

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 4,524	<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
-3,680		-4,974

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
110,422		114,152
83,286	Administering Authority	86,173
20,567	Scheduled Bodies	22,158
6,569	Admission Bodies	5,821
110,422		114,152

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
5,273		7,270

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

801

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

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

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

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

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

i. MARKET RISK

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

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