



South Yorkshire Passenger
Transport Pension Fund

Annual Report & Accounts 2016/17



“
*we continue to address
key issues around
fund administration,
investment management
and the new pooling
arrangements*”



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South Yorkshire Passenger Transport Pension Fund

Report of the Clerk

Introduction

On 1 April 2014 the Sheffield City Region Combined Authority (SCRCA) became the statutory body responsible for the administration of the South Yorkshire Passenger Transport Fund (PTF). South Yorkshire Pensions Authority (SYPA) has a long prior responsibility for the management of this Fund and continues to manage it under contract with the SCRCA. This is its third annual report and sets out the Fund's income and expenditure, and assets and liabilities, for the financial year ended 31 March 2017.

It is important to understand the governance structure that has been established so that the Authority can conduct its business. Councillors who sit on LGPS administering authorities have comprehensive legal

responsibilities for the prudent and effective stewardship of their funds and, in more general terms, have a clear fiduciary duty regarding the performance of these functions. Although administering authorities are able to delegate functions to individual officers of the Authority or to sub-committees it remains the case that the responsibility for policy and final investment decisions and general stewardship of their Fund rests with the Administering Authority. The Authority must ensure that the administration of the Fund accords with the statutory framework the LGPS operates under. Members have a fiduciary duty to the contributors and beneficiaries of the Fund to ensure contributions are collected, that benefits are calculated properly and paid promptly and that any surplus

monies are properly and prudently invested. As far as this Fund is concerned Members must be mindful that they also have a fiduciary duty to the council tax payers of South Yorkshire because, theoretically at least, any net expenditure of the Authority in any year which cannot be charged to the Fund is liable to be apportioned between the district councils. The Fund's membership is comprised of some of the former local authority employees and pensioners involved in transport services in the County in 1997. It is, therefore, unlike most LGPS funds, closed to new entrants. Members also need to be aware that compensation payments in respect of non-statutory benefits are recoverable from the employer and are not borne by the Fund. This is particularly

pertinent to this Fund because there is just one contributing employer which is First South Yorkshire Limited, a wholly-owned subsidiary of First Group plc.

The Authority has established a Committee of six councillors to manage the Fund, determine strategic issues and monitor the Fund's everyday administration and management. Both the Authority's and Committee's meetings are open to the public. The joint Local Pension Board, now in its second year of operation adds to the governance arrangements of the Fund.

The Committee has appointed an actuary and an independent investment advisor to assist it with its duties. The Authority has delegated its day to day responsibilities to its senior officers, the Clerk and Director

of Finance, but has awarded contracts for the management of the Fund to its sister authority, the SYPA.

These agreements cover all aspects of pension administration, including calculating and paying benefits, and investment management. The Fund employs two investment managers (Old Mutual Global Investors and SYPA) and details of the investment operations are set out in the Investment Strategy Statement (ISS). Further information regarding the Fund can be found on the Pensions Authority's website: www.sypensions.org.uk

The year under review

The year has been dominated by planning for the new investment pooling arrangements and dealing with the triennial review of the PTF. This has given rise to a revised Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS); the latter also sets out the Authority's approach to asset pooling.

The Authority agreed to address the government's policy for pooling investments by joining the Borders to Coast Pensions Partnership (BCPP). The SYPA currently manages the PTF through a delegated arrangement with the SCRCA. SCRCA agreed to continue with this approach to invest the PTF in the BCPP pool, but did not intend to become a shareholder in BCPP Limited. It was not considered cost-effective

Report of the Clerk

Management of the Fund

for SCRCA to incur the associated costs of a shareholding nor to subscribe for the regulatory capital of BCPP Limited. External legal advice was obtained which supported the intended manner of operation.

At the same time Members were made aware of proposals to transfer responsibility for the role of administering authority for the PTF to the SYPA. An initial response from the Minister indicated a positive reaction to this proposal. If implemented, the transfer to SYPA would have removed any issue about the need for separate pooling arrangements for the PTF as it would become an integral part of the main SYPA Fund.

Subsequently, proposals from First Group, the sole employer relevant to the PTF requested the Minister to consider merging all their LGPS funds (Greater Manchester, South Yorkshire and West Yorkshire) under one 'host' administering authority - the Greater Manchester Pension Fund (GMPF).

As neither the SCRCA nor the SYPA had any objection to the First Group proposals the Minister was consulting (at time of writing) on this latter proposal, effective retrospectively from 1.4.17 with some months of post 1.4.17 transition work. This would remove the PTF from the responsibility of South Yorkshire authorities and remove any need for the PTF involvement in BCPP

pooling arrangements. The transfer to GMPF will have no impact on the benefits of the scheme members.

That said, the backstop position of managing under delegated arrangements has been addressed lest the position on a transfer be not formally resolved ahead of pooling going live from 2018.

The triennial actuarial review has now been satisfactorily completed. The current investment strategy is still considered valid following the review. The main investment objective of the Fund is to ensure that over the long term it will have sufficient assets to meet all of its pension liabilities as they fall due.

This objective is more fully explained in the Authority's Funding Strategy Statement [FSS] derived from the triennial actuarial valuation of the Fund. The crux of the FSS is the need to achieve a future funding level of 100% or better whilst endeavouring to keep employer contribution rates as low and reasonably stable and affordable as possible. Accordingly, the Authority manages the Fund from a long term viewpoint and endeavours to maximise its returns but, at the same time, operates within a closely controlled range of acceptable risks.

The results of the 2016 valuation show the liabilities to be 89% covered by the current assets, with the funding deficit of 11%

being covered by deficit contributions over the period to 31 March 2024. This compares favourably with the results of the 2013 valuation with an 86% funding level and deficit of 14% covered by a mix of deficit contributions over the period to 31 March 2023. Whilst below the 100% target it remains in a much healthier position than most LGPS funds.

The next twelve months will see significant change with the progress of asset pooling and the expectation that the Ministerial consultation currently underway will lead to the transfer of the PTF assets and liabilities to the Greater Manchester Pension

Fund. This will bring to an end the long management responsibility and strong track record that South Yorkshire Pensions Authority has for the Passenger Transport Fund. Many thanks to the members, advisers and officers involved over the years.



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the
PEOPLE

Report of the Clerk

Members as at 31st March 2017



LABOUR
Councillor D Leech
(Chair)



LABOUR
Councillor B Mordue

CONSERVATIVE
Councillor S Cox
(up to 26 September 2016)



LABOUR
Councillor M Godfrey
(up to 11 April 2016)

LABOUR
Councillor D Lelliott
(from 7 November 2016)



LIBERAL DEMOCRAT
Councillor I Auckland
(Vice Chair)

LABOUR
Councillor G Weatherall
(up to 11 April 2016)

LABOUR
Councillor G Lindars-Hammond
(from 7 November 2016)

Report of the Clerk

Members' Attendance and Training Records

One of the main responsibilities of an administering authority is to ensure that all staff and Members charged with the financial management and decision making affecting its pension fund are fully equipped with the knowledge and skills to enable them to discharge their duties and responsibilities.

All newly appointed Members receive induction training and all Members are required to attend the Pensions Fundamentals training programme provided by the Local Government Employers organisation.

The Committee has initiated a system of self-assessment in line with the standards demanded by the Myners' Principles. Any specific training needs identified are incorporated into the normal Committee cycle but Members are always free to discuss their skills and learning requirements throughout the year.

Meetings of the Committee embraced a wide range of topical issues, such as the triennial actuarial review and assessment of assets and liabilities, future LGPS pooling proposals, proposals to transfer the Fund

to Greater Manchester Pension Fund and corporate governance matters. The Authority's independent investment advisor attends most Committee meetings. Pensions Fundamentals' refresher courses are provided when needed. An ad-hoc programme of in-house training is delivered by SYPA officers and additional training events, such as externally arranged conferences and seminars, are utilised if they are appropriate.

Members' Attendance at Meetings 2016/17

	11 April 2016	23 May 2016	4 July 2016	7 Nov 2016	13 Feb 2017	27 March 2017
I Auckland	✓	x	✓	✓	✓	✓
G Lindars-Hammond	N/A	N/A	N/A	✓	x	✓
D Lelliott	N/A	N/A	N/A	✓	x	✓
S Cox	✓	✓	x	N/A	N/A	N/A
D Leech	✓	✓	✓	✓	✓	✓
B Mordue	✓	x	x	x	✓	✓

Report of the Clerk

Advisors and Officers

ACTUARY	Barnett Waddingham LLP	
AUDITOR	KPMG LLP Public Sector Audit	
BANKERS	Lloyds Bank	
CUSTODIAN	HSBC Securities Services	
EXTERNAL MANAGERS	Old Mutual Global Investors (UK) Limited	Developed Overseas Equities
	South Yorkshire Pensions Authority	UK Equities Fixed Interest Property Unit Trusts Emerging Overseas Equities
EXTERNAL ADVISORS	Pensions and Investment Research Consultants Limited	Corporate Governance/ Voting Execution
ADVISOR TO THE AUTHORITY	E Lambert	
OFFICERS	D Terris E Walker A Frosdick	Clerk Director of Finance Monitoring Officer





3 the AUTHORITY

Report of the Clerk

Pensions Administration

Our Pensions Administration Strategy was launched on 1st April 2016 following a period of consultation with the participating employers. The launch of the strategy was an important event as it formalised the roles and responsibilities of the employers and ourselves in administering the pension scheme for the benefit of our members. One feature of the strategy that we implemented immediately was the ability for us to issue financial penalties to employers who issued their annual contribution return after 31st May 2016, which I'm pleased to report proved extremely successful.

The receipt of timely annual returns from employers is vital to us as it is the start of the process that culminates in the production of the annual pension forecasts which we are required to issue to

all our current members by 31st August. I am pleased to report that we successfully issued forecasts on time to the vast majority of our members but unfortunately it came at a price as we had to suspend work on low-priority work for a number of months and once the forecasts had been issued we had a backlog of cases we needed to catch-up on. The remainder of the year has seen us attempting to clear the backlog of work through a combination of overtime and other internal initiatives.

With an ever expanding number of employers the target for producing annual pension forecasts is extremely challenging and without change the cycle described above will repeat each year and this is clearly not desirable. I am

pleased to report therefore that the Pensions Authority has responded quickly and authorised a restructure of the Unit resulting in the expansion of the team as well as some internal reorganisation. The main feature of the restructure is the recruitment of four Pensions Data Analysts who, along with existing team members, will enable the transition to monthly reconciliation of employer contribution data from the annual reconciliation currently in operation. This is a major change in process which requires new software and the co-operation of employers but once implemented from April 2018 will improve the quality and timeliness of the information we provide to our members and put an end to the negative impact of creating backlogs that I have described above.

Workload continues to be significant and although we are completing at least as many cases as in previous years our performance statistics are not yet back to our usual high levels. Although the problems we had with our new system a few years ago are now largely behind us the backlogs of work created achieving the annual pension forecast target bring our performance levels down. The restructure will help put this right but it will take a little time.

The 2016 actuarial valuation was successfully completed on schedule at the end of March 2017. This is the review of employer contributions that takes place every three years in order to ensure that between employer contributions, scheme member contributions and investment returns there are sufficient funds

to ensure that all past, present and future liabilities of the scheme are met. All employers have been made aware of their new contribution requirements for the period 1st April 2017 to 31st March 2020.

Despite the issues we have faced I am delighted to report that we have successfully retained our Customer Service Excellence Award for a further three years. We achieved full compliance in all of the 57 elements. Although we have successfully held a customer service award since 2004 it is especially pleasing this time, given the issues we have faced in the last few years, that we can still demonstrate that our customer service principles remain intact.

We continue to operate the formal dispute resolution procedure in compliance with

the scheme regulations as well as our local customer service complaints procedure. During the year I am pleased to report that we had no formal disputes or complaints.

First South Yorkshire Limited is the sole employer in the South Yorkshire Passenger Transport Pension Fund and is required to collect contributions from active scheme members and pay them over no later than the 19th of the following month to which the contributions relate. As in previous years, there were no arrears of contributions and no penalties for late payment.

The membership statistics for 2016/17 are as follows,

Gary Chapman,
Head of Pensions Administration,
South Yorkshire Pensions Authority

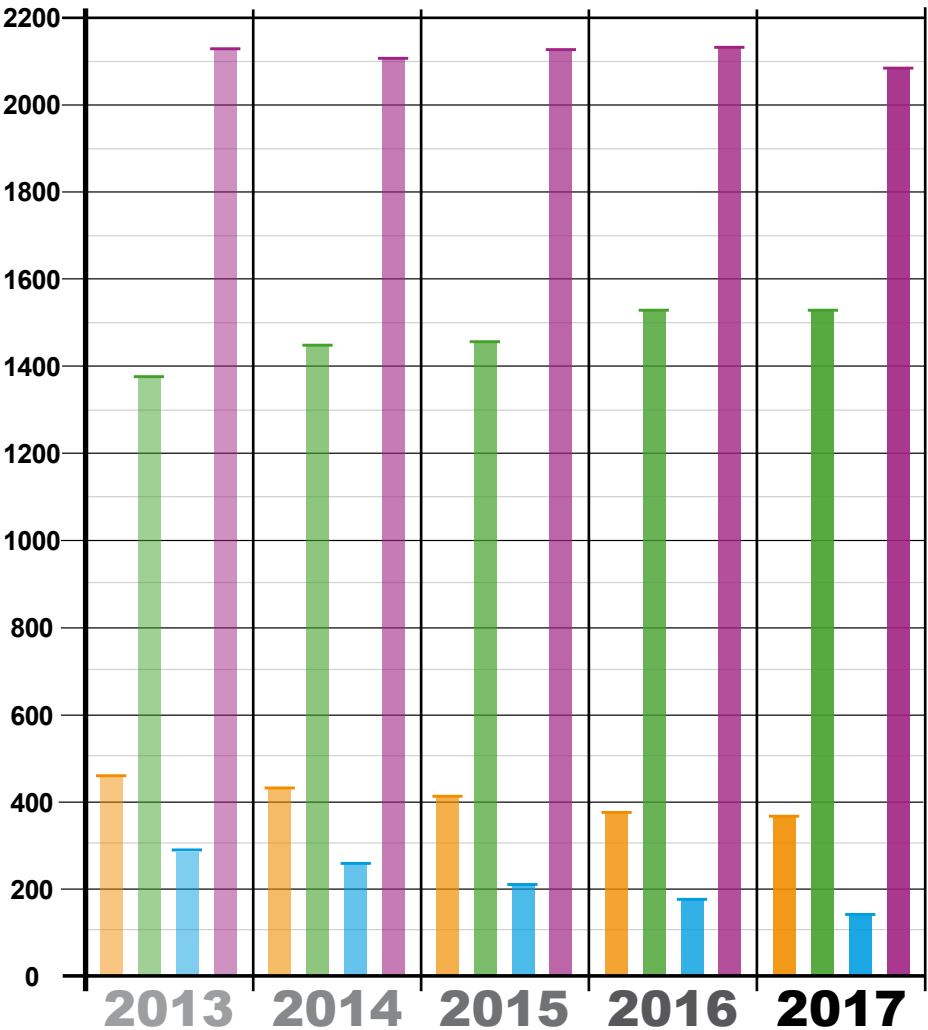
Report of the Clerk

Membership

The total number of members in the Fund has fallen to **2,086** compared with **2,106** at March 2016. As the Fund is closed to new members the trend of increasing scheme maturity continued, as to be expected. However, benefits are fully protected and no-one is at risk from this falling contributor base.

- The number of active members has fallen to **152**.
- Pensioners (including dependants) have increased to **1,565**.
- Deferred members (former members who have left their retirement benefits in the Fund until normal retirement age) have fallen to **369**.

- Total membership
- Pensioners (including dependants)
- Active Members
- Deferred Members



Report of the Clerk

Your Fund Statistics



Gender



	2016	2017
Female	6%	6%
Male	94%	94%

Annual Salary



Up to £15,000	2%	2%
£15,001 - £30,000	85%	85%
£30,001 - £45,000	13%	13%
£45,001 - £65,000	0%	0%
Over £65,001	0%	0%

Averages



Current Age	55	55
Age Joined Fund	24	24

Age Profile



41 - 45	4%	4%
46 - 50	15%	10%
51 - 55	27%	35%
56 - 60	45%	39%
61 - 65	8%	11%
66 - 70	1%	1%

Report of the Clerk

Your Fund Statistics



Gender



Averages



Age Profile



	2016	2017
Female	15%	15%
Male	85%	85%
Current Age	52	52
41 - 45	7%	4%
46 - 50	30%	29%
51 - 55	35%	37%
56 - 60	27%	29%
61 - 65	1%	1%

Report of the Clerk

Your Fund Statistics



Gender



Averages



Age Profile



	2016	2017
Female	20%	21%
Male	80%	79%
Current Age	69	69
Age Pension Commenced	57	58
0 - 50	Less than 1%	Less than 1%
51 - 55	1%	1%
56 - 60	6%	6%
61 - 65	20%	19%
66 - 70	29%	27%
71 - 75	23%	24%
76 - 80	14%	15%
81 - 85	6%	6%
86 - 90	Less than 1%	Less than 1%
91 - 95	0%	0%
96 - 100	0%	0%
Oldest pensioner	87	88

Report of the Clerk

Retirement Analysis

During 2016/2017 we processed and paid 57 new retirement cases, compared to 35 in 2015/2016. A breakdown showing the types of retirements processed are listed opposite.

No pension or membership enhancements were granted by the employer for any of the retirement cases.

Type of Retirement	2015/16	2016/17
Early	15	32
Normal	18	22
Late	1	1
Ill health/Incapacity	1	2
Early (with employers consent)	0	0

Report of the Clerk

Pensions Increase

Cost of living increases from Pension Increase Orders, applied to pension benefits (deferred and in payment) from the first Monday following the 5 April:

April 2013	April 2014	April 2015	April 2016	April 2017
2.2%	2.7%	1.2%	0%	1%

Employer Contribution Returns for 2016 - 2017

Employer	Employees (£) Contributions	Employers (£) Contributions	Deficit (£) Payment
First South Yorkshire Limited	265,616.48	952,413.04	5,500,000.00

Report of the Clerk

Service Delivery

Our performance in terms of meeting our published service standards over the year ending 31 March 2017 is given in the following table:

Key Service Standard	Target Days	Number Processed	In Time	Previous Year 2015 - 2016	Performance 2016 - 2017
General Enquiries	5	27	17	56.00%	62.96%
Pension Rights on Divorce	5	3	2	40.00%	66.67%
Retirement Estimates	5	67	30	45.00%	44.78%
Preserved Benefits	20	3	3	50.00%	100%
Retirement Benefits	5	58	41	66.00%	70.69%
Death Benefits	4	38	27	55.00%	71.05%
Total	-	196	120	53.94%	61.22%

In addition to the key service standards opposite we have processed other items of casework during the year. These include changes to key membership data when scheme members have variations to their contracts of employment or leave to work with other scheme employers within the Fund. We are committed to ensuring our data is up to date and accurate and have developed a data analysis tool which performs almost one hundred daily checks on all member records and reports on inconsistencies.

Aside from the performance standards we continue to provide newsletters to all members as well as information booklets and other web based information. Annual Forecasts were also issued to active and deferred members during the year. We also have Facebook and Twitter accounts to encourage members of all ages to engage with the Fund. Paying our pensioners is our top priority and we continue to do so without fail.

Report of the Clerk

Service Delivery continued

Our performance rating against satisfaction levels given by employers and members for 2015 - 2016 & 2016 - 2017.

	VERY SATISFIED			SATISFIED	
	2015 - 2016	2016 - 2017		2015 - 2016	2016 - 2017
EMPLOYERS	38%	26%		59%	69%
MEMBERS	38%	56%		51%	28%

	DISSATISFIED			VERY DISSATISFIED	
	2015 - 2016	2016 - 2017		2015 - 2016	2016 - 2017
EMPLOYERS	3%	5%		0%	0%
MEMBERS	0%	7%		11%	9%

The ratings shown are derived from responses to our consultation questionnaires. Each questionnaire ends with a specific question about overall satisfaction with SYPA.

It is pleasing to see the results show an improvement from the previous year as we are constantly striving to innovate and improve our overall service delivery.

Report of the Clerk

National Benchmarking

Each year we participate in a national pension administration benchmarking survey which measures our performance along with our cost effectiveness against other Local Government Pension Funds (in 2016 there were 34 participants). The results enable us to make relevant comparisons in order to monitor how effectively we administer the pension scheme.

Opposite is a summary of the latest results from the benchmarking report issued at the beginning of November 2016. Due to the timing of the report this will always be one year out of step with the period covered by the annual report.

The benchmarking results once again show our costs to be below average. This is something we

1 st November 2015	
Cost per member <i>(Benchmarking average</i>	£15.87 £18.37)
Payroll cost per pensioner <i>(Benchmarking average</i>	£3.56 £6.52)
Number of employers <i>(Benchmarking average</i>	452 259)
SYPA retirees opting for maximum cash lump sum <i>(Benchmarking average</i>	90% 54%)
Staff with more than 15 years experience <i>(Benchmarking average</i>	44% 28%)

have consistently maintained over the last thirteen years and the 2016 result is the lowest since 2004. Whilst the results do not give an indication of the quality of service the member can expect to receive from us we know from our external verification (Customer Service Excellence) and our consultation surveys that this is highly rated too.

From the bare facts we can derive that, in terms of cost, our overall unit costs are below average as are our combined staff and payroll costs. Only our overheads are shown to be above average. The overall cost per member has reduced for the sixth consecutive year despite the fact that the amount of workload continues to increase.

Report of the Clerk

Investment Management

The fiscal year saw the UK stock market post a 22% return (as measured by the FTSE All Share Index) with the broader global stock market index (FTSE All World Index) gaining 33%. This was a quite remarkable outturn given that the year began with concerns about global growth and possible recessionary outcomes. Fixed income returns were more modest after a prolonged period of outperformance relative to equities. This was due to the pick-up in yields towards the end of the period under review. The total property return at 5% lagged other asset classes.

The two most significant events this year were both political in nature and were both surprising to financial markets. The first was the June UK referendum vote to leave the EU which provided a reminder to investors of how connected the world's stock

markets actually are with two days of sharp equity market falls globally. Sterling hit a 30 year low as the immediate concern was whether the vote would lead to recessionary conditions in the UK and Europe and there was a flight to the safety of bonds with yields falling further. Central banks took immediate action and provided reassurance for investors and this started a rally in equity markets. The other event was the Trump victory in the US presidential election in November. This time the knee-jerk correction lasted only hours before the stock markets began to rally as investors focused on the prospect of corporate tax cuts and greater infrastructure spending which improved the outlook for US growth.

The UK stock market performance continued to be overshadowed by investors trying

to grapple with the implications for Brexit on the UK economy going forwards. Following a Supreme Court decision the UK government required an Act of Parliament in order to trigger Article 50 and officially commence the exit from the EU. The passage of the bill was not smooth but the exit process was formally triggered on 29th March.

Going forwards the triggering of Article 50 sees the UK with 2 years to agree terms of separation, the terms upon which the future relationship will be based and terms of any interim transition period. The deals will have to be ratified by all 27 parliaments of the remaining EU members. The scale of the task should not be underestimated. The market has successfully accommodated the uncertainty created between the referendum and the triggering of Article 50 but

Theresa May has called a snap general election on June 8th to get a clear mandate for her Brexit strategy. This introduces a new short term political issue to the uncertainty for the UK but markets expect that a clear majority would strengthen the Prime Minister's strategy on Brexit and that this may reduce some of the feared uncertainty.

Economic statistics have provided comfort to investors with data improving during the year. However, other economic factors should be borne in mind for the UK. The post referendum currency devaluation has benefits, however, the subsequent inflationary pressures are now materialising and inflation is beginning to run ahead of wage growth. This is placing a further squeeze on disposable income and the saving ratio decline has recently accelerated.

Levels of personal debt continue to rise and this has prompted cautionary statements from the Bank of England. GDP continues to expand but downside risks are building. Given this uncertain background it is expected that the Bank of England will probably keep rates on hold throughout 2017.

Macroeconomic data in the US continued to be positive for equities. Reflecting this improving outlook the Federal Reserve raised rates by 0.25% in December and March and expectation is for another two rate hikes this year. The market remained optimistic about Trump's plans to cut taxes, boost infrastructure spending and to reduce the regulatory burden on businesses, although there has been no concrete announcement by the administration to date. It does put doubts on the scale of

growth expectations for this year because the impact could be delayed until 2018.

Eurozone equities have experienced improved economic data which led to stock markets rebounding in the second half of the year. The European Central Bank (ECB) upgraded its growth and inflation forecasts for 2017 and 2018 and there is an argument for the ECB to move away from its successful accommodative monetary stance. However, its President Mario Draghi's recent comments suggest that there will be no rush to change this stance as he pledged to keep stimulus in place until the end of this year. This could be to offset any potential volatility given the elections still to come this year, the continuing Greek debt discussions and the ongoing Italian restructuring. Political worries diminished when

Report of the Clerk

Investment Management

the centre-right won the Dutch elections in March and the centrist 'pro-Europe' Macron won the French Presidential contest in May. However, there are elections in other European countries during 2017.

Japanese equities have benefited from an accommodative Bank of Japan policy but the greatest influence on Japanese equities has been the movement of the Yen. When the Yen strengthened then the stock market weakened but conversely when the Yen weakened it led to an improvement in the equity market.

Asia ex Japan equities rebounded strongly at the end of the fiscal year. Chinese stocks were particularly strong driven by continuing better than expected data and a stabilising currency. Ongoing restrictions on the

property market and a tightening on capital outflows also saw capital diverted into equities. Hong Kong stocks tracked the Chinese market on strong buying interest from mainland Chinese investors via the Southbound Stock Connect scheme. Taiwan was strong on foreign investment flow while Korea advanced on the back of its technology sector. Indian stocks were stronger on the back of investor optimism surrounding Prime Minister Modi's reform agenda after his party, the BJP, was victorious in the state elections in March.

Within other emerging markets the returns were diverse. The upturn in global growth and also the lack of follow through on protectionist trade policy from Trump's administration provided support to the markets at the end of the period.

It was against this background that following the Triennial Valuation, Members reviewed the Fund's investment strategy. It was agreed that the strategy put in place after the last review was still appropriate for the Fund. At 1 April 2017 the growth protection split would be 34% to growth assets and 66% to protection assets with a 5% margin range either side. There is also a mechanism in place where the benchmark will change every year adjusting to the implied liability position.

The Fund's tactical strategy remained largely unchanged during the year being overweight in international equities and relatively light in UK equities and corporate bonds. Given the outperformance of the overseas equity markets this proved to be a positive course of action.

It was necessary to trim this position during the year as the Fund's customised benchmark changed and also to meet cash-flow requirements. Monies were switched into both index-linked gilts and corporate bonds. The weighting to property unit trusts was reduced substantially given that there is no longer an allocation to this asset class within the Fund's benchmark.

Overall the Fund produced a return of 19.9% compared to the benchmark return of 17.6%. This continues the strong long term track record with the Fund also outperforming its benchmark by 10.9% p.a. versus 10.1% p.a. over three years and 8.1% p.a. versus 6.8% p.a. over ten years.

The outlook for financial markets remains unpredictable. The economic backdrop is showing a gradual improvement for the

global economy with all regions improving. There is now much discussion about a stronger and synchronised economic recovery across both developed and emerging economies. This raises the question of whether we are at the end of the period of low interest rates coupled with central bank asset purchases because the need for an ultra-accommodative policy is diminishing and this could predicate a fall in bond markets.

Steve Barrett, Interim Fund Director,
South Yorkshire Pensions Authority



4

investment
**FIGURES &
REPORTS**

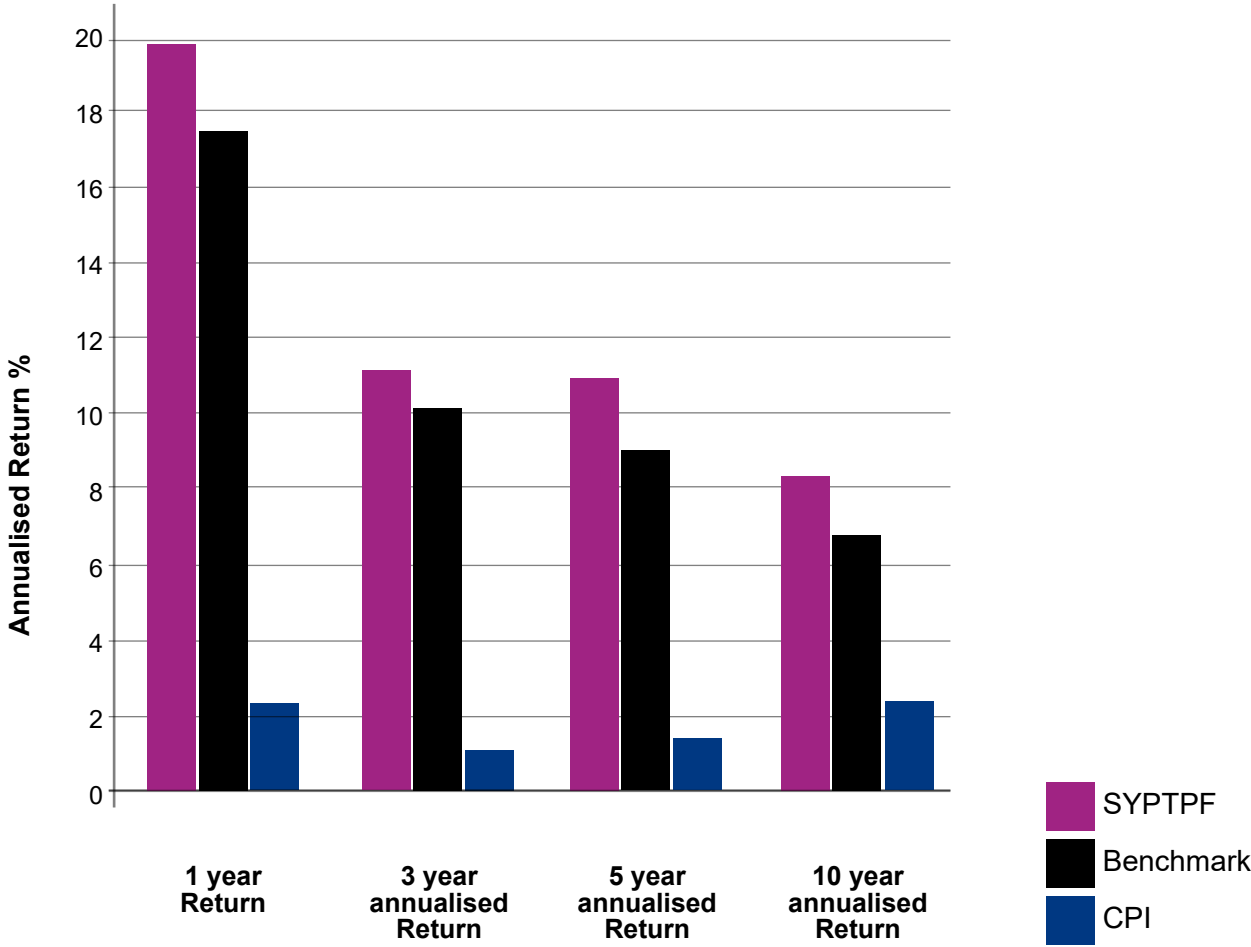
Report of the Clerk

10 Year Annualised Figures - Comparison with Benchmark

CATEGORY	1 Yr Return		3 Yr Annualised Return		10 Yr Annualised Return	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
UK EQUITIES	21.9	22.0	7.7	7.7	6.1	5.7
OVERSEAS EQUITIES	37.1	32.7	18.5	15.0	11.2	9.6
INDEX LINKED GILTS	15.3	13.7	9.7	9.7	8.1	7.7
CORPORATE BONDS	11.4	9.2	7.5	7.4	8.1	7.0
PROPERTY UNIT TRUSTS	-11.3		6.1		1.5	
CASH	0.3		0.3		1.5	
TOTAL RETURN	19.9	17.6	10.9	10.1	8.1	6.8

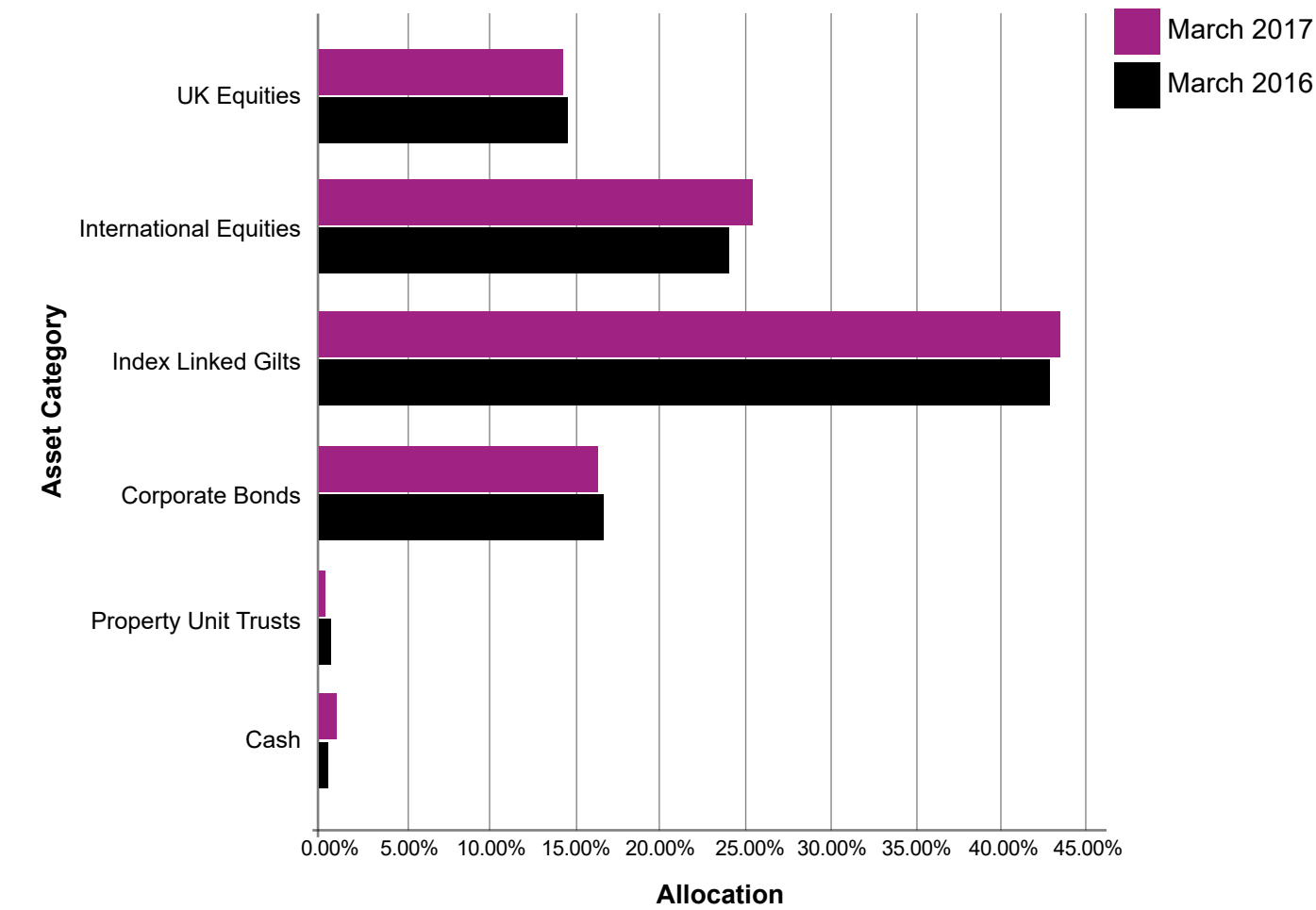
Report of the Clerk

Fund Performance



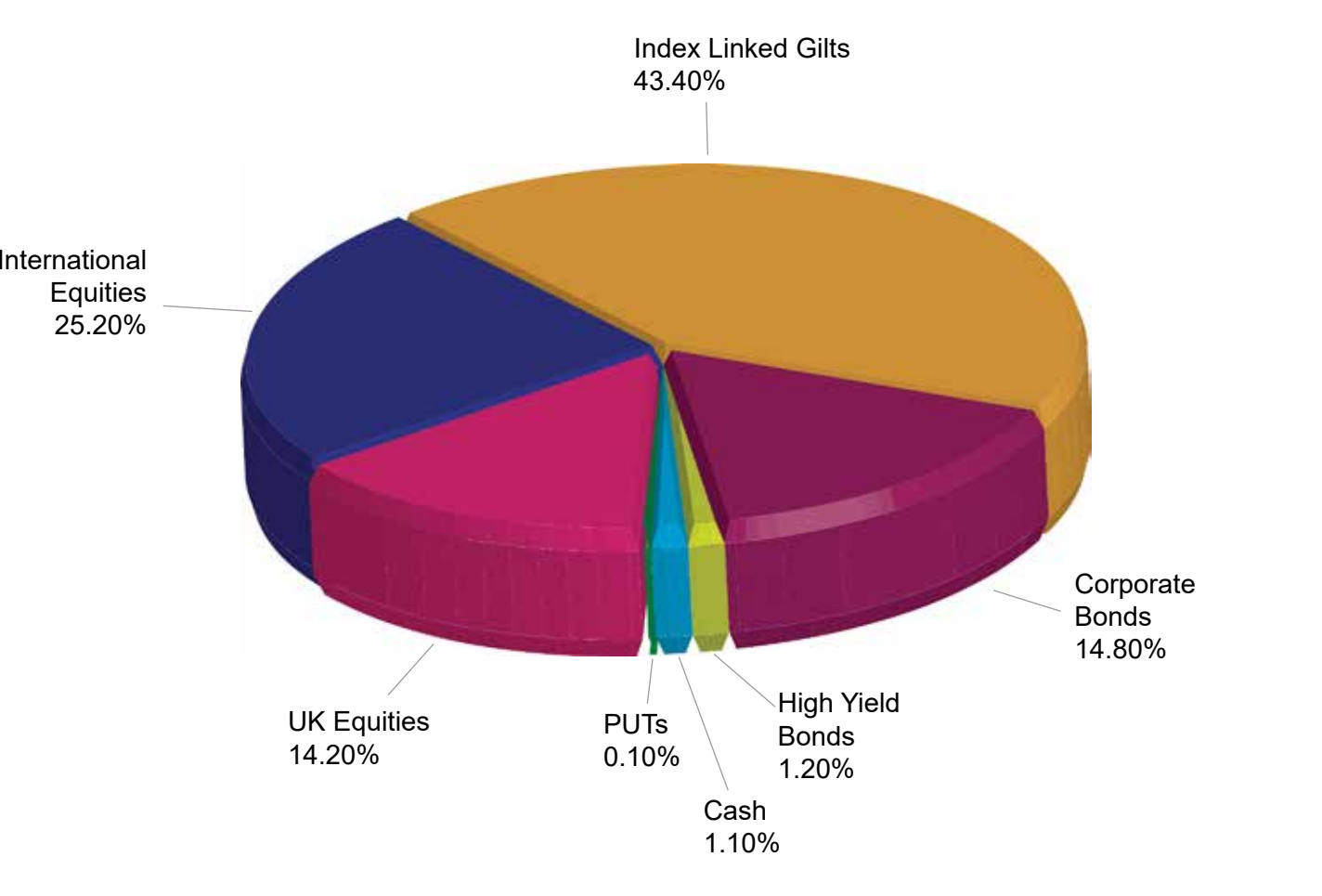
Report of the Clerk

Portfolio Weights



Report of the Clerk

Asset allocation by asset class as at 31 March 2017



Report of the Clerk

Ten largest directly held listed equity holdings by market value - at 31 March 2017



Report of the Clerk

Ten largest directly held listed fixed interest bond holdings by market value:-

31 March 2017	£m
United Kingdom Index Linked 2.5% 2020	13.784
United Kingdom Index Linked 0.75% 2047	11.864
United Kingdom Index Linked 0.75% 2034	11.215
Network Rail Index Linked 1.375% 2037	9.663
United Kingdom Index Linked 0.125% 2029	9.544
United Kingdom Index Linked 0.25 2052	5.855
Network Rail Index Linked 1.75% 2027	3.990
Southern Water Services 3.706% 2034	3.226
Nordic Invest Bank Index Linked 2.805% 2024	3.196
United Kingdom Index Linked 0.625% 2040	3.077



5 the GOVERNANCE

Report of the Clerk

Corporate Governance, Responsible Investing and Stewardship Review

The Authority is fully committed to both responsible investing and good stewardship of its investments and acts at all times in the best long-term interests of all its members to protect and enhance the value of the companies in which it invests. Responsible Investment (RI) considers how environmental, social and governance (ESG) factors may pose a financial risk to a company and subsequently the pension fund and takes into account both an investor's financial needs and the impact an investment has on society and the environment. It is driven by financial not ethical or moral implications, with its main purpose being to decrease risk and improve returns. ESG factors can affect the performance of companies and therefore investment portfolios. The

Authority believes that incorporating ESG considerations into the investment decision making process, along with encouraging companies to improve their practices in these areas should enhance profitability, leading to superior returns.

As a shareholder the Fund is also a 'share owner' and must assume the responsibilities that go along with ownership; this involves stewardship and being an active not passive holder. The Authority carries out corporate engagement and exercises its voting rights in order to use its influence as an investor to promote and support good ESG practices. The Authority has a suite of policies covering its responsible investment and stewardship activities which can be viewed on its website.

Climate Change

The Authority believes that the associated risks and opportunities of climate change may have a material impact on the financial performance of the Fund and therefore issued a Climate Change Policy in April 2016. The aims of the policy include active shareholder engagement and using voting rights appropriately; encouraging companies to assess their business models; co-filing climate related shareholder resolutions and collaborative engagement with other investors.

Voting

Active ownership involves using shareholder rights to improve the long-term value of a company and includes both voting and engagement strategies. The Authority regards its voting rights as an asset and uses them

carefully. The Authority has a set of bespoke UK voting guidelines which are informed through the interpretation of best practice guidelines and reviewed annually. It uses an external provider to ensure that its votes are executed in line with its policies. During the last year the Fund exercised its voting rights at a total of 231 meetings across the UK. The meetings were a mixture of AGMs, EGMs and Court Meetings. 73% of resolutions were supported by the Authority and 25% were opposed. It also co-filed shareholder resolutions at the Rio Tinto, Glencore and Anglo American AGMs. More detail on the Fund's voting activity can be found on its website.

Engagement

Engagement is the process by which investors use their influence to encourage

companies to improve their behaviour and management of ESG issues which may improve the companies' financial performance. The Authority will try to use its influence as a shareholder to promote corporate responsibility and high standards of corporate governance in the companies in which it invests; however, it recognises the constraints which it faces in trying to achieve those aims. The Authority engages with companies either directly where feasible or through collaboration when needed. The Authority is, therefore, an active member and supporter of the Local Authority Pension Fund Forum and encourages LAPFF in its campaigns and initiatives. Most of the engagement work undertaken this year has been through the Authority's membership of LAPFF.

The Forum has engaged by holding meetings with senior directors, sending letters, attending AGMs to ask questions, collaborating with other shareholders and issuing voting alerts. LAPFF establishes engagement priorities every year covering a wide range of issues including human capital management, remuneration, climate change and environmental risk to name but a few.

The Authority is supportive of the UK Stewardship Code and endorses the 'comply or explain' approach it follows. The Authority believes it complies with the recommendations of the Code.

Report of the Clerk

Risk Management

The effective management of risk is a key consideration which lies at the heart of the Fund’s operations and this is reflected in the Authority’s governance arrangements. The key risks inherent in the Fund and how these risks are mitigated are set out in the Authority’s Investment Strategy Statement (ISS) revised in March 2017.

The Authority is mindful of the closed nature of the Fund and recognises that potentially the greatest risk the Fund faces is to have a fundamental mismatch between its assets and liabilities: the latter fall largely outside of its control. Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund whilst, at the same time, maximising the ability to make meaningful gains. The returns achieved will reflect the level

of risk which the Authority is comfortable with accepting when setting its investment strategy. Given the unique characteristics of the Fund (including its single employer status), the Authority has approved a strategy which aims to reduce the level of uncontrolled risk but in such a manner that is compatible with its liability profile. This is partly achieved through asset diversification which reduces exposure to market risk (price risk, currency risk and interest rate risk). The Fund’s customised benchmark, determined by the Committee, demonstrates this. Liquidity risk is also managed to ensure that the Fund’s forecast cash needs are met. The benchmark which reflects the risk and return expectations of the Authority is reproduced within the ISS. It is, of course, not possible to control the absolute return on

investments. Over the longer term, however, by recognising the types of risks outlined the Authority seeks to achieve the returns required to achieve the objectives of the Funding Strategy Statement (FSS). Further information regarding those objectives and how they relate to the actuarial valuation can be found in the FSS.

The Committee reviews the Fund’s risk policy at its meetings and during discussions with the actuary. It recognises that risk is inherent in many of its activities and seeks to control risk rather than try to eliminate it. Without taking risks it will be difficult for the Fund to achieve the performance it needs if it is to meet its objectives.

Diana Terris
Clerk

Publications

As required by the LGPS Regulations a number of statutory documents are published by the Authority separately. The Government has recognised that amalgamating all of the prescribed disclosures into the annual report will result in an unwieldy document and has advised that the statutory requirement to publish these can be satisfied via references to them within the report. The following documents can be found on the Authority’s website (www.sypensions.org.uk):-

- Consultation and Communication Policy
- Funding Strategy Statement
- Governance Compliance Statement
- Responsible Investment
- Shareholder Engagement Statement
- Investment Strategy Statement
- Voting Guidelines



6 the REPORTS

Report of the Advisor 2016 - 2017

The fiscal year to 31 March 2017 was dominated by 'political' risk: in particular the surprise - if not possibly even shock - votes that elected Donald Trump as US President and that the majority of UK voters wanted to leave the European Union, the so-called 'Brexit'. Yet more occasions when the experts were wrong footed by the populist vote. However, despite the scaremongering and sensationalist media coverage, the world's economies and businesses have not collapsed. A passage from a Baillie Gifford investment report sums it up particularly well: 'Despite the unrelenting gloomy focus of much media coverage, the global economy is, in fact, enjoying its most rapid expansion for many years. US consumer confidence is at its highest level since the year 2000, the European economy is recovering strongly,

and government bond yields have risen in many countries, another sign of improving confidence'.

The most noticeable effect for UK investors has been the marked depreciation of sterling, typically weaker by 15-20%. This has two beneficial impacts on the UK stock-market: non-UK earnings are worth significantly more in (weak) sterling terms and depreciation makes UK goods and services cheaper for international buyers. The former is particularly significant for the largest UK companies as represented by say FTSE100 for which overseas earnings dominate. The UK stock-market returned 22% over the year, although this was eclipsed by the even stronger returns of the US and (as the US is over 50% of the global stock-market) Global equities. The year under review was most definitely a case of

'risk on'. Fixed income returns were generally modest but UK gilts, both conventional (nominal) and index-linked, held up well and longer maturities especially so. The over 15 year gilt index gave a return of 12.3% over the year and the over 5 year index-linked gilt index gave a very strong return of 22%. These are particularly important performances as many funds typically have their liabilities valued on the basis of these returns. Thus while assets powered ahead over the year, with a typical Local Authority fund returning about 20%, funding levels will not necessarily have advanced.

The Fund's return over the year was 19.9%, well ahead of its benchmark 17.6%. The Fund has a long and distinguished history of outperforming its benchmark and its Local Authority peers and

this will have continued. The latter is of particular note as this Fund is considerably less risky than most Local Authority funds - carrying significantly less equity exposure - reflecting its closed status and super-mature liability profile. Indeed, one of the attractions for me in taking the Fund's Independent Investment Adviser (IIA) role about 7 years ago was exactly that: the Fund is (almost) unique in having a single (private sector) sponsor and very different liability characteristics which have rightly resulted in a very different investment strategy.

As anyone reading this report is probably aware, there are significant changes in the Local Authority pension fund landscape as a result of Government regulations and this will have a massive influence on the future of this Fund. The 89 Local Authority funds in England and Wales are

being consolidated into no more than 8 larger pools: this Fund is throwing its hat, along with the main South Yorkshire fund, into the Borders-to-Coast (BCPP) pool. The Pension Fund Committee took the reasonable view, which I supported, that the costs of entering BCPP as a stand-alone entity were disproportionate to the potential benefits and so have taken the decision to subsume into the main fund. As effective pooling must start no later than April 2018 the end of the separate management of this Fund is nigh. In addition, the Fund sponsor's parent, First Group, are looking to potentially consolidate all their Local Authority funds under one host umbrella fund (Greater Manchester I believe) and this too would signal the end of this Fund's separate identity. This Fund has a proud history of great

achievement and has been an exemplar of investment efficiency which I hope continues under whatever new arrangement occurs.

As this may be my 'swansong' please indulge me when I write that I have immensely enjoyed my years associated with this Fund. As well as the technical asset and liability challenge, because of the Fund's uniqueness, I have particularly enjoyed meeting the people associated with the Fund: the SYPA officers and support staff and the Pension Fund Committee (with special thanks to the current and previous Chair, David Leech and Richard Russell respectively, and Ian Auckland as an ever present member). I wish the Fund and all connected with it the very best for the future.

Eric Lambert

Local Pension Board

The Secretary of State granted the two South Yorkshire LGPS funds permission to establish a Joint Local Pension Board. The role of the Local Pension Board is defined by Sections 5(1) and (2) of the Public Service Pensions Act 2013.

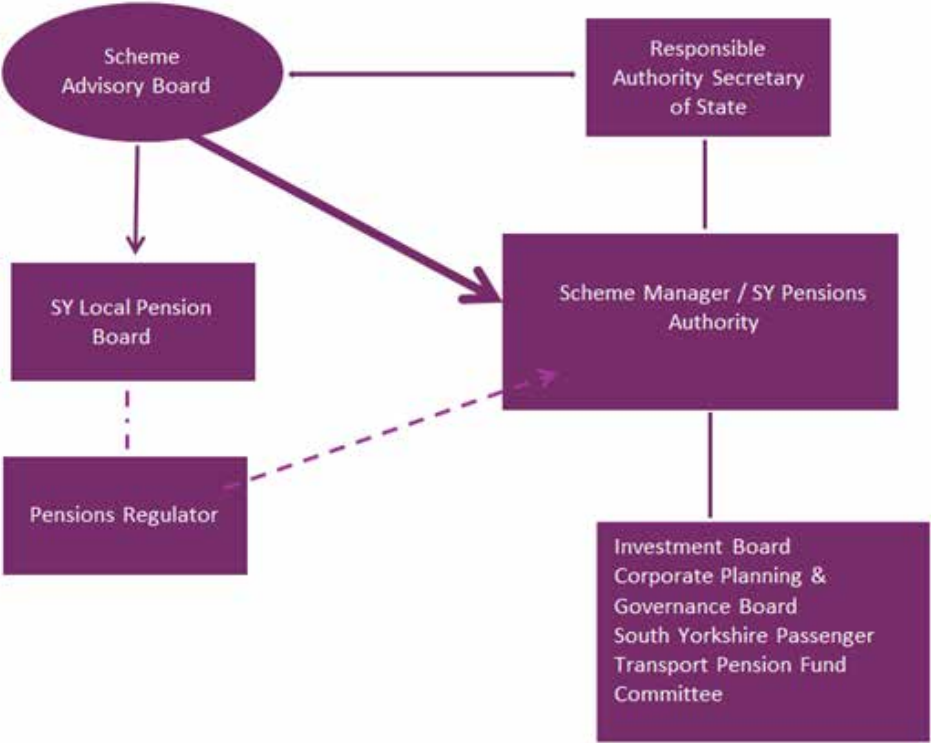
The Board seeks to assist the South Yorkshire Pensions Authority and the South Yorkshire Passenger Transport Pension Fund to maintain effective and efficient administration and governance. Members of the Scheme can now have direct influence on how the Fund is managed. The LPB comprises both Scheme members, retired and active, together with employer representatives. Employer representation is not restricted to the four large local Councils.

During the year the Board have considered all agenda papers presented to the Authority and have paid particular attention to:

- Annual Fund Member Survey.
- 2016 Actuarial Valuation.
- Risk Management Strategy.
- Work Programmes of the Authority and its Boards.
- The work of Internal Audit.
- The work of External Audit.
- Investment Pooling.

The Board has produced its first annual report which has been posted on the Authority’s website.

The following diagram shows the governance framework as it now operates and the following table reveals the membership of the Board.



Employee Representatives

- Glyn Boyington
LGPS Member (Chairman)
- Garry Warwick (GMB)
Trades Union
- Kevin Morgan (UNITE)
Trades Union
- Nicola Doolan-Hamer (Unison)
Trades Union
- Susan Ross
LGPS Member
- Steve Carnell
SYPTPF Member

Employer Representatives

- Jill Thompson (Action Housing)
Admitted Body (Vice-Chair)
- Geoff Berrett (South Yorkshire Police)
‘Other Large Employer’
- Councillor Tony Corden
Local Authority Member (Doncaster)
- Councillor Adam Hurst
Local Authority Member (Sheffield)
- Vacancy
(Academy)
- Vacancy
(Academy)

Statement by the Consulting Actuary

Actuarial valuations of the South Yorkshire Passenger Transport Pension Fund are carried out every three years, under the Local Government Pension Scheme Regulations. The latest completed valuation was carried out as at 31 March 2016.

The main purpose of the valuation is to check that the funding is on track and to review the employer’s (First South Yorkshire Limited) contribution rate. The valuation involves a large number of assumptions concerning the future development of the Fund’s assets and liabilities (i.e. the benefits payable). The 2016 valuation was made using the following financial assumptions:

Rate of return on investments:	
- pre retirement	5.8% per annum
- post retirement	2.15% per annum for current pensioners
	2.7% per annum for future pensioners
Rate of pay increases:	3.25% per annum
Rate of increases to pensions (above the Guaranteed Minimum Pensions)	1.85% per annum for current pensioners 2.35% per annum for future pensioners
Valuation of Assets	Market Value

The 2016 valuation showed that the assets were 89% of the value of the accrued liabilities based on the assumptions above. This percentage funding level is higher than that revealed at the 2013 valuation, and the amount of the shortfall has reduced from £32.9 million to £24.9 million. This is mainly due to better than expected investment returns and the payment of extra contributions towards the deficit over the period from 31 March 2013 to 31 March 2016. These have more than offset the impact of calculating the accrued liabilities using different assumptions.

The employer will continue to pay contributions towards the deficit in line with the schedule of payments agreed at the 2013 valuation. This will require payment of £3.25 million on 31 March 2018 and £3.5 million each 31 March thereafter up to 31 March 2023, with a final payment of £1.15 million to be made on 31 March 2024. This is designed to bring the Fund back to a fully funded position by 31 March 2024 if the assumptions are borne out in practice.

The 2016 valuation also established the contribution rate payable to the Fund by the employer for the accrual of benefits from 1 April 2017 to 31 March 2020. This will be 29.5% of Pensionable Pay from 1 April 2017, increasing to 30.5% from 1 April 2018 and to 31.5% from 1 April 2019. The contribution rate was calculated using the projected unit actuarial method with a 3 year control period.

Further details are set out in the actuary’s valuation report dated 16 March 2017 and the Funding Strategy Statement prepared by the Administering Authority.

The Fund’s retirement experience is monitored by the Administering Authority and additional contributions become due if necessary to protect the Fund against adverse retirement experience.

The financial position of the Fund and the contribution rate payable to the Fund by the employer will be reviewed at the next actuarial valuation which will be carried out with an effective date of 31 March 2019.

Barnett Waddingham LLP, May 2017

Independent auditor’s report to the members of Sheffield City Region Combined Authority on the pension fund financial statements published with the Pension Fund Annual Report

We have examined the pension fund financial statements for the year ended 31 March 2017 on pages 66 to 108.

Respective responsibilities of the Treasurer and the auditor

As explained more fully in the Statement of the Treasurer’s Responsibilities the Treasurer is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report

with the pension fund financial statements included in the annual published statement of accounts of Sheffield City Region Combined Authority, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority’s annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion
In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of Sheffield City Region Combined Authority for the year ended 31 March 2017 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Matters that we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Rashpal Khangura
For and on behalf of
KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square,
Sovereign Street,
Leeds,
LS1 4DA

14 September 2017



7 the FINANCE

Sheffield City Region Combined Authority - Statement of Accounts

Statement of Responsibilities

The Combined Authority's Responsibilities

The Combined Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. That officer is the Chief Financial Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Responsibilities of the Chief Financial Officer

The Chief Financial Officer is responsible for the preparation of the Combined Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that were reasonable and prudent, and
- complied with the Local Authority Code.

The Chief Financial Officer has also:

- kept proper accounting records, which were up to date, and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I hereby certify that the Statement of Accounts on pages 44-180 gives a true and fair view of the financial position of Sheffield City Region Combined Authority at 31 March 2017 and of its income and expenditure for the year ended 31 March 2017.

Eugene Walker
Chief Financial Officer (Section 73 Officer)

Date: 11th September 2017

Fund Account

2015/16		2016/17		Note
£'000		£'000	£'000	
Dealings with members, employers and others directly involved in the Fund				
2,968	Contributions receivable	6,735		7
53	Transfers in from other pension funds	13		8
3,021			6,748	
(10,818)	Benefits payable	(11,396)		9
(170)	Payments to and on account of leavers	(-)		10
(10,988)			(11,396)	
(7,967)	Net additions/(withdrawals) from dealing with members		(4,648)	
(924)	Management expenses		(952)	11
Returns on investments				
5,100	Investment income	5,206		12
(4,300)	Profit and losses on disposal of investments and changes in value of investments	35,691		13a
(23)	Taxes on income	(32)		12
777	Net return on investments		40,865	
(8,114)	Net increase (decrease) in the net assets available for benefits during the year		35,265	
212,424	Net assets of the Fund at 1 April		204,310	
204,310	Net assets of the Fund at 31 March		239,575	

Net Assets Statement

31 March 2016		31 March 2017		Note
£'000		£'000	£'000	
Investment assets				
34,514	Fixed Interest Securities	38,224		
77,456	Equities	93,207		
86,873	Index-Linked Securities	103,388		
2,872	Pooled Investment Vehicles	118		
514	Cash - Foreign currency	692		
608	Cash - Sterling	924		
1,296	Other investment balances	1,344		
204,133			237,897	
Investment liabilities				
(-)	Other investment liabilities	(-)		
(-)			(-)	
204,133	Net investment assets		237,897	13
293	Current assets	1,795		
-	Long Term Debtors	-		
293			1,795	19
(116)	Current liabilities		(117)	20
204,310	Net assets of the Fund available to fund benefits at 31 March		239,575	

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 18

Notes to the Pension Fund Accounts

1. Description of the Fund

a) General

The South Yorkshire Passenger Transport Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (LGPS). It is a contributory defined benefit pension scheme. Each constituent LGPS fund is managed by an administering authority: in this case it is the Barnsley, Doncaster, Rotherham and Sheffield Combined Authority, known as the Sheffield City Region Combined Authority (“the Authority”).

The Authority has appointed South Yorkshire Pensions Authority (SYPA) to manage the day-to-day affairs of the Fund. This includes all aspects of pensions administration, including the calculation and

payment of benefits, and the overall management of the Fund. The Authority has, in addition to SYPA, appointed Old Mutual Global Investors as an investment manager. More information is shown in Note 13b. Barnett Waddingham LLP is the Fund’s retained actuary and Eric Lambert has been employed as an independent investment advisor. All of these appointments are governed by management agreements in accordance with LGPS Regulations and are kept under review.

The Authority has delegated its administering authority duties and responsibilities to a specialist Committee of six Authority councillors (South Yorkshire Passenger Transport Pension Fund Committee). Committee meetings are held at least

quarterly and Authority and SYPA officers and independent advisors usually attend.

In accordance with sections 5(1) and (2) of the Public Service Pensions Act 2013 the Authority created a Local Pension Board. The Secretary of State granted the two South Yorkshire LGPS funds the power to establish a Joint Local Pension Board and this held its first meeting in July 2015.

The Fund has only one contributing employer, First South Yorkshire Limited, and 2,086 members (see note 1b).

The Fund’s Investment Strategy Statement (ISS) was reviewed during the year and is available on the Fund’s website (www.sypensions.org.uk).

b) Membership

The following summarises the position with regard to membership as at 31 March:

	31 March 2017	31 March 2016
Active Contributors	152	184
Pensioners and Dependents	1,565	1,531
Deferred Pensions	369	391
Totals	2,086	2,106

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017.

Employee contributions are matched by employer’s contributions which are set based on triennial actuarial funding valuations. The last such valuation was as at 31 March 2016 and the Employer’s contribution rate required to cover the cost of accruing benefits and expenses is 29.5% of pensionable pay from 1 April 2017, 30.5% from 1 April 2018 and 31.5% from 1 April 2019. Deficit payments of £3.25m on 31 March 2018 and 3.5M on 31 March 2019 and 2020 are also due.

Contributions of 23.1% of pensionable pay and deficit payments amounting to £5.5m were paid during 2016/17.

Notes to the Pension Fund Accounts

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

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

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details please refer to the LGPS website.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3/80 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

e) Investment Performance

The Fund’s market value (not including current net assets) increased during the year and closed at £237.8m (£204.1m in 2015/16) producing an overall return of 19.9% (0.1% in 2015/16). The Fund’s benchmark return was 17.6% (-0.2% in 2015/16).

Two political surprises dominated financial markets this year. The first was the June UK referendum vote to leave the EU. The most significant impact for UK investors has been the marked depreciation of sterling and thus the significant increase in the value of overseas investments. The other event was the Trump victory in the US presidential election. This led to a reflation rally in markets. The economic backdrop improved towards the end of the financial year with all

regions improving. There is now much discussion about a stronger and synchronised economic recovery across both developed and emerging economies. This raises the question of whether we are at the end of the period of low interest rates coupled with central bank asset purchases because the need for an ultra-accommodative policy is diminishing and this could predicate a fall in bond markets.

The Fund’s tactical strategy remained largely unchanged during the year being overweight in international equities and relatively light in UK equities and corporate bonds. It was necessary to trim this position during the year as the Fund’s customised benchmark changed and also to meet cash-flow requirements. Monies were switched into both index-linked

gilts and corporate bonds. The weighting to property unit trusts was reduced substantially given that there is no longer an allocation to this asset class within the Fund’s benchmark.

Overall the Fund produced a return of 19.9% compared to the benchmark return of 17.6%. This continues the strong long term track record with the Fund also outperforming its benchmark by 10.9%p.a versus 10.1%p.a. over three years and 8.1%p.a. versus 6.8%p.a. over ten years.

Notes to the Pension Fund Accounts

2. Basis of preparation

The Statement of Accounts summarises the Fund’s transactions for 2016/17 and its position at the year end of 31 March 2017. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 18 of these accounts.

3. Accounting policies

Fund account - revenue recognition

A. Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers’ augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

B. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013 (see Notes 8 and 10).

Individual transfers in/out are accounted for when received/ paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

C. Investment Income

i. Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii. Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is

disclosed in the net assets statement as an investment asset.

iii. Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

iv. Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

D. Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

E. Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Notes to the Pension Fund Accounts

F. Management expenses

The code does not require any breakdown of pension fund administration expenses. However, in the interests of greater transparency, the Authority discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016).

Administration expenses

All administration expenses are accounted for on an accruals basis. All costs incurred by SYPA (the Fund Manager) in respect of administration expenses are charged directly to the Fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All costs incurred by SYPA (the Fund Manager) in respect of oversight

and governance are charged directly to the Fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the overseas equity portfolio manager are fixed, however the Authority has negotiated that an element of their fee be performance related. All costs incurred by SYPA (the Fund Manager) in respect of investment management expenses are also charged directly to the Fund.

Net assets statement

G. Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 14). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

H. Foreign Currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses arising on conversion or translation are dealt with as part of the change in market value.

I. Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

J. Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of liability are recognised by the Fund.

K. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed at the period end using a roll forward of the results of the triennial valuation (as at 31 March 2016) allowing for the different financial assumptions required under IAS19.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by

way of a note to these accounts (Note 18).

L. Additional Voluntary Contributions (AVCs)

In accordance with regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 contributions to AVCs have not been included in either the Authority’s Fund Account or Net Assets Statement, as they are paid directly to the AVC providers by employers of contributors. AVCs are specifically for the provision of additional benefits for individual contributors. AVC funds returned to the scheme and benefits paid as a result of this are included in the Fund Account as part of transfer values received and benefits paid respectively. Details of AVC investments are however shown in Note 21

Notes to the Pension Fund Accounts

4. Critical judgements in applying accounting policies

Pension Fund liability

The pension fund liability is calculated every three years by the Fund’s actuary, Barnett Waddingham, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with financial standards. Assumptions underpinning the valuations are agreed with the actuary and are disclosed in Notes 17 and 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the future and other major sources of estimation uncertainty

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into 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 one item in the Pension Fund Accounts at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Barnett Waddingham) is engaged to provide the fund with expert advice about the assumptions to be applied.	The funding level at the 2016 actuarial valuation was 89% (a deficit of £24.888m) The effects on the funding level of changes in individual assumptions can be measured. For instance, no allowance for asset performance in excess of gilt yields increases the deficit by £27.507m. A 0.25% increase in mortality long term rate of improvement would increase the deficit by 2.696m. A 0.1% decrease in inflation rates would reduce the deficit by £2.704m

6. Events after the Balance sheet date

Proposals have been put to the government by First Group to merge all of their LGPS funds (Greater Manchester, West Yorkshire and South Yorkshire) under one host administering authority - the Greater Manchester Pension Fund (GMPF). At the time of writing, the Minister was consulting on this proposal, effective 1 April 2017. No directive has yet been issued but when that happens the Fund will be transferred to GMPF. At present there is no firm timetable for when this will occur. In the meantime SYPA will continue to manage the Fund.

7. Contributions receivable

Contributions represent the total amount receivable from First South Yorkshire Limited in respect of its own contributions and those of its pensionable employees.

When First South Yorkshire Limited (the Employer) retires staff early, on redundancy or efficiency grounds, a strain on the Fund is generated through the early payment of their benefits. The Authority requires the employer to reimburse the Fund for that strain by making capital injections over a phased period of up to 3 years. These capital injections are accounted for in full when they occur.

Analysis of contributions receivable:-	2016/17 £'000	2015/16 £'000
Employers' contributions		
Normal Contributions	966	1,147
Deficit Funding lump sums	5,500	1,500
Additional Capital contributions	-	-
Additional cost of early retirement	-	-
	6,466	2,647
Employees' contributions	269	321
	6,735	2,968

8. Transfers In

	2016/17 £'000	2015/16 £'000
Group transfers in	-	-
Individual transfers in	13	53
	13	53

9. Benefits payable

Analysis of benefits payable:-	2016/17 £'000	2015/16 £'000
Retirement Pensions	9,098	8,882
Commutation of benefits and lump sum retirement benefits	2,187	1,379
Lump sum death benefits	111	557
	11,396	10,818

Notes to the Pension Fund Accounts

10. Payments to and on account of leavers

	2016/17	2015/16
	£'000	£'000
Group transfers out	-	-
Individual transfers out	-	170
Refunds of contributions	-	-
	0	170

11. Management Expenses

	2016/17	2015/16
	£'000	£'000
Administration Costs	36	38
Investment Management Expenses	752	715
Oversight and Governance	164	171
	952	924

This analysis of the costs of managing the South Yorkshire Passenger Transport Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Administration expenses were slightly lower in 2016/17 than the previous year due to efficiencies and the less complex nature of this Fund.

Oversight and Governance costs reduced during the year due mainly to professional fees that had been paid in 2015/16 in respect of the Fund’s VAT position and liability. There were additional costs in 2016/17 due to the triennial valuation.

Oversight and Governance costs includes fees payable to the Fund’s auditor KPMG of £21,000 (£21,000 in 2015/16).

These management expenses include a total VAT liability of £68,613 (£59,565 in 2015/16)

Notes to the Pension Fund Accounts

11a. Investment Management Expenses

	2016/17	2015/16
	£'000	£'000
South Yorkshire Pensions Authority	176	171
Old Mutual	386	352
Custody	54	38
Transaction costs	78	72
Management fees deducted at source	1	37
VAT Liability	57	45
	752	715

The overseas portfolio manager fees include a performance-related fee of just over £0.339m (£0.336m in 2015/16)

In accordance with CIPFA guidance management fees deducted at source and transaction costs are now shown gross. Wherever possible these figures are based on actual costs disclosed by the manager, where this is not available, best estimates have been made using other available information.

It is important to note that this is a change in reporting only and does not represent an actual increase in costs, nor a decrease in the Fund's resources available to pay pension benefits.

12. Investment Income

	2016/17	2015/16
	£'000	£'000
Interest from fixed interest securities	1,640	1,648
Dividends from equities	2,457	2,235
Income from index-linked securities	1,064	1,064
Income from pooled investment vehicles (property)	48	150
Interest on cash deposits	3	5
Other	(6)	(2)
	5,206	5,100
Irrecoverable withholding tax-equities	(32)	(23)
Total Investment Income	5,174	5,077

Notes to the Pension Fund Accounts

13. Net Investment Assets

	31/03/17 £'000	31/03/16 £'000
Fixed Interest Securities		
UK corporate bonds	38,224	34,514
Equities		
UK quoted	33,785	29,851
Overseas quoted	59,422	47,605
	93,207	77,456
Index Linked Securities		
UK public sector quoted	85,008	71,264
UK corporate bonds	18,380	15,609
	103,388	86,873
Pooled Investment Vehicles		
UK Property	118	2,872
Cash - Foreign currency	692	514
Cash - Sterling	924	608
Other investment assets (broker balances, outstanding dividend entitlement and recoverable withholding tax)	1,344	1, 296
Other investment liabilities (broker balances)	-	-
Total Investment Assets	237,897	204,133

13a. Change in Market Value of Investments

The change in market value of investments during the year comprises all the increases and decreases in the market value of investments held at any time during the year, including all realised and unrealised profits and losses.

Indirect costs are incurred through the bid-offer spread on investments. The amount of indirect costs is not separately provided to the scheme.

	Mkt Value at 1/4/16	Purchases at Cost	Sale Proceeds	Change in Mkt Value	Mkt Value at 31/3/17
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	34,514	4,761	(3,365)	2,314	38,224
Equities	77,456	101,915	(107,211)	21,047	93,207
Index-Linked Securities	86,873	11,804	(7,865)	12,576	103,388
Pooled Investment Vehicles	2,872	4	(2,467)	(291)	118
	201,715	118,484	(120,908)	35,646	234,937
Cash - Foreign currency	514			45	692
Cash - Sterling	608				924
Other investment assets	1,296				1,344
Other investment liabilities	-				-
NET INVESTMENT ASSETS	204,133			35,691	237,897

Notes to the Pension Fund Accounts

Previous Year Comparative:

	Mkt Value at 1/4/15	Purchases at Cost	Sale Proceeds	Change in Mkt Value	Mkt Value at 31/3/16
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	33,951	4,899	(2,891)	(1,445)	34,514
Equities	87,688	85,881	(92,936)	(3,177)	77,456
Index-Linked Securities	79,231	13,645	(5,777)	(226)	86,873
Pooled Investment Vehicles	8,872	2	(6,558)	556	2,872
	209,742	104,427	(108,162)	(4,292)	201,715
Cash - Foreign currency	745			(8)	514
Cash - Sterling	614				608
Other investment assets	1,264				1,296
Other investment liabilities	-				-
NET INVESTMENT ASSETS	212,365			(4,300)	204,133

13b. Investments analysed by Fund Manager

	Market Value at 31/3/17		Market Value at 31/3/16	
	£'000	%	£'000	%
South Yorkshire Pensions Authority	182,397	76.67	159,567	78.17
Old Mutual (overseas equities)	55,500	23.33	44,566	21.83
	237,897		204,133	

The Fund has one investment that represents more than 5% of the net assets of the Scheme:

2016/17

Security	Holding	Valuation £'000	% of total fund
UK Treasury Index Linked 2020	3,700,000	13,785	5.8

2015/16

Security	Holding	Valuation £'000	% of total fund
Treasury Index Linked 2020	3,700,000	13,355	6.5

Notes to the Pension Fund Accounts

14. Fair Value - Basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published closing bid market price ruling on the final day of the accounting period	Not required	Not required
Bonds	Level 2	Average of broker prices valued on a “clean” basis (not including accrued interest)	Composite prices/ Evaluated price feeds	Not required
Pooled investment vehicles - property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

14a. Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1
Financial instruments at Level 1 are those where the fair value are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

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 these techniques use inputs that are based significantly on observable market data. This includes composite prices for fixed income instruments and fund net asset value prices.

Level 3
Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument’s valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation

techniques that require significant judgement in determining appropriate assumptions. Investments in private equity funds and unquoted listed partnerships are valued based on the Fund’s share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association or other professional bodies. The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Notes to the Pension Fund Accounts

2017	Quoted market price	Using observable inputs	With significant unobservable inputs	
Value at 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss	94,551	141,730	-	236,281
Net investment assets (excl cash)	94,551	141,730	-	236,281

2016	Quoted market price	Using observable inputs	With significant unobservable inputs	
Value at 31 March 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss	78,752	124,259	-	203,011
Net investment assets (excl cash)	78,752	124,259	-	203,011

15. Financial Instruments

The Fund's financial instruments are the investment assets and debtors and creditors, these are all disclosed on the Net Assets Statement. The assets and debtors are all carried at fair value. The creditors are carried at amortised cost.

Notes to the Pension Fund Accounts

15a. Classification of Financial Instruments

The following table analyses the carrying amount of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

	31 March 2017	31 March 2016
FAIR VALUE THROUGH PROFIT OR LOSS	£'000	£'000
Financial Assets		
Fixed Interest Securities	38,224	34,514
Equities	93,207	77,456
Index-Linked Securities	103,388	86,873
Pooled Investment Vehicles	118	2,872
Other investment balances	1,344	1,296
Total	236,281	203,011
Financial Liabilities		
Other investment balances	(-)	(-)
Total	(-)	(-)
LOANS AND RECEIVABLES		
Financial Assets		
Cash – Foreign currency	692	514
Cash - Sterling	924	608
Current assets	1,795	293
Total	3,411	1,415
FINANCIAL LIABILITIES AT AMORTISED COST		
Financial Liabilities		
Current liabilities	(117)	(116)
Total	(117)	(116)

See Note 14 re method of valuation of asset classes. Debtors and creditors are included at cost.

15b. Net gains and losses on Financial Instruments

	31 March 2017	31 March 2016
	£'000	£'000
Financial Assets		
Fair value through profit and loss	35,646	(4,292)
Loans and receivables	45	(8)
Financial Liabilities		
Fair value through profit and loss	-	-
Financial liabilities measured at amortised cost	-	-
Total	35,691	(4,300)

Notes to the Pension Fund Accounts

16. Nature and extent of risks arising from Financial Instruments

The Fund’s primary long-term risk is that its assets will fall short of its liabilities (ie promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio.

The Fund’s activities expose it to a variety of financial risks:

- market risk - the possibility that financial loss might arise for the Fund as a result of changes in such measures as interest rates and stock market movements.

- credit risk - the possibility that other parties might fail to pay amounts due to the Fund
- liquidity risk - the possibility that the Fund might not have funds available to meet its commitments to make payments

The management of risk is described within the Fund’s ISS which is posted on the Fund’s website (www.sypensions.org.uk). It centres upon the adoption of an investment strategy, as represented by the Fund’s customised benchmark, which is appropriate to meet the objectives of the Funding Strategy Statement. It focuses on the unpredictability of financial markets and seeks to minimise the potential adverse

effects on the resources available to fund services.

The Fund Manager’s (SYPA) treasury management activities are governed by the Local Government Act 2003 and the Fund has broadly adopted CIPFA’s Treasury Management Code of Practice. The annual Treasury Management Strategy was approved by the Authority in March 2016.

As a pension fund the primary risks which affect it are market risk and credit risk

a. Market Risk

Market Risk – Price Risk –

The Fund publishes its ISS which details how the real risk of negative returns due to price fluctuations is managed.

Because different asset classes have different risk and return characteristics they will react differently to external events and will not necessarily do so in a pre-determined or correlated manner to each other. No single asset class or market acts in isolation from other assets or markets. It is, therefore, extremely difficult to meaningfully estimate the consequences of a particular event in a particular asset on other asset classes. It is important to recognise that returns, volatility and risks vary over time.

In order to minimise the risks associated with market movements the Fund is well diversified across asset classes and within individual portfolios and constantly monitored and reviewed.

Price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. ‘Riskier’ assets such as equities will display greater potential volatility than bonds as an example, so the

overall outcome depends largely on the Fund’s’ asset allocations. Based on this the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

Asset type	Potential market movements (+/-)
Bonds	5.06%
UK Equities	9.06%
Overseas Equities	10.03%
Index Linked securities	7.81%
Property (unit trusts) only residual holding left	0%

This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Notes to the Pension Fund Accounts

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown opposite):

Asset type	Value as at 31 March 2017	Potential Market Movement	Value on increase	Value on decrease
2017	£'000	£'000	£'000	£'000
Bonds	38,224	1,934	40,158	36,290
UK Equities	33,785	3,061	36,846	30,724
Overseas equities	59,422	5,960	65,382	53,462
Index linked securities	103,388	8,075	111,463	95,313
Property (unit trusts)	118	0	118	118
Cash - Foreign currency	692	0	692	692
Cash - Sterling	924	0	924	924
Other investment assets	1,344	0	1,344	1,344
Net investment assets	237,897	19,030	256,927	218,867

Asset type	Value as at 31 March 2016	Potential Market Movement	Value on increase	Value on decrease
2016	£'000	£'000	£'000	£'000
Bonds	34,514	1,905	36,419	32,609
UK Equities	29,851	3,179	33,030	26,672
Overseas equities	47,605	4,799	52,404	42,806
Index linked securities	86,873	5,786	92,659	81,087
Property (unit trusts)	2,872	70	2,942	2,802
Cash - Foreign currency	514	0	514	514
Cash - Sterling	608	0	608	608
Other investment assets	1,296	0	1,296	1,296
Net investment assets	204,133	15,739	219,872	188,394

Notes to the Pension Fund Accounts

Market Risk – Interest Rate Risk – This primarily impacts upon the valuation of the Fund’s bond holdings and, to a lesser degree, the return it receives on cash held. A rise in interest rates would lead to the income earned on variable rate investments increasing but would cause the value of fixed rate investments to fall. The Fund’s correlation to interest rates will vary depending upon the profile of investments held.

The Fund manages its cash investments with a view to obtaining the best returns possible whilst ensuring the security of the deposits. The Fund also holds foreign currency balances which could be affected by interest rate movements but are more sensitive

to exchange rate movements (see Market risk – Currency risk).

The Fund’s direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2017	As at 31 March 2016
	£’000	£’000
Cash - Sterling	924	608
Total	924	608

Interest rate risk – sensitivity analysis

The Authority recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets.

The one standard deviation of the 10 year government bond yield (annualised) amounts to 0.93%.

The following analysis assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets of a +/- 0.93% change in interest rates:

Asset type	Carrying amount as at 31 March 2017	Potential movement on 0.93% change in interest	Value on increase	Value on decrease
2017	£’000	£’000	£’000	£’000
Cash - Sterling	924	9	933	915
Total change in assets available	924	9	933	915

Asset type	Carrying amount as at 31 March 2016	Potential movement on 0.93% change in interest	Value on increase	Value on decrease
2016	£’000	£’000	£’000	£’000
Cash - Sterling	608	6	614	602
Total change in assets available	608	6	614	602

Notes to the Pension Fund Accounts

Market Risk – Currency Risk – the Fund holds cash balances in foreign currency and has investments quoted in foreign currency. The risk of exchange rate movements is accepted as part of the overall management strategy of the Fund.

Currency risk – sensitivity analysis
The potential volatility of the aggregate currency exposure within the Fund based on historical data for the last 3 years associated with foreign exchange rate movements is 15.17%.

A 15.17% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets as follows:

Currency exposure Asset type	Asset value as at 31 March 2017	Potential Market Movement	Value on increase	Value on decrease
2017	£'000	£'000	£'000	£'000
Overseas quoted securities	59,422	9,014	68,436	50,408
Overseas property funds	-	-	-	-
Cash - Foreign currency	692	105	797	587
Total change in assets available	60,114	9,119	69,233	50,995

Currency exposure Asset type	Asset value as at 31 March 2016	Potential Market Movement	Value on increase	Value on decrease
2016	£'000	£'000	£'000	£'000
Overseas quoted securities	47,605	7,222	54,827	40,383
Overseas property funds	-	-	-	-
Cash - Foreign currency	514	78	592	436
Total change in assets available	48,119	7,300	55,419	40,819

Notes to the Pension Fund Accounts

b. Credit Risk

Credit Risk - arises from deposits with banks and financial institutions, as well as credit exposures to the Fund's customers. The risk is minimised through the SYPA Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum criteria set by SYPA. The Treasury Management Strategy also imposes a maximum sum to be invested with each institution. In practice the Fund holds minimal cash balances. Counterparties must have a short term debt credit rating of F1 or better.

The Fund's benchmark allows for cash at 31 March 2017 to a maximum of 5% of the Fund (actual cash holdings were 0.39%).

Interest received on advances during 2016/17 was £1,749 (£3,423 in 2015/16) at an average rate of 0.25% (0.39% in 2015/16) (as the Fund maintains short term deposits only, the rate of interest is closely aligned to the Bank of England base rate which reduced to 0.25% in August 2016, previously the rate had remained at 0.5% since March 2009). For illustration purposes an increase of 0.25% in interest rates achieved would have resulted in an increase of £1,749 (£3,423) in interest received provided that bank balances had remained the same.

c. Liquidity Risk

Liquidity Risk - the Fund ensures it has adequate cash resources to meet its commitments. This is particularly the case for cash to meet pensioner payroll costs and investment commitments.

The Fund has immediate access to its cash holdings with a majority of cash being deposited for no longer than a week and no cash being deposited for more than a month. Also the Fund holds Government bonds amounting to £85.0m (£71.3m at 31 March 2016) which can be realised within a week in normal market conditions, if necessary, to meet expected or unexpected demands for cash.

All financial liabilities are due to be paid in less than one year.

17. Funding Arrangements

In accordance with Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), Barnett Waddingham, the consulting actuary, carried out an examination of the financial position of the Fund as at 31 March 2016. The market value of the Fund's assets at the date of the valuation was £204.310m. The previous valuation had been completed as at 31 March 2013 (market value £194.220m).

The assumptions adopted are (2013 valuation assumptions shown in brackets):-

Financial assumptions

	(non-pensioner/ pensioner)	
Price inflation RPI	2.7% / 2.15%	(3.6% / 3.4%)
Price inflation CPI	2.35% / 1.85%	(2.7% / 2.5%)
General earnings increases	3.25%	(3.6%)
Investment return		
- before retirement	5.8%	(6.6%)
- after retirement	2.7% / 2.15%	(3.6% / 2.8%)

Demographic assumptions

Mortality table	120% S2PA	
Ill-health mortality table	120% S2PA + 6 years	
Mortality projections	CMI_2015 long term rate of improvement 1.25% pa	(CMI_2012 long term rate of improvement 1.0% pa)
Allowance for cash commutation	70% of members elect to take maximum cash	

The funding objective is to ensure that the funding level is 100% and that the long term future contribution rate is relatively stable over time.

On an ongoing basis, the Fund had a valuation deficit in respect of past service rights of £24.88m at 31 March 2016 (£32.8m at 31 March 2013). This represents a funding level of 89% (86% at 31 March 2013).

The primary contribution rate payable by First South Yorkshire Limited has been calculated at 30.5% for the period to 31 March 2020 (23.1% in 2013 effective 1 April 14 to 31 March 2017). Additional deficit payments are also due over the same period.

Notes to the Pension Fund Accounts

18. Actuarial Present Value of Promised Retirement Benefits

IAS26 requires the present value of the Fund's promised retirement benefits to be disclosed. To assess the value of the liabilities as at 31 March 2017 the actuary has rolled forward the value calculated for the triennial valuation as at 31 March 2016 allowing for the different financial assumptions required under IAS19.

The financial assumptions used for the purposes of the calculations are shown in the table below:-

	31 March 2017	31 March 2016
CPI increases	2.5% p.a.	2.1% p.a.
Salary increases	3.4% p.a.	3.0% p.a.
Pension increases	2.5% p.a.	2.1% p.a.
Discount rate	2.5% p.a.	3.4% p.a.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2017 without completing a full valuation. However the actuary is satisfied that the approach of rolling forward the previous valuation results to 31 March 2017 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. There appears to be no evidence that this approach is not appropriate.

On this basis, the value, for IAS26 purposes, of the Fund's promised retirement benefits as at 31 March 2017 was £248.667m (£216.208m as at 31 March 2016) giving a net liability of £9.092m (£11.898m as at 31 March 2016).

The Actuarial Present Value of Fund Obligation consists entirely of Vested Obligations.

19. Current Assets

Debtors:

	31 March 2017	31 March 2016
	£'000	£'000
Contributions due - employers	13	16
Contributions due - employees	4	5
Additional costs of early retirement	-	-
Sundry debtors	100	104
	117	125
Cash at bank	1,678	168
	1,795	293

Analysis of debtors:

	31 March 2017	31 March 2016
	£'000	£'000
Central government bodies	47	50
Other local authorities	5	-
Public corporations and trading funds	-	-
Other entities and individuals	65	75
	117	125
Cash at bank	1,678	168

There are no long term debtors.

Notes to the Pension Fund Accounts

20. Current Liabilities

Creditors:

	31 March 2017	31 March 2016
	£'000	£'000
Benefits Payable	-	4
Sundry creditors	117	112
	117	116

Analysis of creditors:

	31 March 2017	31 March 2016
	£'000	£'000
Other local authorities	66	57
Public corporations and trading funds	14	12
Other entities and individuals	37	47
	117	116

21. Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) made by pension fund contributors are managed by Equitable Life and Scottish Widows. The Fund value of AVCs with these managers and contributions received during the year are shown:

	Fund Value		Contributions received	
	31/3/17	31/3/16	2015/17	2014/16
	£'000	£'000	£'000	£'000
Equitable Life	13	11	-	-
Scottish Widows	157	162	-	-

Notes to the Pension Fund Accounts

22. Related Party Transactions

There are no material transactions with related parties other than those which have been properly recorded and disclosed elsewhere in the accounts.

The employer, First South Yorkshire Limited, is a related party to the Fund and has material transactions with the Authority during the year in the form of contributions described elsewhere in the accounts.

The fund managers are related parties to the Fund and fees paid to them are included in Investment management expenses (see Note 11a).

23. Compensation Payments

The Fund makes compensation payments in respect of non-statutory pension benefits (e.g. 'added years'). These costs are not chargeable to the Fund, but are recovered from First South Yorkshire Limited.

During 2016/17, the Fund made payments in respect of non-statutory pension benefits of £104,425 (£107,533 in 2015/16).





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