

TYNE AND WEAR PENSION FUND

# Annual Report and Accounts 2016/17

Administered by South Tyneside Council





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# MEMBERS OF PENSIONS COMMITTEE

## THE MEMBERS OF PENSIONS COMMITTEE DURING 2016/17 ARE SHOWN BELOW.

### South Tyneside Council

Councillor E. Leask (Chair)  
Councillor A. Walsh (Vice Chair)  
Councillor S. Duncan  
Councillor W. Flynn  
Councillor J. Foreman  
Councillor P. Hay  
Councillor J. Perry  
Councillor A. West

### Gateshead Council

Councillor B. Goldsworthy  
(substitute – Councillor G. Haley)

### Newcastle City Council

Councillor V. Dunn  
(substitute – Councillor G. Bell)

### North Tyneside Council

Councillor T. Mulvenna  
(substitute – Councillor M. Rankin)

### Sunderland City Council

Councillor J. Heron  
(substitute – Councillor G. Walker)

### Trade Union Representatives

M. Abuzahra – Unison  
J. Major – Unite  
S. Forster – Unison

### Employers' Representatives

F. Bootle – Nexus  
B. Elder – Your Homes Newcastle  
B. Scott – South Tyneside Homes

## MEMBERS OF THE LOCAL PENSION BOARD

### Trade Union Representatives

N. Wirz (Chair) – Unison  
J. Pearson – GMB  
C. Sharkey – Unison  
T. Hunter – GMB

### Employer Representatives

M. Brodie – North East Regional Employers' Organisation (NEREO)  
Councillor D. Purvis – South Tyneside Council  
M. Rooney – Lovell Partnership  
J. Woodlingfield (Vice Chair) – Newcastle College Group

Members of the Pensions Committee and the Local Pension Board can be contacted through the Pensions Helpline by emailing [pensions@twpf.info](mailto:pensions@twpf.info)

## SENIOR OFFICERS

### Finance Director (Section 151 Officer)

S. Reid (email: [Stuart.Reid@southtyneside.gov.uk](mailto:Stuart.Reid@southtyneside.gov.uk))

### Head of Pensions

I. Bainbridge (email: [Ian.Bainbridge@southtyneside.gov.uk](mailto:Ian.Bainbridge@southtyneside.gov.uk))

### Principal Pensions Manager

H. Chambers (email: [Heather.Chambers@southtyneside.gov.uk](mailto:Heather.Chambers@southtyneside.gov.uk))

### Principal Investment Manager

T. Morrison (email: [Tom.Morrison@southtyneside.gov.uk](mailto:Tom.Morrison@southtyneside.gov.uk))

### Head of Legal Services

M. Harding (email: [Mike.Harding@southtyneside.gov.uk](mailto:Mike.Harding@southtyneside.gov.uk))

### Corporate Assurance Manager

P. Hunter (email: [Peter.Hunter@southtyneside.gov.uk](mailto:Peter.Hunter@southtyneside.gov.uk))

## ADMINISTRATORS OF THE FUND

The Fund is administered by the in-house Pensions Administration Team.

## ADVISORS

### Actuary

Aon Hewitt – J. Teasdale

### Investment Advisor

Hymans Robertson – P. Potter

The advisors to the Fund can be contacted through the Pensions Helpline by emailing [pensions@twpf.info](mailto:pensions@twpf.info)

## BANK

National Westminster Bank

## CUSTODIAN

Northern Trust

## EXTERNAL AUDIT

Ernst & Young LLP – C. Gray (Executive Director)

## INVESTMENT MANAGERS

### Indexation

Legal and General Investment Management

## EQUITIES

### UK Equity

BlackRock Investment Management  
Mirabaud Investment Management

### Global Equity

JP Morgan Asset Management

### European Equity

UBS Global Asset Management (UK) Ltd

### Japanese Equity

Lazard Asset Management

### Asian ex Japanese Equity

TT International

### Emerging Market Equity

JP Morgan Asset Management

## BONDS

Henderson Global Investors  
M&G Investments

## PROPERTY

UK Property  
Aberdeen Property Investors  
Global Property  
Partners Group

## PRIVATE EQUITY

Capital International  
Coller Capital  
HarbourVest Partners  
Lexington Partners  
Pantheon Ventures  
Partners Group

## INFRASTRUCTURE

M&G Investments  
Partners Group

## ADDITIONAL VOLUNTARY CONTRIBUTIONS

Prudential Assurance Company  
Equitable Life Assurance Society



# REVIEW OF THE YEAR

**We are pleased to present the 2016/17 Report and Accounts for the Tyne and Wear Pension Fund. This has been another busy year for the Local Government Pension Scheme and the Pension Fund.**

**The Government's pooling initiative has gathered pace and this has dominated the agenda for many pension funds. The Fund has committed to working with eleven other funds as part of the Borders to Coast Pensions Partnership (BCPP). A joint submission was made to Government in July 2016 to progress with this initiative and approval to proceed was obtained in December that year. The overall value of the assets in the Partnership is £42 billion at the year end.**

BCPP Limited has been created and is owned by each of the twelve administering authorities of the funds. A Joint Committee has also been established, comprising the Chairs of each Pensions Committee. This will have an oversight role in the creation and future operation of the company. A significant amount of time and effort has been committed to develop this initiative and work will continue into 2017/18 and beyond. The overall aim is to improve investment performance as well as deliver cost savings over the medium to long term.

New Investment Regulations came into force on 1st November 2016. The new Regulations introduce a mixture of new legislative requirements and updates to the 2009 Regulations and drop other requirements altogether. Overall, the new Regulations are less prescriptive. They require the administering authority to maintain and publish an Investment Strategy Statement (ISS), which has replaced the Statement of Investment Principles. Within this ISS the Fund is required to set out its approach to pooling investments.

The most significant change with the new Regulations is the introduction of a new power for the Secretary of State to make a direction if he is satisfied that an administering authority is failing to act in accordance with guidance. This power of direction should only be used as a last resort and after consulting with the administering authority.

This is the third year of the operation of the new Local Government Pension Scheme. This is a career average scheme based on an accrual rate of 1/49th of salary for each year of pensionable service, with accrued

benefits re-valued in line with increases in the Consumer Prices Index.

Whilst the new scheme is now bedded in, the increased complexity of administering a career average scheme has continued to impact on processing and systems development. A backlog of work continues to exist for lower priority work, however this has been reduced during the year.

We remain committed to developing means of electronic communication including our website as important and cost effective elements of the service delivery package. Work on online services for employers will facilitate increased volumes of data to be transferred and processed electronically. A system is being introduced to allow members to view their personal record and benefits statements and to calculate estimates of their benefits.

2016/17 was a valuation year for the Fund, which brought many challenges with regard to the funding strategy, workload, data quality and communications with employers. The contributions to be paid by employers for the next three years have been set by this valuation.

The contributions paid by employers in the 2016/17 year were set as part of the previous valuation, as at March 2013. The reported funding level at that time was 81% based on the assumptions agreed with the actuary. This was a slight improvement from the figure of 79% at the 2010 valuation. The average future service rate was 16.1% of pay, and the contribution to address the deficit was 7.5% of pay, leading to a total average contribution of 23.6% of pay.

The results of the 2016 valuation showed a further improvement in the reported funding level on an ongoing basis, to 85%. The low risk funding level based on gilt yields was 54%, which was lower than the figure of 57% at the 2013 valuation.

The contributions payable for the next three years have been set as part of the 2016 valuation. The average future service rate has been set at 18.3% of pensionable pay. The contribution to address the deficit over a 20 year period was 6.9%, leading to a total average contribution rate of 25.2%, 1.6% above the rate at the 2013 valuation.

Part of the upward pressure on the employer contributions is due to falling payrolls, in particular at a number of the larger employers in the Fund. This leads to an increase in a percentage based deficit contribution. In practice, the Fund manages this issue by setting most deficit contributions as cash sums to maintain their economic value.

The investment strategy in place at the beginning of 2016/17 was based on an asset liability study carried out in 2013/14 that used the liability data from the 2013 valuation. This resulted in an overall high level strategy of 58.5% in equities, 19% in bonds and cash, 12.5% in property, 7.5% in private equity and 2.5% in infrastructure.

Limited tactical positions were taken during the year, including a reduction in the allocation to UK property of 1%, from 8% to 7%. In addition, it was agreed that 1% of the remaining 7% allocation will be in UK residential property. There was also a 0.5% increase in the allocation to global property to take this to 5% and a 0.5% allocation to a trade finance fund.

An updated asset liability study was carried out in 2016/17 using the liability data from the 2016 valuation. The study concluded the existing strategy was largely suitable, however a 3% shift from UK equities to private debt will be implemented, and the limited tactical positions which were already being put in place should be reflected in the strategic allocation going forward.

Once the changes from the study have been implemented, the Fund's asset allocation will reflect the strategy of 55.5% in equities, 19% in bonds and cash, 12% in property including residential, 7.5% in private equity, 3% in private debt, 2.5% in infrastructure and 0.5% in trade finance.

We have continued to partially de-risk the Fund by backing orphan pension liabilities where a cessation valuation has been carried out with index-linked gilts.

During the year most of the major asset classes produced strong returns. The fall in Sterling also provided a boost in returns for UK based investors. The strongest performing markets were Asia ex-Japan equities and Emerging Market equities, with returns of 36.5% and 35.2% respectively. The return from UK equities is of particular importance to UK pension funds, as a significant proportion of assets tend to be invested there. This market returned a gain of 22.0%.

The strong performance of listed assets was complemented by another good year of performance by the alternative investments including private equity, infrastructure and both UK and global property.

The Fund's total return in the year was 23.9%, which was 3.4% above its benchmark return of 20.5%. This represents an exceptional period of performance for the Fund.

Inflation as measured by the Consumer Prices Index, which has risen in importance as a measure for the Scheme, was up by 1.5% over the year while Average Earnings increased by 2.4%.

The Fund's five year return is 10.8% per annum, which is ahead of the benchmark return of 9.9% per annum. The ten year return is 7.2% per annum, which is also ahead of the benchmark return for this period of 6.9% per annum.

Finally we would like to thank the Pensions Committee, the Local Pension Board and the staff involved with the Fund for all their hard work during another busy and challenging year.



**Councillor Eileen Leask**  
Chair of Pensions Committee



**Ian Bainbridge**  
Head of Pensions



# LEGAL FRAMEWORK

## INTRODUCTION

**The Tyne and Wear Pension Fund is part of the Local Government Pension Scheme (the Scheme) and is administered by South Tyneside Council. The Department of Communities and Local Government (CLG) sets out the framework for the Scheme in regulations that apply in England and Wales.**

## SCHEME REGULATIONS

**The rules of the Scheme are contained in the following sets of regulations.**

The Local Government Pension Scheme Regulations 2013 describe how rights accrue and how benefits are calculated with effect from 1st April 2014. The regulations also contain the administrative provisions for the Scheme.

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 set out how membership accrued prior to 1st April 2014 counts. These regulations also remove the ability of Councillors in England and Wales to continue their participation in the LGPS.

**The main provisions of the new Scheme are:**

- Tiered employee contribution rates.
- A Career Average Re-valued Earnings pension based on 1/49th of salary for each year of pensionable service.
- A "50:50" arrangement allowing members to opt to pay 50% of their standard contribution rate. Where this is exercised the member will accrue pension based on 1/98th of salary for each year of pensionable service.
- A Normal Retirement Age of the member's State Pension Age for the release of unreduced benefits.
- A three level ill health retirement package, payable from any age.
  - 100% enhancement of benefits for total incapacity.
  - 25% enhancement where there is a prospect of return to gainful employment after three years but before Normal Retirement Age.
  - No enhancement where there is a prospect of return to gainful employment within three years. This level of ill health pension ceases on re-employment or after three years in payment.
- The earliest age that the member may choose to release their pension is 55. If the member chooses to access before Normal Pension Age then their pension will be subject to reduction.
- Immediate payment of retirement benefits on grounds of redundancy or business efficiency if the member has attained age 55.
- Phased retirement arrangements that enable members under specified circumstances to draw down some or all of their accrued pension rights from the Scheme while still continuing to work.
- An option to commute pension to lump sum, at the rate of one pound of annual pension for twelve pounds of lump sum, up to a maximum tax free lump sum of 25% of capital value of accrued benefit rights at date of retirement.
- Pensions indexed in line with the Consumer Prices Index.
- Pensions must come into payment before the 75th birthday.
- Survivor benefits for life, payable to spouses, civil partners and dependant partners (opposite and same sex) at a 1/160th accrual rate.
- Survivor benefits payable to children.
- A death-in-service tax-free lump sum of three times assumed pensionable pay.
- A post-retirement lump sum death benefit where death occurs before age 75 of up to a maximum of ten years pension.
- Transfer values to other pension arrangements or index-linked deferred benefits for early leavers.
- A refund of contributions where no other benefit is due.
- Facilities for paying additional voluntary contributions to provide benefits.

## MANAGEMENT AND GOVERNANCE

**The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 amended the Local Government Pension Scheme Regulations 2013 and contain additional provisions covering governance of the new Scheme.**

The additional provisions provided for the setting up of, and making appointments to, Local Pension Boards and the Scheme Advisory Board.

Under the Public Service Pensions Act 2013, CLG continue to be responsible for policy and the making of regulations. There is a Local Government Pension Scheme Advisory Board which advises CLG on regulatory changes it considers being appropriate.

At individual Fund level, each Fund continues to be administered by its designated administering authority. Each Fund must also have a Local Pension Board that is tasked with assisting the administering authority in securing compliance with regulations, other legislation and the requirements of the Pensions Regulator. Local Pension Boards must have equal representation of employer representatives and member representatives, who must not be officers or councillors of the administering authority who are responsible for the discharge of local government pension functions. The Fund has a Local Pension Board.

The Regulations also include an employer cost cap. The Secretary of State is required, if valuation reports indicate that costs have varied by more than the margin allowed for in the Regulations, to make changes to the Scheme to bring costs back to the defined level.

The Local Government Pension Scheme Advisory Board is required to monitor the overall costs of the Scheme and the proportion of those costs met by employers and members. The Local Government Pension Scheme Advisory Board is also required to make recommendations to the Secretary of State for changes to the Scheme where costs have varied beyond defined margins.

## POOLING OF INVESTMENTS

**In 2013, the Government undertook a “Call for Evidence” on the structure of the Local Government Pension Scheme. The Government then confirmed that fund mergers were “not being taken forward at present” and the focus changed to a search for more efficient ways to invest the Scheme’s assets.**

In the Summer Budget in July 2015, the Chancellor announced the Government’s intention to work with the LGPS administering authorities to ensure that investments were pooled while maintaining overall investment performance. The criteria for developing proposals were set in November 2015 and administering authorities were required to submit initial proposals by February 2016 and refined and completed submissions by July 2016.

Having considered a number of options the Fund has decided to work with eleven other administering authorities as part of the Border to Coast Pension Partnership (BCPP). All of the administering authorities in the BCPP are considered to have a like-minded approach to investment. At the end of March 2017 the overall value of assets in the Partnership is approximately £42 billion. This is a major strategic collaboration between the funds, with the aim of delivering improved performance as well as cost savings over the medium to long term.

BCPP and the Fund submitted initial responses to Government in February 2016. A joint submission on behalf of the Partnership was made in July 2016. Government approval that BCPP met its requirements was received on 13th December 2016.

As at 31st March 2017 all of the administering authorities in BCPP had formally approved arrangements for joining. South Tyneside Council, as administering authority of the Tyne and Wear Pension Fund, agreed to join at a Council meeting on 9th March 2017.

BCPP Limited has recently been incorporated, established and registered as a company limited by shares, with each of the twelve administering authorities as shareholders. A number of workstreams to develop the company arrangements and investment vehicles are well progressed, including recruitment to the Board of Directors.

A Joint Committee has also been established, comprising the Chairs of each Pensions Committee. This will have an oversight role in the creation and future operation of BCPP Limited.

## INVESTMENT REGULATIONS

**The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1st November 2016 replacing the 2009 Regulations. The new Regulations introduce a mixture of new legislative requirements and updates to the 2009 regulations and drop other**

**requirements altogether. Overall the new regulations are less prescriptive.**

These Regulations set out which payments must be made into and out of the pension fund, restrict powers of borrowing and require fund money to be in a separate account. The Regulations require the administering authority to maintain and publish an Investment Strategy Statement (ISS). The ISS should describe the Fund’s investments and investment strategy and must include:

- a requirement to invest money in a wide variety of investments,
- an assessment of the suitability of investments held,
- the approach to risk,
- the approach to pooling investments,
- the policy and approach to social, environmental and corporate governance,
- the policy on the exercise of rights (including voting rights) attaching to investment.

The ISS must also set out the maximum percentage of the Fund that it will invest in particular investments or asset classes.

The new Regulations also introduce new powers for the Secretary of State to make a direction if he is satisfied that an administering authority is failing to act in accordance with this guidance. The power of direction can be used to:

- require changes to the investment strategy,
- require investment in specific assets or asset classes,
- transfer the investment functions to the Secretary of State or a person nominated by the Secretary of State,
- require the administering authority to comply with any instructions.

This regulation essentially allows the Secretary of State to intervene in whatever manner is deemed necessary to address a perceived problem.

Before any direction can be issued, the Secretary of State must consult with the administering authority and take due consideration of reports and representations. Although this does appear quite draconian, providing powers to the Secretary of State, where under previous regulations there were none, its use is likely to be a last resort.

# GOVERNANCE ARRANGEMENTS

South Tyneside Council is the administering authority of the local government pension fund for the Tyne and Wear County area.

## PENSIONS COMMITTEE

**The Council has set up a Pensions Committee (the Committee) to control and resolve all matters relating to the Fund. The Council's Constitution requires the Committee to:**

- Prepare, maintain and publish the Governance Compliance Statement.
- Ensure that the Scheme Manager complies with the Local Government Pension Scheme Regulations and all other legislation that governs the administration of the Fund.
- Prepare, maintain and publish the Funding Strategy Statement.
- Prepare, maintain and publish the Pensions Administration Strategy.
- Ensure that the Fund is valued as required and receive and consider reports on each valuation.
- Ensure appropriate arrangements are in place for the administration of benefits.
- Set the admissions policy.
- Prepare, maintain and publish the Communications Policy Statement.
- Ensure appropriate additional voluntary contributions arrangements are in place.
- Prepare, maintain and publish the Statement of Investment Principles.
- Set the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities.
- Appoint, dismiss and assess the performance of investment managers and custodians.
- Prepare, maintain and publish the Corporate Governance Policy.
- Ensure appropriate arrangements for the Local Pension Board are in place and maintain and publish information about the Local Pension Board.

The overall governance structure, including the wider responsibilities of the Committee, is set out in the Governance Compliance Statement that the Fund has to prepare, maintain and publish under the Local Government Pension Scheme Regulations 2013. The Statement was last reviewed by the Committee in February 2016 and demonstrates that the Fund is compliant with guidance provided by the Secretary of State for Communities and Local Government.

It will be necessary to undertake a review of the Constitution and the Governance Compliance Statement once the Pooling arrangements are formally in place.

The Committee has eighteen members. South Tyneside Council nominates eight members and the other four district councils within the County area nominate one member each. The trades unions and the employers collectively nominate three members each, who sit on the Committee in an advisory capacity.

The Committee meets quarterly to consider pension matters. Additional meetings are called should any matter require an in-depth review.

The Committee has set up an Investment Panel to provide a greater focus on, and scrutiny over, the investment strategy and the performance of the managers. The Panel consists of three members of the Committee, the Investment Advisor, the Head of Pensions and the Principal Investment Manager. It reports its findings to the Committee and makes recommendations on any action that is required.

## LOCAL PENSION BOARDS

**The Public Service Pensions Act 2013 and the Scheme Regulations require the Council to establish a Local Pension Board to assist the Pensions Committee in ensuring that the Fund complies with legislation relating to its governance and administration, its own rules and any requirements of the Pensions Regulator.**

The Council established the Local Pension Board on the 12th March 2015.

The responsibilities to be discharged by the Local Pension Board include:

- To secure compliance with the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 and the Local Government Pension Scheme Regulations 2013 (as amended) and any other legislation relating to the governance and administration of the Fund;
- To secure compliance with any requirements imposed by The Pensions Regulator in relation to the Fund;

- To ensure the effective and efficient governance and administration of the Fund; and
- To provide the Pensions Committee with such information as it requires to be satisfied from time to time that none of the members of the Local Pension Board or person to be appointed as a member of the Local Pension Board has a conflict of interest.

The Local Pension Board reports to the Pensions Committee. The Board consists of eight voting members, four Member representatives and four Employer representatives.

The Board is required to produce an annual report. A copy of this annual report is available on the Fund's website at <http://www.twpf.info/article/57170/Annual-Reports-for-Local-Pension-Board>

## MANAGEMENT OF CONFLICTS OF INTEREST

**Declaration of potential conflicts of interest is a requirement for Committee members, Local Pension Board members and the Fund's officers.**

A Register of Interests is maintained for members and officers.

Declaration of interests is the opening agenda item at Committee, Local Pension Board and Investment Panel meetings. Depending on the level of the conflict, an individual may be required to take no part in discussions or voting, or may be required to leave the meeting whilst the matter is addressed.

## ATTENDANCE AT MEETINGS AND AT TRAINING

**Attendance at meetings of the Committee, Local Pension Board, at the Investment Panel and at training is summarised in the table below.**

The table also shows which members of the Committee and Local Pension Board had voting rights. In practice, the Committee and Local Pension Board generally operates by consensus, with all members having an equal right to make their views known, and it is a number of years since a vote was last taken.

| PENSIONS COMMITTEE                       | VOTING RIGHTS | NO. OF MEETINGS ATTENDED | NO. OF INVESTMENT PANEL MEETINGS ATTENDED | TOTAL HOURS OF TRAINING ATTENDED |
|--|---------------|--------------------------|---|----------------------------------|
| Cllr. E. Leask                           | Y             | 6 of 6                   | 4 of 4                                    | 78.0                             |
| Cllr. A. Walsh                           | Y             | 4 of 6                   | 4 of 4                                    | 96.0                             |
| Cllr. S. Duncan                          | Y             | 0 of 6                   | N/A                                       | 0.0                              |
| Cllr. J. Foreman                         | Y             | 4 of 6                   | N/A                                       | 66.5                             |
| Cllr. W. Flynn                           | Y             | 5 of 6                   | 3 of 4                                    | 52.5                             |
| Cllr. P. Hay                             | Y             | 5 of 6                   | N/A                                       | 66.0                             |
| Cllr. J. Perry                           | Y             | 5 of 6                   | N/A                                       | 45.0                             |
| Cllr. A. West                            | Y             | 4 of 6                   | N/A                                       | 45.0                             |
| Cllr. B. Goldsworthy                     | Y             | 5 of 6                   | N/A                                       | 45.0                             |
| Cllr. G. Haley (substitute)              | Y             | 4 of 6                   | N/A                                       | 43.5                             |
| Cllr. V. Dunn                            | Y             | 4 of 6                   | N/A                                       | 45.0                             |
| Cllr. G. Bell (substitute)               | Y             | 1 of 6                   | N/A                                       | 0.0                              |
| Cllr. T. Mulvenna                        | Y             | 2 of 6                   | N/A                                       | 0.0                              |
| Cllr. M. Rankin (substitute)             | Y             | 0 of 6                   | N/A                                       | 0.0                              |
| Cllr. J. Heron                           | Y             | 4 of 6                   | N/A                                       | 43.5                             |
| Cllr. G. Walker (substitute)             | Y             | 2 of 6                   | N/A                                       | 24.0                             |
| M. Abuzahra (Trade Union Representative) | N             | 4 of 6                   | N/A                                       | 24.0                             |
| J. Major (Trade Union Representative)    | N             | 6 of 6                   | N/A                                       | 52.0                             |
| S. Forster (Trade Union Representative)  | N             | 4 of 6                   | N/A                                       | 22.5                             |
| B. Elder (Employer Representative)       | N             | 4 of 6                   | N/A                                       | 43.5                             |
| B. Scott (Employer Representative)       | N             | 6 of 6                   | N/A                                       | 45.0                             |
| F. Bootle (Employer Representative)      | N             | 5 of 6                   | N/A                                       | 45.0                             |

| LOCAL PENSION BOARD | VOTING RIGHTS | NO. OF MEETINGS ATTENDED | NO. OF INVESTMENT PANEL MEETINGS ATTENDED | TOTAL HOURS OF TRAINING ATTENDED |
|---------------------|---------------|--------------------------|---|----------------------------------|
| N. Wirz             | Y             | 4 of 4                   | N/A                                       | 84.0                             |
| J. Woodlingfield    | Y             | 4 of 4                   | N/A                                       | 63.0                             |
| Cllr. D. Purvis     | Y             | 4 of 4                   | N/A                                       | 42.0                             |
| M. Rooney           | Y             | 3 of 4                   | N/A                                       | 21.0                             |
| M. Brodie           | Y             | 3 of 4                   | N/A                                       | 42.0                             |
| C. Sharkey          | Y             | 4 of 4                   | N/A                                       | 70.0                             |
| J. Pearson          | Y             | 4 of 4                   | N/A                                       | 49.5                             |
| T. Hunter           | Y             | 1 of 1                   | N/A                                       | 0.0                              |

The substitute members on the Pensions Committee from the district councils are given full access to meetings and to the training events. They may only vote when the first named member from their council is not attending a Committee meeting.

The members of the Investment Panel and the Chair and Vice Chair of the Local Pension Board are offered additional training opportunities in recognition of the additional governance duties placed upon them.

## WIDER GOVERNANCE ARRANGEMENTS

**The Fund holds annual meetings for the employers and for the trades unions.**

The agenda for these meetings includes presentations by the Actuary and the Investment Advisor and covers the actuarial position, the benefits structure and investment performance.

## INFORMATION ON THE FUND

**Information on the Fund is held on the Fund's website at [www.twpf.info](http://www.twpf.info).**

The information that is available includes:

- The agenda and minutes for both the Pensions Committee and Local Pension Board meetings.
- The Service Plan, which presents the Fund's aims and objectives over three year rolling periods.
- The Governance Compliance Statement, which sets out the governance arrangements.
- The Actuary's Report on the 2016 valuation and the Funding Strategy Statement.
- The Investment Strategy Statement, concerning the approach to the investment of the Fund.

- The Corporate Governance Policy, which sets out the Fund's approach to environmental, social and governance issues.
- The Communications Policy Statement, which sets out the services we provide to members, prospective members and employers.
- The Pension Administration Strategy, which is designed to assist the Fund and the employers to work effectively together to fulfil their joint responsibilities.
- A wide range of documents that set out the Fund's working arrangements.

## BORDER TO COAST PENSIONS PARTNERSHIP (BCPP) LIMITED

**South Tyneside Council as administering authority of the Tyne and Wear Pension Fund has agreed to join and become a shareholder in BCPP Limited. In this capacity there will be a need for the Fund to distinguish between its roles as a shareholder, which is a new function, versus its role as an investor in a collective investment vehicle. The two are fundamentally different functions.**

Shareholder functions relate to the ownership of BCPP Limited and are subject to company law and key company documents. The Fund will need to act through a nominated shareholder representative who will either vote by attendance at shareholder meetings of the company or by signing written resolutions as permitted by company law.

The Fund will also be represented on the newly created BCPP Joint Committee, which will focus on the oversight role, particularly on 'investor' issues (as distinct from shareholder

issues). Investor rights relate to the investment in BCPP Ltd as governed by legal documents for each investment. The Joint Committee will have twelve members, one from each BCPP administering authority.

It has been determined that the Chair of the Pensions Committee, or any other person nominated from time to time, will represent the Fund on both the Joint Committee and in voting at Shareholder Meetings.

Within BCPP Limited there will be a Board which will consist of three Executive Directors and three Non-Executive Directors, including a Chair. An equal number of Executive Directors and Non-Executive Directors is considered to be good governance practice with the Chair having the casting vote.

The Board will be directly accountable to the funds in its role as both Shareholders in relation to company matters and the Joint Committee for investor matters.

Under the new pooling arrangements the Pensions Committee will remain responsible for setting the funding strategy and the high level investment strategy, e.g. the appropriate asset allocation for the Fund. The main difference will be that the Fund will no longer be appointing and monitoring investment managers directly. Instead the Fund will be monitoring the performance of the investments in the Pool.

The Local Pensions Board would continue in its role in assisting the Pensions Committee in ensuring compliance with regulations and the effective and efficient governance of the Fund.

# THE TRAINING POLICY AND PROGRAMME

## The Pensions Committee has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

**The Pensions Panel of the Institute has prepared a Knowledge and Skills Framework for persons involved with the Local Government Scheme. Two frameworks have been produced for Elected Representatives and Non Executives and for Pensions Practitioners.**

CIPFA has also developed a Local Pension Board Knowledge and Skills Framework, which has been used by the Local Pension Board.

### COMMITTEE AND LOCAL PENSION BOARD TRAINING

**The Committee has adopted the Pensions Panel Framework for Elected Representatives and Non Executives as the basis of its Training Policy and Programme. This recognises the Institute's Code of Practice and the requirements of the Investment Principles. The Local Pension Board has assessed its requirements against their own CIPFA framework.**

The Committee and the Local Pension Board consider training requirements at each of their quarterly meetings and devise a programme that builds on the training previously delivered to address the issues that will arise in coming years. The same training opportunities are available to the Committee and the Local Pension Board.

The programme in 2016/17 was based around two residential training seminars and additional sessions delivered at the quarterly meetings. The Investment Managers, the Investment Advisor and the Actuary assisted with the delivery of this programme.

Selected training seminars and conferences that were offered by industry wide bodies were attended by the Committee Members that sat on

the Investment Panel and the Chair and Vice Chair of the Local Pension Board. This recognises the higher governance duties placed upon those roles.

New members were invited to attend individual briefing sessions with the Fund's Officers that included an assessment of their individual training needs.

#### **The programme for 2016/17 covered topics such as:**

- Service planning and budgeting
- The 2016 valuation.
- Funding strategy, including cash flow management and de-risking.
- Review of the Investment Strategy and Asset liability modelling.
- Performance assessment of the Fund's governance structure.
- Developments on pooling of the Scheme's assets.
- The global economic outlook.
- The asset classes that the Fund invests in.
- Governance Structure.
- Sustainability and Property Investing.
- Admissions and Outsourcings.
- Risk management.

#### **The programme for 2017/18 is scheduled to include sessions on:**

- Service planning and budgeting.
- Investment pooling.
- Working with other LGPS Funds.
- The role of the Pensions Regulator.
- The asset classes that the Fund invests in.
- Responsible investing.
- De-risking of the Investment Strategy.
- Benchmarking of Investment and Pensions Administration costs.
- The 2016 Investment Regulations.
- Additional Voluntary Contributions.

### OFFICER TRAINING

**The Pensions Service participates in the general approach to officer training and development that is provided by South Tyneside Council.**

The requirement for pension specific training has been addressed through the adoption of the Pensions Panel Framework for Pensions Practitioners.

#### **Our training initiatives include:**

- Career grades, where advancement is geared to an ongoing assessment of knowledge and capability.
- Attendance at a range of seminars and conferences that are offered by industry wide bodies.
- Access to the guidance, circulars and training sessions that are available through the Local Government Employers organisation.
- A "buddy system" is in place to train and support staff who are learning about new areas of work and to provide ongoing support.
- Officers participate in the pension administration software supplier's user groups and technical development groups.
- The pension administration software has been developed to include processing guidance notes and links to internal policies, external key documents and websites.

# VISION STATEMENT

**Our goal is to provide an attractive and affordable pension arrangement that is seen by employers and members as an important and valued part of the employment package.**

## WE WILL:

- promote membership of the Fund.
- keep contributions as low and as stable as possible through effective management of the Fund.
- work with our partners to provide high quality services to employers and members.
- make pensions issues understandable to all.

## WE WILL KNOW WE ARE SUCCEEDING WHEN:

- we are consistently achieving our investment objective.
- there are sufficient assets to meet the liabilities.
- we are consistently achieving our service standards.
- we are recognised as being amongst the leading UK pension funds.





# SERVICE PLAN

**The vision and aims of the Fund are set out in our Service Plan. This is a three year rolling plan that is reviewed annually. It sets out the objectives and actions that we must concentrate on in order to achieve our vision.**

**The Pensions Committee approves the Plan at a special meeting in February of each year.**

The Plan can be viewed on the Fund's website.

## **In 2016/17, we have:**

- Completed the triennial valuation of the Fund as at 31st March 2016 and set appropriate contribution rates for employers
- Reviewed and updated the Funding Strategy Statement in line with updated guidance from the Chartered Institute of Public Finance and Accountancy.
- Developed and applied the Funding Strategy, including managing the admission of new employers and the withdrawal from the Fund of some existing employers.
- Worked with the Investment Advisor to undertake asset liability modelling, based on the latest actuarial information and reviewed and updated the Fund's Investment Strategy.
- Reviewed and approved an Investment Strategy Statement in line with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- Worked in collaboration with other pension funds within the Borders to Coast Pensions Partnership Limited, to develop and implement an investment pooling solution in line with the Government's requirements.
- Delivered a joint approach to training for the Pensions Committee and the Local Pension Board that is based on the Knowledge and Skills Framework prepared by the Institute's Pensions Panel.
- Responded to consultations on the Scheme and advised employers and members of developments and regulatory changes.
- Continued to develop the private equity, global property and infrastructure programmes.

## **In 2017/18, we will:**

- Implement the outcome of the 2016/17 Asset Liability Modelling and the updated investment strategy. This will include introducing allocations to Private Debt and funding allocations to Trade Finance and Residential Property.
- Continue to work with the funds in the Border to Coast Pensions Partnership Limited to implement pooling.
- Identify ways of working with other pension funds to identify more efficient ways of operating.
- Continue to develop and apply the Funding Strategy to ensure that it targets solvency, whilst managing the cost of the Scheme for employers.
- Continue to address backlogs in pensions processing that have arisen due to the significant increase in regulatory, systems and processing work from the 2014 Scheme.
- Expand the online services to employers to provide for increased electronic passing of data and processing.
- Introduce online services for members that will allow viewing of personal records, calculation of benefits estimates and the receipt of annual statements.

# RISK MANAGEMENT

## INTRODUCTION

The Fund must identify and manage the strategic and operational risks that it is exposed to. Therefore, our Service Plan includes an objective to embed risk management within all our actions, thereby ensuring that risk is addressed as an inherent part of the management of the Fund.

## FUND LEVEL APPROACH AND THE RISK REGISTER

This approach is supported by a Fund level assessment of the major risks that the Fund is exposed to. This identifies and assesses risks over the areas of

- Governance.
- Assets.
- Liabilities and Funding Strategy.
- Legal.
- Service Delivery.
- Reputation.

The impact of each risk is assessed as either

- Negligible.
- Marginal.
- Significant.
- Substantial.

The likelihood of each risk arising is then assessed as either

- Improbable.
- Possible.
- Probable.
- Near Certain.

This leads to an assessment of the net impact of each risk, after controls have been applied, as either

- Minor.
- Moderate.
- High.
- Critical.

The strategy for the management of each risk is set as either

- Treat.
- Tolerate.
- Transfer.
- Terminate the Activity.

This process is undertaken at least quarterly by the Fund's officers.

## THE ROLE OF THE COMMITTEE AND THE LOCAL PENSION BOARD

**The Local Pension Board receives the risk register in full each quarter, identifying any risks that are critical and also any changes during the quarter, alongside a commentary on the changing risk environment.**

The Committee receives a shorter quarterly report in addition to one full annual report.

The risk register was last updated as at 31st March 2017 and no risks were assessed as Critical. A copy of the risk register is available on the Fund's website.

The management of risk is included in the Committee and Board training programme by way of workshops that are moderated by the Fund's internal auditors.

## THE ROLE OF INTERNAL AUDIT

**The Council's Internal Audit Service carries out a range of audits each year, based on a three year rolling programme that ensures appropriate coverage.**

The Risk Register is considered in the preparation of the audit programme. Every audit report is made available to the Committee and the Board and a summary report is considered annually.

In recognition of the specialised nature of the Fund compared to other local authority functions, a private sector partner has been appointed to assist with the more complex audit areas. This role is currently undertaken by Deloitte.

## INVESTMENT RISK

**There are a number of risks involved in the investment of the Fund. The approach is to monitor and control these risks as far as possible, consistent with earning a satisfactory return on investments.**

Further details are contained in the Risk section of the Investment Strategy Statement, which may be viewed on the Fund's website.

The Notes to the Accounts set out the nature and extent of the risks arising from the investments, alongside a sensitivity analysis on returns.

Investment risk is also addressed within the Risk Register, principally within the Assets section.

Assurance over third party operations, such of those of the investment managers and the custodian, is obtained through a review of each organisation's Report on Internal Controls, e.g. the AAF 01/06 and SSAE 16 reports.

The Fund has appointed an external investment advisor to provide appropriate advice. This role is currently undertaken by Hymans Robertson.

The Fund undertakes an asset liability modelling exercise every three years to ensure that the strategic benchmark and investment management structure is appropriate to the liabilities. This exercise examines the financial position, the membership profile, the nature of the liabilities and analyses the expected ranges of outcomes from differing investment policies. It is undertaken in valuation years, based upon the liability data for the valuation.

This triennial exercise is backed up by desk-top exercises in non valuation years.

The strategy and structure is designed to ensure that the Fund's investments are adequately diversified.

The performance of the Total Fund and each manager and programme is assessed and reported quarterly to the Committee. Action is taken where performance is unsatisfactory.

## FUNDING STRATEGY

**The approach to managing the risks inherent in the funding strategy is set out in the Funding Strategy Statement, in particular in the Identification of Risks and Counter Measures section. The document may be viewed on the Fund's website.**

These risks are also addressed within the Risk Register, principally within the Liabilities and Funding Strategy section.

## PENSIONS ADMINISTRATION

**The risks associated with administration of pensions are addressed within the Risk Register, principally within the Service Delivery and Legal sections.**

The Pensions Administration report contained in this document provides further details on our approach.

In addition, the Financial Performance Report contains information on the timely collection of contributions and our approach to the recovery of overpayments.



# FINANCIAL PERFORMANCE

## INTRODUCTION

The financial control of the Fund is carried out by the Investments Office of the Pensions Service.

**This includes:**

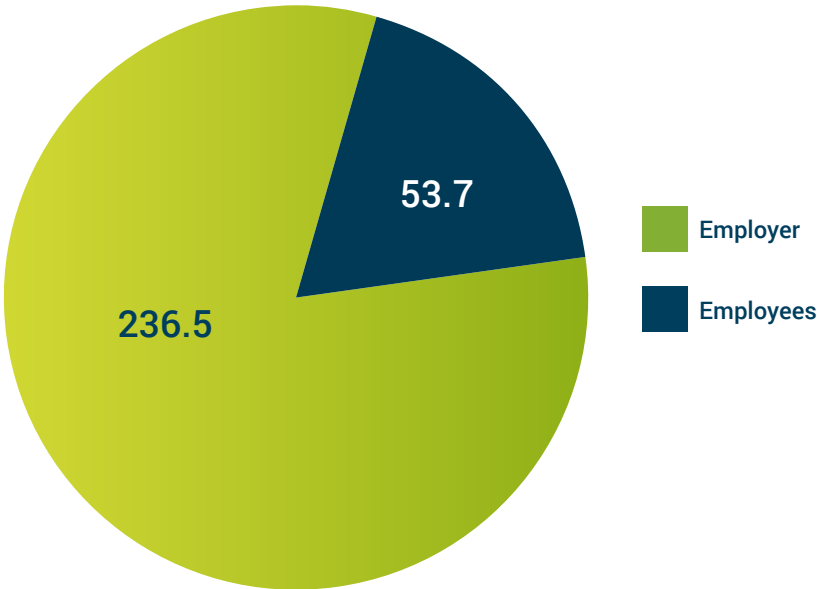
- the day to day pensions and investment accounting functions.
- reconciling the valuation of the investments and monitoring the collection of dividends and interest and the associated cash flows in all currencies.
- reconciling the cash flows associated with pension benefits, including the collection of contributions and the payment of pensions.
- the preparation and monitoring of the Pensions Service's budget.
- the preparation of the final accounts.

## CONTRIBUTIONS AND PENSIONS

In 2016/17, the Fund received £290.2 million (£289.4 million in 2015/16) in pension contributions from employers and employees and paid £293.6 million (£264.8 million in 2015/16) of pension benefits to 45,924 pensioner and beneficiary members.

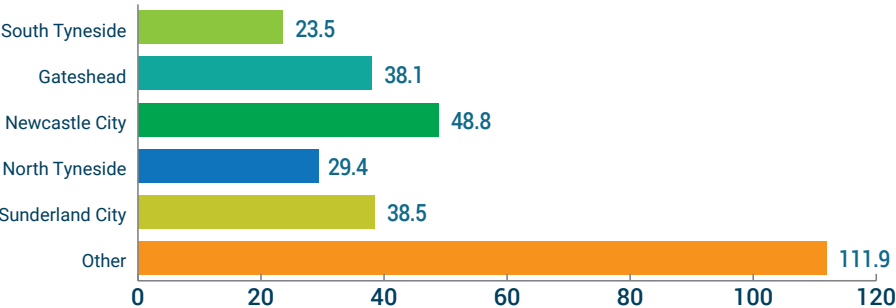
The chart below shows a breakdown of the contribution income:

**Contribution income 2016/17 £m**



The table below shows the contributions paid by each type of organisation:

**Contribution income 2016/17 £m**



## CONTRIBUTIONS RECEIVED ON OR BEFORE THE DUE DATE

The Fund requires employers to pay contributions over by the 14th of each month. This assists with the cash flow for the pension payments, which are made on the 16th of the month.

The table below shows the amounts payable each month throughout 2016/17 and the amount collected by the due date.

| MONTH  | AMOUNT DUE<br>£'000 | RECEIVED ON OR<br>BEFORE DUE DATE |
|--------|---------------------|-----------------------------------|
| Apr-16 | 22,749              | 99.8%                             |
| May-16 | 22,398              | 99.9%                             |
| Jun-16 | 22,551              | 99.3%                             |
| Jul-16 | 22,451              | 100.0%                            |
| Aug-16 | 22,069              | 100.0%                            |
| Sep-16 | 22,106              | 100.0%                            |
| Oct-16 | 22,234              | 99.9%                             |
| Nov-16 | 22,136              | 100.0%                            |
| Dec-16 | 22,126              | 99.8%                             |
| Jan-17 | 21,866              | 99.7%                             |
| Feb-17 | 22,010              | 99.3%                             |
| Mar-17 | 21,975              | 97.5%                             |

Late payments are monitored and pursued.

The following table shows the late payment history for 2016/17:

| NUMBER OF DAYS<br>PAYMENT WAS LATE | NUMBER OF LATE<br>PAYMENTS | PERCENTAGE OF LATE<br>PAYMENTS |
|------------------------------------|----------------------------|--------------------------------|
| Less than 10                       | 24                         | 52.2%                          |
| Between 10 and 19                  | 13                         | 28.3%                          |
| Between 20 and 29                  | 3                          | 6.5%                           |
| Between 30 and 39                  | 3                          | 6.5%                           |
| More than 40                       | 3                          | 6.5%                           |
|                                    | <b>46</b>                  | <b>100%</b>                    |

The number of late payments is lower than in the previous year down to 46 (58 in 2015/16) with the majority being less than 10 days late in payment.

Amounts that were outstanding as at 31st March 2017 were paid by the 31st May 2017.

Interest is calculated in all cases but is only charged when the amount exceeds £20. Interest for late payments during the year totalling £474 was charged to and paid by two employers.



## PENSION OVERPAYMENTS

The Fund seeks to identify and recover all cases of pension overpayments. Such overpayments are identified through a number of mechanisms, including notification from family members and friends, from the Tell Us Once service, notices in the press and participation in the National Fraud Initiative.

All appropriate action is taken to recover such overpayments, including court action. Amounts are only written off when there is no realistic prospect of recovery.

The table below shows the overpayment position for the last six years.

| YEAR    | PENSION OVERPAID<br>£ | AMOUNT RECOVERED<br>£ | AMOUNT WRITTEN OFF<br>£ | OUTSTANDING AT 31ST MARCH 2017<br>£ | PERCENTAGE OUTSTANDING AT 31ST MARCH 2017% |
|---------|-----------------------|-----------------------|-------------------------|-------------------------------------|--|
| 2011/12 | 75,241                | 69,846                | 1,432                   | 3,963                               | 5.3  |
| 2012/13 | 130,371               | 115,116               | 3,817                   | 11,438                              | 8.8  |
| 2013/14 | 92,974                | 82,536                | 7,407                   | 3,031                               | 3.3  |
| 2014/15 | 105,196               | 96,768                | 6,036                   | 2,392                               | 2.3  |
| 2015/16 | 178,328               | 161,694               | 553                     | 16,081                              | 9.0  |
| 2016/17 | 139,754               | 108,953               | 0                       | 30,801                              | 22.0                                       |

## FORECAST v OUTTURN REPORT FOR THE YEAR

| Forecasts  | Forecast 2016/17<br>£m | Actual 2016/17<br>£m | Difference<br>£m   |
|--|------------------------|----------------------|--------------------|
| Contributions  | (295.606)              | (290.158)            | 5.448              |
| Transfers in from Other Pension Funds                                | (3.317)                | (7.022)              | (3.705)            |
| <b>Total Contributions</b>   | <b>(298.923)</b>       | <b>(297.180)</b>     | <b>1.743</b>       |
| Benefits Payable   | 275.647                | 293.602              | 17.955             |
| Payment in respect of Leavers  | 7.377                  | 14.745               | 7.368              |
| <b>Total Costs</b>   | <b>283.024</b>         | <b>308.347</b>       | <b>25.323</b>      |
| <b>Net Reduction/(increase) from dealing with members</b>            | <b>(15.899)</b>        | <b>11.167</b>        | <b>27.066</b>      |
| <b>Management expenses</b>   | <b>78.664</b>          | <b>36.568</b>        | <b>(42.096)</b>    |
| Investment Income  | (94.849)               | (91.042)             | 3.807              |
| Non-recoverable Tax  | 3.335                  | 0.944                | (2.391)            |
| Change in Market Value of Investments                                | (389.319)              | (1,480.911)          | (1,091.592)        |
| <b>Net Return on Investment</b>                                      | <b>(480.833)</b>       | <b>(1,571.009)</b>   | <b>(1,090.176)</b> |
| <b>Increase in Net Assets Available for Benefits during the year</b> | <b>(418.068)</b>       | <b>(1,523.274)</b>   | <b>(1,105.206)</b> |
| <b>Net Assets of The Fund at the Beginning of the Year</b>           | <b>6,427.370</b>       | <b>6,427.370</b>     | <b>0.000</b>       |
| <b>Net Assets of the Fund at the End of the Year</b>                 | <b>6,845.438</b>       | <b>7,950.644</b>     | <b>1,105.206</b>   |

## LONGER TERM CASH FLOW FORECASTS

The following table has been prepared in line with the triennial valuation cycle and shows the forecasts for the Fund Account and Net Assets Statement to 2019/20.

The outturn against these forecasts will be included in future annual reports.

| Longer Term Cash Flow Forecasts   | Forecast<br>2017/18<br>£m | Forecast<br>2018/19<br>£m | Forecast<br>2019/20<br>£m |
|---|---------------------------|---------------------------|---------------------------|
| Contributions   | (330.578)                 | (241.004)                 | (244.825)                 |
| Transfers in from Other Pension Funds   | (3.317)                   | (3.317)                   | (3.317)                   |
| <b>Total Contributions</b>  | <b>(333.895)</b>          | <b>(244.321)</b>          | <b>(248.142)</b>          |
| Benefits Payable  | 285.829                   | 288.155                   | 290.504                   |
| Payment in respect of Leavers   | 11.519                    | 11.519                    | 11.519                    |
| <b>Total Costs</b>  | <b>297.348</b>            | <b>299.674</b>            | <b>302.023</b>            |
| <b>Net Reduction/(Increase) from Dealing with Members</b>                       | <b>(36.547)</b>           | <b>55.353</b>             | <b>53.881</b>             |
| <b>Management Expenses</b>  | <b>96.654</b>             | <b>90.421</b>             | <b>85.648</b>             |
| Investment Income   | (99.711)                  | (104.796)                 | (110.140)                 |
| Non-Recoverable Tax   | 0.992                     | 1.043                     | 1.096                     |
| Change in Market Value of Investments   | (398.162)                 | (409.326)                 | (420.743)                 |
| <b>Net Return on Investments</b>  | <b>(496.881)</b>          | <b>(513.079)</b>          | <b>(529.787)</b>          |
| <b>Decrease/(Increase) in Net Assets Available for Benefits during the Year</b> | <b>(436.774)</b>          | <b>(367.305)</b>          | <b>(390.258)</b>          |

The Fund's actual cash flow is monitored on a daily basis and forward projections are prepared to ensure that short term liquidity problems do not arise.

Longer term projections are included in the asset liability modelling work.



## PERFORMANCE AGAINST BUDGET IN 2016/17

A comparison of performance against budget for the net operational expenses of the Fund for 2016/17 is shown below.

|                                | 2016/17<br>Total Budget<br>£000 | 2016/17<br>Actual<br>£000 | 2016/17<br>Variance<br>£000 |
|--------------------------------|---------------------------------|---------------------------|-----------------------------|
| Employee Costs                 | 2,379                           | 2,233                     | (146)                       |
| Premises Costs                 | 51                              | 51                        | 0                           |
| IT Costs                       | 641                             | 637                       | (4)                         |
| Supplies and Services          | 902                             | 783                       | (119)                       |
| Cost of Democracy              | 430                             | 386                       | (44)                        |
| Other Costs                    | 255                             | 11                        | (244)                       |
| Investment Management Expenses | 74,125                          | 59,264                    | (14,861)                    |
| <b>Total Expenditure</b>       | <b>78,783</b>                   | <b>63,365</b>             | <b>(15,418)</b>             |
| Miscellaneous Income           | (65)                            | (65)                      | 0                           |
| <b>Net Expenditure</b>         | <b>78,718</b>                   | <b>63,300</b>             | <b>(15,418)</b>             |

The main variances against the budget are discussed below.

The main area of budget variance was in investment management costs. The Fund has a number of investments in private equity funds. The majority of these are traded in foreign currency which have risen in value against Sterling since the vote to leave the European Union and as a result has resulted in increased fees which are based on the value of assets invested. These have been partly offset by savings on the fees paid on the more traditional equity mandates.

Other Costs shown in the table is below budget and this relates to the reclaim of taxes paid by the Fund. The recovery work is taking longer than expected and has slipped into later years.

The Supplies and Services budget contained a provision for reviews of investment manager mandates, which was not required. This was partly offset by work on the pooling and a saving on a tax audit which has been deferred to next year.

The Cost of Democracy has come in under budget due to savings on the delivery of the training programme.

Employee Costs were under budget due to vacant posts during the year, the charging of staff time to project specific work on pooling and working with other funds.



# FUNDING STRATEGY

## INTRODUCTION

**The Scheme benefits are paid from investment income, employees' contributions and employers' contributions. Employees' contributions have been set by the Regulations, with employers' contributions being adjusted in triennial valuations to ensure that the Fund will have sufficient assets to meet its liabilities.**

## HISTORY OF THE FUNDING LEVEL

**A measure of the financial health of a pension fund is its “funding level”, which is the ratio between its assets and liabilities. A pension fund that holds sufficient assets to meet all its projected liabilities would have a funding level of 100%. A fund with a funding level below 100% is described as being in deficit.**

The Fund has been in deficit since 1992. It is important to understand the background to this position.

The 1989 valuation revealed a funding level of 118%, with this surplus arising from actual investment returns having greatly exceeded expected returns. This led to the scheduled employers agreeing to take a contribution holiday. This contribution holiday, alongside a government policy change that led to the index-linked element of pensions being charged to pension funds rather than directly to employers, eroded the surplus and led to a funding level of 98% at the 1992 valuation. The contribution holiday was ended and an employers' contribution for the scheduled employers was phased back in.

The 1995 and 1998 valuations both identified funding levels of 87%. The 1998 result was adversely affected by the removal of the tax credit on UK equity dividends at the July 1997 budget.

The 2001 valuation revealed a funding level of 82%. This reduction was attributable to improvements in longevity and to employer specific factors such as pay awards, restructurings and early retirements. Also, investment market returns were below the levels assumed in the 1998 valuation.

The worldwide bear market in equities between 2000 and 2003 led to a further and significant fall in the funding level.

The 2004 valuation showed that the funding level had fallen to 64%. This fall was largely attributable to investment market returns being below the levels assumed in the 2001 valuation, although a reduction in the discount rates used to calculate liabilities also contributed to the fall.

The 2007 valuation revealed an improvement in the funding level to 79%, which was due to investment market returns exceeding the levels assumed at the 2004 valuation and to a small increase in the discount rate.

However, there was upward pressure on contribution rates from inflation and from improvements in longevity. This led to increased employers' contributions from April 2008.

With regard to the 2010 valuation, the experience had been very poor since the 2007 valuation due to investment markets falling as a result of the global economic climate and a reduction in the long term gilt yields that were used to set the discount rates for the valuation. These factors impacted negatively on the funding position, which had been extremely volatile and had deteriorated significantly. A straight application of the strategy used at the 2007 valuation would have led to significant increases in the contributions for most employers. The Pensions Committee recognised this position and reviewed the assumptions and strategy. In order to prevent some employers' contribution rates rising to unaffordable levels, the Committee

adopted a less prudent strategy for employers with a strong covenant by increasing the discount rate used to calculate the liabilities. It was stated that a more prudent strategy would be restored at future valuations. Prudent use was made of guarantees provided by statutory bodies made to assist employers with a poorer covenant.

These measures led to a reported funding level at the 2010 valuation of 79%, the same as at the 2007 valuation. However, the 2010 low risk funding level, based on gilt yields, was 53%. The comparable figure at the 2007 valuation was 63%.

The average future service rate in payment from April 2011 was 15.3% of pay and the contribution to address the deficit was 5.9% of pay, leading to a total average contribution of 21.2% of pay.

The outcome of the 2013 valuation reported a funding level of 81%, a slight improvement from the figure of 79% at the 2010 valuation. This valuation took into account the introduction of the new Scheme, which commenced on 1st of April 2014. Over the longer term, the new scheme is expected to reduce employers' contributions by approximately 2% of pay.

At the 2013 valuation Aon Hewitt, the Fund Actuary, proposed an alternative approach to deriving the discount rates. This involved setting the discount rates by reference to the forecast return on the assets actually held by the Fund, rather than by reference to the return on gilts. Aon Hewitt's Capital Market Assumptions provide the return assumptions for this approach, which also sets a "Probability of Funding Success", which is the likelihood that the strategy would return the Fund to full funding over the recovery period. The Probability of Funding Success used for the 2013 valuation was 79% and this led to a discount rate for employers with a stronger covenant of 5.15%.

## THE 2016 VALUATION

**The Scheme Regulations required a valuation to be carried out as at 31 March 2016, which led to revised employer contribution rates being set from 1 April 2017.**

The approach to setting the discount rate at the 2013 valuation was retained for the 2016 valuation. The Probability of Funding Success adopted at the 2016 valuation was 78%, which represents a slight relaxation in the prudence in the funding strategy. This led to a discount rate for those employers with a stronger covenant of 4.5%. The rate for employers with orphan liabilities was set at 4.5% for in service liabilities and 2.4% for left service liabilities.

The approach to setting deficit recovery periods was changed slightly, with the maximum recovery period allowed being reduced from 22 years at the 2013 valuation to 20 years at this valuation. The maximum recovery period is only available to those employers with the strongest covenant. This is a slight tightening to the Funding Strategy. For most transferee admission bodies, the recovery period did not exceed the remainder of the contract period. A small number of employers were in surplus. To ensure prudence any surplus was amortised over a period of up to 20 years, resulting in a reduction to the contribution rate.

Employers were formally consulted on the Funding Strategy and this was also discussed at the annual employers meeting.

The outcome of the 2016 valuation was a reported funding level of 85%, which is a 4% increase from the previous valuation. The low risk funding level based on gilt yields was 54% against a figure of 57% at the 2013 valuation.

**The main factors which improved the funding position are:**

- The actual experience of salary and pension increases in the three year period to March 2016, were below those assumed in the 2013 valuation.
- The average investment return achieved in the three year period since the last valuation was above the return assumed in the 2013 valuation.
- The contributions paid by employers towards paying off the deficit disclosed at the 2013 valuation.

However, this has been partially offset by the change in financial assumptions, principally the fall in the discount rates relative to inflation, which on its own worsened the funding position.

The outcome resulted in the average future service rate being set at 18.3% of pensionable pay, against 16.1% at the 2013 valuation. The contribution to address the deficit over a 20 year period was 6.9% leading to a total average contribution rate of 25.2%, against 23.6% at the 2013 valuation.

Part of the upward pressure on the employer contributions is due to falling payrolls, in particular at a number of the larger employers in the Fund. This leads to an increase in the percentage based deficit contribution. This is because the deficit amount is driven by the higher historic payroll and the percentage based levy on the lower, current payroll.

In practice the Fund manages this issue by setting most deficit contributions as a cash sum to maintain their economic value and ensure deficit recovery.

On 6 April 2016 the Government introduced a new State Pension. As a consequence, HM Treasury introduced an interim solution to indexation of Guaranteed Minimum Pensions (GMP). The implications are that the Fund became responsible for paying the full pensions increase on the GMP for members who reach their State Pension Age between 6 April 2016 and 5 December 2018 inclusive. The results of the 2016 valuation allow for this change.

The 2016 valuation will be subject to significantly more external scrutiny than other years. Section 13 of the Public Service Pensions Act 2013 introduces like for like comparisons of funding levels and contribution rates. The Scheme Advisory Board is introducing a range of performance indicators and the cost management process will assess the ongoing costs of operating the Scheme.

When carrying out a valuation, an actuary must have regard to the desirability of maintaining as nearly constant a common rate, i.e. the total rate, as possible. The Fund Actuary believes that this was achieved at the Total Fund level, after allowing for payroll changes and inter valuation increases in the past service deficiency payments.

Further information on the valuation is contained in the Statement of the Actuary, which is contained in this Report and Accounts, and in the Funding Strategy Statement and the Actuary's Valuation Report which are available on the Fund's website at [www.twpf.info](http://www.twpf.info).

Previous versions of the Funding Strategy Statement are available on request by emailing [pensions@twpf.info](mailto:pensions@twpf.info)



## TYNE AND WEAR PENSION FUND

# STATEMENT OF THE ACTUARY FOR THE YEAR ENDED 31 MARCH 2017

## INTRODUCTION

**The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Tyne and Wear Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates.**

The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

## ACTUARIAL POSITION

- 1 The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £6,427.4M) covering 85% of the liabilities in respect of service prior to the valuation date allowing, in the case of pre-1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
- 2 The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:
  - 18.3% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate).

**Plus**

  - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 20 years from 1 April 2017 (the secondary rate), equivalent to 6.9% of pensionable pay (or £60.1M in 2017/18, and increasing by 3.5% p.a. thereafter).
- 3 In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in the certificate attached to Aon Hewitt Limited's report dated 31 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.
- 4 The funding plan adopted in assessing the contributions for each individual employer or group was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer, were agreed with the administering authority reflecting the employers' circumstances.
- 5 The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

|  |           |
|--|-----------|
| In-service discount rate   |           |
| <b>Scheduled body / subsumption funding target</b>                                       | 4.5% p.a. |
| <b>Orphan body funding target</b>  | 4.5% p.a. |
| Left-service discount rate   |           |
| <b>Scheduled body / subsumption funding target</b>                                       | 4.5% p.a. |
| <b>Orphan body funding target</b>  | 2.4% p.a. |
| Rate of inflationary pay increases (additional allowance made for promotional increases) | 3.5% p.a. |
| Rate of increase to pension accounts   | 2.0% p.a. |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)       | 2.0% p.a. |

*In addition, the discount rate for orphaned liabilities (i.e. employers with no active members and where there is no scheme employer responsible for funding the non-active liabilities) was 2.1% p.a. in-service and left-service.*

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) 2014 Core Projections with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting assumed life expectancies at age 65 were:

|  | Men  | Women |
|--|------|-------|
| Current pensioners aged 65 at the valuation date | 22.7 | 26.2  |
| Future pensioners aged 45 at the valuation date  | 24.9 | 28.5  |

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

- 6 The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
- 7 The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 31 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
- 8 Reviews to monitor the level of ill-health retirements are periodically carried out in respect of participating employers and, where appropriate, employer contribution rates may be increased.

- 9 This Statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, South Tyneside Council, the Administering Authority of the Fund, in respect of this Statement.

- 10 The actuarial valuation report is available on the Fund's website at the following address:

**<http://www.twpf.info/article/11978/Fund-Valuation-Reports>**

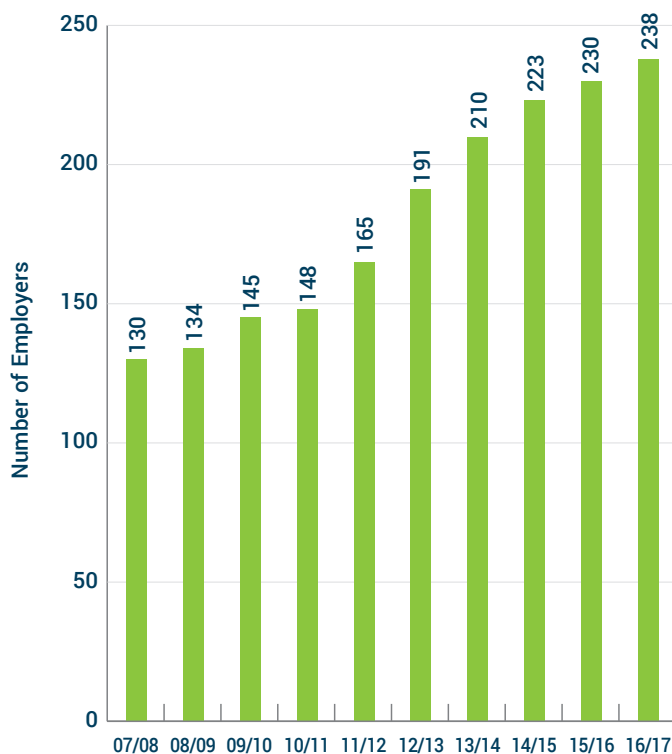
Aon Hewitt Limited  
3 May 2016

# MEMBERSHIP OF THE FUND

As at 31st March 2017, there were 238 employers participating in the Fund. This includes the five district councils and a wide range of other organisations that provide a public service within the Tyne and Wear County area.

The increase in the number of participating employers over the past ten years is shown in the chart below:

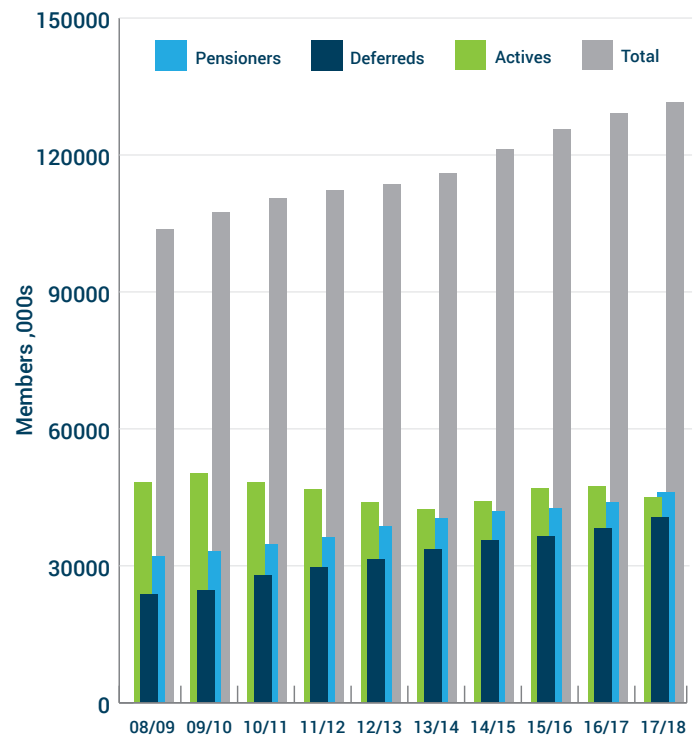
The increase was initially caused by the five councils outsourcing work to contractors that take up admitted body status in the Fund. More recently, the increase has been driven by schools converting to academy status and taking up scheduled body status in the Fund.



The Fund had 131,464 members as at 31st March 2017.

The total membership shown here excludes members who are currently only entitled to a preserved refund, but have chosen not to receive this as at the year end. The total of such members as at 31st March 2017 was 3,139 (2,616 as at 31st March 2016).

The chart shows the movement in membership over the past ten years.



Total membership has increased through this period, driven by the increase in deferred and pensioner members. The active members are down sharply this year and from ten years ago. Active membership peaked in 2008/09, but then fell away through to 2012/13, before rising for the next three years. This was largely attributed to auto enrolment. The fall in active membership in the last year is attributed to a further round of cost cutting by employers.

# TYNE AND WEAR PENSION FUND

## MEMBERSHIP ANALYSIS

|                         | MEMBERS AS AT 31ST MARCH 2017 |               |               | CONTRIBUTIONS RECEIVED<br>IN RESPECT OF |                    |
|-------------------------|-------------------------------|---------------|---------------|---|--------------------|
| DISTRICT COUNCILS       | ACTIVES                       | DEFERRED      | PENSIONERS    | EMPLOYERS<br>£'000                      | EMPLOYEES<br>£'000 |
| Gateshead Council       | 6,033                         | 6,011         | 6,968         | 31,678                                  | 6,382              |
| Newcastle City Council  | 7,298                         | 7,004         | 9,313         | 39,807                                  | 9,027              |
| North Tyneside Council  | 5,670                         | 4,819         | 5,610         | 24,303                                  | 5,145              |
| South Tyneside Council  | 4,020                         | 4,422         | 4,858         | 19,395                                  | 4,123              |
| Sunderland City Council | 5,180                         | 6,462         | 7,950         | 32,655                                  | 5,885              |
| <b>SUB TOTALS</b>       | <b>28,201</b>                 | <b>28,718</b> | <b>34,699</b> | <b>147,838</b>                          | <b>30,562</b>      |

| SCHEDULE 2 PART 1 EMPLOYERS                                     | ACTIVES | DEFERRED | PENSIONERS | EMPLOYERS<br>£'000 | EMPLOYEES<br>£'000 |
|---|---------|----------|------------|--------------------|--------------------|
| Academy 360   | 42      | 29       | 13         | 153                | 47                 |
| Acer Learning Trust   | 27      | 9        | 2          | 38                 | 15                 |
| Aim High Academy Trust  | 90      | 5        | 2          | 166                | 41                 |
| All Saints Academies Trust                                      | 28      | 0        | 1          | 52                 | 13                 |
| Balmoral Learning Trust   | 40      | 15       | 7          | 47                 | 19                 |
| Barnes Academy Trust  | 38      | 7        | 2          | 63                 | 16                 |
| Barnwell Academy Trust  | 47      | 10       | 3          | 103                | 25                 |
| Beacon Of Light School  | 2       | 0        | 0          | 3                  | 1                  |
| Benedict Biscop Church Of England Academy                       | 12      | 6        | 1          | 23                 | 10                 |
| Biddick Academy Trust   | 50      | 17       | 6          | 212                | 58                 |
| Brighter Academy Trust  | 59      | 21       | 6          | 210                | 53                 |
| Castle View Enterprise Academy                                  | 59      | 33       | 4          | 112                | 46                 |
| City of Sunderland College                                      | 297     | 404      | 227        | 1,152              | 311                |
| Dayspring Trust   | 54      | 10       | 1          | 167                | 41                 |
| Diamond Hall Infant Academy                                     | 32      | 13       | 0          | 70                 | 19                 |
| Discovery Learning Trust  | 101     | 20       | 9          | 315                | 82                 |
| Discovery Learning Limited                                      | 8       | 1        | 0          | 15                 | 6                  |
| Eppleton Academy Primary School                                 | 16      | 3        | 3          | 25                 | 7                  |
| Extol Academy Trust   | 48      | 0        | 0          | 58                 | 14                 |
| Former North East Regional Airport                              | 0       | 0        | 9          | 0                  | 0                  |
| Former Tyne & Wear County Council                               | 0       | 20       | 241        | 0                  | 0                  |
| Former Tyne & Wear Residuary Body                               | 0       | 1        | 25         | 0                  | 0                  |
| Fulwell Infant School Academy                                   | 34      | 9        | 1          | 75                 | 19                 |
| Gateshead College   | 313     | 403      | 148        | 1,449              | 463                |
| Gateshead Housing Company                                       | 371     | 190      | 140        | 1,627              | 545                |
| Gosforth Federated Academies Limited                            | 117     | 47       | 10         | 377                | 96                 |
| Grasmere Academy  | 17      | 7        | 2          | 28                 | 9                  |
| Grindon Hall Christian School                                   | 22      | 5        | 2          | 38                 | 17                 |
| Holy Trinity Church Of England Academy<br>(South Shields) Trust | 16      | 0        | 0          | 50                 | 13                 |
| Houghton Kepier Sports College Academy Trust                    | 53      | 19       | 6          | 193                | 60                 |
| Inspire Multi Academy Trust                                     | 125     | 17       | 3          | 267                | 68                 |
| Joseph Swan Academy   | 53      | 29       | 4          | 112                | 59                 |
| Kenton Schools Academy Trust                                    | 138     | 64       | 4          | 391                | 148                |
| Kibblesworth Academy  | 23      | 3        | 0          | 25                 | 11                 |
| Lord Lawson Of Beamish Academy                                  | 42      | 20       | 8          | 154                | 45                 |
| Monkton Infants School  | 15      | 0        | 0          | 44                 | 11                 |

| SCHEDULE 2 PART 1 EMPLOYERS  | ACTIVES       | DEFERRED     | PENSIONERS   | EMPLOYERS<br>£'000 | EMPLOYEES<br>£'000 |
|--|---------------|--------------|--------------|--------------------|--------------------|
| Monkton Junior School  | 7             | 0            | 2            | 23                 | 6                  |
| Monkwearmouth College  | 0             | 1            | 3            | 0                  | 0                  |
| Newcastle College  | 1,146         | 1,792        | 439          | 3,480              | 1,156              |
| Newcastle Education Action Zone  | 0             | 2            | 2            | 0                  | 0                  |
| North Tyneside College   | 1             | 48           | 28           | 0                  | 0                  |
| North View Academy Trust   | 12            | 1            | 0            | 77                 | 14                 |
| Northumbria Magistrates Courts   | 0             | 23           | 79           | 0                  | 0                  |
| Northumbria Police Authority   | 0             | 1,115        | 1,367        | 0                  | 0                  |
| Northumbria University   | 1,645         | 1,472        | 1,183        | 8,600              | 2,516              |
| Police and Crime Commissioner for Northumbria  | 12            | 1            | 0            | 78                 | 36                 |
| Red House Academy  | 0             | 16           | 4            | 0                  | 0                  |
| Redby Primary Academy  | 0             | 5            | 1            | 0                  | 0                  |
| Riverside Primary Academy  | 27            | 6            | 1            | 57                 | 15                 |
| Ryhope Infant School Academy   | 22            | 2            | 0            | 66                 | 15                 |
| Sacred Heart Catholic High School  | 70            | 27           | 7            | 198                | 51                 |
| Smart Multi Academy Trust  | 211           | 5            | 1            | 224                | 58                 |
| South Tyneside Academy Trust<br>sponsored by South Tyneside College  | 36            | 5            | 0            | 43                 | 15                 |
| South Tyneside College   | 210           | 200          | 240          | 872                | 235                |
| South Tyneside Education Action Zone   | 0             | 1            | 1            | 0                  | 0                  |
| South Tyneside Homes   | 593           | 246          | 247          | 2,904              | 982                |
| Southmoor Academy  | 90            | 23           | 11           | 382                | 92                 |
| St Aidan's Education Trust   | 45            | 19           | 8            | 143                | 38                 |
| St Anthony's Girls' Catholic Academy   | 43            | 9            | 4            | 153                | 38                 |
| St Cuthbert's Catholic High School   | 39            | 17           | 5            | 131                | 29                 |
| St Joseph's Catholic Education Trust   | 75            | 16           | 12           | 261                | 80                 |
| St Mary's Catholic School Trust  | 55            | 13           | 7            | 113                | 29                 |
| St Thomas More Roman Catholic Academy<br>(North Tyneside)  | 54            | 9            | 10           | 259                | 57                 |
| Sunderland Education Action Zone   | 0             | 0            | 1            | 0                  | 0                  |
| The Ascent Academies Trust   | 189           | 36           | 16           | 548                | 146                |
| The Cedars Academy Trust   | 42            | 14           | 2            | 140                | 49                 |
| The Chief Constable for Northumbria  | 1,650         | 330          | 137          | 7,032              | 2,544              |
| The Durham, Gateshead, Newcastle Upon Tyne,<br>North Tyneside, Northumberland, South Tyneside and<br>Sunderland Combined Authority | 19            | 25           | 89           | 130                | 49                 |
| The Laidlaw Schools Trust  | 165           | 59           | 16           | 551                | 144                |
| The Northern Education Trust   | 191           | 46           | 13           | 868                | 236                |
| The Northern Saints Catholic Education Trust   | 34            | 3            | 0            | 159                | 34                 |
| The St Thomas More Partnership of Schools  | 108           | 33           | 10           | 212                | 70                 |
| The Trinity Catholic Multi Academy Trust   | 43            | 10           | 6            | 167                | 72                 |
| Trinity Academy Newcastle  | 65            | 15           | 0            | 329                | 78                 |
| Tyne & Wear Fire And Rescue Service  | 230           | 182          | 272          | 1,606              | 368                |
| Tyne Metropolitan College  | 181           | 182          | 66           | 679                | 190                |
| Tynemouth College  | 0             | 20           | 13           | 0                  | 0                  |
| University of Sunderland   | 848           | 829          | 723          | 6,924              | 1,602              |
| Wearmouth Learning Trust   | 63            | 23           | 2            | 202                | 51                 |
| Wearside College   | 0             | 4            | 7            | 0                  | 0                  |
| West Newcastle Academy   | 19            | 9            | 0            | 16                 | 9                  |
| Whickham School and Sports College   | 88            | 29           | 8            | 306                | 73                 |
| Whitburn Church of England Academy   | 47            | 17           | 14           | 176                | 39                 |
| Wise Academies   | 104           | 41           | 14           | 274                | 72                 |
| Woodard Academies Trust  | 75            | 4            | 0            | 162                | 46                 |
| Your Homes Newcastle   | 736           | 454          | 293          | 3,176              | 1,128              |
| <b>SUB TOTALS</b>  | <b>11,679</b> | <b>8,876</b> | <b>6,254</b> | <b>49,535</b>      | <b>14,850</b>      |

| SCHEDULE 2 PART 2 EMPLOYERS                    | ACTIVES      | DEFERRED   | PENSIONERS   | EMPLOYERS<br>£'000 | EMPLOYEES<br>£'000 |
|--|--------------|------------|--------------|--------------------|--------------------|
| Birtley Town Council                           | 0            | 2          | 4            | 0                  | 0                  |
| Blue Square Trading Limited                    | 0            | 7          | 5            | 0                  | 0                  |
| Care and Support Sunderland Limited            | 0            | 10         | 2            | 0                  | 0                  |
| Castle View Fitness Centre Limited             | 1            | 6          | 1            | 0                  | 0                  |
| Learning World                                 | 0            | 6          | 1            | 0                  | 0                  |
| Nexus  | 568          | 438        | 1,367        | 7,493              | 1,346              |
| Northumbria University Nursery Ltd             | 10           | 0          | 3            | 26                 | 12                 |
| Sunderland Care and Support Limited (SCSL)     | 481          | 149        | 125          | 3,980              | 693                |
| Sunderland Live Limited                        | 24           | 18         | 1            | 25                 | 8                  |
| The Intraining Group Limited                   | 1            | 29         | 4            | 3                  | 1                  |
| University of Sunderland London Campus Limited | 4            | 1          | 0            | 50                 | 22                 |
| Victims First Northumbria                      | 20           | 1          | 0            | 82                 | 22                 |
| Zero Carbon Futures (North) Limited            | 3            | 1          | 0            | 13                 | 7                  |
| <b>SUB TOTALS</b>                              | <b>1,112</b> | <b>668</b> | <b>1,513</b> | <b>11,672</b>      | <b>2,111</b>       |

| ADMITTED BODIES                                      | ACTIVES | DEFERRED | PENSIONERS | EMPLOYERS<br>£'000 | EMPLOYEES<br>£'000 |
|--|---------|----------|------------|--------------------|--------------------|
| Age Concern Newcastle                                | 6       | 34       | 60         | 31                 | 5                  |
| Assessment and Qualification Alliance                | 0       | 1        | 9          | 0                  | 0                  |
| Association of North East Councils                   | 21      | 41       | 14         | 113                | 44                 |
| Azure Business Centres Limited                       | 0       | 0        | 2          | 0                  | 0                  |
| Balfour Beatty Living Places Limited                 | 14      | 2        | 5          | 148                | 42                 |
| Baltic Flour Mills Visual Arts Trust                 | 3       | 5        | 1          | 39                 | 11                 |
| Bell Decorating Group Limited                        | 0       | 1        | 0          | 9                  | 1                  |
| Benton Grange School                                 | 0       | 0        | 6          | 0                  | 0                  |
| Benwell Young People's Development Group             | 0       | 3        | 0          | 0                  | 0                  |
| Brunswick Young People's Development Project         | 0       | 3        | 0          | 0                  | 0                  |
| BT South Tyneside Limited                            | 219     | 58       | 85         | 17                 | 320                |
| Bullough Contract Services Limited                   | 0       | 1        | 0          | 0                  | 0                  |
| Bulloughs Cleaning Services Limited                  | 0       | 0        | 1          | 0                  | 0                  |
| Byker Community Trust                                | 9       | 0        | 0          | 45                 | 26                 |
| Capita Property and Infrastructure Limited           | 96      | 35       | 34         | 385                | 152                |
| Carillion Integrated Services Limited (NEFRA)        | 2       | 0        | 0          | 3                  | 1                  |
| Carillion Services Limited (Jarrow School)           | 8       | 1        | 3          | 8                  | 4                  |
| Carillion Services Limited (Lord Lawson Academy)     | 0       | 2        | 1          | 0                  | 0                  |
| Carillion Services Limited (SSCS)                    | 16      | 1        | 0          | 39                 | 7                  |
| Catholic Care North East                             | 0       | 15       | 24         | 0                  | 0                  |
| CBS Outdoor Limited                                  | 0       | 2        | 0          | 0                  | 0                  |
| Childcare Enterprise Limited                         | 1       | 14       | 4          | 0                  | 0                  |
| Churchill Contract Services Limited (Parkhead)       | 2       | 0        | 0          | 3                  | 0                  |
| Compass Contract Services (UK) Ltd (Whickham School) | 7       | 0        | 0          | 8                  | 1                  |
| Compass Group UK and Ireland Limited                 | 0       | 0        | 1          | 0                  | 0                  |
| D B Regio Tyne and Wear Ltd                          | 511     | 104      | 133        | 3,465              | 1,181              |
| Dataspire Solutions Limited                          | 1       | 0        | 0          | 2                  | 0                  |
| Disability North                                     | 2       | 18       | 15         | 38                 | 2                  |
| Engie Buildings Limited                              | 9       | 0        | 1          | 32                 | 9                  |
| Engie Services Limited (N Tyneside)                  | 254     | 103      | 39         | 810                | 401                |
| Engie Services Limited (PB)                          | 8       | 1        | 2          | 52                 | 14                 |
| Gateshead Law Centre                                 | 0       | 10       | 4          | 0                  | 0                  |
| Gentoo Group Limited                                 | 1,112   | 765      | 804        | 10,935             | 2,027              |
| Groundwork South Tyneside and Newcastle              | 1       | 3        | 4          | 50                 | 7                  |
| Hebburn Neighbourhood Advice Centre                  | 0       | 3        | 1          | 0                  | 0                  |

| ADMITTED BODIES                                   | ACTIVES | DEFERRED | PENSIONERS | EMPLOYERS<br>£'000 | EMPLOYEES<br>£'000 |
|---|---------|----------|------------|--------------------|--------------------|
| Higher Education Funding Council for England      | 0       | 1        | 6          | 0                  | 0                  |
| Information North (North Regional Library System) | 0       | 0        | 2          | 0                  | 0                  |
| In Situ Cleaning                                  | 4       | 4        | 3          | 0                  | 2                  |
| International Centre for Life                     | 6       | 7        | 10         | 220                | 46                 |
| Involve North East                                | 4       | 7        | 0          | 30                 | 7                  |
| Jarvis Accommodation Services Limited             | 0       | 3        | 3          | 0                  | 0                  |
| Jarvis Workspace Facilities Management Limited    | 0       | 2        | 5          | 0                  | 0                  |
| Kenton Park Sports Centre                         | 1       | 11       | 1          | 8                  | 1                  |
| KGB Cleaning & Support Services                   | 7       | 13       | 3          | 12                 | 2                  |
| Kier North Tyneside Ltd                           | 259     | 56       | 137        | 41                 | 477                |
| Lovell Partnership Limited                        | 9       | 3        | 2          | 14                 | 2                  |
| Maxim Facilities Management Ltd (S Tyneside)      | 6       | 0        | 0          | 9                  | 2                  |
| Mears Limited                                     | 146     | 10       | 54         | 79                 | 271                |
| Mitie Cleaning (North) Limited                    | 0       | 1        | 0          | 0                  | 0                  |
| Mitie PFI Limited (Baldon School)                 | 5       | 2        | 1          | 12                 | 3                  |
| Mitie PFI Limited (North Tyneside)                | 0       | 0        | 1          | 0                  | 0                  |
| Morrison Facilities Services Limited 1            | 0       | 13       | 19         | 0                  | 0                  |
| Morrison Facilities Services Limited 2            | 0       | 66       | 61         | 0                  | 0                  |
| Morse   | 0       | 12       | 0          | 1                  | 0                  |
| Museums Libraries and Archives North East         | 0       | 15       | 8          | 0                  | 0                  |
| National Car Parks Limited                        | 0       | 2        | 4          | 0                  | 0                  |
| National Glass Centre                             | 0       | 1        | 1          | 0                  | 0                  |
| Newcastle Family Services Unit                    | 0       | 0        | 7          | 0                  | 0                  |
| Newcastle Gateshead Initiative Limited            | 1       | 0        | 0          | 7                  | 2                  |
| Newcastle Healthy City Project                    | 0       | 17       | 10         | 0                  | 0                  |
| Newcastle International Airport                   | 100     | 234      | 389        | 3,350              | 349                |
| Newcastle Law Centre                              | 1       | 12       | 3          | 16                 | 2                  |
| Newcastle Tenants and Residents Federation (NTRF) | 0       | 2        | 0          | 0                  | 0                  |
| Newcastle Tenants Federation                      | 0       | 2        | 3          | 0                  | 0                  |
| Newcastle Theatre Royal Trust                     | 286     | 74       | 38         | 673                | 138                |
| Newcastle West End Partnership                    | 0       | 2        | 0          | 0                  | 0                  |
| Newcastle Youth Congress                          | 0       | 1        | 1          | 0                  | 0                  |
| No Limits Theatre Company                         | 2       | 0        | 0          | 3                  | 1                  |
| Norcare   | 0       | 1        | 1          | 0                  | 0                  |
| Norland Road Community Centre                     | 0       | 1        | 0          | 0                  | 0                  |
| North Country Leisure                             | 48      | 5        | 1          | 206                | 54                 |
| North Country Leisure 2                           | 37      | 1        | 1          | 225                | 51                 |
| North East Innovation Centre                      | 0       | 12       | 17         | 0                  | 0                  |
| North East Regional Employers Organisation        | 4       | 3        | 9          | 124                | 7                  |
| North Tyneside City Challenge                     | 0       | 3        | 1          | 0                  | 0                  |
| North Tyneside Disability Advice                  | 0       | 0        | 1          | 0                  | 0                  |
| Northern Arts Association                         | 0       | 23       | 21         | 0                  | 0                  |
| Northern Council for Further Education            | 0       | 11       | 16         | 0                  | 0                  |
| Northern Counties School for the Deaf             | 0       | 12       | 26         | 0                  | 0                  |
| Northern Grid for Learning                        | 2       | 5        | 4          | 42                 | 5                  |
| Northumbria Tourist Board                         | 0       | 14       | 22         | 0                  | 0                  |
| One North East                                    | 0       | 0        | 8          | 0                  | 0                  |
| Orian Solutions Limited (Gateshead)               | 3       | 0        | 0          | 6                  | 1                  |
| Orian Solutions Limited (Newcastle)               | 9       | 0        | 0          | 5                  | 1                  |
| Ouseburn Trust                                    | 0       | 1        | 0          | 0                  | 0                  |
| Parsons Brinkerhoff                               | 0       | 4        | 2          | 0                  | 0                  |
| Passenger Transport Company                       | 0       | 0        | 86         | 0                  | 0                  |

| ADMITTED BODIES   | ACTIVES       | DEFERRED      | PENSIONERS    | EMPLOYERS<br>£'000 | EMPLOYEES<br>£'000 |
|---|---------------|---------------|---------------|--------------------|--------------------|
| Percy Hedley Foundation   | 19            | 3             | 8             | 166                | 27                 |
| Port of Tyne Authority  | 0             | 0             | 1             | 0                  | 0                  |
| Praxis Service  | 1             | 1             | 4             | 36                 | 4                  |
| Property Management Integrated Services and<br>Employment Company Limited | 7             | 0             | 0             | 33                 | 10                 |
| R M Education   | 0             | 2             | 3             | 0                  | 0                  |
| Raich Carter Sports Centre  | 0             | 42            | 2             | 213                | 0                  |
| Robertson Facilities Management Limited                                   | 6             | 0             | 5             | 16                 | 8                  |
| Robertson Facilities Management Limited<br>(Newcastle Phase 2)            | 2             | 0             | 2             | 0                  | 2                  |
| S L M Community Leisure Charitable Trust                                  | 389           | 14            | 7             | 485                | 131                |
| S L M Fitness and Health Limited  | 87            | 0             | 1             | 28                 | 7                  |
| S L M Food and Beverage Limited   | 10            | 0             | 0             | 12                 | 3                  |
| SSE Contracting Ltd   | 10            | 8             | 17            | 98                 | 20                 |
| St Mary Magdalene and Holy Jesus Trust                                    | 3             | 4             | 8             | 46                 | 7                  |
| St Mary the Virgin Hospital   | 0             | 0             | 1             | 0                  | 0                  |
| Scolarest (Newcastle Schools)   | 9             | 8             | 8             | 16                 | 3                  |
| Scolarest PFI (Boldon School)   | 0             | 0             | 1             | 0                  | 0                  |
| Search Project  | 1             | 0             | 3             | 16                 | 2                  |
| Simonside Community Centre  | 0             | 3             | 0             | 15                 | 0                  |
| Sodexo Limited  | 7             | 2             | 2             | 0                  | 6                  |
| South Tyneside Football Trust   | 0             | 0             | 1             | 35                 | 0                  |
| South Tyneside Integrated Care Limited                                    | 23            | 0             | 0             | 49                 | 14                 |
| South Tyneside Victim Support   | 0             | 1             | 1             | 0                  | 0                  |
| Stagecoach Services Limited   | 35            | 107           | 795           | 4,178              | 68                 |
| Suez Recycling and Recovery UK Ltd (Gateshead)                            | 1             | 0             | 0             | 8                  | 2                  |
| Suez Recycling and Recovery UK Ltd (Sunderland)                           | 7             | 0             | 0             | 38                 | 9                  |
| Sunderland City Training and Enterprise Council                           | 0             | 28            | 39            | 0                  | 0                  |
| Sunderland Empire Theatre Trust   | 0             | 2             | 5             | 0                  | 0                  |
| Sunderland Outdoor Activities   | 0             | 2             | 1             | 0                  | 0                  |
| Sunderland People First Co-operative Community<br>Interest Company        | 4             | 0             | 0             | 16                 | 4                  |
| Sunderland Streetlighting Ltd   | 16            | 20            | 33            | 157                | 50                 |
| Taylor Shaw   | 0             | 5             | 2             | 0                  | 0                  |
| The Ozanam House Probation Hostel Committee                               | 39            | 23            | 11            | 169                | 46                 |
| Thomas Gaughan Community Association                                      | 0             | 2             | 0             | 0                  | 0                  |
| Tt2 Limited   | 45            | 22            | 39            | 217                | 121                |
| Tyne and Wear Development Company Limited                                 | 0             | 20            | 10            | 0                  | 0                  |
| Tyne and Wear Development Corporation                                     | 0             | 12            | 38            | 0                  | 0                  |
| Tyne and Wear Enterprise Trust  | 0             | 13            | 26            | 0                  | 0                  |
| Tyne and Wear Play Association  | 0             | 0             | 1             | 0                  | 0                  |
| Tyne and Wear Small Business Service                                      | 0             | 10            | 13            | 0                  | 0                  |
| Tyne Waste Limited  | 0             | 6             | 13            | 0                  | 0                  |
| Tyneside Deaf Youth Project   | 0             | 2             | 1             | 0                  | 0                  |
| Tyneside Training and Enterprise Council                                  | 0             | 29            | 37            | 0                  | 0                  |
| Valley Citizens Advice Bureau   | 0             | 1             | 1             | 0                  | 0                  |
| Walker Profiles (North East) Ltd  | 0             | 24            | 6             | 0                  | 0                  |
| Wallsend Citizens Advice Bureau   | 0             | 0             | 3             | 0                  | 0                  |
| Wallsend Hall Enterprises Limited   | 0             | 3             | 3             | 0                  | 0                  |
| Workshops for the Adult Blind   | 0             | 9             | 65            | 0                  | 0                  |
| <b>SUB TOTALS</b>   | <b>3,963</b>  | <b>2,323</b>  | <b>3,458</b>  | <b>27,362</b>      | <b>6,223</b>       |
| <b>GRAND TOTALS</b>   | <b>44,955</b> | <b>40,585</b> | <b>45,924</b> | <b>236,407</b>     | <b>53,746</b>      |

# PENSIONS ADMINISTRATION

## INTRODUCTION

**The pension service to our 131,464 members and 238 employers is provided by the Pensions Office, which is organised into five teams of experienced officers. The five teams comprise, between them, fifty one permanent Full Time Equivalent posts.**

**Each employer is allocated to one of three administration teams, which are responsible for maintaining member records and calculating and paying benefits. These teams manage contact with the employers at an individual level. Each administration team has ten Full Time Equivalent posts.**

The Communications Team produces Scheme and Fund specific information for members and employers. It manages contact with members, mainly through the Helpline, newsletters and annual benefit statements. It prepares mailshots and runs meetings for employers. It is also responsible for maintaining the website, [www.twpf.info](http://www.twpf.info). The Communications Team has fourteen Full Time Equivalent posts.

The Technical Team manages the data for the actuarial valuations and provides support to the other four teams, with particular regard to IT systems and solutions. The Technical Team has seven Full Time Equivalent posts.

In order to deal with the extra workload caused by the move to a Career Average Scheme and a Guaranteed Minimum Pension reconciliation exercise, a small number of additional agency staff and a temporary team manager have been taken on.

The approach to pensions administration is based around two main strategy documents, namely the Pensions Administration Strategy and the Communications Policy Statement.

The broad content and purpose of each document is discussed below, followed by an in depth description of the services we provide and the work we have undertaken in 2016/17.

## PENSIONS ADMINISTRATION STRATEGY

**The Scheme Regulations allow an administering authority to prepare a Pension Administration Strategy. This is a written statement, prepared by the administering authority in consultation with the Fund's employers, that sets out the authority's policies in relation to certain administrative matters. It is intended to help employers and the Fund work together more effectively in fulfilling their joint responsibilities in administering the Scheme.**

The Fund's Strategy was initially introduced in 2009 and has provided a significant impetus for improving how the Fund and employers work together.

The latest Statement is available on our website at [www.twpf.info](http://www.twpf.info) or [www.twpf.info/CHttpHandler.ashx?id=14069&p=0](http://www.twpf.info/CHttpHandler.ashx?id=14069&p=0).

The Strategy sets out the communications links designed to allow employers and the Fund to work effectively together, including the provision, for each employer, of a designated client manager from within the Fund's senior management structure. Employers, in turn, are required to provide nominated representatives and authorised signatories.

The roles and responsibilities of both the employer and the administering authority are set out. Detailed information is provided on the procedures for making payments to the Fund and for the provision of year end, joiner and leaver data. There is also reference to timescales for processing that have been derived from Disclosure Regulations.

The Strategy contains provisions to deal with unsatisfactory performance by either the employer or the administering authority, including a power to recover fines, charges and additional costs caused by unsatisfactory performance of an employer.

The Strategy also lists the discretions allowed to employers and the administering authority under the Scheme Regulations, together with the policies governing the exercise of those discretions.

The client managers at the Fund that are assigned to each employer use the Strategy to help employers understand their responsibilities and to foster improvements in how they work with the Fund.

### **Over time, the benefit of the Strategy has been seen through:**

- An ongoing improvement in the overall quality of the membership data. This process has over a number of years seen reductions in the resources needed for the annual contributions posting exercise.
- In some areas of processing, an increase in compliance with the requirements of the Disclosure Regulations.
- A marked improvement in performance from some of our lower performing employers.
- More employers taking a proactive approach to making policy decisions in respect of those matters requiring an employer's discretion.



## COMMUNICATIONS POLICY STATEMENT

**Our vision statement sets out our aim of making pensions issues understandable to all our stakeholders. Effective communications and easy access to information is very important to us.**

The Scheme Regulations allow an administering authority to prepare a Communications Policy Statement.

### **Our Statement sets out:**

- How we communicate with our stakeholders.
- The format, frequency and method of our communications.
- How we promote the Scheme to prospective members and employers.

The Statement is available on our website at [www.twpf.info](http://www.twpf.info) or <http://www.twpf.info/CHttpHandler.ashx?id=11983&p=0>

## SERVICES TO MEMBERS

**The main services that we provide to our members are summarised below:**

- We maintain the records of, and pay pensions to, 45,900 pensioner members of the Fund.
- We maintain the records of 40,600 deferred members of the Fund.
- We maintain the records of, and receive and reconcile contributions for, 44,955 actively contributing members of the Fund.

- We provide annual benefit statements for our active and deferred members. Pensioners receive an annual update and details of any pensions increase. These are sent directly to the member's address.
- We maintain a website that provides information on the Scheme and the Fund.
- We run a Helpline that allows members to request leaflets and information, change certain personal and bank details, and track progress of payments and transfers. We handled calls from over 47,300 members in 2016/17.
- We have a call back service for out of office hours and busy times.
- We welcome personal callers and were visited by over 1,200 members last year. An appointment is not necessary.
- We provide a range of presentations that cover topics including induction, transferring between employers, midlife and pre-retirement planning and leaving before retirement.
- We work with the Local Government Association to provide a range of booklets that help members to understand the Scheme rules. These are available on our website or on request from our Helpline.
- We publish a Members' Annual Report on our website and provide a paper copy on request.
- We provide newsletters to keep members informed of changes to the Scheme.

## MAKING PENSIONS ACCESSIBLE TO MEMBERS

**We adopt the principles of plain English in our documents.**

All information provided by the Fund is available in a range of formats including other languages, large print and Braille. We have access to audio aids and British Sign Language interpretation services.

Members can register to receive information in their required format when they join the Fund.

Members tell us that their preferred method of contacting us is by telephone. A voicemail service is available during busy times and out of office hours on which members can leave a message and a convenient contact number for us to return the call. Our aim is to respond within five working hours or earlier, which was achieved for 98% of messages in 2016/17.

## ANNUAL BENEFIT STATEMENTS

**Since 1999, we have produced annual benefit statements for our active members that set out their current and projected Scheme benefits. Statements for deferred members have been provided since 2003.**

We mailed out over 41,000 Annual Benefit Statements in August 2016.

We issued benefit statements to every deferred member for whom we held a current address and a complete record. Just over 35,400 statements were mailed out in July 2016.

## COMMUNICATING THE NEW SCHEME TO MEMBERS

**We have been participating in working groups set up by the Local Government Association to develop the communication strategy and materials for the new Scheme.**

We also participate in regional communications groups to share good practice, documents and resources.

In addition to promoting the Fund's website we signpost members to the Scheme's national website at [www.lgpsmember.org](http://www.lgpsmember.org) and have made extensive use of the material and resources available.

## SERVICES TO EMPLOYERS

The main services that we provide to employers are summarised below:

- As noted above, we have a Pensions Administration Strategy that sets out the roles and responsibilities of the Fund and the employers.
- We provide each employer with a client manager whose role is to ensure efficient processing and communication.
- We have a programme of meetings to discuss issues related to administration and regulatory change.
- We provide an online Employers' Guide to the administrators of the Fund.
- We offer training courses that aim to educate and inform staff on pension matters and working procedures.
- We hold an annual general meeting.
- We send out mail shots to advise all employers of developments.

## PROMOTION OF MEMBERSHIP, INCLUDING AUTO ENROLMENT

**The employers have a range of responsibilities, under both the Scheme Regulations and the wider Auto Enrolment legislation, in respect of the admission of their employees to the Scheme.**

The Fund has worked with employers to ensure they understand their legal responsibilities.

We work with organisations that are required or have opted to participate in the Scheme to ensure that their admission to the Fund is taken forward efficiently and in a timely manner, and that appropriate financial provisions, including guarantees and bonds, are put into place.

In particular, we work with new employers to ensure they understand and are complying with the rules in respect of admission and, where appropriate, the re-admission of their employees into the Scheme.

## SYSTEMS

**The Pensions Service has used the Civica UPM pension administration system since 2003 and in 2011 we integrated with the Civica pension payroll system. The UPM system has been upgraded to ensure compliance with the new Scheme.**

The use of email, electronic communication and our website is an increasingly important part of the service delivery package. We are committed to developing and improving these approaches to communication.

Where possible we encourage our members, prospective members and their representatives to contact us by email at [pensions@twpf.info](mailto:pensions@twpf.info).

**Through our website, members have access to:**

- Details on how to contact the Fund.
- Latest news and topical issues.
- Our range of leaflets.
- Pension payment dates and details of pension inflation proofing.
- The Annual Report and Accounts.
- The Fund's main policies, including the Governance Compliance Statement, the Funding Strategy Statement, the Pensions Administration Strategy, the Investment Strategy Statement, the Corporate Governance Policy, the Communication Policy Statement and the Service Plan.
- Links to other useful websites.

**In addition to the main website, there is a password-protected area for employers. The majority of employers have registered to use this service, which provides access to:**

- Pensions Committee Reports.
- Latest news and topical issues.
- The Employers' Guide and templates of administration forms.
- The pension records of their employees.
- The ability to carry out pension estimates and calculations.

We have developed an email alert facility to provide news and latest information to employers. All of our mailshots are now sent out electronically. This facility has greatly improved the efficiency of keeping employers informed and allows them to distribute information within their own organisation.

The Universal Pensions Management system is being developed to improve the web access facilities for employers. This has allowed us to expand the interactive nature of the website. We have developed online employer web forms for high volume processes. In 2016/17, we increased the number of processes available via web forms and will be bringing more employers on board in 2017/18. We intend to remove all paper by the end of the year.



We are currently working on online services for members. We intend to introduce facilities that will allow members to view their personal record and calculate estimates of their benefits.

The Universal Pensions Management system provides for the bulk import and automated processing of data from employers. This reduces the risk of passing incorrect data, provides significant efficiencies in administration and processing and reduces the cost for both employers and the Fund.

We have developed this bulk processing system for high volume areas such as changes to personal data, working hours and joiner information. This is being used by a small number of large employers and is available to all employers.

## INTERNAL DISPUTE RESOLUTION PROCEDURES

**The Local Government Pension Scheme Regulations provide for a two tier internal dispute resolution procedure (IDRP). The IDRP provides a mechanism for dealing with complaints from active, deferred or pensioner members of the LGPS about decisions relating to their pension benefits made by either their employer or the Pension Fund.**

The first stage of the IDRP involves the member referring the decision that they are disputing to the adjudicator appointed by the organisation who made that decision. In many cases this is the member's own employer who made the decision, but in some cases it is the Pension Fund. Decisions are usually communicated within two months.

If, having received the adjudicator's decision, the member remains dissatisfied then they can appeal the decision to the Pension Fund's Panel of Appointed Persons. The appointed person dealing with the case will reconsider the matter and will let the member know their decision, usually within two months of receiving the member's letter requesting reconsideration.

If members are still not satisfied once the IDRP has completed then they have the option of referring the matter to the Pension Ombudsman.

Members can, at any point, contact the Pensions Advisory Service and ask for their assistance and support.

In 2016/17 four disputes against decisions made by the Pension Fund were considered under the IDRP procedure. In all four cases the Pension Fund's decision was upheld.

## IMPLEMENTATION OF THE 2014 SCHEME

**The new Scheme commenced on 1st April 2014.**

Regulations for the new LGPS 2014 were due to be in place by April 2013 but were seriously delayed. It was not until the publishing, in March 2014, of the LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014, that work could begin on updating pensions administration procedures, including LGPS 2014 specific processes and calculations.

The late release of the LGPS 2014 Regulations and associated guidance severely impacted on systems development work and on processing as, initially, many cases had to be calculated manually in order to ensure that the new calculation suite accurately calculated member benefits in all possible scenarios.

Virtually all of the calculations required are now signed off and fully functional. Work is continuing to test and implement the small number of remaining calculations.

The backlog that built up from a combination of the late release of the Regulations for the 2014 Scheme and the increased complexity of operating a Career Average Revaluation Scheme has still not yet been recovered. Work has been prioritised to ensure that urgently required or high impact processing, for both members and employers, is addressed promptly. This backlog is largely in lower priority work. An action plan is in place to address the backlog.





## PENSIONS FREEDOM AND CHOICE

**The Government has introduced greater flexibility for pension savings in defined contribution schemes. These apply to individuals aged 55 and over and are known as Pensions Freedom and Choice.**

Most of the changes do not affect how members can take their benefits from the Scheme. The changes are targeted at defined contribution schemes, such as personal pensions and some company pension schemes. However, there are some indirect changes that will impact on members of the Scheme who are considering transferring their benefits from the Scheme to a defined contribution pension plan.

We have reviewed and amended our processes and communications to ensure that members are aware of Pensions Freedom and Choice and the options available and requirements placed on them.

## PENSION LIBERATION FRAUD

**For a number of years the Fund has been warning members of the risk of Pension Liberation Fraud.**

The Pensions Regulator is concerned about the increase in such activity and, in association with HM Revenue and Customs (HMRC), has launched a high profile campaign to combat fraud. The Fund has taken a number of actions to reduce the risk of fraud and to comply with the Pensions Regulator's recommendations.

All processing and documentation has been reviewed and amended to seek to ensure that members are making fully informed decisions when transferring benefits out of the Fund.

## TAX ON PENSIONS

**When members contribute towards the Scheme they receive tax relief on their contributions and the benefits they build up. In 2006 the Government set limits on annual and lifetime growth. These limits have reduced over time. For 2016/17 the annual allowance was £40,000 and the lifetime allowance was £1million.**

Active members are advised of the current limits in their annual benefits statements and provided with guidance notes and useful contacts. Where the annual allowance has been exceeded, members are provided with a pensions savings statement to assist with their tax return. In addition tax limits are checked when benefits are paid.

## THE PENSIONS REGULATOR

**The Pensions Regulator has responsibility for overseeing the Local Government Pension Scheme and has committed to ensuring that every fund reaches a basic level of compliance against the law and the Regulator's Code of Practice 14 for public sector schemes within the next year.**

As an initial step the Regulator expects funds to self-assess their current levels of compliance against both the law and the Regulator's Code of Practice 14. The Fund has carried out these assessments and is broadly comfortable with its level of compliance.

# ADMINISTRATIVE MANAGEMENT PERFORMANCE

## INTRODUCTION

**The Pensions Service participates in the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Administration benchmarking club.**

Each year the Service completes a detailed questionnaire containing a breakdown of budget costs between core pensions administration and other functions carried out within the Service including communications, IT, Accountancy and the commissioning of actuarial work.

Data is also provided on members, employers, workload, staffing, IT provision and current best practice.

## THE 2016 CIPFA BENCHMARKING CLUB REPORT

The latest CIPFA Benchmarking Club Report is the 2016 Report, which was issued in November 2016. The 2016 Report compares the performance of the Pensions Service in 2015/16 with 41 other local authorities who administer the Scheme.

The key benchmark for Pensions Administration is the cost per member of administering the Scheme. The Pensions Service cost for 2015/16 was £17.89 per member, compared to the average cost of £17.95 per member.

The comparative costs for 2014/15 were £17.38 per member, compared to the average cost of £19.17 per member.

The membership total used by the Benchmarking Club includes preserved refunds. The inclusion of preserved refunds of 3,139, increases our reported membership of 131,464 to 134,603.

The table below analyses our cost per member compared with the average cost for the Club.

| COST PER MEMBER  | PENSIONS SERVICE<br>£ | AVERAGE<br>£ |
|--|-----------------------|--------------|
| Staff  | 7.68                  | 8.62         |
| Payroll  | 1.30                  | 1.41         |
| Direct Costs (including Audit, Communications and Actuarial Costs) | 1.83                  | 2.06         |
| Overheads (including IT, Accommodation and Central Charges)        | 7.15                  | 6.26         |
| Outsourcing Contract Costs   | 0.00                  | 15.99        |
| Income   | -0.07                 | -0.40        |
| <b>Net Cost Per Member excluding outsourcing contract costs</b>    | <b>17.89</b>          | <b>17.95</b> |

The number of members managed by the Service per full time equivalent staff member was 4,294. The equivalent figure for the Club as a whole was 4,009.

The annual cost to the Pensions Service of employing a full time equivalent member of staff was £32,964, compared to the average of £33,475. The comparative costs for 2014/15 were £28,179, compared to the Club average £32,429.

## UNIT COSTS INCLUDING AND EXCLUDING INVESTMENT COSTS

### Unit costs for the year to 31st March 2017

|                                | COST<br>£m | MEMBERSHIP | COST PER MEMBER<br>£ |
|--------------------------------|------------|------------|----------------------|
| Administrative Cost            | 3.033      | 134,603    | 22.53                |
| Investment Management Expenses | 32.624     | 134,603    | 242.37               |
| Oversight and Governance Costs | 0.911      | 134,603    | 6.77                 |

### Unit costs for the year to 31st March 2016

|                                | COST<br>£m | MEMBERSHIP | COST PER MEMBER<br>£ |
|--------------------------------|------------|------------|----------------------|
| Administrative Cost            | 2.457      | 131,838    | 18.64                |
| Investment Management Expenses | 39.689     | 131,838    | 301.04               |
| Oversight and Governance Costs | 0.903      | 131,838    | 6.85                 |

It should be noted that the Benchmarking Club excludes certain administrative costs. For example, the Past Service Deficiency element of employer contributions. This explains why the Administrative cost per member for 2015/16 differs from the Club figures.

## AGE PROFILE OF FUND MEMBERSHIP AT 31ST MARCH 2017

|          | MEMBERSHIP TYPE |               |              |               |                  |                |
|----------|-----------------|---------------|--------------|---------------|------------------|----------------|
| AGE BAND | ACTIVE          | DEFERRED      | BENEFICIARY  | PENSIONER     | PRESERVED REFUND | TOTAL          |
| <20      | 597             | 17            | 270          | 0             | 54               | 938            |
| 20-24    | 1,920           | 555           | 77           | 0             | 275              | 2,827          |
| 25-29    | 3,253           | 2,326         | 6            | 0             | 290              | 5,875          |
| 30-34    | 4,350           | 4,563         | 8            | 1             | 290              | 9,212          |
| 35-39    | 4,943           | 4,958         | 21           | 12            | 384              | 10,318         |
| 40-44    | 5,286           | 5,225         | 41           | 40            | 422              | 11,014         |
| 45-49    | 6,850           | 6,689         | 92           | 173           | 440              | 14,244         |
| 50-54    | 7,820           | 8,080         | 198          | 485           | 417              | 17,000         |
| 55-59    | 6,388           | 6,694         | 320          | 3,029         | 344              | 16,775         |
| 60-64    | 2,978           | 1,357         | 497          | 8,994         | 187              | 14,013         |
| 65-69    | 500             | 104           | 770          | 10,201        | 35               | 11,610         |
| 70-74    | 70              | 17            | 888          | 7,238         | 1                | 8,214          |
| 75-79    | 0               | 0             | 1,004        | 4,352         | 0                | 5,356          |
| 80-84    | 0               | 0             | 1,077        | 2,870         | 0                | 3,947          |
| 85-89    | 0               | 0             | 758          | 1,454         | 0                | 2,212          |
| >90      | 0               | 0             | 439          | 609           | 0                | 1,048          |
|          | <b>44,955</b>   | <b>40,585</b> | <b>6,466</b> | <b>39,458</b> | <b>3,139</b>     | <b>134,603</b> |

Analysis of our membership profile against other large Scheme funds shows that the Fund has a higher percentage of pensioners and a lower percentage of deferments. Pensioners and dependents require a relatively higher administrative input, whilst deferments are a relatively low administrative input area. This means that the Fund's administration would be higher than those of other funds on a like for like basis.

## PERFORMANCE INDICATOR FOR PENSIONS PROCESSING

**The Pensions Service monitors administration processing against targets based upon the Disclosure Regulations as this shows a more complete picture on the timeliness of service delivery to members. This will include the input from the Fund and all others involved, for example employers, members, HMRC, Department of Work and Pensions, financial advisors and other pension schemes.**

In 2016/17 57% of the measured processes were completed in line with the Disclosure Regulations. This figure is higher than last year but is lower than the 70% to 75% that was achieved in the years before the introduction of the New Scheme. The late release of the new Scheme Regulations and associated guidance, combined with the increased complexity of the new Scheme led to

delays in processing and large backlogs of work built up. We have worked upon these backlogs during the year and the processing of delayed work has depressed the Disclosure compliance figure.

In addition, some of our employers have continued to struggle with the new Scheme's data requirements and this has resulted in a diminishing, but still higher than usual, incidence of incorrect or questionable data during the year. This has required both the employers concerned and the Pensions Service spending additional time on investigation and correction. These problems impact in particular on the performance of large multi-employer schemes containing hundreds of employers, each of which has differing levels of knowledge, experience and resourcing.



# ADDITIONAL VOLUNTARY CONTRIBUTIONS

## INTRODUCTION

**Whilst the Scheme provides a good benefits package, it is normally possible for a member to increase their benefits.**

The Scheme Regulations changed on 1st April 2014 and from this date members can:

- **Pay into the Fund's in-house AVC plan**

An AVC plan can provide extra life assurance as well as allowing members to increase their pension benefits up to the maximum allowable under HM Revenue and Customs rules and the Scheme Regulations.

Subject to the above rules for new AVC plans, it is intended that members can contribute up to 100% of their pay each month and take up to 25% of their in-house AVC fund as a tax-free lump sum at retirement. Contributions must be deducted from pay and tax relief may apply.

- **Take out an Additional Pension Contract**

Again, subject to limits, a member can purchase annual pension up to a maximum of £6,755. This amount is increased each year in accordance with any increase applied to pensions in payment. The contract can be taken with or without a contribution from the employer and can be used to buy extra pension or lost pension arising from authorised unpaid leave of absence. Medical clearance may be required. Subject to the Fund's policy, members may choose to make a one off payment or regular contributions. Tax relief may apply.

All contracts taken out for Added Years, AVCs or Additional Regular Contributions prior to 1st April 2014 are protected and fall under earlier rules.

## PRUDENTIAL

**The Fund has an AVC plan arranged with Prudential that offers a comprehensive range of fifteen funds.**

Regular meetings are held with Prudential to discuss the running of the plan. Prudential works with the Fund's employers to provide educational seminars to members.

The Fund carries out an annual review of the AVC provision. The 2016/17 review was undertaken in October 2016 by Hymans Robertson.

The review considered the changing regulatory environment, the provider profile and the fund range. It was concluded that Prudential should remain as the sole provider.

The Fund has continued to review its position on with-profits investment. This option was closed to new investors following the 2006 review. It has been decided not to take further action in the current investment climate, other than to continue to monitor the position.

Following a consultation exercise in 2016, final Regulations are still required to determine how in house AVC plans will change to comply with the Government's Freedom and Choice reforms.

## EQUITABLE LIFE

**The AVC plan with Equitable Life is closed to new members and transfers.**

This is a group scheme with the Fund being the policyholder for individual member investments.

A bulk transfer exercise was conducted in 2003 in the light of advice from legal and financial advisors. This involved the transfer of the majority of members' Equitable Life AVC funds to comparable funds with Prudential.

A very small number of members who have with-profits investments have remained with Equitable Life. This is because it is believed not to be in the individual member's best interests to transfer as the withdrawal penalty applied on transfer may not be made up by future investment returns.



# INVESTMENT REPORT

## INTRODUCTION

### The Investment Office of the Pensions Service manages the investment and financial control of the Fund.

#### The formal investment objectives are:

- To invest the Fund's money in assets of appropriate liquidity to produce income and capital growth that, together with employer and employee contributions, will meet the cost of benefits.
- To keep contributions as low and as stable as possible through effective management of the assets.

## INVESTMENT STRATEGY

The investment strategy is derived from asset liability modelling that uses data from the triennial valuations. This examines the Fund's financial position, the profile of its membership, the nature of its liabilities and an analysis of projected returns from differing investment strategies. This exercise is undertaken by the Investment Advisor, Hymans Robertson, based on liability data provided by the Actuary, Aon Hewitt.

The strategy in place at the start of the year reflected the outcome of the 2013/14 Asset Liability Modelling (ALM) study. The overall high level strategy at the end of the financial year was to invest 58.5% in equities, 19.0% in bonds and cash, 12.5% in property, 7.5% in private equity and 2.5% in infrastructure.

#### Limited tactical changes were in the process of being implemented during the year as follows:

- A reduction in the allocation to UK property of 1.0%, from 8.0% to 7.0%. In addition, it was agreed that 1.0% of the remaining 7.0% allocation will be in UK residential property
- A 0.5% increase in the allocation to global property to take this to 5.0%
- A 0.5% allocation to a trade finance fund

#### An Asset Liability Modelling (ALM) study was carried out in 2016/17 using the liability data from the 2016 valuation. The study concluded that;

- the existing strategy was largely suitable, however
- a 3.0% shift from UK equities to private debt should be implemented, and
- the limited tactical positions as outlined above should be reflected in the strategic allocation going forward.

Once the changes from the ALM study have been implemented, the Fund's asset allocation will reflect the strategy of 55.5% in equities, 19.0% in bonds and cash, 12.0% in property including residential, 7.5% in private equity, 3.0% in private debt, 0.5% in trade finance and 2.5% in infrastructure.

Further tactical and strategic changes may be considered in 2017/18 to reflect the economic environment and short to medium term prospects for financial markets.

An initial approach to de-risking the Fund is in place by backing orphan pension liabilities where a cessation valuation has been carried out with index-linked gilts.



## QUOTED EQUITIES AND BONDS

The Fund has appointed nine external investment managers to its range of quoted equity and bond mandates.

Most of the equity managers were appointed in 2010 when the current investment strategy was implemented.

Each manager is a specialist in the market in which they invest. This broadly based management structure seeks to ensure that investment returns are not overly influenced by the performance of one manager.

The managers and mandates are set out in the following table:

| MANAGER                  | PORTFOLIO   |
|--------------------------|---|
| <b>Legal and General</b> | Indexation<br>- UK Equities<br>- Europe ex UK Equities<br>- US Equities<br>- Emerging Market Equities<br>- Japanese Equities<br>- Asia Pacific ex Japanese Equities<br>- Fundamental Global Equities<br>- UK Index-Linked Gilts<br>- UK Gilts<br>- Emerging Markets Bonds |
| <b>JP Morgan</b>         | Global Equities<br>Emerging Market Equities   |
| <b>UBS</b>               | Pan European Equities   |
| <b>BlackRock</b>         | UK Equities   |
| <b>Mirabaud</b>          | UK Equities   |
| <b>Lazard</b>            | Japanese Equities   |
| <b>TT International</b>  | Asia Pacific ex Japan Equities  |
| <b>M&amp;G</b>           | Corporate Bonds and Index-Linked Gilts  |
| <b>Henderson</b>         | Bonds   |

## PROPERTY

The 12.5% tactical allocation in place at the year end is comprised of 7.5% to UK direct property and 5% to global property. As noted above, the change in the Fund's strategic allocation will reduce property to 12%. The pace of the allocations to residential property and trade finance are dependent upon their respective markets, however it is expected that they will occur in 2017/18.

The UK mandate is managed by Aberdeen Property Investors. This was valued at £340.3 million at the year end, representing 4.3% of the Fund. The underweight position is attributable to a net disinvestment in 2013/14, following the review of the mandate, and a slow pace of reinvestment which has been due to concerns over pricing in the property market. In addition, the Fund also has a further £13.6 million invested into a residential property fund managed by Aberdeen Property Investors, this represents a further 0.2% of the Fund.

The global property programme has been built up to the target level through investment into funds provided by Partners Group. This programme includes fund of funds, direct and secondary investments. This programme was valued at £376.9 million, or 4.8% of the Fund, at the year end.

## INFRASTRUCTURE

The Fund made its first investment into infrastructure in 2006. A review of our approach in 2010 set an allocation of 2.5%, which is to be provided largely through investment in funds offered by Partners Group. This will allow the Fund to diversify the programme globally and by industry and financing type.

At the year end, the total investment was valued at £179.7 million, representing 2.3% of the Fund.

## PRIVATE EQUITY

The programme is well developed and diversified across providers, geography, industry and vintage years. The main focus of the programme is investment into fund of funds with HarbourVest and Pantheon. The Fund has also made investments into secondary funds managed by Lexington Partners, Collier Capital and HarbourVest, and into direct funds managed by HarbourVest, Capital International, Partners Group and Lexington.

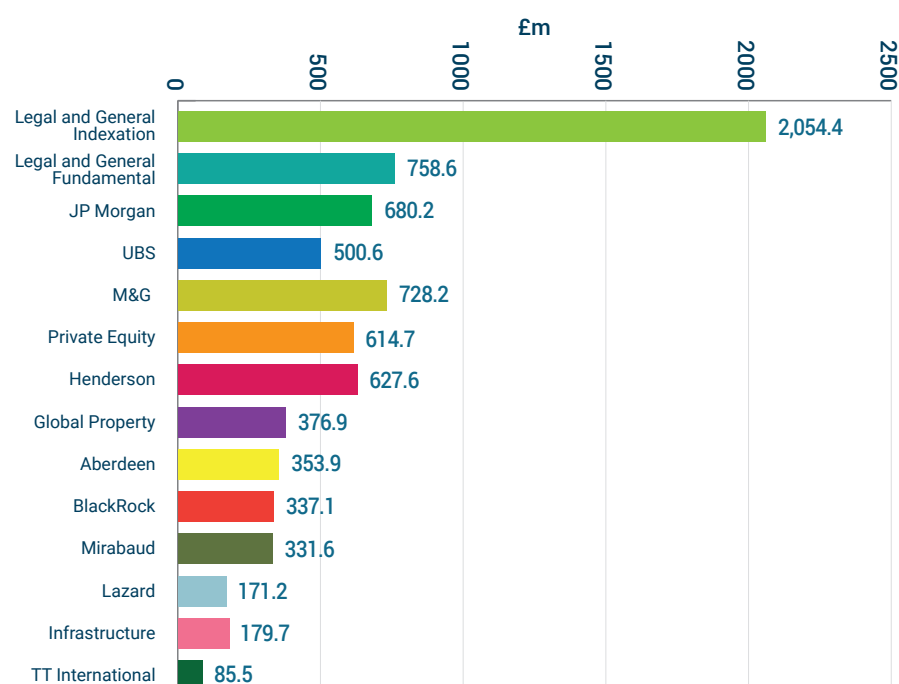
At the year end, £614.7 million was invested in private equity, equal to 7.7% of the Fund.

The modest underweight position is attributable to three main factors:

- 1 There has been a significant increase in the total Fund value over the year due to the strength of financial markets;
- 2 Sterling weakness following the Brexit vote boosted the value of overseas investments;
- 3 the good exit environment has enabled significantly increased levels of distributions back to investors.

## ASSETS UNDER MANAGEMENT

The value of assets in each manager's mandate and in the alternative investment programmes at the year end is shown below:



## INVESTMENT MANAGERS' OBJECTIVES AND RESTRICTIONS

The Pensions Committee has set objectives and restrictions for the investment mandates with the aims of ensuring a prudent approach to investment and allowing each manager to implement their natural investment style and process.

In addition to the specific restrictions on each mandate, all managers are required to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The investment managers have been set targets, mostly based on appropriate indices, which generally require outperformance over three year rolling periods. Annual downside targets or tracking error targets have also been set.

The UK property portfolio has a target based on a long term return of Retail Price Index plus 4%.

Absolute return targets are in place for the private equity, infrastructure and global property programmes. These targets are developed as the programmes move out of their J-curve and mature.

## CUSTODY

Northern Trust was appointed in 2002 to provide custody services for the Fund. The service has been market tested and benchmarked regularly to ensure that it remains competitive, the latest review being carried out during 2014/15.

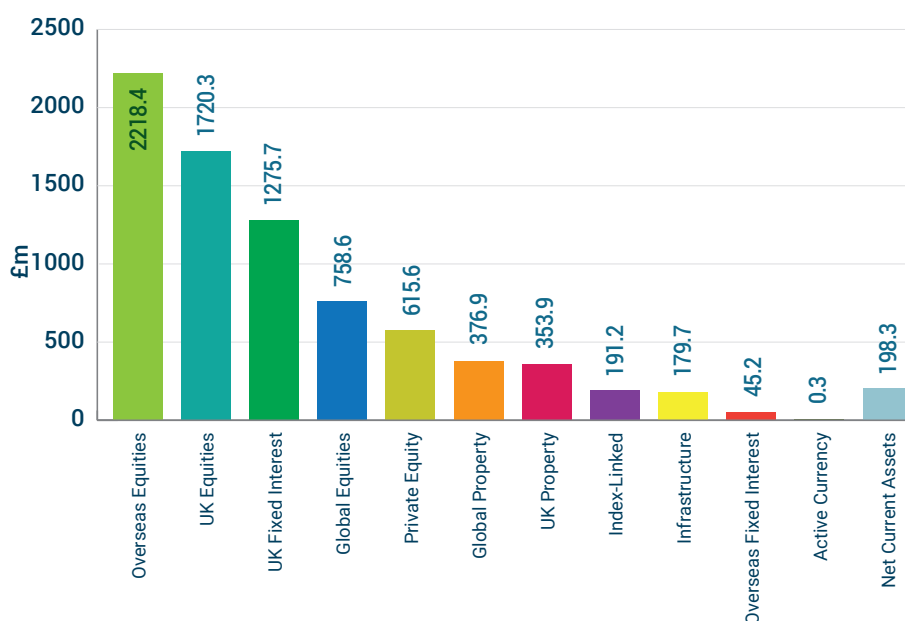
As at March 2017, Northern Trust was providing custody for approximately £1.9 billion of assets held in five mandates.

## ASSET ALLOCATION

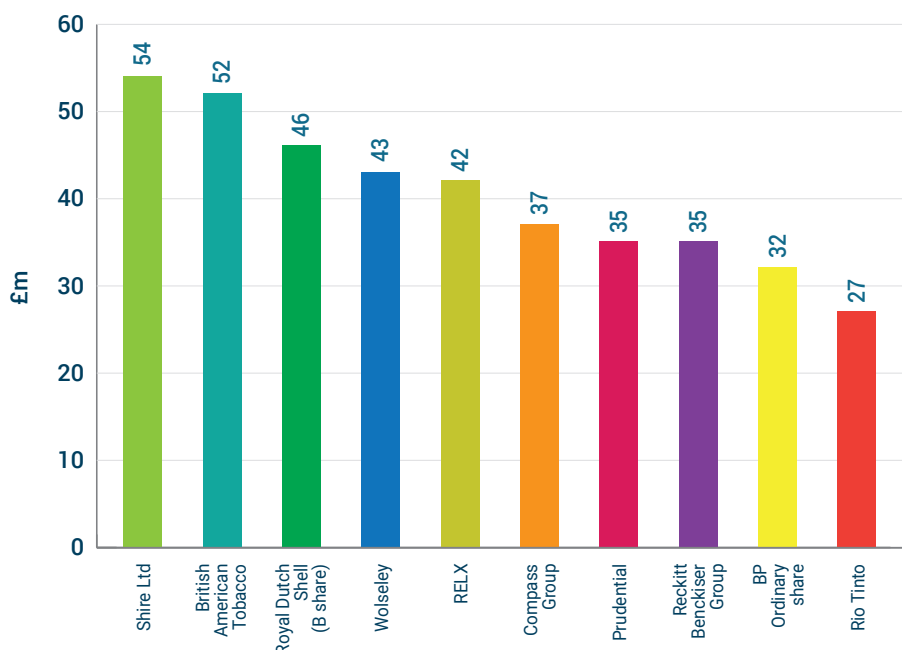
The asset allocation is maintained within pre-determined ranges around the strategic benchmark. Action is taken to bring the Fund back within range when a breach occurs. Legal and General provides management information that assists with this process.

The active managers that invest in more than one market are permitted to take tactical asset allocation decisions within their portfolios. This provides additional scope for managers to outperform their targets.

The asset allocation as at March 2017 is shown below:



The top ten individual investments in companies are:



## PERFORMANCE MEASUREMENT

The Fund has used a fund-specific benchmark for performance measurement since January 2002.

The analysis is undertaken by Portfolio Evaluation, an independent specialist performance management company.

## MARKET CONDITIONS AND INVESTMENT RETURNS FOR 2016/17

The major equity markets all rose in value during the year, resulting in overall market returns being significantly higher than in the previous year. Bond markets generally produced positive returns, as did alternatives.

The strongest performing markets were Asia ex-Japan equities and Emerging Market equities, with returns of 36.5% and 35.2% respectively.

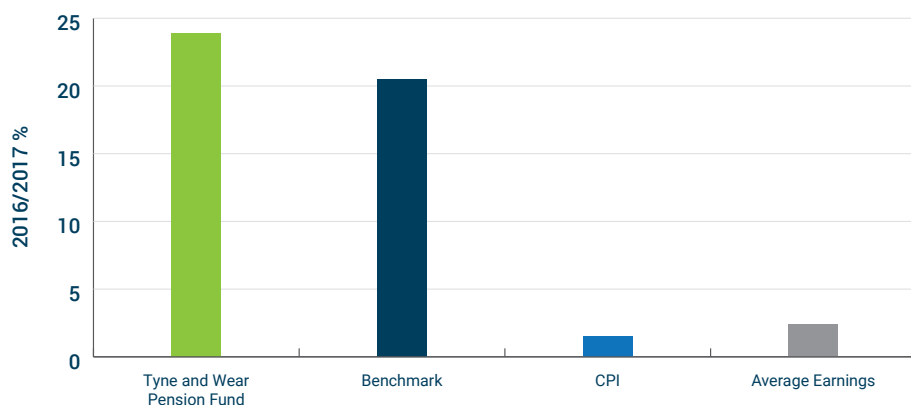
The poorest performer was Cash, which returned 0.2%.

The return from UK equities is of particular importance to UK pension funds, as a significant proportion of assets tend to be invested there. This market returned a gain of 22.0%.

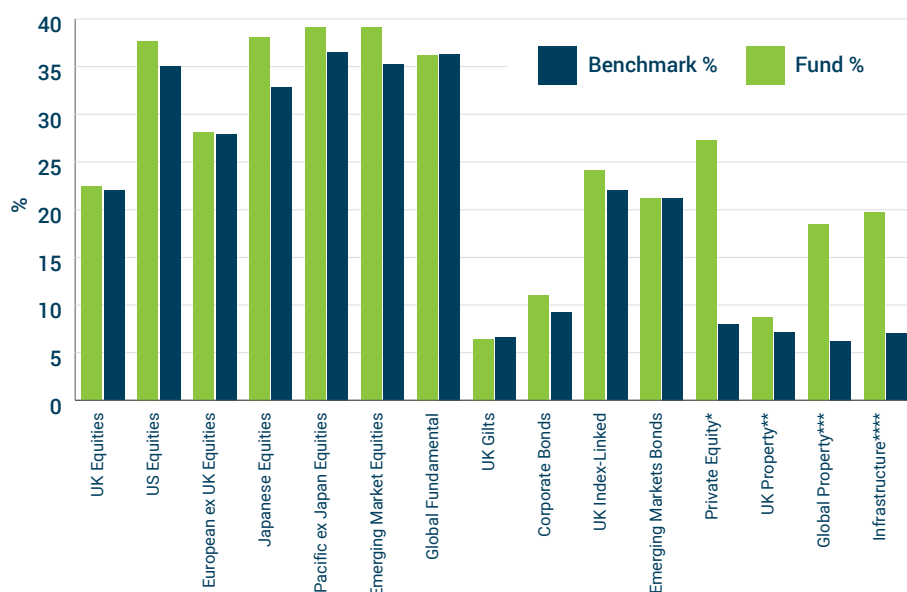
The strong performance of listed assets was complemented by another good year of performance by the alternative investments including private equity, infrastructure and both UK and global property.

The Fund's total return in this year was 23.9%, which was 3.4% above its benchmark return of 20.5%. This represents an exceptional period of performance for the Fund.

Inflation as measured by the Consumer Prices Index, which has risen in importance as a measure for the Scheme, was up by 1.5% over the year while Average Earnings increased by 2.4%.



The chart below shows the Fund's returns over the main investment markets for 2016/17.



\* The return for private equity is shown against an absolute return benchmark of 8% per annum net of fees.

\*\* The benchmark for UK property is Retail Price Index plus 4% per annum. The market return for property during the year as measured by IPD for the Medium Life and Pension Fund Universe was 5.7%.

\*\*\* The benchmark for global property assumes that an individual fund will deliver a zero return for the first three years to allow for J-curve. An absolute return benchmark of 8% per annum net of fees is then assumed.

\*\*\*\* The benchmark for infrastructure assumes that an individual fund will deliver a zero return for the first three years to allow for J-curve. An absolute return benchmark of 7% per annum net of fees is then assumed.

The strong outperformance for the year was due to good returns across most markets with the exception of UK Gilts.

The returns from the passive strategies were satisfactory.

The return from the private equity programme is measured against an absolute return benchmark of 8% per annum net of fees. This long term benchmark has been adopted to seek to reduce the volatility of returns relative to the benchmark. It is believed that this approach reflects the approach to the valuation of the assets more appropriately than the use of an index based benchmark. The 27.3% return is ahead of the 8% benchmark and is in excess of the longer term return

expected from global equities. Detailed discussions have been held with the managers and they believe that, overall, their funds are delivering good, long term performance.

The UK property market produced strong returns, leading to the Fund's portfolio delivering a return of 8.7% which was comfortably above its RPI based benchmark of 7.1%. This level of strong, relative performance against an RPI benchmark is expected at times of strong market performance.

The global property and Infrastructure programmes have similar characteristics to the private equity programme so the returns can be expected to be volatile in their early years.

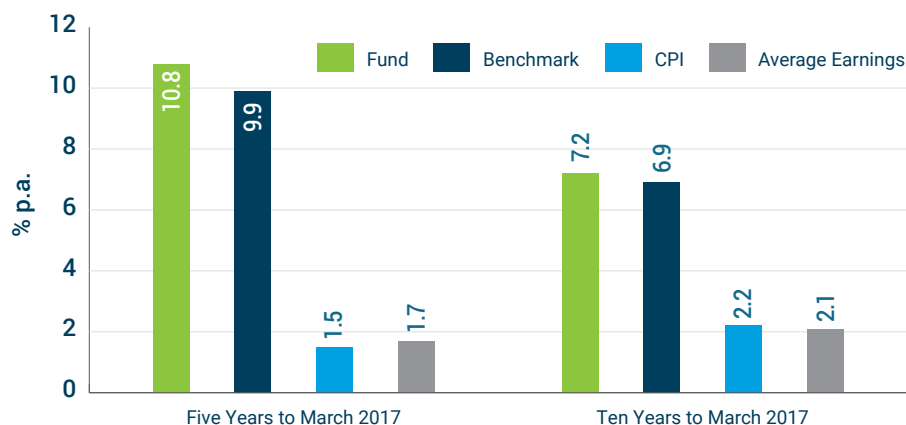
The global property programme was introduced in mid 2010 and is comprised of funds run by Partners Group. It outperformed its benchmark for the year. The programme is still in the early stages of development.

The infrastructure programme is a combination of funds run by Partners Group that were introduced from mid 2010 and earlier investments in direct funds managed by Infracapital. The return is above benchmark at what is also an early stage in its development.

## LONGER TERM PERFORMANCE

**Pension fund returns are generally assessed over at least five year periods in order to avoid taking too short term a view of investment performance.**

The chart below shows the Fund's annual returns over five year and ten year periods against the Consumer Prices Index and Average Earnings.



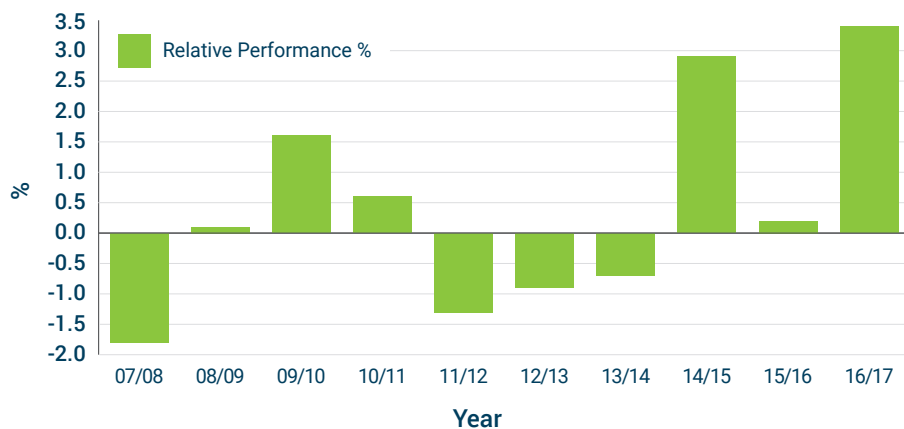
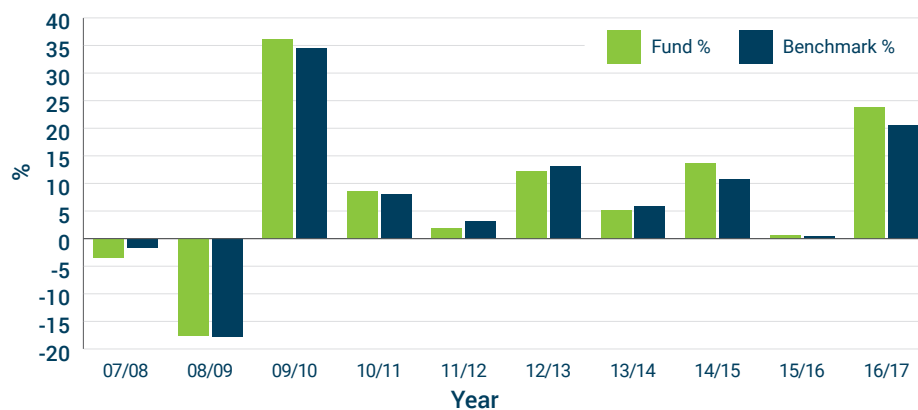
The five year return is 10.8% per annum is above the benchmark return of 9.9% per annum. The ten year return is 7.2% per annum and is also above the benchmark return of 6.9% per annum.

The returns over the longer term have been influenced in part by the volatile market conditions that have made it difficult for investment managers to apply a consistent strategy.

The returns for both periods are above the increases in the Consumer Prices Index and in Average Earnings.

## ANNUAL PERFORMANCE OVER TEN YEARS

The annual performance of the Fund over ten years is shown in the following charts:



The relative performance was negative for the first year of the period to March 2008. For the next three year period performance improved and the Fund outperformed and recovered some of the loss from earlier years.

The out performance in 2010/11 was particularly pleasing in the light of a significant amount of restructuring that took place when a number of new equity managers were appointed.

The disappointing performances in 2011/12 and 2012/13 were the result of the UK property mandate delivering returns materially below the benchmark. This resulted in a review of the approach to investing into UK property and a restructuring of the portfolio.

Performance for 2013/14 was poor, mainly because of poor returns from two active equity managers.

The 2014/15 and 2015/16 performance was above benchmark and returns were mainly from alternative investments including private equity, infrastructure and both UK and global property. In 2016/17 the alternatives programmes continued to produce good returns.

## LONGER TERM PERFORMANCE OVER THE VARIOUS ASSET CLASSES

**The following table shows the Fund's returns over the main investment markets for the three and five year periods up to 31st March 2017.**

The Fund is unable to report performance over the individual asset classes for the ten year period due to changes in the Fund's investment structure and benchmarks during this period.

| FUND                      | THREE YEARS |             | FIVE YEARS |             |
|---------------------------|-------------|-------------|------------|-------------|
|                           | FUND %      | BENCHMARK % | FUND %     | BENCHMARK % |
| Fund                      | 12.1        | 10.2        | 10.8       | 9.9         |
| UK Equities               | 8.5         | 7.7         | 10.1       | 9.7         |
| US Equities               | 18.4        | 20.5        | 17.0       | 18.2        |
| European ex UK Equities   | 9.5         | 9.6         | 11.3       | 12.8        |
| Japanese Equities         | 15.3        | 18.2        | 12.2       | 13.2        |
| Pacific ex Japan Equities | 16.2        | 15.3        | 12.0       | 11.3        |
| Emerging Market Equities  | 15.2        | 11.8        | 9.5        | 6.3         |
| Bonds                     | 7.9         | 7.6         | 6.9        | 6.3         |
| UK Gilts                  | 8.2         | 7.8         | 5.2        | 5.2         |
| Corporate Bonds           | 8.0         | 7.5         | 7.8        | 7.1         |
| UK Index-Linked           | 15.9        | 14.6        | 11.1       | 10.0        |
| Private Equity*           | 19.6        | 8.0         | 15.6       | 8.0         |
| UK Property**             | 10.5        | 5.9         | 5.0        | 6.2         |
| Global Property ***       | 18.2        | 4.3         | 18.1       | 4.0         |
| Infrastructure****        | 21.7        | 5.8         | 14.7       | 5.1         |

\* The return for private equity is shown against an absolute return benchmark of 8% per annum net of fees.

\*\* The benchmark for UK property is Retail Price Index plus 4% per annum.

\*\*\* The benchmark for global property assumes that an individual fund will deliver a zero return for the first three years to allow for J-curve. An absolute return benchmark of 8% per annum net of fees is then assumed.

\*\*\*\* The benchmark for infrastructure assumes that an individual fund will deliver a zero return for the first three years to allow for J-curve. An absolute return benchmark of 7% per annum net of fees is then assumed.

The returns from the various equity classes have been mixed over the three and five year periods. The return from UK equities is of particular importance to UK pension funds as a large proportion of their assets tend to be invested there. The Fund returned satisfactory results over both periods. The three year return was 8.5% per annum against a benchmark of 7.7% per annum and the five year return was 10.1% per annum against a benchmark of 9.7% per annum.

The private equity returns of 19.6% per annum for three years and 15.6% per annum for five years are ahead of the benchmark of 8.0%.

The UK property portfolio has performed well against its Retail Prices Index based benchmark over the three year period but is still below benchmark over the five year period.

The global property programme was introduced in mid 2010 and is comprised of funds run by Partners Group. The three year and five year performance is strong against the absolute return based benchmark.

The infrastructure programme is a combination of funds run by Partners Group that were introduced from mid 2010 and earlier investments in direct funds managed by Infracapital. The return is above the absolute return based benchmark for both the three and five year periods.

## MANAGEMENT EXPENSES

The Chartered Institute of Public Finance and Accountancy (CIPFA) issues recommended accounting guidance on the production of the Pension Fund Report and Accounts.

Best practice guidance suggests that Investment Management Expenses should not reflect fees and expenses that are incurred by underlying investment vehicles investing in other vehicles which the Fund has no control over. These are referred to by CIPFA as “tier 2” fees and expenses. This is typically the case with private market fund of fund investments.

CIPFA has advised that as the Fund has no overall control over “tier 2” expenses they should be omitted from Investment Management Expenses included within the financial accounts of the Fund but included solely for information purposes within another section of the Annual Report.

The table below shows the Investment Management Expenses as shown in the accounts and also the “Tier 2” fees and expenses, which have now been excluded from the accounts.

| 31st March 2016<br>£m |   | Fund Account note | 31st March 2017<br>£m |
|-----------------------|---|-------------------|-----------------------|
| 39.689                | Investment Management Expenses              | 9                 | 32.624                |
| 33.588                | Tier 2 Fees and Expenses                    |                   | 26.640                |
| <b>73.277</b>         | <b>Total Investment Management Expenses</b> |                   | <b>59.264</b>         |

The table shows that the “tier 2” fees and expenses for 2016/17 are £26.640 million (£33.588 million for 2015/16). This gives an overall cost for Investment Management Expenses of £59.264 million for 2016/17 (£73.277 million for 2015/16).



# INVESTMENT POLICIES

## INVESTMENT PRINCIPLES

**In 2008, HM Treasury introduced six Investment Principles that replaced the original ten Principles from the Myners Report in 2001.**

**The new Principles were launched in October 2008. HM Treasury and the Department for Work and Pensions jointly commissioned the Pensions Regulator to oversee an Investment Governance Group that was given the task of implementing the new Principles across all UK pension funds.**

An Investment Governance Sub-Group for the Local Government Pension Scheme, which included representation from The Department for Communities and Local Government (CLG) and the Chartered Institute of Public Finance and Accountancy (CIPFA), considered how the Scheme could fit with the new Principles. The Pensions Panel of CIPFA issued CLG endorsed guidance on the key issues for compliance with the new Principles. This was published in mid December 2009 in a document called "Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles".

Each administering authority is required by Regulation to set out in its Statement of Investment Principles the extent to which the authority's policy complies with the guidance. To the extent that it does not comply with the guidance, an authority must also give the reasons for that non-compliance in its Statement. CLG stated that it would keep the guidance under review and would reissue it, as necessary, in the light of developments.

The Fund was fully compliant with the ten original Principles.

The Pensions Committee has benchmarked its practices and procedures against the guidance and has concluded that the Fund is compliant with the six Principles. The position is outlined as follows:

|  |   |
|--|---|
| <b>PRINCIPLE 1 –<br/>EFFECTIVE<br/>DECISION<br/>MAKING</b> | <p>The Fund has a governance structure and Training Policy and Programme in place that ensures that:</p> <ul style="list-style-type: none"> <li>• Decisions are taken by persons with the skills, knowledge, advice and resources necessary to make them effectively and to monitor their implementation.</li> <li>• There is the necessary expertise to evaluate and challenge advice, and manage conflicts of interest.</li> </ul>  |
| <b>PRINCIPLE 2 –<br/>CLEAR<br/>OBJECTIVES</b>              | <p>Asset liability modelling, informed by the triennial valuation data and report, is applied to set an investment objective for the Fund that takes account of its liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of the administering authority and employers. The outcome of the modelling and the resultant investment management strategy are clearly communicated to advisors and investment managers.</p> |
| <b>PRINCIPLE 3 –<br/>RISK AND<br/>LIABILITIES</b>          | <p>The investment strategy takes account of the form and structure of liabilities. This includes the implications for local tax payers, the strength of covenant of employers, default risk and longevity risk.</p>   |
| <b>PRINCIPLE 4 –<br/>PERFORMANCE<br/>ASSESSMENT</b>        | <p>Arrangements are in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>The Pensions Committee undertakes an annual assessment of its effectiveness as a decision-making body. It also assesses the effectiveness of its investment advisors and the Fund's Officers.</p>   |
| <b>PRINCIPLE 5 –<br/>RESPONSIBLE<br/>OWNERSHIP</b>         | <p>The Fund:</p> <ul style="list-style-type: none"> <li>• Has adopted and requires its investment managers to adopt the principles contained in the UK Stewardship Code.</li> <li>• Includes a statement on its policy on responsible ownership in its Investment Strategy Statement and Corporate Governance Policy.</li> <li>• Reports annually to members on the discharge of such responsibilities.</li> </ul>  |
| <b>PRINCIPLE 6 –<br/>TRANSPARENCY<br/>AND REPORTING</b>    | <p>The Fund's policy documents, in particular the Governance Compliance Statement, Communication Policy Statement and Statement of Investment Principles demonstrate how it:</p> <ul style="list-style-type: none"> <li>• Acts in a transparent manner, communicating with stakeholders on issues relating to the management of investment, its governance and risks, including performance against stated objectives.</li> <li>• Provides regular communication to members.</li> </ul>                           |

## THE INVESTMENT STRATEGY STATEMENT

**The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, came into force on 1st November 2016, replacing the 2009 Regulations.**

The Regulations require the administering authority to prepare, maintain and publish an Investment Strategy Statement (ISS). This replaces the Statement of Investment Principles, which were a requirement under the previous Regulations.

The ISS sets out the decisions that have been taken on investment policies and describes the Fund's investments and investment strategy.

The first statement was approved by the Pensions Committee in March 2017.

It may be viewed on the Fund's website at <http://www.twpf.info/CHttpHandler.ashx?id=32906&p=0>

The ISS provides evidence that administering authorities have considered the suitability of their Fund's investment policy and the approach to implementing the policy.

**The Regulations require the ISS to cover the policy on the following areas:**

- The types of investments to be held.
- The balance between different types of investments.
- Risk, including the ways in which risks are to be measured and managed.
- The expected returns on investments.
- The realisation of investments.
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

- The exercise of the rights (including voting rights) attaching to investments, if there is such a policy.

- Stock lending.

- The extent to which the administering authority complies with guidance given by CLG (in relation to the Investment Principles), and, to the extent the authority does not comply, the reasons for not complying.

- The exercise of any discretion by the administering authority to increase the limits on various types of investment.

The Pensions Committee ensures that the ISS is updated as the investment management structure is developed.

## CORPORATE GOVERNANCE AND VOTING

**The Committee believes that good corporate governance and the informed use of voting rights are an integral part of the investment process that will improve the performance of the companies in which the Fund is invested.**

The Fund's approach is set out in the Corporate Governance Policy which was most recently reviewed and approved by the Committee in June 2016.

The Policy may be viewed on the Fund's website at [www.twpf.info/article/11843/Investments](http://www.twpf.info/article/11843/Investments) or [www.twpf.info/CHttpHandler.ashx?id=12635&p=0](http://www.twpf.info/CHttpHandler.ashx?id=12635&p=0)

Voting rights are regarded as an asset that needs managing with the same duty of care as any other asset. The use of these rights is essential to protect the interests of the organisations participating in and the beneficiaries of the Fund.

It is important that this process is carried out in an informed manner. For this reason, it is believed that the investment managers are best placed to undertake it.

Each manager is required to prepare a policy on corporate governance and on the use of voting rights.

**This policy has to provide for:**

- The approach towards UK quoted companies to take account of the principles contained in the UK Corporate Governance Code and the UK Stewardship Code.
- With regard to companies outside the UK, a manager to use its best efforts to apply the principles of the UK Stewardship Code. Other national or international standards must also be taken into account.
- The policy towards unquoted companies to be consistent with the approach adopted for quoted companies, to the extent that this is practicable.
- Voting rights to be exercised in a manner that establishes a consistent approach to both routine and exceptional issues, in order that company directors fully understand the manager's views and intentions.

Whilst the Committee requires each manager to exercise voting rights in accordance with their individual policy, it retains the right to direct the manager in respect of any particular issue. In particular, a manager must seek direction from the Fund when a conflict of interest arises and when the Fund is involved in a class action.

**Each manager is required to:**

- Report any changes to their policy to the Fund for approval.
- Provide quarterly reports that set out how their policy has been implemented and their voting record.

The Fund votes globally for its segregated equity holdings. The holdings in companies in pooled funds are voted where the manager makes this possible.

An analysis of the Fund's Global ex UK and UK only voting record (including pooled funds) for 2016/17 is shown below:

|                                | GLOBAL<br>EX UK | UK ONLY |
|--------------------------------|-----------------|---------|
| Annual General Meetings        | 2,675           | 733     |
| Extraordinary General Meetings | 533             | 130     |
| Resolutions                    | 36,449          | 12,623  |
| Votes For                      | 31,779          | 12,299  |
| Votes Against                  | 4,486           | 320     |
| Abstentions                    | 107             | 4       |
| Votes Not Cast                 | 77              | 0       |

The table shows that the Fund supported management on the majority of resolutions.

**A resolution was opposed or there was an abstention on 4,917 occasions. The most common reasons for this were:**

- The lack of independence of non-executive directors and the length of directors' contracts.
- Overly generous executive compensation packages for mediocre performance.
- Concerns about a reduction in shareholders' rights, such as the issue of new shares without pre-emptive rights and an increase in authorised capital weakening current holdings.
- Concerns over the resolutions being proposed by shareholders.
- Concerns on plans to buy or merger with competitors.

The table shows that there were 77 resolutions where votes were not cast.

For 52 of these resolutions, the votes were not cast due to a practice called share-blocking. This is where shares cannot be sold until after the annual meeting if a vote has been cast by a shareholder. Therefore, shareholders are understandably reluctant to vote on non-contentious issues if this will prevent them from selling at any time.

A further 23 resolutions were not voted as the country practice requires the holdings to be re-registered prior to voting. Again, shareholders are reluctant to vote due to the time taken to re-register shares which may result in these shares being unavailable for sale.

Those resolutions not voted for share-blocking or re-registration reasons remain subject to review before a decision is taken on whether to vote. It should be noted that these practices do not occur in the UK and are diminishing elsewhere.

The remaining 2 were not voted as the manager was unable to engage fully with the company in the period available in order to make an informed decision. The Fund has discussed the matter with the manager and has been assured that procedures have been amended.

The Fund is a member of the Local Authority Pension Fund Forum. This is a voluntary association of seventy local authority pension funds that exists to promote the investment interest of the funds, and to maximise influence as shareholders in promoting corporate social responsibility and high standards of corporate governance among the companies invested in.

## SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

**The Fund's Investment Strategy Statement and Corporate Governance Policy cover the extent to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments.**

This is an important issue and the Fund takes its responsibility in this area very seriously.

The active managers are required to include consideration of social, environmental and ethical issues as an integral part of their investment process and corporate governance policy and to act accordingly where such issues may have a financial impact on investment.

Part of the Fund's assets are invested on a passive basis. The passive manager is not required to take account of such issues in the selection, retention and realisation of investments but is required to consider them in its corporate governance policy and to act accordingly where these may have a financial impact on investment.

The managers are required to report on the implementation of this policy in their quarterly performance report. The subject is regularly covered in meetings with managers.



# FINANCIAL STATEMENTS

## FUND ACCOUNT FOR THE YEAR ENDED

| 31st March 2016<br>£m |   | Note     | 31st March 2017<br>£m |
|-----------------------|---|----------|-----------------------|
|                       | <b>Dealings With Members, Employers and Others Directly Involved in the Fund</b>          |          |                       |
| (289.446)             | Contributions   | 5        | (290.158)             |
| (7.715)               | Transfers In from Other Pension Funds   | 6        | (7.022)               |
| <b>(297.161)</b>      |   |          | <b>(297.180)</b>      |
| 264.760               | Benefits Payable  | 7        | 293.602               |
| 7.377                 | Payments To and On Account of Leavers   | 8        | 14.745                |
| <b>272.137</b>        |   |          | <b>308.347</b>        |
| <b>(25.024)</b>       | <b>Net (additions)/withdrawals from dealings with members</b>                             |          | <b>11.167</b>         |
| <b>43.049</b>         | <b>Management Expenses</b>  | <b>9</b> | <b>36.568</b>         |
| <b>18.025</b>         | <b>Net (additions)/withdrawals including fund management expenses</b>                     |          | <b>47.735</b>         |
|                       | <b>Returns on Investments</b>   |          |                       |
| (89.480)              | Investment Income   | 10       | (91.042)              |
| 3.146                 | Taxes on Income   | 10       | 0.944                 |
| 19.263                | Profits and Losses on Disposals of Investments and Changes in Market Value of Investments | 12b      | (1,480.911)           |
| <b>(67.071)</b>       | <b>Net Returns on Investments</b>   |          | <b>(1,571.009)</b>    |
| <b>(49.046)</b>       | <b>Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year</b>   |          | <b>(1,523.274)</b>    |
| <b>6,378.324</b>      | <b>Net Assets of the Fund at 1st April</b>  |          | <b>6,427.370</b>      |
| <b>6,427.370</b>      | <b>Net Assets of the Fund at 31st March</b>   |          | <b>7,950.644</b>      |



## NET ASSETS STATEMENT FOR THE YEAR ENDED

| 31st<br>March<br>2016<br>£m |   | Note | 31st<br>March<br>2017<br>£m |
|-----------------------------|---|------|-----------------------------|
| 6,422.276                   | Investment Assets   | 11   | 7,943.190                   |
| (12.298)                    | Investment Liabilities  | 11   | (9.106)                     |
| <b>6,409,978</b>            | <b>Total Net Investments</b>  |      | <b>7,934.084</b>            |
| 27.816                      | Current Assets  | 14   | 25.820                      |
| (10.424)                    | Current Liabilities   | 14   | (9.260)                     |
| <b>6,427.370</b>            | <b>Net Assets of the Fund Available to Fund Benefits as at 31st March</b> |      | <b>7,950.644</b>            |

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits that fall due after the year end. The actuarial position of the Fund, which does take account of such obligations, is dealt with in a statement prepared by the Actuary on pages 81 and 82.

The actuarial present value of promised retirement benefits is disclosed at Note 25 which has been compiled under IAS 26 and, as such, is based on different assumptions.

We certify that the financial statements along with the notes to the financial statements for the year ended 31st March 2017 set out in pages 52 to 83 present fairly the financial position of the Tyne and Wear Pension Fund as at 31st March 2017 and its income and expenditure for the year ended 31st March 2017.

**Ian Bainbridge**  
Head of Pensions  
September 2017

**Stuart Reid**  
Head of Finance  
(Section 151 Officer)  
September 2017

The financial statements were approved by the Pensions Committee at its meeting on 14th September 2017.

**Councillor Eileen Leask**  
Chair of the Pensions Committee

# NOTES TO THE TYNE AND WEAR PENSION FUND FINANCIAL STATEMENTS

## DESCRIPTION OF THE TYNE AND WEAR PENSION FUND

### a) General

The Tyne and Wear Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS) and is administered by South Tyneside Council ('the Council').

It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the Council, four other local authorities within the Tyne and Wear area, scheduled bodies and admitted employers in the Fund. Teachers, police officers and fire fighters are not included as they come within other national pension schemes.

These benefits include retirement pensions, early payment of benefits on medical grounds and the payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index (CPI).

The Fund is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2016.

### b) Pensions Committee

The Council has delegated the management of the Fund to the Pensions Committee (the Committee) which decides on the investment policy most suitable to meet the liabilities of the Fund and has ultimate responsibility for the investment policy.

The Committee takes advice from the Fund's officers, investment advisor, investment managers and the actuary.

The Committee has eighteen members. The Council nominates eight members and the other four district councils within the County area nominate one member each. The trades unions and the employers collectively nominate three members each, who sit on the Committee in an advisory capacity.

### c) Local Pension Board

The Council has established a Local Pension Board to assist with the effective and efficient management of the Fund. The Board consists of eight voting members, four member representatives and four employer representatives.

### d) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside of the Scheme.

Employers participating in the Tyne and Wear Pension Fund include:

- Scheduled bodies, which are local authorities or similar bodies whose staff are automatically entitled to be members of the Fund and
- Admitted bodies, which are organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary and charitable organisations and private contractors that are undertaking a local authority function following an outsourcing to the private sector.

The membership numbers of the Fund are summarised below. Further details on membership are available within this Annual Report:

|  | 31st March 2016 | 31st March 2017 |
|--|-----------------|-----------------|
| <b>Number of Employers Within the Fund</b> | <b>230</b>      | <b>238</b>      |
| <b>Number of Employees in Fund</b>         |                 |                 |
| South Tyneside Council                     | 3,949           | 4,020           |
| Other Employers                            | 43,411          | 40,935          |
| <b>Total</b>                               | <b>47,360</b>   | <b>44,955</b>   |
| <b>Number of Pensioners</b>                |                 |                 |
| South Tyneside Council                     | 4,659           | 4,858           |
| Other Employers                            | 39,200          | 41,066          |
| <b>Total</b>                               | <b>43,859</b>   | <b>45,924</b>   |
| <b>Deferred Pensioners</b>                 |                 |                 |
| South Tyneside Council                     | 4,427           | 4,422           |
| Other Employers                            | 33,576          | 36,163          |
| <b>Total</b>                               | <b>38,003</b>   | <b>40,585</b>   |

#### e) Funding

The Fund is financed by contributions from employees, the Council and all other employers within the Fund, as well as from capital growth and interest and dividends on the Fund's investments. Contributions from active members of the Fund are set in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2017. Employers pay contributions are based on triennial funding valuations carried out by the Fund's Actuary. The last valuation was at 31st March 2016.

#### f) Benefits

Prior to 1st April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table.

|                 | SERVICE PRE 1 <sup>ST</sup> APRIL 2008   | SERVICE POST 31 <sup>ST</sup> MARCH 2008  |
|-----------------|--|---|
| <b>PENSION</b>  | Each year worked is worth 1/80 x final pensionable salary.   | Each year worked is worth 1/60 x final pensionable salary.  |
| <b>LUMP SUM</b> | Automatic lump sum of 3 x pension.<br><br>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.<br><br>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. |

From 1st 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 re-rated 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.

#### g) Investment Principles

The LGPS (Management and Investment of Funds) Regulations 2016 require an administering authority to prepare and review from time to time a written statement recording the investment policy of a fund.

The Committee approved the first Investment Strategy Statement at its meeting in March 2017. This can be viewed on the Fund's website using the link below.

<http://www.twpf.info/CHttpHandler.ashx?id=12635&p=0>

The Committee has delegated the management of the Fund's investments to external investment managers (see note 17) which are appointed in accordance with the LGPS (Management and Investment of Funds) Regulations 2016. The managers' activities are specified in investment management agreements and are monitored on a quarterly basis.

## 1. BASIS OF PREPARATION

The financial statements summarise the Fund's transactions for the financial year 2016/17 and its position as at 31st March 2017. The accounts have been prepared following the *"Code of Practice on Local Authority Accounting in the United Kingdom 2016/17"* (The Code), 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. They do not take into account obligations to pay pensions and benefits payable after the end of the financial year.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounts have been prepared on an accruals basis. The exception to this practice is Transfer Values which are recognised when cash is transferred.

### Fund Account – Revenue Recognition

#### a. Contribution Income

Normal contributions, from both members and employers, are accounted for on an accruals basis in the payroll period for which they relate. The percentage rate payable by the employers is determined by the Actuary, whilst the rate payable by employees is set within the LGPS Regulations. Contributions due as at 31st March 2017 have been accrued.

Employer deficit funding contributions are accounted for on the due dates set by the Actuary or on receipt if earlier than this date.

Employer strain on the fund and any augmentation contributions are accounted for in the period in which the liability arises. Any amount due in the year but still outstanding at the year-end has been accrued.

#### b. Transfer Values

Transfer values represent the amounts receivable or payable in respect of members who have either joined or left the Fund during the financial year and have been calculated in accordance with the LGPS Regulations 2013.

Individual transfers either in or out have been accounted for in the period in which they were paid or received.

Transfers in from members wishing to use the proceeds from their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis within Transfers In.

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

#### c. Investment Income

##### Investment Income

Investment income has been credited to the Fund on the ex-dividend date and is grossed up to allow for recoverable and non-recoverable tax. Non-recoverable tax has been shown as an expense.

##### 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.

##### Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received at the year-end is disclosed in the Net Assets Statement as a current financial asset.

##### Distributions from Pooled Funds

Distributions from pooled funds are recognised on the date of issue. Any amount not received at the year-end is disclosed in the Net Assets Statement as a current financial asset.

##### Property-related Income

Property-related income consists primarily of rental income.

Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the rental income over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

##### 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.

#### **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 sector 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. Any tax that is irrecoverable is accounted for as a fund expense as it arises.

#### **f. Management Expenses**

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

##### **Administrative Expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

##### **Oversight and Governance Costs**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

##### **Investment Management Expenses**

Investment management expenses payable as at 31st March 2017 have been accrued. Performance related fees, where applicable, have not been accrued at that date as they are not deemed to be earned until the end of the performance period when they are calculated and agreed.

### **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 a party to the purchase of the asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund Account.

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 IFRS 13 (see note 11). For the purposes of disclosing levels of fair value hierarchy, the Fund has used the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

#### **h. Freehold and Leasehold Properties**

Properties are shown as valued at the year-end date. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Jones Lang LaSalle. No depreciation is provided on freehold buildings or long leasehold properties, in accordance with The Royal Institute of Chartered Surveyors Valuation Standards 9th Edition.

#### **i. Foreign Currency Transactions**

Foreign income received during the year has been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates at the year-end date.

End of year investment and foreign currency balances have been converted into Sterling at the closing exchange rates at the year-end date.

#### **j. Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

#### **k. Outstanding Commitments**

The Fund has made commitments to investments which are not included in the accounts of the Fund until the monies have been drawn down by the relevant manager. These are shown in note 22.

#### **l. Cash and Cash Equivalents**

Cash comprises cash in hand and demand deposits and also includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in their valuations.

#### **m. Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and other relevant actuarial standards.

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 the Net Assets Statement (Note 25).

#### **n. Additional Voluntary Contributions**

The Fund provides an additional voluntary contributions (AVCs) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed The Prudential Assurance Company as its current AVC provider. AVCs are paid to The Prudential Assurance Company by employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the value of their account and any movements during the year.

In accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, AVCs are not included in the accounts but are disclosed only as a note (Note 16).

### **3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The Pension Fund liability is calculated triennially by the Actuary, in accordance with IAS26, whose report can be seen in Note 25. The estimate is subject to significant variances based on changes to the underlying assumptions used by the Actuary.

#### **Property Valuation**

The Fund's UK property is included at a value derived by the valuers based on assumptions made by them in accordance with The Royal Institute of Chartered Surveyors Valuation Standards 9th Edition. The actual valuation of each property will only be known when the Fund sells the property on the open market.

#### **Unquoted Private Equity Investments**

Private equity investments are valued at fair value in accordance with guidelines issued by the British Venture Capital Association. As none of these are publicly listed, there is some estimation involved in the valuation, the total of which will only be completely known on the sale of the asset. As a result, there is a risk that current valuations may be under or over stated in the accounts.

#### **Pension Fund Liability**

The pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary. This estimate is subject to significant variances based on changes to the underlying assumptions.

#### 4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. As actual results cannot be predicted with certainty, they could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31st March 2017 for which there is significant risk of material adjustment in the forthcoming year are as follows:

| ITEM   | UNCERTAINTIES   | EFFECT IF ACTUAL RESULTS DIFFER FROM ASSUMPTIONS  |
|--|---|---|
| <b>PRIVATE EQUITY, INFRASTRUCTURE AND GLOBAL PROPERTY (NOTE 17)</b>      | Private equity, infrastructure and global property investments are based on valuations provided by the manager of the funds in which the Fund has invested. These are based on the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. These investments are not publicly listed and as such there is a degree of estimation in their valuation. | The Fund has a total of £614.681 million included for private equity, £179.673 million for infrastructure and £376.883 million for global property investments. There is a risk that this could be under or over stated in the accounts by £76 million, £19 million and £35 million respectively. |
| <b>ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS (NOTE 25)</b> | Estimation of the net liability to pay pensions depends on a number of judgements, for example in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. The Fund employs an Actuary to provide expert advice on these assumptions.   | The judgements mentioned are all under review. Therefore there is a possibility that the valuation of £7,514.5 million in Note 25 for the "actuarial present value of the promised retirement benefits" could be under or over stated in the note.  |
| <b>FREEHOLD AND LEASEHOLD PROPERTY</b>                                   | Valuation techniques are used to determine the carrying amount of directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the value of property.   | The effect of variations in the factors supporting the valuation would be an increase or decrease of £19 million, on a fair value of £340.300 million.  |

## 5. CONTRIBUTIONS RECEIVABLE

| 31st March 2016 |           | 31st March 2017                |           |
|-----------------|-----------|--------------------------------|-----------|
| £m              | £m        | By Category                    | £m        |
|                 | (55.672)  | Employees' contributions       | (53.748)  |
|                 |           | Employers' contribution        |           |
| (135.739)       |           | Normal contributions           | (129.847) |
| (98.027)        |           | Deficit recovery contributions | (106.563) |
|                 | (233.766) | Total employers' contribution  | (236.410) |
|                 | (0.008)   | Refund of Payroll Costs        | 0.000     |
|                 | (289.446) | Total Contributions Receivable | (290.158) |

The contributions can be analysed by type of member body as follows:

| 31st March 2016<br>£m | By Authority                                     | 31st March 2017<br>£m |
|-----------------------|--|-----------------------|
| (24.399)              | South Tyneside Council (Administering Authority) | (23.518)              |
| (152.817)             | Other Metropolitan Councils                      | (154.882)             |
| (62.298)              | Other Part 1 Scheduled Bodies                    | (64.391)              |
| (13.030)              | Part 2 Scheduled Bodies                          | (13.782)              |
| (36.894)              | Admitted Bodies                                  | (33.585)              |
| (289.438)             | Total Contributions Receivable                   | (290.158)             |

The refund of payroll costs relates to a group transfer of pensioners into the Greater Manchester Pension Fund (GMPF) which took place in 2014/15. For a period of time after the date of the transfer, the Fund paid the payroll costs and was reimbursed for this on a monthly basis. The small figure for 2015/16 related to an amount of additional costs reimbursed by GMPF. There has been no further payments in 2016/17.

## 6. TRANSFERS IN

| 31st March 2016<br>£m | By Category          | 31st March 2017<br>£m |
|-----------------------|----------------------|-----------------------|
| (3.960)               | Group Transfers      | 0.00                  |
| (3.755)               | Individual Transfers | (7.022)               |
| (7.715)               | Total Transfers In   | (7.022)               |

During the year, individual transfers in from other schemes amounted to £7.022 million (£3.755 million in 2015/16). There was £3.960 million of income from bulk transfers into the Fund in 2015/16 relating to a transfer of employees from Wear Valley Housing Group to Gentoo. Whilst the transfer of staff took place on the 31st March 2008, the actuaries only agreed a transfer value during 2015/16. There was no bulk transfer received during 2016/17.

A group of employees, deferred and actual pensioners transferred to the Fund from Worcestershire Pension Fund during the 2014/15 financial year, in relation to the transfer of Kidderminster College to Newcastle College. The Fund at this time does not have a value for the assets to be transferred and has not included an amount in the accounts accordingly.

## 7. BENEFITS PAYABLE

| 31st March<br>2016<br>£m | By Category                                   | 31st March<br>2017<br>£m |
|--------------------------|---|--------------------------|
| 222.902                  | Pensions                                      | 232.756                  |
| 47.548                   | Commutations and Lump Sum Retirement Benefits | 63.603                   |
| 5.206                    | Lump Sum Death Benefits                       | 7.859                    |
| (10.896)                 | Recharges Out                                 | (10.616)                 |
| <b>264.760</b>           | <b>Total Benefits Payable</b>                 | <b>293.602</b>           |

The recharges out figure relates to pension enhancements approved by employers over the years which the Fund pays on the employers' behalf and reclaims on a regular basis from the employer. Details of the payments made can be found in Note 15.

The payments can be analysed by type of member body as follows:

| 31st March<br>2016<br>£m | By Authority                                     | 31st March<br>2017<br>£m |
|--------------------------|--|--------------------------|
| 25.071                   | South Tyneside Council (Administering Authority) | 26.376                   |
| 162.633                  | Other Metropolitan Councils                      | 177.930                  |
| 38.010                   | Other Part 1 Scheduled Bodies                    | 45.670                   |
| 8.119                    | Part 2 Scheduled Bodies                          | 10.472                   |
| 30.927                   | Admitted Bodies                                  | 33.154                   |
| <b>264.760</b>           | <b>Total Benefits Payable</b>                    | <b>293.602</b>           |

## 8. LEAVERS

| 31st March<br>2016<br>£m | By Category                           | 31st March<br>2017<br>£m |
|--------------------------|---------------------------------------|--------------------------|
| 6.712                    | Individual Transfers to Other Schemes | 13.849                   |
| 0.479                    | Refunds to Members Leaving Service    | 0.665                    |
| 0.000                    | Group Transfers                       | 0.000                    |
| 0.186                    | State Scheme Premiums                 | 0.231                    |
| <b>7.377</b>             | <b>Total Leavers</b>                  | <b>14.745</b>            |

There was no bulk transfer out of the Fund during 2016/17 or 2015/16.

## 9. MANAGEMENT EXPENSES

Office expenses and other overheads have also been charged. The table below shows a breakdown of the management expenses incurred during the year:

| 31st March<br>2016<br>£m |                                | 31st March<br>2017<br>£m |
|--------------------------|--------------------------------|--------------------------|
| 2.457                    | Administrative Costs           | 3.033                    |
| 39.689                   | Investment Management Expenses | 32.624                   |
| 0.903                    | Oversight and Governance Costs | 0.911                    |
| <b>43.049</b>            | <b>Management Expenses</b>     | <b>36.568</b>            |

This analysis of the costs of managing the Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses can be further analysed, as follows:

| 31st March<br>2016<br>£m |   | 31st March<br>2017<br>£m |
|--------------------------|---|--------------------------|
| 23.513                   | Management and Custody Fees             | 21.263                   |
| 8.341                    | Performance Fees                        | 3.132                    |
| 4.686                    | Transaction Costs                       | 3.970                    |
| 3.149                    | Expenses Charged within Pooled Vehicles | 4.259                    |
| <b>39.689</b>            | <b>Investment Management Expenses</b>   | <b>32.624</b>            |

These costs do not include costs relating to the property portfolio which under IAS 40 "Investment Property" should be capitalised and not expensed.

## 10. INVESTMENT INCOME

| 31st March<br>2016<br>£m |  | 31st March<br>2017<br>£m |
|--------------------------|--|--------------------------|
| (52.440)                 | Income from Equities                                     | (50.475)                 |
| (1.740)                  | Income from Bonds  | (2.058)                  |
| (16.762)                 | Property Rents   | (19.719)                 |
| (17.477)                 | Pooled Investments - Unit Trusts and other managed funds | (17.670)                 |
| (0.564)                  | Interest on Cash Deposits                                | (0.601)                  |
| (0.497)                  | Other  | (0.519)                  |
| <b>(89.480)</b>          | <b>Sub total</b>   | <b>(91.042)</b>          |
| 3.146                    | Less Non-recoverable Tax                                 | 0.944                    |
| <b>(86.334)</b>          | <b>Total Investment Income</b>                           | <b>(90.098)</b>          |

## NET RENTS FROM PROPERTIES

Net rents from properties can be analysed further, as follows:

| 31st March<br>2016<br>£m |                                    | 31st March<br>2017<br>£m |
|--------------------------|------------------------------------|--------------------------|
| (16.989)                 | Rental Income                      | (19.353)                 |
| 0.227                    | Direct Operating Expenses/(Income) | (0.366)                  |
| <b>(16.762)</b>          | <b>Net Income</b>                  | <b>(19.719)</b>          |

## 11. INVESTMENTS

| 31st March<br>2016<br>£m |                                     | 31st March<br>2017<br>£m |
|--------------------------|-------------------------------------|--------------------------|
|                          | <b>Investment Assets</b>            |                          |
| 56.115                   | Bonds                               | 55.122                   |
| 2,234.175                | Equities                            | 2,256.412                |
| 58.342                   | Index-Linked Securities             | 87.459                   |
| 3,618.748                | Pooled Investment Vehicles          | 5,018.045                |
| 3.232                    | Derivative Contracts                | 1.456                    |
| 311.425                  | Properties                          | 340.300                  |
| 128.799                  | Cash Deposits                       | 169.341                  |
| 11.440                   | Other Investment Balances           | 15.055                   |
| <b>6,422.276</b>         | <b>Total Investment Assets</b>      | <b>7,943.190</b>         |
|                          | <b>Investment Liabilities</b>       |                          |
| (1.845)                  | Derivative Contracts                | (2.698)                  |
| (10.453)                 | Other Investment Balances           | (6.408)                  |
| <b>(12.298)</b>          | <b>Total Investment Liabilities</b> | <b>(9.106)</b>           |
| <b>6,409.978</b>         | <b>Net Investment Assets</b>        | <b>7,934.084</b>         |

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

| 2016/17                    | Market value<br>1st April 2016<br>£m | Purchases at<br>Cost & Derivative<br>Payments<br>£m | Sales Proceeds<br>& Derivative<br>Receipts<br>£m | Change in<br>Market Value<br>During the Year<br>£m | Market Value<br>31st March<br>2017<br>£m |
|----------------------------|--------------------------------------|---|--|--|--|
| Bonds                      | 56.115                               | 303.239   | (305.703)  | 1.471  | 55.122                                   |
| Equities                   | 2,234.175                            | 920.663   | (1,334.076)                                      | 435.650  | 2,256.412                                |
| Index-Linked Securities    | 58.342                               | 203.089   | (188.249)  | 14.277   | 87.459                                   |
| Pooled Investment Vehicles | 3,618.748                            | 871.799   | (487.933)  | 1,015.431  | 5,018.045                                |
| Properties                 | 311.425                              | 33.210  | (13.000)   | 8.665  | 340.300                                  |
| Derivative Contracts       | 1.387                                | 5.919   | (17.854)   | 9.306  | (1.242)                                  |
|                            | <b>6,280.192</b>                     | <b>2,337.919</b>                                    | <b>(2,346.815)</b>                               | <b>1,484.800</b>                                   | <b>7,756.096</b>                         |
| Cash Deposits              | 128.799                              | 65.667  | (21.926)   | (3.199)  | 169.341                                  |
| Other Investment Balances  | 0.987                                | 8.965   | (0.615)  | (0.690)  | 8.647                                    |
| <b>Total investments</b>   | <b>6,409.978</b>                     | <b>2,412.551</b>                                    | <b>(2,369.356)</b>                               | <b>1,480.911</b>                                   | <b>7,934.084</b>                         |

| 2015/16                    | Market value<br>1st April 2015<br>£m | Purchases at<br>Cost & Derivative<br>Payments<br>£m | Sales Proceeds<br>& Derivative<br>Receipts<br>£m | Change in<br>Market Value<br>During the Year<br>£m | Market Value<br>31st March<br>2016<br>£m |
|----------------------------|--------------------------------------|---|--|--|--|
| Bonds                      | 58.784                               | 236.199   | (239.183)  | 0.315  | 56.115                                   |
| Equities                   | 3,008.420                            | 1,037.983   | (1,775.317)                                      | (36.911)   | 2,234.175                                |
| Index-Linked Securities    | 55.862                               | 128.757   | (127.615)  | 1.338  | 58.342                                   |
| Pooled Investment Vehicles | 2,824.214                            | 1,873.678   | (1,083.947)                                      | 4.803  | 3,618.748                                |
| Properties                 | 303.000                              | 32.439  | (33.525)   | 9.511  | 311.425                                  |
| Derivative Contracts       | 2.767                                | 7.792   | (10.331)   | 1.159  | 1.387                                    |
|                            | <b>6,253.047</b>                     | <b>3,316.848</b>                                    | <b>(3,269.918)</b>                               | <b>(19.785)</b>                                    | <b>6,280.192</b>                         |
| Cash Deposits              | 113.947                              | 32.367  | (17.890)   | 0.375  | 128.799                                  |
| Other Investment Balances  | (8.480)                              | 11.750  | (2.430)  | 0.147  | 0.987                                    |
| <b>Total investments</b>   | <b>6,358.514</b>                     | <b>3,360.965</b>                                    | <b>(3,290.238)</b>                               | <b>(19.263)</b>                                    | <b>6,409.978</b>                         |

| 31st March<br>2016<br>£m |   | 31st March<br>2017<br>£m |
|--------------------------|---|--------------------------|
|                          | <b>Bonds</b>                            |                          |
| 56.115                   | UK Public Sector                        | 55.122                   |
| <b>56.115</b>            | <b>Total Bonds</b>                      | <b>55.122</b>            |
|                          | <b>Equities</b>                         |                          |
| 780.963                  | UK Quoted                               | 869.405                  |
| 1,074.032                | Overseas Quoted                         | 998.534                  |
| 379.180                  | Overseas Unquoted                       | 388.473                  |
| <b>2,234.175</b>         | <b>Total Equities</b>                   | <b>2,256.412</b>         |
|                          | <b>Index-Linked Securities</b>          |                          |
| 58.342                   | UK Public Sector                        | 87.459                   |
| <b>58.342</b>            | <b>Total Index-Linked Securities</b>    | <b>87.459</b>            |
|                          | <b>Pooled Investment Vehicles</b>       |                          |
| 0.273                    | Unit Trusts                             | 0.295                    |
| 2,307.286                | Unitised Insurance Policies             | 3,394.769                |
| 1,311.189                | Other Managed Funds                     | 1,622.981                |
| <b>3,618.748</b>         | <b>Total Pooled Investment Vehicles</b> | <b>5,018.045</b>         |
|                          | <b>Properties</b>                       |                          |
| 267.775                  | Freehold                                | 306.550                  |
| 43.650                   | Long Leasehold                          | 33.750                   |
| <b>311.425</b>           | <b>Total Properties</b>                 | <b>340.300</b>           |
|                          | <b>Derivative Contracts</b>             |                          |
| 1.387                    | Forward Foreign Currency Contracts      | (1.040)                  |
| 0.000                    | Futures                                 | (0.202)                  |
| <b>1.387</b>             | <b>Total Derivative Contracts</b>       | <b>(1.242)</b>           |
|                          | <b>Cash Deposits</b>                    |                          |
| 122.513                  | Sterling                                | 100.587                  |
| 6.286                    | Foreign Currency                        | 68.754                   |
| <b>128.799</b>           | <b>Total Cash Deposits</b>              | <b>169.341</b>           |
|                          | <b>Other Investment Balances</b>        |                          |
| (4.642)                  | Outstanding Trades                      | (1.178)                  |
| 9.995                    | Outstanding Dividends & Tax Recoveries  | 9.546                    |
| 1.445                    | Debtors                                 | 5.509                    |
| (5.811)                  | Creditors                               | (5.230)                  |
| <b>0.987</b>             | <b>Total Other Investment Balances</b>  | <b>8.647</b>             |
| <b>6,409.978</b>         | <b>Total Investments</b>                | <b>7,934.084</b>         |

Transaction costs include costs charged directly to the Fund such as commissions, stamp duty, taxes, and professional fees associated with property developments and purchases.

## 12. FINANCIAL INSTRUMENTS

### a) Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The table below analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets have been reclassified during the financial year.

| 31st March 2016  |                             |   |                                    | 31st March 2017  |                             |   |
|--|-----------------------------|---|------------------------------------|--|-----------------------------|---|
| Designated as Fair Value Through Profit and Loss<br>£m | Loans and Receivables<br>£m | Financial Liabilities at Amortised Cost<br>£m |                                    | Designated as Fair Value Through Profit and Loss<br>£m | Loans and Receivables<br>£m | Financial Liabilities at Amortised Cost<br>£m |
|  |                             |   | <b>Financial Assets</b>            |  |                             |   |
| 56.115   | 0.000                       | 0.000   | Fixed Interest Securities          | 55.122   | 0.000                       | 0.000   |
| 2,234.175  | 0.000                       | 0.000   | Equities                           | 2,256.412  | 0.000                       | 0.000   |
| 58.342   | 0.000                       | 0.000   | Index-Linked Securities            | 87.459   | 0.000                       | 0.000   |
| 3,618.748  | 0.000                       | 0.000   | Pooled Investment Vehicles         | 5,018.045  | 0.000                       | 0.000   |
| 3.232  | 0.000                       | 0.000   | Derivative Contracts               | 1.456  | 0.000                       | 0.000   |
| 311.425  | 0.000                       | 0.000   | Properties                         | 340.300  | 0.000                       | 0.000   |
| 0.000  | 128.799                     | 0.000   | Cash Deposits                      | 0.000  | 169.341                     | 0.000   |
| 0.000  | 9.995                       | 0.000   | Other Investment Balances          | 0.000  | 9.546                       | 0.000   |
| 0.000  | 29.261                      | 0.000   | Debtors                            | 0.000  | 31.329                      | 0.000   |
| <b>6,282.037</b>                                       | <b>168.055</b>              | <b>0.000</b>                                  | <b>Total Financial Assets</b>      | <b>7,758.794</b>                                       | <b>210.216</b>              | <b>0.000</b>                                  |
|  |                             |   | <b>Financial Liabilities</b>       |  |                             |   |
| (1.845)  | 0.000                       | 0.000   | Derivative Contracts               | (2.698)  | 0.000                       | 0.000   |
| 0.000  | 0.000                       | (4.642)                                       | Other Investment Balances          | 0.000  | 0.000                       | (1.178)                                       |
| 0.000  | 0.000                       | 0.000   | Borrowings                         | 0.000  | 0.000                       | 0.000   |
| 0.000  | 0.000                       | (16.235)                                      | Creditors                          | 0.000  | 0.000                       | (14.490)                                      |
| <b>(1.845)</b>   | <b>0.000</b>                | <b>(20.877)</b>                               | <b>Total Financial Liabilities</b> | <b>(2.698)</b>   | <b>0.000</b>                | <b>(15.668)</b>                               |
| <b>6,280.192</b>                                       | <b>168.055</b>              | <b>(20.877)</b>                               | <b>Total Assets</b>                | <b>7,756.096</b>                                       | <b>210.216</b>              | <b>(15.668)</b>                               |

### b) Net Gains and Losses on Financial Instruments

| 31st March 2016<br>£m |                                    | 31st March 2017<br>£m |
|-----------------------|------------------------------------|-----------------------|
|                       | <b>Financial Assets</b>            |                       |
| (19.638)              | Fair Value Through Profit and Loss | 1,484.110             |
|                       | <b>Financial Liabilities</b>       |                       |
| 0.375                 | Fair Value Through Profit and Loss | (3.199)               |
| <b>(19.263)</b>       | <b>Total</b>                       | <b>1,480.911</b>      |

### c. Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments carried at fair value has been classified into three levels, according to the quality and reliability of information used to determine fair values.

#### Level 1

Financial instruments are Level 1 where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets in this level are comprised of quoted equities, quoted fixed interest securities and unit trusts. Also included within this level are receivables and liabilities where the amount is known even where these are not quoted on active markets. Listed investments are shown at bid prices. The bid value 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 valuation techniques are used to determine fair value and where the techniques use inputs that are based significantly on observable market data.

#### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the value on the instrument is not based on observable market data. Within this level are UK Property valued independently by professional valuers' and instruments which represent the Fund's private market investments, these are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The Fund's private market investments include private equity, private real estate and private infrastructure funds. The values of the investments in private market funds are based on valuations provided by the investment manager of the funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines and the valuation principles of IFRS and US GAAP. Valuations are undertaken using a mixture of a 31st March 2017 valuation and a 31st December 2016 valuation adjusted for cash flows and rolled forward to 31st March 2017 as appropriate. The following table provides an analysis of the financial assets and liabilities of the Fund into Levels 1 to 3 at fair value.

|   | Quoted<br>Market Price | Using<br>Observable<br>Inputs | With Significant<br>Unobservable<br>Inputs |                  |
|---|------------------------|-------------------------------|--|------------------|
| Value at 31st March 2017                                    | Level 1<br>£m          | Level 2<br>£m                 | Level 3<br>£m                              | Total<br>£m      |
| <b>Financial Assets</b>                                     |                        |                               |  |                  |
| Financial Assets at Fair Value through Profit and Loss      | 2,032.353              | 4,210.790                     | 1,175.351                                  | 7,418.494        |
| Non-financial assets through Profit and Loss                | 0.000                  | 0.000                         | 340.300                                    | 340.300          |
| Loans and Receivables                                       | 210.216                | 0.000                         | 0.000                                      | 210.216          |
| <b>Total Financial Assets</b>                               | <b>2,242.569</b>       | <b>4,210.790</b>              | <b>1,515.651</b>                           | <b>7,969.010</b> |
| <b>Financial Liabilities</b>                                |                        |                               |  |                  |
| Financial Liabilities at Fair Value Through Profit and Loss | 0.000                  | (2.698)                       | 0.000                                      | (2.698)          |
| Financial Liabilities at Amortised cost                     | (15.668)               | 0.000                         | 0.000                                      | (15.668)         |
| <b>Total Financial Liabilities</b>                          | <b>(15.668)</b>        | <b>(2.698)</b>                | <b>0.000</b>                               | <b>(18.366)</b>  |
| <b>Net Financial Assets</b>                                 | <b>2,226.901</b>       | <b>4,208.092</b>              | <b>1,515.651</b>                           | <b>7,950.644</b> |

|   | Quoted<br>Market Price      | Using<br>Observable<br>Inputs | With Significant<br>Unobservable<br>Inputs |                           |
|---|-----------------------------|-------------------------------|--|---------------------------|
| Value at 31st March 2016                                    | Level 1<br>restated *<br>£m | Level 2<br>restated *<br>£m   | Level 3<br>restated *<br>£m                | Total<br>restated *<br>£m |
| <b>Financial Assets</b>                                     |                             |                               |  |                           |
| Financial Assets at Fair Value Through Profit and Loss      | 1,996.074                   | 2,927.677                     | 1,046.861                                  | 5,970.612                 |
| Non-financial assets through Profit and Loss                | 0.000                       | 0.000                         | 311.425                                    | 311.425                   |
| Loans and Receivables                                       | 168.055                     | 0.000                         | 0.000                                      | 168.055                   |
| <b>Total Financial Assets</b>                               | <b>2,164.129</b>            | <b>2,927.677</b>              | <b>1,358.286</b>                           | <b>6,450.092</b>          |
| <b>Financial Liabilities</b>                                |                             |                               |  |                           |
| Financial Liabilities at Fair Value Through Profit and Loss | 0.000                       | (1.845)                       | 0.000                                      | (1.845)                   |
| Financial Liabilities at Amortised cost                     | (20.877)                    | 0.000                         | 0.000                                      | (20.877)                  |
| <b>Total Financial Liabilities</b>                          | <b>(20.877)</b>             | <b>(1.845)</b>                | <b>0.000</b>                               | <b>(22.722)</b>           |
| <b>Net Financial Assets</b>                                 | <b>2,143.252</b>            | <b>2,925.832</b>              | <b>1,358.286</b>                           | <b>6,427.370</b>          |

\*The Pensions Research Accountants Group (PRAG) published a practice guide for investment disclosures during 2016, as a result the Fund has restated the comparatives to ensure consistency with the latest guidance.

### Reconciliation of Fair Value Measurement within Level 3

| 2016/17                    | Market value<br>1st April<br>2016 | Transfers<br>into<br>level 3 | Transfers<br>out of<br>level 3 | Purchases<br>during the<br>year and<br>derivative<br>payments | Sales<br>during the<br>year and<br>derivative<br>receipts | Unrealised<br>gains<br>(losses) | Realised<br>gains<br>(losses) | Market<br>value 31st<br>March<br>2017 |
|----------------------------|-----------------------------------|------------------------------|--------------------------------|---|---|---------------------------------|-------------------------------|---------------------------------------|
| Asset type                 | £m                                | £m                           | £m                             | £m  | £m  | £m                              | £m                            | £m                                    |
| Private Equity             | 542.347                           | 0.000                        | 0.000                          | 115.852   | -222.593  | 103.988                         | 65.596                        | 605.190                               |
| Infrastructure             | 155.625                           | 0.000                        | 0.000                          | 26.045  | -37.042   | 19.442                          | 15.603                        | 179.673                               |
| Global Property            | 348.889                           | 0.000                        | 0.000                          | 11.703  | -53.072   | 66.413                          | 2.950                         | 376.883                               |
| UK Residential<br>Property | 0.000                             | 0.000                        | 0.000                          | 13.762  | 0.000   | -0.157                          | 0.000                         | 13.605                                |
| Trade Finance              | 0.000                             | 0.000                        | 0.000                          | -0.274  | 0.000   | 0.274                           | 0.000                         | 0.000                                 |
| UK Direct Property         | 311.425                           | 0.000                        | 0.000                          | 33.210  | -13.000   | 17.019                          | -8.354                        | 340.300                               |
|                            | <b>1,358.286</b>                  | <b>0.000</b>                 | <b>0.000</b>                   | <b>200.298</b>  | <b>-325.707</b>   | <b>206.979</b>                  | <b>75.795</b>                 | <b>1,515.651</b>                      |

## 13. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's investment objective is:

**To invest in assets of appropriate liquidity to produce income and capital growth that, together with employer and employee contributions, will meet the cost of benefits;**

and

**To keep contributions as low and as stable as possible through effective management of the assets.**

The Fund's primary long term risk is that it will be unable to meet its liability to pay the promised benefits to members from the assets that it holds.

Therefore, the Fund seeks to maximise the investment return, whilst minimising the risk of loss. There is a well-diversified investment structure in place that aims to reduce the risks arising from price, interest rate and currency movements, from manager risk and from credit risk, to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there are sufficient funds to meet the forecast cash flows.

The Pensions Committee is responsible for the management of risk. A summary of the approach to monitoring and controlling risk is set out in the Statement of Investment Principles.

The analysis in the tables in this section is on a "look through" basis. This differs from the analysis in Note 11 which is compiled under accounting standards.

### Market Risk

Market risk is the risk of loss from changes to equity prices, interest rates, foreign exchange rates and credit spreads. The Fund is exposed to this risk through its investment activities, particularly through its equity holdings.

The objective of the Fund's risk management process is to identify, manage and control market risk exposure within acceptable parameters, whilst maximising the return on investment.

In general, the Fund manages excessive volatility in market risk by diversifying the portfolio in terms of geographic and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Risk on individual securities may also be managed by the use of equity futures and exchange traded options contracts at individual investment manager level.

### Other Price Risk

Other price risk is the risk that the value of an investment will change as a result of changes in market prices, whether these changes are caused by factors specific to the individual investment or its issuer or to other factors that affect all such instruments in the market.

The Fund is exposed to share and derivative price risk arising from investments held for which the future price is uncertain. All investments present a risk of loss of capital which is limited, in general, to the fair value amount carried in the Fund's accounts, with the exception of any share sold "short" where the potential loss is unlimited.

Investment managers manage this risk on behalf of the Fund through diversification and selection of securities and other financial instruments. Each manager's process and portfolio is monitored by the Fund to ensure it is within the limits specified in their management agreement.

## Other Price Risk – Sensitivity Analysis

In consultation with its performance and risk advisors and investment advisors, the Fund has carried out an analysis of historic data and movements in expected investment returns during the financial year. It has been determined that the following movements in market price risk are reasonably possible for the 2017/18 financial year.

| Asset Type              | Potential Market Movements (+/-)<br>% |
|-------------------------|---------------------------------------|
| UK Equities             | 8.9                                   |
| Overseas Equities       | 11.2                                  |
| Global Equities         | 10.2                                  |
| UK Bonds                | 6.3                                   |
| Overseas Bonds          | 14.1                                  |
| Index-Linked Securities | 12.5                                  |
| UK Property             | 3.2                                   |
| Overseas Property       | 9.4                                   |
| Private Equity          | 12.5                                  |
| Infrastructure Funds    | 10.7                                  |
| Active Currency         | 0.0                                   |
| Cash                    | 0.0                                   |

The potential price changes highlighted above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain unchanged.

Had the market price of the Fund's investments increased or decreased in line with the above table, the change in the net assets available to pay benefits is as shown in the table below. The comparable figures for the previous year are also shown.

| Asset Type                    | Value at 31st<br>March 2017<br>£m | Percentage<br>Change<br>% | Value on<br>Increase<br>£m | Value on<br>Decrease<br>£m |
|-------------------------------|-----------------------------------|---------------------------|----------------------------|----------------------------|
| UK Equities                   | 1,720.292                         | 8.9                       | 1,873.398                  | 1,567.186                  |
| Overseas Equities             | 2,218.444                         | 11.2                      | 2,466.910                  | 1,969.978                  |
| Global Equities               | 758.589                           | 10.2                      | 835.965                    | 681.213                    |
| UK Bonds                      | 1,275.718                         | 6.3                       | 1,356.088                  | 1,195.348                  |
| Overseas Bonds                | 45.241                            | 14.1                      | 51.620                     | 38.862                     |
| Index-Linked Securities       | 191.157                           | 12.5                      | 215.052                    | 167.262                    |
| UK Property                   | 353.905                           | 3.2                       | 365.230                    | 342.580                    |
| Overseas Property             | 376.883                           | 9.4                       | 412.310                    | 341.456                    |
| Private Equity                | 615.604                           | 12.5                      | 692.555                    | 538.654                    |
| Infrastructure Funds          | 179.673                           | 10.7                      | 198.898                    | 160.448                    |
| Active Currency               | 0.294                             | 0.0                       | 0.294                      | 0.294                      |
| Cash and Cash Equivalents     | 191.158                           | 0.0                       | 191.158                    | 191.158                    |
| Foreign Currency Contracts    | (1.040)                           | 0.0                       | (1.040)                    | (1.040)                    |
| Futures                       | (0.202)                           | 0.0                       | (0.202)                    | (0.202)                    |
| Investment Income Due         | 9.546                             | 0.0                       | 9.546                      | 9.546                      |
| Amounts Due for Sales         | 1.960                             | 0.0                       | 1.960                      | 1.960                      |
| Amounts Payable for Purchases | (3.138)                           | 0.0                       | (3.138)                    | (3.138)                    |
| <b>Total</b>                  | <b>7,934.084</b>                  |                           | <b>8,666.604</b>           | <b>7,201.565</b>           |

| Asset Type                    | Value at 31st March 2016<br>£m | Percentage Change % | Value on Increase<br>£m | Value on Decrease<br>£m |
|-------------------------------|--------------------------------|---------------------|-------------------------|-------------------------|
| UK Equities                   | 1,437.981                      | 11.4                | 1,601.911               | 1,274.051               |
| Overseas Equities             | 1,686.881                      | 11.3                | 1,877.499               | 1,496.263               |
| Global Equities               | 585.833                        | 10.1                | 645.002                 | 526.664                 |
| UK Bonds                      | 995.754                        | 6.1                 | 1,056.495               | 935.013                 |
| Overseas Bonds                | 37.079                         | 10.7                | 41.046                  | 33.112                  |
| Index-Linked Securities       | 143.334                        | 9.2                 | 156.521                 | 130.147                 |
| UK Property                   | 311.425                        | 5.7                 | 329.176                 | 293.674                 |
| Overseas Property             | 348.889                        | 8.3                 | 377.847                 | 319.931                 |
| Private Equity                | 549.325                        | 12.0                | 615.244                 | 483.406                 |
| Infrastructure Funds          | 155.625                        | 8.9                 | 169.476                 | 141.774                 |
| Active Currency               | 0.273                          | 0.0                 | 0.273                   | 0.273                   |
| Cash and Cash Equivalents     | 150.839                        | 0.0                 | 150.839                 | 150.839                 |
| Foreign Currency Contracts    | 1.387                          | 0.0                 | 1.387                   | 1.387                   |
| Investment Income Due         | 9.995                          | 0.0                 | 9.995                   | 9.995                   |
| Amounts Due for Sales         | 8.603                          | 0.0                 | 8.603                   | 8.603                   |
| Amounts Payable for Purchases | (13.245)                       | 0.0                 | (13.245)                | (13.245)                |
| <b>Total</b>                  | <b>6,409.978</b>               |                     | <b>7,028.069</b>        | <b>5,791.887</b>        |

The analysis in the two tables above is on a look through basis. This differs from the analysis in Note 11 and the tables below which are compiled under accounting standards.

### Interest Rate Risk

The Fund invests in financial assets to obtain a return on the investment. These investments are subject to interest rate risk, which represents the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates.

The Fund's direct exposures to interest rate movements as at 31st March 2016 and 31st March 2017 are set out below. These represent the interest rate risk based on underlying financial assets at fair value.

| Asset Type                | At 31st March    |                  |
|---------------------------|------------------|------------------|
|                           | 2016<br>£m       | 2017<br>£m       |
| Cash and Cash Equivalents | 150.839          | 191.158          |
| Fixed Interest Securities | 1,032.833        | 1,320.959        |
| Index-Linked Securities   | 143.334          | 191.157          |
| <b>Total</b>              | <b>1,327.006</b> | <b>1,703.274</b> |

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets held to pay benefits. Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall. The following table shows the Fund's asset values that have direct exposure to these rate movements. It also shows the effect that a 100bp (1.0%) increase or decrease in the asset value would have on these assets. The comparable figures for the previous year are also shown.

| Asset Type                | Asset Value at<br>31st March 2017<br>£m | Change in Net Asset Values |                  |
|---------------------------|---|----------------------------|------------------|
|                           |   | +1.0%<br>£m                | -1.0%<br>£m      |
| Cash and Cash Equivalents | 191.158                                 | 193.070                    | 189.246          |
| Fixed Interest Securities | 1,320.959                               | 1,334.169                  | 1,307.749        |
| Index-Linked Securities   | 191.157                                 | 193.069                    | 189.245          |
| <b>Total</b>              | <b>1,703.274</b>                        | <b>1,720.308</b>           | <b>1,686.240</b> |

|                           | Asset Value at<br>31st March 2016 | Change in Net Asset Values |                  |
|---------------------------|-----------------------------------|----------------------------|------------------|
| Asset Type                | £m                                | +1.0%<br>£m                | -1.0%<br>£m      |
| Cash and Cash Equivalents | 150.839                           | 152.347                    | 149.331          |
| Fixed Interest Securities | 1,032.833                         | 1,043.161                  | 1,022.505        |
| Index-Linked Securities   | 143.334                           | 144.767                    | 141.901          |
| <b>Total</b>              | <b>1,327.006</b>                  | <b>1,340.275</b>           | <b>1,313.737</b> |

The following table shows the Fund's asset values that have direct exposure to these rate movements. It also shows the effect that an increase or decrease based on the following movements in interest rates that are reasonably possible for the 2017/18 financial year. The comparable figures for the previous year are also shown.

|                           | Value at<br>31st March<br>2017 | Reasonable<br>change<br>predicted | Change in Net Asset Values |                  |
|---------------------------|--------------------------------|-----------------------------------|----------------------------|------------------|
| Asset Type                | £m                             | %                                 | £m                         | £m               |
| Cash and Cash Equivalents | 191.158                        | 0.0                               | 191.158                    | 191.158          |
| Fixed Interest Securities | 1,320.959                      | 8.1                               | 1,427.957                  | 1,213.961        |
| Index-Linked Securities   | 191.157                        | 11.5                              | 213.140                    | 169.174          |
| <b>Total</b>              | <b>1,703.274</b>               |                                   | <b>1,832.255</b>           | <b>1,574.293</b> |

|                           | Value at<br>31st March<br>2016 | Reasonable<br>change<br>predicted | Change in Net Asset Values |                  |
|---------------------------|--------------------------------|-----------------------------------|----------------------------|------------------|
| Asset Type                | £m                             | %                                 | £m                         | £m               |
| Cash and Cash Equivalents | 150.839                        | 0.0                               | 150.839                    | 150.839          |
| Fixed Interest Securities | 1,032.833                      | 8.1                               | 1,116.492                  | 949.174          |
| Index-Linked Securities   | 143.334                        | 11.5                              | 159.817                    | 126.851          |
| <b>Total</b>              | <b>1,327.006</b>               |                                   | <b>1,427.148</b>           | <b>1,226.864</b> |

### Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. The Fund is exposed to this risk on investments denominated in any currency other than Sterling. The Fund holds both monetary and non-monetary assets denominated in overseas currencies.

The following table shows the Fund's currency exposures as at 31st March 2016 and at 31st March 2017:

|                                     | Asset Value at 31st March |                  |
|-------------------------------------|---------------------------|------------------|
| Asset Type                          | 2016<br>£m                | 2017<br>£m       |
| Overseas Fixed Interest             | 37.079                    | 45.241           |
| Overseas Quoted Equities            | 2,221.153                 | 2,910.243        |
| Overseas Unquoted Equities          | 379.180                   | 388.473          |
| Overseas Pooled Investment Vehicles | 624.433                   | 711.000          |
| Forward Currency Contracts          | 1.387                     | (1.040)          |
| Overseas Currency                   | 24.587                    | 77.414           |
| <b>Total</b>                        | <b>3,287.819</b>          | <b>4,131.331</b> |

## Currency Risk – Sensitivity Analysis

Following an analysis of historical data that was carried out in consultation with the investment advisor, the Fund considers the likely volatility associated with foreign exchange to be 11%, down from 13% in 2016/17.

The following table shows the impact of an 11% increase or decrease in the net asset value of those assets exposed to currency risk. The value of the Fund's assets in Sterling terms will increase as Sterling weakens and decrease as Sterling strengthens.

The comparable figures for the previous year are also shown.

|                                     | Value at 31st<br>March 2017 | Potential<br>change | Potential<br>market<br>movement | Value on<br>increase | Value on<br>decrease |
|-------------------------------------|-----------------------------|---------------------|---------------------------------|----------------------|----------------------|
| Asset Type                          | £m                          | %                   | £m                              | £m                   | £m                   |
| Overseas Fixed Interest             | 45.241                      | 11                  | 4.977                           | 50.218               | 40.264               |
| Overseas Quoted Equities            | 2,910.243                   | 11                  | 320.127                         | 3,230.370            | 2,590.116            |
| Overseas Unquoted Equities          | 388.473                     | 11                  | 42.732                          | 431.205              | 345.741              |
| Overseas Pooled Investment Vehicles | 711.000                     | 11                  | 78.210                          | 789.210              | 632.790              |
| Forward Currency Contracts          | (1.040)                     | 11                  | (0.114)                         | (1.154)              | (0.926)              |
| Overseas Currency                   | 77.414                      | 11                  | 8.516                           | 85.930               | 68.898               |
| <b>Total</b>                        | <b>4,131.331</b>            |                     | <b>454.448</b>                  | <b>4,585.779</b>     | <b>3,676.883</b>     |

|                                     | Value at 31st<br>March 2016 | Potential<br>change | Potential<br>market<br>movement | Value on<br>increase | Value on<br>decrease |
|-------------------------------------|-----------------------------|---------------------|---------------------------------|----------------------|----------------------|
| Asset Type                          | £m                          | %                   | £m                              | £m                   | £m                   |
| Overseas Fixed Interest             | 37.079                      | 13                  | 4.820                           | 41.899               | 32.259               |
| Overseas Quoted Equities            | 2,221.153                   | 13                  | 288.750                         | 2,509.903            | 1,932.403            |
| Overseas Unquoted Equities          | 379.180                     | 13                  | 49.293                          | 428.473              | 329.887              |
| Overseas Pooled Investment Vehicles | 624.433                     | 13                  | 81.176                          | 705.609              | 543.257              |
| Forward Currency Contracts          | 1.387                       | 13                  | 0.180                           | 1.567                | 1.207                |
| Overseas Currency                   | 24.587                      | 13                  | 3.196                           | 27.783               | 21.391               |
| <b>Total</b>                        | <b>3,287.819</b>            |                     | <b>427.415</b>                  | <b>3,715.234</b>     | <b>2,860.404</b>     |

## Manager Risk

Manager risk is the risk that the manager does not invest in a manner required by the Fund. This is controlled through the investment objectives and restrictions in each manager's agreement and through the ongoing monitoring of the managers.

The investment managers hold a diversified portfolio of investments that reflect their views, relative to their respective benchmarks.

The Pensions Committee has considered and addressed the risk of underperformance by any single investment manager by appointing a range of investment managers.

## Credit Risk

Credit risk is the risk that the counterparty to a transaction or investment fails to discharge its obligation and the Fund incurs a financial loss. Investments are usually valued by the market after this risk has been taken into account.

To this end, almost all of the Fund's investment portfolio is exposed to some level of credit risk, with the exception being derivatives where the risk equals the net market value of a positive derivative.

The Fund seeks to minimise this risk by investing in and through high quality counterparties, brokers and financial institutions.

Contractual credit risk is represented by the net payment or receipt outstanding and the cost of replacing the derivative position in the event of a default.

The Fund's cash holding under its internal treasury management arrangements as at 31st March 2017 was £56.250 million (£71.050 million as at 31st March 2016). The Fund sets its credit criteria in consultation with the Council's Treasury Management Advisor, Capita Asset Services. Deposits are only made with AAA rated money market funds and with banks and financial institutions that meet the Fund's credit criteria and are included on Capita Asset Services listing of approved institutions.

The internally managed cash was held with the following institutions:

|                              | Rating | Value as at<br>31st March 2016<br>£m | Value as at<br>31st March 2017<br>£m |
|------------------------------|--------|--------------------------------------|--------------------------------------|
| <b>Money Market Funds</b>    |        |                                      |                                      |
| Federated                    | AAA    | 14.380                               | 7.300                                |
| Insight                      | AAA    | 14.000                               | 0.000                                |
| Legal & General              | AAA    | 8.750                                | 14.500                               |
| Standard Life (Ignis)        | AAA    | 10.870                               | 14.870                               |
| Deutsche Bank                | AAA    | 2.500                                | 0.000                                |
| <b>Bank Deposit Accounts</b> |        |                                      |                                      |
| Leeds Building Society       | A-     | 0.000                                | 5.000                                |
| NatWest                      | BBB+   | 0.550                                | 0.580                                |
| Santander                    | A      | 5.000                                | 0.000                                |
| Nationwide Building Society  | A      | 5.000                                | 0.000                                |
| Lloyds Bank (32 day)         | A+     | 10.000                               | 14.000                               |
| <b>Total</b>                 |        | <b>71.050</b>                        | <b>56.250</b>                        |

## Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. This is controlled by estimating the net benefit outgo or inflow and ensuring that sufficient cash balances are available.

Weekly forecasts are carried out to understand and manage the timing of the Fund's cash flows.

The Fund takes steps to ensure that it has adequate cash resources to meet its commitments and has immediate access to cash.

All financial liabilities are due within twelve months of the 31st March 2017.

## 14. CURRENT ASSETS AND LIABILITIES

| 31st March<br>2016<br>£m |  | 31st March<br>2017<br>£m |
|--------------------------|--|--------------------------|
|                          | <b>Current Assets</b>                                |                          |
| 4.745                    | Contributions Due - Members                          | 4.702                    |
| 22.421                   | Contributions and Recharges Due - Employers          | 20.461                   |
| 0.00                     | HM Revenue and Customs                               | 0.013                    |
| 0.651                    | Investment Management Expenses                       | 0.485                    |
| (0.001)                  | Other  | 0.159                    |
| <b>27.816</b>            | <b>Total Current Assets</b>                          | <b>25.820</b>            |
|                          | <b>Current Liabilities</b>                           |                          |
| (3.287)                  | Unpaid Benefits                                      | (3.261)                  |
| (1.048)                  | Contributions, Recharges and Refunds Due - Employers | (0.081)                  |
| (2.787)                  | HM Revenue and Customs - Tax Deducted from Pensions  | (2.914)                  |
| (2.320)                  | Investment Management Expenses                       | (2.901)                  |
| (0.982)                  | Other  | (0.103)                  |
| <b>(10.424)</b>          | <b>Total Current Liabilities</b>                     | <b>(9.260)</b>           |

The current assets and liabilities can be split under Whole of Government requirements as follows:

| 31st March<br>2016<br>£m |   | 31st March<br>2017<br>£m |
|--------------------------|---|--------------------------|
|                          | <b>Current Assets</b>                       |                          |
| 0.00                     | Central government bodies                   | 0.013                    |
| 16.26                    | Other local authorities                     | 15.967                   |
| 0.004                    | NHS bodies                                  | 0.003                    |
| 10.847                   | Public corporations and other trading funds | 9.223                    |
| 0.705                    | Other entities and individuals              | 0.614                    |
| <b>27.816</b>            | <b>Total current assets</b>                 | <b>25.820</b>            |
|                          | <b>Current Liabilities</b>                  |                          |
| (2.786)                  | Central government bodies                   | (2.177)                  |
| (0.007)                  | Other local authorities                     | (0.913)                  |
| 0.00                     | NHS bodies                                  | 0.00                     |
| (3.568)                  | Public corporations and other trading funds | (2.807)                  |
| (4.063)                  | Other entities and individuals              | (3.363)                  |
| <b>(10.424)</b>          | <b>Total current liabilities</b>            | <b>(9.260)</b>           |

## 15. AGENCY SERVICES

The Fund pays discretionary awards to the former employees of a number of employers. The amounts paid are included in the Pensions paid line in Note 7 and then deducted as a recharge as these amounts are fully reclaimed from the employer bodies. The sums for each employer are disclosed below:

| 2015/16<br>£000 | Payments on Behalf of:   | 2016/17<br>£000 |
|-----------------|--|-----------------|
| 2,590           | Newcastle City Council   | 2,529           |
| 2,217           | Sunderland City Council  | 2,148           |
| 2,018           | Gateshead Council  | 1,978           |
| 1,883           | North Tyneside Council   | 1,834           |
| 839             | South Tyneside Council   | 830             |
| 429             | Nexus  | 404             |
| 243             | Newcastle International Airport  | 240             |
| 234             | Police and Crime Commissioner for Northumbria  | 232             |
| 86              | Tyne and Wear Residuary Body   | 74              |
| 56              | Tyne and Wear Fire and Rescue Service  | 55              |
| 52              | The Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority | 51              |
| 50              | University of Sunderland   | 49              |
| 42              | Northumbria University   | 41              |
| 18              | Workshops for the Adult Blind  | 17              |
| 14              | Assessment and Qualifications Alliance   | 15              |
| 10              | Newcastle College  | 10              |
| 10              | Northern Council for Further Education   | 10              |
| 8               | Association of North East Councils   | 8               |
| 8               | Newcastle Theatre Royal Trust  | 8               |
| 9               | Benton Grange School   | 7               |
| 7               | One North East   | 7               |
| 7               | Wearside College   | 7               |
| 6               | Gateshead Magistrates' Courts  | 6               |
| 6               | Northumbria Tourist Board  | 6               |
| 5               | Gateshead College  | 5               |
| 5               | Higher Education Funding Council for England   | 4               |
| 4               | North Tyneside Disability Advice   | 4               |
| 4               | South Tyneside Magistrates' Courts   | 4               |
| 4               | Sunderland Empire Theatre Trust  | 4               |
| 7               | Sunderland Magistrates' Courts   | 4               |
| 3               | Monkwearmouth College  | 3               |
| 3               | North East Regional Employers Organisation   | 3               |
| 3               | South Tyneside Homes   | 3               |
| 3               | Tyne and Wear Development Company Limited  | 3               |
| 3               | City of Sunderland College   | 3               |
| 2               | Catholic Care North East   | 2               |
| 2               | North Tyneside College   | 2               |
| 2               | North Tyneside Magistrates' Courts   | 2               |
| 2               | WallSEND Hall Enterprises Limited  | 2               |
| 1               | Age Concern Newcastle  | 1               |
| 1               | Tyne and Wear Enterprise Trust   | 1               |
| <b>10,896</b>   | <b>Total</b>   | <b>10,616</b>   |

## 16. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Fund offers two types of AVC arrangements.

Additional periods of membership can be purchased within the LGPS, with the contributions being invested as part of the Fund's assets.

In addition, the Pensions Committee appointed Equitable Life Assurance Society in 1989 and The Prudential Assurance Company in 2001 for the investment of other AVCs specifically taken out by Fund members. Contributions to these external providers are invested separately from the Fund's own assets on a money purchase basis. In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, these amounts are not credited to the Fund and as such are excluded from the Fund's accounts.

Equitable Life has experienced financial difficulties arising from some of its financial products that carry guaranteed returns. With the exception of existing life cover policies, the Fund has closed its AVC plan with Equitable Life to new members, contributions from existing members and transfers. A significant proportion of investors in funds operated by Equitable Life have had their own balances transferred to The Prudential. The Fund continues to monitor the position of the remaining investors with Equitable Life.

During 2016/17, £2.012 million of contribution income was received into the AVC funds provided by The Prudential (£1.863 million during 2015/16). As at 31st March 2017, these funds were valued at £11.877 million (£10.818 million as at 31st March 2016).

During 2016/17, £0.001 million of contribution income was received into the AVC funds provided by Equitable Life (£0.001 million during 2015/16). As at 31st March 2017, these funds were valued at £0.055 million (£0.086 million as at 31st March 2015).

The funds are valued on a bid basis by each of the providers and take no account of accruals.

## 17. ANALYSIS OF INVESTMENTS OVER MANAGERS

The market value of the investments in the hands of each manager was:

| 31st March 2016  |              |   | 31st March 2017  |              |
|------------------|--------------|---|------------------|--------------|
| £m               | %            |   | £m               | %            |
|                  |              | Investment Managers                     |                  |              |
| 311.425          | 4.9          | Aberdeen Property Investors             | 353.905          | 4.5          |
| 286.454          | 4.5          | BlackRock                               | 337.127          | 4.2          |
| 486.405          | 7.6          | Henderson Global Investors              | 627.564          | 7.9          |
| 500.598          | 7.8          | JP Morgan Asset Management              | 680.156          | 8.6          |
| 120.970          | 1.9          | Lazard Asset Management                 | 171.220          | 2.2          |
| 1,854.052        | 28.9         | Legal and General Investment Management | 2,812.994        | 35.4         |
| 568.223          | 8.9          | M&G Investments                         | 728.173          | 9.1          |
| 270.318          | 4.2          | Mirabaud Investment Management          | 331.591          | 4.2          |
| 411.256          | 6.4          | Sarasin & Partners                      | 0.000            | 0.0          |
| 58.518           | 0.9          | TT International                        | 85.473           | 1.1          |
| 392.377          | 6.1          | UBS Global Asset Management             | 500.636          | 6.3          |
| 0.273            | 0.0          | Active Currency                         | 0.295            | 0.0          |
| 549.325          | 8.6          | Private Equity                          | 614.681          | 7.7          |
| 155.625          | 2.4          | Infrastructure                          | 179.673          | 2.3          |
| 348.889          | 5.4          | Global Property                         | 376.883          | 4.8          |
| 95.270           | 1.5          | Managed In-House                        | 133.713          | 1.7          |
| <b>6,409.978</b> | <b>100.0</b> | <b>Total Investments</b>                | <b>7,934.084</b> | <b>100.0</b> |

## 18. DERIVATIVES

The Fund has used a number of derivative instruments as part of its investment strategy and to assist with efficient portfolio management.

### Futures

The Fund held a number of futures contracts as at 31st March 2017 to assist Investment Managers in their asset allocation. The Fund did not hold any as at 31st March 2016. Outstanding exchange traded futures contracts are as follows:

| Type                     | Expires            | Economic Exposure | Market Value at 31st March 2016 | Economic Exposure | Market Value at 31st March 2017 |
|--------------------------|--------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| Assets                   |                    | £m                | £m                              | £m                | £m                              |
| UK Equity                | Less Than One Year | 0.000             | 0.000                           | 0.000             | 0.000                           |
| Overseas Equity          | Less Than One Year | 0.000             | 0.000                           | 1.348             | 0.005                           |
| UK Fixed Interest        | Less Than One Year | 0.000             | 0.000                           | 0.000             | 0.000                           |
| <b>Total Assets</b>      |                    | <b>0.000</b>      | <b>0.000</b>                    | <b>1.348</b>      | <b>0.005</b>                    |
| Liabilities              |                    |                   |                                 |                   |                                 |
| UK Equity                | Less Than One Year | 0.000             | 0.000                           | 1.164             | (0.011)                         |
| Overseas Equity          | Less Than One Year | 0.000             | 0.000                           | 6.340             | (0.123)                         |
| UK Fixed Interest        | Less Than One Year | 0.000             | 0.000                           | (4.848)           | (0.073)                         |
| <b>Total Liabilities</b> |                    | <b>0.000</b>      | <b>0.000</b>                    | <b>2.656</b>      | <b>(0.207)</b>                  |
| <b>Net Futures</b>       |                    | <b>0.000</b>      | <b>0.000</b>                    | <b>4.004</b>      | <b>(0.202)</b>                  |

### Forward Currency Contracts

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2017, the Fund held nineteen positions in foreign currency that together showed an unrealised loss of £1.040 million, as shown in the table below:

| Type of Forward Foreign Currency Contracts               |                  |                  |                   |                 |
|--|------------------|------------------|-------------------|-----------------|
| Settlement   | Type of Contract | Currency Bought  | Currency Sold     | Market Value £m |
| Three month  | Over the Counter | Sterling         | Australian Dollar | 0.110           |
| Three month  | Over the Counter | Sterling         | Canadian Dollar   | 0.375           |
| Three month  | Over the Counter | Sterling         | Danish Krone      | 0.066           |
| Three month  | Over the Counter | Sterling         | Euro              | 0.130           |
| Three month  | Over the Counter | Sterling         | Hong Kong Dollar  | 0.139           |
| Three month  | Over the Counter | Sterling         | Singapore Dollar  | 0.042           |
| Three month  | Over the Counter | Sterling         | US Dollar         | 1.593           |
| Three month  | Over the Counter | Sterling         | Yen               | 0.004           |
| Three month  | Over the Counter | Danish Krone     | Sterling          | 0.013           |
| Three month  | Over the Counter | US Dollar        | Sterling          | 0.019           |
| <b>Loss/Liability Value as at 31st March 2017</b>        |                  |                  |                   | <b>2.491</b>    |
| Three month  | Over the Counter | Sterling         | Danish Krone      | (0.008)         |
| Three month  | Over the Counter | Sterling         | Euro              | (0.018)         |
| Three month  | Over the Counter | Sterling         | Yen               | (0.054)         |
| Three month  | Over the Counter | Danish Krone     | Sterling          | (0.013)         |
| Three month  | Over the Counter | Euro             | Sterling          | (0.799)         |
| Three month  | Over the Counter | Hong Kong Dollar | Sterling          | (0.168)         |
| Three month  | Over the Counter | Norwegian Krone  | Sterling          | (0.236)         |
| Three month  | Over the Counter | US Dollar        | Sterling          | (0.150)         |
| Three month  | Over the Counter | Yen              | Sterling          | (0.005)         |
| <b>Profit/Asset Value as at 31st March 2017</b>          |                  |                  |                   | <b>(1.451)</b>  |
| <b>Net Forward Currency Contracts at 31st March 2017</b> |                  |                  |                   | <b>1.040</b>    |

These were settled at a loss of £2.502 million early in the 2017/18 financial year.

## 19. SECURITIES LENDING

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £162.2 million were out on loan as at 31st March 2017. The breakdown of securities on loan was:

| 31st March<br>2016<br>£m |                                 | 31st March<br>2017<br>£m |
|--------------------------|---------------------------------|--------------------------|
| 16.386                   | Fixed Interest Securities       | 18.042                   |
| 0.040                    | Index-Linked Securities         | 0.000                    |
| 51.461                   | UK Equities                     | 100.203                  |
| 68.650                   | Overseas Equities               | 43.920                   |
| <b>136.537</b>           | <b>Total Securities Lending</b> | <b>162.165</b>           |

The value of collateral against which the securities were lent out is £173.400 million. This collateral consists of acceptable securities, government debt and obligations issued by supranational entities.

## 20. PROPERTY HOLDINGS

| 31st March<br>2016<br>£m |                              | 31st March<br>2017<br>£m |
|--------------------------|------------------------------|--------------------------|
|                          | <b>Property Holdings</b>     |                          |
| 303.000                  | Opening Balance              | 311.425                  |
|                          | <b>Additions</b>             |                          |
| 32.389                   | Purchases                    | 18.866                   |
| 0.000                    | New construction             | 14.291                   |
| 0.050                    | Subsequent expenditure       | 0.053                    |
| (33.525)                 | Disposals                    | (13.000)                 |
| 9.511                    | Net Increase in Market Value | 8.665                    |
| <b>311.425</b>           | <b>Closing Balance</b>       | <b>340.300</b>           |

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

The future minimum lease payments receivable by the Fund are as follows:

| 31st March<br>2016<br>£m |                                | 31st March<br>2017<br>£m |
|--------------------------|--------------------------------|--------------------------|
| 17.676                   | Within One Year                | 19.032                   |
| 61.768                   | Between One And Five Years     | 62.049                   |
| 144.421                  | Later Than Five Years          | 149.742                  |
| <b>223.865</b>           | <b>Minimum Due From Leases</b> | <b>230.823</b>           |

## 21. SIGNIFICANT HOLDINGS

As at 31st March 2017, the Fund had three holdings that each represented more than 5% of the total Fund value. All three holdings are without-profit insurance contracts that provide access to a pool of underlying assets. The values have been determined by reference to the underlying assets using price feeds from markets. These holdings are:

- Legal and General Assurance (Pensions Management) Limited – Managed Fund. As at 31st March 2017, this was valued at £2,054.405 million and represented 25.8% of the total net assets of the Fund. During 2015/16, the insurance contract was covered by nine individual funds, as follows:

| 31st March 2016<br>£m |   | 31st March 2017<br>£m |
|-----------------------|---|-----------------------|
| 663.996               | UK Equities                               | 861.300               |
| 78.903                | Asia Pacific ex. Japan Equities           | 108.894               |
| 137.418               | Emerging Markets Equities                 | 206.147               |
| 86.573                | Europe (ex UK) Equities                   | 189.179               |
| 48.075                | Japan Equities                            | 95.543                |
| 131.175               | North America Equities                    | 433.114               |
| 0.000                 | UK Gilts                                  | 11.256                |
| 84.991                | Index-Linked Gilts                        | 103.698               |
| 37.079                | Emerging Markets Passive Government Bonds | 45.241                |
| 0.009                 | Transition                                | 0.033                 |
| <b>1,268.219</b>      | <b>Total</b>                              | <b>2,054.405</b>      |

- Legal and General Assurance (Pensions Management) Limited – RAFI Fund. During the financial year the Fund transferred the holdings in RAFI Global Equities to a separate insurance contract from the Managed Fund mentioned above. As at the 31st March 2017, this was valued at £758.589 million (£585.833 million as at 31st March 2016) and represented 9.5% of the total assets of the Fund.
- M&G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2017, this was valued at £728.173 million (£568.223 million as at 31st March 2016) and represented 9.2% of the total net assets of the Fund.

## 22. OUTSTANDING COMMITMENTS

As at 31st March 2017 the Fund had sixty-three outstanding commitments to investments, as shown below.

| Name of Fund  | Year | Value<br>m | Drawdowns<br>Made<br>m | Commitment Outstanding<br>m |      |
|---|------|------------|------------------------|-----------------------------|------|
| HarbourVest International Private Equity Partners IV              | 2002 | \$55.0     | \$53.6                 | \$1.4                       | £1.1 |
| HarbourVest Partners VII Cayman Buyout Fund                       | 2002 | \$46.0     | \$43.5                 | \$2.5                       | £2.0 |
| HarbourVest Partners VII Cayman Mezzanine Fund                    | 2002 | \$8.0      | \$7.5                  | \$0.5                       | £0.4 |
| HarbourVest Partners VII Cayman Venture Fund                      | 2002 | \$28.0     | \$27.5                 | \$0.5                       | £0.4 |
| Capital International Private Equity Fund IV                      | 2004 | \$18.0     | \$17.8                 | \$0.2                       | £0.2 |
| HarbourVest International Private Equity Partners V - Partnership | 2005 | € 100.0    | € 95.0                 | € 5.0                       | £4.3 |
| HarbourVest International Private Equity Partners V - Direct      | 2005 | € 30.0     | € 28.8                 | € 1.2                       | £1.0 |
| Pantheon Asia Fund IV   | 2005 | \$20.0     | \$18.8                 | \$1.2                       | £1.0 |
| Pantheon Europe Fund IV   | 2005 | € 25.0     | € 23.4                 | € 1.6                       | £1.4 |
| Pantheon USA Fund VI  | 2005 | \$30.0     | \$28.3                 | \$1.7                       | £1.4 |
| Lexington Capital Partners VI-B                                   | 2005 | \$30.0     | \$29.5                 | \$0.5                       | £0.4 |
| HarbourVest Partners VIII Cayman Buyout Fund                      | 2006 | \$112.0    | \$105.3                | \$6.7                       | £5.4 |
| HarbourVest Partners VIII Cayman Venture Fund                     | 2006 | \$56.0     | \$54.9                 | \$1.1                       | £0.9 |
| Pantheon Europe Fund V  | 2006 | € 35.0     | € 32.0                 | € 3.0                       | £2.6 |
| Pantheon USA Fund VII   | 2006 | \$35.0     | \$32.3                 | \$2.7                       | £2.2 |
| Coller International Partners V                                   | 2006 | \$30.0     | \$23.5                 | \$6.5                       | £5.2 |
| HarbourVest Partners 2007 Direct Fund                             | 2007 | \$30.0     | \$29.3                 | \$0.7                       | £0.6 |
| Pantheon Asia Fund V  | 2007 | \$20.0     | \$18.4                 | \$1.6                       | £1.3 |

| Name of Fund  | Year | Value<br>m | Drawdowns<br>Made<br>m | Commitment Outstanding<br>m |               |
|---|------|------------|------------------------|-----------------------------|---------------|
| Pantheon Europe Fund VI   | 2007 | € 40.0     | € 35.7                 | € 4.3                       | £3.7          |
| Pantheon USA Fund VIII  | 2007 | \$35.0     | \$30.5                 | \$4.5                       | £3.6          |
| Capital International Private Equity Fund V                         | 2007 | \$35.0     | \$29.2                 | \$5.8                       | £4.6          |
| Co-Investment Partners Europe                                       | 2007 | € 30.0     | € 28.4                 | € 1.6                       | £1.4          |
| Partners Group 2006 Direct Fund                                     | 2007 | € 30.0     | € 28.8                 | € 1.2                       | £1.0          |
| Infracapital Partners I   | 2007 | £35.0      | £32.8                  | £2.2                        | £2.2          |
| Capital International Private Equity Fund VI                        | 2010 | \$35.0     | \$27.0                 | \$8.0                       | £6.4          |
| Lexington Capital Partners VII                                      | 2010 | \$30.0     | \$23.8                 | \$6.2                       | £5.0          |
| Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP        | 2010 | \$40.0     | \$37.6                 | \$2.4                       | £1.9          |
| Partners Group Real Estate Secondary 2009 (EURO)                    | 2010 | € 60.0     | € 57.2                 | € 2.8                       | £2.4          |
| Partners Group Global Real Estate 2011 S.C.A., SICAR                | 2010 | € 145.0    | € 127.9                | € 17.1                      | £14.6         |
| Partners Group Global Infrastructure 2009                           | 2010 | € 70.0     | € 61.2                 | € 8.8                       | £7.5          |
| Partners Group Direct Infrastructure 2011                           | 2011 | € 85.0     | € 74.8                 | € 10.2                      | £8.7          |
| Partners Group Direct Real Estate 2011 S.C.A., SICAR                | 2011 | \$100.0    | \$92.2                 | \$7.8                       | £6.2          |
| Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR                | 2011 | \$65.0     | \$54.2                 | \$10.8                      | £8.6          |
| HarbourVest International Private Equity Partners VI - Partnership  | 2011 | € 50.0     | € 43.5                 | € 6.5                       | £5.6          |
| Coller International Partners VI                                    | 2012 | \$45.0     | \$31.6                 | \$13.4                      | £10.7         |
| Pantheon Asia Fund VI   | 2012 | \$40.0     | \$25.3                 | \$14.7                      | £11.8         |
| Pantheon Europe Fund VII  | 2012 | € 25.0     | € 15.3                 | € 9.7                       | £8.3          |
| Pantheon USA Fund IX  | 2012 | \$30.0     | \$21.0                 | \$9.0                       | £7.2          |
| Partners Group Global Infrastructure 2012                           | 2013 | € 45.0     | € 27.1                 | € 17.9                      | £15.3         |
| Partners Group Real Estate 2014                                     | 2013 | \$64.0     | \$23.0                 | \$41.0                      | £32.8         |
| Partners Group Real Estate Income 2014                              | 2013 | € 23.0     | € 14.7                 | € 8.3                       | £7.1          |
| Partners Group Global Real Estate 2013                              | 2013 | \$130.0    | \$78.7                 | \$51.3                      | £41.0         |
| Partners Group Real Estate Secondary 2013                           | 2013 | \$65.0     | \$29.4                 | \$35.6                      | £28.5         |
| HarbourVest Dover Street VIII Cayman Fund LP                        | 2013 | \$30.0     | \$25.7                 | \$4.3                       | £3.4          |
| HarbourVest Partners IX - Cayman Buyout Fund                        | 2013 | \$60.0     | \$36.2                 | \$23.8                      | £19.0         |
| HarbourVest Partners IX - Cayman Venture Fund                       | 2013 | \$30.0     | \$24.8                 | \$5.2                       | £4.2          |
| HarbourVest Partners 2013 Cayman Direct Fund LP                     | 2014 | \$30.0     | \$28.4                 | \$1.6                       | £1.3          |
| Lexington Capital Partners VIII                                     | 2014 | \$30.0     | \$6.5                  | \$23.5                      | £18.8         |
| Infracapital Partners II  | 2014 | £20.0      | £10.2                  | £9.8                        | £9.8          |
| HarbourVest International Private Equity Partners VII - Partnership | 2014 | \$70.0     | \$24.7                 | \$45.3                      | £36.2         |
| Coller International Partners VII                                   | 2015 | \$45.0     | \$2.3                  | \$42.7                      | £34.1         |
| HarbourVest Partners X - AIF Buyout Fund                            | 2015 | \$50.0     | \$4.3                  | \$45.7                      | £36.5         |
| HarbourVest Partners X - AIF Venture Fund                           | 2015 | \$25.0     | \$2.4                  | \$22.6                      | £18.1         |
| HarbourVest Dover Street IX LP                                      | 2016 | \$30.0     | \$2.4                  | \$27.6                      | £22.1         |
| Partners Group Direct Infrastructure 2015                           | 2016 | \$140.0    | \$26.9                 | \$113.1                     | £90.4         |
| HarbourVest Partners Co-Investment Fund IV AIF                      | 2016 | \$30.0     | \$5.6                  | \$24.4                      | £19.5         |
| Markham Rae Trade Capital Partners 1                                | 2016 | \$45.0     | \$0.3                  | \$44.7                      | £35.7         |
| Aberdeen UK PRS Opportunities LP                                    | 2016 | £60.0      | £13.8                  | £46.2                       | £46.2         |
| Pantheon USA Select 2016  | 2017 | \$10.0     | \$0.0                  | \$10.0                      | £8.0          |
| Pantheon Europe Select 2016   | 2017 | \$26.7     | \$0.0                  | \$26.7                      | £21.4         |
| Pantheon Asia Select 2016   | 2017 | \$15.0     | \$0.0                  | \$15.0                      | £12.0         |
| Pantheon Global Co-Investment 2016                                  | 2017 | \$40.0     | \$0.0                  | \$40.0                      | £32.0         |
| HIPEP VII Partnership Fund  | 2017 | \$80.0     | \$0.0                  | \$80.0                      | £64.0         |
| <b>Total outstanding commitments</b>                                |      |            |                        |                             | <b>£810.6</b> |

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2017.

## 23. RELATED PARTY TRANSACTIONS

Under IAS 24 "Related Party Disclosures", it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements.

### Governance

There were five members of the Pensions Committee who were in receipt of pension benefits from the Fund, namely the Chair of the Pensions Committee E. Leask and committee members J. Foreman, R Goldsworthy, T. Mulvenna and J. Perry. In addition, Committee members W. Flynn and J. Heron were active members of the Fund. The Vice Chair of the Pensions Committee, A. Walsh, and Committee members P. Hay and G. Haley were deferred members of the Fund.

An examination of returns completed by Elected Members of the Pensions Committee and Senior Officers involved in the management of the Pension Fund has not identified any other cases where disclosure is required.

### Employers

During 2016/17, two employers within the Fund, namely South Tyneside Council and BT South Tyneside Ltd, had related party transactions with the Fund totalling £0.972 million (£0.902 million in 2015/16), analysed as follows:

- South Tyneside Council charged the Fund £0.536 million (£0.531 million in 2015/16) in respect of services provided, primarily being recovery of past service deficit payments, legal and building costs.
- The Fund charged South Tyneside Council £0.059 million (£0.057 million in 2015/16) in respect of Treasury Management services.
- BT South Tyneside Limited charged the Fund £0.377 million (£0.314 million in 2015/16) in respect of services provided, primarily being financial and information technology.

There were no material contributions due from employer bodies that were outstanding at the year end.

### Key Management Personnel

The key management personnel of the Fund are the Head of Pensions, the Principal Investment Manager and the Principal Pensions Manager. Total remuneration payable to key management personnel is set out below.

| 31st March<br>2016<br>£,000 |                          | 31st March<br>2017<br>£,000 |
|-----------------------------|--------------------------|-----------------------------|
| 212                         | Short Term benefits      | 169                         |
| 55                          | Post-employment benefits | 43                          |
| <b>267</b>                  | <b>Total</b>             | <b>212</b>                  |

Other senior managers linked to the Fund are employed by South Tyneside Council and the costs to the Fund are included within recharges to the Fund.



## 24. IMPAIRMENT LOSSES

### Impairment for Bad and Doubtful debts

During 2016/17 the fund has recognised an impairment loss of £0.085 million (£0.103 million as at 31st March 2016) for the possible non-recovery of pensioner death overpayments.

## 25. PENSION FUND DISCLOSURES UNDER IAS 26

Under IAS 26 the Fund is required to disclose the "actuarial present value of the promised retirement benefits", which were last valued at 31st March 2016 by the Actuary at £8,657.3 million.

This figure was calculated using the following information supplied by the Actuary.

### Information Supplied by the Actuary

The information set out below relates to the actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme

|   | Value at<br>31 <sup>st</sup> March 2016<br>£m | Value at<br>31 <sup>st</sup> March 2013<br>£m |
|---|---|---|
| Fair value of net assets  | 6,427.4                                       | 5,432.3                                       |
| Actuarial present value of the promised retirement benefits     | 8,657.3                                       | 7,514.5                                       |
| Surplus / (deficit) in the Fund as measured for IAS 26 purposes | (2,229.9)                                     | (2,082.2)                                     |

The principal assumptions used by the Actuary were:

|   | 31 <sup>st</sup> March 2016<br>(% p.a.) | 31 <sup>st</sup> March 2013<br>(% p.a.) |
|---|---|---|
| Discount rate                           | 3.4                                     | 4.4                                     |
| RPI Inflation                           | 2.9                                     | 3.4                                     |
| CPI Inflation*                          | 1.8                                     | 2.4                                     |
| Rate of general increase in salaries ** | 3.3                                     | 3.9                                     |

\* In excess of Guaranteed Minimum Pension increases in payment where appropriate

\*\* In addition, the Actuary has allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at the appropriate date.

**Principal demographic assumptions**

| Post Retirement Mortality                       | 31st March 2016   | 31st March 2013   |
|---|---|---|
| <b>Males</b>                                    |   |   |
| Base table                                      | Standard SAPS S2 Tables                                       | Standard SAPS Normal Health Light Amounts (S1NMA_L)           |
| Rating to above base table (years) *            | 0   | 0   |
| Scaling to above base table rates               | 100%  | 120%  |
| Allowance for future improvements               | CMI 2014 with a long term rate of improvement of 1.5%         | CMI 2012 with a long term rate of improvement of 1.5%         |
| Future lifetime from age 65 (currently aged 65) | 22.7  | 22.9  |
| Future lifetime from age 65 (currently aged 45) | 24.9  | 24.9  |
| <b>Females</b>                                  |   |   |
| Base table                                      | Standard SAPS S2 Tables                                       | Standard SAPS Normal Health All tables (S1NFA)                |
| Rating to above base table (years) *            | 0   | 0   |
| Scaling to above base table rates               | 85%   | 115%  |
| Allowance for future improvements               | In line with CMI 2014 with long term improvement of 1.5% p.a. | In line with CMI 2012 with long term improvement of 1.5% p.a. |
| Future lifetime from age 65 (currently aged 65) | 26.2  | 24.5  |
| Future lifetime from age 65 (currently aged 45) | 28.5  | 26.8  |

\*A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

|                    | 31st March 2016   | 31st March 2013  |
|--------------------|---|--|
| <b>Commutation</b> | Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum. | Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum |

These are taken from the report: Whole of Pension Fund Disclosures under IAS26 – Tyne and Wear Pension Fund – 8th May 2017. A full copy is available on request.

For figures relating to individual employers of the Fund, please refer to each employer's final accounts.

**26. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES****Unquoted Private Equity Investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. This is based on forward-looking estimates and judgements that involve many factors. Unquoted private equity is valued by the investment managers using the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. The value of private equity at 31st March 2017 was £614.681 million (£549.325 million at 31st March 2016).

**Pension Fund Liability**

The Pension Fund liability is calculated every three years by the appointed Actuary of the Fund. The Fund does not update this liability in the intervening years. The methodology used to calculate the liability is in line with accepted guidelines and in accordance with IAS 26. The assumptions underpinning the valuation are agreed with the Actuary and are summarised in Note 28. This estimate is subject to significant variances based on changes to the underlying assumptions.

**Property Valuation**

The Fund's UK property is included at a value derived by the valuers based on assumptions made by them in accordance with The Royal Institute of Chartered Surveyors Valuation Standards 9th Edition. The actual valuation of each property will only be known when the Fund sells the property on the open market.

## 27. OTHER SENSITIVE AREAS

In accordance with the code the following notes are deemed to be containing sensitive information and are disclosed for transparency reasons.

Expenses paid to members of the Pensions Committee totalled £21,800 in the year to 31 March 2017 (£21,800 in 2015/16). These have been included within Oversight and Governance Costs included in Note 9.

The Fund is audited by Ernst & Young who received a fee of £35,648 (£35,648 in 2015/16) for carrying out this audit. These fees are included in the administration and oversight and governance cost lines in Note 9.



# INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF SOUTH TYNESIDE COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2017, which comprise the Fund Account, the Net Assets Statement and the related notes.

## Respective responsibilities of the Finance Director and the auditor

As explained more fully in the Statement of Responsibilities, the Finance Director is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of South Tyneside Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of the Tyne and Wear Pension Fund Annual Report and Accounts 2016/17.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual 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 full annual statement of accounts of South Tyneside Council for the year ended 31 March 2017 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

CAREEN GRAY

**Careen Gray** (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Glasgow

29 September 2017

# DISCLOSURE FOR THE LOCAL GOVERNMENT PENSION SCHEME ADVISORY BOARD

The Local Government Pension Scheme Advisory Board has been set up under Section 7 of the Public Service Pensions Act 2013.

This body has responsibility to provide advice to the Department for Communities and Local Government on the desirability of changes to the Scheme and to encourage best practice, increase transparency and co-ordinate technical and standards issues.

Part of the work programme is the compilation of a Scheme-wide Report and Accounts. To assist with this, the Fund has been asked to include the following information in its own Report and Accounts.

## ANALYSIS OF EMPLOYERS

This shows the number of employers in the Fund analysed over active employers (those with active members) and ceased employers (those with no active members).

| At 31st March 2017 | Active     | Ceased    | Total      |
|--------------------|------------|-----------|------------|
| Scheduled Bodies   | 87         | 17        | 104        |
| Admitted Bodies    | 63         | 71        | 134        |
| <b>Total</b>       | <b>150</b> | <b>88</b> | <b>238</b> |

| At 31st March 2016 | Active     | Ceased    | Total      |
|--------------------|------------|-----------|------------|
| Scheduled Bodies   | 84         | 18        | 102        |
| Admitted Bodies    | 60         | 68        | 128        |
| <b>Total</b>       | <b>144</b> | <b>86</b> | <b>230</b> |

## ANALYSIS OF MEMBERSHIP

This is a breakdown of the members over the categories of active, deferred, pensioner and undecided leavers.

An undecided leaver is not officially a member of the Scheme as they are no longer accruing any service and are not entitled to benefits. They are, however, entitled to a refund of contributions or a transfer out.

| Membership              | 31st March 2016 | 31st March 2017 |
|-------------------------|-----------------|-----------------|
| Active                  | 47,360          | 44,955          |
| Deferred                | 38,003          | 40,585          |
| Pensioner               | 43,859          | 45,924          |
| <b>Total Membership</b> | <b>129,222</b>  | <b>131,464</b>  |
| Undecided Leavers       | 2,616           | 3,139           |

## ANALYSIS OF ASSETS

The table below provides an analysis of the Fund's assets as at 31st March 2016 and 2017 into categories set out by the Board.

| 31st March 2017             | Regional Mandates |                  | Global Mandates  | Total            |
|-----------------------------|-------------------|------------------|------------------|------------------|
|                             | UK £'m            | Non-UK £'m       | £'m              | £'m              |
| Equities                    | 1,695.339         | 1,727.336        | 1,337.517        | 4,760.192        |
| Bonds                       | 1,470.691         | 45.241           | 0.000            | 1,515.932        |
| Direct property             | 355.721           | 0.000            | 0.000            | 355.721          |
| Alternatives                | 0.000             | 0.000            | 1,125.634        | 1,125.634        |
| Cash and net current assets | 72.119            | 74.928           | 0.000            | 147.047          |
| <b>Total</b>                | <b>3,593.870</b>  | <b>1,847.505</b> | <b>2,463.151</b> | <b>7,904.526</b> |

| 31st March 2016             | Regional Mandates |                  | Global Mandates  | Total            |
|-----------------------------|-------------------|------------------|------------------|------------------|
|                             | UK £'m            | Non-UK £'m       | £'m              | £'m              |
| Equities                    | 1,372.423         | 977.588          | 1,425.592        | 3,775.603        |
| Bonds                       | 1,139.619         | 37.079           | 0.000            | 1,176.698        |
| Direct property             | 312.214           | 0.000            | 0.000            | 312.214          |
| Alternatives                | 0.000             | 0.000            | 1,054.112        | 1,054.112        |
| Cash and net current assets | 88.168            | 20.575           | 0.000            | 108.743          |
| <b>Total</b>                | <b>2,912.424</b>  | <b>1,035.242</b> | <b>2,479.704</b> | <b>6,427.370</b> |

The assets shown in the Global column are held in global mandates or, in the case of the Alternatives, a global programme. The assets held in regional mandates have been split into UK or non-UK assets.

## ANALYSIS OF INCOME

The tables below provide an analysis of the investment income paid to the Fund in the years to 31st March 2016 and 2017:

| 31st March 2017          | Regional Mandates |               | Global Mandates | Total         |
|--------------------------|-------------------|---------------|-----------------|---------------|
|                          | UK £'m            | Non-UK £'m    | £'m             | £'m           |
| Equities                 | 27.543            | 22.000        | 0.508           | 50.051        |
| Bonds                    | 2.059             | 0.000         | 17.618          | 19.677        |
| Direct Property          | 19.719            | 0.000         | 0.000           | 19.719        |
| Alternatives             | 0.000             | 0.000         | 0.000           | 0.000         |
| Cash and Ancillary Items | 0.457             | 0.194         | 0.000           | 0.651         |
| <b>Total</b>             | <b>49.778</b>     | <b>22.194</b> | <b>18.126</b>   | <b>90.098</b> |

| 31st March 2016          | Regional Mandates |               | Global Mandates | Total         |
|--------------------------|-------------------|---------------|-----------------|---------------|
|                          | UK £'m            | Non-UK £'m    | £'m             | £'m           |
| Equities                 | 26.849            | 22.438        | 0.504           | 49.791        |
| Bonds                    | 1.740             | 0.000         | 17.443          | 19.183        |
| Direct Property          | 16.762            | 0.000         | 0.000           | 16.762        |
| Alternatives             | 0.000             | 0.000         | 0.000           | 0.000         |
| Cash and Ancillary Items | 0.579             | 0.019         | 0.000           | 0.598         |
| <b>Total</b>             | <b>45.930</b>     | <b>22.457</b> | <b>17.947</b>   | <b>86.334</b> |

The income has been split on the same basis as the asset split shown above, with all income being allocated to the global or regional mandates.

The ancillary income arises from underwriting commissions, securities lending, commission recapture and class actions. This has not been analysed over individual mandates.

# TYNE AND WEAR PENSION FUND

## HOW TO CONTACT US

Our information is available in other ways on request. We can provide information in other languages, Braille or large print. We also have access to audio aids and BSL (British Sign Language) interpreters.

There are a number of ways you can get in touch with us. If you need further information on the LGPS, please contact us at:



TYNE AND WEAR PENSION FUND,  
PO BOX 212, SOUTH SHIELDS,  
NE33 9ER (SAT NAV NE33 2RL)



PENSIONS HELPLINE:  
TEL: 0191 424 4141



FAX: 0191 454 1796



EMAIL: [PENSIONS@TWPF.INFO](mailto:PENSIONS@TWPF.INFO)



WEB: [WWW.TWPF.INFO](http://WWW.TWPF.INFO)



### WALK IN SERVICE

Walk in service available:  
Monday to Thursday 8.30am to 4.30pm  
Friday 8.30am to 4.00pm

Please visit us at:  
Town Hall and Civic Offices, Westoe Road,  
South Shields, Tyne and Wear, NE33 2RL.  
You do not need to make an appointment.



### OFFICE HOURS

Monday to Thursday 8.30am to 5.00pm  
Friday 8.30am to 4.30pm. Please quote your  
National Insurance Number and your Membership  
ID numbers so we can quickly trace your records.