NILGOSC

NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

ANNUAL REPORT
2017/2018

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NILGOSC
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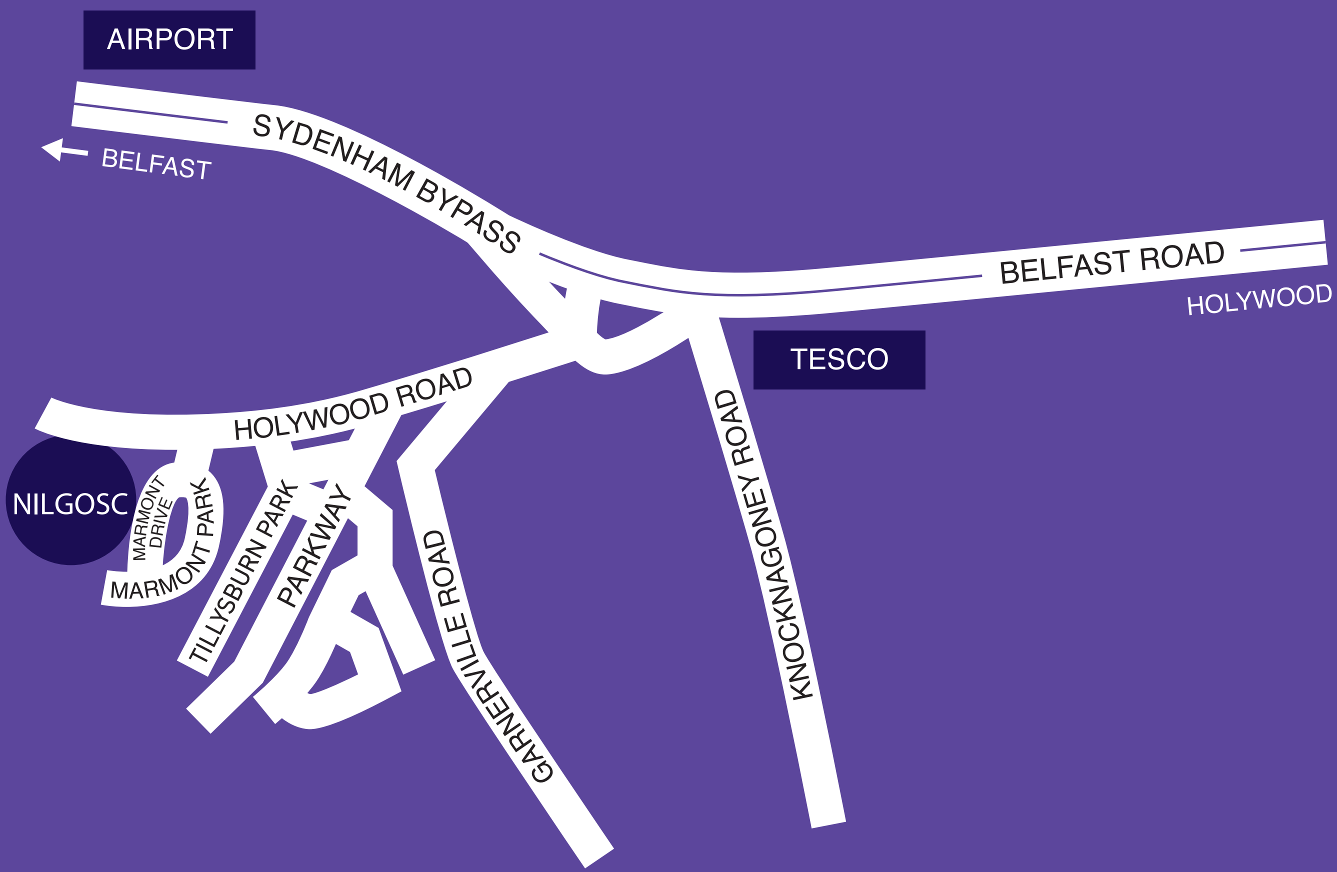
SUPERANNUATION COMMITTEE



If you have any views and comments on this report, or any questions on any of the services provided, please contact us in writing; by telephone; fax; email; or by visiting our office in person as follows:

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This annual report can be made available in a wide range of alternative formats. Requests for alternative formats should be made to the Finance Manager at the above address. In addition to the Annual Report, NILGOSC can provide documents and correspondence in alternative formats, including audio and large print versions for people with sight problems. Documents can also be provided in minority languages for those whose first language is not English. If you would prefer an alternative method of communication please let us know.

ANNUAL REPORT 2017/2018

NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

NILGOSC Annual Report and Accounts
For the Year Ended 31 March 2018

Laid before the Northern Ireland Assembly under Regulation 63(8) of the Local Government Pension Scheme Regulations (Northern Ireland) 2014 by the Department for Communities
on

11 September 2018

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FOREWORD

Statutory Background

The Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) is a non-departmental public body sponsored by the Department for Communities, established on 1 April 1950 by the Local Government (Superannuation) Act 1950, to administer and maintain a fund providing pension benefits for employees of local authorities and other admitted bodies.

In accordance with Regulation 63(2) of the Local Government Pension Scheme Regulations (Northern Ireland) 2014, as amended, the Secretary of the Committee submits its annual report for the year ended 31 March 2018 to the Department for Communities.

The Committee

The Committee is the corporate body responsible for the administration of the Local Government Pension Scheme in Northern Ireland.

Committee's Responsibilities

The Committee is required under the Local Government Pension Scheme Regulations (Northern Ireland) 2014, as amended, to:

- keep accounts of all financial transactions of the Fund; and
- prepare the financial statements for the financial year ended 31st March.

The financial statements shall comprise:

a) a Foreword;
b) a Statement of the Committee's Responsibilities;
c) an Accounting Officer's Governance Statement;
d) a Fund Account;
e) a Net Assets Statement;
f) a Statement of Cash Flows; and
g) Notes to the Accounts;

and shall be prepared in accordance with guidance for the time being issued by the Department of Finance.

The financial statements shall give a true and fair view of the Fund Account for the financial year, and a Net Assets Statement as at the end of the financial year.

Audit

The Local Government Pension Scheme Regulations (Northern Ireland) 2014 provide for the accounts kept by the Committee to be audited annually by the Local Government Auditor. Her staff are wholly independent of NILGOSC and the audit fee is disclosed in Note 7 to the Financial Statements. The auditors did not perform any non audit work this year.

Disclosure of Relevant Audit Information

There is no relevant audit information of which the auditors are unaware; and the Accounting Officer has taken all the necessary steps to ensure both he and the auditors are aware of all relevant audit information.

Important Events Occurring After the Year End

There have been no significant events since 31 March 2018.

Payment to Creditors

In November 2008, under the Prompt Payment Initiative, former Prime Minister Gordon Brown announced that all Government Bodies would pay all external suppliers who provided a correctly rendered invoice to the correct location within 10 working days. Also in 2008, the Finance Minister announced that Northern Ireland Departments had set a target of payment of invoices within 10 working days, in order to help local businesses.

NILGOSC endeavours to meet the 10 day prompt payment target and aims to pay suppliers within 10 working days of receipt of a valid, undisputed invoice. Therefore, the default target for paying invoices is 10 working days. During the year ended 31 March 2018 NILGOSC paid 1,277 invoices totalling £20.751m on 10 day terms, of which 95 undisputed invoices were late. 92% of invoices were paid within 30 calendar days and no late payment interest was payable during the year. The average time to pay invoices during the year was 9 working days (2016/17: 8 working days).

PERFORMANCE REPORT
OVERVIEW

(I) INTRODUCTION

This section is intended to provide an overview of NILGOSC and how it has performed over the last twelve months. It also provides a summary of its main corporate objectives and activities, as well as the key issues and risks that could prevent it from meeting those objectives. The section begins with a Statement from the Chief Executive which provides his perspective on NILGOSC's key activities and achievements during the year ended 31 March 2018. It concludes with highlights of NILGOSC's performance from both a Scheme Administration and Investment perspective.

(II) STATEMENT FROM CHIEF EXECUTIVE

David Murphy
Chief Executive and Secretary

It was another busy and productive year for NILGOSC, both from an investment and administration perspective. Changes in the overall funding position allowed NILGOSC to undertake a fundamental review of its investment strategy during 2017/18. On the administration side, the NILGOSC team were successful in eliminating the backlogs that had arisen following the transition to the new Career Average Revalued Earnings (CARE) scheme in April 2015 and this is reflected in an overall improvement in service standards during the year.

This statement is my perspective on the performance and achievements of the organisation during the year ended 31 March 2018.

Investment Performance

In common with many investors, NILGOSC enjoyed a relatively smooth and rewarding twelve months in respect of its investment portfolio. In general, it was a strong year for equity markets and US equities delivered positive returns for every month of 2017, the first time since 1958. After fifteen months of equity markets climbing steadily higher, volatility returned in February 2018. By the end of the first quarter of 2018, equity markets were starting to react negatively to ongoing geo-political activity and ended the year slightly down on the calendar year end. Other assets, including property, infrastructure and fixed income also produced positive returns for the year ended 31 March 2018.

2017/18 was primarily a year when downside political risks failed to materialise and the positive economic and political backdrop helped drive global risk assets higher. Closer to home, uncertainty surrounding Brexit has impacted the shorter term performance of NILGOSC's domestic holdings, including the valuations of UK equities and certain properties, while a weaker sterling has been a positive contributing factor in respect of returns from overseas investments.

The NILGOSC Fund grew by £466m during 2017/18 and ended the year on a new record high of £7.549bn. NILGOSC has exceeded its investment target of Consumer Price Index (CPI)+5% by 1.9% and 3.4% on a three and five year basis respectively for the period ended 31 March 2018.

It is often quoted but past performance is no guarantee of future returns in financial markets and NILGOSC's focus remains firmly on the future and achieving solid longer term investment returns within an acceptable level of risk. With this in mind, NILGOSC undertook a formal Investment Strategy Review in October 2017, which culminated in a change to both its strategic asset allocation and overall performance objective. The new allocation will take approximately 18 months to implement and will see the proportion of the fund invested in equities decrease from over two-thirds to just over a third. The reweighting of the portfolio towards fixed income assets also led to a review of NILGOSC's overall investment objective, which from 1 April 2018 will be CPI+3.5%. Further details on the new asset allocation and fund objective are set out in the Performance Analysis Investment of the Fund section of this annual report starting on page 32.

Active stewardship of the investment portfolio remained a key priority in 2017/18 with all nine investment managers being held to account over the management of their respective funds. In addition to the more traditional portfolios managed by external investment managers, NILGOSC also invests in a range of property and infrastructure funds, the commitments to which continued to be drawn down and invested during the last twelve months. Following the Investment Strategy Review, a transition plan has been put in place in respect of the move to the new asset allocation to allow funds to be moved across asset classes in a timely and controlled manner. The first stage of this transition was successfully completed in March 2018, with £828m transferred from active UK equity mandates to fund an increase in the passive index linked gilts fund managed by Legal & General. The next part of the transition process involves the appointment of a number of new investment managers and NILGOSC commenced its search for four new fixed income managers in April 2018.

Collaboration is one of NILGOSC's six strategic themes and during 2017/18 NILGOSC continued to work together with other UK LGPS Funds on infrastructure investments to help achieve the mutual benefits of scale investing, including improved commercial terms, reduced costs and shared advisory costs. NILGOSC has five such infrastructure co-investments as at 31 March 2018.

Alongside the primary investment focus on delivering stable and positive financial returns, NILGOSC continues to take its responsibilities as a global investor seriously and took part in a number of collaborative initiatives during 2017/18. Details of these initiatives, together with information on the full range of NILGOSC's responsible investment activities, can be found in the Investment of the Fund section of this Annual Report. We strongly believe that Environmental, Social and Governance issues can affect long-term financial returns and NILGOSC collaborates with other large investors across the world on such issues. NILGOSC has been a signatory of the United Nations Principles of Responsible Investment since September 2007 and work continues at both a fund and an industry level on managing climate risk and carbon issues.

Scheme Administration

Scheme membership grew by over 3% during the year, bringing the total number of members to 122,587 at 31 March 2018. Of this total, 46% are actively contributing to the pension scheme, 25% have previously contributed but have not yet reached retirement and the remaining 29% are currently in receipt of a NILGOSC pension every month. Each of these member groupings has their own diverse range of needs and the NILGOSC team worked hard during 2017/18 to provide the high quality, personalised service that our stakeholders have come to expect. We are therefore delighted with the results of the annual satisfaction survey undertaken in May 2018 which shows that 91% of respondents rated their overall satisfaction with the service they received as being good or excellent. It is particularly pleasing to note the continued improvement in service standards achieved during 2017/18 which are reported on page 16.

Contraction and reform within the public sector in Northern Ireland has a direct impact on NILGOSC as many affected bodies are in the NILGOSC scheme. Since 2015, a number of scheme employers have implemented voluntary exit schemes and NILGOSC has seen a spike in demand for retirement quotations throughout the intervening period. During 2017/18 NILGOSC processed 1,544 requests for quotations and 377 retirement benefits as a result of early exits alone. The political deadlock has added to the uncertainty around the future scale and timing of voluntary exit schemes. Given ongoing budget pressures across the public sector, we expect retirements and early exits to continue into 2018/19 and resources remain in place to meet this extra demand.

The last twelve months saw NILGOSC make considerable progress in respect of the reconciliation of its Guaranteed Minimum Pension (GMP) data with that held by HMRC. The deadline for this nationwide project is October 2018 and NILGOSC established a fixed term project team in June 2016 to manage this reconciliation exercise in-house and to ensure that a high quality of service is provided to affected members. As at 31 March 2018, the team had reviewed and resolved 32,012 cases (90% of those requiring investigation) and remains on target to complete the exercise in line with HMRC's deadline.

Looking Forward

The year ended 31 March 2018 was the final year in the current three year strategic planning period and the Committee commenced a new strategic review cycle in April 2018, which will inform the business plan for the following three years. With respect to 2018/19, it will be business as usual for NILGOSC with key areas of focus including improved service delivery, data management, communication and engagement with stakeholders and implementation of the new investment strategy. A key part of the operational plan for 2018/19 relates to system developments which are designed to improve efficiency and offer enhanced service delivery to members and employers. This includes the roll-out of a 24/7 Member Self-Serve facility, which will allow members to view and manage their NILGOSC pension online, and the implementation of i-Connect, which is an integrated data submission and exchange facility for scheme employers. As noted above, the voluntary exit scheme and GMP projects will also carry forward into 2018/19.

Thanks

One Committee member, Julie Erskine, completed her term of office in December 2017 after 8½ years' service as an independent board member. I would like to take the opportunity to acknowledge and thank Julie for her commitment, contribution and support during what was a period of significant change in the structure of the Local Government Pension Scheme.

Finally I would also like to express my gratitude to the Committee members and staff of NILGOSC whose dedication and hard work has made it possible for me to report on another successful year, with 93% of the business plan for the year either achieved or significantly achieved. Thank you all very much.

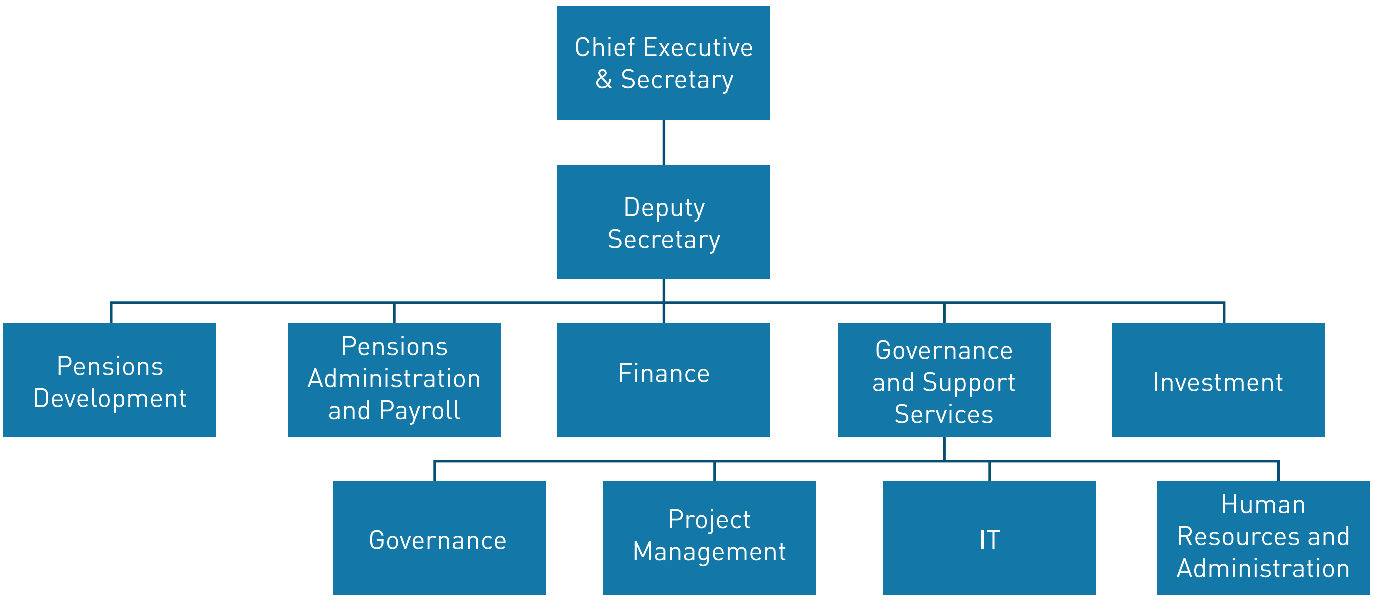
(III) STATEMENT OF PURPOSE AND ACTIVITIES OF THE ORGANISATION

NILGOSC was set up by the Government in April 1950 to operate a pension scheme for the local councils and other similar bodies in Northern Ireland. The pension scheme is known as the Local Government Pension Scheme (Northern Ireland), the 'Scheme', and is a defined benefit scheme, which provides retirement benefits on a 'career average revalued earnings' basis from 1 April 2015. Prior to that date benefits were built up on a 'final salary' basis. NILGOSC is the administrator of the Scheme.

As the administrator of the Local Government Pension Scheme (Northern Ireland) NILGOSC has two main functions which are laid down in Statutory Rules:

- To administer a pension scheme for local government and other admitted bodies
- To manage and maintain a fund out of which scheme benefits can be met

Day to day administration of the Scheme is performed by the Secretariat, who report to the Committee on a monthly basis. Led by the Chief Executive and Secretary and Deputy Secretary, over 80 experienced staff are responsible for the administration of retirement benefits and the monitoring of investments and operate within the functions shown in the chart below.



NILGOSC is a Non Departmental Public Body but receives no funding from central government. It seeks to maximise income and minimise expenditure. The Scheme is funded by contributions made by both employees and employers who have been designated as employing authorities or admitted to the Scheme. All contributions are paid into a fund, the 'Fund', which is used to pay scheme benefits and other payments, as well as the costs of administering the pension scheme and investment fund.

NILGOSC provides pension services primarily to the public sector in Northern Ireland however a small number of Scheme employing authorities are private sector in nature.

With effect from 1 April 2015, the governing regulations are the Local Government Pension Scheme Regulations (Northern Ireland) 2014, the Local Government Pension Scheme (Amendment and Transitional Provisions) Regulations (Northern Ireland) 2014, the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000, as amended.

NILGOSC's corporate vision is *"to provide an excellent and sustainable pension scheme"* and its mission statement is *"to operate the pension scheme efficiently and effectively while enhancing the quality of service provided to stakeholders"*. In order to achieve this aim, NILGOSC has set 6 corporate aims which drive its business priorities and activities:

Aim 1	To provide an effective service complying with the pension scheme regulations, good practice, other legislation and stakeholder expectations.
Aim 2	To deliver an effective investment strategy in line with the actuarial profile of the fund.
Aim 3	To promote the scheme and inform members and employers of their pension options.
Aim 4	To influence and inform the debate on the future of the Local Government Pension Scheme.
Aim 5	To undertake business in an efficient, effective and accountable manner as required of a public body.
Aim 6	To be committed to the need to promote equality of opportunity, the desirability of promoting good relations and the fulfilment of its Section 75 obligations.

Under the 6 corporate aims sit a number of business objectives and operational actions, each of which has its own performance indicator against which success can be measured. The full corporate plan together with a detailed performance analysis is set out on pages 11 to 46.

(IV) KEY ISSUES AND RISKS

NILGOSC has put in place a robust risk management framework as a means of identifying, recording and managing those risks which could prevent it from achieving its strategic objectives. NILGOSC has a single corporate risk register which is subject to formal quarterly reviews to ensure it remains relevant and accurately reflects the risks facing the organisation. Risks are classified into one of 6 categories – Investment, Financial, Reputational, Political/Strategic, Compliance or Operational. Each category has its own risk appetite, which is the amount of risk NILGOSC is willing to accept to achieve its objectives. This is in line with HM Treasury's 5 level classification system for risk appetite which has 5 levels – Hungry, Open, Cautious, Minimalist or Adverse.

Further information on NILGOSC's risk assurance framework is contained within the Governance Statement on pages 51 to 58.

NILGOSC provides a frontline service to its members and pensioners and prides itself on providing a high quality service to all its stakeholders. The move to a CARE scheme on 1 April 2015 had a material impact on service delivery in its first two years of operation as NILGOSC and scheme employers adapted the systems, processes and procedures needed to meet the additional information requirements of the new scheme. Additional external challenges such as the implementation of Freedom and Choice, pension related Budget announcements, software programming and public sector early exit schemes led to a further increase in work volumes on the pension administration side. These changes continued to have an impact on NILGOSC's ability to meet all of its service standards in 2017/18, although it is pleasing to note that all New-Scheme related backlogs have been cleared by 31 March 2018. The elimination of these backlogs has however resulted in a minority of actions being completed outside of service standards during 2017/18. Only one administration service standard fell significantly behind target during 2017/18 and this related to the provision of option choices to members leaving the scheme. This is a non-payment related action and, as a result of the prioritisation of payment related actions, performance in 2017/18 fell short of the normal service standard.

The administration of benefits arising from public sector early exit schemes has created a further challenge to resource management as requests tend to be both high in volume and short in turnaround time. Despite this, service delivery to both scheme members and employers remained a priority throughout 2017/18 and will continue to drive planning and decision making going forward.

Changes in the wider political environment can have a material impact on NILGOSC's ability to deliver against objectives and service standards. For example, the absence of an Executive and Assembly in Northern Ireland during 2017/18 has impacted on the ability to issue amending regulations to comply with the Supreme Court ruling in respect of the Brewster case and also to replace outgoing Management Committee members whose term of office expired in June 2017.

One positive consequence of the recent changes within the industry is the increased awareness and engagement with members on their pension scheme. Engaging with members and making sure that they understand the scheme and the benefits available is a key part of NILGOSC's on-going communication strategy. In addition to servicing the members of the pension scheme NILGOSC's other primary stakeholders are the 170+ employing authorities that contribute to the scheme. Employer education and engagement is essential to ensuring that NILGOSC receives the high quality and timely data needed to process member pension benefits in accordance with stated service standards. In particular, 2018/19 will see additional employer engagement on key issues such as scheme funding and financial strength, as well as the exchange of scheme information and data quality.

From a governance and compliance perspective, 25 May 2018 saw the effective start date for the General Data Protection Regulation (GDPR) EU Directive. This new legislation, which has been enshrined in UK law, brings with it a number of important changes in how personal data is processed and managed. Given the large volumes of member data held by pension schemes such as NILGOSC, there were a number of preparatory actions which needed to be taken in advance of the effective date to ensure NILGOSC was compliant with the new Directive. A comprehensive action plan was implemented to ensure compliance ahead of the effective date.

Information requirements, both in respect of the data required to administer the scheme and the provision of information to members, has increased significantly since the introduction of the new CARE scheme in April 2015 and a key focus going forward will be on improving data flows and service delivery methods. The Corporate Plan for 2017/18 set out a number of ambitious developments designed to utilise technology to meet stakeholder expectations with respect to convenient and efficient access to services.

In December 2016, NILGOSC signed a new contract with its pension administration software provider which included additional software modules that could transform how information is exchanged and services are delivered in the future. From a member perspective, NILGOSC is developing a 24/7 online self-service facility to allow members to directly access and update the information NILGOSC holds on them. By encouraging take-up of the self-service facility, it is hoped the system will provide a dual benefit to both NILGOSC and the member. While the primary beneficiary is the member, through enhanced service delivery options, there are potential financial savings to be made through reduced postage and printing costs.

From a scheme employer perspective, 2018/19 will see NILGOSC start to roll-out a new data exchange facility which will eliminate the need for the manual and time-consuming provision of member information. The planned introduction of an integrated data collection and verification system which feeds directly into NILGOSC's pension administration system should make a significant difference to all and once operational will negate the need for what is a resource intensive annual return exercise. The reduction in manual intervention is also expected to yield significant benefits from a data accuracy and information security perspective as all data will be remitted directly from employers' payroll systems to NILGOSC by way of a secure portal.

Technological developments outside of pension administration also offer the potential to reduce risk, increase efficiency and enhance service delivery. Cyber threat management and information security remains a high priority for NILGOSC given the large volumes of personal data held and a robust control environment is essential to effectively manage information risk.

Following the last actuarial valuation, NILGOSC implemented a new approach to collecting deficit recovery contributions from employers from April 2017. The next triennial valuation is due as at 31 March 2019 and the business plan for 2018/19 includes a number of preparatory actions in advance of this exercise. During 2018/19 NILGOSC will undertake a full review of employer covenants to help assess ongoing financial strength. This action will form an important part of the debate on NILGOSC's Funding Strategy going forward as it looks to protect the fund, and therefore scheme employers, from the risk of individual employer default. This is a key part of NILGOSC's strategic aim to ensure longer term scheme sustainability.

Keeping with its strategic theme of long term scheme sustainability, the business plan for the year ahead also includes a number of investment related operational actions which focus on ensuring that the Fund is adequately protected, as well as achieving solid long term returns from a suitably diversified investment portfolio. NILGOSC is required to maintain a Fund which is sufficient to provide for the payment of current and future benefits to members of the Scheme. In order to do so, NILGOSC aims to have in place a suitable investment strategy which provides both a high return on investments and an acceptable level of risk. This focus on long term scheme sustainability and the achievement of solid long term returns from a suitably diversified investment portfolio is an important part of NILGOSC's on-going risk management process. In late 2017/18, NILGOSC completed a review of its Investment Strategy and set a revised asset allocation going forward. Primarily designed to reduce risk, the new strategy will be phased in over a period of approximately 21 months and will involve a number of asset and manager transitions that will require careful management and governance. Further details are set out in the Performance Analysis Investment of the Fund section of this Annual Report starting on page 32.

(V) SUMMARY OF PERFORMANCE

The following section summarises NILGOSC's performance from both a Scheme Administration and Investment perspective. A detailed analysis of performance across both the administration and investment functions can be found on pages 11 to 46 in the Performance Analysis section of the Annual Report.

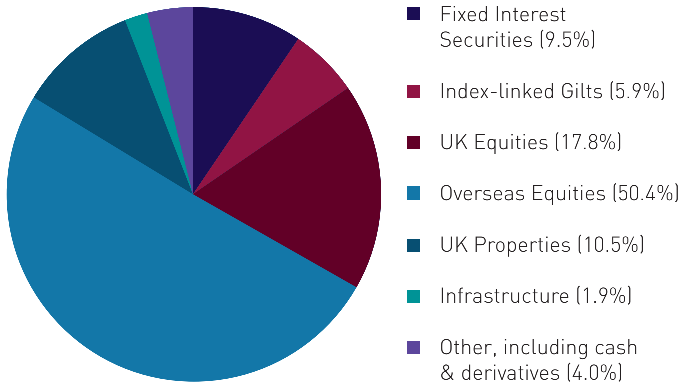
Administration of the Scheme

- Membership of the Scheme continued to grow during the year with 122,587 contributing members, pensioners and deferred pensioners at 31 March 2018.
- At 31 March 2018 there were 175 bodies contributing to the Scheme.
- A new approach to collecting deficit recovery contributions from employers was implemented as part of the 2016 valuation and from 1 April 2017 employer contributions consist of two separate elements: a percentage of pensionable pay in respect of future accrual of benefits (18% in 2017/18 for the majority of employing authorities) and annual monetary amounts in respect of deficit recovery.
- The Pension Increase (Review) Order (Northern Ireland) 2017 increased pensions which had been in payment for more than a year (commenced before 25 April 2016) by 1%. A proportionate increase applied to any pensions beginning on or after 25 April 2016 but before 25 March 2017.
- NILGOSC met nine out of its fifteen service standards during 2017/18 which is in line with last year.
- A stakeholder satisfaction survey was undertaken in May 2018 to measure the satisfaction levels of Scheme members, pensioners and employers. The total satisfaction rating for the year was 91% (2016/17: 87%).
- NILGOSC achieved, substantially achieved or was on target to achieve 79 out of the 85 operational actions included in its 2017/18 Corporate Plan. This equates to an achievement rate of 93%.
- During the year ended 31 March 2018 NILGOSC received a total of 31 ill-health retirement appeals, 10 formal complaints and 28 informal complaints.

Investment of the Fund

- The value of the Fund increased by £466m to £7.549bn during the year ended 31 March 2018.
- The Fund is invested across a range of different asset classes as shown in the following diagram:

Fund Asset Allocation at 31 March 2018



- As at 31 March 2018 the Fund has exceeded its investment target of Consumer Price Index (CPI)+5% on a three and five year basis as follows:

	3 Years	5 Years
NILGOSC	8.7%	9.8%
CPI + 5%	6.8%	6.4%

- 2017/18 was a strong year for equity markets with US equities delivering positive returns for every month of 2017, however volatility returned in February 2018.
- Other assets, including property, infrastructure and fixed income also produced positive returns for the year.
- NILGOSC's focus remains the achievement of solid longer term investment returns with an acceptable level of risk. A formal Investment Strategy Review was undertaken in October 2017 and resulted in a change to the fund's strategic asset allocation and overall performance objective, details of which are set out in the Performance Analysis Section.
- As part of the revised strategic asset allocation, £828m was transferred from active UK equity mandates during the year to fund an increase in the passive index linked gilts fund managed by Legal & General.

- NILGOSC has continued to implement its medium-term plan to reduce its allocation to UK equities through investment in a range of Infrastructure funds. During 2017/18 a $50m commitment was made to KKR Global Infrastructure Investors Fund III and a $50m commitment was made to DIF V, a Dutch Infrastructure Fund.

- NILGOSC invested a further £75m in global infrastructure during the year ended 31 March 2018.

- NILGOSC voted in 582 investee company AGMs and other corporate meetings during 2017/18. The main areas of dissent continue to be executive remuneration practices and board composition.

PERFORMANCE REPORT

PERFORMANCE ANALYSIS

(I) SUMMARY

As set out in the Statement of Purpose and Activities of the Organisation the two main functions of NILGOSC are:

- To administer a pension scheme for local government and other admitted bodies
- To manage and maintain a fund out of which scheme benefits can be met

The key measures of performance for the administration of the pension scheme are: performance standards, which set a performance target for each of NILGOSC's key pension administration activities; progress in relation to the corporate plan objectives; the annual stakeholder satisfaction survey; and the cost per member to administer the scheme. In addition, NILGOSC monitors the level of complaints received and the nature of these complaints.

Performance against targets in respect of NILGOSC's key pension administration activities is monitored on a monthly basis by the Services Manager based on data generated by the pension administration software system and is presented to the Management Committee for review on a quarterly basis. Progress in relation to corporate plan objectives is reviewed on a quarterly basis by the Senior Management Team and by the Management Committee; a 'status' indicator is applied to each operational action to indicate the progress made in meeting the performance indicator and focus is placed on the areas where performance is behind target. Stakeholder satisfaction and the cost per member to administer the scheme are measured on an annual basis.

The key measure of performance for the investment of the fund is the overall return on total assets. NILGOSC's overall investment target is to exceed the Consumer Price Index by 5% per annum, to be measured over a three and five year period. A robust quarterly investment monitoring process is in place, which aims to look behind returns to see the underlying cause of any underperformance. In addition to monitoring financial returns, NILGOSC also reviews a number of important qualitative factors such as investment style and team, business strength, risk management and the level of assets under management.

In relation to asset allocation, NILGOSC sets a long-term investment strategy which informs the Fund's asset allocation target and the actual asset allocation of the Fund is monitored on a regular basis.

NILGOSC has a system of internal control that is based on an ongoing process designed to identify and prioritise the risks to the achievements of the Committee's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. A full description of NILGOSC's risk management process is provided in the Governance Statement. Key Performance Indicators are set annually as part of the business plan cycle which formulates the Risk Register, the business plan and the budget for the year ahead.

A detailed analysis and explanation of the development and performance within the administration and investment functions is provided in the following sections of this Performance Report.

(II) ADMINISTRATION OF THE PENSION SCHEME

Scheme Benefits and Contributions

From 1 April 2015, a member builds up retirement pension at the rate of 1/49th pensionable pay for each year. Pension benefits in relation to membership between 1 April 2009 and 31 March 2015 were built up at the rate of 1/60th pensionable pay for each year of membership. There is no automatic lump sum provided in respect of membership after 31 March 2009. Pension benefits in relation to any membership before 1 April 2009 were built up at the rate of 1/80th (pension) and 3/80^{ths} (tax-free lump sum) of pensionable pay for each year of membership up to 31 March 2009. At retirement, members may give up some pension for additional lump sum, subject to HM Revenue and Customs (HMRC) limits. The conversion rate is £12 additional lump sum for every £1 of pension given up.

The Scheme is funded by contributions made by both employees and employers who have been designated as employing authorities or admitted to the Scheme. Before 1 April 2009, employees' contribution rates were fixed at 6% of their pensionable remuneration (except for those who were entitled to contribute to the Scheme at 5% before 1 February 2003 and have remained in continuous employment). Tiered employee contribution rates, determined by the whole-time equivalent rate of pay, were introduced from 1 April 2009. From 1 April 2015, employee contribution rates are determined on the actual rate of pay and not the whole-time equivalent rate of pay.

The ranges for the bands for tiered contribution rates are revised by the Department for Communities in April each year in accordance with the pensions increase. The Pensions (Increase) Act (Northern Ireland) 1971 applies the rate of inflation (as measured by the Consumer Price Index (CPI)) for September. The CPI figure for September 2016 was 1% and this was applied to the actual pensionable pay ranges. The rates effective from 1 April 2017 were as follows:

Actual Pensionable Pay Range	Employee Contribution Rate
£0 - £14,100	5.5%
£14,101 - £21,500	5.8%
£21,501 - £35,900	6.5%
£35,901 - £43,400	6.8%
£43,401 - £85,800	8.5%
More than £85,800	10.5%

Employers' contribution rates are determined by the Scheme's actuary every three years. A formal triennial actuarial valuation of the Fund as at 31 March 2016 was carried out in 2016/17 and set the employer contribution rates for the 3 years commencing 1 April 2017. A new approach to collecting deficit recovery contributions from employers was implemented as part of the 2016 valuation and from 1 April 2017 employer contributions consist of two separate elements:

1) a percentage of pensionable pay in respect of future accrual of benefits (future funding rate)
2) annual monetary amounts in respect of deficit recovery

For those employers whose participation in the Scheme is deemed to be indefinite and/or where an adequate covenant is in place, NILGOSC has agreed with its actuary future funding rates starting at 18% and rising to 20% for the 3 years commencing 1 April 2017. In addition, these employing authorities will pay deficit recovery contributions at a fixed monetary amount.

Year	Employer Future Funding Rate
1 April 2017 – 31 March 2018	18%
1 April 2018 – 31 March 2019	19%
1 April 2019 – 31 March 2020	20%

Those employers who have closed the Scheme to new entrants, or those whose participation in the Scheme is believed to be of limited duration, have individual contribution rates and capital payments as determined by the actuary.

The next triennial valuation is due as at 31 March 2019 and the outcome of the valuation will determine the employer contribution rates for the 3 years commencing 1 April 2020.

Scheme Status and Regulations

The Scheme is a statutory public service pension scheme as defined by the Pensions Schemes Act (Northern Ireland) 1993. The Superannuation (Northern Ireland) Order 1972 gives the power to the Department for Communities to make regulations providing for pensions, allowances and other gratuities for persons employed by local authorities and other bodies. Since the 1972 Order, various regulations have been issued detailing the provisions governing the Local Government Pension Scheme in Northern Ireland. The Public Service Pensions Act (Northern Ireland) 2014 sets out a common framework for the new public service pension schemes from 1 April 2015 and in future legislation relating to the LGPS (NI) will be made under this Act.

The provisions that relate to the 2017/18 financial year are contained in the following sets of regulations:

Effective from 1 April 2015, as amended

- The Local Government Pension Scheme Regulations (Northern Ireland) 2014 (SRNI 2014/188)
- The Local Government Pension Scheme (Amendment and Transitional) Regulations (Northern Ireland) 2014 (SRNI 2014/189)

The Scheme is also governed by:

- Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 (SRNI 2000/178)
- Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations (Northern Ireland) 2007 (SRNI 2007/93)

As a public service pension scheme, the Scheme was contracted out of the State Second Pension (S2P) up until 5 April 2016 and is a registered public service scheme under Chapter 2 of Part 4 of the Finance Act 2004. Automatic registration was achieved by Part 1 of Schedule 36 of that Act. Full tax relief is granted on members' and employers' contributions paid to the Fund and on all United Kingdom investment income other than dividends arising from UK equities.

New Regulations

No amending regulations were made during 2017/18.

Scheme Membership

The number of active, deferred and pensioner members of the Scheme continued to grow during 2017/18. Several changes took place with respect to employing authority membership as a result of admissions and cessations as detailed below.

Members

Membership of the Scheme increased during the year to 122,587 members. At 31 March 2018, the Scheme consisted of 56,727 contributing members, 35,019 pensioners and 30,841 deferred members.

Employing Authorities

At 31 March 2018, there were 175 employing authorities contributing to the Scheme. These employing authorities were composed of 11 councils, 1 Education Authority, 1 library authority, 51 associated bodies, 88 schools, 9 further and higher education colleges and universities and 14 employers with restricted membership (closed to new members). A full list of these organisations can be found on pages 108 to 111.

No new employing authorities were admitted during 2017/18. The following employing authority ceased during the 2017/18 year:

Employing Authority	Date of Cessation
Helm Housing Limited*	3 April 2017

*liabilities were transferred to Fold Housing Association

Fold Housing Association changed its name to Radius Housing Association on 5 April 2017.

Pensions Increase

The Pensions (Increase) Act (Northern Ireland) 1971 and the Social Security Pensions (Northern Ireland) Order 1975 are the primary legislation that govern increases to public sector pensions. The Pensions Increase Orders govern increases to Scheme pensions and the Social Security Revaluation of Earnings Factors Orders govern increases to guaranteed minimum pensions (GMPs), a component of some members' pensions.

The Pension Increase (Review) Order (Northern Ireland) 2017 increased pensions which had been in payment for more than a year (commenced before 25 April 2016) by 1%. A proportionate increase applied to any pensions beginning on or after 25 April 2016 but before 25 March 2017.

The Social Security Revaluation of Earnings Factors Order (Northern Ireland) 2017 increased GMPs by 2.6% from 6 April 2016.

Indexation and Equalisation of Guaranteed Minimum Pensions (GMP)

The Government consulted between 28 November 2016 and 20 February 2017 on how GMP indexation and equalisation should be applied to public service pension schemes from 6 December 2018. An interim solution applied for the period from 6 April 2016 to 5 December 2018 where public service pension schemes are to pay full indexation for members reaching state pension age between those dates i.e. no increase in respect of the GMP is paid along with the member's state pension.

The Government issued its response to the consultation in January 2018 saying that it had decided to extend the interim solution for the period from 6 December 2018 to 5 April 2021. During this additional period it would consider how to implement GMP conversion or any other alternative as a long-term solution.

GMP Reconciliation Exercise

The end of contracting out in April 2016 saw changes to the national insurance regime and brought with it a requirement for pension schemes to reconcile their records relating to contracted out membership with those held by HMRC. The reconciliation exercise focuses on the GMP element and has an HMRC imposed deadline of October 2018. NILGOSC commenced its data reconciliation in June 2016 and from a starting point of 35,476 cases, had resolved 32,012 cases by 31 March 2018.

In October 2016 the Department for Communities approved the write off of GMP related overpayments less than £250 per case and a total of £2,897 was written off in NILGOSC's 2016/17 annual accounts.

In March 2018 the Department for Communities approved the write off of all historic overpayments identified from the GMP reconciliation exercise, which to date total £289,065 in addition to the amounts written off in 2016/17. This amount is classified as a loss in NILGOSC's 2017/18 annual accounts, as set out in the Assembly Accountability Report and Note 26 to the accounts. Pensions will be corrected going forward for all affected members.

The treatment of historic overpayments and the correction of pensions going forward is consistent with the approach across the rest of the public sector.

Revaluation of CARE Benefits

The Public Service Pensions Revaluation (Prices) Order

(Northern Ireland) 2017 makes legislative provision for the revaluation of member's benefits for those CARE schemes which use the change in prices as the measure for revaluation. An increase of 1% was applied on 1 April 2017 in relation to CARE benefits built up as at 31 March 2017. The Public Service Pensions Revaluation (Prices) Order (Northern Ireland) 2018 makes provision for an increase of 3% to apply to CARE Benefits built up as at 31 March 2018.

National Fraud Initiative

NILGOSC participates in the biennial National Fraud Initiative (NFI) run by the Northern Ireland Audit Office, which has statutory powers to conduct data matching exercises for the purpose of assisting in the prevention and detection of fraud. NILGOSC participated in the NFI 2016/17 data matching exercise in October 2016 and matches were released in January 2017.

In total, 464 data matches were identified. There was a significant decrease in the number of matches identified in the 2016/17 exercise, due to earlier identification of deaths through monthly data matching with the General Register Office.

As at 31 March 2018, all of the 464 matches have been processed and a total of three overpayments of approximately £4k were identified (this equates to 0.002% of total pension payments during 2017/18). All three cases have been repaid totalling £3.8k with £0.2k written off. NILGOSC is continuing to pursue recovery of the overpayments identified through previous NFI data matching exercises.

No cases of proven or suspected fraud have been identified through the 2016/17 data matching exercise. The next NFI matching exercise for 2018/19 is expected to commence in October 2018.

Equality, Social Matters and Human Rights

NILGOSC has a commitment to the fulfilment of its duties under Section 75 of the Northern Ireland Act 1998 and NILGOSC's Equality Scheme states that it will report on the progress it has made in the delivery of its Section 75 statutory duties. NILGOSC's Annual Equality Statement is set out on pages 102 to 103 of this report. NILGOSC's commitment to the promotion of equality of opportunity and diversity within its workforce is reflected across all of its staff policies.

As a global investor NILGOSC can influence social factors including human rights through its responsible investment activities. Further information in respect of NILGOSC's responsible investment activities can be found within the Investment of the Fund section of this Performance Analysis, starting on page 32.

Anti-Bribery and Anti-Corruption Matters

NILGOSC values its reputation for ethical behaviour, financial probity and reliability and is committed to conducting business in an honest and ethical manner. NILGOSC takes a zero-tolerance approach to acts of bribery and corruption, by its staff or anyone acting on its behalf. Further details are set out in NILGOSC's Anti-Bribery Policy Statement which can be found on NILGOSC's website at the following address: http://www.nilgosc.org.uk/resources/category/13/policies.aspx.

Environmental Matters and Sustainability Targets

NILGOSC's Statement of Investment Principles acknowledges that environmental, social and corporate governance (ESG) issues can affect the financial performance of investment portfolios and states that it will take such matters into consideration as part of the investment process. Of all the ESG risks facing investors, climate change has arguably the greatest potential for widespread impact across individual corporations, sectors, asset classes and economies and NILGOSC has undertaken some climate risk related actions during 2017/18. Further details in respect of ESG issues and climate risk actions taken by NILGOSC during the year are provided within Responsible Investment in the Investment of the Fund section of this Performance Analysis Report.

NILGOSC is exempt from the targets within the Greening Government Commitments, however NILGOSC has consideration for sustainability in procurement exercises where possible.

Publications

NILGOSC has produced a series of guides and booklets, which have been designed to provide additional information on various aspects of the Scheme. Copies of these publications are available on request from NILGOSC or may be downloaded from our website www.nilgosc.org.uk. The guides and booklets available are as follows:

- Member Guide to the Local Government Pension Scheme (Northern Ireland)
- Welcome to the Local Government Pension Scheme (Northern Ireland)
- Retirement Guide
- Increasing your Retirement Benefits
- Leaving the Scheme Before Retirement
- Alternative Communications Leaflet
- Decisions, Reviews and Complaints
- Re-Joining the Scheme
- Equality Scheme Summary
- AVC Guide

- Employers' Guide to the 2015 Scheme
- Employers' Guide to Automatic Enrolment
- Human Resources Guide to LGPS (NI)
- Payroll Guide to LGPS (NI)
- Members' News, Deferred Members' News and Pensioners' News
- Annual Report

The Scheme rules are available from the TSO shop at http://www.tsoshop.co.uk/ or by telephoning 0333 200 2425. The Regulations are also available online at www.legislation.gov.uk.

In addition to providing information to members, deferred members, prospective members, pensioners, and employers, the NILGOSC website also contains a wide range of corporate information including:

- Statement of Investment Principles
- Funding Strategy Statement
- Management Committee Biographies
- Equality Scheme
- Publication Scheme
- Corporate Plan
- Decisions, Reviews and Complaints

Performance Standards

In May 1997, the Management Committee approved service standards for key NILGOSC activities, and set a performance target for each service standard. The service standards are reviewed annually, and performance against the targets is monitored by the Committee. In April 2018, the internal auditor, ASM, tested NILGOSC's service standards reporting system and performance outturn as part of its annual validations review. The following is a summary of performance against the service standards during 2017/18.

TASK	STANDARD (WORKING DAYS)	TARGET	WITHIN STANDARD
Lump sum retirement payments	10 days	90%	88%
Death grant payments	10 days	90%	96%
Leaver options notifications	20 days	90%	56%
Refund payments	10 days	95%	97%
Transfer out quotations	20 days	90%	88%
Transfer out payments	10 days	90%	93%
Transfer in quotations	10 days	90%	84%
Transfer in confirmations	20 days	90%	94%
New entrant certificates	20 days	95%	99%
Correspondence	10 days	95%	91%
Benefit quotation requests	10 days	90%	94%
Issue members' annual report	by 30 November	100%	100%
Issue members' annual benefit statements	Within 5 months of year end, unless relevant data unavailable	100%	99%
Pensions paid each month	Last banking day of month	100%	100%
P60s issued to all pensioners	By 31 May	100%	100%

Whilst it is acknowledged that performance fell short of target for 6 of the 15 service standards in 2017/18, this is an improvement on the previous year and teams have worked hard to achieve these results. One action relating to leaver options notifications fell considerably short of target as a result of work prioritisation decisions which prioritised those actions where a monetary benefit was due to members.

Satisfaction Survey

A Stakeholder Satisfaction Survey for the year 2017/18 was carried out in May 2018. Surveys were drawn up for members, deferred members and pensioners, relevant to the service they receive from NILGOSC. A sample was compiled to include customers who have used our service during the year, as well as a random sample. Member and deferred member surveys were completed online and pensioners' surveys were split between online and in hard copy via the post. Approximately 3,200 surveys were sent and the response rate averaged at 27.5%.

In addition, online surveys were also sent to all 176 employing authorities. A total of 54 employers responded to the survey, a response rate of just over 30%. Of this 95% rated their overall satisfaction with NILGOSC as good or excellent.

Key focuses for the surveys were:

- Publications – participants were asked to rate publications on the relevance of information contained, presentation and layout, and ease of understanding.
- Customer service – this section included questions relating to staff knowledge, courtesy, and professionalism.
- Website and online communications.

Overall satisfaction levels ranged from 84% of deferred members, to 88% of active members and 95% of pensioners who rated their overall satisfaction with the service they received as being good or excellent. The total overall satisfaction rate for all respondents was 91%, an increase from last year's overall rating of 87%.

Publications

Respondents were asked to rank communication materials on a scale of 1 to 5 (1 being poor and 5 being excellent). Questions related to relevance of information, presentation and layout and ease of understanding. 92% of respondents rated NILGOSC communications as being good or excellent, which was an increase from 88% in 2016/17.

Customer Service

The survey examined a range of areas of the customer service experience for members. While all areas performed well, staff courtesy and professionalism saw 95% of respondents rating the service as good or excellent.

Website and Online Communications

Elements of the website ranked included relevance of information, ease of understanding and ease of finding information required. 95% of respondents rated these categories as good or excellent. 93% of active members and 95% of deferred members also advised that they would use an online facility allowing them to check the value of pension benefits, update personal details and request quotes if this service was available indicating a clear demand for this functionality among this group. Among pensioners 69% of members expressed an interest in this, however there was marked difference between the group surveyed by post and those surveyed online with only 41% of those surveyed by post saying they would be interested in using the service in comparison to 85% of those surveyed online.

The information gathered on the website, social media and email communications section will enable NILGOSC to identify alternative communication methods currently being used by members, enabling communications to be adapted to meet their changing needs.

Cost per Member

The following table shows administration expenses per scheme member, together with the ratio of members to staff. In the year ended 31 March 2018, the cost per member adjusted for inflation has decreased from the previous year. While administration expenses have increased the net uplift in total membership has marginally reduced the cost per member.

YEAR ENDED 31 MARCH	TOTAL MEMBERS	NUMBER OF STAFF	MEMBERS/ STAFF	ADMIN EXPENSES £'000	COST/ MEMBER £	COST ADJUSTED FOR INFLATION £
2009	86,812	46	1,887	2,353	27.10	33.04
2010	88,568	50	1,771	2,659	30.02	35.43
2011	90,667	50	1,813	1,950	21.51	24.29 *
2012	92,761	49	1,893	2,357	25.40	27.90 **
2013	95,382	50	1,908	2,892	30.32	32.46
2014	103,382	53	1,951	3,112	30.10	31.72
2015	109,462	58	1,887	3,267	29.85	31.45
2016	114,026	64	1,782	3,803	33.35	34.97
2017	118,794	78	1,523	4,348	36.60	37.52 ***
2018	122,587	84	1,459	4,393	35.84	35.84 ***

* In 2011, in accordance with IAS 19, Admin Expenses include a negative Past Service Cost of £868,000 arising from the change from RPI to CPI in uprating index-linked features of post employment benefits. The cost per member in 2011 excluding the negative Past Service Cost of £868,000 was £31.08, which is £34.24 when adjusted for inflation.

** The cost per member for the year ended 31 March 2012 was unusually low mainly due to the release of the over-accruals made in the previous year.

*** £281k has been deducted from Administration expenses for the year ended 31 March 2018 (2016/17: £1,933k) for the purposes of the cost per member calculation. This is the amount of the total movement in provision and bad debt write off in relation to employing authority debt which is not a member related cost but is attributed to the employing authorities in the Scheme through the triennial valuation.

Decisions, Reviews and Complaints

NILGOSC and its employing authorities have the right to make decisions regarding membership, contributions payable and benefits to be awarded.

If a member does not understand, or is unhappy with, a decision made by their employer, the member should take this up with the employer via its complaints and disputes procedure.

If an individual is unhappy with a decision made by NILGOSC, they should try to resolve the issue with the member of staff who made the decision, or with their manager. This can be done in writing, by telephone or by personal visit. If the matter is not resolved to their satisfaction, they can make a formal complaint.

NILGOSC operates a two stage process for Reviews and Complaints. At stage one, the individual sends the Services Manager at NILGOSC a letter or a Reviews and Complaints Form giving details of the complaint, and asking for a review of the decision. The form is available on the NILGOSC website or on request from the Pensions Service team. The person appointed to consider a stage one review is NILGOSC's Secretary, Deputy Secretary or Acting Secretary.

If the individual is unhappy with the decision made by the Secretary at the stage one review, they may ask the Committee to undertake a stage two review. Any request for a stage two review must be sent to the Services Manager within six months of the date of the Secretary's stage one review decision.

Further details can be found in the 'Decisions, Reviews and Complaints' booklet, which is available on the NILGOSC website or on request. This guide provides full contact details for external bodies which may be able to help to resolve complaints, such as the Pensions Advisory Service, the Pensions Ombudsman Service, the Pensions Regulator and the Northern Ireland Public Services Ombudsman.

NILGOSC received a total of 31 ill-health retirement benefit appeals, 10 formal complaints (8 stage one and 2 stage two complaints) and 28 informal complaints during 2017/18, a total of 69 appeals/complaints. 1 of the 8 stage one formal complaints progressed to a stage two review and was upheld at this stage. The 31 ill-health retirement appeals consisted of 25 stage 1 appeals and 6 stage 2 reviews. Of the 25 stage 1 ill-health retirement benefit appeals, 2 progressed to stage 2 reviews, 1 decision was replaced and 1 remains outstanding. The remaining 4 stage 2 reviews related to stage 1 appeals from the previous year, all of which were upheld.

NILGOSC regularly monitors the nature of complaints to ensure that any trends are noted, and that appropriate action is taken as required. The complaints log review is a standing biannual agenda item at meetings of the Senior Management Team.

Further information on the monitoring of appeals/ complaints received by NILGOSC can be requested by writing to the Services Manager at NILGOSC's address which is provided at the beginning of this report.

Review of Corporate Plan 2017/18

NILGOSC publishes its Corporate Plan over a rolling three-year period. The purpose of the Corporate Plan is to set out the aims, objectives and service standards of the Committee, taking into account external factors such as government policy and stakeholder needs. The Corporate Plan is reviewed and revised annually, and a copy of the 2017/18 – 2019/20 Corporate Plan can be downloaded from the NILGOSC website at www.nilgosc.org.uk. As can be seen from the following table, a significant proportion of the 2017/18 Corporate Plan was completed or on target at 31 March 2018.

1. To provide an effective service complying with the pension scheme regulations, good practice, other legislation and stakeholder expectations.

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2018	STATUS
1.1 To pay members' pension benefits, refunds and transfers promptly and accurately	1.1.1 To pay monthly pensions promptly and accurately	Paid by last banking day of the month	411,627 pensions paid 100% paid by last banking day of month	Achieved
	1.1.2 To pay pension lump sums promptly and accurately	Within 10 working days of the receipt of the relevant details	2,352 pension lump sums paid 88% within target Average time taken - 8 days	Substantially Achieved
	1.1.3 To pay refunds of contributions promptly and accurately	Within 10 working days of receiving a valid application	1,268 refunds paid 97% within target Average time taken - 6 days	Achieved
	1.1.4 To pay transfer payments promptly and accurately	Pay the cash equivalent within 10 working days of receipt of required information	109 transfer out payments made 93% within target Average time taken - 5 days	Achieved
	1.1.5 To reconcile member GMP data with those held by HMRC	Reconciliation completed by 31 March 2018	Project team in place and reconciliation ongoing to meet revised HMRC deadline of 31 December 2018	On Target

1.2 To credit pension contributions, transfers and other employer liabilities received promptly and accurately	1.2.1 To collect monthly contributions and invest in scheme fund promptly	Within 10 working days of following month	Average of 2 employing authorities paid late per month. Credit Control Policy and Procedures applied and letters/late payment invoices issued as required.	Achieved
	1.2.2 To update member records on receipt of annual returns from employers	For 100% of employers by 31 July	All 182 annual returns received and reconciled	Achieved
	1.2.3 To credit pension account on receipt of transfers into the scheme promptly	Provide confirmation within 20 working days of receiving the transfer payment	247 transfer-in confirmations provided 94% within target Average time taken - 8 days	Achieved
	1.2.4 To obtain and advise employers of actuarial costs and agree payment schedule promptly	Within 20 working days of receipt of information	All managed within target timescale	Achieved
1.3 To provide members with information needed to make pension decisions promptly	1.3.1 To respond to member queries	Within 10 working days	7,792 items of correspondence answered 91% within target Average time taken - 5 days	Substantially Achieved
	1.3.2 To provide members leaving the scheme with option choices	Provide a statement of benefit options within 20 working days of notification	2,693 early leaver notifications provided 58% within target Average time taken - 33 days	Not Achieved
	1.3.3 To provide members with benefit quotations on request	Benefit quotations issued within 10 working days	3,404 benefit quotations issued 94% within target Average time taken - 5 days	Achieved
	1.3.4 To provide members and deferred members with benefit statements	Benefit statements issued within 5 months of year end	98.7% of active member benefit statements issued by 31 August 2017 89% of deferred statements issued with the remainder unable to be issued due to missing addresses	Substantially Achieved
	1.3.5 To provide members with annual allowance statements as applicable	Statements issued by 6 October	100% annual allowance savings statements were issued by 6 October 2017	Achieved

	1.3.6 To provide an estimate of a cetv	Within 20 working days of receipt of relevant details	634 transfer out quotations provided 88% within target Average time taken - 10 days	Substantially Achieved
1.4 To pay death benefits promptly and accurately	1.4.1 To notify dependants of pensions payable	Within 10 working days of receipt of the relevant proof of title	135 dependants' pensions paid 93% within target Average time taken -5 days	Achieved
	1.4.2 To pay death grants promptly	Within 10 working days of receipt of relevant proof of title	567 death grants paid 96% within target Average time taken - 2 days	Achieved
1.5 To ensure that all necessary action is taken on any change to scheme rules	1.5.1 Ensure that processes change to reflect regulation changes	Complete changes within 3 months of regulations made	No Scheme rule changes during the 2017/18 year	On Target
	1.5.2 To train relevant staff on any regulation changes	Relevant staff trained on new regulations within 3 months of regulations made	No Scheme rule changes during the 2017/18 year	On Target
	1.5.3 To have administration systems updated for any new or amended regulations	To have administration systems in place within 3 months of regulations made	No Scheme rule changes during the 2017/18 year	On Target
	1.5.4 To monitor and improve data quality and ensure common data quality meets TPR standards	100% accuracy for post June 2010 data 95% legacy data deemed adequate	Pre June 2010 - 99.51% Post June 2010 - 99.72%	Substantially Achieved
1.6 To ensure that systems and procedures comply with relevant legislation	1.6.1 To respond to Data Protection and Freedom of Information requests	Within 40 days (DPA) or 20 days (FOI) of request	18 FOI requests and 46 subject access requests (SARs) have been received in the year to date. All requests were responded to within the deadline.	Achieved
	1.6.2 To implement the Retention and Disposal Schedule	To dispose of records in accordance with the Schedule	Paper records due for disposal have been destroyed; further review required for files with mixed disposal dates. Disposal of electronic records cannot be implemented until EDRMS is in place (expected to commence 2019).	Caution

1.7 To ensure NILGOSC attracts and retains well trained personnel	1.7.1 To ensure all staff complete training plans and undertake appropriate training	That all staff complete plans and that training is received.	As at 31 March 2018, 100% of appraisals (and training plans) have been completed. 1,530 hours of training have been recorded as completed in the year to 31 March 2018.	Achieved
	1.7.2 To continue to roll out e-learning packages for mandatory corporate training, where appropriate	All staff have successfully completed e-learning modules issued	In the year to 31 March 2018 staff have successfully completed e-learning modules in Data Protection; Freedom of Information; and Equality & Diversity. Refresher training on all e-learning packages took place in Q2 and Q3.	Achieved
	1.7.3 To undertake a review of the staff structure and capacity	Review completed by 31 March 2019	Not due in current reporting period	On Target
	1.7.4 To monitor staff retention and address any issues identified.	Staff turnover level maintained below 20%	Turnover for year ended 31 March 2018 was 21.3%. Figures are distorted by the high number of short and fixed term contracts in place that terminated during 2017/18. Excluding this, annual turnover reduces to 13.0%.	Substantially Achieved
	1.7.5 To undertake a biennial staff satisfaction survey and address any issues identified	Staff survey completed by 31 March 2019	No action due in current reporting period	On Target
1.8 To ensure that the office environment meets the growing needs of stakeholders and staff	1.8.1 To maintain and improve office facilities to meet the ongoing needs of stakeholders and staff	Full office refurbishment completed by 31 December 2020	No action due in current reporting period	On Target
1.9 To trace members who have not informed NILGOSC of address changes	1.9.1 To use external databases/tracing services to track down members with missing address information	To update address information within 10 working days	3,722 address changes processed 99% within target Average time taken - 1 day	Achieved

2. To deliver an effective investment strategy in line with the actuarial profile of the fund.

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2018	STATUS
2.1 To value the scheme assets and liabilities and set contribution rates accordingly	2.1.1 Undertake Actuarial valuation every 3 years	Publish valuation by 31 March 2020	Met with actuary to review the 2016 valuation process and consider improvements for the 2019 valuation	On Target
	2.1.2 To ensure employer contribution rates for 2017/18 implemented and deficit recovery streams collected	Collect minimum contributions due under current Rates & Adjustment certificate	Contribution rates confirmed by all but one employer and the resulting overpayment will be picked up as part of the annual return exercise. Deficit recovery contributions were invoiced in April 2017 and all employing authorities have paid/ made instalment payments.	Substantially Achieved
2.2 To invest scheme funds in accordance with the Statement of Investment Principles and the Statement of Responsible Investment	2.2.1 To achieve investment performance in line with targets	NILGOSC fund target	3 year and 5 year return to 31 March 2018 was ahead of fund target of CPI+5% by 1.9% and 3.4% respectively	Achieved
	2.2.2 To monitor and regulate investment management	That no manager breaches investment guidelines and that under performance is promptly addressed	At 31 March 2018 no fund manager had breached investment guidelines and underperformance was addressed through the scorecard process	Achieved
	2.2.3 To maximise income from scheme assets	Amount of income earned	For year ended 31 March 2018: Commission Recapture £2,219 (program ended 13/12/17) Stock Lending: £2,034,250 Class Actions: £122,438	Achieved
	2.2.4 Implement the Statement of Responsible Investment	Vote in as many company meetings as possible, recoup earnings through class actions and to engage with companies to improve governance	In the year ended 31 March 2018: Votes were cast at 582 meetings for 528 companies. 175 engagement letters were issued: 117 to UK companies; and 59 to European companies. 39 responses have been received. £122,437.58 recovered through class actions.	Achieved

2.3 To review investment performance regularly	2.3.1 To undertake a balanced scorecard review of investment managers on a quarterly basis	Quarterly scorecard report completed	Quarterly Scorecard reports completed and approved at relevant Management Committee meetings	Achieved
	2.3.2 To benchmark investment performance against LGPS peers	Annual benchmark report produced by 30 September	Annual Benchmarking Report presented to the Committee in August 2017	Achieved
	2.3.3 To monitor investment management costs	Annual investment management fee report by 31 December	Investment management costs monitored on an on-going basis. Report presented to the Committee in November 2017.	Achieved
	2.3.4 To implement standardised cost data collation across externally managed portfolios	Standardised data collated for period ended 31 March 2018	All investment managers have agreed to complete the LGPS Code of Transparency template for y/e 31 March 2018 by May 2018. All listed asset managers have formally signed up to the LGPS Code of Transparency.	On Target
2.4 To understand and adopt good practice in Public Sector fund management	2.4.1 To undertake a review of the sustainability of the fund including future funding mechanisms	Review complete by March 2018	New rates dependant on covenant strength in place. Working with some employers to obtain guarantees. Investment strategy revised in December 2017 to reduce risk.	Achieved
	2.4.2 Review Statement of Investment Principles and Funding Strategy Statement	Revise FSS and revise SIP when necessary	SIP reviewed and approved by the Committee in May 2017 and again in February 2018	Achieved
	2.4.3 To monitor employer covenants in line with Funding Strategy Statement	Mid-cycle review completed by 31 December 2017	Work on mid-cycle review commenced Q4 17/18 with expected completion Q1 18/19	Behind Target
	2.4.4 To model fund cashflows to inform future funding and investment strategies	To undertake cashflow modelling by 31 March 2018	Cashflow analysis undertaken as part of Investment Strategy Review	Achieved
2.5 To work collaboratively on investment matters when suitable opportunities arise	2.5.1 To explore the benefits of scale investing and share knowledge and expertise on opportunities in alternative private markets	Collaboration with like-minded investors where mutually beneficial	Co-investment activity is ongoing with 5 co-investments completed in the year to date	Achieved

	2.5.2 To collaborate with like-minded investors on environmental, social and governance matters to support common goals	To join collaborative initiatives and share knowledge and expertise where appropriate	NILGOSC was signatory to the following engagements during 2017/18: - Engagement on water risks in agricultural supply chains - Global Investor Letter to G7 and G20 Governments on Climate Change - Co-signed letter to an US Oil company regarding Methane Emissions - CDP's 2018 Climate Change, Water and Forests campaigns and the Carbon Action initiative - CDP's 2018 Non-discloser engagement campaign - Founding signatory of the Climate Action 100+	Achieved

3. To promote the scheme and inform members and employers of their pension options.

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2018	STATUS
3.1 To actively encourage retention in, and new membership of, the Scheme	3.1.1 To monitor the level of members opting-out of the Scheme, understand the reasons and market the Scheme to non-members	Maintain active membership levels at March 2015 levels.	Active membership at March 2015 was 52,876. The number of active members at 31 March 2018 was 56,727.	Achieved
3.2 To provide general scheme information to scheme employers, their employees, members, Trade Unions and pensioners through active engagement	3.2.1 Publish comprehensive scheme literature and guidance	Within 3 months of Scheme changes	Literature updated where necessary and kept under review. No Scheme regulation changes.	Achieved
	3.2.2 Provide employee and employer seminars	Employer satisfaction rating as measured through annual satisfaction survey	15 employer seminars (4 Scheme Benefits, 8 General Administration, 1 Annual Allowance, 1 APP and 2 form-filling) were provided on request and one all employer Data Improvement Seminar was held in November with 151 attendees.	Achieved
	3.2.3 To lay the annual report in the NI Assembly	In accordance with date agreed with Department	Annual Report and Accounts 2016/17 laid in the NI Assembly on 5 September 2017 as agreed with the Department	Achieved
	3.2.4 To implement the Communications Strategy	Actions completed in line with target dates	Deferred statements issued, automatic enrolment section of website completed, print tender completed, satisfaction surveys completed, website updated for new tax year, active benefit statements issued, videos added to website, annual allowance statements issued, internal staff briefings.	Achieved

3.3 To provide members and employers with specific details of regulation changes and relevant tax legislation changes	3.3.1 Communication of any relevant regulation and tax changes	Within 3 months of regulations or changes being made	Changes to automatic enrolment rules and HMRC rules advised to employers by circular. Lifetime allowance literature updated.	Achieved
	3.3.2 To advise all new members of the benefits of the pension scheme	Issue information to new scheme members and membership certificates within 20 working days of receipt	11,071 new members created 99% within target Average time taken - 14 days	Achieved
3.4 To provide advice on the pensions implication of other changes such as public sector reorganisation	3.4.1 Continue to work with affected bodies and staff to explain pension implications	Meetings with bodies, advice given to members, satisfaction with NILGOSC service. Representation on working groups.	Engagement ongoing	Achieved
	3.4.2 Continue to monitor the implications of reorganisation on the ability to deliver a pension service	Monitored quarterly by the senior management team	Redundancy project team managed additional demand from early exit schemes during 2017/18	Achieved

4. To influence and inform the debate on the future of the Local Government Pension Scheme.

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2018	STATUS
4.1 To influence changes to the LGPS and actively contribute to relevant consultations	4.1.1 To ensure that employers are aware of potential scheme changes	All employers informed of key potential scheme changes	Employers advised where relevant	Achieved
	4.1.2 To respond to relevant Government consultation exercises	By consultation reply date	None relevant in 2017/18	On Target
	4.1.3 To respond to parent Department consultation exercises	By consultation reply date	None relevant in 2017/18	On Target
	4.1.4 To contribute to consultee groups eg NAPF, LGPC, LAPFF etc	To have representation on all groups	NILGOSC represented at appropriate meetings	Achieved

4.2 To engage with, and inform, interested parties and relevant decision makers	4.2.1 To identify interested parties and decision makers for relevant issues and ensure they are adequately briefed on the consequences for NILGOSC	Evidence of engagement	Engaged with Scheme Advisory Board, DfC, and LGPS bodies in GB	Achieved
4.3 To improve the Scheme Regulations for the benefit of employers and members	4.3.1 Identify potential changes to the existing regulations or draft regulations and lobby the Department to make the changes	Formal notification of amendments to the Department	Advised DfC. Waiting for Minister to be appointed to make regulations.	Achieved

5. To undertake business in an efficient, effective and accountable manner as required of a public body.

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2018	STATUS
5.1 To enhance corporate governance arrangements appropriate for a public body	5.1.1 Respond to External Auditor letters	Within 10 working days	External Auditor letter responded to within 4 working days	Achieved
	5.1.2 Review of NILGOSC Internal Controls	Annually by 31 March	Governance Statement reflects review of internal controls	Achieved
	5.1.3 Participate in data matching exercises as appropriate	Identify invalid payments and recoup losses	All 464 matches identified through 16/17 NFI exercise processed. 3 overpayments of £4k identified and repaid (£0.2k written off). Recovery of overpayments identified through 12/13 and 14/15 exercise continues to be pursued. Continued participation in monthly data sharing with the General Register Office to identify deaths on a timely basis.	Achieved
	5.1.4 To test Business Continuity procedures and ensure effective	Annual test of Business Continuity Plan	The annual test of the BCP for 2017/18 was undertaken. The test was successful and recommendations to be implemented in 2018/19.	Achieved

	5.1.5 Maintain a Risk Register and take actions to mitigate identified risks	The Risk Register is compiled, reviewed quarterly and action identified is completed	The 2017/18 Risk Register was agreed by SMT, ARAC and the Management Committee in June 2017, with further changes approved in August and November 2017. Quarterly reviews have been undertaken throughout the year.	Achieved
	5.1.6 To undertake a triennial review of the Organisation's Strategic Objectives	Review undertaken by 31 December 2018	No action due in current reporting period	On Target
	5.1.7 To undertake the retendering of goods and services	Tenders completed in line with procurement schedule	A new Procurement Officer commenced in post in November 2017 and tenders are being planned in line with the updated procurement schedule	On Target
	5.1.8 To utilise relevant procurement frameworks to minimise costs and increase efficiency	Frameworks utilised where they offer value for money and meet business needs	Procurement frameworks are being utilised where possible	On Target
	5.1.9 To ensure that all Committee members undertake appropriate training in line with good practice, guidance and legislation	Each member has undertaken 40 hours of training/ development per annum	Committee members completed 796 hours of training to date. Only one member did not meet the CPD target for the year.	Substantially Achieved
	5.1.10 To provide tailored induction training and support for new Chair and Committee members	Induction completed within 2 months of appointment to Committee and relevant sub-committees	No new Committee members were appointed during the period	On Target
5.2 To introduce IT developments and other procedures in order to improve efficiency	5.2.1 Implementation of an Electronic Document Records Management System	System installed and operational by 31 March 2019	SharePoint identified as the solution for an EDRMS however implementation delayed due to other ongoing projects	Caution
	5.2.2 To implement automated receipt and straight through processing of data from employers	System operational for all large employers by 31 December 2018	Contracts were finalised mid-February 2018. Operational date for large employers has been revised to March 2019 in the 18/19 Corporate Plan.	On Target

	5.2.3 To continue to collect member email addresses, automate email address updating and preferencing, and use email for publications if desired by the member	Increase members opting for electronic publications by March 2018 by 10%	Increase in members electing for electronic publications of 18%	Achieved
	5.2.4 To implement an integrated system to allow for direct access to services by members	System operational by December 2017	Member Self Serve (MSS) identified as preferred system. Software installed in late October and testing commenced in December 2017. Roll-out has been delayed due to issues identified during the testing process.	Behind Target
	5.2.5 To review and redesign key pension administration processes	Review completed by September 2018	Site visits to Lothian and Strathclyde pension funds. Project team in place and workflows being reviewed.	On Target
	5.2.6 To establish a bespoke specification of NILGOSC's pension administration software needs	Specification prepared by 31 December 2018	Existence and potential for framework agreements has been checked and a high level project plan drafted	Caution
5.3 To manage change in an effective and timely manner	5.3.1 To issue an internal newsletter to improve and promote staff communication	Newsletter issued quarterly	Templeton Times issued on a quarterly basis	Achieved
	5.3.2 To establish project groups to manage projects in a timely and effective manner	Projects managed in accordance with PRINCE 2 methodology and in line with project timetable	Projects will be managed in line with Prince 2 methodology where appropriate. It has been identified that IT/systems projects may be better managed using Agile methodology and this will be explored going forward. A Project Co-ordinator commenced in post in November 2017.	Achieved

6. To be committed to the need to promote equality of opportunity, the desirability of promoting good relations and the fulfilment of the Section 75 obligations.

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2018	STATUS
6.1 To assess the likely impact of policies on the promotion of equality of opportunity and good relations	6.1.1 Use the tools of screening and EQIA to determine the likely impact of any new policy	Screening and/ or EQIA completed during the policy development or review process	Six policies were equality screened during the period. No EQIAs were deemed necessary.	Achieved
6.2 To ensure NILGOSC personnel policies promote equality of opportunity	6.2.1 To prepare s55 Report for Equality Commission	Report prepared by April 2017	Report for the 3-year period to 1 January 2017 was prepared by end of March 2017	Achieved
	6.2.2 To record annual recruitment monitoring information	Report submitted by 1 May each year	Report for the year to 1 January 2017 submitted to ECNI in February 2017, in advance of the May 2017 deadline	Achieved
6.3 To ensure that NILGOSC meets or exceeds best practice as set out by the Equality Commission	6.3.1 To implement the Equality Scheme Action Plan 2015/16-2017/18	Actions completed in line with plan	The 2015-18 Action Plan was substantially implemented. The new 2018-21 Action Plan was issued for consultation in February 2018.	Achieved
	6.3.2 To submit s75 Annual Progress Report to include publication of EQIA monitoring information	Submission to Equality Scheme by 31 August 2017	The s75 Annual Progress Report was submitted to the Equality Commission by the deadline of 31 August 2017.	Achieved
	6.3.3 To publicise Equality Scheme in routine publications	Equality Scheme publicised in Annual Report, Members' News, Deferred Members' News and Pensioners' News	Publicised in 2016/17 Annual Report and all member group newsletters.	Achieved

Status Key

Achieved:	Target met
Substantially Achieved:	Achieved greater than 90% of target
On Target:	Progress in line with plan
Caution:	Achieved between 75% and 90% of target
Behind Target:	More than 75% behind target
Not Achieved:	Target not met

(III) INVESTMENT OF THE FUND

Background

The Regulations require NILGOSC to maintain a fund to provide for the payment of current and prospective benefits to members of the Scheme. In order to ensure that this objective is achieved, NILGOSC must determine a suitable investment strategy, which provides a sound return on investments within an acceptable level of risk.

All income received by NILGOSC, including employees' and employers' contributions, rents, interest and dividends are paid into the Fund. Expenditure, such as monthly pensions, retirement allowances, death grants, refunds and the administration costs of NILGOSC are met from the Fund.

The assets and liabilities of the Fund are valued every three years by the Scheme actuary. Following each valuation, the actuary certifies the employers' contribution rates to maintain the viability of the Fund. A statement by the Scheme actuary for the year ended 31 March 2018 is included on pages 99 to 100.

Fund Management

NILGOSC retains overall responsibility for the Fund, with the power to appoint one or more fund managers to manage and invest fund monies on its behalf. In appointing fund managers, NILGOSC retains statutory responsibility for the management of the Fund and that responsibility cannot be delegated.

NILGOSC has a statutory duty to:

- Take account of the amount to be managed by each manager and be satisfied, having taken advice, that it is not excessive
- Have regard to the suitability of investments
- Monitor the performance of the managers and from time to time review their appointment
- Take proper advice, obtained at regular intervals

NILGOSC maintains overall control of the Fund by:

- Agreeing the overall investment objectives with the fund managers taking into account actuarial expectations and investment powers
- Setting targets for asset allocation
- Monitoring investment performance
- Monitoring investment transactions

NILGOSC has compiled a Statement of Investment Principles (SIP) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000. Copies of the SIP are available on request or can be downloaded from the NILGOSC website at www.nilgosc.org.uk.

Investment Aims and Objectives

NILGOSC aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided, and to provide reasonable stability in contribution rates for the employers. To meet this aim NILGOSC's overall investment objective is to exceed price inflation and general salary growth over long term periods.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by consumers for a market basket of consumer goods and services. The annual percentage change in CPI is used as a measure of inflation and to index (i.e. adjust for the effect of inflation) the real value of wages, salaries and pensions to show changes in real values. NILGOSC's actuarial valuation as at 31 March 2016 assumes a prudent investment return of 4.5% for the main group of employers, which is equivalent to CPI +2.5% (or Retail Price Index [RPI] +1.4%). In order to reduce the funding deficit, the aim of the Fund is to achieve investment returns above this level. The current overall investment target is to exceed CPI by 5% per annum, to be measured over a three and five year period. This will change to CPI + 3.5% post year end on 1 April 2018, in line with the new investment strategy.

Investment Strategy

NILGOSC sets its long-term investment strategy by taking into account the nature and timing of the Fund's liabilities identified through the triennial actuarial valuation and its investment aims and objectives. In setting the Fund's investment strategy, NILGOSC first considers the lowest risk strategy that it could adopt in relation to the Scheme's liabilities. The investment strategy is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

These considerations drive decisions over asset allocation. NILGOSC formally reviews the Fund's strategic asset allocation every three years and reviews the target weightings annually. In determining its asset allocation, NILGOSC considers:

- A full range of asset classes
- The risks and rewards of a range of alternative asset allocation strategies
- The suitability of each asset class
- The need for appropriate diversification

The Fund's investments are diversified across various asset classes in order to increase the overall expected returns while reducing the overall level of expected risk. A mixture of passive and active mandates is also used to capture the returns required to meet the Fund's objectives.

The latest formal strategic review took place in October 2017 and culminated in a revised investment objective and asset allocation, to take effect from 1 April 2018. The review was informed by the improved funding position identified by the 2016 valuation, together with advice from the Investment Adviser and Scheme Actuary on future investment and demographic expectations. The revised strategy will see a significant reduction in equities going forward, as NILGOSC seeks to reduce investment risk as the Fund slowly matures.

The strategic asset allocation in effect at 31 March 2018 is that agreed following the previous strategic review in 2014, together with a Target Allocation to be implemented over the medium term. The following table shows these asset allocations along with the current weighting as at 31 March 2018. It also sets out the approximate assumptions made about the real return for each asset class in determining the strategy as at 31 March 2018.

ASSET CLASS	STRATEGIC ALLOCATION %	TARGET ALLOCATION %	CURRENT WEIGHTING %*	REAL RETURN % P.A.**
UK Equities	25.0	17.5	18.6	4.75
Overseas Equities	50.0	50.0	52.4	4.75
Index-linked Gilts	3.5	3.5	6.2	-1.00
Fixed Bonds	9.0	9.0	9.9	-0.25
Property - Core	10.0	10.0	6.8	3.25
Property – Index-linked	2.5	5.0	3.7	2.5
Alternatives ***	0.0	5.0	2.4	N/A

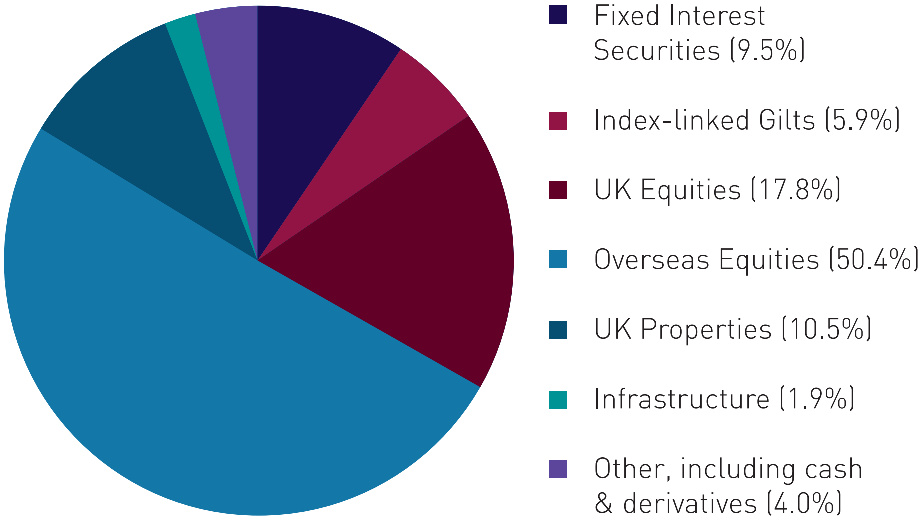
* The calculation of current weighting excludes investment cash held for trading purposes.

** The real return figures are based on Aon Hewitt's 10 year forward-looking assumptions for each asset class and have been adjusted for its CPI assumption of 2.0% per annum. The figures do not allow for active management in traditional (equity, bonds, property) asset classes.

*** NILGOSC has committed £375.8m to a number of alternative investment funds. As at 31 March 2018, NILGOSC had funded £178.1m of this commitment. Four of the funds are denominated in Euros and two are denominated in US Dollars. The amounts quoted are the base currency converted at the year-end exchange rate.

The actual asset allocation as at 31 March 2018 is illustrated in the diagram below. The calculations include investment cash held for trading purposes which is categorised as 'other'.

Fund Asset Allocation at 31 March 2018



NILGOSC monitors the suitability of its investment strategy, taking into account the funding position and Funding Strategy Statement, a copy of which can be downloaded from the NILGOSC website at www.nilgosc.org.uk. NILGOSC prudently seeks to secure the solvency of the Fund, where solvency is defined as being achieved when the value of the Fund's assets is greater or equal to the value of the Fund's liabilities, measured using appropriate actuarial assumptions.

A funding level of 100% has been targeted over a period of 20 years. NILGOSC believes that the Fund's investment strategy, in conjunction with the certified levels of future contributions to the Fund, is consistent with the requirement to return the Fund to 100% solvency within acceptable levels of risk and contribution rate volatility. The funding level will be monitored, on an approximate basis, at regular intervals between each triennial valuation and the investment strategy will be reviewed as necessary.

Fund Managers and Primary Funds

For certain asset classes in which NILGOSC wishes to invest, a range of fund managers have been appointed to manage the particular types of assets depending on their areas of expertise. In the case of alternative assets such as infrastructure and residential property, commitments to invest have been made in respect of a number of fixed term funds, known as primary funds, each with its own specialist manager. In addition to the primary infrastructure funds, NILGOSC collaborates with other LGPS funds, led by Lothian Pension Fund, to access sound infrastructure opportunities directly. These co-investment and/or single asset investment vehicles are designed to help build a low risk, diversified infrastructure portfolio in line with the Fund's target allocation. During 2017/18, NILGOSC invested in four new co-investment opportunities with a total commitment of £36.9m.

The following table sets out the mandates and primary fund investments in place as at 31 March 2018 and details the type and percentage of assets invested with each at this date, including cash held for trading purposes per fund manager. In the case of the primary funds, the amount shown in the table reflects the amount drawn down by the fund at 31 March 2018 and not the total commitment made to the fund. This information can be found in the footnote to the table overleaf.

ASSET CLASS	FUND MANAGER	% OF TOTAL FUND
Mandates:		
UK Equities	Baillie Gifford	3.41%
UK Unconstrained Equities	BlackRock Investment Management[1] Jupiter Asset Management	0.03% 5.60%
Global Equities	Wellington Management	7.20%
Global Unconstrained Equities	Baillie Gifford Unigestion	8.98% 4.89%
Passive Funds	Legal & General Investment Management	54.38%
Bonds	Wellington Management	3.06%
Traditional Property	LaSalle Investment Management	6.51%
Index Linked Property	LaSalle Investment Management	3.59%
Primary Funds:		
UK Residential Property	M&G UK Residential Property Fund[2]	0.39%
Infrastructure	Antin Infrastructure Fund II[3] Antin Infrastructure Fund III[4] KKR Global Infrastructure Investors Fund II[5] KKR Global Infrastructure Investors Fund III[6] DIF V[7]	0.53% 0.09% 0.50% 0.00% 0.14%
Co-Investments	Various co-investments[8]	0.60%
Smaller NI Investments	Various	0.10%

Source: The Northern Trust Company

[1]The mandate with BlackRock Investment Management was terminated and an in-specie asset transfer to LGIM took place in March 2018. Holdings were subsequently liquidated and units purchased in the LGIM Index Linked Gilts (ILG) fund. Some illiquid assets remained in a LGIM transition account at year end, and were liquidated early in 2018/19 financial year and proceeds used to purchase ILG fund.
[2]Total commitment £100m
[3]Total commitment €48m (£42.1m converted at the exchange rate at 31 March 2018)
[4]Total commitment €75m (£65.8m converted at the exchange rate at 31 March 2018)
[5]Total commitment $60m (£42.8m converted at the exchange rate at 31 March 2018)
[6]Total commitment $50m (£35.6m converted at the exchange rate at 31 March 2018)
[7]Total commitment €50m (£43.8m converted at the exchange rate at 31 March 2018)
[8]Total commitment £45.8m (consists of funds denominated in sterling and euro, commitment for euro fund converted at the exchange rate at 31 March 2018)

For those mandates where a specialist fund manager has been appointed, a performance target has been compiled by NILGOSC using indices applicable to the asset type and geographic market. The standard target and benchmark for each asset class held by the fund as at 31 March 2018 is shown in the following table:

ASSET CLASS	TARGET/BENCHMARK INDICES (OUTPERFORMANCE SHOWN PER ANNUM)
UK Equities	FTSE All Share
	FTSE All Share + 2% p.a.
	FTSE All Share + 4% p.a.*
Overseas Equities	FTSE All World Developed Indices + 2% p.a.
	MSCI All Countries World + 3% p.a.
	FTSE All World Index + 3% p.a.
	FTSE All World North America Index
	FTSE North America GBP Hedged
	FTSE All World Developed Europe ex UK Index
	FTSE All World Developed Europe ex UK Index hedged
	FTSE Japan Sterling hedged
	FTSE All World Developed Asia Pacific ex Japan
	FTSE All World All Emerging
Bonds	
Fixed Bonds	Barclays Capital Global Aggregate Bond Index +0.75% p.a.
	iBoxx £ Non Gilt ex BBB
Index Linked	FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index
Property	
Index Linked Property	RPI +3%
Traditional Property	IPD Quarterly Universe + 1% p.a.

* This benchmark applied to the BlackRock mandate that was terminated during March 2018.

No explicit performance target has been set for the investments in the real asset infrastructure or residential property funds however, for performance reporting purposes these are measured against the Fund's overall investment objective of CPI+5%.

In addition to managing the Fund's passive holdings, Legal & General is also responsible for maintaining the overall asset allocation within agreed ranges. When a range is breached, Legal & General will rebalance the Fund back within the agreed tolerance.

NILGOSC monitors its fund managers through reports produced by the Officers, the investment advisor and the performance measurer, who is NILGOSC's appointed global custodian, The Northern Trust Company ("Northern Trust"). Specifically, reports showing the financial performance of each investment manager and at the overall Fund level are provided by Northern Trust on a monthly basis and on a quarterly basis. Northern Trust was appointed as NILGOSC's global custodian and performance measurement provider with effect from 3 April 2017. Each manager is remunerated on a fee basis, dependent on the market value of the portfolio and in some cases the level of performance achieved. These structures have been established in order to align the interests of the fund managers with those of the Fund.

All of NILGOSC's active managers work to long-term investment horizons, generally a 5-10 year market cycle, and accordingly, NILGOSC is not unduly concerned with short term volatility in investment returns. A robust quarterly investment monitoring process is in place, which aims to look behind returns to see the underlying cause of any underperformance. In addition to monitoring financial returns, NILGOSC also reviews a number of important qualitative factors such as investment style and team, business strength, risk management and the level of assets under management. NILGOSC also takes advice from its investment advisor, Aon Hewitt, and so retains conviction in the underlying investment process adopted by its external fund managers to deliver the target level of return over a three to five year investment horizon.

Market Report

Global equities continued on an upward trend over most of the last year but momentum was abruptly halted in the first quarter of 2018. Equity markets fell on worries about rising bond yields and growing trade tension. Nonetheless, over the last twelve months, the MSCI AC World index was up 11.2% in local currency terms. The pro-business and tax reform agenda of the new US president, along with a lowered threat of populism in Europe and a commodity rally, were supportive.

The US Federal Reserve (Fed) continued on its course to normalise monetary policy. In this period, the Fed hiked the Federal Funds rate on three separate occasions, reaching 1.50%-1.75% in March 2018. Furthermore, the Fed began to unwind its sizeable bond purchases under its quantitative easing (QE) programme. Meanwhile, the Bank of England (BoE) voted to raise rates in November 2017, increasing the bank rate back to the pre-Brexit decision level of 0.5% while expectations of further tightening increased in 2018. The European Central Bank (ECB) also scaled back its monthly bond purchases but extended the duration. In contrast, loose monetary policy continued to be pursued by the Bank of Japan (BoJ).

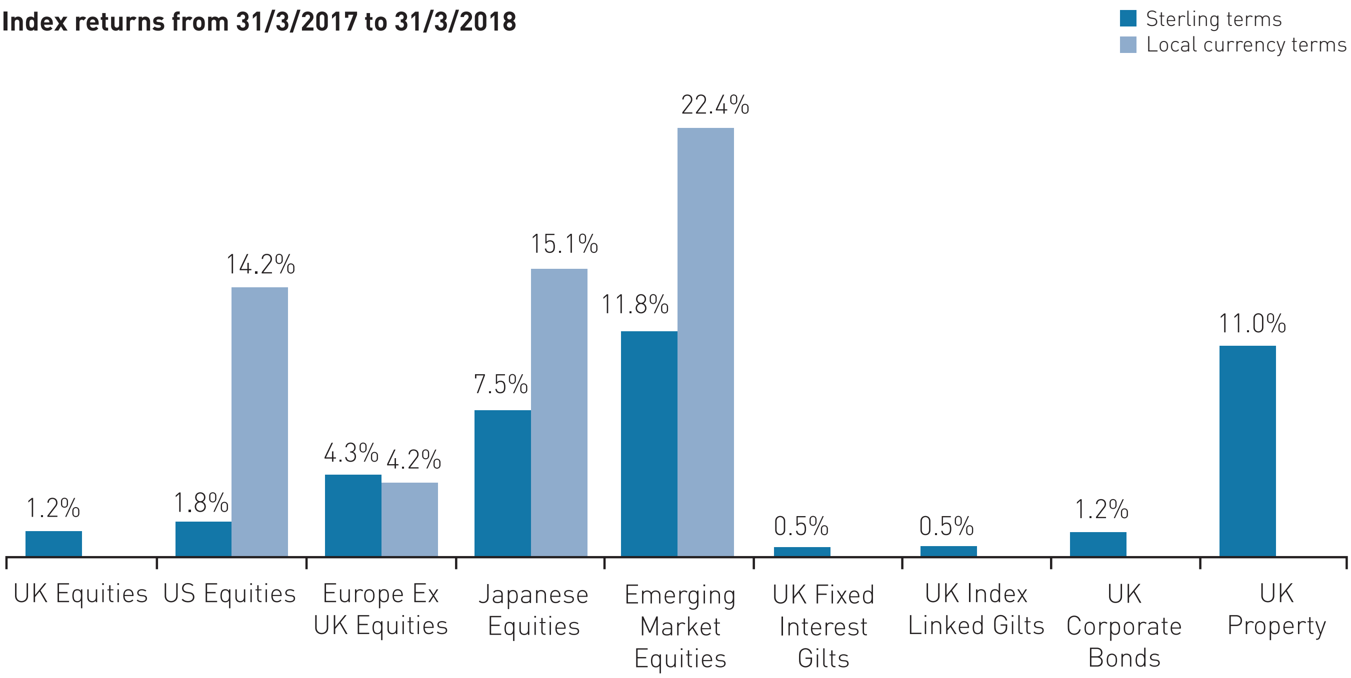
Production cuts undertaken by the Organization of the Petroleum Exporting Countries (OPEC) had their desirable effect of lifting oil prices. The S&P GSCI Commodity index finished the year to March 2018 up 14.1% in US dollars. Industrial metals also rose by 8.0%, aided by solid global economic growth and a weak US dollar although global trade fears have dented recent returns.

Sterling ended the twelve month period 2.9% higher on a trade-weighted basis, rallying on the back of expectations of an increase in the base rate in both late September 2017 and early 2018. Sterling strength, particularly against the US dollar, lowered the return of global equities to just 2.4% in sterling terms. The US dollar was notably weak on a trade-weighted basis over the year as the US's perceived economic and monetary advantage reduced. The euro strengthened on a trade-weighted basis as Macron won the French presidential elections which lowered Eurozone political uncertainty.

UK commercial property posted double-digit returns as the recovery in capital values continued after the shockwave caused by the EU referendum in 2016 and as the economy proved resilient. The IPD Monthly Index returned 11.0% over the year.

The graph below summarises the index returns on the main asset classes/regions for the year to 31 March 2018. Returns are shown in sterling terms and local currency terms.

Index returns from 31/3/2017 to 31/3/2018



Source: FactSet/IPD

Further details on the performance of specific asset classes over the period are provided below.

Equities

UK equities posted a return of 1.2% over the year, lagging the wider equity market. In particular, the UK's difficult political situation and lowered official growth forecasts dragged down investor sentiment towards the UK market. This meant that the UK suffered significantly during the heightened market volatility seen in Q1 18. Sterling appreciation also detracted from returns due to the UK stock exchange's large exposure to companies that earn overseas revenue.

The US equity market rally held firm throughout 2017 but fell back over the first quarter of 2018. The equity market fall was in large triggered by expectations of a pick-up in US inflation, off the back of higher than forecast wage inflation data. Yet despite this, and the increasing trade tensions between the US and China towards the end of the year, the US market faired relatively well. Solid sets of corporate earnings reports, robust economic data and expectations for tax reform helped to support the market. US equities posted a return of 14.2% in local currency terms but sterling appreciation led to a much lower return of 1.8% in sterling terms. The Fed continued hiking interest rates throughout the year with three rate increases over the course of the 12 months.

European equities returned 4.2% in local currency terms and 4.3% in euro terms. Political risks, which had dampened investor enthusiasm for the region in earlier periods, fell back over 2017 as far-right political parties were defeated in both France and Holland. However, tensions resurfaced during the first quarter of 2018 when the Five-Star Movement gained support in Italian elections, resulting in a hung parliament.

Japanese equities returned 15.1% in local currency terms, retracting some of the initial gains after suffering during the first quarter of the year. Strong corporate earnings over the year supported the market. A positive result in the snap Japanese election and investor expectations of a continuation in easy monetary policy, against the low inflation backdrop, resulted in strong performance over the majority of 2017.

Emerging markets performed strongly over the year as improving macroeconomic fundamentals alongside capital inflows bolstered returns. Despite increased fears of protectionism and global trade wars towards the end of the period, the region fared well, returning 22.4% in local currency terms.

Bonds

UK fixed gilts returned 0.5%, as did their index-linked counterparts. Increasing expectations of interest rate hikes by the Bank of England pushed yields up over the year, apart from at long durations. Dovish remarks by the central bank at the end of 2017 saw yields decreasing again. However, yields increased significantly in Q1 2018 on the back of global inflationary expectations.

Index-linked gilts underperformed fixed gilts at l ong-term maturities. Short and medium maturity index-linked bonds posted negative returns. Breakeven inflation, the difference between nominal and real yields, inched lower across maturities over the year.

Globally, most corporate bond spreads (the difference between the yields on non-government bonds and equivalent maturity government bonds) narrowed most dramatically in the second quarter of 2017 due to improving investor sentiment after encouraging economic data releases, both in the UK and globally as well as BoE intervention in the corporate bond market.

Property

The IPD Monthly Index moved up by 11.0% over the year, supported by a mixture of stable income returns and a strong recovery in capital values. The latter fell dramatically in the aftermath of the EU Referendum vote but has recovered over the last twelve months. Capital values have returned to pre-Brexit levels. Meanwhile, rental growth has slowed but remained at decent levels. Vacancy rates edged slightly higher.

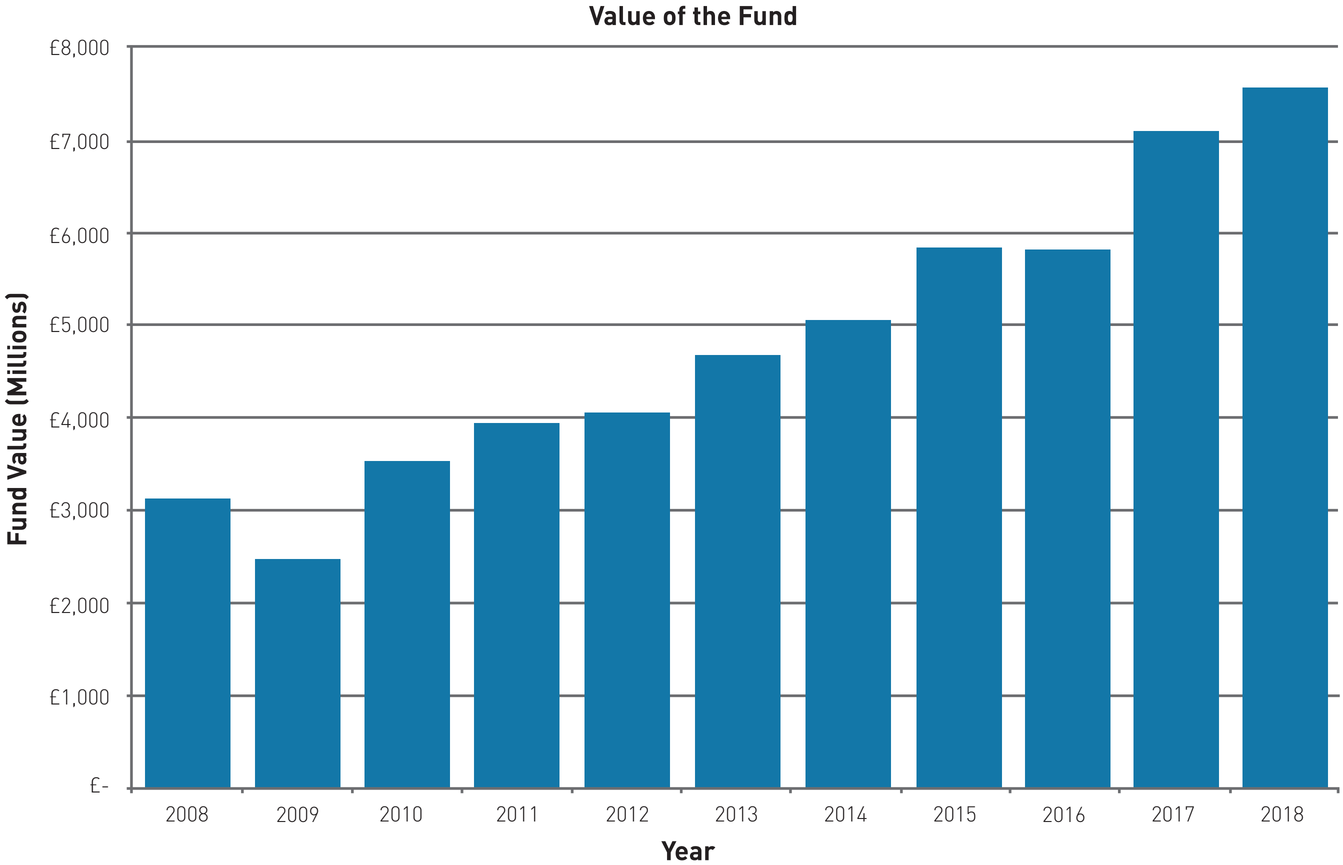
Infrastructure

Infrastructure as an asset class generally performed well over the last 12 months. Assets under management continued to grow over the year with strong investor demand. However some managers struggled to invest capital as deal activity fell behind levels seen in the previous years.

Fund Value

The value of the Fund at 31 March 2018 was £7.549bn (2016/17 £7.083bn) an increase of £466m (6.6%) on the previous year.

Market values can fluctuate widely over short periods of time, reflecting short-term changes in investment conditions. In contrast, the triennial valuation of the fund is concerned with the long-term and uses actuarial assumptions. The actuary's report is shown on pages 99 to 100.



Investment Performance 2017/18

Over the year to 31 March 2018, the Fund's overall return on the total assets was 5.84% (gross of investment manager fees). NILGOSC's overall investment objective is to exceed the Consumer Price Index (CPI) by 5% per annum, to be measured over a three and five year period. As NILGOSC's objective is to achieve the maximum return on Fund investments over the longer term, having due regard to the liabilities of the Fund and an acceptable level of investment risk, it is important that undue attention is not given to the returns for a single year in isolation.

The Fund exceeded its target by 1.9% and 3.4% on a three and five year basis respectively for the period ended 31 March 2018. The comparable statistics for the three and five year periods to 31 March 2018 on an annualised basis are set out in the table below:

	THREE YEARS % P.A.	FIVE YEARS % P.A.
Return of Fund	8.7	9.8
CPI +5%	6.8	6.4

The performance of the individual managers is monitored against their corresponding benchmark and performance target where applicable. These targets are set to allow NILGOSC to meet its overall investment objective, taking into account expected returns and market cycles. In the case of real assets such as the Fund's infrastructure investments, the returns are measured against the overall fund target of CPI+5% for consolidated reporting purposes.

NILGOSC monitored its investment managers and mandates on a quarterly basis throughout the year, with a focus on both quantitative and qualitative factors. Given that the focus remains on a 5 year plus investment horizon for many of the investments, it is important that undue concern is not placed on short term returns and volatility. Instead a key part of the ongoing monitoring process focuses on consistency with the mandate's core investment philosophy, the retention of suitably skilled personnel, risk management and business strength, as these factors are considered to be the key drivers of future performance. Different managers and mandates have been selected as a result of their overall fit with NILGOSC's investment objective and will perform differently in certain market cycles.

During the year ended 31 March 2018, the value of the Fund increased in absolute terms to £7.549bn, an increase of £466million. There were mixed results from NILGOSC's investment mandates during the year to 31 March 2018, which in turn impacted on longer term returns. The Brexit vote and subsequent market volatility continued to impact the three UK equity mandates as many investors sought safety in larger, more defensive stocks. Returns remain strong in absolute terms and all three mandates outperformed the FTSE All Share over a 5 year horizon, providing continued conviction in the manager's ability to deliver outperformance over the longer term. Baillie Gifford remains ahead of its target on a 1 year and 3 year basis and ahead of index but behind target on a 5 year basis. Jupiter's highly concentrated UK portfolio had another challenging year with performance falling behind target across all timeframes, although it remains ahead of the index on a 5 year basis. The BlackRock mandate also had a challenging twelve months and was terminated just prior to the year end as part of the investment strategy review, meaning performance as at 31 March 2018 is not available.

It was also a mixed outcome for NILGOSC's global equity managers. Baillie Gifford remained NILGOSC's best performing manager for the fifth year running, with strong outperformance of the FTSE All Share index on a one year, three year and five year basis. Wellington Management fell short of its performance target for the year but continued to outperform the FTSE All World by well over 1% on a 3 year and 5 year basis. NILGOSC's third Global Equities manager, Unigestion was appointed at the end of September 2016 and its low volatility style has struggled during a prolonged bull market run throughout 2017. Performance figures are only available on a one year basis which, given the strategy, is considered to be too short to provide meaningful analysis. NILGOSC's global fixed income portfolio, managed by Wellington Management, fell short of its performance target for the year, but remains ahead of the index over all timeframes.

Property continued to be a good diversifier for the Fund in the 12 months to 31 March 2018. The core property portfolio, managed by LaSalle, outperformed the IPD Quarterly Universe but fell short of its target for the year ended 31 March 2018. The portfolio is fully invested and LaSalle continues to seek to add value through asset management initiatives. The index-linked portfolio outperformed its RPI linked target by 2.9% over the 12 months to 31 March 2018. This portfolio is also fully invested with a mix of assets and is comfortably ahead of its inflation linked target across all timeframes.

As NILGOSC's passive manager, Legal & General has a mandate covering global equities, UK fixed income and cash. Legal & General's mandate is two-fold: to track the appropriate market index within stated tolerances for each of the index funds in which NILGOSC is invested; and to maintain NILGOSC's total asset allocation, including the portfolios managed by NILGOSC's active managers, close to the benchmark weightings and within predetermined control ranges. NILGOSC was pleased to note that Legal & General continued to perform in line with the various equity indices throughout the year ended 31 March 2018.

During 2015/16 NILGOSC approved a provisional allocation to the Private Rented Sector (PRS) as an asset class, attracted by the potential diversification benefits it would bring in conjunction with the existing property allocation. Following a review of suitable investment strategies and products, a commitment to invest £100m in the M&G UK Residential Property Fund was made in September 2016. £48.4m of this commitment was drawn down in 2017/18, with the remainder due to be drawn down in 2018/19.

During the year, NILGOSC continued to implement its medium-term plan to reduce its allocation to UK equities through investment in a range of Infrastructure funds. During 2017/18 further funds were drawn in respect of existing commitments to Antin Infrastructure Partners Fund II (Antin II), Antin Infrastructure Partners Fund III (Antin III), and KKR Global Infrastructure Investors Fund II (KKR II). NILGOSC has committed €48m to Antin II, €75m to Antin III and $60m to KKR II, and as at 31 March 2018, it had funded £35m (2017: £30m) to Antin II, £8m (2017: £Nil) to Antin III and £32m (2017: £18m) to KKR II. The Antin II and Antin III Funds are invested in European brownfield infrastructure assets with a focus on the energy and environment, transportation, social and telecommunications sectors. The KKR II Fund invests in similar sectors but has exposure to North America and other regions to provide geographic diversification. These funds have yet to reach the end of their initial investment period making meaningful performance reporting difficult at such an early stage in the fund life. Following due diligence, a $50m commitment was made to KKR Global Infrastructure Investors Fund III (KKR III) and a €50m commitment was made to DIF V. DIF V is a Dutch Infrastructure Fund with a focus on regulated assets, renewable energy and social infrastructure and KKR III strategy is similar to KKR II. As at 31 March 2018 NILGOSC had funded £11m to DIF V and drawdowns for KKR III are expected to commence in 2018/19.

As part of its strategic theme of collaboration, NILGOSC continued to work together with likeminded investors in 2017/18 to help it identify attractive infrastructure investments within its infrastructure allocation. The underlying principle behind this collaboration on alternative investments is to identify assets that are in the mutual interest of investors and their stakeholders, specifically through the benefits of scale and improved commercial terms. During 2017/18, NILGOSC invested in four further co-investment infrastructure opportunities with Lothian Pension Fund with a commitment of £36.9m. It is intended that this co-investment strategy will sit alongside the core primary infrastructure funds to help NILGOSC build a diversified portfolio of assets in line with its strategic allocation to the asset class.

In October 2017, NILGOSC undertook a formal review of its investment strategy in conjunction with its Investment Adviser and Scheme Actuary. A revised asset allocation and overall investment objective was approved in December 2017 as follows:

ASSET CLASS	WEIGHTING %
Equities	**34.0%**
UK Equity	5.5%
Global Equity	26.0%
Emerging Market Equity	2.5%
Bonds	**43.5%**
Index Linked Gilts	14.5%
Absolute Return Bonds	14.5%
Multi Asset Credit	14.5%
Property	**15.0%**
UK Traditional Property	7.0%
Private Rental Sector	1.5%
Index Linked Leases	3.5%
Global Property	3.0%
Infrastructure	**7.5%**

The new allocation will take up to 2 years to fully implement and will see the proportion of the fund invested in equities decrease from over two-thirds to just over a third. The reweighting of the portfolio towards fixed income assets also led to a review of NILGOSC's overall investment objective, which from 1 April 2018 will be CPI+3.5%. The first stage of the transition was successfully completed in March 2018, with £827.8m transferred from active UK equity mandates to fund an increase in the passive index linked gilts fund managed by Legal & General. The next phase of the transition will focus on the identification of suitable fixed income strategies and a selection exercise for absolute return bonds and multi asset credit mandates commenced in May 2018.

Top 10 Equity Holdings at 31 March 2018

COMPANY	TOTAL INVESTMENT £'000'S	% OF TOTAL EQUITY PORTFOLIO
Amazon.com	73,029	3.30%
Tencent Holdings Limited	58,958	2.66%
Facebook	49,909	2.25%
ADR Alibaba Group Holding Ltd	47,106	2.13%
Illumina Inc	46,175	2.08%
British American Tobacco	40,228	1.82%
Alphabet Inc	33,476	1.51%
Nvidia Corp	33,259	1.50%
Tesla Inc	33,112	1.49%
BP PLC	31,184	1.41%

A full list of NILGOSC's equity holdings is made available annually through the Publication Scheme, which can be accessed at www.nilgosc.org.uk.

Responsible Investment

Like many responsible investors, NILGOSC faces an ongoing challenge to reconcile the need to obtain the best financial return against the desire for sound social, environmental and ethical practices. Under current UK law, pension schemes such as NILGOSC are not permitted to exclude investments solely on ethical grounds.

NILGOSC's Statement of Investment Principles acknowledges that environmental, social and corporate governance (ESG) issues can affect the financial performance of investment portfolios and states that it will take such matters into consideration as part of the investment process. NILGOSC has set out its approach to ESG issues in its Statement of Responsible Investment, a copy of which is available on the NILGOSC website.

NILGOSC delegates the selection of investments to its fund managers and does not currently impose any investment restrictions with respect to ESG issues. When appointing an investment manager, NILGOSC assesses its ability to include ESG issues within the investment decision making process. Any manager not able to demonstrate such a capability will be excluded from the next stage of the selection process. After appointment, NILGOSC will monitor the managers' action in this area and will work with fund managers and the investment sector to ensure sufficient data is available to aid effective decision making.

NILGOSC does not make any investments solely for ESG reasons. Instead, it has instructed its active fund managers to take account of ESG considerations provided the primary financial obligation is not compromised. NILGOSC believes that the best contribution it can make in the arena of responsible investment is through the targeted execution of voting rights, engagement with companies on ESG issues and the promotion of ESG within the investment management industry.

Voting

As a responsible investor, NILGOSC has a legitimate interest in the management of those companies in which it invests and uses its voting rights to express concern. Proxy voting is a means of maintaining effective shareholder oversight of directors and company policies, a process on which the current system of UK corporate governance depends. Through the exercise of its voting rights, NILGOSC seeks to improve corporate ESG behaviour in the companies in which it invests in addition to the Fund's fiduciary responsibility to add value to its investments.

NILGOSC has a Proxy Voting Policy, which sets out its expectations for good corporate governance in the companies in which it invests. This document outlines NILGOSC's view on what it believes are the most important elements of good corporate governance and the principles which will be used to determine voting decisions on specific issues. It also provides a basis for communicating with investee companies and holding directors accountable for their stewardship of the company. The Policy is reviewed on an annual basis to ensure it is up-to-date with current best practice. A copy can be obtained from the NILGOSC website.

NILGOSC has appointed a third-party proxy voting partner, Minerva Analytics (previously Manifest), to provide company research and coordinate its voting activities. NILGOSC currently avails of Minerva Analytics' research and advisory services to highlight areas of potential concern or conflict with its voting policies and as an important source of information on the non-financial aspects of a company's performance.

NILGOSC exercises its voting rights at all company meetings within its actively managed equity portfolios, where possible, and will vote against management if the proposed resolutions are in conflict with NILGOSC's voting policy or where significant ESG failings are identified. In line with the UK Corporate Governance Code, NILGOSC will consider explanations put forward by companies in relation to non-compliance and will also seek the advice of its fund managers, where appropriate, before exercising its vote.

A summary of the Fund's global voting record for the year ended 31 March 2018 is shown below:

	UK	NORTH AMERICA	REST OF WORLD
Annual General Meetings	124	211	183
Other Meetings	24	11	29
Resolutions	2,527	3,145	2,524
Votes For Management	2,144	1,969	1,574
Votes Against Management	383	1,176	950

Note: for passively managed equities votes are cast by L&G and are not included in the figures above

Engagement

NILGOSC has undertaken to engage with companies on ESG issues, either directly or through its fund managers, and to participate in collaborative engagement activities.

All active fund managers are instructed to engage, on NILGOSC's behalf, with those companies where ESG policies fall short of acceptable standards and where this is likely to have a detrimental effect on the long-term value of the company. NILGOSC monitors the action taken in this area by its investment managers by reviewing the engagement reports provided on a quarterly basis. These reports detail company engagements undertaken, the issues engaged on and any outcomes.

Since 2010, NILGOSC has also engaged directly with many of the companies in which it invests. For companies listed in the UK or Europe, where NILGOSC intends to vote against management at a company's Annual General Meeting, a letter will be issued to the company to advise of the voting decisions and to provide a rationale. In 2017/18, NILGOSC issued engagement letters to 117 UK companies and 59 other European companies where votes were cast against management recommendations.

Demonstrating its commitment to responsible investment practices, NILGOSC has been a signatory to the United Nations Principles of Responsible Investment since 2007. NILGOSC reports on its implementation of the Principles for Responsible Investment through the UNPRI reporting framework on an annual basis. The framework assesses the organisation's overarching approach to responsible investment, the integration of responsible investment in manager selection, appointment and monitoring and active ownership within asset classes, including engagement and proxy voting. In July 2017, NILGOSC received its report for the year ended 31 March 2016. The results of this year's assessment were positive with NILGOSC continuing to perform either in line with or ahead of its peers in each of the areas assessed. NILGOSC submitted its latest assessment in March 2018, for the year ended 31 March 2017, and will receive the outcome later in the year.

NILGOSC believes that it can have a bigger impact on the ESG practices of companies by participating in collaborative engagement with like-minded investors than by acting alone. NILGOSC participates in the UK Pension Scheme Responsible Investment Roundtable, a collective group of public and private sector UK pension funds who work together to promote responsible investment, and in UNPRI facilitated collaborative engagements, where appropriate.

In 2014/15, NILGOSC became a supporting investor in a collaborative engagement with other UNPRI signatories which continued into the 2017/18 year. The engagement was on water risks in agricultural supply chains, focused on listed companies in the food, beverage, apparel, retail and agricultural product sectors. The objective of this engagement was to improve the awareness, management and disclosure of water risks in agricultural supply chains. The first phase of this engagement came to an end in June 2017. NILGOSC became a supporting investor to phase 2 of the engagement in April 2018. The second phase of this engagement focuses on companies whose performance lagged behind their leading peers in this area.

Climate Risk

Of all the ESG risks facing investors, climate change has arguably the greatest potential for widespread impact across individual corporations, sectors, asset classes and economies. As a long term investor, a changing climate presents significant long-term risks to the value and security of pension scheme investments and capital markets more broadly.

The changing climate presents a variety of risks and opportunities for pension fund investors. Investment practices should therefore seek to protect assets from climate risks such as weather events and regulatory change, while simultaneously seizing the new opportunities that a low-carbon economy presents. NILGOSC has developed its Climate Risk Statement which acknowledges the importance of climate risk as an investment issue and sets out the steps which will be taken to address it.

NILGOSC is an investor signatory to the Carbon Disclosure Project (CDP). CDP seeks to improve the management of environmental risk by encouraging listed companies to measure and disclose environmental information. It does this by issuing annual questionnaires on behalf of its investor signatories, requesting standardised climate change, water and forest information. In January 2018, NILGOSC renewed its commitment to CDP, signing up to their Climate Change, Forests and Water programmes as well as the Carbon Action initiative for 2018. NILGOSC is also a signatory to CDP's 2018 Non-discloser campaign, which aims to further encourage companies to disclose. The campaign focuses on companies that have never responded or have not responded to the CDP questionnaire in recent years.

In May 2017, NILGOSC co-signed at letter with 281 other global investors, with assets totalling $17 trillion, calling on the G20 to discuss climate change at their meeting in July 2017 and for governments to develop focused and targeted long-term climate plans.

In November 2017 NILGOSC also registered as a founding supporter signatory of the Climate Action 100+, a five-year investor-led initiative to engage more than 100 of the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change risks.

A full list of recent engagements is available on the NILGOSC website.

NILGOSC is also a signatory to the UK Stewardship Code. The Stewardship Code, first published by the Financial Reporting Council (FRC) in July 2010, was revised in September 2012. It is a principles-based Code, comprising seven principles that aim to improve engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. NILGOSC first published its UK Stewardship Code Statement of Adherence in September 2010, and it was most recently reviewed in July 2017.

In 2016 the FRC introduced the tiering of Stewardship Code Signatories. Signatories were assessed according to the quality of their Statements of Adherence to the code and asset owner signatories were categorised into two tiers. NILGOSC has been categorised as a Tier 1 Signatory. According to the FRC, Tier 1 indicates that "Signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary"[1] and Tier 2 indicates that "Signatories meet many of the reporting expectations but report less transparently on their approach to stewardship or do not provide explanations where they depart from provisions of the Code."[1] NILGOSC also requires its fund managers to confirm they are signatories and to provide copies of their Statements of Compliance.

[1] https://frc.org.uk/Our-Work/Corporate-Governance-Reporting/Corporate-governance/UK-Stewardship-Code/UK-Stewardship-Code-statements/Asset-Owners.aspx

(IV) LONG TERM EXPENDITURE TRENDS

The tables below illustrate key trends for the last four years.

Key Financial Information

	2017/18 £'000	2016/17 £'000	2015/16 £'000	2014/15 £'000
Income				
Members contributions and transfers in	269,050	268,649	266,808	231,629
Investment income	110,634	73,915	87,854	89,170
Benefits paid				
Retirement pension	(173,067)	(163,836)	(153,362)	(142,974)
Lump sum retirement benefits	(49,711)	(62,177)	(62,400)	(32,190)
Death benefits and leavers	(12,554)	(10,605)	(9,928)	(7,760)
Other expenditure				
Administration expenses	(4,674)	(6,281)	(3,803)	(3,267)
Investment management expenses	(19,823)	(19,267)	(18,304)	(13,826)
Net Assets				
Net Assets	7,549,197	7,082,982	5,820,140	5,820,770
Change in market value of investments	346,160	1,184,479	(108,278)	665,915

Membership Statistics

	2017/18	2016/17	2015/16	2014/15
Active members	56,727	54,546	53,724	52,876
Deferred members	30,841	30,853	28,721	26,457
Current pensioners of whom:	35,019	33,395	31,581	30,129
Retired employees	29,457	28,026	26,326	24,967
Widows/widowers/dependants	5,562	5,369	5,255	5,162
Total	122,587	118,794	114,026	109,462

Member contributions and transfers-in for the year ended 31 March 2018 are broadly in line with the previous year. Employer contributions as a percentage of pensionable pay reduced to 18% for 2017/18 with an additional fixed monetary amount payable in respect of deficit recovery. Overall there was an increase in the combined normal and deficit recovery element of employer contributions in comparison to the previous year. This increase was offset by significantly higher special contributions payable in 2016/17 as a result of a greater number of employing authorities ceasing during that year. The increase in 2015/16 was attributable to the new Career Average Revalued Earnings Scheme which amended the definition of pensionable pay to include overtime and therefore resulted in an increase in contributions.

Investment income is a feature of the individual investment strategies which at present include a mix of growth and income styles. Investment income remained steady in 2014/15 and 2015/16 and showed a decrease in 2016/17 resulting mainly from foreign exchange losses on forward currency contracts used within the bond portfolio. In 2017/18 gains/losses on forward currency contracts have been reclassified and are included within the change in market value of investments and therefore investment income shows a significant increase in the year.

Retirement pension payments have shown an increase year on year as a result of the increase in the number of pensioners and also the annual pensions increase applicable in April each year, with the exception of April 2016 when the pensions increase was 0%.

Lump sum retirement benefits increased significantly in 2015/16 and 2016/17 as a result of the increase in retirements through public sector voluntary exit schemes. In 2017/18 there was a substantial decrease in the number of public sector voluntary exit scheme retirements processed by NILGOSC and this is reflected in the reduction in lump sum retirement benefits in the year compared to the previous two years.

Death benefits and payments to leavers fluctuate from year to year depending on the number of deaths, the number of leavers requesting refunds and the value of the death benefits and refunds payable.

Administration expenses have shown an increase since 2015/16 as a result of the cost of the additional resources required to meet the additional demand arising from early exit schemes. In addition, in 2016/17 the provision and write off of employing authority debt resulted in a significant increase in administration expenses. The exclusion of this amount brings 2016/17 administration expenses to £4,348k. In 2017/18 there has been a further write off of employing authority debt and when this is excluded administration expenses total £4,393k, which is in line with the previous year.

Investment management expenses vary from year to year as they are based on the market value of investments held and in some cases include a performance based fee element. The increase in fees in 2015/16 and 2016/17 is attributable to the increase in market value of investments and performance fees payable to investment managers which are based on performance over a three year period against target returns. The further increase in fees in 2016/17 is attributable to investment management expenses relating to NILGOSC's new infrastructure investments, which due to their complex nature attract higher management fees than equity investments. The decrease in fees in 2017/18 is mainly attributable to reduced performance fees payable in the year along with the impact of the adjustment made in 2016/17 to correctly classify infrastructure investment fees as investment management expenses. In addition, NILGOSC negotiated fee reductions with two of its Fund Managers which have taken effect in 2017/18.

David Murphy
Chief Executive and Secretary
29 August 2018

ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT

(I) INTRODUCTION

The Corporate Governance Report explains the composition and organisation of NILGOSC's governance structures and how they support the achievement of the entity's objectives. The report begins with a Chief Executive's Report which sets out the composition of the Management Committee and a Statement of Accounting Officer's Responsibilities in respect of the preparation of the accounts. It concludes with the Governance Statement which sets out how the Accounting Officer's duties in relation to internal control and the safeguarding of public funds and departmental assets have been carried out through the financial year and includes an assessment of the corporate governance and risk management systems in place within NILGOSC.

(II) CHIEF EXECUTIVE'S REPORT

Chief Executive and Secretary

Mr David Murphy, the Chief Executive and Secretary, is responsible for the administration of the Scheme and reports to the Committee on a monthly basis.

The Permanent Secretary for the Department for Communities has designated the Chief Executive and Secretary as the Accounting Officer for NILGOSC. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officer Memorandum, issued by the Department for Communities. The Accounting Officer is also responsible for safeguarding the assets of NILGOSC and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

Committee Members

The Management Committee (which is similar to a board of directors or trustees) consists of a chairman, five members nominated by employers' organisations, five members nominated by employees' organisations and two independent members. In addition, the Department has appointed an observer who may attend the meetings of the Management Committee and Audit Committee.

The Committee members are appointed by the Minister for Communities for a four year term and may be reappointed for a second four year term at the Minister's discretion. The table below shows the composition and term of office of Committee members at the report date.

	TERM	TERM OF OFFICE
Trevor Salmon	Second *	1 July 2009 - 31 Dec 2018
Peter Caldwell	Second	1 Oct 2011 - 30 Sept 2019
Joseph Donaghy	Second *	1 July 2009 - 31 Dec 2018
Julie Erskine	Second *	1 July 2009 – 31 Dec 2017
Bumper Graham	Second *	1 July 2009 - 31 Dec 2018
Tom Irvine	Second	1 Mar 2012 – 29 Feb 2020
David Jackson	Second	1 Oct 2011 - 30 Sept 2019
Celine McCartan	Second *	1 July 2009 - 31 Dec 2018
Peter McMurray	Second	1 Oct 2011 - 30 Sept 2019
Sharon McQuillan	Second	1 July 2012 - 30 June 2020
Linda Neilan	Second	1 Oct 2011 - 30 Sept 2019
Lindsay Todd	Second *	1 May 2013 – 30 June 2022
Joan McCaffrey	First	1 Mar 2016 - 29 Feb 2020

* Five members, including the Chairman, were due to reach the end of their second term of office on 30 June 2017, while one member reached the end of his term of office on 30 April 2017. In April 2017, in the absence of a NI Executive, the Department for Communities issued an extension to all six members until 31 December 2017. One member, Julie Erskine indicated her intention not to accept a further extension on expiry of her term of office on 31 December 2017. A subsequent extension was issued by the Department in November 2017 to the five remaining members, which further extended their term of office until 30 June 2018. A further extension was issued in June 2018 extending terms to 31 December 2018. Lindsay Todd has been reappointed for a four year term from 1 July 2018 to 30 June 2022.

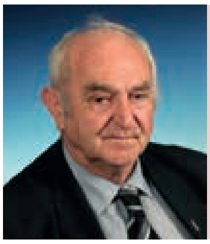
The biographies of the Committee members who served throughout the year are set out on the following page.

CHAIRMAN

Mr Trevor Salmon OBE was previously the Deputy Chief Executive and Director of Corporate Services in Belfast City Council. In addition to his Chairmanship of NILGOSC he is a past national Council member of the Chartered Institute of Public Finance and Accountancy. He is also a member of the Solicitors' Disciplinary Tribunal, the Appeal Service NI, ACCA Disciplinary Panel and an independent member of the Audit Committee of the Education Authority.

COMMITTEE MEMBERS

Mr Peter Caldwell is Treasurer of Apex Housing Association Board of Management and a member of the NI Federation of Housing Associations Board (NIFHA). Previously he was Senior Manager with the former Western Health and Social Services Board with responsibility for business planning and performance management.



Mr Joseph Donaghy MBE is the former Northern Ireland UNISON Regional Head of health, local government and education.

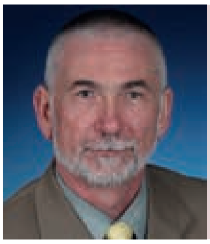
Mrs Julie Erskine was previously the Operations Director for a Belfast-based private healthcare company, having also worked as Support Services Director for the same company. Julie holds the position of Chair of the Business Services Organisation she is also a board member of the Probation Board for Northern Ireland. She held the role as a Committee Member with the Northern Ireland Social Care Council until September 2017.

Mr Bumper Graham is the former Deputy General Secretary of the Northern Ireland Public Service Alliance (NIPSA). He is currently Chairperson NIC-ICTU Public Service Pensions Group and Joint Chairperson of the Department of Finance and Personnel Public Service Pensions Central Consultative Group. He is a member of the NICS Pensions Board and a member of the NICS Pension Scheme Advisory Board, likewise he is a member of the LGPS(NI) Pension Scheme Advisory Board. Bumper is a member of the Local Government Staff Commission.

Mr Tom Irvine was previously a part-time Pensions lecturer for the North West Regional College, the Pension Tutor for Unite the Union in Northern Ireland and a Trustee Director of the Visteon (UK) Pension Scheme until it transferred to the Pension Protection Fund (PPF) in February 2012. Tom is currently an Independent Assessor for Public Appointments in Northern Ireland.

Mr David Jackson MBE is the Chief Executive of Causeway Coast and Glens Borough Council. He was previously the Head of Support Services at Coleraine Borough Council, prior to which he was a senior manager with PricewaterhouseCoopers.

Ms Celine McCartan MBE is Director of Corporate Services and Governance at Fermanagh & Omagh District Council, having previously held the position of Deputy Director at the South West College. She is a Fellow of the Institute of Chartered Accountants in Ireland and a Chartered Member of the Institute of Personnel and Development. Celine is also a member of a number of School Governing Bodies and was previously a member of the NI Teachers' Pension Scheme Board.

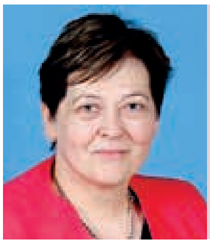


Mr Peter McMurray is Lead Representative in Education for GMB the Union. He is also Branch Secretary and represents the GMB in a number of associated Councils, Committees and Forums.

Mrs Linda Neilan is Group Accounting Manager and senior Finance Business Partner for Translink with responsibility for management and financial accounting, payroll and ticketing. She is a Fellow of the Institute of Chartered Accountants in Ireland and a member of the LGPS (NI) Pension Scheme Advisory Board.

Mr Lindsay Todd has lengthy experience in the pension fund industry and was, until his retirement, an equity partner in PWC. He currently serves on the NI Judicial Appointments Commission, the advisory committee to the NI Central Investment Fund for Charities and as a member of the NI Investment Fund Scrutiny Board. He is also a member of the Investment Committee at Queens University Belfast together with the Disciplinary Panel of the Chartered Accountants Regulatory Board in Ireland. He sits as a member of the NI Development Board of Marie Curie.

Mrs Sharon McQuillan is the Payroll/Pension Manager for Causeway Coast and Glens Borough Council, where she is also a Trade Union Representative. Previously Sharon held a number of financial roles in other Councils.



Ms Joan McCaffrey was previously the Director of Corporate Services and Governance at Fermanagh and Omagh District Council. She is a Fellow of the Chartered Institute of Management Accountants.

Declaration of Interests

In order to achieve the maximum degree of openness and impartiality, the Committee maintains a register of Committee Members' and Officers' Interests. The register is open for inspection at the Committee's offices and is available on NILGOSC's website at www.nilgosc.org.uk.

Personal Data Related Incidents

NILGOSC records all personal data related incidents and makes an assessment against the Information Commissioner's Office guidance to determine whether an incident is significant and/or serious enough to warrant reporting. In the year ended 31 March 2018, there were 18 minor incidents that were assessed as non-reportable. There were no reportable incidents during the period.

(III) STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997, as amended, the Department for Communities has directed the Northern Ireland Local Government Officers' Superannuation Committee to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Northern Ireland Local Government Officers' Superannuation Committee and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Department for Communities, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The Department for Communities has appointed David Murphy as Accounting Officer of the Northern Ireland Local Government Officers' Superannuation Committee. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Northern Ireland Local Government Officers' Superannuation Committee's assets, are set out in Managing Public Money Northern Ireland published by the Department of Finance.

(IV) GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

1. Introduction

As Accounting Officer for the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC), I am responsible for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money NI (MPMNI).

This Governance Statement sets out how these duties have been carried out through the financial year ended 31 March 2018 and includes an assessment of the corporate governance and risk management systems in place within NILGOSC, that have ensured these responsibilities have been met.

This Governance Statement has been prepared in line with guidance issued by the Department of Finance (DAO (DFP) 10/12) and contained within Annex 3.1 of MPMNI.

2. The Governance Framework 2017/18

NILGOSC is a non-departmental public body (NDPB) sponsored by the Department for Communities ("the Department"). NILGOSC has worked with the Department during 2017/18 to ensure the specific requirements as a NDPB have been met.

NILGOSC is the corporate body responsible for the administration of the Local Government Pension Scheme in Northern Ireland (the Scheme) and its functions and responsibilities are laid down in the Local Government Pension Scheme Regulations (Northern Ireland) 2014. With effect from 1 April 2015, the Management Committee was designated as the Pension Board for the Scheme in accordance with the Local Government Pension Scheme (Governance) (Amendment) Regulations (Northern Ireland) 2015 (the Governance Regulations).

A Management Statement is in place with the Department which sets out the broad framework within which NILGOSC will operate in administering the Scheme and in the exercise of its functions, duties and powers. An associated Financial Memorandum is also in place with the Department, which sets out certain aspects of the financial framework within which NILGOSC is required to operate, in accordance with MPMNI. NILGOSC complied with the conditions and requirements in the Management Statement and the Financial Memorandum during the financial year ended 31 March 2018.

2.1 The Management Committee

The Management Committee ("the Committee") is charged with performing the relevant functions assigned to it by the Regulations and ensuring compliance with the provisions set out in both the Management Statement and Financial Memorandum.

The Committee consists of a Chairman, five members who are representative of employers' organisations, five members who are representative of employees' organisations and two independent members. The Committee Members are appointed by the Minister via the public appointments process, for a standard four year term. A register of Committee Members' interests is also maintained and published on the NILGOSC website.

As the Pension Board, the Committee's role is to assist with:

- securing compliance with the Governance Regulations;
- securing compliance with any other legislation relating to the governance and administration of the Scheme and requirements imposed by the Pension Regulator (TPR) in relation to the Scheme; and
- the effective and efficient governance and administration of the Scheme.

The Committee is responsible for establishing the organisation's overall strategic direction, ensuring that it operates within the limits of its statutory authority and agreeing corporate targets. The work and responsibilities of the Committee are set out in the Management Committee Terms of Reference and the Delegations of Authority. Standing items considered by the Committee include:

- Management Accounts and summary of investments
- Annual Report and Budget
- Fund Manager performance reports
- Corporate performance reports
- Departmental Assurance Statements (new from 2017)
- Reviews of the risk management framework
- Stage II complaints
- New and revised policies
- Secretary's report on operational matters and project updates

A sub-committee structure supports the Committee, comprising the Audit and Risk Assurance Committee (ARAC) and the Staffing Committee. Following each sub-committee meeting, the relevant Chairperson provides a verbal report to the Committee.

The Committee normally meets on a monthly basis with the exception of July and October when no meetings are held. The Department has appointed an observer who may also attend meetings of the Committee and the ARAC. Minutes of all Committee and sub-committee meetings are recorded. When approved, copies of the Committee meeting minutes are published on the NILGOSC website at http://www.nilgosc.org.uk/minutes-of-committee-meetings.

One independent Committee member left the Management Committee in December 2017. During the reporting period, the terms of office for the Chairperson and four members of the Committee were due to expire. However, as a result of there being no Minister in place, the terms of office for the relevant members were extended by 6 months to 30 June 2018 and then to 31 December 2018.

Details on terms of membership and re-appointments to the Committee during 2017/18 are set out in the Chief Executive's Report on page 48. The Committee met eleven times during 2017/18. In addition, four ARAC meetings were held during the year. The Staffing Committee met once in August 2017. A schedule of membership and attendance for the 2017/18 financial year is shown in the following table.

	MANAGEMENT COMMITTEE		AUDIT & RISK ASSURANCE COMMITTEE		STAFFING COMMITTEE	
	Called	**Present**	**Called**	**Present**	**Called**	**Present**
Trevor Salmon	11	10	-	-	-	-
Julie Erskine*	8	7	-	-	1	1
Bumper Graham	11	10	4	3	-	-
Celine McCartan	11	10	-	-	1	1
Joe Donaghy	11	10	-	-	1	1
Linda Neilan	11	11	4	3	-	-
David Jackson	11	10	-	-	1	1
Peter Caldwell	11	11	-	-	1	1
Peter McMurray**	11	7	-	-	1	1
Tom Irvine	11	11	4	4	-	-
Sharon McQuillan	11	11	-	-	1	1
Lindsay Todd	11	10	4	4	-	-
Joan McCaffrey	11	11	4	4	-	-
Average % Attendance		**92.1%**		**90%**		**100%**

*Member resigned on 31 December 2017.
**Member was absent during the year due to ill health.

All new Committee Members receive induction training and are provided with a Committee Member Handbook, which contains key documents, policies and guidance relevant to NILGOSC and the role of a Committee Member. The Committee Member Handbook can also be accessed on NILGOSC's website. A Committee Member Knowledge Framework is in place that sets out the skills and knowledge a Committee Member should possess or acquire to be an effective Committee Member.

All Committee Members are required to attend On-Board training and are encouraged to meet an annual target of 40 hours continual professional development. Relevant training opportunities are highlighted to Committee Members and Committee training is organised to meet training needs identified through the training needs self-assessment. The latest training day was held on 18 April 2018 and other training was held during 2017/18. Training records are maintained and updated on a quarterly basis.

2.2 The Audit and Risk Assurance Committee (ARAC)

The ARAC provides a forum for the scrutiny of NILGOSC's corporate governance, risk and internal control systems and promotes a climate of robust financial discipline and control. It has formally agreed Terms of Reference, which are reviewed on an annual basis. The ARAC comprises nominated Committee Members, at least one of whom is required to have recent, relevant financial expertise. Meetings are held on at least a quarterly basis and are attended by Internal and External Audit, as well as a Departmental representative.

The ARAC has access to all internal audit reports, risk registers and management reports and considers all external financial and governance reporting. Standing agenda items for consideration by the ARAC include:

- Quarterly review of the risk register and system of internal control
- Fraud and Whistleblowing reports
- Internal audit reports and annual opinion
- Progress against internal audit recommendations
- New or revised governance policies
- Departmental Assurance Statements
- Department of Finance (DoF) and Departmental guidance (eg. DAOs)

The ARAC reports on the discharge of its duties to the Committee on an annual basis. It also considers and provides an opinion on the Governance Statement and recommends the Annual Report and Accounts to the Committee for approval.

2.3 Risk Management and Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievements of the Committee's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. A robust system of internal control has been in place in NILGOSC for the year ended 31 March 2018 up to the date of approval of the Annual Report and Accounts, which accords with Department of Finance guidance. A full description of NILGOSC's risk management process and the assessment of risks during 2017/18 is provided in section 5 of this Statement.

2.4 Corporate and Business Planning

Like most organisations, NILGOSC has established a strategic planning process which allows it to identify and achieve its long term strategic objectives. A key part of this process is the triennial strategic review, during which the organisation's vision, mission, values and strategic aims are subjected to a thorough review and stakeholder consultation to ensure that they remain relevant and reflective of the current operating environment. In the intervening period between strategic reviews, NILGOSC reviews and updates its operational business plans annually to help plan resources and measure performance.

NILGOSC commenced its latest strategic review in April 2018, which will be used to inform the development of its Corporate Plan 2019/20-2021/22. The Corporate Plan sets out NILGOSC's objectives over a three-year period together with the appropriate targets and key performance measures. The Senior Management Team (SMT) reviews performance against objectives and key performance measures on a quarterly basis and this is reported to the Committee and sponsor Department. Performance against the Corporate Plan is also reported in the Annual Report at the end of each financial year. The Corporate Plan is reviewed and revised annually (most recently in February 2018) and published on the NILGOSC website.

3. Compliance with the 'Corporate Governance in Central Government Departments: Code of Practice NI 2013'

On 19 April 2013, DoF issued the updated 'Corporate Governance in Central Government Departments: Code of Practice NI 2013' with DAO (DFP) 06/13. The Code is written for central departments and, as such, is not entirely relevant to NILGOSC as a NDPB. However, all NDPBs are encouraged to consider and adopt the practice set out in the Code wherever it is relevant and practical and suits their business needs. I have considered the principles within the updated Code and confirm that these have been applied in so far as is relevant or applicable to NILGOSC.

No significant actual or potential conflicts of interest were identified during 2017/18.

4. Departmental Approvals

In line with the DoF Pay Remit approval process, NILGOSC requested and received interim approval on 9 April 2018 for the contractual element of the 2018/19 pay award. Subsequently the National Joint Council pay settlement for 2018/19 and 2019/20 was published on 10 April 2018 and DoF Pay Remit approval for the full two year settlement was requested on 7 June 2018. Approval was received in respect of the 2018/19 pay remit on 24 July 2018. Approval in respect of the 2019/20 pay remit remains outstanding at the time of writing.

NILGOSC received approval from its sponsor department, the Department for Communities, on 30 March 2018 to write off all overpayments to pensioners identified as a result of the Guaranteed Minimum Pension (GMP) reconciliation exercise. Previously the GMP write-off was limited to overpayments of less than £250. A total of £289,065 has been written off in 2017/18 representing the balance of overpayments for 2016/17 and 2017/18 following this departmental approval.

NILGOSC received approval from the Department of Finance on 3 July 2018 for the write-off of bad debts. These write-offs are detailed in the Assembly Accountability Report on page 66.

5. Risk Assessment

NILGOSC's Risk Management Policy sets out the organisation's risk control framework and appetite to risk. NILGOSC has an open/cautious appetite to risk taking, with the exception of compliance risks, where its appetite is risk averse. However, this does not prevent NILGOSC from identifying opportunities to improve and implement efficiencies. Risk appetite is incorporated into NILGOSC's risk management process and risk register.

The risk control framework provided a consistent basis to identify, monitor and report risks and to progress strategies to manage these risks during 2017/18. A dedicated risk owner is assigned at management level to each risk to provide clear lines of accountability across the organisation. Risk owners review the risks that have been assigned to them on a quarterly basis and submit a Statement of Assurance to confirm that the existing controls are still effective and whether or not the risk score needs to be re-assessed. The SMT considers these Statements during its quarterly review of the risk register and makes changes to the risk scores, if necessary. A report and any revisions to the risk register are considered by the ARAC prior to submission to the Management Committee for approval.

The outcome of the quarterly risk reviews is also used to inform completion of Departmental Assurance Statements. As required, NILGOSC completed and submitted its Assurance Statements for the 6 months ended 30 September 2017 and 31 March 2018 and no significant issues were identified.

The quarterly risk reviews and subsequent reports provided during 2017/18 resulted in an increase in the score of one risk and a decrease in the score of one risk on the risk register. These changes to the risk register were all approved by the Management Committee. No new risks were added to the risk register or risk appetite during 2017/18. NILGOSC considered its investment risk appetite following an agreed change in investment strategy during the year. A review of the Statement of Investment Principles was completed in February 2018 and it was concluded that no change to the risk appetite was required.

In addition to quarterly reviews of the risk register, a thorough annual review of the risk register is undertaken at the beginning of the financial year to review the existing risks and also to identify any new or emerging risks. The annual review for 2017/18 was carried out on 30 April 2018. The review included consideration of challenges facing NILGOSC in 2017/18, including the role of NILGOSC's sponsor Department and the ongoing reviews of Arms-Length Bodies and shared services, regulatory changes including the new General Data Protection Regulation (GDPR) and Brexit, and various ongoing projects to enhance systems and processes, to improve efficiency and service delivery to our stakeholders. It was acknowledged that 2018/19 would continue to be a busy period for NILGOSC and involve competing priorities for managers and staff, however as these issues were already being addressed under existing risks, no new risks were added to the 2018/19 register. Risk scores were reviewed and amended as appropriate and are reflected in the risk register for 2018/19, which contains 47 risks in total, nine of which are categorised as strategic risks that could impact on the long-term achievement of the organisation's strategic objectives and three of which are categorised as key risks due to their associated high level of risk.

NILGOSC had previously recorded as a mitigating control the matter that the pension scheme was a devolved matter whereby local ministers and the NI Assembly could make amendments to Scheme legislation. The absence of local ministers and the NI Assembly means that it is not possible to change the Scheme regulations. Risk scores have not changed yet as a result but as time passes, I expect the risk that the Scheme does not meet future case law will increase unless another mechanism is implemented to make revised regulations.

NILGOSC implemented improvements and made good progress during 2017/18 in addressing those risk issues identified at the beginning of the year, particularly in relation to having a team in place to work with HMRC in relation to the Guaranteed Minimum Pension requirements, making appropriate preparations for the implementation of GDPR, implementing a change in investment strategy, updating of NILGOSC's IT systems and infrastructure and continuing to ensure adequate staffing levels are in place to manage the increased demands on the organisation. Looking forward to 2018/19, NILGOSC will have a number of challenges to manage as detailed above. These challenges and any new or emerging risks will be reviewed on an ongoing basis through the risk management process set out above and appropriate plans will be put in place to effectively manage any risks within the existing risk and internal control framework.

5.1 Business Continuity

NILGOSC has made a number of enhancements to its IT infrastructure in the last two years to improve disaster recovery, including virtualisation of systems and replication services. The main purpose of the BCP test in 2017/18 was to test these enhancements and to evaluate the effectiveness of the IT infrastructure in place to failover to the back-up in the event of a server failure or incident and to verify timely replication. The tests were completed successfully and provided assurance that the virtualisation infrastructure and replication of data in place provides an effective disaster recovery solution for NILGOSC. No significant issues were identified and some minor areas for improvement were identified which have now been implemented.

5.2 Fraud and Whistleblowing

NILGOSC participates in the National Fraud Initiative's (NFI) biennial data matching exercises for the purposes of assisting in the prevention and detection of fraud. NILGOSC took part in the NFI 2016/17 data matching exercise during the year. Matches were received in January 2017 and significant progress has been made in investigating and resolving these matches. No cases of actual or suspected fraud have been identified through the exercise to date. There were significantly less matches identified through the 2016/17 exercise than previous years, due to the ongoing matching of NILGOSC records with the General Registrar Office's death records on a monthly basis. This has made a significant contribution to the early identification of these overpayments.

All cases of suspected or actual fraud are investigated in line with NILGOSC's Anti-Fraud Policy and all cases of malpractice, unlawful conduct or wrongdoing are investigated and reported to the PSNI and the Department. NILGOSC also has a Whistleblowing Policy to allow any such cases to be raised confidentially. Both policies are regularly reviewed, most recently in 2017, and these are made available to all staff.

During 2017/18, there was one case of attempted cyber fraud in the form of emails from an unknown perpetrator. There was one other case of suspected fraud in relation to pension payroll identified, which resulted in a write off of £11.7k loss. No incidents were raised through the Whistleblowing Policy.

5.3 Information risks

NILGOSC takes information security seriously and has a number of controls in place to safeguard the security of the information it holds. A robust Information Security Policy, technical safeguards and procedures are in place to protect the security of information. NILGOSC has a secure email software platform in place to ensure personal information with external parties is sent securely and penetration testing is carried out to ensure the security of internal and external connections to NILGOSC systems. Data protection and information security is a key part of induction training for all new staff, which is signed off on completion. Refresher training is also provided on a regular basis via an e-learning module, specifically tailored for NILGOSC.

A number of minor personal data incidents or potential breaches were identified in 2017/18. None of these breaches constituted a significant breach of sensitive data, in accordance with the Information Commissioner's Office guidance.

The implementation of GDPR gives individuals more rights in relation to how organisations use their personal data and NILGOSC has made preparations for the implementation of the legislation on 25 May 2018 in line with the new requirements. The Governance Team has been working collaboratively with other Local Government Pension Schemes and taken legal advice where appropriate. A Record of Processing activities has been developed and will be maintained going forward. New Data Processing Agreements have been put in place with data processors and Memorandums of Understanding have been issued to data controllers, including employing authorities in the Scheme. New Privacy Notices have been published for both members and beneficiaries of the Scheme as well as for staff and Committee Members. Data Protection Policies and Procedures have been updated accordingly and awareness training has been provided to all staff and Committee Members. A Data Protection Officer has been designated.

6. Review of Effectiveness of the Governance Framework

As Accounting Officer, I review the effectiveness of the governance framework, including risk management and the system of internal control on at least an annual basis. The review of effectiveness is informed by the work of the senior managers within NILGOSC who have responsibility for the development and maintenance of the control environment, the regular reviews by the Committee of financial and investment performance, the Committee's review of its effectiveness and the information it receives, the Internal Auditor's Annual Statement of Assurance and the opinion provided by the External Auditor. Assurance reports on internal controls from the auditors of fund managers and the Global Custodian are also considered as part of this review.

6.1 Highlights of Committee and ARAC Meetings

The standing agenda items for Committee meetings have been set out in section 2.1 above. In addition to these, other important areas considered by the Committee during 2017/18 are set out below:

- The outcome of the 2016 actuarial valuation
- Review of asset allocations in October 2017 and the resulting Transition Strategy and implementation of its recommendations, including the new asset classes Multi-Asset Credit and Absolute Return Bonds and the selection process for new investment managers
- New initiatives in the investment of the Fund such as co-investments and an investment in the DIF Infrastructure Fund
- Approval of a new AVC Fund offered by the Prudential
- Tender and Appointment of Proxy Voting provider and Tender and Appointment for Design, Print and Postage and review of contracts awarded without competition during 2016/17
- Appointment of Danske Bank as Banking Service provider
- The revised Equality Scheme as a result of consultation
- The Public Service Pension Scheme Governance and Administration Survey produced by the Pensions Regulator
- Year-End Write-Offs in relation to employing authority debt in the period
- Committee Effectiveness Framework Self-Assessment for the period
- Review of Fund manager costs

The standing agenda items considered by the ARAC have particular importance in ensuring that the risk management and internal control systems in NILGOSC are sound and operating effectively. The highlights and key issues considered by the ARAC during 2017/18 are set out in its Annual Report, which is provided on pages 104 to 107 of this report.

The ARAC undertakes an annual review of its effectiveness. The review undertaken for 2017/18 demonstrated that, overall, the ARAC had been effective in ensuring that NILGOSC has functioned according to good governance and accounting and auditing standards and has adopted appropriate risk management arrangements during the period under review.

6.2 Committee Performance

NILGOSC has a Committee Effectiveness Framework, which aims to identify areas of Committee performance that are strongest and those that need improvement and to identify priority areas for the Committee to focus on improving effectiveness. A key feature of the Framework is a self-assessment questionnaire, which is completed online anonymously and focuses on the following eight key sections:

- Committee Composition and Function
- Committee Meetings and Support
- Strategic Planning and Performance Measurement
- Financial Management
- Risk, Audit and Governance
- Pension Administration
- Investment of the Fund
- Communication and Engagement with Key Stakeholders

The outcome of the evaluation for 2017/18 demonstrated that, overall, the Committee is set up and operates effectively in the key areas set out above and that effective processes are in place to ensure robust monitoring of NILGOSC and its performance.

6.3 Provision of Information and Data to the Committee

The Committee is provided with detailed papers for every meeting, which include all relevant background information, facts and figures necessary to fully inform Committee Members on each agenda item. Some examples of the types of information provided to the Committee on a routine basis include:

- Management Accounts
- Summary of investments
- Receipts and payments analysis
- Investment performance figures and analysis
- Fund Manager briefing reports
- Quarterly investment reports from the Investment Consultant
- Corporate Plan progress reports and statistics
- Quarterly risk review reports
- Stage II reviews
- Scheme and Regulatory updates

Each report has an executive summary that summarises the key issues and meeting papers are issued one week in advance of each meeting. During its review of effectiveness in 2017/18 referred to at 6.2, the majority of Committee Members agreed that meeting papers are easy to understand and properly focused. It was noted that the papers are produced to a high standard and circulated to members in a timely manner. All Committee Members also agreed that they are provided with key Scheme and corporate documents and have a working knowledge of these. Positive feedback was received in respect of the content and format of the papers.

The Committee reviews its information requirements on a regular basis. Since 2013, the Committee has had electronic access to its meeting papers and has confirmed its satisfaction with this approach. A Committee Handbook section is also included in the website to provide a single point of access for Committee Members to key Scheme documents and policies, as well as other forms and guidance.

6.4 Internal Audit

NILGOSC outsources its internal audit function to ASM to provide assurance on the effectiveness of the governance, risk management and control environment in the organisation. ASM works to an agreed audit plan, carried out in accordance with the Public Sector Internal Audit Standards. The work of Internal Audit concentrates on areas of key activities determined by analysis of the areas of greatest risk. Findings from work carried out during the year are presented to the ARAC and copies of all final reports are sent to me as Accounting Officer. In addition, Internal Audit provides an annual written statement to the ARAC, setting out a formal opinion on the adequacy and effectiveness of the Committee's risk management, control and governance processes.

In their Annual Assurance Statement, the Internal Auditors stated that, during the twelve month period ended 31 March 2018, NILGOSC's systems in relation to risk management, control and governance were adequate and operated effectively, thereby providing satisfactory assurance in relation to the effective and efficient achievement of NILGOSC's objectives. A list of the audit reviews and outcomes that informed this assurance rating is set out in the Annual Report of the Audit & Risk Assurance Committee, which is provided separately in this document (pages 104 to 107). Internal Audit did not consider there to be any significant control issues relevant to the preparation of the Governance Statement for the year ended 31 March 2018.

NILGOSC reviews the effectiveness of the internal audit service provided by ASM through pre-agreed key performance indicators (KPIs). Progress against these KPIs is formally reviewed by management on an annual basis and reported to the Audit & Risk Assurance Committee. The outcome of the KPI analysis for 2017/18 demonstrated that ASM met or exceeded all of the KPI targets, with the exception of three, of which two were just under target, demonstrating good performance for the period.

6.5 External Audit

As a non-departmental public body, NILGOSC is required to use the NIAO for the provision of its external audit service. The Local Government Auditor issued an unqualified audit opinion for the year ended 31 March 2017.

The audit opinion for the year ended 31 March 2018 is included on pages 68 to 69.

7. Significant Governance Issues

No significant governance or internal control issues were identified from the review of the effectiveness of the system of risk, governance and internal control for the year ended 31 March 2018 that requires reporting in this Statement.

8. Assurance Summary

NILGOSC aims to adhere to the highest standards of governance when conducting its business, to ensure that the organisation and the Pension Scheme are run effectively and efficiently and that decisions are taken in the best interests of its stakeholders.

The review of the effectiveness of the systems and processes that comprise the governance framework for 2017/18 demonstrate that key systems are operating soundly and that there are no significant weaknesses or areas for undue concern. Whilst I have noted in this Statement that there are future challenges and some areas where ongoing improvements can be made, these are not considered to pose a significant risk to the achievement of NILGOSC's strategic objectives.

David A Murphy

David Murphy
Chief Executive and Secretary
29 August 2018

ACCOUNTABILITY REPORT

REMUNERATION AND STAFF REPORT

(I) INTRODUCTION

The Remuneration and Staff Report sets out NILGOSC's remuneration policy, reports on how it has been implemented and sets out the amounts awarded to the senior officers and members of the Management Committee. In addition details are provided on remuneration and staff that are key to NILGOSC's accountability as a Non-Departmental Public Body.

(II) REMUNERATION REPORT

Remuneration Policy

The remuneration of all NILGOSC employees, including its Chief Officers, is determined by the Committee which has adopted the pay scales of the National Joint Council (NJC) for Local Government Services.

The NJC for Local Government Services represents local authorities and their employees across the UK. The principal role of the Council is to reach agreement on a national scheme of pay and conditions for local application. The Council consists of 70 members, 12 employer representatives and 58 employee representatives.

In 1997 the NJC for Local Government Services agreed a national framework to suit local service requirements. This framework is known as The Single Status Agreement and salary scales and conditions of service agreements are as published in the Green Book.

Service Contracts

All appointments are made on merit, on the basis of fair and open competition.

The officers covered by this report hold appointments which are open ended. The conditions of service including notice periods are those laid down by the NJC for Local Government Services and various local agreements.

For further information on the NJC for Local Government Services and the Green Book please contact NILGOSC at info@nilgosc.org.uk.

Salary and Pension Entitlements

The following sections provide details of the remuneration and pension interests of senior officers and members of the Management Committee.

Senior Management Remuneration and Pension Entitlements (audited)

	2017/18				2016/17			
Officers	**Salary**	**Benefits in Kind**	**Pension Benefits**	**Total**	**Salary**	**Benefits in Kind**	**Pension Benefits**	**Total**
	£	**£**	**£**	**£**	**£**	**£**	**£**	**£**
David Murphy Chief Executive and Secretary	90,001-95,000	-	14,025	100,001-105,000	85,001-90,000	-	26,366	115,001-120,000
Nicola Todd Deputy Secretary	70,001-75,000	-	30,589	100,001-105,000	70,001-75,000	-	21,993	90,001-95,000
Band of Highest Paid Employee's Total Remuneration	£90,001-£95,000				£85,001-£90,000			
Median Total Remuneration	£22,658				£22,090			
Ratio	4.08				3.96			
Range of Staff Remuneration	£16,000 – £91,000				£16,000 – £89,000			

The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation and any increase or decrease due to a transfer of pension rights.

The Chairman is the only Committee member in receipt of an emolument, which is a non-pensionable salary.

	2017/18		2016/17	
Chairman	**Salary**	**Benefits in Kind**	**Salary**	**Benefits in Kind**
	£	**£**	**£**	**£**
Trevor Salmon	13,314	-	13,182	-

Salary

Salary includes gross salary, overtime, recruitment and retention allowances, private office allowances and any other allowance that is subject to UK taxation. If bonuses were payable, these are reported separately from the salary amount.

Benefits in Kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

Relationship between the Remuneration of the Most Highly Paid Director and the Median Remuneration of the Organisation

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid employee in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid employee in NILGOSC in the financial year 2017/18 was £90,001-£95,000 (2016/17, £85,001-£90,000). This was 4.08 times (2016/17, 3.96) the median remuneration of the workforce, which was £22,658 (2016/17, £22,090).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of the pensions.

The ratio of 4.08 for 2017/18 has increased from 2016/17 as the banded remuneration of the most highly paid employee has increased in comparison to 2016/17 as a result of a 1% increase for all staff on NJC pay scales with effect from 1 April 2017. The median remuneration is the remuneration of the staff member lying in the middle of the linear distribution of the total staff, excluding the highest-paid employee, and has shown a small increase but has remained within the same salary scale as the previous year as a significant proportion of staff are paid at this salary scale.

Management Committee Members' Attendance Allowance

The Committee members, with the exception of the Chairman, receive a meeting fee for attending Management Committee, Audit Committee and Staffing Committee meetings. Details of those members who received an allowance are shown below.

	2017/18	2016/17
Committee Members	**£**	**£**
Joseph Donaghy	2,023	2,124
Julie Erskine*	1,071	2,243
Bumper Graham	2,261	2,243
Celine McCartan	1,428	1,419
Peter McMurray**	1,309	1,770
Linda Neilan***	2,380	2,007
Peter Caldwell	2,142	2,007
David Jackson	1,547	2,004
Tom Irvine	2,499	2,243
Sharon McQuillan***	2,142	708
Lindsay Todd	2,142	2,478
Joan McCaffrey	2,499	2,243

*Member resigned on 31 December 2017
**Member was absent during the year due to ill health
***Members were absent during 2016/17 due to ill health

Pension Benefits (audited)

Officers	Accrued Pension and Related Lump Sum at Age 65 as at 31/03/18	Real Increase in Pension and Related Lump Sum at Age 65	CETV at 31/03/18	CETV at 31/03/17	Real Increase in CETV
	£	£	£	£	£
David Murphy Chief Executive and Secretary	30,001-35,000 plus lump sum of 50,001-55,000	0-2,500 plus lump sum of (2,500)-0	477,000	442,000	13,000
Nicola Todd Deputy Secretary	15,001-20,000 plus lump sum of 20,001-25,000	0-2,500 plus lump sum of 0-2,500	217,000	188,000	17,000

Pension benefits are provided through the NILGOSC Scheme. This is a statutory scheme that provides benefits on a 'career average revalued earnings' basis at normal retirement age. Benefits accrue at the rate of 1/49th of pensionable salary from 1 April 2015 and were built up at a rate of 1/80th of pensionable salary for each year of service up to 31 March 2009 and 1/60th for each year of service between 1 April 2009 and 31 March 2015. In addition a lump sum equivalent to 3/80^{ths} of pensionable salary for each year of service up to 31 March 2009 is payable on retirement.

Employees currently pay contributions of between 5.5% - 10.5% of pensionable earnings. Pensions increase annually in line with the Consumer Prices Index. On death, pensions are payable to the surviving spouse, nominated co-habiting partner or civil partner. On death in service, the Scheme will pay a lump sum benefit of three times pensionable pay and will also provide a service enhancement on computation of the spouse's pension.

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the Scheme if they are at or over pension age. Pension age is state pension age or age 65 if higher.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the Scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in his/her former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of his/her total membership of the pension scheme, and not just to his/her service in a senior capacity to which disclosure applies. The CETV figures and the other pension details include the value of any pension benefit in another scheme or arrangement which the individual has transferred into the NILGOSC Scheme and for which NILGOSC has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefits accrued as a result of the member purchasing additional years of pension service in the Scheme at his/her own cost.

CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2015. They do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation and contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period. However the real increase calculation uses common actuarial factors at the start and end of the period so that it disregards the effect of any changes in factors and focuses only on the increase that is funded by the employer.

(III) STAFF REPORT

Staff Numbers and Related Costs (audited)

Staff costs comprise:

	Permanently employed staff £'000	Others £'000	2017/18 Total £'000	2016/17 Total £'000
Wages and salaries	**1,742**	**409**	**2,151**	2,015
Social security costs	**131**	**30**	**161**	175
Other pension costs	**595**	**55**	**650**	419
Total	**2,468**	**494**	**2,962**	2,609

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

	Permanently employed staff	Others	2017/18 Total	2016/17 Total
Directly employed	**66**	**18**	**84**	78
Total	**66**	**18**	**84**	78

The increase in the average number of whole-time equivalent persons employed during the year is mainly a result of the additional resources required to meet the additional demand arising from early exit schemes and to perform the GMP reconciliation exercise.

NILGOSC provides pension arrangements for the benefit of its employees through the NILGOSC Scheme. The NILGOSC Scheme is known as the Local Government Pension Scheme (Northern Ireland) and is a funded defined benefit scheme. Benefits earned up to 31 March 2015 are linked to final salary. Benefits earned after 31 March 2015 are based on a Career Average Revalued Earnings Scheme.

For 2017/18, employers' contributions were payable to the NILGOSC Scheme at 18% of pensionable pay.

The Scheme's actuary reviews employer contributions every three years following a full scheme valuation. A valuation was completed during 2016/17 and the contributions to be paid until 31 March 2020 resulting from that valuation are set out in the Fund's Rates and Adjustment Certificate within the report on the Actuarial Valuation as at 31 March 2016.

The NILGOSC Scheme is a multi-employer scheme. Note 18 to the financial statements sets out the net defined benefit liability attributable to NILGOSC.

Staff Composition

An analysis of the composition of staff members as at 31 March 2018 and 31 March 2017 on a whole-time equivalent basis is as follows:

	31/3/18 Male	31/3/18 Female	31/3/18 Total	31/3/17 Male	31/3/17 Female	31/3/17 Total
Secretariat	**1**	**1**	**2**	1	1	2
Senior Managers	**-**	**5**	**5**	-	5	5
All Other Employees	**34**	**43**	**77**	29	42	71
Total	**35**	**49**	**84**	30	48	78

Sickness Absence

The average number of days lost to sickness absence by all staff in 2017/18 was 8.2 days (2016/17 – 5.7 days).

Equality and Diversity

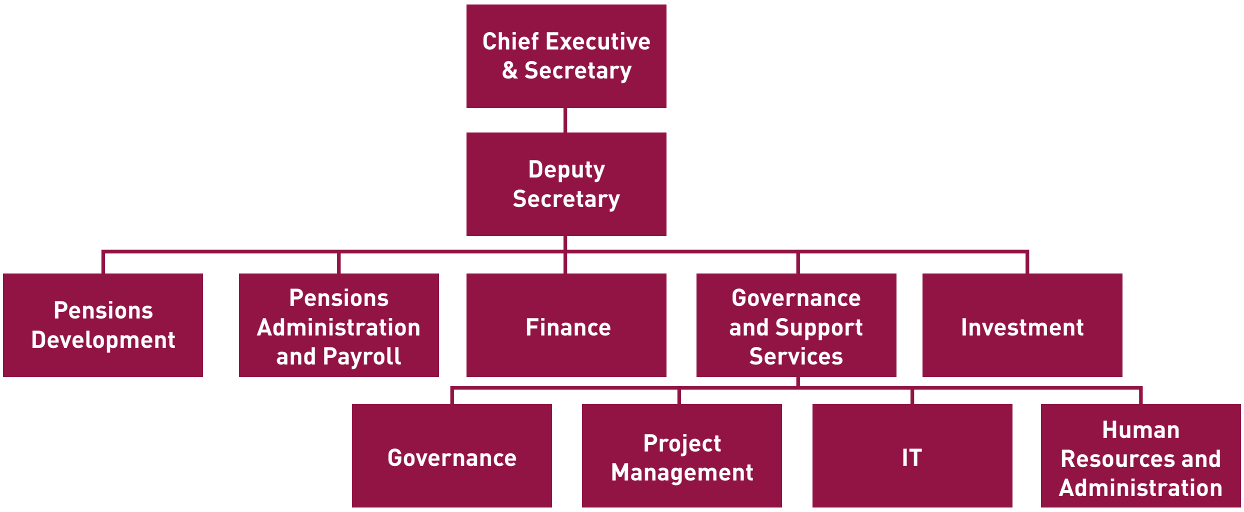
It is the policy of NILGOSC to ensure that equality of opportunity is provided to all employees and those seeking employment. A welcome statement is used on recruitment advertising to encourage recruitment from a diverse range of applicants and from groups under-represented in the workforce. It is also NILGOSC's policy to make all reasonable adjustments to support the employment, training and development and retention of those with a disability. NILGOSC's commitment to the promotion of equality of opportunity and diversity within its workforce is reflected across all of its staff policies.

Payments to Consultants

There were no payments to consultants during 2017/18 (2016/17: nil).

The Staff

Day to day administration of the Scheme is performed by the Secretariat, who report to the Committee on a monthly basis. Led by the Chief Executive and Secretary and Deputy Secretary, over 80 experienced staff are responsible for the administration of retirement benefits and the monitoring of investments and operate within the functions shown in the chart below.



NILGOSC recognises that one of its greatest assets is its professional and experienced staff and is committed to developing every employee to their full potential.

NILGOSC recognises the Northern Ireland Public Service Alliance (NIPSA) as its Trade Union and all members of staff have the right to join should they wish to do so.

Staff Development

Training and development of staff is a key priority for NILGOSC and in 2017/18 a budget of 3% of salary costs was allocated to this particular area. Significant emphasis is placed on training and developing staff through a structured training programme. A needs analysis is carried out every year as part of the appraisal process and an organisation wide training programme is prepared.

In addition to maximising the ability of staff to carry out their duties competently and efficiently, the NILGOSC training and development policy is designed to support individual opportunities for personal and career development.

Employees' Involvement

Staff communication and involvement continues to be a key objective and NILGOSC communicates with its staff about its objectives, progress and activities through various channels – team meetings, briefings, circulars and the staff intranet. NILGOSC continued its quarterly staff newsletter throughout 2017/18 as an additional means of internal communication. Staff are encouraged to take part in project groups where possible to promote employee engagement and to develop knowledge and skills. In addition, staff are involved in the preparation of the annual corporate plan.

All these initiatives give staff the opportunity to contribute constructively to the development and progress of NILGOSC in its aim to develop staff, improve systems and satisfy its stakeholders' needs.

ACCOUNTABILITY REPORT

ASSEMBLY ACCOUNTABILITY REPORT

(I) INTRODUCTION

The Assembly Accountability Report provides details of losses and special payments, fees and charges and remote contingent liabilities.

(II) LOSSES AND SPECIAL PAYMENTS (AUDITED)

Losses Statement

Losses incurred on the sale of investments are disclosed within "Change in Market Value" in Note 9 to the Financial Statements and "Gains/losses arising from changes in fair value" in Note 10 to the Financial Statements.

Losses incurred during the year in respect of pension overpayments total £310,037. £20,972 relates to the non-recovery of pensioner overpayments as a result of death, £11,657 of which relates to a suspected pension payroll fraud following the unreported death of a member, the write-off of which required approval from the Department for Communities.

The balance of pension overpayment write-offs, £289,065 relates to non-death pensioner overpayments as a result of the GMP reconciliation exercise. Previously write-off approval was limited to GMP overpayments of less than £250 per case. On 30 March 2018 the Permanent Secretary of the Department for Communities gave approval for all overpayments arising from the GMP exercise to be written off. Further details in respect of the GMP reconciliation exercise are provided in the Performance Analysis section of this Annual Report on page 14.

Bad debts written off during the year total £1,759,140. £1,584,457 relates to the irrecoverable cessation debt of two employing authorities with £1,320,829 of this debt provided for in 2016/17. The balance of the write-offs reflects the net irrecoverable debt relating to investment property rental income of £60,232 (less than 0.2% of total gross rental income for 2017/18) and irrecoverable tax reclaims of £114,451 all of which was provided for in 2016/17. These write-offs required Department of Finance approval which was received on 3 July 2018.

Special Payments

There were no special payments during the year.

Charitable Donations

The Committee made no charitable donations during the year.

(III) FEES AND CHARGES (AUDITED)

NILGOSC had no material fees and charges income during 2017/18 (2016/17: nil).

(IV) REMOTE CONTINGENT LIABILITIES (AUDITED)

In addition to contingent liabilities reported within the meaning of IAS 37 (see Note 23 to the Financial Statements) NILGOSC also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of a contingent liability.

NILGOSC has no remote contingent liabilities as at 31 March 2018 (2016/17: no remote contingent liabilities).

David A Murphy

David Murphy
Chief Executive and Secretary
29 August 2018

ACCOUNTABILITY REPORT

AUDIT REPORT

THE CERTIFICATE AND REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE DEPARTMENT FOR COMMUNITIES

Opinion on financial statements

I have audited the financial statements of the Northern Ireland Local Government Officers' Superannuation Committee ("NILGOSC") for the year ended 31 March 2018 under Regulation 63 of the Local Government Pension Scheme Regulations (Northern Ireland) 2014. The financial statements comprise the Fund Account, Net Assets Statement, Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and Accountability Report that is described in those reports as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of NILGOSC's affairs as at 31 March 2018 and of the net increase in the Scheme during the year and of the amount and disposition at that date of its assets and liabilities other than liabilities to pay benefits after the Scheme year end; and

- have been properly prepared in accordance with Regulation 63 of the Local Government Pension Scheme Regulations (Northern Ireland) 2014 and Department for Communities (DfC) directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs) and Practice Note 10 *'Audit of Financial Statements of Public Sector Entities in the United Kingdom'*. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of this certificate. My staff and I are independent of NILGOSC in accordance with the ethical requirements of the Financial Reporting Council's Revised Ethical Standard 2016, and have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinions.

Other information

The Accounting Officer is responsible for the other information included in the annual report. The other information comprises the information included in the annual report other than the financial statements, the parts of the Remuneration and Staff Report and Accountability Report described in those reports as having been audited, and my audit certificate and report. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and Accountability Report to be audited have been properly prepared in accordance with Regulation 63 of the Local Government Pension Scheme Regulations (Northern Ireland) 2014; and

- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Statement about contributions payable

In my opinion the contributions payable to NILGOSC during the year ended 31 March 2018 have in all material respects been paid in accordance with the rules of the Scheme and with the recommendations of the actuary.

Responsibilities of the Accounting Officer and auditor for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with the Local Government Pension Scheme Regulations (Northern Ireland) 2014.

I am required to obtain evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

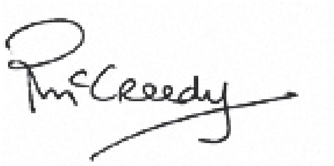
Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the parts of the Remuneration and Staff Report and Accountability Report to be audited are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with the Department of Finance's guidance.

Report

I have no observations to make on these financial statements.



Pamela McCreedy
Local Government Auditor
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

4 September 2018

ACCOUNTS

FUND ACCOUNT
YEAR ENDED 31 MARCH 2018

	Note	2017/18 £'000	2016/17 £'000
Contributions and benefits			
Contributions receivable	4	**258,391**	260,068
Transfers in		**10,659**	8,581
		269,050	268,649
Benefits	5	**(229,045)**	(232,538)
Payments to and on account of leavers	6	**(6,287)**	(4,080)
Administration expenses	7	**(4,674)**	(6,281)
		(240,006)	(242,899)
Net additions from dealings with members		**29,044**	25,750
Return on investments			
Investment income	8	**110,634**	73,915
Change in market value of financial investments	9	**304,919**	1,193,594
Gains/(losses) arising from changes in fair values of investment properties	10	**41,241**	(9,115)
Investment management expenses	11	**(19,823)**	(19,267)
Net return on investments		**436,971**	1,239,127
Net increase in the Scheme during the year		**466,015**	1,264,877
Remeasurement gains/(losses) on the retirement benefit obligation	18	**200**	(2,035)
		200	(2,035)
Opening net assets of the Scheme		**7,082,982**	5,820,140
Closing net assets of the Scheme		**7,549,197**	7,082,982

The notes on pages 75 to 98 form part of these financial statements.

NET ASSETS STATEMENT
AS AT 31 MARCH 2018

	Note	**2017/18 £'000**	2016/17 £'000
Non-current assets			
Financial assets	9	**6,692,435**	6,326,269
Investment properties	10	**756,500**	721,580
Intangible assets	12	**177**	127
Property, plant and equipment	13	**1,387**	1,494
Revaluation reserve	14	**(197)**	(251)
Total non-current assets		**7,450,302**	7,049,219
Current assets			
Trade and other receivables	15	**62,891**	34,638
Cash and cash equivalents	16	**63,727**	34,869
Total current assets		**126,618**	69,507
Total assets		**7,576,920**	7,118,726
Current liabilities			
Trade and other payables	17	**(22,981)**	(31,178)
Total current liabilities		**(22,981)**	(31,178)
Non-current assets plus net current assets		**7,553,939**	7,087,548
Non-current liabilities			
Retirement benefit obligations	18	**(4,742)**	(4,566)
Total non-current liabilities		**(4,742)**	(4,566)
Total net assets of the Scheme		**7,549,197**	7,082,982

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Committee. They do not take account of obligations to pay pensions and other benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in Note 21 and the Statement by the Actuary on pages 99 to 100 and these financial statements should be read in conjunction with it.

The notes on pages 75 to 98 form part of these financial statements.

David A Murphy

David Murphy
Secretary
29 August 2018

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	2017/18 £'000	**2017/18 £'000**	2016/17 £'000	2016/17 £'000
Cash flows from operating activities				
Net increase in the Scheme during the year	**466,015**		1,264,877	
Adjustments for non-cash transactions				
Change in market value of investments and gains arising from changes in fair value of investment properties	**(346,160)**		(1,184,479)	
Depreciation/amortisation	**215**		338	
IAS 19 pension cost less contributions payable	**376**		126	
Adjustment for movements in working capital				
(Increase)/decrease in trade and other receivables	**(28,253)**		9,331	
(Decrease)/increase in trade and other payables	**(8,197)**		2,815	
Net cash inflow from operating activities		**83,996**		93,008
Cash flows from investing activities				
Purchase of property, plant & equipment and intangible assets	**(212)**		(80)	
Purchase of investment properties	**(948)**		(8,297)	
Purchase of investment assets	**(2,291,776)**		(5,058,777)	
Proceeds of disposal of investment properties	**7,269**		6,793	
Proceeds of disposal of investment assets	**2,230,529**		4,940,307	
Net cash outflow from investing activities		**(55,138)**		(120,054)
Net increase/(decrease) in cash and cash equivalents		**28,858**		(27,046)
Cash and cash equivalents at the beginning of the year		**34,869**		61,915
Cash and cash equivalents at the end of the year		**63,727**		34,869

The notes on pages 75 to 98 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997, as amended, the Local Government Pension Scheme Regulations (Northern Ireland) 2014, as amended, guidance set out in the 2017/18 Government Financial Reporting Manual (FReM) issued by the Department of Finance, and the Accounts Direction issued by the Department for Communities. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Northern Ireland Local Government Officers' Superannuation Committee for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Northern Ireland Local Government Officers' Superannuation Committee are described below. They have been applied consistently in dealing with items that are considered material to the financial statements.

2. Accounting policies

2.1 Basis of preparation

The accounts are prepared on an accruals basis.

2.2 Contributions

Normal contributions, both from members and employers, are accounted for on an accruals basis at the rate certified by the Scheme Actuary in the payroll period to which they relate.

Employers' deficit funding contributions are accounted for on the due date on which they are payable as certified by the Scheme Actuary.

Employers' augmentation contributions and pensions strain contributions are accounted for in accordance with the agreement under which they are being paid.

Employers' special contributions are accounted for in accordance with the agreement under which they are being paid, or in the absence of such an agreement, when received.

Employers' cessation contributions are accounted for in the period in which the liability arises.

2.3 Additional Voluntary Contributions (AVCs)

NILGOSC provides an AVC Scheme for its contributors, the assets of which are invested separately from those of the fund. AVCs are not included in the accounts in accordance with 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000 (SRNI 2000/178) but are disclosed as a note to the accounts (see Note 9).

2.4 Benefits

Commutations and lump sum benefits are accounted for in the period in which they fall due for payment. Pensions in payment are accounted for on an accruals basis.

2.5 Transfers to and from other schemes

Individual transfers in/out are accounted for on a receipts and payments basis.

Bulk transfers in/out are accounted for in accordance with the bulk transfer terms signed by the appointed actuaries.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis, and are reported within transfers in.

2.6 Administration and other expenses

Administration and other expenses are accounted for on an accruals basis.

2.7 Income from investments

Income from equities is accounted for on the basis of the "ex-dividend" date with outstanding dividends (quoted "ex-dividend") at 31 March being included as income for the financial year. Income from equities is net of irrecoverable withholding tax.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Rental income from investment properties has been taken into account by reference to the periods to which the rents relate and is shown net of related expenses. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

2.8 Investment management expenses

Investment management expenses are accounted for on an accruals basis.

2. Accounting policies (continued)

External investment management and custodian fees are agreed in management or custody agreements governing the administration of the individual mandates. Fees are generally based on the valuation of the underlying investments and, as such, will fluctuate as the valuations change. In addition, performance related fees are negotiated with a number of managers.

Investment costs that are deducted from the value of an investment are recognised as a cost in the Fund Account rather than as a reduction in the change in market value of investments.

2.9 Investment transaction costs

Investment transaction costs that are added to an investment purchase price or deducted from the proceeds of sale are recognised as a cost in the Fund Account rather than as a reduction in the change in market value of investments.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are not treated as an expense. Such costs are accounted for as part of the acquisition costs or sale proceeds.

2.10 Taxation

The Scheme is a Registered Public Service Scheme under Chapter 2 of Part 4 of the Finance Act 2004. It has received automatic registration by virtue of Part 1 of Schedule 36 of that Act.

2.11 Valuation of investments

Investments are included in the Net Asset Statement on a fair value basis at the reporting date.

Quoted investments are stated at bid value, excluding any accrued income, or if the bid value is unavailable, at the value of the most recent transaction.

Fixed interest securities and index linked securities are valued on a bid price basis excluding accrued interest. Accrued interest is included within investment income receivable.

The valuation of unquoted private equity and private debt investments is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports.

The valuation of unquoted infrastructure investments is based on the latest fund manager valuations, adjusted for transactions arising after the date of such valuations. Fund Manager valuations are developed in accordance with generally accepted guidelines.

Pooled investments are stated at the manager's unit value on a bid price basis if published, or, if single priced, at the closing single price.

Derivatives are valued on a fair value basis.

2.12 Investment properties

Investment properties are valued on the basis of open market value at the reporting date by the independent chartered surveyors BNP Paribas Real Estate in accordance with RICS Appraisal and Valuation Manual. The carrying amounts of these assets approximate their fair value.

2.13 Intangible assets – software intangibles

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset.

2.14 Property, plant and equipment

Property is carried at fair value and is valued on the basis of open market value at the reporting date by the independent chartered surveyors BNP Paribas Real Estate in accordance with the RICS Appraisal and Valuation Manual.

Non-property assets are carried at cost less accumulated depreciation and impairment losses where applicable.

2.15 Depreciation of property, plant and equipment

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives. The selection of these estimated lives requires the exercise of management judgement.

2.16 Financial instruments

Trade and other receivables
Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables
Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments
Financial instruments held for trading are stated at fair value, with any resultant gain or loss recognised in profit or loss. See Note 2.11 for full details.

2. Accounting policies (continued)

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits.

2.17 Foreign currencies

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Investments and monetary assets and liabilities held at the reporting date are translated at the exchange rate applicable at the reporting date. The resulting exchange gain or loss is dealt with in the Fund Account.

2.18 Retirement benefit obligations

NILGOSC employees are members of the NILGOSC Scheme which is a defined benefit pension scheme. The cost of providing benefits is determined using the Projected Unit Credit method. Formal actuarial valuations are carried out every three years and updates are carried out at the end of each reporting period. The difference between the fair value of the assets held and the liabilities are recognised in the Net Assets Statement as an asset or liability as appropriate. Changes in the retirement benefit obligation are charged immediately to the Fund Account. The on balance sheet actuarial liability relates to members of the NILGOSC Scheme who are employed by NILGOSC.

2.19 Actuarial present value of promised retirement benefits

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

The actuarial position of the Scheme, which does take account of such obligations is dealt with in Note 21 on page 96 and the Actuarial Statement on pages 99 to 100. The actuarial present value of promised retirement benefits, valued on a basis consistent with IAS 19, is disclosed in Note 21 of these accounts.

2.20 Use of estimates

The use of estimates and assumptions is required in the preparation of the financial statements. Where estimates and assumptions are required, the techniques used are considered appropriate and are consistently applied. Actual results may however differ from those assumptions and estimates used.

Investment Management Performance Fees
Investment management performance fees are calculated based on observed performance to the year end date. The actual performance fee will depend on the outturn for the performance year (which is not always coterminous with the Scheme year end) and as such may differ from estimated amounts.

Unquoted Private Equity and Infrastructure Investments
The valuation of unquoted private equity and private debt investments is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports. The valuation of unquoted infrastructure investments is based on the latest fund manager valuations, adjusted for transactions arising after the date of such valuations. There is a risk that these investments may be under or overstated in the financial statements however it is considered unlikely to have a material impact on the value of the Fund.

2.21 Application of new and revised International Financial Reporting Standards

The International Accounting Standards Board has issued a number of new standards applicable for 2018/19. The following standards have been reviewed and have been given consideration as to their impact on NILGOSC's financial statements.

IFRS 9 Financial instruments (effective 1 January 2018): IFRS 9 contains a new classification and measurement approach for financial assets which reflects the business model in which assets are managed and their cash flow characteristics. Based on an initial assessment, it is not believed that the new classification requirements will have a material impact on NILGOSC's financial statements.

IFRS 15 Revenue from contracts with customers (effective 1 January 2018): IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. Given the nature of revenue streams generated by NILGOSC, the adoption of IFRS 15 is not expected to have a material impact.

IFRS 16 Leases (effective 1 January 2019): IFRS 16 introduces a single on balance sheet lease accounting model for lessees and given that NILGOSC is not a lessee, the adoption of IFRS 16 is not expected to have a material impact.

3. Segmental information

NILGOSC has only one operating segment. NILGOSC monitors and controls its operation through review of income and expenditure information on a portfolio basis. NILGOSC looks at the Scheme in totality as it cannot be disaggregated into any separate segments. Please refer to the Fund Account on page 72 and the Net Assets Statement on page 73.

4. Contributions receivable

		2017/18 £'000	2016/17 £'000
Employers			
	normal	**165,878**	175,589
	deficit recovery *	**18,541**	-
	early retirement funding **	**7,195**	11,251
	special contributions ***	**9,765**	18,809
Employees			
	normal	**57,012**	54,419
		258,391	260,068

* From 1 April 2017 employer contributions consist of a fixed monetary amount on an annual basis in respect of deficit recovery in addition to the percentage payable in respect of future accrual of benefits. Deficit recovery contributions were previously included as a percentage of pensionable pay within employer normal contributions.

** Early retirement funding has reduced in 2017/18 due to a reduction in the number of early retirements resulting from the public sector exit schemes.

*** Special contributions include payments made to the Fund by specific employing authorities in addition to the minimum % contribution certified by the actuary and include cessation payments, strain on fund payments, deficit recovery payments on closure or transfers of staff and payments in respect of situations specific to a particular employing authority.

5. Benefits

	2017/18 £'000	2016/17 £'000
Pensions*	**173,067**	163,836
Commutations and lump sum retirement benefits	**49,711**	62,177
Lump sum death benefits	**6,267**	6,525
	229,045	232,538

* In addition, £4.247m of agency and compensation pensions were paid on an agency basis and recharged to employing authorities (2016/17:£4.331m). These payments relate to compensation benefits which, under the applicable regulations, cannot be paid from the Fund and for which NILGOSC acts as a paying agent only. Accordingly, these transactions have not been reflected in these financial statements.

6. Payments to and on account of leavers

	2017/18 £'000	2016/17 £'000
Refund to members leaving service	**560**	440
Payment for members joining state scheme	**39**	184
Transfers to other schemes	**5,688**	3,456
	6,287	4,080

7. Administration expenses

	2017/18 £'000	2016/17 £'000
Staff costs (note 19)	**2,950**	2,592
Agency staff costs (note 19)	**12**	17
Office overheads	**653**	571
Depreciation and amortisation (notes 12 & 13)	**215**	338
Communication	**196**	174
Other administration	**156**	182
Actuarial fees	**53**	121
Internal audit fees	**27**	31
External audit fees	**24**	25
Legal and other professional fees	**40**	234
Medical fees	**67**	63
Movement in provision in respect of employing authority debt*	**(1,303)**	1,303
Write-offs in respect of employing authority debt**	**1,584**	630
	4,674	6,281

* The movement in provision in respect of employing authority debt in 2017/18 reflects the write-off of bad debts in 2017/18 previously provided for in 2016/17.

** Employing authority debt written off in 2017/18 largely relates to cessation debt for two employing authorities which entered into creditor's voluntary liquidation during the year, the majority of which was provided for in 2016/17. The amount of the write-off is the amount which is not likely to be recovered in the liquidation process based on the expected dividend.

8. Investment income

	2017/18 £'000	2016/17 £'000
Fixed interest securities	**5,315**	5,640
Dividends from equities	**68,890**	54,696
Pooled investment vehicles	**810**	889
Infrastructure/private equity investments	**769**	686
Net rents from properties	**34,899**	34,854
Interest on deposits	**553**	439
Stock lending income	**1,884**	2,481
Foreign exchange losses*	**(1,693)**	(25,336)
Other - Class actions/other income	**138**	11
	111,565	74,360
Irrecoverable withholding tax	**(931)**	(445)
Total Investment Income	**110,634**	73,915

*Foreign exchange losses in 2016/17 include gains/losses on foreign currency contracts which have been reclassified and are included within the change in market value of financial investments in 2017/18.

Stock Lending

The Fund's securities lending programme continued during the year ended 31 March 2018. The main features of the programme are:

(i) Lending maximum of 35% of total investment assets;
(ii) Global Custodian acts as securities lending manager and collateral manager;
(iii) Collateral comprises mainly of UK and overseas equity and Government debt.

As at 31 March 2018, there were securities amounting to £316,664,415 on loan against collateral of £337,449,882 (2016/17: one nil paid rights position with nil value on loan against collateral of £1,060 - securities on loan were recalled in advance of the transition to the new global custodian on 3 April 2017).

9. Financial assets

	Value at 01 04 2017 £' 000	**Purchases at cost £' 000**	**Sales proceeds £' 000**	**Interportfolio Transfers £' 000**	**Change in market value £' 000**	**Value at 31 03 2018 £' 000**
Fixed interest securities	219,143	412,326	(391,671)	-	(13,880)	**225,918**
Equities	2,858,967	1,033,710	(998,515)	(798,812)	119,879	**2,215,229**
Pooled investment vehicles	3,179,785	723,796	(774,130)	798,812	181,141	**4,109,404**
Derivative contracts	498	47,287	(58,442)	-	13,020	**2,363**
Infrastructure/Private Equity	67,876	74,657	(7,771)	-	4,759	**139,521**
	6,326,269	2,291,776	(2,230,529)	-	304,919	**6,692,435**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year and reinvested income arising on the Legal & General Pooled investments. In the case of deposits and other investment balances, this relates to exchange gains and losses.

9. Financial assets (continued)

Transaction costs including commissions, stamp duty and other charges were included in the cost of purchases and sales proceeds in previous years. In 2017/18 information has been made available to enable these transaction costs to be disclosed separately and they are shown within Investment Management Expenses in Note 11. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on fixed interest securities, investments within pooled investment vehicles and also infrastructure investments. The amount of indirect costs is not shown separately.

Following a review of NILGOSC's investment strategy a decision was taken to reduce the proportion of the fund invested in equities. In March 2018 the BlackRock mandate was terminated and a reduction in the Baillie Gifford UK Equity mandate was implemented, and the assets were transferred to the passive index linked gilts fund managed by Legal & General. This transfer of assets is disclosed within Inter-portfolio Transfers. In addition there was cash of £29m transferred to Legal & General from these funds, giving a total of £828m transferred from UK equity mandates in the first stage of the transition to the new asset allocation.

	2017/18 £'000	2016/17 £'000
Fixed interest securities		
UK public sector	**4,966**	9,271
UK other	**2,324**	4,811
Overseas fixed interest	**218,628**	205,061
	225,918	219,143
Equities		
UK quoted	**695,591**	1,495,079
Overseas quoted	**1,519,638**	1,363,888
	2,215,229	2,858,967
Pooled investment vehicles		
Residential Propery Fund	**29,131**	-
Unit trusts - other	**4,080,273**	3,179,785
	4,109,404	3,179,785
Derivative contracts		
CBT 10yr note future	**-**	8
CBT 10yr ultra future	**(36)**	(27)
CBT 2yr note future	**-**	8
10yr note future	**(6)**	-
Eurex Euro-Bund	**(27)**	-
Forward currency contracts	**2,432**	509
	2,363	498
Infrastructure/Private Equity		
UK Private Equity	**150**	10,200
Global Infrastructure	**139,371**	57,676
	139,521	67,876

9. Financial assets (continued)

Futures Contracts

The Fund's objective in entering into futures position is to decrease risk in the portfolio by matching assets that are already held in the portfolio without disturbing the underlying assets.

Foreign Currency Hedging

Investments denominated in overseas currencies may be hedged into sterling at various times. The purpose of this action is to reduce the Fund's exposure to foreign currencies and fluctuations in exchange rates depending on conditions and expectations in these markets.

There were forward currency contracts in place at 31 March 2018 and 31 March 2017 as shown in the preceding analysis.

UK Leaving the European Union

NILGOSC holds £1,634m of investment assets held in non-sterling currencies. The value of sterling has fluctuated since the referendum on leaving the European Union and could fluctuate further during the negotiating period. Equally the value of the assets held in sterling have also fluctuated due to changes in the value of sterling or the outlook for the UK economy. NILGOSC has taken some limited steps to hedge currencies as described above but, as a long-term investor, can tolerate the market and currency risk.

Single Investments Exceeding 5% of the Net Assets of the Scheme

Details of any single investment exceeding 5% of the net assets of the Scheme are provided in the table below.

Security	Market Value 31 March 2018 £'000	% of Total Fund	Market Value 31 March 2017 £'000	% of Total Fund
Legal & General – Europe (ex UK) Equity Index	490,410	6.50%	664,193	9.38%
Legal & General – Japan Equity Index – GBP Hedged	390,120	5.17%	391,032	5.52%
Legal & General – Over 5y Index-Link Gilts	866,900	11.48%	221,234	3.12%
Legal & General – AAA-AA-A Corporate Bond All Stocks Index Fund	486,185	6.44%	353,477	4.99%

Employer-Related Investments

The Scheme had no employer-related investments as at 31 March 2018 and 31 March 2017.

AVC Investments

NILGOSC provides an Additional Voluntary Contribution (AVC) Scheme for its members with two AVC providers, Equitable Life Assurance Society and Prudential Assurance Company Limited. The assets of the AVC Scheme are invested separately from the NILGOSC pension fund and therefore these amounts are not included in NILGOSC's net assets.

Members participating in this arrangement each receive an annual statement made up to 31 March confirming the amounts held to their account and the movements in the year.

9. Financial assets (continued)

The table below shows the movement in AVC investments during the year.

	2017/18			2016/17		
	Equitable Life £' 000	**Prudential £' 000**	**Total £' 000**	Equitable Life £' 000	Prudential £' 000	Total £' 000
Value at start of year	**293**	**23,325**	**23,618**	293	21,942	22,235
Contributions invested	**2**	**7,267**	**7,269**	2	6,726	6,728
Sales of investments	**(25)**	**(5,759)**	**(5,784)**	(24)	(6,876)	(6,900)
Change in market value	**6**	**210**	**216**	22	1,533	1,555
Value at end of year	**276**	**25,043**	**25,319**	293	23,325	23,618

10. Investment property

	2017/18 £' 000	2016/17 £' 000
Fair Value		
At start of year	**721,580**	729,191
Additions	**948**	8,297
Sales	**(7,269)**	(6,793)
Gains/(losses) arising from changes in fair values	**41,241**	(9,115)
At end of year	**756,500**	721,580

The investment properties were valued as at 31 March 2018 by qualified professional valuers working for BNP Paribas Real Estate, Chartered Surveyors, acting in the capacity of External Valuers. All such valuers are Chartered Surveyors, being members of the Royal Institute of Chartered Surveyors (RICS).

The properties were valued on the basis of Market Value which is an internationally recognised basis and is defined as 'the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion'. All valuations were carried out in accordance with the RICS Appraisal and Valuation Standards.

NILGOSC received net rental income of £34.9m (2016/17: £34.9m) in respect of these investment properties.

The investment properties are leased to tenants under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewable rights.

The future minimum lease receipts (discounted to present value) under non-cancellable operating leases expiring:

	2017/18 £' 000	2016/17 £' 000
Not later than one year	**34,480**	36,414
Later than one year and not later than five years	**112,782**	122,202
Later than five years	**188,763**	208,161
	336,025	366,777

11. Investment management expenses

	2017/18 £' 000	2016/17 £' 000
Administration, management and custody	**17,071**	18,915
Performance measurement services	**26**	26
Other advisory fees	**351**	326
Transaction costs and trading expenses	**2,375**	-
	19,823	19,267

Investment management expenses mainly consist of fees paid to Fund Managers in respect of the management and investment of funds on NILGOSC's behalf. These fees vary from year to year as they are based on the market value of the investments held and in some cases include a performance based fee element. In addition, fees paid in respect of investment advice, custody services and property valuations are included within investment management expenses.

An adjustment was made in 2016/17 to correctly classify investment management fees of £1,151k relating to infrastructure investment that were incorrectly capitalised as part of the cost of the investment.

Transaction costs and trading expenses include commissions, stamp duty and other trade related charges. In 2016/17 these totalled £2,686k and were included in the cost of purchases and sales proceeds of investments as the information to enable separate disclosure was not available. Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of purchases or sales proceeds (see Note 9 – Financial assets).

12. Intangible assets

	Computer Software £' 000
Cost	
At 1 April 2017	**613**
Additions	**151**
Disposals	**-**
At 31 March 2018	**764**
Amortisation	
At 1 April 2017	**486**
Charge for the year	**101**
Amortisation on disposals	**-**
At 31 March 2018	**587**
Net book value	
At 31 March 2017	**127**
At 31 March 2018	**177**

12. Intangible assets (continued)

	Computer Software £' 000
Cost	
At 1 April 2016	**559**
Additions	**54**
Disposals	**-**
At 31 March 2017	**613**
Amortisation	
At 1 April 2016	**269**
Charge for the year	**217**
Amortisation on disposals	**-**
At 31 March 2017	**486**
Net book value	
At 31 March 2016	**290**
At 31 March 2017	**127**

Computer software is amortised on a straight-line basis over a period of three years. All the intangible assets are owned by NILGOSC.

13. Property, Plant and Equipment

	Property £' 000	Fixtures, Fittings & Equipment £' 000	Refurbishment £' 000	Total £' 000
Cost				
At 1 April 2017	1,225	405	977	**2,607**
Revaluation	75	-	-	**75**
Additions	-	61	-	**61**
Disposals	-	(66)	(977)	**(1,043)**
At 31 March 2018	**1,300**	**400**	**-**	**1,700**
Depreciation				
At 1 April 2017	-	335	778	**1,113**
Charge for the year	49	44	21	**114**
Revaluation Adjustment	(49)	-	-	**(49)**
Depreciation on disposals	-	(66)	(799)	**(865)**
At 31 March 2018	-	**313**	**-**	**313**
Net book value				
At 31 March 2017	1,225	70	199	**1,494**
At 31 March 2018	**1,300**	**87**	**-**	**1,387**

13. Property, Plant and Equipment (continued)

	Property £' 000	Fixtures, Fittings & Equipment £' 000	Refurbishment £' 000	Total £' 000
Cost				
At 1 April 2016	1,150	417	977	**2,544**
Revaluation	75	-	-	**75**
Additions	-	26	-	**26**
Disposals	-	(38)	-	**(38)**
At 31 March 2017	**1,225**	**405**	**977**	**2,607**
Depreciation				
At 1 April 2016	-	319	757	**1,076**
Charge for the year	46	54	21	**121**
Revaluation Adjustment	(46)	-	-	**(46)**
Depreciation on disposals	-	(38)	-	**(38)**
At 31 March 2017	-	**335**	**778**	**1,113**
Net book value				
At 31 March 2016	1,150	98	220	**1,468**
At 31 March 2017	**1,225**	**70**	**199**	**1,494**

The property was valued as at 31 March 2018 by qualified professional valuers working for BNP Paribas Real Estate, Chartered Surveyors, acting in the capacity of External Valuers. All such valuers are Chartered Surveyors, being members of the Royal Institute of Chartered Surveyors (RICS). The property was valued on the basis of Market Value. The valuation was carried out in accordance with the RICS Appraisal and Valuation Standards. All the property, plant and equipment are owned by NILGOSC.

14. Revaluation reserve

	2017/18 £'000	2016/17 £'000
At 1 April 2017	**(251)**	(130)
Revaluation during the year	**(124)**	(121)
Refurbishment disposal	**178**	-
At 31 March 2018	**(197)**	(251)

In 2017/18 the cost and accumulated depreciation in respect of the refurbishment of Templeton House has been removed from the net book value of Property, Plant and Equipment as it is reflected within the revaluation of Templeton House.

15. Trade and other receivables

	2017/18 £'000	2016/17 £'000
Receivables and other current assets	**18,483**	10,419
VAT and other receivables	**1,923**	1,294
Less: Provision for impairment of receivables	**(677)**	(2,236)
Receivables and other current assets-net	**19,729**	9,477
Pension contributions due *	**11,319**	11,412
Prepayments and accrued income	**31,843**	13,749
	62,891	34,638

*All contributions due to the Scheme relate to the month of March 2018 and were paid in full to the Scheme within the timescale required by the Local Government Pension Scheme Regulations (Northern Ireland) 2014.

16. Cash and cash equivalents

Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of one month or less. The carrying amount of these assets approximates their fair value.

	2017/18 £'000	2016/17 £'000
At 1 April	**34,869**	61,915
Net change in cash balances	**28,858**	(27,046)
	63,727	34,869
The following balances at 31 March were held at:		
Commercial banks and cash in hand	**16,298**	11,220
Investment cash	**47,429**	23,649
	63,727	34,869

17. Trade and other payables

	2017/18 £'000	2016/17 £'000
Trade payables and other current liabilities	**2,084**	88
Unpaid benefits	**4,705**	6,328
Social security and other taxes	**2,351**	2,641
Accruals and deferred income	**13,841**	22,121
	22,981	31,178

18. Retirement benefit obligations

NILGOSC provides pension arrangements for the benefit of its employees through the NILGOSC Scheme. The NILGOSC Scheme is known as the Local Government Pension Scheme (Northern Ireland) and is a funded defined benefit scheme. Benefits earned up to 31 March 2015 are linked to final salary. Benefits earned after 31 March 2015 are based on a Career Average Revalued Earnings scheme.

The funded nature of the Local Government Pension Scheme requires the employer and its employees to pay contributions into the pension scheme, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in the Local Government Pension Scheme Regulations (Northern Ireland) 2014 (as amended) and the Fund's Funding Strategy Statement. The last actuarial valuation was at 31 March 2016 and the contributions to be paid until 31 March 2020 resulting from that valuation are set out in the Fund's Rates and Adjustment Certificate within the report on the Actuarial Valuation as at 31 March 2016. An actuarial valuation of the Fund will be carried out at 31 March 2019 and as part of that valuation a new Rates and Adjustment Certificate will be produced for the three year period from 1 April 2020.

The Fund Administering Authority, Northern Ireland Local Government Officers' Superannuation Committee is responsible for the governance of the Pension Fund.

The NILGOSC Scheme is a multi-employer scheme. The assets allocated to the Employer in the Fund are notional and are assumed to be invested in line with the investments of the Fund for the purposes of calculating the return to be applied to those notional assets over the accounting period. The Fund is large and holds a significant proportion of its assets in liquid investments. As a consequence there will be no significant restriction on realising assets if a large payment is required to be paid from the Fund in relation to an employer's liabilities. The assets are invested in a diversified spread of investments and the approximate split of assets for the Fund as a whole is shown in this note.

At 31 March 2018 NILGOSC had 80 active members (2016/17:73), 60 deferred members (2016/17:56) and 20 pensioners (2016/17:16).

Net defined benefit liability

	2017/18 £'000	2016/17 £'000
Fair value of assets	**11,366**	10,527
Present value of funded defined benefit obligation	**(16,108)**	(15,093)
Net defined benefit liability	**(4,742)**	(4,566)

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:

Active members	**47%**
Deferred pensioners	**18%**
Pensioners	**35%**

The estimated duration of the Fund's liabilities is 22.3 years.

18. Retirement benefit obligations (continued)

Financial assumptions

A full actuarial valuation of the NILGOSC defined benefit scheme was carried out as at 31 March 2016. The financial assumptions have been updated by independent qualified actuaries to take account of the requirements of IAS 19 in order to assess the liabilities of the Scheme at 31 March 2018. The discount rate is based on the duration of liabilities for members employed/previously employed by NILGOSC, and not the NILGOSC fund as a whole, and may differ from the discount rate utilised for the IAS 26 actuarial present value of promised retirement benefits disclosed in Note 21.

	2017/18 %	2016/17 %
Rate of increases in salaries	**3.5**	3.5
Discount rate	**2.6**	2.6
Inflation / Pension increase rate	**2.0**	2.0

Demographic assumptions

The demographic assumptions are in line with those adopted for the last formal actuarial valuation for the Scheme and are based on the recent actual mortality experience for members within the Fund. The key demographic assumption was the allowance made for longevity. The base longevity assumption made is in line with standard SAPS mortality tables and includes improvements based on the CMA 2014 Core Projections with a long term annual rate of improvement in mortality rates of 1.5% per annum. Based on these assumptions, the average life expectancies at age 65 are summarised below.

	2017/18 Years	2016/17 Years
Retiring today:		
Males	**23.3**	23.2
Females	**25.9**	25.8
Retiring in 20 years:		
Males	**25.5**	25.4
Females	**28.2**	28.1

The next funding valuation of the Scheme is due to be carried out as at 31 March 2019, when the mortality trends under the Scheme will be reviewed and the demographic assumptions updated if appropriate.

The major categories of assets as a percentage of total plan assets are:

	2017/18 %	2016/17 %
Equities	**71.4**	74.5
Bonds	**12.4**	11.5
Property	**10.0**	10.5
Cash	**4.5**	2.6
Other	**1.7**	0.9

18. Retirement benefit obligations (continued)

Analysis of amounts charged against profits

	2017/18 £' 000	2016/17 £' 000
Operating cost		
Current service cost	**650**	419
Total	**650**	419
Finance cost		
Interest on net defined benefit liability	**113**	78
Total	**113**	78

Remeasurement Gains and Losses

	2017/18 £' 000	2016/17 £' 000
Return on plan assets in excess of that recognised in net interest	**(269)**	(2,057)
Actuarial losses due to change in financial assumptions	**-**	2,987
Actuarial losses due to changes in demographic assumptions	**-**	4
Actuarial losses due to liability experience	**69**	1,101
Net (gain)/loss	**(200)**	2,035

Scheme assets

Changes in fair value of the scheme assets are as follows:

	2017/18 £' 000	2016/17 £' 000
Fair value of scheme assets at start of year	**10,527**	7,917
Interest income on assets	**278**	282
Contributions by Members	**132**	124
Contributions by the Employer	**387**	371
Benefits paid	**(227)**	(224)
Re-measurement gains on assets	**269**	2,057
Fair value of scheme assets at end of year	**11,366**	10,527

The actual return on assets is as follows:

	2017/18 £' 000	2016/17 £' 000
Interest income on assets	**278**	282
Re-measurement gain on assets	**269**	2,057
Actual return on assets	**547**	2,339

18. Retirement benefit obligations (continued)

Present value of defined benefit obligation

Changes in the present value of retirement benefit obligations are as follows:

	2017/18 £' 000	2016/17 £' 000
Present value of obligations at start of year	**15,093**	10,322
Current service cost	**650**	419
Interest cost	**391**	360
Contributions by Members	**132**	124
Benefits paid	**(227)**	(224)
Actuarial losses on liabilities – change in financial assumptions	**-**	2,987
Actuarial losses on liabilities – change in demographic assumptions	**-**	4
Actuarial losses on liabilities – experience	**69**	1,101
Present value of obligation at end of year	**16,108**	15,093

Sensitivity analysis

A sensitivity analysis for each significant actuarial assumption is provided below. This shows the approximate impact of changing the assumption noted on the present value of the funded defined benefit obligation as at 31 March 2018 and 31 March 2017. In each case only the assumption stated is altered; all other assumptions remain the same.

Discount rate assumption

	31 March 2018		31 March 2017	
Adjustment to discount rate	**+0.1% p.a.**	**-0.1% p.a.**	+0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	**15,753**	**16,471**	14,760	15,433
% change in present value of total obligation	**-2.2%**	**2.3%**	-2.2%	2.3%
Projected service cost (£000's)	**651**	**696**	603	645
Approximate % change in projected service cost	**-3.3%**	**3.4%**	-3.3%	3.4%

Rate of general increase in salaries

	31 March 2018		31 March 2017	
Adjustment to salary increase rate	**+0.1% p.a.**	**-0.1% p.a.**	+0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	**16,210**	**16,007**	15,188	14,999
% change in present value of total obligation	**0.6%**	**-0.6%**	0.6%	-0.6%
Projected service cost (£000's)	**673**	**673**	624	624
Approximate % change in projected service cost	**0.0%**	**0.0%**	0.0%	0.0%

18. Retirement benefit obligations (continued)

Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption

	31 March 2018		31 March 2017	
Adjustment to pension increase rate	**+0.1% p.a.**	**-0.1% p.a.**	+0.1% p.a.	-0.1% p.a.
Present value of total obligation (£000's)	**16,368**	**15,853**	15,337	14,854
% change in present value of total obligation	**1.6%**	**-1.6%**	1.6%	-1.6%
Projected service cost (£000's)	**696**	**651**	645	603
Approximate % change in projected service cost	**3.4%**	**-3.3%**	3.4%	-3.3%

Post retirement mortality assumption

	31 March 2018		31 March 2017	
*Adjustment to mortality age rating assumption**	**-1 year**	**+ 1 year**	-1 year	+ 1 year
Present value of total obligation (£000's)	**16,578**	**15,640**	15,534	14,654
% change in present value of total obligation	**2.9%**	**-2.9%**	2.9%	-2.9%
Projected service cost (£000's)	**697**	**649**	646	602
Approximate % change in projected service cost	**3.5%**	**-3.5%**	3.5%	-3.5%

*A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them.

Risks associated with the Fund in relation to accounting

The risks associated with the Fund in relation to accounting are set out below.

Asset volatility	The liabilities used for accounting purposes are calculated using a discount rate set with reference to corporate bond yields. If assets underperform, this yield will create a deficit in the accounts. The Fund holds a significant proportion of growth assets which, while expected to outperform corporate bonds in the long term, creates volatility and risk in the short term in relation to the accounting figures.
Changes in Bond Yield	A decrease in corporate bond yields will increase the value placed on the liabilities for accounting purposes although this will be marginally offset by the increase in the assets as a result.
Inflation Risk	The majority of the pension liabilities are linked to either pay or price inflation. Higher inflation expectations will lead to a higher liability value. The assets are either unaffected or loosely correlated with inflation meaning that an increase in inflation will increase the deficit.
Life Expectancy	The majority of the Fund's obligations are to provide benefits for the life of the member following retirement, so increases in life expectancy will result in an increase in the liabilities.
Exiting Employers	As set out in the Fund's Funding Strategy Statement, NILGOSC seeks to remove as much of the risk as possible of remaining Fund employers being required to make contributions in future to meet the liabilities of departed employers by carrying out a cessation valuation when an employer leaves the Scheme. If the employer (or guarantor) is not able to meet this exit payment the liability may in certain circumstances fall on other employers in the Fund. Further the assets at exit in respect of 'orphan liabilities' may, in retrospect, not be sufficient to meet the liabilities. This risk may fall on other employers. 'Orphan liabilities' are currently a small proportion of the overall liabilities in the Fund.

18. Retirement benefit obligations (continued)

Future cash flows

An estimate of the expected employer's regular contributions to the Fund for the accounting period ending 31 March 2019 is £420k.

19. Staff Numbers and Related Costs

Staff costs comprise:

	Permanently employed staff £' 000	Others £' 000	2017/18 Total £' 000	2016/17 Total £' 000
Wages and salaries	**1,742**	**409**	**2,151**	2,015
Social security costs	**131**	**30**	**161**	175
Other pension costs	**595**	**55**	**650**	419
Total	**2,468**	**494**	**2,962**	2,609

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows:

	Permanently employed staff	Others	2017/18 Total	2016/17 Total
Directly employed	**66**	**18**	**84**	78
Other	**-**	**-**	**-**	-
Total	**66**	**18**	**84**	78

More detailed disclosures in respect of staff costs are provided within the Accountability Report on page 63.

20. Risks Arising from Financial Instruments

NILGOSC's investment strategy seeks to maximise the returns from investments within a range of risk parameters and it reduces investment risk to an acceptable level by investing in a well diversified range of asset classes, countries, sectors and securities.

Consideration of investment risk forms part of the overall risk management framework and all risks, including investment risks, are reviewed and monitored quarterly at a management and Committee level. Overall responsibility for risk management lies with the Committee.

All financial instruments, including cash deposits, present a risk of loss of capital and those risks will vary depending on the asset type. Investment risk will also be impacted by wider economic conditions and investor sentiment.

Market risk	Market risk or price risk is the risk of capital loss as a result of a fall in the price of investments. Fluctuations in price can arise from a variety of sources including interest rate risk, credit risk, currency risk and liquidity risk. The Fund is exposed to market risk as a result of its investment activities. The overall market risk of the Fund will depend on the actual mix of assets and market conditions and will encompass the different elements of risk, some of which may offset each other.
Interest rate risk	Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. NILGOSC does not hedge against the effect of such fluctuations and this position is reviewed regularly as part of the review of the investment strategy.
Credit risk	Credit risk is the risk that the counterparty to a transaction or financial instrument will fail to discharge its obligation resulting in a financial loss. This risk is generally reflected in the market price of securities, resulting in the risk being implicitly accounted for in the carrying value of the Fund's investments. Cash deposits, derivatives and stock lending are the areas of exposure where credit risk is not reflected in market prices. The Fund is exposed to credit risk in respect of its investment portfolio and this risk is managed through the selection and use of high quality counterparties and financial institutions.
Currency risk	Currency risk is the risk that that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. As a global investor whose liabilities are sterling based; NILGOSC is exposed to fluctuations in exchange rates which can affect the valuation of its investments. The Fund reduces its exposure to foreign currencies and fluctuations in exchange rates by hedging investments denominated in overseas currencies into sterling at various times.
Liquidity risk	Liquidity risk or cash flow risk is the risk that adequate cash resources will not be available to meet commitments such as the payment of benefits or future investment commitments as they fall due. To manage this risk NILGOSC operates a robust treasury management framework and maintains immediate access to its cash holdings.

21. Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the actuarial present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

The actuarial present value of promised retirement benefits at 31 March 2018 was £9,407m (31 March 2017: £8,826m). To assess the value of the benefits on this basis, the following financial and mortality assumptions have been used.

Financial assumptions

A full actuarial valuation of the NILGOSC defined benefit scheme was carried out as at 31 March 2016. The financial assumptions have been updated by independent qualified actuaries to take account of the requirements of IAS 19.

	31 March 2018 %	31 March 2017 %
Rate of increases in salaries	**3.6**	3.5
Discount rate	**2.6**	2.6
Inflation / Pension increase rate	**2.1**	2.0

Demographic assumptions

The demographic assumptions are in line with those adopted for the last formal actuarial valuation for the Scheme and are based on the recent actual mortality experience for members within the Fund. The key demographic assumption was the allowance made for longevity. The base longevity assumption made is in line with standard SAPS mortality tables and includes improvements based on the CMA 2014 Core Projections with a long term annual rate of improvement in mortality rates of 1.5% per annum. Based on these assumptions, the average life expectancies at age 65 are summarised below:

	2017/18 Years	2016/17 Years
Retiring today:		
Males	**23.3**	23.2
Females	**25.9**	25.8
Retiring in 20 years:		
Males	**25.5**	25.4
Females	**28.2**	28.1

There was a small increase in the actuarial present value of promised retirement benefits resulting from changes in actuarial assumptions. The majority of the increase relates to the current service cost and interest expense on the defined benefit obligation.

The net assets available for benefits are £7,549m which give a shortfall of £1,858m when compared to the actuarial present value of promised retirement benefits of £9,407m calculated on an IAS 19 basis. Details of the funding position of the Scheme are set out in the Actuarial Statement on pages 99 to 100.

22. Performance against key financial targets

The Department for Communities does not consider it appropriate to set key financial targets for NILGOSC.

23. Contingent liabilities

NILGOSC has contingent liabilities where the possibility of the liability crystallising is judged to be possible. Unless otherwise stated, the quantum of the liability can either not be determined with reasonable certainty or to quantify it would jeopardise the outcome of any legal action.

Pension Entitlement

During 2013/14 a court hearing to consider an appeal by NILGOSC and the Department of the Environment in respect of the outcome of a judicial review application challenging the decision of NILGOSC, by which it declined to pay a survivor's pension following the death of a co-habiting partner, found in favour of NILGOSC. In June 2014 the applicant applied to the Supreme Court for leave to appeal the decision and this was granted by the Supreme Court in December 2014.

The case was heard by the Supreme Court in November 2016. The Supreme Court published its judgement on 8 February 2017 and determined that the requirement in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations (Northern Ireland) 2009 for a member to nominate his/her co-habiting partner in advance of death should be disapplied. Following the ruling NILGOSC paid the co-habiting partner in question the survivor's pension which she would have received had she met all of the criteria required under the 2009 Regulations.

Since the ruling NILGOSC has carried out a full analysis to identify potential applications for pension by survivors in similar circumstances and has contacted all such survivors identified. During 2017/18 back payment was made to four survivors and investigation is ongoing with respect to five survivors. The quantum of the remaining liability cannot be determined with reasonable certainty however the potential back payment is not expected to be material.

24. Contractual commitments

Outstanding capital commitments (investments) at 31 March 2018 totalled £198m (31 March 2017: £218m). These relate to outstanding amounts committed, but not yet paid, to unquoted limited partnership funds held in the private equity/infrastructure part of the portfolio and the M&G UK Residential Property Fund. The amounts requested by these funds are variable in both size and timing over a period of 5-6 years from the date of the original agreement.

25. Related party transactions

NILGOSC is a Non-Departmental Public Body sponsored by the Department for Communities. The Department for Communities is regarded as a related party and transactions were not considered to be material.

Details of allowances paid during the year to members of the Committee are shown in the Remuneration Report on page 61. None of the Committee members have undertaken any other material transactions with NILGOSC during the year.

None of the members of the key management staff or other related parties have undertaken any material transactions with NILGOSC during the year.

26. Summary of losses and special payments

(i) Losses

Losses incurred on the sale of investments are disclosed within "Change in Market Value" in Note 9 to the Accounts and "Gains/losses arising from changes in fair value" in Note 10 to the Accounts.

Losses incurred during the year in respect of pension overpayments total £310,037. £20,972 relates to the non-recovery of pensioner overpayments as a result of death, £11,657 of which relates to a suspected pension payroll fraud following the unreported death of a member, the write-off of which required approval from the Department of Communities.

The balance of pension overpayment write-offs, £289,065, relates to non-death pensioner overpayments as a result of the GMP reconciliation exercise. Previously write-off approval was limited to GMP overpayments of less than £250 per case. On 30 March 2018 the Permanent Secretary of the Department for Communities gave approval for all overpayments arising from the GMP exercise to be written off. Further details in respect of the GMP reconciliation exercise are provided in the Performance Analysis section of this Annual Report on page 14.

Bad debts written off during the year total £1,759,140. £1,584,457 relates to the irrecoverable cessation debt of two employing authorities with £1,320,829 of this debt provided for in 2016/17. The balance of the write-offs reflects the net irrecoverable debt relating to investment property rental income of £60,232 (less than 0.2% of total gross rental income for 2017/18) and irrecoverable tax reclaims of £114,451 all of which was provided for in 2016/17. These write-offs required Department of Finance approval which was received on 3 July 2018.

(ii) Special payments

There were no special payments during the year.

27. Post Balance Sheet Event

There have been no significant events since 31 March 2018.

The Financial Statements were authorised for issue by the Accounting Officer on 4 September 2018.

ACTUARIAL STATEMENT

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Northern Ireland Local Government Officers' Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon, in accordance with Regulation 68 of the Local Government Pension Scheme Regulations (Northern Ireland) 2014.

Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £5,820.1M) covering 96% of the liabilities allowing, in the case of pre- 1 April 2015 membership for current contributors to the Fund, for future increases in pensionable pay.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 is:
   - 19.3% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date,

   Plus
   - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 20 years from 1 April 2017, equivalent to 1.7% of pensionable pay (or £14.8M in 2017/18, and increasing by 3.5% p.a. thereafter).

3. In practice, each employer's position is assessed separately, although a large number of the employers are grouped together (in the Main Employer Group) for the purpose of setting employer contribution rates. The resulting contributions payable by each employer are set out in Aon's report dated 29 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and employers' recovery periods were agreed with the Northern Ireland Local Government Officers' Superannuation Committee (the Committee) reflecting the employers' circumstances.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

In-service discount rate Main Employer Group funding target Intermediate funding target Orphan body funding target	 4.5% p.a. 4.5% p.a. 4.5% p.a.
Left-service discount rate Main Employer Group funding target Intermediate funding target Orphan body funding target	 4.5% p.a. 3.5% p.a. 2.5% p.a.
Rate of pay increases (service up to 31 March 2015 only) (additional allowance made for promotional increases)	3.5% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

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

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI 2014) Core Projections with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting assumed life expectancies at age 65 were:

	Men	**Women**
Current pensioners aged 65 at the valuation date	23.1	25.7
Future pensioners aged 45 at the valuation date	25.3	28.0

The assets were valued at market value.

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

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 29 March 2017. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 68 of the Local Government Pension Scheme Regulations (Northern Ireland) 2014.

8. Since the date the valuation report was signed, HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, has made an announcement to extend the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off before the announcement, but the increase in liability is not expected to be material.

9. This Statement has been prepared by the current Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

   This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

   Aon does not accept any responsibility or liability to any party other than the Committee in respect of this Statement.

10. The report on the actuarial valuation as at 31 March 2016 is available on the Fund's website at the following address: https://www.nilgosc.org.uk/resources/category/21/valuation-reports.aspx

Aon Hewitt Limited
1 May 2018

APPENDICES

ANNUAL EQUALITY STATEMENT YEAR ENDED 31 MARCH 2018

NILGOSC's Equality Scheme states that it will report on the progress it has made in the delivery of its Section 75 statutory duties.

Our Commitment

NILGOSC re-affirms its commitment to the fulfilment of its duties under Section 75 of the Northern Ireland Act 1998 in that it will have due regard to the need to promote equality of opportunity:

- Between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- Between men and women generally;
- Between persons with a disability and persons without; and,
- Between persons with dependants and persons without.

In addition, without prejudice to its obligations above, NILGOSC shall, in carrying out its functions, have regard to the desirability of promoting good relations between persons of different religious belief, political opinion or racial group.

Promotion of Equality of Opportunity

NILGOSC has demonstrated its commitment to the promotion of equality of opportunity during 2017/18 and the equality agenda continues to be promoted and supported by the most senior levels of the organisation.

The NILGOSC Corporate Plan for 2017/18 included objectives relating to equality and good relations. The Senior Management Team has monitored the implementation of these objectives on a quarterly basis.

Implementation of the Equality Scheme

NILGOSC carried out a review of effectiveness in implementing the arrangements under its approved Equality Scheme in late 2016. A summary report was produced outlining the results of the findings, and the Equality Scheme was updated for minor changes and published in December 2016. Subsequently, the updated Scheme was issued for a 12 week consultation on 9 March 2017. No changes were required as a result of the consultation.

NILGOSC carried out its duties in relation to the Equality Scheme throughout 2017/18 to ensure that its policies and procedures are fair and lawful. A number of the actions set out in the Equality Action Plan 2015-2018 were further progressed during the year, as set out below:

- Since 2015, NILGOSC enrols all staff onto a CPD accredited e-learning course entitled "Equality and Diversity in the Northern Ireland Workplace". This course continues to be completed by all staff on an annual basis and any new staff as part of the induction process. All Committee members have also completed the course.

- Following a period of consultation, a new Shared Parental Leave Policy was issued to all staff October 2017.

- New and revised job descriptions have continued to be updated to reflect equality duties forming part of the responsibilities of posts.

- An accessibility audit of NILGOSC's premises was completed in September 2016. Recommendations are currently being included as part of a phased refurbishment at the premises.

- Following on from the data gathered as part of the Audit of Inequalities, recruitment advertising continues to target underrepresented groups by welcoming applications from males, people with disabilities and Roman Catholics.

- An Alternative Communications leaflet is included in correspondence issued to new members and alongside retirement claim forms. The leaflet includes headline information in alternative formats and languages. During the year ended 31 March 2018, 86 communications were issued in an alternative format at the request of members. There are 57 individuals who have requested to receive communications from NILGOSC in alternative formats on a routine basis.

During the year, NILGOSC undertook an Audit of Inequalities to identify any inequalities that exist for those affected by the functions and policies of the pension scheme. This was completed in February 2018 and the results were used to inform NILGOSC's Equality Scheme Action Plan for 2018 to 2021.

In line with its Equality Scheme, NILGOSC carried out screening of any new or revised policies for equality impacts during 2017/18 and published quarterly screening reports on the website. No equality complaints were received during the year.

NILGOSC continues to provide its publications in alternative formats on request.

Those who require further information about the NILGOSC Equality Scheme or would prefer to receive this document in an alternative format (such as in large print, in Braille, on audio cassette or on computer disc) and/or language, please contact the Equality Officer at:

Address: NILGOSC, Templeton House, 411 Holywood Road, Belfast, BT4 2LP

Telephone:	0345 3197 320
Typetalk:	18001 0345 3197 320 (for people using a textphone)
Fax:	0345 3197 321
Email:	equality@nilgosc.org.uk

Copies of the Equality Scheme and this Annual Equality Statement are also available on the Internet at www.nilgosc.org.uk/equality-scheme.

ANNUAL REPORT OF THE AUDIT AND RISK ASSURANCE COMMITTEE FOR YEAR ENDED 31 MARCH 2018

1 Purpose

1.1 The purpose of this report is to provide the Management Committee with an annual report on the activity of the Audit & Risk Assurance Committee during the year ended 31 March 2018.

1.2 This report provides a summary of the main areas and issues considered by the Audit & Risk Assurance Committee during 2017/18.

2 Constitution of the Audit & Risk Assurance Committee

2.1 The Management Committee established an Audit & Risk Assurance Committee to act in an advisory capacity.

2.2 There were no membership changes to the Audit & Risk Assurance Committee during the 2017/18 period. The terms of appointment for four members and the Chairperson of the Management Committee were due to expire in the first quarter of 2017/18. Due to there being no Minister in office to make public appointments, the recruitment process was suspended and the terms of appointment for the relevant members was extended to 30 June 2018. As at 31 March 2018, there were five members of the Audit & Risk Assurance Committee.

2.3 The Audit & Risk Assurance Committee is charged with advising the Management Committee on:

- the strategic processes for risk, control and governance, and the Governance Statement.
- the accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of errors identified, and management's letter of representation to the external auditors.
- the planned activity and results of both internal and external audits.
- the adequacy of management responses to issues identified by audit activity, including external audit's management letter.
- assurances relating to the corporate governance requirements for the organisation.
- proposals for tendering for Internal Audit services.
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

2.4 Other individuals also regularly attend the meetings of the Audit & Risk Assurance Committee including NILGOSC's Executive Team, the Finance Manager, the Head of Governance & Support Services, the Governance Manager, the Internal and External Auditors and a Departmental representative.

2.5 Following each meeting, the Chairperson of the Audit & Risk Assurance Committee provides a verbal report to the Management Committee, providing an overview of the discussions and highlighting any issues that are considered to be significant. Minutes of the Audit & Risk Assurance Committee meetings are also circulated to members of the Management Committee following approval.

3 Financial Reporting

3.1 In June 2017, the ARAC discussed the reasonableness of the financial assumptions applied by Aon Hewitt in the production of NILGOSC's IAS 19 Report for the 2016/17 Annual Reports and Accounts. The ARAC noted the actuarial assumptions applied by the actuary for NILGOSC's IAS 19 report.

3.2 The Annual Report and Accounts 2016/17 were prepared in line with changes to the FReM and relevant accounting guidance. This was presented to the Audit & Risk Assurance Committee on 4 August 2017. In line with DAO (DFP) 10/12 'Requirement to Complete a Governance Statement', the Chief Executive prepared his Governance Statement for 2016/17, which was considered and endorsed by the Audit & Risk Assurance Committee for inclusion in the 2016/17 Annual Report.

3.3 In addition to the Governance Statement, the Annual Report 2016/17 also included the Annual Report of the Audit & Risk Assurance Committee. On the recommendation of the Audit & Risk Assurance Committee, the Annual Report 2016/17 was approved by the Management Committee at its meeting on 22 August 2017 and laid before the Assembly on 5 September 2017.

4 External Audit

4.1 As a non-departmental public body, NILGOSC is required to use the Local Government Auditor for the provision of its external audit service. The Local Government Auditor within the Northern Ireland Audit Office (NIAO) has appointed KPMG to provide the external audit function on its behalf but retains responsibility for signing the audit report and providing an annual opinion.

4.2 The NIAO presented its Report to Those Charged with Governance for 2016/17 (RTTCWG) to the Audit & Risk Assurance Committee on 4 August 2017.

4.3 The External Auditor advised the Audit & Risk Assurance Committee that there were no significant issues identified as a result of the audit. Two misstatements were identified during the audit which had been adjusted for in the financial statements. Subject to minor amendments in the narrative and final review, the opinion of the External Auditor was that the financial statements had been properly prepared and provided a true and fair statement of NILGOSC's affairs as at 31 March 2017.

4.4 The External Auditor highlighted one issue identified in relation to establishing a formal methodology for valuation of non-traded investments, to ensure fair values are determined in accordance with IFRS 13. However, this had not resulted in any material adjustments to the accounts being required and management agreed to develop a formal methodology for the 2017/18 financial year.

4.5 The Local Government Auditor issued a clean audit opinion for the year ended 31 March 2017. There were no significant issues reported in the 2016/17 RTTCWG.

4.6 The Local Government Auditor presented its Audit Strategy 2017/18 to the Audit & Risk Assurance Committee at its meeting on 5 February 2018, which was subsequently approved.

5 Internal Audit

5.1 The internal audit service contract was due to expire after a three year period to 31 March 2018. As there were no issues with the service provision during the contract term and no change to the daily rate, NILGOSC chose to avail of the contract extension period and extended the contract with ASM by two years to 31 March 2020. This was approved by the ARAC at its meeting on 5 February 2018.

5.2 The Internal Auditor presented the final audit plan for 2017/18 to the Audit & Risk Assurance Committee on 5 June 2017.

5.3 The internal audit reviews conducted during 2017/18 and the assurance opinion provided in respect of each is set out in the following table:

Review	Assurance Opinion
Staff payroll, travel and subsistence and Committee members' expenses	Satisfactory
Pension Administration	Satisfactory
Business Continuity and Disaster Recovery planning	Satisfactory
Human Resource Management	Satisfactory
Corporate Governance	Satisfactory
Pensions Development	Satisfactory

5.4 'Satisfactory' is the highest level of assurance that can be provided and the Audit & Risk Assurance Committee was pleased to note that this had been achieved in all areas and that no significant issues were identified as a result of any of the internal audit reviews undertaken during 2017/18.

5.5 The Audit & Risk Assurance Committee receives bi-annual reports on the progress against implementation of Internal Audit recommendations. These reports were provided in August 2017 and February 2018 and the Audit & Risk Assurance Committee noted that good progress that had been made during 2017/18.

5.6 In their Annual Assurance Report, the Internal Auditors stated that, during the twelve month period ended 31 March 2018, NILGOSC's systems in relation to risk management, control and governance were adequate and operated effectively, thereby providing satisfactory assurance in relation to the effective and efficient achievement of NILGOSC's objectives.

5.7 The Internal Auditor did not consider there to be any significant control issues relevant to the preparation of the Governance Statement for the year ended 31 March 2018.

6 Risk, Control and Governance

6.1 During the annual review of the risk register in May 2017, the risk register was extensively reviewed. No new risks were identified as a result of the review however some amendments were made to the register including risk scores and control measures. There were no new risks added to the register, however one risk was removed as it was no longer required. The Audit & Risk Assurance Committee reviewed the risk register 2017/18 and approved the content.

6.2 A quarterly report is also presented to the Audit & Risk Assurance Committee summarising the operation of the risk management process. This report includes any significant control issues identified during the quarter together with any proposed changes to the risk register. It also incorporates the review of risks, in line with significant changes in the external environment, including the potential impact of UK voting to leave the EU and increased cyber threat. The quarterly reports provide the Audit & Risk Assurance Committee with assurance that the risk management process is operating effectively and that any internal control weaknesses or irregularities are promptly and adequately addressed. The reports including any approved changes are presented to the Management Committee following review by the Audit & Risk Assurance Committee.

6.3 The quarterly risk reviews and subsequent reports provided during 2017/18 resulted in an increase in the net risk score of one risk on the risk register and decrease in the net score of one risk. The changes to the risk register were all approved by the Audit & Risk Assurance Committee.

6.4 The Department for Communities (the Department) requires NILGOSC to regularly complete Departmental Assurance Statements to provide assurance that sound systems of internal control and governance are in place, that key risks are being managed and to highlight any significant issues. These six monthly Statements were reviewed by the Audit & Risk Assurance Committee at its meetings on 5 June 2017 and 20 November 2017 before consideration by the Management Committee and sign off by the Chairperson.

7 Fraud and Whistleblowing

7.1 During 2017/18, there was one case of attempted cyber fraud in the form of emails from an unknown perpetrator. There was one other case of suspected fraud in relation to pension payroll identified and reported during the year ended 31 March 2018. This suspected fraud resulted in a write-off of £11.7k loss, which was approved by the Management Committee in January 2018. There were no instances of whistleblowing reported during 2017/18.

7.2 In June 2017, the Whistleblowing Policy was revised in line with best practice and correspondence on Whistleblowing investigations received by the Department. The ARAC approved the Policy, which was then approved by the Management Committee.

7.3 Any cases of fraud are reported to the Audit & Risk Assurance Committee through a quarterly Fraud and Whistleblowing Report, presented at each meeting. This report also provides an update on progress against the investigation of matches identified through data matching exercises with the National Fraud Initiative and the General Register Office for Northern Ireland. It also includes any cases that have been reported through NILGOSC's Whistleblowing Policy.

7.4 The Department of Finance issued DAO 04/17 "Managing the Risk of Bribery and Corruption: A Good Practice for the Northern Ireland Public Sector" in November 2017. This was reviewed against the Anti-Bribery Policy and presented to the Audit & Risk Assurance Committee on 5 February 2018. A review of how the risk of bribery and corruption is considered in investment and property transactions will be undertaken during 2018/19.

8 Other

8.1 In August 2017, the ARAC noted the contents of the DAO 02/17 issued by the Department of Finance, which highlighted minor changes to the Public Sector Internal Audit Standards.

8.2 The Terms of Reference for the Audit & Risk Assurance Committee are reviewed annually. The scope and content of the Terms of Reference were reviewed to ensure compliance with best practice as set out in the Department of Finance's Audit and Risk Assurance Committee Handbook (NI). The NI Handbook is based on HM Treasury's Audit and Risk Assurance Committee Handbook which was updated in March 2016 to include additional guidance on whistleblowing and cyber security, including the role of the Audit & Risk Assurance Committee in these areas. The amendment to the Terms of Reference was minor, mainly to reflect the inclusion of a reference to the attendance of the Departmental Representative at meetings. At its meeting on 20 November 2017, the Audit & Risk Assurance Committee reviewed and considered the changes made to the Terms of Reference since the last review in November 2016 and was content to recommend them to the Management Committee for approval. The approved Terms of Reference are available to view on NILGOSC's website.

8.3 A Departmental representative was in attendance at all four Audit & Risk Assurance Committee meetings held in 2017/18.

9 Effectiveness of the Audit & Risk Assurance Committee

9.1 The Audit & Risk Assurance Committee met four times during 2017/18 in accordance with the planned work programme.

9.2 The following table sets out the attendance record for 2017/18:

Member	Meetings Called	Meetings Attended	Attendance %
Bumper Graham	4	3	75%
Linda Neilan	4	3	75%
Joan McCaffrey	4	4	100%
Tom Irvine	4	4	100%
Lindsay Todd	4	4	100%

9.3 Under its Terms of Reference, the Audit & Risk Assurance Committee is required to periodically review its own effectiveness and report the results of that review to the Committee. In accordance with best practice, the Audit & Risk Assurance Committee adopted and tailored the National Audit Office (NAO) 'Self-Assessment Checklist' published in January 2012 to assist in undertaking this review.

9.4 The Audit & Risk Assurance Committee met on 8 May 2018 to discuss the questions on the checklist and review its effectiveness for the reporting period 1 April 2017 to 31 March 2018. The outcome of the assessment demonstrated that the Audit & Risk Assurance Committee operated effectively during the reporting period and is compliant with the five good practice principles set out in the checklist.

9.5 Following the 2017/18 review of effectiveness, no significant issues were identified but some follow-up actions were agreed. Some of these have already been actioned, including confirmation on the effectiveness of the relationship between internal and external audit. Any outstanding actions will be implemented in the coming year. One of the actions arising from the review of effectiveness in 2016/17 was that the Chairperson of the Audit & Risk Assurance Committee would discuss the required rotation period for the members of that Committee with the Chair of the Management Committee. It was also agreed that the composition of the Audit & Risk Assurance Committee and experience of the new Chairperson should be reviewed prior to appointment of the new members. However, as noted earlier in this report, the absence of a Minister delayed the recruitment and appointment of new Committee Members. Therefore these actions have been carried forward pending appointment of a new Chairperson. Any outstanding actions from 2017/18 will be implemented during the coming year.

10 Opinion

10.1 Based on the assurances and information provided during the year ended 31 March 2018, the Audit & Risk Assurance Committee is satisfied that the Management Committee can rely on the risk management, internal control and corporate governance arrangements currently in operation.

EMPLOYING AUTHORITIES CONTRIBUTING TO THE SCHEME AT 31 MARCH 2018

Councils

Antrim and Newtownabbey Borough Council
Ards and North Down Borough Council
Armagh, Banbridge and Craigavon District Council
Belfast City Council
Causeway Coast and Glens District Council
Derry City and Strabane District Council
Fermanagh and Omagh District Council
Lisburn and Castlereagh City Council
Mid and East Antrim District Council
Mid Ulster District Council
Newry, Mourne and Down District Council

Education and Library Authorities

Education Authority
Libraries NI

Restricted Membership

Alpha Housing Association
Amey Community Limited
Apex Housing
Capita Managed IT Solutions Limited
Choice Housing Ireland Limited
Citizens' Advice Bureau
City of Derry Airport
Graham Asset Management
HSG Zander Ireland Facilities Services Limited
Mourne Heritage Trust
Northern Community Leisure Trust
Northern Community Leisure Trust 2
Radius Housing Association
South Ulster Housing Association Limited

Associated Bodies

Arc21 Joint Committee
Ark Housing Association Northern Ireland Limited
Armagh Observatory
Armagh Planetarium
Arts Council of Northern Ireland
Belfast Charitable Society
Belfast Visitor & Convention Bureau
Belfast Waterfront and Ulster Hall Limited
Citybus Limited
Coleraine Harbour Commissioners
Comhairle Na Gaelscolaiochta
Community Relations Council
Connswater Homes Limited
Construction Industry Training Board
Controlled Schools Support Council
Council for Catholic Maintained Schools
Council for the Curriculum, Examinations and Assessment
Covenanter Residential Association Limited
Derry Visitor and Convention Bureau

General Teaching Council for Northern Ireland
Greenwich Leisure Limited
Grove Housing Association Limited
Habinteg Housing Association (Ulster) Limited
Linen Hall Library
Livestock & Meat Commission for Northern Ireland
Local Government Staff Commission
Middletown Centre for Autism
Millennium Forum
Newington Housing Association (1975) Limited
North Belfast Housing Association
Northern Ireland Co-Ownership Housing Association Limited
Northern Ireland Council for Integrated Education
Northern Ireland Federation of Housing Associations
Northern Ireland Fire & Rescue Service
Northern Ireland Fishery Harbour Authority
Northern Ireland Hospice
Northern Ireland Housing Executive
Northern Ireland Local Government Association
Northern Ireland Local Government Officers' Superannuation Committee
Northern Ireland Railway Company Limited
Northern Ireland Rural Development Council
Northern Ireland Screen
Northern Ireland Tourist Board
Northern Ireland Transport Holding Company
Outdoor Recreation (NI)
Probation Board for Northern Ireland
Rural Housing Association
Sports Council for Northern Ireland
St Matthew's Housing Association Limited
Ulsterbus Limited
Woodvale and Shankhill Housing Association

Schools and Colleges

Abbey Christian Brothers Grammar School
Acorn Integrated Primary School
Aquinas Diocesan Grammar School
Assumption Grammar School
Ballymena Academy
Bangor Grammar School
Belfast High School
Belfast Royal Academy
Blackwater Integrated College
Braidside Integrated Primary & Nursery School
Bridge Integrated Primary School
Campbell College
Cedar Integrated Primary School
Christian Brothers Grammar School
Coleraine Grammar School
Corran Integrated Primary School
Cranmore Integrated Primary School
Dalriada School
Dominican College – Belfast
Dominican College – Portstewart
Drumlins Integrated Primary School
Drumragh Integrated College
Enniskillen Integrated Primary School
Enniskillen Royal Grammar School

Erne Integrated College
Foyle and Londonderry College
Friends School
Hazelwood College
Hazelwood Integrated Primary School
Hunterhouse College
Integrated College Dungannon
Jordanstown Schools
Lagan College
Larne Grammar School
Loreto College
Loreto Grammar School
Loughview Integrated Primary School
Lumen Christi College
Maine Integrated Primary School
Malone College
Methodist College
Mill Strand Integrated Primary School
Millennium Integrated Primary School
Mount Lourdes Grammar School
New-Bridge Integrated College
North Coast Integrated College
Oakgrove Integrated College
Oakgrove Integrated Primary School
Oakwood Integrated Primary School
Omagh Integrated Primary School
Our Lady & St Patrick's College
Our Lady's Grammar School
Phoenix Integrated Primary School
Portadown Integrated Primary School
Rainey Endowed School
Rathmore Grammar School
Roe Valley Integrated Primary School
Rowandale Integrated Primary School
Royal Belfast Academical Institution
Royal School, Armagh
Royal School, Dungannon
Sacred Heart Grammar School
Saints and Scholars Integrated Primary School
Shimna Integrated College
Slemish Integrated College
Sperrin Integrated College
Spires Integrated Primary School
St Colman's College
St Columb's College
St Dominic's High School
St Joseph's Grammar School
St Louis Grammar School
St Malachy's College
St Mary's Christian Brothers
St Mary's Grammar School
St Michael's College
St Patrick's Academy
St Patrick's Grammar School
St Patrick's Grammar School, Armagh
St Ronan's College
Strangford College
Strathearn School
Sullivan Upper School

Thornhill College
Ulidia Integrated College
Victoria College
Wallace High School
Windmill Integrated Primary School

Further and Higher Education Colleges and Universities

Belfast Metropolitan College
North West Regional College
Northern Regional College
South Eastern Regional College
South West College
Southern Regional College
St Mary's University College
Stranmillis University College
University of Ulster

GLOSSARY

The following is a glossary of pension terms used throughout this annual report and accounts:

TERM	DEFINITION
Accrual rate	This is the rate at which pension benefits build up for the member e.g. 1/49th times pensionable pay for each year of membership.
Active Member	Current member of the pension scheme who is building up retirement benefits from their present job.
Active Management	A style of investment management whereby the manager seeks to add value to the fund by actively buying and selling shares.
Actuary	Expert on pension scheme assets, liabilities, life expectancy and probabilities. An actuary works out whether enough money is being paid into a pension scheme to pay the pensions when they are due.
Actuarial Valuation	An assessment performed by an actuary, usually every three years, to determine how much money needs to be put into a pension scheme to ensure that there are sufficient funds available to meet future pension payments.
Additional Voluntary Contributions (AVCs)	Contributions made by an individual over and above the normal contribution level to increase the level of benefits available on retirement. These contributions are paid to an insurance company.
Asset Allocation	The decision as to which mix of assets to buy – shares, bonds, property or cash.
Automatic Enrolment	The process whereby employers must automatically enrol workers that meet specified eligibility conditions into a qualifying pension scheme. Workers have the option to opt out.
Balanced Management	A traditional approach to investment whereby a manager buys a combination of shares and bonds to provide both income and capital appreciation while avoiding excessive risk.
Benchmark	A standard against which investment performance is measured. A common benchmark is the FTSE All-Share Index which includes a large percentage of all quoted shares.
Benefit Statement	A statement showing an individual the pension benefits they have earned so far together with a forecast of what their final pension might be.
Career Average Revalued Earnings (CARE)	A defined benefit scheme in which pension benefits are based on a career average pay and length of membership in the Scheme and re-valued to retirement.
Cohabiting Partner	Couples who live together but do not marry or enter a civil partnership.
Consumer Price Index (CPI)	CPI forms the basis for the Government's inflation target. It is an index published by the Government each month reporting the change in the price of a 'basket of goods, commodities and services' and a measure of inflation within the UK. It excludes housing costs and mortgage interest payments. CPI can be used for revaluing pensions in deferment and increases to retirement income
Contributions	The money paid by an individual or his/her employer into a pension fund.
Corporate Bonds	Loan stock issued by companies which offer a fixed rate of interest paid over the duration of the loan, together with repayment on maturity at a predetermined rate.
Coupon	The nominal interest a bond will pay at each payment date.

Death Benefit	This may be paid to a member's dependants if the member dies. It may be a pension or a one–off payment.
Deferred Benefits	Benefits which are calculated at the time an individual leaves the scheme and are payable at a later date.
Deferred Member	An individual who has left the scheme but will get pension benefits when they reach their normal retirement age.
Defined Benefit Scheme	A pension scheme which states in advance the level of benefits that will be paid on retirement, usually based on the service and earnings.
Dependant	This is someone who is dependent on a member of the pension scheme (or on a pensioner of the scheme).
Eligible Child	A child is an eligible child of a deceased member if the child is wholly or mainly dependent on the member and is less than 18 years of age at the date of the member's death. If the child is continuing in full-time education, he/ she will be treated as a dependant until he/she reaches the age of 23 (or earlier if he/ she completes his/ her course of study). A child who is disabled within the meaning of the Disability Discrimination Act 1995, that is, has "a physical or mental impairment which has a substantial and long-term adverse effect on his ability to carry out normal day-to-day activities" and has a condition that is sufficiently serious to prevent him/her following a normal employment or which would seriously impair his/her earning capacity may be treated as an eligible child. It will be necessary for the child to have a medical assessment with the Committee's doctor.
Expression of wish	An expression of wish enables a member to tell NILGOSC who they would like to receive any death grant due if they die. NILGOSC does not have to follow the member's wish but will take it into account.
Final Pensionable Pay	The pensionable earnings on which the final salary benefits are calculated. This may be based on how much an individual is earning when they retire or the best pensionable earnings in the last three years.
Final Salary Scheme	A defined benefit scheme where the pension benefits paid on retirement are based on how much an individual is earning when they retire.
Fund Manager	A professional manager of investments often employed by a pension scheme to manage assets on their behalf.
Gilts	Bonds issued by the Government.
Ill–health retirement	If a member meets the qualifying criteria for ill-heath retirement, their benefits will be brought into payment early. Active members receive enhanced pension benefits, depending on the severity of their medical condition.
Index	In the stock market, an index is a device that measures changes in the prices of a basket of shares, and represents the changes using a single figure. The purpose is to give investors an easy way to see the general direction of Shares in the index.
Index Linked Gilts	A type of bond where the interest payment is guaranteed to rise in line with the Retail Prices Index.
Index Tracking Fund	Investments are made to match closely the performance of a market index such as the FTSE All-Share Index. It does not aim to outperform the market like active management does.
Inflation	The general rate of increase in prices and wages over a period of time.
Occupational Pension Scheme	A pension scheme established by an employer to provide pension benefits to its employees on their retirement.

Opting Out	This is when an employee leaves a pension scheme or chooses not to join one. Under automatic enrolment you must be signed up to the Scheme before you can opt out. If you opt out within three months of joining you are entitled to a refund of contributions; an opt-out after three months of joining entitles you to deferred pension benefits payable from your normal retirement age.
Passive Management	A style of investment management where no active management is required, instead investments are made in line with an index.
Pension	A regular income paid to an individual on their retirement.
Pensions Increase	In April each year NILGOSC increases pensions to reflect rises in the cost of living.
Pensionable pay	These are the earnings used to work out a member's benefits and contributions. They might not include overtime.
Pensionable Service	The period of employment that is taken into account when calculating final salary pension benefits.
Retail Prices Index (RPI)	An index published by the Government each month reporting the change in the price of a 'basket of goods, commodities and services' and is the accepted measure of inflation within the UK. This is a slightly different 'basket of goods, commodities and services' from those used to calculate CPI as it includes housing costs such as mortgage interest payments. RPI can be used for revaluing pensions in deferment and increases to retirement income.
Revaluation	In April each year NILGOSC will apply CARE revaluation in accordance with the Public Service Pensions Revaluation (Prices) Order (Northern Ireland).
Rule of 85	The Rule of 85 refers to a provision of the Scheme which allowed members who retired early to take their pension entitlements without penalty if the sum of their age and length of membership equalled 85 years or more. This rule was abolished on 1st October 2006 however members who joined before this have some protections: - All existing members at 30 September 2006 are protected until 31 March 2008 i.e. the benefits you accrue up to 31 March 2008 will be protected under the 85 year rule. - Those existing members at 30 September 2006 who will be 60 or over and meet the 85 year rule by 31 March 2016 are fully protected i.e. the benefits you accrue up to 31 March 2016 will be protected under the 85 year rule. - Those existing members at 30 September 2006 who will be 60 or over and meet the 85 year rule between 1 April 2016 and 31 March 2020 will have full 85 year rule protection to 31 March 2008 and have some 85 year rule protection, on a sliding scale, to 31 March 2020.
Securities	A general name for shares, stocks and bonds issued to investors.
Shares	Sold by companies looking to raise money. Shares give the holders an interest in the company and a right to share in the profits.

State Pension Age	This is the age people normally start getting the basic state pension. From April 2010, the age at which women become entitled to State Pension will gradually increase, to reach 65 by November 2018, bringing it into line with State Pension Age for men. State pension age is then to increase to age 66 by October 2020, age 67 between 2026 and 2028 and to age 68 between 2044 and 2046. The Pensions Act 2014 provides for a regular review of the State Pension Age, at least once every five years. The first review was published in July 2017 and proposes a new timetable for the rise to 68. It proposes that the State Pension Age will increase to 68 between 2037 and 2039. Any proposals will need to go through Parliament before becoming law.
Stock Selection	The process of selecting which individual shares and bonds to buy and sell.
Superannuation	A term used to describe contributions made to a pension scheme, particularly in the public sector.
Transfer Value	The value of an individual's pension rights which may be transferred, subject to conditions, to another pension scheme to provide alternative benefits if they have left the Local Government Pension Scheme.

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