South Yorkshire Passenger Transport Pension Fund

Annual Report & Accounts 2015/16

Sheffield City Region
COMBINED AUTHORITY

“.... the year has been an eventful and challenging one....”

1 South Yorkshire Passenger Transport Pension Fund

2 The People

3 The Authority

4 The Investment Figures

5 Governance

6 The Reports

7 The Finance

1 South Yorkshire Passenger Transport Pension Fund

Report of the Clerk

Management of the Fund- the year under review

On 1 April 2014 the Sheffield City Region Combined Authority became the statutory body responsible for the administration of the South Yorkshire Passenger Transport Fund. This is its second annual report and sets out the Fund's income and expenditure, and assets and liabilities, for the financial year ended 31 March 2016.

It is important to understand the governance structure that has been established so that the Authority can conduct its business. Councillors who sit on LGPS administering authorities have comprehensive legal responsibilities for the prudent and effective stewardship of their funds and, in more general terms, have a clear fiduciary duty regarding the performance of these functions. Although administering authorities are able to delegate functions to individual officers of the authority or to sub–committees it remains the case that the responsibility for policy and final investment decisions and general stewardship of their Fund rests with the administering authority. The Authority must ensure that the administration of the Fund accords with the statutory framework the LGPS operates under. Members have a fiduciary duty to the contributors and beneficiaries of the Fund to ensure contributions are collected, that benefits are calculated properly and paid promptly and that any surplus monies are properly and prudently invested. As far as this Fund is concerned Members must be mindful that they also have a fiduciary duty to the council tax payers of South Yorkshire because, theoretically at least, any net expenditure of the Authority in any year which cannot be charged to the Fund is liable to be apportioned between the district councils. The Fund's membership is comprised of some of the former local authority employees and pensioners involved in transport services in the County in 1997. It is, therefore, unlike most LGPS funds, closed to new entrants. Members also need to be aware that compensation payments in respect of non-statutory benefits are recoverable from the employer and are not borne by the Fund. This is particularly pertinent to this Fund because there is just one contributing employer which is First South Yorkshire Limited, a wholly-owned subsidiary of FirstGroup plc.

The Authority has established a Committee of six councillors to manage the Fund and it determines strategic issues and monitors the Fund's everyday administration and management. Both the Authority's and Committee's meetings are open to the public.

In accordance with Sections 5(1) and (2) of the Public Service Pensions Act 2013 the Authority created a Local Pension Board this year. The Secretary of State granted the two South Yorkshire LGPS funds the power to establish a Joint Local Pension Board and this held its first meeting in July 2015. More information about the Board can be found in this Report.

The Committee has appointed an actuary and an independent investment advisor to assist it with its duties. The Authority has delegated its day to day responsibilities to its senior officers, the Clerk and Director of Finance, but has awarded contracts for the management of the Fund to its sister authority, the South Yorkshire Pensions Authority. These agreements cover all aspects of pensions administration, including calculating and paying benefits, and investment management. The Fund employs two investment managers (Old Mutual Global Investors and SYPA) and details of the investment operations are set out in the Statement of Investment Principles. Further information regarding the Fund can be found on the Pensions Authority's website: www.sypensions.org.uk

The year under review

The Authority's primary funding objective is to achieve and then maintain assets that are equal to 100% of the projected accrued liabilities of the Fund. This has to be assessed on an ongoing basis. It is also important that there are sufficient assets to meet all pension expectations as they fall due. At the same time employer contribution rates need to be kept as low as possible, as stable as possible and as affordable as possible. Clearly such an aim is laudable but it is very difficult to achieve.

One of the most important inputs for gauging progress with the aim is the outcome of the tri-ennial actuarial valuation. Last year's report contained a statement from the Fund's actuary regarding the 2013 valuation. This year the

Report of the Clerk

Management of the Fund

Committee commissioned a “heathcheck” review from the actuary and that turned out to be reassuring. This estimated that the notional deficit as at end March 2015 had been reduced by some £14m from 2013 to roughly £19m which equated to a funding level of 92%. Whilst below the 100% target it is a much healthier position than most LGPS funds. The main reason for the fall in the deficit is the investment performance over the period which has been better than that assumed. Further information regarding returns is set out in this report. The next valuation is due as at end March 2016 and it would be foolish to try and second-guess the outcome.

As mentioned last year the switch away from a final salary to career average basis for the LGPS resulted in a lot of work needing to be carried out to the Fund’s administration systems and to those of the employer. In our case the switchover was aggravated by the need to change the Authority’s main software provider. Despite participating in a national framework agreement it soon became clear that the winning contractor had not allocated enough resources to the transition and service levels fell dramatically. Although SCRCA was not the only administering authority adversely affected by the contractor’s poor performance it certainly felt like that upon occasion. SYPA officers were required to work overtime in order to prevent backlogs becoming unmanageable and I’m afraid that our response levels fell well short of our traditionally high standards. Some progress has now been made and I hope inconvenience for Fund members has been kept to the minimum. Nevertheless, I do apologise for the poor service some members suffered over the year.

Apart from trying to cope with the challenges posed by the financial markets as economies refused to respond to the unprecedented levels of cheap money and low interest rates created by the central banks, the Committee also had to address the questions raised by the Government consultation on amalgamating LGPS investment assets. The focus of the exercise is clearly on reducing investment management costs and increasing the allocation to infrastructure without causing any detriment to performance returns.

Whilst laudable in themselves when applied to well run and efficiently managed funds like yours the only outcome can be a significant increase in costs. All the evidence to date confirms that initial view. Having said that the Authority has identified a solid and like-minded pool to partner with (the Border to Coast Partnership) and is now working hard to manage the time consuming transition as carefully and economically as possible. The task has only just begun. There will be many more barriers to cross before the whole process goes live in April 2018.

During the year the Authority reviewed its responsible investment policy in light of the breakthrough agreement regarding climate change reached in Paris in December. The Fund continues to be in the vanguard of these issues and recognises the investment challenges the transition to a lower carbon economy will create. As such it has co-filed important shareholder resolutions at a number of annual general meetings and it continues to support the Local Authority Pension Fund Forum in its campaigns on corporate governance.

As we look forward to the outcome of the 2016 actuarial valuation we need to remember that all the issues I’ve referred to have to be set in the context of an ever increasingly complex Scheme. The structural change in Fund membership and pressures upon the employer and administering authority will continue as they respond to austerity measures and evolving central Government policies. The Authority has always recognised that the management of the short and long term needs of all stakeholders has to be balanced with the need to manage and recover deficits. The challenge remains.

I’m encouraged that the Committee, the Authority’s advisors and officers continue to try and deliver the solution. The last twelve months have been very difficult: unfortunately, I don’t think it will prove to be exceptional.

2 the PEOPLE

Report of the Clerk

Members as at 31st March 2016

BARNSLEY

LABOUR
Councillor D Leech (Chair)

DONCASTER

LABOUR
Councillor B Mordue

CONSERVATIVE
Councillor R A Jones (up to April 2015)

CONSERVATIVE
Councillor S Cox (from September 2015)

ROTHERHAM

LABOUR
Councillor M Godfrey (from September 2015)

SHEFFIELD

LIBERAL DEMOCRAT
Councillor I Auckland

LABOUR
Councillor L Bramall (up to May 2015)

LABOUR
Councillor G Weatherall (from September 2015)

Report of the Clerk

Members' Attendance and Training Records

One of the main responsibilities of an administering authority is to ensure that all staff and Members charged with the financial management and decision making affecting its pension fund are fully equipped with the knowledge and skills to enable them to discharge their duties and responsibilities.

All newly appointed Members receive induction training and all Members are required to attend the Pensions Fundamentals training programme provided by the Local Government Employers organisation.

The Committee has initiated a system of self-assessment in line with the standards demanded by the Myners' Principles. Any specific training needs identified are incorporated into the normal Committee cycle but Members are always free to discuss their skills and learning requirements throughout the year.

Meetings of the Committee embraced a wide range of topical issues, such as legislation changes, corporate governance matters, the assessment of liabilities, the economy, etc, and often incorporate presentations from independent advisors, such as the actuary and consultants. The Authority's independent investment advisor attends most Committee meetings. Pensions Fundamentals' refresher courses are provided when needed. An ad-hoc programme of in-house training is delivered by SYPA officers and additional training events, such as externally arranged conferences and seminars, are utilised if they are appropriate.

Members' Attendance at Meetings 2015/16

	27 April 2015	8 June 2015	1 Sept 2015	23 Nov 2015	10 Dec 2015	18 Jan 2016	11 Feb 2016	14 March 2016
I Auckland	✓	✓	✓	✓	✓	✓	✓	✓
L Bramall	x							
S Cox			✓	✓	✓	✓	✓	x
M Godfrey			x	x	x	✓	x	x
D Leech	✓	✓	✓	✓	✓	✓	✓	✓
B Mordue	x	✓	x	✓	✓	✓	✓	x
G Weatherall			x	✓	x	✓	x	x

Report of the Clerk

Member Training Events 2015/2016

Training Session	Date	D Leech	I Auckland	B Mordue	S Cox	M Godfrey	G Weatherall
Investment Pooling	10.12.15	✓	✓	✓	✓	x	x
Investment Pooling	11.02.16	✓	✓	✓	✓	x	x

Report of the Clerk

Advisors and Officers

ACTUARY	Barnett Waddingham LLP	
AUDITOR	KPMG LLP Public Sector Audit	
BANKERS	Co-operative Bank Lloyds Bank	
CUSTODIAN	HSBC Securities Services	
EXTERNAL MANAGERS	Old Mutual Global Investors (UK) Limited	Developed Overseas Equities
	South Yorkshire Pensions Authority	UK Equities Fixed Interest Property Unit Trusts Emerging Overseas Equities
EXTERNAL ADVISORS	Pensions and Investment Research Consultants Limited	Corporate Governance/ Voting Execution
ADVISOR TO THE AUTHORITY	E Lambert	
OFFICERS	D Terris E Walker A Frosdick	Clerk Director of Finance Monitoring Officer

3 the AUTHORITY

Report of the Clerk

Pensions Administration

It has been another challenging year for the Pensions Administration team. Our recovery from the twin events of LGPS 2014 and the implementation of our new Pensions Administration system has been the main focus of our attention throughout the period. I am pleased to report that the team have performed magnificently despite a number of setbacks and the sheer volume of work. Whilst the new system is still problematical at times and there's still a way to go we are firmly on the road to recovery.

Despite heavy concentration on clearing casework backlogs there have also been some highlights during the year. In November we launched our new website which was well received and during March we successfully retained our Customer Service Excellence award following our annual inspection. We also consulted upon and introduced our Pensions Administration Strategy which clearly sets out the responsibilities of SYPA as administering authority and the responsibilities of our employers in order to comply with the complex requirements of the LGPS.

On the downside we were extremely frustrated to fail to meet the deadline for issuing annual benefit statements to scheme members. In any year 31st August is a challenging target to achieve but a combination of system problems and late submission of annual returns by employers meant that we had no hope of meeting it. On a positive note, however, although we issued the statements late they were subject to a thorough check which overall was preferable to issuing them on time and possibly incorrect. The new version of mypension was launched in conjunction with the new website and whilst it is usable it is rather disappointing. Whilst we have done what we can to improve the look and feel of online member access the core functionality is largely out of our control. We have however been pushing for improvements to be made and the good news is that a phase 2 version is on the way incorporating the benefit quote calculator that many of our members have been asking for.

We continue to operate the formal dispute resolution procedure in compliance with the scheme regulations as well as our local customer service complaints procedure. During the year I am pleased to report that we had no formal disputes or complaints.

First South Yorkshire Limited is the sole employer in the Fund and is required to collect contributions from active scheme members and pay them over no later than the 19th of the following month to which the contributions relate. As in previous years, there were no arrears of contributions and no penalties for late payment.

The forthcoming year presents a number of challenges which include, the triennial actuarial valuation, the 31st August deadline for annual benefit statements, the impact of changes to pension tax legislation and work relating to the end of contracting-out. All this in addition to regular casework and member communication. Just another typical year for Pensions Administration!

The membership statistics for 2015/16 are shown on the pages that follow.

Gary Chapman,
Head of Pensions Administration,
South Yorkshire Pensions Authority

Report of the Clerk

Membership

The total number of members in the Fund has fallen to **2,106** compared with **2,127** at March 2015. As the Fund is closed to new members the trend of increasing scheme maturity continued, as to be expected. However, benefits are fully protected and no-one is at risk from this falling contributor base.

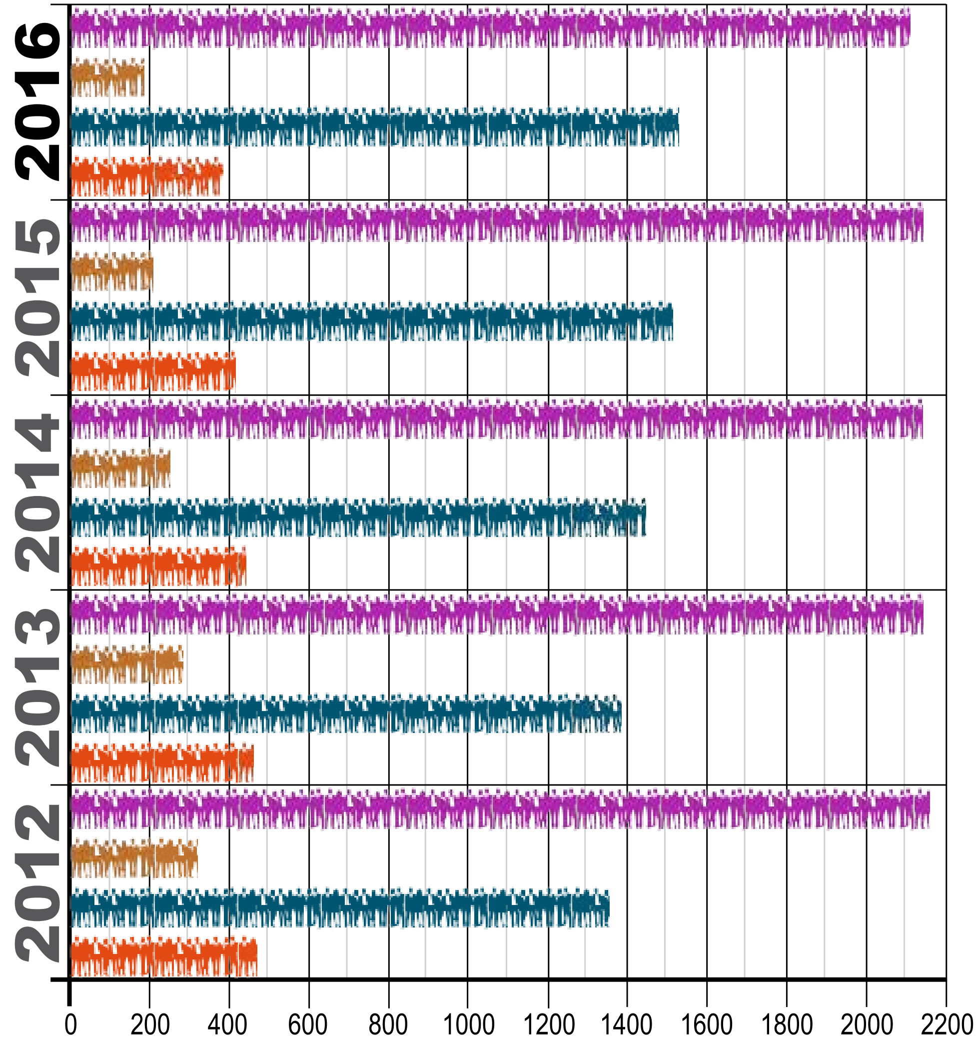
- The number of active members has fallen by **9.36%** to **184**.
- Pensioners (including dependants) have increased by **1.4%** to **1,531**.
- Deferred members (former members who have left their retirement benefits in the Fund until normal retirement age) have fallen by **5.56%** to **391**.

Total Membership

Active Members

Pensioners (including dependants)

Deferred Members



Report of the Clerk

Your Fund Statistics

		2015	2016
Gender	Female	6%	6%
	Male	94%	94%
Annual Salary	Up to £15,000	1%	2%
	£15,001 - £30,000	94%	85%
	£30,001 - £45,000	5%	13%
	£45,001 - £65,000	0%	0%
	Over £65,001	Less than 1%	0%
Averages	Current Age	54	55
	Age Joined Fund	24	24
Age Profile	41 - 45	5%	4%
	46 - 50	18%	15%
	51 - 55	30%	27%
	56 - 60	41%	45%
	61 - 65	5%	8%
	66 - 70	Less than 1%	1%

Report of the Clerk

Your Fund Statistics

		2015	2016
Gender	Female	14%	15%
	Male	86%	85%
Averages	Current Age	52	52
Age Profile (TODAY 21)	41 - 45	13%	7%
	46 - 50	30%	30%
	51 - 55	31%	35%
	56 - 60	25%	27%
	61 - 65	1%	1%

Report of the Clerk

Your Fund Statistics

(including dependants)

		2015	2016
Gender	Female	19%	20%
	Male	81%	80%
Averages	Current Age	69	69
	Age Pension Commenced	57	57
Age Profile (TODAY 65)	0 - 50	1%	Less than 1%
	51 - 55	Less than 1%	1%
	56 - 60	7%	6%
	61 - 65	23%	20%
	66 - 70	29%	29%
	71 - 75	22%	23%
	76 - 80	12%	14%
	81 - 85	4%	6%
	86 - 90	Less than 1%	Less than 1%
	91 - 95	0%	0%
	96 - 100	0%	0%
	Oldest pensioner	86	87

Report of the Clerk

Retirement Analysis

During 2015/2016 we processed and paid 35 new retirement cases, compared to 77 in 2014/2015. A breakdown showing the types of retirements processed are listed opposite.

No pension or membership enhancements were granted by the employer for any of the retirement cases.

Type of Retirement	2014/15	2015/16
Early	64	15
Normal	9	18
Late	4	1
Ill health/Incapacity	0	1
Early (with employers consent)	0	0

Report of the Clerk

Pensions Increase

Cost of living increases from Pension Increase Orders, applied to pension benefits (deferred and in payment) from the first Monday following the 5 April:

April 2012	April 2013	April 2014	April 2015	April 2016
5.2%	2.2%	2.7%	1.2%	0%

Employer Contribution Returns for 2015 - 2016

Employer	Employees (£) Contributions	Employers (£) Contributions	Deficit (£) Payment
First South Yorkshire Limited	320,784.97	1,147,085.08	1,500,000.00

Report of the Clerk

Service Delivery

Our performance in terms of meeting our published service standards over the year ending 31 March 2016 is given in the following table:

Key Service Standard	Target Days	Number Processed	In Time	Performance 2015 - 2016	Previous Year 2014 - 2015
General Enquiries	5	32	18	56%	88%
Pension Rights on Divorce	5	5	2	40%	66%
Retirement Estimates	5	47	21	45%	76%
Preserved Benefits	20	2	1	50%	100%
Retirement Benefits	5	35	23	66%	91%
Death Benefits	4	44	24	55%	77%
Total	**-**	**165**	**89**	**53.94%**	**82.04%**

On first glance the above statistics don't seem to back up our statement that we are on the road to recovery, however the previous year's figures include a period before the transition to our new pensions administration system resulting in a higher overall performance.

In addition to the key service standards opposite we have processed other items of casework during the year. These include changes to key membership data when scheme members have variations to their contracts of employment or leave to work with other scheme employers within the Fund. We are committed to ensuring our data is up to date and accurate and have developed a data analysis tool which performs almost one hundred daily checks on all member records and reports on inconsistencies.

Aside from the performance standards we continue to provide newsletters to all members as well as information booklets and other web based information.

Annual Forecasts were also issued to active and deferred members during the year. We also have Facebook and Twitter accounts to encourage members of all ages to engage with the Fund.

Paying our pensioners is our top priority and we continue to do so without fail.

Report of the Clerk

Service Delivery continued

Our performance rating against satisfaction levels given by employers and members for 2014 - 2015 & 2015 - 2016.

	VERY SATISFIED		SATISFIED	
	2014 - 2015	2015 - 2016	2014 - 2015	2015 - 2016
EMPLOYERS	0%	38%	0%	59%
MEMBERS	66.2%	38%	32.4%	51%

	DISSATISFIED		VERY DISSATISFIED	
	2014 - 2015	2015 - 2016	2014 - 2015	2015 - 2016
EMPLOYERS	0%	3%	0%	0%
MEMBERS	0%	0%	1.4%	11%

The ratings shown are derived from responses to our consultation questionnaires. Each questionnaire ends with a specific question about overall satisfaction with SYPA.

Disappointingly the satisfaction levels have seen a big drop from previous years. This is mainly due to a complaints survey issued that only 4 members completed. One member was very dissatisfied with our service which represents 8% of the total. However given the nature of the consultation, this is not unexpected.

Report of the Clerk

National Benchmarking

Each year we participate in a national pension administration benchmarking survey which measures our performance along with our cost effectiveness against other Local Government Pension Funds (in 2015 there were 44 participants). The results enable us to make relevant comparisons in order to monitor how effectively we administer the pension scheme.

Opposite is a summary of the latest results from the benchmarking report issued at the end of August 2015. Due to the timing of the report this will always be one year out of step with the period covered by the annual report.

The benchmarking results once again show our costs to be below average. This is something we have consistently maintained over the last twelve years and the 2015 result is the lowest since 2004. Whilst the results do not give an indication of the quality of service the member can expect to receive from us we know from our external verification (Customer Service Excellence) and our consultation surveys that this is highly rated too.

From the bare facts we can derive that, in terms of cost, our overall unit costs are below average as are our combined staff and payroll costs. Only our overheads are shown to be above average. The overall cost per member has reduced for the fifth consecutive year despite the fact that the amount of workload continues to increase.

29th August 2015	
Cost per member *(Benchmarking average*	**£17.86** *£19.17)*
Payroll cost per pensioner *(Benchmarking average*	**£3.35** *£8.16)*
Number of employers *(Benchmarking average*	**414** *223)*
SYPA retirees opting for maximum cash lump sum *(Benchmarking average*	**94%** *60%)*
Staff with more than 15 years experience *(Benchmarking average*	**43%** *32%)*

Report of the Clerk

Investment Management

As with most things risk is ever present in the investment world. It is just a fact of life. However, it needs to be recognised that not all risk is the same or even equally bad. It does take time to manage risk in whatever form it takes, though, and the investment world is notorious for devoting a lot of time trying to assess actual and potential risk. That does not mean, of course, that investors are good at assessing risks or, more importantly, discerning 'unknowable' risks. Having a bad track record doesn't prevent forecasters and policy-makers from pouring significant resources into the task. How many predicted the 2008 financial crisis, for example? How many have ever predicted a recession?

Despite these limitations a pension fund cannot be managed without undertaking some sort of risk assessment and without indulging in some predicting. Without that analysis it would be impossible to achieve the investment returns needed to meet the liability requirements of the Fund. The art is to remember the scale of the limitations. Predicting the future against a backdrop of unrecognisable factors is probably futile anyway. The global economic landscape that prevails today cannot be found in any textbook or, indeed, in the historical experience of even the most seasoned investor. It is certainly unfamiliar.

Readers of previous annual reports will be aware of just how much investment markets have been distorted by central banks and monetary authorities as they have attempted to stimulate global financial recovery following the banking crisis. They were designed to pull forward in time the consumption of goods and accelerate asset price returns. Unfortunately, growth in the developed world continues to disappoint with the huge expansion in the levels of debt failing to deliver. Money creation, low interest rates and depressed bond yields have restored some confidence in the banking system but the real economy has not, as yet, seen the initiatives translated into recovery. This is partly due to the need to undertake politically unpalatable reforms being shunned in favour of more procrastination but it also reflects the unprecedented, and largely unrecognised, scale of the original crisis.

Just like last year investors continued to want to hear just good news. However, the increasing ineffectiveness of central banks' actions received more recognition and the number of commentators noticing that repeating the same moves whilst hoping for different outcomes doesn't work grew. Although day to day market movements were dominated by the short term worries referred to in the Advisor's Report, such as China's slowdown, the dramatic fall in commodity prices, the strength of the US dollar, it was the wider worries which provided the backdrop and caused the uncertainty. As the year drew to a close most asset markets were beginning to look richly valued and, therefore, potentially vulnerable. There are indications that corporate profitability has peaked for this cycle alongside

Report of the Clerk

Investment Management continued

the ultra-low financing costs which have encouraged dividends and share buybacks. In this context circumspection seems to be appropriate.

Viewed against this background the Fund's return of just 0.1% versus -0.2% for its benchmark isn't as disappointing as it first seems though we could have countered some of the issues set out above a little more effectively. Moreover, the long term track record remains strong outperforming its benchmark by 6.1% versus 4.9% over three years and 6.8% versus 5.6% over ten years.

The Fund favoured international equities ahead of other asset classes but as the new customised benchmark was implemented monies were switched into bonds. The Fund uses a specific bespoke benchmark for its index linked bond portfolio and most of the monies were redirected into that. High yield bonds were favoured ahead of standard corporate bonds. The weighting to property unit trusts began to be cut in accordance with the new target but this will overspill into 2016/17.

The Government's proposals to force the amalgamation of LGPS assets into regional pools have taken up a lot of officer and Member time. The Fund identified the "Border to Coast Partnership" as its preferred pool partner based upon its focus on internal management and the commonly held principles. At the time of writing the Government has confirmed that Border to Coast meets its basic requirements but much of the detail has yet to be addressed. It is already clear that there are many complex issues to be resolved and, one suspects, many more waiting to be discovered. What is likely to happen is that the exercise will result in significant establishment costs, an increase in overall investment management costs (excluding performance fees) and a dilution in democratic control and supervision for this Fund.

The outlook for financial markets remains shrouded in uncertainty. Whilst investors need to be wary of continuously fighting the last war they need to continue to seek the correct answers to a constantly evolving set of questions. With corporate earnings under pressure, political uncertainty and ongoing monetary policy intervention the next twelve months appear to offer more of the same that last year produced: in other words, a more volatile market against a flattish trend which requires investors to be braced for all eventualities. Hopefully there will be greater clarification over the structure of the "pooling" regime so that attention and resources can become more focussed on the issues that will arise out of the 2016 actuarial valuation and the need to sustain an affordable LGPS and the South Yorkshire Passenger Transport Pension Fund.

John Hattersley, Fund Director,
South Yorkshire Pensions Authority

4

investment FIGURES & REPORTS

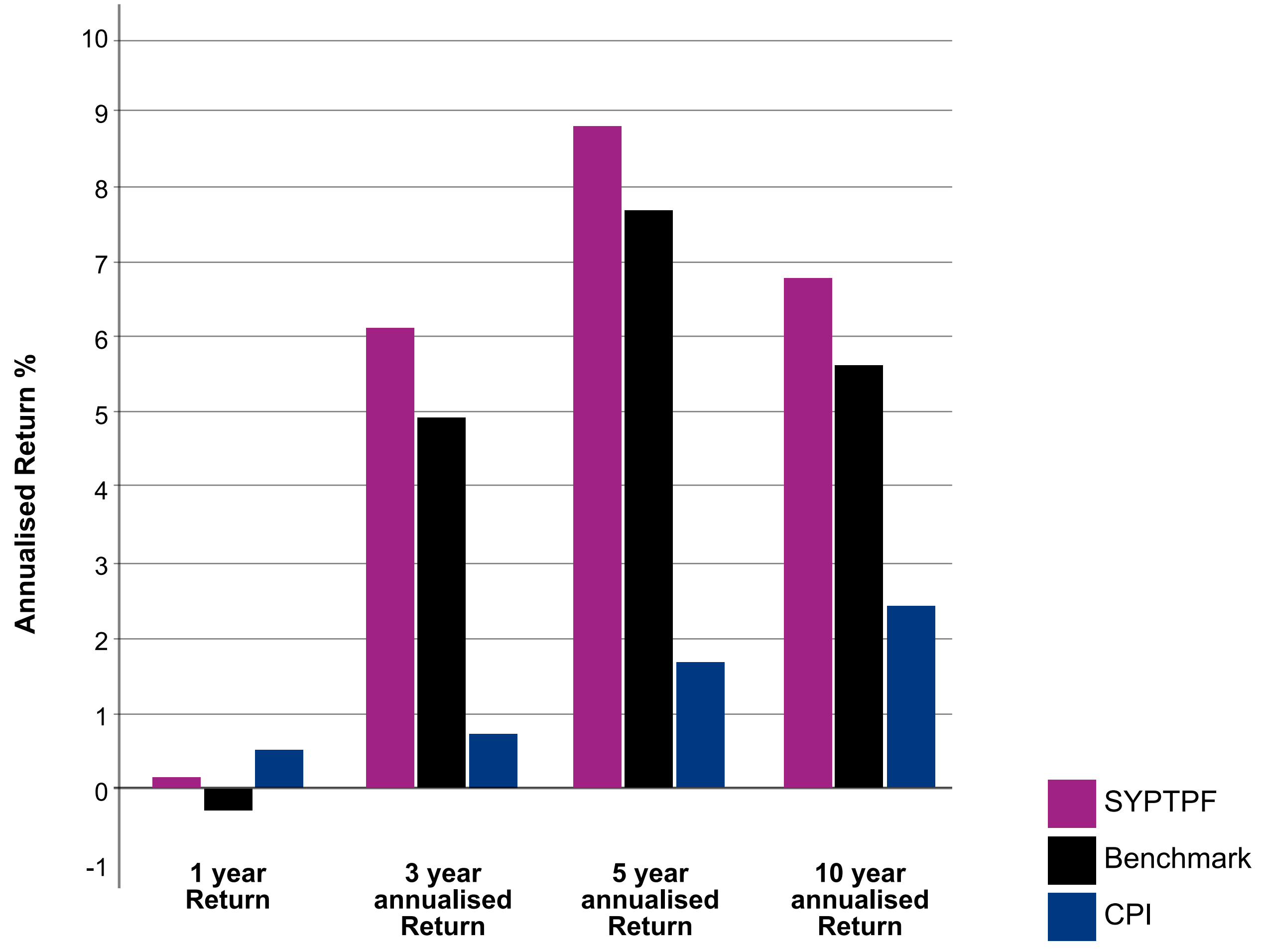
Report of the Clerk

10 Year Annualised Figures - Comparison with Benchmark

CATEGORY	1 Yr Return		3 Yr Annualised Return		10 Yr Annualised Return	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
UK EQUITIES	-4.1	-3.9	3.8	3.7	5.1	4.7
OVERSEAS EQUITIES	1.1	-2.5	11.6	6.6	8.3	5.6
INDEX LINKED GILTS	0.9	1.1	3.3	3.3	6.8	6.6
CORPORATE BONDS	0.5	0.4	4.3	4.9	6.9	5.5
PROPERTY UNIT TRUSTS	14.6	10.6	15.5	13.0	4.5	3.5
CASH	1.0		0.7		2.0	
TOTAL RETURN	0.1	-0.2	6.1	4.9	6.8	5.6

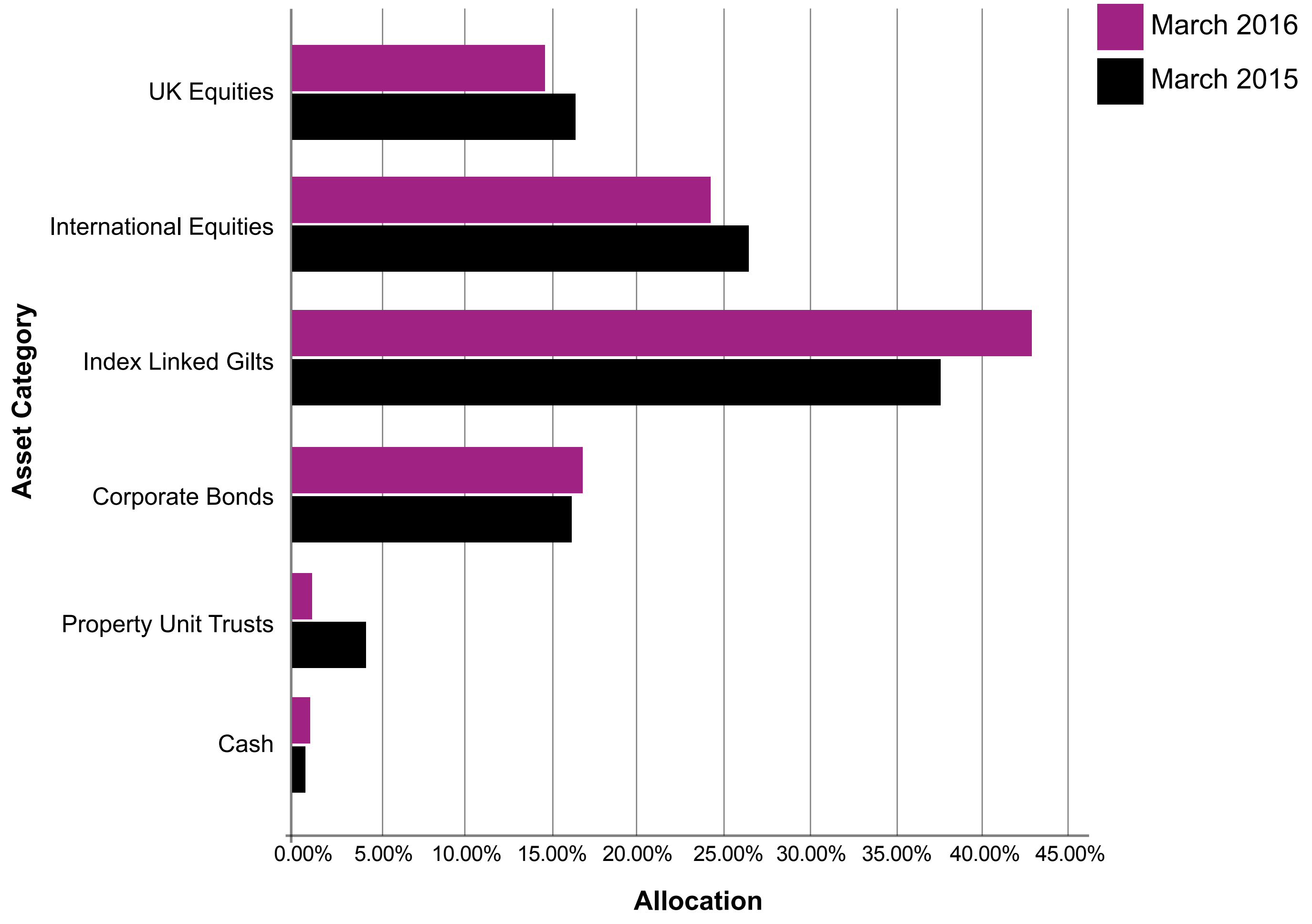
Report of the Clerk

Fund Performance



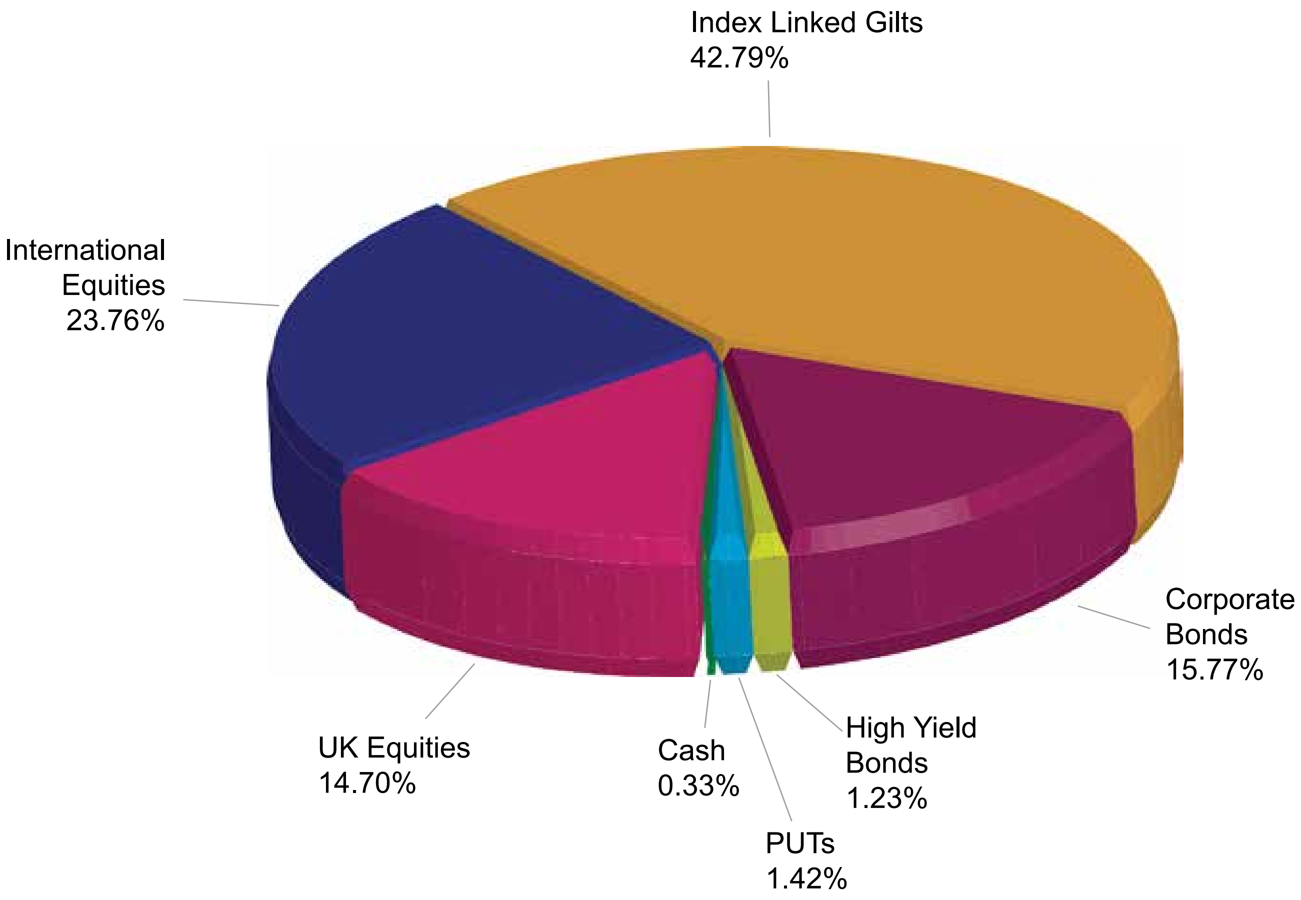
Report of the Clerk

Portfolio Weights



Report of the Clerk

Asset allocation by asset class as at 31 March 2016



Report of the Clerk

Ten largest directly held listed equity holdings by market value - at 31 March 2016

Shell	£2.014m
City Merchants High Yield	£1.322m
HSBC	£1.211m
CQS New City High Yield	£1.153m
British American Tobacco	£1.022m
gsk GlaxoSmithKline	£1.015m
bp	£0.910m
vodafone	£0.885m
AstraZeneca	£0.781m
AdvanceFrontierMarketsFund	£0.704m

Report of the Clerk

Ten largest directly held listed fixed interest bond holdings by market value:-

31 March 2016	£m
United Kingdom Index Linked 2.5% 2020	13.355
United Kingdom Index Linked 0.75% 2047	9.474
United Kingdom Index Linked 0.75% 2034	9.411
Network Rail Index Linked 1.375% 2037	8.205
United Kingdom Index Linked 0.125% 2029	7.447
United Kingdom Index Linked 0.125% 2019	5.547
United Kingdom Index Linked 0.25 2052	3.785
Network Rail Index Linked 1.75% 2027	3.572
United Kingdom Index Linked 0.625% 2040	3.392
Nordic Invest Bank Index Linked 2.805% 2024	2.960

5 the GOVERNANCE

Report of the Clerk

Corporate governance, responsible investing and shareholder activism

In order to achieve its primary objective of meeting its pension liabilities the Fund has to produce superior financial returns without taking on undue levels of risk. It must do so whilst operating within the legislative and operational constraints which govern it.

Capturing the required investment return means identifying opportunities that offer greater than normal reward and the Authority believes that businesses that operate to high standards of corporate social responsibility (CSR) have the potential to protect and enhance investment returns. Accordingly, the Authority encourages environmental, social and governance best practice so long as the potential for financial return is not reduced or risk isn't increased. It favours companies committed to high standards of CSR and to the principles of sustainable development. The Authority believes that good corporate governance includes the management of the company's impact on society and the environment, as these are increasingly becoming a factor in contributing towards maximising long term shareholder value.

In essence the concept of corporate governance revolves around ensuring that the companies in which the Fund invests are using robust and responsible operational processes and policies. Therefore, in order to reach its investment objectives it is reasonable for the Authority to pursue such considerations when making investment decisions.

In order to act at all times in the best long-term interests of all its members the Authority looks to protect and enhance the economic value of the companies in which it invests on their behalf. It believes that there are some overarching principles of corporate governance that apply globally but recognises that practices do vary considerably. It recognises its responsibilities as an investor and has considered how environmental, social and governance issues can be taken into account when managing investment portfolios. The Authority believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole and, therefore, it will not actively disinvest from companies solely or principally because of social, ethical or environmental reasons. This approach is consistent with that undertaken by other large investors. As responsible institutional investors the Fund seeks to influence companies' governance arrangements, environmental, human rights and other policies by positive use of shareholder power. Selling shares is not an effective tool for delivering change.

Not surprisingly, the Fund regards its voting rights as an asset and uses them carefully. The Authority has established a set of voting guidelines which cover corporate governance issues and has engaged a third party service provider to ensure that its votes are executed in accordance with its policies. The voting record is published on the Fund's website. The Authority regularly reviews its voting guidelines and shareholder engagement policies.

The Fund has limited resources and recognises that it is not always possible for it to conduct constructive engagement alone: therefore, it will enter into collaboration with other like-minded investors when the occasion warrants doing so and circumstances allow. For example, the Fund has co-filed shareholder resolutions regarding issues arising out of climate change at a number of company annual general meetings. The Authority is an active member and supporter of the Local Authority Pension Fund Forum and encourages LAPFF in its campaigns and initiatives.

The Authority is supportive of the UK Stewardship Code and endorses the 'comply or explain' approach it follows. The Authority believes it complies with the majority of the recommendations of the Code.

Considerations such as these have led the Authority to develop a policy that revolves around using its shareholder power and influence, either singly or in collaboration with other like-minded institutional investors, by voting and using other contacts to positively influence company behaviour. It acknowledges the arguments occasionally put forward by special interest groups on specific ESG issues but it will not allow such considerations to detract it from undertaking its statutory and fiduciary duties. This approach does not prevent the Authority from applying social, environmental or governance criteria on a case by case basis when considered appropriate.

Report of the Clerk

Risk Management

The effective management of risk is a key consideration which lies at the heart of the Fund's operations and this is reflected in the Authority's governance arrangements.

The Authority is mindful of the closed nature of the Fund and recognises that potentially the greatest risk the Fund faces is to have a fundamental mismatch between its assets and liabilities: the latter fall largely outside of its control. Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund whilst, at the same time, maximising the ability to make meaningful gains. The returns achieved will reflect the level of risk which the Authority is comfortable with accepting when setting its investment strategy.

Given the unique characteristics of the Fund (including its single employer status), the Authority has approved a strategy which aims to reduce the level of uncontrolled risk but in such a manner that is compatible with its liability profile. This is partly achieved through asset diversification which reduces exposure to market risk (price risk, currency risk and interest rate risk). The Fund's customised benchmark, determined by the Committee, demonstrates this. Liquidity risk is also managed to ensure that the Fund's forecast cash needs are met. The benchmark which reflects the risk and return expectations of the Authority is reproduced within the Statement of Investment Principles. It is, of course, not possible to control the absolute return on investments.

Over the longer term, however, by recognising the types of risks outlined the Authority seeks to achieve the returns required to achieve the objectives of the Funding Strategy Statement (FSS). Further information regarding those objectives and how they relate to the actuarial valuation can be found in the FSS.

The Committee reviews the Fund's risk policy at its meetings and during discussions with the actuary. It recognises that risk is inherent in many of its activities and seeks to control risk rather than try to eliminate it. Without taking risks it will be difficult for the Fund to achieve the performance it needs if it is to meet its objectives.

Diana Terris
Clerk

Publications

As required by the LGPS Regulations a number of statutory documents are published by the Authority separately. The Government has recognised that amalgamating all of the prescribed disclosures into the annual report will result in an unwieldy document and has advised that the statutory requirement to publish these can be satisfied via references to them within the report. The following documents can be found on the Authority's website (**www.sypensions.org.uk**):-

- Consultation and Communication Policy
- Funding Strategy Statement
- Governance Compliance Statement
- Responsible Investment
- Shareholder Engagement Statement
- Statement of Investment Principles
- Voting Guidelines

6 the REPORTS

Report of the Advisor 2015 - 2016

As you may well read elsewhere in this Annual Report the investment year to 31 March 2016 was another volatile one – when has it ever been otherwise?

'Risk' assets especially equities - those assets that produce higher long term returns but with greater volatility - gave disappointing returns. Of the major developed markets the US, assisted by a 3% increase in the value of the US Dollar (vs Sterling), gave the best return although this was still under 4%. The UK, Japan and Pacific ex Japan gave negative returns of typically 4-5%.

Emerging markets, facing the most severe headwinds of slowing Chinese growth, falling commodity prices and weakening local currencies, were the equity laggards with a negative return of c10%. In stark contrast, property had another very strong performance with an index return of almost 12%. Increasingly the return from property, despite the Fund (14.6%) beating its benchmark (10.6%), is of little consequence as we have been divesting of our property exposures as part of the revised asset strategy. 'Protection' assets such as gilts gave modest positive returns typically in the range 2-4%. Our Fund's annual return (0.1%) was fractionally behind the average LGPS return (0.2% according to WM) with yet another strong relative performance from Old Mutual (the developed overseas equities manager). Despite our Fund's excellent performance (6.1% pa) against its benchmark (4.9% pa) over the past 3 years, our funding level may well have fallen.
Our asset value is driven to a significant extent by equity prices whereas the value of our liabilities is driven primarily by gilt prices and, in particular, the return from long dated index-linked gilts which are the closest asset match to our inflation-linked liabilities. Over the inter-valuation period (the 3 years from 31 March 2013 to 31 March 2016) our actual liabilities (but not their value) will have grown by inflation, whether earnings (c2.4% pa according to national weekly wage statistics) or prices (RPI 1.6% pa, CPI 0.7% pa). Our actual assets have grown over the same period by 6.1% pa, well in excess of both earnings and prices and so I think the Fund is in a stronger position than 3 years ago to meet its very long term cash flow liabilities.

Pooling and the decision, along with the South Yorkshire Pension Fund, to participate in the BCPP (Borders to Coast Pensions Partnership) – or whatever moniker it is finally given – has dominated many Committee meetings and even more so the time and energy of our officers. This was a momentous step of considerable significance. I have to keep reminding myself, and others, such pooling affects the implementation of our Fund's strategy and does not affect, although may influence at the margin, the formulation of the Fund's actual strategy. The strategy decision is the most important investment decision the Committee makes and is normally reviewed after an actuarial valuation when the most up-to-date assessment of our liabilities and their profile is known. I look forward to assisting the Committee with this critical review over the next year or so.

Another significant development in the year was the issuance for consultation of draft new LGPS investment regulations. As was widely trailed, the new regulations are broadly the 'prudent person' obligation

Report of the Advisor 2015 - 2016

similar to that already in use in the private sector pension world. Much of the outdated prescription has been removed and considerable investment freedoms introduced which are both welcome and indeed necessary for 'pooling' to be effective. Interestingly the proposed new regulations remove the explicit requirement to review the Fund's asset managers quarterly to promote a longer term view and to fit in with the DCLG stipulation that in future the pools, rather than individual funds, take the responsibility for hiring and firing asset managers. Our Fund has always taken the long view in all aspects of investment management so this means little change in principle for us – provided the pools are as robust in their long–termism as we have been.

I have made reference many times before to the significant difference in liability profile and – as a direct consequence – asset strategy of our Fund compared to the vast majority of LGPS funds. Our Fund is super-mature and continuing to further mature rapidly, closed to new entrants, cash flow negative with a single corporate sponsor. In many ways this is the profile of a typical private sector pension fund. In response our asset strategy is largely 'de-risked' so we have considerably less exposure to volatile assets, especially equities, and much greater exposure to 'protection' assets such as credit bonds and index-linked gilts. To reflect ongoing maturity we have two levers of further de-risking: the first is an automatic, annual switch of c2% from risk assets (equities) to protection assets and the second is a dynamic 'trigger-based' switching implemented only when - and if - our funding level is sufficiently ahead of where we expect it to be, due to favourable market movements. Markets continue to conspire against any such trigger being activated!

My wish although unlikely to be granted any time soon is that bond yields, especially the significant longer duration index-linked gilt yields, show some reversion to more normal levels. This would take some of the heat off the valuation placed by the actuary on our liabilities, remembering that in the bond word prices - and values - are inverse to yields. So yields rising mean prices – and values – falling. Our assets are behaving broadly as we would anticipate and with this wish, even partially fulfilled, our funding and financing would show considerable, and welcome, improvement.

Eric Lambert

Local Pension Board

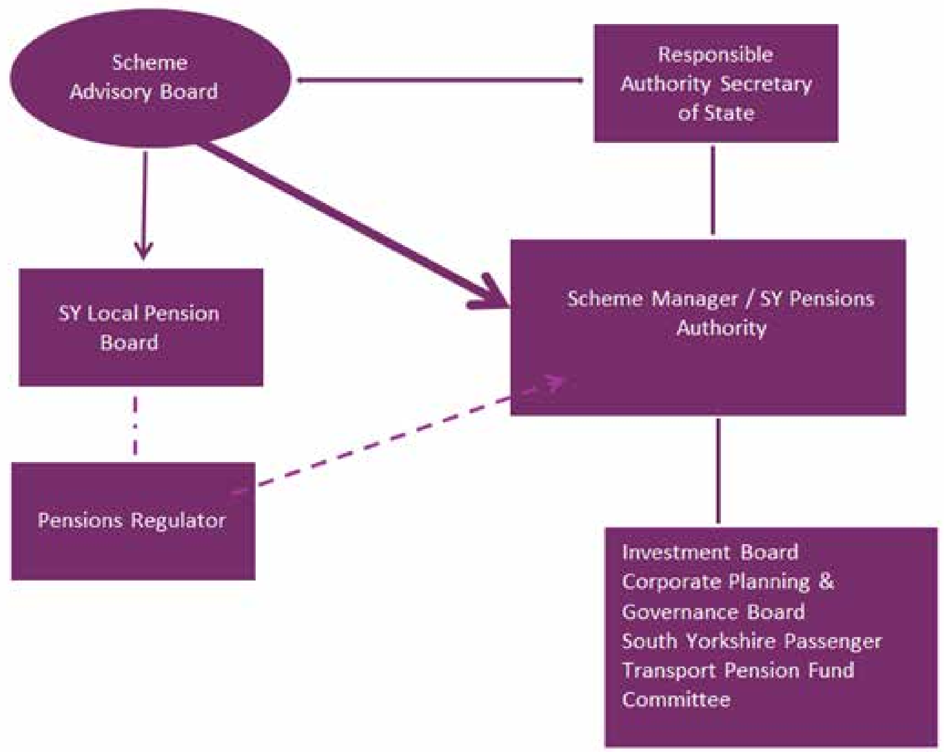
The Secretary of State granted the two South Yorkshire LGPS funds permission to establish a Joint Local Pension Board. The role of the Local Pension Board is defined by Sections 5(1) and (2) of the Public Service Pensions Act 2013.

The Board seeks to assist the South Yorkshire Pensions Authority and the South Yorkshire Passenger Transport Pension Fund to maintain effective and efficient administration and governance. Members of the Scheme can now have direct influence on how the Fund is managed. The LPB comprises both Scheme members, retired and active, together with employer representatives. Employer representation is not restricted to the four large local Councils.

Although the Board only held its first meeting on 23 July 2015 it is already contributing towards the effective governance of the two Funds. It meets quarterly and all Board Members have undertaken training and have established a work programme that will enable them to meet their obligations to ensure that the two Funds comply with the relevant codes of practice and current legislation.

The draft Board constitution was suggested by the two administering authorities but since then changes have been agreed which remove what some regarded as unnecessary restrictions on the scope of the LPB's ability to question and offer advice on investments. This demonstrates that, whilst not having direct control over the two Funds, the LPB intends to work with the Funds on the widest possible range of issues.

The following diagram shows the governance framework as it now operates and the following table reveals the membership of the Board.



Although it is still early days the performance so far is encouraging and it can only go from strength to strength. The Board will publish its own Annual Report and this will be posted to the Fund website.

Employee Representatives

Glyn Boyington
LGPS Member (Chairman)

Garry Warwick (GMB)
Trades Union

Kevin Morgan (UCATT)
Trades Union

Nicola Doolan (Unison)
Trades Union

Susan Ross
LGPS Member

Steve Carnell
SYPTPF Member

Employer Representatives

Jill Thompson (Action Housing)
Admitted Body (Vice-Chair)

Geoff Berrett (South Yorkshire Police)
'Other Large Employer'

Melanie Priestley (St Mary's Academy Trust) *Academy*

Councillor Tony Corden
Local Authority Member (Doncaster)

Councillor Ben Curran
Local Authority Member (Sheffield)

Vacancy
(South Yorkshire Passenger Transport Pension Fund)

Statement by the Consulting Actuary

Actuarial valuations of the South Yorkshire Passenger Transport Pension Fund are carried out every three years, under the Local Government Pension Scheme Regulations. The latest completed valuation was carried out as at 31 March 2013.

The main purpose of the valuation is to check that the funding is on track and to review the employer's (First South Yorkshire Limited) contribution rate. The valuation involves a large number of assumptions concerning the future development of the Fund's assets and liabilities (i.e. the benefits payable). The 2013 valuation was made using the following financial assumptions:

Rate of return on investments:	
- pre retirement	6.6% per annum
- post retirement	2.8% per annum for current pensioners
	3.6% per annum for future pensioners
Rate of pay increases:	3.6% per annum
Rate of increases to pensions (above the Guaranteed Minimum Pensions)	2.5% per annum for current pensioners
	2.7% per annum for future pensioners
Valuation of Assets	Market Value

The 2013 valuation showed that the assets were 86% of the value of the accrued liabilities based on the assumptions above. This percentage funding level is the same as that revealed at the 2010 valuation, but the amount of the shortfall has increased by over £6million. This is mainly due to the use of different actuarial assumptions to calculate the accrued liabilities, which more than offset the better than expected investment returns achieved over the period from 31 March 2010 to 31 March 2013.

The employer will pay contributions designed to bring the Fund back to a fully funded position over the 10 year period from the valuation date of 31 March 2013 if the assumptions are borne out in practice. Future payments will be made at an annual rate of £1.5 million, gradually stepping up each year thereafter to become £3.5 million by March 2019.

The 2013 valuation also revealed the contribution rate payable to the Fund by the employer with effect from 1 April 2014. This increased to 23.1% of Pensionable Pay for the accrual of benefits from 1 April 2014 to 31 March 2017. The contribution rate allows for the change in benefits in the Local Government Pension Scheme from 1 April 2014, and was calculated using the projected unit actuarial method with a 3 year control period.

Further details are set out in the actuary's valuation report dated 28 March 2014 and the Funding Strategy Statement prepared by the Administering Authority.

The Fund's retirement experience is monitored by the Administering Authority and additional contributions become due if necessary to protect the Fund against adverse retirement experience.

The financial position of the Fund and the contribution rate payable to the Fund by the employer will be reviewed at the next actuarial valuation which will be carried out with an effective date of 31 March 2016.

Barnett Waddingham LLP, May 2016

Independent auditor's report to the members of Sheffield City Region Combined Authority on the pension fund financial statements published with the pension fund annual report

We have examined the pension fund financial statements for the year ended 31 March 2016 on pages 70 to 112.

Respective responsibilities of the Section 151 Officer and the auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities the Section 151 Officer is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of Sheffield City Region Combined Authority, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published 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 pension fund financial statements included in the annual published statement of accounts of Sheffield City Region Combined Authority for the year ended 31 March 2016 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters that we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Rashpal Khangura
For and on behalf of
KPMG LLP, Statutory Auditor

Chartered Accountants

1 Sovereign Square,
Sovereign Street,
Leeds,
LS1 4DA

12 September 2016

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FINANCE

Sheffield City Region Combined Authority - Statement of Accounts

Statement of Responsibilities

The Combined Authority's Responsibilities

The Combined Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. That officer is the Director of Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Responsibilities of the Director of Finance

The Director of Finance is responsible for the preparation of the Combined Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that were reasonable and prudent, and
- complied with the Local Authority Code.

The Director of Finance has also:

- kept proper accounting records, which were up to date, and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I hereby certify that the Statement of Accounts on pages 30-162 gives a true and fair view of the financial position of Sheffield City Region Combined Authority at 31 March 2016 and of its income and expenditure for the year ended 31 March 2016.

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Eugene Walker
Director of Finance (Section 151 Officer)

Date: 12th September 2016

Fund Account

2014/15 Restated £'000		2015/16 £'000	£'000	Note
	Dealings with members, employers and others directly involved in the Fund			
1,941	Contributions receivable	2,968		7
8	Transfers in from other pension funds	53		8
1,941			3,021	
(11,692)	Benefits payable	(10,818)		9
(176)	Payments to and on account of leavers	(170)		10
(11,868)			(10,988)	
(9,919)			**(7,967)**	
(1,000)	Management expenses		(924)	11
	Returns on investments			
5,248	Investment income	5,100		12
21,466	Profit and losses on disposal of investments and changes in value of investments	(4,300)		13a
(33)	Taxes on income	(23)		12
26,681			777	
15,762	**Net increase (decrease) in the net assets available for benefits during the year**		**(8,114)**	
196,662	**Net assets of the Fund at 1 April**		**212,424**	
212,424	**Net assets of the Fund at 31 March**		**204,310**	

The 2014/15 figures have been restated; further details are provided at Note 11

Net Assets Statement

31 March 2015 £'000		31 March 2016 £'000	£'000	Note
	Investment assets			
33,951	Fixed Interest Securities	34,514		
87,688	Equities	77,456		
79,231	Index-Linked Securities	86,873		
8,872	Pooled Investment Vehicles	2,872		
745	Cash - Foreign currency	514		
614	Cash - Sterling	608		
1,264	Other investment balances	1,296		
212,365			204,133	
	Investment liabilities			
(-)	Other investment liabilities	(-)		
(-)			(-)	
212,365	**Net investment assets**		**204,133**	13
141	**Current assets**	**293**		
-	**Long Term Debtors**	**-**		
141			293	18
(82)	**Current liabilities**		(116)	19
212,424	**Net assets of the Fund available to fund benefits at 31 March**		**204,310**	

Notes to the Pension Fund Accounts

1. Description of the Fund

a) General

The South Yorkshire Passenger Transport Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS). It is a contributory defined benefit pension scheme. Each constituent LGPS fund is managed by an administering authority: in this case it is the Barnsley, Doncaster, Rotherham and Sheffield Combined Authority, known as the Sheffield City Region Combined Authority ("the Authority").

The Authority has appointed South Yorkshire Pensions Authority (SYPA) to manage the day-to-day affairs of the Fund. This includes all aspects of pensions administration, including the calculation and payment of benefits, and the overall management of the Fund. The Authority has, in addition to SYPA, appointed Old Mutual Global Investors as an investment manager. More information is shown in Note 13b. Barnett Waddingham LLP is the Fund's retained actuary and Eric Lambert has been employed as an independent investment advisor. All of these appointments are governed by management agreements in accordance with LGPS Regulations and are kept under review.

The Authority has delegated its administering authority duties and responsibilities to a specialist Committee of six Authority councillors (South Yorkshire Passenger Transport Pension Fund Committee). Committee meetings are held at least quarterly and Authority and SYPA officers and independent advisors usually attend.

In accordance with sections 5(1) and (2) of the Public Service Pensions Act 2013 the Authority created a Local Pension Board. The Secretary of State granted the two South Yorkshire LGPS funds the power to establish a Joint Local Pension Board and this held its first meeting in July 2015.

The Fund has only one contributing employer, First South Yorkshire Limited, and 2,106 members (see note 1b).

The Fund's Statement of Investment Principles (SIP) was reviewed during the year and is available on the Fund's website (www.sypensions.org.uk).

b) Membership

The following summarises the position with regard to membership as at 31 March:

	31 March 2016	31 March 2015
Active Contributors	184	203
Pensioners & Dependents	1,531	1,510
Deferred Pensions	391	414
Totals	**2,106**	**2,127**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016.

Employee contributions are matched by employer's contributions which are set based on triennial actuarial funding valuations. The last such valuation was as at 31 March 2013 and the Employer's contribution rate required to cover the cost of accruing benefits and expenses is 23.1% of pensionable pay from 1 April 2014 for the duration of this valuation period. Deficit payments are also due in 2016/17.

Notes to the Pension Fund Accounts

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarized below:

	Service pre 1 April 2008	Service post 31 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 3/80 x salary. 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 1 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 uprated 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. For more details please refer to the LGPS website.

e) Investment Performance

The Fund's market value (not including current net assets) fell during the year and closed at £202.8m (£212.3m in 2014/15) producing an overall return of 0.1% (13.7% in 2014/15). The Fund's benchmark return was -0.2% (13.7% in 2014/15).

For yet another year the world's financial markets were dominated and distorted by central bank policy interventions and their consequences. Low interest rates and sovereign bond yields persisted and in certain cases moved into negative territory. Investors also had concerns over prospects for global economic growth as it became evident that, despite the unprecedented level of liquidity injection, the western economies were not expanding and as China adjusted away from an investment led economy towards a more balanced consumer one. These worries were exacerbated by falling commodity prices and the growing risk of geo-political unrest.

The Fund favoured international equities ahead of other asset classes but as the new customised benchmark was implemented monies were switched into bonds. The weighting to property unit trusts was cut in accordance with the new target.

Notes to the Pension Fund Accounts

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for 2015/16 and its position at the year end of 31 March 2016. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is recognised by statute as representing proper accounting practice.

The accounts summarise the transactions of the Fund and show the net assets at the disposal of the Fund. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 17 of these accounts.

3. Accounting policies

Fund account - revenue recognition

A. Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

B. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Note 8).

Individual transfers in/out are accounted for when received/ paid, which is normally when the member liability is accepted or discharged.

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

C. Investment Income

i. 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 or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii. Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

iii. Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

iv. 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.

Fund account – expense items

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

Notes to the Pension Fund Accounts

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

As a result, expenses for 2014/15 have been restated to reflect the CIPFA Guidance requiring that management and transaction fees deducted at source now be shown gross.

Administration expenses
All administration expenses are accounted for on an accruals basis. All costs incurred by SYPA (the Fund Manager) in respect of administration expenses are charged directly to the Fund.

Oversight and governance costs
All oversight and governance expenses are accounted for on an accruals basis. All costs incurred by SYPA (the Fund Manager) in respect of oversight and governance are charged directly to the Fund.

Investment management expenses
All investment management expenses are accounted for on an accruals basis. Fees of the overseas equity portfolio manager are fixed, however the Authority has negotiated that an element of their fee be performance related. All costs incurred by SYPA (the Fund Manager) in respect of investment management expenses are also charged directly to the Fund.

Net assets statement

G. Financial assets
Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined as follows:

i. *Market-quoted investments*
Quoted securities are valued at closing bid prices on the relevant stock market.

ii. *Fixed interest stocks*
Fixed interest stocks are included in the valuation on a "clean" basis (that is, excluding the value of interest accruing from the previous interest payment date to the valuation date).

The "clean" basis has been used for accounting for fixed interest stocks, including for purchase and sale activity on these stocks, as it enables the capital and income elements of total investment returns to be accounted for distinctly.

iii. *Unquoted investments*
The fair value of investments for which market quotations are not readily available is determined as follows:

Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, estimated realisation costs.

Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

Directly held investments include investments in limited partnerships, shares in unlisted companies, trust and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association or other professional bodies.

iv. *Limited partnerships*
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

Notes to the Pension Fund Accounts

v. Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

H. Foreign Currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses arising on conversion or translation are dealt with as part of the change in market value.

I. Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

J. Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of liability are recognised by the Fund.

K. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed at the period end using a roll forward of the results of the triennial valuation (as at 31 March 2013) allowing for the different financial assumptions required under IAS19.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to these accounts (Note 17).

L. Additional Voluntary Contributions (AVCs)

In accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093) contributions to AVCs have not been included in either the Authority's Fund Account or Net Assets Statement, as they are paid directly to the AVC providers by employers of contributors. AVCs are specifically for the provision of additional benefits for individual contributors. AVC funds returned to the scheme and benefits paid as a result of this are included in the Fund account as part of Transfer values received and benefits paid respectively.

Details of AVC investments are however shown in Note 20

4. Critical judgements in applying accounting policies

Pension Fund liability

The pension fund liability is calculated every three years by the Fund's actuary, Barnett Waddingham, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with financial standards. Assumptions underpinning the valuations are agreed with the actuary and are disclosed in Notes 16 and 17. 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 Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The one item in the Pension Fund Accounts at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Notes to the Pension Fund Accounts

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Barnett Waddingham) is engaged to provide the fund with expert advice about the assumptions to be applied.	The funding level at the 2013 actuarial valuation was 86%. The effects on the funding level of changes in individual assumptions can be measured. For instance, no allowance for asset performance in excess of gilt yields reduces the funding level by 13% (£37.5m). A 1.5% increase in mortality long term rate of improvement would reduce the funding level by 2% (£5.3m).

6. Events after the Balance sheet date

On 23rd June 2016 the UK voted to leave the European Union. The full impact of this is unknown and inevitably the country is now in a period of uncertainty.

7. Contributions receivable

Contributions represent the total amount receivable from First South Yorkshire Limited in respect of its own contributions and those of its pensionable employees.

When First South Yorkshire Limited (the Employer) retires staff early, on redundancy or efficiency grounds, a strain on the Fund is generated through the early payment of their benefits. The Authority requires the employer to reimburse the fund for that strain by making capital injections over a phased period of up to 3 years. These capital injections are accounted for in full when they occur.

Analysis of contributions receivable:-	**2015/16** *£'000*	**2014/15** *£'000*
From the Employer		
Normal Contributions	1,147	1,334
Deficit Funding lump sums	1,500	-
Additional Capital contributions	-	233
Additional cost of early retirement	-	-
	2,647	**1,567**
From Members	321	374
	2,968	1,941

Notes to the Pension Fund Accounts

8. Transfers In

	2015/16 £'000	2014/15 £'000
Group transfers in	-	-
Individual transfers in	53	8
Totals	**53**	**8**

9. Benefits payable

Analysis of benefits payable:-	2015/16 £'000	2014/15 £'000
Retirement Pensions	8,882	8,528
Commutation of benefits and lump sum retirement benefits	1,379	2,990
Lump sum death benefits	557	174
Totals	**10,818**	**11,692**

10. Payments to and on account of leavers

	2015/16 £'000	2014/15 £'000
Group transfers out	-	-
Individual transfers out	170	176
Refunds of contributions	-	-
Totals	**170**	**176**

Notes to the Pension Fund Accounts

11. Management Expenses

	2015/16	2014/15
	£'000	£'000
Administration Costs	38	45
Investment Management Expenses	715	806
Oversight and Governance	171	149
	924	**1,000**

This analysis of the costs of managing the South Yorkshire Passenger Transport Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Administration expenses were £7,000 lower in 2015/16 than the previous year due to efficiencies and the less complex nature of this fund.

Oversight and Governance costs rose during the year due mainly to professional fees in respect of the Fund's VAT position and liability. There were also costs incurred in establishing and operating the new local pensions board. This was a new statutory requirement placed on all pension fund administering authorities with effect from 1 April 2015.

Oversight and Governance cost includes fees payable to the Fund's auditor KPMG of £21,000 (£21,000 in 2014/15).

These management expenses include a total VAT liability of £59,565 (£65,696 in 2014/15)

11a. Investment Management Expenses

	2015/16	2014/15
	£'000	£'000
South Yorkshire Pensions Authority	171	158
Old Mutual	352	376
Custody	38	27
Transaction costs	72	143
Management fees deducted at source	37	48
VAT Liability	45	54
	715	**806**

The overseas portfolio manager fees include a performance-related fee of just over £0.336m (£0.346m in 2014/15)

In accordance with CIPFA guidance management fees deducted at source and transaction costs are now shown gross. The effect of this has been to increase investment management expenses in 2014/15 from £0.613m to £0.806m. Wherever possible these figures are based on actual costs disclosed by the manager; where this is not available, best estimates have been made using other available information.

It is important to note that this is a change in reporting only and does not represent an actual increase in costs, nor a decrease in the Fund's resources available to pay pension benefits.

Notes to the Pension Fund Accounts

12. Investment Income

	2015/16	2014/15
	£'000	*£'000*
Interest from fixed interest securities	1,648	1,620
Dividends from equities	2,235	2,332
Income from index-linked securities	1,064	979
Income from pooled investment vehicles (property)	150	311
Interest on cash deposits	5	5
Other	(2)	1
	5,100	5,248
Irrecoverable withholding tax-equities	(23)	(33)
Total Investment Income	**5,077**	**5,215**

13. Net Investment Assets

	31/03/16	31/03/15
	£'000	*£'000*
Fixed Interest Securities		
UK corporate bonds	34,514	33,951
Equities		
UK quoted	29,851	33,169
Overseas quoted	47,605	54,519
	77,456	*87,688*
Index Linked Securities		
UK public sector quoted	71,264	67,222
UK corporate bonds	15,609	12,009
	86,873	*79,231*
Pooled Investment Vehicles		
UK Property	2,872	8,872
Cash - Foreign currency	514	745
Cash - Sterling	608	614
Other investment assets (broker balances, outstanding dividend entitlement and recoverable withholding tax)	**1,296**	**1, 264**
Other investment liabilities (broker balances)	-	-
Total Investment Assets	**204,133**	**212,365**

Notes to the Pension Fund Accounts

13a. Change in Market Value of Investments

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

Indirect costs are incurred through the bid-offer spread on investments. The amount of indirect costs is not separately provided to the scheme.

	Mkt Value at 1/4/15	Purchases at Cost	Sale Proceeds	Change in Mkt Value	Mkt Value at 31/3/16
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	33,951	4,899	(2,891)	(1,445)	34,514
Equities	87,688	85,881	(92,936)	(3,177)	77,456
Index-Linked Securities	79,231	13,645	(5,777)	(226)	86,873
Pooled Investment Vehicles	8,872	2	(6,558)	556	2,872
	209,742	**104,427**	**(108,162)**	(4,292)	201,715
Cash - Foreign currency	745			(8)	514
Cash - Sterling	614				608
Other investment assets	1,264				1,296
Other investment liabilities	-				-
NET INVESTMENT ASSETS	**212,365**			**(4,300)**	**204,133**

Previous Year Comparative (restated):

	Mkt Value at 1/4/14	Purchases at Cost	Sale Proceeds	Change in Mkt Value	Mkt Value at 31/3/15
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	31,980	5,935	(5,769)	1,805	33,951
Equities	83,909	98,089	(104,481)	10,171	87,688
Index-Linked Securities	68,036	9,698	(6,779)	8,276	79,231
Pooled Investment Vehicles	8,981	-	(1,329)	1,220	8,872
	192,906	**113,722**	**(118,358)**	21,472	209,742
Cash - Foreign currency	557			(6)	745
Cash - Sterling	1,815				614
Other investment assets	1,326				1,264
Other investment liabilities	-				-
NET INVESTMENT ASSETS	**196,604**			**21,466**	**212,365**

Notes to the Pension Fund Accounts

13b. Investments analysed by Fund Manager

	Market Value at 31/3/16		Market Value at 31/3/15	
	£'000	%	£'000	%
South Yorkshire Pensions Authority	159,567	78.17	160,853	75.74
Old Mutual (overseas equities)	44,566	21.83	51,512	24.26
	204,133		**212,365**	

The Fund has one investment that represents more than 5% of the net assets of the Scheme:

2015/16

Security	Holding	Valuation £'000	% of total fund
UK Treasury Index Linked 2020	3,700,000	13,355	6.5

2014/15

Security	Holding	Valuation £'000	% of total fund
Treasury Index Linked 2020	4,205,000	15,315	7.2

14. 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 Fund's financial instruments are the investment assets and debtors and creditors, these are all disclosed on the Net Assets Statement. The assets and debtors are all carried at fair value. The creditors are carried at amortised cost.

a) Classification of Financial Instruments

The items in the Net Assets Statement are made up of the following categories of financial instrument:

	31 March 2016 £'000	31 March 2015 £'000
FAIR VALUE THROUGH PROFIT OR LOSS		
Financial Assets		
Fixed Interest Securities	34,514	33,951
Equities	77,456	87,688
Index-Linked Securities	86,873	79,231
Pooled Investment Vehicles	2,872	8,872
Other investment balances	1,296	1,264
Total	**203,011**	**211,006**
Financial Liabilities		
Other investment balances	(-)	(-)
Total	**(-)**	**(-)**
LOANS AND RECEIVABLES		
Financial Assets		
Cash – Foreign currency	514	745
Cash - Sterling	608	614
Current assets	293	141
Total	**1,415**	**1,500**
FINANCIAL LIABILITIES AT AMORTISED COST		
Financial Liabilities		
Current liabilities	(116)	(82)
Total	**(116)**	**(82)**

See Note 3(H) re method of valuation of asset classes. Debtors and creditors are included at cost.

Notes to the Pension Fund Accounts

b) Net gains and losses on Financial Instruments

	31 March 2016 £'000	31 March 2015 £'000
Financial Assets		
Fair value through profit and loss	(4,292)	21,472
Loans and receivables	(8)	(6)
Financial Liabilities		
Fair value through profit and loss	-	-
Financial liabilities measured at amortised cost	-	-
Total	**(4,300)**	**21,466**

c) Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments at Level 1 are those where the fair value are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities.

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

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. This includes composite prices for fixed income instruments and fund net asset value prices.

Level 3

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

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association or other professional bodies.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Notes to the Pension Fund Accounts

2016	Quoted market price	Using observable inputs	With significant unobservable inputs	
Value at 31 March 2016	**Level 1** £'000	**Level 2** £'000	**Level 3** £'000	**Total** £'000
Financial Assets				
Financial assets at fair value through profit or loss	78,752	124,259	-	203,011
Loans and receivables	1,415	-	-	1,415
Total financial assets	**80,167**	**124,259**	**-**	**204,426**
Financial Liabilities				
Financial assets at fair value through profit or loss	(-)	(-)	(-)	(-)
Financial liabilities at amortised cost	(116)	(-)	(-)	(116)
Total Financial Liabilities	**(116)**	**(-)**	**(-)**	**(116)**
Net financial assets	**80,051**	**124,259**	**-**	**204,310**

2015	Quoted market price	Using observable inputs	With significant unobservable inputs	
Value at 31 March 2015	**Level 1** £'000	**Level 2** £'000	**Level 3** £'000	**Total** £'000
Financial Assets				
Financial assets at fair value through profit or loss	88,952	122,054	-	211,006
Loans and receivables	1,500	-	-	1,500
Total financial assets	**90,452**	**122,054**	**-**	**212,506**
Financial Liabilities				
Financial assets at fair value through profit or loss	(-)	(-)	(-)	(-)
Financial liabilities at amortised cost	(82)	(-)	(-)	(82)
Total Financial Liabilities	**(82)**	**(-)**	**(-)**	**(82)**
Net financial assets	**90,370**	**122,054**	**-**	**212,424**

Notes to the Pension Fund Accounts

15. Nature and extent of risks arising from Financial Instruments

The Fund's activities expose it to a variety of financial risks:

- market risk - the possibility that financial loss might arise for the Fund as a result of changes in such measures as interest rates and stock market movements.
- credit risk - the possibility that other parties might fail to pay amounts due to the Fund
- liquidity risk - the possibility that the Fund might not have funds available to meet its commitments to make payments

The management of risk is described within the Fund's SIP which is posted on the Fund's website (www.sypensions.org.uk). It centres upon the adoption of an investment strategy, as represented by the Fund's customised benchmark, which is appropriate to meet the objectives of the Funding Strategy Statement. It focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the resources available to fund services.

The Fund Manager's (SYPA) treasury management activities are governed by the Local Government Act 2003 and the Fund has broadly adopted CIPFA's Treasury Management Code of Practice. The annual Treasury Management Strategy was approved by the Authority in March 2015.

As a pension fund the primary risks which affect it are market risk and credit risk.

a. Market Risk

Market Risk – Price Risk –
The Fund publishes its SIP which details how the real risk of negative returns due to price fluctuations is managed.

Because different asset classes have different risk and return characteristics they will react differently to external events and will not necessarily do so in a pre-determined or correlated manner to each other. No single asset class or market acts in isolation from other assets or markets. It is, therefore, extremely difficult to meaningfully estimate the consequences of a particular event in a particular asset on other asset classes. It is important to recognise that returns, volatility and risks vary over time.

In order to minimise the risks associated with market movements the Fund is well diversified across asset classes and within individual portfolios and constantly monitored and reviewed.

Price risk – sensitivity analysis
Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome depends largely on the Fund's' asset allocations. Based on this the following movements in market price risk are reasonably possible for the 2015/16 reporting period.

Asset type	Potential market movements (+/-)
Bonds	5.52%
UK Equities	10.65%
Overseas Equities	10.08%
Index Linked securities	6.66%
Property (unit trusts)	2.42%

This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Notes to the Pension Fund Accounts

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset type	Value as at 31 March 2016	Potential Market Movement	Value on increase	Value on decrease
2016	£'000	£'000	£'000	£'000
Bonds	34,514	1,905	36,419	32,609
UK Equities	29,851	3,179	33,030	26,672
Overseas equities	47,605	4,799	52,404	42,806
Index linked securities	86,873	5,786	92,659	81,087
Property (unit trusts)	2,872	70	2,942	2,802
Cash - Foreign currency	514	0	514	514
Cash - Sterling	608	0	608	608
Other investment assets	1,296	0	1,296	1,296
Net investment assets	**204,133**	**15,739**	**219,872**	**188,394**

Previous Year Comparative

Asset type	Value as at 31 March 2015	Potential Market Movement	Value on increase	Value on decrease
2015	£'000	£'000	£'000	£'000
Bonds	33,951	1,874	35,825	32,077
UK Equities	33,169	3,532	36,701	29,637
Overseas equities	54,519	5,496	60,015	49,023
Index linked securities	79,231	5,277	84,508	73,954
Property (unit trusts)	8,872	215	9,087	8,657
Cash - Foreign currency	745	0	745	745
Cash - Sterling	614	0	614	614
Other investment assets	1,264	0	1,264	1,264
Net investment assets	**212,365**	**16,394**	**228,759**	**195,971**

Notes to the Pension Fund Accounts

Market Risk – Interest Rate Risk – This primarily impacts upon the valuation of the Fund's bond holdings and, to a lesser degree, the return it receives on cash held. A rise in interest rates would lead to the income earned on variable rate investments increasing but would cause the value of fixed rate investments to fall. The Fund's correlation to interest rates will vary depending upon the profile of investments held.

The Fund manages its cash investments with a view to obtaining the best returns possible whilst ensuring the security of the deposits. The Fund also holds foreign currency balances which could be affected by interest rate movements but are more sensitive to exchange rate movements (see Market risk – Currency risk).

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2016	As at 31 March 2015
	£'000	£'000
Cash - Sterling	608	614
Total	**608**	**614**

Interest rate risk – sensitivity analysis

The Authority recognises that interest rates can vary and can affect both income to the fund and the value of the net assets.

The one standard deviation of the 10 year government bond yield (annualised) amounts to 0.92%.

The following analysis assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets of a +/- 0.92% change in interest rates:

Asset type	Carrying amount as at 31 March 2016	Potential movement on 0.92% change in interest	Value on increase	Value on decrease
2016	£'000	£'000	£'000	£'000
Cash - Sterling	608	6	614	602
Total change in assets available	**608**	**6**	**614**	**602**

Asset type	Carrying amount as at 31 March 2015	Potential movement on 0.92% change in interest	Value on increase	Value on decrease
2015	£'000	£'000	£'000	£'000
Cash - Sterling	614	6	620	608
Total change in assets available	**614**	**6**	**620**	**608**

Notes to the Pension Fund Accounts

Market Risk – Currency Risk – the Fund holds cash balances in foreign currency and has investments quoted in foreign currency. The risk of exchange rate movements is accepted as part of the overall management strategy of the Fund.

Currency risk – sensitivity analysis
The potential volatility of the aggregate currency exposure within the fund based on historical data for the last 3 years associated with foreign exchange rate movements is 9.6%.

A 9.6% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets as follows:

Currency exposure Asset type	Asset value as at 31 March 2016	Potential Market Movement	Value on increase	Value on decrease
2016	£'000	£'000	£'000	£'000
Overseas quoted securities	47,605	4.570	52,175	43,035
Overseas property funds	-	-	-	-
Cash - Foreign currency	514	49	563	465
Total change in assets available	**48,119**	**4,619**	**52,738**	**43,500**

Currency exposure Asset type	Asset value as at 31 March 2016	Potential Market Movement	Value on increase	Value on decrease
2015	£'000	£'000	£'000	£'000
Overseas quoted securities	54,519	5,234	59,753	49,285
Overseas property funds	-	-	-	-
Cash - Foreign currency	745	71	816	674
Total change in assets available	**55,264**	**5,305**	**60,569**	**49,959**

Notes to the Pension Fund Accounts

b. Credit Risk

Credit Risk - arises from deposits with banks and financial institutions, as well as credit exposures to the Fund's customers. The risk is minimised through the SYPA Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum criteria set by SYPA. The Treasury Management Strategy also imposes a maximum sum to be invested with each institution. In practice the Fund holds minimal cash balances. Counterparties must have a short term debt credit rating of F1 or better.

The Fund's benchmark allows for cash at 31 March 2016 to a maximum of 5% of the Fund (actual cash holdings were 0.3%).

Interest received on advances during 2015/16 was £3,423 (£4,429 in 2014/15) at an average rate of 0.39% (0.39% in 2014/15) (as the Fund maintains short term deposits only, the rate of interest is closely aligned to the Bank of England base rate which has remained at 0.5% since March 2009). For illustration purposes an increase of 0.25% in interest rates achieved would have resulted in an increase of £2,194 (£2,839) in interest received provided that bank balances had remained the same.

c. Liquidity Risk

Liquidity Risk - the Fund ensures it has adequate cash resources to meet its commitments. This is particularly the case for cash to meet pensioner payroll costs and investment commitments.

The Fund has immediate access to its cash holdings with a majority of cash being deposited for no longer than a week and no cash being deposited for more than a month. Also the Fund holds Government bonds amounting to £71.3m (£67.2m at 31 March 2015) which can be realised within a week in normal market conditions, if necessary, to meet expected or unexpected demands for cash.

All financial liabilities are due to be paid in less than one year.

16. Funding Arrangements

In accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008, Barnett Waddingham, the consulting actuary, carried out an examination of the financial position of the Fund as at 31 March 2013. The market value of the Fund's assets at the date of the valuation was £194.220m. The previous valuation had been completed as at 31 March 2010 (market value £158.374m).

The assumptions adopted are (2010 valuation assumptions shown in brackets):-

Financial assumptions

	(non-pensioner/ pensioner)	
Price inflation RPI	3.6% / 3.4%	(3.6%)
Price inflation CPI	2.7% / 2.5%	(3.0%)
General earnings increases	3.6%	(3.85%)
Investment return		
- before retirement	6.6%	(6.5%)
- after retirement	3.6% / 2.8%	(5.5%)

Demographic assumptions

Mortality table	**120% S1PA**	
Ill-health mortality table	**120% S1PA + 6 years**	
Mortality projections	CMI_2012 long term rate of improvement 1.0% pa	(CMI_2009 long term rate of improvement 0.5% pa)
Allowance for cash commutation	70% of members elect to take maximum cash	

The funding objective is to ensure that the funding level is 100% and that the long term future contribution rate is relatively stable over time.

On an ongoing basis, the Fund had a valuation deficit in respect of past service rights of £32.8m at 31 March 2013 (£26.5m at 31 March 2010). This represents a funding level of 86% (86% at 31 March 2010).

The contribution rate payable by First South Yorkshire Limited has been calculated at 23.1% (21.5% in 2010) per annum and will be effective throughout the three year period 1 April 2014 to 31 March 2017. Additional deficit payments are due in 2016/17.

Notes to the Pension Fund Accounts

17. Actuarial Present Value of Promised Retirement Benefits

IAS26 requires the present value of the Fund's promised retirement benefits to be disclosed. To assess the value of the liabilities as at 31 March 2016 the actuary has rolled forward the value calculated for the triennial valuation as at 31 March 2013 allowing for the different financial assumptions required under IAS19.

The financial assumptions used for the purposes of the calculations are shown in the table below:-

	31 March 2016	31 March 2015
CPI increases	2.1% p.a.	2.1% p.a.
Salary increases	3.0% p.a.	3.0% p.a.
Pension increases	2.1% p.a.	2.1% p.a.
Discount rate	3.4% p.a.	3.0% p.a.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2016 without completing a full valuation. However the actuary is satisfied that the approach of rolling forward the previous valuation results to 31 March 2016 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. There appears to be no evidence that this approach is not appropriate.

On this basis, the value, for IAS26 purposes, of the Fund's promised retirement benefits as at 31 March 2016 was £216.208m (£230.553m as at 31 March 2015) giving a net liability of £11.898m (£18.129m as at 31 March 2015).

The Actuarial Present Value of Fund Obligation consists entirely of Vested Obligations.

18. Current Assets

Debtors:

	31 March 2016	31 March 2015
	£'000	£'000
Contributions due - employers	16	-
Contributions due - employees	5	-
Additional costs of early retirement	-	-
Sundry debtors	272	141
	293	**141**

Analysis of debtors:

	31 March 2016	31 March 2015
	£'000	£'000
Central government bodies	50	54
Other local authorities	-	-
Public corporations and trading funds	-	1
Other entities and individuals	75	85
	125	**140**
Cash at bank	168	1

There are no long term debtors.

Notes to the Pension Fund Accounts

19. Current Liabilities

Creditors:

	31 March 2016	31 March 2015
	£'000	£'000
Benefits Payable	4	-
Sundry creditors	112	82
	116	**82**

Analysis of creditors:

	31 March 2016	31 March 2015
	£'000	£'000
Other local authorities	57	55
Public corporations and trading funds	12	12
Other entities and individuals	47	15
	116	**82**

20. Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) made by pension fund contributors are managed by Equitable Life and Scottish Widows. The Fund value of AVCs with these managers and contributions received during the year are shown below:

	Fund Value		Contributions received	
	31/3/16	31/3/15	2015/16	2014/15
	£'000	£'000	£'000	£'000
Equitable Life	11	11	-	-
Scottish Widows	162	210	-	-

Notes to the Pension Fund Accounts

21. Related Party Transactions

There are no material transactions with related parties other than those which have been properly recorded and disclosed elsewhere in the accounts.

The employer, First South Yorkshire Limited, is a related party to the Fund and has material transactions with the Authority during the year in the form of contributions described elsewhere in the accounts.

The fund managers are related parties to the Fund and fees paid to them are included in Investment management expenses (see Note 11a).

22. Compensation Payments

The Fund makes compensation payments in respect of non-statutory pension benefits (e.g. 'added years'). These costs are not chargeable to the Fund, but are recovered from First South Yorkshire Limited.

During 2015/16, the Fund made payments in respect of non-statutory pension benefits of £107,533 (£109,773 in 2014/15).

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