FINANCIAL RISK MANAGEMENT DISCLOSURE

The primary objective of the Avon Pension Fund is to generate positive real investment return above the rate of inflation for a given level of risk to meet the liabilities as they fall due over time. The aim of the investment strategy and management structure is to minimise the risk of a reduction in the value of the assets and maximise the opportunity for asset gains across the portfolio of assets.

The Fund achieves this objective by investing across a diverse range of assets such as equities, bonds, property and other alternative investments in order to reduce exposure to a variety of financial risks including market risk (price, interest rate and currency risk), credit risk and liquidity risk.

The Fund's investments are managed by external Investment Managers who are required to invest in accordance with the terms of the agreed investment guidelines that set out the relevant benchmark, performance target, asset allocation ranges and any restrictions. The Avon Pension Fund 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 acts as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio. The risk management process identifies and mitigates the risks arising from the Fund's investment strategy and policies which are reviewed regularly to reflect changes in market conditions.

#### (a) Market Risk

Market risk is the risk of loss from fluctuations in market prices, interest rates, credit spreads and currencies. The Fund is exposed through its investments portfolio to all these market risks. The level of risk exposure depends on market conditions, expectations of future price and yield movements and asset allocation. The objective of the investment strategy is to identify, manage and control market risk within acceptable parameters, while optimising the return.

Volatility in market risk is primarily managed through diversification across asset class and investment managers.

#### Market Price Risk

Market price risk represents the risk that the value of a financial instrument will fluctuate caused by factors other

than interest rates or currencies. These changes can be caused by factors specific to the individual instrument, its issuer or factors affecting the market in general and will affect the assets held by the Fund in different ways. All investments present a risk of loss of capital. By diversifying its investments across asset classes, geography and industry sectors, investment mandate guidelines and Investment Managers the Fund aims to reduce its exposure to price risk. Diversification seeks to reduce the correlation of price movements. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

The Fund has a high allocation to equities and therefore the fluctuation in equity prices is the largest market risk within the portfolio. The maturity profile of the Fund and strong underlying covenant underpins the allocation to equities which are expected to deliver higher returns over the long term.

### Market Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of returns of the assets held within the Fund (provided by the Fund's advisors). The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the three years to 31 March 2017. These movements in market prices are considered reasonable for the 2016/17 reporting period. This analysis assumes all other variables including interest rates and foreign currency exchange rates remain the same.

Movements in market prices could have increased or decreased the net assets available to pay benefits by the amounts shown below. However, the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund.

The analysis for the year ending 31 March 2017 is shown below:

Asset Type	Value £'000	Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	533,997	9.0%	582,057	485,937
Overseas Equities	1,653,055	10.0%	1,818,361	1,487,750
UK Bonds	342,728	6.4%	364,662	320,793
Index Linked Gilts	509,172	12.6%	573,327	445,015
Pooled Multi Asset	375,391	6.1%	398,289	352,492
Property	380,909	2.6%	390,813	371,006
Fund of Hedge Funds	228,228	3.8%	236,901	219,556
Infrastructure	256,003	12.0%	286,723	225,282
Cash & Equivalents	78,292	0.0%	78,292	78,292
<b>Total Assets</b>	<b>4,357,775</b>	<b>8.5%</b>	<b>4,729,425</b>	<b>3,986,123</b>

The analysis for the year ending 31 March 2016 is shown below (restated to be consistent with 2016/17):

Asset Type	Value £'000	Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	485,690	10.3%	535,716	435,664
Overseas Equities	1,372,345	9.8%	1,506,972	1,237,718
UK Bonds	358,029	7.2%	383,807	332,251
Index Linked Gilts	433,798	9.3%	474,142	393,455
Pooled Multi Asset	360,928	4.2%	376,087	345,769
Property	366,914	1.6%	372,785	361,043
Fund of Hedge Funds	192,271	3.4%	198,808	185,734
Infrastructure	0	-	0	0
Cash & Equivalents	172,455	0.0%	172,455	172,455
<b>Total Assets</b>	<b>3,742,430</b>	<b>7.4%</b>	<b>4,020,772</b>	<b>3,464,089</b>

## Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates which will affect the value of fixed interest and index linked securities.

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

	31 March 2017	31 March 2016
	£'000	£'000
Cash and Cash Equivalents	78,292	172,455
Fixed Interest Assets	851,900	791,827
<b>Total</b>	<b>930,192</b>	<b>964,282</b>

## Interest Rate Risk - Sensitivity Analysis

Fluctuations in interest rates can affect both income to the Fund and the value of the net assets to pay benefits. The sensitivity of the Fund's investments to changes in interest rates has been analysed by showing the effect on the value of the fixed income securities as at 31 March 2017 of a 100 basis point (1%) change in interest rates. The analysis assumes that all other variables including foreign currency exchange rates remain constant.

An increase or decrease of 100 basis points (bps) in interest rates would have increased or decreased the net assets by the amount shown below.

	Value	Change in net assets	
As at 31 March 2017	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	78,292	-	-
Fixed Interest	851,900	(132,619)	132,619
<b>Total</b>	<b>930,192</b>	<b>(132,619)</b>	<b>132,619</b>

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

The same analysis for the year ending 31 March 2016 is shown below (restated for consistency with 2016.17):

	Value	Change in net assets	
As at 31 March 2016	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	172,455	-	-
Fixed Interest	791,827	(114,472)	114,472
<b>Total</b>	<b>964,282</b>	<b>(114,472)</b>	<b>114,472</b>

## Currency Risk

Currency risk represents the risk that the fair value of financial instruments when expressed in Sterling will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on investments denominated in a currency other than Sterling. A significant proportion of the Fund's equity portfolio is invested in overseas stocks, overseas property, infrastructure and hedge funds (where the shares are denominated in US dollars). When sterling depreciates the sterling value of foreign currency denominated investments will rise and when sterling appreciates the sterling value for foreign denominated investments will fall. The Fund has a passive hedging arrangement in place which reduces the volatility of returns over the longer term (the hedging programme hedges the exposure to the US Dollar, Yen and Euro).

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

The following tables summarise the Fund's currency exposures within the portfolio. For the global property funds the

share class of the pooled funds held has been used.

### **Currency risk by asset class:**

Currency Exposure - Asset Type	Asset value as at 31 March 2017	Asset value as at 31 March 2016
	£'000	£'000
Overseas Equities	1,653,055	1,372,345
Overseas Property	192,923	171,811
Fund of Hedge Funds	228,228	192,271
Infrastructure	256,003	0

### **Currency Risk - Sensitivity Analysis**

The sensitivity of the Fund's investments to changes in foreign currency rates has been analysed using the volatility which is broadly consistent with a one-standard deviation movement in the main currencies over the 3 years to 31 March 2017 and these movements in currencies are considered reasonable for the 2016/17 reporting period. The analysis reflects the Fund's passive hedging policy of a 50% hedge ratio on the overseas equity assets and a 100% hedge ratio on the overseas property, infrastructure and hedge fund assets. Therefore there is no currency exposure on the assets that are 100% hedged.

A strengthening / weakening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2017 would have increased / decreased the net assets by the amount shown in the tables below and vice versa:

### **Currency Risk by Asset Type:**

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Overseas Equities	1,653,055	7.0%	1,768,769	1,537,341

The same analysis for the year ending 31 March 2016 is shown below:

### **Currency Risk by Asset Type:**

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Overseas Equities	1,372,345	5.3%	1,445,080	1,299,611

### **(b) Credit Risk**

Credit risk is the risk that the counterparty to a financial instrument or transaction will fail to meet an obligation and cause the Fund to incur a financial loss. In addition, the market values of investments will reflect an assessment of creditworthiness in their pricing and therefore the risk of loss is implicitly provided for in the carrying value of the assets and liabilities.

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

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. Credit risk on exchange-traded derivative contracts is minimised by the various insurance policies held by exchanges to cover defaulting counterparties. Over-the-counter (OTC) derivative contracts are bilateral agreements where the Fund faces the credit risk of the financial counterparty directly. This is the case for forward currency contracts where a line of credit is extended to the

Fund in place of a collateral posting agreement (as is the case for exchange-traded contracts). The hierarchy and replacement of an OTC contract on default of one of the counterparties is detailed in the ISDA, which is a market standard legal document governing derivative contracts.

Forward currency contracts are entered into by the Fund's managers, especially the currency hedging manager, Record. These contracts are subject to credit risk in relation to the counterparties of the contracts. The responsibility for managing these contracts and counterparty risk rests with the managers. Counterparty management is evaluated as part of the due diligence process prior to appointing a manager.

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

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2017 was £19.5m. This was held with the following institutions:

	31 March 2017		31 March 2016	
	Rating	£'000	Rating	£'000
<b>Custodian's Liquidity Fund</b>				
Bank of New York Mellon	AAA	7,495	AAA	17,591
<b>Bank Call Accounts</b>				
Handelsbanken	AA	5,200	AA-	5,090
Bank of Scotland Corporate Deposit Account	A+	3,210	A+	500
Goldman Sachs Global Treasury Fund	AAA	2,720	AAA	4,710
NatWest Special Interest Bearing Account	BBB+	910	BBB+	710
<b>Bank Current Accounts</b>				
NatWest	BBB+	10	BBB+	8

A securities lending programme is managed by the Fund's custodian BNY Mellon who manage and monitor the counterparty risk, collateral risk and the overall lending programme. Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending upon the type of transaction. This level is assessed daily to ensure it takes account of market movements. The current collateral the Avon Pension Fund accepts is AAA rated supranational debt, AA rated sovereign debt and FTSE Equity DBV. Cash collateral is not permitted. Securities lending is capped by investment regulations and statutory limits ensure no more than 25% of eligible assets can be on loan at any time.

### (c) Liquidity Risk

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

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liabilities of the Fund are the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. As a result the Fund is able to manage the liquidity risk that arises

from its investments in less liquid asset classes such as property and fund of hedge funds which are subject to longer redemption periods and cannot be considered as liquid as the other investments. As at 31 March 2017 the value of the illiquid assets was £1,102m, that represented 25.3% of the total Fund assets (31 March 2016: £793.2m which represented 21% of the total Fund assets).

## 24. FAIR VALUE HEIRARCHY

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

- **Level 1** – Asset and liabilities where the fair value is derived from unadjusted quoted prices in active markets for identical assets or liabilities. These include quoted/ listed equities, exchange traded derivatives, quoted government securities and quoted unit trusts.
- **Level 2** – Assets and liabilities where quoted market prices are not available but uses inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. For example where an instrument is traded in a market that is not considered to be active, or where valuation techniques based significantly on observable market data are used to determine fair value. Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities including the Diversified Growth Funds that only holds quoted securities. The Fund's holding in these pooled funds can be realised at net asset value.
- **Level 3** – assets and liabilities where at least one unobservable input used to measure fair value could have a significant effect on the valuation. Level 3 includes pooled funds such as the property and infrastructure funds, other Diversified Growth Funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs and the Fund's holding in these pooled funds is not immediately realisable at the net asset value.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 March 2017.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equities - Quoted	750,053	1,437,052		2,187,105
Bonds - Quoted	509,172	342,728		851,900
Fund of Hedge Funds			228,228	228,228
Diversified Growth Funds		375,391		375,391
Property			380,909	380,909
Infrastructure			256,003	256,003
Cash	67,712			67,712
Derivatives: Forward FX	5,075			5,075
Derivatives: Futures	(53)			(53)
Investment Debtors /Creditors	5,505			5,505
	<b>1,337,464</b>	<b>2,155,171</b>	<b>865,140</b>	<b>4,357,775</b>

The fair value hierarchy as at 31 March 2016 was:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equities - Quoted	598,344	1,259,735		1,858,079
Bonds - Quoted	433,798	358,029		791,827
Fund of Hedge Funds			192,271	192,271
Diversified Growth Funds		126,947	233,981	360,928
Property			366,914	366,914
Cash	209,518			209,518
Derivatives: Forward FX	(40,415)			(40,415)
Derivatives: Futures	(44)			(44)
Investment Debtors /Creditors	3,354			3,354
	<b>1,204,555</b>	<b>1,744,711</b>	<b>793,166</b>	<b>3,742,432</b>

There has been one re-classification of assets between levels of the hierarchy between 31 March 2016 and 31 March 2017 transferring Diversified Growth Funds from level 3 to level 2 following a review of the inputs to valuation techniques used to measure the fair value. Level 1 assets were sold to fund the investment in Infrastructure (Level 3). The fair value hierarchy as at 31 March 2016 has been restated, replacing the figure for Pooled Investment Vehicles of £1,617,764m in Level 2 with an analysis of the figure between quoted equities and quoted bonds in Level 2.

#### Reconciliation of Fair Value measurements within Level 3

Level 3	Market Value 01 April 2016	Transfer into Level 2	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains / losses	Realised gains / losses	Market value 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fund of Hedge Funds	192,271		6,996	(10,651)	39,040	572	228,228
Diversified Growth Funds	233,981	(233,981)	0	0	0	0	0
Property	366,914		39,243	(51,767)	17,643	8,876	380,909
Infrastructure			359,365	(137,435)	34,073	0	256,003
	<b>793,166</b>	<b>(233,981)</b>	<b>405,604</b>	<b>(199,853)</b>	<b>90,756</b>	<b>9,448</b>	<b>865,140</b>

#### Sensitivity of assets valued at Level 3

Having consulted its investment advisor, and having analysed historical data and market trends, the Fund has determined that the valuation methods used for Level 3 assets are likely to be accurate to within the following ranges on the closing value of the investments held at 31 March 2017:

Level 3 assets	Assessed valuation range +/-	Value at 31 March 2017	Value on increase	Value on decrease
		£'000	£'000	£'000
Property	10%	380,909	419,000	342,818
Fund of Hedge funds	10%	228,228	251,051	205,405
Infrastructure	15%	256,003	294,403	217,603
Diversified Growth Funds		865,140	964,454	765,826
<b>Total</b>		<b>865,140</b>	<b>964,454</b>	<b>765,826</b>

The same analysis for 31 March 2016:

Level 3 assets	Assessed valuation range +/-	Value at 31 March 2016	Value on increase	Value on decrease
		£'000	£'000	£'000
Property	10%	366,914	403,605	330,223
Fund of Hedge funds	10%	192,271	211,498	173,044
Infrastructure	15%	0	0	0
Diversified Growth Funds	10%	233,981	257,379	210,583
<b>Total</b>		<b>793,166</b>	<b>872,482</b>	<b>713,850</b>

## 25. EMPLOYING BODIES

As at 31 March 2017 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Scheduled Bodies	
Principal Councils and Service Providers	
Avon Fire & Rescue Service	North Somerset Council
Bath & North East Somerset Council	South Gloucestershire Council
Bristol City Council	
Further & Higher Education Establishments	
Bath Spa University	St. Brendan's Sixth Form College
Bath College	University of the West of England
City of Bristol College	Weston College
South Gloucestershire & Stroud College	
Academies and Schools	
Abbeywood Community School Academy	Midsomer Norton Schools Partnership
Academy of Trinity C of E	Minerva Primary Academy
Aspire Academy	Moorlands Infant School
Backwell School Academy	Moorlands Junior School
Bannerman Road Community Academy	Nailsea School
Barton Hill Academy	North Somerset Enterprise & Technology College
Bath Community Academy	Oasis Academy Bank Leaze
Bedminster Down School	Oasis Academy Brightstowe
Beechen Cliff School Academy	Oasis Academy Connaught
Begbrook Primary School Academy	Oasis Academy John Williams
Birdwell Primary School	Oasis Academy Longcross
Bradley Stoke Community School	Oasis Academy New Oak
Bridge Learning Campus	Oasis Academy Brislington
Bristol Cathedral School Trust	Oasis Academy Marksbury Road
Bristol Free School	Oldfield School
Bristol Futures Academy	Oldfield Park Infant School
Bristol Technology & Engineering Academy	Oldfield Park Junior School
Broadlands School	Orchard Academy
Broadoak Mathematics & Computing College	Parson Street Primary School
Cabot Learning Federation	Patchway Community College

Chew Stoke Church School	Peasedown St John Primary School
Christ Church C of E Primary School	Portishead Primary School
City Academy	Priory Community School
Churchill Academy	Ralph Allen School
Clevedon School Academy	Redland Green School
Clutton Primary School	Redfield Educate Together Primary Academy
Colston's Girls' School	Saltford C of E Primary School
Colston's Primary School	Severn Beach Primary Academy
Combe Down C of E Primary School	Sir Bernard Lovell School
Cotham School Academy	Steiner Academy Bristol
Court de Wyck Church School	St Bede's Catholic College
Crockerne C of E Primary School	St Georges Church School
Digitech Studio School	St John's CEVC Primary Academy (Keynsham)
Diocese of Bristol Academy Trust	St John the Evangelist Church School
Downend School Academy	St John's C of E Primary School (Midsomer Norton)
Dundry C of E Academy	St Katherine's School
Easton C of E Academy	St Mark's Primary School
Elmlea Junior School Academy	St Martin's Garden Primary School
Fairfield High School	St Mary's CEVA Primary School
Fairlawn School	St Nicholas of Tolentine RC Primary School
Filton Avenue Primary School	St Patrick's Catholic Primary School
Filton Hill Primary School	St Peter's C of E Primary School
Fishponds Church of England Academy	St Philip's C of E Primary School
Four Acres Primary Academy	St Teresa's Catholic Primary School
Fosse Way School	St Ursula's Academy
Frome Vale Academy	Stoke Bishop C of E Primary School
Gordano School Academy	Stoke Lodge Primary School
Greenfields Primary School Academy	Summerhill Academy
Hanham Woods Academy	The Bath Studio School
Hans Price Academy	The Dolphin School
Hareclive Academy	The Kingfisher School
Hayesfield Girls School Academy	Winterbourne International Academy
Haywood Village Academy	Yate International Academy
Henbury Court Primary Academy	Three Ways School
Henbury School	Tickenham C of E Primary School
Henleaze Junior School Academy	Trinity Church School
Heron's Moor Academy	Trust in Learning
High Down Infant School	Venturers' Academy
High Down Junior School	Wallscourt Farm Academy
High Littleton C of E Primary School	Waycroft Academy
Hotwells Primary School	Welton Primary School
IKB Academy	Wellsway School
Ilminster Avenue Academy	West Town Lane Academy
Inspirational Futures Trust	Westbury Park Primary School
Kingshill Church School	Westbury-on-Trym C of E Academy
Kings Oak Academy	Weston All Saints C of E Primary School
Little Mead Primary Academy	Wicklea Academy
Longvernal Primary School	Widcombe C of E Infant School

Lyde Green Primary School	Widcombe C of E Junior School
Mangotsfield School	Woodlands Academy
Marlwood School	Worle Community School
Meadowbrook Primary School	Writhlington Academy
Merchant's Academy	Yeo Moor Primary School

### Designating Bodies

Almondsbury Parish Council	Nailsea Town Council
Backwell Parish Council	Oldland Parish Council
Bath Tourism Plus	Patchway Town Council
Bristol Waste Company	Paulton Parish Council
Bradley Stoke Town Council	Peasedown St John Parish Council
Charter Trustees of the City of Bath	Pill & Easton in Gordano Parish Council
Congresbury Parish Council	Portishead Town Council
Clevedon Town Council	Radstock Town Council
Destination Bristol	Saltford Parish Council
Dodington Parish Council	Stoke Gifford Parish Council
Downend and Bromley Heath Parish Council	Thornbury Town Council
Emersons Green Town Council	Westerleigh Parish Council
Filton Town Council	Westfield Parish Council
Frampton Cotterell Parish Council	Weston-super-Mare Town Council
Hanham Abbots Parish Council	Whitchurch Parish Council
Hanham Parish Council	Winterbourne Parish Council
Keynsham Town Council	Yate Town Council
Midsomer Norton Town Council	Yatton Parish Council

### Community Admission Bodies

Alliance Homes	Sirona Care & Health CIC
Ashley House Hostel	Sirona Care & Health CIC (New Staff)
Disability Equality Forum	Southwest Grid for Learning Trust
Bristol Music Trust	The Care Quality Commission
Clifton Suspension Bridge Trust	The Park Community Trust Ltd
The Holburne Museum	University of Bath
Learning Partnership West Ltd	Vision North Somerset CIO
Merlin Housing Society Ltd (South Glos. Council)	West of England Sport Trust (Wesport)
Merlin Housing Society Ltd (New Staff)	Writhlington Trust

### Transferees Admitted Bodies

Action For Children	Compass Contract Services (UK) Ltd - Ashton Park School
Active Community Engagement Ltd	Compass Contract Services (UK) Ltd - Bristol Cathedral Choir School
Agilisys Limited	Compass Contract Services (UK) Ltd - St Bernard's Catholic Primary School
Agilysis Limited 2015	Compass Contract Services (UK) Ltd - Compass Point South Street School
Alliance Living Care Limited	Compass Contract Services (UK) Ltd - Luckwell Primary School
Aspens Services Limited - Abbeywood Community School	Compass Contract Services (UK) Ltd - Nova Primary School

Aspens Services Limited - Bannerman Road Community Academy	Compass Contract Services (UK) Ltd - Sea Mills Primary School
Aspens Services Limited - Beacons Rise Primary School	Creative Youth Network (East) - Hillfields Youth Centre
Aspens Services Limited - Begbrook Primary Academy	Dolce Ltd - Filton Hill Primary School
Aspens Services Limited - Blackhorse Primary School	Dolce Ltd - Mangotsfield School
Aspens Services Limited - Bradley Stoke Community School	Edwards and Ward Ltd
Aspens Services Limited - Castle School	Fit For Sport - Trinity Anglican Methodist Primary School
Aspens Services Limited - Charborough Primary School	Fit For Sport - St Peter's C of E Primary School
Aspens Services Limited - Charfield School	Glen Cleaning Company
Aspens Services Limited - Downend School	Greenwich Leisure Ltd - Bath & North East Somerset Council
Aspens Services Limited - Frampton Cottrell School	Greenwich Leisure Ltd - North Somerset Council
Aspens Services Limited - Frome Vale Academy	HCT Group (CT Plus CIC)
Aspens Services Limited - Hanham Woods Academy	Interserve Catering Services Ltd - Bristol City Council
Aspens Services Limited - Kings' Forest Primary School	Interserve Catering Services Ltd - Henleaze Junior School
Aspens Services Limited - King's Oak Academy	Interserve Catering Services Ltd - Little Mead Academy
Aspens Services Limited - Longwell Green Primary School	Interserve Catering Services Ltd - St Patrick's School
Aspens Services Limited - Mangotsfield School	ISS Mediclean Ltd - Bristol City Council
Aspens Services Limited - Marlwood School	ISS Mediclean Ltd - Cabot Learning Federation
Aspens Services Limited - Meadowbrook Primary School	KGB Cleaning (South West) Ltd - Backwell Academy
Aspens Services Limited - Minerva Academy	Learning Partnership West (Lot 1) - Brentry Youth Centre
Aspens Services Limited - Patchway Community College	Learning Partnership West (Lot 2) - Lockleaze Youth & Play Space
Aspens Services Limited - Shirehampton Primary School	Learning Partnership West (Lot 3) - The Mill
Aspens Services Limited - Summerhill Academy	Learning Partnership West (Lot 7) - Hareclive Youth Centre
Aspens Services Limited - Warmley Park Primary School	Liberata UK Ltd
BAM Construction UK Ltd	Prestige Cleaning & Maintenance Limited
Bespoke Cleaning Services Ltd - Filton Hill Primary School	Relyon Cleaning Services
Bespoke Cleaning Services Ltd - Stoke Lodge Primary School	Ridge Crest Cleaning Ltd - Sir Bernard Lovell School
Brunelcare CIC	Ridge Crest Cleaning Ltd – Bristol City Council
Caterlink Ltd	Shaw Healthcare - Petersfield
Churchill Contract Services Ltd - Bristol City Council	Shaw Healthcare - The Granary
Churchill Contract Services Ltd - Golden Valley Primary School	SITA Holdings UK Ltd
Churchill Contract Services Ltd - Milton Park Primary School	Skanska Rashleigh Weatherfoil Ltd
Churchill Contract Services Ltd - South Gloucestershire & Stroud College	SLM Community Leisure Trust
Churchill Contract Services - Westhaven School	SLM Fitness & Health Ltd
Circadian Trust	Sodexo Ltd
Circadian Trust No 2	The Brandon Trust

# Statement of Responsibilities for the Avon Pension Fund Accounts

## **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 Strategic Director - Resources the Council's Section 151 Officer (Chief Financial Officer with responsibility 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

## **Strategic Director – Resources responsibilities**

The Strategic Director – Resources 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 Strategic Director – Resources has:

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

The Strategic Director – Resources 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 Strategic Director – Resources

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 2017.

**Andrew Pate**

Strategic Director - Resources  
(S151 Officer)  
September 2017

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

## Independent auditor's report to the members of Bath and North East Somerset Council on the consistency of the pension fund financial statements included in the pension fund annual report

### Opinion

The pension fund financial statements of Bath and North East Somerset Council (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of Avon Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### Pension fund annual report - Pension fund financial statements

The pension fund annual report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

## The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 15 September 2017.

## Resources Strategic Director's responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Resources Strategic Director of the Authority is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

## Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the pension fund annual report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

*Julie Masci*

Julie Masci  
for and on behalf of Grant Thornton UK LLP,  
Appointed Auditor  
Chartered Accountants  
Hartwell House  
55-61 Victoria Street  
Bristol BS1 6FT

29 September 2017

# Summary of Financial Statistics

Year Ended 31 March	2017	2016	2015	2014	2013
Revenue Account	£'m	£'m	£'m	£'m	£'m
<b>Income</b>					
Net Contributions	146.3	143.6	202.1	143.2	134.9
Investment Income	29.4	24.4	28.1	29.1	29.0
Net Cash Transfer	-1.8	-3.7	-0.2	11.9	2.1
<b>Total</b>	<b>173.9</b>	<b>164.3</b>	<b>230.0</b>	<b>184.2</b>	<b>166.0</b>
<b>Expenditure</b>					
Pension & Benefits	159.8	155.3	157.1	149.8	136.7
Investment Management Expenses	21.4	18.8	17.6	16.6	10.1
Administration Costs	3.1	2.6	2.3	2.4	2.1
<b>Total</b>	<b>184.3</b>	<b>176.7</b>	<b>177.0</b>	<b>168.8</b>	<b>148.9</b>
<b>Surplus for the Year</b>	<b>-10.4</b>	<b>-12.4</b>	<b>53.0</b>	<b>15.4</b>	<b>17.1</b>
<b>Revaluation of Investments</b>	<b>627.2</b>	<b>-85.5</b>	<b>435.6</b>	<b>185.1</b>	<b>362.3</b>
Change in Fund Value	616.8	-97.9	488.6	200.5	379.4
<b>Total Fund Value</b>	<b>4,353.8</b>	<b>3,736.9</b>	<b>3,834.8</b>	<b>3,346.2</b>	<b>3,145.7</b>

Investment management Expenses and the Revaluation of Investments have been restated to include transaction costs in compliance with the CIPFA's Accounting for local Government Pension Scheme Costs.

## Analysis of the Fund's Investment Assets

	UK	Non-UK	Global	Total
	£'m	£'m	£'m	£'m
Equities	623	1,235	335	2,193
Bonds	852	-	-	852
Property	188	-	201	389
Alternatives	-	-	604	604
Infrastructure	-	-	256	256
Cash	44	7	13	64
<b>Total</b>	<b>1,707</b>	<b>1,242</b>	<b>1,409</b>	<b>4,358</b>

## Analysis of investment income accrued during the reporting period

	UK	Non-UK	Global	Total
	£'m	£'m	£'m	£'m
Equities	13.5	-	5.4	18.9
Bonds	4.2	-	-	4.2
Property (direct holdings)	6.2	-	-	6.2
Alternatives	-	-	-	-
Cash	0.1	-	-	0.1
<b>Total</b>	<b>24.0</b>	<b>-</b>	<b>5.4</b>	<b>29.4</b>

**Costs to the Fund**  
**Budget v Outturn report on the costs to the Fund**

	Budget	Budget	Actual	Budget	Actual
	2017/18	2016/17	2016/17	2015/16	2015/16
	£'m	£'m	£'m	£'m	£'m
<b>Administrative Costs</b>					
Management Costs	1,266	1,315	1,167	1,113	959
Administration and Processing	546	524	459	585	502
Service from Administering Body	461	323	346	354	352
Fees and income	-200	-214	-199	-222	-273
	<b>2,072</b>	<b>1,948</b>	<b>1,773</b>	<b>1,830</b>	<b>1,540</b>
<b>Investment Management Expenses</b>					
Fund Manager Base Fees	21,715	17,255	17,250	18,558	16,981
Custody & Transaction costs	112	88	127	84	108
	<b>21,826</b>	<b>17,342</b>	<b>17,377</b>	<b>18,642</b>	<b>17,089</b>
<b>Oversight and Governance costs</b>					
Management Costs	609	614	551	483	470
Specialist advice and Governance	979	1,258	1,062	856	713
Actuarial recharges	-302	-250	-334	-250	-204
Audit fees	37	37	37	38	37
	<b>1,323</b>	<b>1,659</b>	<b>1,315</b>	<b>1,127</b>	<b>1,015</b>
<b>Total</b>	<b>25,222</b>	<b>20,949</b>	<b>20,465</b>	<b>21,599</b>	<b>19,643</b>

Figures do not include performance fees that are not yet due for payment. The 2016/17 budget includes an additional approval of £75,000 for the pooling of investments in Project Brunel.

**Fund cash flow**

		Forecast Per Service Plan	Full year 2016/17
		£'000	Out-turn
		£'000	£'000
<b>Outflows</b>			
Benefits	Pensions	(129,664)	(132,333)
Administration and Processing	Lump sums	(34,568)	(27,443)
Administration costs		(3,545)	(10,617)
<b>Total Outflows</b>		<b>(167,777)</b>	<b>(170,393)</b>
<b>Inflows</b>			
Deficit recovery		14,109	14,786
Future service Contributions		121,262	128,077
<b>Total Contributions</b>		<b>135,371</b>	<b>142,863</b>
<b>Net Cash Flow (excluding Investment Income and Transfers)</b>		<b>(32,406)</b>	<b>(27,530)</b>
Net Transfers In & Out (budgetted as zero)		-	(2,416)
Investment income received as cash		14,954	13,340
<b>Net Cash In-Flow (Out-Flow)</b>		<b>(17,452)</b>	<b>(16,606)</b>

Administration costs cash outflows include invoiced Investment Manager fees. Administration costs cash outflow was above forecast as more Investment managers than forecast invoiced their fees as opposed to deducting them at source.

## Late payers

### Timeliness Analysis of Contributions Payments

	£'000
<b>Total Contributions due in year</b>	<b>£146,347</b>
<b>Total contributions received late by:</b>	<b>£'000</b>
1 day	9
2 days	3
3 days	75
Over 3 days	107
<b>Total Contributions</b>	<b>195</b>
<b>Percentage of contributions received late</b>	<b>0.13%</b>

Regulations permit the Fund to charge interest on contributions that are paid over one month late at 1% above base rate. No such interest was charged during the year.

# Pension Increase

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

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

The table below shows the rate of increases that have applied during recent years.

Year Beginning April	Rate of Increase %	Index
2001	3.3	RPI
2002	1.7	RPI
2003	1.7	RPI
2004	2.8	RPI
2005	3.1	RPI
2006	2.7	RPI
2007	3.6	RPI
2008	3.9	RPI
2009	5.0	RPI
2010	0.0	RPI
2011	3.1	CPI
2012	5.2	CPI
2013	2.2	CPI
2014	2.7	CPI
2015	1.2	CPI
2016	0.0	CPI
<b>2017</b>	<b>1.0</b>	<b>CPI</b>

The Fund is not responsible for any increases in the State Guaranteed Minimum Pension accrued before April 1988, these increases are paid by the State as part of the State Pension.

The Fund is responsible for increases in the State Guaranteed Minimum Pension accrued between April 1988 and March 1997 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.

However as a result of the new Single State Pension, from April 2016 there is no longer a second state pension and contracting-out has ceased. The full implications, for the LGPS, have still not been fully decided. There are two working parties covering all public sector pension schemes currently involved with HM Treasury deciding on the way forward.

As an interim measure any scheme member who reaches state pension age from 6 April 2016 to 5 December 2018 all increases are to be paid from the Fund. A consultation on future treatment of increases on GMPs for members attaining state pension age after 5 December 2018 closed on 20 February 2017 and a Government response is expected in 2018.

A reconciliation exercise is currently being carried out with HMRC to confirm each scheme's responsibilities as at December 2018.

# Contacts

For further information on investments, accounts, benefits and administration of the Avon Pension Fund email us at: [avonpensionfund@bathnes.gov.uk](mailto:avonpensionfund@bathnes.gov.uk)

Or you can write to us at:  
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Bath and North East Somerset Council  
Lewis House  
Manvers Street  
Bath  
BA1 1JG

Telephone: 01225 477000  
Fax: 01225 395258

General information about the Avon Pension Fund can be found at:  
[www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk)

# Glossary of Terms

## **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.

## **Assumed Pensionable Pay**

An average pay figure used to calculate pension in cases of reduced contractual pay or no pay as a result of sickness or injury, during relevant child-related leave or whilst on reserve forces service leave.

## **Brunel Pension Partnership**

A partnership of 10 LGPS funds to pool the management of their investment assets. The individual funds will retain responsibility for setting investment strategy; BPP Ltd., a company owned by the 10 administering authorities will implement the strategies on behalf of the funds. The funds in the partnership are: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset and Wiltshire. They had total investment assets of c. £25 billion at 31 March 2017.

## **Career Average Revalued Earnings (CARE) Pension Scheme**

A pension scheme that provides a pension calculated as a proportion of a member's average pay depending on the length of membership in the scheme. In CARE schemes such as the LGPS, pension is built up each

year based on a member's actual earnings in that year and is revalued so that the pension keeps up with the cost of living.

## **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.

## **Cohabiting Partner**

To be eligible to receive a survivor's pension in the event of a member's death, a cohabiting partner of the member, providing that for a continuous period of at least two years prior to the date of death -

- they have been able to marry or form a civil partnership;
- they have lived together as if they were husband and wife or civil partners;
- neither the member or their cohabiting partner have been living with someone else as if they were husband and wife or civil partners;
- their financial affairs have been interdependent (or the cohabiting partner has been financially dependent upon the scheme member).

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

CPI is an alternative measure of inflation also based on the change in the price of a fixed basket of goods and services. The difference between CPI and Retail Price Index (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 UK 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'.

## **Deferred Pension**

The pension benefit held in the Fund for a member who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before retirement age. A deferred pension may be claimed at any time between the ages of 55 and 75, but will be reduced if paid before the member's Normal Pension Age or increased if paid after.

## **Designation Body**

Body, listed in Part 2 of Schedule 2 of the LGPS Regulations 2013, 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.

### **Fund Benchmark**

The Fund 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 this benchmark is that it represents "normal fund policy".

### **Hedge Funds**

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

### **Independent Members**

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

they have acquired in the course of their professional careers.

### **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 which are repayable on a stated future date.

### **Investment Governance 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 and subsequently revised. 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.

### **Liability Risk Management Framework**

An approach to investing which seeks to match the cashflows generated by the pension payments in the future, by increasing the exposure to the factors that determine the value of those payments, namely market derived bond yields and inflation expectations. Physical instruments, such as index linked bonds, or synthetic instruments, such as derivatives, can be used when implementing the strategy.

### **Market Value**

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

### **Normal Pension Age (NPA)**

A member's NPA for pension benefits accrued after 31 March 2014 is now linked to their individual State Pension Age or age 65, whichever is later. For benefits accrued up to 31 March 2014 NPA is still age 65 for both men and women but a small number of members who retain Rule of 85 protections may retire earlier with no actuarial reduction.

### **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.

**Transferee Admission Bodies  
(Scope Body)**

A body that provides, by means of a contract, a service in connection with the exercise of a function of a Scheme employer, can become an admitted body within the Avon Pension Fund. The Scheme Employer 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.

A full A-Z of pension terminology can be found at <http://www.avonpensionfund.org.uk/glossary>

# Appendices

**Appendix A** - Terms of Reference for the Avon Pension Fund Committee and Investment Panel

<http://www.avonpensionfund.org.uk/finance-and-investments>

**Appendix B** - Governance Compliance Statement

<http://www.avonpensionfund.org.uk/finance-and-investments>

**Appendix C** - Statement of Investment principles

<http://www.avonpensionfund.org.uk/finance-and-investments>

**Appendix D** - Communications Policy

<http://www.avonpensionfund.org.uk/pensions-administration>

**Appendix E** - Funding Strategy Statement

<http://www.avonpensionfund.org.uk/finance-and-investments>

**Appendix F** - Administration Strategy 2015

<http://www.avonpensionfund.org.uk/pensions-administration>

**Appendix G** - Service Plan 2017 - 2020

<http://www.avonpensionfund.org.uk/pensions-administration>

**Appendix H** - Avon Pension Fund Pension Board Annual Report 2017

<http://www.avonpensionfund.org.uk/pension-board>

# Notes

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### **Alternative Formats**

This document can be made available in a range of community languages, large print, Braille, on tape, electronic and accessible formats, to request an alternative version please contact the Avon Pension Fund using the details provided.

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**Bath & North East  
Somerset Council**

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