



Pension Fund Committee

Date **Thursday 8 September 2016**
Time **10.00 am**
Venue **Committee Room 2, County Hall, Durham**

Business

Part A

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 6 June 2016 and of the Special Meeting held on 6 July 2016 (Pages 1 - 6)
4. Overall Value of Pension Fund Investments to 30 June 2016 (Pages 7 - 12)
5. Performance Measurement of Pension Fund Investments to 30 June 2016 (Pages 13 - 22)
6. Short Term Investments for the Period Ended 30 June 2016 (Pages 23 - 24)
7. Statement of Accounts for the Year Ended 31 March 2016 (Pages 25 - 78)
8. Internal Audit Progress Report to 30 June 2016 (Pages 79 - 80)
9. Feedback from Local Pension Board
10. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration
11. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)

12. The Minutes of the Meeting held on 6 June 2016 and of the Special Meeting held on 6 July 2016 (Pages 81 - 94)
13. Report of the Pension Fund Adviser (Pages 95 - 126)
14. Report of Walter Scott (BNY Mellon) (Pages 127 - 134)
15. Report of Aberdeen Asset Managers Ltd (Pages 135 - 162)
16. Report of Mondrian Investment Partners Ltd (Pages 163 - 168)
17. Report of AB (Pages 169 - 186)
18. Report of CBRE Global Investment Partners (Pages 187 - 198)
19. Report of Royal London Asset Management (Pages 199 - 202)
20. Report of BlackRock (Pages 203 - 218)
21. Termination of Investment in Capital North East No. 1 Limited Partnership (Pages 219 - 228)
22. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Colette Longbottom

Head of Legal and Democratic Services

County Hall
Durham
31 August 2016

To: The Members of the Pension Fund Committee

County Council Members:

Councillors A Turner, W Stelling, J Alvey, C Carr, M Davinson, B Kellett, J Lethbridge, J Lindsay, J Maitland, N Martin and J Shuttleworth

Darlington Borough Council Members

Councillor S Harker
Councillor I G Haszeldine

Scheduled Bodies Representative

(vacant)

Admitted Bodies Representative:

J Norton

Pensioner Representative

D Ford

Active Members Representative

(vacant)

Further Education Colleges Representative

(vacancy)

Advisers: County Council Officers

Chief Executive	T Collins
Interim Corporate	P Darby
Director Resources	
Head of Legal and	C Longbottom
Democratic Services	
Pensions Manager	N Orton

Independent Adviser

J Holden – Mercer

Investment Managers

Walter Scott (BNY Mellon)
Aberdeen Asset Managers Ltd
Mondrian Investment Partners Ltd
AB
CBRE Global Investment Partners
Royal London Asset Management
BlackRock

Staff Observers

UNISON	N Hancock
GMB	

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Committee Room 2, County Hall, Durham on **Monday 6 June 2016 at 10.00 am**

Present:

Councillor A Turner (Chairman)

Members of the Committee:

Councillors W Stelling (Vice-Chairman), J Alvey, C Carr, B Kellett, J Lethbridge, J Lindsay, J Maitland and J Shuttleworth

Darlington Borough Council

Councillor S Harker

Admitted Bodies Representative

J Norton

Pensioner Representative

D Ford

Also Present:

County Council Advisers

P Darby – Interim Corporate Director Resources

N Orton – Pensions Manager

Independent Adviser

J Holden – Mercer

Observers

Local Pension Board

Ian Densham

1 Apologies for Absence

Apologies for absence were received from Councillors M Davinson and N Martin.

2 Minutes

The Minutes of the Meeting held on 3 March 2016 were agreed as a correct record and were signed by the Chairman.

Matter Arising from the Minutes

Performance Measurement of Pension Fund Investments to 31 December 2015

Members had been informed at the last meeting of continuing problems experienced by the Fund's Custodian JP Morgan in producing figures relating to the overall performance of the Fund Managers for the previous 2 quarters.

The technical problems had since been resolved and as agreed at the last meeting of the Committee the figures in respect of the performance of the Managers to 31 December 2015 had been sent to Members on receipt from the Custodian.

Resolved:

That the information given be noted.

3 Declarations of interest

Councillor Carr advised that he was a Member of the Audit Committee.

4 Overall Value of Pension Fund Investments to 31 March 2016

Consideration was given to the report of the Interim Corporate Director Resources which informed Members of the overall value of the Pension Fund as at 31 March 2016, and of any sums available to the Managers for further investment or amounts to be withdrawn from Managers (for copy see file of Minutes).

In response to a question from Councillor Carr, Nick Orton advised that membership numbers were not expected to reduce significantly in the short term because of Government Policy and the recent introduction of auto-enrolment.

Following a further question from Councillor Carr regarding the pension deficit and a proposed increase in employer contributions, Nick Orton advised that scheme employers were aware that rates were expected to increase and would be formally notified following the receipt of the interim valuation from the Actuary.

Paul Darby added that the impact of a forecasted increase in the Pension Fund deficit had been built into the Council's Medium Term Financial Plan.

Resolved:

That the information contained in the report be noted.

5 Performance Measurement of Pension Fund Investments to 31 March 2016

Consideration was given to the report of the Interim Corporate Director Resources which provided an overview for Members of the performance of the Fund to 31 March 2016 (for copy see file of Minutes).

The report of JP Morgan, the Fund's custodian informed Members of the performance of the Fund Managers for the quarter, the year to date and since inception.

Resolved:

That the information contained in the report produced by J P Morgan be noted.

6 Short Term Investments for the Period Ended 31 March 2016

Consideration was given to the report of the Interim Corporate Director Resources which provided the Committee with information on the performance of the Pension Fund's short term investments as at 31 March 2016 (for copy see file of Minutes).

Resolved:

That the position at 31 March 2016 regarding the Pension Fund's short term investments where £34,466 net interest was earned in the three month period, be noted.

7 External Audit: Audit Strategy Memorandum Durham County Council Pension Fund - Year Ended 31 March 2016

Consideration was given to the report of the External Auditor which set out the work proposed in respect of the audit of the Council's financial statements and the value for money conclusion for the financial year 2015/2016 in relation to Durham County Council Pension Fund (for copy see file of Minutes).

Sharon Liddle, Assistant Manager, Mazars highlighted key points from the Audit Strategy Memorandum which included the following:-

- Scope of the audit
- Significant risks and key judgement areas
- The Audit Team
- Fees

Resolved:

That the contents of the Audit Strategy Memorandum be noted.

8 Local Pension Board

The Chairman informed the Committee that written feedback from the Local Pension Board would be included as a standard item of business at future meetings of the Pension Fund Committee.

Following a question from Councillor Carr, Nick Orton advised that the Board would provide feedback on any requests, recommendations or concerns it may have in a written report to the Committee.

Resolved:

That the information be noted.

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Council Chamber, County Hall, Durham on **Wednesday 6 July 2016 at 10.00 am**

Present:

Councillor W Stelling (Chairman)

Members of the Committee:

Councillors J Alvey, C Carr, M Davinson, B Kellett, J Lethbridge, J Lindsay, N Martin and J Shuttleworth

Also Present:

P Darby – Interim Corporate Director Resources
N Orton – Pensions Manager
B White – Finance Manager – Pensions and Technical
B Smith – Legal Manager - Litigation

Independent Adviser

J Holden – Mercer

1 Apologies for Absence

Apologies for absence were received from Councillors A Turner and J Maitland, Darlington Borough Councillor S Harker, Admitted Bodies Representative John Norton and Pensioner Representative David Ford.

2 Declarations of interest

There were no declarations of interest.

3 EU Referendum

Joanne Holden, Independent Adviser briefed Members on the impact of Brexit on the Pension Fund's investments in each asset class.

Members were informed that volatility could be expected over the next few months, however equity markets had recovered and reasonable returns were therefore anticipated in the next quarter. Sterling had fallen in value which may influence inflation, and this could potentially impact upon the Fund's liabilities. Yields on gilts and government bonds had also fallen. With regard to property, there had been a lot of commentary around the effect on property valuations but it was not possible at

present to estimate the long-term impact of this. In the short-term the Fund's manager may decide it was prudent to value properties more regularly, however it should be noted that the Manager's approach was to hold properties long-term and therefore there was no need for immediate action.

In conclusion Joanne Holden advised that a 'knee jerk' reaction was not necessary but the current situation in the markets would inform the review of the investment strategy.

Following discussion it was **Resolved:**

That the information be received.

Pension Fund Committee

8 September 2016

Overall Value of Pension Fund Investments to 30 June 2016



Paul Darby, Interim Corporate Director Resources

Purpose of the Report

1. To inform Members of the overall value of the Pension Fund as at 30 June 2016 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.

Value of the Pension Fund

2. Reports from the seven appointed Managers:

- Aberdeen
- AllianceBernstein
- BlackRock
- Bank of New York (Walter Scott)
- CB Richard Ellis
- Mondrian
- Royal London

are included in other papers within this agenda. The value of the Fund at 30 June 2016 was £2 billion, 433.49 million.

3. The value of the Fund as at 31 March 2016 was £2 billion, 299.09 million. The value of the fund therefore increased by £134.4 million in the first quarter of 2016/17.

Allocation of New Investment Money and Withdrawal of Investment Money to Deal with Estimated Deficit

4. New investment money is allocated to Investment Managers when the Pension Fund has cash which is not needed to be available as a working cash balance, for example for the payment of pensioners or fees.
5. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Investment Managers.
6. Appendix 1 details the working cash balance position of the Pension Fund and cash flow for the last four quarters. This table includes only cash held by

Durham County Council Pension Fund Bank Account. It does not include cash balances of £24.75 million held by the Managers as at 30 June 2016.

7. In determining the amount of cash to be allocated to Managers as at the quarter ended 30 June 2016, the un-invested cash balance at the end of the previous quarter, together with interest received in that quarter, is considered. This does not include cash currently held by Fund Managers.
8. The amount allocated to each Manager is subject to the need to retain enough money in the Durham County Council Pension Fund Bank account to meet the Fund's estimated net cash outflow. After taking these issues into account, it is recommended that no money be added to the sums to be allocated to the Managers for investment in the quarter.

Cash Flow Forecast 2016/17

9. Appendix 2 shows the projected cash flow for the Pension Fund for the period July 2016 to September 2017.
10. The projections set out in Appendix 2 show that the Fund is estimated to be in deficit in each quarter of the year. However, it should be noted that this is only in respect of the bank account held by the Pension Fund; income received from investments is currently held by Managers. When this is taken into account, the Pension Fund is forecasted to have a positive cash flow, apart for the quarters ending 31 December 2016 and 30 June 2017.
11. The quarterly rebalancing exercise is the mechanism by which cash can be moved from Managers to the Pension Fund if the assumptions that have been used in calculating the forecasted cash flow are realised.
12. The following assumptions have been used to calculate the cash flow forecast:
 - Dividend income receivable in 2016/17 is estimated to be £28.0m, which is based on the actual figures to 31 March 2016. This income is profiled to be received in the same pattern as in 2015/16, that is:

○ Quarter ended 30 June 2016	17%
○ Quarter ended 30 September 2016	33%
○ Quarter ended 31 December 2016	24%
○ Quarter ended 31 March 2017	26%
 - Increases in contributions in line with the Actuarial Valuation are included.
 - 'Transfer values in' are estimated at £0.500m per quarter. It is anticipated that transfers in will continue as LGPS will remain relatively attractive to employees.

- Payroll Paysheets (payments to pensioners) are forecast to increase by £0.100m per quarter. This figure will alter if there are large numbers of retirements in the employing authorities. It is anticipated, however, that the actual figure will not be materially different to the forecast since the position of the County Council, being the largest employer in the Fund, has been taken into account.
 - Payable Paysheets are forecast on the basis of the last year's profile, adjusted for known one-offs, although this can be the most volatile figure as it includes payments of lump sums and fees to Managers. This assumption errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.
13. This is an early indication of the likely impact on the Pension Fund's cash flow forecast over the next 15 months. It will continue to be reviewed each quarter and refined to take into account new information as it becomes available.

Fund Rebalancing

14. Fund rebalancing is the mechanism by which the Pension Fund ensures that the asset allocation to Investment Managers is maintained at the levels agreed by the Pension Fund Committee and set out in the Statement of Investment Principles.
15. There was no rebalancing of the Fund in the previous quarter. However, a total of £27million was withdrawn from two Fund Managers to support the working cash balance of the Fund.
16. Relative movements in asset values held by each of the Fund's Managers over the quarter have led the Pension Fund's Advisers to recommend rebalancing back towards the benchmark allocation. Further details are set out on page 7 of the Monitoring Report. It is expected that the recommended rebalancing will take place as soon as practicable.

Recommendation

17. Members are asked to note the information contained in this report.

Contact: Beverley White Tel: 03000 261900

Actual Cash Flow – for the period 1 July 2015 to 30 June 2016

Quarter Ended	30.09.15		31.12.15		31.03.16		30.06.16	
(1)	Estimate (2)	Actual (3)	Estimate (4)	Actual (5)	Estimate (6)	Actual (7)	Estimate (8)	Actual (9)
	£	£	£	£	£	£	£	£
Income								
Contributions - DCC	16,800,000	16,584,386	16,800,000	16,560,615	16,800,000	16,612,581	16,650,000	16,929,884
Contributions - Other	7,400,000	8,202,546	7,500,000	8,003,099	7,500,000	7,784,726	7,800,000	8,801,635
Unfunded pensions recharges	1,200,000	1,137,723	1,130,000	880,714	1,130,000	1,228,584	1,120,000	824,479
Transfer Values	500,000	272,978	500,000	385,463	500,000	1,705,991	500,000	147,693
Other income	250,000	1,125,117	250,000	978,590	250,000	4,627,867	1,000,000	1,975,669
Funds recovered from Managers	0	15,443,676	0	0	0	0	0	17,000,000
Interest on short term investments	60,000	68,835	60,000	57,612	45,000	34,466	20,000	19,395
Total Income	26,210,000	42,835,261	26,240,000	26,866,093	26,225,000	31,994,215	27,090,000	45,698,755
Expenditure								
Payroll Paysheets	22,300,000	26,371,670	22,400,000	22,697,764	22,500,000	22,796,589	22,700,000	22,981,433
Payables Paysheets (incl. Managers' fees)	10,000,000	11,571,152	7,000,000	14,000,853	10,000,000	9,428,192	10,000,000	12,117,843
Funds transferred to Managers	0	0	15,000,000	18,182,168	9,555,000	19,055,000	2,760,000	520,000
Other Expenditure	0	0	0	0	0	3,960,143	0	12,394
Total Expenditure	32,300,000	37,942,822	44,400,000	54,880,785	42,055,000	55,239,924	35,460,000	35,631,670
Surplus / (-) Deficit	-6,090,000	4,892,439	-18,160,000	-28,014,692	-15,830,000	-23,245,709	-8,370,000	10,067,085
Balance at Bank (opening)		58,322,978		69,590,581		41,575,889		17,904,838
Balance at Bank (closing)		69,590,581		41,575,889		17,904,838		27,554,055

Projected Cash Flow – including forecasted dividends receivable by Fund Managers for the period 1 July 2016 to 30 September 2017

Quarter Ended	30.09.16	31.12.16	31.03.17	30.06.17	30.09.17
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Income					
Contributions - DCC	16,650,000	16,650,000	16,650,000	16,650,000	16,650,000
Contributions - Other	8,200,000	8,200,000	8,200,000	8,200,000	8,200,000
Unfunded pensions recharges	1,120,000	1,120,000	1,120,000	1,120,000	1,120,000
Transfer Values	500,000	500,000	500,000	500,000	500,000
Other income	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Funds recovered from Managers	10,000,000	0	0	0	0
Interest on short term investments	30,000	20,000	10,000	5,000	5,000
Total Income	38,500,000	28,490,000	28,480,000	28,475,000	28,475,000
Expenditure					
Payroll Paysheets	22,800,000	22,900,000	23,000,000	23,100,000	23,200,000
Payables Paysheets (incl. Managers' fees)	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Funds transferred to Managers	4,920,000	3,770,000	760,000	0	0
Other Expenditure	0	0	0	0	0
Total Expenditure	38,720,000	37,670,000	34,760,000	34,100,000	34,200,000
Surplus / (-) Deficit	-220,000	-9,180,000	-6,280,000	-5,625,000	-5,725,000
Balance at Bank (opening)	27,554,055	27,334,055	18,154,055	11,874,055	6,249,055
Balance at Bank (closing)	27,334,055	18,154,055	11,874,055	6,249,055	524,055
Dividends Received by Managers	9,240,000	6,720,000	7,280,000	4,760,000	9,240,000
Net Cash Flow Position	9,020,000	-2,460,000	1,000,000	-865,000	3,515,000

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Pension Fund Committee

8 September 2016



**Performance Measurement of
Pension Fund Investments to 30
June 2016**

Paul Darby, Interim Corporate Director, Resources

Purpose of the Report

- 1 To provide an overview for Members of the performance of the Fund to 30 June 2016.

Background

- 2 The performance of the seven Managers is measured against personalised benchmarks chosen at the inception of the Fund. The attached report from JP Morgan, the Fund's custodian, shows:-
 - (a) The Managers benchmarks.
 - (b) The total Fund performance, for the quarter to 30 June 2016, year to date and since inception.
 - (c) The Managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter to 30 June 2016, year to date and since inception.
 - (d) A portfolio comparison for the quarter ended 30 June 2016 and for the period since inception.

Recommendation

- 3 Members note the information contained in the attached report produced by JP Morgan.

Contact: Beverley White Tel: 03000 261900

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J.P.Morgan

Worldwide Securities Services

**Performance Measurement Report
for
Durham County Council Pension Fund**

*for period ending
June 30, 2016*

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Benchmark Association Table

PORTFOLIO	INDEX	TARGET	WEIGHT %
Blackrock	Zero Return - Historically FTSE All Share (Gross)	+3% pa	100.00
Alliance Bernstein	GBP Libor (3 month)	+3% pa	100.00
Royal London	FTSE index Linked >5 years	+0.5% pa	100.00
Barings	Zero Return - Historically GBP Libor (3 month)	+4% pa	100.00
CBRE 1	Headline RPI	+5% pa	100.00
CBRE 2	Headline RPI	+5% pa	100.00
BlackRock DAA	GBP Libor (3 month)	+3% pa	100.00
Mondrian	MSCI EM (Emerging Markets) (Gross)	+2.5% pa	100.00
Aberdeen	MSCI-Acwi (Gross)	+3% pa	100.00
BNY	MSCI AC World Index (Gross)	+2.5% pa	100.00
Total Plan Composite	Manager Weighted Benchmark	Not Applicable	100.00

Executive Summary of Total Plan as at 30/06/2016

Overview

During the quarter the total market value of the Durham County Council Pension Plan increased by £134.40m to £2,433.49m. There was a cash outflow of -16,480m during the quarter meaning the plan experienced net profit of £150.88m.

The performance return for the Plan over the second quarter of 2016 was 6.58%, compared to the Plan benchmark return of 6.28%. The Plan therefore outperformed the benchmark by 30bps.

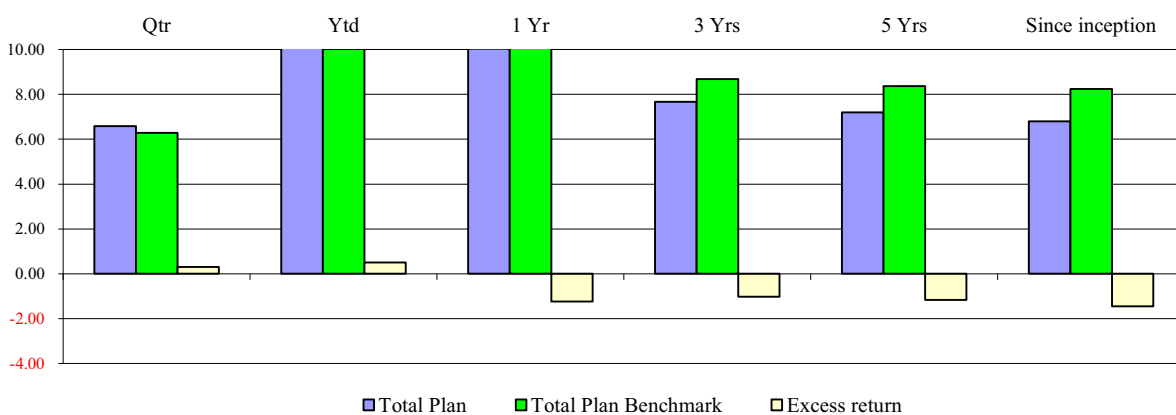
Market Values

	In GBP mil's			
	Qtr 2 - 16	Qtr 1 - 16	Qtr 4 - 15	Qtr 3 - 15
Total Plan	2,433.49	2,299.09	2,198.32	2,128.44

Performance

	Performance (%) *					
	Qtr	Ytd	1 Yr	3 Yrs	5 Yrs	Since inception
Total Plan	6.58	10.53	10.04	7.7	7.2	6.80
Total Plan Benchmark	6.28	10.03	11.29	8.7	8.4	8.25
<i>Excess return</i>	<i>0.30</i>	<i>0.50</i>	<i>-1.25</i>	<i>-1.02</i>	<i>-1.17</i>	<i>-1.45</i>

Total Plan Performance

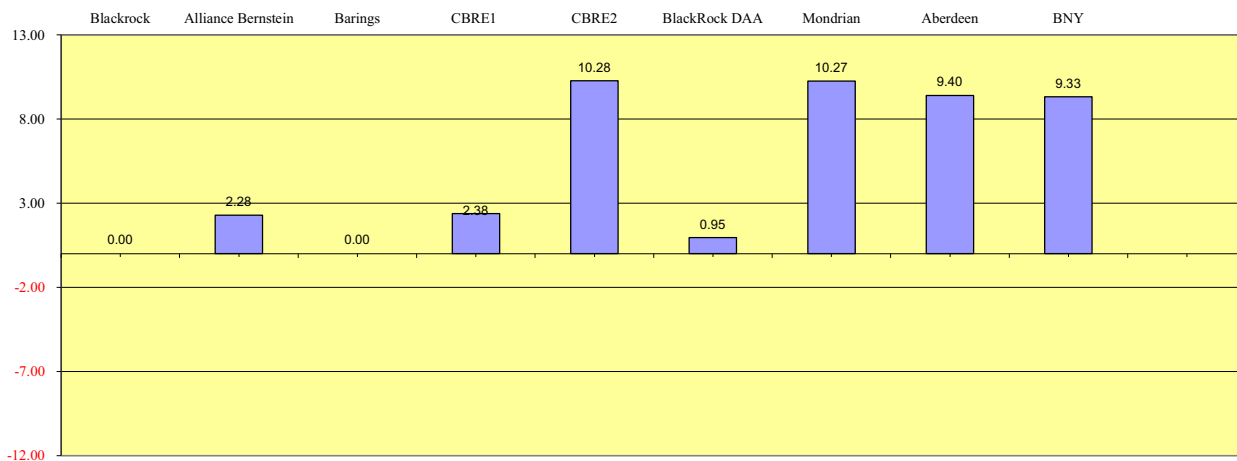


Total Plan Performance Returns as at 30/06/2016

Currency GBP	Mkt. Val. in Mil's	Performance (%) *					
		Qtr	Ytd	1 Year	2 Years	3 Years	Since inception
Total Plan	2433.5	6.58	10.53	10.04	7.47	7.66	6.80
Total Plan Benchmark		6.28	10.03	11.29	9.01	8.68	8.25
<i>Excess return</i>		0.30	0.50	-1.25	-1.54	-1.02	-1.45

	Mkt. Val. in Mil's	Qtr	Ytd	1 Year	2 Years	3 Years	Since inception
Blackrock	0.0	0.00	0.00	0.00	-0.65	4.21	5.37
Zero Return - Historically FTSE All Share (Gross) +3% pa		0.00	0.00	0.00	-1.57	4.21	7.14
<i>Excess return</i>		0.00	0.00	0.00	0.92	-0.00	-1.78
Alliance Bernstein	349.7	2.28	3.74	4.46	2.88	3.24	4.10
GBP Libor +3% pa		0.89	1.78	3.59	3.58	3.57	4.23
<i>Excess return</i>		1.39	1.96	0.87	-0.70	-0.32	-0.14
Royal London	524.1	10.77	18.29	17.41	16.32	12.51	9.62
FTSE index Linked >5 years +0.5% pa		11.26	18.62	17.63	16.98	12.78	9.68
<i>Excess return</i>		-0.49	-0.33	-0.22	-0.66	-0.27	-0.06
Barings	0.3	0.00	0.00	0.00	4.97	5.20	6.56
GBP Libor +4% pa		0.00	0.00	0.00	1.76	2.68	4.55
<i>Excess return</i>		0.00	0.00	0.00	3.21	2.52	2.01
CBRE1	160.0	2.38	3.98	10.54	11.68	10.49	3.40
Headline RPI +5% pa		2.00	3.45	6.71	6.39	6.85	7.78
<i>Excess return</i>		0.38	0.53	3.83	5.30	3.64	-4.39
CBRE2	35.5	10.28	15.81	26.50	15.35	12.20	7.00
Headline RPI +5% pa		2.00	3.45	6.71	6.39	6.85	7.78
<i>Excess return</i>		8.28	12.36	19.80	8.96	5.36	-0.78
BlackRock DAA	442.7	0.95	-0.66	-0.81	-	-	-0.03
3 Month Libor in GBP +4% pa		0.89	2.03	4.34	-	-	4.33
<i>Excess return</i>		0.06	-2.69	-	-	-	-4.36
Mondrian	169.0	10.27	21.09	7.62	-	-	0.08
MSCI EM (Emerging Markets) (Gross) + 2.5%		8.90	18.78	6.06	-	-	5.31
<i>Excess return</i>		1.37	2.31	-	-	-	-5.24
Aberdeen	371.0	9.40	16.25	10.63	-	-	5.01
MSCI-Acwi (Gross) + 3%		9.60	13.66	17.35	-	-	14.38
<i>Excess return</i>		-0.20	2.59	-	-	-	-9.37
BNY	381.2	9.33	14.50	19.19	-	-	14.61
MSCI AC World Index (Gross) + 2.5%		9.47	13.38	16.78	-	-	14.08
<i>Excess return</i>		-0.14	1.12	-	-	-	0.53

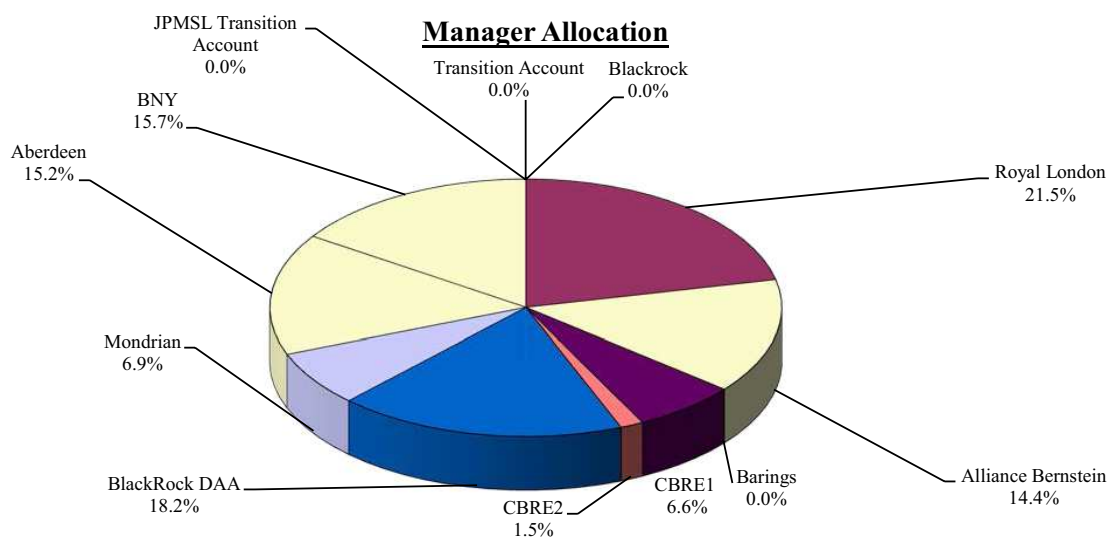
Manager Quarterly Returns



*All Portfolio and Composite returns are Gross of Fees. For time periods in excess of 1 year the performance returns are annualised.

Portfolio Comparison for Quarter 2, 2016

Portfolio Name	Current Market Value	Portfolio Weight	Portfolio Return (%)	Benchmark Return (%)	Excess Return (%)	Current Contribution to Return
Total Plan	2,433,493,038	100.00%	6.58	6.28	0.30	6.58
Blackrock	10,318	0.00%	0.00	0.00	0.00	0.00
Royal London	524,120,514	21.54%	10.77	11.26	(0.49)	2.22
Alliance Bernstein	349,674,470	14.37%	2.28	0.89	1.39	0.34
Barings	303,770	0.01%	0.00	0.00	0.00	0.00
CBRE1	160,015,858	6.58%	2.38	2.00	0.38	0.16
CBRE2	35,492,807	1.46%	10.28	2.00	8.28	0.14
BlackRock DAA	442,708,256	18.19%	0.95	0.89	0.06	0.18
Mondrian	168,968,392	6.94%	10.27	8.90	1.37	0.69
Aberdeen	371,037,074	15.25%	9.40	9.60	(0.20)	1.39
BNY	381,150,513	15.66%	9.33	9.47	(0.14)	1.45
JPMSL Transition Account	210	0.00%	0.00	-	-	0.00
Transition Account	10,858	0.00%	0.00	-	-	0.00



Portfolio Comparison for Year to Date, 2016

Portfolio Name	Current Market Value	Portfolio Weight	Portfolio Return (%)	Benchmark Return (%)	Excess Return (%)	Current Contribution to Return
Total Plan	2,433,493,038	100.00%	10.53	10.03	0.50	10.53
Blackrock	10,318	0.00%	0.00	0.00	0.00	0.00
Royal London	524,120,514	21.54%	18.29	18.62	(0.33)	3.67
Alliance Bernstein	349,674,470	14.37%	3.74	1.78	1.96	0.57
Barings	303,770	0.01%	0.00	0.00	0.00	0.00
CBRE1	160,015,858	6.58%	3.98	3.45	0.53	0.27
CBRE2	35,492,807	1.46%	15.81	3.45	12.36	0.22
BlackRock DAA	442,708,256	18.19%	(0.66)	2.03	(2.69)	(0.13)
Mondrian	168,968,392	6.94%	21.09	18.78	2.31	1.33
Aberdeen	371,037,074	15.25%	16.25	13.66	2.59	2.35
BNY	381,150,513	15.66%	14.50	13.38	1.12	2.25
JPMSL Transition Account	210	0.00%	0.00	-	-	0.00
Transition Account	10,858	0.00%	0.00	-	-	0.00

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Pension Fund Committee

8 September 2016



Short Term Investments for the period ended 30 June 2016

Paul Darby, Interim Corporate Director Resources

Purpose of Report

1. To provide the Committee with information on the performance of the Pension Fund's short term investments as at 30 June 2016.

Short Term Investments

2. Durham County Council (DCC) invests the short term cash balances on behalf of the Pension Fund; this is done in line with DCC's Treasury Management Policy and Annual Investment Strategy. This investment strategy sets out the maximum amounts and time limits in respect of deposits which can be placed with each financial institution.
3. The Pension Fund's surplus cash holding as at 30 June 2016 was £27.554 million which was held in the institutions listed in the table below alongside their credit rating at 30 June 2016.

Financial Institution	Short-term Rating	Amount Invested £m
Bank Deposit Accounts		
Handelsbanken	F1+	0.000
Santander UK Plc	F1	0.061
Barclays	F1	1.825
Fixed Term Deposits		
Barclays	F1	2.431
Bank of Scotland	F1	7.295
Nationwide Building Society	F1	2.431
Goldman Sachs	F1	4.256
Royal Bank of Scotland	F2	2.431
Local Authorities	N/A	0.580
National Savings & Investments	N/A	0.122
Money Market Funds	N/A	6.122
Total		27.554

4. The following table provides information on the net interest earned during the three month period to 30 June 2016, the average daily investment balance and the average return earned in comparison to the average bank base rate. The interest paid to the Pension Fund is based on the London Interbank Bid (LIBID) three month rate and is net of the fees of £2,500 paid for the Council undertaking the Treasury Management function for the Pension Fund.

	Total
Net Interest Earned	£19,395
Average Return Earned	0.46%
Average Bank of England base rate	0.50%
Average Daily Balance of Investments	£19.176m

Recommendation

5. Members are asked to note the position at 30 June 2016 regarding the Pension Fund's short term investments where £19,395 net interest was earned in the three month period.

Contact: Beverley White Tel: 03000 261900

Pension Fund Committee

8 September 2016



**Statement of Accounts for the year ended
31 March 2016**

Paul Darby, Interim Corporate Director Resources

Purpose of the Report

- 1 To present to Members the Pension Fund Statement of Accounts for the year ended 31 March 2016 and raise any significant issues arising from the accounts.

Background

- 2 In England and Wales, the 'Code of Practice on Local Authority Accounting 2015/16' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires pension fund accounts for the Local Government Pension Scheme (LGPS) to be included in the Statement of Accounts of every authority that administers a LGPS fund.
- 3 The County Council, as Administering Authority, therefore, includes the Pension Fund Accounts in its 'Statement of Accounts'. These accounts are shown at Appendix 1.
- 4 The 'Accounts and Audit Regulations 2011' introduced a two stage approval process for the Statement of Accounts; the first stage is in June each year. The Regulations require that the responsible financial officer, by no later than 30 June, signs and certifies that the Statement of Accounts presents a "true and fair view" of the financial position of the Council for the year to 31 March previous, subject to the views of the External Auditor. This stage was completed on 30 June 2016.
- 5 The second stage, as set out in the Regulations, requires that on or before the 30 September, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor. This is done in order that that the Statement of Accounts can then be published.
- 6 The Statement of Accounts is currently subject to audit by Mazars LLP. The audit of the accounts is ongoing. On completion, the Auditor's report will be incorporated into the published version of the document.

- 7 The full Statement of Accounts has been published on the County Council's website.

Accounting Requirements

- 8 The Statement of Accounts for the financial year 2015/16 is prepared in accordance with the 'Accounts and Audit Regulations 2003', as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the 'Accounts and Audit (England) Regulations 2011' and the 'Code of Practice on Local Authority Accounting 2015/16' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 9 The Code is based on approved accounting standards. In England and Wales, the local authority Code constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The Council is therefore legally required to follow this Code of Practice. As a result, the accounts contain detail and are unavoidably technical and complex.
- 10 The Code confirms that the objective of pension fund accounts is to provide information about the financial resources and activities of the fund that might be useful in assessing the relationships between its benefit obligations and the accumulation of resources available to meet those obligations over time.
- 11 The Code requires that the following are included in the Pension Fund Accounts:
- a fund account - this shows the changes in net assets available for benefits;
 - a net assets statement - showing the assets available at the year end to meet benefits; and
 - notes to the accounts.

Key information from the Pension Fund Accounts

- 12 The Pension Fund accounts show that during 2015/16:
- net assets have decreased by £13.758 million to £2,321.217 million;
 - there was a net addition of £0.025 million as a result of contributions from members exceeding the benefits paid; and
 - there was a net loss of £2.293 million on the Pension Fund's investments.

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Extract from

Statement of Accounts

For the year ended 31 March 2016

I hope that this document proves to be both informative and of interest to readers. The Council is keen to try to improve both the quality and suitability of information provided. On that basis your feedback would be welcome.

If you have suggestions or comments on either the format of the report or its content, or you would like any further information or further copies of this document, please contact:

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Paul Darby C.P.F.A.
Interim Corporate Director Resources

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Fund Account

2014-15				2015-16	
£000	£000		Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND					
-98,848		Contributions receivable	7	-112,035	
-2,734		Transfers in from other pension funds	8	-3,680	
-5		Other income		-5	
	-101,587				-115,720
101,419		Benefits payable	9	110,422	
8,568		Payments to and on account of leavers	10	5,273	
	109,987				115,695
	8,400	Net withdrawals/ -additions from dealings with members, employers and others			-25
	6,869	Management expenses	11		11,490
RETURN ON INVESTMENTS					
-29,129		Investment income	12	-22,662	
-190,260		Profit and losses on disposal of investments and change in market value of investments	14	24,955	
	-219,389	Net returns on investments			2,293
	-204,120	NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR			13,758

Net Assets Statement

2014-15			2015-16	
£000	£000	Notes	£000	£000
INVESTMENT ASSETS				
87,417		14	31,708	
264,293		14	211,866	
477,348		14	468,296	
<u>1,362,350</u>	2,191,408	14	<u>1,506,789</u>	2,218,659
375		14	349	
Other cash deposits:				
111,133		14	62,372	
54,269		14	17,217	
<u>12,111</u>	<u>177,888</u>	14	<u>57,351</u>	<u>137,289</u>
	2,369,296			2,355,948
Other Investment Assets				
1,815		14,17	1,925	
276		14,17	368	
<u>12,060</u>	<u>14,151</u>	14,17	<u>13,388</u>	<u>15,681</u>
2,383,447	Total Investment Assets			2,371,629
INVESTMENT LIABILITIES				
-12,886		14	-45,144	
<u>-37,354</u>		18	-9,734	
-50,240	Total Investment Liabilities			-54,878
2,333,207	NET INVESTMENT ASSETS			2,316,751
1,042	Long Term Assets	17		833
Current assets				
9,275		17	8,563	
<u>864</u>		17	<u>1,185</u>	
	10,139			9,748
Current liabilities				
<u>-9,413</u>		18	<u>-6,115</u>	
	-9,413			-6,115
2,334,975	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			2,321,217

The Pension Fund's accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Note 23.

These accounts should therefore be read in conjunction with the information contained within this note.

1. Fund Operation and Membership

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) which is administered by Durham County Council. The Council is the

reporting entity for the Fund. The LGPS is a statutory scheme governed by the following legislation:

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2009 (as amended)
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)

The Pension Fund Committee has responsibility delegated from Durham County Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder to ensure the effective stewardship of the Pension Fund's affairs. The delegation is wide ranging and covers the management of all of the Fund's activities, including the administration and investment of funds. The Committee meets at least quarterly to assess performance and annually to consider wider matters.

The Corporate Director Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and Pension Fund Accounting teams in his statutory duty to ensure the Pension Fund is administered effectively and remains solvent.

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admitted bodies also participate in the Scheme.

The LGPS is a defined benefit occupational pension scheme to provide pensions benefits for pensionable employees of participating bodies. On retirement contributors receive annual pensions and where applicable lump sum payments. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age.

The following table provides a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

	2011/12	2012/13	2013/14	2014/15	2015/16
Contributing Members	17,235	16,837	17,454	18,011	18,530
Pensioners in Payment	16,049	16,386	16,700	17,193	17,715
Pensioners Deferred	11,573	12,211	13,040	13,165	14,451

In comparison to the figures reported at 31 March 2015, the number of pensionable employees in the Fund at 31 March 2016 has increased by 519, the number of pensioners has increased by 522 and deferred pensioners have increased by 1,286.

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 116 at 31 March 2016), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table:

2014-15			2015-16	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
80,645	-68,386	Administering Authority	83,286	-70,340
17,922	-26,704	Scheduled Bodies	20,567	-34,000
2,852	-3,758	Admitted Bodies	6,569	-7,695
101,419	-98,848		110,422	-112,035

2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals and going concern basis.

The financial statements summarise the transactions and the net assets of the Pension Fund available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2013/14, the results of which determined the contribution rates effective from 1 April 2014 to 31 March 2017. Details of the latest valuation are included in Note 22.

3. Statement of Accounting Policies

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the normal accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis).

Fund Account

Contributions receivable

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;
- Employer's augmentation contributions are accounted for in the year in which they become due;
- Employer's deficit funding contributions are accounted for in the year in which they become due in accordance with the Rates and Adjustment Certificate set by the actuary or on receipt, if earlier than the due date.

Transfers to and from other schemes

Transfer values represent amounts paid to or received from other local and public authorities, private, occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities. Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for in full in the year in which the transfer value is agreed by Durham County Council Pension Fund.

Pension benefits payable

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due, but yet to be paid, are disclosed in the Net Assets Statement as current liabilities.

Management expenses

All management expenses, which include administrative expenses, investment management expenses and oversight and governance costs, are accounted for on an accruals basis.

All staffing and overhead costs of the pensions administration team are charged to the Pension Fund as administrative expenses.

Fees of the external Investment Managers are agreed in the respective mandates governing their appointments. Where an Investment Manager's fee note has not been

received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

Oversight and governance costs include costs relating to the pension fund accounting team, plus legal, actuarial and investments advisory services.

Investment income

Investment income is accounted for as follows:

- income from equities is recognised in the fund account on the date stocks are quoted ex-dividend;
- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis;
- interest income is recognised in the fund account as it accrues;
- income from other investments is accounted for on an accruals basis;
- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
- foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable on the last working day in March, where amounts were still outstanding at the year end;
- changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/ losses during the year.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax would normally be accounted for as a fund expense as it arises, however when Investment Managers are not able to supply the necessary information, no taxation is separately disclosed in the Fund Account.

Net Assets Statement

Valuation of Investments

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Market value is the bid price quoted in an active market for securities and unitised investments.

All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund. The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted equity securities which are traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities that are traded on an exchange are accounted for at bid market price where Investment Managers provide valuations in this manner;
- Index linked securities are valued at bid market value where Investment Managers provide valuations in this manner;
- Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised securities are valued at the reported price;
- Unquoted equity investments are included based on an estimated price of the investments held. Investment Managers use valuation techniques to establish a price at the year end date based on an arm's length exchange given normal business considerations;
- Derivative contracts outstanding at the year end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

Where Investment Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Investment Manager, usually at mid-market price.

Cash and Cash Equivalents

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

Contingent Assets

A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Pension Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 21.

Investment transactions

Investment transactions arising up to 31 March but not settled until later are accrued in the accounts. All purchases and sales of investments in foreign currency are accounted for in sterling at the prevailing rate on the transaction date.

Acquisition costs of investments

Acquisition costs of investments are added to book cost at the time of purchase.

Financial liabilities

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

Actuarial present value of promised retirement benefits

The actual 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 relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (Note 23).

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Pension Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 19 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 7 as additional contributions from members.

4. Critical judgements in applying accounting policies

The preparation of the statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the fair value of unquoted private equities is highly subjective and based upon forward looking estimates and judgements involving many factors. Investment Managers provide the values to be recognised in the Net Assets Statement.
- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions.

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

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Items for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual differs from assumptions
Actuarial Valuation	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the salary increase projections, expected changes in retirement ages, mortality rates and returns on pension fund assets. A firm of actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. Note 22 summarises the results of the actuarial valuation.	The Actuary calculated the funding ratio to be 84% as at 31 March 2013 (the last triennial valuation). If the following figures were to differ from the assumptions used in the calculation, there would be a reduction in the funding ratio to: <ul style="list-style-type: none"> - 79% if life expectancy increases by 3 years - 70% if discount rate falls by 1% - 70% if inflation increases by 1% - 73% if equities fall by 25% - 80% if pensionable pay increases by 1%
Fair Value of Investments	The Accounts are as at 31 March 2016 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/ under-stated in the accounts. The total value of Level 3 investments (explained in Note 15) is £154.1m at 31/3/16 (£105.2m at 31/3/15). Every 1% increase/ decrease in fair value would result in an increase/ decrease in the value of the Fund by £1.541m (£1.052m at 31/3/15).

6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2016 which require any adjustments to be made to these accounts.

7. Contributions Receivable

2014-15 £000		2015-16 £000
	Employer contributions:	
-47,702	Normal	-49,770
-3,354	Augmentation	-6,400
-25,313	Deficit funding	-32,827
	Member contributions:	
-22,363	Normal	-22,929
-116	Additional contributions	-109
-98,848		-112,035
-68,386	Administering Authority	-70,340
-26,704	Scheduled Bodies	-34,000
-3,758	Admitted Bodies	-7,695
-98,848		-112,035

8. Transfers in from other pension funds

2014-15 £000		2015-16 £000
-2,734	Individual Transfers	-3,680
-2,734		-3,680

9. Benefits Payable

2014-15 £000		2015-16 £000
87,994	Pensions	90,708
16,822	Commutations and lump sum retirement benefits	22,514
1,531	Lump sum death benefits	2,035
-4,928	Recharged benefits	-4,835
101,419		110,422
80,645	Administering Authority	83,286
17,922	Scheduled Bodies	20,567
2,852	Admitted Bodies	6,569
101,419		110,422

10. Payments To And On Account Of Leavers

2014-15 £000		2015-16 £000
65	Refunds to members leaving service	153
16	Payments for members joining state scheme	61
4,479	Individual transfers to other schemes	5,059
4,008	Group transfers to other schemes	0
8,568		5,273

The Group Transfer figure in 2014/15 of £4.008m was a provision for the transfer value which was paid to South Tyneside Pension Fund during 2015/16. This relates to the group transfer of staff from the former Wear Valley District Council who are now employed by Gentoo and who transferred out of the DCC Pension Fund on 31 March 2008.

11. Management Expenses

Administration expenses include the cost of the administering authority in supporting the Fund.

Investment management expenses include any expenses in relation to the management of the pension fund assets. Investment manager fees are based on the value of assets under management. A performance related fee, derived from a base fee plus a percentage of out-performance, is paid to three of the Fund's investment managers; an ad-valorem fee is payable to the other managers.

Oversight and governance costs include costs relating to the pension fund accounting team, plus legal, actuarial and investments advisory services.

2014-15 £000 (restated)		2015-16 £000
939	Administration expenses	854
5,234	Investment Management expenses	9,962
696	Oversight and Governance costs	674
6,869		11,490

Included within oversight and governance costs is the external audit fee payable to Mazars in 2015/16 of £0.026m (£0.026m in 2014/15).

12. Investment Income

2014-15 £000		2015-16 £000
-1,887	Interest from fixed interest securities	-1,720
-3,732	Income from index-linked securities	-3,369
-12,330	Dividends from equities	-6,860
-283	Interest on cash deposits	-102
-10,897	Income from pooled investment vehicles	-10,611
-29,129		-22,662

13. Taxation

The Pensions Statement of Recommended Practice (SORP) requires that any withholding tax that is irrecoverable should be disclosed in the Fund Account as a tax charge, however

as Investment Managers have not been able to supply information for the full year, no amount of irrecoverable withholding tax has been disclosed.

- **United Kingdom Income Tax**

The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

- **Value Added Tax**

As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.

- **Foreign Withholding Tax**

Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

14. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2015/16 to manage the Pension Fund's assets:

- Aberdeen Asset Management Limited (Aberdeen)
- AllianceBernstein Limited (AllianceBernstein)
- Bank of New York Mellon Investment Management EMEA Limited (BNYM)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Royal London Asset Management (RLAM)

The long-term strategic allocation as at 31 March was as follows:

31 March 2015	Investment Manager	Asset Class	31 March 2016
%			%
15	Aberdeen	Global equities	15
15	AllianceBernstein	Global Bonds	15
15	BNYM	Global equities	15
20	Blackrock	Dynamic Asset Allocation	20
8	CBRE	Global property	8
7	Mondrian	Emerging Market Equities	7
20	Royal London	Investment grade sterling bonds	20
100			100

The actual market values of investments held by each Investment Manager as at 31 March were as follows (the actual allocations vary slightly from the long-term strategic allocations due to market movements):

31-Mar-15			31-Mar-16		
£000	%	Investment Manager	£000	%	
343,880	14.95	Aberdeen	339,124	14.79	
330,169	14.34	AllianceBernstein	341,874	14.91	
355,519	15.45	BNYM	364,837	15.91	
15,251	0.66	Barings	198	0.01	
467,036	20.29	Blackrock	437,983	19.10	
150,641	6.54	CBRE	187,755	8.18	
157,684	6.85	Mondrian	152,726	6.66	
28	0.00	Other - NEL	28	0.00	
481,558	20.92	RLAM	468,712	20.44	
2,301,766	100.00		2,293,237	100.00	

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2016 excludes loans of £0.349m, cash invested by the administering authority of £17.217m, other investment assets of £15.681m and other investment liabilities of £9.734m (£0.375m, £54.269m, £14.151m and £37.354m respectively as at 31 March 2015).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2016, £2.293m (98.99%) is invested through Investment Managers (£2.302m or 98.65% at 31 March 2015).

Reconciliation of Movements in Investments 2015/16

Investment category	Value at 31 March 2015	Purchases at cost	Sales proceeds	Change in Asset Classification	Change in market value	Value at 31 March 2016
	£000	£000	£000	£000	£000	£000
Fixed interest securities	87,417	163,548	-187,356	22,142	-54,043	31,708
Equities	264,293	107,977	-109,440	-28,958	-22,006	211,866
Index linked securities	477,348	1,845,108	-1,862,768	0	8,608	468,296
Pooled investment vehicles	1,362,350	241,681	-166,237	6,816	62,179	1,506,789
	2,191,408	2,358,314	-2,325,801	0	-5,262	2,218,659
Derivative contracts:						
Futures, margins & options	3,102	31,977	-14,810		-3,848	16,421
Forward foreign currency	-3,877				-337	-4,214
	2,190,633	2,390,291	-2,340,611	0	-9,447	2,230,866
Other investment balances:						
Loans	375					349
Other cash deposits	165,402				-15,508	79,589
Dividend accruals	1,815					1,925
Tax recovery	276					368
Other investment balances	-25,294					3,654
Net Investment Assets	2,333,207			0	-24,955	2,316,751

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.

Reconciliation of Movements in Investments 2014/15

Investment category	Value at 31 March 2014	Purchases at cost	Sales proceeds	Change in Asset Classification	Change in market value	Value at 31 March 2015
	£000	£000	£000	£000	£000	£000
Fixed interest securities	62,934	339,632	-348,653		33,504	87,417
Equities	500,898	2,437,883	-2,709,504		35,016	264,293
Index linked securities	384,175	1,727,246	-1,704,313		70,240	477,348
Pooled investment vehicles	1,128,807	2,261,603	-2,079,377		51,317	1,362,350
	2,076,814	6,766,364	-6,841,847	0	190,077	2,191,408
Derivative contracts:						
Futures, margins & options	4,716	9,040	-5,589		-5,065	3,102
Forward foreign currency	1,553				-5,430	-3,877
	2,083,083	6,775,404	-6,847,436	0	179,582	2,190,633
Other investment balances:						
Loans	390					375
Other cash deposits	76,091				10,678	165,402
Dividend accruals	4,813					1,815
Tax recovery	378					276
Other investment balances	-9,456					-25,294
Net Investment Assets	2,155,299			0	190,260	2,333,207

Analysis of Investments

2014-15			2015-16	
£000	£000		£000	£000
ASSETS INVESTED THROUGH FUND MANAGERS				
Fixed interest securities				
16,907		UK - Public sector - quoted	0	
70,510		Overseas - Public sector - quoted	31,708	
	87,417			31,708
Equities				
35,502		UK quoted	41,520	
28		UK unquoted	28	
228,763		Overseas quoted	170,318	
	264,293			211,866
Index linked securities				
459,206		UK quoted - Public sector	466,549	
0		UK quoted - Corporate	0	
18,142		Overseas quoted -Public sector	1,747	
0		Overseas quoted -Corporate		
	477,348			468,296
Pooled Investment Vehicles				
68,683		Managed funds - non property - UK quoted	2,661	
0		Managed funds - non property - UK unquoted	-	
828,248		Managed funds - non property - overseas quoted	976,525	
330,169		Managed funds - non property - overseas unquoted	341,874	
3,059		Unit Trusts - property - UK quoted	1,815	
24,631		Unit Trusts - property - UK unquoted	32,729	
27,038		Unit Trusts - property - Overseas quoted	29,804	
80,522		Unit Trusts - property - Overseas unquoted	121,381	
	1,362,350			1,506,789
Derivative Contracts				
12,111		Assets	57,351	
-12,886		Liabilities	-45,144	
	-775			12,207
111,133	111,133	Fund Managers' cash	62,372	62,372
2,301,766		NET ASSETS INVESTED THROUGH FUND MANAGERS		2,293,238
OTHER INVESTMENT BALANCES				
54,269		Short term investments (via DCC Treasury Management)	17,217	
375		Loans	349	
14,151		Other investment assets	15,681	
-37,354		Other investment liabilities	-9,734	
2,333,207		NET INVESTMENT ASSETS		2,316,751

Analysis of Derivatives

Objectives and policies for holding derivatives

Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates and stock market indices.

The Fund uses derivatives to manage its exposure to specific risks arising from its investment activities. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Pension Fund and its Investment Managers.

A summary of the derivative contracts held by the Pension Fund is provided in the following table:

2014-15		Derivative Contracts	2015-16	
£000	£000		£000	£000
		Forward foreign currency		
1,192		Assets	8,399	
<u>-5,069</u>		Liabilities	<u>-12,613</u>	
	-3,877	Net Forward foreign currency		-4,214
		Futures		
4,391		Assets	45,703	
<u>-4,281</u>		Liabilities	<u>-28,747</u>	
	110	Net Futures		16,956
		Options		
6,528		Assets	3,249	
<u>-3,536</u>		Liabilities	<u>-3,784</u>	
	2,992	Net Options		-535
	<u><u>-775</u></u>	Net market value of derivative contracts		<u><u>12,207</u></u>

The Pension Fund invests in the following types of derivatives:

i. Forward foreign currency contracts

Currency is bought and sold by investment managers for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund's investments.

The following tables list all of the forward foreign currency contracts held by the investment managers (BlackRock, CBRE and Royal London) on 31 March 2016 and 31 March 2015.

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	USD	6,570,000	BRL	-27,597,285		-842
0 to 1 mth	USD	1,625,000	BRL	-6,082,375		-62
0 to 1 mth	USD	1,625,000	BRL	-6,113,250		-68
0 to 1 mth	USD	1,565,000	BRL	-5,874,228		-63
0 to 1 mth	USD	1,435,000	BRL	-5,419,995		-65
0 to 1 mth	USD	3,410,000	BRL	-12,484,010		-76
0 to 1 mth	USD	800,000	BRL	-2,935,920		-19
0 to 1 mth	USD	800,000	BRL	-2,938,000		-20
0 to 1 mth	USD	1,190,000	BRL	-4,366,705		-29
0 to 1 mth	GBP	11,514,280	CAD	-23,200,000		-965
0 to 1 mth	CAD	19,007,137	USD	-13,480,000	845	
0 to 1 mth	GBP	2,208,084	CHF	-3,200,000		-117
0 to 1 mth	USD	12,960,000	CHF	-13,082,291		-489
0 to 1 mth	USD	6,400,000	CNH	-42,732,800		-151
1 to 3 mths	USD	3,690,000	CNH	-24,261,750		-37
1 to 3 mths	USD	2,460,000	CNH	-16,188,030		-26
1 to 3 mths	USD	2,460,000	CNH	-16,195,410		-27
1 to 3 mths	USD	1,230,000	CNH	-8,086,020		-12
1 to 3 mths	USD	2,460,000	CNH	-16,164,660		-24
1 to 3 mths	USD	6,200,000	CNH	-40,771,200		-63
0 to 1 mth	CZK	2,738,908	EUR	-101,354		0
0 to 1 mth	CZK	3,652,185	EUR	-135,139		0
0 to 1 mth	CZK	19,322,232	EUR	-715,000		-1
0 to 1 mth	CZK	19,454,429	EUR	-720,000		-1
0 to 1 mth	CZK	23,781,208	EUR	-880,000		-1
0 to 1 mth	CZK	34,317,940	EUR	-1,270,000		-1
0 to 1 mth	CZK	37,155,250	EUR	-1,375,000		-1
0 to 1 mth	CZK	14,956,854	EUR	-553,507		0
0 to 1 mth	GBP	35,896,878	EUR	-47,110,000		-1,457
0 to 1 mth	EUR	1,263,686	GBP	-983,375	19	
0 to 1 mth	EUR	718,330	GBP	-558,678	11	
0 to 1 mth	EUR	3,447,984	GBP	-2,678,287	56	
0 to 1 mth	PLN	1,283,346	EUR	-284,341	14	
0 to 1 mth	PLN	10,243,901	EUR	-2,271,318	114	
0 to 1 mth	PLN	1,283,203	EUR	-284,341	14	
0 to 1 mth	EUR	444,157	PLN	-1,995,053		-21
0 to 1 mth	EUR	465,803	PLN	-2,087,475		-21
0 to 1 mth	EUR	310,535	PLN	-1,392,207		-14
0 to 1 mth	EUR	660,000	PLN	-2,952,774		-29
0 to 1 mth	EUR	959,505	PLN	-4,295,190		-42
0 to 1 mth	EUR	405,368	PLN	-1,790,838		-13
0 to 1 mth	EUR	1,621,472	PLN	-7,165,448		-54
0 to 1 mth	EUR	1,690,349	PLN	-7,467,660		-56
0 to 1 mth	EUR	1,782,810	PLN	-7,874,719		-58
0 to 1 mth	USD	7,780,766	EUR	-7,118,116		-231
0 to 1 mth	USD	4,462,079	EUR	-4,081,884		-132
0 to 1 mth	EUR	12,680,000	USD	-13,866,975	406	
0 to 1 mth	EUR	11,539,165	USD	-12,610,000	376	
0 to 1 mth	USD	1,773,157	EUR	-1,614,764		-47
0 to 1 mth	USD	3,545,863	EUR	-3,229,527		-94
0 to 1 mth	USD	829,829	EUR	-755,709		-22
0 to 1 mth	JPY	7,232,000,000	GBP	-42,614,750	2,158	
0 to 1 mth	GBP	123,931,734	USD	-177,890,000	166	
0 to 1 mth	USD	10,500,000	GBP	-7,229,025	76	
0 to 1 mth	GBP	4,192,931	USD	-6,000,000	18	
0 to 1 mth	USD	5,227,126	GBP	-3,654,996		-18
0 to 1 mth	USD	7,019,027	GBP	-4,905,004		-22
0 to 1 mth	GBP	900,000	ZAR	-21,420,270		-113
0 to 1 mth	GBP	4,300,000	ZAR	-102,276,317		-535
0 to 1 mth	ZAR	39,954,031	GBP	-1,785,157	104	

Notes to Durham County Council Pension Fund Accounts

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	ZAR	39,353,824	GBP	-1,759,095	101	
0 to 1 mth	ZAR	20,855,035	GBP	-931,404	55	
0 to 1 mth	ZAR	16,097,274	GBP	-724,344	37	
0 to 1 mth	INR	207,552,500	USD	-3,050,000	58	
0 to 1 mth	INR	83,057,600	USD	-1,220,000	24	
0 to 1 mth	INR	83,057,600	USD	-1,220,000	24	
0 to 1 mth	INR	16,053,953	USD	-235,983	4	
0 to 1 mth	INR	21,364,431	USD	-314,017	6	
0 to 1 mth	INR	128,707,431	USD	-1,890,000	37	
0 to 1 mth	INR	41,482,440	USD	-610,000	11	
0 to 1 mth	INR	124,513,200	USD	-1,830,000	35	
0 to 1 mth	INR	41,443,400	USD	-610,000	11	
0 to 1 mth	INR	20,730,850	USD	-305,000	6	
0 to 1 mth	INR	62,172,420	USD	-915,000	17	
0 to 1 mth	USD	55,640,000	JPY	-6,596,711,784		-2,128
0 to 1 mth	USD	6,843,881	JPY	-769,362,681		-1
0 to 1 mth	USD	4,856,119	JPY	-546,064,119		-2
0 to 1 mth	USD	4,090,000	JPY	-462,979,820		-21
0 to 1 mth	USD	8,310,000	JPY	-940,440,190		-41
0 to 1 mth	USD	6,200,000	JPY	-703,700,000		-43
0 to 1 mth	USD	10,035,779	KRW	-12,036,411,784		-357
0 to 1 mth	USD	3,330,000	KRW	-3,981,847,500		-111
0 to 1 mth	USD	1,150,000	KRW	-1,375,630,000		-39
0 to 1 mth	USD	1,150,000	KRW	-1,378,562,500		-41
0 to 1 mth	USD	770,000	KRW	-926,002,000		-29
0 to 1 mth	KRW	5,182,160,000	USD	-4,220,000	224	
0 to 1 mth	KRW	5,173,604,234	USD	-4,215,779	222	
0 to 1 mth	USD	7,800,000	KRW	-9,406,800,000		-309
0 to 1 mth	MXN	122,315,661	USD	-6,570,000	393	
0 to 1 mth	MXN	29,237,608	USD	-1,550,000	108	
0 to 1 mth	MXN	17,550,681	USD	-930,000	65	
0 to 1 mth	MXN	12,820,205	USD	-676,640	50	
0 to 1 mth	MXN	6,401,019	USD	-338,320	24	
0 to 1 mth	MXN	6,412,860	USD	-338,320	25	
0 to 1 mth	MXN	6,024,034	USD	-320,000	22	
0 to 1 mth	MXN	38,566,328	USD	-2,046,719	141	
0 to 1 mth	USD	1,550,000	MXN	-27,764,375		-48
0 to 1 mth	USD	1,550,000	MXN	-27,786,385		-49
0 to 1 mth	USD	166,177	MXN	-2,985,357		-6
0 to 1 mth	USD	2,185,585	MXN	-39,203,448		-70
0 to 1 mth	USD	336,244	MXN	-6,023,506		-10
0 to 1 mth	USD	411,994	MXN	-7,373,570		-13
0 to 1 mth	USD	1,550,000	MYR	-6,491,400		-83
0 to 1 mth	USD	930,000	MYR	-3,908,790		-52
0 to 1 mth	USD	1,240,000	MYR	-5,246,440		-76
0 to 1 mth	USD	310,000	MYR	-1,311,610		-19
0 to 1 mth	USD	310,000	MYR	-1,308,200		-18
0 to 1 mth	USD	1,860,000	MYR	-7,863,150		-113
0 to 1 mth	MYR	10,423,440	USD	-2,480,000	139	
0 to 1 mth	MYR	9,109,660	USD	-2,170,000	120	
0 to 1 mth	MYR	6,513,875	USD	-1,550,000	87	
0 to 1 mth	PHP	627,393,600	USD	-12,960,000	484	
0 to 1 mth	USD	3,293,288	PHP	-153,697,751		-36
0 to 1 mth	USD	3,186,712	PHP	-149,201,856		-42
0 to 1 mth	USD	3,240,000	PHP	-151,729,200		-43
0 to 1 mth	USD	3,240,000	PHP	-151,777,800		-44
0 to 1 mth	USD	2,800,000	SGD	-4,005,120		-121
0 to 1 mth	USD	6,900,000	SGD	-9,879,627		-304
0 to 1 mth	USD	1,500,000	TRY	-4,612,346		-94
0 to 1 mth	USD	1,500,000	TRY	-4,607,025		-93
0 to 1 mth	USD	6,600,000	TRY	-20,239,560		-400
0 to 1 mth	USD	6,200,000	TRY	-17,919,308		-106

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	USD	1,680,000	TWD	-56,280,000		-48
0 to 1 mth	USD	13,520,000	TWD	-454,069,200		-413
0 to 1 mth	USD	3,390,000	TWD	-112,209,000		-68
0 to 1 mth	USD	1,345,000	TWD	-44,707,800		-31
0 to 1 mth	USD	1,665,000	TWD	-55,394,550		-39
0 to 1 mth	TWD	179,722,800	USD	-5,400,000	130	
0 to 1 mth	TWD	179,604,000	USD	-5,400,000	127	
0 to 1 mth	USD	3,410,000	TWD	-111,728,650		-44
0 to 1 mth	USD	1,650,000	TWD	-54,095,250		-22
0 to 1 mth	USD	2,090,000	TWD	-68,572,900		-29
0 to 1 mth	USD	3,850,000	TWD	-126,434,000		-55
0 to 1 mth	TWD	350,217,000	USD	-10,900,000		-10
0 to 1 mth	TWD	351,198,000	USD	-10,900,000	11	
1 to 3 mths	USD	10,900,000	TWD	-349,879,100		0
1 to 3 mths	USD	10,900,000	TWD	-351,034,500		-25
1 to 3 mths	AUD	10,869,651	GBP	5,717,559		-75
1 to 3 mths	EUR	40,824,558	GBP	32,071,773		-373
1 to 3 mths	USD	91,045,309	GBP	64,420,370	1,095	
1 to 3 mths	JPY	1,325,912,724	GBP	8,281,778	55	
1 to 3 mths	MYR	18,690,782	GBP	3,179,245		-177
1 to 3 mths	AUD	4,408,489	GBP	2,318,915		-30
1 to 3 mths	USD	572,793	GBP	405,288	7	
1 to 3 mths	JPY	604,551,839	GBP	3,776,089	25	
1 to 3 mths	CNY	11,948,588	GBP	1,287,772	7	
1 to 3 mths	EUR	6,423,145	GBP	5,046,023		-59
1 to 3 mths	GBP	2,924,865	AUD	-5,478,896	4	
1 to 3 mths	GBP	3,169,203	SEK	-36,991,710		-14
1 to 3 mths	SEK	36,190,874	GBP	-3,084,980	29	
1 to 3 mths	AUD	2,194,000	GBP	-1,167,386	2	
					8,399	-12,613
Net forward foreign currency contracts at 31 March 2016						-4,214

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	EUR	5,100,000.00	GBP	-3,732,129.00		-42
3 to 6 mths	NZD	17,200,000.00	AUD	-16,585,187.11	132	
1 to 3 mths	USD	2,557,275.54	BRL	-8,260,000.00	12	
3 to 6 mths	GBP	11,256,844.00	EUR	-15,500,000.00	29	
3 to 6 mths	GBP	11,259,448.00	EUR	-15,500,000.00	32	
1 to 3 mths	GBP	3,736,795.50	EUR	-5,100,000.00	42	
3 to 6 mths	GBP	4,162,669.31	JPY	-768,000,000.00		-157
1 to 3 mths	JPY	5,000,000,000.00	GBP	-28,061,902.99	59	
3 to 6 mths	GBP	56,446,618.88	USD	-87,050,000.00		-2,218
3 to 6 mths	GBP	56,436,847.78	USD	-87,050,000.00		-2,227
3 to 6 mths	USD	12,752,563.41	HUF	-3,460,000,000.00	252	
3 to 6 mths	USD	75,800,000.00	JPY	-9,066,134,800.00	94	
3 to 6 mths	EUR	27,078,254	GBP	19,927,681	302	
3 to 6 mths	USD	67,078,960	GBP	44,830,327		-383
3 to 6 mths	JPY	1,178,741,889	GBP	6,647,664	14	
3 to 6 mths	AUD	9,765,023	GBP	5,120,916	117	
3 to 6 mths	MYR	18,020,057	GBP	3,256,833	4	
3 to 6 mths	AUD	1,438,103	GBP	754,161	17	
3 to 6 mths	JPY	429,261,483	GBP	2,420,874	5	
3 to 6 mths	USD	582,557	GBP	389,336		-3
3 to 6 mths	CNY	3,252,057	GBP	350,607		-4
1 to 3 mths	GBP	7,756,376.19	USD	-11,529,000.00		-14
1 to 3 mths	GBP	1,290,150.73	CAD	-2,412,000.00	8	
1 to 3 mths	GBP	1,989,069.18	USD	-2,965,000.00		-9
1 to 3 mths	GBP	2,425,139.39	USD	-3,615,026.76		-12
1 to 3 mths	GBP	4,339,425.44	EUR	-5,887,000.00	73	
					1,192	-5,069
Net forward foreign currency contracts at 31 March 2015						-3,877

ii. Futures

When there is a requirement to hold cash assets, but the Investment Manager does not want this cash to be out of the market, index based futures contracts are bought which have an underlying economic value broadly equivalent to the cash held in anticipation of cash outflow required. Outstanding exchange traded futures contracts, held by BlackRock are as follows:

	Expires	Product Description	Currency	Market Value at 31 March 16	
				£000	£000
Assets					
Overseas fixed interest	1 to 3 mths	AUST 10YR BOND JUN 16 15/6/2016	AUD	20,325	
Overseas equity	1 to 3 mths	S&P500 EMINI JUN 16	USD	9,492	
Overseas equity	1 to 3 mths	E-MINI CONSUMER STAPLES JUN 16	USD	9,164	
Overseas fixed interest	1 to 3 mths	US ULTRA T-BOND JUN 16 21/6/2016	USD	6,722	
Total assets					45,703
Liabilities					
Overseas equity	1 to 3 mths	E-MINI UTILITIES SELECT SECTOR JUN	USD	-9,208	
Overseas equity	1 to 3 mths	STOXX 600 INDUS JUN 16	EUR	-19,539	
Total liabilities					-28,747
Net Futures Contracts at 31 March 2016					<u>16,956</u>

	Expires	Product Description	Currency	Market Value at 31 March 15	
				£000	£000
Assets					
Overseas equity	1 to 3 mths	FTSE CHINA A50 APR 15	USD	4,391	
Total assets					4,391
Liabilities					
Overseas equity	3 to 6 mths	STOXX 600 BAS JUN 15	EUR	-4,281	
Total liabilities					-4,281
Net Futures Contracts at 31 March 2015					<u>110</u>

iii. Options

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, via Blackrock, has bought a number of equity option contracts. These option contracts are to protect it from falls in value in the main markets in which it is invested.

Type	Expires	Product Description	Currency	Market Value at 31 March 16 £000
Assets				
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/	EUR	930
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/	EUR	518
Overseas equity	1 to 5 years	S&P 500 INDEX 15/12/2017 P @ 2000.000	USD	491
Overseas equity	1 to 3 mths	S&P 500 INDEX 17/6/2016 C @ 2075.000	USD	450
Overseas equity	1 to 3 mths	MSCI EMERGING MARKETS INDEX 23/5/16	USD	351
UK equity	1 to 3 mths	FTSE 100 INDEX 20/5/2016 P @ 6000.000	GBP	204
Overseas equity	1 to 3 mths	SPX VOLATILITY INDEX UX 01-JAN-2050	USD	183
Overseas equity	1 to 5 years	EURO STOXX 50 INDEX 01-JAN-2050 15/	EUR	90
Overseas fixed inter	0 to 1 mth	APR16 EDM7 P @ 98.75	USD	13
Overseas fixed inter	1 to 3 mths	USD C SGD P @1.420000 EO	USD	9
Overseas fixed inter	3 to 6 months	EUR P CZK C @25.75000 EO	EUR	8
Overseas fixed inter	3 to 6 months	EUR P CZK C @25.75000 EO	EUR	2
Total assets				3,249
Liabilities				
Overseas fixed inter	1 to 3 mths	USD C SGD P @1.450000 EO	USD	-1
Overseas equity	0 to 1 mth	EURO STOXX 50 INDEX 01-JAN-2050 15/	EUR	-35
UK equity	1 to 3 mths	FTSE 100 INDEX 20/5/2016 P @ 5750.000	GBP	-60
Overseas equity	1 to 3 mths	MSCI EMERGING MARKETS INDEX 23/5/16	USD	-111
Overseas equity	1 to 3 mths	EURO STOXX UTILITIES (PRICE) INDEX 1	EUR	-143
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/	EUR	-153
Overseas equity	1 to 3 mths	SPX VOLATILITY INDEX UX 01-JAN-2050	USD	-155
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/	EUR	-207
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/	EUR	-325
Overseas equity	1 to 5 years	S&P 500 INDEX 15/12/2017 P @ 1875.000	USD	-372
Overseas equity	1 to 3 mths	S&P 500 INDEX 17/6/2016 C @ 1875.000	USD	-2222
Total liabilities				-3,784
Net Options at 31 March 2016				-535

Type	Expires	Product Description	Currency	Market Value at 31 March 15 £000
Assets				
Overseas equity	less than 1 yr	SPX VOLATILITY INDEX APR P @ 14.5	USD	98
Overseas equity	less than 1 yr	S&P 500 JUN P @ 2000	USD	161
Overseas equity	3 to 6 mths	EURO STOXX 50 JUN P @ 3550	EUR	235
Overseas equity	less than 1 yr	EURO STOXX UTILITIES	EUR	272
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2075	USD	330
UK equity	less than 1 yr	FTSE 100 INDEX MAY P @ 6800	GBP	532
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2050	USD	615
Overseas equity	1 to 5 yrs	S&P 500 DEC P @ 2000	USD	634
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2000	USD	789
Overseas equity	less than 1 yr	NIKKEI 225 JUN P @ 18500	JPY	821
Overseas equity	less than 1 yr	SPX VOLATILITY INDEX JUN C @ 20	USD	854
Overseas equity	less than 1 yr	EURO STOXX 50 DEC C @ 4000	EUR	1,187
Total assets				6,528
Liabilities				
Overseas equity	less than 1 yr	NIKKEI 225 JUN P @ 19500	JPY	-831
Overseas equity	1 to 5 yrs	S&P 500 DEC P @ 1875	USD	-510
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1950	USD	-438
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1875	USD	-343
Overseas equity	less than 1 yr	EURO STOXX UTILITIES	EUR	-319
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1975	USD	-236
Overseas equity	3 to 6 mths	EURO STOXX 50 JUN P @ 3350	EUR	-233
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1900	USD	-187
Overseas equity	less than 1 yr	S&P 500 JUN P @ 1900	USD	-166
UK equity	less than 1 yr	FTSE 100 INDEX MAY P @ 6400	GBP	-155
UK equity	less than 1 yr	FTSE 100 INDEX MAY C @ 7000	GBP	-118
Total liabilities				-3,536
Net Options at 31 March 2015				2,992

Investments Exceeding 5% of the Market Value of the Fund

The investments in the following table individually represented more than 5% of the Pension Fund's total net assets available for benefits at 31 March:

Name of Fund	Investment Manager	At 31 March 2016		At 31 March 2015	
		£m	%	£m	%
BNYM Long Term Global Equity	BNYM	364.8	15.91	355.5	15.23
AAM L and P World Equity	Aberdeen	339.1	14.79	343.9	14.73
Diversified Yield Plus	AllianceBernstein	341.9	14.91	330.2	14.14

Single investments with a market value exceeding 5% of their type of asset are listed as follows:

At 31 March 2016

Holding	Investment Manager	£000	%
Fixed Interest Securities			
TREASURY (CPI) NOTE 0.375 15/7/2025	BlackRock	19,969	62.98
TREASURY (CPI) NOTE 0.625 15/1/2026	BlackRock	6,376	20.11
PORTUGAL (REPUBLIC OF) 3.875 15/2/2030	BlackRock	2,420	7.63
PORTUGAL (REPUBLIC OF) 2.875 21/7/2026	BlackRock	1,606	5.06
Equities			
ISHARES GOLD TRUST	BlackRock	17,363	8.20
Index Linked Securities			
UK Treasury 0.625% IL 22/11/2042	Royal London	37,989	8.11
UK Treasury 1.25% IL 22/11/2032	Royal London	35,829	7.65
UK Treasury 0.5% IL Gilt 22/03/2050	Royal London	35,727	7.63
UK Treasury 2.5% IL 17/07/24	Royal London	32,874	7.02
UK Treasury 0.625% IL 22/03/2040	Royal London	30,223	6.45
UK Treasury 0.25% IL 22/03/2052	Royal London	25,532	5.45
UK Treasury 0.375% IL 22/03/2062	Royal London	24,807	5.30
UK Treasury 1.25% IL Gilt 22/11/2055	Royal London	24,665	5.27
UK Treasury 0.125% IL 22/03/2068	Royal London	24,051	5.14
UK Treasury 1.25% IL Gilt 22/11/2027	Royal London	23,971	5.12
Pooled Investment Vehicles			
BNYM Long Term Global Equity	BNYM	364,837	24.21
Diversified Yield Plus	AllianceBernstein	341,874	22.69
AAM L and P World Equity	Aberdeen	339,124	22.51
BGF GLOBAL CORP BND X4RF GBP HDG	BlackRock	108,805	7.22
ICS INS GBP LIQ AGENCY DIS	BlackRock	77,739	5.16

At 31 March 2015

Holding	Investment Manager	£000	%
Fixed Interest Securities			
UK Treasury Stock 2% 26/01/35	Royal London	18,578	21.25
Italy 4.5% 01/03/2024	BlackRock	12,451	14.24
Brazil 6% 15/08/22	BlackRock	9,515	10.88
Treasury Bd 15/11/44	BlackRock	7,390	8.45
Spain 5.150%	BlackRock	4,620	5.29
Equities			
-			
Index Linked Securities			
UK Treasury 1.875% IL 2022	Royal London	52,680	11.04
UK Treasury 0.75% IL 22/03/2034	Royal London	46,731	9.79
UK Treasury 0.50% IL 22/03/2050	Royal London	39,000	8.17
UK Treasury 2.5% I.L. 17/07/24	Royal London	35,161	7.37
UK Treasury 0.125% I.L. 22/03/44	Royal London	28,668	6.01
UK Treasury 0.375% I.L. 22/03/62	Royal London	26,413	5.53
UK Treasury 0.25% I.L. 22/03/52	Royal London	25,175	5.27
Pooled Investment Vehicles			
BNYM Long Term Global Equity	BNY Mellon	355,519	26.10
AAM L and P World Equity	Aberdeen	343,880	25.24
Diversified Yield Plus	AllianceBernstein	330,169	24.24
BGF Global Corp	BlackRock	89,911	6.60

15. Financial Instruments

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 following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

2014-15			2015-16		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial assets					
87,417			31,708		
264,293			211,866		
477,348			468,296		
1,362,350			1,506,789		
12,111			57,351		
	375			349	
	111,133			62,372	
	54,269			17,217	
14,151			15,681		
	11,181			10,581	
<u>2,217,670</u>	<u>176,958</u>	<u>-</u>	<u>2,291,691</u>	<u>90,519</u>	<u>-</u>
Financial liabilities					
-12,886			-45,144		
-37,354		-9,413	-9,734		-6,115
<u>-50,240</u>	<u>-</u>	<u>-9,413</u>	<u>- 54,878</u>	<u>-</u>	<u>-6,115</u>
<u>2,167,430</u>	<u>176,958</u>	<u>-9,413</u>	<u>2,236,813</u>	<u>90,519</u>	<u>-6,115</u>
	<u>2,334,975</u>			<u>2,321,217</u>	
		Net Assets at 31 March			

Net gains and losses on financial instruments

31 March 2015		31 March 2016
£000		£000
Financial Assets		
179,582	Fair Value through profit and loss	-9,447
10,678	Loans and receivables	-15,508
Financial Liabilities		
-	Fair Value through profit and loss	
-	Loans and receivables	
-	Financial liabilities measured at amortised cost	-
<u>190,260</u>	Total	<u>-24,955</u>

Valuation of financial instruments carried at fair value

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

LEVEL 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

LEVEL 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

LEVEL 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based upon valuations provided by the general partners to the private equity in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2016 and 31 March 2015, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	1,738,328	399,253	154,110	2,291,691
Loans and receivables	90,519			90,519
Total Financial Assets	1,828,847	399,253	154,110	2,382,210
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-9,734	-45,144		-54,878
Financial Liabilities at amortised cost	-6,115			-6,115
Total Financial Liabilities	-15,849	-45,144	0	-60,993
Net Financial Assets	1,812,998	354,109	154,110	2,321,217

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2015	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	1,770,208	342,309	105,153	2,217,670
Loans and receivables	176,958	0	0	176,958
Total Financial Assets	1,947,166	342,309	105,153	2,394,628
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-37,354	-12,886	-	-50,240
Financial Liabilities at amortised cost	-9,413	-	-	-9,413
Total Financial Liabilities	-46,767	-12,886	-	-59,653
Net Financial Assets	1,900,399	329,423	105,153	2,334,975

16. Nature and Extent of Risk Arising From Financial Instruments

Risk and risk management

The Pension Fund's activities expose it to a variety of financial risks. The key risks are:

- i. **MARKET RISK** - the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;
- ii. **CREDIT RISK** - the possibility that other parties may fail to pay amounts due to the Fund;
- iii. **LIQUIDITY RISK** - the possibility that the Fund might not have funds available to meet its commitments to make payments.

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and maximise the opportunity for gains across the whole fund portfolio. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The administering body manages these investment risks as part of its overall Pension Fund risk management programme.

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 14. By dividing the management of the assets between a number of managers risk is further controlled. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the Investment Manager does not deviate from the Pension Fund Committee's investment strategy.

The Fund has appointed a Global Custodian that performs a range of services including collection of dividends and interest from the Investment Managers, administering corporate actions that the Pension Fund may join, dealing with taxation issues and proxy voting when requested. It also ensures that the settlement of purchases and sales of the Fund assets are completed. The Custodian has stringent risk management processes and controls. Client accounts are strictly segregated to ensure that the Fund assets are separately identifiable. Conservative investment practices are ensured by the Custodian where they invest cash collateral.

The Fund also employs a specialised service as an independent check to ensure that all dividends receivable are compared against those collected by the Custodian and that they were received on the due date; any discrepancies are investigated. In line with its Treasury Management Policy, Durham County Council as administering authority, invests the short term cash balances on behalf of the Pension Fund. Interest is paid over to the Fund on a quarterly basis.

Durham County Council's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act.

i. MARKET RISK

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The

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

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis. These risks are managed in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis to ensure that risk remains within tolerable levels;
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses, from shares sold short, is unlimited.

The Fund's Investment Managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund Investment Strategy.

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's investment advisers, an analysis of historical volatility and implied market volatility has been completed. From this, it has been determined that the potential market movements in market price risk, as shown in the following table, are reasonably possible for the 2015/16 reporting period. The analysis assumed that all other variables remain the same.

If the market price of the Fund investments were to increase/ decrease in line with these potential market movements, the value of assets available to pay benefits would vary as illustrated in the following table (the prior year comparator is also provided):

Manager	Asset type	Asset value at 31 March 2016 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen	Global equity	339,124	18.8%	402,879	275,369
Alliance Bernstein	Broad Bonds	341,874	8.0%	369,224	314,524
BNYM	Global equity	364,837	18.8%	433,426	296,248
BlackRock	DAA	371,476	8.6%	403,423	339,529
CBRE	Unlisted property	154,110	14.1%	175,840	132,380
CBRE	Listed property	31,619	20.0%	37,943	25,295
Mondrian	Emerging market equity	147,296	29.9%	191,338	103,254
RLAM	UK Index Linked Gilts	468,295	8.8%	509,505	427,085
Other	UK Equity	28	17.1%	33	23
	Loans	349	0.0%	349	349
	Cash	79,589	0.0%	79,589	79,589
	Net derivative assets	12,207	0.0%	12,207	12,207
	Net investment balances	5,947	0.0%	5,947	5,947
Total change in net investment assets available		2,316,751		2,621,703	2,011,799

Manager	Asset type	Asset value at 31 March 2015 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen	Global equity	343,880	15%	395,462	292,298
Alliance Bernstein	Broad Bonds	330,169	6%	349,979	310,359
Barings	DAA	371	8%	401	341
BNYM	Global equity	355,519	15%	408,847	302,191
BlackRock	DAA	395,918	8%	427,591	364,245
CBRE	Unlisted property	105,153	12%	117,771	92,535
CBRE	Listed property	30,097	21%	36,417	23,777
Mondrian	Emerging market equity	152,799	23%	187,943	117,655
RLAM	UK Index Linked Gilts	477,474	10%	525,221	429,727
Other	UK Equity	28	23%	34	22
	Loans	375	0%	375	375
	Cash	165,402	0%	165,402	165,402
	Net derivative liabilities	-775	0%	-775	-775
	Net investment balances	-23,203	0%	-23,203	-23,203
Total change in net investment assets available		2,333,207		2,591,465	2,074,949

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the administering authority (as part of its Treasury Management Service for investment of surplus cash), its managers, custodian and investment advisers in accordance with the Fund's risk management strategy. This includes monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2016 and the effect of a +/- 50 BPS change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset type	Asset Values at 31 March 2016 £000	Change in year in the net assets available to pay benefits	
		+50 BPS £000	-50 BPS £000
Cash and cash equivalents	79,589	398	-398
Fixed interest securities	31,708	159	-159
Total change in net investment assets available	111,297	557	-557

Asset type	Asset Values at 31 March 2015 £000	Change in year in the net assets available to pay benefits	
		+50 BPS £000	-50 BPS £000
Cash and cash equivalents	165,402	827	-827
Fixed interest securities	87,417	437	-437
Total change in net investment assets available	252,819	1,264	-1,264

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than GBP (the functional currency of the Fund). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP. The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the likely fluctuation associated with foreign exchange rate movements is expected to be 10% for developed market currencies and 15% in emerging market currencies. This is based upon the adviser's analysis of long-term historical movements in the month end exchange rates of a broad basket of currencies against the pound. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Investment Manager, to what extent a 10% (or 15% for emerging markets) strengthening/ weakening of the pound, against the various currencies in which the fund holds investments, would increase/ decrease the net assets available to pay benefits (the prior year comparator is also provided):

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at	Value on	Value on
				31 March 16	increase	decrease
				£000	£000	£000
Aberdeen	Global Equity	100%	15%	339,124	389,993	288,255
Alliance Bernstein	Broad Bonds	0%	0%	341,874	341,874	341,874
BlackRock	DAA	100%	10%	364,837	401,321	328,353
BNYM	Global Equity	100%	15%	371,476	427,197	315,755
CBRE	Global Property	100%	10%	185,729	204,302	167,156
Mondrian	Emerging market equity	100%	15%	147,296	169,390	125,202
RLAM	UK Index Linked Gilts	0%	0%	468,295	468,295	468,295
Other	UK Equity	0%	0%	28	28	28
	Loans	0%	0%	349	349	349
	Cash	0%	0%	79,589	79,589	79,589
	Net derivative assets	0%	0%	12,207	12,207	12,207
	Net investment balances	0%	0%	5,947	5,947	5,947
Total change in net investment assets available				2,316,751	2,500,492	2,133,010

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at	Value on	Value on
				31 March 15	increase	decrease
				£000	£000	£000
Aberdeen	Global Equity	94%	13%	343,880	388,584	299,176
Alliance Bernstein	Broad Bonds	0%	0%	330,169	330,169	330,169
Barings	DAA	2%	1%	371	375	367
BlackRock	DAA	5%	1%	355,519	359,074	351,964
BNYM	Global Equity	94%	13%	395,918	447,387	344,449
CBRE	Global Property	15%	2%	135,250	137,955	132,545
Mondrian	Emerging market equity	100%	19%	152,799	181,831	123,767
RLAM	UK Index Linked Gilts	0%	0%	477,474	477,474	477,474
Other	UK Equity	0%	0%	28	28	28
	Loans	0%	0%	375	375	375
	Cash	0%	0%	165,402	165,402	165,402
	Net derivative assets	0%	0%	-775	-775	-775
	Net investment balances	0%	0%	-23,203	-23,203	-23,203
Total change in net investment assets available				2,333,207	2,464,676	2,201,738

ii. CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio (except derivatives) is exposed to some form of credit risk. The Fund minimises credit risk by

undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Investment Managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the balance sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account. As at 31 March 2016, this level of exposure to the Custodian is only 2.7% of the total value of the portfolio. Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit Ratings Services. The Council's Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The cash holding under its treasury management arrangements was £17.217m as at 31 March 2016 (£54.269m at 31 March 2015). This was held with the following institutions:

	Rating	Balances as at 31 March 2016 £000	Rating	Balances as at 31 March 2015 £000
Bank Deposit Accounts				
Handelsbanken	F1+	62	F1+	1,079
Barclays	F1	1,209	F1	7,991
Santander UK Plc	F1	94	F1	7,991
Fixed Term Deposits				
Royal Bank of Scotland		0	F1	4,566
Barclays	F1	1,612	F1	0
Bank of Scotland	F1	4,836	F1	13,698
Nationwide Building Society	F1	2,014	F1	5,708
Goldman Sachs	F1	2,820	F1	6,849
Natwest Bank	F2	1,612		0
UK Local Authorities	N/A	898		0
Income Bond				
National Savings & Investments	N/A	81	N/A	228
Other				
Money Market Funds	N/A	1,979	N/A	6,159
Total		17,217		54,269

iii. LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Steps are taken to ensure that the Fund has adequate cash resources to meet its commitments. Management prepares quarterly cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund Investment Strategy and rebalancing policy.

The vast majority of the Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Fund.

Durham County Council invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The Council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system. Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, gives Durham County Council a limited power to borrow on behalf of the Pension Fund for up to 90 days. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible.

17. Analysis of Debtors

2014-15		2015-16
£000		£000
1,467	Central government bodies	1,292
8,173	Other local authorities	6,930
15,692	Other entities and individuals	18,040
<u>25,332</u>	Total debtors	<u>26,262</u>
	Included in the Net Assets Statement as:	
1,042	Long Term Assets	833
14,151	Other Investment Assets	15,681
10,139	Current Assets	9,748
<u>25,332</u>		<u>26,262</u>

The long term assets relate to the portion of the transfer value in from the Ministry of Justice for Magistrates' Courts staff which are repayable more than 12 months after the year end.

18. Analysis of Creditors

2014-15		2015-16
£000		£000
0	NHS Bodies	0
-799	Central government bodies	-815
-5,378	Other local authorities	-1,388
-40,590	Other entities and individuals	-13,646
<u>-46,767</u>	Total creditors	<u>-15,849</u>
	Included in the Net Assets Statement as:	
-37,354	Investment Liabilities - Other balances	-9,734
-9,413	Current Liabilities	-6,115
<u>-46,767</u>		<u>-15,849</u>

Included in the amount due to other local authorities in 2014/15 was a provision of £4.008m for the transfer value paid to South Tyneside Pension Fund during 2015/16. This related to the group transfer of staff from the former Wear Valley District Council who are now employed by Gentoo.

All of the £15.849m is expected to be paid by the Pension Fund within 12 months after the year end.

19. Additional Voluntary Contributions (AVCs)

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. The Pension Fund offers two types of AVC arrangement:

- Purchase of additional pension, which is invested as an integral part of the Fund's assets;
- Money purchase scheme, managed separately by Equitable Life, Standard Life and Prudential. AVCs may be invested in a range of different funds.

The following table refers only to the money purchase AVCs:

	Value at 31 March 2015 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2016 £000
Equitable Life	2,174	49	152	32	2,103
Prudential	3,849	1,131	406	35	4,609
Standard Life	1,819	389	424	-18	1,766
Total	7,842	1,569	982	49	8,478

* Purchases represent the amounts paid to AVC providers in 2015/16

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with Regulation 5(2) c of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

20. Related Party Transactions

Related parties are bodies or individuals that have the potential to control or influence the Pension Fund or to be controlled or influenced by the Pension Fund. Influence in this context is expressed in terms of a party:

- being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies; or
- actually subordinating its separate interests in relation to a particular transaction.

Related parties of the Pension Fund fall into three categories:

- a) Employer related
- b) Member related
- c) Key management personnel

a) EMPLOYER RELATED

There is a close relationship between an employer and the Pension Fund set up for its employees and therefore each participating employer is considered a related party. The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2014/15	2015/16
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£98.848m	£112.035m
Debtors	Amounts due in respect of employers and employee contributions	£10.317m	£9.396m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.370m	£1.388m
Administration & Investment Management Expenses	The administration, and a small proportion of the investment management, of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund	£1.370m	£1.388m
Long term loans	The Pension Fund made loans to Durham County Council prior to January 1974 which earn interest of between 5.75% and 9.875% pa of the outstanding balance, in addition to capital repayments	Loans outstanding £0.258m	Loans outstanding £0.239m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance and interest earned were:	Balance = £35.929m Interest = £0.155m	Balance = £51.289m Interest = £0.233m

b) MEMBER RELATED

Member related parties include:

- Members and their close families or households;
- companies and businesses controlled by the Members and their close families which have a financial contractual relationship with any of the organisations that contract with the Pension Fund.

Durham County Council and Darlington Borough Council have a number of Members who are on the Pension Fund Committee. These Members are subjected to a declaration of interest circulation on an annual basis. Each Member of the Pension Fund Committee is also required to declare their interests at the start of each meeting. There were no material related party transactions between any Members or their families and the Pension Fund.

There are three Members of the Pension Fund Committee who are in receipt of pension benefits from Durham County Council Pension Fund; a further two Members are active members of the Pension Fund.

c) KEY MANAGEMENT PERSONNEL

Related parties in this category include:

- key management i.e. senior officers and their close families;
- companies and businesses controlled by the key management of the Pension Fund or their close families.

Disclosure requirements for officer remuneration and members allowances can be found in the main accounts of Durham County Council.

There were no material related party transactions between any officers or their families and the Pension Fund.

21. Contingent Assets

a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS

Originally equal pay settlements were not deemed to be pensionable however, an element of choice has since been introduced. Individuals can choose to have their settlements considered to be pensionable. This provision has now been added to the agreements that individuals with pending equal pay settlements sign.

There is no certainty that an individual will pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain. The level of contributions likely to be received by the Pension Fund, are unlikely to have a material effect on the Pension Fund Accounts.

b) FOREIGN INCOME DIVIDENDS (FIDs)

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or dividends from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies. The UK tax law which gave rise to these consequences was arguably contrary to EU law, notably Article 56EC, in that it treated UK Pension Funds investing directly into overseas companies, or UK companies paying FIDs, less favourably than UK companies paying ordinary dividends.

The legal arguments to support the strongest element of the FID and Manninen type claims (for EU sourced dividends and FIDs) are considered to be very good. The points in

issue are currently being considered at the High Court via a Group Litigation Order containing over 65 UK Pension Funds, including Durham County Council Pension Fund.

c) WITHHOLDING TAX (WHT) CLAIMS

Pension funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in December 2004 on the grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty. The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future. Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a "withholding tax" (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

As a result of a precedent for the change in WHT has been set by the Netherlands, other Member States have now reduced the level of WHT of non-residents; recovery is therefore probable, but the timing and amount of income is uncertain.

22. Funding Arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2013. The next valuation will take place as at 31 March 2016.

The key elements of the funding policy are to:

- ensure the long term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- ensure that employer contribution rates are as stable as possible;
- minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

At the 31 March 2013 actuarial valuation, the Fund was assessed as being 84% funded (80% at 31 March 2010). This corresponded to a deficit of £379.2m (£418.1m at 31 March 2010).

The aim is to achieve 100% solvency over a period of 18 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. The required level of contributions to be paid into the Fund by participating bodies (in aggregate) with effect from 1 April 2014 is 13.7% of pensionable pay plus additional monetary amounts of £24.3m in 2014/15 and increasing by 3.9% p.a. thereafter. (In 2013/14 the aggregate employer contribution rate was 13.1% of pensionable pay plus an additional sum of £29.9m).

The key assumptions used by the actuary to calculate the past service liabilities and the cost of future benefit accrual are set out in the following table:

	Valuation as at 31 March 2013	Valuation as at 31 March 2010
Financial Assumptions		
Discount rate for periods in service	5.4% pa	6.8% pa
Discount rate for periods after leaving service	5.4% pa	6.8% pa
Rate of revaluation of pension accounts	2.4% pa	n/a
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.4% pa	3.3% pa
- post 1988 Guaranteed Minimum Pensions	2.0% pa	2.7% pa
Pensionable pay increase	3.9% pa	5.3% pa
Demographic Assumptions		
Post-retirement mortality assumption (normal health) - base table	SAPS normal tables with scaling factors of 105% for men and women	SAPS normal tables with scaling factors of 105% for men and women
Post-retirement mortality assumption - future improvements	CMI 2012 core projections with long annual improvement rate of 1.5%	CMI 2012 core projections with long annual improvement rate of 1.25%
Retirement cash sum	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted	Each member assumed to exchange 80% of their future service pension rights and 60% of their past service pension rights for additional lump sum of the maximum amount permitted

23. Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 22 to these accounts).

The Pension Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2013.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2010 are provided for comparison purposes.

	Value as at 31 March 2013 £m	Value as at 31 March 2010 £m
Fair value of net assets	2,085	1,682
Actuarial present value of the promised retirement benefits	2,905	2,833
Surplus / -deficit in the Fund as measured for IAS26 purposes	-820	-1,151

As the liabilities above are calculated on an IAS 19 basis, they differ from those calculated for the triennial valuation because different assumptions are applied. The main IAS19 assumptions used are as follows:

	31 March 2013 (% p.a.)	31 March 2010 (% p.a.)
Discount rate	4.4	5.5
RPI Inflation	3.4	3.9
CPI Inflation	2.4	3.0
Rate of increase to pensions in payment *	2.4	3.9
Rate of increase to deferred pensions *	2.4	3.9
Rate of general increase in salaries **	3.9	5.4

In excess of Guaranteed Minimum Pension increases in payment where appropriate
In addition, we have allowed for the same age related promotional salary scales as used in the actuarial valuation of the Fund at the appropriate date

24. Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a Funding Strategy Statement. The Funding Strategy Statement has been adopted by the Pension Fund Committee and is published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the County Council's website at durham.gov.uk. The Funding Strategy Statement has been reviewed and updated by the Pension Fund Committee during 2015/16.

The purpose of the Funding Strategy Statement is to:

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

25. Statement of Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009, the Pension Fund has prepared and reviewed a written statement of its investment policy. This statement has been adopted by the Pension Fund Committee and is published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the Council's website at durham.gov.uk. The Statement of Investment Principles sets out the principles for investing Fund monies. It was reviewed by the Pension Fund Committee during 2015/16.

Accounting Period

The period of time covered by the Statement of Accounts, normally 12 months starting on 1 April. The end of the period is the Net Assets Statement date.

Accounting Policies

The principles, conventions, rules and practices applied that specify how transactions and other events should be reflected in the financial statements.

Accounting Standards

Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements and accordingly compliance with accounting standards will normally be necessary for financial statements to give a true and fair view.

Accruals

The concept that income, and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Actuary

An actuary is an expert on pension scheme assets and liabilities. Every three years, the Actuary for the Local Government Pension Scheme determines the rate of employer contributions due to be paid to the Pension Fund.

Actuarial Basis

The technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements.

Actuarial Gains

These may arise on a defined benefit pension scheme's liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).

Actuarial Losses

These may arise on a defined benefit pension scheme's liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

Added Years

Additional years of service awarded discretionally to increase the benefits to employees taking early retirement.

Additional Voluntary Contributions (AVCs)

An option available to individuals to secure additional pension benefits by making regular payments in addition to the contributions payable to the Pension Fund on basic earnings.

Admitted Bodies

Organisations that take part in the Local Government Pension Scheme with the agreement of the Pension Fund. Examples of such bodies are companies providing services that were once provided by local authorities in the Pension Fund.

Apportionment

A way of sharing costs using an appropriate method, e.g. floor area for an accommodation-related service.

Appropriation

The transfer of sums to and from reserves, provisions, and balances.

Asset Allocation

The distribution of the Fund's assets between asset classes and/ or world markets.

Audit of Accounts

An independent examination of the Pension Fund's financial affairs.

Balanced Management

A type of multi-asset management where a manager is responsible for all asset classes. A fund using this style is a "balanced" fund.

Benchmark

A yardstick against which the investment policy or performance can be compared.

Bonds

A type of investment in certificates of debt issued by the government of a company. These certificates represent loans which are repayable at a future specified date with interest.

BPS (Basis points)

One basis point is a unit equal to one hundredth of a percentage point.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The principal accountancy body dealing with local government finance.

Code

The Code of Practice on Local Authority Accounting. A publication produced by CIPFA constituting proper accounting practice for Local Authorities.

Contingent Asset

Potential benefits that the Pension Fund may reap in the future due to an event that has happened in the past.

Contingent Liabilities

Potential costs that the Pension Fund may incur in the future due to something that has happened in the past.

Corporate Governance

The promotion of corporate fairness, transparency and accountability. The structure specifies the responsibilities of all stakeholders involved and the rules and procedures for making decisions.

Creditors

Persons or bodies to whom sums are owed by the Pension Fund.

Custody

Safe-keeping of securities by a financial institution. The Custodian keeps a record of client investments and may also collect income, manage cash, process tax claims and provide other services according to client instructions.

Debtors

Persons or bodies who owe sums to the Pension Fund.

Deferred Pension

The inflation-linked retirement benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before normal retirement age.

Defined Benefit Scheme

Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

Derivative

Contracts that derive their value from an underlying financial asset. Often used as a hedge against changes in value.

Dividend

Part of a company's after tax earnings, distributed to shareholders in the form of cash or shares.

Equities

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

Fair Value

The value for which an asset can be exchanged or a liability can be settled in a market related transaction.

Financial Instrument

A contract that gives rise to a financial asset in one entity and a financial liability, or equity instrument, in another.

Fitch

Fitch Ratings is a rating agency providing credit ratings research and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Fixed Interest Securities

Investments in government (in the main) and company stocks which guarantee a fixed rate of interest. The securities represent loans that are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

FIDs and Manninen

A claim has been lodged for Durham County Council Pension Fund and other Pension Funds for repayment of tax credits overpaid on Foreign Income Dividends (FIDs) and other dividends, referred to by name of the person whose case set the precedent, Manninen.

Futures

A contract made to purchase or sell an asset at an agreed price on a specified future date.

Gilts

The familiar name given to sterling, marketable, fixed interest securities or bonds issued by the British Government.

Impairment

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical or deterioration in the quality of the service provided by the asset. A general fall in prices of a particular asset or type of asset is treated as a revaluation.

Index Linked Securities

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

Investment

An asset which is purchased with a view to making money by providing income, capital appreciation, or both.

Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arms length.

LAAP Bulletin

CIPFA's Local Authority Accounting Panel (LAAP) periodically issues bulletins to local authority practitioners, providing guidance on topical issues and accounting developments and, when appropriate, clarification on the detailed accounting requirements.

Liabilities

An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

Managed Fund

A type of investment where a number of investors pool their money into a fund, which is managed by a professional fund manager.

Market Value

The monetary value of an asset as determined by current market conditions.

Materiality

An expression of the relative significance of a particular issue in the context of the organisation as a whole.

Mid-market price

The mid-point between the bid price and the offer price for a security based on quotations for transactions of normal market size by recognised market-makers or recognised trading exchanges.

Minority Interest

The interest in a subsidiary entity that is attributable to the share held by, or on behalf of persons other than the reporting authority.

Moody's

Moody's Investor Service is a rating agency, providing credit ratings, research, and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Myners' Principles

A set of principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

Net Realisable Value

The expected sale price of stock in the condition in which it is expected to be sold. This may be less than cost due to deterioration, obsolescence or changes in demand.

Non Current Assets

Tangible or intangible assets that yield benefits to the authority and the services it provides for a period of more than one year. Tangible assets have physical substance, for example land, buildings and vehicles. Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

Passive Management

A style of management that seeks to achieve performance equal to market or index returns.

Portfolio

A number of different assets considered and managed as a whole by an investment manager, to an agreed performance specification.

Prior Period Adjustment

Those material adjustments relating to prior years' accounts, that are reported in subsequent years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

Provisions

Provisions represent sums set aside to meet any specific future liabilities or losses arising from contractual obligations or as a result of past events. These events are likely or certain to be incurred and a reliable estimate can be made of the amount of the obligation.

Prudential Code

The Government removed capital controls on borrowing and credit arrangements with effect from 1st April 2004 and replaced them with a Prudential Code under which each local authority determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators on an annual basis.

Public Works Loans Board (PWLB)

A government agency providing long and short-term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.

Return

The total gain from holding an investment over a period, including income, and increase or decrease in market value.

Risk

Risk is the variability of returns. Investments with a greater risk usually promise higher investment returns.

Scheduled Bodies

County and Borough Councils and other similar bodies whose staff automatically qualify to become members of the Pension Fund.

Section 151 Officer

The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the County Council and the preparation of the County Council's Statement of Accounts.

Statements of Recommended Accounting Practice (SORP)

A publication produced by CIPFA, recognised by the Accounting Standards Board (ASB), that provides comprehensive guidance on the content of the County Council's Statement of Accounts.

Transfer Values

Amounts paid to or received from other local and public authorities, private occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Treasury Management Policy and Strategy

A plan outlining the approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year and is published annually in the Medium Term Financial Plan document.

Unit Trusts

A unit trust is a pooled fund in which small investors can buy and sell units. The pooled fund purchases investments and the returns are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

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Pension Fund Committee

08 September 2016



**Internal Audit Progress Report to
30 June 2016**

**Report of Paul Bradley, Chief Internal Auditor & Corporate Fraud
Manager**

Purpose of the report

- 1 To outline progress made in delivering the 2016/17 internal audit plan relevant to the Pension Fund Committee, including:
 - Providing a high level of assurance, or otherwise, on internal control systems operated in the areas that have been subject to audit;
 - Advising on any significant issues where controls need to improve in order to effectively manage risks;
 - Advising of any other types of audit work carried out, such as consultancy reviews where an assurance opinion on the control environment may not be applicable;
 - Advising of any unplanned work carried out or due to be carried out and any changes to the audit process.

Progress against 2016/17 planned work

- 2 A summary of the approved audit plan, with the status of each audit, is shown below:

Audit Title	Audit Type	Status	Opinion
Audits b/f from 2015/16			
Payroll and Pensions	Assurance	Final	Substantial
2016/17 audits			
Transfers in/out	Assurance	TOR issued – Planned for Q2	
Benefit Calculations	Assurance	TOR issued – Planned for Q2	
Bank Reconciliation	Assurance	Not yet started – Planned for Q3	
Debt Recovery	Assurance	Not yet started – Planned for Q4	
National Fraud Initiative – Data matching to identify potential error/fraud	Advice/Consultancy	Not yet started – Planned for Q3	
Ad hoc advice & guidance	Advice/Consultancy	In Progress	

3 A summary of the final report issued in the first quarter is given below:

Audit Area	Brief Scope	Assurance Opinion
Payroll and Pensions	Assurance review of the arrangements in place to mitigate against the risks of; <ul style="list-style-type: none">- The identity of employees and appropriateness for the posts not being confirmed- Ex-employees continuing to receive payments or final payments being incorrectly calculated- Payments made which are not authorised, have been incorrectly calculated or incorrectly input- Salary payments not being made	Substantial

4 There were no significant control issues raised within the Payroll and Pensions final report.

Recommendation

5 Members are asked to note the work undertaken by Internal Audit during the period ending 30 June 2016 and the updated assurance on the control environment provided within the Pensions Service.

Contact: Paul Monaghan Tel: 03000 269662

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of the Local Government Act 1972.

Agenda Item 12

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Agenda Item 13

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