TYNE
AND WEAR
PENSION FUND

Annual Report and Accounts 2014/15

Administered by South Tyneside Council

CONTENTS

MEMBERS OF PENSIONS COMMITTEE, ADVISORS, OFFICERS

THE MEMBERS OF PENSIONS COMMITTEE DURING 2014/15 ARE SHOWN BELOW.

South Tyneside Council

Councillor E. McAtominey (Chair)
Councillor A. Walsh (Vice Chair)
Councillor M. Butler
Councillor P. Hay
Councillor J. Milburn
Councillor J. Perry
Councillor D. Purvis
Councillor B. Watters
Councillor A. West

Gateshead Council

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

Newcastle City Council

Councillor G. Bell
(substitute – Councillor D. Wood)

North Tyneside Council

Councillor R. Glindon
(substitute – Councillor M. Rankin)

Sunderland City Council

Councillor T. Wright
(substitute – Councillor L. Farthing)

Trades Union Representatives

M. Abuzahra – Unison
W. Flynn – UCATT
S. Forster – Unison

Employers' Representatives

I. Jardine – Nexus
G. Foster – Northumbria University
J. Lewins – Balfour Beatty Worksmart Ltd

The Committee Members can be contacted through the Pensions Helpline by emailing **pensions@twpf.info**

SENIOR OFFICERS

Corporate Director Business and Resources

J. Hewitt (email: John.Hewitt@southtyneside.gov.uk)

Head of Pensions

S. Moore (email: Stephen.Moore@southtyneside.gov.uk)

Principal Pensions Manager

D. Smith (email: Dave.Smith@southtyneside.gov.uk)

Principal Investment Manager

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

Head of Legal Services

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

Head of Finance (Section 151 Officer)

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

Corporate Assurance Manager

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

Administrators of the Fund

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

ADVISORS

Actuary

Aon Hewitt – T. Lunn

Investment Advisor

Hymans Robertson – P. Potter

The advisors to the Fund can be contacted through the Pensions Helpline by emailing **pensions@twpf.info**

BANK

National Westminster Bank

CUSTODIAN

Northern Trust

EXTERNAL AUDIT

PWC LLP – G. Wilson (Senior Statutory Auditor)

INVESTMENT MANAGERS

Indexation

Legal and General Investment Management

EQUITIES

UK Equity

BlackRock Investment Management
Mirabaud Investment Management

Global Equity

JP Morgan Asset Management
Sarasin and Partners LLP

European Equity

UBS Global Asset Management (UK) Ltd

Japanese Equity

Lazard Asset Management

Asian ex Japanese Equity

TT International

Emerging Market Equity

JP Morgan Asset Management

BONDS

Henderson Global Investors
M&G Investments

PROPERTY

UK Property

Aberdeen Property Investors

Global Property

Partners Group

PRIVATE EQUITY

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

INFRASTRUCTURE

Henderson Equity Partners
M&G Investments
Partners Group

ACTIVE CURRENCY

BlackRock Investment Management
Investec Asset Management
Millennium Global Investors
Record Currency Management

ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Prudential Assurance Company
Equitable Life Assurance Society

REVIEW OF THE YEAR

We are pleased to present the 2014/15 Report and Accounts for the Tyne and Wear Pension Fund.

The new Local Government Pension Scheme was introduced from April 2014. 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. The Normal Retirement Age is the member's State Pension Age. Changes have been made to the member contribution rates. Benefits earned before April 2014 are protected.

In order to assist with affordability for members, a "50/50" option has been introduced, where the member can elect to pay half the member contribution rate for half the accrual rate.

We have participated in working groups set up by the Local Government Association to develop the communication strategy and other material for the new Scheme. We have also been working with our software provider and other users to develop the new systems that we require.

It was intended that the Department for Communities and Local Government (CLG) would have issued the new regulations a year in advance of the start date. However, the final part of the original regulations was not available until March 2014 and we were still receiving guidance and amendment regulations throughout 2014/15.

Consequently, our preparations and those of other administering authorities and the employers were materially delayed. We have been working with our software supplier on the development of systems through 2014/15 and into 2015/16.

Pensions processing has been prioritised to ensure that urgently required or high impact processing, for both members and employers, is addressed promptly. This has meant that a backlog has built up of lower priority work.

Many of the employers have experienced their own problems in implementing the new Scheme. In some instances, this has led to problems with the quality and timeliness of data flows to the Fund which has increased the processing problems.

We are continuing to work with the employers and the software supplier to complete the introduction of the new Scheme and to address the processing backlog. A risk based action plan is in place.

There has been a consequential effect on other areas of work within the Pensions Office. Our technical resources and those of our software supplier were heavily deployed on the new Scheme. This meant that the development of systems for online processing and passing of data, which when available will improve our efficiency and that of the employers, has been delayed.

The governance of the new Scheme includes the creation of a national Scheme Advisory Board to provide advice to CLG and local pension boards to assist each administering authority with the effective and efficient management and administration of the Scheme. Work was undertaken in the final quarter of the year to set up the Fund's Local Board, which is comprised of four representatives each from the employers and members. The first meeting of the Board was held at the end of June 2015 and work is in hand to develop the work programme.

In May 2013, CLG launched a "Call for Evidence" to review the approach to the investment of Scheme assets and the future number of administering authorities. This led to a consultation in early 2014/15 entitled "Opportunities for Collaboration, Cost Savings and Efficiencies". This consultation noted that fund mergers would not be pursued at this time and focused on the approach to investment. Views were also invited on the management of deficits and the content of the investment regulations. This was followed up in the Summer Budget in July 2015 with an announcement that the Government will work with administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance.

Administering authorities will be invited to come forward with their own proposals to meet common criteria for delivering savings.

A consultation is to be published later this year that will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool.

A review of the actuarial and investment advisor mandates was commenced in 2014/15 and completed early in 2015/16. Aon Hewitt has been confirmed as Actuary and Hymans Robertson as Investment Advisor.

With regard to the funding strategy, the contributions payable for the three years from 2014/15 have been set by the 2013 valuation, which was carried out in 2013/14. This valuation included a positive impact from the introduction of the new Scheme.

The outcome was a funding level of 81%, based on the ongoing assumptions adopted for this valuation. This is a slight improvement from the figure of 79% at the 2010 valuation. The low risk funding level, based on gilt yields, was 57% against a figure of 53% at the 2010 valuation.

The average future service rate was 16.1% of pay and the contribution to address the deficit was 7.5% of pay, leading to a total average contribution of 23.6% of pay.

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 a percentage based deficit contribution. In practice, the Fund manages this issue by setting most deficit contributions as a cash sum to maintain their value and ensure recovery.

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 has been achieved at the Total Fund level, after allowing for payroll changes and inter valuation increases in the past service deficiency payments.

With regard to investment strategy, an asset liability study was carried out in 2013/14 using the liability data from the 2013 valuation. Analysis of the results continued into 2014/15. It was concluded that the existing strategy was largely suitable but that a 4% shift from UK to overseas equities should be implemented. In addition, the allocation to passively managed equities should be increased at the expense of the allocation to actively managed equities by way of a 9% shift from active equities into a global, passively managed fund benchmarked against a fundamental index.

Following on from a market testing exercise and a detailed consideration of possible trading strategies, these changes are being implemented through 2015/16. When the trading is complete, the Fund's allocation to passive strategies will be 27%, comprised of 25% in equities and 2% in bonds.

The end strategy will be 66% in equities, 19% in bonds and cash, 12.5% in property and 2.5% in infrastructure. Within this strategy, there is a 7.5% allocation to private equity and an overlay of up to 1% that provides exposure to active currency positions.

In 2012, it became apparent that the structure of the UK property portfolio could lead to below benchmark returns for a number of years. The Fund reviewed the approach to investment and began a restructuring of the portfolio. This was commenced in 2012/13 and has continued into 2015/16.

We continued to develop the global property and infrastructure programmes. The global property programme achieved its 4.5% target weighting early in 2014. The infrastructure programme was expected to have attained its 2.5% target weighting by the end of 2014 but this was not achieved due to pricing issues in this market. It is expected that weighting will be achieved in 2014/15.

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.

With regard to investment returns, there was a wide range of returns from the main asset classes during the year. The strongest performing markets were Japanese equities with a return of 27.1% and US equities at 26.5%. The poorest performer was Cash, which returned only 0.4%. 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. This market returned 6.6%.

The Fund's return for the year was 13.7%, which was 2.9% above the benchmark return of 10.8%. Inflation as measured by the Consumer Prices Index (CPI), which has become the more important measure for the Scheme, was flat for the year whilst Average Earnings increased by 3.3%.

The outperformance during the year was driven by the alternative investments and quoted equities. The active bonds managers delivered respectable returns.

The Fund's five year return is 8.2% per annum, which is 0.1% above the benchmark return of 8.1% per annum. The ten year return is 7.9% per annum, which is 0.1% below the benchmark return of 8.0% per annum.

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

Whilst systems work on the new Scheme required most of our ICT resources in 2014/15, we remain committed to developing the use of email, electronic communication and our website as an important and cost effective part of the service delivery package. Work on online services for employers will continue to allow for more data to be transferred and processed electronically. A system will be introduced to allow members to view their personal record and benefits statements and calculate estimates of their benefits.

We have continued to warn members of the risk of Pension Liberation Fraud and we have worked alongside the Pensions Regulator's high profile campaign to combat such fraud. Our processing practices and documentation have been reviewed to seek to ensure that members are making fully informed decisions when transferring benefits out of the Fund.

Councillor Eileen Leask
Chair of Pensions Committee

Stephen Moore
Head of Pensions

LEGAL FRAMEWORK

INTRODUCTION

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

SCHEME REGULATIONS

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

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 set out how membership accrued prior to 1st April 2014 counts.

The main provisions of the new Scheme are:

- Tiered employee contribution rates.
- A Career Average Re-valued Earnings (CARE) pension based on 1/49th of salary for each year of pensionable service
- A “50/50” arrangement that allows 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
- The earliest age that the member may choose to release their pension is 55 and three months. 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
- 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
- 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.

MANAGEMENT AND GOVERNANCE

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

The additional provisions provide for the setting up of, and making appointments to, local pension boards and the Scheme Advisory Board.

Under the Public Service Pension Act 2013, CLG continue to be responsible for policy and the making of regulations. There will now be a Local Government Pension Scheme Advisory Board to advise CLG on regulatory changes that it considers appropriate.

At individual fund level, each fund will continue to be administered by its designated administering authority. However, from April 2015, each fund will 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 have equal representation of employer representatives and member representatives.

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

INVESTMENT REGULATIONS

The framework for investment is set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. These Regulations set out the types of investments that can be made, which include company and government securities, property and unit trusts. The Regulations also set out restrictions on the proportion of a fund that can be held in different types of investment.

In 2013, the Government undertook a “Call for Evidence” on the structure of the Local Government Pension Scheme. 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 Summer Budget on 8th July 2015, the Chancellor stated that the Government will work with administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance.

The Government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation will be published later this year, which will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.

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 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 Statement of Investment Principles
- Set the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities
- Appoint, dismiss and assess the performance of investment managers and custodians
- Prepare, maintain and publish the Corporate Governance Policy
- Ensure appropriate arrangements for the Local Pension Board are in place and maintain and publish information about the Local Pension Board.

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 2015 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.

MANAGEMENT OF CONFLICTS OF INTEREST

Declaration of potential conflicts of interest is a requirement for Committee 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 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, at the Investment Panel and at training is summarised in the table below.

The table also shows which members of the Committee had voting rights. In practice, the Committee 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.

MEMBERSHIP	VOTING RIGHTS	NO. OF PENSIONS COMMITTEE MEETINGS ATTENDED	NO. OF INVESTMENT PANEL MEETINGS ATTENDED	TOTAL HOURS OF TRAINING ATTENDED
Cllr. E. McAtominey	Y	6 of 6	3 of 3	65.25
Cllr. A. Walsh	Y	5 of 6	2 of 3	68.25
Cllr. J. Milburn	Y	3 of 6	0	1.25
Cllr. M. Butler	Y	4 of 6	0	19.5
Cllr. D. Purvis	Y	4 of 6	0	39.25
Cllr. P. Hay	Y	4 of 6	0	38
Cllr. J. Perry	Y	3 of 6	1 of 1	41.5
Cllr. A. West	Y	4 of 6	0	36.75
Cllr. B. Goldsworthy	Y	4 of 6	0	31.5
Cllr. G. Haley (substitute)	Y	4 of 6	0	38
Cllr. G. Bell	Y	3 of 6	0	21
Cllr. D. Wood (substitute)	Y	0 of 6	0	0
Cllr. R. Glindon	Y	1 of 6	0	1.25
Cllr. M. Rankin (substitute)	Y	0 of 6	0	0
Cllr. T. Wright	Y	2 of 6	0	35.5
Cllr. L. Farthing (substitute)	Y	5 of 6	0	39.25
M. Abuzahra (Trades Union Representative)	N	3 of 4	0	19.5
W. Flynn (Trades Union Representative)	N	5 of 6	4 of 4	80.5
S. Forster (Trades Union Representative)	N	4 of 6	0	36.75
I. Jardine (Employer Representative)	N	5 of 6	0	21
G. Foster (Employer Representative)	N	4 of 6	0	27
J. Lewins (Employer Representative)	N	6 of 6	0	39.25

The substitute members 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 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**

The information that is available includes:

- The agenda and minutes of the Committee 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 2013 valuation and the Funding Strategy Statement
- The Statement of Investment Principles, 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.

THE TRAINING POLICY AND PROGRAMME

The Pensions Committee has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy 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, for Elected Representatives and Non Executives and for Pensions Practitioners.

COMMITTEE 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 Committee considers its training requirements at each of its quarterly meetings and devises a programme that builds on the training previously delivered to address the issues that will arise in coming years.

The programme in 2014/15 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. This recognises the higher governance duties placed upon those members.

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 2014/15 covered topics such as:

- Service planning and budgeting
- Scheme Governance
- The future role of the Pensions Regulator
- Performance assessment of the Fund's governance structure
- The 2014 Scheme
- Funding Strategy, including cash flow and the work programme of the Shadow Scheme Advisory Board's Deficit Working Group
- Review of Fund performance
- The investment management structure
- The asset classes that the Fund invests in
- Liability aware investing and derisking
- Passive investment, including fundamental indexation
- Corporate Governance and Socially Responsible Investment
- Detailed work on the Fund's UK Property Programme
- Investment in Residential Property
- Sustainability in Property Investment.

The sessions on indexation and liability aware investing and derisking were delivered in conjunction with the Pensions Committee of the Northumberland County Council Fund.

The programme for 2015/16 will include sessions on:

- Service planning and budgeting
- Governance Structure of the Scheme and the Fund
- Performance assessment of the Fund's governance structure
- Position on and response to the Efficiency Review
- The new Scheme and pension processing
- The investment management structure and the Investment Principles
- The global economic outlook
- The asset classes that the Fund invests in
- Corporate Governance and Socially Responsible Investment
- A risk management workshop
- Benchmarking of investment management costs and administration costs
- Funding Strategy in the run up to the 2016 Valuation.

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
- The pension administration software has been developed to include processing guidance notes and links to internal policies, external key documents and websites.

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 2014/15, we have:

- Delivered the Pensions Committee's Training Programme that is based on the Knowledge and Skills Framework prepared by the Institute's Pensions Panel
- Prepared for the introduction of the Local Pension Board
- Responded to consultations on the Scheme and advised employers and members of developments and regulatory changes
- Introduced the new Scheme, which has involved significant regulatory work, system programming, changes to systems and working practices and staff and employer training
- Developed and applied the Funding Strategy, including managing the admission of new employers and the withdrawal from the Fund of some existing employers
- Taken forward the recommendations from the 2013/14 asset liability modelling on the strategic investment benchmark to ensure that the Fund has an optimal allocation between growth assets and low risk assets and between active and passive strategies. This includes a 4% shift from UK to overseas equities and the introduction of a 9% allocation into a global, passively managed fund benchmarked against a fundamental index. The implementation of these recommendations continues into 2015/16
- Progressed with a restructuring of the UK property portfolio
- Tendered the arrangements for the day to day management of the UK property portfolio
- Continued to develop the private equity, global property and infrastructure programmes.

In 2015/16, we will:

- Complete the introduction of the 2014 Scheme
- Continue to address backlogs in pensions processing that have arisen due to the significant increase in regulatory, systems and processing work from the 2014 Scheme
- Expand the online services to employers to provide for increased electronic passing of data and processing
- Introduce online services for members that will allow viewing of personal records, calculation of benefits estimates and the receipt of annual statements
- Implement the new governance structure for the Fund that is required by the Public Sector Pensions Act 2013
- Address the Government's initiative on the investment of the Scheme's assets
- Prepare for the 2016 valuation
- Complete a review of the mandates for Actuary and Investment Advisor
- Progress with the implementation of the outcome of the 2013/14 asset liability work
- Progress with other work on the investment structure, including the continuation of the restructuring of the UK property portfolio
- Implement the increased reporting requirements for the Annual Report and Accounts.

RISK MANAGEMENT

INTRODUCTION

The Fund must identify and manage the strategic and operational risks that 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 that 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

The position on the Critical risks is reported quarterly to the Pensions Committee, alongside a commentary on the changing risk environment.

The risks assessed as Critical as at March 2015 are summarised in the following extracts from the Risk Register.

RISK	Insufficient assets to meet the liabilities	**RISK OWNER**	Head of Pensions
IMPACT	Higher employers' contributions and greater volatility in level of contributions		
CONTROLS	The deficit in the Fund is to be reduced via deficit contributions from employers and the investment strategy. The funding strategy has been reviewed at the 2013 valuation. Asset Liability Model (ALM) work undertaken in 2013/14 and desktop review undertaken in 2014/15 Funding level as at March 2013 was at 81% (57% low risk) on the new ongoing basis versus 79% (53%) at 2010 valuation. Funding level as at December 2014 was estimated at 79%		
IMPACT	Significant	**LIKELIHOOD**	Near Certain
NET RISK	Critical	**STRATEGY**	Treat
ACTION REQUIRED	Continue to apply appropriate funding and investment strategies Implement review of investment strategy Noted as a Critical risk in the light of the monetary value of the current deficit and the impact on employers' contributions. In practice, a long term strategy is in place to correct the position		

RISK	The pensions administration system, Universal Pensions Management (UPM), is not fully developed to deliver the new 2014 Career Average Revalued Earnings Scheme	**RISK OWNER**	Head of Pensions
IMPACT	Unable to carry out aspects of pensions administration in line with regulations without manual intervention. Additional working costs. Service to employers and members is compromised		
CONTROLS	Detailed development plans prepared and being taken forward		
IMPACT	Significant	**LIKELIHOOD**	Near Certain
NET RISK	High	**STRATEGY**	Treat
ACTION REQUIRED	Implement development plans. Ensure these are kept up to date Meetings in hand with the supplier, Civica, and other users Work to continue through 2015/16		

RISK	New employees do not join the Fund, either for financial reasons or because their employer does not promote the scheme or structures employees away from the Scheme (scheduled and admitted bodies) or prevents membership (admitted bodies only). Fewer new starters re use of short term contracts by employers allied to the two year vesting period in the new scheme	**RISK OWNER**	Head of Pensions
IMPACT	Decreased cash flow into the Fund. Fund matures quicker than it would otherwise. Potential for increase in employers' contributions		
CONTROLS	Ensure scheduled bodies comply with regulations on enrolment. Where possible, promote benefits of scheme membership. Possible small beneficial impact from Auto Enrolment, the management of which will be overseen by the Fund. 50 / 50 option could assist with retention but take up is low to date at about 80		
IMPACT	Significant	**LIKELIHOOD**	Probable
NET RISK	Critical	**STRATEGY**	Tolerate
ACTION REQUIRED	Limited ability to manage this area. Continue to apply current approach. Seek to ensure employers comply with Regulations and requirements of Auto Enrolment. Monitor impact of Auto Enrolment Monitor position on new pension freedoms		

The full Risk Register is made available to the Committee.

The management of risk is included in the Committee's 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 a summary report is considered annually by the Committee.

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 Statement of Investment Principles, 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 of 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 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:

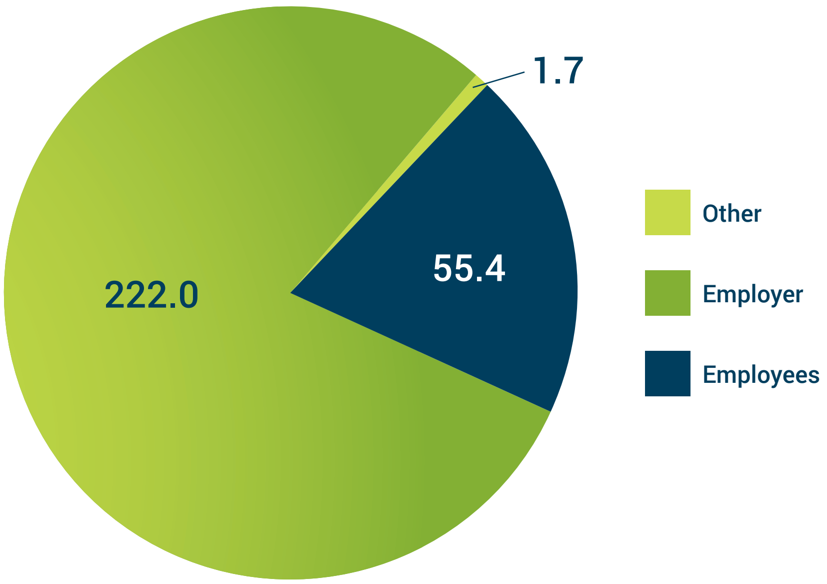
- the day to day pensions and investment accounting functions
- reconciling the valuation of the investments and monitoring the collection of dividends and interest and the associated cash flows in all currencies
- reconciling the cash flows associated with pension benefits, including the collection 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 2014/15, the Fund received £279.1 million in pension contributions from employers and employees and paid £247.7 million of pension benefits to over 42,400 pensioner and beneficiary members.

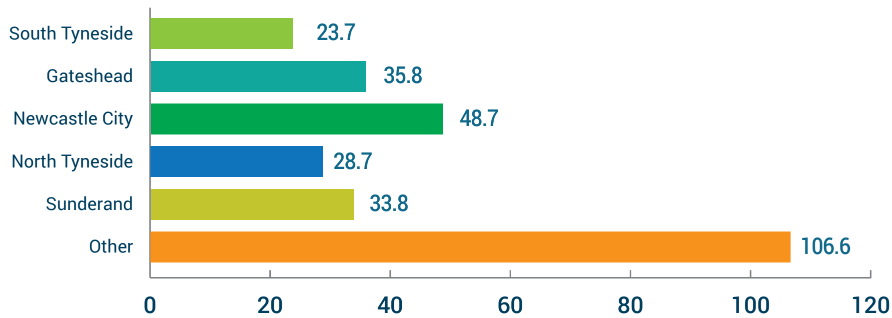
The chart below shows a breakdown of the contribution income:

Contribution income 2014/15 £m



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

Contribution income 2014/15 £m



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 2014/15 and the amount collected by the due date:

MONTH	AMOUNT DUE £'000	RECEIVED ON OR BEFORE DUE DATE
Apr-14	21,590	99.97%
May-14	23,210	98.24%
Jun-14	22,149	100.00%
Jul-14	22,151	99.92%
Aug-14	21,991	99.99%
Sep-14	22,067	99.91%
Oct-14	22,152	99.99%
Nov-14	22,152	99.99%
Dec-14	22,874	99.43%
Jan-15	22,401	99.97%
Feb-15	22,403	99.97%
Mar-15	22,487	99.21%

Late payments are monitored and pursued.

The following table shows the late payment history for 2014/15:

NUMBER OF DAYS PAYMENT WAS LATE	NUMBER OF LATE PAYMENTS	PERCENTAGE OF LATE PAYMENTS
Less than 10	20	49%
Between 10 and 19	12	29%
Between 20 and 29	4	10%
Between 30 and 39	4	10%
More than 39	1	2%
		100%

Amounts that were outstanding as at 31st March 2015 were paid by the 1st May 2015.

Interest is calculated in all cases but is only charged when the amount exceeds £20. Interest, for late payments during the year, totalling £294 was charged to and paid by three employers.

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, 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 four years:

YEAR	PENSION OVERPAID £	AMOUNT RECOVERED £	AMOUNT WRITTEN OFF £	OUTSTANDING AT 31ST MARCH 2015 £
2011/12	75,241	68,694	1,432	5,115
2012/13	130,371	106,732	3,565	20,074
2013/14	92,974	80,843	4,263	7,868
2014/15	105,196	75,356	0	29,840

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 2016/17.

This is the first year that the forecast has been published. A forecast was not available for 2014/15 so the actual figures have been included for this year.

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

Forecasts	Actual 2014/15 £m	Forecast 2015/16 £m	Forecast 2016/17 £m
Contributions	(279.084)	(284.523)	(285.561)
Transfers In from Other Pension Funds	(3.317)	(3.317)	(3.317)
Total Contributions	**(282.401)**	**(287.840)**	**(288.878)**
Benefits Payable	247.698	273.864	285.184
Payments in Respect of Leavers	114.036	6.389	6.389
Total Costs	**361.734**	**280.253**	**291.573**
Net Reduction / (Increase) from Dealing with Members	**79.333**	**(7.587)**	**2.695**
Management Expenses	**58.094**	**62.560**	**62.715**
Investment Income	(100.999)	(107.059)	(113.482)
Non-Recoverable Tax	3.837	4.067	4.311
Change in Market Value of Investments	(682.860)	(337.838)	(354.908)
Net Return on Investments	**(780.022)**	**(440.830)**	**(464.079)**
Increase in Net Assets Available for Benefits during the Year	**(642.595)**	**(385.857)**	**(398.669)**
Net Assets of the Fund at the Beginning of the Year	**5,735.729**	**6,348.561**	**6,734.418**
Net Assets of the Fund at the End of the Year	**6,378.324**	**6,734.418**	**7,133.086**

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 2014/15

A comparison of performance against budget for the net operational expenses of the Fund for 2014/15 is shown below:

	2014/15 Total Budget £'000	2014/15 Actual £'000	Variance £'000
Employee Costs	2,173	2,065	(108)
Premises Costs	69	69	(0)
IT Costs	207	181	(25)
Supplies and Services	803	532	(271)
Cost of Democracy	307	313	6
Other Costs	383	5	(378)
Investment Management Costs	27,637	25,030	(2,607)
Total Expenditure	**31,578**	**28,196**	**(3,382)**
Miscellaneous Income	(61)	(67)	(6)
Total Operational Expenses	**31,517**	**28,129**	**(3,388)**

The main variances against the budget are discussed below.

The main area of savings was in investment management costs. These were under budget due to certain investment managers not achieving their performance targets and therefore not receiving a performance fee. In addition, the Fund negotiated fee reductions with four investment managers. A further saving was made following the closure of an investment in a currency fund.

Other costs shown in the table above are costs relating to the reclaim of taxes paid by the fund in relation to foreign income dividends, Fokus Bank – withholding tax and manufactured dividends. These costs were under budget because the recovery work is taking longer than expected and has slipped into later years.

The supplies and services budget contained a provision for the renewal of personal computer equipment which may have been required following an office move by the Pensions Service. The office move has been completed but the equipment renewal has been deferred to later years. This heading also contained a provision for reviews of investment manager mandates, which was not required.

Staffing costs were under budget due to a number of posts being held vacant pending the outcome of the Government's review of the structure of the Scheme. These posts have mostly been filled in 2015 to assist with the work pressures that have arisen from the implementation of the new Scheme.

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 2013 VALUATION

The Scheme Regulations required a valuation to be carried out as at 31st March 2013, which led to revised employer contribution rates being set from 1st April 2014.

This valuation includes the impact of the new Scheme, which commenced on 1st April 2014 and produced a saving in the average employers' contribution of about 2% of pay.

Experience between the 2010 and 2013 valuations was mixed. The actual investment return was 7.5% per annum which was a positive factor because it exceeded the assumed return of 6.8% per annum. It was reasonable to adopt lower assumptions for the long term impact of inflation and pay awards, which were also positive factors for the outcome. On the negative side, it was necessary to strengthen the assumptions for longevity and there had been a further fall in the gilt yields that had previously been used to set the discount rates for the valuation.

Aon Hewitt, the Fund Actuary, proposed an alternative approach to deriving and justifying the discount rates that involved setting these by closer 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.

This approach set a discount rate of 5.15% for employers with a stronger covenant. The rate for employers with orphan liabilities was set at about 4.4%, depending on the mix between in service and left service liabilities.

The approach to recovery periods and grouping was left unchanged from the 2010 valuation. The recovery periods for most employers were set within a range from twenty two years for employers with the strongest covenant to around ten years. For most transferee admission bodies, the recovery period did not exceed the remainder of the contract period.

Two other measures used were:

- The selective use of up to three annual steps, reduced from six steps at the 2010 valuation, in the phasing in of deficit payments
- The grouping of some smaller employers for setting contribution rates, which protects such employers from the risk of high volatility of rates.

Overall, this represented a tightening of the basis used at the 2010 valuation, which had been a stated objective at that valuation.

The strategy was discussed with employers at the annual meeting and as part of the consultation exercise on the Funding Strategy Statement.

The outcome was a reported funding level of 81%, a slight improvement from the figure of 79% at the 2010 valuation. The low risk funding level, based on gilt yields, was 57% against a figure of 53% at the 2010 valuation.

The average future service rate was 16.1% of pay and the contribution to address the deficit was 7.5% of pay, leading to a total average contribution of 23.6% of pay, as against 21.1% of pay at the 2010 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 a 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 has to be increased to maintain the contribution towards the deficit.

In practice, the Fund manages this issue by setting most deficit contributions as a cash sum to maintain their value and ensure recovery.

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, which is contained in this Report and Accounts, and in the Funding Strategy Statement and the Actuary's Valuation Report which are available on the Fund's website at **www.twpf.info**

Previous versions of the Funding Strategy Statement are available on request by emailing **pensions@twpf.info**

TYNE AND WEAR PENSION FUND

STATEMENT OF THE ACTUARY FOR THE YEAR ENDED 31 MARCH 2015

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 & Wear Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates.

The latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

ACTUARIAL POSITION

1 The valuation as at 31 March 2013 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 £5,432.3M) covering 81% of the liabilities in respect of service prior to the valuation date allowing, in the case of 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 1 April 2014 was:

- 16.1% 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.

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 22 years from 1 April 2014, amounting to £64.1M in 2014/15, and increasing by 3.9% p.a. thereafter.

3 In practice, each individual employer's position is assessed separately and contributions are set out in the certificate attached to Aon Hewitt Limited's report dated 28 March 2014 (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 was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer, is set out in the actuarial valuation report.

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.

Discount rate for periods in service **Scheduled Bodies** **Admission Bodies**	 5.15% p.a. 5.1% p.a.
Discount rate for periods after leaving service **Scheduled Bodies** **Admission Bodies**	 5.15% p.a. 3.7% p.a.
Rate of inflationary pay increases (additional allowance made for promotional increases)	3.9% p.a.
Rate of increase to pension accounts	2.4% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% p.a.

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, 31 March 2013. 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 1 April 2014 to 31 March 2017 were signed on 28 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8 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.

9 This Statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, 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 31 March 2013. 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 Hewitt Limited 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.

10 The actuarial valuation report is available on the Fund's website at the following address:

http://www.twpf.info/article/11978/Fund-Valuation-Reports

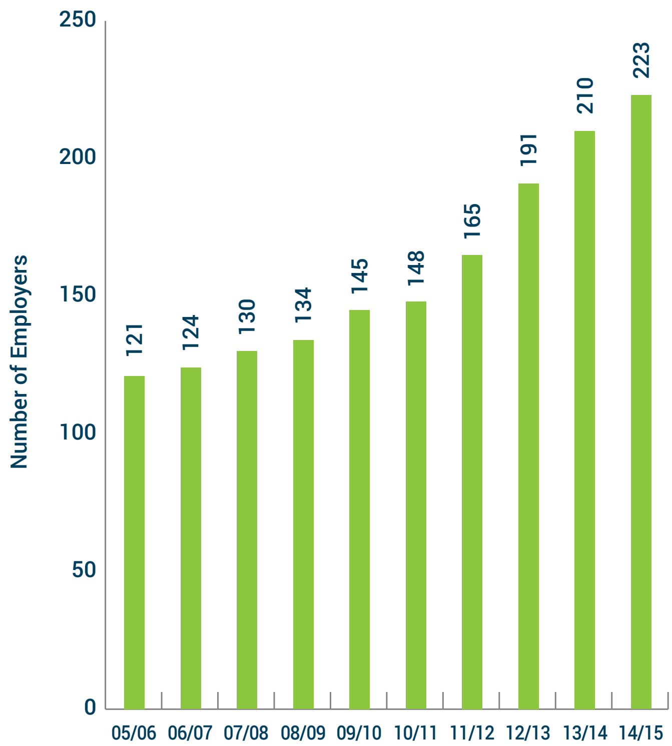
Aon Hewitt Limited
30 April 2015

MEMBERSHIP OF THE FUND

As at 31st March 2015, there were 223 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.

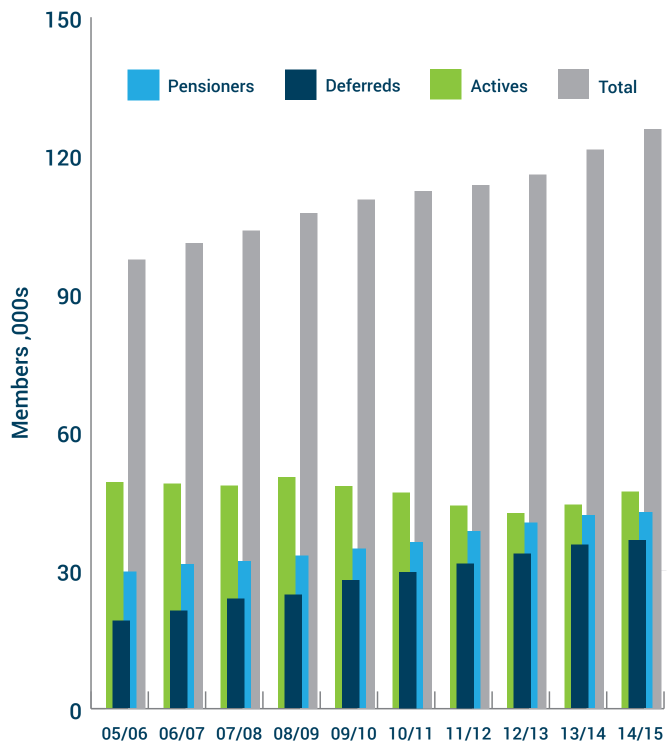


The Fund had 125,736 members as at 31st March 2015.

The total and those below for earlier years exclude 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 2015 was 2,348 (2,261 as at 31st March 2014).

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

Whilst total membership has continued to increase, the number of active members peaked in 2008/09. The Fund has since seen an increase in deferred and pensioner members and a decrease in active membership.



Auto enrolment has generated a small net increase in the number of active members. However, the full impact will not be known until 2017 as most of our large employers have exercised transitional delay for members who had previously opted out of the Scheme.

MEMBERSHIP ANALYSIS AT 31st MARCH 2015

DISTRICT COUNCILS	MEMBERS AT 31ST MARCH 2015			CONTRIBUTIONS RECEIVED IN RESPECT OF	
	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Gateshead Council	6,530	5,554	6,563	29,071	6,754
Newcastle City Council	7,572	6,452	8,963	39,438	9,272
North Tyneside Council	6,001	3,880	5,285	23,570	5,161
South Tyneside Council	4,101	4,273	4,495	19,508	4,258
Sunderland City Council	5,688	6,318	7,456	27,650	6,118
SUB TOTALS	**29,892**	**26,477**	**32,762**	**139,237**	**31,563**

SCHEDULE 2 PART 1 EMPLOYERS	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Academy 360	53	19	10	188	52
Aim High Academy Trust	30	1	0	60	15
All Saints Academies Trust	27	0	1	36	9
Barnes Academy Trust	32	0	0	39	10
Barnwell Academy Trust	42	1	0	102	25
Benedict Biscop Church of England Academy	16	6	0	24	11
Biddick Academy Trust	56	10	2	204	57
Brighter Academy Trust	66	3	2	206	53
Cardinal Hume Catholic School	38	8	4	130	48
Castle View Enterprise Academy	56	27	2	101	40
City of Sunderland College	278	377	197	1,090	328
Dayspring Trust	35	5	0	143	35
Diamond Hall Infant Academy	32	3	0	60	17
Discover Learning Trust	88	9	6	284	71
Discovery Learning Limited	2	0	0	16	5
East Herrington Primary Academy	34	9	2	80	18
Eppleton Academy Primary School	13	2	1	22	6
Former North East Regional Airport	0	0	14	0	0
Former Tyne and Wear County Council	0	29	256	0	0
Former Tyne and Wear Residiary Body	0	1	30	0	0
Fulwell Infant School Academy	31	2	0	64	15
Gateshead College	365	337	124	1,507	487
Gateshead Housing Company	309	175	114	1,029	433
Gosforth Federated Academies Limited	101	34	5	354	89
Grasmere Academy	16	1	1	39	8
Grindon Hall Christian School	17	1	1	40	18
Holley Park Academy	24	1	1	46	14
Holy Trinity Church of England Academy (South Shields) Trust	12	0	0	39	10
Houghton Kepier Sports College Academy Trust	60	9	4	191	60
Inspire Multi Academy Trust	63	8	2	166	43
Joseph Swan Academy	49	23	1	113	60
Kenton Schools Academy Trust	170	43	1	405	153
Kibblesworth Academy	24	4	0	32	8
Lord Lawson of Beamish Academy	48	13	4	166	52

SCHEDULE 2 PART 1 EMPLOYERS	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Monkton Infants School	13	0	0	36	8
Monkton Junior School	6	0	0	16	4
Monkwearmouth College	0	1	3	0	0
Newcastle College	1,339	1,390	322	2,859	1,188
Newcastle Education Action Zone	0	2	2	0	0
North Tyneside College	0	51	26	0	0
North View Academy Trust	13	0	0	51	10
Northumberland Magistrates Courts	0	29	79	0	0
Northumbria Police Authority	0	1,184	1,360	44	27
Northumbria University	1,694	1,241	1,003	8,585	2,722
Police and Crime Commissioner for Northumbria	9	133	28	0	1
Red House Academy	0	15	4	84	28
Redby Primary Academy	0	5	1	43	10
Riverside Primary Academy	22	4	1	48	12
Ryhope Infant School Academy	26	0	0	36	8
Sacred Heart Catholic High School	55	17	3	188	45
South Tyneside College	194	202	222	872	236
South Tyneside College Academy Trust	20	0	0	30	10
South Tyneside Education Action Zone	0	1	1	0	0
South Tyneside Homes	599	212	194	2,772	942
Southmoor Academy	39	3	2	178	46
St Aidan's Education Trust	49	10	3	153	35
St Anthony's Girls' Catholic Academy	42	10	2	140	35
St Cuthbert's Catholic High School	42	10	3	128	29
St Joseph's Catholic Education Trust	73	13	5	342	75
St Mary's Catholic School Trust	52	6	2	105	27
St Thomas More Roman Catholic Academy	54	6	4	239	53
Sunderland Education Action Zone	0	0	1	0	0
The Ascent Academies Trust	149	19	9	420	107
The Cedars Academy Trust	34	7	1	99	25
The Chief Constable for Northumbria	1,790	67	30	7,327	2,633
The Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority	1	26	93	6	2
The Laidlaw Schools Trust	178	33	8	528	140
The Northern Education Trust	214	2	0	566	153
The St Thomas More Partnership of Schools	69	15	3	177	60
Trinity Academy Newcastle	46	0	0	27	7
Tyne and Wear Fire and Rescue Service	257	178	237	1,538	395
Tyne Metropolitan College	170	170	56	646	184
Tynemouth College	0	22	11	0	0
University of Sunderland	959	711	582	5,376	1,619
Wearmouth Learning Trust	85	1	0	182	46
Wearside College	0	4	7	0	0
West Newcastle Academy	17	1	0	8	5
Whickham School and Sports College	67	23	5	279	66
Whitburn Church of England Academy	53	9	9	187	45
Wise Academies	100	26	6	217	59
Woodard Academies Trust	47	0	0	166	48
Your Homes Newcastle	813	379	235	2,754	1,155
SUB TOTALS	**11,577**	**7,399**	**5,348**	**44,423**	**14,549**

SCHEDULE 2 PART 2 EMPLOYERS	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Birtley Town Council	0	2	4	0	0
Blakelaw and North Fenham Parish Council	0	0	0	0	0
Blue Square Trading Limited	0	7	5	97	0
Care and Support Sunderland Limited	0	9	2	383	114
Castle View Fitness Centre Limited	1	6	1	0	0
Charge Your Car (North) Limited	3	1	0	16	9
Learning World	0	6	1	0	0
Nexus	579	433	1,383	8,328	1,249
Northumbria University Nursery Limited	8	0	3	23	11
Sunderland Care and Support Limited (SCSL)	748	16	1	2,636	743
Sunderland Live Limited	40	0	1	116	22
The Intraining Group Limited	41	16	1	116	36
University of Sunderland London Campus Limited	5	0	0	5	2
SUB TOTALS	**1,425**	**496**	**1,402**	**11,721**	**2,185**

ADMITTED BODIES	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Age Concern Newcastle	12	35	54	135	15
Assessment and Qualification Alliance	0	3	9	0	0
Association of North East Councils	26	37	10	111	61
Azure Business Centres Limited	0	0	3	25	1
Balfour Beatty Living Places Limited	14	2	6	131	35
Baltic Flour Mills Visual Arts Trust	3	5	1	35	10
Bell Decorating Group Limited	1	0	0	0	2
Benton Grange School	0	0	7	0	0
Benwell Young Peoples Development Group	0	3	0	7	1
Brunswick Young Peoples Development Project	0	3	0	0	0
BT South Tyneside Limited	246	53	74	17	392
Bullough Contract Services	0	1	0	6	0
Bulloughs Cleaning Services	0	0	1	0	0
Byker Community Trust	6	0	0	37	19
Capita Symonds Limited	179	14	16	376	206
Carillion Integrated Services Limited	2	0	0	3	1
Carillion Services Limited (Jarrow School)	8	1	3	8	4
Carillion Services Limited (Lord Lawson Academy)	3	0	0	1	2
Carillion Services Limited (SSCS)	16	0	0	48	8
Catholic Care North East	0	17	26	0	0
CBS Outdoor Limited	0	2	0	0	0
Childcare Enterprise Limited	1	16	2	0	0
Churchill Contract Services Limited (Parkhead)	2	0	0	2	0
Cofely Workplace Limited (N Tyneside)	388	45	18	1,008	486
Cofely Workplace Limited (PB)	9	1	1	49	16
Compass Group UK and Ireland Limited	3	1	1	12	2
D B Regio Tyne and Wear Limited	486	74	88	3,167	1,071
Disability North	2	18	14	49	5
Gateshead Law Centre	0	10	4	0	0
Gentoo Group Limited	1,442	571	573	10,863	2,687
Groundwork South Tyneside and Newcastle	1	5	3	47	5
Hebburn Neighbourhood Advice Centre	0	3	1	0	0

ADMITTED BODIES	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Higher Education Funding Council For England	0	1	9	0	0
Information North (North Regional Library System)	0	0	3	0	0
Insitu Cleaning	5	4	2	0	1
International Centre for Life	8	6	9	207	51
Involve North East	6	5	0	41	10
Jarvis Accommodation Service Limited	0	3	3	0	0
Jarvis Workspace Facilities Management Limited	0	3	4	0	0
Kenton Park Sports Centre	3	10	1	8	2
KGB Cleaning And Support Services	24	0	1	28	3
Kier North Tyneside Limited	292	45	109	0	522
Lend Lease Facilities Management (EMEA) Limited	7	0	0	33	9
Lovell Partnership Limited	22	0	0	18	3
Mears Limited	177	7	31	100	341
Mitie Cleaning (North) Limited	0	1	0	0	0
Mitie PFI Limited (North Tyneside)	0	0	1	16	0
Mitie PFI Limited (Boldon School)	5	2	1	11	3
Morrison Facilities Services Limited 1	0	13	20	0	0
Morrison Facilities Services Limited 2	0	68	59	0	0
Morse	0	13	0	0	0
Museums Libraries and Archives North East	0	16	7	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 Healthy City Project	0	18	9	0	0
Newcastle International Airport	112	247	375	2,995	342
Newcastle Law Centre	1	13	3	15	2
Newcastle Tenants and Residents Federation (NTRF)	2	0	0	16	5
Newcastle Tenants Federation	0	3	2	0	0
Newcastle Theatre Royal Trust	141	49	30	359	95
Newcastle West End Partnership	0	2	0	0	0
Newcastle Youth Congress	0	1	1	0	0
No Limits Theatre Company	2	0	0	5	2
Norcare	0	1	1	0	0
Norland Road Community Centre	0	1	0	0	0
North Country Leisure	53	0	0	166	43
North East Innovation Centre	0	13	16	0	0
North East Regional Employers Organisation	5	3	8	107	14
North Tyneside City Challenge	0	3	1	0	0
North Tyneside Disability Advice	0	0	1	0	0
Northern Arts Association	0	24	20	0	0
Northern Council for Further Education	0	12	15	0	0
Northern Counties School for The Deaf	0	15	24	0	0
Northern Grid for Learning	3	4	4	42	6
Northumbria Tourist Board	0	17	19	0	0
One North East	0	0	8	0	0
Ouseburn Trust	0	1	0	0	0
Parsons Brinkerhoff	0	4	2	0	0
Passenger Transport Company	0	0	92	0	0

ADMITTED BODIES	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Percy Hedley Foundation	20	4	6	164	27
Port of Tyne Authority	0	0	1	0	0
Praxis Service	2	2	2	44	6
Property Management Intergrated Services and Employment Company	9	0	0	14	4
R M Education	0	3	3	0	2
Raich Carter Sports Centre	41	30	2	70	16
Robertson Facilities Management Limited	7	0	4	18	9
Robertson Facilities Management Limited (Newcastle Phase 2)	2	0	2	0	2
S S E Contracting Limited	12	8	15	104	22
Saint Mary Magdalene and Holy Jesus Trust	4	5	7	49	9
Saint Mary the Virgin Hospital	0	0	1	0	0
Scolarest (Newcastle Schools)	10	7	8	21	4
Scolarest PFI (Boldon School)	0	0	1	0	0
Search Project	1	1	2	17	2
Simonside Community Centre	1	2	0	2	1
Sita UK Limited (Gateshead)	1	0	0	4	1
Sita UK Limited (Sunderland)	7	0	0	24	6
Sodexo Limited	8	2	1	0	6
South Tyneside Football Trust	1	0	0	4	1
South Tyneside Victim Support	0	1	1	0	0
Stagecoach Services Limited	66	138	744	4,151	126
Sunderland City Training and Enterprise Council	0	31	36	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	3	0	0	8	2
Sunderland Streetlighting Limited	20	21	30	174	52
Taylor Shaw	0	4	2	0	0
The Ozanam House Probation Hostel Committee	34	19	10	149	42
Thomas Gaughan Community Association	0	2	0	0	0
TT2 Limited	38	21	38	184	99
Tyne and Wear Development Company Limited	0	20	10	0	0
Tyne and Wear Development Corporation	0	16	34	0	0
Tyne and Wear Enterprise Trust	0	15	24	119	0
Tyne and Wear Play Association	1	0	0	11	2
Tyne and Wear Small Business Service	0	10	13	0	0
Tyne Waste Limited	0	7	12	0	0
Tyneside Deaf Youth Project	0	2	1	0	0
Tyneside Training and Enterprise Council	0	30	40	0	0
Valley Citizens Advice Bureau	0	1	1	0	0
Walker Profiles (North East) Limited	0	25	5	0	0
Wallsend Citizens Advice Bureau	0	0	3	0	0
Wallsend Hall Enterprises Limited	0	3	3	152	0
Workshops for the Adult Blind	0	10	71	0	0
SUB TOTALS	**4,006**	**1,995**	**2,957**	**25,787**	**6,923**
GRAND TOTALS	**46,900**	**36,367**	**42,469**	**221,169**	**55,220**

PENSIONS ADMINISTRATION

INTRODUCTION

The Pension Service to our 126,000 members and 223 employers is provided by the Pensions Office, which is organised into five teams of experienced officers. The five teams comprise, between them, fifty full time equivalent posts.

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. Each administration team has ten 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 mail shots and runs meetings for employers. It is also responsible for maintaining the Fund's website (www.twpf.info). The Communications Team has thirteen 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 seven full time equivalent posts.

The approach to pensions administration is based around two main strategy documents, namely the Pensions Administration Strategy and the Communications Policy Statement.

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 2014/15.

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 funds work together more effectively in fulfilling their joint responsibilities in administering the Scheme.

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

The Statement is available on our website at **www.twpf.info** or **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. No recoveries were made under these powers during 2014/15.

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:

- A significant reduction in the number of data queries revealed by year end data exercises and when preparing data for the 2013 valuation. This has reduced the resources needed by the annual contribution posting exercise and, in turn, has allowed the earlier production of Annual Benefits Statements and Deferred Benefits Statements
- 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 pro-active approach to making policy decisions in respect of those matters requiring an employer's discretion.

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 and in other formats on request.

SERVICES TO MEMBERS

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

- We maintain the records of, and pay pensions to, 46,900 pensioner members of the Fund
- We maintain the records of 36,400 deferred members of the Fund
- We maintain the records of, and receive and reconcile contributions for, 46,900 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
- 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 calls from over 37,000 members in 2014/15
- We have a call back service for out of office hours and busy times
- We welcome personal callers and were visited by almost 1,000 members last year. An appointment is not necessary
- We provide a range of presentations that cover topics including induction, transferring between employers, midlife and pre retirement planning and leaving before retirement
- 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 97.1% of messages in 2014/15.

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.

The employers supply most member information and we work with them to ensure that members' records are up to date. We mailed out nearly 40,000 statements in September 2014 and were able to provide 97.8% of active members with a complete statement. This was down a little from the level of 99.8% achieved the previous year, with the fall being attributable to the material increase in workload from the new Scheme leaving less capacity to resolve queries.

We issued benefit statements to every deferred member for whom we held a current address and a complete record. About 33,000 statements were mailed out in July 2014.

COMMUNICATING THE NEW SCHEME TO MEMBERS

We have been participating in working groups set up by the Local Government Association to develop the Communication Strategy and materials for the new Scheme.

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

We have alerted members to the Scheme's national website at **www.lgps2014.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 have a programme of meetings to discuss issues related to administration and regulatory change
- We provide an online Employers' Guide to the administration 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 mail shots to advise all employers of developments.

ASSISTING EMPLOYERS WITH THE NEW LGPS 2014 SCHEME

We helped our employers prepare for the new Scheme by providing guidance notes, updates and links to material produced by the Local Government Association. We hosted employer training sessions in 2013/14 and in 2014/15. These were well attended and notes were circulated to all employers in the Fund.

We have updated our administration forms and our Employers' Guide has also been updated to reflect the changes.

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 Universal Pensions Management pension administration system since 2003. In 2008, we upgraded to the latest version of the system and in 2011 we completed the introduction and integration of the Civica pension payroll system.

The use of email, electronic communication and our website is an increasingly important 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**

Through our website, members 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 Statement of Investment Principles, the Corporate Governance Policy, the Communication Policy Statement and the Service Plan
- Links to other useful websites.

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

- Pensions Committee Reports
- Latest news and topical issues
- The Employers' Guide and templates of administration forms
- The pension records of their employees
- 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 mail shots 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.

The Universal Pensions Management system is being developed to improve the web access facilities for employers. This has allowed us to expand the interactive nature of the website. We have developed online employer web forms for high volume processes. In 2015/16, we will be increasing the number of processes available via web forms and bringing more employers on board. We intend to remove all paper by the end of the year.

We are currently working on online services for members. We intend to introduce facilities that will allow members to view their personal record, calculate estimates of their benefits and receive their annual statements.

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 and working hours. This has been piloted with a small number of large employers and is available to all employers. Further developments, including a system for members joining the Fund, are planned for 2015/16.

INTERNAL DISPUTES RESOLUTION PROCEDURES

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

The first stage of the IDRP 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 but in some cases it is an adjudicator appointed by the 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.

If members are still not satisfied after the IDRP has completed, then they have the option of referring the matter to the Pension Ombudsman.

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

In 2014/15, twenty seven disputes against decisions made by the Fund were considered under the IDRP procedure. These mostly concerned a complex interpretation of the Scheme Regulations. The Fund's decision was upheld in twenty four cases and the appeal was upheld in three cases.

IMPLEMENTATION OF THE NEW 2014 SCHEME

The new Scheme commenced on 1st April 2014.

The Regulations were due to be in place by April 2013 to allow a full year for systems programming and training by administering authorities and employers. However, these were seriously delayed and it was not until the publishing in March 2014 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014 that detailed work could begin.

The late release of the Regulations and associated guidance has severely impacted on systems development work and on processing. For an extended period, many processes had to be calculated manually until it was ensured that the new calculation suite accurately calculated member benefits in all possible scenarios.

At the time of writing, the majority of the calculations required for member related processes are signed off and fully functional. Work is continuing on the testing and implementation of the remaining individual calculations, together with the bulk calculation processes involved in the updating of member records with CARE accrual and the production of Annual Benefits Statements. Detailed work, involving the actuaries that work on the Scheme, has commenced on a common specification for the valuation extract that will be required for the 2016 valuation.

Inevitably, processing backlogs have arisen. Pensions processing has been prioritised to ensure that urgently required or high impact processing, for both members and employers, is addressed promptly. This has meant that a backlog has built up of lower priority work. A risk based action plan is in place to address the backlog.

In addition, there has been a consequential effect on other areas of work within the Pensions Office. For example, our Technical Team resources and those of our software supplier were heavily deployed on the new Scheme. This meant that the development of systems for online processing and passing of data referred to above, which when available will improve our efficiency and that of the employers, has been delayed.

Some less essential work has not been completed or has been deferred. As an example, it has been our practice to survey the employers and members each year to help us to deliver a service that suits their needs. The resources to carry out this work were not available in 2014/15.

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.

ADMINISTRATIVE MANAGEMENT PERFORMANCE

INTRODUCTION

The Pensions Service participates in the Chartered Institute of Public Finance & Accountancy (CIPFA) Pensions Administration Benchmarking Club.

Each year, the Service completes a detailed questionnaire containing a breakdown of costs between core pensions administration and other functions 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 2014 CIPFA BENCHMARKING CLUB REPORT

The latest Club Report was issued in September 2014. This compares the performance of the Pensions Service in 2013/14 with 49 other local authorities that administer the Scheme.

The key benchmark for Pensions Administration is the cost per member of administering the Scheme. The Pensions Service cost for 2013/14 was £18.67 per member, compared to the average cost of £20.75 per member.

The comparative unit costs for 2012/13 were £18.68 per member, compared to the average cost of £21.42 per member.

The membership total used by the Benchmarking Club includes preserved refunds.

The table below analyses our cost per member compared with the average cost for the Club.

COST PER MEMBER	PENSIONS SERVICE £	AVERAGE £
Staff	7.50	8.87
Payroll	1.40	1.97
Direct Costs (including Audit, Communications and Actuarial Costs)	2.95	3.95
Overheads (including IT, Accommodation and Central Charges)	6.87	5.91
Income	-0.05	-0.27
Net Cost Per Member	**18.67**	**20.75***

* the difference between the average total and the sum of the sub averages is due to rounding and control methods applied by CIPFA.

The number of members managed by the Service per full time equivalent staff member was 4,202. The equivalent figure for the Club was 4,160.

The annual cost to the Pensions Service of employing a full time equivalent member of staff was £31,497, compared to the Club average of £31,133.

The comparative costs for 2012/13 were £30,138, compared to the Club average £33,308.

The Pensions Service has had very low staff turnover in recent years, leading to most of our pensions officers having fully completed their training and being at the top of their career grade. Whilst this has a cost implication, the high levels of knowledge and experience provide additional flexibility that allows the Service to cope better with unusual workflow patterns and increases in work.

UNIT COSTS FOR 2014/15

The Fund level unit costs for the year to 31st March 2015 are shown below:

	COST £m	MEMBERSHIP	COST PER MEMBER £
Pensions Administration	2.317	128,084	18.09
Investment Management Expenses	54.992	128,084	429.34
Oversight and Governance Costs	0.785	128,084	6.13
Total	**58.094**	**128,084**	**453.56**

The comparable unit costs for the year to 31st March 2014 were:

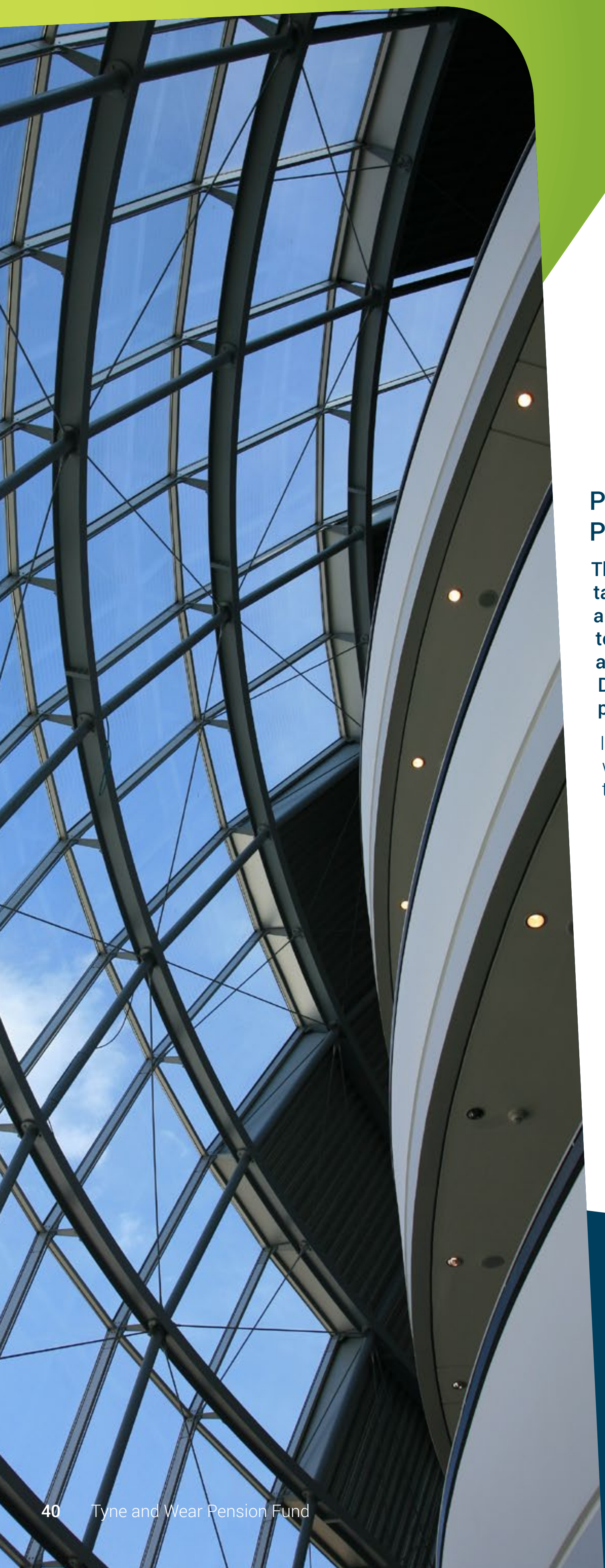
	COST £m	MEMBERSHIP	COST PER MEMBER £
Pensions Administration	2.369	123,556	19.17
Investment Management Expenses	55.421	123,556	448.55
Oversight and Governance Costs	0.884	123,556	7.15
Total	**58.674**	**123,556**	**474.87**

It should be noted that the Benchmarking Club data excludes certain administrative costs, for example the Past Service Deficiency element of employer contributions. This explains why the Pensions Administration costs per member shown in the table above for 2013/14 differ from the Club figures.

AGE PROFILE OF FUND MEMBERSHIP AT 31ST MARCH 2015

	MEMBERSHIP TYPE					
AGE BAND	ACTIVE	DEFERRED	PENSIONER	BENEFICIARY	PRESERVED REFUND	TOTAL
<20	634	74	0	241	6	955
20-24	2,000	694	0	64	35	2,793
25-29	3,454	2,616	0	3	89	6,162
30-34	4,568	4,040	2	8	209	8,827
35-39	4,925	4,093	17	24	337	9,396
40-44	6,036	4,966	65	34	403	11,504
45-49	7,452	6,257	258	88	404	14,459
50-54	8,415	7,142	601	195	377	16,730
55-59	6,262	5,482	3,076	292	288	15,400
60-64	2,639	922	8,389	489	156	12,595
65-69	448	71	9,706	766	31	11,022
70-74	67	8	5,684	748	10	6,517
75-79	0	2	4,213	1,015	1	5,231
80-84	0	0	2,565	1,002	1	3,568
85-89	0	0	1,300	709	1	2,010
>89	0	0	514	401	0	915
Total	**46,900**	**36,367**	**36,390**	**6,079**	**2,348**	**128,084**

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 FOR 2014/15

The Pensions Service monitors pensions 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 2014/15, 43.5% of measured processes were completed in line with the Disclosure Regulations. This figure is significantly lower than the figures of 70% to 75% that have typically been achieved in recent years. This is due to the late release of the new Scheme Regulations and associated guidance, which resulted in both the Pension Service and the employers beginning the year without fully configured systems. This has led to delays in processing and significant levels of time consuming manual processing.

In addition, lack of familiarity with the new Scheme's data requirements has resulted, in many cases, in delayed and poorer quality data from employers. This has also impacted negatively on processing.

Such problems impact in particular on the performance of large, multi-employer schemes with 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 £6,500, which is an increase from the previous maximum of £5,000. 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. 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.

THE PRUDENTIAL

The Fund has an AVC plan arranged with The Prudential Insurance Company (The Prudential) that offers a comprehensive range of seventeen funds.

Regular meetings are held with The Prudential to discuss the running of the plan. The Prudential works with the Fund's employers to provide educational seminars to members.

The Fund carries out an annual review of the AVC provision. The 2014/15 review was undertaken in February 2015 by Hymans Robertson.

The review considered the fund range and the impact of the new charging structure introduced by The Prudential in August 2012. 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 continue to monitor the position.

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 The Prudential.

A 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.

EQUITABLE LIFE PAYMENT SCHEME

As part of the 2010 Spending Review, the Government announced that £775 million would be made available for distribution to policyholders who had suffered a relative loss. The Independent Commission on Equitable Life payments was set up and was asked to provide advice on how the amount should be allocated fairly. The Commission published its final report in January 2011.

The Government published a document entitled "Scheme Design for Parliamentary Review". This set out the design of the compensation scheme, including the allocation to members within group schemes.

The Equitable Life Payment Scheme was set up by the Government to make payments to policyholders. Payments to individual investors commenced in June 2011, with group scheme members being dealt with by an extended deadline of mid 2015.

In July 2013, the Fund supplied Equitable Life with all the required information and contact details to enable payments to be made. It is understood that Equitable Life has contacted all eligible members and provided details of the value of their payment and how it would be paid.

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.

THE 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 includes 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 strategy in place at the beginning of 2014/15 was based largely on an asset liability study carried out in 2007/08 using the liability data from the 2007 valuation. Implementation of the strategy was delayed until 2010 due to poor market conditions in 2008 and 2009.

An asset liability study was carried out in 2013/14 using the liability data from the 2013 valuation. Analysis of the results continued into 2014/15.

It was concluded that:

- The existing strategy was largely suitable
- A 4% shift from UK to overseas equities should be implemented
- The allocation to passively managed equities should be increased at the expense of the allocation to actively managed equities. After further analysis, this was confirmed as a 9% shift from active equities into a global, passively managed fund benchmarked against a fundamental index.

Following a market testing exercise and a detailed consideration of possible trading strategies, these changes are being implemented through 2015/16.

When the trading is complete, the Fund's allocation to passive strategies will be 27%, comprised of 25% in equities and 2% in bonds.

The current strategy is to invest 66% in equities, 19% in bonds and cash, 12.5% in property and 2.5% in infrastructure. Within this strategy, there is a 7.5% allocation to private equity and an overlay of up to 1% that provides exposure to active currency positions.

In 2012, it became apparent that the structure of the UK property portfolio could lead to below benchmark returns for a number of years. The Fund reviewed the approach to investment and began a restructuring of the portfolio. This was commenced in 2012/13 and has continued into 2015/16.

Limited, tactical changes were implemented to the Fund's bonds investments in 2013 in the light of concerns over the long term prospects for government bonds.

This included:

- Switching an investment in a UK gilt based fund into a total return bond fund
- A partial switch of a UK index linked investment into Emerging Markets bonds, denominated in local currencies.

These positions have remained in place throughout 2014/15.

An initial approach to de-risking the Fund has been implemented 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 ten 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
Legal and General	Indexation - UK Equities - Europe ex UK Equities - US Equities - Emerging Market Equities - UK Index-Linked Gilts - Emerging Markets Bonds
JP Morgan	Global Equities Emerging Market Equities
Sarasin	Global Equities
UBS	Pan European Equities
BlackRock	UK Equities
Mirabaud	UK Equities
Lazard	Japanese Equities
TT International	Asia Pacific ex Japan Equities
M&G	Corporate Bonds
Henderson	Bonds

PROPERTY

The 12.5% strategic allocation is comprised of 8% to UK direct property and 4.5% to global property.

The UK mandate is managed by Aberdeen Property Investors. This was valued at £303.0 million at the year end, representing 4.8% of the Fund. The underweight position is attributable to a net disinvestment in 2013/14, following the review of the mandate, and a slow pace of reinvestment which is due to concerns over pricing.

The 4.5% strategic allocation to global property was set in 2010 and has been built up to the target level through investment into funds provided by Partners Group. This programme includes fund of funds, direct and secondary investments.
This programme was valued at £310.8 million, or 4.9% of the Fund, 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 is to be provided largely through investment in funds offered by Partners Group. This will allow the Fund to diversify the programme globally and by industry and financing type.

At the year end, the total investment was valued at £140.0 million, representing 2.2% of the Fund. It is expected that the 2.5% strategic allocation will be achieved in 2015/16.

PRIVATE EQUITY

The Fund began its private equity programme in 2002 with a target allocation of 5%. This was increased to 7.5% from 2008/09.

The programme is now 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, Coller Capital and HarbourVest, and into direct funds managed by HarbourVest, Capital International, Partners Group and Lexington.

At the year end, £572.7 million was invested in private equity, equal to 9.0% of the Fund. The overweight position is attributable to the growth in the Fund value being slower than projected following the global financial crisis.

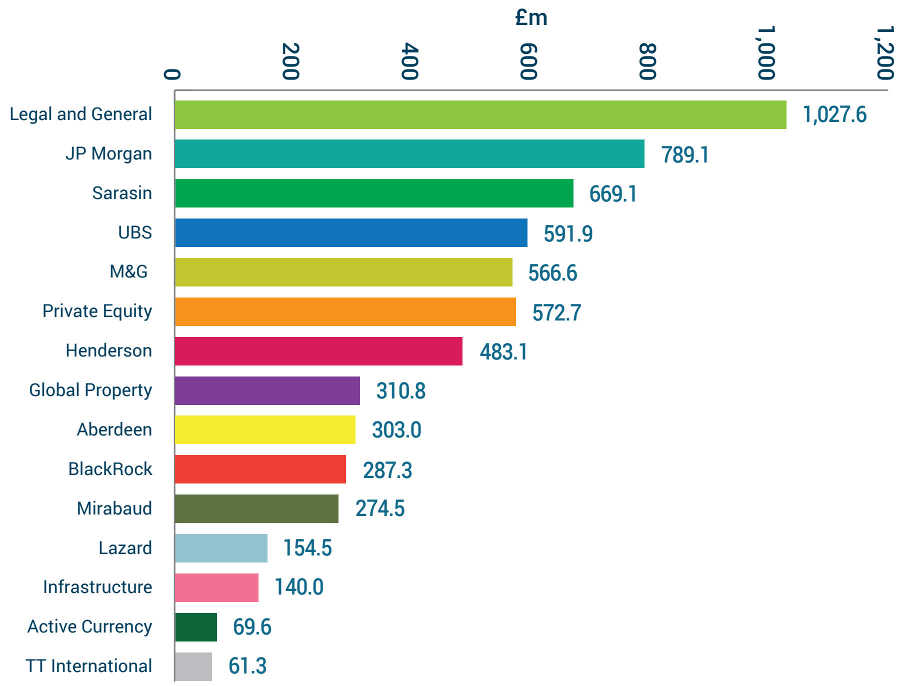
ACTIVE CURRENCY

The Fund initially allocated 3% to active currency strategies, which was held in four investments.

The Fund has kept this allocation under review in the light of the overall returns moving materially below benchmark from the time of the global financial crisis. A decision was taken in 2011/12 to reduce temporarily one of the four investments until market conditions improved for that strategy. A further investment was terminated early in 2014/15. At the year end, the value of the two remaining investments was £69.6 million, or 1.1% of the Fund.

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 2009.

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 Prices 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 J-curve and mature.

A total return target is in place for part of the fixed interest investment.

CUSTODY

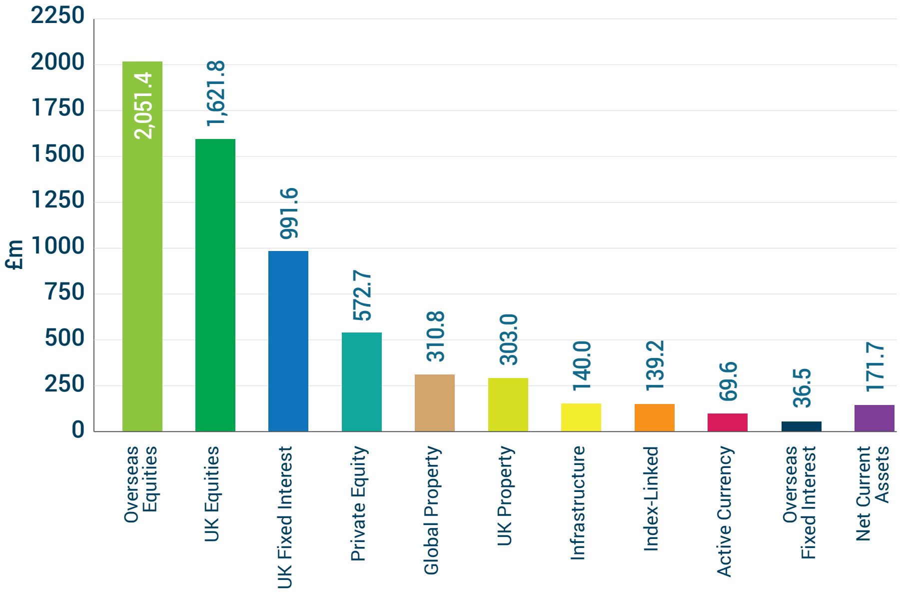
Northern Trust was appointed in 2002 to provide custody services for certain of the Fund's segregated mandates. The remit was then widened from 2005 to cover all segregated assets. The service has been market tested and benchmarked regularly to ensure that it remains competitive, the latest review being carried out during 2014/15. As at March 2015, Northern Trust was providing custody for approximately £2.9 billion of assets held in six mandates.

ASSET ALLOCATION

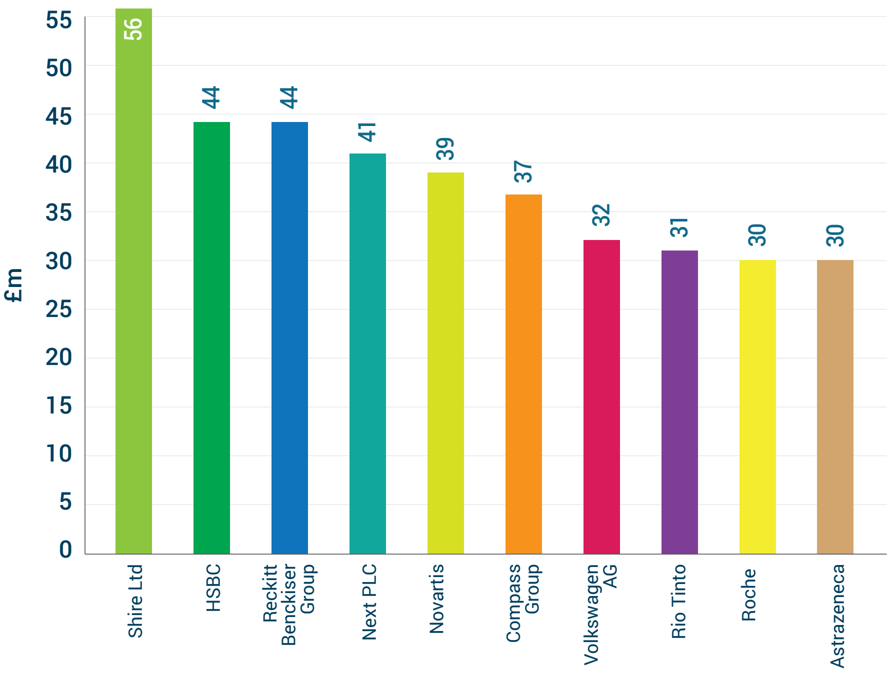
The asset allocation is maintained within pre-determined ranges around the strategic benchmark. Action is taken to bring the Fund back within range when a breach occurs. Legal and General provide management information that assists with this process.

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 2015 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. A hybrid benchmark is used for periods that extend earlier than this date. This is based on a median return up to and including periods ending on January 2002 and on the strategic benchmark thereafter.

The Fund reviewed its approach to measuring private equity performance during 2012/13 and moved from a benchmark based on a global equity index to an absolute return benchmark of 8% per annum net of fees. This change has been backdated to the start of the private equity programme and has led to small changes to the historic performance numbers.

MARKET CONDITIONS AND INVESTMENT RETURNS FOR 2014/15

There was a wide range of returns from the main asset classes during the year.

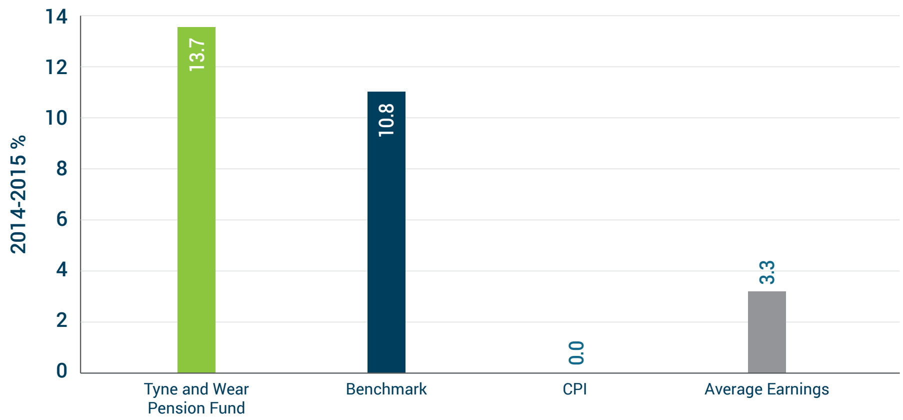
The strongest performing markets were Japanese equities with a return of 27.1%, followed by US equities at 26.5%.

The poorest performer was Cash, which returned only 0.4%.

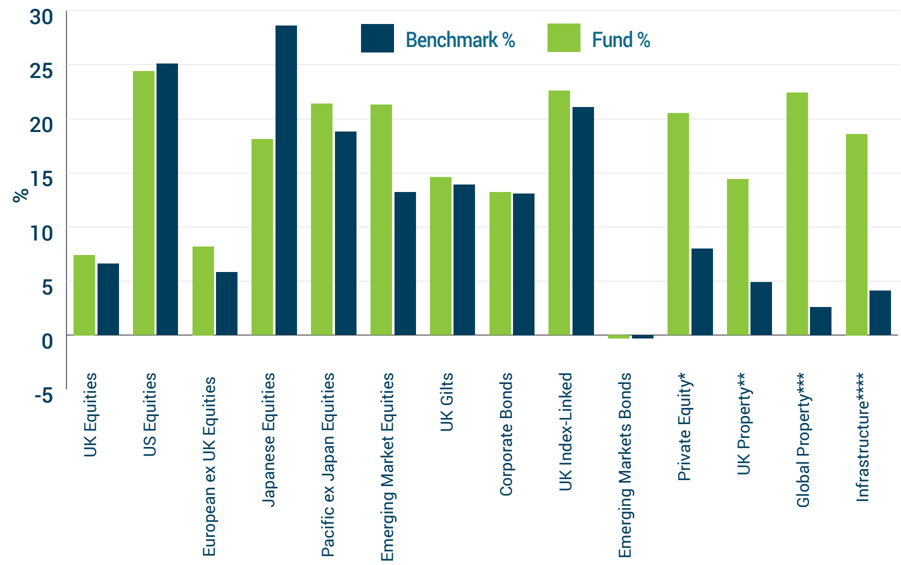
The return from UK equities is of particular importance to UK pension funds as a large proportion of their assets tend to be invested there. This market returned 6.6%.

The Fund's return in this year was 13.7%, which was 2.9% above its benchmark return of 10.8%.

Inflation as measured by the Consumer Prices Index, which has become the more important measure for the Scheme, was level for the year while Average Earnings increased by 3.3%.



The chart below shows the Fund's returns over the main investment markets for 2014/15.



* 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 Prices 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 outperformance for the year was due to good performance across a number of areas and managers but mainly from the alternatives programmes.

The returns from the passive strategies were satisfactory.

As noted earlier in this report, the return from the private equity programme is now 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 to the benchmark. It is believed that this approach reflects the approach to the valuation of the assets more appropriately than the use of an index based benchmark. The 20.5% return is ahead of the 8% benchmark and is in excess of the longer term return expected from global equities. Detailed discussions have been held with the managers and they believe that, overall, their funds are delivering good, long term performance.

The UK property market produced strong returns, leading to the Fund's portfolio delivering a return of 14.4% which was comfortably above its RPI based benchmark of 6.5%. This level of strong, relative performance is expected at times of strong market performance.

The global property and infrastructure programmes have similar characteristics to the private equity programme so the returns can be expected to be volatile in their early years.

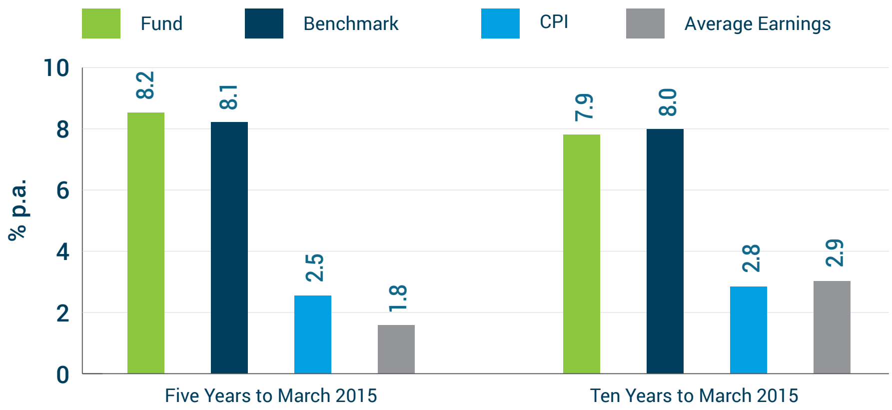
The global property programme was introduced in mid 2010 and is comprised of funds run by Partners Group. It outperformed its benchmark for the year. The programme is still in the early stages of development.

The infrastructure programme is a combination of funds run by Partners Group that were introduced from mid 2010 and earlier investments in direct funds managed by Infracapital and Henderson. The return is above benchmark at what is also an early stage in its development.

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.



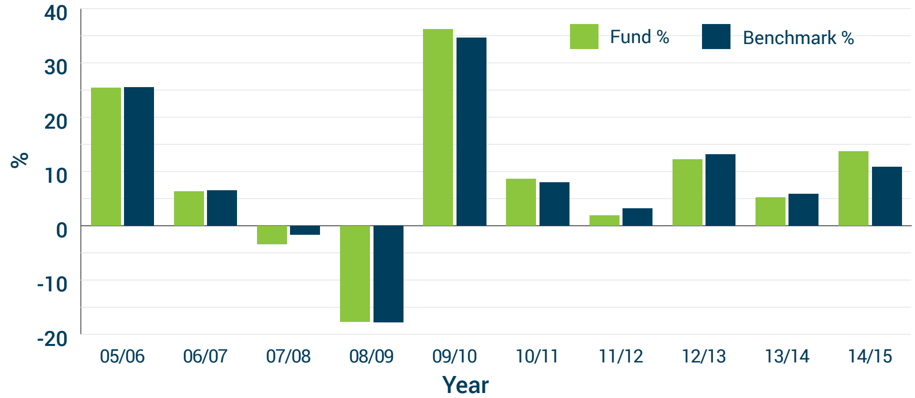
The five year return is 8.2% per annum, which is 0.1% above the benchmark return. The ten year return is 7.9% per annum, which is 0.1% below the benchmark return of 8.0% per annum.

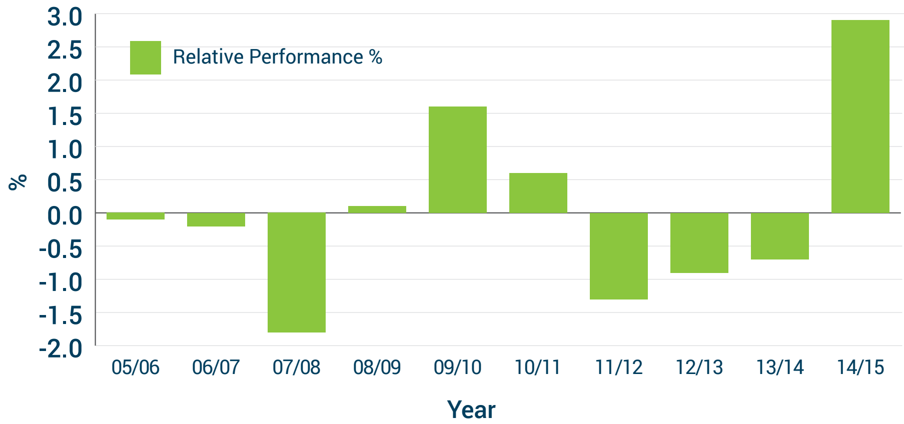
These returns are attributable in part to the volatile market conditions that have made it difficult for investment managers to apply a consistent strategy. Poor performance from the UK property portfolio has also detracted from returns.

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 relative performance was negative for the three year period to March 2008, due to poor performance from certain active equity managers and from the active currency managers, before improving and flattening out in 2008/09.

In the market recovery in 2009/10, the Fund outperformed and recovered some of the loss from earlier years.

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

The disappointing performance in 2011/12 and 2012/13 was 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.

Performance for 2014/15 has been discussed above.

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 2015.

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.

	THREE YEARS		FIVE YEARS	
FUND	FUND %	BENCHMARK %	FUND %	BENCHMARK %
UK Equities	10.8	10.6	8.8	8.3
US Equities	18.1	18.1	12.2	14.2
European ex UK Equities	12.0	13.5	3.2	4.5
Japanese Equities	11.0	13.1	9.2	10.2
Pacific ex Japan Equities	11.0	9.7	4.5	4.6
Emerging Market Equities	7.6	3.5	3.0	2.9
Bonds	7.5	6.8	7.8	7.6
UK Gilts	5.2	5.3	5.8	7.1
Corporate Bonds	9.4	8.7	8.3	8.0
UK Index-Linked	10.0	8.9	11.8	11.5
Private Equity*	13.2	8.0	12.1	7.0
UK Property**	2.6	4.6	3.0	6.2
Global Property***	11.8	1.0	***	***
Infrastructure****	7.9	4.1	8.1	3.7

* 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 Prices 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 Fund has not been invested in global property long enough to have a five year performance figure.

**** 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 Fund's performance for the three and five year periods was satisfactory due to outperformance in a number of areas and managers, but mainly from the alternatives programmes.

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 10.8% per annum against a benchmark of 10.6% per annum and the five year return was 8.8% per annum against a benchmark of 8.3% per annum.

The private equity returns of 13.2% per annum for three years and 12.1% per annum for five years are ahead of the consolidated benchmarks of 8% and 7% respectively.

The UK property portfolio produced poor returns against market based benchmarks and its Retail Prices Index based benchmark over the three 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 performance is strong against the absolute return based benchmark. The programme has not been running for a full five years and therefore no results are available for this period.

The infrastructure programme is a combination of funds run by Partners Group that were introduced from mid 2010 and earlier investments in direct funds managed by Infracapital and Henderson. The return is above the absolute return based benchmark for both the three and five year periods.

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 the Department for Communities and Local Government (CLG) and 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 CLG 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".

Each administering authority is 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. CLG stated that it would keep the guidance under review and would reissue it, as necessary, in the light of developments.

The Fund was fully compliant with the ten original Principles.

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 as follows:

PRINCIPLE 1 – EFFECTIVE DECISION MAKING	The Fund has a governance structure and Training Policy and Programme in place that ensures that: • Decisions are taken by persons with the skills, knowledge, advice and resources necessary to make them effectively and to monitor their implementation • There is the necessary expertise to evaluate and challenge advice, and manage conflicts of interest
PRINCIPLE 2 – CLEAR OBJECTIVES	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
PRINCIPLE 3 – RISK AND LIABILITIES	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
PRINCIPLE 4 – PERFORMANCE ASSESSMENT	Arrangements are in place for the formal measurement of performance of the investments, investment managers and advisors 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
PRINCIPLE 5 – RESPONSIBLE OWNERSHIP	The Fund: • Has adopted and requires its investment managers to adopt the principles contained in the UK Stewardship Code • Includes a statement on its policy on responsible ownership in its Statement of Investment Principles and Corporate Governance Policy • Reports annually to members on the discharge of such responsibilities
PRINCIPLE 6 – TRANSPARENCY AND REPORTING	The Fund's policy documents, in particular the Governance Compliance Statement, Communication Policy Statement and Statement of Investment Principles demonstrate how it: • Acts in a transparent manner, communicating with stakeholders on issues relating to the management of investments, its governance and risks, including performance against stated objectives • Provides regular communication to members

THE STATEMENT OF INVESTMENT PRINCIPLES

The Fund is required by Regulations to prepare and maintain a written Statement of Investment Principles (SIP) that sets out the decisions that have been taken on its investment policies.

The latest statement was approved by the Pensions Committee in June 2015.

It may be viewed on the Fund's website at **www.twpf.info/article/11843/Investments** or **www.twpf.info/CHttpHandler.ashx?id=12635&p=0**

The SIP 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 SIP to cover the policy on the following areas:

- The types of investments to be held
- The balance between different types of investments
- Risk, including the ways in which risks are to be measured and managed
- The expected returns on investments
- The realisation of investments
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- The exercise of the rights (including voting rights) attaching to investments, if there is such a policy
- Stock lending
- The extent to which the administering authority complies with guidance given by CLG (in relation to the Investment Principles), and, to the extent the authority does not comply, the reasons for not complying
- The exercise of any discretion by the administering authority to increase the limits on various types of investment.

The Pensions Committee ensures that the SIP is updated as the investment management structure is developed.

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 June 2015.

The Policy may be viewed on the Fund's website at **www.twpf.info/article/11843/Investments** or **www.twpf.info/CHttpHandler.ashx?id=12635&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 the UK pooled funds) for 2014/15 is shown below:

	GLOBAL EX UK	UK ONLY
Annual General Meetings	2,359	731
Extraordinary General Meetings	561	171
Resolutions	34,225	13,205
Votes For	29,178	12,883
Votes Against	4,591	300
Abstentions	173	21
Votes Not Cast	283	1

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

A resolution was opposed or there was an abstention on 5,085 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 over the appointment of auditors for reasons including independence and the period of appointment
- Concerns about a reduction in shareholders' rights, such as the issue of new shares without pre-emptive rights
- Concerns over the resolutions being proposed by shareholders.

The table shows that there were 284 resolutions where votes were not cast.

For 204 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.

A further 33 resolutions were not voted as the country practice requires the holdings to be re-registered prior to voting. Again, shareholders are reluctant to vote due to the time taken to re-register shares which may result in these shares being unavailable for sale.

A further 46 resolutions were not voted as they required the shareholder to hold a power of attorney before votes could be cast and this was not held at the time of the meeting.

The remaining resolution was not voted due to the manager not voting in error.

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.

The Fund is a member of the Local Authority Pension Fund Forum. This is a voluntary association of over sixty 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.

SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

The Fund's Statement of Investment Principles and Corporate Governance Policy cover the extent to which social, environmental and ethical considerations are taken into account in the 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 social, environmental and ethical 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 are invested on a passive basis. The passive manager is not required to take account of such issues in the 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.

FINANCIAL STATEMENTS

FUND ACCOUNT FOR THE YEAR ENDING

31st March 2014 Restated £m		Note	31st March 2015 £m
	Dealings With Members, Employers and Others Directly Involved in the Fund		
(284.491)	Contributions	6	(279.084)
(4.519)	Transfers In from Other Pension Funds	7	(3.317)
(289.010)	**Total Income**		**(282.401)**
251.495	Benefits Payable	8	247.698
10.077	Payments To and On Account of Leavers	9	114.036
261.572	**Total Costs**		**361.734**
(27.438)	**Net (Income)/Expenditure**		**79.333**
58.674	**Management Expenses**	10	**58.094**
	Returns on Investments		
(99.501)	Investment Income	11	(100.999)
4.097	Taxes on Income	11	3.837
(239.220)	Profits and Losses on Disposals of Investments and Changes in Market Value of Investments	12	(682.860)
(334.624)	**Net Returns on Investments**		**(780.022)**
(303.388)	**Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year**		**(642.595)**
5,432.341	**Net Assets of the Fund at 1st April**		**5,735.729**
5,735.729	**Net Assets of the Fund at 31st March**		**6,378.324**

NET ASSETS STATEMENT FOR THE YEAR ENDED

31st March 2014 £m		Note	31st March 2015 £m
5,723.149	Investment Assets	12	6,382.493
(9.677)	Investment Liabilities	12	(23.979)
37.519	Current Assets	15	28.686
(15.262)	Current Liabilities	15	(8.876)
5,735.729	**Net Assets of the Fund Available to Fund Benefits as at 31st March**		**6,378.324**

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. 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 25 and 26.

The actuarial present value of promised retirement benefits is disclosed at Note 27 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 2015 set out in pages 52 to 79 present fairly the financial position of the Tyne and Wear Pension Fund as at 31st March 2015 and its income and expenditure for the year ended 31st March 2015.

Stephen Moore
Head of Pensions
September 2015

Stuart Reid
Head of Finance
(Section 151 Officer)
September 2015

The financial statements were approved by the Pensions Committee at its meeting on 4th September 2015.

Councillor Eileen Leask
Chair of the Pensions Committee

NOTES TO THE 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. 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 Prices Index (CPI).

The Fund is governed by the Public Services Pensions Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

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 2015. Employers pay contributions based on triennial funding valuations carried out by the Fund's Actuary. The last valuation was at 31st March 2013.

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 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.

c) Investment Principles

The LGPS (Management and Investment of Funds) Regulations 2009 (as amended) 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 most recent Statement of Investment Principles at its meeting in June 2015. This can be viewed on the Fund's website using the link below.

http://www.twpf.info/CHttpHandler.ashx?id=12635&p=0

The Committee has delegated the management of the Fund's investments to external investment managers (see Note 17) which are appointed in accordance with the LGPS (Management and Investment of Funds) Regulations 2009 (as amended). The managers' activities are specified in investment management agreements and are monitored on a quarterly basis.

d) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or to 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
- 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 in the following table. Further details on membership are available within this Annual Report.

31st March 2014		31st March 2015
210	Number of Employers Within the Fund	223
44,077	Active Members	46,900
41,778	Pensioners Receiving Benefits	42,469
35,440	Deferred Pensioners	36,367
121,295		**125,736**

2. BASIS OF PREPARATION

The financial statements summarise the Fund's transactions for the financial year 2014/15 and its position at year end as at 31st March 2015. The accounts have been prepared following the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (The Code), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK local government 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.

Following the publication of the Chartered Institute of Public Finance & Accountancy (CIPFA) guidance Local Government Pension Management Costs, the Fund has adjusted the way that it accounts for costs deducted directly from pooled funds by including such costs in Management Expenses.

This has resulted in new tables being included within the 2014/15 accounts and the relevant figures for 2013/14 being restated. Changes have been made to the levels of income and expenses and in the Change in Market Value of Investments in the Fund Account. A change has been made to the note on Investments. The notes on Administration Expenses and Investment Management Expenses have been removed and a new note has been introduced on Management Expenses. There has been no change to the increase in the Net Assets available for Benefits during the Year or the Net Assets of the Fund at 31st March figures on the Fund Account.

Changes to the accounting arrangements have led to the costs of Administrative and Investment Management Expenses being combined into Management Expenses in the Fund Account.

A resulting change to the accounting for expenses carried within pooled accounts has led to the new, combined Management Expenses figure for 2013/14 rising from £12.097 million to £58.674 million and the Change in Market Value of Investments figure rising from £192.643 million to £239.220 million.

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) Contributions

Normal contributions, from both employers and members, 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 2015 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 capital sums receivable in respect of members who have either joined or left the Fund during the financial year and have been calculated in accordance with the LGPS Regulations.

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.

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.

Movement in the Market Value of Investments

The figure included under the movement in the market value of investments is derived by taking the opening balance per asset class, and adjusting for purchases and sales during the year, as the closing value of each asset class has been agreed to third party sources, the change in market value is the difference between the adjusted figure and the closing value for each asset class.

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

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

As a result, expenses for 2013/14 have been restated to reflect the CIPFA Guidance. Management expenses have risen by £46.577 million from £12.097 million to £58.674 million to reflect fees and other expenses that have been deducted at source.

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 2015 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 31st March 2015. 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 asset are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined as follows:

Market Quoted Investments

Quoted securities have been valued at their bid price on 31st March 2015.

Pooled Investment Vehicles

Pooled investment vehicles have been included at either the bid price, where a bid price exists, or on the single unit price on 31st March 2015 as valued by the investment manager responsible for such vehicles.

Fixed Interest Securities

The value of fixed income investments excludes interest earned but not paid over at the year end. The interest earned has been accrued within investment income receivable.

Unquoted Investments

Unquoted investments have been valued with regard to latest dealings and other appropriate financial information as provided by the investment manager responsible for those investments.

Freehold and Leasehold Properties

The Fund's UK properties are shown as valued at 31st March 2015 by independent valuers appointed by the Fund. The valuers are Fellows of the Royal Institute of Chartered Surveyors (RICS) from Jones Lang LaSalle.

The market values are based on assumptions made in accordance with the Royal Institute of Chartered Surveyors Valuation Standards.

All work is carried out in accordance with the Professional Standards, Valuation Practice Statements and UK Valuation Standards contained in the RICS Valuation – Professional Standards (January 2014) published by the Royal Institution of Chartered Surveyors (the Red Book), by valuers who conform to the requirements thereof. Valuations may be subject to monitoring by the RICS. The valuations are undertaken by currently Registered RICS Valuers.

Valuations are prepared on the basis that the premises (and any works thereto) comply with all relevant statutory and EC regulations, including fire regulations, access and use by disabled persons, control and remedial measures for asbestos in the workplace, the Energy Performance of Buildings Directive and any applicable bylaws. All buildings are assumed to have Energy Performance Certificates.

Valuations do not take into account any rights, obligations or liabilities, whether prospective or accrued, under the Defective Premises Act 1972, or the Health and Safety at Work etc. Act 1974.

No depreciation is provided on freehold buildings or long leasehold properties, in accordance with the Royal Institute of Chartered Surveyors Valuation Standards.

The actual valuation of each property will only be known when the Fund sells the property on the open market.

h) 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 on 31st March 2015.

End of year investment and foreign currency balances have been converted into Sterling at the closing exchange rates on 31st March 2015.

i) Derivatives

Futures would have been valued at fair value. The fair value is the unrealised profit or loss of the current bid or offer price of the contract. The variation margin is the amount due to or from the broker for this unrealised profit or loss at the period end.

The fair value of forward currency contracts is based on exchange rates at the year end date and is determined as the gain or loss that would arise if the outstanding contracts were closed as at 31st March 2015.

j) 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.

k) 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 that are subject to minimal risk of changes in their valuations.

l) Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) 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 42(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) AVCs are not included in the accounts but are disclosed only as a note (Note 16).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Pension Fund liability is calculated triennially by the Actuary, in accordance with IAS19, whose report can be seen in Note 27. 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.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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 2015 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
PRIVATE EQUITY	Private equity 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 £572.448 million included for private equity investments. There is a risk that this could be under or over stated in the accounts
ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS	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 £7,514.5 million in Note 27 for the Actuarial Present Value of the Promised Retirement Benefits could be under or over stated in the note

6. CONTRIBUTIONS RECEIVABLE

31st March 2014 £m	By Category	31st March 2015 £m
(230.862)	Employers	(222.019)
(53.629)	Members	(55.384)
(284.491)	**Total Contributions Receivable**	**(277.403)**
0	Refund of Payroll Costs	(1.681)
(284.491)	**Total Contributions**	**(279.084)**

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

31st March 2014 £m	By Authority	31st March 2015 £m
(21.398)	South Tyneside Council (Administering Authority)	(23.766)
(147.815)	Other Metropolitan Councils	(147.034)
(70.923)	Other Part 1 Scheduled Bodies	(59.986)
(11.034)	Part 2 Scheduled Bodies	(13.906)
(33.321)	Admitted Bodies	(32.711)
(284.491)	**Total Contributions Receivable**	**(277.403)**
0	Refund of Payroll Costs	(1.681)
(284.491)	**Total Contributions**	**(279.084)**

31st March 2014 £m	By Type	31st March 2015 £m
(53.629)	Employees' Normal Contributions	(55.384)
(128.093)	Employers' Normal Contributions	(133.160)
(102.748)	Employers' Deficit Recovery Contributions	(88.859)
(0.021)	Employers' Augmentation Contributions	0
(284.491)	**Total Contributions Receivable**	**(277.403)**
0	Refund of Payroll Costs	(1.681)
(284.491)	**Total Contributions**	**(279.084)**

The Refund of Payroll Costs relates to a group transfer of pensioners into the Greater Manchester Pension Fund. For a period of time after the date of the transfer, the Fund paid the payroll costs and was reimbursed for this on a monthly basis.

7. TRANSFERS IN

During the year, individual Transfers In from other schemes amounted to £3.317 million (£4.519 million in 2013/14). There was no income relating to bulk Transfers In to the Fund in 2014/15 or 2013/14.

A group of employees, deferred and actual pensioners transferred to the Fund from Worcestershire Pension Fund during the year in relation to the transfer of Kidderminster 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 2014 £m	By Category	31st March 2015 £m
208.200	Pensions	217.297
48.966	Commutations and Lump Sum Retirement Benefits	35.565
5.539	Lump Sum Death Benefits	6.030
(11.210)	Recharges out	(11.194)
251.495	**Total Benefits Payable**	**247.698**

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

31st March 2014 £m	By Authority	31st March 2015 £m
23.296	South Tyneside Council (Administering Authority)	23.928
158.821	Other Metropolitan Councils	153.565
36.893	Other Part 1 Scheduled Bodies	36.565
7.552	Part 2 Scheduled Bodies	7.792
24.933	Admitted Bodies	25.848
251.495	**Total Benefits Payable**	**247.698**

9. LEAVERS

31st March 2014 £m		31st March 2015 £m
9.228	Individual Transfers to Other Schemes	6.140
0.030	Refunds to Members Leaving Service	0.244
0.825	Group Transfers	107.647
(0.006)	State Scheme Premiums	0.005
10.077	**Total Leavers**	**114.036**

There was one bulk Transfer Out of the Fund in 2014/15 in respect of the transfer of the Probation Trust liabilities and assets to the Greater Manchester Pension Fund. In 2013/14, there was one transfer out to Bristol City Council from Newcastle College.

10. MANAGEMENT EXPENSES

The LGPS (Management and Investment of Funds) Regulations 2009 permit costs incurred in connection with the administration of the Fund to be charged against the Fund. A breakdown of the costs is set out below.

Employee expenses have been charged to the Fund on a time basis. 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 2014 £m		31st March 2015 £m
2.369	Administrative Costs	2.317
55.421	Investment Management Expenses	54.992
0.884	Oversight and Governance Costs	0.785
58.674	**Management Expenses**	**58.094**

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 2014 £m		31st March 2015 £m
31.901	Management and Custody Fees	29.151
14.850	Performance Fees	17.013
5.179	Transaction Costs	5.148
3.491	Expenses Charged Within Pooled Vehicles	3.680
55.421	**Investment Management Expenses**	**54.992**

These costs include indirect costs which are incurred through the bid-offer spread on investments sales and purchases and costs deducted directly from pooled funds and alternative investments before investment income is sent to the Fund, but 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 2014 £m		31st March 2015 £m
(1.515)	Fixed Interest Securities	(1.957)
(67.921)	Equities	(64.450)
(0.351)	Index-Linked Securities	(0.362)
(11.298)	Pooled Investment Vehicles	(16.948)
(17.703)	Net Rents from Properties	(16.158)
(0.230)	Cash Deposits	(0.348)
(0.463)	Securities Lending	(0.750)
(0.003)	Commission Recapture	(0.002)
(0.017)	Underwriting Commission	(0.024)
(99.501)	**Sub-Total**	**(100.999)**
4.097	Non-Recoverable Tax	3.837
(95.404)	**Total Investment Income**	**(97.162)**

NET RENTS FROM PROPERTIES

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

31st March 2014 £m		31st March 2015 £m
(21.492)	Rental Income	(15.610)
3.789	Direct Operating Expenses/(Income)	(0.548)
(17.703)	**Net Income**	**(16.158)**

12. INVESTMENTS

31st March 2014 £m		31st March 2015 £m
	Investment Assets	
51.221	Fixed Interest Securities	58.784
2,649.607	Equities	3,008.420
47.268	Index-Linked Securities	55.862
2,578.373	Pooled Investment Vehicles	2,824.214
1.709	Derivative Contracts	5.480
263.155	Properties	303.000
118.321	Cash Deposits	113.947
13.495	Other Investment Balances	12.786
5,723.149	**Total Investment Assets**	**6,382.493**
	Investment Liabilities	
(1.862)	Derivative Contracts	(2.713)
(7.815)	Other Investment Balances	(21.266)
(9.677)	**Total Investment Liabilities**	**(23.979)**
5,713.472	**Net Investment Assets**	**6,358.514**

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.

2014/15	Value at 31st March 2014 £m	Purchases at Cost & Derivative Payments £m	Sales Proceeds & Derivative Receipts £m	Change in Market Value £m	Value at 31st March 2015 £m
Fixed Interest Securities	51.221	300.869	(298.817)	5.511	58.784
Equities	2,649.607	1,233.694	(1,187.378)	312.497	3,008.420
Index-Linked Securities	47.268	141.897	(143.336)	10.033	55.862
Pooled Investment Vehicles	2,578.373	248.203	(323.232)	320.870	2,824.214
Properties	263.155	55.788	(38.955)	23.012	303.000
Derivative Contracts	(0.153)	6.743	(10.464)	6.641	2.767
	5,589.471	**1,987.194**	**(2,002.182)**	**678.564**	**6,253.047**
Cash Deposits	118.321	8.722	(17.460)	4.364	113.947
Other Investment Balances	5.680	1.111	(15.203)	(0.068)	(8.480)
Total Investments	**5,713.472**	**1,997.027**	**(2,034.845)**	**682.860**	**6,358.514**

2013/14 - Restated	Value at 31st March 2013 £m	Purchases at Cost & Derivative Payments £m	Sales Proceeds & Derivative Receipts £m	Change in Market Value £m	Value at 31st March 2014 £m
Fixed Interest Securities	48.294	213.521	(208.084)	(2.510)	51.221
Equities	2,451.632	1,355.589	(1,084.603)	(73.011)	2,649.607
Index-Linked Securities	49.704	178.247	(178.907)	(1.776)	47.268
Pooled Investment Vehicles	2,496.675	294.209	(517.598)	305.087	2,578.373
Properties	306.920	31.971	(97.118)	21.382	263.155
Derivative Contracts	3.063	14.048	(8.951)	(8.313)	(0.153)
	5,356.288	**2,087.585**	**(2,095.261)**	**240.859**	**5,589.471**
Cash Deposits	50.891	69.109	0.000	(1.679)	118.321
Other Investment Balances	5.669	3.420	(3.449)	0.040	5.680
Total Investments	**5,412.848**	**2,160.114**	**(2,098.710)**	**239.220**	**5,713.472**

31st March 2014 £m		31st March 2015 £m
	Fixed Interest Securities	
51.221	UK Public Sector	58.784
51.221	**Total Fixed Interest Securities**	**58.784**
	Equities	
834.884	UK Quoted	889.707
1,498.430	Overseas Quoted	1,739.893
316.293	Overseas Unquoted	378.820
2,649.607	**Total Equities**	**3,008.420**
	Index-Linked Securities	
47.268	UK Public Sector	55.862
47.268	**Total Index-Linked Securities**	**55.862**
	Pooled Investment Vehicles	
37.682	Unit Trusts	0.284
1,333.609	Unitised Insurance Policies	1,477.167
1,207.082	Other Managed Funds	1,346.763
2,578.373	**Total Pooled Investment Vehicles**	**2,824.214**
	Properties	
186.905	Freehold	258.500
76.250	Long Leasehold	44.500
263.155	**Total Properties**	**303.000**
	Derivative Contracts	
(0.153)	Forward Foreign Currency Contracts	2.767
(0.153)	**Total Derivative Contracts**	**2.767**
	Cash Deposits	
107.606	Sterling	90.146
10.715	Foreign Currency	23.801
118.321	**Total Cash Deposits**	**113.947**
	Other Investment Balances	
(1.638)	Outstanding Trades	(15.984)
11.601	Outstanding Dividends & Tax Recoveries	11.749
1.894	Debtors	1.037
(6.177)	Creditors	(5.282)
5.680	**Total Other Investment Balances**	**(8.480)**
5,713.472	**Total Investments**	**6,358.514**

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Fund such as commissions, stamp duty, taxes, and professional fees associated with property developments and purchases.

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 (excluding cash) by category and Net Assets Statement heading. No financial assets have been reclassified during the financial year.

31st March 2014				31st March 2015		
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
			Financial Assets			
51.221	0	0	Fixed Interest Securities	58.784	0	0
2,649.607	0	0	Equities	3,008.420	0	0
47.268	0	0	Index-Linked Securities	55.862	0	0
2,578.373	0	0	Pooled Investment Vehicles	2,824.214	0	0
263.155	0	0	Properties	303.000	0	0
1.709	0	0	Derivative Contracts	5.480	0	0
0	118.321	0	Cash Deposits	0	113.947	0
11.601	0	0	Other Investment Balances	11.749	0	0
0	39.413	0	Debtors	0	29.723	0
5,602.934	**157.734**	**0**	**Total Financial Assets**	**6,267.509**	**143.670**	**0**
			Financial Liabilities			
(1.862)	0	0	Derivative Contracts	(2.713)	0	0
(1.638)	0	0	Other Investment Balances	(15.984)	0	0
0	0	0	Borrowings	0	0	0
0	0	(21.439)	Creditors	0	0	(14.158)
(3.500)	**0**	**(21.439)**	**Total Financial Liabilities**	**(18.697)**	**0**	**(14.158)**
5,599.434	**157.734**	**(21.439)**	**Total Assets**	**6,248.812**	**143.670**	**(14.158)**

b) Net Gains and Losses on Financial Instruments

31st March 2014 Restated £m		31st March 2015 £m
	Financial Assets	
240.899	Fair Value Through Profit and Loss	678.496
	Financial Liabilities	
(1.679)	Fair Value Through Profit and Loss	4.364
239.220	**Total**	**682.860**

c) Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and liabilities by class of instrument compared with their fair values:

31st March 2014			31st March 2015	
Carrying Value £m	Fair Value £m		Carrying Value £m	Fair Value £m
		Financial Assets		
4,516.515	5,591.333	Fair Value Through Profit and Loss	4,767.081	6,255.760
169.416	169.335	Loans and Receivables	157.565	155.419
4,685.931	**5,760.668**	**Total Financial Assets**	**4,924.646**	**6,411.179**
		Financial Liabilities		
0	(1.862)	Fair Value Through Profit and Loss	0	(2.713)
(23.077)	(23.077)	Financial Liabilities at Amortised Cost	(30.142)	(30.142)
(23.077)	**(24.939)**	**Total Financial Liabilities**	**(30.142)**	**(32.855)**
4,662.854	**5,735.729**	**Net Assets**	**4,894.504**	**6,378.324**

d) 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 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. Assets in this level are comprised of UK Property valued independently by professional valuers.

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.

Such instruments represent the Fund's private market investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The Fund's private market investments include private equity, private real estate and private infrastructure funds.

The values of the investments in private market funds are based on valuations provided by the investment manager of the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines and the valuation principles of IFRS and US GAAP. Valuations are undertaken on a mixture of a 31st March 2015 valuation and a 31st December 2014 valuation adjusted for cash flows and rolled forward to 31st March 2015 as appropriate.

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	
Value at 31st March 2015	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Financial Assets at Fair Value Through Profit and Loss	4,931.406	308.480	1,015.874	6,255.760
Loans and Receivables	155.419	0	0	155.419
Total Financial Assets	**5,086.825**	**308.480**	**1,015.874**	**6,411.179**
Financial Liabilities				
Financial Liabilities at Fair Value Through Profit and Loss	0	(2.713)	0	(2.713)
Financial Liabilities at Amortised Cost	(30.142)	0	0	(30.142)
Total Financial Liabilities	**(30.142)**	**(2.713)**	**0**	**(32.855)**
Net Financial Assets	**5,056.683**	**305.767**	**1,015.874**	**6,378.324**

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Value at 31st March 2014	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial Assets				
Financial Assets at Fair Value Through Profit and Loss	4,429.715	264.864	896.754	5,591.333
Loans and Receivables	169.335	0	0	169.335
Total Financial Assets	**4,599.050**	**264.864**	**896.754**	**5,760.668**
Financial Liabilities				
Financial Liabilities at Fair Value Through Profit and Loss	0	(1.862)	0	(1.862)
Financial Liabilities at Amortised Cost	(23.077)	0	0	(23.077)
Total Financial Liabilities	(23.077)	(1.862)	0	(24.939)
Net Financial Assets	**4,575.973**	**263.002**	**896.754**	**5,735.729**

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. In the 2013/14 accounts, the tables were a combination of a look through basis and a basis in accordance with accounting standards. In order to ensure that the risk analysis is applied consistently, all tables have been changed to a look through basis. This has resulted in some tables being restated from last year.

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 investment advisor, 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 2015/16 financial year.

Asset Type	Potential Market Movements (+/-) %
UK Equities	17.0
Overseas Equities	20.0
UK Bonds	12.0
Overseas Bonds	10.4
Index-Linked Securities	7.0
UK Property	15.0
Overseas Property	20.0
Private Equity	28.0
Infrastructure Funds	15.0
Active Currency	20.0
Cash	1.0

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 2015 £m	Percentage Change %	Value on Increase £m	Value on Decrease £m
UK Equities	1,621.791	17.0	1,897.495	1,346.087
Overseas Equities	2,051.427	20.0	2,461.712	1,641.142
UK Bonds	991.513	12.0	1,110.495	872.531
Overseas Bonds	36.519	10.4	40.317	32.721
Index-Linked Securities	139.197	7.0	148.941	129.453
UK Property	303.000	15.0	348.450	257.550
Overseas Property	310.825	20.0	372.990	248.660
Private Equity	572.709	28.0	733.068	412.350
Infrastructure Funds	139.985	15.0	160.983	118.987
Active Currency	69.582	20.0	83.498	55.666
Cash and Cash Equivalents	127.679	1.0	128.956	126.402
Foreign Currency Contracts	2.767	0	2.767	2.767
Investment Income Due	11.749	0	11.749	11.749
Amounts Due for Sales	1.037	0	1.037	1.037
Amounts Payable For Purchases	(21.266)	0	(21.266)	(21.266)
Total	**6,358.514**		**7,481.192**	**5,235.836**

Asset Type	Value at 31st March 2014 £m	Percentage Change %	Value on Increase £m	Value on Decrease £m
UK Equities	1,573.518	17.0	1,841.016	1,306.020
Overseas Equities	1,706.639	19.0	2,030.900	1,382.378
UK Bonds	893.703	12.0	1,000.947	786.459
Overseas Bonds	36.616	10.4	40.424	32.808
Index-Linked Securities	115.977	7.0	124.095	107.859
UK Property	263.155	15.0	302.628	223.682
Overseas Property	246.775	20.0	296.130	197.420
Private Equity	547.931	28.0	701.352	394.510
Infrastructure Funds	108.358	15.0	124.612	92.104
Active Currency	92.740	20.0	111.288	74.192
Cash and Cash Equivalents	122.533	1.0	123.758	121.308
Foreign Currency Contracts	(0.153)	0.0	(0.153)	(0.153)
Investment Income Due	11.601	0.0	11.601	11.601
Amounts Due for Sales	1.894	0.0	1.894	1.894
Amounts Payable For Purchases	(7.815)	0.0	(7.815)	(7.815)
Total	**5,713.472**		**6,702.677**	**4,724.267**

The analysis in the previous two tables is on a look through basis. This differs from the analysis in Note 11 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 2015 and 31st March 2014 are set out below. These represent the interest rate risk based on underlying financial assets at fair value.

	At 31st March	
Asset Type	**2014 £m**	**2015 £m**
Cash and Cash Equivalents	122.533	127.679
Fixed Interest Securities	930.319	1,028.032
Index-Linked Securities	115.977	139.197
Total	**1,168.829**	**1,294.908**

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 Value at 31st March 2015	Change in Net Asset Values	
Asset Type	**£m**	**+1.0% £m**	**-1.0% £m**
Cash and Cash Equivalents	127.679	128.956	126.402
Fixed Interest Securities	1,028.032	1,038.312	1,017.752
Index-Linked Securities	139.197	140.589	137.805
Total	**1,294.908**	**1,307.857**	**1,281.959**

	Asset Value at 31st March 2014	Change in Net Asset Values	
Asset Type	**£m**	**+1.0% £m**	**-1.0% £m**
Cash and Cash Equivalents	122.533	123.758	121.308
Fixed Interest Securities	930.319	939.622	921.016
Index Linked Securities	115.977	117.137	114.817
Total	**1,168.829**	**1,180.517**	**1,157.141**

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 2015 and at 31st March 2014 (restated):

	Asset Value at 31st March	
Asset Type	**2014 Restated £m**	**2015 £m**
Overseas Fixed Interest	36.616	36.519
Overseas Quoted Equities	1,706.638	2,051.427
Overseas Unquoted Equities	316.293	378.820
Overseas Pooled Investment Vehicles	576.174	591.819
Forward Currency Contracts	(0.153)	2.767
Overseas Currency	10.715	31.461
Total	**2,646.283**	**3,092.813**

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%.

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.

	Value at 31st March 2015 Restated	Change in Net Asset Values	
Asset Type	**£m**	**+13% £m**	**-13% £m**
Overseas Fixed Interest	36.519	41.266	31.772
Overseas Quoted Equities	2,051.427	2,318.113	1,784.741
Overseas Unquoted Equities	378.820	428.067	329.573
Overseas Pooled Investment Vehicles	591.819	668.755	514.883
Forward Currency Contracts	2.767	3.127	2.407
Overseas Currency	31.461	35.551	27.371
Total	**3,092.813**	**3,494.879**	**2,690.747**

	Value at 31st March 2014 Restated	Change in Net Asset Values	
Asset Type	**£m**	**+13% £m**	**-13% £m**
Overseas Fixed Interest	36.616	41.376	31.856
Overseas Quoted Equities	1,706.638	1,928.501	1,484.775
Overseas Unquoted Equities	316.293	357.411	275.175
Overseas Pooled Investment Vehicles	576.174	651.077	501.271
Forward Currency Contracts	(0.153)	(0.173)	(0.133)
Overseas Currency	10.715	12.108	9.322
Total	**2,646.283**	**2,990.300**	**2,302.266**

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 Pensions 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.

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 at 31st March 2015 was £23.690 million (£76.630 million at 31st March 2014). The Fund sets its credit criteria in consultation with the Council's Treasury Management Advisor, Capita 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 Capita Asset Services listing of approved institutions.

The internally managed cash was held with the following institutions:

	Rating	Value as at 31st March 2014 £m	Value as at 31st March 2015 £m
Money Market Funds			
Federated	AAA	15.000	6.650
Insight	AAA	15.000	0
Goldman Sachs	AAA	14.000	0
Ignis	AAA	14.000	14.120
Deutsche Bank	AAA	2.400	0
Bank deposit accounts			
NatWest	A	1.230	2.920
Nationwide Building Society	A	15.000	0
Total		**76.630**	**23.690**

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 2015.

15. CURRENT ASSETS AND LIABILITIES

31st March 2014 £m		31st March 2015 £m
	Current Assets	
4.749	Contributions Due - Members	4.823
32.260	Contributions and Recharges Due - Employers	22.675
0.012	HM Revenue and Customs - VAT Refund	0
0.493	Investment Management Expenses	1.172
0.005	Other	0.016
37.519	**Total Current Assets**	**28.686**
	Current Liabilities	
(9.057)	Unpaid Benefits	(2.848)
(0.444)	Contributions, Recharges and Refunds Due - Employers	(0.467)
(2.318)	HM Revenue and Customs - Tax Deducted From Pensions	(2.439)
(3.417)	Investment Management Expenses	(2.664)
(0.026)	Other	(0.458)
(15.262)	**Total Current Liabilities**	**(8.876)**

Further analysis of debtors and creditors

Current assets can be further analysed, as follows:

31st March 2014 £m		31st March 2015 £m
0.012	Central Government Bodies	0
21.616	Other Local Authorities	13.729
0.005	NHS Bodies	0.016
15.677	Public Corporations and Other Trading Funds	10.396
0.209	Other Entities and Individuals	4.545
37.519	**Total Current Assets**	**28.686**

Current liabilities can be further analysed, as follows:

31st March 2014 £m		31st March 2015 £m
(0.552)	Central Government Bodies	(2.439)
(0.418)	Other Local Authorities	(0.467)
0	NHS Bodies	0
(7.376)	Public Corporations and Other Trading Funds	(2.664)
(6.916)	Other Entities and Individuals	(3.306)
(15.262)	**Total Current Liabilities**	**(8.876)**

16. 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 that arose 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. The Fund continues to monitor the position of the remaining investors with Equitable Life.

During 2014/15, £1.359 million of contribution income was received into the AVC funds provided by The Prudential (£1.337 million as at 31st March 2014). As at 31st March 2015, these funds were valued at £10.160 million (£9.039 million as at 31st March 2014).

During 2014/15, £0.001million of contribution income was received into the AVC funds provided by Equitable Life (£0.002 million as at 31st March 2014). As at 31st March 2015, these funds were valued at £0.095 million (£0.113 million as at 31st March 2014).

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

17. ANALYSIS OF INVESTMENTS OVER MANAGERS

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

31st March 2014			31st March 2015	
£m	**%**		**£m**	**%**
		Investment Managers		
263.155	4.6	Aberdeen Property Investors	303.000	4.8
257.162	4.5	BlackRock	287.258	4.5
444.336	7.8	Henderson Global Investors	483.117	7.6
657.518	11.5	JP Morgan Asset Management	789.120	12.4
128.777	2.3	Lazard Asset Management	154.535	2.4
935.464	16.4	Legal and General Investment Management	1,027.556	16.2
497.270	8.7	M&G Investments	566.600	8.9
261.563	4.6	Mirabaud Investment Management	274.535	4.3
579.640	10.1	Sarasin & Partners	669.107	10.5
50.883	0.9	TT International	61.286	1.0
551.063	9.6	UBS Global Asset Management	591.948	9.3
92.739	1.6	Active Currency	69.582	1.1
547.932	9.6	Private Equity	572.709	9.0
108.358	1.9	Infrastructure	139.985	2.2
246.775	4.3	Global Property	310.825	4.9
90.837	1.6	Managed In-House	57.351	0.9
5,713.472	**100.0**	**Total Investments**	**6,358.514**	**100.0**

MF Global, a broker, went into administration on 31st October 2011. As at 31st March 2015, the Fund had £144,753 (£326,821 31st March 2014), outstanding with the company through a position held within an active currency fund. The full amount is included in the Active Currency line above. The level of recovery remains uncertain at the time of compiling the Accounts.

18. TAXATION

UK Tax

The Fund is an exempt approved fund and is not liable to income tax or capital gains tax. It is not registered separately from the Council for VAT and therefore can recover its input tax.

All investment income in the accounts has been shown gross of UK income tax and the non-recoverable element has been shown as an expense.

Overseas Tax

The Fund is subject to withholding tax in certain overseas countries. In all such cases, the investment income has been grossed up and non-recoverable tax has been shown as an expense.

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 did not hold any Futures contracts as at 31st March 2015 and 31st March 2014.

Forward Currency Contracts

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2015, the Fund held twenty positions in foreign currency that together showed an unrealised gain of £2.767 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	(0.061)
Three month	Over the Counter	Sterling	Hong Kong Dollar	(0.240)
Three month	Over the Counter	Sterling	Yen	(0.203)
Three month	Over the Counter	Sterling	US Dollar	(0.528)
Three month	Over the Counter	Australian Dollar	Sterling	(0.521)
Three month	Over the Counter	Canadian Dollar	Sterling	(0.476)
Three month	Over the Counter	Danish Krone	Sterling	(0.112)
Three month	Over the Counter	Euro	Sterling	(0.298)
Three month	Over the Counter	Hong Kong Dollar	Sterling	(0.042)
Three month	Over the Counter	Norwegian Krone	Sterling	(0.046)
Three month	Over the Counter	Swedish Krona	Sterling	(0.141)
Three month	Over the Counter	Singapore Dollar	Sterling	(0.033)
Three month	Over the Counter	US Dollar	Sterling	(0.012)
Loss/Liability Value as at 31st March 2015				**(2.713)**
Three month	Over the Counter	Sterling	Swiss Franc	0.909
Three month	Over the Counter	Sterling	Euro	1.855
Three month	Over the Counter	Sterling	Hong Kong Dollar	0.016
Three month	Over the Counter	Sterling	Yen	0.020
Three month	Over the Counter	Hong Kong Dollar	Sterling	0.086
Three month	Over the Counter	Yen	Sterling	0.203
Three month	Over the Counter	US Dollar	Sterling	2.391
Profit/Asset Value at 31st March 2015				**5.480**
Net Forward Currency Contracts as at 31st March 2015				**2.767**

The contracts were settled at a profit of £3.768 million early in the 2015/16 financial year.

20. SECURITIES LENDING

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £204.298 million were out on loan as at 31st March 2015. The breakdown of securities on loan was:

31st March 2014 £m		**31st March 2015 £m**
18.357	Fixed Interest Securities	6.178
4.105	Index-Linked Securities	0
29.664	UK Equities	65.300
96.853	Overseas Equities	132.820
148.979	**Total Securities Lending**	**204.298**

The value of collateral against which the securities were lent out is £224.160 million. This collateral consists of acceptable securities, government debt and obligations issued by supranational entities.

21. PROPERTY HOLDINGS

31st March 2014 £m		31st March 2015 £m
	Property Holdings	
306.920	Opening Balance	263.155
31.971	Additions	55.788
(97.118)	Disposals	(38.955)
21.382	Net Increase in Market Value	23.012
263.155	**Closing Balance**	**303.000**

There are no restrictions on the realisability 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 2014 £m		31st March 2015 £m
14.623	Within One Year	16.441
52.241	Between One And Five Years	61.332
100.950	Later Than Five Years	145.576
167.814	**Minimum Due From Leases**	**223.349**

22. SIGNIFICANT HOLDINGS

As at 31st March 2015, the Fund had two holdings that each represented more than 5% of the total Fund value. Both 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 2015, this was valued at £1,027.556 million and represented 16.2% of the total net assets of the Fund. During 2014/15, the insurance contract was limited to six individual funds, each representing a different asset class, as follows:

31st March 2014 £m		31st March 2015 £m
	Property Holdings	
744.945	UK Equities	739.730
80.732	Emerging Market Equities	118.698
1.920	European ex UK Equities	2.067
2.541	North America Equities	47.207
36.616	Emerging Market Passive Government Bond	36.519
68.710	Index-Linked Gilts	83.335
935.464	**Total**	**1,027.556**

- M & G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2015, this was valued at £449.611 million (£398.146 million as at 31st March 2014) and represented 7.1% of the total net assets of the Fund.

23. OUTSTANDING COMMITMENTS

As at 31st March 2015 the Fund had fifty outstanding commitments to investments, as shown below.

Name of Fund	Year	Value m	Drawdowns Made m	Commitment Outstanding m	m
HarbourVest International Private Equity Partners IV	2002	$55.0	$53.6	$1.4	£0.9
HarbourVest Partners VII Cayman Buyout Fund	2002	$46.0	$43.0	$3.0	£2.0
HarbourVest Partners VII Cayman Mezzanine Fund	2002	$8.0	$7.5	$0.5	£0.3
HarbourVest Partners VII Cayman Venture Fund	2002	$28.0	$27.1	$0.9	£0.6
Capital International Private Equity Fund IV	2004	$18.0	$17.9	$0.1	£0.1
HarbourVest International Private Equity Partners V - Partnership	2005	€ 100.0	€ 93.0	€ 7.0	£5.1
HarbourVest International Private Equity Partners V - Direct	2005	€ 30.0	€ 28.8	€ 1.2	£0.9
Pantheon Asia Fund IV	2005	$20.0	$17.5	$2.5	£1.7
Pantheon Europe Fund IV	2005	€ 25.0	€ 22.5	€ 2.5	£1.8
Pantheon USA Fund VI	2005	$30.0	$28.2	$1.8	£1.2
Lexington Capital Partners VI-B	2005	$30.0	$29.5	$0.5	£0.3
HarbourVest Partners VIII Cayman Buyout Fund	2006	$112.0	$98.0	$14.0	£9.4
HarbourVest Partners VIII Cayman Venture Fund	2006	$56.0	$53.5	$2.5	£1.7
Pantheon Europe Fund V	2006	€ 35.0	€ 29.9	€ 5.1	£3.7
Pantheon USA Fund VII	2006	$35.0	$30.2	$4.8	£3.2
Coller International Partners V	2006	$30.0	$23.5	$6.5	£4.4
HarbourVest Partners 2007 Direct Fund	2007	$30.0	$28.6	$1.4	£0.9
Pantheon Asia Fund V	2007	$20.0	$17.1	$2.9	£2.0
Pantheon Europe Fund VI	2007	€ 40.0	€ 30.2	€ 9.8	£7.1
Pantheon USA Fund VIII	2007	$35.0	$25.9	$9.1	£6.1
Capital International Private Equity Fund V	2007	$35.0	$28.7	$6.3	£4.2
Co-Investment Partners Europe	2007	€ 30.0	€ 28.5	€ 1.5	£1.1
Partners Group 2006 Direct Fund	2007	€ 30.0	€ 28.8	€ 1.2	£0.9
Infracapital Partners I	2007	£35.0	£32.4	£2.6	£2.6
Capital International Private Equity Fund VI	2010	$35.0	$17.7	$17.3	£11.7
Lexington Capital Partners VII	2010	$30.0	$22.5	$7.5	£5.1
Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP	2010	$40.0	$31.2	$8.8	£5.9
Partners Group Real Estate Secondary 2009 (EURO)	2010	€ 60.0	€ 55.0	€ 5.0	£3.6
Partners Group Global Real Estate 2011 S.C.A., SICAR	2010	€ 145.0	€ 125.4	€ 19.6	£14.2
Partners Group Global Infrastructure 2009	2010	€ 70.0	€ 56.2	€ 13.8	£10.0
Partners Group Direct Infrastructure 2011	2011	€ 85.0	€ 58.4	€ 26.6	£19.2
Partners Group Direct Real Estate 2011 S.C.A., SICAR	2011	$100.0	$87.7	$12.3	£8.3
Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR	2011	$65.0	$38.8	$26.2	£17.6
HarbourVest International Private Equity Partners VI - Partnership	2011	€ 50.0	€ 28.2	€ 21.8	£15.8
Coller International Partners VI	2012	$45.0	$21.2	$23.8	£16.0
Pantheon Asia Fund VI	2012	$40.0	$16.2	$23.8	£16.0
Pantheon Europe Fund VII	2012	€ 25.0	€ 10.4	€ 14.6	£10.6
Pantheon USA Fund IX	2012	$30.0	$13.8	$16.2	£10.9
Partners Group Global Infrastructure 2012	2013	€ 45.0	€ 13.2	€ 31.8	£23.0
Partners Group Real Estate 2014	2013	$64.0	$14.4	$49.6	£33.4
Partners Group Real Estate Income 2014	2013	€ 23.0	€ 7.7	€ 15.3	£11.1
Partners Group Global Real Estate 2013	2013	$130.0	$39.7	$90.3	£60.8
Partners Group Real Estate Secondary 2013	2013	$65.0	$12.5	$52.5	£35.4
HarbourVest Dover Street VIII Cayman Fund LP	2013	$30.0	$15.0	$15.0	£10.1
HarbourVest Partners IX - Cayman Buyout Fund	2013	$60.0	$21.6	$38.4	£25.9
HarbourVest Partners IX - Cayman Venture Fund	2013	$30.0	$17.0	$13.0	£8.8
HarbourVest Partners 2013 Cayman Direct Fund LP	2014	$30.0	$10.5	$19.5	£13.1
Lexington Capital Partners VIII	2014	$30.0	$2.1	$27.9	£18.8
Infracapital Partners II	2014	£20.0	£5.1	£14.9	£14.9
HarbourVest International Private Equity Partners VII - Partnership	2014	$70.0	$4.6	$65.4	£44.1
Total Outstanding Commitments					**£526.5**

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2015.

24. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted Private Equity Investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. This is based on forward-looking estimates and judgements that involve many factors. Unquoted private equity is valued by the investment managers using 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. The value of private equity at 31st March 2015 was £572.448 million (£533.017 million at 31st March 2014).

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed Actuary of the Fund. The Fund does not update this liability in the intervening years. The methodology used to calculate the liability is in line with accepted guidelines and in accordance with IAS26. The assumptions underpinning the valuation are agreed with the Actuary and are summarised in note 26. This estimate is subject to significant variances based on changes to the underlying assumptions.

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.

25. RELATED PARTY TRANSACTIONS

Under FRS8 "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 two members of the Pension Fund Committee who were in receipt of pension benefits from the Tyne and Wear Pension Fund, committee members R Glindon and T Wright. In addition the chair of the Pension Fund Committee E McAtominey and committee members J Milburn, P Hay, J Perry, B Goldsworthy, G Haley are active members of the Pension Fund, while the vice chair A Walsh is a deferred member of the Pension 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 2014/15, two employers within the Fund, namely South Tyneside Council and BT South Tyneside Limited, had related party transactions with the Fund totalling £0.877 million, analysed as follows:

- South Tyneside Council charged the Fund £0.490 million (£0.450 million in 2013/14) in respect of services provided, primarily being recovery of past service deficit payments, legal and building costs
- The Fund charged South Tyneside Council £0.056 million (£0.055 million in 2013/14) in respect of Treasury Management services
- BT South Tyneside Limited charged the Fund £0.294 million (£0.303 million in 2013/14) 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

Paragraph 3.9.4.3 of the "Code of Practice on Local Authority Accounting in the United Kingdom 2014/15" (the Code) exempts local authorities from the key management personnel disclosure requirements of International Accounting Standard 24 (IAS24), on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code satisfy the key management personnel disclosure requirements 16 of IAS24. This applies to the accounts of Tyne and Wear Pension Fund also.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of South Tyneside Council.

26. IMPAIRMENT LOSSES

Impairment For Bad and Doubtful Debts

During 2014/15 the Fund has recognised an impairment loss of £0.104 million (£0.137 million as at 31st March 2014) for the possible non-recovery of pensioner death overpayments.

27. 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 2013 by the Actuary at £7,514.5 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 31st March 2013 £m	Value at 31st March 2010 £m
Fair value of net assets	5,432.3	4,302.3
Actuarial present value of the promised retirement benefits	7,514.5	7,037.3
Surplus / (deficit) in the Fund as measured for IAS26 purposes	(2,082.2)	(2,735.0)

The principal assumptions used by the Actuary were:

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

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

** In addition, 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 2013	31st March 2010
Males		
Base table	Standard SAPS Normal Health Light Amounts (S1NMA_L)	Standard SAPS Normal Health All Amounts (S1NMA)
Scaling to above base table rates *	120%	110%
Allowance for future improvements	CMI 2012 with a long term rate of improvement of 1.5% p.a.	In line with CMI 2009 with long term improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	22.9	21.3
Future lifetime from age 65 (currently aged 45)	24.9	23.2
Females		
Base table	Standard SAPS Normal Health Light Tables (S1NFA_L)	Standard SAPS Normal Health All tables (S1NFA)
Scaling to above base table rates *	115%	110%
Allowance for future improvements	In line with CMI 2012 with long term improvement of 1.5% p.a.	In line with CMI 2009 with long term improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	24.5	23.5
Future lifetime from age 65 (currently aged 45)	26.8	25.5

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.

*The scaling factors shown apply to normal health retirements

	31st March 2013	31st March 2010
Commutation	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 is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.

There have been no changes in benefits during the accounting period. No allowance has been made in the Actuary's calculations for the new scheme benefits accruing from 1st April 2014.

These are taken from the report: Whole of Pension Fund Disclosures under IAS26 – Tyne and Wear Pension Fund – 16th May 2014. A full copy is available on request.

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

Independent auditors' statement to the Members of South Tyneside Council (the "Authority") on the Pension Fund financial statements

Statement on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- are consistent with the pension fund accounts included within the Statement of Accounts of the "Authority" for the year ended 31 March 2015; and
- have been properly prepared in accordance with the requirements of the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have examined

The pension fund financial statements, which are prepared by the "Authority", comprise:

- the Net Assets Statement as at 31 March 2015;
- the Fund Account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Responsibilities for the financial statements and our examination

Our responsibilities and those of the South Tyneside Council's Head of Finance

As explained more fully in the Statement of Responsibilities set out on page 16 of the audited Statement of Accounts of the Authority, South Tyneside Council's Head of Finance is responsible for the preparation of the pensions fund financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Our responsibility is to express an opinion on the consistency of the financial statements within the pension fund annual report with the pension fund accounts in the Statement of Accounts of the "Authority". Our report on the pension fund accounts describes the basis of our opinion on those pension fund accounts.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information consist only of:

- the list of members of the Pensions Committee, Officers and Advisors
- the list of External Managers, Custodian, Bank and Auditors
- review of the year
- legal framework
- governance arrangements
- training policy and programme
- vision statement
- service plan
- risk management
- financial performance
- funding strategy
- statement of the Actuary
- list of membership of the Fund
- pensions administration report
- additional voluntary contributions
- investment report
- investment policies
- disclosure for the LGPS Shadow Advisory Board

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have not considered the effects of any events between the date on which we signed our report on the Statement of Accounts, and the date of this statement.

Greg Wilson

Greg Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne

September 2015

a) The maintenance and integrity of the Tyne and Wear Pension Fund website is the responsibility of the senior officers of the pension fund and the directors of South Tyneside Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the accounting statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of the accounting statements may differ from legislation in other jurisdictions.

DISCLOSURE FOR THE LOCAL GOVERNMENT PENSION SCHEME SHADOW ADVISORY BOARD

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

This body has responsibility to provide advice to CLG on the desirability of changes to the Scheme and to encourage best practice, increase transparency and coordinate 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 2015	Active	Ceased	Total
Scheduled bodies	81	19	100
Admitted bodies	60	63	123
Total	**141**	**82**	**223**

At 31st March 2014	Active	Ceased	Total
Scheduled bodies	76	16	92
Admitted bodies	60	58	118
Total	**136**	**74**	**210**

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 2014	31st March 2015
Active	44,077	46,900
Deferred	34,439	36,367
Pensioner	41,778	42,469
Total Membership	**121,294**	**125,736**
Undecided leavers	2,260	2,348

ANALYSIS OF ASSETS

The tables below provide an analysis of the Fund's assets as at 31st March 2014 and 2015 into categories set out by the Board:

31st March 2015	Regional Mandates		Global Mandates	Total
	UK £'m	Non-UK £'m	£'m	£'m
Equities	1,498.992	864.902	1,376.046	3,739.940
Bonds	1,133.052	36.519	0	1,169.571
Direct Property	303.379	0	0	303.379
Alternatives	0	0	1,093.103	1,093.103
Cash and Net Current Assets	43.603	28.729	0	72.332
Total	**2,979.026**	**930.150**	**2,469.149**	**6,379.325**

31st March 2014	Regional Mandates		Global Mandates	Total
	UK £'m	Non-UK £'m	£'m	£'m
Equities	1,471.500	683.611	1,165.436	3,320.547
Bonds	978.221	68.710	0	1,046.931
Direct Property	263.969	0	0	263.969
Alternatives	0	0	995.804	995.804
Cash and Net Current Assets	98.951	9.527	0	108.478
Total	**2,812.641**	**761.848**	**2,161.240**	**5,735.729**

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 2014 and 2015:

31st March 2015	Regional Mandates		Global Mandates	Total
	UK £'m	Non-UK £'m	£'m	£'m
Equities	25.433	35.184	0.773	61.390
Bonds	2.317	0.002	16.913	19.232
Direct Property	16.158	0	0	16.158
Alternatives	0	0	0	0
Cash and Ancillary Items	0.381	0.001	0	0.382
Total	**44.289**	**35.187**	**17.686**	**97.162**

31st March 2014	Regional Mandates		Global Mandates	Total
	UK £'m	Non-UK £'m	£'m	£'m
Equities	24.037	11.616	23.730	59.383
Bonds	17.707	0	0	17.707
Direct Property	17.703	0	0	17.703
Alternatives	0	0	0	0
Cash and Ancillary Items	0.611	0	0	0.611
Total	**60.058**	**11.616**	**23.730**	**95.404**

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,
PO BOX 212, SOUTH SHIELDS,
NE33 9ER (SAT NAV NE33 2RL)

PENSIONS HELPLINE:
TEL: 0191 424 4141

FAX: 0191 454 1796

EMAIL: PENSIONS@TWPF.INFO

WEB: WWW.TWPF.INFO

WALK IN SERVICE

You can visit us during office hours 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.

lgps