

Fund Account

2017-18			2018-19		
£000	£000		Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND					
-156,395		Contributions receivable	8	-99,068	
-6,453		Transfers in from other pension funds	9	-4,033	
-3		Other income		-3	
	-162,851				-103,104
117,788		Benefits payable	10	126,503	
11,279		Payments to and on account of leavers	11	6,624	
	129,067				133,127
	-33,784	Net withdrawals/ -additions from dealings with members, employers and others			30,023
	17,124	Management expenses	12		15,458
	-16,660	Net withdrawals/ -additions including Fund Management Expenses			45,481
RETURN ON INVESTMENTS					
- 28,093		Investment income	13	-26,513	
- 64,531		Profit and losses on disposal of investments and change in market value of investments	15	-199,268	
	-92,624	Net returns on investments			-225,781
	-109,284	NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR			-180,300

Net Assets Statement

31 March 2018		31 March 2019		
£000	£000	Notes	£000	£000
INVESTMENT ASSETS				
307,224		Equities	15	348,884
556,309		Bonds	15	575,582
<u>1,838,878</u>		Pooled investment vehicles	15	<u>1,962,121</u>
	2,702,411			2,886,587
304		Loans	15	279
		Other cash deposits:		
65,191		Fund Managers	15	40,910
35,041		Short term investments	15	36,933
3,552		Derivative contracts	15	7,052
	<u>104,088</u>			<u>85,174</u>
	2,806,499			2,971,761
Other Investment Assets				
1,611		Dividend accruals	15,18	1,642
597		Tax recovery	15,18	639
<u>21,483</u>		Other investment balances	15,18	<u>27,214</u>
	23,691			29,495
2,830,190	Total Investment Assets			3,001,256
INVESTMENT LIABILITIES				
-5,834		Derivative contracts	15	-3,993
<u>-25,981</u>		Other investment balances	19	<u>-18,486</u>
	-31,815	Total Investment Liabilities		-22,479
2,798,375	NET INVESTMENT ASSETS			2,978,777
	417	Long Term Assets	18	208
Current assets				
7,760		Contributions due from employers	18	8,189
<u>1,394</u>		Other current assets	18	<u>1,862</u>
	9,154			10,051
Current liabilities				
<u>-6,207</u>		Current liabilities	19	<u>-6,997</u>
	<u>-6,207</u>			<u>-6,997</u>
2,801,739	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			2,982,039

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 24.

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 of 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.

	2014/15	2015/16	2016/17	2017/18	2018/19
Contributing Members	18,011	18,530	18,630	19,219	20,116
Pensioners in Payment	17,193	17,715	18,139	18,618	19,404
Pensioners Deferred	13,165	14,451	15,104	15,746	15,987

In comparison to the figures reported at 31 March 2018, the number of pensionable employees in the Fund at 31 March 2019 has increased by 897 (4.67%), the number of pensioners has increased by 786 (4.22%) and deferred pensioners have increased by 241 (1.53%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 112 at 31 March 2019), 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. Further detailed information is provided in Notes 10 and 8 accordingly.

2017-18			2018-19	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
90,326	-113,692	Administering Authority	94,357	-59,075
20,549	-34,888	Scheduled Bodies	24,210	-31,424
6,913	-7,815	Admission Bodies	7,936	-8,569
117,788	-156,395		126,503	-99,068

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 2018/19 (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 23.

3. Accounting Standards issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

No such accounting standards have been identified for 2018/19 that are applicable to the pension fund accounts.

4. 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 accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis). The Fund has a policy of accruing for items of £10k or over, unless in exceptional circumstances.

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;
- Employers' augmentation contributions are accounted for in the year in which they become due;
- Employers' 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 12 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:

- dividend income 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 using the effective interest rate of the financial instrument as at the date of acquisition.
- 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.

Voluntary and Mandatory Scheme Pays (VSP, MSP) and Lifetime Allowances

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

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;
- Unitised, unquoted managed property funds are valued at the net asset value adjusted for cash flows or a single price advised by the fund manager;

- Shares in the Border to Coast Pensions Pool (BCPP) have been valued at cost as a proxy for fair value;
- 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 22.

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.

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 in the Fund Account as part of the Change in Value of Investments. Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and 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 24).

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 20 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 8 as additional contributions from members.

Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

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.

5. Critical judgements in applying accounting policies

The preparation of the statements in accordance with the Code of Practice on Local Authority Accounting 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 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. These assumptions are summarised in Note 24.

6. 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 23 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 2019 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 16) is £171.0m at 31/3/19 (£158.0m at 31/3/18). This consists of the Fund's unlisted property holding. In line with the market risk section within Note 17, there is a risk that the value of the Fund may be over/ under stated in the accounts by £23.77m (£22.28m at 31/3/18), which represents the potential market movement on the value of the unlisted property.

7. Events After the Reporting Period

There have been no events after 31 March 2019 which require any adjustments to be made to these accounts.

8. Contributions Receivable

2017-18 £000		2018-19 £000
	Employer contributions:	
-59,903	Normal	-63,158
-3,994	Augmentation	-4,247
-68,915	Deficit funding	-7,293
	Member contributions:	
-23,493	Normal	-24,298
-90	Additional contributions	-72
-156,395		-99,068
-113,692	Administering Authority	-59,075
-34,888	Scheduled Bodies	-31,424
-7,815	Admission Bodies	-8,569
-156,395		-99,068

Durham County Council and Darlington Borough Council paid their deficit contributions for the 3 year period; 01/04/17 to 31/03/20 in full during 2017-18. These contributions are reflected in the deficit funding figure of £68.915m in 2017-18.

9. Transfers in from other pension funds

2017-18 £000		2018-19 £000
-6,453	Individual Transfers	-4,033
-6,453		-4,033

10. Benefits Payable

2017-18 £000		2018-19 £000
96,884	Pensions	102,008
23,094	Commutations and lump sum retirement benefits	26,989
2,332	Lump sum death benefits	1,944
-4,522	Recharged benefits	-4,438
117,788		126,503
90,326	Administering Authority	94,357
20,549	Scheduled Bodies	24,210
6,913	Admission Bodies	7,936
117,788		126,503

11. Payments To And On Account Of Leavers

2017-18			2018-19	
£000			£000	
327		Refunds to members leaving service		256
20		Payments for members joining state scheme		1
10,932		Individual transfers to other schemes		6,367
<u>11,279</u>			<u>6,624</u>	

12. 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; when applicable 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.

2017-18			2018-19	
£000	£000		£000	£000
	1,000	Administration expenses		996
		Investment Management expenses		
10,210		Management fees	11,202	
116		Performance fees	203	
150		Custody fees	158	
4,744		Transaction costs	1,914	
	15,220			13,477
	904	Oversight and Governance costs		985
	<u>17,124</u>			<u>15,458</u>

All of the Fund's managers provided information on transaction costs for 18/19, which total £1.914m. Only 6 of the 7 managers provided transaction costs for 2017/18, making up the total of £4.744m.

- Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2018/19 of £0.025m (£0.026m in 2017/18). Included in the 2018/19 audit fee is £4,800 for audit work undertaken on behalf of auditors of fund employers in relation to IAS 19 assurance. These fees will be recharged to the employers to whom the information is provided. No fees have been paid to Mazars in 2018/19 in respect of non-audit work.

13. Investment Income

2017-18 £000		2018-19 £000
-3,264	Interest from bonds	-2,659
-9,838	Dividends from equities	-9,997
-220	Interest on cash deposits	-847
-14,771	Income from pooled investment vehicles	-13,010
<u>-28,093</u>		<u>-26,513</u>

14. 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.

15. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2018/19 to manage the Pension Fund's assets:

- Aberdeen Standard Investments
(Formerly Aberdeen Asset Management Ltd)
- 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)

Durham County Council is one of twelve equal partners in the Border to Coast Pension Partnership (BCPP) which has been formed as a result of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require all Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools. BCPP is one of these investment pools.

It is anticipated that assets belonging to the Fund will start to be transferred into BCPP Limited during 2019/20.

BCPP Limited will be responsible for managing investments in line with the investment strategy and asset allocation requirements as instructed by the Fund.

The strategic asset allocation as at 31 March was as follows:

31 March 2018	Asset Class	31 March 2019
%		%
40	Global equities	40
15	Global Bonds	15
0	Dynamic Asset Allocation	0
8	Global property	8
10	Private Markets	10
7	Emerging Market Equities	7
20	Investment grade sterling bonds	20
100		100

Although the strategic asset allocation was reviewed and agreed during 2018/19, funds have yet to be transferred between managers and asset classes. Therefore the actual allocations vary from the strategic allocations. The actual market values of investments held by each Investment Manager as at 31 March were as follows :

31 March 2018				31 March 2019	
£000	%	Investment Manager	Asset Class	£000	%
450,516	16.29	Aberdeen Standard	Global equities	487,448	16.63
396,399	14.34	AB	Global Bonds	401,460	13.70
466,030	16.85	BNYM	Global equities	566,360	19.33
481,305	17.41	BlackRock	Dynamic Asset Allocation	477,375	16.29
225,228	8.14	CBRE	Global property	218,754	7.46
204,554	7.40	Mondrian	Emerging Market Equities	215,055	7.34
541,288	19.57	RLAM	Investment grade sterling bonds	563,271	19.22
-	0.00	BCPP	Unquoted UK Equity	833	0.03
2,765,320	100.00			2,930,556	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 2019 excludes loans of

£0.279m, cash invested by the administering authority of £36.933m, other investment assets of £29.495m and other investment liabilities of £18.486m (£0.304m, £35.041m, £23.691m and £25.981m respectively as at 31 March 2018).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2019, £2,931m (98.38%) is invested through Investment Managers (£2,765m or 98.82% at 31 March 2018).

Reconciliation of Movements in Investments 2018/19

Investment category	Value at 31 March 2018	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2019
	£000	£000	£000	£000	£000
Equities	307,224	172,889	-147,387	16,158	348,884
Bonds	556,309	2,102,826	-2,116,491	32,938	575,582
Pooled investment vehicles	1,838,878	145,824	-191,410	168,829	1,962,121
	2,702,411	2,421,539	-2,455,288	217,925	2,886,587
Derivative contracts:					
Futures, margins & options	107	2,960	-848	-508	1,711
Forward foreign currency	-2,389	55,682	-32,803	-19,142	1,348
	2,700,129	2,480,181	-2,488,939	198,275	2,889,646
Other investment balances:					
Loans	304				279
Other cash deposits	100,232			993	77,843
Dividend accruals	1,611				1,642
Tax recovery	597				639
Other investment balances	-4,498				8,728
Net Investment Assets	2,798,375			199,268	2,978,777

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 2017/18

Investment category	Value at 31 March 2017	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2018
	£000	£000	£000	£000	£000
Equities	282,942	149,452	-128,009	2,839	307,224
Bonds	580,729	2,201,577	-2,228,991	2,994	556,309
Pooled investment vehicles	1,778,540	228,336	-201,057	33,059	1,838,878
	2,642,211	2,579,365	-2,558,057	38,892	2,702,411
Derivative contracts:					
Futures, margins & options	734	17,911	-18,741	203	107
Forward foreign currency	801	27,922	-59,784	28,672	-2,389
	2,643,746	2,625,198	-2,636,582	67,767	2,700,129
Other investment balances:					
Loans	327				304
Other cash deposits	39,922			-3,236	100,232
Dividend accruals	1,766				1,611
Tax recovery	480				597
Other investment balances	1,249				-4,498
Net Investment Assets	2,687,490			64,531	2,798,375

Purchases and sales of derivatives are recognised in the Reconciliation of Movements in Investments tables as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Options – premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a net basis as net receipts and payments.

Analysis of Investments

31 March 2018			31 March 2019	
£000	£000		£000	£000
ASSETS INVESTED THROUGH FUND MANAGERS				
Bonds				
510,526		UK - Public sector - quoted	514,079	
41,089		Overseas - Public sector - quoted	56,628	
4,694		Overseas - Corporate - quoted	4,875	
	556,309			575,582
Equities				
40,758		UK quoted	32,258	
-		UK unquoted	833	
266,466		Overseas quoted	315,793	
	307,224			348,884
Pooled Investment Vehicles				
130,441		Managed funds - non property - UK quoted	117,374	
1,517,240		Managed funds - non property - overseas quoted	1,633,504	
2,202		Unit Trusts - property - UK quoted	1,703	
18,345		Unit Trusts - property - UK unquoted	17,968	
30,980		Unit Trusts - property - Overseas quoted	38,511	
139,670		Unit Trusts - property - Overseas unquoted	153,061	
	1,838,878			1,962,121
Derivative Contracts				
3,552		Assets	7,052	
-5,834		Liabilities	-3,993	
	-2,282			3,059
65,191	65,191	Fund Managers' Cash	40,910	40,910
2,765,320		NET ASSETS INVESTED THROUGH FUND MANAGERS		2,930,556
OTHER INVESTMENT BALANCES				
35,041		Short term investments (via DCC Treasury Management)	36,933	
304		Loans	279	
23,691		Other investment assets	29,495	
-25,981		Other investment liabilities	-18,486	
2,798,375		NET INVESTMENT ASSETS		2,978,777

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:

31 March 2018		Derivative Contracts	31 March 2019	
£000	£000		£000	£000
1,530		Forward foreign currency		
<u>-3,919</u>		Assets	4,798	
	-2,389	Liabilities	<u>-3,450</u>	
		Net Forward foreign currency		1,348
		Futures		
1,865		Assets	1,302	
<u>-1,885</u>		Liabilities	<u>-543</u>	
	-20	Net Futures		759
		Options		
157		Assets	952	
<u>-30</u>		Liabilities	<u>-</u>	
	127	Net Options		952
	<u><u>-2,282</u></u>	Net market value of derivative contracts		<u><u>3,059</u></u>

The Pension Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

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

The following tables list all of the forward foreign currency contracts held by the investment managers (BlackRock, CBRE and Royal London) on 31 March 2019 and 31 March 2018.

31 March 2019

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	USD	3,000,000	CHF	-2,920,743	51	
0 to 1 month	GBP	70,496,283	EUR	-78,780,000	2591	
0 to 1 month	GBP	6,044,228	EUR	-6,900,000	97	
0 to 1 month	EUR	46,475,000	USD	-53,642,607		-1097
0 to 1 month	EUR	11,000,000	USD	-12,394,146		-26
0 to 1 month	GBP	3,392,382	JPY	-470,000,000	133	
0 to 1 month	GBP	146,780,186	USD	-189,330,000	1542	
0 to 1 month	USD	15,736,634	GBP	-12,200,000		-128
0 to 1 month	GBP	5,537,708	USD	-7,300,000		-62
0 to 1 month	GBP	1,931,180	USD	-2,500,000	13	
0 to 1 month	USD	10,600,000	TWD	-326,215,000	22	
0 to 1 month	USD	10,600,000	TWD	-326,904,000	5	
0 to 1 month	USD	10,230,000	TWD	-316,004,700		-8
0 to 1 month	USD	1,841,400	TWD	-56,899,260		-2
0 to 1 month	USD	1,790,000	TWD	-55,311,000		-2
0 to 1 month	USD	1,790,000	TWD	-55,298,470		-2
0 to 1 month	USD	1,795,000	TWD	-55,447,550		-1
0 to 1 month	USD	1,153,600	TWD	-35,634,704		-1
3 to 6 months	GBP	8,424,637	EUR	-9,640,000	100	
3 to 6 months	EUR	5,685,000	GBP	-4,950,083		-41
3 to 6 months	GBP	214,054	AUD	-400,000		-4
3 to 6 months	GBP	5,464,373	EUR	-6,374,000		-40
3 to 6 months	EUR	5,594,000	GBP	-4,787,066	44	
3 to 6 months	EUR	4,681,000	GBP	-4,032,911	9	
3 to 6 months	GBP	7,882,159	EUR	-9,139,000		-10
3 to 6 months	GBP	7,343,312	USD	-9,674,902		-59
3 to 6 months	GBP	3,717,397	EUR	-4,326,000		-18
3 to 6 months	GBP	449,138	USD	-590,000		-2
3 to 6 months	EUR	9,177,000	GBP	-7,939,527		-15
3 to 6 months	USD	9,745,313	GBP	-7,445,115	11	
3 to 6 months	EUR	4,320,000	GBP	-3,701,817	29	
3 to 6 months	GBP	1,936,899	USD	-2,573,364		-32
3 to 6 months	USD	3,030,000	GBP	-2,271,092	47	
3 to 6 months	GBP	2,282,166	USD	-3,040,000		-44
3 to 6 months	GBP	1,649,515	EUR	-1,917,000		-6
3 to 6 months	GBP	4,146,683	EUR	-4,778,000	21	
3 to 6 months	GBP	8,225,859	EUR	-9,466,000	52	
3 to 6 months	GBP	7,956,675	USD	-10,496,000		-74
3 to 6 months	GBP	7,120,239	EUR	-8,278,000		-28
3 to 6 months	GBP	2,398,312	USD	-3,174,000		-30
3 to 6 months	GBP	5,643,589	EUR	-6,563,000		-24
3 to 6 months	EUR	1,636,000	GBP	-1,396,198	17	
3 to 6 months	EUR	1,201,000	GBP	-1,024,933	12	
3 to 6 months	EUR	5,150,000	GBP	-4,445,392	2	
3 to 6 months	USD	4,636,000	GBP	-3,548,732		-2
1 to 3 months	EUR	40,560,857	GBP	-34,727,395		-329
1 to 3 months	EUR	2,037,142	GBP	-1,744,160		-17
1 to 3 months	GBP	2,921,869	AUD	-5,466,156		-50

1 to 3 months	GBP	17,123,018	AUD	-32,033,296	-295
1 to 3 months	GBP	2,382,240	DKK	-20,717,388	-18
1 to 3 months	GBP	1,999,463	JPY	-290,518,952	-20
1 to 3 months	GBP	14,610,374	JPY	-2,122,865,411	-147
1 to 3 months	GBP	1,029,231	JPY	-149,545,732	-10
1 to 3 months	GBP	1,373,031	SEK	-16,767,597	-17
1 to 3 months	GBP	110,594	USD	-146,578	-1
1 to 3 months	GBP	60,670,273	USD	-80,410,438	-784
1 to 3 months	GBP	186,789	USD	-247,564	-2
1 to 3 months	GBP	132,414	USD	-175,497	-2

4,798	-3,450
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Net forward foreign currency contracts at 31 March 2019

1,348

31 March 2018

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value	Liability Value
0 to 1 month	USD	1,700,000	AUD	-2,101,931	63	
0 to 1 month	USD	3,200,000	CAD	-3,945,824	99	
0 to 1 month	USD	4,495,000	CHF	-4,179,473	89	
0 to 1 month	CHF	664,860	USD	-700,000		-3
0 to 1 month	USD	3,500,000	COP	-10,150,000,000		-95
0 to 1 month	USD	875,000	COP	-2,501,187,500		-14
0 to 1 month	USD	875,000	COP	-2,504,250,000		-15
0 to 1 month	USD	875,000	COP	-2,505,125,000		-15
0 to 1 month	USD	875,000	COP	-2,508,187,500		-16
0 to 1 month	GBP	61,875,250	EUR	-70,180,000	320	
0 to 1 month	GBP	7,557,147	EUR	-8,600,000	14	
0 to 1 month	EUR	4,300,000	HUF	-1,338,215,900	12	
0 to 1 month	EUR	38,955,000	USD	-48,753,234		-563
0 to 1 month	GBP	3,057,622	JPY	-470,000,000		-94
0 to 1 month	GBP	117,944,077	USD	-167,410,000		-1,315
0 to 1 month	GBP	4,760,000	USD	-6,756,803		-53
0 to 1 month	USD	22,000,000	GBP	-15,508,357	164	
0 to 1 month	USD	3,000,000	HKD	-23,415,288	11	
0 to 1 month	HKD	23,425,800	USD	-3,000,000		-10
0 to 1 month	USD	1,060,000	SGD	-1,387,574	1	
1 to 3 months	USD	1,970,000	TWD	-58,597,650		-38
1 to 3 months	USD	1,970,000	TWD	-58,646,900		-39
1 to 3 months	USD	2,365,000	TWD	-70,559,775		-50
1 to 3 months	USD	3,940,000	TWD	-117,254,400		-77
1 to 3 months	USD	1,970,000	TWD	-58,745,400		-41
1 to 3 months	USD	7,485,000	TWD	-223,240,125		-158
1 to 3 months	USD	3,225,000	TWD	-97,878,750		-109
1 to 3 months	USD	3,225,000	TWD	-97,911,000		-110
1 to 3 months	TWD	78,123,125	USD	-2,615,000	58	
1 to 3 months	TWD	123,693,500	USD	-4,130,000	100	
1 to 3 months	TWD	94,011,600	USD	-3,140,000	75	
1 to 3 months	TWD	93,886,000	USD	-3,140,000	72	
1 to 3 months	TWD	78,083,900	USD	-2,615,000	57	
1 to 3 months	TWD	39,077,300	USD	-1,310,000	28	
1 to 3 months	TWD	39,057,650	USD	-1,310,000	27	
1 to 3 months	TWD	78,005,450	USD	-2,615,000	55	
1 to 3 months	TWD	39,064,490	USD	-1,310,000	27	
1 to 3 months	TWD	9,232,730	USD	-310,000	6	
1 to 3 months	TWD	29,787,000	USD	-1,000,000	20	
1 to 3 months	TWD	79,039,350	USD	-2,655,000	52	
3 to 6 months	GBP	13,179,189	USD	-18,375,611	118	
3 to 6 months	GBP	2,405,773	EUR	-2,705,000	29	
3 to 6 months	GBP	1,489,957	EUR	-1,678,458	15	
3 to 6 months	EUR	2,076,589	GBP	-1,817,024	8	
3 to 6 months	EUR	2,260,000	GBP	-1,990,920		-5
3 to 6 months	GBP	3,812,420	USD	-5,374,472		-8
3 to 6 months	GBP	1,992,861	EUR	-2,268,634		-1
1 to 3 months	EUR	4,395,068	GBP	3,845,465		-17
1 to 3 months	EUR	31,601,592	GBP	27,649,813		-125
1 to 3 months	GBP	2,286,688	AUD	4,215,943		-11
1 to 3 months	GBP	17,447,660	AUD	32,168,077		-83
1 to 3 months	GBP	2,335,842	DKK	19,871,292		-7
1 to 3 months	GBP	684,549	JPY	101,999,190		-
1 to 3 months	GBP	13,744,363	JPY	2,047,937,602		-7
1 to 3 months	GBP	3,160,324	JPY	470,894,542		-2
1 to 3 months	GBP	1,276,313	SEK	14,835,254	10	
1 to 3 months	GBP	125,286	USD	178,735		-2
1 to 3 months	GBP	62,388,830	USD	89,005,152		-821
1 to 3 months	GBP	267,091	USD	381,037		-4
1 to 3 months	GBP	824,193	USD	1,175,810		-11
					1,530	-3,919
						-2,389

Net forward foreign currency contracts at 31 March 2018

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:

<u>2018-19</u>		Expires	Product Description	Currency	Market Value at 31 March 19	
					£000	£000
Assets						
Overseas fixed interest	1 to 3 months	US 10YR NOTE JUN 19 19/6/2019	USD	285		
Overseas fixed interest	1 to 3 months	US 5YR NOTE JUN 19 28/6/2019	USD	550		
Overseas equity	0 to 1 month	BIST 30 FUTURES APR 19	TRY	276		
Overseas equity	1 to 3 months	EURO STOXX 50 JUN 19	EUR	46		
Overseas equity	1 to 3 months	TOPIX INDEX JUN 19	JPY	145		
Total assets						1,302
Liabilities						
Overseas equity	1 to 3 months	WIG20(PLN20) INDEX JUN	PLN	-18		
Overseas equity	1 to 3 months	S&P500 EMINI JUN 19	USD	-394		
UK equity	1 to 3 months	FTSE 100 INDEX JUN 19	GBP	-131		
Total liabilities						-543
Net Futures Contracts at 31 March 2019						759

<u>2017-18</u>		Expires	Product Description	Currency	Market Value at 31 March 18	
					£000	£000
Assets						
Overseas equity	1 to 3 months	S&P500 EMINI JUN 18	USD	1,339		
Overseas equity	1 to 3 months	E-MINI CONSUMER STAPLES JUN 18	USD	428		
Overseas equity	1 to 3 months	EURO STOXX 50 JUN 18	EUR	70		
Overseas bonds	3 to 6 months	US 5YR NOTE JUN 18	USD	22		
Overseas bonds	3 to 6 months	EURO-BUND JUN 18	EUR	6		
Total assets						1,865
Liabilities						
Overseas equity	3 to 6 months	TOPIX INDEX JUN 18	JPY	-82		
Overseas equity	1 to 3 months	E-MINI HEALTH CARE	USD	-721		
Overseas equity	1 to 3 months	EURO STOXX MID JUN 18	EUR	-1,082		
Total liabilities						-1,885
Net Futures Contracts at 31 March 2018						-20

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.

2018-19

Type	Expires	Product Description	Currency	Market Value at 31 March 19 £000
Assets				
Overseas fixed interest	1 to 3 months	GBP C USD P @1.350000 EO	GBP	177
Overseas equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 20/12/2019 C @ 3350.000	EUR	775
Total assets				952
Liabilities				-
Net Options at 31 March 2019				952

2017-18

Type	Expires	Product Description	Currency	Market Value at 31 March 18 £000
Assets				
Overseas equity	0 to 1 month	EURO STOXX 50 INDEX 01-JAN-2050 20/4/2018 P @ 3350.000	EUR	157
Total assets				157
Liabilities				
Overseas equity	0 to 1 month	EURO STOXX 50 INDEX 01-JAN-2050 20/4/2018 P @ 3150.000	EUR	-30
Total liabilities				-30
Net Options at 31 March 2018				127

Investments Exceeding 5% of Net Assets

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 2019		At 31 March 2018	
		£m	%	£m	%
BNYM Long Term Global Equity	BNYM	566.36	18.99	466.03	16.63
AAM L and P World Equity	Aberdeen Standard	487.45	16.35	450.52	16.08
Diversified Yield Plus	AB	401.46	13.46	396.40	14.15

16. 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 accounting standards for financial instruments have changed between financial years. In 2017-18 the accounting standard was International Accounting Standard 39 (IAS39), and in 2018-19 the accounting standard is International Financial Reporting Standard 9. The change in accounting standards has not changed the treatment of the Fund's financial instruments, but financial assets classified as loans and receivables under IAS39 are classified as financial assets at amortised cost under IFRS9.

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

2017-18			2018-19		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial assets			Financial assets		
307,224			348,884		
556,309			575,582		
1,838,878			1,962,121		
3,552			7,052		
	304			279	
	65,191			40,910	
	35,041			36,933	
	23,691			29,495	
	9,571			10,259	
2,705,963	133,798	-	2,893,639	117,876	-
Financial liabilities			Financial liabilities		
-5,834			-3,993		
		-32,188			-25,483
-5,834	-	-32,188	-3,993	-	-25,483
2,700,129	133,798	-32,188	2,889,646	117,876	-25,483
	2,801,739	Net Assets at 31 March		2,982,039	

Net gains and losses on financial instruments

31 March 2018		31 March 2019
£000		£000
Financial Assets		
67,767	Fair Value through profit and loss	198,275
-3,236	Loans and receivables	-
-	Financial assets measured at amortised cost	993
Financial Liabilities		
-	Fair Value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
64,531	Total	199,268

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, exchange traded derivatives 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 include unquoted property funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2019 and 31 March 2018, 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 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Financial Assets at fair value through profit and loss	2,716,801	5,809	171,029	2,893,639
Financial assets at amortised cost	117,876	-	-	117,876
Total Financial Assets	2,834,677	5,809	171,029	3,011,515
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-2,663	-1,330		-3,993
Financial Liabilities at amortised cost	-25,483			-25,483
Total Financial Liabilities	-28,146	-1,330	-	-29,476
Net Financial Assets	2,806,531	4,479	171,029	2,982,039

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Financial Assets at fair value through profit and loss	2,546,418	1,530	158,015	2,705,963
Loans and receivables	133,798	-	-	133,798
Total Financial Assets	2,680,216	1,530	158,015	2,839,761
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-1,915	-3,919		-5,834
Financial Liabilities at amortised cost	-32,188	-	-	-32,188
Total Financial Liabilities	-34,103	-3,919	-	-38,022
Net Financial Assets	2,646,113	-2,389	158,015	2,801,739

17. Nature and Extent of Risk Arising From Financial Instruments

Risk and risk management

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

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

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

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 15. 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 2018/19 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 2019 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen Standard	Global equity	487,448	19.2%	581,038	393,858
AB	Broad Bonds	401,460	8.0%	433,577	369,343
BNYM	Global equity	566,360	19.2%	675,101	457,619
BlackRock	DAA	464,634	9.7%	509,703	419,565
CBRE	Unlisted property	171,029	13.9%	194,802	147,256
CBRE	Listed property	40,214	22.2%	49,142	31,286
Mondrian	Emerging market equity	212,439	25.4%	266,399	158,479
RLAM	UK Index Linked Gilts	542,170	9.2%	592,050	492,290
BCPP	Unquoted UK Equity	833	0.0%	833	833
	Loans	279	0.0%	279	279
	Cash	77,843	0.0%	77,843	77,843
	Net derivative assets	3,059	0.0%	3,059	3,059
	Net investment balances	11,009	0.0%	11,009	11,009
Total change in net investment assets available		2,978,777		3,394,835	2,562,719

Manager	Asset type	Asset value at 31 March 2018 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen Standard	Global equity	450,516	17.6%	529,807	371,225
AB	Broad Bonds	396,399	8.0%	428,111	364,687
BNYM	Global equity	466,029	17.6%	548,050	384,008
BlackRock	DAA	466,164	8.8%	507,186	425,142
CBRE	Unlisted property	158,015	14.1%	180,295	135,735
CBRE	Listed property	33,182	20.6%	40,017	26,347
Mondrian	Emerging market equity	202,570	26.3%	255,846	149,294
RLAM	UK Index Linked Gilts	529,535	9.0%	577,193	481,877
	Loans	304	0.0%	304	304
	Cash	100,233	0.0%	100,233	100,233
	Net derivative assets	-2,282	0.0%	-2,282	-2,282
	Net investment balances	-2,290	0.0%	-2,290	-2,290
Total change in net investment assets available		2,798,375		3,162,470	2,434,280

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 2019 and the effect of a +/- 25 Basis Points (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 2019 £000	Change in year in the net assets available to pay benefits	
		+25 BPS £000	-25 BPS £000
Cash and cash equivalents	77,843	195	-195
Fixed interest securities	33,412	84	-84
Total change in net investment assets available	111,255	279	-279

Asset type	Asset Values at 31 March 2018 £000	Change in year in the net assets available to pay benefits	
		+25 BPS £000	-25 BPS £000
Cash and cash equivalents	100,232	251	-251
Fixed interest securities	26,776	67	-67
Total change in net investment assets available	127,008	318	-318

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	Value on	Value on
				31 March 19	increase	decrease
				£000	£000	£000
Aberdeen Standard	Global Equity	86%	15%	487,448	550,329	424,567
AB	Broad Bonds	0%	0%	401,460	401,460	401,460
BlackRock	DAA	5%	10%	566,360	569,192	563,528
BNYM	Global Equity	94%	15%	464,634	530,147	399,121
CBRE	Global Property	18%	10%	211,243	215,045	207,441
Mondrian	Emerging market equity	100%	15%	212,439	244,305	180,573
RLAM	UK Index Linked Gilts	0%	0%	542,170	542,170	542,170
BCPP	Unquoted UK Equities	0%	0%	833	833	833
	Loans	0%	0%	279	279	279
	Cash	11%	10%	77,843	78,699	76,987
	Net derivative assets	0%	0%	3,059	3,059	3,059
	Net investment balances	0%	0%	11,009	11,009	11,009
Total change in net investment assets available				2,978,777	3,146,527	2,811,027

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at	Value on	Value on
				31 March 18	increase	decrease
				£000	£000	£000
Aberdeen Standard	Global Equity	84%	15%	450,516	507,281	393,750
AB	Broad Bonds	0%	0%	396,399	396,399	396,399
BlackRock	DAA	5%	10%	466,029	468,359	463,699
BNYM	Global Equity	95%	15%	466,164	532,592	399,736
CBRE	Global Property	16%	10%	191,197	194,256	188,138
Mondrian	Emerging market equity	100%	15%	202,570	232,956	172,185
RLAM	UK Index Linked Gilts	0%	0%	529,535	529,535	529,535
	Loans	0%	0%	304	304	304
	Cash	24%	10%	100,233	102,639	97,827
	Net derivative assets	0%	0%	-2,282	-2,282	-2,282
	Net investment balances	0%	0%	-2,290	-2,290	-2,290
Total change in net investment assets available				2,798,375	2,959,749	2,637,001

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 2019, this level of exposure to the Custodian is 1.4% of the total value of the portfolio (2.4% as at 31 March 2018).

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 £36.933m as at 31 March 2019 (£35.041m at 31 March 2018). This was held with the following institutions:

	Rating as at 31 March 2019	Balances as at 31 March 2019 £000	Rating as at 31 March 2018	Balances as at 31 March 2018 £000
Bank Deposit Accounts				
Handelsbanken	F1+	3,129	F1+	955
Fixed Term Deposits				
Bank of Scotland	F1	5,230	F1	6,729
Close Brothers	F1	1,307		-
Goldman Sachs	F1	1,307	F1	4,205
Santander UK Plc	F1	5,885	F1	1,682
UK Local Authorities	N/A	19,944	N/A	15,140
Income Bond				
National Savings & Investments	N/A	131	N/A	168
Other				
Money Market Funds	N/A	-	N/A	6,162
Total		36,933		35,041

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.

18. Analysis of Debtors

2017-18 £000	Included in the Net Assets Statement as:	2018-19 £000
417	Long Term Assets	208
23,691	Other Investment Assets	29,495
9,154	Current Assets	10,051
33,262		39,754

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

19. Analysis of Creditors

2017-18 £000	Included in the Net Assets Statement as:	2018-19 £000
-25,981	Investment Liabilities - Other balances	-18,486
-6,207	Current Liabilities	-6,997
-32,188		-25,483

All of the £25.483m is expected to be paid by the Pension Fund within 12 months after the year end.

20. 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 2018 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2019 £000
Equitable Life	1,826	13	310	67	1,596
Prudential	5,954	1,817	1,116	219	6,874
Standard Life	1,727	183	258	60	1,712
Total	9,507	2,013	1,684	346	10,182

* Purchases represent the amounts paid to AVC providers in 2018/19

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.

21. 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	
		2017/18	2018/19
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£156.395m	£99.068m
Debtors	Amounts due in respect of employers and employee contributions	£7.344m	£7.770m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.598m	£1.608m
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	£1.598m	£1.608m
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 £0.214m	Loans outstanding £0.200m
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 = £27.093m Interest = £0.113m	Balance = £36.119m Interest = £0.262m

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 2019 there were 4 Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; a further 3 Members were deferred members of the Pension Fund.

In accordance with the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, with effect from 8 May 2017 elected 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.

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Corporate Director of Resources, the Head of Corporate Finance and Commercial Services, the Finance Manager - Revenue, Pensions and Technical and the Pensions Manager. The proportion of employee benefits earned by key management personnel relating to the Pension Fund is set out below:

2017-18 £000		2018-19 £000
101	Short-term benefits	87
27	Post-employment benefits	23
<u>128</u>		<u>110</u>

22. 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, and therefore it is not possible to estimate the value of any future contributions. However, 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, therefore it is not possible to estimate the value of any reclaims.

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.

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, therefore it is not possible to estimate the value of these claims.

23. 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:

Financial Assumptions	Valuation as at 31 March 2016	Valuation as at 31 March 2013
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

24. 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 23 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

25. 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 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.

26. 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 can be found on the Council's website at durham.gov.uk.