



Pension Fund Committee

Date Monday 5 June 2017
Time 10.00 am
Venue Council Chamber, County Hall, Durham

Business

Part A

**Items during which the Press and Public are welcome to attend.
Members of the Public can ask questions with the Chairman's
agreement.**

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 7 March 2017 (Pages 5 - 12)
4. Overall Value of Pension Fund Investments to 31 March 2017 (Pages 13 - 18)
5. Performance Measurement of Pension Fund Investments to 31 March 2017 (Pages 19 - 30)
6. Investment of the Pension Fund's Cash Balances (Pages 31 - 34)
7. Short Term Investments for the Period Ended 31 March 2017 (Pages 35 - 36)
8. Statement of Accounts for the Year Ended 31 March 2017 (Pages 37 - 84)
9. Internal Audit Progress Report to 31 March 2017 (Pages 85 - 86)
10. Investment Pooling Update (Pages 87 - 90)
11. Valuation Report (Pages 91 - 146)
12. Feedback from Local Pension Board

13. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration
14. 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)

15. Investment Strategy Review Update (Pages 147 - 152)
16. The Minutes of the Meeting held on 7 March 2017 (Pages 153 - 160)
17. Report of the Pension Fund Adviser (Pages 161 - 198)
18. Report of Walter Scott (BNY Mellon) (Pages 199 - 206)
19. Report of Aberdeen Asset Management (Pages 207 - 230)
20. Report of Mondrian Investment Partners (Pages 231 - 236)
21. Report of AB (Pages 237 - 254)
22. Report of CBRE Global Investment Partners (Pages 255 - 262)
23. Report of Royal London (Pages 263 - 266)
24. Report of BlackRock (Pages 267 - 282)
25. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Clare Pattinson

Interim Head of Legal and Democratic Services

County Hall
Durham
25 May 2017

To: The Members of the Pension Fund Committee

County Council Members:

Councillors M Davinson, O Temple, J Atkinson, C Carr, J Carr, J Lethbridge, H Little, S Hugill, J Nicholson, J Shuttleworth and M Wilson

Darlington Borough Council Members

Councillor S Harker
Councillor I G Haszeldine

Scheduled Bodies Representative

(vacant)

Admitted Bodies Representative:

(vacant)

Pensioner Representative

D Ford

Active Members Representative

(vacant)

Further Education Colleges Representative

(vacant)

Advisers: County Council Officers

Chief Executive	T Collins
Corporate Director of Resources	J Hewitt
Interim Head of Legal and Democratic Services	C Pattinson
Pensions Manager	N Orton

Independent Adviser

J Holden – Mercer

Investment Managers

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

Staff Observers

UNISON	N Hancock
GMB	D Clegg

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Committee Room 2, County Hall, Durham on **Tuesday 7 March 2017 at 10.00 am**

Present:

Councillor A Turner (Chairman)

Members of the Committee:

Councillors W Stelling (Vice-Chairman), J Alvey, M Davinson, B Kellett, J Lethbridge, J Lindsay and N Martin

Darlington Borough Council

Councillor S Harker

Admitted Bodies Representative

John Norton

Pensioner Representative

David Ford

Also Present:

John Hewitt – Corporate Director of Resources

Nick Orton – Pensions Manager

Beverley White – Finance Manager – Pensions and Technical

Bryan Smith – Legal Manager – Litigation

Independent Adviser

Sandy Dickson – Mercer

Observers

Councillor A Hopgood – Chair, Local Pension Board

Neville Hancock - UNISON

Prior to the commencement of business the Chairman explained that this was the last meeting for Councillor Nigel Martin and Admitted Bodies representative John Norton as they were both retiring, and expressed thanks for their valuable contribution to the work of the Committee.

1 Apologies for Absence

Apologies for absence were received from Councillors C Carr and J Maitland.

2 Declarations of Interest

Councillors M Davinson and W Stelling advised that they were Members of the Audit Committee.

3 Minutes

The Minutes of the meeting held on 8 December 2016 were agreed as a correct record and were signed by the Chairman.

4 Overall Value of Pension Fund Investments to 31 December 2016

The Committee considered a report of the Corporate Director of Resources which informed Members of the overall value of the Pension Fund as at 31 December 2016, and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers (for copy see file of Minutes).

Following a question from Councillor Martin, Nick Orton explained that set up costs in relation to the pooling of investments were shared between all authorities in the Partnership and were not reflected in the cash flow position.

Resolved:

That the information contained in the report be noted.

5 Performance Measurement of Pension Fund Investments to 31 December 2016

The Committee considered a report of the Corporate Director of Resources which provided an overview of the performance of the Fund to 31 December 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 be noted.

6 Short Term Investments for the Period Ended 31 December 2016

The Committee considered a report of the Corporate Director of Resources which provided Members with information on the performance of the Pension Fund's short term investments as at 31 December 2016 (for copy see file of Minutes).

Councillor Davinson was pleased to note that the average return earned for the quarter was above the Bank of England base rate.

Resolved:

That the position as at 31 December 2016 regarding the Pension Fund's short term investments where £9,262 net interest was earned in the three month period be noted.

7 Pension Fund Policy Documents - Funding Strategy Statement and Investment Strategy Statement

The Committee considered a report of the Corporate Director of Resources which informed Members of the draft revised Funding Strategy Statement (FSS) and the new Investment Strategy Statement (ISS) which were currently out to consultation with Pension Fund employers (for copy see file of Minutes).

Councillor Kellett noted that the report referred to 'undue risks' and asked how this was defined. Whilst there was no clear definition Nick Orton explained that all risks were carefully examined and 'undue' risks were mitigated against on advice from the Independent Advisers.

Resolved:

That

- a) The content of the report be noted and;
- b) the Corporate Director of Resources be authorised to finalise the wording of the FSS and ISS, where appropriate, taking into account any comments received from employers, and to publish the final versions by 31 March 2017.

8 Agreement of Accounting Policies for Application in the 2016/17 Financial Statements of the Pension Fund

The Committee considered a report of the Corporate Director of Resources which informed Members of the accounting policies to be applied in the preparation of the 2016/2017 Final Accounts and sought confirmation from the Committee that appropriate policies were being applied (for copy see file of Minutes).

Resolved:

That having reviewed the accounting policies, the Pension Fund Committee:-

- a) approved the use of the policies in the preparation of the 2016/2017 financial statements for the Pension Fund;
- b) authorised the Corporate Director of Resources to revise the accounting policies as necessary and report any significant changes to the Committee.

9 Internal Audit Plan 2017/2018

The Committee considered a report of the Corporate Director of Resources which presented the proposed Annual Audit Plan for 2017/2018 (for copy see file of Minutes).

The proposed Plan was set out in the report and had been developed following discussions between officers from Internal Audit and officers with responsibility for the Pension Fund using the strategic audit plan as the basis for discussion.

Resolved:

That the proposed Audit Plan for 2017/2018 be approved.

10 Audit Strategy Memorandum for Year Ended 31 March 2017

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 2016/2017 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.

11 Terms of Reference - Annual Review

The Committee considered a report of the Corporate Director of Resources which reviewed the Terms of Reference for the Pension Fund Committee (for copy see file of Minutes).

Resolved:

That the Terms of Reference as detailed in Appendix 1 be accepted and reviewed at least on an annual basis.

12 Guaranteed Minimum Pension Reconciliation Exercise Between Pension Fund Records and Her Majesty's Revenue and Customs

The Committee considered a report of the Corporate Director of Resources which informed Members of the requirement for the Pension Fund to carry out an exercise to reconcile its records with those held by HM Revenue and Customs, and to

explain the potential costs and consequences associated with this (for copy see file of Minutes).

Following questions from Councillor Harker and Councillor Lethbridge, Nick Orton confirmed that examining the evidence to resolve discrepancies could potentially involve considerable administrative work. The timescales for completing the reconciliation exercise would depend upon the work involved in resolving the discrepancies.

Resolved:

That the content of the report be noted and the Corporate Director of Resources be authorised to commit additional resource to the GMP reconciliation exercise as necessary, which would be charged as a general Pension Fund administration expense.

13 The UK Stewardship Code and Local Authority Pension Fund Forum (LAPFF) Membership

The Committee considered a report of the Corporate Director of Resources which recommended that the Pension Fund works with its investment adviser and fund managers to ensure that it could become a signatory to the UK Stewardship Code. As part of this process it was also recommended that the Pension Fund pays an annual subscription to become a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative shareholder engagement group for local authority pension funds (for copy see file of Minutes).

Members supported the proposal for membership of the LAPFF, given the benefits of membership which were outlined in the report.

Resolved:

That

- a) approval be granted for the Pensions Manager to work with the Pension Fund's investment adviser and fund managers to ensure the Pension Fund can become a signatory to the UK Stewardship Code;
- b) approval be granted for the Pension Fund to pay an annual subscription to become a member of the Local Authority Pension Fund Forum.

14 Investment Pooling Update

Nick Orton provided an update on progress regarding the pooling of investments. The County Council at its meeting on 22 February 2017 had agreed to:-

- (a) be a member of the Border to Coast Pensions Partnership and to adopt its arrangements;

- (b) enter into the Inter-Authority Agreement between the Council and the Administering Authorities of the other Pool Funds;
- (c) enter into the Shareholder Agreement between the Council and the Administering Authorities of the other Pool Funds and Border to Coast Pensions Partnership Limited;
- (d) the Articles of Association to be adopted by Border to Coast Pensions Partnership Limited;
- (e) the establishment of the Border to Coast Pensions Partnership Joint Committee as a formal Joint Committee under section 102 of the Local Government Act 1972 and to carry out the functions as set out in the Inter-Authority Agreement;
- (f) approve the subscription by the Durham County Council Pension Fund of 1 Class A voting share in the asset management company, Border to Coast Pensions Partnership Limited;
- (g) nominate the Chair of the Pension Fund Committee or such other person determined by the Pension Fund Committee from time to time to vote this shareholding;
- (h) approve the subscription by the Durham County Council Pension Fund for such number of Class B non-voting shares in the Border to Coast Pensions Partnership Limited as shall be necessary to ensure that the Council contributes by way of equity one twelfth of the minimum regulatory capital requirement of the company as determined by the requirements of the Financial Conduct Authority;
- (i) appoint the Chair of the Pension Fund Committee or such other person determined by the Pension Fund Committee from time to time to represent the Council on behalf of the Fund at the Border to Coast Pensions Partnership Joint Committee meetings;
- (j) make the consequential changes required to the Constitution to reflect these new arrangements;
- (k) authorise the Corporate Director Resources in consultation with the Monitoring Officer to finalise the approval and execution, where required, of all legal documents necessary to give effect to the above decisions.

The report was to be considered by the other 11 authorities in the pool by 22 March 2017, and subject to approval by each authority the company should be created towards the end of the month.

Resolved:

That the information given be noted.

15 Feedback from Local Pension Board

Councillor Hopgood, the Chair of the Local Pension Board explained that as part of its Work Plan the Board, at its meeting that day, would be reviewing member and employer communications, and reviewing internal dispute cases and Pensions Ombudsman cases.

At its last meeting the Board had discussed the role of Pension Fund Committee Members, particularly in view of the local elections in May 2017 which may result in a change in membership of the Committee. It was important to consider the technical knowledge, expertise and skills required of Members and the importance of training when appointments were made to the Committee.

Resolved:

That the information given be received.

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Pension Fund Committee

5 June 2017

Overall Value of Pension Fund Investments to 31 March 2017



John Hewitt, Corporate Director Resources

Purpose of the Report

1. To inform Members of the overall value of the Pension Fund as at 31 March 2017 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
- AB
- BlackRock
- Bank of New York Mellon (Walter Scott)
- CB Richard Ellis
- Mondrian
- Royal London

are included in other papers within this agenda. The value of the Fund at 31 March 2017 was £2 billion, 680.74 million.

3. The value of the Fund as at 31 December 2017 was £2 billion, 584.02 million. The value of the fund therefore increased by £96.72 million in the fourth quarter of 2016/17.

Allocation of New Investment Money/ Withdrawal of Investment Money to Deal with Estimated Shortfall

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. As at 31 March 2017 the cash balance held in the Durham County Council Pension Fund Bank Account was

£8.638 million. In addition to this, not included in this table, Investment Managers were holding cash of £31.52 million at 31 March 2017.

Cash Flow Forecast 2017/18

7. Appendix 2 shows the projected cash flow for the Pension Fund for the period April 2017 to June 2018. It should be noted that this is only in respect of cash held in the Pension Fund bank account and that income earned from investments is currently retained by Managers.
8. This table shows that over the forecast period the Pension Fund is estimated to be in surplus only in the quarter ending 30 June 2017; in all of the following quarters, payments are expected to exceed receipts.
9. The surplus in the first quarter of 2017/18 is due to the lump sums received in April 2017 from Durham County Council and Darlington Borough Council in respect of their three year deficit contributions.
10. The following assumptions have been used to calculate the cash flow forecast:
 - (i) Dividend income receivable in 2017/18 is estimated to be £28 million and is profiled to be received as follows:

• Quarter ended 30 June 2017	17%
• Quarter ended 30 September 2017	33%
• Quarter ended 31 December 2017	24%
• Quarter ended 31 March 2018	26%
 - (ii) Increases in contributions are included in line with the Actuarial Valuation.
 - (iii) Transfer values due in are estimated at £0.5 million per quarter. It is anticipated that transfers in will continue as the LGPS remains relatively attractive to employees.
 - (iv) Payroll Paysheets (payments to pensioners) are forecast to increase by £0.2 million per quarter. This figure will alter if there are large numbers of retirements from 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.
 - (v) Payable Paysheets are forecast on the basis of the previous year's profile and 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.

11. Appendix 2 provides an early indication of the likely impact on the Pension Fund's cash flow position over the next 15 months. It is continuously under review and will be refined to take any new information into account as it becomes available.

Fund Rebalancing

12. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to Investment Managers is maintained at the target levels previously agreed by the Pension Fund Committee and as set out in the Investment Strategy Statement (ISS). It is also the means by which cash is moved to or from Managers as a consequence of the cash flow forecasts.
13. Following receipt of the lump sum deficit payments from Durham County and Darlington Borough Councils, and having taken advice from the Fund's investment adviser, Mercer, £32 million was distributed to AB on 7 April 2017.
14. There will be no further rebalancing of the Fund this quarter.
15. Following the recent triennial valuation carried out by the Fund's Actuary, now is the time for the Pension Fund to review its investment strategy to ensure that the composition of the investments is appropriate to achieve the level of returns necessary and that future contributions remain affordable.
16. Officers from the Council and Mercer have already started discussing options for the Fund's long term strategic asset allocation; there is an update report from Mercer included in today's agenda.
17. Prior to a decision being made on the revised asset allocation, strict rebalancing of assets back to the exact target allocations as set out in the ISS is suspended.

Recommendation

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

Contact: Beverley White Tel: 03000 261900

Actual Cash Flow – For the period 1 April 2016 to 31 March 2017

Quarter Ended	30.06.16		30.09.16		31.12.16		31.03.17	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	£	£	£	£	£	£	£	£
Income								
Contributions - DCC	16,650,000	16,929,884	16,650,000	16,749,648	16,650,000	14,632,881	16,650,000	17,930,972
Contributions - Other	7,800,000	8,801,635	8,200,000	8,408,381	8,200,000	8,426,440	8,200,000	8,245,096
Unfunded pensions recharges	1,120,000	824,479	1,120,000	1,533,757	1,120,000	1,143,127	1,120,000	1,153,285
Transfer Values	500,000	147,693	500,000	286,031	500,000	2,316,672	500,000	1,836,603
Other income	1,000,000	2,781,473	2,000,000	2,624,429	2,000,000	2,704,997	2,000,000	2,801,351
Funds recovered from Managers	0	17,000,000	10,000,000	10,198,377	30,000,000	30,000,000	0	0
Interest on short term investments	20,000	19,395	30,000	24,827	15,000	9,262	3,500	5,255
Total Income	27,090,000	46,504,559	38,500,000	39,825,450	58,485,000	59,233,380	28,473,500	31,972,562
Expenditure								
Payroll Paysheets	22,700,000	22,981,433	22,800,000	23,211,460	23,400,000	23,518,193	23,600,000	23,494,968
Payables Paysheets (incl. Managers' fees)	10,000,000	12,117,843	11,000,000	11,170,473	11,000,000	11,362,602	11,000,000	11,828,106
Funds transferred to Managers	2,760,000	520,000	4,920,000	13,895,000	30,000,000	30,000,000	0	0
Other Expenditure	0	12,394	0	1,115	0	851	0	15,268
Total Expenditure	35,460,000	35,631,670	38,720,000	48,278,048	64,400,000	64,881,646	34,600,000	35,338,342
Surplus / (-) Deficit	-8,370,000	10,872,889	-220,000	-8,452,598	-5,915,000	-5,648,267	-6,126,500	-3,365,780
Balance at Bank (opening)		17,904,838		27,554,055		18,648,105		12,526,070
Balance at Bank (closing)		27,554,055		18,648,105		12,526,070		8,638,064

Projected Cash Flow – Including forecasted dividends receivable by Fund Managers for the period 1 April 2017 to 30 June 2018

Quarter Ended	30.06.17	30.09.17	31.12.17	31.03.18	30.06.18
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Income					
Contributions - DCC	12,450,000	13,040,000	13,040,000	13,040,000	13,040,000
Contributions - DCC & Darlington BC Deficit	65,176,000	995,000	995,000	995,000	1,030,000
Contributions - Other	7,955,000	8,110,000	8,110,000	8,110,000	8,423,000
Unfunded pensions recharges	1,131,000	1,131,000	1,131,000	1,131,000	1,154,000
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	0	0	0	0	0
Interest on short term investments	9,000	12,000	7,000	1,000	0
Total Income	89,221,000	25,788,000	25,783,000	25,777,000	26,147,000
Expenditure					
Payroll Paysheets	23,800,000	24,000,000	24,200,000	24,400,000	24,600,000
Payables Paysheets (incl. Managers' fees)	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Funds transferred to Managers	32,000,000	0	0	0	0
Other Expenditure	1,000	1,000	1,000	1,000	1,000
Total Expenditure	66,801,000	35,001,000	35,201,000	35,401,000	35,601,000
Surplus / (-) Deficit	22,420,000	-9,213,000	-9,418,000	-9,624,000	-9,454,000
Balance at Bank (opening)	8,638,064	31,058,064	21,845,064	12,427,064	2,803,064
Balance at Bank (closing)	31,058,064	21,845,064	12,427,064	2,803,064	-6,650,936
Dividends Received by Managers	4,760,000	9,240,000	6,720,000	7,280,000	4,760,000
Net Cash Flow Position	27,180,000	27,000	-2,698,000	-2,344,000	-4,694,000

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**Pension Fund Committee
5 June 2017**



**Performance Measurement of
Pension Fund Investments to 31
March 2017**

John Hewitt, Corporate Director Resources

Purpose of the Report

- 1 To provide an overview for Members of the performance of the Fund to 31 March 2017.

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:
 - (i) The Managers benchmarks;
 - (ii) The total Fund performance, for the quarter to 31 March 2017, year to date and since inception;
 - (iii) The Managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter to 31 March 2017, year to date and since inception;
 - (iv) A portfolio comparison for the quarter ended 31 March 2017 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

***Durham Quarterly Report
Report Package***

Published 05-May-2017 05:19:53

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Index and Benchmark Report - Monthly Durham CC (UK005) As at March 2017

Name	Month Return
Business Unit Indices	
Equities	
FT-All Share +3%	1.48
FTSE-Ftse All-Share (Gross)	1.23
FTSE-Ftse Aw Developed (Gross)	0.72
MSCI AC World Index (Gross) + 2.5%	1.01
MSCI AC World Index (Gross) + 3%	1.05
MSCI EM (Emerging Markets) (Net)	2.03
MSCI EM (Emerging Markets) (Net) + 2.5%	2.24
MSCI-Acwi (Gross)	0.80
MSCI-Em (Emerging Markets) (Gross) + 2.5%	2.26
MSCI-World (Gross)	0.65
Fixed Income	
British Gov Index Linked over 5 Yr + 0.5%	0.71
Cash And Cash Equivalent	
3 MONTH GBP LIBOR	0.03
3Month GBP Libor +4%	0.36
3Month libor in GBP plus 3%	0.28
GBP Zero Return Index	0.00
RPI + 5%	0.74
Retail Price Index (UK)	0.34

Executive Summary
Durham CC (UK005)
As of March 2017
Gross of Fee
Total Fund Composite (0UK00501)

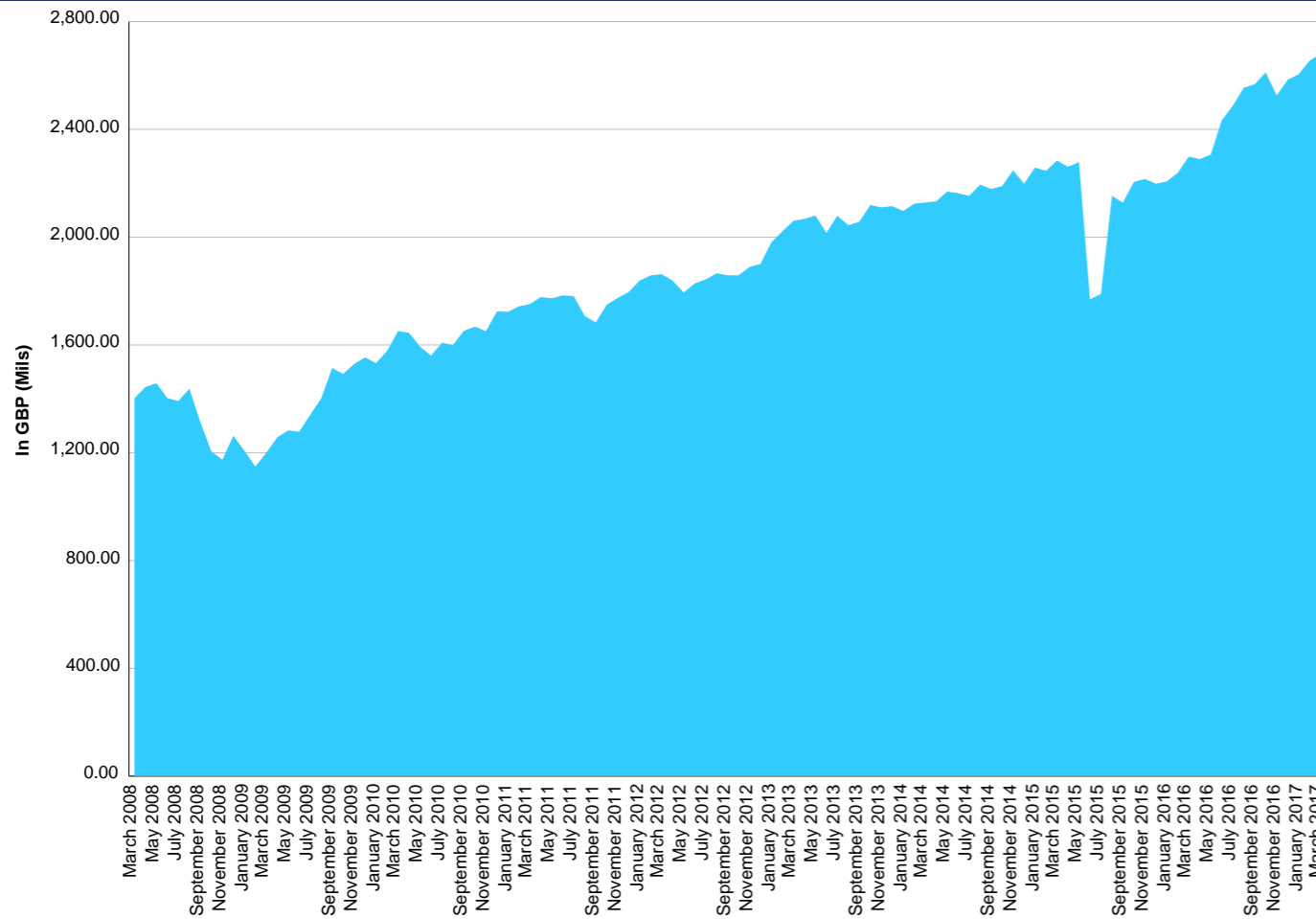
Market Value Overview

	In GBP (Mils)				
	March 2017	December 2016	September 2016	June 2016	March 2016
Market Value	2,680.74	2,584.02	2,567.52	2,433.49	2,299.09
Net Cash Flow	(0.10)	(0.23)	3.70	(16.48)	19.06
Net Income / Appreciation	96.82	16.73	130.33	150.88	81.72

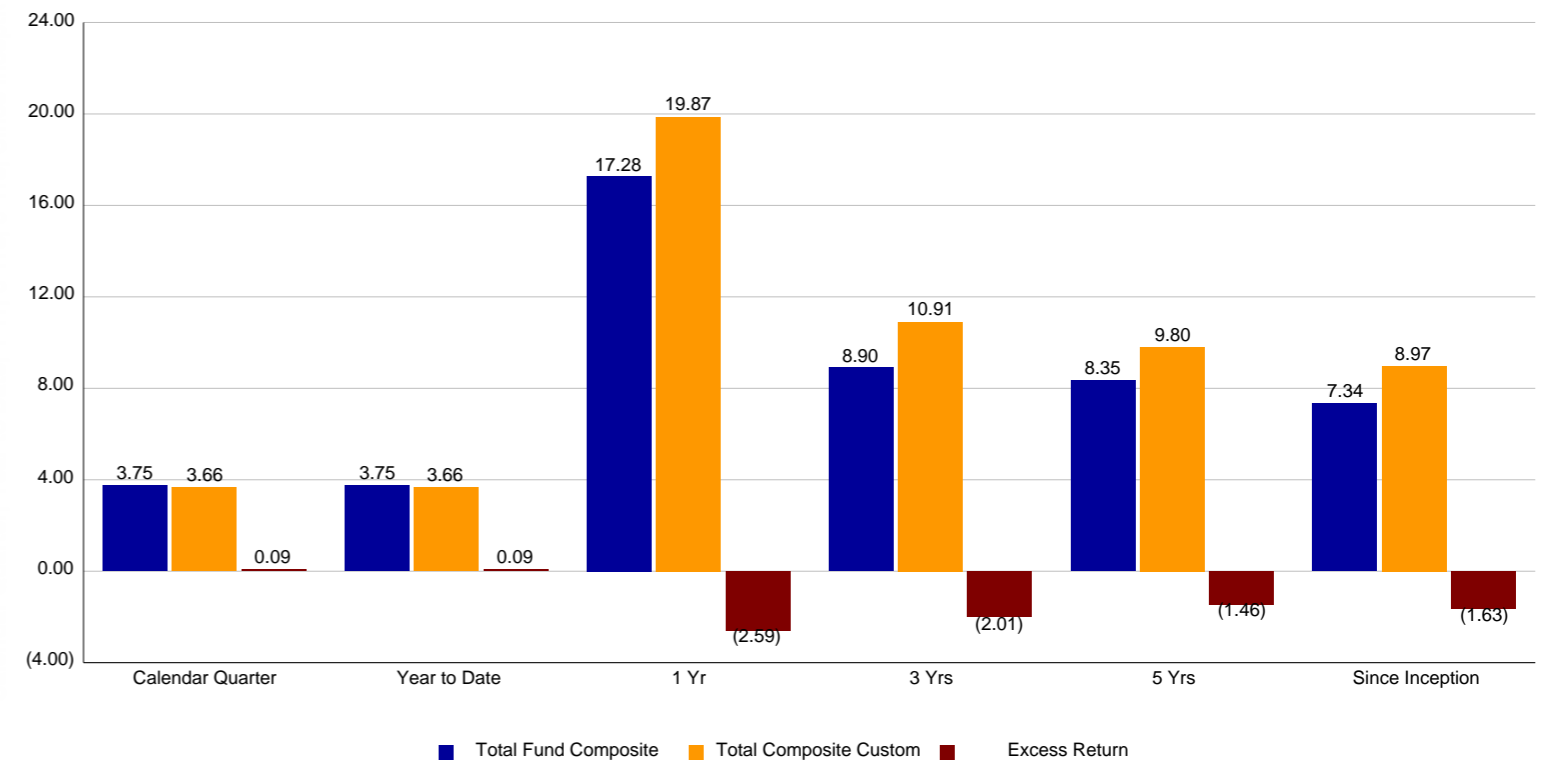
Performance Overview

	Performance (Annualised > 1 Year)					
	Calendar Quarter	Year to Date	1 Yr	3 Yrs	5 Yrs	Since Inception
Total Fund Composite	3.75	3.75	17.28	8.90	8.35	7.34
Total Composite Custom	3.66	3.66	19.87	10.91	9.80	8.97
Excess Return	0.09	0.09	(2.59)	(2.01)	(1.46)	(1.63)

Development of Market Value - Since Inception



Performance Returns



Portfolio Comparison

Durham CC (UK005)

As of March 2017

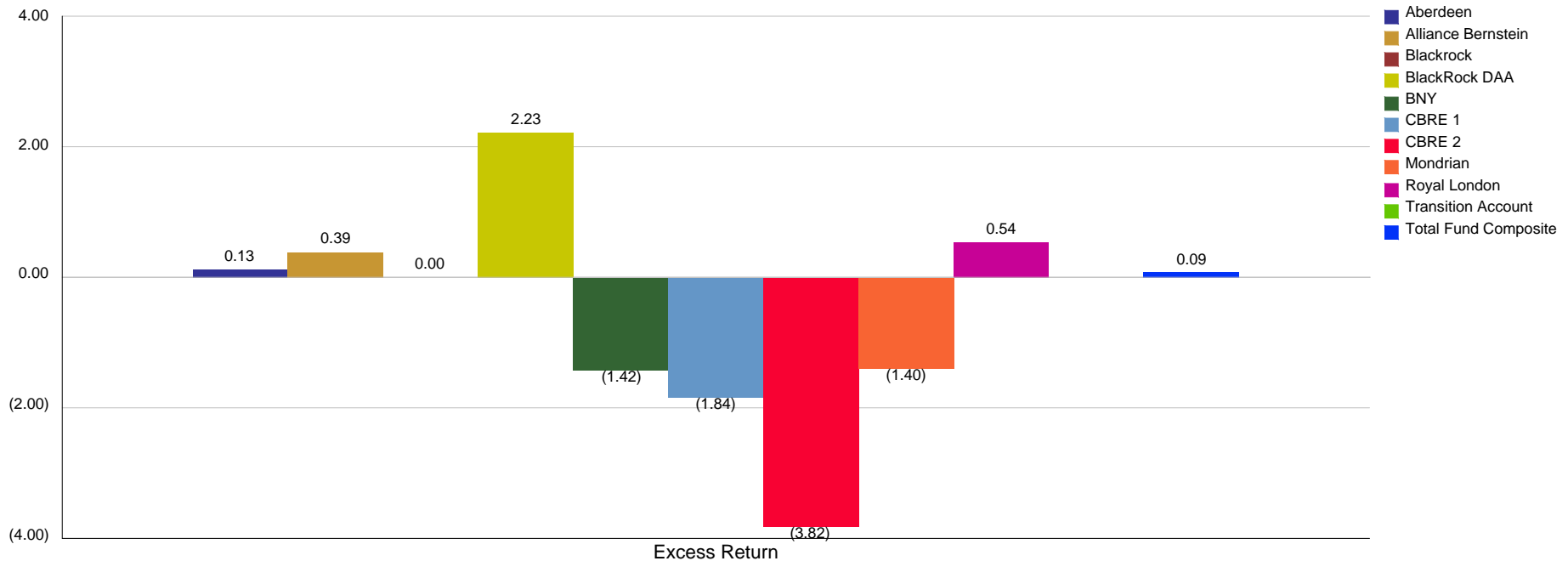
Gross of Fee

Excess Return - Additive

Primary - Pound Sterling

Manager	Benchmark	Market Value (mils)	Weight	Trailing 3 Months Return	Benchmark Trailing 3 Months Return	Excess Returns	Current Contribution to Return
Aberdeen	MSCI-Acwi (Gross) + 3%	442.36	16.50	6.69	6.55	0.13	1.10
Alliance Bernstein	3 Month Libor in GBP +3% pa	357.97	13.35	1.13	0.74	0.39	0.15
Blackrock	Zero Return - Historically FTSE All Share (Gross) +3% pa	0.01	0.00	0.00	0.00	0.00	0.00
BlackRock DAA	3 Month Libor in GBP +3% pa	489.73	18.27	2.97	0.74	2.23	0.54
BNY	MSCI AC World Index (Gross) + 2.5%	444.82	16.59	5.01	6.43	(1.42)	0.83
CBRE 1	Headline RPI +5% pa (CBRE1)	181.27	6.76	0.22	2.06	(1.84)	0.01
CBRE 2	Headline RPI +5% pa (CBRE2)	35.22	1.31	(1.76)	2.06	(3.82)	(0.02)
Mondrian	MSCI EM (Emerging Markets) (Gross) + 2.5%	196.83	7.34	9.42	10.83	(1.40)	0.69
Royal London	FTSE index Linked more than 5 years +0.5% pa	532.52	19.86	2.51	1.97	0.54	0.50
Transition Account	Not Applicable	0.02	0.00	0.00	-	-	0.00
Total Fund Composite	Total Composite Custom	2,680.74	100.00	3.75	3.66	0.09	3.75

Excess Returns - Trailing 3 Months



Relative Performance
Durham CC (UK005)
For Period Ending March 2017
 Gross of Fee
 Excess Return - Additive
 Primary - Pound Sterling

Total Fund Composite (0UK00501)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00047880	Blackrock	10,317.74	0.00	0.00	0.00	0.00	(0.17)	4.41	4.91
	Zero Return - Historically FTSE All Share (Gross) +3% pa		0.00	0.00	0.00	0.00	(0.07)	6.21	6.54
	Excess Return		0.00	0.00	0.00	0.00	(0.10)	(1.80)	(1.62)
00047881	Royal London	532,518,676.40	0.87	2.51	2.51	21.47	14.50	10.09	9.90
	FTSE index Linked more than 5 years +0.5% pa		0.71	1.97	1.97	22.25	15.04	10.42	9.98
	Excess Return		0.16	0.54	0.54	(0.78)	(0.54)	(0.34)	(0.08)
00047882	Alliance Bernstein	357,972,383.39	0.37	1.13	1.13	4.71	3.09	3.55	4.02
	3 Month Libor in GBP +3% pa		0.28	0.74	0.74	3.36	3.50	3.55	4.15
	Excess Return		0.10	0.39	0.39	1.35	(0.41)	0.00	(0.13)
00047885	CBRE 1	181,265,875.94	0.10	0.22	0.22	6.89	10.06	9.13	3.60
	Headline RPI +5% pa (CBRE1)		0.74	2.06	2.06	8.28	6.95	7.37	7.83
	Excess Return		(0.64)	(1.84)	(1.84)	(1.39)	3.10	1.76	(4.22)
00051183	CBRE 2	35,220,135.09	(3.17)	(1.76)	(1.76)	9.44	11.77	10.45	6.32
	Headline RPI +5% pa (CBRE2)		0.74	2.06	2.06	8.28	6.95	7.37	7.83
	Excess Return		(3.91)	(3.82)	(3.82)	1.15	4.82	3.08	(1.51)
00082265	Transition Account	20,872.96	0.00	0.00	0.00	0.00	0.00	3.11	3.01
	Not Applicable		-	-	-	-	-	-	-
	Excess Return		-	-	-	-	-	-	-

Relative Performance

Durham CC (UK005)

For Period Ending March 2017

Gross of Fee

Excess Return - Additive

Primary - Pound Sterling

Total Fund Composite (0UK00501)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00301582	BlackRock DAA	489,726,581.68	0.99	2.97	2.97	4.59	-	-	1.57
	3 Month Libor in GBP +3% pa		0.28	0.74	0.74	3.36	-	-	3.98
	Excess Return		0.71	2.23	2.23	1.24	-	-	(2.41)
00301629	Mondrian	196,827,578.18	3.03	9.42	9.42	28.45	-	-	6.58
	MSCI EM (Emerging Markets) (Gross) + 2.5%		2.26	10.83	10.83	38.53	-	-	13.64
	Excess Return		0.77	(1.40)	(1.40)	(10.08)	-	-	(7.07)
00301630	Aberdeen	442,357,701.18	1.33	6.69	6.69	30.43	-	-	11.23
	MSCI-Acwi (Gross) + 3%		1.05	6.55	6.55	36.96	-	-	20.30
	Excess Return		0.28	0.13	0.13	(6.53)	-	-	(9.07)
00301691	BNY	444,824,256.97	1.05	5.01	5.01	27.59	-	-	17.11
	MSCI AC World Index (Gross) + 2.5%		1.01	6.43	6.43	36.29	-	-	19.91
	Excess Return		0.03	(1.42)	(1.42)	(8.70)	-	-	(2.80)
0UK00501	Total Fund Composite	2,680,744,379.53	0.98	3.75	3.75	17.28	8.90	8.35	7.34
	Total Composite Custom		0.79	3.66	3.66	19.87	10.91	9.80	8.97
	Excess Return		0.18	0.09	0.09	(2.59)	(2.01)	(1.46)	(1.63)

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Pension Fund Committee

5 June 2017

Investment of the Pension Fund's Cash Balances



John Hewitt, Corporate Director Resources

Purpose of Report

1. To update the Committee of the Treasury Management service provided to the Pension Fund and to review the charges for the services and the calculation of interest on short term investments administered by Durham County Council (the Council) for 2017/18.

Background

2. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the 2009 Regulations) introduced changes which ended the use of Pension Fund money by the administering authority.
3. As a result of these regulations, a report was presented to the Pension Fund Committee in June 2010. At this meeting, the Committee gave its agreement to the Council continuing to invest the cash balances of the Pension Fund in line with the Council's Treasury Management Policy and Annual Investment Strategy. This agreement is reviewed annually and the Council continues to invest the balances of the Pension Fund on its behalf.
4. The Council's Treasury Management Policy and Annual Investment Strategy sets out the maximum amounts and time limits in respect of deposits which can be placed with each financial institution.
5. The Pension Fund's cash balances are invested along with the Council's cash balances at the most advantageous rate that can be achieved using approved counterparties.
6. Quarterly reports on the return on short term investments are presented to the Pension Fund Committee.

Administration of the Treasury Management Function

7. The Treasury Management team administer the cash balances of the Pension Fund in line with the Council's procedures.
8. The prime objective of the Council's investment strategy is to ensure prudent investment of surplus funds. The Council's investment priorities are therefore the security of capital, liquidity of investments and, within those objectives, to secure optimum performance.

9. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.
10. After this main principle, the Council will ensure that it:
 - (i) maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
 - (ii) has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
 - (iii) maintains a counterparty list in compliance with the CIPFA Treasury Management Code of Practice and credit rating information supplied by the Council's Treasury Management advisers and will revise the criteria and submit them to the Council for approval as necessary.
11. The Treasury Management team review and monitor the Council's Treasury Management Strategy on behalf of the Council and implement it on behalf of the Pension Fund. The team also update counterparties in line with information supplied by the Council's Treasury Management Advisers.
12. The Council's treasury management team monitors the cash, the bank account balances and the cash codes for the Council and the Pension Fund and actions the necessary transfers and coding adjustments. The Pension Fund balance is corrected for any incorrect banking of funds prior to calculation of the interest on the cash balance.
13. The Treasury Management Team maintains full and accurate records in the performance of this service and makes them available for inspection by the Pension Fund Accounting Team, Internal and External Audit.
14. It is recommended that the charge for this service continues at the flat fee of £2,500 per quarter.

Calculation of Interest on Cash Balances

15. The interest paid to the Pension Fund in respect of its cash balances is based on London Interbank Bid (LIBID) three month rate and it is recommended that this rate continues to be applied in 2017/18.
16. The LIBID three month rate is the rate at which banks are willing to borrow from other banks, and is the closest to the return that the Council make on their own short term investments.
17. However, the choice of the rate would be subject to review by the Treasury Management team, to ensure an appropriate rate is applied.

Investments

18. It was also agreed by the Committee, that the Pension Fund's cash balances would be invested as part of the Council's overall investments.
19. As a result of this however, in the event of an investment being lost, for example due to the failure of a financial institution in which the cash is invested, the Council would be liable for the loss. This is due to the investment being in the name of the Council although the investment would include Pension Fund balances.
20. It was therefore agreed that the Pension Fund Committee share the risk of any investment in proportion to the value of cash balances at the time of investment. Any losses incurred as a result of impairment would then be split proportionately between the Council and the Pension Fund.
21. It is recommended that this arrangement continues.

Recommendation

22. It is recommended that, with effect from 1 April 2017:
 - (i) the Pension Fund continues to invest its cash balances with the Council in line with the Council's Treasury Management Strategy;
 - (ii) interest be paid quarterly to the Pension Fund at a rate based on the daily cash balance and the 3 month LIBID interest rate;
 - (iii) an administration fee of £2,500 per quarter be paid to the Council for the Treasury Management function being carried out on behalf of the Pension Fund; and
 - (iv) in the event of the loss of an investment, the Pension Fund will bear the loss in proportion of the value of cash balances held at the time of the investment with Durham County Council.

Background Papers

- (a) Pension Fund Committee - 21 June 2010 - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- (b) Pension Fund Committee - 3 March 2016 - Investment of the Pension Fund's Cash Balances
- (c) Durham County Council's Treasury Management Policy.

Contact: Beverley White Tel: 03000 261900

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Pension Fund Committee

5 June 2017



Short Term Investments for the period ended 31 March 2017

John Hewitt, 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 31 March 2017.

Short Term Investments

2. Durham County Council (the Council) invests the short term cash balances on behalf of the Pension Fund; this is done in line with the Council'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 31 March 2017 was £8.638 million which was held in the institutions listed in the table below alongside their credit rating at 31 March 2017.

Financial Institution	Short-term Rating	Amount Invested £m
Bank Deposit Accounts		
Handelsbanken	F1+	0.266
Santander UK Plc	F1	0.469
Fixed Term Deposits		
Leeds Building Society	F1	0.704
Bank of Scotland	F1	1.642
Nationwide Building Society	F1	0.469
Goldman Sachs	F1	1.173
UK Local Authorities	N/A	2.931
National Savings & Investments	N/A	0.047
Money Market Funds	N/A	0.937
Total		8.638

4. The following table provides information on the net interest earned during the three month period to 31 March 2017, 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	£5,255
Average Return Earned	0.23%
Average Bank of England base rate	0.25%
Average Daily Balance of Investments	£13.811m

Recommendation

5. Members are asked to note the position at 31 March 2017 regarding the Pension Fund's short term investments where £5,255 net interest was earned in the three month period.

Contact: Beverley White Tel: 03000 261900

Pension Fund Committee

5 June 2017



**Statement of Accounts for the year ended
31 March 2017**

John Hewitt, Corporate Director Resources

Purpose of the Report

- 1 To present to Members the Pension Fund Accounts for the year ended 31 March 2017 and highlight any significant issues arising from the accounts.

Background

- 2 In England and Wales, the 'Code of Practice on Local Authority Accounting 2016/17' (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 included as Appendix 1.
- 4 The 'Accounts and Audit Regulations 2011' introduced a two stage approval process for the Statement of Accounts. The first stage requires 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.
- 5 The second stage 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 'Accounts and Audit Regulations 2015' introduced revised statutory deadlines for both stages of the Statement of Accounts approval process which will be effective for the accounts relating to 2017/18. The deadline

for the first stage will be 31 May (rather than 30 June) and the second stage must be completed by 31 July (rather than 30 September).

- 7 Officers have used the preparation of the 2016/17 accounts as a practice run for next year and have succeeded in producing a draft set of Pension Fund accounts (as attached in Appendix 1) by this earlier deadline.
- 8 The Statement of Accounts is currently subject to audit by the external auditor - Mazars LLP. Upon completion, the auditor's report will be incorporated into the published version of the document.
- 9 The full Statement of Accounts has been published on the Council's website.

Accounting Requirements

- 10 The Statement of Accounts for the financial year 2016/17 is prepared in accordance with the 'Accounts and Audit Regulations 2015' and the 'Code of Practice on Local Authority Accounting 2016/17' (the Code) as published by CIPFA.
- 11 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.
- 12 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.
- 13 The Code requires that the following are included in the Pension Fund Accounts:
 - (i) a fund account - this shows the changes in net assets available for benefits;
 - (ii) a net assets statement - showing the assets available at the year end to meet benefits; and
 - (iii) notes to the accounts.

Key information from the Pension Fund Accounts

- 14 The Pension Fund accounts show that during 2016/17:
- net assets have increased by £371.238 million to £2,692.455 million;
 - there was a net reduction of £9.73 million as a result of benefits paid to members exceeding contributions received; and
 - there was a net gain of £392.845 million on the Pension Fund's investments.

Audit Completion Report

- 15 The audit of the Statement of Accounts is now underway. At the end of this process, the Auditor will provide an Audit Completion Report detailing their comments and recommendation for improvements, based on the position at 31 March 2017.
- 16 The Audit Completion Report will be presented to Members along with an Action Plan, if required, designed to address any Auditor's recommendations at the conclusion of the Audit.

Summary

- 17 Members are asked to note the contents of this report.

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Fund Account

APPENDIX 1

2015-16			2016-17		
£000	£000		Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND					
-112,035		Contributions receivable	7	-106,715	
-3,680		Transfers in from other pension funds	8	-4,974	
-5		Other income		-3	
	-115,720				-111,692
110,422		Benefits payable	9	114,152	
5,273		Payments to and on account of leavers	10	7,270	
	115,695				121,422
	-25	Net withdrawals/ -additions from dealings with members, employers and others			9,730
	11,490	Management expenses	11		11,877
RETURN ON INVESTMENTS					
-22,662		Investment income	12	-28,269	
24,955		Profit and losses on disposal of investments and change in market value of investments	14	-364,576	
	2,293	Net returns on investments			-392,845
	13,758	NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR			-371,238

Net Assets Statement

2015-16		2016-17			
£000	£000	Notes	£000	£000	
INVESTMENT ASSETS					
211,866		Equities	14	282,942	
519,293		Bonds	14	580,729	
<u>1,487,500</u>	2,218,659	Pooled investment vehicles	14	<u>1,778,540</u>	2,642,211
349		Loans	14	327	
Other cash deposits:					
79,484		Fund Managers	14	31,491	
17,217		Short term investments	14	8,431	
<u>12,880</u>	<u>109,930</u>	Derivative contracts	14	<u>4,524</u>	<u>44,773</u>
	2,328,589				2,686,984
Other Investment Assets					
1,925		Dividend accruals	14,17	1,766	
368		Tax recovery	14,17	480	
<u>13,388</u>	<u>15,681</u>	Other investment balances	14,17	<u>3,230</u>	<u>5,476</u>
	2,344,270	Total Investment Assets			2,692,460
INVESTMENT LIABILITIES					
-17,785		Derivative contracts	14	-2,989	
<u>-9,734</u>		Other investment balances	18	-1,981	
	<u>-27,519</u>	Total Investment Liabilities			<u>-4,970</u>
	2,316,751	NET INVESTMENT ASSETS			2,687,490
	833	Long Term Assets	17		625
Current assets					
8,563		Contributions due from employers	17	9,091	
<u>1,185</u>		Other current assets	17	<u>1,716</u>	
	9,748				10,807
Current liabilities					
<u>-6,115</u>		Current liabilities	18	<u>-6,467</u>	
	-6,115				-6,467
	<u>2,321,217</u>	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			<u>2,692,455</u>

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 (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2016

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.

	2012/13	2013/14	2014/15	2015/16	2016/17
Contributing Members	16,837	17,454	18,011	18,530	18,630
Pensioners in Payment	16,386	16,700	17,193	17,715	18,139
Pensioners Deferred	12,211	13,040	13,165	14,451	15,104

In comparison to the figures reported at 31 March 2016, the number of pensionable employees in the Fund at 31 March 2017 has increased by 100, the number of pensioners has increased by 424 and deferred pensioners have increased by 653.

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 115 at 31 March 2017), 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:

2015-16			2016-17	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
83,286	-70,340	Administering Authority	86,173	-71,077
20,567	-34,000	Scheduled Bodies	22,158	-28,273
6,569	-7,695	Admission Bodies	5,821	-7,364
110,422	-112,035		114,152	-106,715

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 2016/17 (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 to pay pension benefits. 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 2016/17, the results of which determined the contribution rates effective from 1 April 2017 to 31 March 2020. 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 allocated to the Pension Fund as administrative expenses.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Note 11 provides further information regarding the basis of Investment Managers' Fees. 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, which are apportioned on the basis of staff time spent on the Fund and include all associated overheads, 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.

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 traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities 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 managed funds 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 managed funds 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.

Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

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 investments 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 81% as at 31 March 2016 (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"> - 75% if life expectancy increases by 3 years - 67% if discount rate falls by 1% - 67% if inflation increases by 1% - 68% if equities fall by 25% - 78% if pensionable pay increases by 1%
Fair Value of Investments	The Accounts are as at 31 March 2017 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 £165.4m at 31/3/17 (£154.1m at 31/3/16). Every 1% increase/ decrease in fair value would result in an increase/ decrease in the value of the Fund by £1.654m (£1.541m at 31/3/16).

6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2017 which require any adjustments to be made to these accounts.

7. Contributions Receivable

2015-16 £000		2016-17 £000
	Employer contributions:	
-49,770	Normal	-49,580
-6,400	Augmentation	-5,797
-32,827	Deficit funding	-28,059
	Member contributions:	
-22,929	Normal	-23,191
-109	Additional contributions	-88
-112,035		-106,715
-70,340	Administering Authority	-71,077
-34,000	Scheduled Bodies	-28,273
-7,695	Admission Bodies	-7,364
-112,035		-106,715

8. Transfers in from other pension funds

2015-16		2016-17
£000		£000
-3,680	Individual Transfers	-4,974
<u>-3,680</u>		<u>-4,974</u>

9. Benefits Payable

2015-16		2016-17
£000		£000
90,708	Pensions	93,285
22,514	Commutations and lump sum retirement benefits	23,344
2,035	Lump sum death benefits	2,167
-4,835	Recharged benefits	-4,644
<u>110,422</u>		<u>114,152</u>
83,286	Administering Authority	86,173
20,567	Scheduled Bodies	22,158
6,569	Admission Bodies	5,821
<u>110,422</u>		<u>114,152</u>

10. Payments To And On Account Of Leavers

2015-16		2016-17
£000		£000
153	Refunds to members leaving service	297
61	Payments for members joining state scheme	75
5,059	Individual transfers to other schemes	6,329
-	Group transfers to other schemes	569
<u>5,273</u>		<u>7,270</u>

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.

2015-16 £000		2016-17 £000
854	Administration expenses	905
9,962	Investment Management expenses	10,330
674	Oversight and Governance costs	643
<u>11,490</u>		<u>11,877</u>

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2016/17 of £0.026m (£0.026m in 2015/16).

12. Investment Income

2015-16 £000		2016-17 £000
-5,089	Interest from bonds	-5,391
-6,860	Dividends from equities	-7,448
-102	Interest on cash deposits	-684
-10,611	Income from pooled investment vehicles	-14,746
<u>-22,662</u>		<u>-28,269</u>

13. Taxation

The Code 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 2016/17 to manage the Pension Fund's assets:

- Aberdeen Asset Management Limited (Aberdeen)
- AB (Formerly AllianceBernstein Limited)
- 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 2016 %	Investment Manager	Asset Class	31 March 2017 %
15	Aberdeen	Global equities	15
15	AB	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 allocations vary slightly from the long-term strategic allocations due to market movements. The actual market values of investments held by each Investment Manager as at 31 March were as follows :

31-Mar-16			31-Mar-17		
£000	%	Investment Manager	£000	%	
339,124	14.79	Aberdeen	440,069	16.45	
341,874	14.91	AB	357,972	13.38	
364,837	15.91	BNYM	444,824	16.63	
198	0.01	Barings	-	-	
437,984	19.10	Blackrock	489,644	18.30	
187,755	8.18	CBRE	216,266	8.09	
152,726	6.66	Mondrian	197,224	7.37	
28	-	Other - NEL	-	-	
468,712	20.44	RLAM	529,238	19.78	
2,293,238	100.00		2,675,237	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 2017 excludes loans of £0.327m, cash invested by the administering authority of £8.431m, other investment assets of £5.476m and other investment liabilities of £1.981m (£0.349m, £17.217m, £15.681m and £9.734m respectively as at 31 March 2016).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2017, £2.675m (99.54%) is invested through Investment Managers (£2.293m or 98.99% at 31 March 2016).

Reconciliation of Movements in Investments 2016/17

Investment category	Value at 31 March 2016	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2017
	£000	£000	£000	£000	£000
Equities	211,866	124,863	-107,999	54,212	282,942
Bonds	519,293	2,714,495	-2,756,492	103,433	580,729
Pooled investment vehicles	1,487,500	233,241	-201,944	259,743	1,778,540
	2,218,659	3,072,599	-3,066,435	417,388	2,642,211
Derivative contracts:					
Futures, margins & options	-691	28,754	-20,561	-6,768	734
Forward foreign currency	-4,214			5,015	801
	2,213,754	3,101,353	-3,086,996	415,635	2,643,746
Other investment balances:					
Loans	349				327
Other cash deposits	96,701			-51,059	39,922
Dividend accruals	1,925				1,766
Tax recovery	368				480
Other investment balances	3,654				1,249
Net Investment Assets	2,316,751			364,576	2,687,490

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 2015/16

Investment category	Value at 31 March 2015	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2016
	£000	£000	£000	£000	£000
Equities	234,213	103,326	-105,533	-20,140	211,866
Bonds	564,765	2,025,849	-2,077,720	6,399	519,293
Pooled investment vehicles	1,392,430	228,960	-142,369	8,479	1,487,500
	2,191,408	2,358,135	-2,325,622	-5,262	2,218,659
Derivative contracts:					
Futures, margins & options	3,102	41,841	-38,621	-7,013	-691
Forward foreign currency	-3,877			-337	-4,214
	2,190,633	2,399,976	-2,364,243	-12,612	2,213,754
Other investment balances:					
Loans	375				349
Other cash deposits	165,402			-12,343	96,701
Dividend accruals	1,815				1,925
Tax recovery	276				368
Other investment balances	-25,294				3,654
Net Investment Assets	2,333,207			-24,955	2,316,751

Analysis of Investments

2015-16			2016-17	
£000	£000		£000	£000
ASSETS INVESTED THROUGH FUND MANAGERS				
Bonds				
466,549		UK - Public sector - quoted	511,012	
33,455		Overseas - Public sector - quoted	69,717	
19,289		Overseas - Corporate - quoted	-	
	519,293			580,729
Equities				
41,520		UK quoted	45,087	
28		UK unquoted	-	
170,318		Overseas quoted	237,855	
	211,866			282,942
Pooled Investment Vehicles				
80,400		Managed funds - non property - UK quoted	113,196	
879,497		Managed funds - non property - overseas quoted	1,107,547	
341,874		Managed funds - non property - overseas unquoted	357,972	
1,815		Unit Trusts - property - UK quoted	2,086	
32,729		Unit Trusts - property - UK unquoted	18,302	
29,804		Unit Trusts - property - Overseas quoted	32,289	
121,381		Unit Trusts - property - Overseas unquoted	147,148	
	1,487,500			1,778,540
Derivative Contracts				
12,880		Assets	4,524	
-17,785		Liabilities	-2,989	
	-4,905			1,535
79,484	79,484	Fund Managers' cash	31,491	31,491
2,293,238		NET ASSETS INVESTED THROUGH FUND MANAGERS		2,675,237
OTHER INVESTMENT BALANCES				
17,217		Short term investments (via DCC Treasury Management)	8,431	
349		Loans	327	
15,681		Other investment assets	5,476	
-9,734		Other investment liabilities	-1,981	
2,316,751		NET INVESTMENT ASSETS		2,687,490

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:

2015-16		Derivative Contracts	2016-17	
£000	£000		£000	£000
8,399		Forward foreign currency		
<u>-12,613</u>		Assets	2,671	
	-4,214	Liabilities	<u>-1,870</u>	
		Net Forward foreign currency		801
		Futures		
1,232		Assets	585	
<u>-1,388</u>		Liabilities	<u>-155</u>	
	-156	Net Futures		430
		Options		
3,249		Assets	1,268	
<u>-3,784</u>		Liabilities	<u>-964</u>	
	-535	Net Options		304
	<u>-4,905</u>	Net market value of derivative contracts		<u>1,535</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 2017 and 31 March 2016.

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 mths	USD	1,470,000	AUD	-1,914,703	9	
1 to 3 mths	USD	1,210,000	BRL	-3,802,062	25	
1 to 3 mths	USD	10,850,000	CAD	-14,150,896	184	
1 to 3 mths	USD	8,120,000	CHF	-8,058,126	31	
1 to 3 mths	USD	6,200,000	CLP	-3,990,940,000	152	
1 to 3 mths	GBP	49,018,213	EUR	-57,120,000	88	
1 to 3 mths	EUR	2,200,000	GBP	-1,915,903		-31
1 to 3 mths	SEK	27,573,779	EUR	-2,920,000		-28
1 to 3 mths	EUR	41,860,000	USD	-44,711,085	157	
1 to 3 mths	GBP	3,358,132	JPY	-470,000,000		-18
1 to 3 mths	GBP	5,150,000	PLN	-26,102,260		-107
1 to 3 mths	GBP	2,200,966	TRY	-10,380,000		-32
1 to 3 mths	GBP	1,585,000	USD	-1,973,404	9	
1 to 3 mths	GBP	40,444,159	USD	-50,355,000	236	
1 to 3 mths	GBP	1,585,000	USD	-1,973,420	9	
1 to 3 mths	GBP	40,443,834	USD	-50,355,000	236	
1 to 3 mths	GBP	1,590,000	USD	-1,980,459	9	
1 to 3 mths	GBP	40,423,195	USD	-50,350,000	219	
1 to 3 mths	USD	13,000,000	GBP	-10,619,874		-240
1 to 3 mths	USD	1,000,000	GBP	-801,852		-3
1 to 3 mths	USD	2,200,000	HKD	-17,052,792	2	
1 to 3 mths	IDR	21,845,700,000	USD	-1,620,000	9	
1 to 3 mths	INR	122,491,750	USD	-1,810,000	55	
1 to 3 mths	USD	1,200,000	KRW	-1,365,468,000		-18
1 to 3 mths	KRW	1,370,820,000	USD	-1,200,000	22	
1 to 3 mths	USD	10,210,000	MXN	-210,977,092		-703
1 to 3 mths	MYR	10,822,105	USD	-2,410,000	16	
1 to 3 mths	PHP	283,052,150	USD	-5,615,000		-3
1 to 3 mths	USD	1,660,000	SGD	-2,352,094		-19
1 to 3 mths	SGD	850,726	USD	-600,000	7	
1 to 3 mths	USD	3,880,000	THB	-135,889,240		-65
1 to 3 mths	USD	6,630,000	TRY	-24,967,917		-77
1 to 3 mths	USD	11,370,000	TWD	-347,626,380		-78
1 to 3 mths	AUD	11,299,503	GBP	-6,862,949		-3
1 to 3 mths	EUR	34,743,034	GBP	-30,033,616	263	
1 to 3 mths	USD	87,011,920	GBP	-69,340,495		-97
1 to 3 mths	JPY	1,889,517,790	GBP	-13,570,223		-6
1 to 3 mths	AUD	5,355,688	GBP	-3,252,870		-1
1 to 3 mths	USD	895,848	GBP	-713,908		-1
1 to 3 mths	JPY	164,020,249	GBP	-1,177,968		-1
1 to 3 mths	EUR	3,787,663	GBP	-3,274,245	28	
1 to 3 mths	USD	177,005	GBP	-141,057	-	
1 to 3 mths	DKK	16,843,346	GBP	-1,954,211	13	
1 to 3 mths	SEK	12,750,547	GBP	-1,157,457	13	
1 to 3 mths	JPY	972,939,089	GBP	-6,987,497		-3
1 to 3 mths	USD	2,510,935	GBP	-2,000,984		-3
1 to 3 mths	GBP	6,518,048	AUD	-10,486,913	139	
1 to 3 mths	GBP	2,897,543	CAD	-4,740,597	57	
1 to 3 mths	GBP	1,813,142	EUR	-2,086,806	25	
1 to 3 mths	GBP	2,221,207	USD	-2,711,838	56	
1 to 3 mths	GBP	8,875,167	USD	-10,812,261	244	
1 to 3 mths	GBP	837,978	EUR	-962,538	13	
1 to 3 mths	GBP	3,208,536	USD	-3,907,054	90	
1 to 3 mths	GBP	2,128,388	USD	-2,597,235	55	
1 to 3 mths	GBP	1,187,053	CAD	-1,951,331	18	
1 to 3 mths	GBP	1,200,107	USD	-1,469,644	27	
1 to 3 mths	GBP	1,921,738	USD	-2,352,067	44	
1 to 3 mths	USD	1,584,001	GBP	-1,293,520		-29
1 to 3 mths	USD	9,553,117	GBP	-7,714,928		-88
1 to 3 mths	USD	2,020,893	GBP	-1,630,774		-17

1 to 3 mths	USD	3,397,540	GBP	-2,738,373		-26
1 to 3 mths	CAD	3,404,106	GBP	-2,055,502		-16
1 to 3 mths	USD	5,756,705	GBP	-4,601,767		-6
1 to 3 mths	AUD	6,214,777	GBP	-3,804,205		-24
1 to 3 mths	USD	1,292,779	GBP	-1,034,930		-3
1 to 3 mths	GBP	9,094,175	EUR	-10,514,712	86	
1 to 3 mths	GBP	1,047,287	EUR	-1,209,613	11	
1 to 3 mths	GBP	7,377,220	USD	-9,232,590	6	
1 to 3 mths	USD	1,943,815	GBP	-1,543,862	8	
1 to 3 mths	AUD	4,515,187	GBP	-2,769,556		-23
1 to 3 mths	EUR	4,941,538	GBP	-4,285,455		-52
1 to 3 mths	EUR	4,654,606	GBP	-4,036,618		-49

2,671	-1,870
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Net forward foreign currency contracts at 31 March 2017

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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 to 1 mth	CZK	3,652,185	EUR	-135,139		-
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 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	

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		-
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

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 17	
				£000	£000
Assets					
Overseas equity	1 to 3 mths	S&P500 EMINI JUN 17	EUR	539	
Overseas equity	1 to 3 mths	EURO STOXX 50 JUN 17	USD	46	
Total assets					585
Liabilities					
UK equity	1 to 3 mths	FTSE 100 INDEX JUN 17	GBP	-34	
Overseas equity	1 to 3 mths	EURO STOXX BANK JUN 17	EUR	-58	
Overseas equity	1 to 3 mths	STOXX 600 HEALTH JUN 17	EUR	-63	
Total liabilities					-155
Net Futures Contracts at 31 March 2017					<u>430</u>

	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	858	
Overseas equity	1 to 3 mths	E-MINI CONSUMER STAPLES JUN 16	USD	170	
Overseas equity	1 to 3 mths	S&P500 EMINI JUN 16	USD	204	
Total assets					1,232
Liabilities					
Overseas equity	1 to 3 mths	E-MINI UTILITIES SELECT SECTOR JUN	USD	-403	
Overseas equity	1 to 3 mths	STOXX 600 INDUS JUN 16	EUR	-742	
Overseas fixed interest	1 to 3 mths	US ULTRA T-BOND JUN 16 21/6/2016	USD	-243	
Total liabilities					-1,388
Net Futures Contracts at 31 March 2016					<u>-156</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 17 £000
Assets				
Overseas equity	1 to 3 mths	S&P 500 INDEX 19/05/2017 P @ 2300.000	USD	419
Overseas fixed interest	Less than 1 year	USD C CNH P @7.000000 EO	USD	188
UK equity	1 to 3 mths	FTSE 100 INDEX 16/06/2017 P @ 6900.000	GBP	179
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 16/06/2017 P @ 3150.000	EUR	168
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 16/06/2017 C @ 3725.000	EUR	98
Overseas equity	Less than 1 year	EURO STOXX 50 INDEX 15/12/2017 C @ 4000.000	EUR	96
Overseas equity	Less than 1 year	S&P 500 INDEX 15/12/2017 P @ 2000.000	USD	87
Overseas fixed interest	Less than 1 year	USD P CNH C @6.600000 EO	USD	17
UK fixed interest	1 to 3 mths	GBP C USD P @1.300000 EO	GBP	8
UK fixed interest	1 to 3 mths	GBP C USD P @1.300000 EO	GBP	4
UK fixed interest	1 to 3 mths	GBP C USD P @1.300000 EO	GBP	4
Total assets				1,268
Liabilities				
Overseas fixed interest	Less than 1 year	USD P CNH C @6.600000 EO	USD	-17
Overseas equity	Less than 1 year	S&P 500 INDEX 15/12/2017 P @ 1875.000	USD	-55
Overseas equity	1 to 3 mths	EURO STOXX BANKS 16/06/2017 C @ 140.000	EUR	-81
UK equity	1 to 3 mths	FTSE 100 INDEX 16/06/2017 P @ 6600.000	GBP	-82
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 16/06/2017 P @ 3000.000	EUR	-87
Overseas fixed interest	Less than 1 year	USD C CNH P @7.000000 EO	USD	-188
UK equity	1 to 3 mths	FTSE 100 INDEX 16/06/2017 C @ 7300.000	GBP	-454
Total liabilities				-964
Net Options at 31 March 2017				304

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 17/6/2016 C @ 2925.000	EUR	930
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 P @ 2925.000	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 23/5/2016 C @ 875.000	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 18/5/2016 C @ 23.000	USD	183
Overseas equity	1 to 5 years	EURO STOXX 50 INDEX 01-JAN-2050 15/12/2017 C @ 4000.000	EUR	90
Overseas fixed interest	0 to 1 mth	APR16 EDM7 P @ 98.75	USD	13
Overseas fixed interest	1 to 3 mths	USD C SGD P @1.420000 EO	USD	9
Overseas fixed interest	3 to 6 months	EUR P CZK C @25.75000 EO	EUR	8
Overseas fixed interest	3 to 6 months	EUR P CZK C @25.75000 EO	EUR	2
Total assets				3,249
Liabilities				
Overseas fixed interest	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 15/4/2016 C @ 3100.000	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 23/5/2016 C @ 925.000	USD	-111
Overseas equity	1 to 3 mths	EURO STOXX UTILITIES (PRICE) INDEX 17/6/2016 P @ 235.000	EUR	-143
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 C @ 3200.000	EUR	-153
Overseas equity	1 to 3 mths	SPX VOLATILITY INDEX UX 01-JAN-2050 18/5/2016 C @ 30.000	USD	-155
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 P @ 2975.000	EUR	-207
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 01-JAN-2050 17/6/2016 P @ 2800.000	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	-2,222
Total liabilities				-3,784
Net Options at 31 March 2016				-535

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 2017		At 31 March 2016	
		£m	%	£m	%
BNYM Long Term Global Equity	BNY Mellon	444.82	16.63	364.84	15.91
AAM L and P World Equity	Aberdeen	440.07	16.45	339.12	14.79
Diversified Yield Plus	AB	357.97	13.38	341.87	14.91

Single investments with a market value exceeding 5% of their type of asset as at 31 March are listed as follows:

At 31 March 2017

Holding	Investment Manager	£000	%
Bonds			
UK Treasury 0.75% IL Gilt 22/11/47	Royal London	50,729	8.74
UK Treasury 2% IL 26/01/2035	Royal London	35,718	6.15
UK Treasury 1.25% IL Gilt 22/11/2055	Royal London	35,048	6.04
UK Treasury 0.125% IL 22/03/2068	Royal London	34,946	6.02
UK Treasury 0.375% IL 22/03/2062	Royal London	29,470	5.07
UK Treasury Gilt 0.125% IL 22/11/2036	Royal London	29,201	5.03

Pooled Investment Vehicles

BNYM Long Term Global Equity	BNY Mellon	444,824	25.01
AAM L and P World Equity	Aberdeen	440,069	24.74
Diversified Yield Plus	AB	357,972	20.13
ICS INS GBP LIQ AGENCY DIS	BlackRock	110,616	6.22
BGF GLOBAL CORP BND X4RF GBP HDG	BlackRock	96,251	5.41

At 31 March 2016

Holding	Investment Manager	£000	%
Bonds			
UK Treasury 0.625% IL 22/11/2042	Royal London	37,989	7.32
UK Treasury 1.25% IL 22/11/2032	Royal London	35,829	6.90
UK Treasury 0.5% IL Gilt 22/03/2050	Royal London	35,727	6.88
UK Treasury 2.5% IL 17/07/24	Royal London	32,874	6.33
UK Treasury 0.625% IL 22/03/2040	Royal London	30,223	5.82

Equities

ISHARES GOLD TRUST	BlackRock	17,363	8.20
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Pooled Investment Vehicles

BNYM Long Term Global Equity	BNYM	364,837	24.53
Diversified Yield Plus	AB	341,874	22.98
AAM L and P World Equity	Aberdeen	339,124	22.80
BGF GLOBAL CORP BND X4RF GBP HDG	BlackRock	108,805	7.31
ICS INS GBP LIQ AGENCY DIS	BlackRock	77,739	5.23

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:

2015-16			2016-17		
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					
211,866			282,942		
519,293			580,729		
1,487,500			1,778,540		
12,880			4,524		
	349			327	
	79,484			31,491	
	17,217			8,431	
15,681			5,476		
	10,581			11,432	
<u>2,247,220</u>	<u>107,631</u>	<u>-</u>	<u>2,652,211</u>	<u>51,681</u>	<u>-</u>
Financial liabilities					
-17,785			-2,989		
-9,734		-6,115	-1,981		-6,467
<u>-27,519</u>	<u>-</u>	<u>-6,115</u>	<u>-4,970</u>	<u>-</u>	<u>-6,467</u>
<u>2,219,701</u>	<u>107,631</u>	<u>-6,115</u>	<u>2,647,241</u>	<u>51,681</u>	<u>-6,467</u>
	<u>2,321,217</u>			<u>2,692,455</u>	
		Net Assets at 31 March			

Net gains and losses on financial instruments

31 March 2016 £000 (Restated)		31 March 2017 £000
	Financial Assets	
-12,612	Fair Value through profit and loss	415,635
-12,343	Loans and receivables	-51,059
	Financial Liabilities	
-	Fair Value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
<u>-24,955</u>	Total	<u>364,576</u>

The 31 March 2016 figures have been restated in line with the figures shown in the Reconciliation of Movements in Investments 2015/16 table.

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 2017 and 31 March 2016, 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 2017	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	2,128,790	357,972	165,450	2,652,212
Loans and receivables	51,681	-	-	51,681
Total Financial Assets	2,180,471	357,972	165,450	2,703,893
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-4,970	-	-	-4,970
Financial Liabilities at amortised cost	-6,468	-	-	-6,468
Total Financial Liabilities	-11,438	-	-	-11,438
Net Financial Assets	2,169,033	357,972	165,450	2,692,455

Values at 31 March 2016 (Restated)	Quoted	Using	With significant	Total
	market price	observable	unobservable	
	Level 1	inputs	inputs	
	Level 2	Level 3		
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	1,751,208	341,902	154,110	2,247,220
Loans and receivables	107,631	-	-	107,631
Total Financial Assets	1,858,839	341,902	154,110	2,354,851
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-27,519	-	-	-27,519
Financial Liabilities at amortised cost	-6,115	-	-	-6,115
Total Financial Liabilities	-33,634	-	-	-33,634
Net Financial Assets	1,825,205	341,902	154,110	2,321,217

The values at 31 March 2016 table has been restated to show derivative assets and liabilities as Level 1 investments.

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 it's 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. Risk exposure is limited by applying maximum exposure restrictions on individual investments to each Investment Manager's portfolio.

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. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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 2016/17 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 2017 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen	Global equity	440,069	18.7%	522,362	357,776
AB	Broad Bonds	357,972	8.0%	386,610	329,334
BNYM	Global equity	444,824	18.7%	528,006	361,642
BlackRock	DAA	480,622	9.4%	525,800	435,444
CBRE	Unlisted property	165,450	14.5%	189,440	141,460
CBRE	Listed property	34,375	21.7%	41,834	26,916
Mondrian	Emerging market equity	195,330	29.0%	251,976	138,684
RLAM	UK Index Linked Gilts	523,569	8.8%	569,643	477,495
	Loans	327	0.0%	327	327
	Cash	39,922	0.0%	39,922	39,922
	Net derivative assets	1,535	0.0%	1,535	1,535
	Net investment balances	3,495	0.0%	3,495	3,495
Total change in net investment assets available		2,687,490		3,060,951	2,314,029

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
AB	Broad Bonds	341,874	8.0%	369,224	314,524
Barings	DAA	-	8.6%	-	-
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	96,701	0.0%	96,701	96,701
	Net derivative assets	-4,905	0.0%	-4,905	-4,905
	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

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 2017 and the effect of a +/- 25 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 2017	Change in year in the net assets available to pay benefits	
		+25 BPS	-25 BPS
		£000	£000
Cash and cash equivalents	39,922	100	-100
Fixed interest securities	57,283	143	-143
Total change in net investment assets available	97,205	243	-243

Asset type	Asset Values at 31 March 2016	Change in year in the net assets available to pay benefits	
		+25 BPS	-25 BPS
		£000	£000
Cash and cash equivalents	96,701	242	-242
Fixed interest securities	50,997	127	-127
Total change in net investment assets available	147,698	369	-369

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'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 31 March 17	Value on increase	Value on decrease
				£000	£000	£000
Aberdeen	Global Equity	100%	15%	440,069	506,079	374,059
AB	Broad Bonds	0%	0%	357,972	357,972	357,972
BlackRock	DAA	100%	10%	480,622	528,684	432,560
BNYM	Global Equity	100%	15%	444,824	511,548	378,100
CBRE	Global Property	100%	10%	199,825	219,808	179,843
Mondrian	Emerging market equity	100%	15%	195,330	224,630	166,031
RLAM	UK Index Linked Gilts	0%	0%	523,569	523,569	523,569
	Loans	0%	0%	327	327	327
	Cash	0%	0%	39,922	39,922	39,922
	Net derivative assets	0%	0%	1,535	1,535	1,535
	Net investment balances	0%	0%	3,495	3,495	3,495
Total change in net investment assets available				2,687,490	2,917,568	2,457,412

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 16	Value on increase	Value on decrease
				£000	£000	£000
Aberdeen	Global Equity	100%	15%	339,124	389,993	288,255
AB	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%	96,701	96,701	96,701
	Net derivative assets	0%	0%	-4,905	-4,905	-4,905
	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

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 is exposed to some form of credit risk with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. 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 2017, this level of exposure to the Custodian is only 1.2% of the total value of the portfolio (3.5% as at 31 March 2016).

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 £8.431m as at 31 March 2017 (£17.217m at 31 March 2016). This was held with the following institutions:

	Rating	Balances	Rating	Balances
	as at 31 March 2017	as at 31 March 2017	as at 31 March 2016	as at 31 March 2016
		£000		£000
Bank Deposit Accounts				
Handelsbanken	F1+	259	F1+	62
Barclays		-	F1	1,209
Santander UK Plc	F1	458	F1	94
Fixed Term Deposits				
Leeds Building Society	F1	687		-
Royal Bank of Scotland		-	F1	1,612
Barclays		-	F1	1,612
Bank of Scotland	F1	1,603	F1	4,836
Nationwide Building Society	F1	458	F1	2,014
Goldman Sachs	F1	1,145	F1	2,820
UK Local Authorities	N/A	2,861	N/A	898
Income Bond				
National Savings & Investments	N/A	46	N/A	81
Other				
Money Market Funds	N/A	914	N/A	1,979
Total		8,431		17,217

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 2016, 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

2015-16 £000		2016-17 £000
1,292	Central government bodies	1,073
6,930	Other local authorities	8,347
18,040	Other entities and individuals	7,488
<u>26,262</u>	Total debtors	<u>16,908</u>
	Included in the Net Assets Statement as:	
833	Long Term Assets	625
15,681	Other Investment Assets	5,476
9,748	Current Assets	10,807
<u>26,262</u>		<u>16,908</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

2015-16 £000		2016-17 £000
-815	Central government bodies	-828
-1,388	Other local authorities	-1,417
-13,646	Other entities and individuals	-6,203
<u>-15,849</u>	Total creditors	<u>-8,448</u>
	Included in the Net Assets Statement as:	
-9,734	Investment Liabilities - Other balances	-1,981
-6,115	Current Liabilities	-6,467
<u>-15,849</u>		<u>-8,448</u>

All of the £8.448m 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 2016 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2017 £000
Equitable Life	2,103	76	263	173	2,089
Prudential	4,609	1,165	1,015	350	5,109
Standard Life	1,766		awaiting information from Standard Life		
Total	8,478	1,241	1,278	523	7,198

* Purchases represent the amounts paid to AVC providers in 2016/17

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 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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	
		2015/16	2016/17
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£112.035m	£106.715m
Debtors	Amounts due in respect of employers and employee contributions	£8.146m	£8.674m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.388m	£1.417m
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	£1.388m	£1.417m
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 £0.239m	Loans outstanding £0.233m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance during the year and interest earned were:	Balance = £51.289m Interest = £0.233m	Balance = £21.368m Interest = £0.069m

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.

As at 31 March 2017 there were four Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; a further three Members were active members of the Pension Fund. With effect from 8 May 2017 Members are no longer allowed to be 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.

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

d) KEY MANAGEMENT PERSONNEL REMUNERATION

The key management personnel of the Fund are the Members of the Pension Fund Committee and the Corporate Director Resources.

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

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 Regulation 62 of the Local Government Pension Scheme Regulations 2013 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 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 2016 actuarial valuation the Fund was assessed as being 81% funded (84% at 31 March 2013). This corresponded to a deficit of £529.3m (£379.2m at 31 March 2013).

The aim is to achieve 100% solvency over a period of 21 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers' primary rates) as 16.7% of pensionable pay.

The aggregate employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100%, using a recovery period of 21 years from 1 April 2017, is 24.6% of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

Across the Fund as a whole, the contributions required to remove the shortfall using a recovery period of 21 years from 1 April 2017 would be £28.6m per annum, increasing at 3.5% per annum. This is equivalent to approximately 7.9% per annum of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

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 2016	Valuation as at 31 March 2013
Financial Assumptions		
Discount rate for periods in service	4.5% pa	5.4% pa
Discount rate for periods after leaving service	4.5% pa	5.4% pa
Rate of revaluation of pension accounts	2.0% pa	2.4% pa
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.0% pa	2.4% pa
- post 1988 Guaranteed Minimum Pensions	1.8% pa	2.0% pa
Pensionable pay increase	3.5% pa	3.9% pa
Demographic Assumptions		
Post-retirement mortality assumption (normal health) - base table	Standard SAPS S2P tables with scaling factors of 95% for men and 100% for women	SAPS normal tables with scaling factors of 105% for men and women
Post-retirement mortality assumption - future improvements	CMI 2014 core projections with long annual improvement rate of 1.5%	CMI 2012 core projections with long annual improvement rate of 1.5%
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 is assumed to surrender pension on retirement, so total cash received is 80% 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 2016.

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 2013 are provided for comparison purposes.

	Value as at 31 March 2016 £m	Value as at 31 March 2013 £m
Fair value of net assets	2,321	2,085
Actuarial present value of the promised retirement benefits	3,365	2,905
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,044	-820

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 2016 (% p.a.)	31 March 2013 (% p.a.)
Discount rate	3.4	4.4
RPI Inflation	2.9	3.4
CPI Inflation	1.8	2.4
Rate of increase to pensions in payment *	1.8	2.4
Rate of increase to deferred pensions *	1.8	2.4
Rate of general increase in salaries **	3.3	3.9

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

** In addition, 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. This statement has been adopted by the Pension Fund Committee and has been published 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 2016/17.

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 Pension Fund's liabilities.

25. Investment Strategy Statement

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pension Fund has prepared and reviewed a written statement of its investment policy. The Investment Strategy Statement sets out the principles for investing Fund monies. The document was reviewed by the Pension Fund Committee during 2016/17 and can be found on the Council's website at durham.gov.uk.

Pension Fund Committee

05 June 2017



Internal Audit Progress Report to 31 March 2017

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			
Transfer Values in/out	Assurance	Final	Moderate
Benefit Calculations	Assurance	Final	Moderate
Bank Reconciliation	Assurance	In progress	
Debt Recovery	Assurance	In progress	
National Fraud Initiative – Data matching to identify potential error/fraud	Advice/Consultancy	Complete for year	N/A
Ad hoc advice & guidance	Advice/Consultancy	Complete for year	N/A

- 3 The status shows that, of the five assurance reviews planned to be completed in 2016/17, three final reports have been issued. There were no final reports issued in the final quarter. The two audits which have not yet been completed will be brought forward and added into the approved 2017/18 audit plan.

Recommendation

- 4 Members are asked to note the work undertaken by Internal Audit during the period ending 31 March 2017.

Contact: Paul Monaghan Tel: 03000 269662

Pension Fund Committee

5 June 2017

Investment Pooling Update



Report of John Hewitt, Corporate Director, Resources

Purpose of the Report

- 1 To update the Committee on progress towards investment pooling and to ask the Committee to confirm that the Chair will represent the Council on behalf of the Pension Fund on matters relating to the Border to Coast Pensions Partnership.

Background

- 2 The Border to Coast Pensions Partnership (BCPP) is a group comprising the following Pension Funds which was set up to meet the Government's requirement for Local Government Pension Funds to invest their assets collectively to achieve greater economies of scale:
 - Bedfordshire Pension Fund
 - Cumbria Pension Fund
 - Durham Pension Fund
 - East Riding Pension Fund
 - Lincolnshire Pension Fund
 - North Yorkshire Pension Fund
 - Northumberland Pension Fund
 - South Yorkshire Pension Fund
 - Surrey Pension Fund
 - Teesside Pension Fund
 - Tyne and Wear Pension Fund
 - Warwickshire Pension Fund
- 3 As reported to the 7 March 2017 Pension Fund Committee, the County Council agreed at its meeting on 22 February 2017 to enter into the necessary legal agreements to allow it to become a member of BCPP and to adopt its arrangements. This included agreeing to
 - enter into the Inter-Authority Agreement between the Council and the Administering Authorities of the other Pool Funds

- enter into the Shareholder Agreement between the Council and the Administering Authorities of the other Pool Funds and Border to Coast Pensions Partnership Limited.
- the Articles of Association to be adopted by Border to Coast Pensions Partnership Limited;
- the establishment of the Border to Coast Pensions Partnership Joint Committee as a formal Joint Committee under section 102 of the Local Government Act 1972 of in accordance with and to carry out the functions as set out in the Inter-Authority Agreement;
- approve the subscription by the Durham County Council Pension Fund of 1 Class A voting share in the asset management company, Border to Coast Pensions Partnership Limited;
- nominate the Chair of the Pensions Committee or such other person determined by the Pensions Committee from time to time to vote this shareholding;
- approve the subscription by the Durham County Council Pension Fund for such number of Class B non-voting shares in the Border to Coast Pensions Partnership Limited as shall be necessary to ensure that the Council contributes by way of equity one twelfth of the minimum regulatory capital requirement of the company as determined in by the requirements of the Financial Conduct Authority;
- appoint the Chair of the Pensions Committee or such other person determined by the Pensions Committee from time to time to represent the Council on behalf of the Fund at the Border to Coast Pensions Partnership Joint Committee meetings;
- make the consequential changes required to the Constitution to reflect these new arrangements;
- authorise the Corporate Director Resources in consultation with the Monitoring Officer to finalise the approval and execution, where required, of all legal documents necessary to give effect to the above decisions.

Progress in establishing Border to Coast Pensions Partnership

- 4 At the time of writing this report final versions of the inter-authority agreement and the shareholder agreement were being prepared for circulation and execution by the Partner Funds in BCPP. The final versions are expected to be ready prior to the first Joint Committee meeting (due to be held on 6 June 2017).
- 5 A project team comprising officers from some of the BCPP partner funds has been provided with access to office facilities at Northallerton by North Yorkshire County Council and has continued to work with advisers on:
 - Sourcing a Leeds-based property for the new company.
 - Proposing recommendations for terms and conditions for staff in the new company, including what pension scheme(s) to provide for staff.
 - Developing the operating model for the new company, taking into account the investment sub-funds that will be available for Partner Funds to invest

in, and the need for the company to obtain and retain approval from the Financial Conduct Authority (FCA).

- 6 A recruitment process is underway – initially to appoint the (non-executive) Chair and Chief Executive of BCPP Limited, followed by appointments of two further non-executive directors and appointments of a Chief Investment Officer and a Chief Operating Officer.
- 7 Initial information-sharing meetings have been held with staff at the three internally-managed Funds to ensure a consistent message is being given about issues relating to the establishment of the company.

Representation on the Joint Committee

- 8 The 22 February 2017 Council meeting confirmed that the Pension Fund Committee would be able to determine whether the Chair or one of its other members should represent the Council on the behalf of the Council on BCPP's Joint Committee and vote the Council's shareholding in BCPP Limited.

Recommendation

- 9 That the Committee notes the report and confirms that:
 - a) The Chair of the Pension Fund Committee will represent the Council on behalf of the Pension Fund on the Joint Committee, having previously represented the Pension Fund on the Member Steering Group (the informal group set up prior to the establishment of the Joint Committee); and
 - b) The Chair of the Pension Fund Committee will also vote the Council's shareholding as necessary.

Contact: Nick Orton Tel: 03000 269798

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Pension Fund Committee

5 June 2017

Valuation Report



Report of John Hewitt, Corporate Director, Resources

Purpose of the Report

- 1 To provide Members with information on the final outcomes from the actuarial valuation of the Pension Fund as at 31 March 2016.

Background

- 2 Every three years the Pension Fund Actuary carries out a valuation of the Pension Fund, comparing the market value of the assets with the assumed value of the liabilities and this is used to set employer contribution rates for the three year period after the results are certified.
- 3 The final valuation report as at 31 March 2016 was produced by the Pension Fund Actuary on 31 March 2017, a copy of the report is included at Appendix A, some of the main outcomes from the report are summarised below.

Valuation Results - Past Service Position

- 4 The table below sets out the past service funding position of the Fund as at 31 March 2016 alongside the results from the previous two valuations:

	31 March 2016 Valuation Results (£m)	31 March 2013 Valuation Results (£m)	31 March 2010 Valuation Results (£m)
Value of past service benefits for			
- Actives	1,113.5	1,004.5	1,050.9
- Deferred pensioners	420.4	310.9	206.0
- Pensioners	1,316.6	1,122.3	843.2
Value of liabilities	2,850.5	2,437.7	2,100.1
Value of assets	2,321.2	2,058.5	1,682.0
Past service deficiency	529.3	379.2	418.1
Funding ratio	81%	84%	80%

Valuation Results – Cost to Employers of Future Benefits

- 5 The table below shows the average employer contribution rate required across the Fund as a whole following the valuation as at 31 March 2016 (to apply for the three year period from 1 April 2017), along with the figures from the previous two valuations as a comparison.

	31 March 2016 Valuation (% of Pensionable Pay)	31 March 2013 Valuation (% of Pensionable Pay)	31 March 2010 Valuation (% of Pensionable Pay)
Value of benefits building up	22.4	19.4	18.8
Death in service cash sum	0.2	0.2	0.4
Administration expenses	0.4	0.4	0.3
Less member contributions	(6.3)	(6.3)	(6.4)
Net cost to the Employers	16.7	13.7	13.1
Recovery Period	21 years	18 years	19 years
Recovery contributions £m (per year over the recovery period)	£28.6m (increasing at 3.5% a year)	£24.3m (increasing at 3.9% a year)	£29.9m (increasing at 5.3% a year)
Recovery contributions %	7.9	7.2	8.7
Total employer contribution rate	24.6	20.9	21.8

Individual employers are set their own contribution rate (detailed in Appendix 7 of the Valuation Report), taking into account the membership profile of their Pension Fund members, and in some cases assumptions and recovery periods that are specific to the employer's circumstances.

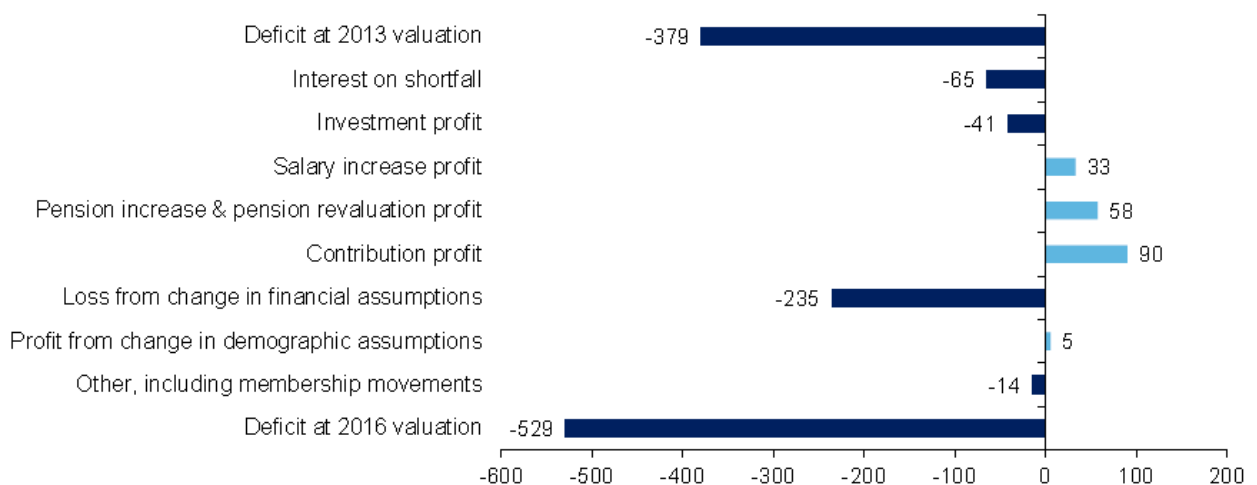
Membership statistics

- 6 The following chart shows the change in membership numbers in the Fund over the last three valuations. The 31 March 2016 valuation shows the number of active members is broadly similar to the previous valuation but an increase of around 1,000 pensioners and 2,600 deferred members, meaning the overall fund membership has increased by around 9% to just over 50,200.



Reasons for change in past service position

7 The overall funding ratio has deteriorated since the last valuation from 84% to 81% with the deficit increasing from £379.2m to £529.3m. The main reasons for the change in funding position are shown in the chart below:



8 The Pension Fund Actuary's analysis shows that the main factors affecting the funding position since the previous valuation have been:

- The change in the financial assumptions (principally the fall in the discount rate relative to inflation)
- Investment returns below the discount rate adopted at the 2013 valuation

which have **worsened** the position; and

- Lower than assumed pension increases and pay growth
- Contributions paid by employers towards paying off the deficit disclosed at the 2013 valuation.

which have **improved** the position.

Communication

- 9 All Pension Fund employers with active employees as scheme members have been provided with a copy of the final valuation report and have been separately notified of the contribution rates that apply to them for the period 1 April 2017 to 31 March 2020. The valuation report is also available on the Council's website at the following link: <http://www.durham.gov.uk/lgps>

Recommendation

- 10 Members are asked to note this report.

Contact: Nick Orton Tel: 03000 269798



Actuarial valuation as at 31 March 2016

Durham County Council Pension Fund

Prepared for Durham County Council (in their role as the Administering
 Authority of the Durham County Council Pension Fund)
Prepared by Chris Archer FIA
 Becky Durran FIA
Date 31 March 2017

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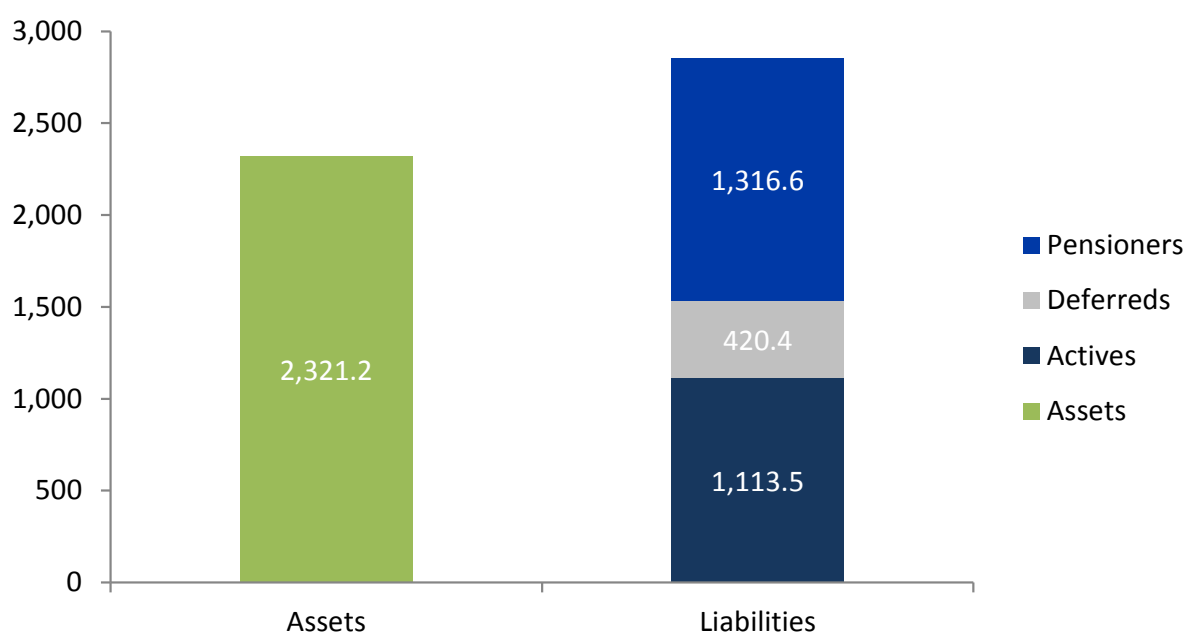
No decisions should be taken on the basis of this report by any party other than our client, Durham County Council, and nothing in this report removes the need for readers to take proper advice in relation to their specific circumstances.

Executive Summary

The key results of the valuation as at 31 March 2016 are set out below.

There was a shortfall of £529.3M relative to the past service liabilities of £2,850.5M which corresponded to a funding ratio of 81%.

The past service liabilities are the amount of assets agreed with the Administering Authority as being required to meet members' benefits, assuming the Fund continues as a going concern.



The aggregate Employer future service contribution rate (the primary contribution rate, a weighted average of all Employers' primary rates) is 16.7% of Pensionable Pay.

The aggregate Employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100% using a recovery period of 21 years from 1 April 2017, is 24.6% of Pensionable Pay (if the membership remains broadly stable and pay increases are in line with our assumptions). The comparable figure at the previous valuation was 20.9% of Pensionable Pay using a recovery period of 18 years from 1 April 2014.

The contributions payable by each Employer or group of Employers may differ because they allow for each Employer's or group's particular membership profile and funding ratio, and assumptions and recovery periods appropriate to their circumstances.

Actuarial valuation as at 31 March 2016

Durham County Council Pension Fund

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Introduction

This report has been prepared for the Administering Authority. It sets out the results and conclusions of the funding valuation of the Durham County Council Pension Fund as at 31 March 2016.

This is our actuarial valuation report. It draws together other pieces of work and advice from throughout the valuation process. Appendix 1 sets out the legal framework within which the valuation has been completed.

Throughout this report, assets and liabilities in respect of defined contribution additional voluntary contributions (or AVCs) have been excluded.

Some shorthand used in this report is explained opposite. Some technical pensions terms are explained in the Glossary.

Shorthand

Fund

Durham County Council Pension Fund

Administering Authority

Durham County Council, in its role as the Administering Authority of the Fund

Employers

Durham County Council, and other employers with employees participating in the Fund

Regulations

The Local Government Pension Scheme Regulations 2013 (and other Regulations as referenced in the Glossary)

Pensionable Pay

As defined in the Regulations in relation to post-2014 membership

Pensionable Service

Periods of membership, as defined in the Regulations

Snapshot view

The report concentrates on the Fund's financial position at the valuation date. As time moves on, the Fund's finances will fluctuate. If you are reading this report some time after the valuation date, the Fund's financial position could have changed significantly.

Update since the previous valuation

The key results from the previous valuation as at 31 March 2013 were:

The Fund's assets were £2,058.5M and the past service liabilities were £2,437.7M, which corresponded to a shortfall of £379.2M and a funding ratio of 84%.

The aggregate Employer future service contribution rate was 13.7% of Pensionable Pay.

The Administering Authority agreed Employer contributions from 1 April 2014 over a range of recovery periods designed to restore the funding ratio to 100% over a period not exceeding 18 years.

The resulting aggregate Employer contributions were

- The Employer future service contribution rate of 13.7% of Pensionable Pay; and
- Additional monetary amounts giving total contributions as follows

Year from 1 April	% of Pensionable Pay	Aggregate contribution amounts (£M)
2014	13.7	24.8
2015	13.7	25.7
2016	13.7	26.8

The amount payable over 2016/17 was scheduled to increase on 1 April 2017 and each 1 April thereafter by approximately 3.9% a year.

In practice some employers may have paid total contributions as a percentage of pay, rather than a percentage of pay plus an additional monetary amount.

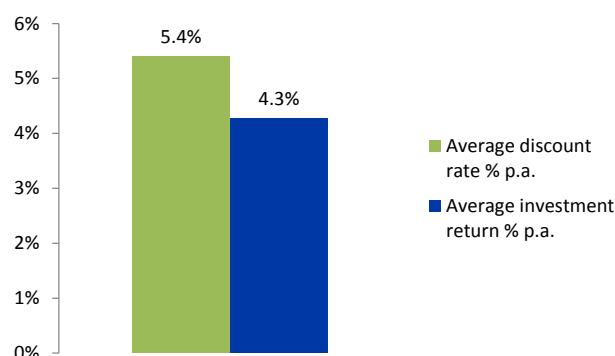
In addition the Employers paid contributions in respect of any additional strains arising on non ill health early retirement or due to increases in benefits. Members also paid contributions required by the Regulations.

Financial development

To illustrate the Fund's financial development since the previous valuation, we compare below key financial assumptions made at the previous valuation with what actually happened.

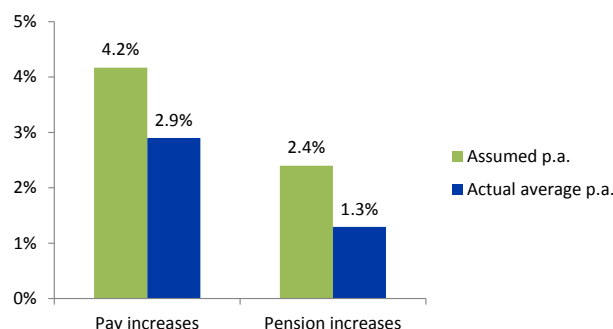
Investment return (or discount rate)

The investment return has been lower than the average discount rate assumed.



Inflationary pay and pension increases

Increases to pay were lower than assumed, and increases to pensions in payment were on average lower than assumed.



Note that the assumed pay increases above include approximate allowance for the effect of the promotional salary scale.

Where material we show the financial impact of the above developments later in this report.

Other key developments since the previous valuation

As well as the contributions paid to the Fund since the previous valuation and the returns achieved on the Fund's assets, there have been the following material developments since the previous valuation date:

- **2014 Scheme**

A new benefit structure was introduced for Pensionable Service from 1 April 2014. The key features are:

- Career average structure
- Accrual rate of 49ths
- Pensions revalued by CPI before retirement
- Normal Pension Age linked to State Pension Age
- Changes to member contribution rates
- Member contribution rates based on actual (previously full time equivalent) pay;
- Introduction of a 50:50 option, with member contribution rate and pension accrual rate both half rate
- An underpin to pensions for members within 10 years of age 65 in April 2012.

Benefits for Pensionable Service before 1 April 2014 are protected, and calculated by reference to retirement ages in force before the 2014 Scheme was introduced. The link to final pay, (where pay is calculated using the 2008 Scheme definition), for pre 2014 benefits remains for active members.

The introduction of the 2014 Scheme was fully reflected in our previous valuation.

- **Auto-enrolment**

Between 2012 and 2018 all UK employers will have a duty to commence automatically enrolling employees who satisfy certain criteria into the National Employment Savings Trust (NEST) or, if it satisfies certain requirements, their own pension scheme. The “staging date”, from which the auto-enrolment duty applies, varies between individual employers. Over the period since the previous valuation, a number of the Fund's employers have been impacted and this has led to an increase in new members joining the Fund.

- **Indexation of GMPs**

On 6 April 2016 the Government introduced the new State Pension. A consequence of the legislation was that the mechanism which previously provided fully indexed pension payments to public servants ceased to apply in relation to the GMP element of pension.

On 1 March 2016 HM Treasury announced an interim solution to the indexation of GMPs in public service pension schemes, including the Local Government Pension Scheme. The implications of this are that the Fund became responsible for paying full pension increases on the GMP for members who reach their State Pension Age between 6 April 2016 and 5 December 2018 inclusive. The results of this valuation allows for this change.

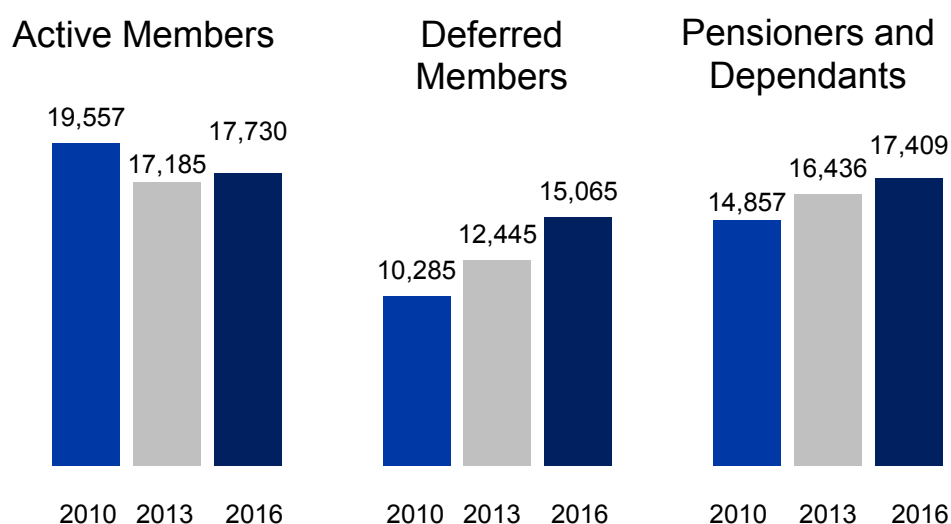
Membership data

This valuation is based on membership data as at 31 March 2016 supplied to us by the Administering Authority.

A summary of the membership data is included in Appendix 2. The Fund has become more mature, with increasing numbers of non-active members.

Since the last actuarial valuation, there have been the following changes in affecting the membership numbers:

- Auto-enrolment, leading to an increase in the number of active members.
- Redundancy programmes, leading to members moving from active status to deferred or pensioner status.
- Reductions in the Lifetime and annual allowances, affecting high earners and those with long service/membership which may mean that members have opted out.
- Pensions freedoms, giving members a potential incentive to transfer their benefits to a defined contribution arrangement, although we are not aware that many have selected this option.
- An exercise to split active records to reflect job roles.



Note: The deferred membership numbers above exclude members who had yet to decide whether to take transfer payments, and exclude children.

We have carried out some general checks to satisfy ourselves that:

- The information used for this valuation is broadly consistent compared with the information used for the previous valuation and also with that shown in the Fund's Annual Report and Accounts.
- The numbers of members included in this valuation can be reconciled against those included in the previous valuation.

However, the results in this report rely entirely on the accuracy of the information supplied. The Administering Authority should notify us if the data we have used is incomplete or inaccurate.

Benefits valued

Members are entitled to benefits defined in the Regulations. Different benefits apply to Pensionable Service before 1 April 2008, between 1 April 2008 and 31 March 2014, and after 31 March 2014. A summary of the benefits valued is given in Appendix 3.

Discretionary benefits

Employers have discretion over payment of certain benefits and it is not practical to allow for the policies of each Employer. Most discretionary benefits are financed as they occur, so the financial impact on this valuation is minimal. No specific allowance has therefore been made for benefits which are granted at the discretion of the Employer.

State Pension Age changes

Normal Pension Age for Pensionable Service on or after 1 April 2014 is State Pension Age (SPA), or, if higher, age 65. SPA is currently transitioning from age 65 (60 for women) to age 68 by 2046.

On 1 March 2016 the Department for Work and Pensions published the Terms of Reference for a review of SPA. The review is expected to submit its final report to the Secretary of State later this year. As the outcome of the review is not yet known, no allowance has been made within the valuation for any changes in SPA beyond those which have already been announced.

Local Government Pension Scheme Regulations and the cost management mechanism

Our valuation reflects our understanding of the Regulations in force at the valuation date. Any future changes may affect the conclusions in this report.

We have made no allowance in this valuation for any future potential changes to member contributions or benefits resulting from the cost management mechanism under the Regulations. The first valuation for the purposes of calculating the Scheme cost under the cost

management mechanism will be carried out by the Government Actuary's Department as at 1 April 2016, but any changes to members' contributions or benefits that may arise will not be known for some time and we do not expect any changes to be implemented before 1 April 2019.

GMP equalisation and indexation

On 28 November 2016 HM Treasury commenced a consultation process on the indexation and equalisation of GMP in public service pension schemes. The outcome of this consultation process is unknown and so this valuation does not allow for any funding of full indexation or equalisation of GMPs beyond those already announced. The results of this valuation do allow for the changes which have already been implemented to the indexation of GMPs for members who reach their State Pension Age between 6 April 2016 and 5 December 2018 inclusive.

Inflation measure

The Consumer Prices Index (CPI) is currently used to index pensions in payment and deferment, and to revalue members' CARE accounts for service after 31 March 2014.

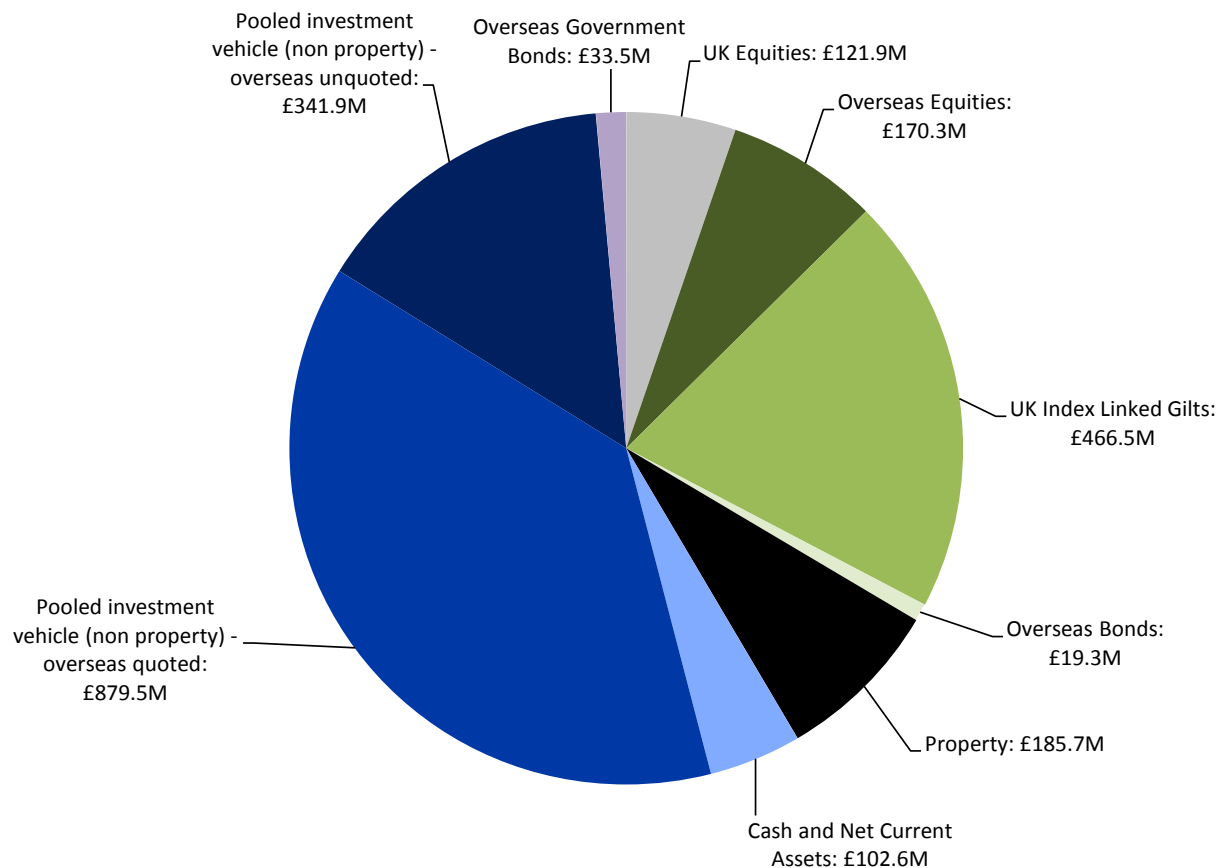
In November 2016 the Office for National Statistics announced that a different index "CPIH" which also makes allowance for owner-occupier housing costs, is to be its preferred inflation measure in future.

The Government has not yet announced whether CPIH will replace CPI as the measure for indexing public service pensions. This valuation therefore continues to make allowance for indexation and revaluation to be based on CPI.

Asset data

The audited accounts for the Fund for the year ended 31 March 2016 show the value of the assets to be £2,321.2M at the valuation date.

The assets of £2,321.2M were invested as follows:



▪ This summary excludes assets for defined contribution AVC accounts.

The Statement of Investment Principles describes the Fund's investment policy as follows:

"The investment policy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Pension Fund while achieving a good return on investment."

Funding objective

Terminology

Past service liabilities

This is the present value of the benefits to which members are entitled based on benefits accrued to the valuation date, assessed using the assumptions agreed between a Fund's Administering Authority and the Fund Actuary.

Funding objective

To hold sufficient and appropriate assets to meet the past service liabilities.

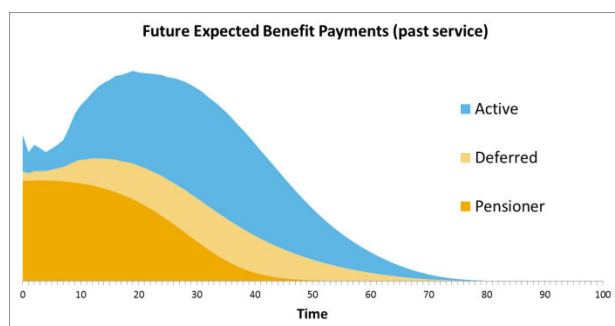
Funding strategy statement

Sets out the Administering Authority's strategy for meeting the funding objective

The Administering Authority's funding objective is to hold assets which are at least equal to the past service liabilities i.e. to meet the funding objective.

In order to calculate the past service liabilities and the cost to the Employers of future benefit accrual, the benefits paid out by the Fund are estimated for each year into the future. The estimated benefit payments are then 'discounted back' to the valuation date using an agreed rate of interest known as the discount rate.

The benefit payments from the Fund are expected to be made for a very long period – the chart below shows the cashflow pattern for the current membership of a typical LGPS Fund (based on past service benefits). Some cashflows will be fixed but others will be linked to future levels of salary growth and inflation.



Source: 2016 valuation for a "typical" LGPS Fund

The discount rate

The funding strategy statement describes the risk based approach used to set the funding strategy and hence the discount rate. Under this risk based approach:

- The discount rate for the secure long term scheduled bodies assumes indefinite future investment in assets similar to the Fund's holdings at the valuation date (allowing for any known or planned changes to the long term investment strategy as appropriate).
- For orphan bodies, the discount rate has regard to the possibility that participation might cease at any time and anticipates a move to a low risk investment portfolio made up of long dated Government bonds (of appropriate nature and term) at cessation.
- For subsumption bodies, where a long term scheduled body has agreed to subsume the liabilities of an admission body or other employer on exit, we have agreed with the Administering Authority to use the scheduled body discount rate for that employer.
- This valuation has been undertaken on a prudent basis. Prudence is achieved through the use of discount rates (expected return assumptions) which have a better than evens chance of being achieved by the Fund's long term investment strategy. Information on the level of prudence (or risk) in the funding strategy is contained in the Fund's Funding Strategy Statement.

An explanation of scheduled bodies, orphan bodies and subsumption bodies is given in the Glossary.

Summary of method and assumptions

The Administering Authority agreed the assumptions used to calculate the past service liabilities and the cost of future benefit accrual. The table below summarises the key assumptions, together with those used for the previous valuation, and the reasons for any change. Further details of all of the assumptions are set out in Appendix 5.

Assumption	This valuation	Previous valuation	Rationale for change
In-service discount rate <i>Scheduled and subsumption body funding target</i> <i>Orphan body funding target</i>	4.5% pa 4.5% pa	5.4% pa 5.2% pa	Updated to reflect the Administering Authority's attitude to risk and financial conditions at 31 March 2016.
Left-service discount rate <i>Scheduled and subsumption body funding target</i> <i>Orphan body funding target</i>	4.5% pa 2.5% pa	5.4% pa 3.9% pa	Updated to reflect the Administering Authority's attitude to risk and financial conditions at 31 March 2016.
Rate of revaluation of pension accounts	2.0% pa	2.4% pa	Updated to reflect the outlook for CPI inflation at 31 March 2016.
Pension increases (on pension in excess of GMPs)	2.0% pa	2.4% pa	Updated to reflect the outlook for CPI inflation at 31 March 2016.
Pensionable Pay Increases	3.5% pa	3.9% pa	Updated to reflect financial expectations at 31 March 2016.
Post-retirement mortality assumption – base table	Standard SAPS S2P tables with scaling factors of: Men: 95% Women: 100%	Standard SAPS S1N tables with scaling factors of: Men: 105% Women: 105%	Updated to reflect recent research and the Fund's pensioner mortality experience since the last valuation
Post-retirement mortality assumption – future improvements	CMI 2014 core projections with long-term improvement rate of 1.5% pa	CMI 2012 core projections with long-term improvement rate of 1.5% pa	Updated to reflect recent research

We show below the assumed life expectancies for current members resulting from these mortality assumptions

Assumed Life expectancy at age 65	Member currently aged 65		Member currently aged 45	
	This valuation	Previous valuation	This valuation	Previous valuation
Men	23.1	22.4	25.3	24.5
Women	24.8	24.9	27.1	27.2

Please note that the 2013 life expectancy figures are those set out in the 2013 valuation report and do not allow for improvements in mortality between 2013 and 2016. Allowance for such improvements would increase the life expectancy by around 0.3 years.

In our view these assumptions are appropriate for the purposes of the valuation, and setting Employer contributions to the Fund.

As for the previous valuation, the past service liabilities have been calculated using the projected unit method. This method, with a one year control period, has also been used to calculate the cost of future benefits building up for most Employers. The attained age method has been used for some Employers who do not admit new employees to the Fund.

Shared risks

Funding gains or losses arising from the following risks were pooled across all Employers in the Fund:

Risk	Method
Cash sum on death in service	Shared in proportion to the payroll of active members

In addition, funding gains or losses arising from the following risks will be pooled across all Employers in the Fund from 31 March 2016 onwards:

Risk	Method
Dependant's pensions on death in service	Shared in proportion to the expected cost of death in service pensions using the projected unit method
Ill health retirement	Shared in proportion to the expected cost of ill health retirements using the projected unit method

Past service results

A comparison of the Fund's past service liabilities with the assets is shown below. The past service liabilities have been calculated using the assumptions described in the previous section.

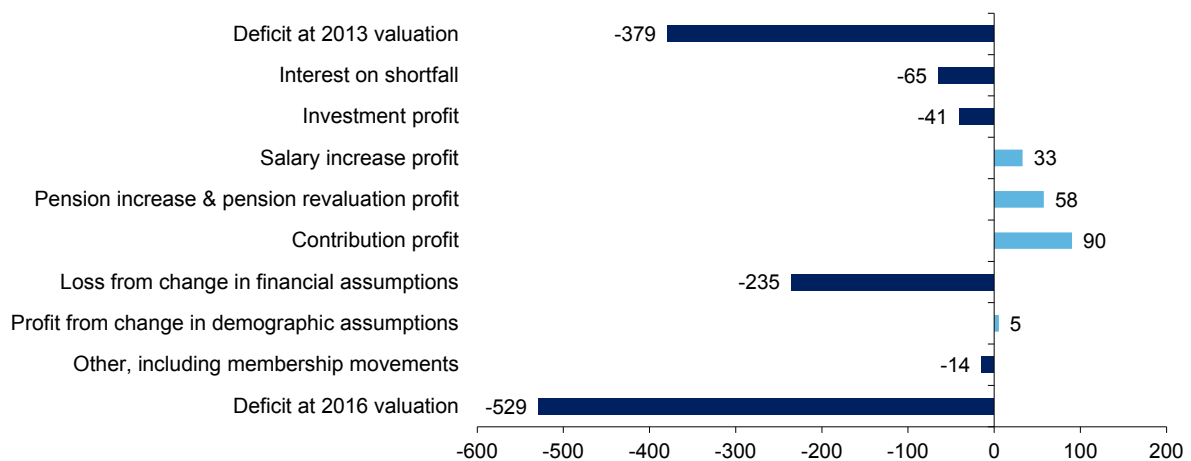
	£M
Value of past service benefits for	
Actives	1,113.5
Deferred members	420.4
Pensioners	1,316.6
Total past service liabilities	2,850.5
Value of assets	2,321.2
Past service surplus / (shortfall)	(529.3)
Funding ratio	81%

Employers will need to pay additional contributions to remove this shortfall. This is considered later.

Reasons for change in past service position

At the previous valuation the Fund had a shortfall of £379.2M. The funding position has therefore worsened by £150.1M over the period.

The chart below shows the key reasons for the change in funding position.



As the chart shows, the main factors which have led to a deterioration of the funding position are:

- The change in the financial assumptions (principally the fall in the discount rate relative to inflation)
- Investment returns below the discount rate adopted at the 2013 valuation

These have been partially offset by the following main factors which on their own have improved the funding position:

- Lower than assumed pension increases and pay growth
- Contributions paid by employers towards paying off the deficit disclosed at the 2013 valuation.

The miscellaneous item includes the effect of membership movements.

Addressing the shortfall

Employers will need to pay additional contributions to remove the shortfall.

We have agreed with the Administering Authority a recovery plan such that the shortfall will be removed by payment of additional contributions by the Employers over a range of different recovery periods not exceeding 21 years.

The assumptions used to calculate the recovery plan are the same as those used to calculate the past service liabilities.

Across the Fund as a whole, the contributions required to remove the shortfall using a recovery period of 21 years from 1 April 2017 would be £28.6M pa increasing at 3.5% pa. This is equivalent to approximately 7.9% pa of Pensionable Pay assuming the membership remains broadly stable and pay increases follow our assumptions.

In practice, different recovery periods apply to individual Employers or groups of Employers in the Fund. The actual contributions to be paid by each Employer or group are set out in the Rates and Adjustments Certificate and reflect each Employer's specific recovery period and funding position.

For some Employers, contribution increases will be phased in over a number of years (or 'steps') as permitted by the Funding Strategy Statement.

Terminology

Recovery plan

A plan for making good any shortfall relative to the past service liabilities.

Recovery period

The period for which contributions are adjusted to remove the shortfall (or surplus).

Shortfall contributions

The additional contributions to remove the shortfall by the end of the recovery period.

Cost to the Employers of future benefits

The table below shows the aggregate calculated cost to Employers at the valuation date of benefits that members will earn in future (the aggregate primary contribution rate). Contributions at the aggregate primary rate would be appropriate if the Fund had no surplus or shortfall.

These rates have been calculated using the same assumptions as used to calculate the past service liabilities.

	% of Pensionable Pay
Value of benefits building up	22.4
Death in service cash sum	0.2
Administration expenses	0.4
Less member contributions	(6.3)
Net cost to the Employers (primary contribution rate)	16.7

The aggregate Employer future service contribution rate (the weighted average, by payroll, of the individual employers' primary rates) is 16.7% of Pensionable Pay.

Employers will also pay additional contributions to remove the shortfall for past service liabilities, or, where individual employers are in surplus, pay lower contributions to reflect this surplus.

The cost of future benefits has increased since the previous valuation and the main reasons for the increase is the change in financial assumptions (principally the fall in the discount rate relative to inflation).

The rate has also increased as a consequence of the take up of the 50:50 scheme being lower than assumed in the 2013 valuation which, due to no experience being available in that valuation, was set equal to the assumption used by the Government Actuary's Department when costing the Scheme. In practice the take up rate has been extremely low.

Risks and uncertainties

The Fund faces a number of key risks which could affect its funding position.

These risks include:

- Funding risk – the risk that the value placed on the past service liabilities is set too low and contributions paid into the Fund prove insufficient to meet the payments as they fall due.
- Employer risk – the risk that an Employer is no longer able to meet its liabilities in the Fund. For example, due to the insolvency of an Employer.
- Investment risks – the risk that investment returns are lower than allowed for in the valuation, and also that the assets are volatile and move out of line with the liabilities, so the funding position is not stable.
- Longevity risk – the risk that Fund members live for longer than expected and that pensions would therefore need to be paid for longer resulting in a higher cost for the Fund.
- Inflation risk – the risk that inflation is higher than expected, resulting in higher pension increases (and payments to pensioners) than allowed for in the valuation.
- Options for members (or other parties) – the risk that members exercise options resulting in unanticipated extra costs. For example, members could exchange less of their pension for a cash lump sum than allowed for in the valuation.
- Legislative/Regulatory risk – the risk that changes to general and LGPS specific regulations, taxation, national changes to pension requirements, or employment law result in an increased cost of administration, investment or funding for benefits.

To quantify some of these risks, the chart on the following page shows the approximate impact of the following one-off step changes on the Fund's funding position (all other elements of the valuation basis being unchanged):

- Life expectancy at age 65 is three years longer than anticipated (with corresponding increases at other ages).
- A 1% pa fall in long term expected investment returns (the discount rate) with no change in asset values.
- A 1% p.a. increase in expected price inflation (measured by CPI), with no change in asset values.
- A 25% fall in the market value of equities (with no change in bond markets, and no change in the discount rate). Note that we have assumed that pooled investment vehicles of non-property overseas investments are equities for the purposes of this calculation.
- A 1% p.a. increase in expected real Pensionable Pay increases.

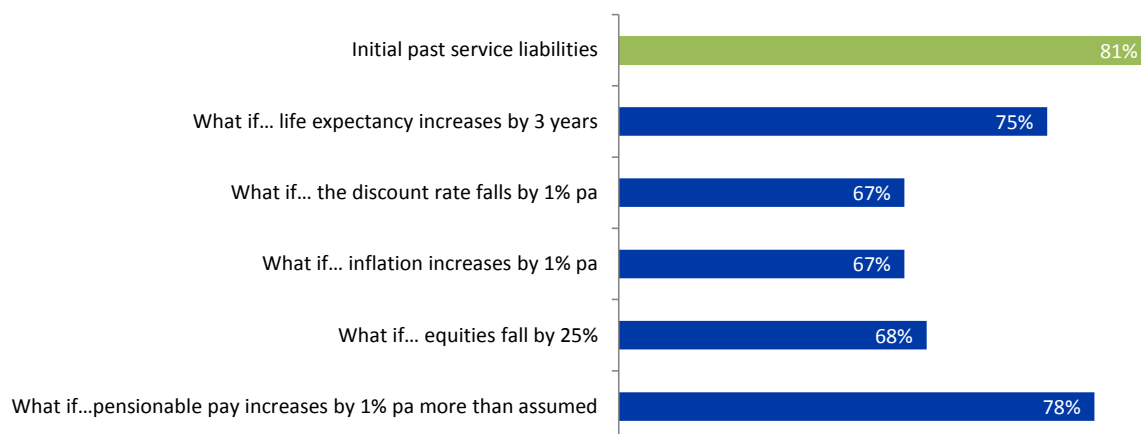
In practice, some of these changes may be partially offset by other changes in the values of the assets or the liabilities. For example, a reduction in the expected investment return or inflation might lead to a compensating change in asset values, or a change in asset values might lead to a compensating change in expected investment returns.

These potential effects are not shown in the chart on the next page.

Further information on the risks and actions taken by the Fund to mitigate them can be found in the Fund's Funding Strategy Statement.

Risks and uncertainties

The chart below shows the approximate impact on the funding ratio of the Fund under a number of different scenarios.



The analysis demonstrates that on the approach used the Fund is susceptible to:

- Falls in expected investment returns (the discount rate) to the extent not matched by higher asset values
- Falls in the market value of equities to the extent not offset by higher expected future returns
- Rising inflation and pay increase expectations
- Members living longer than expected

The scenarios considered are not 'worst case' scenarios, and could occur in combination (rather than in isolation).

The future service contribution rate (primary contribution rate) is also highly sensitive to a number of the above factors: falls in expected investment returns, rising inflation expectations and increases in life expectancy.

All the risks considered have a negative impact on the funding ratio. Opposite movements could also apply for each scenario which would result in an increase in the funding ratio.

Individual Employer contribution rates

Employers, or groups of Employers, are set their own contribution rate which reflects their specific circumstances.

The Employer contribution rates are set by the Fund Actuary taking into account a number of factors including:

- Regulation 62 – which requires the Actuary to have regard to
 - The existing and prospective liabilities
 - The desirability of maintaining as nearly a constant a primary contribution rate as possible
 - The Administering Authority's Funding Strategy Statement, and
 - The requirement to secure the solvency of the Fund and the long-term cost efficiency of the Scheme, so far as relating to the Fund.
- The results of the valuation.
- Developments since the valuation date.
- Discussions between the Fund Actuary, the Administering Authority and Employers.

Contribution rates for Employers which contribute to the Fund are set out in the Rates and Adjustments Certificate in Appendix 7.

Rates of contribution payable by individual Employers, or groups of Employers, differ because they take into account Employers' particular membership profiles and funding ratios and, in some cases, the assumptions and recovery periods are specific to the Employer's circumstances. We have agreed with the Administering Authority that increases in contribution rates for some Employers can be phased in over periods not exceeding 3 years as set out in the Funding Strategy Statement.

For certain Employers who are in surplus, it has been agreed with the Administering Authority that the Employer can use the surplus to support the payment of contributions to the Fund at a rate below the future service contribution rate.

The contributions payable by individual Employers are set out in Appendix 7.

The aggregate Employer contributions certified for the 3 years from 1 April 2017 can be summarised as follows:

Year from 1 April	% of Pensionable Pay	Plus aggregate contribution amount (£M)
2017	16.2%	68.8
2018	16.4%	7.3
2019	16.5%	8.6

- The annual contribution amounts above are the aggregate of the additional contribution amounts certified for individual Employers in each year.
- Payments to meet additional costs arising from early retirements and other increases in benefits are payable in addition.
- At the end of the period shown above, the annual contribution amounts for each employer or group are anticipated to increase by approximately 3.5% pa until the end of the relevant recovery period. Thereafter, aggregate contributions are anticipated to be in line with the future service contribution rate of that employer. These contributions will be subject to review at future actuarial valuations.
- Member contributions are payable in addition to the Employers' contribution rates set out above and in Appendix 7. The member contributions are set out in the Regulations. AVCs may be payable in addition.

Individual Employer contribution rates cont.

Terminology

Rates and Adjustments Certificate

Specifies the contributions payable by the Employers until March 2020.

- Contributions by active members and Employers should be paid to the Fund at such time and at such frequency as required by the Regulations and the Administering Authority's Pension Administration Strategy. Any monetary shortfall contributions have been calculated on the basis that they are payable in regular instalments over the relevant year. In some circumstances we have shown equivalent amounts if the Employer were to pay annual contributions as a single payment at the beginning of the relevant year.

Final comments

The key results from this valuation are:

The Fund's assets were £2,321.2M and the past service liabilities were £2,850.5M which correspond to

- a shortfall of £529.3M and
- a funding ratio of 81%.

The cost to the Employers of future benefits building up is 16.7% of Pensionable Pay.

If the shortfall is removed over 21 years from 1 April 2017, the aggregate Employer contributions needed would be equivalent to 24.6%* of Pensionable Pay until 31 March 2033, reverting to 16.7% of Pensionable Pay thereafter.

** if the membership remains broadly stable and pay increases in line with our assumptions.*

Developments since the valuation date

- Market movements since 31 March 2016
 Since 31 March 2016, equity markets have generally risen, although the impact of this has been partially offset by falls in the risk-based discount rate that would be used if the valuation were being carried out at a more recent date (and falls in bond yields for Employers on an Orphan Funding Target).
 Overall, we believe that market movements since the valuation date are likely to have increased the future service (primary) contribution rate but are likely to have had a positive impact on the funding ratio in the period to 31 December 2016. Taking these two offsetting factors together, and bearing in mind the long-term nature of the Fund, our opinion is that certifying contributions based on market conditions as at the valuation date remains appropriate.
- Employers joining or exiting since the valuation date
 Contributions for employers joining since 31 March 2016 will be advised separately. Similarly, a revised Rates and Adjustments Certificate will have been prepared as necessary for any employers exiting the Fund since 31 March 2016.

Monitoring the Fund

In the light of the volatility inherent in situations where investments do not match liabilities, the Administering Authority monitors the financial position in an appropriate manner on a regular basis.

The Administering Authority will also consider monitoring the position of individual employers, particularly those subject to the ongoing orphan funding target and those which may exit the Fund before 1 April 2020. Where permitted by the Regulations and appropriate, contributions for those employers may be amended before the next valuation.

Next actuarial valuation

The next formal actuarial valuation is due to take place as at 31 March 2019.

If actual experience before the next actuarial valuation is in line with the assumptions in this report, we expect the Fund's funding ratio to increase to approximately 85%. This improvement would be mainly due to shortfall payments certified to be paid before the next actuarial valuation.

Appendix 1: Legal framework

It is a legal requirement to carry out a full valuation at least once every three years.

This report was commissioned by and is produced solely for the use of the Administering Authority.

It is produced in compliance with:

- Regulation 62 of the Local Government Pension Scheme Regulations 2013.
- The terms of the agreement between the Administering Authority and Aon Hewitt Limited, on the understanding that it is solely for the benefit of the addressee.

Unless prior written consent has been given by Aon Hewitt Limited, this report should not be disclosed to or discussed with anyone else unless they have a statutory right to see it.

We permit the Administering Authority to release copies of this report to the following parties only:

- Any Employer which contributes to the Fund.
- The Department for Communities and Local Government.

We also permit the Department for Communities and Local Government to pass our report to the Government Actuary's Department in connection with their statutory duties. None of the above bodies has our permission to pass our report on to any other parties.

Notwithstanding such consent, Aon Hewitt Limited does not assume responsibility to anyone other than the addressee of this report.

Appendix 2: Membership data

Membership data was provided by the Administering Authority.

Active members		Number	Average age	Total pensionable pay (£000 pa)	Average pensionable pay (£ pa)	Average service (years)	Average post 2014 pension (£)
Men	2016	5,255	45.5	128,615	24,475	11.1	918
	2013	5,400	45.9	127,955	23,695	14.4	N/A
Women	2016	12,475	44.9	214,698	17,210	7.2	645
	2013	11,785	44.8	203,701	17,285	9.4	N/A
Total	2016	17,730	45.0	343,313	19,363	8.4	726
	2013	17,185	45.1	331,656	19,299	11.0	N/A

Notes:

The average ages shown in these tables are unweighted.

Pensionable pay at the 2016 valuation is based on the 2014 scheme definition.

Pensionable pay is over the year to the valuation date, and includes annualised pay for new entrants during the year. Actual part-time pay is included for part-timers.

Average service at the 2016 valuation is to 31 March 2014.

Deferred members		Number	Average age	Total pension (£000 pa)	Average pension (£ pa)
Men	2016	4,507	44.7	11,172	2,479
	2013	3,915	44.1	9,117	2,329
Women	2016	10,558	45.5	16,594	1,572
	2013	8,530	44.6	12,408	1,455
Total	2016	15,065	45.3	27,766	1,843
	2013	12,445	44.4	21,525	1,730

Note: The deferred pension amounts shown above include increases up to and including April 2016 (2013: April 2013). There were also 1,101 members who had yet to decide whether to take transfer payments (2013:989) and suitable allowance has been made for these in our calculations.

Pensioners		Number	Average age	Total pension (£000 pa)	Average pension (£ pa)
Men	2016	6,818	70.7	51,039	7,486
	2013	6,469	69.9	46,366	7,167
Women	2016	8,079	70.5	28,325	3,506
	2013	7,242	69.8	23,855	3,294
Dependants	2016	2,519	74.1	7,219	2,866
	2013	2,725	73.0	7,401	2,716
Total	2016	17,409	71.1	86,583	5,162
	2013	16,436	70.4	77,622	4,723

Note: The pension amounts shown above include the increase awarded in April 2016 (2013: April 2013). The figures include 121 children in receipt of pensions (2013: 154). Suitable allowance has been made for these in our calculations.

Appendix 3: Benefits

The benefits of the Local Government Pension Scheme are set out in Regulations, the principal Regulations currently being:

- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as subsequently amended)
- the Local Government Pension Scheme Regulations 2013 (as subsequently amended)

A broad summary of the benefits payable to active members as at 31 March 2016 is given below. This reflects our understanding of the Regulations at the time of writing. This may however be subject to change and readers should refer to the Regulations for further details.

	Benefits accrued before 1 April 2014	Benefits accrued after 31 March 2014
Type of scheme	Final salary	Career average revalued earnings (CARE)
Normal Retirement / Pension Age	65	Linked to State Pension Age (or age 65 if higher)
Member contributions	No longer applicable	Between 5.5% of pay and 12.5% of actual Pensionable Pay dependent on contribution band the member is in
50:50 option	Not applicable	Members can opt to pay 50% contributions for 50% of member's pension benefit (dependants' benefits not affected)
Pensionable Pay	Generally total pay (excluding non-contractual overtime)	Generally total pay (including non-contractual overtime)
Final Pay	Generally Pensionable Pay over the 12 months prior to retirement or earlier exit or, if higher, in one of the preceding two years.	Not applicable
Pensionable service	Membership of Fund (years and days), plus periods of credited service	Not applicable

	Benefits accrued before 1 April 2014	Benefits accrued after 31 March 2014
Normal retirement pension	<p>1/60 of Final Pay for each year of Pensionable Service on or after 1 April 2008.</p> <p>For each year of Pensionable Service before 1 April 2008:</p> <ul style="list-style-type: none"> ▪ a pension of 1/80 of Final Pay, plus ▪ a cash sum of 3/80 of Final Pay 	<p>1/49 of Pensionable Pay received during each year of membership from 1 April 2014, revalued.</p> <p>The resulting accumulated pension is called the 'pension account'.</p>
Retirement cash sum	<p>Pension can be surrendered for additional cash sum to a maximum cash sum of one quarter of the total capital value of benefits.</p> <p>Conversion rate is £12 for each £1 pa of pension given up</p>	
Early retirement pension	<p>Reduced pension payable on retirement after age 60, or after age 55 with Employer consent.</p> <p>Pension calculated as for normal retirement but based on Pensionable Service to early retirement date, and reduced for early payment.</p> <p>Certain categories of member eligible for protection can retire on unreduced pension if their age plus Pensionable Service is greater than or equal to 85 years, with Employer consent required if under age 60.</p>	<p>Reduced pension payable on retirement after age 55.</p> <p>Pension calculated as for normal retirement but based on revalued Pensionable Pay up to early retirement date (and final Pensionable Pay at early retirement in relation to final salary benefits), and reduced for early payment.</p> <p>Certain categories of member eligible for protection can retire on unreduced pension if their age plus Pensionable Service is greater than or equal to 85 years, with employer agreement required if under age 60.</p>
Incapacity and ill-health pensions	<p>In each case members must</p> <ul style="list-style-type: none"> ▪ be permanently incapable of efficiently discharging the duties of the employment they were engaged in to qualify and ▪ be incapable of immediately undertaking any gainful employment 	

	Benefits accrued before 1 April 2014	Benefits accrued after 31 March 2014
Incapacity and ill-health pensions (continued)	<p>Tier 1</p> <ul style="list-style-type: none"> Payable to members with more than 2 years of Pensionable Service. Immediate payment of accrued pension, plus an enhancement equal to the amount of earned pension the member would have accrued between the date of leaving and Normal Pension Age, based on Assumed Pensionable Pay. <p>To qualify for this benefit the member must be unlikely to be capable of undertaking any gainful employment before Normal Pension Age.</p> <p>Tier 2</p> <ul style="list-style-type: none"> Payable to members with more than 2 years of Pensionable Service. Immediate payment of accrued pension, plus an enhancement equal to 25% of the Tier 1 enhancement. <p>To qualify for this benefit the member must be expected to be capable of undertaking gainful employment at some point after 3 years, but before Normal Pension Age.</p> <p>Tier 3</p> <p>Subject to members having qualifying service of 2 years or more:</p> <ul style="list-style-type: none"> Payable to members with more than 3 months' Pensionable Service based on accrued pension. To qualify for this benefit the member must be expected to be capable of undertaking gainful employment at some point within 3 years of date of exit. Payable for 3 years or until gainful employment obtained, if earlier. 	
Leaving Pensionable Service	<p>Pension payable on retirement at Normal Retirement Age based on Final Pay at exit and Pensionable Service to date of exit.</p> <p>Certain categories of member can retire early on unreduced pension if aged 60 or over and their age plus service is greater than or equal to 85 years. Service in this case includes the period between date of exit and date pension commences.</p>	<p>Pension payable on retirement at Normal Pension Age calculated as for normal retirement based on revalued Pensionable Pay during period of membership.</p>

	Benefits accrued before 1 April 2014	Benefits accrued after 31 March 2014
CARE revaluation in service	Not applicable	In line with increases in the Consumer Prices Index (CPI)
Deferred pension revaluation after leaving	<ul style="list-style-type: none"> Guaranteed Minimum Pensions (GMPs) increase in deferment in line with State revaluation factors. Deferred pensions in excess of GMPs increase in line with CPI 	In line with CPI (subject to a minimum of zero)
Pension increases in payment	<ul style="list-style-type: none"> GMPs accrued after 6 April 1988 increase at the lower of 3% pa and CPI, with the exception of members who reach State Pension Age between 6 April 2016 and 5 December 2018. Pensions in payment in excess of GMPs, and GMPs accrued after 6 April 1988 for members who reach State Pension Age between 6 April 2016 and 5 December 2018, increase in line with CPI. 	In line with CPI (subject to a minimum of zero)
Death benefits	<ul style="list-style-type: none"> A cash sum of 3 x Assumed Pensionable Pay at exit. 	
	A partner's pension of 1/160 of Final Pay for each year of Pensionable Service before 1 April 2014.	A partner's pension of 1/160 of revalued Pensionable Pay received during membership from 1 April 2014 plus an enhancement to pension of 1/160 of Assumed Pensionable Pay at death for each year between death and Normal Pension Age.
	<ul style="list-style-type: none"> Partners are spouses, civil partners and cohabitants Children's pensions may be payable 	
State pension scheme	The Scheme was contracted out of the State Second Pension Scheme until contracting-out was abolished in April 2016.	

	Benefits accrued before 1 April 2014	Benefits accrued after 31 March 2014
Protections / underpins	<p>Pre 2014 benefits protected (including link to eventual Final Pay).</p> <p>Underpin of benefits on 2008 Scheme structure for members aged over 55 in April 2012.</p> <p>Rule of 85 retained for members aged over 60 on 31 March 2016. Tapered protection of Rule of 85 for members aged over 60 on 31 March 2020.</p> <p>Rule of 85 retained for service before 31 March 2008 for those with scheme membership before 1 October 2006.</p>	
Vesting period	A refund of member contributions is paid for members leaving membership with qualifying service of less than 2 years.	

Appendix 4: Consolidated revenue account

We show a summary of the revenue and outgo of the Fund since the previous valuation below, taken from the Fund's Report and Accounts.

	Total £000
Fund as at 31 March 2013	2,085,460
Income	
Contributions	
Employer normal	142,486
Employer additional	87,770
Employer special	10,244
Employee	67,183
Transfers-in	9,037
Investment income	85,125
Other	14,709
Total income	413,554
Outgo	
Pensions paid	263,085
Retirement cash sums	54,790
Transfers-out	45,842
Death benefits paid out	5,329
Refunds of contributions on leaving	222
Expenses	
Investment	20,318
Administration	4,429
State scheme premiums	77
Other	-
Total outgo	394,092
Change in market value	216,295
Fund as at 31 March 2016	2,321,217

Appendix 5: Assumptions used to value the liabilities

The assumptions used for calculating the past service liabilities and the cost of future benefit accrual are summarised below.

Financial assumptions

In-service discount rate	
<i>Scheduled body / subsumption funding target</i>	4.5% pa
<i>Orphan body funding target</i>	4.5% pa
<i>Already orphaned liabilities</i>	2.1% pa
Left-service discount rate	
<i>Scheduled body / subsumption funding target</i>	4.5% pa
<i>Orphan body funding target</i>	2.5% pa
<i>Already orphaned liabilities</i>	2.1% pa
Rate of Pensionable Pay increases (service up to 31 March 2014 only) (in addition to promotional increases)	3.5% pa
Rate of CPI price inflation	2.0% pa
Rate of revaluation of pension accounts	2.0% pa
Rate of pension increases	
on non GMPs	2.0% pa
on post 88 GMPs	1.8% pa
Rate of deferred pension increases	
non GMP	2.0% pa
GMP	3.5% pa
Administration expenses	0.4% of Pensionable Pay

Demographic assumptions

Pre-retirement base mortality	Males: 50% of Standard SAPS S2P tables Females: 50% of Standard SAPS S2P tables	
Post-retirement base mortality	Males: 95% of Standard SAPS S2P tables Females: 100% of Standard SAPS S2P tables	
III-health retirement base mortality	Males: 110% of Standard SAPS S2P III Health tables Females: 115% of Standard SAPS S2P III Health tables	
Improvements to mortality	An allowance for improvements between 2007 and 2016 and an allowance for future improvements has been made in line with the assuming a long-term annual rate of improvement in mortality rates of 1.5% pa for men and women.	
Promotional salary increases	Allowance has been made for age-related promotional increases (see sample rates below).	
Withdrawals	Allowance has been made for withdrawals from service (see sample rates below). On withdrawal, members are assumed to leave a deferred pension in the Fund.	
Retirement age	Members were assumed to retire at the following ages:	
	Member group	Assumed age at retirement
	Active members with protected Rule of 85 age (joined LGPS before 1 October 2006 and attained age 60 before 1 April 2020)	Rule of 85 age (or age 60 if higher). Any part of their pension payable from a later age will be reduced.
	Active members who joined before 1 April 2014 and not included in above group	Age 65. Post 2014 pensions will be reduced if the member's State Pension Age is projected to be over age 65 at that point.
	Deferred members who joined the Fund before 1 April 2014 with protected Rule of 85 age	Rule of 85 age (or age 60 if higher). Any part of their pension payable from a later age will be reduced.
	Deferred members who joined the Fund before 1 April 2014 with no protected Rule of 85 age	Age 65.
	All other active and deferred members	State Pension Age (or age 65 if higher)
Retirement cash sum	Each member is assumed to surrender pension on retirement, such that the total cash received is 80% of the permitted maximum.	

<p>Family details</p>	<p>Each man was assumed to be three years older than his wife/partner.</p> <p>80% of non-pensioners were assumed to be married or have a spouse, civil partner or co-habitee ('partner') at retirement or earlier death.</p> <p>80% of pensioners were assumed to be married or have a partner at age 65.</p> <p>Partners were assumed to exhibit the same mortality as pensioners of the same sex who retired in normal health.</p> <p>No allowance for children's pensions.</p>						
<p>Retirement due to ill-health</p>	<p>Allowance has been made for retirements due to ill-health (see below). Proportions assumed to fall into the different benefit tiers are:</p> <table data-bbox="638 649 957 795"> <tr> <td>Tier 1</td> <td>80%</td> </tr> <tr> <td>Tier 2</td> <td>10%</td> </tr> <tr> <td>Tier 3</td> <td>10%</td> </tr> </table>	Tier 1	80%	Tier 2	10%	Tier 3	10%
Tier 1	80%						
Tier 2	10%						
Tier 3	10%						
<p>Take up of 50:50 scheme</p>	<p>All members are assumed to remain in the scheme they are in at the date of the valuation.</p>						

Sample rates

The table below illustrates the allowances made for withdrawals from service and ill-health retirement at various ages. Also shown is the allowance included for promotional pay increases, which is shown as the percentage increase over the next year.

Current age	Percentage promotional pay increase over year		Percentage leaving the Fund each year as a result of withdrawal from service	Percentage leaving the Fund each year as a result of ill-health retirement	
	Men	Women	Men & Women	Men	Women
20	7.0	3.0	11.5	0.00	0.00
25	4.5	2.7	9.5	0.01	0.01
30	2.1	1.4	7.6	0.03	0.02
35	1.0	0.0	6.1	0.05	0.03
40	0.0	0.0	4.6	0.07	0.04
45	0.0	0.0	3.0	0.12	0.07
50	0.0	0.0	1.5	0.16	0.11
55	0.0	0.0	0.0	0.35	0.24
60	0.0	0.0	0.0	0.55	0.38
65	0.0	0.0	0.0	0.00	0.00

Appendix 6: Membership experience

We have compared the actual amounts of pension of deaths, retirements and other exits since the previous valuation with the amounts expected on the assumptions used for the 2016 valuation:

Type of exit	Men £000s	Women £000s
Death after retirement in normal health *		
Actual	2,460	889
Expected	2,693	994
Death after retirement in ill health *		
Actual	1,042	514
Expected	1,086	521
Death in service		
Actual	52	38
Expected	122	143
Withdrawals (excluding refunds)		
Actual	2,431	3,164
Expected	2,108	3,565
Ill-health retirements		
Actual	198	153
Expected	233	179

** Note that these figures exclude deaths in February and March 2016 due to lack of data*

Appendix 7: Rates and Adjustments Certificate

Actuarial certificate given for the purposes of Regulation 62 of the Local Government Pension Scheme Regulations 2013.

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013 ('the 2013 Regulations'), we certify that contributions should be paid by Employers at the following rates for the period 1 April 2017 to 31 March 2020.

- An aggregate primary rate of 16.7% pa of Pensionable Pay.
- Individual adjustments (i.e. secondary contribution rates) which, when added to or subtracted from the primary rate, produce the following minimum Employer contribution rates.

Employer	Primary Contribution rate % Pensionable Pay	Secondary contributions (% Pensionable Pay and £s) Year commencing 1 April			Total contributions (% Pensionable Pay and £s) Year commencing 1 April		
		2017	2018	2019	2017	2018	2019
Schedule 2 Part 1 bodies / Schedule 2 Part 2 bodies (Scheduled bodies)							
Advance Learning Partnership	17.4%	£50,200	£52,000	£53,800	17.4% plus £50,200	17.4% plus £52,000	17.4% plus £53,800
Apollo Studio Academy	21.0%	£3,800	£12,500	£21,300	21.0% plus £3,800	21.0% plus £12,500	21.0% plus £21,300
Bishop Auckland College	16.2%	(0.5%)	£27,000	£67,300	15.7%	16.2% plus £27,000	16.2% plus £67,300
BRandH Academy	15.9%	(1.1%)	£1,000	£5,000	14.8%	15.9% plus £1,000	15.9% plus £5,000
Carmel Education Trust	16.6%	£8,700	£34,600	£60,400	16.6% plus £8,700	16.6% plus £34,600	16.6% plus £60,400
Cleves Cross Learning Trust	18.9%	£18,500	£28,300	£38,100	18.9% plus £18,500	18.9% plus £28,300	18.9% plus £38,100

Employer	Primary Contribution rate % Pensionable Pay	Secondary contributions (% Pensionable Pay and £s) Year commencing 1 April			Total contributions (% Pensionable Pay and £s) Year commencing 1 April		
		2017	2018	2019	2017	2018	2019
County Durham & Darlington Fire & Rescue Brigade	16.6%	£43,000	£82,000	£122,000	16.6% plus £43,000	16.6% plus £82,000	16.6% plus £122,000
Darlington Borough Council	16.7%	(2.0%) plus £2,290,000	(0.9%) plus £2,370,000	0.1% plus £2,453,000	14.7% plus £2,290,000	15.8% plus £2,370,000	16.8% plus £2,453,000
		Should Darlington Borough Council make an advance payment of £6,656,000 between 1 April 2017 and 5 April 2017, the following contributions will apply.					
		(2.0%)	(0.9%)	0.1%	14.7%	15.8%	16.8%
Darlington College	16.4%	£27,200	£71,700	£116,100	16.4% plus £27,200	16.4% plus £71,700	16.4% plus £116,100
Derwentside College	16.8%	£72,400	£125,400	£178,400	16.8% plus £72,400	16.8% plus £125,400	16.8% plus £178,400
Durham County Council (Unitary)	16.7%	£23,210,000	£24,020,000	£24,860,000	16.7% plus £23,210,000	16.7% plus £24,020,000	16.7% plus £24,860,000
		Should Durham County Council make an advance payment of £55,890,000 between 1 April 2017 and 5 April 2017, the following contributions will apply.					
		£3,980,000	£4,120,000	£4,260,000	16.7% plus £3,980,000	16.7% plus £4,120,000	16.7% plus £4,260,000
East Durham College	15.3%	(0.6%)	£57,300	£144,700	14.7%	15.3% plus £57,300	15.3% plus £144,700
Education Village Academy Trust	15.4%	£4,900	£31,200	£59,200	15.4% plus £4,900	15.4% plus £31,200	15.4% plus £59,200
Federation of Abbey Schools	18.2%	(1.5%)	£1,700	£9,900	16.7%	18.2% plus £1,700	18.2% plus £9,900

Employer	Primary Contribution rate % Pensionable Pay	Secondary contributions (% Pensionable Pay and £s) Year commencing 1 April			Total contributions (% Pensionable Pay and £s) Year commencing 1 April		
		2017	2018	2019	2017	2018	2019
Federation of Mowden Schools Academy Trust	13.9%	(0.3%)	£4,200	£10,000	13.6%	13.9% plus £4,200	13.9% plus £10,000
Firthmoor Primary School	17.2%	£5,000	£8,600	£12,200	17.2% plus £5,000	17.2% plus £8,600	17.2% plus £12,200
Framwellgate School / Excel Academy Partnership	15.6%	£8,900	£16,000	£23,100	15.6% plus £8,900	15.6% plus £16,000	15.6% plus £23,100
Hopewood Academy	14.9%	£12,900	£24,000	£35,900	14.9% plus £12,900	14.9% plus £24,000	14.9% plus £35,900
Hummersknott Academy	16.8%	£18,100	£40,900	£65,200	16.8% plus £18,100	16.8% plus £40,900	16.8% plus £65,200
Hurworth School	17.3%	(0.9%)	£11,500	£30,700	16.4%	17.3% plus £11,500	17.3% plus £30,700
King James I Academy	15.9%	£25,100	£30,400	£36,100	15.9% plus £25,100	15.9% plus £30,400	15.9% plus £36,100
Lingfield Education Trust	16.1%	£25,600	£31,000	£36,500	16.1% plus £25,600	16.1% plus £31,000	16.1% plus £36,500
Longfield Trust	15.3%	£28,000	£40,000	£52,000	15.3% plus £28,000	15.3% plus £40,000	15.3% plus £52,000
New College Durham Academies Trust	16.7%	£33,000	£53,000	£73,000	16.7% plus £33,000	16.7% plus £53,000	16.7% plus £73,000
New College, Durham	16.1%	£148,000	£272,000	£396,000	16.1% plus £148,000	16.1% plus £272,000	16.1% plus £396,000
New Seaham Academy	23.6%	£2,400	£3,000	£3,500	23.6% plus £2,400	23.6% plus £3,000	23.6% plus £3,500

Employer	Primary Contribution rate % Pensionable Pay	Secondary contributions (% Pensionable Pay and £s) Year commencing 1 April			Total contributions (% Pensionable Pay and £s) Year commencing 1 April		
		2017	2018	2019	2017	2018	2019
North East Learning Trust	15.8%	£41,000	£68,000	£95,000	15.8% plus £41,000	15.8% plus £68,000	15.8% plus £95,000
Office of the Police and Crime Commissioner for Durham	15.0%	£645,000	£667,000	£690,000	15.0% plus £645,000	15.0% plus £667,000	15.0% plus £690,000
Park View School	16.0%	£11,700	£25,400	£39,200	16.0% plus £11,700	16.0% plus £25,400	16.0% plus £39,200
Polam Hall Free School	18.5%	(0.2%)	(0.2%)	(0.2%)	18.3%	18.3%	18.3%
Queen Elizabeth Sixth Form College	16.9%	0.0%	£5,600	£11,100	16.9%	16.9% plus £5,600	16.9% plus £11,100
Reid Street Primary School	18.6%	£6,200	£9,300	£12,400	18.6% plus £6,200	18.6% plus £9,300	18.6% plus £12,400
Ribbon Academy	16.8%	£17,100	£27,500	£38,600	16.8% plus £17,100	16.8% plus £27,500	16.8% plus £38,600
St Aidan's C of E Academy	16.9%	£1,500	£1,500	£1,600	16.9% plus £1,500	16.9% plus £1,500	16.9% plus £1,600
St Bede's Catholic College Lanchester	16.5%	£35,000	£44,000	£53,000	16.5% plus £35,000	16.5% plus £44,000	16.5% plus £53,000
St Bede's RC Primary	16.5%	0.0%	£3,200	£6,700	16.5%	16.5% plus £3,200	16.5% plus £6,700
St George's CE Aided Primary School	19.5%	£1,900	£7,000	£12,100	19.5% plus £1,900	19.5% plus £7,000	19.5% plus £12,100
St John's CE Aided School	15.4%	(0.6%)	£2,400	£6,800	14.8%	15.4% plus £2,400	15.4% plus £6,800

Employer	Primary Contribution rate % Pensionable Pay	Secondary contributions (% Pensionable Pay and £s) Year commencing 1 April			Total contributions (% Pensionable Pay and £s) Year commencing 1 April		
		2017	2018	2019	2017	2018	2019
St John's School and Sixth Form	17.4%	£15,100	£36,100	£57,100	17.4% plus £15,100	17.4% plus £36,100	17.4% plus £57,100
Staindrop School	16.5%	£23,500	£25,200	£27,000	16.5% plus £23,500	16.5% plus £25,200	16.5% plus £27,000
The Hermitage Academy	15.5%	£20,700	£33,000	£45,300	15.5% plus £20,700	15.5% plus £33,000	15.5% plus £45,300
Town & Parish Councils	17.2%	1.9%	1.9%	1.9%	19.1%	19.1%	19.1%
Tudhoe Learning Trust	16.2%	£44,700	£73,400	£104,000	16.2% plus £44,700	16.2% plus £73,400	16.2% plus £104,000
West Park Academy	16.1%	(0.5%)	£5,100	£13,600	15.6%	16.1% plus £5,100	16.1% plus £13,600
Woodham Academy	18.0%	£24,200	£32,300	£40,400	18.0% plus £24,200	18.0% plus £32,300	18.0% plus £40,400
Wyvern Academy	18.1%	(1.7%)	£6,300	£19,500	16.4%	18.1% plus £6,300	18.1% plus £19,500
Schedule 2 Part 3 bodies (Admission bodies) with a subsumption funding target							
Future Leisure in Coxhoe	15.7%	(13.2%)	(13.2%)	(13.2%)	2.5%	2.5%	2.5%
Keepmoat	22.1%	£1,700	£1,800	£1,900	22.1% plus £1,700	22.1% plus £1,800	22.1% plus £1,900
Mears	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Morrison Facilities Services Limited	20.8%	(20.8%)	(20.8%)	(20.8%)	0.0%	0.0%	0.0%
NECA Services Limited	16.7%	(2.0%)	(0.9%)	0.1%	14.7%	15.8%	16.8%
Taylor Shaw Primary	20.1%	(4.2%)	(4.2%)	(4.2%)	15.9%	15.9%	15.9%

Employer	Primary Contribution rate % Pensionable Pay	Secondary contributions (% Pensionable Pay and £s) Year commencing 1 April			Total contributions (% Pensionable Pay and £s) Year commencing 1 April		
		2017	2018	2019	2017	2018	2019
Schedule 2 Part 3 bodies (Admission bodies)							
Barnard Castle School	29.0%	£77,500	£116,900	£156,400	29.0% plus £77,500	29.0% plus £116,900	29.0% plus £156,400
Carillion	24.9%	(5.2%)	(2.3%)	0.7%	19.7%	22.6%	25.6%
Cestria Community Housing*	21.6%	(5.3%)	(1.6%)	£78,000	16.3%	20.0%	21.6% plus £78,000
Churchill Contract Services Limited	29.4%	£1,380	£1,430	£1,480	29.4% plus £1,380	29.4% plus £1,430	29.4% plus £1,480
Compass Group UK	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
County Durham Housing Group*	16.1%	£804,000	£912,000	£1,021,000	16.1% plus £804,000	16.1% plus £912,000	16.1% plus £1,021,000
Derwentside Homes*	20.2%	(3.6%)	(1.4%)	£42,000	16.6%	18.8%	20.2% plus £42,000
Leisureworks*	17.4%	£3,200	£22,400	£41,600	17.4% plus £3,200	17.4% plus £22,400	17.4% plus £41,600
livin Housing*	19.3%	(5.2%)	(5.2%)	(5.2%)	14.1%	14.1%	14.1%
Mitie Cleaning	35.1%	£500	£1,300	£2,100	35.1% plus £500	35.1% plus £1,300	35.1% plus £2,100
Mitie PFI Ltd	39.0%	£2,700	0	0	39.0% plus £2,700	39.0%	39.0%
Murton Welfare Association	26.5%	(3.6%)	(1.0%)	£1,000	22.9%	25.5%	26.5% plus £1,000

Employer	Primary Contribution rate % Pensionable Pay	Secondary contributions (% Pensionable Pay and £s) Year commencing 1 April			Total contributions (% Pensionable Pay and £s) Year commencing 1 April		
		2017	2018	2019	2017	2018	2019
Orian Solutions Limited	27.7%	£460	£470	£490	27.7% plus £460	27.7% plus £470	27.7% plus £490
Teesdale Housing Association	27.9%	£10,000	£21,800	£34,400	27.9% plus £10,000	27.9% plus £21,800	27.9% plus £34,400
The Forge	28.1%	(7.6%)	(7.6%)	(7.6%)	20.5%	20.5%	20.5%
Three Rivers Housing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

* Liabilities in respect of the members who originally transferred to these employers are subject to a subsumption agreement

The contributions shown above represent the minimum contributions to be paid by each Employer. Employers may choose to pay additional contributions from time to time subject to the Administering Authority's agreement.

Where payments due from an Employer are expressed as monetary amounts, the amounts payable by that Employer may be adjusted to take account of any amounts payable, in respect of a surplus or shortfall to which those monetary payments relate, by new employers created after the valuation date which have been credited with proportions of the assets and liabilities of the relevant Employer.

Additional contributions may be required in respect of any additional liabilities that arise under the provisions of Regulations 30, 31, 35 and 38 of the 2013 Regulations and Employers will be notified of such contributions separately by the Administering Authority.

Additional contributions may be payable by any Employers which have ceased to participate in the Fund and these will be certified separately. This includes Three Rivers Housing and Compass Group UK.

Contribution rates for Employers commencing participation in the Fund after 31 March 2016 will be advised separately. This includes Mears who retendered and retained an existing contract after the valuation date.

Aon Hewitt

This certificate should be read in conjunction with the notes overleaf.

Signed on behalf of Aon Hewitt Limited



Chris Archer FIA
Fellow of the Institute and Faculty of Actuaries

31 March 2017

Aon Hewitt Limited
25 Marsh Street
Bristol BS1 4AQ

Becky Durran FIA
Fellow of the Institute and Faculty of Actuaries

Notes to Actuary's certificate

The contribution rates certified have been assessed using the actuarial methods and assumptions detailed in our actuarial valuation report dated 31 March 2017. In particular the following assumptions have been made regarding retirement liabilities from active membership status:

Normal, late and voluntary retirement under Regulations 30(1), 30(3) and 30(5) of the 2013 Regulations

The assumptions regarding retirement at each age are as summarised in Appendix 5 of our valuation report.

Such retirements are generally 'cost neutral'. Additional funding would not normally be required if actual retirements exceed the number anticipated, unless retirements occur before Normal Pension Age and no reduction for early payment applies. The Administering Authority requires separate funding of any additional liabilities arising from such retirements and, as such, the financial impact of these retirements is broadly neutral.

Ill-health under Regulation 35 of the 2013 Regulations

The assumptions regarding ill health retirement at each age are as summarised in Appendix 5 of our valuation report.

Such retirements increase costs due to the early payment of enhanced benefits. If actual retirements exceed the number anticipated, and no action is taken before the next valuation, this would be identified as a source of loss at the next valuation.

Severance and redundancy under Regulation 30(7) of the 2013 Regulations

No allowance is made in the valuation for retirements in these circumstances.

Such retirements increase costs due to the early payment of benefits. Any enhancement of benefits through the Fund would increase costs further. If actual retirements exceed the number anticipated, and no action is taken before the next valuation, this would be identified as a source of loss at the next valuation. The Administering Authority requires separate funding of liabilities arising from such retirements and, as such, the financial impact of these retirements is broadly neutral.

Flexible retirement under Regulation 30(6) of the 2013 Regulations

No allowance is made in the valuation for retirements in these circumstances.

Such retirements are generally 'cost neutral'. Additional funding would not normally be required if actual retirements exceed the number anticipated, unless retirements occur before Normal Pension Age and no reduction for early payment applies. The Administering Authority requires separate funding of any additional liabilities arising from such retirements and, as such, the financial impact of these retirements is broadly neutral.

In this certificate, references to:

- the 2013 Regulations mean the Local Government Pension Scheme Regulations 2013

Appendix 8: Glossary

Active member

A person who is employed by an employer participating in the Fund, and is paying (or is treated as paying) contributions to the Fund (includes certain members temporarily absent, eg due to family leave or sickness).

Admission Body

An employer admitted to the Fund under an admission agreement.

Attained age method

This is one of the methods used by actuaries to calculate a contribution rate to the Fund. This method calculates the present value of the benefits expected to accrue to members over their expected remaining membership of the Fund expressed as a percentage of their expected future pensionable pay. It allows for projected future increases to pay or revaluation as appropriate through to retirement or date of leaving service. The method is based on the current membership and takes no account of the possibility of further members joining the Fund. If there are no new members, this method would be expected to result in a stable contribution rate, once surpluses or shortfalls are taken into account, and if all the other assumptions are borne out. However, if more members join the Fund to replace older leavers, the contribution rate can be expected to fall.

Consumer Prices Index (CPI)

This is the price inflation index that increases to pensions and deferred pensions paid by the Fund are currently based on. It is published every month by the Office of National Statistics.

Deferred members

A former employee who has left active membership, but has not yet received any benefits from the Fund and is prospectively entitled to receive a deferred pension from his/her normal pension age.

Discount rate

This is used to place a present value on a future payment.

Fund Actuary

The actuary to the Fund, who provides actuarial advice to the Administering Authority including carrying out the actuarial valuation contained in this report.

Funding objective

To hold sufficient and appropriate assets to cover the Funding Target.

Funding ratio

This is the ratio of the value of assets to the Funding Target.

Funding Strategy Statement

A document prepared by the Administering Authority in accordance with the Regulations which sets out the funding strategy adopted for the Fund. The Actuary must have regard to this statement in preparing this actuarial valuation.

Funding target

An assessment of the present value of the benefits that will be paid from the Fund in the future, normally based on pensionable service prior to the valuation date. Under the current Funding Strategy Statement the funding target is equal to the past service liabilities calculated using a prudent set of assumptions.

Future service contribution rate

The contribution rate (expressed as a percentage of Pensionable Pay) required to meet the cost of benefits which will accrue to members in future. This is also known as the primary contribution rate.

Guaranteed Minimum Pensions (GMPs)

Most Funds that were contracted out of the State Earnings Related Pension Scheme (SERPS) before April 1997 have to provide a pension for service before that date at least equal to the Guaranteed Minimum Pension (GMP). This is approximately equal to the SERPS pension that the member would have earned had the Fund not been contracted out. GMPs ceased to accrue on 6 April 1997 when the legislation changed.

Long-term cost efficiency

This is not defined in the Regulations but further explanation can be found in the Cipfa guidance 'Preparing and Maintaining a Funding Strategy Statement', dated September 2016:

The notes to the Public Service Pensions Act 2013 state:

Long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time.

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

In assessing whether the above condition is met, GAD may have regard to the following considerations:

- the implied average deficit recovery period
- the investment return required to achieve full funding over different periods, e.g. the recovery period
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future
- the extent to which the required investment return above is less than the administering authority's view of the expected future return being targeted by a fund's investment strategy, taking into account changes in maturity/strategy as appropriate

Orphan employer

This is an employer whose participation in the Fund may cease at some future point in time, after which it is expected that the Administering Authority will have no access to future contributions from that employer for the employer's liabilities in the Fund once any liability on exit has been paid. On exit the employer's liabilities will become 'orphan liabilities' in the Fund.

Ongoing orphan funding target

For active employers whose liabilities are expected to be orphaned on exit, the Administering Authority will have regard to the potential for participation to cease (or for the body to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or a guarantor exists to subsume the notional assets and liabilities). This is known as the ongoing orphan funding target.

Typically employers which will ultimately give rise to Orphan liabilities will have a discount rate which is based on the yield on long-dated fixed interest gilts at a duration appropriate for the Fund's liabilities plus an asset out-performance assumption (typically this addition will be different when applied to liabilities in relation to members still in service and to those who have left service). The addition for the left service discount rate is intended to reflect the Actuary's view of the possible future increase in gilt yields over a five year period, and is greater than market expectations of future increases at the valuation date.

Past service liabilities

This is the present value of the benefits to which members are entitled based on benefits accrued to the valuation date, assessed using the assumptions agreed between a Fund's Administering Authority and the Actuary. It generally allows for projected future increases to pay or revaluation as appropriate through to retirement or date of leaving service.

Present value

Actuarial valuations involve projections of pay, pensions and other benefits into the future. To express the value of the projected benefits in terms of a cash amount at the valuation date, the projected amounts are discounted back to the valuation date by a discount rate. This value is known as the present value. For example, if the discount rate was 4% a year and if we had to pay a cash sum of £1,040 in one year's time the present value would be £1,000.

Primary Rate of the Employers' Contribution

This is not defined in the Regulations but further explanation can be found in the CIPFA guidance Preparing and Maintaining a Funding Strategy Statement, dated September 2016:

The primary rate for each employer is that employer's future service contribution rate, which is the contribution rate required to meet the cost of the future accrual of benefits, expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as the membership profile of that employer, the funding strategy adopted for that employer (including any risk-sharing arrangements operated by the administering authority), the actuarial method chosen and/or the employer's covenant.

The primary rate for the whole fund is the weighted average (by payroll) of the individual employers' primary rates.

Projected unit method

One of the common methods used by actuaries to calculate a contribution rate to a Fund.

This method calculates the present value of the benefits expected to accrue to members over a control period (often one year) following the valuation date. The present value is usually expressed as a percentage of the members' pensionable pay. It allows for projected future increases to pay or revaluation as appropriate through to retirement or date of leaving service. Provided that the distribution of members remains stable with new members joining to take the place of older leavers, the contribution rate calculated can be expected to remain stable, if all the other assumptions are

borne out. If there are no new members however, the average age will increase and the contribution rate can be expected to rise.

Prudent

Prudent assumptions are such that the actual outcome is considered to be more likely to overstate than understate the amount of money actually required to meet the cost of the benefits.

Rates and Adjustments Certificate

A certificate required at each actuarial valuation by the Regulations, setting out the contributions payable by employers for the 3 years from the 1 April following the valuation date.

Recovery period

The period over which any surplus or shortfall is to be eliminated.

Recovery plan

Where a valuation shows a funding shortfall against the past service liabilities, a recovery plan sets out how the Administering Authority intends to meet the funding objective.

Regulations

The statutory regulations setting out the contributions payable to, and the benefits payable from, the Local Government Pension Scheme and how the Funds are to be administered. They currently include the following sets of regulations:

- | | |
|---|--|
| ▪ 1997 Regulations | Local Government Pension Scheme Regulations 1997 |
| ▪ Administration Regulations
Regulations | Local Government Pension Scheme (Administration)
2008 |
| ▪ Benefits Regulations
and | Local Government Pension Scheme (Benefits, Membership,
Contributions) Regulations 2007 |
| ▪ Transitional Regulations
1997 | Local Government Pension Scheme (Transitional provisions)
1997 |
| ▪ 2013 Regulations | Local Government Pension Scheme Regulations 2013 |
| ▪ 2014 Transitional Regulations
Savings | Local Government Pension Scheme (Transitional Provisions,
and Amendment) Regulations 2014 |

Scheduled body

Bodies which participate in the Fund under Schedule 2 Part 1 of the 2013 Regulations.

Scheduled body / subsumption funding target / Local Authority Funding Target

For secure Scheduled Bodies whose participation in the Fund is considered by the Administering Authority to be indefinite and Admission Bodies with a subsumption commitment from such Scheduled Bodies, the Administering Authority assumes indefinite investment in a broad range of assets of higher risk than risk free assets. This is known as the scheduled and subsumption body / Local Authority funding target.

Secondary rate of the employers' contribution

This is not defined in the Regulations but further explanation can be found in the Cipfa guidance 'Preparing and Maintaining a Funding Strategy Statement', dated September 2016:

The secondary rate is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed as a percentage adjustment to the primary rate, and/or a cash adjustment in each of the three years beginning with 1 April in the year following that in which the valuation date falls. The secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the primary and secondary rates.

The actuary is required to also disclose the secondary rates for the whole scheme in each of the three years beginning with 1 April in the year following that in which the valuation date falls. These should be calculated as a weighted average based on the whole scheme payroll in respect of percentage rates and as a total amount in respect of cash adjustments. The purpose of this is to facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates and reconciled with actual receipts.

Shortfall

Where the assets are less than the Funding Target, the shortfall is the Funding Target less the value of assets.

Shortfall contributions

Additional contributions payable by employers to remove the shortfall by the end of the recovery period.

Solvency

This is not defined in the Regulations but further explanation can be found in the CIPFA guidance Preparing and Maintaining a Funding Strategy Statement, dated September 2016:

The notes to the Public Service Pensions Act 2013 state that solvency means that the rate of employer contributions should be set at "such level as to ensure that the scheme's liabilities can be met as they arise". It is not regarded that this means that the pension fund should be 100% funded at all times. Rather, and for the purposes of Section 13 of the Public Service Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions; and either
- employers collectively have the financial capacity to increase employer contributions, and/or the fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed.

If the conditions above are met, then it is expected that the fund will be able to pay scheme benefits as they fall due.

State Pension Age (SPA)

Age at which State pensions are payable. Current legislation specifies the following ages:

- Currently age 65 for men; transitioning to age 65 for women by 2018.
- Current legislation transitions State Pension Age for both men and women to age 68 by 2046, as follows:

- to age 66 by 2020
- to age 67 by 2028
- to age 68 by 2046

Strains

These represent the cost of additional benefits granted to members under a discretion of the employer or the Administering Authority. They include the cost of providing enhanced benefits on retirement or redundancy.

Subsumption and subsumption body

An employer who is not a secure long term Scheduled Body and where the Administering Authority has obtained an undertaking from a related employer that, if and when the employer exits the Fund, they will be a source of future funding should any funding shortfalls emerge on the original employer's liabilities after exit.

In this document the process of taking on the responsibility for future funding at the point of exit is known as 'subsumption' of an employer's liabilities. The employer whose liabilities will be (or are being) subsumed is referred to as a subsumption body.

Surplus

Where the assets are more than the Funding Target, the surplus is the value of assets less the Funding Target.

Transfer value

Members generally have a legal right to transfer their benefits to another pension arrangement before they retire. In taking a transfer, members give up their benefits in a fund, and a sum of money (called the transfer value) is paid into another approved pension fund. This is used to provide pension benefits on the terms offered in that fund.

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