



TYNE
AND WEAR
PENSION FUND

Annual Report and Accounts 2015/16

Administered by South Tyneside Council



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MEMBERS OF PENSIONS COMMITTEE, ADVISORS, OFFICERS

THE MEMBERS OF PENSIONS COMMITTEE DURING 2015/16 ARE SHOWN BELOW.

South Tyneside Council

Councillor E. Leask (Chair)
Councillor A. Walsh (Vice Chair)
Councillor M. Butler
Councillor W. Flynn
Councillor P. Hay
Councillor J. Milburn
Councillor J. Perry
Councillor A. West

Gateshead Council

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

Newcastle City Council

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

North Tyneside Council

Councillor T. Mulvenna
(substitute – Councillor M. Rankin)

Sunderland City Council

Councillor L. Farthing
(substitute – Councillor J. Heron)

Trade Union Representatives

M. Abuzahra – Unison
J. Major – UCATT
S. Forster – Unison

Employer Representatives

I. Jardine – Nexus
G. Wilkie – TT2 Limited
J. Lewins – Balfour Beatty Worksmart Ltd
(until 5th February 2016)

MEMBERS OF THE LOCAL PENSION BOARD

Trade Union Representatives

N. Wirz (Chair) – Unison
A. McIntosh – GMB (until 1st March 2016)
J. Pearson – GMB
C. Sharkey – Unison

Employer Representatives

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

Members of the Pensions Committee and the Local Pension Board can be contacted through the Pensions Helpline by emailing pensions@twpf.info

SENIOR OFFICERS

Corporate Director Business and Resources

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

Head of Pensions

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

Principal Pensions Manager

D. Smith (email: Dave.Smith@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

Ernst & Young LLP – C. Gray (Executive Director)

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

M&G Investments
Partners Group

ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Prudential Assurance Company
Equitable Life Assurance Society

REVIEW OF THE YEAR

We are pleased to present the 2015/16 Report and Accounts for the Tyne and Wear Pension Fund. This has been another busy year for the Pension Fund.

In March 2015, the Council, as the Administering Authority for the Fund established the Local Pension Board with the first meeting of the Board being held in June 2015. The Board will assist the Pensions Committee in the good governance of the Fund. At a national level the Scheme Advisory Board was established to provide advice to the Department of Communities and Local Government (CLG) and local pension boards and oversee the operation and funding of the Local Government Pension Scheme (the Scheme).

2015/16 was the second year of the operation of the new Local Government Pension Scheme. This is a career average scheme based on an accrual rate of 1/49th of salary for each year of pensionable service, with accrued benefits re-valued in line with increases in the Consumer Prices Index.

The late receipt of the Regulations during the previous year and the increased complexity of administering a career average scheme continued to impact on processing and systems development in 2015/16. Consequently, 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 in lower priority work.

The Fund and many of the employers have experienced problems in implementing the new scheme. In some instances, this has led to problems with the quality and timeliness of data flows, which has increased processing problems. This made it an extremely challenging year for the production of Annual Benefits Statements and resulted in delays in the production of the benefits statements for active

members for this Fund and most others in the LGPS.

We remain committed to developing all means of 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.

The ability to access pension savings more flexibly was introduced in April 2015. Most of these changes do not affect how members can take their benefits from the Scheme as the changes are targeted at defined contribution schemes, such as personal pensions and some company pension schemes. However, there are some indirect changes that will impact on members of the Scheme who are considering transferring their benefits from the Scheme to a defined contribution pension plan.

In the Summer Budget in July 2015 the Government announced that it would work with administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance.

The criteria for developing these proposals were set in November 2015 and administering authorities were required to submit initial proposals by February 2016 and refined and completed submissions by July 2016.

Having considered a number of options the Fund has decided to work with twelve other administering authorities as part of the Border to Coast Pension Partnership. All of the administering

authorities in the Partnership are considered to have a like-minded approach to investment. The overall value of assets in the Partnership is approximately £36 billion. This will be a major strategic collaboration between the funds, with the aim of delivering improved performance as well as cost savings over the medium to long term.

The Partnership and the Fund submitted initial responses to Government in February 2016. A fuller joint submission on behalf of the Partnership was made in July 2016 and work continues to take place to develop these proposals.

Also in November 2015, the Government announced a consultation on revoking and replacing the Regulations that govern the investment of the Fund's assets. It was recognised that pooling of investments would not work under the current Regulations so a general simplification of the Regulations has been proposed which will remove the current investment limits. Importantly the proposed new Regulations will include a power for the Secretary of State to intervene in the management of a fund if it did not bring forward appropriate pooling arrangements. The Fund responded to the consultation in February 2016. The outcome of this consultation is still awaited.

With regard to the funding strategy, the contributions payable for the 2015/16 year have been set by the 2013 valuation. 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.

The Fund is undertaking an Actuarial Valuation as at 31st March 2016. This will set the contribution rates for the three years from 2017/18.

With regard to investment strategy, an asset liability study was carried out in 2013/14 using the liability data from the 2013 valuation. The final stages of the implementation of the updated strategy including a 4% shift from UK to overseas equities and a 9% increase in the allocation to passively managed equities was completed during 2015/16. This involved establishing a new global passive mandate benchmarked against a fundamental index. On implementation the Fund's allocation to passive strategies was increased to 27%, comprised of 25% in equities and 2% in bonds.

The long term high level strategy is 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.

The UK property portfolio has gone through a period of restructuring over the past few years following a period of poor performance. Whilst this is largely completed the weighting to UK property remains below benchmark due to concerns over current pricing in the market. This underweighting has provided an opportunity for the Fund to consider some tactical changes around this long term strategy.

This involved a reduction in the overall property allocation from 12.5% to 12.0% and a new small allocation to trade finance of 0.5%. Further changes also took place within the property allocation. The UK element was reduced by 1%, from 8% to 7%. In addition, it was agreed that 1% of the remaining 7% allocation will be in UK residential property. There was also a 0.5% increase in the allocation to global property to take this to 5%. As most of the assets involved in these changes are illiquid it will take some time to implement these positions.

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.

During the year most of the world's major equity markets struggled with only the US producing a positive return. The strongest performing market was UK property at 10.7%. The poorest performer was Emerging Market equities which fell by 8.8%. 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 fell by 3.9%. This market environment made it difficult for pension funds to produce a positive absolute return.

It was therefore, pleasing that the Fund's return for the year was 0.6%, which was 0.2% above the benchmark return of 0.4%. Inflation as measured by the Consumer Prices Index, which has become the more important measure for the Scheme, was 0.5% for the year whilst Average Earnings increased by 2.0%.

The small outperformance during the year was driven by the alternative investments and bonds. The active equities generally detracted from returns.

The Fund's five year return is 6.6% per annum, which is in line with the benchmark return of 6.6% per annum. The ten year return is 5.6% per annum, which is also in line with the benchmark return for this period.

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

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

Councillor Eileen Leask
Chair of Pensions Committee

Ian Bainbridge
Head of Pensions

LEGAL FRAMEWORK

INTRODUCTION

The Tyne and Wear Pension Fund is a part of the Local Government Pension Scheme (the 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 rules of the Scheme are contained in the following sets of regulations.

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

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

The main provisions of the new Scheme are:-

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



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 Pensions 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 it considers to be appropriate.

At individual Fund level, each Fund will continue to be administered by its designated administering authority. However for each Fund there will now also be a Local Pension Board that will be tasked with assisting the administering authority in securing compliance with regulations, other legislation and the requirements of the Pensions Regulator. Local Pension Boards must have equal representation of employer representatives and member representatives, who must not be officers or councillors of the administering authority who are responsible for the discharge of local government pension functions. The Fund has created a Local Pension Board that has been operational from June 2015.

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 Local Government Pension Scheme Advisory Board is required to make recommendations to the Secretary of State for changes to the Scheme where costs have varied beyond defined margins.

INVESTMENT REFORM CRITERIA AND GUIDANCE

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 in July 2015, the Chancellor announced the Government’s intention to work with the LGPS administering authorities to ensure that investments were pooled while maintaining overall investment performance. The criteria for developing proposals were set in November 2015 and administering authorities were required to submit initial proposals by February 2016 and refined and completed submissions by July 2016.

Having considered a number of options the Fund has decided to work with twelve other administering authorities as part of the Border to Coast Pension Partnership. All of the administering authorities in the Partnership are considered to have a like-minded approach to investment. The overall value of assets in the Partnership is approximately £36 billion.

This will be a major strategic collaboration between the funds, with the aim of delivering improved performance as well as cost savings over the medium to long term.

The Partnership and the Fund submitted initial responses in February 2016. A joint submission on behalf of the Partnership was made in July 2016. Work is progressing to develop these proposals.

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 November 2015 CLG issued a consultation on revoking and replacing these regulations. The replacement draft regulations include:

- A general simplification of the current regulations
- The removal of the current investment limits that would otherwise prevent the pooling of assets
- A power for the Secretary of State to intervene in the management of a fund if it did not bring forward appropriate pooling arrangements.

A response to this consultation was submitted in February 2016. The outcome of this consultation is still awaited.

GOVERNANCE ARRANGEMENTS

South Tyneside Council is the administering authority of the local government pension fund for the Tyne and Wear County area.

PENSIONS COMMITTEE

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

- Prepare, maintain and publish the Governance Compliance Statement.
- Ensure that the Scheme Manager complies with the Local Government Pension Scheme Regulations and all other legislation that governs the administration of the Fund.
- Prepare, maintain and publish the Funding Strategy Statement.
- Prepare, maintain and publish the Pensions Administration Strategy.
- Ensure that the Fund is valued as required and receive and consider reports on each valuation.
- Ensure appropriate arrangements are in place for the administration of benefits.
- Set the admissions policy.
- Prepare, maintain and publish the Communications Policy Statement.
- Ensure appropriate additional voluntary contributions arrangements are in place.
- Prepare, maintain and publish the 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 2016 and demonstrates that the Fund is compliant with guidance provided by the Secretary of State for Communities and Local Government.

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

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

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

LOCAL PENSION BOARDS

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

The Council established the Local Pension Board on the 12th March 2015 with the first meeting of the Board being held at the end of June 2015.

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

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

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

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

The Board is required to produce an annual report. A copy of this annual report is available on the Fund's website at <http://www.twpf.info/article/11840/Publications>.

MANAGEMENT OF CONFLICTS OF INTEREST

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

A Register of Interests is maintained for members and officers.

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

ATTENDANCE AT MEETINGS AND AT TRAINING

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

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

PENSIONS COMMITTEE	VOTING RIGHTS	NO. OF PENSIONS COMMITTEE MEETINGS ATTENDED	NO. OF INVESTMENT PANEL MEETINGS ATTENDED	TOTAL HOURS OF TRAINING ATTENDED
Cllr. E. Leask	Y	7 of 7	3 of 3	96.0
Cllr. A. Walsh	Y	5 of 7	4 of 4	108.0
Cllr. J. Milburn	Y	0 of 7	N/A	0.0
Cllr. M. Butler	Y	3 of 7	N/A	66.0
Cllr. W. Flynn	Y	7 of 7	4 of 4	121.5
Cllr. P. Hay	Y	4 of 7	N/A	27.0
Cllr. J. Perry	Y	5 of 7	N/A	51.0
Cllr. A. West	Y	4 of 7	N/A	45.0
Cllr. B. Goldsworthy	Y	6 of 7	N/A	48.0
Cllr. G. Haley (substitute)	Y	4 of 7	N/A	48.0
Cllr. V. Dunn	Y	6 of 7	N/A	30.0
Cllr. G. Bell (substitute)	Y	0 of 7	N/A	42.0
Cllr. T. Mulvenna	Y	3 of 7	N/A	6.0
Cllr. M. Rankin (substitute)	Y	0 of 7	N/A	0.0
Cllr. L. Farthing	Y	7 of 7	N/A	51.0
Cllr. J. Heron (substitute)	Y	4 of 7	N/A	54.0
M. Abuzahra (Trade Union Representative)	N	5 of 7	N/A	33.0
J. Major (Trade Union Representative)	N	4 of 7	N/A	51.0
S. Forster (Trade Union Representative)	N	2 of 7	N/A	3.0
I. Jardine (Employer Representative)	N	4 of 7	N/A	51.0
G. Wilkie (Employer Representative)	N	6 of 7	N/A	30.0
J. Lewins (Employer Representative)	N	6 of 7	N/A	30.0

LOCAL PENSION BOARD	VOTING RIGHTS	NO. OF PENSIONS COMMITTEE MEETINGS ATTENDED	NO. OF INVESTMENT PANEL MEETINGS ATTENDED	TOTAL HOURS OF TRAINING ATTENDED
N. Wirz	Y	4 of 4	N/A	91.5
J. Woodlingfield	Y	4 of 4	N/A	70.5
Cllr. D. Purvis	Y	2 of 4	N/A	49.5
M. Rooney	Y	1 of 4	N/A	28.5
M. Brodie	Y	3 of 4	N/A	28.5
C. Sharkey	Y	4 of 4	N/A	49.5
A. McIntosh	Y	2 of 4	N/A	28.5
J. Pearson	Y	3 of 4	N/A	70.5

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

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

WIDER GOVERNANCE ARRANGEMENTS

The Fund holds annual meetings for the employers and for the trades unions.

The agenda for these meetings includes presentations by the Actuary and the Investment Advisor and covers the actuarial position, the benefits structure and investment performance.

INFORMATION ON THE FUND

Information on the Fund is held on the Fund's website at www.twpf.info.

The information that is available includes:

- The agenda and minutes for both the Pensions Committee and Local Pension Board meetings.
- The Service Plan, which presents the Fund's aims and objectives over three year rolling periods.
- The Governance Compliance Statement, which sets out the governance arrangements.
- The Actuary's Report on the 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 (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

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

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

COMMITTEE AND LOCAL PENSION BOARD TRAINING

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

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

The programme in 2015/16 was based around two residential training seminars and additional sessions delivered at the quarterly meetings. The Investment Managers, the Investment Advisor and the Actuary assisted with the delivery of this programme.

Selected training seminars and conferences that were offered by industry wide bodies were attended by the Committee Members that sat on

the Investment Panel and the Chair and Vice Chair of the Local Pension Board. This recognises the higher governance duties placed upon those roles.

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

The programme for 2015/16 covered topics such as:

- Service planning and budgeting
- Governance structure of the Local Government Pension Scheme
- Investment management structure and Investment Principles
- Consultation on the investment of the Scheme's assets
- Performance assessment of the Fund's governance structure
- Scheme Advisory Board performance indicators
- Planning for the 2016 valuation, key decisions and setting employers contributions
- The global economic outlook
- The asset classes that the Fund invests in
- Corporate Governance and Socially Responsible Investment
- Detailed work on the Fund's UK property programme
- Investment in residential property

The programme for 2016/17 will include sessions on:

- Service planning and budgeting
- The 2016 valuation
- Funding strategy, including cash flow management and de-risking
- Asset liability modelling
- Performance assessment of the Fund's governance structure
- Developments on pooling of the Scheme's assets

- The global economic outlook
- The asset classes that the Fund invests in
- Corporate Governance and Socially Responsible Investment
- Risk management
- Benchmarking of investment management costs and administration costs

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 2015/16, we have:

- Implemented a new governance structure as required by the Public Service Pensions Act 2013 and created the Local Pension Board, which is now fully operational.
- Delivered a joint approach to training for the Pensions Committee and the Local Pension Board that is based on the Knowledge and Skills Framework prepared by the Institute's Pensions Panel.
- Responded to consultations on the Scheme and advised employers and members of developments and regulatory changes.
- Worked in collaboration with other pension funds to respond to the government's initiative on the investment of the Scheme's assets.
- Continued to introduce the new Scheme, which has involved significant regulatory work, preparing for the 2016 valuation, 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.
- Completed the implementation of the recommendations from the 2013/14 asset liability modelling on the strategic investment benchmark. This included 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.
- Tendered the arrangements for the Fund's two key advisors, the Actuary and the Investment Advisor.
- Continued to develop the private equity, global property and infrastructure programmes.
- Implemented the increased reporting requirements for the Annual Report and Accounts.

In 2016/17, we will:

- Complete the triennial valuation of the Fund as at 31st March 2016 and set appropriate contribution rates for employers.
- Review and update the Funding Strategy for the Fund to ensure that it continues to target solvency, whilst managing the cost of the Scheme for employers.
- Work with the Investment Advisor to undertake asset liability work, based on the latest actuarial information with a view to updating the Fund's Investment Strategy.
- 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.
- Continue to work with other pension funds to address the Government's initiative on the investment of the Scheme's assets.

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 AND THE LOCAL PENSION BOARD

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

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

The risk register was last updated as at 31st March 2016 and no risks were assessed as Critical. A copy of the risk register is available on the Fund's website.

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



THE ROLE OF INTERNAL AUDIT

The Council's Internal Audit Service carries out a range of audits each year, based on a three year rolling programme that ensures appropriate coverage.

The Risk Register is considered in the preparation of the audit programme. Every audit report is made available to the Committee and the Board and a summary report is considered annually.

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

INVESTMENT RISK

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

Further details are contained in the Risk section of the 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 as those of the investment managers and the custodian, is obtained through a review of each organisation's Report on Internal Controls, e.g. the AAF 01/06 and SSAE 16 reports.

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

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

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

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

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

FUNDING STRATEGY

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

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

PENSIONS ADMINISTRATION

The risks associated with 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:

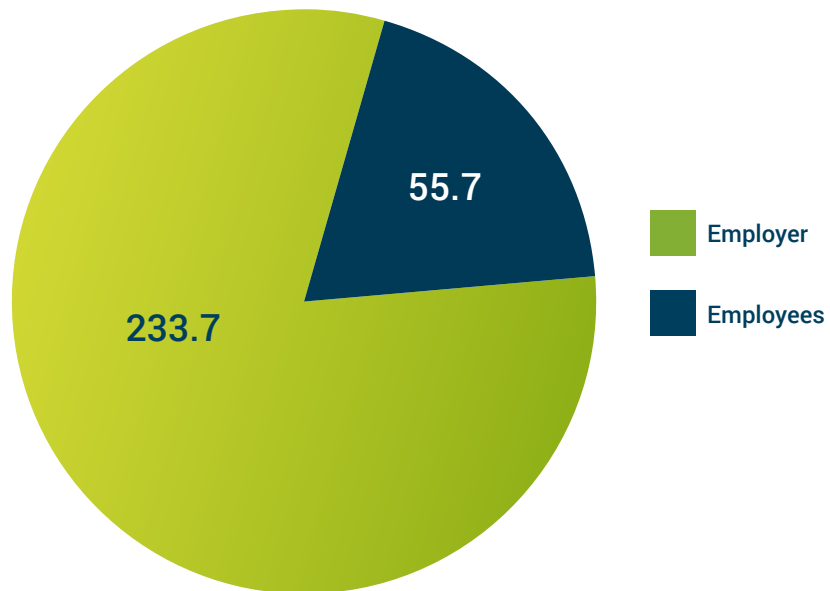
- the day to day pensions and investment accounting functions
- reconciling the valuation of the investments and monitoring the collection of dividends and interest and the associated cash flows in all currencies
- reconciling the cash flows associated with pension benefits, including the collection 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 2015/16, the Fund received £289.4 million (£279.1 million in 2014/15) in pension contributions from employers and employees and paid £264.8 million (£247.7 million in 2014/15) of pension benefits to 43,900 pensioner and beneficiary members.

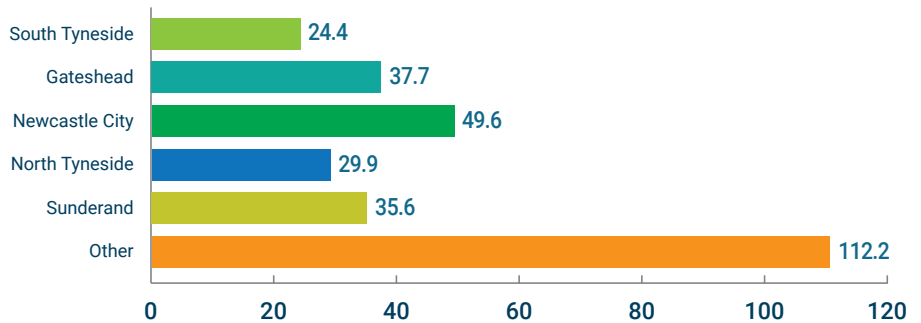
The chart below shows a breakdown of the contribution income:

Contribution income 2015/16 £m



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

Contribution income 2015/16 £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 2015/16 and the amount collected by the due date;

MONTH	AMOUNT DUE £'000	RECEIVED ON OR BEFORE DUE DATE
Apr-15	23,058	96.1%
May-15	22,674	100.0%
Jun-15	22,658	99.6%
Jul-15	22,536	99.2%
Aug-15	22,432	99.7%
Sep-15	22,712	99.7%
Oct-15	22,532	99.7%
Nov-15	21,789	99.7%
Dec-15	22,460	99.0%
Jan-16	22,822	99.7%
Feb-16	22,407	100.0%
Mar-16	22,538	99.1%

Late payments are monitored and pursued.

The following table shows the late payment history for 2015/16:

NUMBER OF DAYS PAYMENT WAS LATE	NUMBER OF LATE PAYMENTS	PERCENTAGE OF LATE PAYMENTS
Less than 10	23	40%
Between 10 and 19	13	22%
Between 20 and 29	1	2%
Between 30 and 39	2	3%
More than 40	19	33%
		100%

The number of late payments beyond 40 days is significantly higher than in the previous year due to three new employers to the Fund not fully understanding the contributions timescales. These issues have now been resolved.

Amounts that were outstanding as at 31st March 2016 were paid by the 1st May 2016.

Interest is calculated in all cases but is only charged when the amount exceeds £20. Interest, for late payments during the year, totalling £2,292 was charged to and paid by four 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 five years:

YEAR	PENSION OVERPAID £	AMOUNT RECOVERED £	AMOUNT WRITTEN OFF £	OUTSTANDING AT 31ST MARCH 2016 £	PERCENTAGE OUTSTANDING AT 31ST MARCH 2016
2011/12	75,241	69,289	1,432	4,520	6.0
2012/13	130,371	112,103	3,792	14,476	11.1
2013/14	92,974	82,021	4,607	6,346	6.8
2014/15	105,196	94,856	206	10,134	9.6
2015/16	178,328	145,028	0	33,300	18.7

FORECAST v OUTTURN REPORT FOR THE YEAR

Forecasts	Forecast 2015/16 £m	Actual 2015/16 £m	Difference £m
Contributions	(275.737)	(289.446)	(13.709)
Transfers in from Other Pension Funds	(3.317)	(7.715)	(4.398)
Total Contributions	(279.054)	(297.161)	(18.107)
Benefits Payable	273.864	264.760	(9.104)
Payment in respect of Leavers	6.389	7.377	0.988
Total Costs	280.253	272.137	(8.116)
Net Reduction / (Increase) from Dealing with Members	1.199	(25.024)	(26.223)
Management Expenses	62.560	43.049	(18.659)
Investment Income	(107.059)	(89.480)	17.579
Non-Recoverable Tax	4.067	3.146	(0.921)
Change in Market Value of Investments	(339.624)	19.263	358.035
Net Return on Investments	(442.616)	(67.071)	374.693
Increase in Net Assets Available for Benefits during the Year	(378.857)	(49.046)	329.811
Net Assets of the Fund at the Beginning of the Year	6,378.324	6,378.324	0.000
Net Assets of the Fund at the End of the Year	6,757.181	6,427.370	(329.811)

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 2018/19.

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

Longer Term Cash Flow Forecasts	Forecast 2016/17 £m	Forecast 2017/18 £m	Forecast 2018/19 £m
Contributions	(295.606)	(300.847)	(306.237)
Transfers in from Other Pension Funds	(3.317)	(5.184)	(5.184)
Total Contributions	(298.923)	(306.031)	(311.421)
Benefits Payable	275.647	282.534	289.628
Payment in respect of Leavers	7.377	7.377	7.377
Total Costs	283.024	289.911	297.005
Net Reduction/(Increase) from dealing with Members	(15.899)	(16.120)	(14.416)
Management expenses	78.664	76.789	75.717
Investment Income	(94.849)	(100.540)	(106.572)
Non-Recoverable Tax	3.335	3.535	3.747
Change in Market Value of Investments	(389.319)	(387.824)	(406.346)
Net Return on Investments	(480.833)	(484.829)	(509.171)
Increase in Net Assets Available for Benefits during the Year	(418.067)	(424.160)	(447.870)

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 2015/16

A comparison of performance against budget for the net operational expenses of the Fund for 2015/16 is shown below:

	2015/16 Total Budget £000	2015/16 Actual £000	2015/16 Variance £000
Employee Costs	2,169	2,060	(109)
Premises Costs	61	61	0
IT Costs	359	248	(111)
Supplies and Services	743	642	(101)
Cost of Democracy	434	405	(29)
Other Costs	270	20	(250)
Investment Management Expenses	26,450	23,516	(2,934)
Total Expenditure	30,486	26,952	(3,534)
Miscellaneous Income	(62)	(66)	(4)
Net Expenditure	30,424	26,886	(3,538)

The main variances against the budget are discussed below.

The main area of savings was in investment management costs. The Fund opened a Fundamental Index allocation during the year which needed a transfer of assets from four active managers, which resulted in fee savings against these managers, this was partly offset by an increase in fees to the indexation manager. Also certain investment managers did not achieve their performance target and therefore did not receive a performance fee.

Other costs shown in the table above relate to the reclaim of taxes paid by the Fund. These costs were under budget because the recovery work is taking longer than expected and has slipped into later years.

The IT costs budget contained a provision for the renewal of personal computers equipment. The purchase of this equipment has been deferred to later years.

The supplies and services budget contained a provision for reviews of investment manager mandates, which was not required.

The cost of democracy has come in under budget due to savings on the delivery of the training programme.

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



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

THE 2016 VALUATION

The next formal valuation will be undertaken as at 31st March 2016. Work on this is progressing.



TYNE AND WEAR PENSION FUND

STATEMENT OF THE ACTUARY FOR THE YEAR ENDED 31 MARCH 2016

INTRODUCTION

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

The 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.
- 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.

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.

- 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.
- The actuarial valuation of the Fund as at 31 March 2016 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions for the period from 1 April 2017 to 31 March 2020 to be signed off by 31 March 2017.
- 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>**

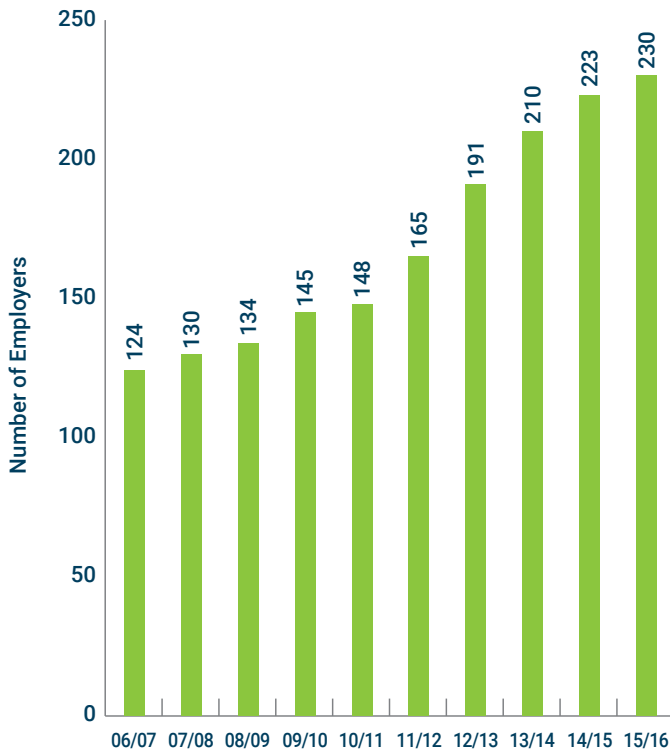
Aon Hewitt Limited
3 May 2016

MEMBERSHIP OF THE FUND

As at 31st March 2016, there were 230 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.

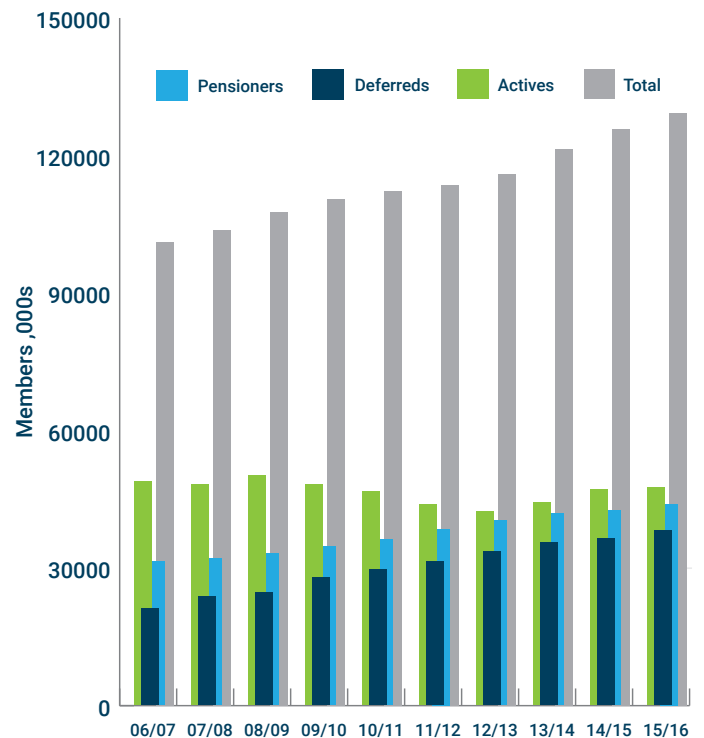


The Fund had 129,222 members as at 31st March 2016.

The total membership shown here excludes members who are currently only entitled to a preserved refund, but have chosen not to receive this as at the year end. The total of such members as at 31st March 2016 was 2,616 (2,348 as at 31st March 2015).

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

Total membership has increased through this period, driven largely by the increase in deferred and pensioner members. The active members are marginally down from ten years ago. Active membership peaked in 2008/09, but then fell away through to 2012/13. However, over the last three years the



number of active members has started to rise again. This is largely attributed to auto enrolment. The full impact of auto enrolment 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 2016

DISTRICT COUNCILS	MEMBERS AT 31ST MARCH 2016			CONTRIBUTIONS RECEIVED IN RESPECT OF	
	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Gateshead Council	6,270	5,908	6,732	30,981	6,714
Newcastle City Council	7,672	6,688	9,088	40,203	9,386
North Tyneside Council	6,445	3,979	5,437	24,705	5,182
South Tyneside Council	3,949	4,427	4,659	20,182	4,217
Sunderland City Council	5,722	6,355	7,619	29,504	6,143
SUB TOTALS	30,058	27,357	33,535	145,574	31,642

SCHEDULE 2 PART 1 EMPLOYERS	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Academy 360	52	19	10	170	54
Aim High Academy Trust	31	2	0	69	17
All Saints Academies Trust	27	0	1	51	13
Balmoral Learning Trust	34	14	5	65	18
Barnes Academy Trust	39	1	1	64	16
Barnwell Academy Trust	52	4	1	112	28
Benedict Biscop Church of England Academy	15	8	0	22	11
Biddick Academy Trust	52	11	5	209	55
Brighter Academy Trust	60	15	6	198	50
Cardinal Hume Catholic School	41	8	4	143	53
Castle View Enterprise Academy	59	31	2	119	48
City Of Sunderland College	273	399	212	1,273	314
Dayspring Trust	50	5	0	157	39
Diamond Hall Infant Academy	36	6	0	67	19
Discover Learning Trust	103	16	8	289	76
Discovery Learning Limited	7	1	0	16	7
Eppleton Academy Primary School	14	2	3	24	6
Former North East Regional Airport	0	0	14	0	0
Former Tyne and Wear County Council	0	21	252	0	0
Former Tyne and Wear Residuary Body	0	1	28	0	0
Fulwell Infant School Academy	28	8	1	68	16
Gateshead College	316	376	133	1,454	465
Gateshead Housing Company	301	189	119	1,175	436
Gosforth Federated Academies Limited	120	39	7	368	94
Grasmere Academy	16	6	1	40	8
Grindon Hall Christian School	16	1	2	32	15
Holley Park Academy	30	1	2	47	16
Holy Trinity Church of England Academy (South Shields) Trust	16	1	0	58	15
Houghton Kepier Sports College Academy Trust	57	16	4	202	64
Inspire Multi Academy Trust	81	11	3	180	46
Joseph Swan Academy	62	28	4	114	60
Kenton Schools Academy Trust	150	58	4	386	147
Kibblesworth Academy	23	5	0	25	9
Lord Lawson of Beamish Academy	46	17	8	191	46
Monkton Infants School	13	0	0	41	10

SCHEDULE 2 PART 1 EMPLOYERS	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Monkton Junior School	5	0	1	22	5
Monkwearmouth College	0	1	3	0	0
Newcastle College	1,256	1,542	361	3,176	1,185
Newcastle Education Action Zone	0	2	2	0	0
North Tyneside College	0	50	26	0	0
North View Academy Trust	13	1	0	77	15
Northumberland Magistrates Courts	0	25	80	0	0
Northumbria Police Authority	0	1,154	1,359	0	0
Northumbria University	1,767	1,305	1,087	8,993	2,756
Police and Crime Commissioner for Northumbria	10	123	31	51	29
Red House Academy	0	15	4	0	0
Redby Primary Academy	0	5	1	0	0
Riverside Primary Academy	24	5	1	52	14
Ryhope Infant School Academy	23	0	0	62	14
Sacred Heart Catholic High School	58	22	5	183	48
South Tyneside Academy Trust Sponsored by South Tyneside College	27	1	0	38	13
South Tyneside College	195	197	232	864	243
South Tyneside EAZ	0	1	1	0	0
South Tyneside Homes	620	231	216	2,974	1,006
Southmoor Academy	104	9	5	361	81
St Aidan's Education Trust	47	14	5	151	39
St Anthony's Girls' Catholic Academy	41	11	3	139	34
St Cuthbert's Catholic High School	41	13	3	127	28
St Joseph's Catholic Education Trust	69	19	5	265	82
St Mary's Catholic School Trust	58	11	7	114	29
St Thomas More Roman Catholic Academy	55	7	9	206	70
Sunderland Education Action Zone	0	0	1	0	0
The Ascent Academies Trust	175	22	13	495	129
The Cedars Academy Trust	35	12	1	118	31
The Chief Constable for Northumbria	1,703	115	66	7,466	2,576
The Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside, and Sunderland Combined Authority	13	26	91	67	25
The Laidlaw Schools Trust	164	41	10	570	151
The Northern Education Trust	201	33	9	823	220
The Northern Saints Catholic Education Trust	52	0	0	26	6
The St Thomas More Partnership of Schools	78	20	6	246	53
Trinity Academy Newcastle	73	5	0	334	78
Tyne and Wear Fire and Rescue Service	249	180	259	1,752	373
Tyne Metropolitan College	184	170	59	663	187
Tynemouth College	0	22	11	0	0
University of Sunderland	999	749	608	5,466	1,631
Wearmouth Learning Trust	83	9	1	215	54
Wearside College	0	4	7	0	0
West Newcastle Academy	21	3	0	13	7
Whickham School and Sports College	68	25	8	284	66
Whitburn Church of England Academy	59	12	10	183	42
Wise Academies	102	34	9	250	68
Woodard Academies Trust	53	0	0	160	46
Your Homes Newcastle	736	407	255	3,023	1,156
SUB TOTALS	11,681	7,973	5,711	47,439	14,860

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	3	7	2	0	0
Castle View Fitness Centre Limited	1	6	1	0	0
Learning World	0	6	1	0	0
Nexus	577	436	1,377	7,342	1,284
Northumbria University Nursery Limited	10	0	3	25	12
Sunderland Care and Support Limited (SCSL)	704	43	20	3,268	871
Sunderland Live Limited	52	0	1	47	17
The Intraining Group Limited	25	26	4	70	20
University of Sunderland London Campus Limited	5	0	0	53	22
Victims First Northumbria	13	0	0	60	16
Zero Carbon Futures (North) Limited	3	1	0	13	7
SUB TOTALS	1,393	534	1,418	10,781	2,249

ADMITTED BODIES	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Age Concern Newcastle	6	35	60	104	6
Assessment and Qualification Alliance	0	1	10	0	0
Association of North East Councils	27	38	12	426	70
Azure Business Centres Limited	0	0	2	7	0
Balfour Beatty Living Places Limited	14	2	6	151	40
Baltic Flour Mills Visual Arts Trust	3	5	1	40	11
Bell Decorating Group Limited	2	0	0	2	2
Benton Grange School	0	0	8	0	0
Benwell Young Peoples Development Group	0	3	0	0	0
Brunswick Young Peoples Development Project	0	3	0	0	0
BT South Tyneside Limited	226	60	81	2	344
Bullough Contract Services	0	1	0	0	0
Bulloughs Cleaning Services	0	0	1	0	0
Byker Community Trust	7	0	0	39	21
Capita Property and Infrastructure Limited	157	27	21	336	184
Carillion Integrated Services Limited (NEFRA)	2	0	0	3	1
Carillion Services Limited (Jarrow School)	8	1	3	8	4
Carillion Services Limited (Lord Lawson Academy)	0	2	1	0	1
Carillion Services Limited (SSCS)	17	2	0	41	7
Catholic Care North East	0	16	24	0	0
Cbs Outdoor Limited	0	2	0	0	0
Childcare Enterprise Limited	1	15	3	0	0
Churchill Contract Services Limited (Parkhead)	2	0	0	2	0
Compass Group UK and Ireland Limited	0	0	1	5	1
D B Regio Tyne and Wear Limited	513	84	113	3,368	1,133
Disability North	1	18	15	40	3
Engie Buildings Limited	6	0	1	34	9
Engie Services Limited (N Tyneside)	318	74	24	909	441
Engie Services Limited (PB)	9	1	1	52	14
Gateshead Law Centre	0	10	4	0	0
Gentoo Group Limited	1,282	651	682	12,503	2,671
Groundwork South Tyneside and Newcastle	1	4	3	48	8

ADMITTED BODIES	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Hebburn Neighbourhood Advice Centre	0	3	1	0	0
Higher Education Funding Council For England	0	1	8	0	0
Information North (North Regional Library System)	0	0	2	0	0
Insitu Cleaning	5	3	3	0	2
International Centre for Life	8	6	9	217	52
Involve North East	5	6	0	39	9
Jarvis Accommodation Services Limited	0	3	3	0	0
Jarvis Workspace Facilities Management Limited	0	2	5	0	0
Kenton Park Sports Centre	2	11	1	8	1
Kgb Cleaning and Support Services	22	0	2	15	3
Kier North Tyneside Limited	271	53	122	0	494
Lovell Partnership Limited	18	2	1	15	3
Mears Limited	163	8	41	86	290
Mitie Cleaning (North) Limited	0	1	0	0	0
Mitie PFI Limited (Boldon School)	5	2	1	12	3
Mitie PFI Limited (North Tyneside)	0	0	1	0	0
Morrison Facilities Services Limited 1	0	13	20	0	0
Morrison Facilities Services Limited 2	0	67	60	0	0
Morse	0	12	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 Services Unit	0	0	7	0	0
Newcastle Gateshead Initiative Limited	1	0	0	1	0
Newcastle Healthy City Project	0	17	10	0	0
Newcastle International Airport	106	250	372	3,036	324
Newcastle Law Centre	1	12	3	15	2
Newcastle Tenants and Residents Federation (Ntrf)	2	0	0	13	4
Newcastle Tenants Federation	0	2	3	0	0
Newcastle Theatre Royal Trust	241	56	30	424	114
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	51	0	1	216	57
North Country Leisure 2	68	0	0	62	14
North East Innovation Centre	0	13	16	0	0
North East Regional Employers Organisation	4	4	8	105	11
North Tyneside City Challenge	0	3	1	0	0
North Tyneside Disability Advice	0	0	1	0	0
Northern Arts Association	0	23	21	0	0
Northern Council for Further Education	0	10	16	1,647	0
Northern Counties School for the Deaf	0	13	26	0	0
Northern Grid For Learning	3	4	4	42	5
Northumbria Tourist Board	0	16	20	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	90	0	0

ADMITTED BODIES	ACTIVES	DEFERRED	PENSIONERS	EMPLOYERS £'000	EMPLOYEES £'000
Percy Hedley Foundation	20	3	7	164	27
Port of Tyne Authority	0	0	1	0	0
Praxis Service	2	1	3	46	6
Property Management Integrated Services and Employment Company	7	0	0	35	11
R M Education	0	3	3	0	0
Raich Carter Sports Centre	0	43	2	14	3
Robertson Facilities Management Limited	7	0	4	17	9
Robertson Facilities Management Limited (Newcastle Phase 2)	2	0	2	0	2
S L M Community Leisure Charitable Trust	355	0	3	482	132
S L M Fitness & Health Limited	62	0	0	29	7
S L M Food And Beverage Limited	7	0	0	8	2
S S E Contracting Limited	11	8	17	100	21
Saint Mary Magdalene and Holy Jesus Trust	3	4	8	51	7
Saint Mary the Virgin Hospital	0	0	1	0	0
Scolarest (Newcastle Schools)	9	8	8	23	5
Scolarest PFI (Boldon School)	0	0	1	0	0
Search Project	1	0	3	17	2
Simonside Community Centre	0	3	0	2	0
SITA UK Limited (Gateshead)	1	0	0	8	2
SITA UK Limited (Sunderland)	7	0	0	40	10
Sodexo Limited	8	2	1	0	6
South Tyneside Football Trust	0	0	1	18	0
South Tyneside Victim Support	0	1	1	0	0
Stagecoach Services Limited	46	123	776	4,131	89
Sunderland City Training And Enterprise Council	0	30	37	0	0
Sunderland Empire Theatre Trust	0	2	5	0	0
Sunderland Outdoor Activities	0	2	1	0	0
Sunderland People First Co-operative Community Interest Company	4	0	0	12	3
Sunderland Streetlighting Limited	18	21	31	227	52
Taylor Shaw	0	4	2	0	0
The Ozanam House Probation Hostel Committee	33	21	11	163	44
Thomas Gaughan Community Association	0	2	0	0	0
TT2 Limited	44	23	38	210	116
Tyne and Wear Development Company Limited	0	20	10	0	0
Tyne and Wear Development Corporation	0	15	35	0	0
Tyne and Wear Enterprise Trust	0	14	25	9	0
Tyne and Wear Play Association	0	0	1	88	0
Tyne and Wear Small Business Service	0	10	13	0	0
Tyne Waste Limited	0	6	13	0	0
Tyneside Deaf Youth Project	0	2	1	0	0
Tyneside Training And Enterprise Council	1	29	39	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	0	0
Workshops for the Adult Blind	0	10	69	0	0
SUB TOTALS	4,228	2,139	3,195	29,973	6,921
GRAND TOTALS	47,360	38,003	43,859	233,766	55,672

PENSIONS ADMINISTRATION

INTRODUCTION

The pension service to our 129,000 members and 230 employers is provided by the Pensions Office, which is organised into five teams of experienced officers. The five teams comprise, between them, fifty one permanent 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 mailshots and runs meetings for employers. It is also responsible for maintaining the website, www.twpf.info. The Communications Team has fourteen 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.

In order to deal with the extra workload caused by the forthcoming triennial valuation and a Guaranteed Minimum Pension reconciliation exercise, a small number of additional agency staff and a temporary team manager have been taken on.

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 2015/16.

PENSIONS ADMINISTRATION STRATEGY

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

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

The latest Statement is available on our website at www.twpf.info 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. One recovery was made under these powers during 2015/16.

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

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

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

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

COMMUNICATIONS POLICY STATEMENT

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

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

Our Statement sets out:

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

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

SERVICES TO MEMBERS

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

- We maintain the records of, and pay pensions to, 43,900 pensioner members of the Fund.
- We maintain the records of 38,000 deferred members of the Fund.
- We maintain the records of, and receive and reconcile contributions for, 47,400 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. These are sent directly to the member's address.
- 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 45,500 members in 2015/16.
- We have a call back service for out of office hours and busy times.
- We welcome personal callers and were visited by over 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 96% of messages in 2015/16.

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.

2015/16 was an extremely challenging year for the production of Annual Benefits Statements due to the increased complexity of the new Scheme rules and resulting system updates. This resulted in delays in the production of the benefits statements for active members for this Fund and most others in the LGPS. We mailed out nearly 40,000 statements in October 2015.

Despite these factors, and although very slightly down from the levels last achieved, we were able to provide 95.85% of active members with a complete statement.

We issued benefit statements to every deferred member for whom we held a current address and a complete record. About 33,500 statements were mailed out on time in June 2015.





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.

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

SERVICES TO EMPLOYERS

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

- As noted above, we have a Pensions Administration Strategy that sets out the roles and responsibilities of the Fund and the employers.
- We provide each employer with a client manager whose role is to ensure efficient processing and communication.
- We have a programme of meetings to discuss issues related to administration and regulatory change.
- We provide an online Employers' Guide to the administrators of the Fund.
- We offer training courses that aim to educate and inform staff on pension matters and working procedures.
- We hold an annual general meeting.
- We send out mail shots to advise all employers of developments.

PROMOTION OF MEMBERSHIP, INCLUDING AUTO ENROLMENT

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

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

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

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

SYSTEMS

The Pensions Service has used the Civica UPM pension administration system since 2003. 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 mailshots are now sent out electronically. This facility has greatly improved the efficiency of keeping employers informed and allows them to distribute information within their own organisation.

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 2016/17, 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 and calculate estimates of their benefits.

The Universal Pensions Management system provides for the bulk import and automated processing of data from employers. This reduces the risk of passing incorrect data, provides significant efficiencies in administration and processing and reduces the cost for both employers and the Fund.

We have developed this bulk processing system for high volume areas such as changes to personal data, working hours and joiner information. This is being used by a small number of large employers and is available to all employers.

INTERNAL DISPUTE RESOLUTION PROCEDURES

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

The first stage of the 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 who made the decision, but in some cases it is the Pension Fund. Decisions are usually communicated within two months.

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

If members are still not satisfied once the 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 2015/16 five disputes against decisions made by the Pension Fund were considered under the IDRP procedure. Of those five cases, in four cases the Pension Fund's decision was upheld and in one case the appeal was upheld.

IMPLEMENTATION OF THE NEW 2014 SCHEME

The new Scheme commenced on 1st April 2014.

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

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

Virtually all of the calculations required for individuals are now signed off and fully functional. Work is continuing to test and implement the remaining individual calculations, together with the bulk calculation processes involved in the extraction of data for the 2016 triennial fund valuation.

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

PENSIONS FREEDOM AND CHOICE

On 6 April 2015 the Government introduced greater flexibility for pension savings in defined contribution schemes. These apply to individuals aged 55 and over and are known as Pensions Freedom and Choice.

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

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

PENSION LIBERATION FRAUD

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

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

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

THE PENSIONS REGULATOR

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

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



ADMINISTRATIVE MANAGEMENT PERFORMANCE

INTRODUCTION

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

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

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

THE 2015 CIPFA BENCHMARKING CLUB REPORT

The latest CIPFA Benchmarking Club Report is the 2015 Report, which was issued in October 2015. The 2015 Report compares the performance of the Pensions Service in 2014/15 with 42 other local authorities who administer the Scheme.

The key benchmark for Pensions Administration is the cost per member of administering the Scheme. The Pensions Service cost for 2014/15 was £17.38 per member, compared to the average cost of £19.17 per member.

The comparative costs for 2013/14 were £18.67 per member, compared to the average cost of £20.75 per member.

The membership total used by the Benchmarking Club includes preserved refunds. The inclusion of preserved refunds of 2,616, increases our reported membership of 129,222 to 131,838.

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

COST PER MEMBER	PENSIONS SERVICE £	AVERAGE £
Staff	6.89	7.83
Payroll	1.39	1.85
Direct Costs (including Audit, Communications and Actuarial Costs)	2.64	3.11
Overheads (including IT, Accommodation and Central Charges)	6.54	5.38
Outsourcing Contract Costs	0.00	19.78
Income	-0.08	-0.23
Net Cost per Member	17.38	19.17**

** 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 4,091. The equivalent figure for the Club as a whole was 4,230

The annual cost to the Pensions Service of employing a full time equivalent member of staff was £28,179, compared to the average of £32,429. The comparative costs for 2013/14 were £31,497, compared to the Club average £31,133.

UNIT COSTS INCLUDING AND EXCLUDING INVESTMENT COSTS

Unit costs for the year to 31st March 2016

	COST £m	MEMBERSHIP	COST PER MEMBER £
Administrative Cost	2.457	131,838	18.64
Investment Management Expenses	39.689	131,838	301.04
Oversight and Governance costs	0.903	131,838	6.85

Unit costs for the year to 31st March 2015

	COST £m	MEMBERSHIP	COST PER MEMBER £
Administrative Cost	2.317	128,084	18.09
Investment Management Expenses	38.521	128,084	300.75
Oversight and Governance costs	0.785	128,084	6.13

It should be noted that the Benchmarking Club excludes certain administrative costs. For example, the Past Service Deficiency element of employer contributions. This explains why the Administrative cost per member for 2014/15 differs from the Club figures.

AGE PROFILE OF FUND MEMBERSHIP AT 31ST MARCH 2016

AGE BAND	MEMBERSHIP TYPE					TOTAL
	ACTIVE	BENEFICIARY	DEFERRED	PENSIONER	PRESERVED REFUND	
<20	599	254	44	0	38	935
20-24	2,087	76	602	0	144	2,909
25-29	3,496	3	2,493	0	167	6,159
30-34	4,577	7	4,233	3	250	9,070
35-39	5,086	20	4,413	8	330	9,857
40-44	5,863	35	4,982	58	401	11,339
45-49	7,181	87	6,415	205	414	14,302
50-54	8,440	187	7,521	561	379	17,088
55-59	6,499	315	6,070	2,933	305	16,122
60-64	2,977	476	1,130	8,521	146	13,250
65-69	489	790	82	10,214	31	11,606
70-74	64	797	18	6,155	10	7,044
75-79	2	973	0	4,309	0	5,284
80-84	0	1,053	0	2,688	0	3,741
85-89	0	764	0	1,407	1	2,172
>90	0	415	0	545	0	960
	47,360	6,252	38,003	37,607	2,616	131,838

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



PERFORMANCE INDICATOR FOR PENSIONS PROCESSING

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

In 2015/16 42.72% of the measured processes were completed in line with the Disclosure Regulations. This figure is consistent with last year but is significantly lower than the 70% to 75% that was achieved in the years before. This is due to the late release of the new Scheme Regulations and associated guidance, combined with the increased complexity of the new Scheme. This has led to delays in processing and large backlogs of work have built up.

In addition, the continued lack of familiarity with the new Scheme's data requirements has continued to result in many cases, a higher incidence of incorrect or questionable data during the year. This has required both employers and the Pensions Service spending additional time on investigation and correction. These problems impact in particular on the performance of large multi-employer schemes containing hundreds of employers, each of which has differing levels of knowledge, experience and resourcing.

ADDITIONAL VOLUNTARY CONTRIBUTIONS

INTRODUCTION

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

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

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

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

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

- **Take out an Additional Pension Contract**

Again, subject to limits, a member can purchase annual pension up to a maximum of £6,675. This amount is increased each year in accordance with any increase applied to pensions in payment. The contract can be taken with or without a contribution from the employer and can be used to buy extra pension or lost pension arising from authorised unpaid leave of absence. Medical clearance may be required. Subject to the Fund's policy, members may choose to make a one off payment or regular contributions. Tax relief may apply.

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

THE PRUDENTIAL

The Fund has an AVC plan arranged with The Prudential that offers a comprehensive range of fifteen 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 2015/16 review was undertaken in November 2015 by Hymans Robertson.

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

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

Further Regulations that will determine how in-house AVC plans will change to comply with the Government's Freedom and Choice in Pensions reforms are expected.

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

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.

INVESTMENT STRATEGY

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

An asset liability study was carried out in 2013/14 using the liability data from the 2013 valuation.

The study 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.

In 2014/15 a market testing exercise was undertaken along with a detailed consideration of possible trading strategies. These changes were fully implemented in 2015/16.

Following the completion of the trading in October 2015, the Fund's allocation to passive strategies is 27%, comprised of 25% in equities and 2% in bonds.

The overall high level strategy at the year end 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.

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 2015/16.

Further tactical changes were considered in 2015/16 to the Fund's investment strategy as follows;

- A reduction in the allocation to UK property of 1%, from 8% to 7%. In addition, it was agreed that 1% of the remaining 7% allocation will be in UK residential property.
- A 0.5% increase in the allocation to global property to take this to 5%.
- A 0.5% allocation to a trade finance fund.

These changes will be implemented in 2016/17, however, it is recognised that it may take time as they are all illiquid assets.

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

QUOTED EQUITIES AND BONDS

The Fund has appointed 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 - Japanese Equities - Asia Pacific ex Japanese Equities - Fundamental Global 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 in place at the year end is comprised of 8% to UK direct property and 4.5% to global property.

As noted above, the Fund will be looking to implement some tactical changes to the property allocation in 2016/17 which will bring the overall allocation down to 12.0%, comprised of 7% in UK property and 5% to global property.

The UK mandate is managed by Aberdeen Property Investors. This was valued at £311.4 million at the year end, representing 4.9% 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 in the property market.

The global property programme 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 £348.9 million, or 5.4% 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 £155.6 million, representing 2.4% of the Fund.

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, Collier Capital and HarbourVest, and into direct funds managed by HarbourVest, Capital International, Partners Group and Lexington.

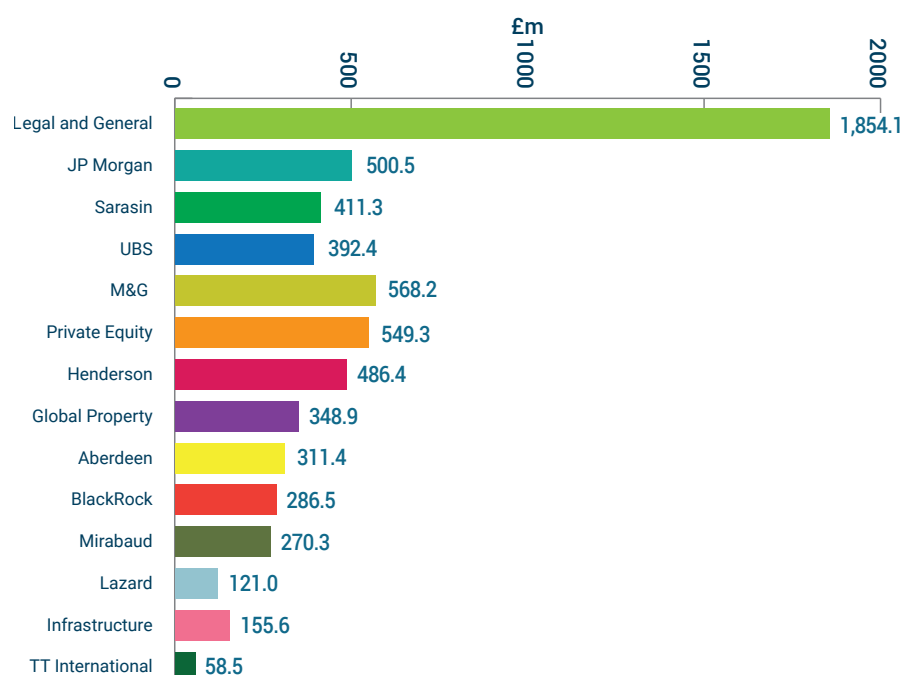
At the year end, £549.3 million was invested in private equity, equal to 8.6% of the Fund. The overweight position is attributable to the growth in the Fund value being slower than projected following the global financial crisis.

ACTIVE CURRENCY

At the beginning of 2015/16 the Fund had a small allocation to active currency. The holdings in these investments were sold out of during the year.

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.

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.

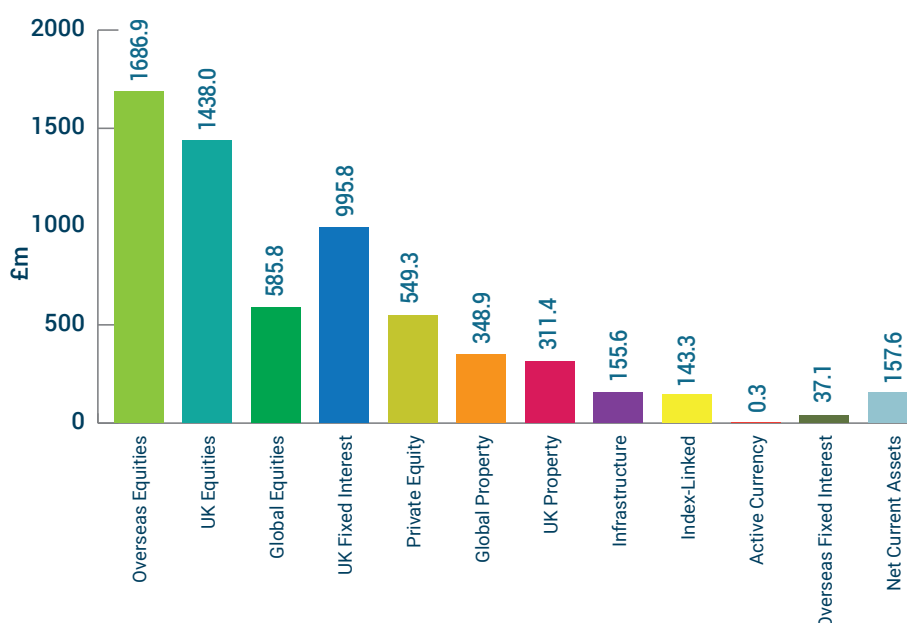
The service has been market tested and benchmarked regularly to ensure that it remains competitive, the latest review being carried out during 2014/15. As at March 2016, Northern Trust was providing custody for approximately £2.0 billion of assets held in six mandates.

ASSET ALLOCATION

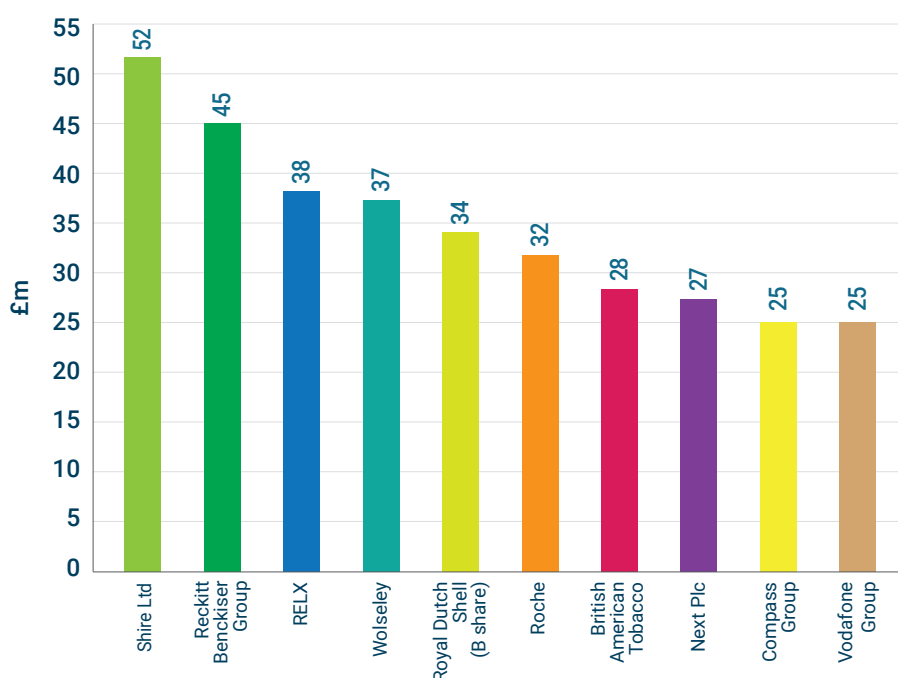
The asset allocation is maintained within pre-determined ranges around the strategic benchmark. Action is taken to bring the Fund back within range when a breach occurs. Legal and General provide management information that assists with this process.

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 2016 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.

MARKET CONDITIONS AND INVESTMENT RETURNS FOR 2015/16

With the exception of US equities the major equity markets all suffered falls in value during the year. Overall market returns were lower than in the previous year. This made it a difficult year for pension funds to produce a positive absolute return. Bond markets generally produced positive returns as did alternatives.

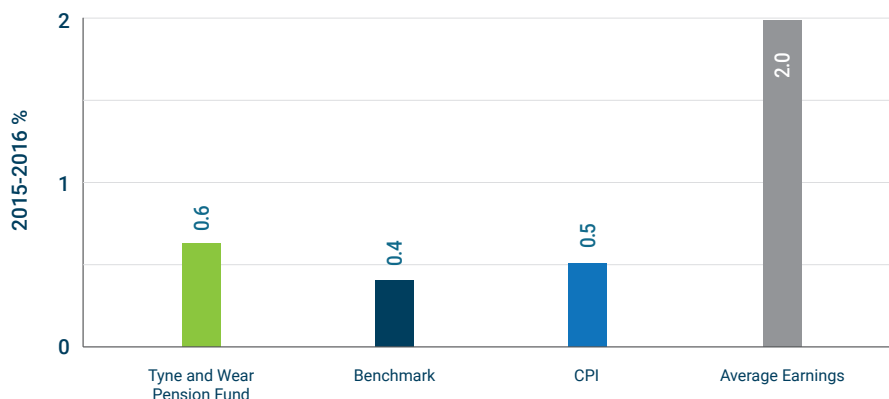
The strongest performing markets were UK property with a return of 10.7%, followed by US equities at 3.6%.

The poorest performer was Emerging Market equities, which returned a loss of 8.8%.

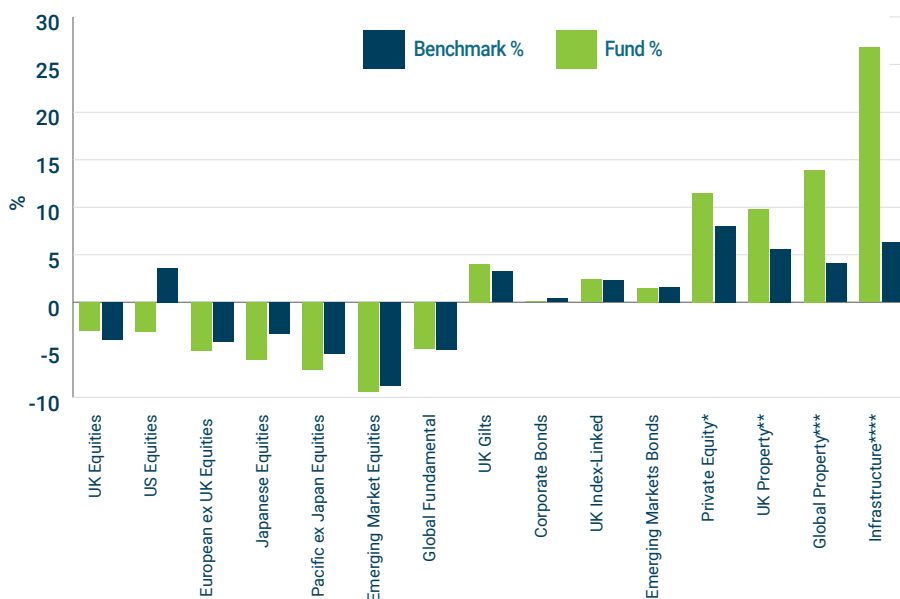
The return from UK equities is of particular importance to UK pension funds as a large proportion of their assets tend to be invested there. This market returned a loss of 3.9%.

The Fund's return in this year was 0.6%, which was 0.2% above its benchmark return of 0.4%. This small positive absolute and relative performance was pleasing during a year when most equity markets fell and there were high levels of volatility.

Inflation as measured by the Consumer Prices Index, which has become the more important measure for the Scheme, was up by 0.5% for the year while Average Earnings increased by 2.0%.



The chart below shows the Fund's returns over the main investment markets for 2015/16.



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

** The benchmark for UK property is Retail Price Index plus 4% per annum. The market return for property during the year as measured by IPD for the Medium Life and Pension Fund Universe was 10.7%.

*** 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 marginal out performance for the year was largely due to good returns from the alternatives programmes, including private equity, property and infrastructure. This was offset by poor performance across the equity regions with the exception of the US. The performance of bonds was mixed during the year.

The returns from the passive strategies were satisfactory.

The return from the private equity programme is measured against an absolute return benchmark of 8% per annum net of fees. This long term benchmark has been adopted to seek to reduce the volatility of returns relative 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 11.5% 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 9.8% which was comfortably above its RPI based benchmark of 5.6%. This level of strong, relative performance against an RPI benchmark 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.

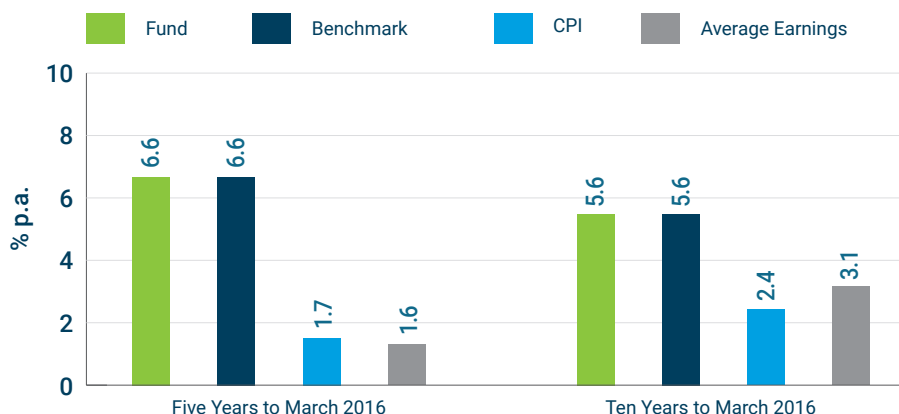
The global property programme was introduced in mid 2010 and is comprised of funds run by Partners Group. It outperformed its benchmark for the year. The programme is still in the early stages of development.

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. 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.



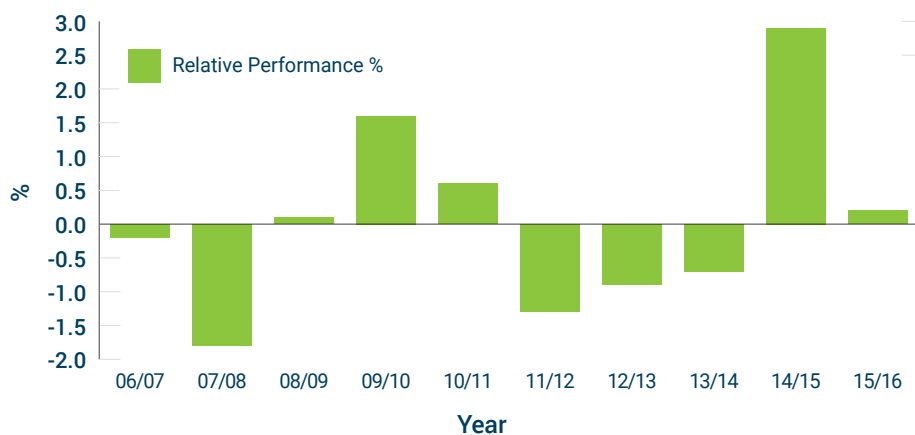
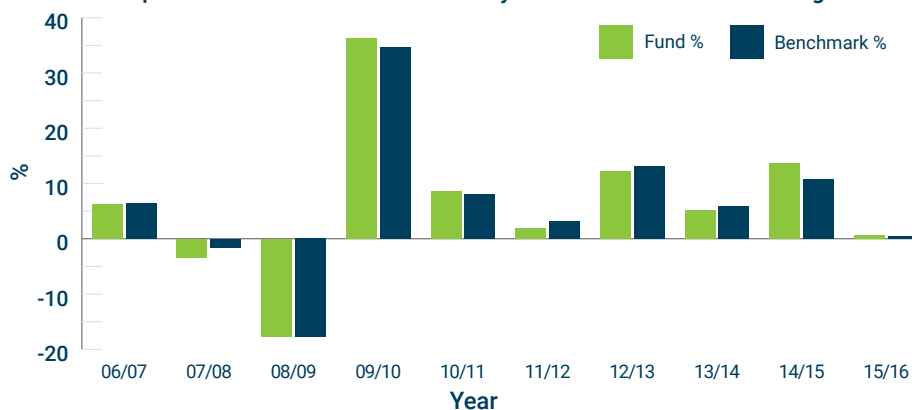
The five year return is 6.6% per annum, which is in line with the benchmark return of 6.6% per annum. The ten year return is 5.6% per annum, which is also in line with the benchmark return of 5.6% per annum.

The returns over the longer term have been influenced in part by 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 detracted from returns over these periods.

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

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

The 2014/15 performance was above benchmark and returns were mainly from alternative investments including private equity, infrastructure and both UK and global property.

Performance for 2015/16 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 2016.

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

FUND	THREE YEARS		FIVE YEARS	
	FUND %	BENCHMARK %	FUND %	BENCHMARK %
UK Equities	4.2	3.7	6.2	5.7
US Equities	10.3	12.7	9.8	12.8
European ex UK Equities	4.1	5.9	3.6	4.4
Japanese Equities	2.9	7.0	5.9	7.2
Pacific ex Japan Equities	2.4	1.9	3.5	3.6
Emerging Market Equities	2.1	-2.3	-0.6	-1.6
Bonds	4.2	3.8	6.9	6.7
UK Gilts	4.9	4.7	5.8	6.7
Corporate Bonds	5.1	4.9	7.4	7.0
UK Index-Linked	6.5	5.8	11.1	9.9
Private Equity*	12.7	8.0	10.9	7.9
UK Property**	12.6	5.6	3.0	5.2
Global Property ***	11.7	2.3	11.1	1.4
Infrastructure****	15.9	4.8	10.2	4.9

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

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

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

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

The returns from the various equity classes have been mixed over the three and five year periods. The return from UK equities is of particular importance to UK pension funds as a large proportion of their assets tend to be invested there. The Fund returned satisfactory results over both periods. The three year return was 4.2% per annum against a benchmark of 3.7% per annum and the five year return was 6.2% per annum against a benchmark of 5.7% per annum.

The private equity returns of 12.7% per annum for three years and 10.9% per annum for five years are ahead of the consolidated benchmarks of 8.0% and 7.9% respectively.

The UK property portfolio has performed well against market based benchmarks and its Retail Prices Index based benchmark over the three year period but still has not performed over the five year period.

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

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. The return is above the absolute return based benchmark for both the three and five year periods.

MANAGEMENT EXPENSES

The Chartered Institute of Public Finance and Accountancy (CIPFA) issues recommended accounting guidance on the production of the Pension Fund Report and Accounts. For the financial year ended 31st March 2015, CIPFA issued guidance that all costs and expenses should be fully disclosed in the Fund's main accounting statements under Investment Management Expenses. The Fund implemented this best practice guidance.

For the current year CIPFA has reviewed this guidance and issued further clarification which amends the position from the previous year.

The latest best practice guidance suggests that Investment Management Expenses for 2015/16 should not reflect fees and expenses that are incurred by underlying investment vehicles investing in other vehicles which the Fund has no control over. These are referred to by CIPFA as "tier 2" fees and expenses. This is typically the case with private market fund of fund investments.

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

The table below shows the Investment Management Expenses as shown in the accounts and also the "Tier 2" fees and expenses, which have now been excluded from the accounts.

31st March 2015 £m		Fund Account note	31st March 2016 £m
38.521	Investment Management Expenses	10	39.689
16.471	Tier 2 Fees and Expenses		33.588
54.992	Total Investment Management Expenses		73.277

The table shows that the "tier 2" fees and expenses for 2015/16 are £33.588 million (£16.471 million for 2014/15). This gives an overall cost for Investment Management Expenses of £73.277 million for 2015/16 (£54.992 million for 2014/15).



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:

<p>PRINCIPLE 1 – EFFECTIVE DECISION MAKING</p>	<p>The Fund has a governance structure and Training Policy and Programme in place that ensures that:</p> <ul style="list-style-type: none"> • 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.
<p>PRINCIPLE 2 – CLEAR OBJECTIVES</p>	<p>Asset liability modelling, informed by the triennial valuation data and report, is applied to set an investment objective for the Fund that takes account of its liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of the administering authority and employers. The outcome of the modelling and the resultant investment management strategy are clearly communicated to advisors and investment managers.</p>
<p>PRINCIPLE 3 – RISK AND LIABILITIES</p>	<p>The investment strategy takes account of the form and structure of liabilities. This includes the implications for local tax payers, the strength of covenant of employers, default risk and longevity risk.</p>
<p>PRINCIPLE 4 – PERFORMANCE ASSESSMENT</p>	<p>Arrangements are in place for the formal measurement of performance of the investments, investment managers and advisors.</p> <p>The Pensions Committee undertakes an annual assessment of its effectiveness as a decision-making body. It also assesses the effectiveness of its investment advisors and the Fund's Officers.</p>
<p>PRINCIPLE 5 – RESPONSIBLE OWNERSHIP</p>	<p>The Fund:</p> <ul style="list-style-type: none"> • 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.
<p>PRINCIPLE 6 – TRANSPARENCY AND REPORTING</p>	<p>The Fund's policy documents, in particular the Governance Compliance Statement, Communication Policy Statement and Statement of Investment Principles demonstrate how it:</p> <ul style="list-style-type: none"> • Acts in a transparent manner, communicating with stakeholders on issues relating to the management of investment, its governance and risks, including performance against stated objectives. • 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 2016.

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.

The SIP may be viewed on the Fund's website at www.twpf.info.

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 2016.

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 pooled funds) for 2015/16 is shown below:

	GLOBAL EX UK	UK ONLY
Annual General Meetings	2,656	750
Extraordinary General Meetings	691	156
Resolutions	38,530	12,873
Votes For	33,249	12,630
Votes Against	4,900	199
Abstentions	151	8
Votes Not Cast	230	36

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

A resolution was opposed or there was an abstention on 5,258 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 266 resolutions where votes were not cast.

For 168 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.

77 of these resolutions relate to five AGMs where the shares were out on loan. The Fund has a process of recalling shares out on loans where the vote relates to a contentious issue. The stock was not recalled as the votes were not considered to be contentious.

A further 21 resolutions relate to two AGMs where votes were not cast due to manager error. The manager has changed its procedures to ensure that this does not happen again in the future.

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 seventy 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

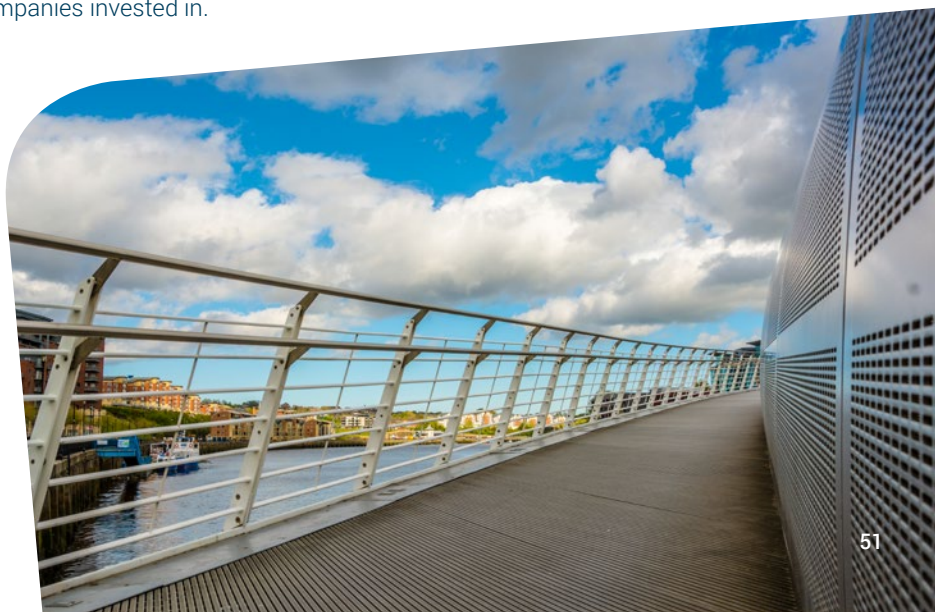
The Fund's Statement of Investment Principles and Corporate Governance Policy cover the extent to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments.

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 ENDED

31st March 2015 £m (Restated)		Note	31st March 2016 £m
	Dealings With Members, Employers and Others Directly Involved in the Fund		
(279.084)	Contributions	6	(289.446)
(3.317)	Transfers In from Other Pension Funds	7	(7.715)
(282.401)	Total Income		(297.161)
247.698	Benefits Payable	8	264.760
114.036	Payments To and On Account of Leavers	9	7.377
361.734	Total Costs		272.137
79.333	Net (Income)/Expenditure		(25.024)
41.623	Management Expenses	10	43.049
	Returns on Investments		
(100.999)	Investment Income	11	(89.480)
3.837	Taxes on Income	11	3.146
(666.389)	Profits and Losses on Disposals of Investments and Changes in Market Value of Investments	12	19.263
(763.551)	Net Returns on Investments		(67.071)
(642.595)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(49.046)
5,735.729	Net Assets of the Fund at 1st April		6,378.324
6,378.324	Net Assets of the Fund at 31st March		6,427.370



NET ASSETS STATEMENT FOR THE YEAR ENDED

31st March 2015 £m		Note	31st March 2016 £m
6,382.493	Investment Assets	12	6,422.276
(23.979)	Investment Liabilities	12	(12.298)
28.686	Current Assets	15	27.816
(8.876)	Current Liabilities	15	(10.424)
6,378.324	Net Assets of the Fund Available to Fund Benefits as at 31st March		6,427.370

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 28 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 2016 set out in pages 52 to 80 present fairly the financial position of the Tyne and Wear Pension Fund as at 31st March 2016 and its income and expenditure for the year ended 31st March 2016.

Ian Bainbridge
Head of Pensions
September 2016

Stuart Reid
Head of Finance
(Section 151 Officer)
September 2016

The financial statements were approved by the Pensions Committee at its meeting on 15th September 2016.

Councillor Eileen Leask
Chair of the Pensions Committee

NOTES TO THE TYNE AND WEAR PENSION FUND FINANCIAL STATEMENTS

1. DESCRIPTION OF THE TYNE AND WEAR PENSION FUND

a) General

The Tyne and Wear Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS) and is administered by South Tyneside Council ('the Council'). It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the Council, four other local authorities within the Tyne and Wear area, scheduled bodies and admitted employers in the Fund. These benefits include retirement pensions, early payment of benefits on medical grounds and the payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index (CPI). Teachers, police officers and fire fighters are not included as they come within other national pension schemes.

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

- The LGPS Regulations 2013 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

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) Local Pension Board

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

d) Membership

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

Employers participating in the Tyne and Wear Pension Fund include:

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

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

	31st March 2015	31st March 2016
Number of Employers Within the Fund	223	230
Number of Employees in Fund		
South Tyneside Council	4,101	3,949
Other Employers	42,799	43,411
Total	46,900	47,360
Number of Pensioners		
South Tyneside Council	4,495	4,659
Other Employers	37,974	39,200
Total	42,469	43,859
Deferred Pensioners		
South Tyneside Council	4,273	4,427
Other Employers	32,094	33,576
Total	36,367	38,003

e) Funding

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

f) Benefits

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

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

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

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

g) Investment 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 2016. 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 18) 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.

2. BASIS OF PREPARATION

The financial statements summarise the Fund's transactions for the financial year 2015/16 and its position as at 31st March 2016. The accounts have been prepared following the "Code of Practice on Local Authority Accounting in the United Kingdom 2015/16" (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.

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 2016 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.

Interest Income

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

Dividend Income

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

Distributions from Pooled Funds

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

Movement in the Net Market Value of Investments

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

d) Benefits Payable

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

e) Taxation

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

f) Management Expenses

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 of clarification of the recommended accounting procedures from Chartered Institute of Public Finance and Accounting (CIPFA), investment management expenses for 2014/15 have been restated to reflect the CIPFA Guidance. Management expenses have fallen by £16.471 million from £58.094 million to £41.623 million to reflect fees and expenses that are incurred by underlying investment vehicles investing in other vehicles which the Fund has no control over. This is typically the case with private market fund of fund investments.

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 2016 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 2016. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes a party to the purchase of the asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund Account.

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

Market Quoted Investments

Quoted securities have been valued at their bid price on 31st March 2016.

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 2016 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

Properties are shown as valued at 31st March 2016. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Jones Lang LaSalle. No depreciation is provided on freehold buildings or long leasehold properties, in accordance with The Royal Institute of Chartered Surveyors Valuation Standards 9th Edition.

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 2016.

End of year investment and foreign currency balances have been converted into Sterling at the closing exchange rates on 31st March 2016.

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 2016.

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 24.

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 are subject to minimal risk of changes in their valuations.

l) Actuarial Present Value of Promised Retirement Benefits

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

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement. (Note 28).

m) Additional Voluntary Contributions

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

In accordance with section 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 17).

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 28. The estimate is subject to significant variances based on changes to the underlying assumptions used by the Actuary.

Property Valuation

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

Unquoted Private Equity Investments

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

Pension Fund Liability

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

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

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 2016 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 £549.325 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 28 for the "actuarial present value of the promised retirement benefits" could be under or over stated in the note.

6. CONTRIBUTIONS RECEIVABLE

31st March 2015 £m	By Category	31st March 2016 £m
(222.019)	Employers	(233.766)
(55.384)	Members	(55.672)
(277.403)	Total Contributions Receivable	(289.438)
(1.681)	Refund of Payroll Costs	(0.008)
(279.084)	Total Contributions	(289.446)

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

31st March 2015 £m	By Authority	31st March 2016 £m
(23.766)	South Tyneside Council (Administering Authority)	(24.399)
(147.034)	Other Metropolitan Councils	(152.817)
(59.986)	Other Part 1 Scheduled Bodies	(62.298)
(13.906)	Part 2 Scheduled Bodies	(13.030)
(32.711)	Admitted Bodies	(36.894)
(277.403)	Total Contributions Receivable	(289.438)
(1.681)	Refund of Payroll Costs	(0.008)
(279.084)	Total Contributions	(289.446)

31st March 2015 £m	By Type	31st March 2016 £m
(55.384)	Employees' Normal Contributions	(55.672)
(133.160)	Employers' Normal Contributions	(135.739)
(88.859)	Employers' Deficit Recovery Contributions	(98.027)
(277.403)	Total Contributions Receivable	(289.438)
(1.681)	Refund of Payroll Costs	(0.008)
(279.084)	Total Contributions	(289.446)

The refund of payroll costs relates to a group transfer of pensioners into the Greater Manchester Pension Fund (GMPF) which took place in 2014/15. 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. The small figure for 2015/16 relates to an amount of additional costs reimbursed by GMPF.

7. TRANSFERS IN

31st March 2015 £m	By Category	31st March 2016 £m
-	Group Transfers	(3.960)
(3.317)	Individual Transfers	(3.755)
(3.317)	Total Transfers Receivable	(7.715)

During the year, individual transfers in from other schemes amounted to £3.755 million (£3.317 million in 2014/15). There was £3.960 million of income relating to bulk transfers into the Fund in 2015/16 from a transfer of employees from Wear Valley Housing Group to Gentoo. The transfer of staff took place on the 31st March 2008, the actuaries only agreed a transfer value during 2015/16. There was no bulk transfer received during 2014/15.

A group of employees, deferred and actual pensioners transferred to the Fund from Worcestershire Pension Fund during the 2014/15 financial year, in relation to the transfer of Kidderminster College to Newcastle College. 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 2015 £m	By Category	31st March 2016 £m
217.297	Pensions	222.902
35.565	Commutations and Lump Sum Retirement Benefits	47.548
6.030	Lump Sum Death Benefits	5.206
(11.194)	Recharges Out	(10.896)
247.698	Total Benefits Payable	264.760

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

31st March 2015 £m	By Authority	31st March 2016 £m
23.928	South Tyneside Council (Administering Authority)	25.071
153.565	Other Metropolitan Councils	162.633
36.565	Other Part 1 Scheduled Bodies	38.010
7.792	Part 2 Scheduled Bodies	8.119
25.848	Admitted Bodies	30.927
247.698	Total Benefits Payable	264.760

9. LEAVERS

31st March 2015 £m	By Category	31st March 2016 £m
6.140	Individual Transfers to Other Schemes	6.712
0.244	Refunds to Members Leaving Service	0.479
107.647	Group Transfers	0.000
0.005	State Scheme Premiums	0.186
114.036	Total Leavers	7.377

There was no bulk transfer out of the Fund during 2015/16. 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.

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. 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 2015 £m (Restated)		31st March 2016 £m
2.317	Administrative Costs	2.457
38.521	Investment Management Expenses	39.689
0.785	Oversight and Governance Costs	0.903
41.623	Management Expenses	43.049

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 2015 £m (Restated)		31st March 2016 £m
22.024	Management and Custody Fees	23.513
8.792	Performance Fees	8.341
5.148	Transaction Costs	4.686
2.557	Expenses Charged within Pooled Vehicles	3.149
38.521	Investment Management Expenses	39.689

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

As a result of clarification of the recommended accounting procedures from the Chartered Institute of Public Finance and Accounting (CIPFA), investment management expenses for 2014/15 have been restated to reflect the CIPFA Guidance. Management expenses have fallen by £16.471 million from £58.094 million to £41.623 million to reflect fees and expenses that are incurred by underlying investment vehicles investing in other vehicles which the Fund has no control over. This is typically the case with private market fund of fund investments.

11. INVESTMENT INCOME

31st March 2015 £m		31st March 2016 £m
(1.957)	Fixed Interest Securities	(1.353)
(64.450)	Equities	(52.440)
(0.362)	Index-Linked Securities	(0.387)
(16.948)	Pooled Investment Vehicles	(17.477)
(16.158)	Net Rents from Properties	(16.762)
(0.348)	Cash Deposits	(0.564)
(0.750)	Securities Lending	(0.495)
(0.002)	Commission Recapture	(0.002)
(0.024)	Underwriting Commission	0.000
(100.999)	Sub-Total	(89.480)
3.837	Non-Recoverable Tax	3.146
(97.162)	Total Investment Income	(86.334)

NET RENTS FROM PROPERTIES

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

31st March 2015 £m		31st March 2016 £m
(15.610)	Rental Income	(16.989)
(0.548)	Direct Operating Expenses/(Income)	0.227
(16.158)	Net Income	(16.762)

12. INVESTMENTS

31st March 2015 £m		31st March 2016 £m
	Investment Assets	
58.784	Fixed Interest Securities	56.115
3,008.420	Equities	2,234.175
55.862	Index-Linked Securities	58.342
2,824.214	Pooled Investment Vehicles	3,618.748
5.480	Derivative Contracts	3.232
303.000	Properties	311.425
113.947	Cash Deposits	128.799
12.786	Other Investment Balances	11.440
6,382.493	Total Investment Assets	6,422.276
	Investment Liabilities	
(2.713)	Derivative Contracts	(1.845)
(21.266)	Other Investment Balances	(10.453)
(23.979)	Total Investment Liabilities	(12.298)
6,358.514	Net Investment Assets	6,409.978

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.

2015/16	Value at 31st March 2015 £m	Purchases at Cost & Derivative Payments £m	Sales Proceeds & Derivative Receipts £m	Change in Market Value £m	Value at 31st March 2016 £m
Fixed Interest Securities	58.784	236.199	(239.183)	0.315	56.115
Equities	3,008.420	1,037.983	(1,775.317)	(36.911)	2,234.175
Index-Linked Securities	55.862	128.757	(127.615)	1.338	58.342
Pooled Investment Vehicles	2,824.214	1,873.678	(1,083.947)	4.803	3,618.748
Properties	303.000	32.439	(33.525)	9.511	311.425
Derivative Contracts	2.767	7.792	(10.331)	1.159	1.387
	6,253.047	3,316.848	(3,269.918)	(19.785)	6,280.192
Cash Deposits	113.947	32.367	(17.890)	0.375	128.799
Other Investment Balances	(8.480)	11.750	(2.430)	0.147	0.987
Total investments	6,358.514	3,360.965	(3,290.238)	(19.263)	6,409.978

2014/15 (Restated)	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	1,236.078	(1,187.378)	310.113	3,008.420
Index-Linked Securities	47.268	141.897	(143.336)	10.033	55.862
Pooled Investment Vehicles	2,578.373	262.290	(323.232)	306.783	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	2,003.665	(2,002.182)	662.093	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	2,013.498	(2,034.845)	666.389	6,358.514

31st March 2015 £m		31st March 2016 £m
	Fixed Interest Securities	
58.784	UK Public Sector	56.115
58.784	Total Fixed Interest Securities	56.115
	Equities	
889.707	UK Quoted	780.963
1,739.893	Overseas Quoted	1,074.032
378.820	Overseas Unquoted	379.180
3,008.420	Total Equities	2,234.175
	Index-Linked Securities	
55.862	UK Public Sector	58.342
55.862	Total Index-Linked Securities	58.342
	Pooled Investment Vehicles	
0.284	Unit Trusts	0.273
1,477.167	Unitised Insurance Policies	2,307.286
1,346.763	Other Managed Funds	1,311.189
2,824.214	Total Pooled Investment Vehicles	3,618.748
	Properties	
258.500	Freehold	267.775
44.500	Long Leasehold	43.650
303.000	Total Properties	311.425
	Derivative Contracts	
2.767	Forward Foreign Currency Contracts	1.387
2.767	Total Derivative Contracts	1.387
	Cash Deposits	
90.146	Sterling	122.513
23.801	Foreign Currency	6.286
113.947	Total Cash Deposits	128.799
	Other Investment Balances	
(15.984)	Outstanding Trades	(4.642)
11.749	Outstanding Dividends & Tax Recoveries	9.995
1.037	Debtors	1.445
(5.282)	Creditors	(5.811)
(8.480)	Total Other Investment Balances	0.987
6,358.514	Total Investments	6,409.978

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 2015			31st March 2016			
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			
58.784	0.000	0.000	Fixed Interest Securities	56.115	0.000	0.000
3,008.420	0.000	0.000	Equities	2,234.175	0.000	0.000
55.862	0.000	0.000	Index-Linked Securities	58.342	0.000	0.000
2,824.214	0.000	0.000	Pooled Investment Vehicles	3,618.748	0.000	0.000
5.480	0.000	0.000	Derivative Contracts	3.232	0.000	0.000
303.000	0.000	0.000	Properties	311.425	0.000	0.000
0.000	113.947	0.000	Cash Deposits	0.000	128.799	0.000
11.749	0.000	0.000	Other Investment Balances	9.995	0.000	0.000
0.000	29.723	0.000	Debtors	0.000	29.261	0.000
6,267.509	143.670	0.000	Total Financial Assets	6,292.032	158.060	0.000
			Financial Liabilities			
(2.713)	0.000	0.000	Derivative Contracts	(1.845)	0.000	0.000
(15.984)	0.000	0.000	Other Investment Balances	(4.642)	0.000	0.000
0.000	0.000	0.000	Borrowings	0.000	0.000	0.000
0.000	0.000	(14.158)	Creditors	0.000	0.000	(16.235)
(18.697)	0.000	(14.158)	Total Financial Liabilities	(6.487)	0.000	(16.235)
6,248.812	143.670	(14.158)	Total Assets	6,285.545	158.060	(16.235)

b) Net Gains and Losses on Financial Instruments

31st March 2015 £m (Restated)		31st March 2016 £m
	Financial Assets	
662.025	Fair Value Through Profit and Loss	(19.638)
	Financial Liabilities	
4.364	Fair Value Through Profit and Loss	0.375
666.389	Total	(19.263)

c) Valuation of Financial Instruments Carried at Fair Value

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

Level 1

Financial instruments are Level 1 where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets in this level are comprised of quoted equities, quoted fixed interest securities 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 using a mixture of a 31st March 2016 valuation and a 31st December 2015 valuation adjusted for cash flows and rolled forward to 31st March 2016 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 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial Assets				
Financial Assets at Fair Value Through Profit and Loss	4,930.514	314.657	1,046.861	6,292.032
Loans and Receivables	158.060	0.000	0.000	158.060
Total Financial Assets	5,088.574	314.657	1,046.861	6,450.092
Financial Liabilities				
Financial Liabilities at Fair Value Through Profit and Loss	0.000	(1.845)	0.000	(1.845)
Financial Liabilities at Amortised cost	(20.877)	0.000	0.000	(20.877)
Total Financial Liabilities	(20.877)	(1.845)	0.000	(22.722)
Net Financial Assets	5,067.697	312.812	1,046.861	6,427.370

	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	0.000	0.000	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	0.000	(2.713)	0.000	(2.713)
Financial Liabilities at Amortised cost	(30.142)	0.000	0.000	(30.142)
Total Financial Liabilities	(30.142)	(2.713)	0.000	(32.855)
Net Financial Assets	5,056.683	305.767	1,015.874	6,378.324

14. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's investment objective is:

To invest in assets of appropriate liquidity to produce income and capital growth that, together with employer and employee contributions, will meet the cost of benefits;

and

To keep contributions as low and as stable as possible through effective management of the assets.

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk

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

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

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

Other Price Risk – Sensitivity Analysis

In consultation with its performance and risk advisors and investment advisors, the Fund has carried out an analysis of historic data and movements in expected investment returns during the financial year. It has been determined that the following movements in market price risk are reasonably possible for the 2016/17 financial year.

Asset Type	Potential Market Movements (+/-) %
UK Equities	11.4
Overseas Equities	11.3
Global Equities	10.1
UK Bonds	6.1
Overseas Bonds	10.7
Index-Linked Securities	9.2
UK Property	5.7
Overseas Property	8.3
Private Equity	12.0
Infrastructure Funds	8.9
Active Currency	0.0
Cash	0.0

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

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

Asset Type	Value at 31st March 2016 £m	Percentage Change %	Value on Increase £m	Value on Decrease £m
UK Equities	1,437.981	11.4	1,601.911	1,274.051
Overseas Equities	1,686.881	11.3	1,877.499	1,496.263
Global Equities	585.833	10.1	645.002	526.664
UK Bonds	995.754	6.1	1,056.495	935.013
Overseas Bonds	37.079	10.7	41.046	33.112
Index-Linked Securities	143.334	9.2	156.521	130.147
UK Property	311.425	5.7	329.176	293.674
Overseas Property	348.889	8.3	377.847	319.931
Private Equity	549.325	12.0	615.244	483.406
Infrastructure Funds	155.625	8.9	169.476	141.774
Active Currency	0.273	0.0	0.273	0.273
Cash and Cash Equivalents	150.839	0.0	150.839	150.839
Foreign Currency Contracts	1.387	0.0	1.387	1.387
Investment Income Due	9.995	0.0	9.995	9.995
Amounts Due for Sales	8.603	0.0	8.603	8.603
Amounts Payable for Purchases	(13.245)	0.0	(13.245)	(13.245)
Total	6,409.978		7,028.069	5,791.887

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

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

Interest Rate Risk

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

The Fund's direct exposures to interest rate movements as at 31st March 2015 and 31st March 2016 are set out below. These represent the interest rate risk based on underlying financial assets at fair value.

Asset Type	At 31st March	
	2015 £m	2016 £m
Cash and Cash Equivalents	127.679	150.839
Fixed Interest Securities	1,028.032	1,032.833
Index Linked Securities	139.197	143.334
Total	1,294.908	1,327.006

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets held to pay benefits. Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall. The following table shows the Fund's asset values that have direct exposure to these rate movements. It also shows the effect that a 100bp (1.0%) increase or decrease in the asset value would have on these assets. The comparable figures for the previous year are also shown.

Asset Type	Asset Value at 31st March 2016 £m	Change in Net Asset Values	
		+1.0% £m	-1.0% £m
Cash and Cash Equivalents	150.839	152.347	149.331
Fixed Interest Securities	1,032.833	1,043.161	1,022.505
Index-Linked Securities	143.334	144.767	141.901
Total	1,327.006	1,340.275	1,313.737

Asset Type	Asset Value at 31st March 2015 £m	Change in Net Asset Values	
		+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

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 2016 and at 31st March 2015:

Asset Type	Asset Value at 31st March	
	2015 £m	2016 £m
Overseas Fixed Interest	36.519	37.079
Overseas Quoted Equities	2,051.427	2,221.153
Overseas Unquoted Equities	378.820	379.180
Overseas Pooled Investment Vehicles	591.819	624.433
Forward Currency Contracts	2.767	1.387
Overseas Currency	31.461	24.587
Total	3,092.813	3,287.819

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.

Asset Type	Value at 31st March 2016 £m	Change in Net Asset Values	
		+13% £m	-13% £m
Overseas Fixed Interest	37.079	41.899	32.259
Overseas Quoted Equities	2,221.153	2,509.903	1,932.403
Overseas Unquoted Equities	379.180	428.473	329.887
Overseas Pooled Investment Vehicles	624.433	705.609	543.257
Forward Currency Contracts	1.387	1.567	1.207
Overseas Currency	24.587	27.783	21.391
Total	3,287.819	3,715.234	2,860.404

Asset Type	Value at 31st March 2015	Change in Net Asset Values	
	Revised £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

Manager Risk

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

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

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

Credit Risk

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

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

The Fund seeks to minimise this risk by investing in and through high quality counterparties, brokers and financial institutions.

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

The Fund's cash holding under its internal treasury management arrangements as at 31st March 2016 was £71.050 million (£23.690 million as at 31st March 2015). 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 2015 £m	Value as at 31st March 2016 £m
Money Market Funds			
Federated	AAA	6.650	14.380
Insight	AAA	0.000	14.000
Legal & General	AAA	0.000	8.750
Standard Life (Ignis)	AAA	14.120	10.870
Deutsche Bank	AAA	0.000	2.500
Bank Deposit Accounts			
NatWest	A	2.920	0.550
Santander	A	0.000	5.000
Nationwide Building Society	A	0.000	5.000
Lloyds Bank (32 day)	A+	0.000	10.000
Total		23.690	71.050



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 2016.

15. CURRENT ASSETS AND LIABILITIES

31st March 2015 £m		31st March 2016 £m
	Current Assets	
4.823	Contributions Due - Members	4.745
22.675	Contributions and Recharges Due - Employers	22.421
1.172	Investment Management Expenses	0.651
0.016	Other	(0.001)
28.686	Total Current Assets	27.816
	Current Liabilities	
(2.848)	Unpaid Benefits	(3.287)
(0.467)	Contributions, Recharges and Refunds Due - Employers	(1.048)
(2.439)	HM Revenue and Customs - Tax Deducted from Pensions	(2.787)
(2.664)	Investment Management Expenses	(2.320)
(0.458)	Other	(0.982)
(8.876)	Total Current Liabilities	(10.424)

16. AGENCY SERVICES

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

2014/15 £000	Payments on Behalf of:	2015/16 £000
2,621	Newcastle City Council	2,590
2,246	Sunderland City Council	2,217
2,052	Gateshead Council	2,018
1,920	North Tyneside Council	1,883
854	South Tyneside Council	839
470	Nexus	429
241	Newcastle International Airport	243
237	Police and Crime Commissioner for Northumbria	234
88	Tyne and Wear Residuary Body	86
59	Tyne and Wear Fire and Rescue Service	56
54	The Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority	52
51	University of Sunderland	50
42	Northumbria University	42
19	Workshops for the Adult Blind	18
15	Assessment and Qualifications Alliance	14
13	Newcastle College	10
9	Northern Council for Further Education	10
8	Association of North East Councils	8
8	Newcastle Theatre Royal Trust	8
9	Benton Grange School	9
7	One North East	7
7	Sunderland Magistrates' Courts	7
6	Wearside College	7
6	Gateshead Magistrates' Courts	6
6	Northumbria Tourist Board	6
6	Gateshead College	5
5	Higher Education Funding Council for England	5
4	North Tyneside Disability Advice	4
4	South Tyneside Magistrates' Courts	4
4	Sunderland Empire Theatre Trust	4
3	Monkwearmouth College	3
3	North East Regional Employers Organisation	3
3	South Tyneside Homes	3
3	Tyne and Wear Development Company Limited	3
2	City of Sunderland College	3
2	Catholic Care North East	2
2	North Tyneside College	2
2	North Tyneside Magistrates' Courts	2
2	Wallsend Hall Enterprises Limited	2
1	Age Concern Newcastle	1
0	Tyne and Wear Enterprise Trust	1
100	Northumbria Probation Trust	0
11,194	Total	10,896

17. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Fund offers two types of AVC arrangements.

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

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

During 2015/16, £1.863 million of contribution income was received into the AVC funds provided by The Prudential (£1.359 million during 2014/15). As at 31st March 2016, these funds were valued at £10.818 million (£10.160 million as at 31st March 2015). During 2015/16, £0.001 million of contribution income was received into the AVC funds provided by Equitable Life (£0.001 million during 2014/15). As at 31st March 2016, these funds were valued at £0.086 million (£0.095 million as at 31st March 2015). The funds are valued on a bid basis by each of the providers and take no account of accruals.

18. ANALYSIS OF INVESTMENTS OVER MANAGERS

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

31st March 2015			31st March 2016		
£m	%		£m	%	
Investment Managers					
303.000	4.8%	Aberdeen Property Investors	311.425	4.9%	
287.258	4.5%	BlackRock	286.454	4.5%	
483.117	7.6%	Henderson Global Investors	486.405	7.6%	
789.120	12.4%	JP Morgan Asset Management	500.598	7.8%	
154.535	2.4%	Lazard Asset Management	120.970	1.9%	
1,027.556	16.2%	Legal and General Investment Management	1,854.052	28.9%	
566.600	8.9%	M&G Investments	568.223	8.9%	
274.535	4.3%	Mirabaud Investment Management	270.318	4.2%	
669.107	10.5%	Sarasin & Partners	411.256	6.4%	
61.286	1.0%	TT International	58.518	0.9%	
591.948	9.3%	UBS Global Asset Management	392.377	6.1%	
69.582	1.1%	Active Currency	0.273	0.0%	
572.709	9.0%	Private Equity	549.325	8.6%	
139.985	2.2%	Infrastructure	155.625	2.4%	
310.825	4.9%	Global Property	348.889	5.4%	
57.351	0.9%	Managed In-House	95.270	1.5%	
6,358.514	100.0%	Total Investments	6,409.978	100.0%	

MF Global, a broker used for active currency, went into administration on 31st October 2011. As at 31st March 2015 the Fund had £0.145m outstanding with this company through a position in an active currency fund. This amount is included in the Active Currency Line above. During the year a further £31,000 has been recovered from this broker, leaving an amount outstanding of £0.114m as at 31st March 2016. In addition, the active currency fund this position relates to has now been closed. Whilst attempts are still being made to recover this amount it is uncertain whether this will be received in full. As the investment this amount relates to is no longer in place, this has been excluded from the table above as at 31st March 2016.

19. 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.

20. 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 2016 and 31st March 2015.

Forward Currency Contracts

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2016, the Fund held seventeen positions in foreign currency that together showed an unrealised gain of £1.387 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	Swiss Franc	(0.272)
Three month	Over the Counter	Sterling	Euro	(0.962)
Three month	Over the Counter	Sterling	Hong Kong Dollar	(0.020)
Three month	Over the Counter	Sterling	Yen	(0.152)
Three month	Over the Counter	Sterling	Norwegian Krone	(0.125)
Three month	Over the Counter	Sterling	Swedish Krona	(0.101)
Three month	Over the Counter	Sterling	US Dollar	(0.085)
Three month	Over the Counter	US Dollar	Sterling	(0.128)
Loss/Liability Value as at 31st March 2016				(1.845)
Three month	Over the Counter	Sterling	US Dollar	0.089
Three month	Over the Counter	Australian Dollar	Sterling	0.828
Three month	Over the Counter	Canadian Dollar	Sterling	0.985
Three month	Over the Counter	Swiss Franc	Sterling	0.252
Three month	Over the Counter	Danish Krone	Sterling	0.081
Three month	Over the Counter	Euro	Sterling	0.248
Three month	Over the Counter	Yen	Sterling	0.329
Three month	Over the Counter	Singapore Dollar	Sterling	0.219
Three month	Over the Counter	US Dollar	Sterling	0.201
Profit/Asset Value at 31st March 2016				3.232
Net Forward Currency Contracts as at 31st March 2016				1.387

The contracts were settled at a profit of £1.893 million early in the 2016/17 financial year.

21. SECURITIES LENDING

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £136.537 million were out on loan as at 31st March 2016. The breakdown of securities on loan was:

31st March 2015 £m		31st March 2016 £m
6.178	Fixed Interest Securities	16.386
0	Index-Linked Securities	0.040
65.300	UK Equities	51.461
132.820	Overseas Equities	68.650
204.298	Total Securities Lending	136.537

The value of collateral against which the securities were lent out is £145.810 million. This collateral consists of acceptable securities, government debt and obligations issued by supranational entities.

22. PROPERTY HOLDINGS

31st March 2015 £m		31st March 2016 £m
	Property Holdings	
263.155	Opening Balance	303.000
55.788	Additions	32.439
(38.955)	Disposals	(33.525)
23.012	Net Increase in Market Value	9.511
303.000	Closing Balance	311.425

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 2015 £m		31st March 2016 £m
16.441	Within One Year	17.676
61.332	Between One And Five Years	61.768
145.576	Later Than Five Years	144.421
223.349	Minimum Due From Leases	223.865

23. SIGNIFICANT HOLDINGS

As at 31st March 2016, 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 2016, this was valued at £1,854.052 million and represented 28.9% of the total net assets of the Fund. During 2015/16, the insurance contract was covered by ten individual funds, as follows:

31st March 2015 £m		31st March 2016 £m
739.730	UK Equities	663.996
0	Asia Pacific ex. Japan Equities	78.903
118.698	Emerging Markets Equities	137.418
2.067	Europe (ex UK) Equities	86.573
0	Japan Equities	48.075
47.207	North America Equities	131.175
0	RAFI Global Equities	585.833
83.335	Index-Linked Gilts	84.991
36.519	Emerging Markets Passive Government Bonds	37.079
0	Transition	0.009
1,027.556	Total	1,854.052

- M&G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2016, this was valued at £568.223 million (£449.611 million as at 31st March 2015) and represented 8.9% of the total net assets of the Fund.

24. OUTSTANDING COMMITMENTS

As at 31st March 2016 the Fund had fifty-five outstanding commitments to investments, as shown below.

Name of Fund	Year	Value m	Drawdowns Made m	Commitment Outstanding m	
HarbourVest International Private Equity Partners IV	2002	\$55.0	\$53.6	\$1.4	£1.0
HarbourVest Partners VII Cayman Buyout Fund	2002	\$46.0	\$43.4	\$2.6	£1.8
HarbourVest Partners VII Cayman Mezzanine Fund	2002	\$8.0	\$7.5	\$0.5	£0.3
HarbourVest Partners VII Cayman Venture Fund	2002	\$28.0	\$27.3	\$0.7	£0.5
Capital International Private Equity Fund IV	2004	\$18.0	\$17.7	\$0.3	£0.2
HarbourVest International Private Equity Partners V - Partnership	2005	€ 100.0	€ 95.0	€ 5.0	£4.0
HarbourVest International Private Equity Partners V - Direct	2005	€ 30.0	€ 28.8	€ 1.2	£1.0
Pantheon Asia Fund IV	2005	\$20.0	\$18.8	\$1.2	£0.8
Pantheon Europe Fund IV	2005	€ 25.0	€ 23.4	€ 1.6	£1.3
Pantheon USA Fund VI	2005	\$30.0	\$28.3	\$1.7	£1.2
Lexington Capital Partners VI-B	2005	\$30.0	\$29.5	\$0.5	£0.3
HarbourVest Partners VIII Cayman Buyout Fund	2006	\$112.0	\$102.5	\$9.5	£6.6
HarbourVest Partners VIII Cayman Venture Fund	2006	\$56.0	\$54.6	\$1.4	£1.0
Pantheon Europe Fund V	2006	€ 35.0	€ 31.9	€ 3.1	£2.5
Pantheon USA Fund VII	2006	\$35.0	\$31.7	\$3.3	£2.3
Coller International Partners V	2006	\$30.0	\$23.5	\$6.5	£4.5
HarbourVest Partners 2007 Direct Fund	2007	\$30.0	\$29.1	\$0.9	£0.6
Pantheon Asia Fund V	2007	\$20.0	\$18.2	\$1.8	£1.3
Pantheon Europe Fund VI	2007	€ 40.0	€ 33.0	€ 7.0	£5.5
Pantheon USA Fund VIII	2007	\$35.0	\$28.6	\$6.4	£4.5
Capital International Private Equity Fund V	2007	\$35.0	\$29.2	\$5.8	£4.0
Co-Investment Partners Europe	2007	€ 30.0	€ 28.5	€ 1.5	£1.2
Partners Group 2006 Direct Fund	2007	€ 30.0	€ 28.8	€ 1.2	£1.0
Infracapital Partners I	2007	€35.0	€32.8	€2.2	£2.2
Capital International Private Equity Fund VI	2010	\$35.0	\$23.3	\$11.7	£8.1
Lexington Capital Partners VII	2010	\$30.0	\$23.3	\$6.7	£4.7
Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP	2010	\$40.0	\$37.6	\$2.4	£1.7
Partners Group Real Estate Secondary 2009 (EURO)	2010	€ 60.0	€ 57.2	€ 2.8	£2.2
Partners Group Global Real Estate 2011 S.C.A., SICAR	2010	€ 145.0	€ 127.9	€ 17.1	£13.6
Partners Group Global Infrastructure 2009	2010	€ 70.0	€ 61.2	€ 8.8	£7.0
Partners Group Direct Infrastructure 2011	2011	€ 85.0	€ 72.8	€ 12.2	£9.7
Partners Group Direct Real Estate 2011 S.C.A., SICAR	2011	\$100.0	\$90.8	\$9.2	£6.4
Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR	2011	\$65.0	\$50.4	\$14.6	£10.2
HarbourVest International Private Equity Partners VI - Partnership	2011	€ 50.0	€ 38.0	€ 12.0	£9.5
Coller International Partners VI	2012	\$45.0	\$29.1	\$15.9	£11.1
Pantheon Asia Fund VI	2012	\$40.0	\$21.7	\$18.3	£12.7
Pantheon Europe Fund VII	2012	€ 25.0	€ 13.2	€ 11.8	£9.4
Pantheon USA Fund IX	2012	\$30.0	\$17.8	\$12.2	£8.5
Partners Group Global Infrastructure 2012	2013	€ 45.0	€ 20.3	€ 24.7	£19.6
Partners Group Real Estate 2014	2013	\$64.0	\$20.6	\$43.4	£30.2
Partners Group Real Estate Income 2014	2013	€ 23.0	€ 13.6	€ 9.4	£7.5
Partners Group Global Real Estate 2013	2013	\$130.0	\$71.3	\$58.7	£40.8
Partners Group Real Estate Secondary 2013	2013	\$65.0	\$20.1	\$44.9	£31.2
HarbourVest Dover Street VIII Cayman Fund LP	2013	\$30.0	\$21.2	\$8.8	£6.1
HarbourVest Partners IX - Cayman Buyout Fund	2013	\$60.0	\$32.0	\$28.0	£19.5
HarbourVest Partners IX - Cayman Venture Fund	2013	\$30.0	\$22.1	\$7.9	£5.5
HarbourVest Partners 2013 Cayman Direct Fund LP	2014	\$30.0	\$21.5	\$8.5	£5.9
Lexington Capital Partners VIII	2014	\$30.0	\$6.4	\$23.6	£16.4
Infracapital Partners II	2014	£20.0	£6.7	£13.3	£13.3
HarbourVest International Private Equity Partners VII - Partnership	2014	\$70.0	\$13.8	\$56.2	£39.1
Coller International Partners VII	2015	\$45.0	\$1.6	\$43.4	£30.2
HarbourVest Partners X - AIF Buyout Fund	2015	\$50.0	\$1.3	\$48.7	£33.9
HarbourVest Partners X - AIF Venture Fund	2015	\$25.0	\$0.9	\$24.1	£16.8
Dover Street IX	2016	\$30.0	\$0.0	\$30.0	£20.9
Partners Group Direct Infrastructure 2015	2016	\$140.0	\$4.8	\$135.2	£94.1
Total Outstanding Commitments					£595.4

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2016.

25. 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 2016 was £549.325 million (£572.709 million at 31st March 2015).

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 IAS 26. The assumptions underpinning the valuation are agreed with the Actuary and are summarised in note 28. 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.

26. 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 Pensions Committee who were in receipt of pension benefits from the Fund, namely the Chair of the Pensions Committee E. Leask and committee member M. Butler. In addition, Committee members G. Bell, J. Milburn, W. Flynn, P. Hay, J. Perry and R. Goldsworthy were active members of the Fund. The Vice Chair of the Pensions Committee, A. Walsh, and Committee member G. Hayley were deferred members of the Fund.

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

Employers

During 2015/16, two employers within the Fund, namely South Tyneside Council and BT South Tyneside Limited, had related party transactions with the Fund totalling £0.902 million, analysed as follows:

- South Tyneside Council charged the Fund £0.531 million (£0.490 million in 2014/15) in respect of services provided, primarily being recovery of past service deficit payments, legal and building costs.
- The Fund charged South Tyneside Council £0.057 million (£0.056 million in 2014/15) in respect of Treasury Management services.
- BT South Tyneside Limited charged the Fund £0.314 million (£0.294 million in 2014/15) 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 2015/16" (the Code) exempts local authorities from the key management personnel disclosure requirements of International Accounting Standard 24 (IAS 24), 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 also applies to the accounts of Tyne and Wear Pension Fund.

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.

27. IMPAIRMENT LOSSES

Impairment for Bad and Doubtful debts

During 2015/16 the fund has recognised an impairment loss of £0.103 million (£0.104 million as at 31st March 2015) for the possible non-recovery of pensioner death overpayments.

28. 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 31 st March 2013 £m	Value at 31 st 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:

	31 st March 2013 (% p.a.)	31 st 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 **	115%	110%
Allowance for future improvements	CMI 2012 with a long term rate of improvement of 1.5%	In line with CMI 2009 with long term improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	24.5	21.3
Future lifetime from age 65 (currently aged 45)	26.8	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.



Auditor's statement to a pension fund in respect of the financial statements published with the pension fund annual report when an opinion has already been issued on the pension fund financial statements in the statement of accounts of the administering authority

Independent auditor's statement to the members of South Tyneside Council on the Pension Fund financial statements

In our opinion the financial statements, defined below:

- Fund Account;
- Net Assets Statement; and
- related notes 1 to 28.

This report is made solely to the members of South Tyneside Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance and the auditor

As explained more fully in the Statement of Responsibilities for the Accounts set out on page 17 of the audited Statement of Accounts, the Head of Finance is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of South Tyneside Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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 pension fund financial statements. The other information consists only:

- 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

We conducted our work in accordance with guidance issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of South Tyneside Council for the year ended 31 March 2016 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

CAREEN GRAY

Careen Gray (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Appointed Auditor
Newcastle upon Tyne

30 September 2016

DISCLOSURE FOR THE LOCAL GOVERNMENT PENSION SCHEME ADVISORY BOARD

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

The Local Government Pension Scheme Advisory Board has been set up under Section 7 of the Public Service Pensions Act 2013. This body has responsibility to provide advice to Department for Communities and Local Government 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 2016	Active	Ceased	Total
Scheduled Bodies	84	18	102
Admitted Bodies	60	68	128
Total	144	86	230

At 31st March 2015	Active	Ceased	Total
Scheduled Bodies	81	19	100
Admitted Bodies	60	63	123
Total	141	82	223

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 2015	31st March 2016
Active	46,900	47,360
Deferred	36,367	38,003
Pensioner	42,469	43,859
Total Membership	125,736	129,222
Undecided Leavers	2,348	2,616

ANALYSIS OF ASSETS

The table below provides an analysis of the Fund's assets as at 31st March 2015 and 2016 into categories set out by the Board.

31st March 2016	Regional Mandates		Global Mandates	Total
	UK £'m	Non-UK £'m	£'m	£'m
Equities	1,372.423	977.588	1,425.592	3,775.603
Bonds	1,139.619	37.079	0	1,176.698
Direct Property	312.214	0	0	312.214
Alternatives	0	0	1,054.112	1,054.112
Cash and Net Current Assets	88.168	20.575	0	108.743
Total	2,912.424	1,035.242	2,479.704	6,427.370

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	930.151	2,469.149	6,378.324

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 2015 and 2016:

31st March 2016	Regional Mandates		Global Mandates	Total
	UK £'m	Non-UK £'m	£'m	£'m
Equities	26.849	22.438	0.504	49.791
Bonds	1.740	0	17.443	19.183
Direct Property	16.762	0	0	16.762
Alternatives	0	0	0	0
Cash and Ancillary Items	0.579	0.019	0	0.598
Total	45.930	22.457	17.947	86.334

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

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:



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WALK IN SERVICE

You can visit us during office hours at:
Town Hall and Civic Offices, Westoe Road,
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You do not need to make an appointment.



OFFICE HOURS

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