

**Bath & North East
Somerset Council**



Avon Pension Fund Annual Report 2012/2013



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Contents



Chairman's Foreward, Page 2
Review of the Year, Page 3
Governance & Management Structure, Page 5
Fund Governance, Page 6
Risk Management, Page 9
Pension Administration Report, Page 11
Pension Communications, Page 15
Investment Report, Page 16
Actuarial Report & Funding Strategy Statement, Page 23
Statement of the Consulting Actuary, Page 24
Employers' Contribution Rates, Page 26
Statement of Accounts, Page 31
Statement of Responsibilities, Page 57
Auditor's Report, Page 58
5 Year Financial Summary, Page 59
Pension Increase, Page 60
Contact Names, Page 61
Appendix, Page 62
Glossary of Terms, Page 63

Avon Pension Fund Annual Report 2012/13

This year's report features photographs of iconic buildings from the Avon area.

Chairman's Foreword



"The Fund has successfully begun to roll out its IT initiative to increase the electronic delivery of member data from employers to the Fund as set out in the Administration Strategy."

Paul Fox

Chairman, Avon Pension Fund Committee

As Chairman of the Avon Pension Fund Committee, I am pleased to present the Fund's Annual Report and Financial Statement for the year ended 31 March 2013.

It has been a year of notable progress. The Fund has successfully begun to roll out its IT initiative to increase the electronic delivery of member data from employers to the Fund as set out in the Administration Strategy. Aligned with this, the benefits administration team has been restructured to give clear focus to the accuracy and quality of pension data, ahead of stricter compliance requirements from 2015. In March the Committee concluded its review of the investment strategy and agreed a new strategy to generate the investment returns required in, what we believe will remain, volatile markets. Lastly, the Fund's assets rose 13.8% but despite this strong performance it was not enough to offset the rise in the value of the liabilities (due to further falls in gilt yields) as the funding level was estimated to have fallen by 1% to 69% at the end of the year.

This was all achieved against a demanding operational background as the Fund assisted employers preparing for the introduction of auto-enrolment, dealt with the large number of new employers (mainly academies) and responded to numerous consultations from the government about impending changes to the scheme.

Much of the structure of the new scheme has been agreed but detailed technical regulations are still in draft form. The consultation on changes to governance arrangements has yet to happen; but the

new arrangements will not be in place until 2015 at the earliest. The objective is to strengthen the governance of LGPS funds by having greater national oversight and setting of best practice and standards. The Committee will need to be assured that the new arrangements do not generate "governance overload" and that there is not a duplication of roles and responsibilities. There is also debate about the optimum size for a LGPS fund in terms of costs and value for money and further consultations on this issue are expected in the next year.

Therefore we look forward to a busy couple of years with the outcome of the 2013 triennial valuation as well as the introduction of the 2014 scheme in the immediate spotlight. However, the Fund is well resourced to manage the work these projects will entail.

In the meantime I would like to thank the staff at the Avon Pension Fund for their contribution towards delivering an excellent service throughout the year.

A handwritten signature in dark ink, appearing to read 'Paul Fox', written in a cursive style.

Paul Fox

Chairman, Avon Pension Fund Committee

Review of the Year



LGPS 2014

This year has seen Employers and Unions put forward joint proposals for the benefit structure of the new LGPS 2014. The Department for Communities and Local Government (DCLG) have issued draft regulations based on the core elements as well as draft transitional regulations covering protections for existing benefits accrued up to 31 March 2014. The Public Sector Pensions Act was finally passed in April 2013 having spent several months of 2012/13 going through the Parliamentary process which has delayed parts of the LGPS 2014 concerning governance and cost sharing. As a result, any draft regulations have been delayed and the actual regulations on these aspects of the scheme may arrive after April 2014.

The changes from the current LGPS are:

- A pension scheme design based on career average and actual pay
- An accrual rate of 1/49th of pensionable earnings each year
- Revaluation of active members' benefits in line with a price index (currently Consumer Prices Index)
- A Normal Pension Age equal to the State Pension Age, which applies both to active members and deferred members (new scheme service only). If a member's State Pension Age rises, then Normal Pension Age will do so too for all post-2014 service
- A low cost optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate

- Average member contribution yield of 6.5%, with tiered contributions
- Early/late retirement from age 55 without requiring employer's consent (there will be a reduction in benefits for early retirement)
- Reverting the vesting period back to two years from the current three months (the earliest period at which benefits must be paid instead of refunded)

Auto-enrolment

Under the Government's auto-enrolment legislation, employers must automatically admit into a 'qualifying pension scheme' all new starters and periodically admit all those who have previously opted out.

In October 2012, employer staging dates for auto-enrolment started and some of the smaller employers within the Fund, who are part of much larger companies, were amongst the first to go through this exercise. The staging dates for the larger employers, including the four unitary local authorities, came into operation from March 2013. The full impact of auto-enrolment on the Fund will be monitored during the current year.

Administration Strategy

During the year significant progress was made within the Administration Strategy, especially in respect of rolling out new electronic facilities for employers to send member data to the Fund (namely Employer Self Service and i-Connect) and the creation of a Data Quality Control Team to strengthen the focus on accuracy and timeliness of data. The effect of

these initiatives is that the quality and accuracy of the data held by the Fund is already improving and they have assisted the Fund and employers in managing the additional work arising from auto-enrolment and in the future, the 2014 scheme, within resource constraints.

The introduction of these initiatives was timely given the significant increase in employers in the year. The fragmentation of the employer base, mainly due to the creation of academies, continues to increase the administrative burden and resource required to deliver a high quality service to members and employers alike.

Fund Performance and Investment Strategy

Fund assets increased by £378 million (or 13.8%) during the year to £3.13 billion at 31 March 2013. Performance was driven largely by strong returns across equity markets and to a lesser extent fixed income assets. Over the last five years the Fund's return of 7.2% per annum is ahead of the return assumed in the funding strategy. During the year the Fund outperformed its Fund benchmark due to both asset allocation and the investment managers outperforming their benchmarks in aggregate.

This year's performance was again achieved against a background of volatile investment markets as western economies continued to adopt restrictive fiscal policies, the euro crisis remained unresolved and the slowdown in global growth began to affect the prospects for growth in the emerging economies.

In March 2013 the Committee reviewed the investment strategy with an objective to increase dynamic asset allocation and diversification within the long term strategy. As a result the Fund agreed new allocations to diversified growth funds and infrastructure. In addition, within the equity portfolio the allocation to emerging markets will be increased given the expectation of stronger economic growth and higher investment returns in the medium to longer term from these markets.

Funding Level

Despite the positive investment performance, the funding level declined very slightly to an estimated 69% from 70% a year earlier as the value of liabilities increased more than the value of the assets (despite the investment returns exceeding the return assumed in the valuation).

The continued upward pressure on the value of liabilities is driven by a combination of low bond yields and high inflation (compared to the level of bond yields). Fortunately, since the year end bond yields have risen slightly as expectations for the end of quantitative easing are brought forward. Obviously a rise in bond yields could undermine equity markets; however, the Fund's liabilities are far more sensitive to changes in bond yields and therefore a rise in bond yields should overall have a positive impact on the funding level.

The 2013 valuation will reflect market prices as at 31 March 2013. The funding level at the 2010 valuation was 82% and as a consequence, employer contributions will have to rise to fund the larger deficit. The actuary will advise the Fund accordingly as to how the increases can be managed to take account of the funding pressures facing the scheme employers.

Fund Governance

The governance of the Avon Pension Fund at the local level was altered during the year to take account of the changes to the investment strategy. The Committee has delegated specific powers to the Investment Panel to permit speedier deci-

sion making regarding performance issues and tactical asset allocation. The Committee remain responsible for all strategic investment decisions.

At the national level the future governance arrangements are beginning to take shape following the introduction of the Public Sector Pensions Act during the year. A national LGPS Board will be established to set standards and best practice for local funds. In addition The Pensions Regulator will have a role in monitoring compliance with Disclosure and Data Protection regulations. The full implications for local LGPS funds are yet to be confirmed and full consultation is expected in late 2013/14.

Other Technical Issues during the Year

Changes to Scheme Factors (change of Discount rate)

As reported last year, the Government changed the discount rate which, although primarily used by the unfunded public sector pension schemes, did have implications for LGPS. The Government Actuary's Department issued revised guidance and factors last year for a number of LGPS calculations. In addition this year further revisions to factors have been made including, in early March 2013, some for Additional Regular Contribution payments which required immediate decisions by members before implementation in the April payrolls. The lateness of such notifications and the implications has been lodged with DCLG for consideration when the new scheme factor requirements are established.

LGPS Miscellaneous Regulations 2012

These miscellaneous regulations were made to address existing problem areas and necessary changes due to amendments in other legislation. To fall into line with auto enrolment requirements all employees with a contract of less than three months now have the option to join the LGPS.

There were also some adjustments affecting ill health retirements. Reg-

ulation 30 (early payment of deferred benefits) requires employers to have a discretionary policy in place for allowing payment. Newly introduced regulation 30A requires a similar policy for members with suspended 3rd tier ill health benefits. This policy was required to be put in place by 31 March 2013. Where a deferred member applies for early payment and their former scheme Employer no longer functions as such, consent now lies with the appropriate administering authority.

Changes were made to the requirements for setting up admission agreements. The administering authority has expressed some concern over the operational aspects of this change and these concerns have yet to be addressed in the latest draft of these regulations.

Further HMRC changes

HMRC reduced the Annual Allowance from £255,000 to £50,000 for the tax year 2011/12. This level was further reduced in the Autumn Statement to £40,000 from the tax year 2014/15. Regulations for 'Scheme Pays' were made to allow a member to elect for any tax payment due that exceeds £2,000 in respect of the Annual Allowance to be paid by the Scheme and subsequently deducted off pension benefits at retirement.

The Government has also reduced the HMRC Lifetime Allowance from £1.8m to £1.5m from 6 April 2012. This level will be further reduced in 2014/15 to £1.25m.

Whilst these changes at present only affect a small number of members, they are administrative checks that need to be made at year end and for retirements.

Governance & Management Structure as at 31 March 2013



Administering Authority:

Bath & North East Somerset Council

Members of the Avon Pension Fund Committee:

Councillor Paul Fox (Chair)

Bath & North East Somerset Council

Councillor Gabriel Batt

Bath & North East Somerset Council

Ann Berresford

Independent Trustee

Councillor Mary Blatchford

North Somerset Council

Councillor Nicholas Coombes

Bath & North East Somerset Council

Councillor Mike Drew

South Gloucestershire Council

Carol Dobson

Independent Trustee

Councillor Charles Gerrish

Bath & North East Somerset Council

Councillor Katie Hall

Bath & North East Somerset Council

Richard Orton

Unison

Bill Marshall¹

University of the West of England

William Liew²

University of the West of England

Councillor Mark Wright

Bristol City Council

Non - Voting Members:

Councillor Clive Fricker

Parish & Town Councils

Rowena Hayward

GMB

Steve Paines

Unite the Union

Paul Shiner

Unite the Union

Independent Investment Advisor:

Tony Earnshaw

Council Officers:

Tim Richens

Divisional Director of Finance

Tony Bartlett

Head of Business Finance & Pensions

Liz Woodyard

Investments Manager

Steve McMillan

Pensions Manager

Vernon Hitchman

Divisional Director
(Legal and Democratic Services)

Notes:

¹Bill Marshall resigned from the Committee In December 2012

²William Liew joined the committee from January 2013

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 delegates its responsibility for administering the Fund to the Avon Pension Fund Committee, which is the formal decision making body for the Fund.

The Avon Pension Fund Committee (the “Committee”) is responsible for the following:

- *Determining the investment strategy and strategic asset allocation, the funding strategy and the administration and communications strategies.*
- *Management of the Fund’s investments in line with the strategic policy.*
- *Monitoring the performance of investments, investment managers, scheme administration, and external advisors.*
- *Approving and monitoring compliance of statutory statements and policies required under the Local Government Pension Scheme Regulations.*
- *Approving the Pension Fund’s Statement of Accounts and annual report.*
- *Commissioning actuarial valuations in accordance with the provisions of the Local Government Pension Scheme Regulations.*
- *Considering requests from organisations wishing to join the Fund as admitted bodies.*
- *Making representations to government as appropriate concerning any proposed changes to the Local Government*

Table 1: Committee Structure

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

Pension Scheme.

The Committee structure is shown in Table 1. The Committee membership as at 31 March 2013 is set out on page 5.

The Committee meets formally each quarter and an additional Special Committee meeting was held in March 2013 to agree the revised investment strategy. In addition to the quarterly meetings, the Committee held three workshops during the year to discuss the Responsible Investing Policy and Investment Strategy in greater detail.

Investment Panel

The Committee is supported by an 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; strategic issues are referred to the Committee. The Panel consists of up to six voting members of the Committee and meets at least four times a year.

The Panel is responsible for the following:

- *Reviewing strategic and emerging opportunities outside the strategic asset allocation and making recommendations to the Committee.*
- *Reviewing the Statement of Investment Principles and submitting to Committee for approval.*
- *Reporting regularly to Committee on the performance of investments and matters of strategic importance.*

and have delegated authority to:

- *Approve and monitor tactical positions within strategic allocation ranges.*
- *Approve investments in emerging opportunities within strategic allocations.*
- *Implement investment management arrangements in line with strategic policy, including the setting of mandate parameters and the appointment of managers.*
- *Approve amendments to investment mandates within existing*

Table 2: Committee Attendance Record

	Committee		Investment Panel
	Meeting	Workshop	Meeting
Number of Meetings during year	5	3	4
Voting Members			
Councillor Paul Fox (Chair)	5	2	N/A
Councillor Gabriel Batt	3	3	2
Ann Berresford	5	3	4
Councillor Mary Blatchford	5	3	4
Councillor Nicholas Coombes	5	3	4
Carolan Dobson	4	1	N/A
Councillor Mike Drew	1	3	N/A
Councillor Charles Gerrish	5	3	4
Councillor Katie Hall	4	3	N/A
Richard Orton	5	2	N/A
Bill Marshall ¹	3	2	3
William Liew ²	2	N/A	1
Councillor Mark Wright	1	1	N/A
Non-voting members			
Councillor Clive Fricker	3	1	N/A
Rowena Hayward	1	0	N/A
Steve Paines	4	1	N/A
Paul Shiner	3	1	N/A

Notes:

¹ Bill Marshall, HE/FE Representative left the Committee in December 2012

² William Liew, HE/FE Representative joined the Committee in January 2013

return and risk parameters.

- Monitor investment managers' investment performance and make decisions to terminate mandates on performance grounds.
- Delegate specific decisions to Officers as appropriate.

Four meetings were held during the year followed by workshops to meet investment managers.

The attendance record for each Committee and Panel member is set out in Table 2.

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 committee members and staff possess an appro-

priate level of knowledge, skill and understanding to discharge their duties.

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 of Finance is responsible for ensuring that training is implemented.

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 in greater 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.

The training provided in 2012/13 is shown in Table 3.

Officers' annual performance review identifies any training needs as well as monitoring individual performance against objectives. The administering authority's approach is to ensure that the officers responsible for the management of the Fund possess, in aggregate, the skills and knowledge required for them to fulfil their role.

Governance Compliance Statement

The Fund is required under the regulations to publish a Governance Compliance Statement which demonstrates the extent to which the Fund complies with best prac-

tices in pension fund governance. The Fund's latest statement was approved by the Avon Pension Fund Committee in June 2013 following changes to the Terms of Reference for the Committee and Investment Panel to delegate specific powers to the Panel. The statement shows

a high level of compliance with best practice and is summarised below in Table 4.

Copies of the latest Governance Compliance Statement can be obtained from the Fund's website www.avonpensionfund.org.uk

Table 3: Training provided in 2012/13

Topic	Delivered by:
Governance	
<ul style="list-style-type: none"> Legal responsibility of Committee & Officers Governance & assurance framework Administration Strategy Investment Regulations 	<ul style="list-style-type: none"> Committee reports monitoring administration performance of Fund and employers Committee reports for audited accounts and governance External conferences/training course
Employer and Funding risks	
<ul style="list-style-type: none"> Admitted bodies Employer risks Funding level/solvency 	<ul style="list-style-type: none"> Committee reports cover funding position, employers risks and policy for recovering outstanding liabilities Interim Actuarial Report & workshop
Investment Strategy	
<ul style="list-style-type: none"> Asset Allocation Performance monitoring Investment manager monitoring Stewardship activities Responsible investing policy 	<ul style="list-style-type: none"> Quarterly Committee & Panel reports review investment strategy and performance Workshop to review Responsible Investing Policy Two workshops reviewing investment strategy Annual report on voting activity External conferences

Table 4: Governance Compliance

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

Risk Management



Bath & North East Somerset Council has delegated its responsibility for administering the Avon Pension Fund to the Avon Pension Fund Committee that is responsible for the risk management process and compliance with regulations.

In establishing this governance structure, the Council is satisfied that there are adequate risk management processes in place to address the risks faced by the Fund. The 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. The investment decision-making process, supported by expert advice, is designed to identify investment risks and act in a timely manner to ensure that these risks are kept to the minimum necessary to achieve the Fund's long term investment objectives. Internal controls and processes are in place to manage administration, financial and other operational risks.

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

The Committee is subject to the

Council's Standing Orders and financial regulations as well as the Code of Conduct.

Investment Risks

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

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

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

Much of the investment management process is outsourced to in-

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

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

Actuarial Risks

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

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

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

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

Financial Risks

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

A key financial risk is the non-payment of contributions by employers. The regulations provide a sanction for late payments. Processes are in place to ensure that contributions are reconciled regularly and late payers are reported to the Committee.

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

Benefits Administration Risks

The administration risks relate mainly to the inability of the administrator to meet its obligations to administer the Fund and pay benefits accurately and on time as agreed with employers or under statute. The main areas of risks are non-payment or late payment of members' benefits, incorrect calculation of benefits,

breach of Data Protection Regulations or failure to comply with Freedom of Information Act requests and Disclosure of Information requirements. All of the above could lead to adverse publicity, loss of reputation and ultimately statutory fines. In addition, the Fund is dependent on a sole supplier of pension administration software. All these risks are addressed in the Business Continuity Plan and mitigated in the Risk Register.

Business Continuity Plan

The Business Continuity Plan is in place primarily to deal with "disaster recovery" and includes contingency measures. The Plan identifies critical activities whose failure would lead to an unacceptable loss of service, documents and sets out measures

to minimise the risk of disruption to service and specifies what "triggers" the contingency measures coming into effect.

Risk Register

A summary of the significant material risks identified in the Pension Fund's Risk Register are shown in Table 5 below.

Table 5: Risk Register

Risk	Management action
The Fund fails to achieve investment returns sufficient to meet its liabilities.	Set a Fund specific benchmark which determines the appropriate risk adjusted return strategy to meet the liabilities. Fund performance and funding level monitored each quarter by Committee
Systems or lack of access to systems. This could result in potential loss of data, need to re-process data, fall in productivity, potential corruption of data, delay in payments of pensions.	Policies are in place with service providers to ensure continuity of service within agreed timeframe. Daily back-up of pension system. Rely on Council's system of control and firewalls to prevent virus attacks.
Non compliance with the Data Protection Act. Implications are that fines could be imposed, risk of criminal/civil prosecutions, adverse publicity and data processing could be suspended.	The Fund is DP registered through the Administering Authority. Confidentiality Agreements are in place with third parties on restrictions on use of confidential member data.
Insolvency of Participating Employers in the Fund without sufficient monetary guarantees or bonds to make good their outstanding liability. Such liabilities will be absorbed by the Fund and spread across other employers.	Ongoing monitoring of financial standing of all admitted bodies. Where identified, consider options for obtaining stronger guarantee or greater protection through use of contingent assets.
Lack of continuity within Committee which arises because most members face re-election simultaneously.	Appointed two independent members to the Committee (independent from the administering authority, scheme employers and unions). Provide training for new Committee members and ongoing training so that they can discharge their duties effectively.

Pension Administration



Pensions Administration Strategy

The Pension Administration Strategy (“the strategy”) came into effect from 1 April 2011. It sets out the Fund’s policy for administering the Fund, the standard of service to be delivered and the Fund’s requirements of the employers. It identifies milestones for service delivery and improvements required by all parties.

The introduction of 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) and a new scheme will be introduced from 2014. Table 6 below shows how the Fund’s employer and membership base has changed over time.

The primary objective of the strategy is to promote more effective working arrangements between the Fund and employers in order to meet future challenges and deliver a high quality level of service to members. Key elements are the improvement of communications between employers and the Fund, training of both Fund staff and pension staff at the employers and the utilisation of technology as effectively as possible to capture and process data.

The strategy incorporates performance targets for both the Fund and employers which are set out in Service Level Agreements (SLAs). Performance against targets are published in quarterly Stewardship Reports which are considered at regular review meetings with employers. In addition, performance is monitored quarterly by the Committee.

The impact of the strategy is already beginning to show, as evidenced by the 2012/13 year end exercise; data was more accurate and there was greater compliance with deadlines by employers. The strategy will be reviewed in 2013/14 to evaluate its impact and revise the forward looking objectives.

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”)

The 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 over time all employers will input member data changes via ESS for automatic upload to the pension member database. This has been rolled out to the larger employers; however smaller employers with a low level of traffic on member changes will be phased in as they need to use the system.

Member Self Service (“MSS”)

The 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. There are now 4,220 registered members representing 3.9% of available membership. Development of this facility and encouraging greater take-up by members forms part of the work programme for the next couple of years.

Table 6: Employer & Membership Size 1999-2013

	1999/2000	2004/05	2009/10	2012/13
Active Members	31,746	34,144	34,800	33,648
Deferred Members	9,996	15,970	24,544	31,754
Pensioners	15,728	17,292	21,313	24,574
Total Membership	57,470	67,406	80,657	89,976
Employers	50	66	102	174



Auto-enrolment / i-Connect

In 2011 the government introduced “Workplace Pensions” which require employers to auto-enrol eligible employees into a qualifying pension scheme. The LGPS is a qualifying scheme for auto-enrolment. Under the regulations employees who have contracts of employment are already automatically contractually enrolled into the LGPS so there will be fewer employees that will need to be auto-enrolled. Auto-enrolment is the employer’s responsibility. They need to monitor their work force to identify employees who must be auto-enrolled. Each employer has a staging (or start date) according to its size. The first employers in the Fund started this process in early 2013.

The Fund has introduced a payroll software package “i-Connect” to assist with auto-enrolment. i-Connect will monitor the employer’s payroll, identifying employees who need to

be auto-enrolled into the LGPS in each pay period and create a payroll extract. i-Connect has been developed by Heywood and the payroll extract will automatically update the pensions administration system on a monthly basis. i-Connect has only been made available to the largest employers within the Fund as the cost of developing the required interface with the employer’s payroll system is prohibitive for smaller employers. This represents a major advance for the Fund. As well as assisting with auto-enrolment, it will provide more timely, accurate member information from the employers representing the majority of the Fund’s active members. In addition ESS will enable a more efficient flow of data from the medium and smaller employers.

The introduction of i-Connect and ESS will mean that by April 2014 all employers will be expected to send all member data changes electronically.

Electronic delivery to members

Costs of production and postal delivery of hard-copy documents sent 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 the sending of 150,000 printed documents at a significant annual cost.

Pensioners ‘Newsletters

The pensioner newsletter in 2013 was produced internally. Options for future pensioner newsletters are being considered including collaborating with other local government funds on a generic pensioner newsletter.

Table 7: Performance Indicators 2012-13

Performance Indicator	LGPS Standard Target	Fund achieved against target %	CIPFA Club average %
Letter detailing transfer in quote	10 days	83	88
Letter detailing transfer out quote	10 days	81	90
Process and pay refund	5 days	65	87
Letter notifying estimates of retirement benefits	10 days	96	91
Letter notifying actual retirement benefits	5 days	71	90
Initial Letter acknowledging death of member	5 days	N/A	N/A
Letter notifying amount of dependant’s benefits	5 days	84	86
Calculate and notify deferred benefits	10 days	75	82



Active Members' Newsletters

Newsletters are still 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, a campaign is planned for 2014 to promote MSS and encourage as many members as possible to sign up to receive information electronically.

Website

The Fund has had its own dedicated pension website for over 10 years and this is now a major source of information for members and employers. The site has been significantly improved in recent years and has separate sections for each category of membership. A separate Employers' website was launched in April 2013, providing interactive facilities.

The number of website 'hits' increased during the year demonstrating member's and media interest in pensions, prompted largely by the announcement of the new scheme from April 2014.

Performance Indicators

The Fund takes part in the annual Chartered Institute of Public Finance

and Accountancy (CIPFA) Pensions Administration Benchmarking Club. This compares administration costs and performance indicators against other participating LGPS funds (over 52 of the 99 local 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. This year's report identifies the cost per member for the Fund as £17.34 compared to £17.80 last year. This is significantly less than the cost for the average fund which is £21.4 per member.

The Fund's own performance targets are set out in the SLAs it has in place with employers, that cover over 80% of the active membership. In many cases these targets are more challenging than the industry standard. Regular SLA review meetings are held with these employers to review each parties' performance.

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

Table 7 shows the Fund's perfor-

mance in meeting LGPS standard targets compared to the Club average.

Key Staffing Indicators

The administration of the Fund is provided by Bath & North East Somerset Council. The pensions service is split into three areas, Investment & Accounting, Benefits Administration and Systems Support & Pension Payments. An organisation chart is available on the Fund website.

The total number of staff in the pensions service was 39.3 in 2012/13. Of these 17.7 are involved in benefits administration a reduction on the previous year. Table 8 below is an analysis of staff based data from the CIPFA Benchmarking Club 2012 Report. This shows the average number of members dealt with by each of the Benefits Team staff increased by 13% to over 5,000.

In 2013 the benefits administration team was restructured to include a Data Quality Control Team. The creation of a dedicated team reflects the increasing focus within the LGPS on disclosure of information and Data Protection. In the next few years new national governance arrangements will be introduced for the LGPS and The Pensions Regulator will have a role in monitoring

Table 8: Key Staffing Indicators 2012-13

Key Staffing Indicators	2012/13	(CIPFA club average)	2011/12	(CIPFA club average)
Number of staff administering the LGPS scheme	17.7		18.7	
Fund Member / Staff ratio	5,189	3,863	4,568	3,484

standards and promoting best practice in relation to disclosure of information to members. The new team will focus on incoming and outgoing data, ensuring the data is accurate, resolving data queries and providing management information to assist in the performance monitoring process. This will enable the rest of the benefits team to service members more efficiently.

Communications

The Fund publishes its Communication Policy on its website. It forms an integral part of the Administration Strategy. A separate section on the Communications Policy is included on page 15 of this report.

Member Satisfaction

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

Pension Clinics

The Fund offers to hold pension clinics for members at employers' sites where individual members queries are addressed with them on a one-to-one basis. During the calendar year 2012, no clinics were held. Ahead of the new 2014 Scheme a significant programme of clinics and member meetings are planned from February 2014 to inform members about the new scheme.

Retirements

Following their retirement members are sent questionnaires to obtain feedback on the quality and timeliness of the service they received from the Fund in dealing with their retirement. The Fund maintained its overall rating with good or excellent in excess of 90% as in previous years.

Complaints

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

Disagreements Procedure

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

At the start of the year there was one case outstanding under Stage1 (appeals against initial decision of the administering authority) which was upheld by the administering authority. There were no new cases under Stage 1 or Stage 2 and none outstanding at the year end.

Pension Communications



Communications Strategy

Communications is at the heart of the Fund's strategy to deliver a seamless pensions service to stakeholders. The Communications Strategy's objective is to have the resources in place to improve communication between the Fund and employers. The Fund has also published a Customer Charter which lays out service standards within which information will be sent to scheme members at key milestones.

The Fund aims to give stakeholders timely and clear key messages, using a variety of media appropriate to their needs. The ultimate aim is that stakeholders will have the information and understanding to make informed decisions. Stakeholder feedback is fundamental to successful communications. The Fund gathers feedback from scheme members and employers to improve its communications.

The Fund keeps abreast of best practice through participating in collaborative groups such as the Local Government Association's pension communication group and the South West Pension Officers Communications group. These offer the opportunity to discuss topical pension issues and to share best-practice and innovations.

Members

The Fund reaches its members using a variety of media appropriate to their various needs. These include newsletters, annual statements and pre retirement benefit statements.

The Fund's website is an important method of publicising the latest news

about pensions to members quickly and to direct members to more in-depth information on specific topics. The strategy to promote the take up of the Member Self Service facility is in line with the Occupational Pension Scheme (Disclosure of Information) Regulations 2010 which increased the scope for pension schemes to communicate with members by electronic means.

The Fund also plans to develop a new member website that can be accessed via smartphones and tablet devices. This is intended to increase accessibility to the Fund's website.

Employers

The Fund uses electronic communications with employers wherever possible, in order to increase efficiency, speed and cost-effectiveness.

The new Employers' website was launched in March 2013 and tailors information to meet employer needs. This website is becoming their primary source of information based around a series of Employer Factsheets.

The Fund frequently meets with employers individually and hosts events during the year including an annual Employers' Conference, Investments Forum and several Employers' Forums. The Investments Forum focuses on finance and investment issues. Topical pension matters are discussed at the Employers' Conference and Forums, including statutory consultations and the impact of regulatory changes. The Fund offers training on the employer role and administrative pro-

cedures to all new employers joining the Fund, and refresher training for officers of existing employers.

Investment Report



1. Investment Regulations

Investment Limits

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

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

The limits relevant to the Fund are:

- no more than 25% may be invested in unit trusts managed by any one body;
- no more than 10% of the Fund may be invested in unlisted securities;
- no more than 10% of the Fund may be invested in a single investment holding;
- no more than 10% of the Fund may be deposited with any one bank;
- no more than 35% of the Fund may be invested in any one insurance contract;
- no more than 2% of the Fund may be invested in a single partnership;
- no more than 15% of the Fund may be invested in partnerships

Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the investment principles of the Fund and how the investments are managed in line with the principles. Key elements include: social, environmental and ethical considerations; exercise of voting rights; stock lending policy; and compliance with the Myners principles

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

1. A change in the Cash Management policy to allow income and divestments to be used to meet pension payments
2. Implementation of a Responsible Investing policy which sets out a framework for considering such issues throughout the investment decision-making process
3. The new asset allocation strategy

The latest revision of the SIP was approved by the Committee at its meeting in June 2013. A copy of the statement can be obtained from the website www.avonpensionfund.org.uk

The Fund publishes a statement showing how it complies with the FRC Stewardship Code. This Code is a set of best practice principles that are intended to frame both shareholder engagement with companies and the disclosure of such activity by investors. The Code was revised during the year and the Fund published its updated statement of compliance in June 2013. The ke-

changes relevant to the Fund were as follows:

- A requirement to disclose an organisation's approach to stock lending;
- To request that signatories review their policy statements annually, to update policies as necessary and confirm the date of last review;
- To require further disclosure on the use made of proxy voting or other voting advisory services;
- Signatories are encouraged to explain which of their equity funds or products were covered by the approach described in their statement.

A copy of the statement can be obtained from the website www.avonpensionfund.org.uk

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

Compliance with the Myners Principles

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

The Fund's current compliance with the principles is summarised in Table 9 (a full explanation can be found

in the SIP).

Responsible Investing

The Fund seeks to integrate a Responsible Investment approach across the entire investments portfolio, recognising the differing characteristics of asset classes. A copy of the policy can be obtained from the website www.avonpensionfund.org.uk

The Fund managed Responsible Investment (RI) / Environmental, Social and Corporate Governance

(ESG) risks during the year as follows:

- Identified and strategically evaluated RI/ESG risks of asset classes in the review of the Fund's investment strategy
- Held managers to account and queried ESG / RI factors in investment process where appropriate and reviewed whether engagement activity of managers was in line with their policies
- Analysed voting behaviour and actively sought explanations of voting behaviour from managers

to evidence policies and seek to influence

- Increased participation in collaboration and engagement activities of Local Authority Pension Fund Forum (LAPFF)

2. Investment Strategy

The objective of the investment strategy is to achieve the investment return required by the funding strategy in order to meet the Fund's liabilities over time and to recover any funding deficit. The strategy must produce investment returns that will help sta-

Table 9: Compliance with the Myners Principles

1 Effective decision-making	Compliance
Clear governance structure for decision-making, supported by expert advisors and officers with clear responsibilities	✓
Job descriptions setting out the role and responsibilities of all Committee members	✓
Committee members undertake training on ongoing basis	✓
A forward looking three-year business plan	✓
2 Clear Objectives	Compliance
Clear investment objective and strategy, taking into account the actuarial position and impact on scheme employers and tax payers	✓
A customised benchmark reflecting the Fund's own liability profile	✓
Consideration of different asset classes and their impact on return and risk	✓
Individual performance targets for the investment managers, monitored by the Committee	✓
Expert advice when considering its investment objective and strategy	✓
3 Risk and Liabilities	Compliance
Investment objective and strategy reflects the specific liability profile of the scheme members	✓
Covenant of the employer and their ability to pay contributions is taken into account	✓
Risk management process in place to ensure risks are identified and mitigating action is taken where possible	✓
4 Performance Assessment	Compliance
Fund's performance measured against investment objective, investment managers performance measured against their benchmarks	✓
Contracts with advisors assessed on an ongoing basis	✓
Performance of decision-making bodies assessed by external auditors	✓
5 Responsible Ownership	Compliance
Managers adopt the Institutional Shareholders' Committee Statement of Principles	✓
Policy on responsible ownership is included in Statement of Investment Principles	✓
6 Transparency and Reporting	Compliance
Clear policy to communicate and consult with its scheme members, representatives and employers as appropriate	✓
All documents and statements made available, annual report contains information and data relevant to its many, diverse stakeholders	✓

Table 10: Strategic Asset Allocation and Actual Asset Allocation

Asset Class	Strategic Allocation (31 March 2012)	31 March 2012 Allocation	31 March 2013 Allocation	Strategic Allocation (31 March 2013) to be implemented
UK Equities	18%	19.60%	20.40%	15%
Overseas Equities	42%	40.30%	44.20%	35%
Diversified Growth Fund	-	-	-	10%
Infrastructure	-	-	-	5%
Index-Linked Gilts	6%	6.90%	6.70%	6%
Fixed Interest Gilts	6%	4.90%	4.00%	3%
UK Corporate Bonds	5%	8.70%	6.20%	8%
Other Bonds	3%	2.80%	2.60%	3%
Fund of Hedge Funds	10%	7.80%	7.00%	5%
Property	10%	7.10%	7.10%	10%
Short term deposits / Other	0%	1.90%	1.80%	0%

bilise and minimise employer contribution rates in the long term as well as reflecting the balance between maximising returns, protecting asset values, and matching the liabilities (to minimise investment risk).

The strategy will reflect the Fund's appetite for risk and its willingness to accept short term volatility within a long term strategy. The Fund pursues a policy of managing risk

through diversification by asset class and by investment managers. The Committee periodically reviews its investment strategy in order to ensure the strategy reflects the Fund's liability profile.

During 2012/13 the Committee reviewed the investment strategy and in March 2013 concluded that a number of changes should be made to the long term strategic al-

location to enhance the consistency of returns, increase flexibility and responsiveness to changes in the investment outlook and to increase diversification within the Fund.

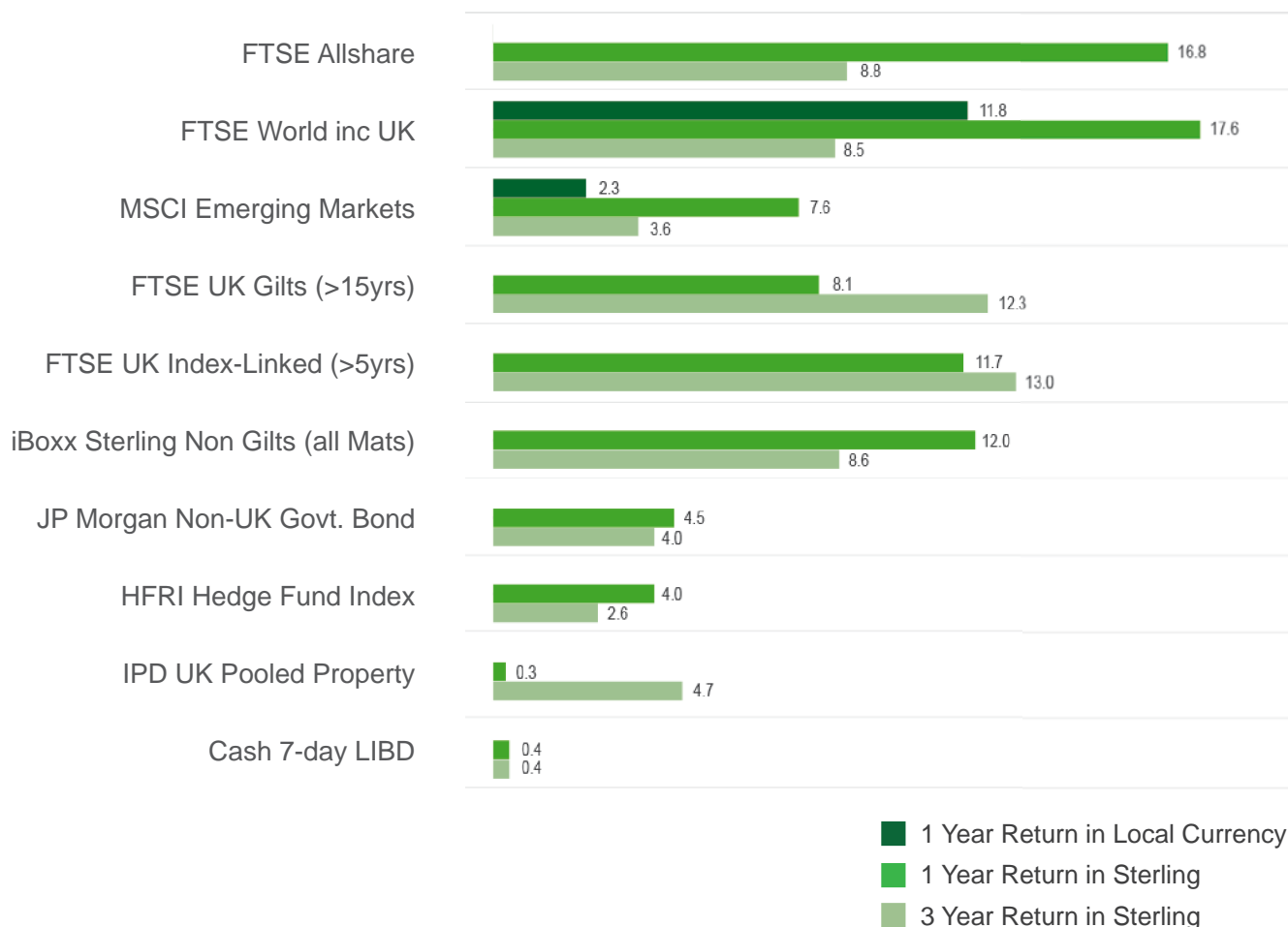
The agreed changes are as follows and will be implemented from 2013 to 2015:

- To reduce the overall allocation to equities by 10% to 50% of as-

Chart 1: Asset allocation by Manager 31 March 2013

Multi asset passive core 48.1%	BlackRock £1,507m			
Enhanced Indexation Equities 10.3%	Invesco Asset Management £218m (Global ex UK)		State Street Global Advisors £103m (Europe & Asia Pacific)	
Active Equities 21.1%	Schroder Investment Management £200m (Global)	Genesis Investment Management £158m (Emerging Markets)	TT International £163m (UK)	Jupiter Asset Management £140m (UK)
Active Bonds 5.7%	Royal London Asset Management £177m (Corporate)			
FoHF 7.0%	Man Group £64m	Signet Capital Management £67m	Gottex Fund Management £55m	Stenham Asset Management £35m
Property 7.3%	Schroder Investment Management £127m (UK)		Partners Group £97m (Global)	
Cash 0.5%				

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



- sets;
- Within the equity portfolio to increase the allocation to emerging market equities from 5% to 10% of assets given their higher growth prospects over the medium to longer term;
- To allocate 10% of assets to diversified growth funds, primarily to introduce dynamic asset allocation within the long term strategy;
- To reduce the allocation to hedge funds from 10% to 5% of assets;
- To allocate 5% of assets to infrastructure;
- Within the bond portfolio to reduce the allocation to fixed interest gilts from 6% to 3%, and to increase the allocation to UK corporate bonds from 5% to 8%.

The Committee have also introduced target ranges for each of the asset classes which provides greater flexibility for asset allocation to deviate from central targets and therefore allows for tactical positioning.

The tactical position which switched assets from UK gilts into corporate bonds was reversed during 2012 when the assets achieved their anticipated values, generating an extra return of c. £2.4m net of costs.

The strategic asset allocation at 31 March 2013 and actual asset allocation at 31 March 2013 and the previous years are shown in Table 10. Note that as at 31 March 2013, the Fund's overseas property investment manager was still in the process of investing the monies allocated to property.

Investment Management Structure

The Fund's investment strategy is managed by external investment managers. The investment management structure and the amount of assets each manager manages on behalf of the Fund as at 31 March 2013 is set out in Chart 1.

3. Market Background

Markets at the end of 2011/12 were uncertain and the outlook for 2012/13 was for low or zero growth over the near term with political instability expected to return for some EU countries.

The year began with a potential Greek exit from the Euro causing markets to slide, only for equities to rally once a rescue package was agreed to finance the indebted economies of Greece, Spain and Italy.

The more positive tone to the market was underpinned by the European Central Bank president Mario Draghi commenting that the European Central Bank would do "whatever it takes" to save the Euro and announced plans to buy euro bonds in potentially unlimited amounts. In addition the US Federal Reserve and Bank of Japan both announced substantial supportive measures to boost economic growth and thus market sentiment improved through-

Chart 3: Long Term Performance

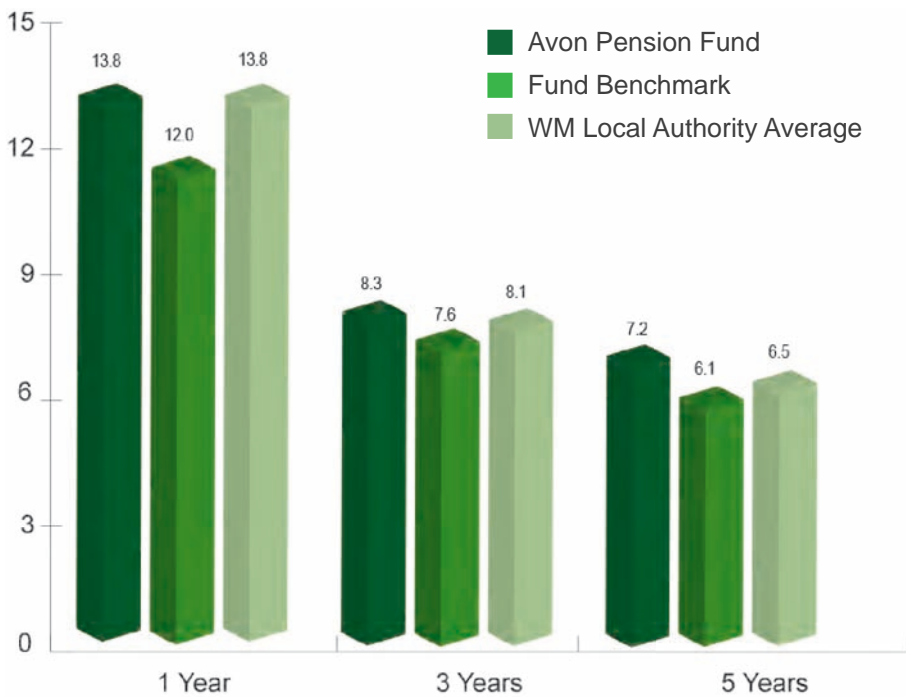


Table 11: Contribution to performance from asset allocation

Asset Class	1 Year (%)	3 Years (% p.a)
Equities	0.1	-0.1
Bonds	0.2	0.1
Property	0.1	0.1
Hedge Funds	0.2	0.1
Cash	-0.2	-0.1
Asset Allocation Impact	0.4	0.1

out the third quarter of 2012. Elsewhere the UK emerged from a double dip recession and there were tentative signs of recovery in the US housing market.

From late 2012 Japanese markets experienced a marked improvement following the appointment of Shinzo Abe as Prime Minister who pledged to end 20 years of economic stagnation, through stimulus packages and a weak Yen policy to stimulate exports. Greece also agreed severe budget cuts in order to obtain additional EU bailout funds and subsequently the risk of a Greek exit diminished. Finally, China successfully achieved a 'soft landing' in terms of GDP output for 2012 of 7.8%. Signs of cautious optimism with markets anticipating improvements in economic activity continued into 2013 with strong rallies in equity markets;

the FTSE 100 reaching its highest level since January 2008 and the S&P 500 hitting an all-time high. As the year ended market sentiment was more optimistic. However, fiscal retrenchment and low interest rates remained prevalent for developed markets underlining the fragile economic conditions.

The returns for the different markets in 2012/13 along with the three year returns in sterling are set out in Chart 2. All markets generated positive returns. Key characteristics over the period were the very strong performance of equities and fixed income assets albeit the returns of UK Gilts were lower than over the previous twelve months.

Elsewhere hedge funds posted positive returns having performed negatively in 2011/12 and although

emerging market equities struggled to match the returns of other equity markets in local currency terms, in Sterling terms the difference was not so marked.

4. Fund Performance

The value of the Fund rose by £378 million (or 13.8%) during the year to £3.13 billion at 31 March 2013. Performance was driven largely by strong returns from equities and to a lesser extent fixed income. The Fund was in line with the average WM Local Authority Fund universe return over the year (the average local authority pension fund return as calculated by WM Company).

The longer term performance of the Fund is shown in Chart 3 (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.

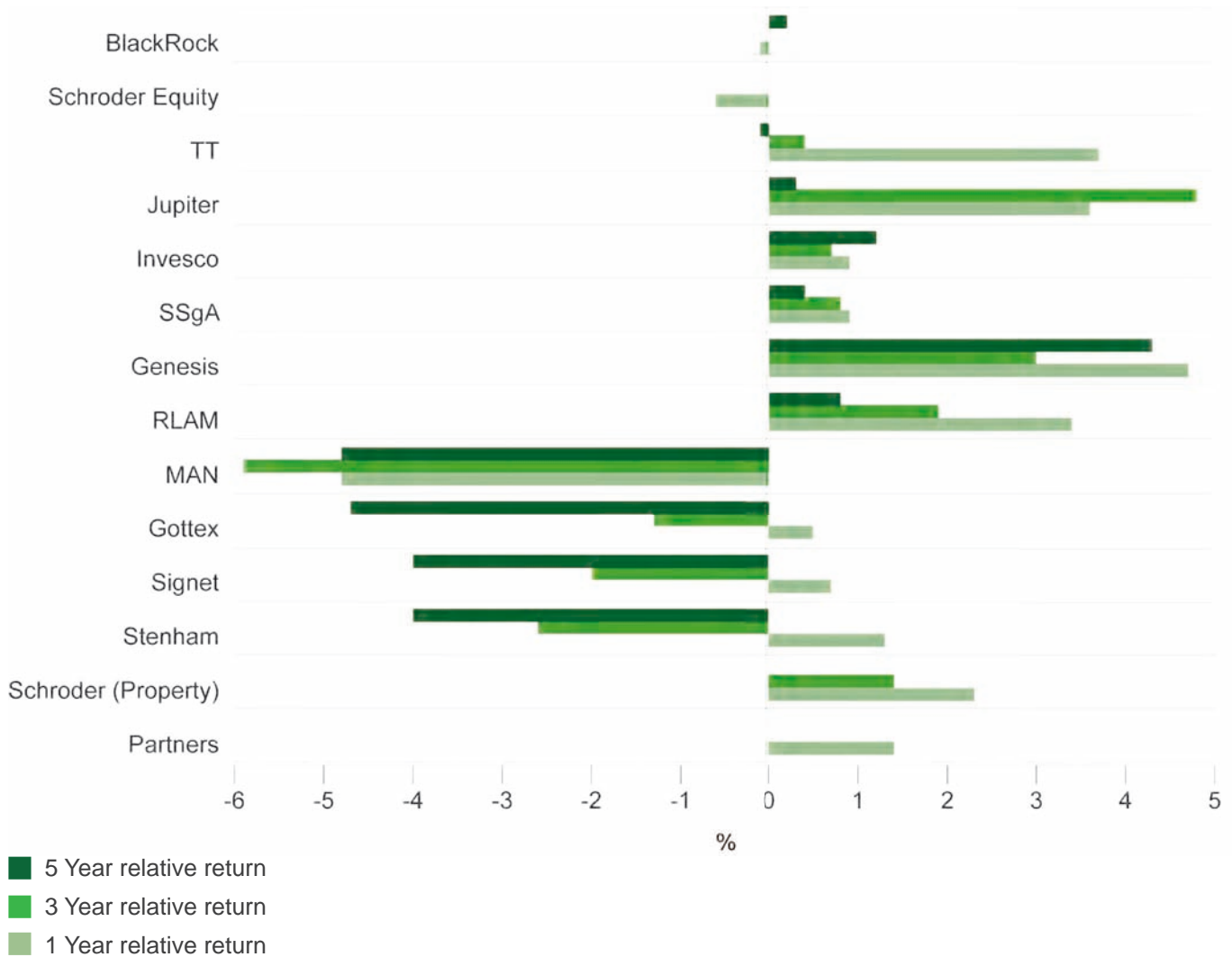
Over the last three years the investment return is 8.3% per annum falling to 7.2% per annum when viewed over the last five years. The Fund's return is ahead of the WM Local Authority Average return over three and five years

Over one and three years sterling has weakened and therefore the dynamic currency hedge has detracted slightly from overall returns.

Asset allocation has contributed to the Fund's outperformance of its benchmark over one and three years. The annualised contribution to performance by asset class can be seen in Table 11.

Chart 4 shows how the Fund's managers have contributed to performance. It shows their performance against their specific benchmarks over one, three and five years. Jupiter, TT International, Genesis and Royal London had strong performances relative to their benchmarks during 2012/13 with the Schroder global equity portfolio and the hedge fund portfolio managed by Man being the main detractors to overall performance. In 2012/13 the managers outperformed their benchmarks by 1.2% in aggregate and by 0.6% over three years.

Chart 4: Contribution to performance – Manager Relative Return



Investment Managers’ Voting Record

The Fund produces an annual Responsible Investment report covering the voting activity of our external investment managers for the company shares they hold on the Fund’s behalf.

A copy of the annual report can be obtained from the website www.avonpensionfund.org.uk

5. Largest Holdings

The 10 largest investment holdings of the Fund at 31 March 2013 are shown in the Table 12.

6. Investment Administration

The Fund’s custodian is responsible for the safe-keeping of the Fund’s assets and acts as the Fund’s bank,

settling transactions and collecting income. In addition they provide a range of support services including stock lending and investment accounting

The Fund has a separate bank account 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.

Table 12: Top 10 Largest Investment Holdings at 31 March 2013

Top 10 Largest Investment Holdings	£'000s	% of Fund
BlackRock Aquila Life UK Equity Index Fund	315,092	10.05%
BlackRock World Index Fund	310,706	9.91%
Invesco Perpetual Global ex UK Enhanced Index Fund	218,120	6.96%
Royal London RLPPC UK Corporate Bond Fund	176,526	5.63%
Genesis Emerging Markets Investment Fund	158,548	5.06%
BlackRock MSCI Equity Index Fund B-US	155,735	4.97%
BlackRock Europe ex-UK Index Fund	135,642	4.33%
BlackRock Aquila Life Overseas Bond Index Fund	81,488	2.60%
State Street Global Advisors MPF Pacific Equity Enhanced Index Fund	68,560	2.19%
Signet Global Fixed Income Fund	67,196	2.14%

Actuarial Report and Funding Strategy Statement

In line with the LGPS regulations, the Fund's actuarial position is reviewed every three years. The triennial valuation based on membership data and asset values as at 31 March 2010 set the employer contribution rates for the period from 1 April 2011 to 31 March 2014. The 2013 valuation using fund data at 31 March 2013 will set the contribution rates from 1 April 2014.

The 2010 valuation produced a funding level (the coverage of liabilities by the assets) of 82% which was only slightly lower than the funding level of 83% at the previous valuation in 2007. However, in monetary terms the deficit increased from £459 million in 2007 to £552 million in 2010.

By 31 March 2013, the funding level is estimated to have fallen to 69% and the deficit is estimated to have risen to £1.2 billion. This increase in the deficit is due to the rise in liabilities. In the three years to 31 March 2013 asset values have been ahead of expectations used in the 2010 valuation. The future value of the pension liabilities are calculated using a discount rate based on gilt yields and as gilt yields have fallen to historic lows, the value of the liabilities has risen, in turn generating a higher deficit.

Funding Strategy Statement

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

The regulations provide that the Funding Strategy Statement must

- establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

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

In addition, to ensure there was no significant underpayment of deficit recovery contributions should payrolls contract given the reduction in the public sector, the deficit recovery contribution (or past service contribution), which had traditionally been expressed as a percentage of pay, was expressed in annual monetary amounts.

In March 2012 the Funding Strategy Statement was amended to clarify how the residual liabilities are treated when an admission agreement terminates. The change was to provide greater certainty to the Fund and employing bodies at the outset of an outsourcing as to how such residual liabilities will be dealt with.

The 2013 triennial valuation will incorporate the changes arising from the new LGPS scheme to be introduced from April 2014. As the new scheme preserves accrued pension benefits, the deficit for accrued service will not be affected. However, the new scheme will generate savings for future service costs (on average) through a combination of benefit changes and an increase in the retirement age for benefits accruing post April 2014. Nevertheless, the future service contribution rate may increase if the savings from the new scheme are insufficient to offset the impact of falling gilt yields on the discount rate.

A copy of the Funding Strategy Statement can be obtained from the website www.avonpensionfund.org.uk

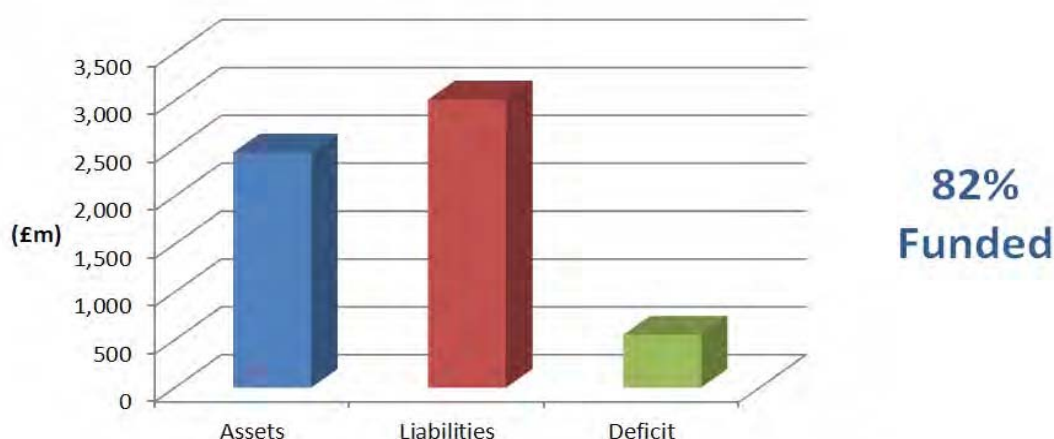
Statement of Consulting Actuary

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

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

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

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



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

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

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

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

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

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

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

The assets were assessed at market value.

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

Paul Middleman

Fellow of the Institute of Actuaries,
Mercer Limited, May 2013

Employer Contribution Rates



Participating Employers Year Ended 31st March	Contribution Rates			
	2013		2012	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Scheduled Bodies				
<i>Principal Councils and Service Providers</i>				
Avon Fire Brigade	10.9	£231,500	10.9	£221,500
Bath & North East Somerset Council	12.2	£4,333,200	12.2	£3,949,400
Bristol City Council	11.8	£12,660,600	11.8	£12,281,900
North Somerset Council	11.8	£4,710,000	11.8	£4,224,900
South Gloucestershire Council	11.9	£4,888,000	11.9	£4,677,000
<i>Further & Higher Education Establishments</i>				
Bath Spa University College	11.2	£382,400	11.2	£365,900
City of Bath College	11.2	£69,600	11.2	£66,600
City of Bristol College	11.4	£433,200	11.4	£414,500
Norton Radstock College	12.3	£33,400	12.3	£32,000
South Gloucestershire & Stroud College	10.4	£181,000	10.4	£173,200
St. Brendan's College	11.4	£25,400	11.4	£24,300
University of the West of England	11.0	£1,551,100	11.0	£1,484,200
Weston College	10.4	£153,900	10.4	£147,300
<i>Other Education Establishments</i>				
Abbeywood Community School Academy	11.8	£8,700	-	-
Academy of Trinity Cof E	12.5	£5,600	12.5	£1,012
Backwell School	13.7	£71,000	13.7	£5,666
Bannerman Road Community Academy	9.7	£7,100	-	-
Bath Community Academy	12.4	£8,400	-	-
Bedminster Down School Academy	13.5	£23,583	-	-
Beechen Cliff School Academy	12.4	£26,600	12.2	-
Begbrook Academy	12.5	£9,800	-	-
Olympus Trust	10.9	£46,600	10.9	£11,175
Bridge Learning Campus Foundation	11.7	£30,200	-	-
Bristol Cathedral Choir School	13.2	£-5,000	13.2	£-4,700
Bristol Church Academies Trust	12.0	£11,900	-	-
Bristol Free School Trust	13.4	-	13.4	-
Broadlands Academy	11.1	£11,500	-	-

Participating Employers Year Ended 31st March	Contribution Rates			
	2013		2012	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Broadoak Mathematics & Computing College	11.6	£57,700	11.6	£9,100
Cabot Learning Federation	10.8	-	10.8	-
Castle School Education Trust	13.0	£5,400	-	-
Chew Stoke Church School	12.0	£2,900	-	-
Christ Church C of E Primary School	12.2	£7,800	-	-
Churchill Academy	13.0	£74,000	13.0	£47,300
Clevedon School Academy	12.1	£48,300	12.1	£7,700
Colston Girl's School Trust	14.2	-£680	14.2	-£650
Colston's Primary School Academy	10.9	£3,100	-	-
Cotham School Academy	11.8	£48,900	11.8	£27,300
Downend School	12.3	£3,200	-	-
Elmlea Junior School Academy	12.4	£8,100	12.4	£6,500
Filton Avenue Infants Academy	10.7	£9,500	-	-
Fosseway Special School	10.2	£40,300	10.2	£22,500
Frome Vale Academy	11.0	£5,800	-	-
Gordano School Academy	12.5	£78,700	12.5	£56,700
Greenfield Primary School Academy	12.3	£7,400	-	-
Hans Price Academy	12.1	£49,200	12.1	£43,300
Hareclive Academy	11.5	£10,600	-	-
Hayesfield Girls School Academy	12.9	£29,200	12.9	£18,700
Henbury School Academy	11.9	£29,400	-	-
Henleaze Junior School Academy	12.2	£7,500	12.2	£3,600
Heron's Moor Community School	11.5	£11,500	-	-
Ilminster Avenue E-ACT Academy	15.0	£6,900	15.0	£1,600
Kings Oak Academy	13.2	£25,100	13.2	£14,000
Little Mead Primary School	10.7	£6,600	-	-
Merchant's Academy	11.2	-	11.2	-
Midsomer Norton School Partnership	12.1	£76,300	12.1	73,000
Minerva Primary Academy	12.6	£5,800	-	-
Nailsea School Academy	13.4	£32,900	-	-
Oasis Academy Bank Leaze	9.8	£5,800	-	-
Oasis Academy Brightstowe	11.5	-	11.5	-
Oasis Academy Connaught	12.4	£5,000	-	-
Oasis Academy John Williams	12.1	-	12.1	-
Oasis Academy New Oak	10.1	£8,100	-	-
Oldfield School Academy Trust	13.9	£11,000	13.9	£10,500
One World Learning Trust	10.4	£14,000	10.4	£13,400
Orchard Academy	12.1	£24,400	-	-
Parson Street Primary School	13.2	£8,100	-	-
Priory Community School Academy	11.9	£79,700	11.9	£51,000
Ralph Allen Academy	13.4	£25,900	-	-
Redland Green School Academy	10.5	£32,700	-	-
St. Bedes School Academy	11.9	£24,500	11.9	£9,833
St. Nicholas of Tolentine Catholic Primary School	12.7	£3,500	-	-

Participating Employers Year Ended 31st March	Contribution Rates			
	2013		2012	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
St. Patrick's Academy	13.4	£5,900	-	-
St. Teresa's Catholic Primary School	11.9	£3,600	-	-
St. Ursula's E-ACT Academy	11.8	-	11.8	-
Summerhill Academy	13.1	£4,600	-	-
The Dolphin Academy	9.6	-	-	-
Trust in Learning	19.7	£1,700	-	-
Waycroft School Academy	12.9	£20,600	12.9	£13,200
Wellsway School Academy	12.0	£37,000	12.0	£17,700
West Town Lane Primary School	14.0	£13,100	14.0	£3,100
Westbury Park Primary School Academy	13.8	£8,900	-	-
Westbury-on-Trym C of E Academy	12.3	£15,000	12.3	£12,200
Winterbourne International Academy	11.8	-£20,400	11.8	-£19,600
Writhlington School Academy	11.0	£50,000	11.0	£24,000
Yate International Academy	11.4	-£9,100	11.4	-£8,700

Designating Bodies				
Almondsbury Parish Council	14.0	-	-	-
Backwell Parish Council	14.0	£1,200	14.0	£1,100
Bath Tourism Plus	14.1	-	14.1	-
Bradley Stoke Town Council	13.4	£6,700	13.4	£6,400
Charter Trustees of the City of Bath	14.3	£3,200	14.3	£3,200
Clevedon Town Council	13.2	-	13.2	-
Destination Bristol	12.5	£7,400	12.5	£7,100
Dodington Parish Council	14.8	£1,100	14.8	£1,100
Downend and Bromley Heath Parish Council	11.5	£100	11.5	£100
Easton in Gordano Parish Council	12.9	-	12.9	-
Filton Town Council	10.2	£1,100	10.2	£1,100
Frampton Cotterell Parish Council	14.0	£1,000	14.0	£1,000
Hanham Abbots Parish Council	10.0	-	10.0	-
Hanham Parish Council	12.9	£2,900	12.9	£2,800
Keynsham Town Council	14.5	£11,390	14.5	£10,900
Mangotsfield Rural Parish Council	10.7	£1,600	10.7	£1,500
Midsomer Norton Town Council	10.8	£6,900	10.8	£6,500
Nailsea Town Council	14.0	£3,200	14.0	£3,100
Offender Learning Services	20.0	-	-	-
Oldland Parish Council	11.7	£300	11.7	£200
Patchway Town Council	12.0	£5,900	12.0	£5,600
Paulton Parish Council	13.4	£1,600	13.4	£1,600
Peasedown St John Parish Council	14.0	-	14.0	-
Portishead Town Council	16.2	£2,600	16.2	£2,500
Radstock Town Council	7.5	£3,200	7.5	£3,100
Saltford Parish Council	13.9	£300	13.9	£300
Stoke Gifford Parish Council	14.9	£5,900	14.9	£5,600
Thornbury Town Council	17.1	£11,000	17.1	£10,600
Vista SWP Ltd	11.3	-	-	-

Participating Employers Year Ended 31st March	Contribution Rates			
	2013		2012	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Westerleigh Parish Council	11.9	-	11.9	-
Westfield Parish Council	18.4	£3,500	18.4	£3,300
Weston Super Mare Town Council	10.6	£4,600	10.6	£4,500
Whitchurch Parish Council	12.3	£100	12.3	£100
Winterbourne Parish Council	17.3	£300	17.3	£300
Yate Town Council	11.3	£9,400	11.3	£9,000
Yatton Parish Council	14.0	-	14.0	-

Community Admission Bodies				
Alliance Homes	13.6	£68,900	13.6	£65,900
Ashley House Hostel	14.6	£4,300	14.6	£4,100
Bath & North East Somerset Racial Equality Council	15.3	£500	15.3	£500
Bristol Disability Equality Forum	17.5	-	-	-
Bristol Music Trust	14.7	-	14.7	-
Centre For Deaf People	14.9	£20,400	14.9	£19,500
Clifton Suspension Bridge Trust	15.9	£2,500	15.9	£2,300
CURO Places Ltd	14.6	£220,700	14.6	£211,200
CURO Group (Albion) Ltd	12.4	£25,400	12.4	£24,400
Holburne Museum of Art	10.0	£14,700	10.0	£14,000
Learning Partnership West Limited (CAB)	11.1	£220,800	11.1	£211,300
Merlin Housing Society (SG)	14.2	-	14.2	-
Merlin Housing Society Ltd	15.9	-	15.9	£420,900
Off the Record Bath & North East Somerset Council	8.9	£11,000	8.9	£10,500
Sirona Care & Health CIC	14.8	-	14.8	-
Southern Brooks Community Partnership	11.0	£4,700	11.0	£4,500
Southwest Grid for Learning Trust	11.2	£23,900	11.2	£22,900
The Care Quality Commission	16.7	£34,400	16.7	£33,000
The Park Community Trust	14.2	-	-	-
University of Bath	11.6	£518,500	11.6	£496,100
Vision North Somerset	15.5	£8,700	15.5	£8,300
West of England Sport Trust	13.8	£12,900	13.8	£12,300

Transferee Admission Bodies (Scope)				
Active Community Engagement Ltd	13.7	-£3,400	13.7	-£3,300
Agilisys	14.3	-	14.3	-
Agincare	15.7	-	15.7	-
Aquaterra Leisure Ltd	8.8	£28,400	8.8	£28,400
ARAMARK	15.6	-	15.6	-
BAM Construct UK Ltd	16.6	£9,200	16.6	£8,600
Bespoke Cleaning Services Ltd	15.7	-	15.7	-
Bristol Drugs Project	11.3	-	-	-
Cater Link	17.0	-	-	-
Churchill Contract Services	15.6	-	15.6	-
Churchill Contract Services Ltd (Team Clean)	13.6	£200	13.6	£200
Circadian Trust	9.5	£30,100	9.5	£28,800

Participating Employers Year Ended 31st March	Contribution Rates			
	2013		2012	
	%	Deficit / Surplus Recovery	%	Deficit / Surplus Recovery
Circadian Trust No 2	9.2	-	9.2	-
Creative Youth Networks (Lot 4)	14.7	-	-	-
Creative Youth Networks (Lot 5)	9.6	-	-	-
CT Plus (CIC)	17.6	-	-	-
Direct Cleaning (SW) Ltd	12.4	£1,300	-	-
Eden Food Services	13.8	£78,800	13.8	£75,500
English Landscapes	16.1	£1,500	16.1	£1,400
ISS Mediclean	16.8	£800	16.8	£800
ISS Mediclean (Bristol)	13.9	-	13.9	-
Keeping Kids Company	13.3	-	-	-
Kier Facilities Services	14.6	-	14.6	-
Learning Partnership West (Lot 1)	16.4	-	-	-
Learning Partnership West (Lot 2)	12.0	-	-	-
Learning Partnership West (Lot 3)	11.7	-	-	-
Learning Partnership West (Lot 6)	11.9	-	-	-
Learning Partnership West (Lot 7)	7.3	-	-	-
Liberata UK Ltd	14.3	-	14.3	-
Mouchel (B&NES School's IT)	11.9	-	11.9	-
Mouchel Business Services Ltd	14.4	£61,200	14.4	£58,500
Mouchel Business Services Ltd (Nailsea IT)	15.4	-	15.4	-
Prospect Services Ltd	13.5	£119,000	13.5	£119,000
Quadron Services	15.3	-£3,800	15.3	-£3,600
Shaw Healthcare (North Somerset) Ltd	15.5	£16,800	15.5	£16,100
SITA Holdings UK Ltd	21.9	£50,800	21.9	£48,600
Skanska (Cabot Learning Federation)	27.3	-£1,700	27.3	£1,600
Skanska Rashleigh Westerfoil	12.7	£500	12.7	£500
SLM Community Leisure	13.8	£4,800	13.8	£4,600
SLM Fitness & Health	12.4	£4,500	12.4	£4,400
Sodexo	17.1	-	17.1	-
The Brandon Trust	15.2	£23,000	15.2	£22,000
Tone Leisure (Trust) Limited	13.4	-	13.4	-
UPP Residential Services Ltd	20.6	-	-	-
The Mill	11.7	-	-	-
The Park Community Trust	14.2	-	-	-
The Station	9.6	-	-	-
Tone Leisure (Taunton Deane) Ltd	13.4	-	13.4	-
UPP Residential Services Ltd	20.6	-	-	-

Statement of Accounts 2012/13

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 2012 to 31 March 2013.

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 2012/13 based on International Financial Reporting Standards as published by the Chartered Institute of Public Finance and Accountancy. The accounts have been prepared on an accruals basis, except for certain transfer values as described at 'Statement of Accounting Policies' – item 2.5. They do not take account of liabilities to pay pensions and other benefits in the future.

1.3 The accounts have been prepared following International Financial Reporting Standards as required by the Code of Practice.

1.4 The accounts are set out in the following order:

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

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

reconciles the movements in the net assets to the Fund Account.

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

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

Actuarial Valuation

1.5 As required by the Local Government Pension Scheme Regulations 2008 an actuarial valuation of the Fund was carried out as at 31 March 2010. The market value of the Fund's assets at the valuation date was £2,459 million. The Actuary estimated that the value of the Fund was sufficient to meet 82% of its expected future liabilities (of £3,011m) in respect of service completed to 31 March 2010.

1.6 The deficit recovery period for the Fund overall is 23 years.

1.7 The 2010 actuarial valuation was carried out using the projected unit actuarial method. The main assumptions, on the basis of which employers' contributions are set, are as set out in the table below:

1.8 The Actuary has estimated that the funding level as at 31 March 2013 has fallen slightly to 69% from 70% estimated at 31 March 2012. This fall in the funding level is due to the increase in liabilities; the return on assets contributed positively to the funding position. The value of the future pension liabilities is calculated using a discount rate based on UK gilt yields. As gilt yields fall, the value of these liabilities rises. During the year the yield on UK gilts continued to fall.

1.9 The 2013 triennial valuation is currently being undertaken and will be calculated using values and membership data as at 31 March 2013. This will set the employer contribution rates for future service and deficit recovery payments (expressed as a monetary amount payable annually) with effect from 1 April 2014.

1.10 Note 17 to the accounts shows the actuarial present value of promised retirement benefits for the purposes of IAS19 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 Fund's investment strategy.

1.11 The Fund's Funding Strategy Statement can be found on the Fund's website www.avonpension-fund.org.uk or supplied on request

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

from Liz Woodyard, Investments Manager.

Statement of Investment Principles

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

Statement of Accounting Policies

Basis of Preparation

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

Investments

2.2 Investments are shown in the accounts at market value, which has been determined as follows:

- i** Quoted Securities have been valued at 31 March 2013 by the Fund's custodian using internationally recognized pricing sources (bid-price or 'last trade') where a quotation was available on a recognised stock exchange or the unlisted securities market. Unquoted securities are included at fair value based on the Fund Manager's valuation.
- 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 2013.
- 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 2013.

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

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

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

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

ix The Fund's surplus cash is managed separately from the surplus cash of B&NES Council and is treated as an investment asset.

Contributions

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

by the administering authority. Employees' contributions have been included at the rates prescribed by the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 as amended.

Benefits, Refunds of Contributions and Cash Transfer Values

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

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

2.6 Charges for splitting pensions on divorce are either invoiced to members or, on request, paid out of future benefits. In the case of payment from future benefits the charge against benefits and income to the Fund are both made in the current year.

Investment Income

2.7 Dividends and interest have been accounted for on an accruals basis. 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

2.8 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit Bath & North East Somerset Council to charge administration costs to the Fund. A proportion of relevant Council costs has been charged to the Fund on the basis of actual time spent on Pension Fund business.

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

Taxation

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

Use of Accounting Estimates

2.11 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.

The value of two Group Transfers in to the Fund are subject to final agreement by the actuary. Estimated values were accrued as debtors (see 2.5 and note 18).

Estimates are used in the valuation of unquoted investments (see 2.2i) and in the actuarial valuation for the purposes of IAS 26 (note 17) in which the actuarial calculation of the liability is subject to the professional judgement of the actuary.

The Fund's investments are stated at fair value. The subjectivity of the inputs used in making an assessment of fair value is explained in note 25d.

Events After the Balance Sheet Date

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

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

Fund Account For the Year Ended 31 March 2013

	Notes	2012/13	2011/12
Contributions and Benefits		£'000	£'000
Contributions Receivable	4	134,858	137,983
Transfers In		7,255	7,066
Other Income	5	500	341
		142,613	145,390
Benefits Payable	6	136,655	129,155
Payments to and on account of Leavers	7	5,173	5,325
Administrative Expenses	8	2,585	2,359
		144,413	136,839
Net Additions from dealings with members		(1,800)	8,551
Returns on Investments			
Investment Income	10	29,025	27,667
Profits and losses on disposal of investments and change in value of investments.	11	362,285	71,241
Investment Management Expenses	9	(10,148)	(9,228)
Net Returns on Investments		381,162	89,680
Net Increase in the net assets available for benefits during the year		379,362	98,231
Net Assets of the Fund			
At 1 April		2,766,294	2,668,063
At 31 March		3,145,656	2,766,294

Net Assets Statement at 31 March 2013

	Notes	31 March 2013		31 March 2012	
Investment Assets		£'000	%	£'000	%
Fixed interest securities : Public Sector		109,674	3.5	104,920	3.8
Equities		495,980	15.8	390,014	14.1
Index Linked securities : Public Sector		209,876	6.7	189,659	6.9
Pooled investment vehicles :-					
- Property					
Unit Trusts		78,749	2.5	75,708	2.8
Unitised Insurance Policies		47,863	1.5	50,849	1.8
Other Managed Funds		95,729	3.0	70,394	2.5
Property Pooled Investment Vehicles		222,341		196,951	
- Non Property					
Unitised Insurance Policies		811,938	25.8	791,555	28.6
Other Managed Funds		1,203,448	38.3	1,004,658	36.3
Non Property Pooled Investment Vehicles		2,015,386		1,796,213	
Cash deposits		85,895	2.7	76,595	2.8
Other Investment balances		12,864	0.4	6,734	0.2
Investment Liabilities					
Derivative contracts (Foreign Exchange hedge)		(2,912)	(0.1)	441	0.0
Derivative Contracts: FTSE Futures		(226)	0.0	(514)	0.0
Other Investment balances		(13,502)	(0.4)	(3,648)	(0.1)
Total Investment Assets	12	3,135,376		2,757,365	
Net Current Assets					
Current Assets	14	13,283	0.4	10,881	0.4
Current Liabilities	14	(3,003)	(0.1)	(1,952)	(0.1)
Net assets of the scheme available to fund benefits at the period end		3,145,656	100	2,766,294	100

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2013.

Notes to the Accounts - Year Ended 31 March 2013

1. GENERAL

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

The Fund is governed by the Local Government Pension Scheme Regulations 2008 (as amended). Membership of the Fund is open to pensionable employees of scheduled bodies in the former Avon County area, together with employees of eligible designating and admission bodies. A list of employers with contributing scheme members can be found in note 26.

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

2. MEMBERSHIP

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

	31 March 2013	31 March 2012
Employed Members	33,648	33,828
Pensioners	24,574	23,658
Members entitled to Deferred Benefits	31,754	28,677
Total	89,976	86,163

A further 2,126 ex-members whose membership was for up to 2 years before 1st 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:-

	2012/13		2011/12	
		£'000		£'000
Employers' normal contributions				
Scheduled Bodies	52,129		52,749	
Administering Authority	6,566		7,137	
Admission Bodies	5,787	64,482	5,252	65,138
Employers' deficit Funding				
Scheduled Bodies	26,598		25,368	
Administering Authority	4,021		3,842	
Admission Bodies	1,082	31,701	1,463	30,673
Total Employer's normal & deficit funding		96,183		95,811
Employers' contributions- Augmentation				
Scheduled Bodies	2,697		4,941	
Administering Authority	224		815	
Admission Bodies	457	3,378	440	6,196
Members' normal contributions				
Scheduled Bodies	28,617		29,112	
Administering Authority	3,495		3,795	
Admission Bodies	2,649	34,761	2,481	35,388
Members' contributions towards additional benefits				
Scheduled Bodies	418		480	
Administering Authority	97		78	
Admission Bodies	21	536	30	588
Total		134,858		137,983

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

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

5. OTHER INCOME

	2012/13	2011/12
	£'000	£'000
Recoveries for services provided	492	330
Cost recoveries	8	11
	500	341

'Recoveries for services provided refers to administrative and accounting services provided to employing bodies. Cost recoveries are the recovery of the cost of calculating Pension Sharing on divorce.

6. BENEFITS PAYABLE

Analysis of Benefits Payable by Type:-

	2012/13	2011/12
	£'000	£'000
Retirement Pensions	106,097	97,229
Commutation of pensions and Lump Sum Retirement Benefits	27,815	29,416
Lump Sum Death Benefits	2,743	2,510
	136,655	129,155

Analysis of Benefits Payable by Employing Body:-

	2012/13	2011/12
	£'000	£'000
Scheduled & Designating Bodies	114,704	108,110
Administering Authority	11,938	12,277
Admission Bodies	10,013	8,768
	136,655	129,155

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2012/13	2011/12
Leavers	£'000	£'000
Refunds to members leaving service	17	19
Individual Cash Transfer Values to other schemes	5,028	5,306
Group Transfers	128	-
	5,173	5,325

8. ADMINISTRATION EXPENSES

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

	2012/13	2011/12
	£'000	£'000
Administration and processing	1,808	1,612
Actuarial fees	356	278
Audit fees	29	43
Legal and professional fees	-	-
Central recharges from Administering Authority	392	426
	2,585	2,359

9. INVESTMENT EXPENSES

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

	2012/13	2011/12
	£'000	£'000
Portfolio management	9,827	8,830
Global custody	64	127
Investment advisors	167	168
Performance measurement	34	35
Investment accounting	3	8
Investment Administration	53	60
	10,148	9,228

10. INVESTMENT INCOME

	2012/13	2011/12
	£'000	£'000
Interest from fixed interest securities	3,898	5,762
Dividends from equities	15,070	12,010
Income from Index Linked securities	5,703	5,757
Income from pooled investment vehicles	4,002	3,751
Interest on cash deposits	335	370
Other - Stock lending	17	17
	29,025	27,667

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 2013 was £3.01 million (31 March 2012 £16.67 m), comprising entirely of equities. This was secured by collateral worth £3.15 million comprising OECD sovereign and supra national debt. The Fund does not sell collateral unless there is a default by the owner of the collateral.

11. CHANGE IN TOTAL NET ASSETS

Change in Market Value of Investments

	Value at 31/03/12	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/13
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	104,920	18,268	(18,096)	4,582	109,674
Equities	390,014	294,637	(251,080)	62,409	495,980
Index linked Securities	189,659	35,415	(31,467)	16,269	209,876
Pooled Investments -					
- Property	196,951	36,144	(18,841)	8,087	222,341
- Non Property	1,796,213	47,414	(96,172)	267,931	2,015,386
Derivatives	(73)	2,860	(5,522)	(403)	(3,138)
	2,677,684	434,738	(421,178)	358,875	3,050,119
Cash Deposits	76,595	235,134	(225,911)	77	85,895
Net Purchases & Sales		669,872	(647,089)	22,783	
Investment Debtors & Creditors	3,086			(3,724)	(638)
Total Investment Assets	2,757,365			-	3,135,376
Current Assets	8,929			1,351	10,280
Less Net Revenue of Fund				(17,077)	
Total Net Assets	2,766,294			362,285	3,145,656

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 2011/12
Change in Market Value of Investments

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

Investment Transaction Costs.

The following transactions costs are included in the above tables:

	2012/13				2011/12			
	Purchases	Sales	Other	Total	Purchases	Sales	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees & Taxes	644	21		665	650	31	-	681
Commission	320	304	5	629	414	446	9	869
Total	964	325	5	1,294	1,064	477	9	1,550

12. INVESTMENT ASSETS

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

	31 March 2013		31 March 2012	
		£'000		£'000
UK Equities				
Quoted	258,957		224,418	
Pooled Investments	318,640		272,289	
FTSE Futures	(226)	577,371	(514)	496,193
Overseas Equities				
Quoted	237,022		165,597	
Pooled Investments	1,185,894	1,422,916	963,933	1,129,530
UK Fixed Interest Gilts				
Quoted	109,674		104,920	
Pooled Investments	14,668	124,342	27,676	132,596
UK Index Linked Gilts				
Quoted	209,876	209,876	189,658	189,658
Sterling Bonds (excluding Gilts)				
Pooled Investments	193,549	193,549	240,771	240,771
Non-Sterling Bonds				
Pooled Investments	81,488	81,488	77,973	77,973
Hedge Funds				
Pooled Investments	221,147	221,147	213,571	213,571
Property				
Pooled Investments	222,341	222,341	196,951	196,951
Cash Deposits				
Sterling	81,806		70,728	
Foreign Currencies	4,089	85,895	5,867	76,595
Investment Debtors/Creditors				
Investment Income	3,671		3,132	
Sales of Investments	9,194		3,602	
Foreign Exchange Hedge	(2,912)		441	
Purchases of Investments	(13,502)	(3,549)	(3,648)	3,527
Total Investment Assets		3,135,376		2,757,365

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	GBP	4,257	CHF	(6,083)	24	
Up to one month	GBP	36,659	EUR	(44,234)		(762)
Up to one month	GBP	155,560	USD	(250,878)		(9,681)
Up to one month	GBP	18,509	JPY	(2,414,000)	1,594	
Up to one month	JPY	1,218,000	GBP	(9,418)		(884)
Up to one month	USD	249,200	GBP	(155,920)	8,217	
Up to one month	EUR	32,000	GBP	(26,432)	639	
Up to one month	EUR	5,709	USD	(7,300)	21	
Up to one month	USD	2,262	EUR	(1,766)		(4)
One to six months	GBP	168,038	EUR	(209,600)		(9,459)
One to six months	GBP	204,568	JPY	(26,368,000)	19,606	
One to six months	GBP	744,079	USD	(1,184,300)		(36,259)
One to six months	EUR	209,600	GBP	(169,248)	8,249	
One to six months	JPY	18,993,000	GBP	(148,501)		(15,277)
One to six months	USD	1,184,300	GBP	(748,864)	31,473	
Six to twelve months	EUR	90,800	GBP	(76,391)	650	
Six to twelve months	GBP	124,574	EUR	(147,800)		(867)
Six to twelve months	GBP	166,975	JPY	(23,355,000)	2,813	
Six to twelve months	GBP	150,693	USD	(231,300)		(1,765)
Six to twelve months	JPY	21,880,000	GBP	(156,255)		(2,453)
Six to twelve months	USD	164,000	GBP	(106,885)	1,213	
Total					74,499	(77,411)
Net forward currency contracts at 31 March 2013						(2,912)
Open forward currency contracts at 31 March 2012					-	441
Net forward currency contracts at 31 March 2012						441

Exchange Traded Derivatives held at 31 March 2013:-

Contract Type	Expiration	Book Cost	Unrealised Gain
		£'000	£'000
FTSE equity futures	June 2013	25,186	(226)

Exchange Traded Derivatives held at 31 March 2012:-

FTSE equity futures	June 2012	15,869	(514)
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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 by one of the investment managers to reduce the impact of fluctuations in the exchange rate between sterling and the other currency.

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

	31 March 2013		31 March 2012	
	£'000	%	£'000	%
Blackrock	1,506,620	48.0	1,297,622	47.1
Transition	9	0	1	0
Record	4,893	0.2	11,141	0.4
Jupiter Asset Management	139,898	4.5	115,721	4.2
Genesis Investment Management	158,548	5.1	140,717	5.1
Invesco Perpetual	218,121	7.0	173,237	6.3
State Street Global Advisors	103,009	3.3	86,241	3.1
Partners Group	97,395	3.1	71,011	2.5
Royal London Asset Management	176,526	5.6	227,558	8.3
TT International	163,186	5.2	134,334	4.9
Man Investments	63,955	2.0	63,099	2.3
Gottex Asset Management	55,059	1.8	52,820	1.9
Stenham Asset Management	34,936	1.1	33,272	1.2
Signet Capital Management	67,197	2.1	64,379	2.3
Lyster Watson Management	-	0.0	799	0.0
Schroder Investment Management	327,563	10.4	270,996	9.8
Bank of New York Mellon	10,059	0.3	7,369	0.3
Treasury Management	8,402	0.3	7,048	0.3
Total Investment Assets	3,135,376	100.0	2,757,365	100.0

Assets held in Transition are assets in the process of being transferred from former Managers.

13. SINGLE INVESTMENTS OVER 5% OF THE FUND

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

Investments	Value at 31st March 2013	Net Assets	Value at 31st March 2012	Net Assets
	£'000	%	£'000	%
Aquila Life UK Equity Index Fund (BlackRock)	315,092	10.05%	269,730	9.78%
BlackRock World Index Fund	310,707	9.91%	229,083	8.31%
Invesco Perpetual Global ex UK Enhanced Index Fund	218,121	6.96%	173,237	6.28%
RLPPC UK Corporate Bond Fund (Royal London)	176,526	5.63%	227,557	8.25%
Genesis Emerging Markets Investment Fund	158,549	5.06%	140,717	5.10%

14. CURRENT ASSETS AND CURRENT LIABILITIES

Provision has been made in the accounts for debtors and creditors known to be outstanding at 31 March 2013. Debtors and creditors included in the accounts are analysed below:-

	31 March 2013		31 March 2012	
Current Assets		£'000		£'000
Contributions Receivable :-				
- Employers	7,736		7,306	
- Members	2,817		2,783	
Transfer Values Receivable	1,640		-	
Discretionary Early Retirement Costs	585		640	
Other Debtors	505	13,283	152	10,881
Current Liabilities				
Management Fees	(911)		(1,119)	
Lump Sum Retirement Benefits	(547)		(720)	
Other Creditors	(1,545)	(3,003)	(113)	(1,952)
Net Current Assets		10,280		8,929

Analysis of Debtors and Creditors by public sector bodies:-

	31 March 2013		31 March 2012	
Current Assets		£'000		£'000
Local Authorities	8,050		8,424	
NHS Bodies	6		-	
Other Public Bodies	4,338		1,764	
Non Public Sector	889	13,283	693	10,881
Current Liabilities				
Other Public Bodies	(1,310)		(40)	
Non Public Sector	(1,693)	(3,003)	(1,912)	(1,952)
Net Current Assets		10,280		8,929

The Current Liabilities as at 31 March 2012 did not include a creditor within "Other Public Bodies" for £1,243,278 PAYE due to HMRC. There were no debtors or creditors of Central Government or trading funds.

15. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2013. (March 2012 = NIL).

16. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 March 2013 that require any adjustment to these accounts.

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

The following statement is by the Fund's actuary:

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.0% per annum*	3.9% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% 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.

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year- end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £3,869 million. The effect of the changes in assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by c.£456 million. Adding interest over the year increases the liabilities by a further c.£190 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c.£4 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2013 is therefore £4,519 million.

18. TRANSFERS IN

During the year ending 31 March 2013 there were group transfers in to the fund from Newcastle College to City of Bristol College and from Strode College to Weston College. The transfer values have not yet been confirmed. Estimated values have been included as part of the Fund's Current Assets.

19. BENEFITS RECHARGED TO EMPLOYERS

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

	2012/13	2011/12
	£'000	£'000
Benefits Paid and Recharged	6,225	6,049

20. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

Scheme members may make Additional Voluntary Contributions that are invested in insurance policies with The Equitable Life Assurance Society or Friends Life, the Fund's nominated AVC providers. Additional Voluntary Contributions received from employees and paid to The Equitable Life Assurance Society during 2012/13 were £953 (2011/12 - £1,156). Additional Voluntary Contributions received from employees and paid to Friends Life during 2012/13 were £418,478 (2011/12 - £452,103).

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

	31 March 2013	31 March 2012
	£'000	£'000
Equitable Life		
With Profits Retirement Benefits	582	678
Unit Linked Retirement Benefits	306	310
Building Society Benefits	264	279
	1,152	1,267

Death in Service Benefit	150	150
	31 March 2013	31 March 2012
	£'000	£'000
Friends Life		
With Profits Retirement Benefits	197	230
Unit Linked Retirement Benefits	3,775	3,700
Cash Fund	402	442
	4,374	4,372

AVC investments are not included in the Fund's financial statements in accordance with Regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

21. RELATED PARTIES

Committee Member Related:-

In 2012/13 £37,071 was charged to the Fund in respect of Allowances paid to the voting Members of the Avon Pension Fund Committee (£37,926 in 2011/12). Seven voting members and one non-voting member of the Avon Pension Fund Committee (including five B&NES Councillor Members) were members of the Local Government Pension Scheme during the financial year 2012/13. (Six voting members and two non-voting members in 2011/12, including five B&NES Councillor Members)

Independent Member Related:-

Two Independent Members were paid allowances of £7,102 and £12,778 respectively during the year for their work in relation to the Pension Fund Committee and the Investment Panel. They are also entitled to claim reasonable expenses. The Independent Members are not eligible to join the Local Government Pension Scheme.

Employer Related:-

During the year 2012/13 the Fund paid B&NES Council £275,215 for administrative services (£253,542 in 2011/12) and B&NES Council paid the Fund £40,157 for administrative services (£28,574 in 2011/12). Various Employers paid the fund a total of £177,346 (£136,921 in 2011/12) for pension related services including pension's payroll and compiling data for submission to the actuary.

Officer and Manager Related:-

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

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

22. OUTSTANDING COMMITMENTS

As at the 31 March 2013 the Fund had outstanding commitments relating to investments in property that will be drawn down in tranches by the Investment Managers totalling £46,798,161.

23. 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 consisted of:

- part of the Strategic Director of Resources salary, fees and allowances (£17,393) and their employers' pension contributions (£3,107).
- part of the Head of Business Finance and Pensions salary, fees and allowances (£31,540) and their employers' pension contributions (£5,460).

24. FINANCIAL INSTRUMENTS

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

	31/03/2013	31/03/2012
	£'000	£'000
Financial Assets		
Receivables	13,283	10,881
Financial assets at fair value through profit or loss	3,149,104	2,761,527
Total Financial Assets	3,162,387	2,772,408
Financial Liabilities		
Payables	16,505	5,600
Financial liabilities at fair value through profit or loss	226	514
Total Financial Liabilities	16,731	6,114
Total Net Assets	3,145,656	2,766,294

All investments are disclosed at fair value. Carrying value and fair value are therefore the same. Payables and Receivables are valued at amortised cost. The carrying value has not been amortised and therefore is the same as the fair value. The gains and losses recognised in the Fund Account in relation to financial instruments are made up as follows:-

Net gains and losses on financial instruments	Financial assets at fair value through profit or loss	
	2012/13	2011/12
	£'000	£'000
Losses on derecognition	9,302	19,427
Reductions in fair value	10,079	67,447
Total expense in Fund Account	19,381	86,874
Gains on derecognition	53,216	72,287
Increases in fair value	325,040	89,050
Total income in Fund Account	378,256	161,337
Net gain/(loss) for the year	358,875	74,463

25. FINANCIAL RISK MANAGEMENT DISCLOSURE

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

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

The Fund's investments are managed by external Investment Managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines that sets out the relevant benchmark, performance target, asset allocation ranges and any restrictions. The Avon Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager and its Investment Consultant advises on the nature of the investments made and associated risks.

The Fund's investments are held by BNY Mellon Asset Servicing, who act as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes to the portfolio. 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 or currencies. The Fund is exposed through its investments portfolio to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

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, the maximum risk being determined by the fair value of the financial instruments. The Fund's strategy is to manage market price risk through the diversification of the investments held by asset class, geography and industry sector, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee against the strategic benchmark.

A high proportion of the Fund is invested in 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 within the Fund during the 3 years to 31 March 2013, in consultation with the Fund's advisors. These movements in market prices have been judged as possible for the 2013/14 reporting period. The 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. It should be noted that the likelihood of this risk materialising in normal circumstances is low by virtue of the diversification within the Fund. Only assets affected by market prices have been included. For 2013 the volatility figure at Total Assets level incorporates the impact of correlation across the asset classes which means the Total Assets increase /decrease is not the sum of the parts.

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Equities	560,825	13.1%	634,293	487,357
Overseas Equities	1,243,081	12.9%	1,403,438	1,082,723
Global inc UK Equities	196,608	12.6%	221,341	171,875
UK Bonds	317,892	6.7%	339,032	296,752
Overseas Bonds	81,487	7.6%	87,680	75,294
Index Linked Gilts	209,876	8.3%	227,317	192,435
Property	222,341	1.4%	225,521	219,162
Alternatives	221,147	3.6%	229,042	213,252
Total Assets	3,053,257	7.6%	3,284,083	2,822,431

The analysis for the year ending 31 March 2012 is shown below:

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Equities	531,761	15.6%	614,716	448,806
Overseas Equities	1,095,720	14.5%	1,254,600	936,840
Total Bonds	451,340	6.8%	482,031	420,649
Index Linked Gilts	189,658	7.8%	204,451	174,865
Property	196,951	3.3%	203,450	190,452
Alternatives	213,571	3.8%	221,687	205,455
Total Assets	2,679,001		2,980,935	2,377,067

The correlation between asset classes across the Total Asset level was not available for the year ending 31 March 2012.

Interest Rate Risk

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

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

	31 March 2013	31 March 2012
	£'000	£'000
Cash and Cash Equivalents	85,895	76,595
Fixed Interest Assets	609,255	640,998
Total	695,150	717,593

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 2013 of a 1% change in interest rates (or 100 basis points (bps)). The analysis assumes that all other variables including foreign currency exchange rates remain the same.

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

As at 31 March 2013	Value	Change in net assets	
	£'000	+100 bps	-100 bps
Cash and Cash Equivalents	85,895	-	-
Fixed Interest	609,255	(83,651)	83,651
Total	695,150	(83,651)	83,651

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 2012 is shown below:

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

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. To reduce the volatility associated with fluctuating currency prices the Fund dynamically hedges its exposure to the US Dollar, Yen and Euro. The Fund invests in the Fund of Hedge Funds' Sterling share classes which effectively eliminates currency gains and losses from the investment gains and losses.

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

The following tables summarise the Fund's currency exposures within the portfolio. For the global property funds the share class of the pooled funds held has been used. The funds of hedge funds are not included in this analysis given the share classes held are hedged back to Sterling.

Currency risk by asset class:

Currency Exposure - Asset Type	Asset value as at 31 March 2013	Asset value as at 31 March 2012
	£'000	£'000
Overseas Equities	1,384,728	1,095,720
Overseas Fixed Income	81,487	77,934
Overseas Property	95,729	70,333

Currency Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in currency exchange rates has been analysed using the volatility which is broadly consistent with a one-standard deviation movement in the currency and incorporates the impact of correlation across currencies (which dampens volatility). The analysis assumes a 50% hedge ratio on the equity and bond assets to reflect the dynamic hedging strategy.

A strengthening of Sterling against the various currencies by one standard deviation (expressed as a percentage) at 31 March 2013 would have decreased the net assets by the amount shown in the tables below and vice versa:

Currency Risk by Asset Type:

Asset Type	Value	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Overseas Equities	1,384,728	2.6%	1,420,836	1,348,620
Overseas Fixed Income	81,487	2.7%	83,655	79,319
Overseas Property	95,729	5.5%	101,005	90,453

The same analysis for the year ending 31 March 2012 is shown below:

Currency Risk by Asset Type:

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

(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. This is often referred to as counterparty risk. In addition, the market values of investments will reflect an assessment of credit in their pricing and therefore the risk of loss is implicitly provided for in the carrying value of the assets and liabilities.

The entire Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises credit risk that may occur through 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 over-the-counter derivative contracts is minimised by the various insurance policies held by exchanges to cover defaulting counterparties.

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). Through the UK Gilt and Index Linked portfolios the Fund has significant credit exposure to the UK Government, whose credit rating was downgraded during the year.

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

The cash held under the Treasury Management arrangements and by the custodian as at 31 March 2013 was £18.5m. This was held with the following institutions:

	31 March 2013		31 March 2012	
	Rating	£'000	Rating	£'000
Custodian's Liquidity Fund				
Bank of New York Mellon	AA-	10,058	AAA	7,357
Bank Call Accounts				
Barclays Platinum Account	A	1,000	A	3,000
Bank of Scotland Corporate Deposit Account	A	2,500	A	3,000
RBS Global Treasury Fund	AAA	4,880	AAA	-
NatWest Special Interest Bearing Account	A-	-	A	1,020
Bank Current Accounts				
NatWest	A-	17	A	14

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

(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. Cash flow forecasts are prepared to manage the timing of and changes to the Fund's cash flows. The Fund has access to an overdraft facility for short term cash needs which was not drawn on during the year.

The Fund has immediate access to its cash holdings and a substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. These are classed as liquid assets as they can be converted to cash within 3 months. The main liability of the Fund is the benefits payable as they fall due over a long period and the investment strategy reflects the long term nature of these liabilities. 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 2013 the value of the illiquid assets was £443m, which represented 14.1% of the total Fund assets (31 March 2012: £140m which represented 14.9% of the total Fund assets).

(d) Fair Value Hierarchy

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

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

The level in the fair value hierarchy will be determined by the lowest level of input that is appropriate for the investment. This is particularly relevant for pooled funds where, for this exercise, a pooled fund is classified as a single investment.

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

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

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

Level 2 – Financial instruments at Level 2 are those where quoted market prices are not available; for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where those techniques use inputs that are based significantly on observable market data. Therefore in the analysis below, Level 2 includes pooled funds where the net asset value of the pooled fund is derived from observable prices of the underlying securities. The Fund's holding in these pooled funds can be realised at net asset value.

Level 3 – Financial instruments at Level 3 are those where at least one input that could have a significant effect on the valuation is not based on marketable data. Such instruments would include unquoted equity, property and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. Therefore in the analysis below, Level 3 includes pooled funds such as the property funds and Fund of Hedge Funds where the net asset value is derived from unobservable inputs 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 2013.

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equities - Quoted	495,979			495,979
Bonds - Quoted	319,550			319,550
Pooled Investment Vehicles		1,794,239		1,794,239
Fund of Hedge Funds			221,147	221,147
Property			222,341	222,341
Cash	85,895			85,895
Derivatives: Forward FX	-2,911			-2,911
Derivatives: Futures	-226			-226
Investment Debtors /Creditors	-638			-638
	897,649	1,794,239	443,488	3,135,376

The fair value hierarchy as at 31 March 2012 was:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Equities - Quoted	390,015			390,015
Bonds - Quoted	294,578			294,578
Pooled Investment Vehicles		1,582,642		1,582,642
Fund of Hedge Funds			213,571	213,571
Property			196,951	196,951
Cash	76,595			76,595
Derivatives: Forward FX	441			441
Derivatives: Futures	-514			-514
Investment Debtors /Creditors	3,086			3,086
	764,201	1,582,642	410,522	2,757,365

The 31 March 2012 table has been restated into 31 March 2013 format separating Derivatives and Investment Debtors/Creditors.

26. EMPLOYING BODIES

As at 31 March 2013 the following employing bodies had contributing scheme members in the Avon Pension Fund:

Scheduled Bodies	
Principal Councils and Service Providers	
Avon Fire Brigade	North Somerset Council
Bath & North East Somerset Council	South Gloucestershire Council
Bristol City Council	
Scheduled Bodies: Education Establishments	
Abbeywood Community School Academy	Heron's Moor Community School
Academy of Trinity C of E	Illminster Avenue E – Act Academy
Backwell School	Kings Oak Academy
Bannerman Road Community Academy	Little Mead Primary School
Bath Community Academy	Merchant's Academy

Bath Spa University	Midsomer Norton Schools Partnership
Bedminster Down School Academy	Minerva Primary Academy
Beechen Cliff School Academy	Nailsea School Academy
Begbrook Academy	Norton Radstock College
Bridge Learning Campus Foundation	Oasis Academy Bank Leaze
Bristol Church Academies Trust	Oasis Academy Brightstowe
Bristol Cathedral Choir School	Oasis Academy John Williams
Bristol Free School Trust	Oasis Academy Connaught
Broadlands Academy	Oasis Academy New Oak
Broadoak Mathematic & Computing College	Oldfield School Academy Trust
Cabot Learning Federation	Olympus Trust
Castle School Education Trust	One World Learning Trust
Chew Stoke Church School	Orchard Academy
Christ Church C of E Primary School	Parson Street Primary School
Churchill Academy & Sixth Form	Priory Community School Academy
City of Bath College	Ralph Allen Academy
City of Bristol College	Redland Green School Academy
Clevedon School Academy	South Gloucestershire and Stroud College
Colston Girl's School Trust	St. Bede's School Academy
Colston's Primary School Academy	St. Brendan's College
Cotham School Academy	St. Nicholas of Tolentine Catholic Primary School
The Dolphin Academy	St. Patrick's Academy
Downend School	St. Teresa's Catholic Primary School
EACT (St. Ursula's Academy)	Summerhill Academy
Elmlea Junior School Academy	Trust in Learning
Filton Avenue Infants Academy	University of the West of England
Fosseway Special School	Waycroft School Academy
Frome Vale Academy	Wellsway School Academy
Gordano School Academy	West Town Lane Primary School
Greenfield Primary School Academy	Westbury Park Primary School Academy
Hans Price Academy	Westbury-on-Trym C of E Academy
Hareclive Academy	Weston College
Hayesfield Girl's School Academy	Winterbourne International Academy
Henbury School Academy	Writhlington School Academy
Henleaze Junior School Academy	Yate International Academy

Designating Bodies

Almondsbury Parish Council	Offender Learning Services
Backwell Parish Council	Oldland Parish Council
Bath Tourism Plus	Patchway Town Council
Bradley Stoke Town Council	Paulton Parish Council
Charter Trustees of the City of Bath	Peasedown St John Parish Council
Clevedon Town Council	Portishead Town Council
Destination Bristol	Radstock Town Council
Dodington Parish Council	Saltford Parish Council
Downend & Bromley Heath Parish Council	Stoke Gifford Parish Council
Easton in Gordano Parish Council	Thornbury Town Council
Filton Town Council	Vista SWP Ltd

Frampton Cotterell Parish Council	Westerleigh Parish Council
Hanham Parish Council	Westfield Parish Council
Hanham Abbots Parish Council	Weston-Super-Mare Town Council
Keynsham Town Council	Whitchurch Parish Council
Mangotsfield Rural Parish Council	Winterbourne Parish Council
Midsomer Norton Town Council	Yatton Parish Council
Nailsea Town Council	Yate Town Council

Admitted Bodies	
Active Community Engagement Ltd *	ISS Mediclean Ltd *
Agilisys *	Keeping Kids Company *
Agincare Ltd *	Keir Facilities Services Ltd *
Alliance Homes	Liberata UK Limited *
Aquaterra Leisure *	Learning Partnership West (CAB)
Aramark Ltd *	Learning Partnership West Ltd *
Ashley House Hostel	Merlin Housing Society Ltd
BAM Construct UK Ltd *	Mouchel Business Services Ltd *
Bath &NE Somerset Racial Equality Council	The Park Community Trust
Bristol Disability Equality Forum	Quadron Services Ltd*
Bristol Drugs Project *	Tone Leisure Trust *
Bespoke Cleaning Services Ltd *	Off The Record Bath & Nrth East Somerset
Bristol Music Trust	Prospect Services Ltd *
The Brandon Trust *	Shaw Healthcare (North Somerset) Ltd*
The Care Quality Commission	Sirona Care & Health CIC
Cater Link *	SITA Holdings UK Ltd. *
Centre For Deaf People	Skanska Rashleigh Westerfoil*
Churchill Contract Services Ltd *	SLM Community Leisure *
Circadian Trust *	SLM Fitness and Health *
Clifton Suspension Bridge Trust	Sodexo Ltd *
Creative Youth Networks *	Southern Brooks Community Partnership
CT Plus (CIC) *	Southwest Grid for Learning Trust
Curo Group	University of Bath
Direct Cleaning (SW) Ltd *	UPP Residential Services Ltd *
Eden Food Services *	Vision North Somerset
English Landscapes*	West of England Sports Trust
Holburne Museum of Art	

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

The Statement of Responsibilities for the Avon Pension Fund 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 Divisional Director of Finance responsible for financial administration.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the statement of accounts for the year

Divisional Director of Finance responsibilities

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

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

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

The Divisional Director of Finance has also:

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

I hereby certify that this statement of accounts presents a true and fair view of the financial position of the Avon Pension Fund at the accounting date and the income and expenditure for the year ended 31 March 2013.

Tim Richens

Divisional Director of Finance
(S151 Officer)

September 2013

Audit Opinion on the Accounts of the Avon Pension Fund

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

The audit opinion on the Avon Pension Fund provided by the Audit Commission can be found on page 58.

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

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Avon Pension Fund for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

Respective responsibilities of the Divisional Director Finance and auditor

As explained more fully in the Statement of the Divisional Director Finance's Responsibilities, the Divisional Director Finance is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant

accounting estimates made by the Divisional Director Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on other matters

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

Matters on which we report by exception

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

Opinion on accounting statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Stephen Malyn

Director
for and on behalf of Grant Thornton UK LLP,
Appointed Auditor

Grant Thornton UK LLP
55-61 Victoria Street
Bristol
BS1 6FT

27 September 2013

Five Year Summary of Financial Statistics



Year Ended 31 March	2009	2010	2011	2012	2013
Revenue Account	£'m	£'m	£'m	£'m	£'m
Income					
Net Contributions	125.3	134.7	139.5	138.0	135.0
Investment Income	19.9	16.0	22.6	27.7	29.0
Net Cash Transfer	4.8	0.3	0.5	1.7	2.1
Total	150.0	151.0	162.6	167.4	166.1
Expenditure					
Pension & Benefits	105.2	115.1	121.7	129.2	136.7
Investment Management Expenses	5.0	6.9	7.2	9.2	10.1
Administration Costs	2.0	1.9	2.1	2.0	2.1
Total	112.2	123.9	131.0	140.4	148.9
Surplus for the Year	37.8	27.1	31.6	27.0	17.1
Revaluation of Investments	(396.4)	612.4	177.9	71.2	363.6
Change in Fund Value	(358.6)	639.5	209.5	98.2	380.7
Total Fund Value	1,819.1	2,458.6	2,668.1	2,766.3	3,147.0

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

Year Beginning April	Rate of Increase %	Index
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

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

The increases shown above also apply to deferred pensions.

Contact Names



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

Martin Phillips
Pension Fund Accountant

Liz Woodyard
Investments Manager

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

Steve McMillan
Pensions Manager

Or you can write to us at:

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

Tel: 01225 477000
Fax: 01225 395258

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

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

Appendix

Local Government Pension Scheme How the Local Government Pension Scheme Works

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

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

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

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

The LGPS Regulations can be viewed online at:
<http://timeline.lge.gov.uk/>

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

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

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

The Fund has members from over 174 employers which are classed as 'scheduled bodies', 'designating bodies' or 'admission bodies'. Scheduled bodies are defined in the Regulations and their employees have a statutory right to participate in the LGPS. Admission bodies fall into two categories – those who apply to join on an autonomous basis and those who are entitled to join as part of a Best Value arrangement with an existing fund employer; in each case, they must satisfy specific criteria set out in the Regulations.

Contributions

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

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

The employer contribution rates are assessed every three years following an actuarial valuation. A list of participating employers together with their contribution rates is shown on pages 26-30.

Benefits

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

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

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

Glossary

Accrual Rate

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

Actuary

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

Active Investing

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

Annual Allowance

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

Civil Partnership

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

Consumer Price Index (CPI)

CPI is an alternative measure of inflation also based on the change in the price of a fixed basket of goods and services. The difference between CPI and RPI is that CPI excludes some items used in RPI such

as mortgage interest payments and Council Tax, and includes other items not used in RPI.

Community Admission Bodies

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

Corporate Bonds

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

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".

Deferred Pension

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

Designating Body

A body, listed in Part 2 of Schedule 2 of the LGPS (Administration) Reg-

ulations, whose employees can only be eligible for membership of the Scheme, if designated by that body.

Discretionary Compensatory Added Years

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

Equities

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

Final Salary Scheme

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

Fixed Interest Government Securities

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

Hedge Funds

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

Independent Members

Voting members of the Avon Pension Fund Committee who are not councillors and who have no po-

litical 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 stocks represent 'loans' to the government which are repayable on a stated future date.

Lifetime Allowance

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

Market Value

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

Myners Principles

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

Nominated Co-habiting Partner

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

Normal Retirement Age

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

Passive Investing (Indexation)

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

Pooled Funds

Pooled Funds are funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from 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.

WM Local Authority Average

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

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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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