

TYNE AND WEAR PENSION FUND

# Annual Report and Accounts 2017/18

Administered by South Tyneside Council





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# KEY MEMBERS AND OFFICERS OF THE FUND

## THE MEMBERS OF PENSIONS COMMITTEE

### South Tyneside Council

Councillor E. Leask (Chair)  
Councillor A. Walsh (Vice Chair)  
Councillor W. Flynn  
Councillor J. Foreman  
Councillor P. Hay  
Councillor A. Hetherington  
Councillor J. Perry  
Councillor R. Porthouse

### Gateshead Council

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

### Newcastle City Council

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

### North Tyneside Council

Councillor T. Mulvenna  
(substitute – Councillor A. McMullen)

### Sunderland City Council

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

### Trade Union Representatives

L. Brown – Unison  
J. Major – Unite  
S. Forster – Unison

### Employers' Representatives

F. Bootle – Nexus  
P. Goddard – Stagecoach  
B. Scott – South Tyneside Homes

## MEMBERS OF THE LOCAL PENSION BOARD

### Trade Union Representatives

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

### Employer Representatives

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

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

## SENIOR OFFICERS

### Finance Director (Section 151 Officer)

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

### Head of Pensions

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

### Principal Pensions Manager

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

### Principal Investment Manager

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

### Head of Legal Services

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

### Corporate Assurance Manager

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



# EXTERNAL MANAGERS, CUSTODIAN, BANK AND EXTERNAL AUDITORS

## ADMINISTRATORS OF THE FUND

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

## ADVISORS

### Actuary

Aon Hewitt – J. Teasdale

### Investment Advisor

Hymans Robertson – P. Potter

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

## BANK

Lloyds Bank

## CUSTODIAN

Northern Trust

## EXTERNAL AUDIT

Ernst & Young LLP – H. Rohimun (Associate Partner)

## INVESTMENT MANAGERS

### Indexation

Legal and General Investment Management

## EQUITIES

### UK Equity

BlackRock Investment Management  
Mirabaud Investment Management

### Global Equity

JP Morgan Asset Management

### Japanese Equity

Lazard Asset Management

### Asian ex Japanese Equity

TT International

### Emerging Market Equity

JP Morgan Asset Management

## BONDS

Janus Henderson Global Investors  
M&G Investments

## PROPERTY

### UK Property

Aberdeen Standard Investments

### UK Residential Property

Aberdeen Standard Investments

### Global Property

Partners Group

## PRIVATE EQUITY

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

## INFRASTRUCTURE

M&G Investments  
Partners Group  
Pantheon Ventures

## ADDITIONAL VOLUNTARY CONTRIBUTIONS

Prudential Assurance Company  
Equitable Life Assurance Society



# REVIEW OF THE YEAR

## We are pleased to present the 2017/18 Report and Accounts for the Tyne and Wear Pension Fund.

**This has been an extremely busy year for the Fund. The Government's pooling initiative continues at a pace and this has once again dominated the agenda for many funds. The Fund, along with eleven other funds, has created and now owns a Financial Conduct Authority (FCA) regulated investment management company called Border to Coast Pensions Partnership Limited. Much of the work during the year has centred around getting the company up and operational and ready to start managing assets.**

The process of transitioning assets to Border to Coast will commence during 2018/19 and it will take several years for this process to be completed. The overall value of assets within the funds in Border to Coast was £44 billion at the year end. This will continue to be a major area of work for the Fund going forward. The overall aim is to improve investment performance as well as deliver cost savings over the medium to long term.

Another significant strategic initiative for the Fund which was implemented during the year, is the creation of a pensions administration shared services arrangement with Northumberland County Council Pension Fund. The new combined service operates from South Tyneside Council offices, with Northumberland being absorbed into the processes, operations and management of the Tyne and Wear Pension Fund.

It was a large and complex exercise to create this combined operation, which went live in January 2018. One of the main challenges was to bring the Northumberland employers and members on board, whilst maintaining the service delivery to the Tyne and Wear stakeholders. This is an exciting time for both funds and provides the opportunity to combine resources, to improve operational efficiencies and at the same time to make us more resilient for any future challenges that lie ahead. Whilst a combined service is now being delivered, work on aligning other areas of operation and policies continue to take place.

This is the fourth year of the operation of the new Local Government Pension Scheme. This is a career average scheme based on an accrual rate of 1/49th of salary for each year of pensionable service, with accrued benefits re-valued in line with increases in the Consumer Prices Index.

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

We remain committed to developing our means of electronic communication, including our website, as important and cost effective elements of the service delivery package. We have implemented bulk processing systems for high volume areas. Where bulk processing is not used all information is supplied via an online form or secure email. Paper processing has largely been removed.

We have been working on online services for members. Following an initial pilot this service is now live. Members can view their membership record and calculate estimates of their benefits and from 2019 they will receive their annual benefit statements electronically.

The contributions paid by employers in the 2017/18 year and for the next two years were set as part of the 2016 valuation. The average future service rate was set at 18.3% of pensionable pay. The contribution to address the deficit over a 20 year period was 6.9%, leading to a total average contribution rate of 25.2%, 1.6% above the rate at the 2013 valuation.



Whilst overall contribution rates increased following the 2016 valuation, there was an improvement in the funding level on an ongoing basis from 81% to 85%. The low risk funding level, however, based on gilt yields was 54%, which was lower than the figure of 57% at the 2013 valuation.

High level modelling of the funding position to 31st March 2018 suggests that the ongoing funding position has improved on the back of good investment returns following the 2016 valuation. This should, however, be treated with caution as there are a number of approximations within the funding update and, of course, financial market conditions could worsen before the 2019 valuation.

The latest Asset Liability Modelling (ALM) exercise was carried out in 2016/17 using the liability data from the 2016 valuation. The study concluded that the existing strategy was largely suitable. The only significant change to the Investment Strategy was the introduction of an allocation to private debt which is largely to be funded by a reduced allocation to UK equities.

Once implemented, the Fund's asset allocation will reflect the strategy of 55.5% in equities, 19.0% in bonds and cash, 12.0% in property (including residential), 7.5% in private equity, 3.5% in private debt and 2.5% in infrastructure.

On the back of good investment returns following the 2016 valuation, Hymans Robertson was asked to review the investment strategy in 2017/18 to establish whether the strategy should, once again, be reviewed. The outcome was that no changes were considered necessary at the time but the issue should be re-considered following the next valuation along with other factors such as the overall level of prudence in the funding strategy.

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

Equity markets generally produced strong returns for the first nine months of the year. However, in the final quarter they became nervous about potential monetary tightening and the possibility of a trade war between the US and China. Despite this all of the major equity markets produced positive returns. Bond markets generally produced low positive returns.

The strongest performing markets were Emerging Market equities and UK property with returns of 11.8% and 11.3% respectively. The poorest performer was cash, which returned 0.4%. The return from UK equities is of particular importance to UK pension funds, as a significant proportion of assets tend to be invested there. This market returned a modest gain of 1.2%.

The Fund's total return in this year was 3.9%, which was 0.1% above its benchmark return of 3.8%. This level of return reflects the moderate performance from financial markets overall, following an exceptional period of performance for markets and the Fund in 2016/17. Last year the Fund produced a return of 23.9%.

Inflation as measured by the Consumer Prices Index, which has risen in importance as a measure for the Scheme, was up by 2.5% over the year while Average Earnings increased by 2.8%.

The Fund's five year return is 9.1% per annum, which is ahead of the benchmark return of 8.0% per annum. The ten year return is 8.0% per annum, which is also ahead of the benchmark return for this period of 7.5% per annum.

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

**Councillor Eileen Leask**  
Chair of Pensions Committee

**Ian Bainbridge**  
Head of Pensions

# LEGAL FRAMEWORK

## INTRODUCTION

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

## SCHEME REGULATIONS

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

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

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

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

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



## AMENDMENT LGPS REGULATIONS

**On 19th April 2018 MHCLG issued The LGPS (Amendment) 2018 Regulations which came into force on 14th May 2018, with some of the provision being retrospective to 1st April 2014. Most of the amendments were minor corrections and technical changes. The most noteworthy changes are:**

- Alignment of the pre and post 2014 Additional Voluntary Contribution Plans.
- Payment of deferred benefits from age 55 with varying provisions across groups of member leaving dates.
- The requirement to pay any excess credit/surplus to employers leaving the Fund. The requirement to recover any deficiency at exit remains.
- The ability to backdate admission agreements to allow the start of an agreement to be earlier than the date the admission agreement is completed.

## MANAGEMENT AND GOVERNANCE

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

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

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

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

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

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

## POOLING OF INVESTMENTS

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

In the July 2015 Budget, the Chancellor announced the Government’s intention to work with the LGPS administering authorities to ensure that investments were pooled while maintaining overall investment performance. The criteria

for developing proposals were set in November 2015.

Having considered a number of options the Fund has decided to work with eleven other administering authorities as part of the Border to Coast Pensions Partnership. All of the administering authorities in Border to Coast are considered to have a like-minded approach to investment. The Fund and Border to Coast submitted proposals in 2016 and the Government gave its approval later in the same year.

All of the administering authorities in Border to Coast had formally approved arrangements for joining the partnership by the end of the 2016/17 financial year. South Tyneside Council, as administering authority of the Tyne and Wear Pension Fund agreed to join at its Council meeting on 9th March 2017. This is a major strategic collaboration between the funds, with the aim of delivering improved performance as well as cost savings over the medium to long term.

During 2017/18 Border to Coast Pensions Partnership Limited has been established and registered as a company limited by shares, with each of the twelve administering authorities as equal shareholders. This newly created investment management company has recruited staff and acquired offices and the many other arrangements required to operate are well developed. The transfer of investments to the company is expected to take place over a number of years, commencing in the third quarter of 2018.

At the end of March 2018 the overall value of assets in the partnership was approximately £44 billion.

A Joint Committee comprising the Chairs of each Pensions Committee has an oversight role over the arrangements with Border to Coast Limited.



## INVESTMENT REGULATIONS

**The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1st November 2016 replacing the 2009 Regulations. The new Regulations introduced a mixture of new legislative requirements and updates to the 2009 regulations and dropped other requirements altogether. Overall the new regulations are less prescriptive.**

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

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

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

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

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

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

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

# GOVERNANCE ARRANGEMENTS

## South Tyneside Council is the administering authority of the Local Government Pension Fund for the Tyne and Wear County area.

### PENSIONS COMMITTEE

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

- Prepare, maintain and publish the Governance Compliance Statement.
- Ensure that the Scheme Manager complies with the Local Government Pension Scheme Regulations and all other legislation that governs the administration of the Fund.
- Prepare, maintain and publish the Funding Strategy Statement.
- Prepare, maintain and publish the Pensions Administration Strategy.
- Ensure that the Fund is valued as required and receive and consider reports on each valuation.
- Ensure appropriate arrangements are in place for the administration of benefits.
- Set the admissions policy.
- Prepare, maintain and publish the Communications Policy Statement.
- Ensure appropriate additional voluntary contributions arrangements are in place.
- Prepare, maintain and publish the Investment Strategy Statement.
- Set the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities.
- Select, appoint and dismiss an investment pooling operator. Initially this is the Border to Coast Pensions Partnership.
- Appoint, dismiss and assess the performance of investment managers and custodians where direct investments are maintained. Where investments are made through the pool operator, this will be done by the operator itself.
- Work with the pool operator to implement the Fund's investment strategy
- Ensure appropriate participation in the pool operator Joint Committee.
- Monitor the performance and effectiveness of the investment pool operator.
- Prepare, maintain and publish the Corporate Governance Policy.
- Prepare and maintain a Responsible Investment Policy which takes account of the policy of the pool operator.
- Ensure appropriate arrangements for the Local Pension Board are in place and maintain and publish information about the Local Pension Board.

The Council's Constitution has been updated during the year as a result of the Government's initiative on the pooling of investments. These are reflected in the points noted above. The main change going forward is that the Committee will no longer be responsible for appointing, dismissing and monitoring the performance of investment managers. Instead over time this responsibility will pass to the Border to Coast Pensions Partnership, the Fund's chosen pooling operator.

The Committee will however, continue to be responsible for setting the investment strategy and strategic benchmark. It will also be responsible for selecting, dismissing and monitoring the performance of Border to Coast.

The overall governance structure, including the wider responsibilities of the Committee, is set out in the Governance Compliance Statement that the Fund has to prepare, maintain and publish under the Local Government Pension Scheme Regulations 2013. The Statement was last reviewed by the Committee in February 2018 and demonstrates that the Fund is compliant with guidance provided by the Secretary of State for Communities and Local Government.

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

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

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

## LOCAL PENSION BOARDS

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

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

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

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

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

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

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

## MANAGEMENT OF CONFLICTS OF INTEREST

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

A Register of Interests is maintained for members and officers.

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

## ATTENDANCE AT MEETINGS AND AT TRAINING

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

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

PENSIONS COMMITTEE	VOTING RIGHTS	NO. OF MEETINGS ATTENDED	NO. OF INVESTMENT PANEL MEETINGS ATTENDED	TOTAL HOURS OF TRAINING ATTENDED
Cllr. E. Leask	Y	6 of 6	4 of 4	78.5
Cllr. A. Walsh	Y	6 of 6	4 of 4	117.0
Cllr. W. Flynn	Y	3 of 6	4 of 4	56.0
Cllr. J. Foreman	Y	6 of 6	N/A	59.5
Cllr. P. Hay	Y	5 of 6	N/A	71.5
Cllr. A. Hetherington	Y	3 of 6	1 as observer	42.0
Cllr. J. Perry	Y	5 of 6	N/A	59.5
Cllr. R Porthouse	Y	6 of 6	1 as observer	80.5
Cllr. B. Goldsworthy	Y	4 of 6	N/A	49.0
Cllr. G. Haley (substitute)	Y	2 of 6	1 as observer	45.5
Cllr. V. Dunn	Y	3 of 6	N/A	21.0
Cllr. G. Bell (substitute)	Y	1 of 6	N/A	28.0
Cllr. T. Mulvenna	Y	2 of 6	N/A	0.0
Cllr. A. McMullen (substitute)	Y	2 of 6	N/A	21.0
Cllr. J. Heron	Y	1 of 6	N/A	35.0
Cllr. G. Walker (substitute)	Y	2 of 6	N/A	21.0
L. Brown (Trade Union Representative)	N	3 of 3	N/A	24.5
J. Major (Trade Union Representative)	N	1 of 6	N/A	42.0
S. Forster (Trade Union Representative)	N	5 of 6	N/A	56.0
P. Goddard (Employer Representative)	N	2 of 2	N/A	0.0
B. Scott (Employer Representative)	N	5 of 6	N/A	32.0
F. Bootle (Employer Representative)	N	4 of 6	N/A	28.0



LOCAL PENSION BOARD	VOTING RIGHTS	NO. OF MEETINGS ATTENDED	NO. OF INVESTMENT PANEL MEETINGS ATTENDED	TOTAL HOURS OF TRAINING ATTENDED
N. Wirz	Y	4 of 4	N/A	87.5
J. Woodlingfield	Y	3 of 4	N/A	91.0
Cllr. D. Purvis	Y	3 of 4	N/A	42.0
M. Rooney	Y	1 of 4	N/A	21.0
M. Brodie	Y	2 of 4	N/A	42.0
C. Sharkey	Y	2 of 4	N/A	42.0
J. Pearson	Y	4 of 4	N/A	59.5
T. Hunter	Y	3 of 4	N/A	59.5

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

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

## WIDER GOVERNANCE ARRANGEMENTS

The Fund holds annual meetings for the employers and for the trades unions. The agenda for these meetings includes presentations by the Actuary and the Investment Advisor and covers the actuarial position, the benefits structure and investment performance.

## INFORMATION ON THE FUND

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

The information that is available includes:

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

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

## BORDER TO COAST PENSIONS PARTNERSHIP LIMITED

**In response to the Government's initiative on the pooling of the LGPS assets, the Fund, along with eleven others has created its own Financial Conduct Authority (FCA) regulated investment management company.**

Borders to Coast Pensions Partnership Limited was formally established on 31st May 2017 with South Tyneside Council, as administering authority of the Tyne and Wear Pension Fund, agreeing to join and become a shareholder in Border to Coast Limited.

Going forward there will be a need for the Fund to distinguish between its role as a shareholder, which is a new function, versus its role as an investor with Border to Coast Limited. The two are fundamentally different functions.

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

A Joint Committee was established on the 6th June 2017 which will focus on the oversight role, particularly on 'investor' issues (as distinct from shareholder issues). Investor rights relate to the investments with Border to Coast as governed by legal documents for each investment. The Joint Committee will have twelve members, one from each administering authority. The first meeting of the Joint Committee took place on the 6th June 2017.

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

Initially the Board of Border to Coast Limited was made up of two Executive Directors, and three Non-Executive Directors, including a Chair. More recently it has been determined that two additional Non-Executive Director roles will be established to directly represent the Shareholders and ensure the local government ethos is maintained.

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

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

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

# THE TRAINING POLICY AND PROGRAMME

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

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

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

## COMMITTEE AND LOCAL PENSION BOARD TRAINING

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

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

The programme in 2017/18 was based around two residential training seminars and additional sessions delivered at the quarterly meetings. The Investment Managers, the Investment Advisor and the Actuary assisted with the delivery of this programme.

Selected training seminars and conferences that were offered by industry wide bodies were attended by the Committee Members that sat on the Investment Panel and the Chair and Vice Chair of the Local Pension Board. This recognises the higher governance duties placed upon those roles.

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

The programme for 2017/18 covered topics such as:

- Service planning and budgeting
- Investment pooling
- The new shared services arrangement with Northumberland County Council Pension Fund
- The role of the Pensions Regulator
- Governance and administration of public service pension schemes – Code of Practice 14
- The asset classes which the Fund invests
- Responsible investing
- De-risking of the Investment Strategy
- The Members Code of Conduct
- The General Data Protection Regulations
- Modelling and monitoring private market allocations
- The global economic outlook
- The 2016 Investment Regulations and the Investment Strategy Statement



**The 2018/19 programme is planned to include the following topics:**

- Service planning and budgeting
- The governance structure of the Local Government Pension Scheme
- The Nolan Principles
- Preparing for the 2019 valuation
- Investment Pooling
- Risk management
- The global economic outlook
- The benefits of diversification
- The asset classes which the Fund invests
- Benchmarking of investment costs
- Data quality
- Government Actuary Department - Section 13 Reviews

## **OFFICER TRAINING**

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

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

**Our training initiatives include:**

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



# VISION STATEMENT

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

## WE WILL:

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

## WE WILL KNOW WE ARE SUCCEEDING WHEN:

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





# SERVICE PLAN

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

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

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

## In 2017/18, we have:

- Created an investment management company called Border to Coast Pensions Partnership Limited, along with eleven other pension funds, to implement an investment pooling solution in line with the Government's requirements.
- Established a pensions administration shared service arrangement with Northumberland County Council Pension Fund.
- Appointed two private debt providers as part of the implementation of the 2016/17 Asset Liability Modelling on the strategic benchmark.
- Developed and applied the Funding Strategy, including managing the admission of new employers and the withdrawal from the Fund of some existing employers.
- Expanded the online services to employers and removed paper forms for all major processes.
- Made progress towards reducing backlogs in pensions processing that have arisen due to the significant increase in regulatory, systems and processing work from the 2014 scheme.
- Developed the online service for members that will allow viewing of personal records, calculation of benefits estimates and the receipt of annual statements.
- Established an approach to unitising the Fund to provide for greater accuracy over individual employers funding positions and the potential for individual investment strategies.
- Delivered a joint approach to training for the Pensions Committee and the Local Pension Board that is based on the Knowledge and Skills Framework prepared by the Institute's Pensions Panel.
- Responded to consultations on the Scheme and advised employers and members of developments and regulatory changes.
- Continued to develop the private equity, global property and infrastructure programmes.

## In 2018/19, we will:

- Finalise the implementation of the outcome of the 2016/17 Asset Liability Modelling and the updated investment strategy, by funding the allocations to Private Debt and Residential Property.
- Continue to work with Border to Coast Pensions Partnership Limited and our partner funds to implement pooling. Assets will start to transition to the new company during the year.
- Prepare for the 2019 valuation and review the Funding Strategy Statement.
- Enhance and embed the shared service arrangement with Northumberland County Council Pension Fund and identify ways of working with other pension funds to identify more efficient ways of operating.
- Continue to develop and apply the Funding Strategy to ensure that it targets solvency, whilst managing the cost of the Scheme for employers.
- Continue to address backlogs in pensions processing.
- Complete the Guaranteed Minimum Pensions (GMP) reconciliation exercise.
- Further expand and develop the online services to employers to provide for increased electronic passing of data and processing.
- Roll out and publicise the online services for all categories of members to ensure that this becomes an integral part of the service going forward.
- Ensure the final accounts are closed down in accordance with the Chartered Institute of Public Finance and Accountancy's advanced closedown requirements.

# RISK MANAGEMENT

## INTRODUCTION

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

## FUND LEVEL APPROACH AND THE RISK REGISTER

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

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

The impact of each risk is assessed as either:

- Negligible
- Marginal
- Significant
- Substantial.

The likelihood of each risk arising is then assessed as either:

- Improbable
- Possible
- Probable
- Near Certain.

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

- Minor
- Moderate
- High
- Critical.

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

- Treat
- Tolerate
- Transfer
- Terminate the Activity.

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

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

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

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

The risk register was last updated as at 31st March 2018 and no risks were assessed as Critical. A copy of the risk register is available on the Fund's website.

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

## THE ROLE OF INTERNAL AUDIT

**The Council's Internal Audit Service carries out a range of audits each year, based on a three year rolling programme that ensures appropriate coverage. The Risk Register is considered in the preparation of the audit programme. Every audit report is made available to the Committee and the Board and a summary report is considered annually.**

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

## INVESTMENT RISK

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

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

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

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

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

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

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

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

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

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

## FUNDING STRATEGY

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

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

## PENSIONS ADMINISTRATION

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

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

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



# FINANCIAL PERFORMANCE

## INTRODUCTION

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

**This includes:**

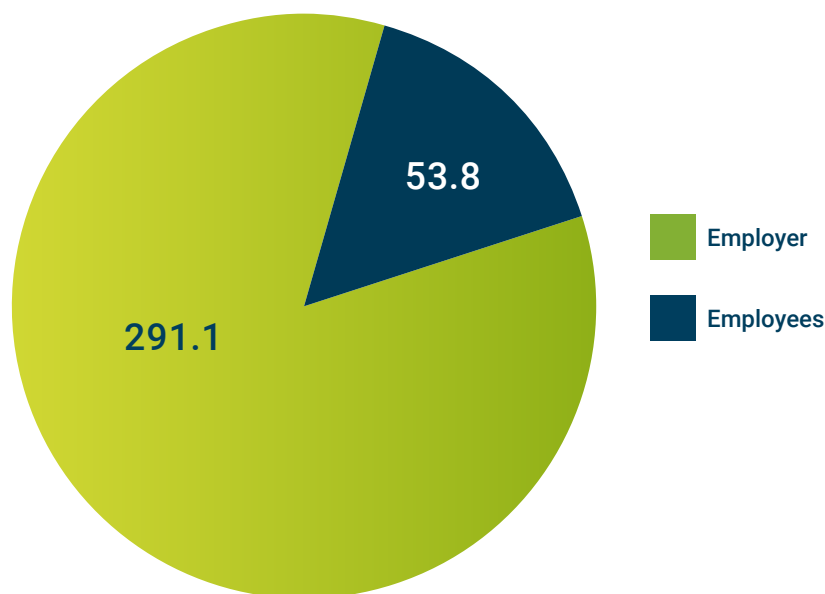
- the day to day pensions and investment accounting functions
- reconciling the valuation of the investments and monitoring the collection of dividends and interest and the associated cash flows in all currencies
- reconciling the cash flows associated with pension benefits, including the collection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

## CONTRIBUTIONS AND PENSIONS

In 2017/18, the Fund received £344.9 million (£290.2 million in 2016/17) in pension contributions from employers and employees and paid £286.3 million (£293.6 million in 2016/17) of pension benefits to 47,487 pensioner and beneficiary members.

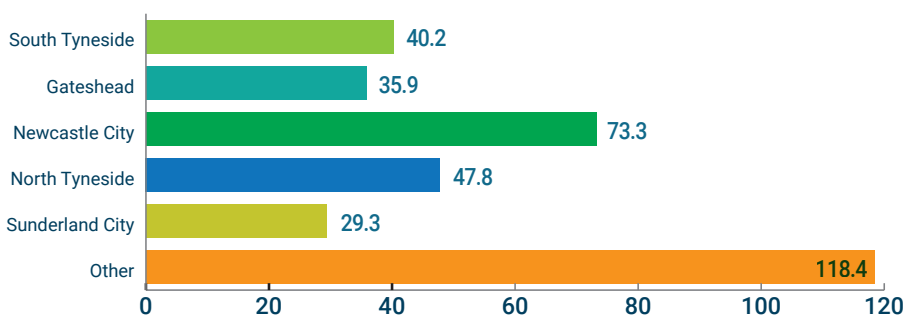
The chart below shows a breakdown of the contribution income:

**Contribution income 2017/18 £m**



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

**Contribution Income 2017/18 £millions**





## CONTRIBUTIONS RECEIVED ON OR BEFORE THE DUE DATE

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

The table below shows the amounts payable each month throughout 2017/18 and the amount collected by the due date:

MONTH	AMOUNT DUE £'000	RECEIVED ON OR BEFORE DUE DATE
Apr-17	137,197	99.99%
May-17	17,909	99.93%
Jun-17	17,819	98.23%
Jul-17	17,721	99.94%
Aug-17	17,856	99.64%
Sep-17	17,335	99.83%
Oct-17	17,273	97.66%
Nov-17	17,507	98.93%
Dec-17	18,266	99.96%
Jan-18	17,971	99.93%
Feb-18	17,815	99.23%
Mar-18	17,975	100.00%

Late payments are monitored and pursued.

The following table shows the late payment history for 2017/18:

NUMBER OF DAYS PAYMENT WAS LATE	NUMBER OF LATE PAYMENTS	PERCENTAGE OF LATE PAYMENTS
Less than 10	28	50.9%
Between 10 and 19	15	27.3%
Between 20 and 29	7	12.7%
Between 30 and 39	1	1.8%
More than 40	4	7.3%
	<b>55</b>	<b>100%</b>

The number of late payments is higher than in the previous year, up to 55 (46 in 2016/17) with the majority being less than 10 days late in payment.

Amounts that were outstanding as at 31st March 2018 were paid by the 31st May 2018.

Interest is calculated in all cases but is only charged when the amount exceeds £20. Interest, for late payments during the year, totalling £569 was charged to and paid by employers on five occasions.





## PENSION OVERPAYMENTS

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

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

The table below shows the overpayment position for the last seven years:

Year	Pension overpaid £	Amount recovered £	Amount written off £	Outstanding at 31st March 2018 £	Percentage outstanding at 31st March 2018
2011/12	75,241	70,422	1,432	3,387	4.5
2012/13	130,371	118,146	3,817	8,408	6.4
2013/14	92,974	82,656	7,407	2,911	3.1
2014/15	105,196	97,941	6,036	1,219	1.2
2015/16	178,328	170,169	553	7,606	4.3
2016/17	139,754	126,586	0	13,168	9.4
2017/18	285,093	207,040	0	78,053	27.4

## FORECAST v OUTTURN REPORT FOR THE YEAR

Forecasts	Forecast 2017/18 £m	Actual 2017/18 £m	Difference £m
Contributions	(330.754)	(344.866)	(14.112)
Transfers in from Other Pension Funds	(3.317)	(13.209)	(9.892)
<b>Total Contributions</b>	<b>(334.071)</b>	<b>(358.075)</b>	<b>(24.004)</b>
Benefits Payable	285.829	286.251	0.422
Payment in respect of Leavers	11.643	22.271	10.628
<b>Total Costs</b>	<b>297.472</b>	<b>308.522</b>	<b>11.050</b>
<b>Net Reduction/(increase) from dealing with members</b>	<b>(36.599)</b>	<b>(49.553)</b>	<b>(12.954)</b>
<b>Management expenses</b>	<b>96.654</b>	<b>88.223</b>	<b>(8.431)</b>
Investment Income	(99.711)	(128.435)	(28.724)
Non-recoverable Tax	0.992	0.778	(0.214)
Change in Market Value of Investments	(398.162)	(234.857)	163.305
<b>Net Return on Investment</b>	<b>(496.881)</b>	<b>(362.514)</b>	<b>134.367</b>
<b>Increase in Net Assets Available for Benefits during the year</b>	<b>(436.826)</b>	<b>(323.844)</b>	<b>112.982</b>
<b>Net Assets of The Fund at the Beginning of the Year</b>	<b>7,904.525</b>	<b>7,950.644</b>	<b>(46.119)</b>
<b>Net Assets of the Fund at the End of the Year</b>	<b>8,341.351</b>	<b>8,274.488</b>	<b>66.863</b>

## LONGER TERM CASH FLOW FORECASTS

The following table has been prepared in line with the triennial valuation cycle and shows the forecasts for the Fund Account and Net Assets Statement to 2020/21.

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

Longer Term Cash Flow Forecasts	Forecast 2018/19 £m	Forecast 2019/20 £m	Forecast 2020/21 £m
Contributions	(241.182)	(245.006)	(210.222)
Transfers in from Other Pension Funds	(7.022)	(7.022)	(7.022)
<b>Total Contributions</b>	<b>(248.204)</b>	<b>(252.028)</b>	<b>(217.244)</b>
Benefits Payable	292.623	298.961	303.842
Payment in respect of Leavers	11.643	11.643	11.643
<b>Total Costs</b>	<b>304.266</b>	<b>310.604</b>	<b>315.485</b>
<b>Net Reduction/(Increase) from Dealing with Members</b>	<b>56.062</b>	<b>58.576</b>	<b>98.241</b>
<b>Management Expenses</b>	<b>99.334</b>	<b>101.443</b>	<b>105.037</b>
Investment Income	(100.565)	(105.694)	(111.084)
Non-Recoverable Tax	1.043	1.096	1.152
Change in Market Value of Investments	(422.173)	(440.935)	(458.856)
<b>Net Return on Investments</b>	<b>(521.695)</b>	<b>(545.533)</b>	<b>(568.788)</b>
<b>Decrease/(Increase) in Net Assets Available for Benefits during the Year</b>	<b>(366.299)</b>	<b>(385.514)</b>	<b>(365.510)</b>

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

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





## PERFORMANCE AGAINST BUDGET IN 2017/18

A comparison of performance against budget for the net operational expenses of the Fund for 2017/18 is shown below:

	2017/18 Total Budget £000	2017/18 Actual £000	2017/18 Variance £000
Employee Costs	2,627	2,530	(97)
Premises Costs	52	52	0
IT Costs	257	267	10
Supplies and Services	896	738	(158)
Cost of Democracy	434	358	(76)
Other Costs	245	20	(225)
Investment Management Expenses	92,578	84,499	(8,079)
<b>Total Expenditure</b>	<b>97,089</b>	<b>88,464</b>	<b>(8,625)</b>
Miscellaneous Income	(66)	(241)	(175)
<b>Net Expenditure</b>	<b>97,023</b>	<b>88,223</b>	<b>(8,800)</b>

The main variances against the budget are discussed below.

The main area of budget variance was in investment management costs. The most significant differences all come from alternatives such as Private Equity, Global Property and Infrastructure. It is extremely difficult to budget for these costs, especially the element that relates to performance fees.

The supplies and services budget contained a large provision for the set up costs of pooling; a significant proportion of this has slipped into 2018/19. In addition, there have been a number of areas of underspend within this budget.

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

The cost of democracy has come in under budget due to a number of areas of savings, including cost of legal work, the delivery of the training programme, and the appointment of external advisors.

Employee costs were under budget due to vacant posts during the year.

Miscellaneous income was higher as a result of the recovery of staff costs to project specific work on pooling and the set-up of a shared service with the Northumberland County Council Pension Fund.



# FUNDING STRATEGY

## INTRODUCTION

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

## HISTORY OF THE FUNDING LEVEL

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

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

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

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

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

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

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

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

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

With regard to the 2010 valuation, the experience had been very poor since the 2007 valuation due to investment markets falling as a result of the global economic climate and a reduction in the long term gilt yields that were used to set the discount rates for the valuation. These factors impacted negatively on the funding position, which had been extremely volatile and had deteriorated significantly. A straight application of the strategy used at the 2007 valuation would have led to significant increases in the contributions for most employers. The Pensions Committee recognised this position and reviewed the assumptions and strategy. In order to prevent some employers' contribution rates rising to unaffordable levels, the Committee adopted a less prudent strategy for employers with a strong covenant by increasing the discount rate used to calculate the liabilities. It was stated that a more prudent strategy would be restored at future valuations. Prudent use was made of guarantees provided by statutory bodies made to assist employers with a poorer covenant.

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

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

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

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

## THE 2016 VALUATION

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

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

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

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

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

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

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

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

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

Part of the upward pressure on the employer contributions is due to falling payrolls, in particular at a number of the larger employers in the Fund. This leads to an increase in the percentage based deficit contribution. This is because the deficit amount is driven by the higher historic payroll and the percentage based levy on the lower, current payroll. In practice the Fund manages this issue by setting most deficit contributions as a cash sum to maintain their economic value and ensure deficit recovery.

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



Following consultation to identify a long term solution to indexation of GMPs HM Treasury extended the interim solution to also include those members who reach their State Pension Age on or before 5th April 2021. There was no allowance for this extension in the valuation and whilst it does increase the value of liabilities it is not deemed material. HM Treasury acknowledge this is a complex area and more time is required to consider and identify the long term solution. Further consultation is expected.

The 2016 valuation will be subject to significantly more external scrutiny than other years. Section 13 of the Public Service Pensions Act 2013 introduces like for like comparisons of funding levels and contribution rates and the cost management process will assess the ongoing costs of operating the Scheme. At the time of writing the outcome of these exercises are awaited.

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

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

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

## UPDATED FUNDING POSITION

**The next valuation is due as at 31st March 2019, which will lead to new contribution rates from 1st April 2020. In the interim period from the last valuation to the end of March 2018, the Fund has been monitoring the estimated funding level, using a model provided by the Fund's Actuary. This suggests that the reported funding level should have improved on the back of strong market returns from 1st April 2016. The low risk funding level, however, is broadly the same as the good investment returns are offset by reductions in gilt yields.**

The Fund's Actuary has noted that these estimate figures should be treated with caution and it should not be taken as an indicator that contribution rates are likely to go down at the next valuation. There are a number of approximations within the funding update and of course, financial market conditions could worsen before the 2019 valuation. If the position continues to be positive in the run up to the 2019 valuation the advice from the Actuary is likely to be that the Fund should consider pulling in the risk in the funding strategy.



## TYNE AND WEAR PENSION FUND

# STATEMENT OF THE ACTUARY FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2018

## INTRODUCTION

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

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

## ACTUARIAL POSITION

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

**Plus**

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



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

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

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

### The resulting assumed life expectancies at age 65 were:

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

The assets were valued at market value.

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

- 6 The valuation results summarised above are based on the financial position and market levels at the valuation date, 31st March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
- 7 The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1st April 2017 to 31st March 2020 were signed on 31st March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31st March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
- 8 Since the date the valuation report was signed, HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, has made an announcement to extend the indexation of GMPs to those reaching State Pension Age on or before 5th April 2021 (previously 5th December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off before the announcement, but the increase in liability is not expected to be material.
- 9 Reviews to monitor the level of ill-health retirements are periodically carried out in respect of participating employers and, where appropriate, employer contribution rates may be increased.
- 10 This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31st March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.  
  
This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.  
  
Aon does not accept any responsibility or liability to any party other than our client, South Tyneside Council, the Administering Authority of the Fund, in respect of this Statement.
- 11 The actuarial valuation report is available on the Fund's website at the following address:  
**<http://www.twpf.info/article/11978/Fund-Valuation-Reports>**

Aon Hewitt Limited  
20th April 2018

# MEMBERSHIP OF THE FUND

As at 31st March 2018, there were 260 employers participating in the Fund. This includes the five district councils and a wide range of other organisations that provide a public service within the Tyne and Wear County area.

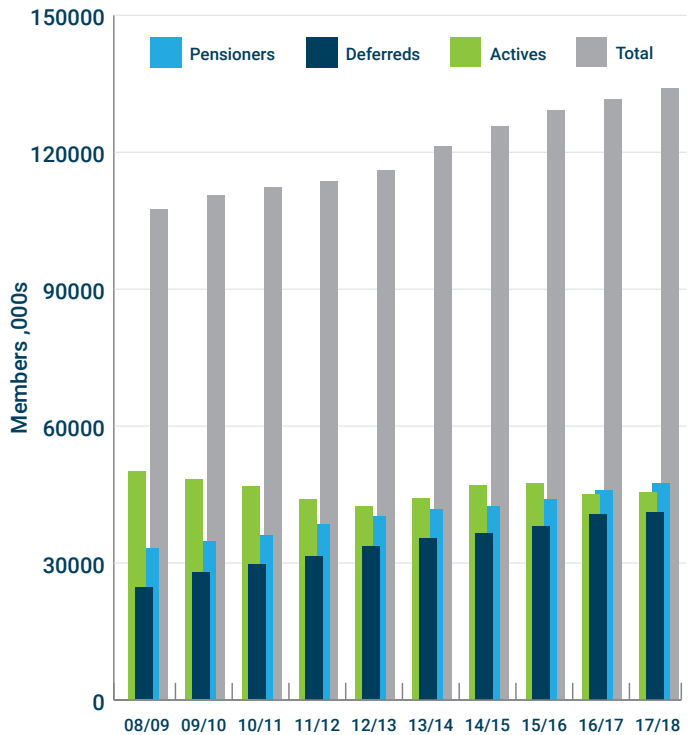
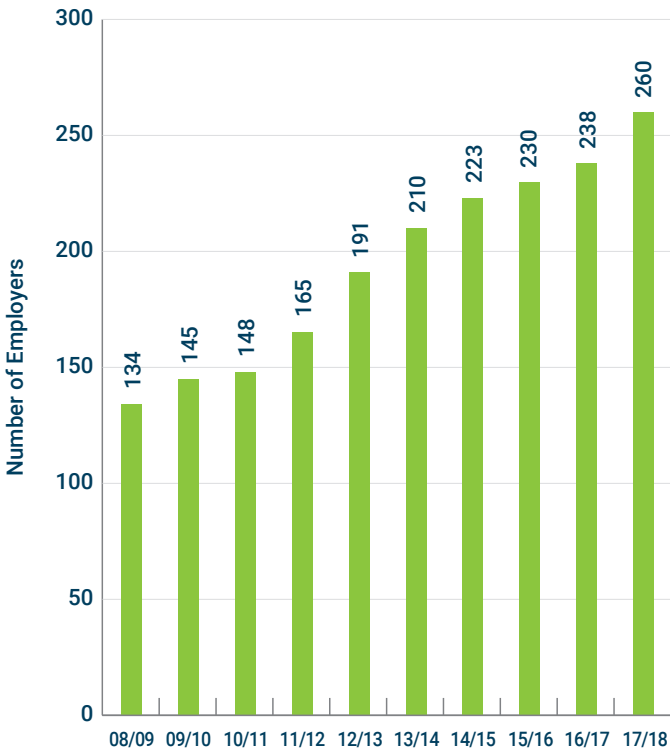
The increase in the number of participating employers over the past ten years is shown in the chart below:

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

The Fund had 134,035 members as at 31st March 2018.

The total membership shown here excludes members who are currently only entitled to a preserved refund but have chosen not to receive this as at the year end. The total of such members as at 31st March 2018 was 3,585 (3,139 as at 31st March 2017).

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



Total membership has increased through this period, driven by an increase in all type of members. The active members have started to rise this year following a sharp downturn last year. The rise in active membership over the last twelve months is attributed to auto enrolment and employers starting to hire again.

# TYNE AND WEAR PENSION FUND MEMBERSHIP ANALYSIS

DISTRICT COUNCILS	MEMBERS AS AT 31ST MARCH 2018			CONTRIBUTIONS RECEIVED IN RESPECT OF	
	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Gateshead Council	6,014	5,926	7,175	29,828	6,117
Newcastle City Council	7,203	6,960	9,477	64,328	8,924
North Tyneside Council	5,754	4,898	5,781	42,728	5,092
South Tyneside Council	3,738	4,452	5,039	36,192	4,004
City of Sunderland Council	4,239	6,369	8,093	24,596	4,656
<b>SUB TOTALS</b>	<b>26,948</b>	<b>28,605</b>	<b>35,565</b>	<b>197,672</b>	<b>28,793</b>

SCHEDULE 2 PART 1 EMPLOYERS	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Academy 360	0	29	15	165	30
Acer Learning Trust	27	8	2	66	16
Aim High Academy Trust	95	12	3	271	62
All Saints Academies Trust	36	2	1	71	16
Balmoral Learning Trust	82	15	8	159	37
Barnes Academy Trust	44	7	2	80	18
Barnwell Academy Trust	42	17	5	110	26
Beacon of Light School	3	0	0	4	2
Biddick Academy Trust	52	20	7	233	59
Bright Tribe Trust	32	0	0	85	21
Brighter Academy Trust	54	24	9	218	56
Castle View Enterprise Academy	61	35	4	110	50
City of Sunderland College	315	397	248	1,132	333
Consilium Academies	61	0	0	194	46
Dayspring Trust	61	14	1	183	46
Diamond Hall Infant Academy	26	13	1	48	19
Discover Learning Trust	97	20	10	337	83
Discovery Learning Limited	13	1	0	28	11
Eppleton Academy Primary School	25	4	3	40	9
Extol Academy Trust	48	0	0	98	23
Former North East Regional Airport	0	0	9	0	0
Former Tyne and Wear County Council	0	13	231	0	0
Former Tyne and Wear Residuary Body	0	1	23	0	0
Gateshead College	317	403	161	1,636	513
Gateshead Housing Company	783	204	177	3,457	1,165
Gosforth Federated Academies	222	47	13	342	116
Grasmere Academy	16	7	2	28	8
Grindon Hall Christian School	0	8	2	0	0
Holy Trinity Church of England Academy	13	1	0	57	13
Houghton Kepier Sports College Academy Trust	57	20	7	174	62
Inspire Multi Academy Trust	121	19	6	211	78
Jigsaw Learning Trust	37	9	1	101	22
Joseph Swan Academy	49	31	4	204	60
Kenton Schools Academy Trust	115	79	9	477	148
Kibblesworth Academy	26	2	0	33	9
Lord Lawson of Beamish Academy	49	19	8	144	50
Monkton Infants School	13	0	1	46	9
Monkton Junior School	8	0	2	20	4

SCHEDULE 2 PART 1 EMPLOYERS	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Monkwearmouth College	0	1	3	0	0
Newcastle College	1,236	2,000	486	3,652	1,280
Newcastle East Mixed Academy Trust (NEAT)	228	16	2	642	151
Newcastle Education Action Zone	0	2	2	0	0
North East Learning Trust	21	0	1	27	6
North Tyneside College	0	44	31	0	0
North View Academy Trust	10	3	0	70	14
Northern Lights Learning Trust	11	7	1	23	10
Northumberland Magistrates Courts	0	21	79	0	0
Northumbria Police Authority	0	1,068	1,376	117	38
Northumbria University	1,487	1,539	1,227	8,526	2,504
Oak Learning Trust	51	5	1	166	39
Police And Crime Commissioner For Northumbria	9	2	1	0	0
Prosper Learning Trust	92	0	0	64	15
Red House Academy	0	16	4	0	0
Redby Primary Academy	0	5	1	0	0
River Tees Multi Academy Trust	15	0	0	18	4
Riverside Primary Academy	30	6	1	70	16
Ryhope Infant School Academy	22	2	0	75	16
Sacred Heart Partnership of Schools	85	28	11	181	66
Smart Multi Academy Trust	219	14	2	600	148
South Tyneside Education Action Zone	0	1	1	0	0
South Tyneside Homes	573	271	304	3,035	922
Southmoor Academy	99	22	14	382	94
St Aidan's Education Trust	47	20	10	142	36
St Anthony's Girls' Catholic Academy	39	9	11	157	35
St Cuthbert's Catholic High School	39	18	5	86	27
St Joseph's Catholic Education Trust	70	24	11	266	77
St Mary's Catholic School Trust	50	20	7	112	27
St Thomas More Roman Catholic Academy	57	11	12	260	58
Sunderland Education Action Zone	0	0	1	0	0
The Ascent Academies Trust	166	61	18	375	149
The Cedars Academy Trust	46	14	2	163	44
The Chief Constable For Northumbria	1,675	364	199	11,403	2,572
The Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority	24	27	83	0	71
The Illuminaire Multi Academy Trust	77	4	1	174	44
The Laidlaw Schools Trust	286	72	20	855	212
The Northern Education Trust	196	61	23	664	242
The Northern Saints Catholic Education Trust	34	0	1	160	36
The St Thomas More Partnership of Schools	100	28	10	209	76
The Trinity Catholic Multi Academy Trust	49	12	8	174	71
Trinity Academy Newcastle	60	21	2	204	70
Tyne And Wear Fire and Rescue Service	246	180	277	2,093	383
Tyne Coast Academy Trust	46	5	1	57	23
Tyne Coast College	389	208	249	1,512	341
Tyne Metropolitan College	0	217	73	277	61
Tynemouth College	0	20	13	0	0
University of Sunderland	837	839	786	6,684	1,427
Valour Multi Academy Trust	58	1	0	102	23
Vision Learning Trust	78	3	3	174	41
Wearmouth Learning Trust	62	27	6	226	51
Wearside College	0	4	7	0	0
West Newcastle Academy	25	8	1	29	11
Whickham School and Sports College	110	32	10	201	76
Whitburn Church of England Academy	49	16	16	124	37
Wise Academies	126	46	17	220	82
Woodard Academies Trust	70	6	5	216	50
Your Homes Newcastle	722	479	321	2,983	1,095
<b>SUB TOTALS</b>	<b>13,021</b>	<b>9,411</b>	<b>6,732</b>	<b>58,512</b>	<b>16,091</b>



<b>SCHEDULE 2 PART 2 EMPLOYERS</b>	<b>ACTIVES</b>	<b>DEFERRED</b>	<b>PENSIONERS</b>	<b>EMPLOYERS £'000</b>	<b>EMPLOYEES £'000</b>
Birtley Town Council	0	1	5	0	0
Blakelaw and North Fenham Parish Council	0	0	0	0	0
Blue Square Trading Limited	0	7	5	21	0
Care and Support Sunderland Limited	0	9	2	0	0
Castle View Fitness Centre	1	6	1	0	0
Illuminaire Business Services Limited	12	1	0	15	5
Learning World	0	6	1	0	0
Neat Active Limited	24	2	0	49	15
Nexus	555	418	1,355	3,215	1,331
Northumbria University Nursery Limited	10	1	3	30	12
Regent Funeral Services	1	0	0	1	0
Sunderland Care and Support Limited (Scsl)	449	172	149	2,611	643
Sunderland Live Limited	0	25	2	0	0
The Intraining Group Limited	1	25	6	3	1
Together for Children	709	33	9	3,307	1,132
University of Sunderland London Campus Limited	4	1	0	76	22
Victims First Northumbria	19	1	0	46	26
Zero Carbon Futures (North) Limited	2	2	0	13	6
<b>SUB TOTALS</b>	<b>1,787</b>	<b>710</b>	<b>1,538</b>	<b>9,387</b>	<b>3,193</b>

<b>ADMITTED BODIES</b>	<b>ACTIVES</b>	<b>DEFERRED</b>	<b>PENSIONERS</b>	<b>EMPLOYERS £'000</b>	<b>EMPLOYEES £'000</b>
Age Concern Newcastle	6	32	62	21	4
Assessment and Qualification Alliance	0	1	9	0	0
Association of North East Councils	20	42	14	78	41
Azure Business Centres Limited	0	0	2	0	0
Balfour Beatty Living Places Limited	13	2	6	214	38
Baltic Flour Mills Visual Arts Trust	2	6	1	40	8
Bell Decorating Group Limited	0	1	0	18	0
Benton Grange School	0	0	6	0	0
Benwell Young Peoples Development Group	0	3	0	0	0
Brunswick Young Peoples Project	0	3	0	0	0
BT South Tyneside Limited	197	72	92	127	312
Bullough Contract Services	0	1	0	0	0
Bulloughs Cleaning Services	0	0	1	0	0
Byker Community Trust	5	2	0	51	22
Capita Property and Infrastructure Limited	92	34	36	21	134
Carillion Services Limited (Jarrow School)	8	1	3	21	3
Carillion Services Limited (Lord Lawson Academy)	0	2	1	0	0
Carillion Integrated Services Limited (NEFRA)	2	0	0	4	1
Carillion Services Limited (SSCS)	14	2	2	32	6
Catholic Care North East	0	12	27	0	0
CBS Outdoor Limited	0	2	0	0	0
Childcare Enterprise Limited	1	14	4	2	0
Churchill Contract Services Limited	2	0	0	4	0
Compass Contract Services (UK) Limited (Whickham School)	6	1	0	41	2
Compass Contract Services (UK) Limited (Lord Lawson Of Beamish Academy)	2	0	0	2	0
Compass Contract Services Limited (Hilton Primary)	7	0	0	16	1
Compass Contract Services Limited (Red House Academy)	4	0	0	14	1
Compass Contract Services Limited (Thomas Hepburn and Thorp Academies)	4	0	0	30	1
Compass Group UK and Ireland Limited	0	0	1	0	0
Dataspire Solutions Limited	2	0	0	13	3
DB Regio Tyne and Wear Limited	0	104	140	73	31
Disability North	1	19	15	48	2
Engie Buildings Limited	9	0	1	61	11

ADMITTED BODIES	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Engie Services Limited (North Tyneside)	230	118	45	154	362
Engie Services Limited (PB)	8	1	2	59	15
Gateshead Law Centre	0	9	5	0	0
Gentoo Group Limited	1,143	776	861	10,013	2,042
Groundwork South Tyneside and Newcastle	1	3	4	52	7
Hebburn Neighbourhood Advice Centre	0	3	1	0	0
Higher Education Funding Council for England	0	1	6	0	0
Information North (North Regional Library System)	0	0	2	0	0
Insitu Cleaning	4	4	3	6	1
International Centre For Life	5	7	11	269	40
Involve North East	4	7	0	36	7
Jarvis Accommodation Services Limited	0	3	3	0	0
Jarvis Workspace Facilities Management Limited	0	2	5	0	0
Kenton Park Sports Centre	1	11	1	10	1
Kgb Cleaning and Support Services Limited	0	17	6	0	0
Kier North Tyneside Limited	252	58	147	0	464
Lovell Partnership Limited	3	5	5	14	2
Maxim Facilities Management Limited	0	0	1	5	1
Maxim Facilities Management Limited (Illuminaire Mat)	4	0	0	2	0
Mears Limited (Gateshead)	0	9	57	1	2
Mitie Cleaning (North) Limited	0	1	0	0	0
Mitie PFI Limited (Boldon School)	5	2	1	22	3
Mitie PFI Limited (North Tyneside)	0	0	1	0	0
Morrison Facilities Services Limited 1	0	12	19	0	0
Morrison Facilities Services Limited 2	0	65	60	0	0
Morse	0	12	0	0	0
Museums Libraries And Archives North East	0	15	8	0	0
National Car Parks	0	2	4	0	0
National Glass Centre	0	1	1	0	0
Newcastle Family Service Unit	0	0	7	0	0
Newcastle Gateshead Initiative Limited	1	0	0	5	2
Newcastle Healthy City Project	0	17	10	0	0
Newcastle International Airport	99	213	407	3,120	283
Newcastle Law Centre	1	12	3	20	2
Newcastle Tenants And Residents Federation (NTRF)	0	2	0	0	0
Newcastle Tenants Federation	0	2	3	0	0
Newcastle Theatre Royal Trust	264	79	52	538	141
Newcastle West End Partnership	0	2	0	0	0
Newcastle Youth Congress	0	1	1	0	0
No Limits Theatre Company	2	0	0	0	0
Norcare	0	1	1	0	0
Norland Road Community Centre	0	1	0	0	0
North Country Leisure	42	5	6	484	48
North Country Leisure 2	33	5	2	196	47
North East Metro Operations Limited	510	16	14	3,220	1,099
North East Innovation Centre	0	11	17	0	0
North East Regional Employers Organisation	5	3	8	118	6
North Tyneside City Challenge	0	3	1	0	0
North Tyneside Disability Advice	0	0	1	0	0
Northern Arts Association	0	21	23	0	0
Northern Council for Further Education	0	10	16	0	0
Northern Counties School for the Deaf	0	12	23	0	0
Northern Grid for Learning	0	6	5	91	1
Northumbria Tourist Board	0	14	22	0	0
One North East	0	0	8	0	0
Orian Solutions Limited (Gateshead)	3	0	0	7	1
Orian Solutions Limited (Newcastle)	4	1	0	6	1

ADMITTED BODIES	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Orian Solutions Ltd (Washingwell Primary)	2	0	0	3	0
Ouseburn Trust	0	1	0	0	0
Parsons Brinkerhoff	0	3	3	0	0
Passenger Transport Company	0	0	85	0	0
Percy Hedley Foundation	17	3	9	168	26
Port of Tyne Authority	0	0	1	0	0
Praxis Service	1	1	4	54	4
Property Management Integrated Services and Employment Company Limited	7	0	0	89	10
Raich Carter Sports Centre	0	42	2	0	0
Rm Education	0	2	3	0	0
Robertson Facilities Management Limited (Newcastle Phase 2)	2	0	2	4	2
Robertson Facilities Management Limited	5	0	6	42	7
Scolarest (Newcastle Schools)	7	8	10	25	3
Scolarest PFI (Boldon School)	0	0	1	0	0
Search Project	0	0	4	9	0
Simonside Community Centre	0	3	0	0	0
SLM Community Leisure Charitable Trust	371	27	14	267	99
SLM Fitness and Health Limited	83	2	1	27	8
SLM Food and Beverage Limited	8	0	0	8	3
Sodexo Limited	7	2	2	41	6
South Tyneside Integrated Care Limited	22	0	0	80	22
South Tyneside Football Trust	0	0	1	-50	0
South Tyneside Victim Support	0	1	1	0	0
S S E Contracting Limited	5	8	20	211	16
St Mary Magdalene And Holy Jesus Trust	3	3	9	60	8
St Mary The Virgin Hospital	0	0	1	0	0
Stagecoach Services Limited	30	87	812	4,271	57
Suez Recycling And Recovery UK Limited (Gateshead)	1	0	0	22	2
Suez Recycling And Recovery UK Limited (Sunderland)	7	0	0	50	10
Sunderland City Training and Enterprise Council	0	27	40	0	0
Sunderland Empire Theatre Trust	0	2	5	0	0
Sunderland Outdoor Activities	0	2	1	0	0
Sunderland People First Co-Operative Community Interest Company	4	0	0	8	4
Sunderland Streetlighting Limited	14	20	35	216	49
Taylor Shaw	0	5	2	0	0
The Ozanam House Probation Hostel Committee	46	24	12	238	44
Thomas Gaughan Community Association	0	2	0	0	0
TT2 Limited	45	23	40	292	123
Tyne and Wear Development Company Limited	0	20	9	0	0
Tyne and Wear Development Corporation	0	12	38	0	0
Tyne and Wear Enterprise Trust	0	12	26	0	0
Tyne and Wear Play Association	0	0	1	0	0
Tyne and Wear Small Business Service	0	10	13	0	0
Tyne Waste Limited	0	4	13	0	0
Tyneside Deaf Youth Project	0	2	1	0	0
Tyneside Training and Enterprise Council	0	27	36	0	0
Valley Citizens Advice Bureau	0	1	1	0	0
Walker Profiles (North East) Limited	0	24	6	0	0
Wallsend Citizens Advice Bureau	0	0	3	0	0
Wallsend Hall Enterprises Limited	0	3	3	0	0
Workshops for the Adult Blind	0	8	64	0	0
<b>SUB TOTALS</b>	<b>3,708</b>	<b>2,358</b>	<b>3,652</b>	<b>25,514</b>	<b>5,704</b>
<b>GRAND TOTALS</b>	<b>45,464</b>	<b>41,084</b>	<b>47,487</b>	<b>291,085</b>	<b>53,781</b>

# PENSIONS ADMINISTRATION

## OUR SHARED SERVICE ARRANGEMENT

**During 2017/18 the Fund worked with Northumberland County Council Pension Fund to create a pensions administration shared service. The new combined service operates from South Tyneside Council offices, with Northumberland being absorbed into the processes, operations and management of the Tyne and Wear Pension Fund.**

**It was a large and complex exercise to create this combined operation, which went live in January 2018. One of the main challenges was to bring the Northumberland employers and members on board, whilst maintaining the service delivery to the Tyne and Wear stakeholders.**

This is an exciting time for both funds and provides the opportunity to combine resources to improve operational efficiencies and at the same time to make us more resilient for any future challenges that lie ahead. Whilst a combined service is now being delivered, work on aligning other areas of operation and policies continues to take place.

Each Fund will retain its own identity and statutory obligations.

This newly combined operation will provide a shared administration service to 134,000 members and 260 employers for Tyne and Wear Pension Fund and 27,000 members and 78 employers for Northumberland County Council Pension Fund.

## PENSIONS OFFICE STRUCTURE

**The Pensions Office is organised into five teams of experienced officers.**

The five teams comprise, between them, sixty one permanent full time equivalent posts. Administration for both funds is integrated within these teams.

Each employer is allocated to one of three administration teams, which are responsible for maintaining member records and calculating and paying benefits. These teams manage contact with the employers at an individual level. The administration teams collectively have 36 full time equivalent posts.

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

The Technical Team manages the data for the actuarial valuations and provides support to the other four teams, with particular regard to IT systems and solutions. The Technical Team has eleven and a half full time equivalent posts.

The Technical and Communications Team work together to deliver the electronic processing and communications.

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

The approach to pension's administration is based around two main strategy documents, namely the Pensions Administration Strategy and the Communications Policy Statement. Whilst each Fund is required to maintain their own strategy documents these have been aligned to ensure maximum operational efficiency.

The broad content and purpose of each document is discussed below, followed by an in depth description of the services we provide and the work we have undertaken in 2017/18.



## PENSIONS ADMINISTRATION STRATEGY

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

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

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

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

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

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

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

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

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

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

## COMMUNICATIONS POLICY STATEMENT

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

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

Our Statement sets out:

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

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

## SERVICES TO MEMBERS

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

- We maintain the records of, and pay pensions to, 47,500 pensioner members of the Fund.
- We maintain the records of 41,000 deferred members of the Fund.
- We maintain the records of, and receive and reconcile contributions for, 45,500 actively contributing members of the Fund.
- We provide annual benefit statements for our active and deferred members. Pensioners receive an annual update and details of any pensions increase. Historically these have been sent directly to the member's address. From 2019 we are moving to electronic statements and annual updates via our online "mypension" web services. However, members will still be able to elect for paper copies.
- We maintain a website that provides information on the Scheme and the Fund.
- We run a helpline that allows members to request leaflets and information, change certain personal and bank details, and track progress of payments and transfers. We handled over 49,900 calls in 2017/18.
- We have a call back service for out of office hours and busy times.
- We welcome personal callers and were visited by around 1,200 members last year. An appointment is not necessary.
- We work with the Local Government Association to provide a range of booklets that help members to understand the Scheme rules. These are available on our website or on request from our helpline.
- We publish a Members' Annual Report on our website and provide a paper copy on request.
- We provide newsletters to keep members informed of changes to the Scheme.

## MAKING PENSIONS ACCESSIBLE TO MEMBERS

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

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

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

Members tell us that their preferred method of contacting us is by telephone. A voicemail service is available during busy times and out of office hours on which members can leave a message and a convenient contact number for us to return the call. Our aim is to respond within five working hours or earlier, which was achieved for 98% of messages in 2017/18.

## ANNUAL BENEFIT STATEMENTS

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

We mailed out over 41,000 Annual Benefit Statements in August 2017.

We issued benefit statements to every deferred member for whom we held a current address and a complete record. Just over 37,500 statements were mailed out in June 2017.

## COMMUNICATING THE SCHEME TO MEMBERS

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

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

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

## SERVICES TO EMPLOYERS

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

- As noted above, we have a Pensions Administration Strategy that sets out the roles and responsibilities of the Fund and the employers.
- We provide each employer with a client manager whose role is to ensure efficient processing and communication.
- We provide bulk data import facilities and online administration forms to facilitate efficient processing and ensure greater accuracy of data.
- We provide an employer's website which includes an online Employers' Guide to the administrators of the Fund.
- We offer training courses that aim to educate and inform staff on pension matters and working procedures.
- We hold an Annual General Meeting.
- We send out mailshots to advise all employers of developments.

## PROMOTION OF MEMBERSHIP, INCLUDING AUTO ENROLMENT

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

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

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

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

## SYSTEMS

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

The Fund has largely moved to electronic processing for employers with the use of bulk data import and online forms. In September 2017 we removed the use of paper where an electronic method was in place. The use of email, electronic communication and our website is an integral part of the service delivery package. We are committed to developing and improving these approaches to communication.

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

Through our website, members of both the Tyne and Wear Pension Fund and the Northumberland County Council Pension Fund have access to:

- Details on how to contact the Fund.
- Latest news and topical issues.
- Our range of leaflets.
- Pension payment dates and details of pension inflation proofing.
- The Annual Report and Accounts.
- The Fund's main policies, including the Governance Compliance Statement, the Funding Strategy Statement, the Pensions Administration Strategy, the Investment Strategy Statement, the Corporate Governance Policy, the Communication Policy Statement and the Service Plan.
- Links to other useful websites.
- Our member "mypension" secure web service, where they can view their membership record, update certain personal details, view their annual benefit statement or pension annual update and payslips and, where appropriate, carry out what if calculations.

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

- Pensions Committee Reports (where relevant).
- Latest news and topical issues.
- The Employers' Administration Guide.
- The pension records of their employees.
- Online administration forms for pension processing and estimates.
- The ability to carry out pension estimates and calculations.

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

We have been working on online services for members. Following an initial pilot this service is now live. Members can view their membership record and calculate estimates of their benefits and from 2019 receive their annual benefit statements electronically. Members have been advised of this new service in their 2018 annual mailings. A further reminder will be sent to our pensioner members later in the year.

The Universal Pensions Management system provides for the bulk import and automated processing of data from employers. This reduces the risk of passing incorrect data, provides significant efficiencies in administration and processing and reduces the cost for both employers and the Fund. We have developed this bulk processing system for high volume areas such as changes to personal data, working hours and joiner information. This is being used by the larger employers but is available to all employers. Where bulk data is not used all information is supplied via an online form or secure email. Paper processing has largely been removed.

## INTERNAL DISPUTE RESOLUTION PROCEDURES

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

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

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

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

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

In 2017/18 eight disputes against decisions made by the Pension Fund were considered under the IDR procedure. In seven cases the Pension Fund's decision was upheld.

## IMPLEMENTATION OF THE 2014 SCHEME

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

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

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

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

The backlog that built up from a combination of the late release of the Regulations for the 2014 Scheme and the increased complexity of operating a Career Average Revaluation Scheme has still not yet been recovered. Work has been prioritised to ensure that urgently required or high impact processing, for both members and employers, is addressed promptly. 2017/18 has seen the backlog reduce significantly but further work is still needed. This backlog is largely in lower priority work. An action plan is in place to address the backlog.



## PENSIONS FREEDOM AND CHOICE

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

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

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

## PENSION LIBERATION FRAUD

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

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

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

## TAX ON PENSIONS

**When members contribute towards the Scheme they receive tax relief on their contributions and the benefits they build up. In 2006 the Government set limits on annual and lifetime growth. These limits have reduced over time. For 2017/18 the annual allowance was £40,000 and the lifetime allowance was £1 million.**

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

## THE PENSIONS REGULATOR

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

As an initial step the Regulator expects funds to self-assess their current levels of compliance against both the law and the Regulator's Code of Practice 14. The Fund has carried out these assessments and is broadly comfortable with its level of compliance. The Fund's compliance with the Code was confirmed by an audit review undertaken in 2017/18.





# ADMINISTRATIVE MANAGEMENT PERFORMANCE

## INTRODUCTION

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

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

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

## THE 2017 CIPFA BENCHMARKING CLUB REPORT

The latest CIPFA Benchmarking Club Report is the 2017 Report, which was issued in November 2017. The 2017 Report compares the performance of the Pensions Service in 2016/17 with 30 other local authorities who administer the Scheme.

The key benchmark for Pensions Administration is the cost per member of administering the Scheme. The Pensions Service cost for 2016/17 was

£20.06 per member, compared to the average cost of £20.14 per member. The comparative costs for 2015/16 were £17.89 per member, compared to the average cost of £17.95 per member.

The membership total used by the Benchmarking Club includes preserved refunds. The inclusion of preserved refunds of 3,585 increases our reported membership of 134,035 to 137,620.

## UNIT COSTS INCLUDING AND EXCLUDING INVESTMENT COSTS

### Unit costs for the year to 31st March 2018

	COST £m	MEMBERSHIP	COST PER MEMBER £
Administrative Cost	2.686	137,620	19.52
Investment Management Expenses	44.936	137,620	326.52
Oversight and Governance Costs	1.038	137,620	7.54

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

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

It should be noted that the benchmarking club excludes certain administrative costs, for example, the Past Service Deficiency element of employer contributions. Therefore, the costs in the table shown above for pension's administration are higher than those shown in the benchmarking club data.

## AGE PROFILE OF FUND MEMBERSHIP AT 31ST MARCH 2018

AGE BAND	MEMBERSHIP TYPE					TOTAL
	ACTIVE	DEFERRED	BENEFICIARY	PENSIONER	PRESERVED REFUND	
<20	551	11	275	0	62	899
20-24	1,913	522	64	0	366	2,865
25-29	3,158	2,042	6	0	425	5,631
30-34	4,391	4,469	11	2	344	9,217
35-39	5,170	5,211	25	10	417	10,833
40-44	5,169	5,205	44	46	433	10,897
45-49	6,714	6,686	75	134	465	14,074
50-54	7,860	8,134	191	446	444	17,075
55-59	6,533	6,963	319	2,881	346	17,042
60-64	3,423	1,698	485	9,233	208	15,047
65-69	490	119	758	10,318	69	11,754
70-74	92	24	978	8,196	4	9,294
75-79	0	0	980	4,469	0	5,449
80-84	0	0	1,098	3,067	0	4,165
85-89	0	0	798	1,483	1	2,282
>89	0	0	448	647	1	1,096
	<b>45,464</b>	<b>41,084</b>	<b>6,555</b>	<b>40,932</b>	<b>3,585</b>	<b>137,620</b>

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

## PERFORMANCE INDICATOR FOR PENSIONS PROCESSING

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

In 2017/18, 72% of the measured processes were completed in line with the Disclosure Regulations. This figure is higher than last year and is returning to the levels that were achieved in the years before the introduction of the New Scheme. The Fund has introduced Bulk Data imports for members joining the Scheme and other high volume areas. Taking this into consideration overall performance increases to around 80%.

The late release of the new Scheme Regulations and associated guidance, combined with the increased complexity of the new Scheme, led to delays in processing and a large backlog of work. We have worked upon this backlog during the year and the processing of delayed work has depressed the Disclosure compliance figure. However recent trends show that we are now beginning to keep on top of some of our day to day processing.

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

# ADDITIONAL VOLUNTARY CONTRIBUTIONS

## INTRODUCTION

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

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

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

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

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

- **Take out an Additional Pension Contract**

Again, subject to limits, a member can purchase annual pension up to a maximum of £6,822. This amount is increased each year in accordance with any increase applied to pensions in payment. The contract can be taken with or without a contribution from the employer and can be used to buy extra pension or lost pension arising from authorised unpaid leave of absence. Medical clearance may be required. Subject to the Fund's policy, members may choose to make a one off payment or regular contributions. Tax relief may apply.

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

## PRUDENTIAL

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

Regular meetings are held with Prudential to discuss the running of the plan. In the past Prudential has provided educational seminars to members but this service has been withdrawn as part of a modernising programme, with Prudential offering telephone and online support as an alternative.

The Fund carries out an annual review of the AVC provision. The 2017/18 review was undertaken in October 2017 by Hymans Robertson.

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

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

Following a consultation exercise in 2016, the Government decided not to allow LGPS members to access their LGPS AVCs under Freedom and Choice provisions in the finalised 2018 Amendment Regulations on the grounds of administrative complexity.

## EQUITABLE LIFE

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

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

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

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

On 15th June 2018 it was announced that Equitable is to be sold to Reliance Life. Proceeds from the sale will be used to increase the capital distribution in the With Profits Fund, which will be discontinued when the transfer to Reliance takes place.

# INVESTMENT REPORT

## INTRODUCTION

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

#### The formal investment objectives are:

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

## INVESTMENT STRATEGY

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

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

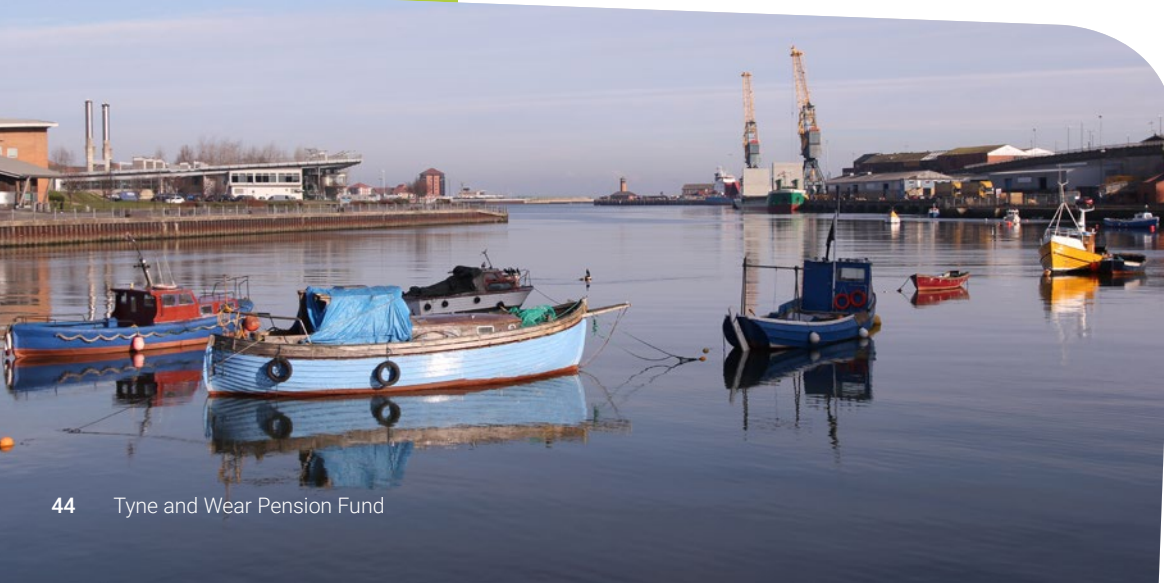
- the existing strategy was largely suitable, however
- a 3.0% shift from UK equities to private debt should be implemented. This target allocation was increased to 3.5% during the year, and
- some limited tactical asset allocation positions in the property exposure should be adopted as longer term strategic positions.

To implement these changes will take time as most relate to illiquid asset classes. Once the changes from the ALM study have been implemented, the Fund's asset allocation will reflect the strategy of 55.5% in equities, 19.0% in bonds and cash, 12.0% in property including residential, 7.5% in private equity, 3.5% in private debt and 2.5% in infrastructure.

On the back of good investment returns following the 2016 valuation, Hymans Robertson was asked to review the investment strategy to establish whether the strategy should be de-risked. The outcome was that no changes were considered necessary at the time but the issue should be re-considered following the next valuation along with other factors such as the overall level of prudence in the funding strategy.

Further tactical and strategic changes may be considered in 2018/19, to reflect the economic environment and short to medium term prospects for financial markets.

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





## QUOTED EQUITIES AND BONDS

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

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

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

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

MANAGER	PORTFOLIO
<b>Legal and General</b>	<ul style="list-style-type: none"> <li>Indexation</li> <li>- UK Equities</li> <li>- Europe ex UK Equities</li> <li>- US Equities</li> <li>- Emerging Market Equities</li> <li>- Japanese Equities</li> <li>- Asia Pacific ex Japanese Equities</li> <li>- Fundamental Global Equities</li> <li>- UK Index-Linked Gilts</li> <li>- UK Gilts</li> <li>- Emerging Markets Bonds</li> </ul>
<b>JP Morgan</b>	<ul style="list-style-type: none"> <li>Global Equities</li> <li>Emerging Market Equities</li> </ul>
<b>BlackRock</b>	<ul style="list-style-type: none"> <li>UK Equities</li> </ul>
<b>Mirabaud</b>	<ul style="list-style-type: none"> <li>UK Equities</li> </ul>
<b>Lazard</b>	<ul style="list-style-type: none"> <li>Japanese Equities</li> </ul>
<b>TT International</b>	<ul style="list-style-type: none"> <li>Asia Pacific ex Japan Equities</li> </ul>
<b>M&amp;G</b>	<ul style="list-style-type: none"> <li>Corporate Bonds and Index-Linked Gilts</li> </ul>
<b>Janus Henderson</b>	<ul style="list-style-type: none"> <li>Bonds</li> </ul>

## PROPERTY

Following the ALM study in 2016/17 the strategic allocation to property was reduced to 12.0%. This is comprised of 6.0% to UK direct commercial property, 1.0% to UK residential property and 5% to global property. The pace of the allocation to residential property and private debt are dependent upon their respective markets, however it is expected that they will occur in 2018/19.

The UK mandate is managed by Aberdeen Standard Investments. This was valued at £366.2 million at the year end, representing 4.4% of the Fund. The underweight position relative to the 6.0% strategic weighting is attributable to a restructuring of the mandate and net disinvestment in 2013/14 and a slow pace of reinvestment which has been due to concerns over pricing in the property market.

The allocation to UK residential property was initiated in 2016/17. This is through a fund managed by Aberdeen Standard Investments. At the year end the Fund had £16.3 million, or 0.2% invested in residential property. This is below the 1.0% strategic weighting. The pace on investment is dependent on identifying suitable investment opportunities.

The global property programme had been built up to the target level of 5.0% through investment into funds provided by Partners Group. This programme includes fund of funds, direct and secondary investments. The proportion of the Fund invested through this programme fell to 4.2% by the year end on the back of good distributions and the rise in the total Fund value. This programme was valued at £343.4 million at the year end.

## INFRASTRUCTURE

The Fund made its first investment into infrastructure in 2006. A review of our approach in 2010 set an allocation of 2.5%, which was provided largely through investment in funds offered by Partners Group. During 2017/18, the Fund has diversified its Infrastructure programme through investments with Infracapital and Pantheon. Further diversification may take place during 2018/19.

At the year end, the total investment was valued at £141.1 million, representing 1.7% of the Fund.

## PRIVATE EQUITY

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

At the year end, £533.8 million was invested in private equity, equal to 6.5% of the Fund. As with the underweight position in global property and infrastructure, this is due to a combination of markets providing good exit opportunities which results in increased levels of distributions back to investors and a strong rise in the total value of the Fund.

## PRIVATE DEBT

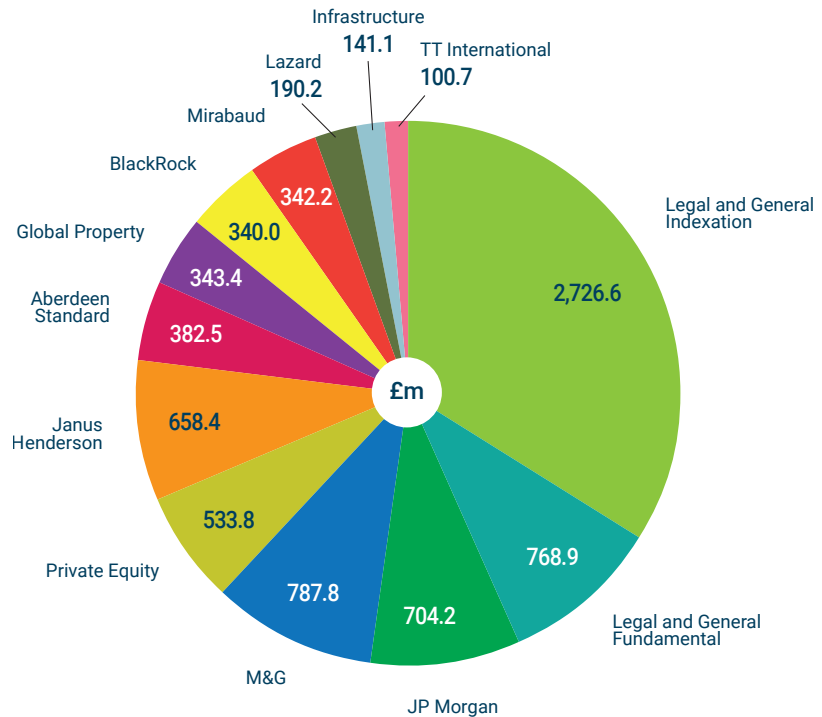
The most significant change to the Investment Strategy as a result of the 2016/17 ALM study was the introduction of an allocation to private debt. The target allocation is 3.5%, which is to be funded from a reduction in the allocation to UK equities.

Progress towards implementing this allocation was made during the year with the decision to invest through funds being offered by Pemberton Asset Management and HPS (Highbridge Principal Strategies) Investment Partners. The first investments into these funds did not take place until after the year end. The allocation should be built up to the target level over the next eighteen months.



## ASSETS UNDER MANAGEMENT

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



## INVESTMENT MANAGERS' OBJECTIVES AND RESTRICTIONS

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

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

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

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

Absolute return targets are in place for the private equity, infrastructure and global property programmes.

These targets are developed as the programmes move out of their J-curve and mature. The new allocation to private debt will also have an absolute return target.

## POOLING OF INVESTMENTS

During 2017/18 the Fund along with eleven other local authority pension funds, created an investment management company called Border to Coast Pension Partnership Limited.

The intention over time is for this company to assume responsibility for the day to day management of the Fund's assets. This will include the appointment and monitoring of the performance of the external investment managers. The Pension Fund will retain responsibility for setting the Investment Strategy and asset allocation and will monitor the performance of Border to Coast.

Whilst no assets from the Fund have transferred to date the intention is for this process to commence in 2018/19. It will take a period of years for this process to be completed.

## CUSTODY

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

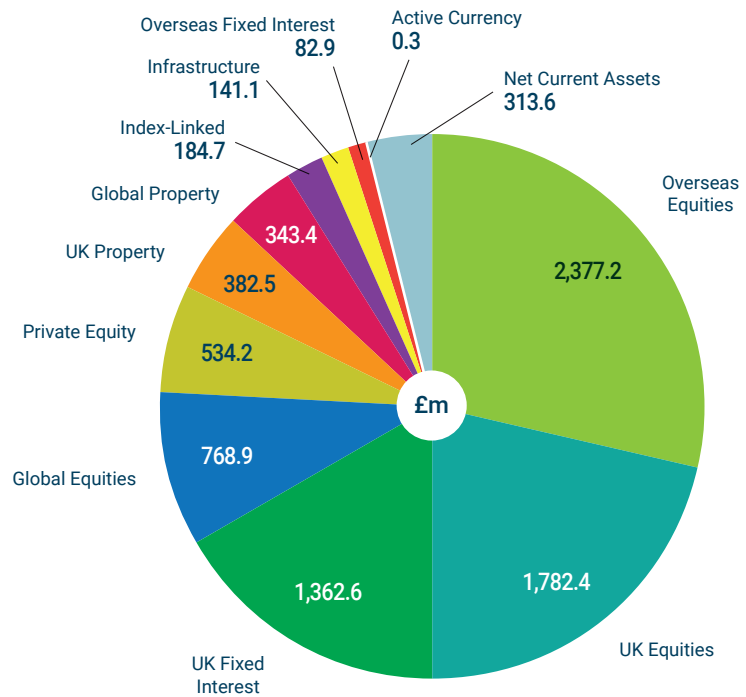
As at March 2018, Northern Trust was providing custody for approximately £1.7 billion of segregated assets held in four mandates.

## ASSET ALLOCATION

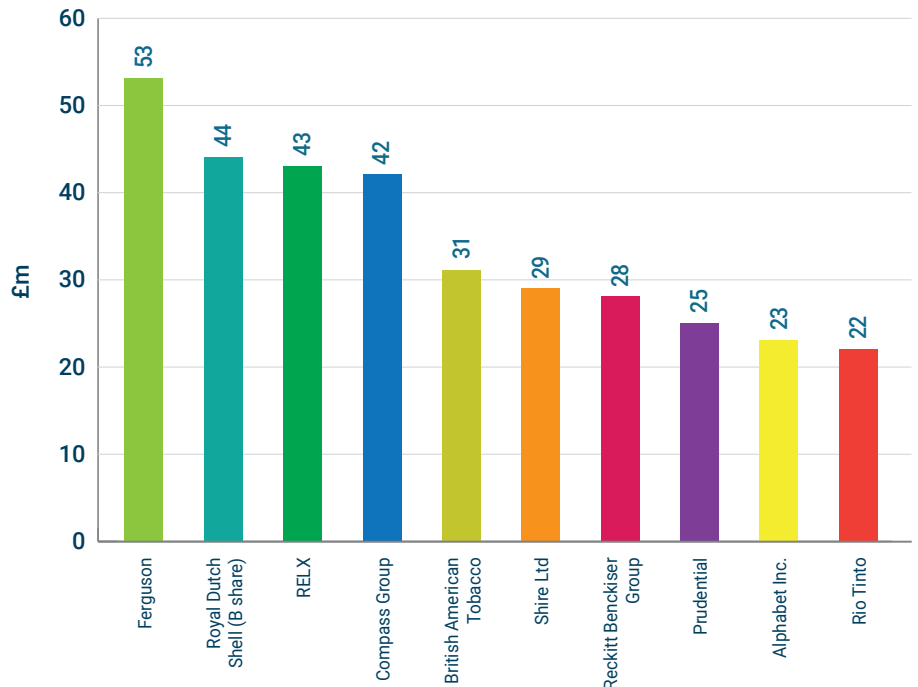
The asset allocation is maintained within pre-determined ranges around the strategic benchmark. Action is taken to bring the Fund back within range when a breach occurs. Legal and General provides management information that assists with this process.

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

The asset allocation as at March 2018 is shown below:



The top ten individual investments in companies are:



## PERFORMANCE MEASUREMENT

The Fund has used a fund-specific benchmark for performance measurement since January 2002. The analysis is undertaken by Portfolio Evaluation, an independent specialist performance management company.

## MARKET CONDITIONS AND INVESTMENT RETURNS FOR 2017/18

Equity markets generally produced strong returns for the first nine months of the year, however, in the final quarter they became nervous about potential monetary tightening and the possibility of a trade war between the US and China. Despite this all of the major equity markets produced positive returns. Bond markets generally produced modest positive returns.

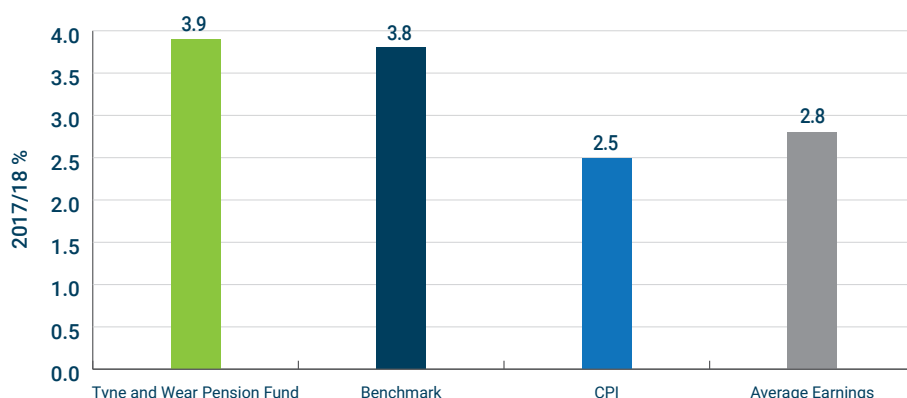
The strongest performing markets were Emerging Market equities and UK property with returns of 11.8% and 11.3% respectively. The poorest performer was cash, which returned 0.4%.

The return from UK equities is of particular importance to UK pension funds, as a significant proportion of assets tend to be invested there. This market returned a modest gain of 1.2%.

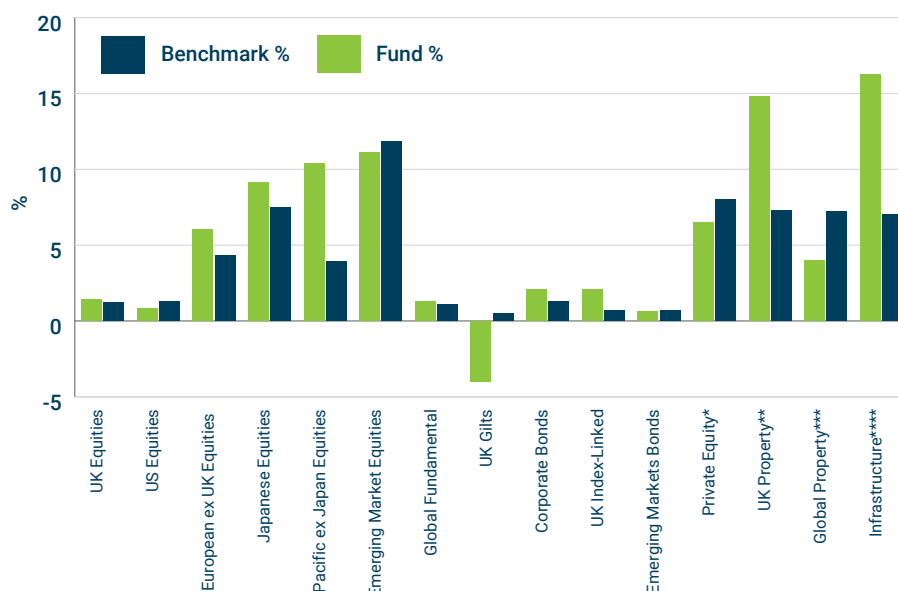
The Fund's total return in this year was 3.9%, which was 0.1% above its benchmark return of 3.8%. This level of return reflects the modest performance from financial markets overall, following an exceptional period of performance for markets and the Fund in 2016/17. Last year the Fund produced a return of 23.9%.

These performance figures reflect updated private markets valuations amounting to an increase of £18 million, over and above the value shown in the Financial Statements. These updated valuations were not available at the time the financial statements were produced. This approach is consistent with the approach taken in previous years.

Inflation as measured by the Consumer Prices Index, which has risen in importance as a measure for the Scheme, was up by 2.5% over the year while Average Earnings increased by 2.8%.



The chart below shows the Fund's returns over the main investment markets for 2017/18.



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

\*\* The benchmark for UK property is Retail Price Index plus 4% per annum. The market return for property during the year as measured by MSCI for the Medium Life and Pension Fund Universe was 11.3%.

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

\*\*\*\* The benchmark for infrastructure is shown against an absolute return benchmark of 7% per annum net of fees.

Overall the Fund's active equities and bond holdings produced a positive return at total Fund level. UK property and infrastructure also added value but this was largely offset by poorer returns from the Fund's private equity and global property programmes.

The returns from the passive strategies were satisfactory.

The return from the private equity programme is measured against an absolute return benchmark of 8% per annum net of fees.

This long term benchmark has been adopted to seek to reduce the volatility of returns relative in absolute terms. It is believed that this approach is more appropriate than the use of an index based benchmark. The positive 6.5% return is below the 8% benchmark but is above the longer term return expected from global equities. Detailed discussions have been held with the managers and they continue to believe that, overall, their funds are delivering good performance over the long term.



The UK property market produced strong returns, leading to the Fund's portfolio delivering a return of 14.8% which was comfortably above its RPI based benchmark of 7.3%. This level of strong, relative performance against an RPI benchmark is expected at times of strong market performance. During the year the market return from property as measured by the MSCI Medium Life and Pension Fund Universe was 11.3%.

The return from the infrastructure programme is measured against an absolute return benchmark of 7% per annum net of fees. This long term benchmark has been adopted to seek to reduce the volatility of returns in absolute terms. It is believed that this approach is more appropriate than the use of an index based benchmark. The positive 16.2% return is comfortably above the 7% benchmark.

The infrastructure programme is a combination of funds run by Partners Group that were introduced from mid 2010 and investments in direct funds managed by Infracapital. A new investment with Pantheon was also started during the year. The return is above benchmark for the year and also since the inception of the programme.

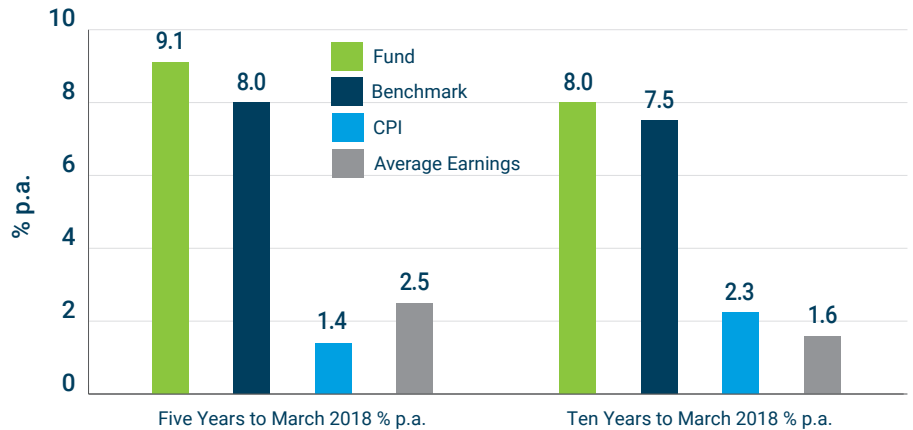
The global property programme has similar characteristics to the private equity programme so the returns can be expected to be volatile in the early years of each investment.

The global property programme was introduced in mid 2010 and is comprised of funds run by Partners Group. It underperformed its benchmark for the year. Whilst the programme is still in the relatively early stages of development, it has outperformed since inception.

## LONGER TERM PERFORMANCE

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

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

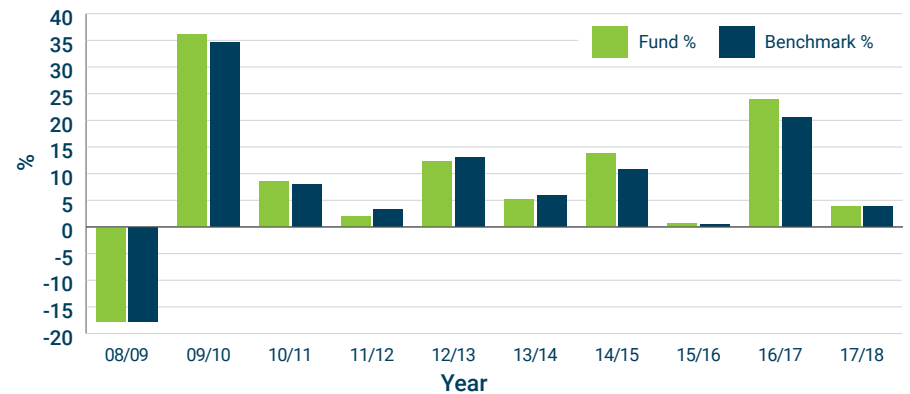


The five year return is 9.1% per annum and is above the benchmark return of 8.0% per annum. The ten year return is 8.0% per annum and is also above the benchmark return of 7.5% per annum.

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

## ANNUAL PERFORMANCE OVER TEN YEARS

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



The relevant performance for the three year period to March 2011 was positive and helped the Fund outperform and recover some of the loss from earlier years.

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

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

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

The 2014/15 to 2016/17 performance was above benchmark. Outperformance during this period was driven by returns from the alternative investments of private equity, infrastructure, UK property and global property.

2017/18 saw relative performance fall but remain marginally positive. The positive return was largely due to good returns from the Fund's quoted equity holdings. The returns from the alternative investment programmes was much more subdued.

## LONGER TERM PERFORMANCE OVER THE VARIOUS ASSET CLASSES

The chart below shows the Fund's returns over the main investment markets for the three and five year periods up to 31st March 2018.

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

FUND	THREE YEARS		FIVE YEARS	
	FUND %	BENCHMARK %	FUND %	BENCHMARK %
Fund	8.8	7.9	9.0	8.0
UK Equities	6.4	5.9	7.0	6.6
US Equities	10.4	12.3	13.2	14.4
European ex UK Equities	8.8	8.5	8.9	10.0
Japanese Equities	12.3	11.4	10.4	11.8
Pacific ex Japan Equities	12.5	10.3	10.5	8.5
Emerging Market Equities	11.9	11.3	10.5	7.1
Bonds	4.6	4.2	5.1	4.5
UK Gilts	2.0	3.4	3.4	4.2
Corporate Bonds	4.3	3.6	5.6	5.0
UK Index-Linked	9.1	7.9	8.9	7.8
Private Equity*	14.8	8.0	14.5	8.0
UK Property**	11.1	6.7	12.3	6.3
Global Property***	12.0	5.8	14.6	4.7
Infrastructure****	20.8	6.8	16.8	5.6

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

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

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

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

The returns from the various equity classes have been mixed over the three and five year periods. The return from UK equities is of particular importance to UK pension funds as a large proportion of their assets tend to be invested there. The Fund returned satisfactory results over both periods. The three year return was 6.4% per annum against a benchmark of 5.9% per annum and the five year return was 7.0% per annum against a benchmark of 6.6% per annum.

The private equity returns of 14.8% per annum for three years and 14.5% per annum for five years are ahead of the benchmark of 8.0%.

The UK property portfolio has performed well against its Retail Prices Index based benchmark over both the three year and five year periods.

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

The infrastructure programme is mainly based on funds with Partners Group, but also including funds with Infracapital and Pantheon. The return is significantly above the absolute return based benchmark for both the three and five year periods.

## MANAGEMENT EXPENSES

The Chartered Institute of Public Finance and Accountancy (CIPFA) issues recommended accounting guidance on the production of the Pension Fund Report and Accounts. Best practice guidance suggests that Investment Management Expenses should not reflect fees and expenses that are incurred by underlying investment vehicles investing in other vehicles which the Fund has no control over. These are referred to by CIPFA as “tier 2” fees and expenses. This is typically the case with private market fund of fund investments.

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

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

31st March 2017 £m		Fund Account note	31st March 2018 £m
32.624	Investment Management Expenses	10	44.936
26.640	Tier 2 Fees and Expenses		39.563
<b>59.264</b>	<b>Total Investment Management Expenses</b>		<b>84.499</b>

The table shows that the “tier 2” fees and expenses for 2017/18 are £39.563 million (£26.640 million for 2016/17). This gives an overall cost for Investment Management Expenses of £84.499 million for 2017/18 (£59.264 million for 2016/17). The significant increase from the previous year relates almost entirely to the Fund’s private market investments.





# INVESTMENT POLICIES

## INVESTMENT PRINCIPLES

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

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

An Investment Governance Sub-Group for the Local Government Pension Scheme, which included representation from Government in what is now known as the Ministry of Housing, Communities and Local Government (MHCLG) and from the Chartered Institute of Public Finance and Accountancy (CIPFA), considered how the Scheme could fit with the new Principles.

The Pensions Panel of CIPFA issued MHCLG endorsed guidance on the key issues for compliance with the new Principles. This was published in mid December 2009 in a document called "Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles".

At that time each administering authority was required by Regulation to set out in its Statement of Investment Principles the extent to which the authority's policy complies with the guidance. To the extent that it does not comply with the guidance, an authority must also give the reasons for that non-compliance in its Statement.

MHCLG stated that it would keep the guidance under review and would reissue it, as necessary, in the light of developments.

Whilst the Statement of Investment Principles has now been replaced by the Investment Strategy Statement and the requirement to state compliance no longer applies, the Fund has decided to continue to do this as it is considered to be best practice.

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

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



## THE INVESTMENT STRATEGY STATEMENT

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, came into force on 1st November 2016, replacing the 2009 Regulations. The Regulations require the administering authority to prepare, maintain and publish an Investment Strategy Statement (ISS). This replaces the Statement of Investment Principles, which was a requirement under the previous Regulations.

The ISS sets out the decisions that have been taken on investment policies and describes the Fund's investments and investment strategy. The latest statement was approved by the Pensions Committee in June 2018. It may be viewed on the Fund's website at <http://www.twpf.info/CHHttpHandler.ashx?id=32906&p=0>

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

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

- a requirement to invest money in a wide variety of investments
- the authority's assessment of the suitability of particular investments and types of investments
- the authority's approach to risk, including the ways in which risks are to be measured and managed
- the authority's approach to pooling investments, including the use of collective investment vehicles and shared services
- the authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments
- the authority's policy on the exercise of rights (including voting rights) attaching to investments

The Pensions Committee ensures that the ISS is updated annually, or more frequently if there are material changes to the Fund's arrangements.

## CORPORATE GOVERNANCE AND VOTING

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

The Fund's approach is set out in the Corporate Governance Policy which was most recently reviewed and approved by the Committee in November 2017.

The Policy may be viewed on the Fund's website at <http://www.twpf.info/CHHttpHandler.ashx?id=12636&p=0>

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

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

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

**This policy has to provide for:**

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

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

**Each manager is required to:**

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

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

**An analysis of the Fund's Global ex UK and UK only voting record (including pooled funds) for 2017/18 is shown below:**

	GLOBAL EX UK	UK ONLY
Annual General Meetings	2,604	735
Extraordinary General Meetings	633	159
Resolutions	38,506	13,074
Votes For	32,446	12,541
Votes Against	5,893	527
Abstentions	138	6
Votes Not Cast	29	0

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

**A resolution was opposed or there was an abstention on 6,564 occasions. The most common reasons for this were:**

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

The table shows that there were 29 resolutions where votes were not cast.

For 19 of these resolutions, the votes were not cast as the country practice requires the holdings to be re-registered prior to voting. Shareholders are reluctant to vote due to the time taken to re-register shares which may result in these shares being unavailable for sale.

For a further 8 of these resolutions, the votes were not cast due to a practice called share-blocking. This is where shares cannot be sold until after the annual meeting if a vote has been cast by a shareholder. Therefore, shareholders are understandably reluctant to vote on non-contentious issues if this will prevent them from selling at any time.

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

Both of the remaining two cases are where shareholders had to choose between various slates of director candidates at Italian companies. Upon selecting one slate, shareholders automatically cannot vote on the others.

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







## RESPONSIBLE INVESTMENT

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

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

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

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

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

## POOLING OF INVESTMENTS

The pooling arrangement with Border to Coast Pensions Partnership Limited has provided an opportunity for the Fund to strengthen its approach to Responsible Investment.

Border to Coast has approved and published its Responsible Investment Policy and a Corporate Governance and Voting Guidelines, which together describe the high level policy framework within which it will operate. Both documents have been drawn up after reviewing the policies of each of the twelve partner funds investing in Border to Coast as well as examples of best practice elsewhere. They reflect the highest standards across each fund, and seek to raise existing standards through the more effective use of collective resources.

The Responsible Investment Policy and a Corporate Governance and Voting Guidelines are consistent with the Fund's Corporate Governance Policy and approach to social, environmental and corporate governance issues more generally.

From the perspective of the Fund, the most obvious benefit and difference will be the additional resource within Border to Coast. This is a significant positive given that these issues are increasing in importance. An external engagement and proxy voting advisor is likely to be appointed to assist in this area.

Border to Coast will appoint external managers to manage the Fund's assets, but will exercise rights on investments, including voting shares, rather than delegating this function to the investment managers.

The Fund's Corporate Governance Policy will be updated to reflect pooling arrangements as they are implemented. Asset transfers are expected to commence in 2018/19.

# FINANCIAL STATEMENTS

## FUND ACCOUNT FOR THE YEAR ENDED

31st March 2017 £m		Note	31st March 2018 £m
	<b>Dealings With Members, Employers and Others Directly Involved in the Fund</b>		
(290.158)	Contributions	6	(344.866)
(7.022)	Transfers In from Other Pension Funds	7	(13.209)
<b>(297.180)</b>			<b>(358.075)</b>
293.602	Benefits Payable	8	286.251
14.745	Payments To and On Account of Leavers	9	22.271
<b>308.347</b>			<b>308.522</b>
<b>11.167</b>	<b>Net (additions) / withdrawals from dealings with members</b>		<b>(49.553)</b>
<b>36.568</b>	<b>Management Expenses</b>	<b>10</b>	<b>48.660</b>
<b>47.735</b>	<b>Net (additions)/withdrawals including fund management expenses</b>		<b>(0.893)</b>
	<b>Returns on Investments</b>		
(91.042)	Investment Income	11	(88.872)
0.944	Taxes on Income	11	0.778
(1,480.911)	Profits on Disposals of Investments and Changes in the Market Value of Investments	13b	(234.857)
<b>(1,571.009)</b>	<b>Net Returns on Investments</b>		<b>(322.951)</b>
<b>(1,523.274)</b>	<b>Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year</b>		<b>(323.844)</b>
<b>6,427.370</b>	<b>Net Assets of the Fund at 1st April</b>		<b>7,950.644</b>
<b>7,950.644</b>	<b>Net Assets of the Fund at 31st March</b>		<b>8,274.488</b>



## NET ASSETS STATEMENT FOR THE YEAR ENDED

31st March 2017 £m		Note	31st March 2018 £m
7,943.190	Investment Assets	12a	8,282.188
(9.106)	Investment Liabilities	12a	(8.371)
<b>7,934.084</b>	<b>Total Net Investments</b>		<b>8,273.817</b>
25.820	Current Assets	15	23.056
(9.260)	Current Liabilities	15	(22.385)
<b>7,950.644</b>	<b>Net Assets of the Fund Available to Fund Benefits as at 31st March</b>		<b>8,274.488</b>

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay pensions and benefits that fall due after the year end. The actuarial position of the Fund, which does take account of such obligations, is dealt with in a statement prepared by the Actuary on pages 85 and 86.

The actuarial present value of promised retirement benefits is disclosed at Note 26 which has been compiled under IAS26 and, as such, is based on different assumptions.

We certify that the financial statements along with the notes to the financial statements for the year ended 31st March 2018 set out in pages 56 to 87 present fairly the financial position of the Tyne and Wear Pension Fund as at 31st March 2018 and its income and expenditure for the year ended 31st March 2018.



**Ian Bainbridge**  
Head of Pensions  
September 2018



**Stuart Reid**  
Head of Finance  
(Section 151 Officer)  
September 2018

The financial statements were approved by the Pensions Committee at its meeting on 14th September 2018.



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



# NOTES TO THE TYNE AND WEAR PENSION FUND FINANCIAL STATEMENTS

## 1. DESCRIPTION OF THE TYNE AND WEAR PENSION FUND

### a) General

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

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

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

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

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

### b) Pensions Committee

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

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

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

### c) Local Pension Board

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

### d) Membership

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

Employers participating in the Tyne and Wear Pension Fund include:

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

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

	31st March 2017	31st March 2018
<b>Number of Employers Within the Fund</b>	238	260
<b>Number of Employees in Fund</b>		
South Tyneside Council	4,020	3,738
Other Employers	40,935	41,726
<b>Total</b>	<b>44,955</b>	<b>45,464</b>
<b>Number of Pensioners</b>		
South Tyneside Council	4,858	5,039
Other Employers	41,066	42,448
<b>Total</b>	<b>45,924</b>	<b>47,487</b>
<b>Deferred Pensioners</b>		
South Tyneside Council	4,422	4,452
Other Employers	36,163	36,632
<b>Total</b>	<b>40,585</b>	<b>41,084</b>

#### e) Funding

The Fund is financed by contributions from employees, the Council and all other employers within the Fund, as well as from capital growth and interest and dividends on the Fund's investments. Contributions from active members of the Fund are set in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2018. Employers pay contributions are based on triennial funding valuations carried out by the Fund's Actuary. The last valuation was at 31st March 2016.

#### f) Benefits

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

	SERVICE PRE 1 <sup>ST</sup> APRIL 2008	SERVICE POST 31 <sup>ST</sup> MARCH 2008
<b>PENSION</b>	Each year worked is worth 1/80th x final pensionable salary.	Each year worked is worth 1/60th x final pensionable salary.
<b>LUMP SUM</b>	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1st April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is re-rated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

#### g) Investment Strategy Statement

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

The Committee approved the Investment Strategy Statement at its meeting in June 2018. This can be viewed on the Fund's website using the following link. <http://www.twpf.info/CHttpHandler.ashx?id=32906&p=0>

The Committee has delegated the management of the Fund's investments to external investment managers (see note 18) which are appointed in accordance with the LGPS (Management and Investment of Funds) Regulations 2016. The managers' activities are specified in investment management agreements and are monitored on a quarterly basis.

## 2. BASIS OF PREPARATION

The financial statements summarise the Fund's transactions for the financial year 2017/18 and its position as at 31st March 2018. The accounts have been prepared following the "Code of Practice on Local Authority Accounting in the United Kingdom 2017/18" (The Code), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take into account obligations to pay pensions and benefits payable after the end of the financial year.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Fund Account – Revenue Recognition

#### a. Contribution Income

Normal contributions, from both members and employers, are accounted for on an accruals basis in the payroll period for which they relate. The percentage rate payable by the employers is determined by the Actuary, whilst the rate payable by employees is set within the LGPS Regulations. Contributions due as at 31st March 2018 have been accrued.

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

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

#### b. Transfer Values

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

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

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

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

#### c. Investment Income

##### Investment Income

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

##### Interest Income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition.

##### Dividend Income

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



### **Distributions from Pooled Funds**

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

### **Property related Income**

Property related income consists primarily of rental income.

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

### **Movement in the Net Market Value of Investments**

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

#### **d. Benefits Payable**

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

#### **e. Taxation**

The Fund is a registered public sector scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Any tax that is irrecoverable is accounted for as a fund expense as it arises.

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

Section 6.5 of the Code requires a breakdown of pension fund administrative expenses. The Fund discloses its pension fund management expenses in accordance with CIPFA guidance "Accounting for Local Government Pension Scheme Management Expenses (2016)."

##### **Administrative Expenses**

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

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

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

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

Investment management expenses payable as at 31st March 2018 have been accrued. Performance related fees, where applicable, have not been accrued at that date as they are not deemed to be earned until the end of the performance period when they are calculated and agreed.

### **Net Assets Statement**

#### **g. Financial Assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes a party to the purchase of the asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund Account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see note 13). For the purposes of disclosing levels of fair value hierarchy, the Fund has used the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/ Investment Association, 2016).

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

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

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

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

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

#### **j. Derivatives**

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

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

The Fund has made commitments to investments which are not included in the accounts of the Fund until the monies have been drawn down by the relevant manager. These are shown in note 23.

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

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

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

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

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

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement. (Note 26)

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

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

In accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, AVCs are not included in the accounts but are disclosed only as a note. (Note 17)

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

### **Pension Fund Liability**

The Pension Fund liability is calculated triennially by the Actuary, in accordance with IAS19, whose report can be seen in note 26. The estimate is subject to significant variances based on changes to the underlying assumptions used by the Actuary.

### **Property Valuation**

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

### **Unquoted Private Equity Investments**

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

### Pension Fund Liability

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

## 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

The items in the Net Assets Statement at 31st March 2018 for which there is significant risk of material adjustment in the forthcoming year are as follows:

ITEM	UNCERTAINTIES	EFFECT IF ACTUAL RESULTS DIFFER FROM ASSUMPTIONS
<b>PRIVATE EQUITY, INFRASTRUCTURE AND GLOBAL PROPERTY (NOTE 14 AND NOTE 18)</b>	Private equity, infrastructure and global property investments are based on valuations provided by the manager of the funds in which the Fund has invested. These are based on the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. These investments are not publicly listed and as such there is a degree of estimation in their valuation.	The Fund has a total of £534.220 million included for private equity, £141.073 million for infrastructure and £343.424 million for global property investments. Based on the sensitivity numbers included in Note 14 there is a possibility that these could be under or over stated in the accounts by £64.060 million, £14.954 million and £36.746 million respectively.
<b>ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS (NOTE 26)</b>	Estimation of the net liability to pay pensions depends on a number of judgements, for example in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. The Fund employs an Actuary to provide expert advice on these assumptions.	The judgements mentioned are all under review. Therefore there is a possibility that the valuation of £8,657.300 million in Note 26 for the "actuarial present value of the promised retirement benefits" could be under or overstated.
<b>FREEHOLD AND LEASEHOLD PROPERTY</b>	Valuation techniques are used to determine the carrying amount of directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the value of property.	Based on the sensitivity number included in Note 14 there is a possibility that the fair value for property of £382.502 million could increase or decrease by £13.388 million.

## 6. CONTRIBUTIONS

31st March 2017		By Category	31st March 2018	
£m	£m		£m	£m
	(53.748)	Employees' contributions		(53.781)
		Employers' contributions		
(129.847)		Normal contributions	(147.929)	
(106.563)		Deficit recovery contributions	(143.156)	
	(236.410)	<b>Total employers' contributions</b>		<b>(291.085)</b>
	<b>(290.158)</b>	<b>Total Contributions Receivable</b>		<b>(344.866)</b>

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

31st March 2017 £m	By Authority	31st March 2018 £m
(23.518)	South Tyneside Council (Administering Authority)	(40.197)
(154.882)	Other Metropolitan Councils	(186.269)
(64.391)	Other Part 1 Scheduled Bodies	(79.041)
(13.782)	Part 2 Scheduled Bodies	(8.142)
(33.585)	Admitted Bodies	(31.217)
<b>(290.158)</b>	<b>Total Contributions Receivable</b>	<b>(344.866)</b>

## 7. TRANSFERS IN FROM OTHER PENSION FUNDS

31st March 2017 £m	By Category	31st March 2018 £m
0.000	Group Transfers	0.000
(7.022)	Individual Transfers	(13.209)
<b>(7.022)</b>	<b>Total Transfers in From Other Pension Funds</b>	<b>(13.209)</b>

There was no group transfers received during 2016/17 or 2017/18.

A group of employees, deferred and actual pensioners transferred to the Fund from Worcestershire Pension Fund during the 2014/15 financial year, in relation to the transfer of Kidderminster College to Newcastle College. Similarly a group of employees, deferred and actual pensions transferred to the Fund from Cumbria Pension Fund during the 2017/18 financial year, in relation to the transfer of Carlisle College to Newcastle College. The Fund at this time does not have a value for the assets to be transferred and has not included an amount in the accounts accordingly.



## 8. BENEFITS PAYABLE

31st March 2017 £m	By Category	31st March 2018 £m
232.756	Pensions	242.172
63.603	Commutations and Lump Sum Retirement Benefits	48.531
7.859	Lump Sum Death Benefits	5.936
(10.616)	Recharges Out	(10.388)
<b>293.602</b>	<b>Total Benefits Payable</b>	<b>286.251</b>

The recharges out figure relates to pension enhancements approved by employers over the years which the Fund pays on the employers' behalf and reclaims on a regular basis from the employer. Details of the payments made can be found in note 16.

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

31st March 2017 £m	By Authority	31st March 2018 £m
26.376	South Tyneside Council (Administering Authority)	27.411
177.930	Other Metropolitan Councils	170.117
45.670	Other Part 1 Scheduled Bodies	46.886
10.472	Part 2 Scheduled Bodies	9.248
33.154	Admitted Bodies	32.589
<b>293.602</b>	<b>Total Benefits Payable</b>	<b>286.251</b>

## 9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

31st March 2017 £m	By Category	31st March 2018 £m
13.849	Individual Transfers to Other Schemes	19.459
0.665	Refunds to Members Leaving Service	0.565
0.000	Group Transfers	2.201
0.231	State Scheme Premiums	0.046
<b>14.745</b>	<b>Payments to and on Account of Leavers</b>	<b>22.271</b>

There was a group transfer of some staff from Newcastle College to Manchester College totalling £2.201 million. There was no group transfer out of the Fund 2016/17.



## 10. MANAGEMENT EXPENSES

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

31st March 2017 £m		31st March 2018 £m
3.033	Administrative Costs	2.686
32.624	Investment Management Expenses	44.936
0.911	Oversight and Governance Costs	1.038
<b>36.568</b>	<b>Management Expenses</b>	<b>48.660</b>

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

The investment management expenses can be further analysed as follows:

31st March 2017 £m		31st March 2018 £m
21.263	Management and Custody Fees	20.630
3.132	Performance Fees	9.003
3.970	Expenses charged within pooled vehicles	11.666
4.259	Transaction Costs	3.637
<b>32.624</b>	<b>Investment Management Expenses</b>	<b>44.936</b>

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

## 11. INVESTMENT INCOME

31st March 2017 £m		31st March 2018 £m
(50.475)	Income from Equities	(45.912)
(2.058)	Income from Bonds	(1.722)
0.000	Private Equity income	0.000
(19.719)	Property Rents (Further breakdown in note below)	(19.620)
(17.670)	Pooled Investments - Unit Trusts and other managed funds	(19.419)
(0.601)	Interest on Cash Deposits	(1.540)
0.000	Income from Derivatives	0.000
(0.519)	Other	(0.659)
<b>(91.042)</b>	<b>Sub total</b>	<b>(88.872)</b>
0.944	Less Non-recoverable Tax	0.778
<b>(90.098)</b>	<b>Total Investment Income</b>	<b>(88.094)</b>

## NET RENTS FROM PROPERTIES

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

31st March 2017 £m		31st March 2018 £m
(19.353)	Rental Income	(19.558)
(0.366)	Direct Operating Expenses/(Income)	(0.062)
<b>(19.719)</b>	<b>Net Income</b>	<b>(19.620)</b>

## 12. INVESTMENTS

31st March 2017 £m		31st March 2018 £m
	<b>Investment Assets</b>	
55.122	Bonds	65.921
2,256.412	Equities	1,705.179
87.459	Index-Linked Securities	80.233
5,018.045	Pooled Investment Vehicles	5,771.295
340.300	Properties	366.230
1.456	Derivative Contracts	1.066
169.341	Cash Deposits	276.564
15.055	Other Investment Balances	15.700
<b>7,943.190</b>	<b>Total Investment Assets</b>	<b>8,282.188</b>
	<b>Investment Liabilities</b>	
(2.698)	Derivative Contracts	(2.580)
(6.408)	Other Investment Balances	(5.791)
<b>(9.106)</b>	<b>Total Investment Liabilities</b>	<b>(8.371)</b>
<b>7,934.084</b>	<b>Net Investment Assets</b>	<b>8,273.817</b>

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

2017/18	Market value 1st April 2017 £m	Purchases at Cost & Derivative Payments £m	Sales Proceeds & Derivative Receipts £m	Change in Market Value During the Year £m	Market Value 31st March 2018 £m
Bonds	55.122	252.471	(240.339)	(1.333)	65.921
Equities	2,256.412	714.701	(1,348.568)	82.634	1,705.179
Index-Linked Securities	87.459	221.314	(229.724)	1.184	80.233
Pooled Investment Vehicles	5,018.045	1,034.001	(422.681)	141.930	5,771.295
Properties	340.300	31.947	(35.225)	29.208	366.230
Derivative Contracts	(1.242)	7.911	(2.384)	(5.799)	(1.514)
	<b>7,756.096</b>	<b>2,262.345</b>	<b>(2,278.921)</b>	<b>247.824</b>	<b>7,987.344</b>
Cash Deposits	169.341	119.842	0.000	(12.619)	276.564
Other Investment Balances	8.647	6.677	(5.067)	(0.348)	9.909
<b>Total investments</b>	<b>7,934.084</b>	<b>2,388.864</b>	<b>(2,283.988)</b>	<b>234.857</b>	<b>8,273.817</b>

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

31st March 2017 £m		31st March 2018 £m
	<b>Bonds</b>	
55.122	UK Public Sector	65.921
<b>55.122</b>	<b>Total Bonds</b>	<b>65.921</b>
	<b>Equities</b>	
869.405	UK Quoted	734.288
998.534	Overseas Quoted	689.029
388.473	Overseas Unquoted	281.862
<b>2,256.412</b>	<b>Total Equities</b>	<b>1,705.179</b>
	<b>Index-Linked Securities</b>	
87.459	UK Public Sector	80.233
<b>87.459</b>	<b>Total Index-Linked Securities</b>	<b>80.233</b>
	<b>Pooled Investment Vehicles</b>	
0.295	Unit Trusts	0.287
3,394.769	Unitised Insurance Policies	4,122.476
1,622.981	Other Managed Funds	1,648.532
<b>5,018.045</b>	<b>Total Pooled Investment Vehicles</b>	<b>5,771.295</b>
	<b>Properties</b>	
306.550	Freehold	359.330
33.750	Long Leasehold	6.900
<b>340.300</b>	<b>Total Properties</b>	<b>366.230</b>
	<b>Derivative Contracts</b>	
(1.040)	Forward Foreign Currency Contracts	(1.514)
(0.202)	Futures	0.000
<b>(1.242)</b>	<b>Total Derivative Contracts</b>	<b>(1.514)</b>
	<b>Cash Deposits</b>	
100.587	Sterling	179.777
68.754	Foreign Currency	96.787
<b>169.341</b>	<b>Total Cash Deposits</b>	<b>276.564</b>
	<b>Other Investment Balances</b>	
(1.178)	Outstanding Trades	5.021
9.546	Outstanding Dividends & Tax Recoveries	8.615
5.509	Debtors	2.064
(5.230)	Creditors	(5.791)
<b>8.647</b>	<b>Total Other Investment Balances</b>	<b>9.909</b>
<b>7,934.084</b>	<b>Total Investments</b>	<b>8,273.817</b>



## 13. FINANCIAL INSTRUMENTS

### a. Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The table below analyses the carrying amounts of financial assets and liabilities. The tables also include current assets and liabilities which are not included in note 12 above. No financial assets have been reclassified during the financial year.

31st March 2017			31st March 2018			
Designated as Fair Value Through Profit and Loss £m	Loans and Receivables £m	Financial Liabilities at Amortised Cost £m		Designated as Fair Value Through Profit and Loss £m	Loans and Receivables £m	Financial Liabilities at Amortised Cost £m
			<b>Financial Assets</b>			
55.122	0.000	0.000	Bonds	65.921	0.000	0.000
2,256.412	0.000	0.000	Equities	1,705.179	0.000	0.000
87.459	0.000	0.000	Index-Linked Securities	80.233	0.000	0.000
5,018.045	0.000	0.000	Pooled Investment Vehicles	5,771.295	0.000	0.000
1.456	0.000	0.000	Derivative Contracts	1.066	0.000	0.000
340.300	0.000	0.000	Properties	366.230	0.000	0.000
0.000	169.341	0.000	Cash Deposits	0.000	276.564	0.000
0.000	9.546	0.000	Other Investment Balances	0.000	13.636	0.000
0.000	31.329	0.000	Debtors	0.000	25.120	0.000
<b>7,758.794</b>	<b>210.216</b>	<b>0.000</b>	<b>Total Financial Assets</b>	<b>7,989.924</b>	<b>315.320</b>	<b>0.000</b>
			<b>Financial Liabilities</b>			
(2.698)	0.000	0.000	Derivative Contracts	(2.580)	0.000	0.000
0.000	0.000	(1.178)	Other Investment Balances	0.000	0.000	0.000
0.000	0.000	0.000	Borrowings	0.000	0.000	0.000
0.000	0.000	(14.490)	Creditors	0.000	0.000	(28.176)
<b>(2.698)</b>	<b>0.000</b>	<b>(15.668)</b>	<b>Total Financial Liabilities</b>	<b>(2.580)</b>	<b>0.000</b>	<b>(28.176)</b>
<b>7,756.096</b>	<b>210.216</b>	<b>(15.668)</b>	<b>Total Assets</b>	<b>7,987.344</b>	<b>315.320</b>	<b>(28.176)</b>

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

31st March 2017 £m		31st March 2018 £m
	<b>Financial Assets</b>	
1,484.110	Fair Value Through Profit and Loss	249.157
	<b>Financial Liabilities</b>	
(3.199)	Fair Value Through Profit and Loss	(14.300)
<b>1,480.911</b>	<b>Total</b>	<b>234.857</b>

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

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

#### Level 1

Financial instruments are level 1 where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets in this level are comprised of quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts. Also included within this level are receivables and liabilities where the amount is known even where these are not quoted on active markets.

Listed investments are shown at bid prices. The bid value is based on the bid market quotation of the relevant stock exchange.

#### Level 2

Financial instruments at level 2 are those where quoted market prices are not available, for example where valuation techniques are used to determine fair value and where the techniques use inputs that are based significantly on observable market data.

#### Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the value on the instrument is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Fund into levels 1 to 3 at fair value.

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
<b>Value at 31st March 2018</b>	<b>Level 1 £m</b>	<b>Level 2 £m</b>	<b>Level 3 £m</b>	<b>Total £m</b>
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	1,598.386	5,002.170	1,023.138	7,623.694
Non-financial assets through Profit and Loss	0.000	0.000	366.230	366.230
Loans and Receivables	315.320	0.000	0.000	315.320
<b>Total Financial Assets</b>	<b>1,913.706</b>	<b>5,002.170</b>	<b>1,389.368</b>	<b>8,305.244</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value Through Profit and Loss	0.000	(2.580)	0.000	(2.580)
Financial Liabilities at Amortised cost	(28.176)	0.000	0.000	(28.176)
<b>Total Financial Liabilities</b>	<b>(28.176)</b>	<b>(2.580)</b>	<b>0.000</b>	<b>(30.756)</b>
<b>Net Financial Assets</b>	<b>1,885.530</b>	<b>4,999.590</b>	<b>1,389.368</b>	<b>8,274.488</b>

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

### Reconciliation of Fair Value Measurement within Level 3

2017/18	Market value 1st April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains (losses)	Realised gains (losses)	Market value 31st March 2018
Asset type	£m	£m	£m	£m	£m	£m
Private Equity	605.190	75.028	(187.619)	(65.123)	94.893	522.369
Infrastructure	179.673	12.612	(87.751)	20.555	15.984	141.073
Global Property	376.883	27.853	(78.126)	14.378	2.436	343.424
UK Residential Property	13.605	1.377	0.000	1.290	0.000	16.272
UK Direct Property	340.300	31.947	(35.225)	26.736	2.472	366.230
<b>Total</b>	<b>1,515.651</b>	<b>148.817</b>	<b>(388.721)</b>	<b>(2.164)</b>	<b>115.785</b>	<b>1,389.368</b>

### Sensitivity of assets valued at level 3

In consultation with its performance and risk advisors, the Fund has carried out an analysis of historic data and current movements in expected investment returns during the financial year. It has been determined that the asset values are likely to be accurate to within the following ranges and the Fund has set out below the consequent potential impact on the closing values of investments held at 31st March 2018.

Asset Type	Assessed Valuation Range (+/-)	Value at 31st March 2018	Value on increase £m	Value on decrease £m
Private Equity	12.0	522.369	585.053	459.685
Infrastructure	10.6	141.073	156.027	126.119
Global property	10.7	343.424	380.170	306.678
UK Residential Property	3.5	16.272	16.842	15.702
UK Direct Property	3.5	366.23	379.048	353.412
<b>Total</b>		<b>1,389.368</b>	<b>1,517.14</b>	<b>1,261.596</b>

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

The Fund's investment objective is:

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

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

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

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

The analysis in the tables in this section is on a "look through" basis. This differs from the analysis in note 12 which is compiled under accounting standards.

## Market Risk

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

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

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

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

## Other Price Risk

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

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

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

## Other Price Risk – Sensitivity Analysis

In consultation with its performance and risk advisors, the Fund has carried out an analysis of historic data and movements in expected investment returns during the financial year. It has been determined that the following movements in market price risk are reasonably possible for the 2018/19 financial year. The equivalent movements from 2017/18 are also shown.

Asset Type	Potential Market Movements (+/-) reported in 2017/18 %	Potential Market Movements (+/-) reported in 2018/19 %
UK Equities	8.9	9.3
Overseas Equities	11.2	11.7
Global Equities	10.2	10.3
UK Bonds	6.3	6.5
Overseas Bonds	14.1	13.6
Index-Linked Securities	12.5	12.8
UK Property	3.2	3.5
Overseas Property	9.4	10.7
Private Equity	12.5	12.0
Infrastructure Funds	10.7	10.6
Active Currency	0.0	0.0
Cash	0.0	0.0

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

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



Asset Type	Value at 31st March 2018 £m	Percentage Change %	Value on Increase £m	Value on Decrease £m
UK Equities	1,782.425	9.3	1,948.191	1,616.659
Overseas Equities	2,377.208	11.7	2,655.341	2,099.075
Global Equities	768.874	10.3	848.068	689.680
UK Bonds	1,362.632	6.5	1,451.203	1,274.061
Overseas Bonds	82.858	13.6	94.127	71.589
Index-Linked Securities	184.727	12.8	208.372	161.082
UK Property	382.502	3.5	395.890	369.114
Overseas Property	343.424	10.7	380.170	306.678
Private Equity	534.220	12.0	598.326	470.114
Infrastructure Funds	141.073	10.6	156.027	126.119
Active Currency	0.287	0.0	0.287	0.287
Cash and Cash Equivalents	301.465	0.0	301.465	301.465
Forward Currency Contracts	(1.514)	0.0	(1.514)	(1.514)
Investment Income Due	8.615	0.0	8.615	8.615
Amounts Due for Sales	48.183	0.0	48.183	48.183
Amounts Payable for Purchases	(43.162)	0.0	(43.162)	(43.162)
<b>Total</b>	<b>8,273.817</b>		<b>9,049.589</b>	<b>7,498.045</b>

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

The analysis in the two tables above is on a look through basis. This differs from the analysis in note 12 and the tables below which are compiled under accounting standards.

### Interest Rate Risk

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

The Fund's direct exposures to interest rate movements as at 31st March 2017 and 31st March 2018 are set out below. These represent the interest rate risk based on underlying financial assets at fair value.

Asset Type	At 31st March	
	2017 £m	2018 £m
Cash and Cash Equivalents	191.158	301.465
Fixed Interest Securities	1,320.959	1,445.490
Index-Linked Securities	191.157	184.727
<b>Total</b>	<b>1,703.274</b>	<b>1,931.682</b>

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets held to pay benefits. Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall.

The following table shows the Fund's asset values that have direct exposure to these rate movements. It also shows the effect that a 100bp (1.0%) increase or decrease in the asset value would have on these assets. The comparable figures for the previous year are also shown.

Asset Type	Asset Value at 31st March 2018 £m	Value on Increase +1% £m	Value on Decrease -1% £m
Cash and Cash Equivalents	301.465	304.480	298.450
Fixed Interest Securities	1,445.490	1,459.945	1,431.035
Index-Linked Securities	184.727	186.574	182.880
<b>Total</b>	<b>1,931.682</b>	<b>1,950.999</b>	<b>1,912.365</b>

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

The following table shows the Fund's asset values that have direct exposure to these rate movements. It also shows the reasonable change predicted on the net asset value of a 1% movement in interest rates up or down. The comparable figures for the previous year are also shown.

Asset Type	Value at 31st March 2018 £m	Reasonable change predicted %	Value on Increase -1% rate change £m	Value on Decrease +1% rate change £m
Cash and Cash Equivalents	301.465	0.0	301.465	301.465
Fixed Interest Securities	1,445.490	8.3	1,565.466	1,325.514
Index-Linked Securities	184.727	10.1	203.384	166.070
<b>Total</b>	<b>1,931.682</b>		<b>2,070.315</b>	<b>1,793.049</b>

Asset Type	Value at 31st March 2017 £m	Reasonable change predicted %	Value on Increase -1% rate change £m	Value on Decrease +1% rate change £m
Cash and Cash Equivalents	191.158	0.0	191.158	191.158
Fixed Interest Securities	1,320.959	8.1	1,427.957	1,213.961
Index-Linked Securities	191.157	11.5	213.140	169.174
<b>Total</b>	<b>1,703.274</b>		<b>1,832.255</b>	<b>1,574.293</b>

## Currency Risk

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

The following table shows the Fund's currency exposures as at 31st March 2017 and at 31st March 2018:

Asset Type	Asset Value at 31st March	
	2017 £m	2018 £m
Overseas Fixed Interest	45.241	82.858
Overseas Quoted Equities	2,910.243	3,146.082
Overseas Unquoted Equities	388.473	281.862
Overseas Pooled Investment Vehicles	711.000	628.662
Forward Currency Contracts	(1.040)	(1.514)
Overseas Currency	77.414	113.880
<b>Total</b>	<b>4,131.331</b>	<b>4,251.830</b>

## Currency Risk – Sensitivity Analysis

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

The following table shows the impact of a 13% increase or decrease in the net asset value of those assets exposed to currency risk. The value of the Fund's assets in Sterling terms will increase as Sterling weakens and decrease as Sterling strengthens.

The comparable figures for the previous year are also shown.

Asset Type	Value at 31st March 2018	Potential change	Potential market movement	Value on increase	Value on decrease
	£m	%	£m	£m	£m
Overseas Fixed Interest	82.858	13	10.772	93.630	72.086
Overseas Quoted Equities	3,146.082	13	408.991	3,555.073	2,737.091
Overseas Unquoted Equities	281.862	13	36.642	318.504	245.220
Overseas Pooled Investment Vehicles	628.662	13	81.726	710.388	546.936
Forward Currency Contracts	(1.514)	13	(0.197)	(1.711)	(1.317)
Overseas Currency	113.880	13	14.804	128.684	99.076
<b>Total</b>	<b>4,251.830</b>		<b>552.738</b>	<b>4,804.568</b>	<b>3,699.092</b>

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

## Manager Risk

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

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

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

## Credit Risk

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

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

The Fund seeks to minimise this risk by investing in and through high quality counterparties, brokers and financial institutions. In addition to these the Fund also lends money to local authorities which it deems to be rated at AA the same as the UK Government which is the guarantor should any local authority fail to meet its obligations.

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

The Fund's cash holding under its internal treasury management arrangements as at 31st March 2018 was £141.220 million (£56.250 million as at 31st March 2017). The Fund sets its credit criteria in consultation with the Council's Treasury Management Advisor, Link Asset Services. Deposits are only made with AAA rated money market funds and with banks and financial institutions that meet the Fund's credit criteria and are included on Link Asset Services listing of approved institutions.

The internally managed cash was held with the following institutions:

	Rating	Value as at 31st March 2017 £m	Value as at 31st March 2018 £m
<b>Money Market Funds</b>			
Legal & General	AAA	14.500	14.500
Standard Life (Ignis)	AAA	14.870	14.500
Federated	AAA	7.300	12.010
Insight	AAA	0.000	10.600
<b>Bank Deposit Accounts</b>			
Lloyds Bank	A+	14.000	6.610
Bank of Scotland	A+	0.000	10.000
Santander	A	0.000	5.000
Sumitomo	A	0.000	5.000
Goldman Sachs	A	0.000	5.000
Leeds Building Society	A-	5.000	0.000
NatWest	BBB+	0.580	0.000
<b>Local Authorities</b>			
Leeds City Council		0.000	15.000
Thurrock Borough Council		0.000	10.000
Plymouth City Council		0.000	5.000
North Lincolnshire		0.000	5.000
Redcar and Cleveland Council		0.000	5.000
Cherwell District Council		0.000	5.000
Birmingham City Council		0.000	5.000
Isle of Anglesey County Council		0.000	5.000
Gwent County Council		0.000	3.000
<b>Total</b>		<b>56.250</b>	<b>141.220</b>



## Liquidity Risk

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

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

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

All financial liabilities are due within twelve months of the 31st March 2018.

## 15. CURRENT ASSETS AND LIABILITIES

31st March 2017 £m		31st March 2018 £m
	<b>Current Assets</b>	
4.702	Contributions Due - Members	4.812
20.461	Contributions and Recharges Due - Employers	16.623
0.013	HM Revenue and Customs	0.014
0.485	Investment Management Expenses	1.246
0.159	Other	0.361
<b>25.820</b>	<b>Total Current Assets</b>	<b>23.056</b>
	<b>Current Liabilities</b>	
(3.261)	Unpaid Benefits	(1.859)
(0.081)	Contributions, Recharges and Refunds Due - Employers	(13.705)
(2.914)	HM Revenue and Customs - Tax Deducted from Pensions	(3.000)
(2.901)	Investment Management Expenses	(2.825)
(0.103)	Other	(0.996)
<b>(9.260)</b>	<b>Total Current Liabilities</b>	<b>(22.385)</b>

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

31st March 2017 £m		31st March 2018 £m
	<b>Current Assets</b>	
0.013	Central government bodies	0.017
15.967	Other local authorities	8.217
0.003	NHS bodies	0.003
9.223	Public corporations and other trading funds	8.350
0.614	Other entities and individuals	6.469
<b>25.820</b>	<b>Total current assets</b>	<b>23.056</b>
	<b>Current Liabilities</b>	
(2.177)	Central government bodies	(3.001)
(0.913)	Other local authorities	(12.216)
0.000	NHS bodies	0.000
(2.807)	Public corporations and other trading funds	(2.006)
(3.363)	Other entities and individuals	(5.162)
<b>(9.260)</b>	<b>Total current liabilities</b>	<b>(22.385)</b>

## 16. AGENCY SERVICES

The Fund pays discretionary awards to the former employees of a number of employers. The amounts paid are included in the Pensions paid line in note 8 and then deducted as a recharge as these amounts are fully reclaimed from the employer bodies. The sums for each employer are disclosed below.

2016/17 £000	Payments on Behalf of:	2017/18 £000
2,529	Newcastle City Council	2,487
2,148	Sunderland City Council	2,099
1,978	Gateshead Council	1,951
1,834	North Tyneside Council	1,793
830	South Tyneside Council	806
404	Nexus	374
240	Newcastle International Airport	237
232	Police and Crime Commissioner for Northumbria	228
74	Tyne and Wear Residuary Body	71
55	Tyne and Wear Fire and Rescue Service	55
51	The Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority	49
49	University of Sunderland	49
41	Northumbria University	39
17	Workshops for the Adult Blind	17
15	Assessment and Qualifications Alliance	15
10	Newcastle College	10
10	Northern Council for Further Education	10
8	Association of North East Councils	8
8	Newcastle Theatre Royal Trust	8
7	One North East	7
7	Wearside College	7
6	Northumbria Tourist Board	7
7	Benton Grange School	6
6	Gateshead Magistrates' Courts	6
5	Gateshead College	5
4	North Tyneside Disability Advice	4
4	South Tyneside Magistrates' Courts	4
4	Sunderland Empire Theatre Trust	4
4	Sunderland Magistrates' Courts	4
4	Higher Education Funding Council for England	3
3	Monkwearmouth College	3
3	North East Regional Employers Organisation	3
3	South Tyneside Homes	3
3	Tyne and Wear Development Company Limited	3
3	City of Sunderland College	3
2	Catholic Care North East	2
2	North Tyneside College	2
2	North Tyneside Magistrates' Courts	2
2	Wallsend Hall Enterprises Limited	2
1	Age Concern Newcastle	1
1	Tyne and Wear Enterprise Trust	1
<b>10,616</b>	<b>Total</b>	<b>10,388</b>

In addition to this service for employers within the Fund, from February 2018 the Fund has taken over the administration of the Northumberland County Council Pension Fund. The agreement is that the Fund is reimbursed for all pension costs it pays out on their behalf.

## 17. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Fund offers two types of AVC arrangements.

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

In addition, the Pensions Committee appointed Equitable Life Assurance Society in 1989 and The Prudential Assurance Company in 2001 for the investment of other AVCs specifically taken out by Fund members. Contributions to these external providers are invested separately from the Fund's own assets on a money purchase basis. In accordance with the LGPS (Management and Investment of Funds) Regulations 2009, these amounts are not credited to the Fund and as such are excluded from the Fund's accounts.

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

During 2017/18, £2.224 million of contribution income was received into the AVC funds provided by The Prudential (£2.012 million during 2016/17). As at 31st March 2018, these funds were valued at £12.313 million (£11.877 million as at 31st March 2017).

During 2017/18, £0.001 million of contribution income was received into the AVC funds provided by Equitable Life (£0.001 million during 2016/17). As at 31st March 2018, these funds were valued at £0.055 million (£0.055 million as at 31st March 2017).

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

## 18. ANALYSIS OF INVESTMENTS OVER MANAGERS

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

31st March 2017			31st March 2018	
£m	%		£m	%
		<b>Investment Managers</b>		
353.905	4.5	Aberdeen Property Investors	382.502	4.6
337.127	4.2	BlackRock	340.016	4.1
627.564	7.9	Henderson Global Investors	658.385	8.0
680.156	8.6	JP Morgan Asset Management	704.221	8.5
171.220	2.2	Lazard Asset Management	190.197	2.3
2,812.994	35.5	Legal and General Investment Management	3,495.464	42.2
728.173	9.2	M&G Investments	787.819	9.5
331.591	4.2	Mirabaud Investment Management	342.205	4.1
85.473	1.1	TT International	100.655	1.2
500.636	6.3	UBS Global Asset Management	0.000	0.0
0.295	0.0	Active Currency	0.287	0.0
614.681	7.7	Private Equity	533.838	6.5
179.673	2.2	Infrastructure	141.073	1.7
376.883	4.8	Global Property	343.424	4.2
133.713	1.6	Managed In-House	253.731	3.1
<b>7,934.084</b>	<b>100.0</b>	<b>Total Investments</b>	<b>8,273.817</b>	<b>100.0</b>

## 19. DERIVATIVES

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

### Futures

The Fund held a number of futures contracts as at 31st March 2018 to assist Investment Managers in their asset allocation. Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic Exposure	Market Value at 31st March 2017	Economic Exposure	Market Value at 31st March 2018
		£m	£m	£m	£m
<b>Assets</b>					
Overseas Equity	Less Than One Year	1.348	0.005	0.000	0.000
<b>Total Assets</b>		<b>1.348</b>	<b>0.005</b>	<b>0.000</b>	<b>0.000</b>
<b>Liabilities</b>					
UK Equity	Less Than One Year	1.164	(0.011)	0.000	0.000
Overseas Equity	Less Than One Year	6.340	(0.123)	0.000	0.000
UK Fixed Interest	Less Than One Year	(4.848)	(0.073)	0.000	0.000
<b>Total Liabilities</b>		<b>2.656</b>	<b>(0.207)</b>	<b>0.000</b>	<b>0.000</b>
<b>Net Futures</b>		<b>4.004</b>	<b>(0.202)</b>	<b>0.000</b>	<b>0.000</b>

### Forward Currency Contracts

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2018, the Fund held Twenty-one positions in foreign currency that together showed an unrealised loss of £1.514 million, as shown in the table below:

Type of Forward Foreign Currency Contracts				
Settlement	Type of Contract	Currency Bought	Currency Sold	Market Value £m
Three month	Over the Counter	Sterling	Euro	0.541
Three month	Over the Counter	Sterling	Hong Kong Dollar	0.034
Three month	Over the Counter	Sterling	Yen	0.074
Three month	Over the Counter	Sterling	Norwegian Krone	0.015
Three month	Over the Counter	Sterling	Singapore Dollar	0.069
Three month	Over the Counter	Sterling	US Dollar	0.074
Three month	Over the Counter	Euro	Sterling	0.008
Three month	Over the Counter	Yen	Sterling	0.161
Three month	Over the Counter	US Dollar	Sterling	0.090
<b>Loss/Liability Value as at 31st March 2018</b>				<b>1.066</b>
Three month	Over the Counter	Sterling	Euro	(0.007)
Three month	Over the Counter	Sterling	Hong Kong Dollar	(0.001)
Three month	Over the Counter	Sterling	Yen	(0.117)
Three month	Over the Counter	Sterling	US Dollar	(0.031)
Three month	Over the Counter	Australian Dollar	Sterling	(0.521)
Three month	Over the Counter	Canadian Dollar	Sterling	(0.369)
Three month	Over the Counter	Swiss Franc	Sterling	(0.234)
Three month	Over the Counter	Danish Krone	Sterling	(0.030)
Three month	Over the Counter	Hong Kong Dollar	Sterling	(0.167)
Three month	Over the Counter	Norwegian Krone	Sterling	(0.023)
Three month	Over the Counter	Singapore Dollar	Sterling	(0.016)
Three month	Over the Counter	US Dollar	Sterling	(1.064)
<b>Profit/Asset Value as at 31st March 2018</b>				<b>(2.580)</b>
<b>Net Forward Currency Contracts at 31st March 2018</b>				<b>(1.514)</b>

These were settled at a loss of £2.150 million early in the 2018/19 financial year.

## 20. SECURITIES LENDING

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £173.769 million were out on loan as at 31st March 2017. The breakdown of securities on loan was:

31st March 2017 £m		31st March 2018 £m
18.042	Fixed Interest Securities	37.263
100.203	UK Equities	89.658
43.920	Overseas Equities	46.848
<b>162.165</b>	<b>Total Securities Lending</b>	<b>173.769</b>

The value of collateral against which the securities were lent out is £184.711 million. This collateral consists of acceptable securities, government debt and obligations issued by supranational entities.

## 21. PROPERTY HOLDINGS

31st March 2017 £m		31st March 2018 £m
	<b>Property Holdings</b>	
311.425	Opening Balance	340.300
	<b>Additions</b>	
18.866	Purchases	24.912
14.291	New construction	6.642
0.053	Subsequent expenditure	0.352
(13.000)	Disposals	(33.750)
8.665	Net Increase in Market Value	27.774
<b>340.300</b>	<b>Closing Balance</b>	<b>366.230</b>

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

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

31st March 2017 £m		31st March 2018 £m
19.032	Within One Year	18.742
62.049	Between One And Five Years	70.207
149.742	Later Than Five Years	194.322
<b>230.823</b>	<b>Minimum Due From Leases</b>	<b>283.271</b>



## 22. SIGNIFICANT HOLDINGS

As at 31st March 2018, the Fund had three holdings that each represented more than 5% of the total Fund value. All three holdings are without-profit insurance contracts that provide access to a pool of underlying assets. The values have been determined by reference to the underlying assets using price feeds from markets. These holdings are:

- Legal and General Assurance (Pensions Management) Limited – Managed Fund. As at 31st March 2018, this was valued at £2,726.590 million and represented 33.0% of the total net assets of the Fund. During 2017/18, the insurance contract was covered by nine individual funds, as follows:

31st March 2017 £m		31st March 2018 £m
861.300	UK Equities	1,059.989
108.894	Asia Pacific ex. Japan Equities	111.187
206.147	Emerging Markets Equities	224.174
189.179	Europe (ex UK) Equities	557.818
95.543	Japan Equities	109.875
433.114	North America Equities	464.879
11.256	UK Gilts	11.313
103.698	Index-Linked Gilts	104.494
45.241	Emerging Markets Passive Government Bonds	82.858
0.033	Transition	0.003
<b>2,054.405</b>	<b>Total</b>	<b>2,726.590</b>

- Legal and General Assurance (Pensions Management) Limited – RAFI Fund. During the financial year the Fund transferred the holdings in RAFI Global Equities to a separate insurance contract from the Managed Fund mentioned above. As at the 31st March 2018, this was valued at £768.874 million (£758.589 million as at 31st March 2017) and represented 9.3% of the total assets of the Fund.
- M&G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2018, this was valued at £787.819 million (£728.173 million as at 31st March 2017) and represented 9.5% of the total net assets of the Fund.

## 23. OUTSTANDING COMMITMENTS

As at 31st March 2018 the Fund had sixty-four outstanding commitments to investments, as shown below.

Name of Fund	Year	Value m	Drawdowns Made m	Commitment Outstanding m	
HarbourVest International Private Equity Partners IV	2002	\$55.0	\$53.6	\$1.4	£1.0
HarbourVest Partners VII Cayman Buyout Fund	2002	\$46.0	\$43.5	\$2.5	£1.8
HarbourVest Partners VII Cayman Mezzanine Fund	2002	\$8.0	\$7.5	\$0.5	£0.4
HarbourVest Partners VII Cayman Venture Fund	2002	\$28.0	\$27.5	\$0.5	£0.4
Capital International Private Equity Fund IV	2004	\$18.0	\$17.8	\$0.2	£0.1
HarbourVest International Private Equity Partners V - Partnership	2005	€100.0	€96.0	€4.0	£3.5
HarbourVest International Private Equity Partners V - Direct	2005	€30.0	€28.8	€1.2	£1.1
Pantheon Asia Fund IV	2005	\$20.0	\$18.9	\$1.1	£0.8
Pantheon Europe Fund IV	2005	€25.0	€23.4	€1.6	£1.4
Pantheon USA Fund VI	2005	\$30.0	\$28.3	\$1.7	£1.2
Lexington Capital Partners VI-B	2005	\$30.0	\$29.5	\$0.5	£0.4
HarbourVest Partners VIII Cayman Buyout Fund	2006	\$112.0	\$107.0	\$5.0	£3.6
HarbourVest Partners VIII Cayman Venture Fund	2006	\$56.0	\$54.9	\$1.1	£0.8
Pantheon Europe Fund V	2006	€35.0	€32.8	€2.2	£1.9
Pantheon USA Fund VII	2006	\$35.0	\$32.3	\$2.7	£1.9
Coller International Partners V	2006	\$30.0	\$23.5	\$6.5	£4.6
HarbourVest Partners 2007 Direct Fund	2007	\$30.0	\$29.3	\$0.7	£0.5
Pantheon Asia Fund V	2007	\$20.0	\$18.4	\$1.6	£1.1
Pantheon Europe Fund VI	2007	€40.0	€36.7	€3.3	£2.9

Name of Fund	Year	Value m	Drawdowns Made m	Commitment Outstanding m	
Pantheon USA Fund VIII	2007	\$35.0	\$31.2	\$3.8	£2.7
Capital International Private Equity Fund V	2007	\$35.0	\$29.2	\$5.8	£4.1
Co-Investment Partners Europe	2007	€30.0	€28.4	€1.6	£1.4
Partners Group 2006 Direct Fund	2007	€30.0	€28.8	€1.2	£1.1
Infracapital Partners I	2007	£35.0	£32.8	£2.2	£2.2
Capital International Private Equity Fund VI	2010	\$35.0	\$29.0	\$6.0	£4.3
Lexington Capital Partners VII	2010	\$30.0	\$24.3	\$5.7	£4.1
Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP	2010	\$40.0	\$37.6	\$2.4	£1.7
Partners Group Real Estate Secondary 2009 (EURO)	2010	€60.0	€57.2	€2.8	£2.5
Partners Group Global Real Estate 2011 S.C.A., SICAR	2010	€145.0	€127.9	€17.1	£15.0
Partners Group Global Infrastructure 2009	2010	€70.0	€61.2	€8.8	£7.7
Partners Group Direct Infrastructure 2011	2011	€85.0	€74.8	€10.2	£8.9
Partners Group Direct Real Estate 2011 S.C.A., SICAR	2011	\$100.0	\$92.2	\$7.8	£5.6
Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR	2011	\$65.0	\$54.2	\$10.8	£7.7
HarbourVest International Private Equity Partners VI - Partnership	2011	€50.0	€46.0	€4.0	£3.5
Coller International Partners VI	2012	\$45.0	\$31.6	\$13.4	£9.6
Pantheon Asia Fund VI	2012	\$40.0	\$30.0	\$10.0	£7.1
Pantheon Europe Fund VII	2012	€25.0	€19.9	€5.1	£4.5
Pantheon USA Fund IX	2012	\$30.0	\$23.8	\$6.2	£4.4
Partners Group Global Infrastructure 2012	2013	€45.0	€31.4	€13.6	£11.9
Partners Group Real Estate 2014	2013	\$64.0	\$38.5	\$25.5	£18.2
Partners Group Real Estate Income 2014	2013	€23.0	€19.9	€3.1	£2.7
Partners Group Global Real Estate 2013	2013	\$130.0	\$78.7	\$51.3	£36.6
Partners Group Real Estate Secondary 2013	2013	\$65.0	\$44.8	\$20.2	£14.4
HarbourVest Dover Street VIII Cayman Fund LP	2013	\$30.0	\$26.3	\$3.7	£2.6
HarbourVest Partners IX - Cayman Buyout Fund	2013	\$60.0	\$42.8	\$17.2	£12.3
HarbourVest Partners IX - Cayman Venture Fund	2013	\$30.0	\$27.6	\$2.4	£1.7
HarbourVest Partners 2013 Cayman Direct Fund LP	2014	\$30.0	\$29.0	\$1.0	£0.7
Lexington Capital Partners VIII	2014	\$30.0	\$14.1	\$15.9	£11.3
Infracapital Partners II	2014	£19.6	£16.6	£3.0	£3.0
HarbourVest International Private Equity Partners VII - Partnership	2014	\$70.0	\$36.1	\$33.9	£24.2
Coller International Partners VII	2015	\$45.0	\$14.1	\$30.9	£22.0
HarbourVest Partners X - AIF Buyout Fund	2015	\$50.0	\$8.5	\$41.5	£29.6
HarbourVest Partners X - AIF Venture Fund	2015	\$25.0	\$6.3	\$18.7	£13.3
HarbourVest Dover Street IX LP	2016	\$30.0	\$7.8	\$22.2	£15.8
Partners Group Direct Infrastructure 2015	2016	\$140.0	\$40.8	\$99.2	£70.7
HarbourVest Partners Co-Investment Fund IV AIF	2016	\$30.0	\$17.9	\$12.1	£8.6
Aberdeen UK PRS Opportunities LP	2016	£60.0	£15.2	£44.8	£44.8
Pantheon Europe Select 2016	2017	€24.3	€1.8	€22.5	£19.7
Pantheon Global Co-Investment 2016	2017	\$65.0	\$19.5	\$45.5	£32.4
HIPEP VIII Partnership Fund	2017	\$80.0	\$6.8	\$73.2	£52.2
Infracapital Greenfield Partners I	2017	£20.0	£2.1	£17.9	£17.9
Pantheon Global Infrastructure III	2017	\$27.0	\$2.7	\$24.3	£17.3
Infracapital Partners III	2017	£20.0	£0.0	£20.0	£20.0
Partners Group Real Estate Secondary 2017	2017	\$135.0	\$8.3	£126.7	£90.3
<b>Total Outstanding Commitments</b>					<b>£721.7</b>

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2018.

## 24. RELATED PARTY TRANSACTIONS

South Tyneside Council is the administrating authority of the Tyne and Wear Pension Fund and as such assets of the Fund are held under the Council's name.

Under IAS24 "Related Party Disclosures", it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements.

### Governance

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

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

### Employers

During 2017/18, two employers within the Fund, namely South Tyneside Council and BT South Tyneside Ltd, had related party transactions with the Fund totalling £0.937 million (£0.972 million in 2016/17), analysed as follows:

- South Tyneside Council charged the Fund £0.557 million (£0.536 million in 2016/17) in respect of services provided, primarily being recovery of past service deficit payments, legal and building costs.
- The Fund charged South Tyneside Council £0.061 million (£0.059 million in 2016/17) in respect of Treasury Management services.
- BT South Tyneside Limited charged the Fund £0.319 million (£0.377 million in 2016/17) in respect of services provided, primarily being financial and information technology.

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

### Key Management Personnel

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

31st March 2017 £,000		31st March 2018 £,000
169	Short Term benefits	219
43	Post-employment benefits	53
<b>212</b>	<b>Total</b>	<b>272</b>

Other senior managers, including the section 151 officer, linked to the Fund are employed by South Tyneside Council and the costs to the Fund are included within recharges to the Fund.



## 25. IMPAIRMENT LOSSES

### Impairment for Bad and Doubtful debts

During 2017/18 the Fund has recognised an impairment loss of £0.086 million (£0.085 million as at 31st March 2017) for the possible non-recovery of pensioner death overpayments.

## 26. PENSION FUND DISCLOSURES UNDER IAS26

Under IAS26 the Fund is required to disclose the “actuarial present value of the promised retirement benefits”, which were last valued at 31st March 2016 by the Actuary at £8,657.300 million.

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

### Information Supplied by the Actuary

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

	Value at 31 <sup>st</sup> March 2016 £m	Value at 31 <sup>st</sup> March 2013 £m
Fair value of net assets	6,427.4	5,432.3
Actuarial present value of the promised retirement benefits	8,657.3	7,514.5
Surplus / (deficit) in the Fund as measured for IAS26 purposes	(2,229.9)	(2,082.2)

The principal assumptions used by the Actuary were:

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

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

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





### Principal demographic assumptions

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

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

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

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

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



## 27. OTHER SENSITIVE AREAS

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

Expenses paid to members of the Pensions Committee totalled £22,620 in the year to 31st March 2018 (£21,800 in 2016/17). These have been included within Oversight and Governance Costs included in note 10.

The Fund is audited by Ernst & Young who received a fee of £35,648 (£35,648 in 2016/17) for carrying out this audit. These fees are included in the Administration and Oversight and Governance Cost lines in note 10.

## 28. EVENTS AFTER THE ACCOUNTING DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
- b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

For example, if there had been a marked decline in the global stock markets that would impact upon the market value of the Fund's investments were they to be valued as at the date the accounts were authorised for issue, this would be deemed a non-adjusting post-balance-sheet event and would be disclosed in this note.

An example of an adjusting event would be if new information came to light regarding the methodology employed in the valuation of an asset.



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

INFORMATION FOR THIS SECTION TO BE PROVIDED



# DISCLOSURE FOR THE LOCAL GOVERNMENT PENSION SCHEME ADVISORY BOARD

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

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

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

## ANALYSIS OF EMPLOYERS

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

At 31st March 2018	Active	Ceased	Total
Scheduled Bodies	96	23	119
Admitted Bodies	64	77	141
<b>Total</b>	<b>160</b>	<b>100</b>	<b>260</b>

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

## ANALYSIS OF MEMBERSHIP

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

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

Membership	31st March 2017	31st March 2018
Active	44,955	45,464
Deferred	40,585	41,084
Pensioner	45,924	47,487
<b>Total Membership</b>	<b>131,464</b>	<b>134,035</b>
Undecided Leavers	3,139	3,585

## ANALYSIS OF ASSETS

The table below provides an analysis of the Fund's assets as at 31st March 2017 and 2018 into categories set out by the Board.

31st March 2018	Regional Mandates		Global Mandates	Total
	UK £'m	Non-UK £'m	£'m	£'m
Equities	1,742.593	1,878.373	1,354.710	4,975.676
Bonds	1,562.011	82.857	0.000	1,644.868
Direct property	381.179	0.000	0.000	381.179
Alternatives	0.000	0.000	1,018.622	1,018.622
Cash and net current assets	141.791	112.352	0.000	254.143
<b>Total</b>	<b>3,827.575</b>	<b>2,073.583</b>	<b>2,373.332</b>	<b>8,274.488</b>

31st March 2017	Regional Mandates		Global Mandates	Total
	UK £'m	Non-UK £'m	£'m	£'m
Equities	1,695.339	1,727.336	1,337.517	4,760.192
Bonds	1,470.691	45.241	0.000	1,515.932
Direct property	355.942	0.000	0.000	355.942
Alternatives	0.000	0.000	1,171.531	1,171.531
Cash and net current assets	72.119	74.928	0.000	147.047
<b>Total</b>	<b>3,594.091</b>	<b>1,847.505</b>	<b>2,509.048</b>	<b>7,950.644</b>

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

## ANALYSIS OF INCOME

The tables below provide an analysis of the investment income paid to the Fund in the years to 31st March 2017 and 2018.

31st March 2018	Regional Mandates		Global Mandates	Total
	UK £'m	Non-UK £'m	£'m	£'m
Equities	25.354	19.780	0.659	45.793
Bonds	1.722	0.000	19.387	21.109
Direct Property	19.620	0.000	0.000	19.620
Alternatives	0.000	0.000	0.000	0.000
Cash and Ancillary Items	0.606	0.966	0.000	1.572
<b>Total</b>	<b>47.301</b>	<b>20.746</b>	<b>20.046</b>	<b>88.094</b>

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

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

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



# TYNE AND WEAR PENSION FUND

## HOW TO CONTACT US

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

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



**TYNE AND WEAR PENSION FUND,  
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**PENSIONS HELPLINE:  
TEL: 0191 424 4141**



**FAX: 0191 454 1796**



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



### **WALK IN SERVICE**

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

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



### **OFFICE HOURS**

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