



# ANNUAL REPORT 2016/2017

NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS'  
SUPERANNUATION COMMITTEE



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# ANNUAL REPORT

## 2016/2017

NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS'  
SUPERANNUATION COMMITTEE

NILGOSC Annual Report and Accounts  
For the Year Ended 31 March 2017

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

5 September 2017

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# FOREWORD

## 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. Prior to May 2016 NILGOSC's sponsor department was the Department of the Environment.

In accordance with Regulation 63(2) of the Local Government Pension Scheme Regulations (Northern Ireland) 2014, as amended, the Committee submits its annual report for the year ended 31 March 2017 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 2017.

### 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 2017 NILGOSC paid 1,219 invoices totalling £20.255m on 10 day terms, of which 96 undisputed invoices were late. 96% 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 8 working days (2015/16: 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 2017. 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**

After a year of significant change in public sector pensions, 2016/17 saw a return to new levels of normality for the Local Government Pension Scheme (LGPS) and for NILGOSC. The changes that were introduced as part of the new Career Average Revalued Earnings (CARE) scheme, which came into effect on 1 April 2015, brought with it a number of administration challenges for the LGPS sector as a whole. 2016/17 saw the first full cycle of annual reporting and the issuance of benefit statements under the new regime. Notwithstanding this, NILGOSC continued its focus on business as usual and we are delighted to report on a number of administration and investment successes achieved during 2016/17.

### Investment Performance

While the key global events of 2016, including the Brexit vote and the result of the US election, created significant volatility in global financial markets, NILGOSC continued

its focus on longer term investment returns. Despite the on-going volatility, the NILGOSC Fund continued to grow during 2016/17 and ended the year a record high of £7.083bn, which is the first time in its history that the Fund has reached £7bn. As a pension scheme with benefits payable far into the future, NILGOSC's investment horizon is much longer than many investors and as a result it is not unduly concerned with short term events and volatility. In 2016/17 NILGOSC outperformed its investment target of Consumer Price Index + 5%, with an overall fund return for the year of 21.73%. The continued strong run of equity markets, aided in part by a weaker sterling after the Brexit vote, made a significant contribution to the Fund's outperformance for the year. The UK economy proved to be more resilient following the Brexit vote than many thought, with economic conditions improving across many regions, including an optimism boost to the US economy following the US election in November 2016. While equities delivered double digit returns across the board, bond and property markets also delivered positive returns during the twelve months ended 31 March 2017. Active stewardship of the investment portfolio remained a key priority in 2016/17 with all 9 investment managers being held to account over the management of their respective funds. Following a decision to withdraw a global equity mandate from one of its underperforming active global equity managers in late 2015, Unigestion was appointed in September 2016 to manage a replacement £327m global equity portfolio. Also in September 2016 NILGOSC made a £100m commitment to the M&G UK Residential Property Fund, which is expected to draw down in the latter half of 2017. This latter commitment forms part of NILGOSC's medium term strategy to reduce reliance on global equity markets and diversify its returns by investing in assets that provide longer term, stable and inflation-linked cashflows. Also, as part of this diversification strategy, NILGOSC invested a further £27m in global infrastructure, bringing the total investments in alternative assets to 1% by 31 March 2017.

Collaboration is one of NILGOSC's six strategic themes and 2016 saw NILGOSC work together with another large UK LGPS on infrastructure investments to help achieve the mutual benefits of scale investing, including improved commercial terms, reduced costs and shared advisory costs.

Whilst the primary investment focus remains on delivering stable and positive financial returns for scheme members and employers, NILGOSC continues to take its responsibilities as a global investor seriously. Details on NILGOSC's responsible investment activities

can be found in the Investment of the Fund section of this Annual Report however it is worth mentioning that during the year the Financial Reporting Council classified NILGOSC as a Tier 1 organisation in respect of its responsible investment stewardship activities. NILGOSC is delighted with this assessment as asset owners ranked as Tier 1 are considered to provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.

## Scheme Administration

Following the first full year of operation of the new CARE scheme, 2016/17 saw the focus return to service delivery and to the achievement of in-house and external service standards. The implementation of the new scheme had a material impact on NILGOSC as the scheme administrator as well as scheme members, employers and third party providers and, like many of its LGPS peers, NILGOSC experienced a dip in performance standards. As a result of previous work prioritisation decisions, 2016/17 commenced with a backlog of non-time critical tasks. Considerable efforts were made on the administration side during the past twelve months to eliminate the backlog and the wider NILGOSC team has worked hard to provide the high quality, individual level of service that our stakeholders have come to expect. It is therefore pleasing to note the general improvement in service standards achieved in 2016/17.

The profile of the pensions industry has changed significantly in recent years and pension schemes are seeing an increase in member awareness and engagement. This is great news for NILGOSC, who is constantly reviewing its style of communication and delivery methods to ensure that they are fit for purpose and meet members' need. We are therefore delighted with the results of the annual satisfaction survey undertaken in May 2017 which shows that 87% of respondents rated their overall satisfaction with the service they received as being good or excellent.

Public sector reform in Northern Ireland continued to impact on demand in 2016/17 as many employing authorities within the NILGOSC scheme have implemented voluntary exit schemes. During 2016/17 NILGOSC processed over 1,903 requests for quotations and 673 retirement benefits as a result of early exits alone. We expect this trend to continue into 2017/18 and the project team established in May 2015 remains in place to meet this extra demand.

Following the UK Government's decision to end contracting out with effect from April 2016, all pension schemes are required to reconcile the Guaranteed Minimum Pension (GMP) data that they hold with that held by HMRC by October 2018. 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. From a starting point of 19,200 potential discrepancies, the team had resolved 12,363 cases by 31 March 2017 and is on target to complete the exercise in line with HMRC's deadline.

## 2016 Valuation

2016 was a valuation year for NILGOSC and 2016/17 saw the completion of the formal triennial actuarial valuation of the Fund. The Scheme Actuary has determined that NILGOSC is 96% funded as at 31 March 2016, an improvement on the previous funding level of 91% as at 31 March 2013. As part of the valuation, the Actuary also determines the contribution rates payable by employers for the three years ahead. Further details on funding position and contribution rates payable can be found in the Performance Analysis.

Scheme sustainability is another strategic theme and in 2016/17 NILGOSC undertook its second review of employer covenants to inform the valuation process.

The main purpose of this review was to help identify those scheme employers who have a greater risk of default in respect of current and/or future pension liabilities and to take action to help mitigate the risk that these liabilities ultimately fall to other scheme employers.

## Pensions Environment

NILGOSC continued to be an active contributor to the pensions environment during the year. In August we invited John Cridland, the Government's Reviewer of the State Pension Age to Belfast to hear the views of all interested parties in Northern Ireland including age-related charities, trade unions, employers, and pension schemes. In December we hosted a visit from one of the world's largest investors, the National Committee for Social Security Fund of China, to share investment knowledge. In April 2017 we hosted a conference for all of the Public Service



NILGOSC wins the LGC Knowledge and Skills Award 2016



Hosting a visit from the National Committee for Social Security Fund of China



NILGOSC wins LAPF Investment's Best ESG Strategy Award

pension schemes in Northern Ireland to assist with the training of pension board members.

I am also delighted to report that we received the LAPF Investments Best ESG Strategy 2016 and the LGC Knowledge & Skills Award 2016.

### Looking Forward

It will be business as usual for NILGOSC in 2017/18 and key areas of focus include service delivery, communication and engagement with stakeholders. As members become more aware of their pension provision NILGOSC will be exploring new methods of service delivery including the planned introduction of an on-line self-service facility for members. On the investment side, following on from the outcome of the 2016 valuation, NILGOSC will be formally reviewing its investment strategy in the autumn of 2017 to help deliver sound risk adjusted returns in the medium to long term. As noted above, the voluntary exit scheme and GMP projects will also carry forward into 2017/18.

### Thanks

Finally I would like to express my gratitude to the members of the Management Committee and the staff of NILGOSC whose dedication and hard work has made it possible for us to report on another successful year, with 95% 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

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.

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:

<b>Aim 1</b>	To provide an effective service complying with the pension scheme regulations, good practice, other legislation and stakeholder expectations.
<b>Aim 2</b>	To deliver an effective investment strategy in line with the actuarial profile of the fund.
<b>Aim 3</b>	To promote the scheme and inform members and employers of their pension options.
<b>Aim 4</b>	To influence and inform the debate on the future of the Local Government Pension Scheme.
<b>Aim 5</b>	To undertake business in an efficient, effective and accountable manner as required of a public body.
<b>Aim 6</b>	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 12 to 45.

## (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 achieved or substantially achieved 95% of operational actions set out in its business plan for 2016/17. NILGOSC provides a frontline service to its members and pensioners and prides itself on providing a high quality service to all its stakeholders. The new Career Average Revalued Earnings (CARE) scheme, which came into effect on 1 April 2015, brought with it a number of administration challenges for the LGPS sector as a whole and the first half of 2016/17 saw the first full cycle of annual reporting and the issuance of benefit statements under the new regime. Despite this, there was only one administration service standard where performance fell significantly behind target during 2016/17. Following the implementation of the new CARE scheme, a number of work prioritisation decisions were taken to ensure that those actions involving the payment of benefits were given priority. The one action behind target related to the provision of option choices to members leaving the scheme. This service is a non-payment related action and accordingly performance for this specific action fell short of the normal service standard for the year ended 31 March 2017.

NILGOSC is a member demand led organisation and the implementation of Freedom and Choice by the Government and the continued roll out of early exit schemes across the public sector in Northern Ireland both led to a significant increase in work volumes on the pension administration side. The administration of benefits arising from public sector early exit schemes can skew demand as requests can be both high in volume and short in turnaround time, creating a challenge to effective resource management. Many of the employing authorities in the NILGOSC scheme have been, or will be, affected by the implementation of reform within the Local Government, Education and wider public sectors. From NILGOSC's perspective,

this manifests itself by way of a significant increase in demand for early retirement quotation requests, retirement and redundancy benefits payable and the operation of these early exit schemes is expected to continue into 2017/18.

Policy decisions and legislative change at a local and wider sector level can have a material impact on NILGOSC's ability to deliver against objectives and service standards, particularly when change is significant or introduced with little or no lead-in time. For example, the introduction of Freedom and Choice legislation brought with it an increase in member queries and a corresponding increase in checks and confirmations required for members seeking to transfer out of the LGPS. A further external challenge was provided following unexpected changes to the SCAPE discount rate announced in the 2016 Budget, which meant that any transfer related calculations with a relevant date on or after 16 March 2016 had to be suspended until updated guidance and GAD factors were issued. Software programming delays and a temporary increase in the need for manual intervention for certain processes as a result of these and similar regulatory changes can and did impact on NILGOSC's service delivery during 2016/17.

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.

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. Changes in technology continue to move at a pace and stakeholders of today expect to have convenient access to their data and services. In December 2016, NILGOSC signed a new contract with its pension administration software provider which includes a number of additional software modules that have the potential to revolutionise how information is exchanged and services are delivered in the future. This includes the introduction of a 24/7 online direct access facility for members as well as an integrated data submission and exchange facility for scheme employers. While the primary beneficiary is the

member, through enhanced service delivery options, technology also offers potential financial benefits to NILGOSC through reduced administration costs including postage and printing expenditure.

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.

Public sector reform and financial constraint remain a challenge for both scheme employers and NILGOSC alike. Both issues have material implications for service delivery demands, membership and funding levels as well as employer stability and strength. As part of its triennial valuation process, NILGOSC undertook a review of its employers' covenant strength in mid-2016 to help manage and mitigate the risk of employer default. Many public bodies continue to experience budget cuts or freezes and a consequence of this is that the long term financial position of some scheme employers is less certain than before. A small number of employers entered administration in 2016/17, leaving behind a shortfall that had to be picked up by the Fund. Scheme affordability remains high on NILGOSC's agenda but alongside this sits a responsibility to ensure that the fund and its employers remain adequately protected against the risk of employer default.

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. Whilst the 2016 valuation showed that the overall funding position had improved to 96%, the management of the remaining deficit remains a challenge, particularly in times of static or declining employer payrolls. To mitigate this risk, NILGOSC has implemented a new approach to collecting deficit recovery contributions from employers with effect from April 2017.

## (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 12 to 45 in the Performance Analysis section of the Annual Report.

### Administration of the Scheme

- Membership of the Scheme continued to grow during the year with 118,794 contributing members, pensioners and deferred pensioners at 31 March 2017.
- Three new employing authorities were admitted to the scheme during 2016/17 and five employing authorities ceased during the year. At the year-end there were 176 bodies contributing to the Scheme.
- Employer contribution rates remained at 20% in line with the rates set by the actuary at the triennial valuation as at 31 March 2013.
- There was no increase to Scheme pensions in April 2016 as the September to September change in the Consumer Price Index was -0.1%. No Pensions Increase (Review) Order was made in 2016 and as pensions cannot be reduced, a zero increase was applied.
- A formal triennial actuarial valuation of the Fund was completed during 2016/17 which determined that the pension scheme was 96% funded as at 31 March 2016, an improvement on the previous funding level of 91% as at 31 March 2013. Contribution rates payable by employers for the three years ahead were also determined.
- NILGOSC met nine out of its fifteen service standards during 2016/17 which is an improvement on the previous year.
- A stakeholder satisfaction survey was undertaken in May 2017 to measure the satisfaction levels of Scheme members, pensioners and employers. The total satisfaction rating for the year was 87% (2015/16: 88%).
- NILGOSC achieved or substantially achieved 76 out of the 80 operational actions included in its 2015/16 Corporate Plan. This equates to an achievement rate of 95%.
- During the year ended 31 March 2017 NILGOSC received a total of 42 ill-health retirement appeals, 12 formal complaints and 19 informal complaints.

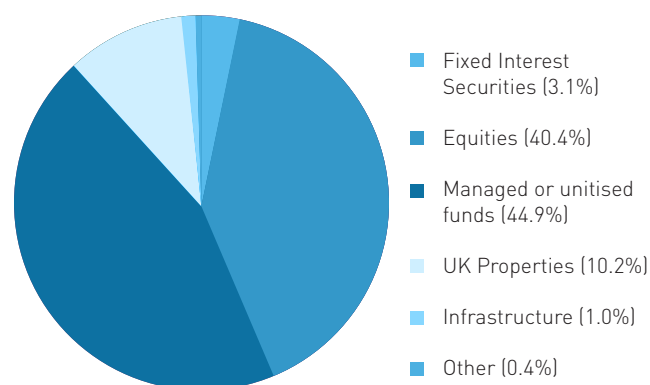
## Investment of the Fund

- The value of the Fund increased by £1.263bn to £7.083bn during the year ended 31 March 2017.
- The overall return on total assets for the year was 21.73% (2015/16: -0.4%), which was ahead of the Fund's investment target of CPI+5%. The comparable investment returns on a 3 and 5 year basis are as follows:

	3 Years	5 Years
NILGOSC	11.8%	11.6%
CPI + 5%	5.9%	6.5%

- Equities delivered double digit returns across the board and bonds and property markets delivered positive returns during the 12 months to 31 March 2017.
- Global political events and market volatility impacted shorter term returns during 2016/17. Six out of ten investment portfolios outperformed their respective market index, with only one portfolio exceeding its performance target for the year.
- The Fund is invested across a range of different asset classes as shown in the diagram below:

## Fund Asset Allocation at 31 March 2017



- Following a decision to withdraw a global equity mandate from one of its underperforming active global equity managers in late 2015, NILGOSC appointed Unigestion in September 2016 to manage a replacement £327m global equity portfolio.

- As part of NILGOSC's medium term strategy to reduce reliance on global equity markets and diversify its returns by investing in assets that provide longer term, stable and inflation-linked cashflows, NILGOSC made a £100m commitment to the M&G UK Residential Property Fund in September 2016.
- NILGOSC invested a further £27m in global infrastructure during the year ended 31 March 2017.
- NILGOSC voted in 525 investee company AGMs and other corporate meetings during 2015/16. The main areas of dissent continue to be executive remuneration practices and board composition.
- The Financial Reporting Council classified NILGOSC as a Tier 1 organisation in respect of its responsible investment stewardship activities. Asset owners ranked as Tier 1 are considered to provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.





# **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; the annual stakeholder satisfaction survey; the cost per member to administer the scheme; and progress in relation to the corporate plan objectives. In addition, NILGOSC monitors the level of complaints received and the nature of these complaints.

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. The performance of individual investment managers is monitored against their corresponding benchmark and performance target on a quarterly basis. 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.

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 1/49<sup>th</sup> 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 1/60<sup>th</sup> 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 1/80<sup>th</sup> (pension) and 3/80<sup>th</sup>s (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. There was no change to the pensionable pay ranges for 2016/17 and the rates effective from 1 April 2016 were as follows:

Actual Pensionable Pay Range	Employee Contribution Rate
£0 - £14,000	5.5%
£14,001 - £21,300	5.8%
£21,301 - £35,600	6.5%
£35,601 - £43,000	6.8%
£43,001 - £85,000	8.5%
More than £85,000	10.5%

Employers' contribution rates are determined by the Scheme's actuary every three years. For those employers whose participation in the Scheme is deemed to be indefinite and/or where an adequate covenant is in place the employer contribution rate was 20% for 2016/17.

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 2016/17 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 virtue of 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

### **The Local Government Pension Scheme (Nursery Assistants) (Amendment) Regulations (Northern Ireland) 2016 (SRNI 2016 No. 329)**

These retrospective regulations ensure that nursery assistants employed by the Education and Library Boards who accrued pension rights on the basis of a whole-time equivalent of 32.5 hours per week during the period from 1 January 1995 to 27 March 2015 will have those rights protected. Thereafter their pension rights will accrue on the basis of the whole-time equivalent of 36 hours per week.

## Scheme Membership

The number of active, deferred and pensioner members of the Scheme continued to grow during 2016/17. 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 118,794 members. At 31 March 2017, the Scheme consisted of 54,546 contributing members, 33,395 pensioners and 30,853 deferred members.

## Employing Authorities

At 31 March 2017, there were 176 employing authorities contributing to the Scheme. These employing authorities were composed of 11 councils, 1 Education Authority, 1 library authority, 52 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 106 to 109.

The following employing authorities were admitted during 2016/17:

Employing Authority	Date of Admission
Belfast Waterfront and Ulster Hall Limited	1 April 2016
The Controlled Schools Support Council	1 September 2016
Enniskillen Royal Grammar School	1 September 2016

The following employing authorities ceased during the 2016/17 year:

Employing Authority	Date of Cessation
Youth Council for Northern Ireland*	1 April 2016
Youthnet	16 June 2016
Glenmona Resource Centre	1 July 2016
Hearth Housing Association Limited	23 December 2016
Engineering Training Council	27 February 2017

\*liabilities were transferred to the Education Authority

## 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.

There was no increase to Scheme pensions in April 2016 as the September to September change in the Consumer Price Index was -0.1%. No Pensions Increase (Review) Order was made in 2016 and as pensions cannot be reduced, a zero increase was applied.

The Social Security Revaluation of Earnings Factors Order (Northern Ireland) 2016 increased GMPs by 2% from 6 April 2016.

## 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 19,200 cases, had resolved 12,363 cases by 31 March 2017.

## Revaluation of CARE Benefits

The Public Service Pensions Revaluation (Prices) Order (Northern Ireland) 2016 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. A decrease of -0.1% was applied on 1 April 2016 in relation to CARE benefits built up during the period from 1 April 2015 to 31 March 2016. The Department for Communities issued further guidance applying proportional decreases to CARE benefits for those members who left part way through the 2015/16 year. No decreases were applied to the pensions of members who left and went on pension part way through the 2015/16 year. The Public Service Pensions Revaluation (Prices) Order (Northern Ireland) 2017 makes provision for an increase of 1% to apply to CARE Benefits built up as at 31 March 2017.

## 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 matches were identified through the NFI 2016/17 data matching exercise. As at 31 March 2017, three cases, with overpayments totalling approximately £4k (0.002% of total pension payments during 2016/17), had been confirmed. One case has been repaid and one partially repaid totalling £0.7k. Repayment of the remaining case totalling £3.1k is being pursued. As at 31 March 2017, there were no cases of suspected or proven fraud identified through the NFI 2016/17 data matching exercise.

NILGOSC is continuing to seek recovery of all overpayments identified through previous NFI data matching and mortality tracing exercises.

### Equality Scheme

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 100 to 101 of this report.

### Sustainability Targets

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](http://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](http://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 May 2017, 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 2016/17.

TASK	STANDARD (WORKING DAYS)	TARGET	WITHIN STANDARD
Lump sum retirement payments	10 days	90%	95%
Death grant payments	10 days	90%	97%
Leaver options notifications	20 days	90%	34%
Refund payments	10 days	95%	95%
Transfer out quotations	20 days	90%	84%
Transfer out payments	10 days	90%	88%
Transfer in quotations	10 days	90%	90%
Transfer in confirmations	20 days	90%	97%
New entrant certificates	20 days	95%	95%
Correspondence	10 days	95%	90%
Benefit quotation requests	10 days	90%	89%
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%	93%
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 2016/17, this is an improvement on the previous year. One action relating to leaver 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 2016/2017 was carried out in May 2017. 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 3,300 surveys were sent and the response rate averaged at 20%.

In addition, online surveys were also sent to all 176 employing authorities. A total of 40 employers responded to the survey, a response rate of 23%.

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 75% of deferred members to 98% 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 87%, a decrease from last year's overall rating of 88%.

### 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. 88% of respondents rated NILGOSC communications as being good or excellent, which was an increase from 86.9% in 2015/16.

### Customer Service

As with previous years, staff courtesy and professionalism was ranked highest across all groups with an average of 4.62 out of 5.

### Website and Online Communications

Elements of the website ranked included relevance of information, ease of understanding and ease of finding information required. 90.6% of respondents rated these categories as good or excellent. 97% of active 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.

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 table below shows administration expenses per scheme member, together with the ratio of members to staff. In the year ended 31 March 2017, the cost per member adjusted for inflation increased in comparison to previous years. This is a result of the cost of the additional resources required to meet the additional demand arising from early exit schemes and to perform the GMP reconciliation exercise along with the cost of the 2016 triennial valuation and non-recurring legal expenses in respect of the Brewster legal case.

YEAR ENDED 31 MARCH	TOTAL MEMBERS	NUMBER OF STAFF	MEMBERS/ STAFF	ADMIN EXPENSES £'000	COST/ MEMBER £	COST ADJUSTED FOR INFLATION £
2008	82,716	41	2,017	2,062	24.93	30.30
2009	86,812	46	1,887	2,353	27.10	32.24
2010	88,568	50	1,771	2,659	30.02	34.56
2011	90,667	50	1,813	1,950	21.51*	23.70*
2012	92,761	49	1,893	2,357	25.40**	27.22**
2013	95,382	50	1,908	2,892	30.32	31.67
2014	103,382	53	1,951	3,112	30.10	30.95
2015	109,462	58	1,887	3,267	29.85	30.69
2016	114,026	64	1,782	3,803	33.35	34.12
2017	118,794	78	1,523	4,348***	36.60	36.60

\* 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.

\*\*\* £1,933k has been deducted from Administration expenses for the year ended 31 March 2017 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 42 ill-health retirement benefit appeals, 12 formal complaints and 19 informal complaints during 2016/17, a total of 73 appeals/complaints. 2 of the 12 formal complaints progressed to a stage two review and were not upheld at this stage. The 42 ill-health retirement appeals consisted of 26 stage 1 appeals and 16 stage 2 reviews. Of the 26 stage 1 ill-health retirement benefit appeals, 4 progressed to stage 2 reviews, 1 of which was upheld, 1 decision was replaced and 2 remain outstanding. The remaining 12 stage 2 reviews related to stage 1 appeals from the previous year, 9 of which were replaced and 3 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 2016/17

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](http://www.nilgosc.org.uk). As can be seen from the table below, a significant proportion of the 2016/17 Corporate Plan was completed or on target at 31 March 2017.

**1. To continue to provide a level of service needed to comply with the pension scheme regulations, good practice, other legislation and stakeholder expectations.**

<b>BUSINESS OBJECTIVE</b>	<b>OPERATIONAL ACTION</b>	<b>PERFORMANCE INDICATOR</b>	<b>PROGRESS AT 31 MARCH 2017</b>	<b>STATUS</b>
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	391,668 pensions paid 100% paid by last banking day of the month	Achieved
	1.1.2 To pay pension lump sums promptly and accurately	Within 10 working days of the receipt of the relevant details	2,595 pension lump sums paid 95% within target Average time taken - 7 days	Achieved
	1.1.3 To pay refunds of contributions promptly and accurately	Within 10 working days of receiving a valid application	1,123 refunds paid 95% within target Average time taken - 5 days	Achieved
	1.1.4 To pay transfer payments promptly and accurately	Pay the cash equivalent within 10 working days of receipt of required authority	87 transfer out payments made 87% within target Average time taken - 7 days	Substantially Achieved
	1.1.5 To reconcile member GMP values with those held by HMRC	Reconciliation completed by 31 March 2018	Project team in place and reconciliation on-going	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 3 employing authorities paid late per month. Credit Control Policy and Procedures applied and letters/late payment invoices issued as required.	Substantially Achieved
	1.2.2 To update member records on receipt of annual returns from employers	For 100% of employers by 31 July	All 186 annual returns received have been reconciled	Substantially 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	185 transfer in confirmations provided 97% 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 dealt with within timescales	Achieved



BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2017	STATUS
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	8,418 items of correspondence answered 90% within target Average time taken - 9 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	2,691 early leaver notifications provided 34% within target Average time taken - 56 days	Not Achieved
	1.3.3 To provide members with benefit quotations on request	Benefit quotations issued within 10 working days	5,274 benefit quotations issued 89% within target Average time taken - 6 days	Substantially Achieved
	1.3.4 To provide members and deferred members with benefit statements	Benefit statements issued within 5 months of year end	22,427 deferred benefit statements and 47,734 active member statements were issued by 31 August 2016. 3,742 members (5%) did not receive statements by the deadline due to incomplete or missing data. 99.3% of active members had received their statement by 31 December 2016.	Substantially Achieved
	1.3.5 To provide members with annual allowance statements as applicable	Statements issued by 6 October	60 annual allowance statements were issued by 6 October	Achieved
	1.3.6 To provide an estimate of a cetv	Within 20 working days of receipt of relevant details	577 transfer out quotations provided 84% within target Average time taken - 12 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	74 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	1082 death grants paid 97% within target Average time taken - 2 days	Achieved

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2017	STATUS
1.5 To ensure that all necessary action is taken on any change to pension scheme rules	1.5.1 Ensure that processes change to reflect regulation changes	Complete changes within 3 months of regulations made	The Local Government Pension Scheme (Nursery Assistants) (Amendment) Regulations (NI) 2016 were made on 16 September 2016 and came into operation on 16 October 2016	Achieved
	1.5.2 To train relevant staff on any regulation changes	Relevant staff trained on new regulations within 3 months of regulations made	Staff were advised of the implications of the new regulations in Quarter 3	Achieved
	1.5.3 To have administration systems updated for any new or amended regulations	To have software tested and installed and to have new forms and procedures developed within 3 months of regulations made	The pension administration software is amended for the nursery assistants. Procedures were issued in Quarter 3.	Achieved
	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	Post June 2010 data accuracy – 99.83% Legacy record data accuracy - 99.63%	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	12 FOI requests and 44 subject access requests (SARs) have been received in the period to 31 March 2017, all of which 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	Destruction of off-site records due for disposal has been completed. Further work required in respect of destruction of boxes containing multiple disposal dates.	Substantially Achieved
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	1916.5 hours of training have been recorded as completed in the 12 month period to 31 March 2017. The training database launched in December 2016 enables staff to individually record training received which is regularly reviewed by the Training Officer.	Achieved

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2017	STATUS
	1.7.2 To roll out a suite of e-learning packages for mandatory corporate training	All staff have successfully completed e-learning modules issued	In the period 1 April to 31 March 2017 staff have successfully completed the following e-learning modules: Data Protection: 80 members of staff. Freedom of Information: 21 members of staff. Equality & Diversity: 22 members of staff.	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%. Issues identified at exit interview are addressed by senior management team.	Turnover at 31 March 2017 - 3.6% for quarter and 10.5% on a 1 year basis. Exit interviews undertaken and summaries fed back to SMT.	Achieved
	1.7.5 To establish an employee working group to improve communication between staff and senior management	Employee working group established and operational by 30 September 2016	Employee forum established and operational in June 2016	Achieved
	1.7.6 To undertake a biennial staff satisfaction survey and address any issues identified	Staff survey completed by 31 March 2017	Staff survey issued March 2017. Results will be collated in April 2017.	Substantially Achieved
	1.7.7 To introduce a student placement programme	Placement programme operational by 31 March 2017	First student placement commenced in June 2016. Attendance at QUB Careers Fair in October 2016 for 2017 placements. Finance placement student identified for 2017.	Achieved
1.8 To ensure that the office environment is adequate to meet 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 2017	The project was deprioritised and no further action planned for 2016/17. The original completion date is therefore no longer achievable and has been revised in the 2017/18-2019/20 Corporate Plan.	Not Achieved

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2017	STATUS
1.9 To update address information of those 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	3,618 address changes processed 97% within target Average time taken - 2 days	Achieved

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

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2017	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 2017	The triennial valuation report was published on 31 March 2017	Achieved
	2.1.2 To ensure employer contribution rates for 2016/17 implemented	Collect minimum contributions due under current Rates & Adjustment certificate	Contribution rate for 2016/17 for all employers confirmed as correct	Achieved
2.2 To invest scheme funds in accordance with the Statement of Investment Principles	2.2.1 To achieve investment performance in line with targets	NILGOSC fund target	3 year and 5 year return to 31 March 2017 was ahead of fund target of CPI+5% by 5.9% and 5.1% 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 2017 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	Commission Recap: £4,453.72 to 31 March 2017; Stock Lending: £2,481,021.84 to 31 March 2017; Class Actions: £17,426.60 to 31 March 2017.	Achieved

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2017	STATUS
	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 to 31 March 2017, votes were cast at 525 meetings for 496 companies. 186 engagement letters were issued to UK and European companies (124 UK; 62 European) and 60 responses have been received to date (35 UK; 25 European). £17,426.60 recovered through class actions in the year to 31 March 2017.	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 report for 2016 prepared and presented to August Committee meeting	Achieved
	2.3.3 To monitor investment management costs	Annual investment management fee report by 31 December	Investment management costs are monitored on an ongoing basis. A report was presented to the Management Committee at its meeting in November 2016.	Achieved
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	Employer strength a factor in setting employer contribution rates and lump sum deficit recovery implemented from 1 April 2017	On Target
	2.4.2 Review Statement of Investment Principles and Funding Strategy Statement	Revise FSS and revise SIP when necessary	Draft FSS issued for consultation in May 2016. Post consultation FSS circulated to the Committee in September 2016.	Achieved
	2.4.3 To monitor employer covenants in line with Funding Strategy Statement	2016 review completed by 31 August 2016	2016 review was completed by 30 August 2016	Achieved

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

<b>BUSINESS OBJECTIVE</b>	<b>OPERATIONAL ACTION</b>	<b>PERFORMANCE INDICATOR</b>	<b>PROGRESS AT 31 MARCH 2017</b>	<b>STATUS</b>
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 31 March 2017 was 54,546 which was an increase of 3.2% from the March 2015 level of 52,876	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	The Local Government Pension Scheme (Nursery Assistants) (Amendment) Regulations (NI) 2016 were made on 16 September 2016 and come into operation on 16 October 2016. All nursery assistants were advised of the amendments.	Achieved
	3.2.2 Provide employee and employer seminars	Employer satisfaction rating as measured through annual satisfaction survey	19 employers seminars have been completed - 3 on the triennial valuation, 7 for administration training, 3 for annual allowance and lifetime allowance training, 1 cessation, 2 bulk transfer, 2 Scheme benefits and 1 on employer discretions	Achieved
	3.2.3 To lay the annual report in the NI Assembly	In accordance with date agreed with Department	The Annual Report and Accounts 2015/16 was laid with the NI Assembly on the agreed date of 6 September 2016	Achieved
	3.2.4 To implement the Communications Strategy	Actions completed in line with target dates	The majority of actions were completed within target dates with the exception of finalising the videos	Substantially Achieved

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2017	STATUS
3.3 To provide members and employers with specific details of regulation changes and relevant tax legislation changes	3.3.1 Communication of any regulation and relevant tax changes	Within 3 months of regulations or changes being made	Members were advised by interim newsletter of the amendments within the Local Government Pension Scheme (Amendment) Regulations (Northern Ireland) 2016, which were made on 8 March 2016 and came into operation on 1 April 2016. The nursery assistants were individually written to in Quarter 3.	Achieved
	3.3.2 To advise all new members of the benefits of the pension scheme	Issue guidance to new scheme members and membership certificates within 20 working days of receipt	10,180 new members created 95% within target	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.	Meetings have been held with NIHE and Fold/Helm Housing Associations. Representation has continued on working groups.	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	Additional resources recruited to boost redundancy team in June 2016	Achieved

#### 4. To influence the future of the Local Government Pension Scheme.

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2017	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	Circulars have been issued to advise employers of any changes	Achieved
	4.1.2 To respond to relevant Government consultation exercises	By consultation reply date	Contributed to initial SPA review, HMT Exit Payments, BEIS Corporate Governance, FCA MiFID II, Indexation and Equalisation of GMPs consultations	Achieved

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2017	STATUS
	4.1.3 To respond to parent Department consultation exercises	By consultation reply date	None relevant in the period	Achieved
	4.1.4 To contribute to consultee groups eg NAPF, LGPC, LAPFF etc	To have representation on all groups	Relevant meetings attended and matters raised	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	DfC briefed on range of matters. Supported feedback from NI to the SPA review and briefed SAB on relevant matters. Briefed Local Councils, Housing NGO, DfC Housing and Finance Minister on investment criteria.	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	Matters identified referred to Department, regulations pending	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 2017	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 1 working day	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	464 matches were identified from the 2016/17 NFI exercise released on 26 January 2017. 3 overpayments totalling £4k identified, 2 have been repaid and the remaining overpayment of £3.1k is being pursued. Overpayments from previous NFI exercises continue to be pursued in line with Credit Control procedures. NILGOSC continues to participate in the monthly data sharing exercise with the General Register Office to identify deaths on a more timely basis.	Achieved
	5.1.4 To test Business Continuity procedures and ensure effective	Annual test of Business Continuity Plan	The annual 2016/17 test took place on 23 February 2017. The test was successful and follow up actions from the test are to be implemented by 30 April 2017.	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 2016/17 risk register was agreed by the SMT and subsequently approved and reviewed by the Audit & Risk Assurance Committee (ARAC) and Management Committee each quarter. The final quarterly risk review was undertaken by SMT on 24 April and reported to the ARAC and Management Committee on 5 June and 21 June 2017 respectively.	Achieved

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2017	STATUS
	5.1.6 To undertake a triennial review of the Organisation's Strategic Objectives	Review undertaken by 31 December 2018	Not 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	Tenders were completed in line with the procurement schedule for 2016/17, with the exception of one tender which commenced as planned in 2016/17 but was not completed by 31 March 2017	Moderately Behind Target
	5.1.8 To ensure that all Committee members undertake appropriate training, including induction training, in line with good practice, guidance and legislation	Each member has undertaken 40 hours of training/development per annum. Induction completed within 2 months of appointment.	As at 31 March 2017, Committee members completed 756 hours of training collectively, resulting in the Committee as a whole meeting its target. Two members have not met their pro-rata individual targets as at 31 March 2017.	Substantially Achieved
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 in line with project plan	Digitisation element of project achieved and 100% member records are held electronically. A review of the functionality of the Civica EDRMS was undertaken and an end to the contract was negotiated in July 2016 with no further cost incurred. A scoping exercise to identify other options for an EDRMS will be undertaken, including SharePoint and Altair Document Imaging.	Not Achieved
	5.2.2 To prepare specification and procure pension administration software to be operational by 31 December 2017	Software operational by 31 December 2017	Committee approval obtained in April 2016 to utilise National Framework Agreement to procure new software contract. Contract signed in December 2016.	Achieved

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2017	STATUS
	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 2016 by 10%	18,222 valid email addresses were held at the end of year (active 11,332, deferred 4,793, pensioner 2,023 and dependant 74). This was an increase of 13% from the 16,070 valid email addresses held at 31 March 2016.	Achieved
	5.2.4 To implement a system to allow for direct access to services by members	System operational by December 2017	Functionality has been incorporated under the new contract at 5.2.2	On Target
	5.2.5 To undertake a business process review of key systems	Review undertaken by September 2016	Findings from external BCS review presented in June 2016. Further action required to address areas identified and is reflected in 2017/18 Corporate Plan.	Achieved
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 in June, October, December and March	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	No formal projects currently underway	On Target

## 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 2017	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	9 policies have been screened in the period to 31 March 2017. No EQIAs were deemed necessary. Equality screening training was undertaken by management on 19 January 2017.	Achieved

BUSINESS OBJECTIVE	OPERATIONAL ACTION	PERFORMANCE INDICATOR	PROGRESS AT 31 MARCH 2017	STATUS
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 completed by 31 March 2017	Achieved
	6.2.2 To record annual recruitment monitoring information	Report submitted by 1 May each year	Review completed and submitted in February 2017	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 Equality Scheme Action Plan 2015-2018 was finalised and issued on 10 September 2015. The SMT reviewed progress against the action plan biannually and some timescales for actions have been revised.	On Target
	6.3.2 To submit s75 Annual Progress Report to include publication of EQIA monitoring information	Submission to Equality Scheme by 31 August 2016	The s75 Annual Progress Report was submitted on 11 August 2016	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	Equality Scheme publicised in Annual Report 2015/16 together with the newsletters issued to all membership groups in November 2016	Achieved

**Status Key**

Achieved: Target met  
 Substantially Achieved: Achieved greater than 90% of target  
 On Target: Progress in line with plan  
 Moderately Behind Target: Achieved between 75% and 90% of target  
 Significantly 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 2017 is included on pages 97 to 98.

#### 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](http://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.

#### 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.

In March 2014 NILGOSC reviewed the strategic asset allocation of the Fund and agreed 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 2017. It also sets

out the approximate assumptions made about the real return for each asset class in determining the strategy as at 31 December 2016.

ASSET CLASS	STRATEGIC ALLOCATION %	TARGET ALLOCATION %	CURRENT WEIGHTING %*	REAL RETURN % P.A.**
UK Equities	25.0	17.5	23.0	4.5
Overseas Equities	50.0	50.0	53.6	4.0
Index-linked Gilts	3.5	3.5	3.3	-1.0
Fixed Bonds	9.0	9.0	8.5	0.5
Property - Core	10.0	10.0	6.8	3.5
Property – Index-linked	2.5	5.0	3.8	2.5
Alternatives ***	0.0	5.0	1.0	N/A

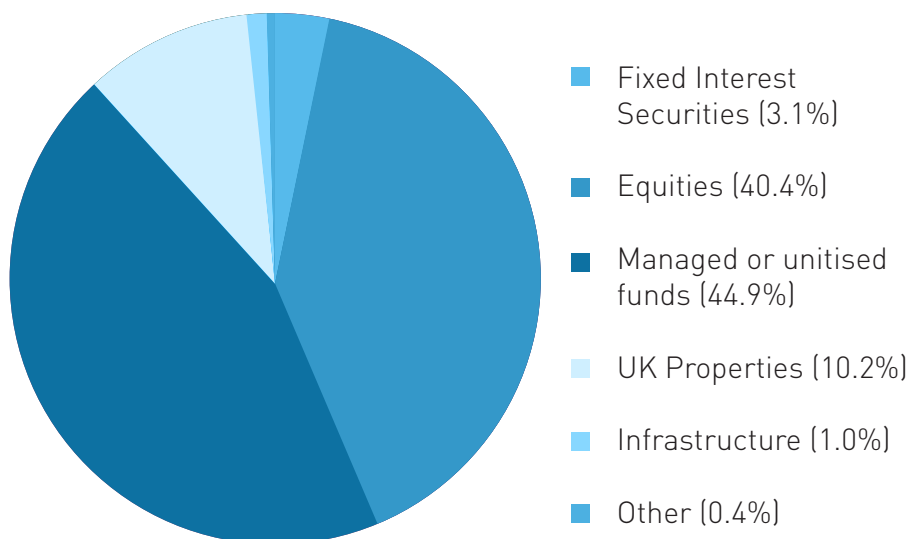
\* The calculation of current weighting excludes investment cash held for trading purposes.

\*\* 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 2.1% per annum. The figures do not allow for active management in traditional (equity, bonds, property) asset classes.

\*\*\* NILGOSC has committed £177m to five separate Infrastructure funds. As at 31 March 2017, NILGOSC had invested £57.7m across four funds. Two of the funds are denominated in Euros and one is denominated in US Dollars. The commitment amount quoted is the base currency converted at the year end exchange rate. The amount invested stated is the base currency converted at the rate at the date of investment.

The actual asset allocation as at 31 March 2017 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 2017**



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](http://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 2016/17, NILGOSC invested in one co-investment opportunity with a commitment of £10m.

The table below sets out the mandates and primary fund investments in place as at 31 March 2017 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 2017 and not the total commitment made to the fund. This information can be found in the footnote to the table below.

ASSET CLASS	FUND MANAGER/PRIMARY FUND	% OF TOTAL FUND
<b>Mandates</b>		
UK Equities	Baillie Gifford	8.26%
UK Unconstrained Equities	BlackRock Investment Management Jupiter Asset Management	6.36% 6.18%
Global Equities	Wellington Management	7.36%
Global Unconstrained Equities	Baillie Gifford Unigestion <sup>1</sup>	7.53% 5.12%
Passive Funds	Legal & General Investment Management	44.81%
Bonds	Wellington Management	3.19%
Traditional Property	LaSalle Investment Management	6.63%
Index Linked Property	LaSalle Investment Management	3.66%
<b>Primary Funds</b>		
UK Residential Property	M&G UK Residential Property Fund <sup>2</sup>	0.00%
Infrastructure	Antin Infrastructure Fund II <sup>3</sup> Antin Infrastructure Fund III <sup>4</sup> KKR Global Infrastructure Investors Fund II <sup>5</sup>	0.49% 0.00% 0.27%
<b>Co-Investments</b>		
Infrastructure	KKR Evergreen	0.14%

Source: HSBC

<sup>1</sup>The mandate with Edinburgh Partners was terminated and an in-specie asset transfer to the new manager, Unigestion, occurred in September 2016.

<sup>2</sup>Total commitment £100m

<sup>3</sup>Total commitment €48m (£41.4m converted at the exchange rate at 31 March 2017)

<sup>4</sup>Total commitment €75m (£64.6m converted at the exchange rate at 31 March 2017)

<sup>5</sup>Total commitment \$60m (£48.2m converted at the exchange rate at 31 March 2017)

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 2017 is shown in the following table:

ASSET CLASS	TARGET/BENCHMARK INDICES (OUTPERFORMANCE SHOWN PER ANNUM)
<b>UK Equities</b>	FTSE All Share FTSE All Share + 2% p.a. FTSE All Share + 4% p.a.
<b>Overseas Equities</b>	FTSE All World UK + 2% p.a. FTSE All World UK + 3% p.a. FTSE All World Developed Indices (ex UK) + 2% p.a. MSCI All Countries World (ex UK) + 3% p.a. FTSE All World Index (ex UK) + 3% p.a. FTSE All World North America Index FTSE All World Developed Europe ex UK Index FTSE All World Japan Index FTSE All World Developed Asia Pacific ex Japan FTSE All World All Emerging
<b>Bonds</b>	
Fixed Bonds	Barclays Capital Global Aggregate Bond Index +0.75% p.a. iBoxx £ Non Gilt ex BBB
Index Linked	FTA IL > 5Yrs
<b>Property</b>	
Index Linked Property	RPI +3% (from 31 March 2014. Previously RPI only)
Traditional Property	IPD Quarterly Universe + 1% p.a.

Source: HSBC

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, HSBC. Specifically, reports showing the financial performance of each investment manager and at the overall Fund level are provided by HSBC on a quarterly basis. HSBC was in place as custodian throughout the year, but was replaced by Northern Trust 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 remains confident 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 markets delivered favourable returns over the 12 months to 31 March 2017. The UK economy proved to be resilient after the surprise Brexit vote in the EU referendum and economic conditions improved across many regions whilst Donald Trump’s win in the US presidential election further boosted optimism in the US economy towards the end of 2016. A pick-up in inflation across many regions from summer 2016 spurred a rotation from bond markets into equity markets, although bond markets rallied once more in early 2017.

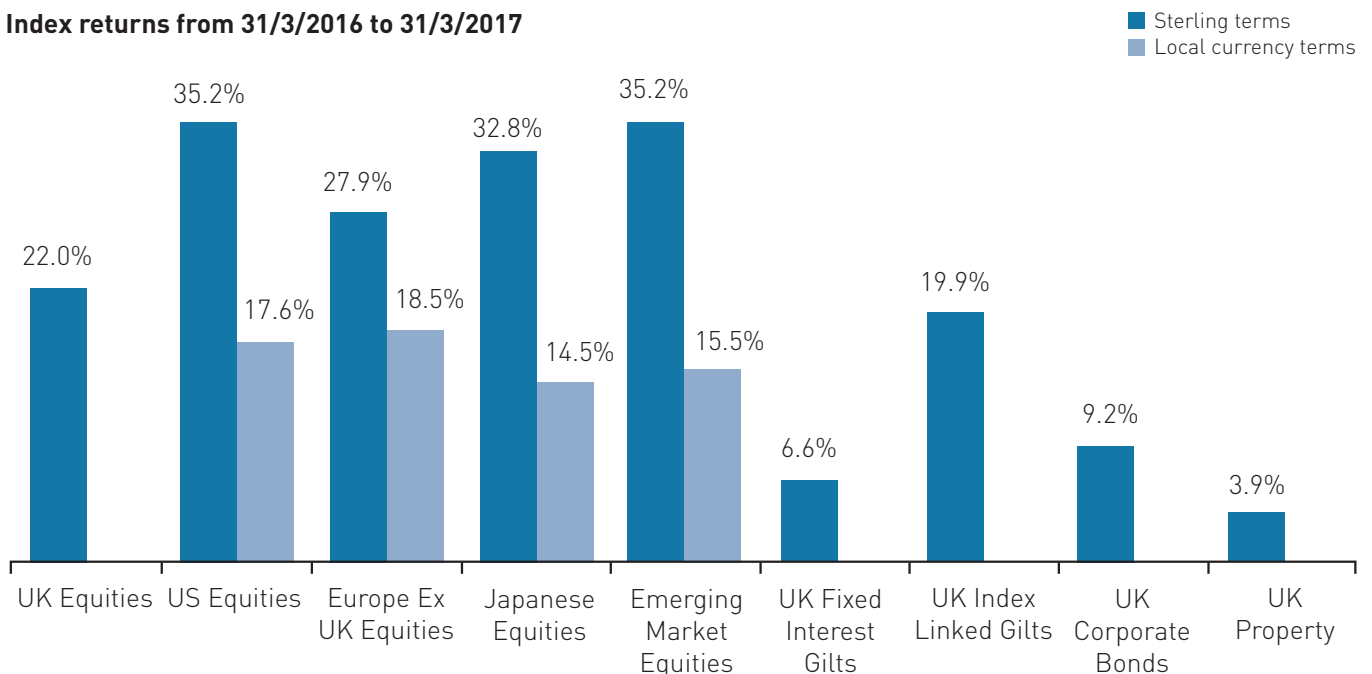
As widely expected after Trump’s win, the US Federal Reserve (Fed) raised the target federal funds rate by 0.25% in December 2016. A further 0.25% hike was announced in March 2017. In contrast, monetary policy eased in other major countries as the Bank of England (BoE), the European Central Bank (ECB) and the Bank of Japan (BoJ) all pursued greater monetary easing, utilising a combination of lower policy rates and extended quantitative easing (QE).

Commodity prices recovered from 2016 lows over the period as supply/demand conditions improved. Oil prices moved higher as global growth prospects improved and gathered further pace upon OPEC’s decision to cut production late in 2016. However, the swift increase in supply from US shale oil producers in response to the higher oil price drove US inventories higher which kept a cap on oil prices.

Sterling depreciated sharply against the major currencies, namely the US dollar, Euro and the Japanese Yen, on the back of the EU referendum result and renewed monetary easing. Consequently, overseas asset returns were very strong in sterling terms. The US dollar strengthened on the back of a stronger economic outlook and rising interest rate expectations.

The graph below summarises the index returns on the main asset classes/regions for the year to 31 March 2017. Returns are shown in sterling terms and local currency terms.

Index returns from 31/3/2016 to 31/3/2017



Source: Datastream/IPD

Equities delivered double digit returns across the board. Bonds and property delivered positive returns with UK index-linked gilts performing particularly well. Further details on the performance of specific asset classes over the period are provided below.

## Equities

Global equities rebounded strongly following a tumultuous start to 2016. UK equities rose, posting a return of 22.0% over the 12 months to March 2017 – the most by any region in local currency terms. This was despite the volatility caused by the Brexit vote and the uncertainty of its future impact on the UK economy. Many companies listed on the UK stock exchange earn overseas revenues and the outperformance of these stocks provided a major lift to large cap stocks. The best performing sector was basic materials (67.9%) while the telecommunications sector (-10.0%) was the laggard and the only sector to post negative returns.

US equities outperformed other regions in sterling terms. Macroeconomic data was positive especially in the second half of 2016, whilst prospects of fiscal spending under the new US administration bolstered the equity market. A strong earnings season in early 2017, especially for financials, was also supportive.

Continental European equities returned 18.5% in local currency terms whilst sterling weakness in 2016 brought the sterling return up to 27.9%. Signs of economic recovery and the ECB's accommodative monetary policy provided a boost to equity markets. Concerns over the banking sector, Brexit and European elections curbed investor enthusiasm for the region.

Despite posting double-digit returns over the 12 month period, Japan was the weakest performing region in local currency terms, as concern over the effectiveness of the Japanese government economic programme and yen strength up to the summer of 2016 hurt exports.

Emerging market performance picked up in local currency terms as the Chinese government stimulus supported Chinese growth. Concerns over protectionist policies under a Trump presidency and higher US rate expectations were shrugged off. Macroeconomic fundamentals in emerging markets also improved over the year. Overall, emerging market equities performed well.

## Bonds

UK fixed gilts returned 6.6% and index-linked gilts returned 19.9% over the period. UK gilt yields fell dramatically up until the summer of 2016, with an

acceleration following the Brexit result and subsequent monetary easing undertaken by the BoE. From August, however, there was a turnaround in gilt yields as inflation expectations increased. This upward yield move reversed somewhat in 2017 as the reflation trade lost momentum with UK yields trending lower with other markets. Longer dated fixed interest gilt returns performed better than those with shorter maturities. The same was true for longer dated index-linked gilts.

Index-linked gilts outperformed fixed gilts at all maturities as index-linked yields fell more due to a sharp rise in inflation expectations as sterling weakness, UK economic resilience and commodity strength boosted inflation expectations.

Globally, most corporate bonds posted slight positive absolute returns in sterling terms as credit spreads (the difference between the yields on non-government bonds and equivalent maturity government bonds) narrowed over the 12 month period. In the UK corporate bonds returned 9.2%, outperforming fixed interest gilts following better than expected economic data and the BoE's extension to corporate bonds in its asset purchasing programme.

## Property

UK Commercial property returned 3.9% over the 12 month period to March 2017. The Brexit vote and the potential impact on the UK economy weighed heavily upon momentum in the UK commercial property market. Commercial property prices continue to recover following the capital value losses in the aftermath of the EU referendum result, but still remain below pre-Brexit levels. Property valuations continued to rise on the back of high transaction activity. Rental growth was also positive, albeit less so than capital growth.

## Infrastructure

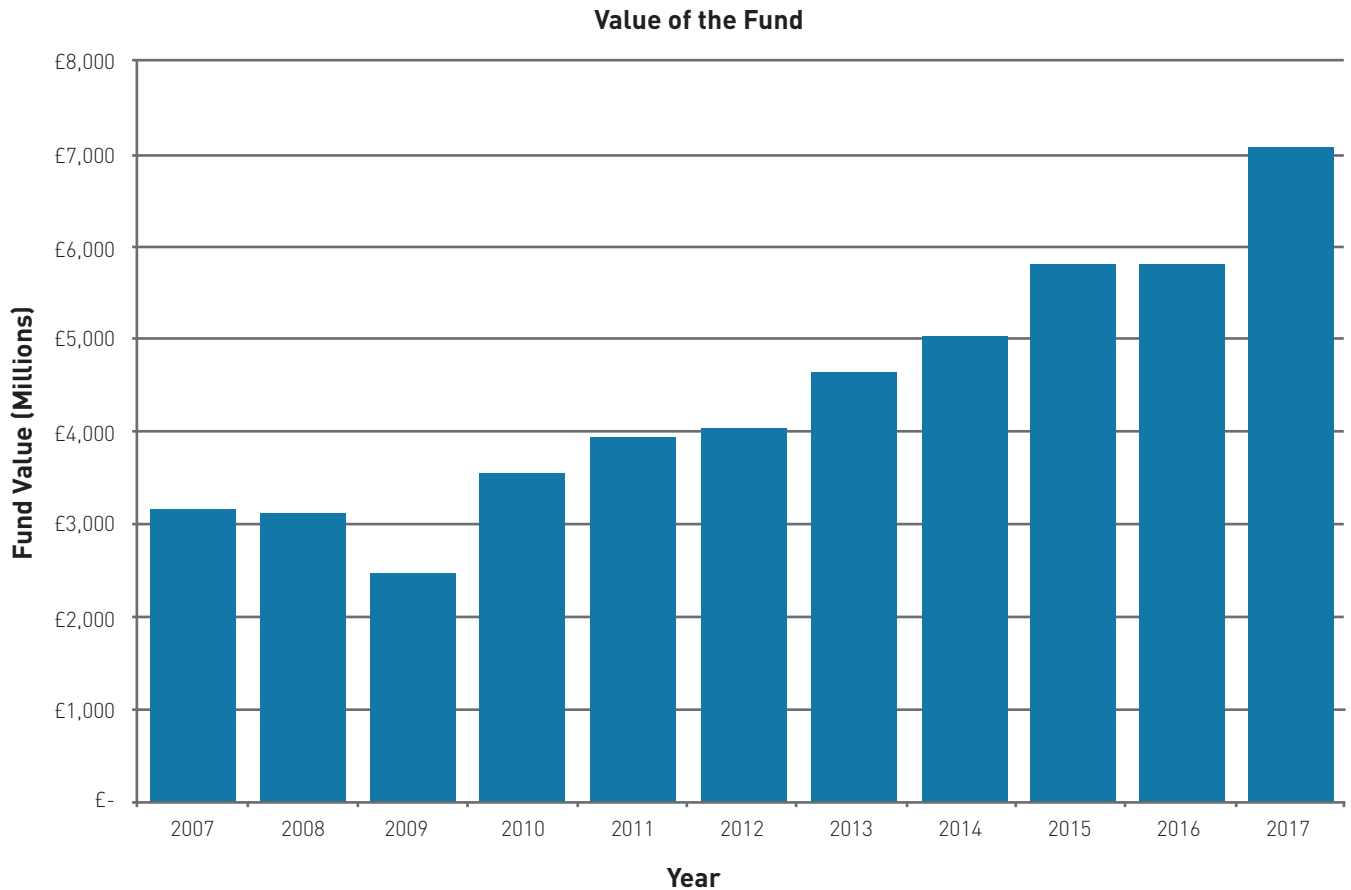
Infrastructure as an asset class generally performed well over the last 12 months. Investor appetite for Infrastructure continued to increase following strong demand the previous year. Global infrastructure fundraising was weak in the first part of 2016 but increased significantly later in 2016.

## Fund Value

The value of the Fund at 31 March 2017 was £7.083bn (2015/16 £5.820bn) an increase of £1.263bn (21.7%) 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 97 to 98.



### Investment Performance

Over the year to 31 March 2017, the Fund's overall return on the total assets was 21.73% (gross of investment manager fees). NILGOSC's overall investment target is to exceed the Consumer Price Index (CPI) by 5% per annum, to be measured over a three and five year period. The Fund exceeded this target by 5.8% and 5.1% on a three and five year basis respectively for the period ended 31 March 2017. The comparable statistics for the three and five year periods to 31 March 2017 on an annualised basis are set out in the table below:

The performance of the individual managers is monitored against their corresponding benchmark and performance target. 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. The table on the following page sets out the returns for each fund manager and fund against their performance target for the twelve months ended 31 March 2017.

	<b>THREE YEARS % P.A.</b>	<b>FIVE YEARS % P.A.</b>
Return of Fund	11.8	11.6
CPI +5%	5.9	6.5

ASSET CLASS	MANAGER/FUND	PORTFOLIO RETURN %	TARGET RETURN %	EXCESS RETURN %
UK Equities	Baillie Gifford	23.76	23.95	-0.19
	BlackRock	17.78	25.95	-8.17
	Jupiter	18.97	23.95	-4.98
Global Equities	Baillie Gifford	37.94	36.12	1.82
	Unigestion*	7.48	14.04	-6.56
	Wellington	34.67	34.89	-0.22
Fixed Income	Wellington	0.77	1.34	-0.57
Passive	Legal & General	24.56	24.83	-0.27
Property	LaSalle Core	5.39	5.60	-0.21
	LaSalle ILP	3.74	6.14	-2.40
Infrastructure	KKR Global Infrastructure Investors Fund II	10.80	7.30	3.50
	Antin Infrastructure Fund II	8.22	7.30	0.92

\* Since inception return shown as mandate commenced 1 October 2016

Note: amounts may not be exact due to rounding

As NILGOSC's objective is to achieve the maximum return on Fund investments in 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. Accordingly, NILGOSC focuses its attention on the performance of its investments over the longer-term, being periods of 5 years or longer.

## Investment Review 2016/17

Against a backdrop of market volatility in the year to 31 March 2017, the value of the Fund increased during the year to £7.083bn. Market volatility can significantly impact on the Fund value over short-term periods but NILGOSC remains focused on longer-term investment performance and meeting the Fund's liabilities as they fall due.

There were mixed results from NILGOSC's investment mandates during the year. UK Equity performance was particularly poor in the year to 31 March 2017, bringing performance behind target on a one, three and five year basis for Baillie Gifford and BlackRock while Jupiter, who also had a disappointing year, remains ahead of target on a 5 year basis. The Brexit vote and subsequent market volatility had a significant impact on all three UK equity mandates as many investors sought safety in the larger, more defensive stocks not held by NILGOSC. Returns remain strong in absolute terms and all three mandates outperformed the FTSE All Share over a 5 year horizon, providing continued confidence in the manager's ability to deliver outperformance over the longer term.

It was also a mixed outcome for NILGOSC's global equity managers. Baillie Gifford remained NILGOSC's best performing manager for the fourth year running, with strong outperformance of the FTSE All Share index on a one year, three year and five year basis. Wellington Management fell just 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, Edinburgh Partners, was replaced by Unigestion mid-year, with an in-specie asset transfer to Unigestion at the end of September 2016. Given this inception date, insufficient time has passed to allow for any meaningful performance 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 2017. The core property portfolio, managed by LaSalle, outperformed the IPD Quarterly Universe but fell short of its target for the year ended 31 March 2017. The portfolio is fully invested and LaSalle continues to seek to add value through asset management initiatives. The index-linked portfolio struggled against its RPI linked target as a result of lower returns in the wider UK property market following the Brexit vote. This portfolio is also fully invested with a mix of assets with an overall yield ahead of target over medium and longer term timeframes. NILGOSC was early to invest in this asset-class and although performance has been mixed in the year, the index-linked mandate is comfortably ahead of its inflation linked target on a 3 year and since inception basis.

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 2017, with the only underperformance being in relation to hedged Japanese equities.

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. The first draw down of this commitment is expected towards the latter half of 2017.

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 2016/17 further funds were drawn in respect of existing commitments to Antin Infrastructure Partners Fund II (Antin II) and KKR Global Infrastructure Investors Fund II (KKR II). NILGOSC has committed €48m to Antin II and \$60m to KKR II, and as at 31 March 2017, it had funded £30m (2016: £22.1m) to Antin II and £18m (2016: £8.7m) to KKR. The Antin II Fund is 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. Both 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, in November 2016 a commitment of €75m was made to Antin Infrastructure Partners Fund III (Antin III), which is a successor fund of Antin II. As at 31 March 2017 NILGOSC had funded £102k to Antin III.

As part of its strategic theme of collaboration, NILGOSC worked together with likeminded investors in 2016/17 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 2016/17, NILGOSC invested in one co-investment infrastructure opportunity with Lothian Pension Fund with a commitment of £10m. 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.

NILGOSC reviewed its investment strategy in December 2016 and, after consultation with its Investment Adviser Aon Hewitt, implemented two actions in February 2017. The first was to crystallise some of the recent strong performance in the UK equity market by reducing the UK equity exposure by £175m, to be implemented over a period of 12-15 months, in preparation for the funding of future commitments to the alternatives portfolio. The second decision was to implement a 50% hedge against the US Dollar exposure on the Legal & General passive equity holdings in February 2017.

NILGOSC carried out a tender exercise using the National LGPS Framework for Global Custody Services for appointment of a Global Custodian during 2016/17. Following a competitive tender exercise, Northern Trust was selected as the preferred provider. The transition of assets from HSBC to Northern Trust took place subsequent to the year end on 3 April 2017.

### Top 10 Equity Holdings at 31 March 2017

COMPANY	TOTAL INVESTMENT £'000'S	% OF TOTAL EQUITY PORTFOLIO
British American Tobacco	72,904	2.55%
Amazon.com	58,152	2.03%
Compass Group Plc	51,328	1.80%
Facebook NPV	47,238	1.66%
Reckitt Benckiser	46,474	1.63%
Tencent Holdings	43,412	1.52%
Shire Ltd	43,313	1.51%
Relx Plc	42,607	1.49%
Tesla Motors	39,862	1.39%
Barclays	39,539	1.38%

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](http://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, Manifest, to provide company research and coordinate its voting activities. NILGOSC currently avails of Manifest's 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 2017 is shown below:

	UK	NORTH AMERICA	REST OF WORLD
Annual General Meetings	130	192	148
Other Meetings	19	14	22
Resolutions	2,526	2,485	2,066
Votes For Management	2,125	1,500	1,251
Votes Against Management	401	985	815

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 2016/17, NILGOSC issued engagement letters to 124 UK companies and 62 other European companies where votes were cast against management recommendations.

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. Throughout 2016/17, NILGOSC was a member of the Local Authority Pension Fund Forum (LAPFF). The LAPFF brings together local authority pension funds across the UK and provides an opportunity for discussing investment issues, promoting corporate social responsibility and maximising the influence shareholders have on the companies in which they invest. The Forum seeks to address ESG issues through direct engagement with 'offending' companies, governments and other relevant bodies on global issues such as climate change, executive remuneration and audit assurance.

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 2016, NILGOSC

received its report for the year ended 31 March 2015. The report showed positive results in all areas assessed by UNPRI, with NILGOSC maintaining or improving performance in comparison to previous assessments and performing either in line with or ahead of its peers in each of the areas assessed. NILGOSC submitted its latest assessment in March 2017, for the year ended 31 March 2016, and will receive the outcome later in the year.

NILGOSC participates in the UK Pension Fund 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. Back in 2014/15, NILGOSC became a supporting investor in two collaborative engagements with other UNPRI signatories which have continued into the 2016/17 year. The first was an engagement on the director nomination process, focused on listed companies in the US and France. The objective was to encourage those companies to improve the way that directors are nominated to the board and ensure that meaningful reporting is provided. The second engagement was on water risks in the 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.

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 September 2016.

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"<sup>1</sup> 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

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

provisions of the Code.”<sup>1</sup> NILGOSC also requires its fund managers to confirm they are signatories and to provide copies of their Statements of Compliance.

In December 2016, NILGOSC became a signatory to PRI and UNEP FI’s “Global Statement on Investor Obligations and Duties”. The statement sets out investor obligations and duties, especially in relation to the incorporation of ESG issues in investment decision making.

In September 2016, NILGOSC was delighted to receive industry recognition for its responsible investment activities when it won the 2016 LAPF Investments award for Best Approach to ESG. The judges stated that they were impressed with NILGOSC’s policies, company voting activities, engagement with companies and how NILGOSC ensures that its fund managers act on ESG issues. They were also impressed by NILGOSC’s contribution to the sector and the Climate Change summit held in October 2015 in conjunction with its advisors and fund managers.

### 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 also 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 2017, NILGOSC renewed its commitment to CDP, signing up to their Climate Change, Forests and Water programmes as well as the Carbon Action initiative for 2017.

Following the success of similar resolutions at BP and Shell in 2015, which were each supported by over 98% shareholders, NILGOSC co-filed a shareholder resolution with other investors at the 2016 AGMs of Anglo American and Rio Tinto, again requesting enhanced disclosures of corporate strategy on climate change as part of routine reporting. As with the boards of BP and Shell in 2015, the boards of Anglo American and Rio Tinto publicly recommended that shareholders support the resolutions and both were passed with circa 95% and circa 98% shareholder support respectively.

<sup>1</sup> <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**

	2016/17 £'000	2015/16 £'000	2014/15 £'000	2013/14 £'000
<b>Income</b>				
Members contributions and transfers in	268,649	266,808	231,629	222,248
Investment income	73,915	87,854	89,170	92,107
<b>Benefits paid</b>				
Retirement pension	(163,836)	(153,362)	(142,974)	(135,309)
Lump sum retirement benefits	(62,177)	(62,400)	(32,190)	(36,716)
Death benefits and leavers	(10,605)	(9,928)	(7,760)	(7,158)
<b>Other expenditure</b>				
Administration expenses	(6,281)	(3,803)	(3,267)	(3,112)
Investment management expenses	(19,267)	(18,304)	(13,826)	(11,458)
<b>Net Assets</b>				
Net Assets	7,082,982	5,820,140	5,820,770	5,034,548
Change in market value of investments	1,184,479	(108,278)	665,915	284,099

**Membership Statistics**

	2016/17	2015/16	2014/15	2013/14
Active members	54,546	53,724	52,876	50,021
Deferred members	30,853	28,721	26,457	23,986
Current pensioners of whom:	33,395	31,581	30,129	29,375
Retired employees	28,026	26,326	24,967	24,251
Widows/widowers/dependants	5,369	5,255	5,162	5,124
Total	118,794	114,026	109,462	103,382

Member contributions and transfers in for the year ended 31 March 2017 are broadly in line with the previous year as membership has remained relatively stable, employer contributions remained at 20% for 2016/17 and there were no scheme changes affecting pensionable pay. 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 has remained steady from 2013/14 through to 2015/16 but has shown a decrease in 2016/17 resulting mainly from foreign exchange losses on forward currency contracts used within the bond portfolio.

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 have increased significantly in 2015/16 and 2016/17 as a result of the increase in retirements through public sector voluntary exit schemes.

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 increased in 2015/16 and 2016/17 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 has resulted in a significant increase in administration expenses. The exclusion of this amount brings 2016/17 administration expenses to £4,348k.

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.



**David Murphy**  
**Chief Executive and Secretary**

22 August 2017





# **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 during 2016/17.

	TERM	TERM OF OFFICE
Trevor Salmon	Second *	1 July 2009 - 31 Dec 2017
Peter Caldwell	Second	1 Oct 2011 - 30 Sept 2019
Joseph Donaghy	Second *	1 July 2009 - 31 Dec 2017
Julie Erskine	Second *	1 July 2009 - 31 Dec 2017
Bumper Graham	Second *	1 July 2009 - 31 Dec 2017
Tom Irvine	Second	1 Mar 2012 – 29 Feb 2020
David Jackson	Second	1 Oct 2011 - 30 Sept 2019
Celine McCartan	Second *	1 July 2009 - 30 June 2017
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	First *	1 May 2013 – 31 Dec 2017
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 the absence of a NI Executive, the Department for Communities has issued a six month extension to all six members due to reach the end of their term of office in 2017.

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 is 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. She was appointed Chair of the Business Services Organisation and resigned from the Public Health Authority in December 2016. Julie remains a board member of the Northern Ireland Social Care Council and the Probation Board Northern Ireland. She served as Chair of the Audit Committee for Northern Ireland Commissioner for Children and Young People until August 2016 and as member of the Audit Committee of the Commissioner for Older People for Northern Ireland until March 2017.



**Mr Bumper Graham** is the Deputy General Secretary of the Northern Ireland Public Service Alliance (NIPSA). He is currently Chairperson of the NIC-ICTU Public Service Pensions Group and Joint Chairperson of the Department of Finance 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 also the TUS Lead and Co-Chairperson of the North/South Bodies Pension Forum. 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 the Group Accounting Manager for the Northern Ireland Transport Holding Company/Translink with responsibility for core finance, payroll and ticketing projects. She is a Fellow of the Institute of Chartered Accountants in Ireland and previously was an audit manager with Deloitte.



**Mr Lindsay Todd** has lengthy experience in the pension fund industry and was, until his retirement, a partner in a leading international professional services firm. He currently serves on the NI Judicial Appointments Commission, the advisory committee to the NI Central Investment Fund for Charities, is a trustee of a leading charity and is also a school governor. 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.



**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](http://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 2017, there were 6 non-reportable personal data related incidents and 1 reportable incident. No further action was taken by the Information Commissioner's Office in relation to the reportable incident as it did not consider the incident to have met their criteria for regulatory action or the data to be classed as sensitive.

## (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 HM Treasury.

## (IV) GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

### 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 2017 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 2016/17

NILGOSC is a non-departmental public body (NDPB) sponsored by the Department for Communities ("the Department"). NILGOSC has worked closely with the Department during 2016/17 to ensure the specific requirements as an 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 2017.

## 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; any other legislation relating to the governance and administration of the Scheme and requirements imposed by the Pensions Regulator (TPR) in relation to the Scheme, and to assist with 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>.

There were no membership changes to the Committee during 2016/17. However, the terms of appointment for the Chairperson and four members of the 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 were extended to 31 December 2017.

Details on terms of membership and re-appointments to the Committee during 2016/17 are set out in the Chief Executive's Report on pages 48 to 51. The Committee met ten times during 2016/17. In addition, four ARAC meetings were held during the year. No meetings of the Staffing Committee were required. A schedule of membership and attendance for the 2016/17 financial year is shown in the following table.

	MANAGEMENT COMMITTEE		AUDIT & RISK ASSURANCE COMMITTEE	
	Called	Present	Called	Present
Trevor Salmon	10	10	-	-
Julie Erskine	10	10	-	-
Bumper Graham	10	10	4	3
Celine McCartan	10	6	-	-
Joe Donaghy	10	9	-	-
Linda Neilan*	10	8	4	3
David Jackson	10	9	-	-
Peter Caldwell	10	10	-	-
Peter McMurray	10	7	-	-
Tom Irvine	10	10	4	4
Sharon McQuillan*	10	5	-	-
Lindsay Todd	10	10	4	4
Joan McCaffrey	10	10	4	2
<b>Average % Attendance</b>		<b>88%</b>		<b>80%</b>

\*Members were 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 13 April 2016 and further training seminars were arranged during 2016/17. Committee Members are also required to complete the educational TPR Public Service Toolkit. 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
- 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 2017 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 2016/17 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 undertook its latest strategic review in April 2015, which informed the development of its Corporate Plan 2016/17-2018/19. 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 2017) 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 2016/17.

### 4. Departmental Approvals

In line with the DoF Pay Remit approval process, NILGOSC requested and subsequently received approval on 8 September 2016 for the National Joint Council pay settlement for 2016/17 and 2017/18.

NILGOSC received approval from the Department of Finance on 7 October 2016 to write off overpayments to pensioners less than £250 per case identified as a result of the Guaranteed Minimum Pension reconciliation exercise. A total of £2,897.43 has been written off in 2016/17.

NILGOSC received approval from the Department of Finance on 9 June 2017 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 2016/17. 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. In 2016, the Departmental Assurance reporting process and Statements were revised to seek further assurances on internal control and governance arrangements within Arms Length Bodies. NILGOSC liaised with the Department on the changes and requirements and in February 2017, the Departmental Assurance Statement for the quarter ended 31 December 2016 was presented to the ARAC and Management Committee, in line with the new requirements.

The quarterly risk reviews and subsequent reports provided during 2016/17 resulted in an increase in the risk score of one risk and decrease in the scoring of two other risks on the risk register. These changes to the risk register were all approved by the Management Committee. Two new risks were also added to the risk register during 2016/17.

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 3 May 2017. The review included consideration of challenges facing NILGOSC in 2017/18, including the role of NILGOSC's Sponsor Department and review of Arms Length Bodies, regulatory changes including the new General Data Protection Regulation, and various ongoing projects to enhance systems and processes, to improve efficiency and service delivery to our stakeholders. It was acknowledged that 2017/18 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 2017/18 register. One risk was also removed from the register due to it being absorbed by another risk. Risk scores were reviewed and amended as appropriate and are reflected in the risk register for 2017/18, 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 implemented improvements and made good progress during 2016/17 in addressing those risk issues identified at the beginning of the year, particularly in relation to the triennial valuation, updating of NILGOSC's IT systems, ensuring adequate staffing

levels are in place to manage the increased demands on the organisation, and embedding the processes and requirements of the new Sponsor Department. Looking forward to 2017/18, 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

Given the increased threat of cyber crime, NILGOSC developed a Data Breach Response Plan for inclusion in the Business Continuity Plan (BCP) in early 2017. This outlined the steps to be taken to manage a significant breach of information security. NILGOSC chose to assess the effectiveness of the Response Plan for the annual BCP test which was undertaken in February 2017. The test was based on a scenario where a significant data/cyber related breach had occurred and the specific steps to be taken to manage the breach scenario were agreed and documented, using the Response Plan. No significant issues were identified and some 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 are being investigated. 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. There were five cases of attempted cyber fraud during the year ended 31 March 2017. Sufficient controls were in place to detect these and all relevant parties were notified. No incidents were raised through the Whistleblowing Policy.

In late 2016, NILGOSC undertook a fraud risk assessment, in line with Northern Ireland Audit

Office (NIAO) guidance. Some minor enhancements were identified and actions were implemented where appropriate, including updating policies for third parties wishing to report fraud or whistleblowing concerns.

### 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. During 2016/17, NILGOSC implemented a secure email software platform to enhance security further when sharing personal information with external parties. 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 2016/17. None of these breaches constituted a significant breach of sensitive data, in accordance with the Information Commissioner's Office guidance.

As part of its annual risk review for 2016/17, NILGOSC carried out an information risk assessment, to identify the information risks facing NILGOSC and the potential impact of these risks. The outcome of the assessment demonstrated that, overall, NILGOSC's potential exposure to information risk is low and there is a satisfactory level of assurance that existing processes and practices are in place and operating effectively. Information risk assessment and management is fully embedded in the risk management process and monitored on an ongoing basis. In addition, due to the increased threat of cyber attacks, a review of cyber security controls within NILGOSC was carried out during 2016/17, in line with relevant governmental guidance issued. No significant issues were noted and some enhancements and areas for improvement were identified which have been addressed or are being monitored for implementation.

## 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 2016/17 are set out below:

- The Funding Strategy
- Reorganisation of the Northern Ireland Civil Service Departments resulting in a new Sponsor Department
- New investments in Private Sector Residential Property and Infrastructure
- Appointment of a new Global Equity Manager and transfer of assets
- Review of asset allocations in December 2016 and implementation of the resulting recommendations
- Tender and appointment of the new Global Custodian contract
- Various initiatives in investment of the Fund including hedging and co-investments
- The 2016 triennial valuation and employer covenant assessment exercise
- Admission and cessation of bodies to/from the Scheme. Details of the bodies admitted and ceased during 2016/17 are set out in the Administration of the Pension Scheme section of this report.
- The outcome of the Supreme Court ruling resulting in formal nominations for co-habiting partners to be determined unnecessary
- The impact of the UK voting to leave the EU, in particular on investments and the Fund
- The potential impact of the new Markets in Financial Instruments Directive (MiFID) II, due to come into force in January 2018

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 2016/17 are set out in its Annual Report, which is provided on pages 102 to 105 of this report.

The ARAC undertakes an annual review of its effectiveness, in line with best practice issued by the National Audit Office. The review undertaken for 2016/17 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 2016/17 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 2016/17 referred to at 6.2 above, the majority of Committee Members agreed that meeting papers are easy to understand and properly focused. It was noted that the papers can, on occasion, be relatively extensive however it was agreed that the information contained is necessary. 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.

NILGOSC adopted revised assurance and priority ratings for all internal audit reviews carried out in 2016/17, following changes as a result of the Department of Finance's Circular DAO (DoF) 07/16 "Internal Audit opinions and Prioritisation of Recommendations". This resulted in the 'Satisfactory' assurance rating being the highest level of assurance that can be provided.

In their Annual Assurance Statement, the Internal Auditors stated that, during the twelve month period ended 31 March 2017, 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 on pages 102 to 105. 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 2017.

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 2016/17 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. An independent external quality assessment of NILGOSC's internal audit service was also previously undertaken in 2014/15, which concluded the service provided by ASM is satisfactory and conforms with the Public Sector Internal Audit Standards.

### 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 2016.

The NIAO has stated its intention to issue an unqualified opinion for 2016/17.

### 6.6 Other

On 1 September 2016, NILGOSC received the Responsible Investment award at the 2016 Local Authority Pension Fund (LAPF) awards ceremony in London. This was for recognition of its work in relation to responsible investment and incorporation of environmental, social and corporate governance issues into investments. NILGOSC was also awarded a "High Commendation" in Governance.

In November 2016, NILGOSC won the Local Government Chronicle Knowledge and Skills Award, in recognition of its processes and methods for delivering training.

## 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 2017 that require 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 2016/17 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 Murphy**  
**Chief Executive and Secretary**  
 22 August 2017



# **ACCOUNTABILITY REPORT**

REMUNERATION AND STAFF REPORT



## 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](mailto: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)

Officers	2016/17				2015/16			
	Salary	Benefits in Kind	Pension Benefits	Total	Salary	Benefits in Kind	Pension Benefits	Total
	£	£	£	£	£	£	£	£
David Murphy Chief Executive and Secretary	85,001- 90,000	-	26,366	115,001- 120,000	85,001- 90,000	-	26,419	110,001- 115,000
Nicola Todd Deputy Secretary	70,001- 75,000	-	21,993	90,001- 95,000	65,001- 70,000	-	22,025	85,001- 90,000
Band of Highest Paid Employee's Total Remuneration	85,001-90,000				85,001-90,000			
Median Total Remuneration	22,090				22,212			
Ratio	3.96				3.94			
Range of Staff Remuneration	16,000 – 89,000				15,000 – 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.

Chairman	2016/17		2015/16	
	Salary	Benefits in Kind	Salary	Benefits in Kind
	£	£	£	£
Trevor Salmon	13,182	-	13,052	-

### 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.

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.

### 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.

The ratio of 3.96 for 2016/17 has increased slightly from 2015/16 as the banded remuneration of the most highly paid employee has remained the same as 2015/16 but the median remuneration has decreased by £122. 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 decrease but has remained within the same salary scale as the previous year (£20,456 to £22,434) as a significant proportion of staff are paid at this salary scale.

### 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 2016/17 was £85,001-£90,000 (2015/16, £85,001-£90,000). This was 3.96 times (2015/16, 3.94) the median remuneration of the workforce, which was £22,090 (2015/16, £22,212).

### 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.

### Management Committee Members' Attendance Allowance

Committee Members	2016/17	2015/16
	£	£
Joseph Donaghy	2,124	2,223
Julie Erskine	2,243	2,106
Bumper Graham	2,243	1,989
Celine McCartan	1,419	1,521
Peter McMurray	1,770	1,755
Linda Neilan*	2,007	2,457
Peter Caldwell	2,007	2,223
David Jackson	2,004	1,521
Ciaran Quigley**	-	585
Tom Irvine	2,243	2,457
Sharon McQuillan*	708	2,457
Lindsay Todd	2,478	2,340
Joan McCaffrey***	2,243	117

\* Members were absent during the year due to ill health

\*\* Resigned 30 September 2015

\*\*\* Appointed 1 March 2016

**Pension Benefits (audited)**

<b>Officers</b>	<b>Accrued Pension and Related Lump Sum at Age 65 as at 31/03/17</b>	<b>Real Increase in Pension and Related Lump Sum at Age 65</b>	<b>CETV at 31/03/17</b>	<b>CETV at 31/03/16</b>	<b>Real Increase in CETV</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
David Murphy	29,789	1,781			
Chief Executive and Secretary	plus lump sum of 52,193	plus lump sum of nil	441,819	408,462	20,018
Nicola Todd	16,087	1,393			
Deputy Secretary	plus lump sum of 19,190	plus lump sum of nil	187,991	169,419	11,019

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 1/49<sup>th</sup> of pensionable salary from 1 April 2015 and were built up at a rate of 1/80<sup>th</sup> of pensionable salary for each year of service up to 31 March 2009 and 1/60<sup>th</sup> for each year of service between 1 April 2009 and 31 March 2015. In addition a lump sum equivalent to 3/80<sup>ths</sup> 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 2008. 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	2016/17 Total £'000	2015/16 Total £'000
Wages and salaries	1,694	321	2,015	1,808
Social Security costs	152	23	175	109
Other pension costs	364	55	419	356
<b>Total</b>	<b>2,210</b>	<b>399</b>	<b>2,609</b>	<b>2,273</b>

**Average number of persons employed**

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

	Permanently employed staff	Others	2016/17 Total	2015/16 Total
Directly employed	61	17	78	63
Other	-	-	-	1
<b>Total</b>	<b>61</b>	<b>17</b>	<b>78</b>	<b>64</b>

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 2016/17, employers' contributions were payable to the NILGOSC Scheme at 20% 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 accounts sets out the net defined liability attributable to NILGOSC.

**Staff Composition**

An analysis of the composition of staff members as at 31 March 2017 and 31 March 2016 on a whole-time equivalent basis is as shown below.

	Male	Female	31/3/17 Total	Male	Female	31/3/16 Total
Secretariat	1	1	2	1	1	2
Senior Managers	-	5	5	-	4	4
All Other Employees	29	42	71	22	38	60
<b>Total</b>	<b>30</b>	<b>48</b>	<b>78</b>	<b>23</b>	<b>43</b>	<b>66</b>

### Sickness Absence

The average number of days lost to sickness absence by all staff in 2016/17 was 5.7 days (2015/16 – 3.9 days).

### Equal Opportunity

It is the policy of the Committee to ensure that equality of opportunity is provided to all employees and those seeking employment and make all reasonable adjustments to support the employment, training and development and retention of those with a disability. This is reflected across all of NILGOSC’s staff policies.

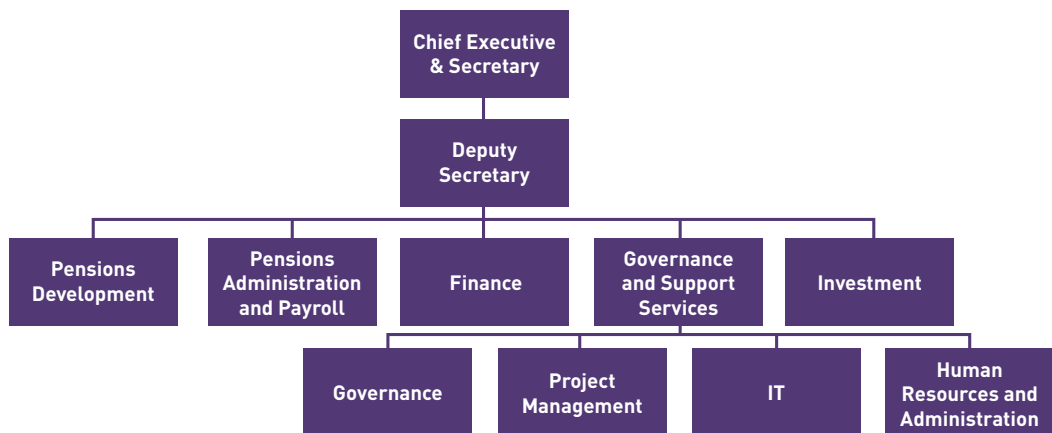
### Payments to Consultants

There were no payments to consultants during 2016/17 (2015/16: 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.



### Staff Development

Training and development of staff is a key priority for NILGOSC and each year 3% of salary costs are invested in this particular area. As part of the annual appraisal process, staff are required to complete individual training plans which outline their training needs for the following twelve months. 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.

various channels – team meetings, briefings, circulars and the staff intranet. NILGOSC continued its quarterly staff newsletter throughout 2016/17 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. 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. Staff are involved in the preparation of the annual corporate plan.

### 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

All these initiatives give staff the opportunity to contribute constructively to the development and progress of the Committee 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 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 £11,495. £6,661 relates to the non-recovery of pensioner overpayments as a result of death and £4,834 relates to non-death related pensioner overpayments. £2,897 of the non-death pensioner overpayments relates to overpayments less than £250 per case identified as a result of the GMP reconciliation exercise. The Department for Communities approved the write off of GMP related overpayments less than £250 per case in October 2016.

Bad debts written off during the year total £629,722 and relate to cessation debt and redundancy strain costs in relation to two employing authorities that are not recoverable. These write offs required approval by the Department of Finance which was received in June 2017.

### 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 2016/17 (2015/16: nil).

## (IV) REMOTE CONTINGENT LIABILITIES (AUDITED)

In addition to contingent liabilities reported within the meaning of IAS 37 (see Note 23 to the Accounts) 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 2017 (2015/16: no remote contingent liabilities).



**David Murphy**  
**Chief Executive and Secretary**  
22 August 2017



**ACCOUNTABILITY  
REPORT**  
AUDIT REPORT



## **THE CERTIFICATE AND REPORT OF THE LOCAL GOVERNMENT AUDITOR TO THE ACCOUNTING OFFICER FOR THE NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE**

I have audited the financial statements of the Northern Ireland Local Government Officers' Superannuation Committee ("NILGOSC") for the year ended 31 March 2017 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 that is described in that report as being audited.

### **Respective responsibilities of the Accounting Officer and auditor**

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. 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 conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining 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. This includes an assessment of: whether the accounting policies are appropriate to the Northern Ireland Local Government Officers' Superannuation Committee's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Northern Ireland Local Government Officers' Superannuation Committee; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially

inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

### **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.

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Northern Ireland Local Government Officers' Superannuation Committee's affairs as at 31 March 2017 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 pensions and benefits after the scheme year end; and
- the financial statements 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 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 the Northern Ireland Local Government Officers' Superannuation Committee during the year ended 31 March 2017 have in all material respects been paid in accordance with the rules of the Scheme and with the recommendation of the Actuary.

### 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 part 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 that 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.



**Louise Mason**  
**Local Government Auditor**

Northern Ireland Audit Office  
106 University Street  
Belfast  
BT7 1EU

29 August 2017





# ACCOUNTS

## ACCOUNTS

### FUND ACCOUNT YEAR ENDED 31 MARCH 2017

	Note	2016/17 £'000	2015/16 £'000
<b>Contributions and benefits</b>			
Contributions receivable	4	260,068	255,435
Transfers in		8,581	11,373
		<u>268,649</u>	<u>266,808</u>
Benefits	5	(232,538)	(221,543)
Payments to and on account of leavers	6	(4,080)	(4,147)
Administration expenses	7	(6,281)	(3,803)
		<u>(242,899)</u>	<u>(229,493)</u>
<b>Net additions from dealings with members</b>		<u>25,750</u>	<u>37,315</u>
<b>Return on investments</b>			
Investment income	8	73,915	87,854
Change in market value of financial investments	9	1,193,594	(140,774)
(Losses)/gains arising from changes in fair values of investment properties	10	(9,115)	32,496
Investment management expenses	11	(19,267)	(18,304)
<b>Net return on investments</b>		<u>1,239,127</u>	<u>(38,728)</u>
<b>Net increase/(decrease) in the Scheme during the year</b>		<u>1,264,877</u>	<u>(1,413)</u>
Remeasurement (losses)/gains on the retirement benefit obligation	18	(2,035)	783
		<u>(2,035)</u>	<u>783</u>
<b>Opening net assets of the Scheme</b>		<u>5,820,140</u>	<u>5,820,770</u>
<b>Closing net assets of the Scheme</b>		<u>7,082,982</u>	<u>5,820,140</u>

The notes on pages 75 to 96 form part of these financial statements.

## NET ASSETS STATEMENT AS AT 31 MARCH 2017

	Note	2016/17 £'000	2015/16 £'000
<b>Non-current assets</b>			
Financial assets	9	6,326,269	5,014,205
Investment properties	10	721,580	729,191
Intangible assets	12	127	290
Property, plant and equipment	13	1,494	1,468
Revaluation reserve	14	(251)	(130)
<b>Total non-current assets</b>		<b>7,049,219</b>	<b>5,745,024</b>
<b>Current assets</b>			
Trade and other receivables	15	34,638	43,969
Cash and cash equivalents	16	34,869	61,915
<b>Total current assets</b>		<b>69,507</b>	<b>105,884</b>
<b>Total assets</b>		<b>7,118,726</b>	<b>5,850,908</b>
<b>Current liabilities</b>			
Trade and other payables	17	(31,178)	(28,363)
<b>Total current liabilities</b>		<b>(31,178)</b>	<b>(28,363)</b>
<b>Non-current assets plus net current assets</b>		<b>7,087,548</b>	<b>5,822,545</b>
<b>Non-current liabilities</b>			
Retirement benefit obligations	18	(4,566)	(2,405)
<b>Total non-current liabilities</b>		<b>(4,566)</b>	<b>(2,405)</b>
<b>Total net assets of the Scheme</b>		<b>7,082,982</b>	<b>5,820,140</b>

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 97 to 98 and these financial statements should be read in conjunction with it.

The notes on pages 75 to 96 form part of these financial statements.



**David Murphy**  
**Secretary**

22 August 2017

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

	2016/17 £'000	2015/16 £'000
<b>Cash flows from operating activities</b>		
Net increase/(decrease) in the Scheme during the year	1,264,877	(1,413)
Adjustments for non-cash transactions		
Change in market value of investments and gains arising from changes in fair value of investment properties	(1,184,479)	108,278
Depreciation/amortisation	338	306
IAS 19 pension cost less contributions payable	126	121
Gain on revaluation property, plant & equipment	-	(60)
Adjustment for movements in working capital		
Decrease/(increase) in trade and other receivables	9,331	(4,286)
Increase/(decrease) in trade and other payables	<u>2,815</u>	<u>(672)</u>
<b>Net cash inflow from operating activities</b>	<b>93,008</b>	<b>102,274</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant & equipment and intangible assets	(80)	(70)
Purchase of investment properties	(8,297)	(10,777)
Purchase of investment assets	(5,058,777)	(1,005,077)
Proceeds of disposal of investment properties	6,793	36,992
Proceeds of disposal of investment assets	<u>4,940,307</u>	886,310
<b>Net cash outflow from investing activities</b>	<b>(120,054)</b>	<b>(92,622)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(27,046)</b>	<b>9,652</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b><u>61,915</u></b>	<b><u>52,263</u></b>
<b>Cash and cash equivalents at the end of the year</b>	<b><u>34,869</u></b>	<b><u>61,915</u></b>

The notes on pages 75 to 96 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

### 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, guidance set out in the 2016/17 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

Benefits payable are accounted for on an accruals basis on the date of retirement, death or leaving the Fund as appropriate.

### 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.

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.

## 2.9 Investment transaction costs

Investment transaction costs are included in the cost of investments purchased or deducted from the proceeds of investments sold.

## 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 fund manager valuation as at the year end date which is 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.

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

**2. Accounting policies (continued)**

**2.17 Foreign currencies**

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Investments 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 95 and the Actuarial Statement on pages 97 to 98. 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 fund manager valuation as at the year end date. 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 not issued any new or amended standards applicable for 2017/18 that are likely to have a material impact on the NILGOSC financial statements.

**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

		2016/17	2015/16
		£'000	£'000
Employers	normal	175,589	174,925
	early retirement funding*	11,251	15,145
	special contributions**	18,809	10,755
Employees	normal	54,419	54,610
		<b>260,068</b>	<b>255,435</b>

\* Early retirement funding has remained at a high level in 2016/17 as a result of the public sector exit schemes. The decrease from 2015/16 is a result of a decrease in the average cost of early retirements in comparison to 2015/16.

\*\* The special contributions in 2016/17 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

		2016/17	2015/16
		£'000	£'000
Pensions*		163,836	153,362
Commutations and lump sum retirement benefits		62,177	62,400
Lump sum death benefits		6,525	5,781
		<b>232,538</b>	<b>221,543</b>

\* In addition, £4.331m of agency and compensation pensions were paid on an agency basis and recharged to employing authorities (2015/16: £4.363m). 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

		2016/17	2015/16
		£'000	£'000
Refund to members leaving service		440	474
Payment for members joining state scheme		184	141
Transfers to other schemes		3,456	3,532
		<b>4,080</b>	<b>4,147</b>

**7. Administration expenses**

	<b>2016/17</b>	2015/16
	<b>£'000</b>	£'000
Staff costs (note 19)	<b>2,592</b>	2,223
Agency staff costs (note 19)	<b>17</b>	50
Office overheads	<b>571</b>	573
Depreciation and amortisation (notes 12 & 13)	<b>338</b>	306
Communication	<b>174</b>	188
Other administration	<b>182</b>	153
Templeton House revaluation	<b>-</b>	(60)
Actuarial fees	<b>121</b>	35
Internal audit fees	<b>31</b>	30
External audit fees	<b>25</b>	26
Legal and other professional fees	<b>234</b>	106
Medical fees	<b>63</b>	60
Movement in provision in respect of employing authority debt*	<b>1,303</b>	18
Write-offs in respect of employing authority debt**	<b>630</b>	95
	<b><u>6,281</u></b>	<u>3,803</u>

\* The movement in provision in respect of employing authority debt in 2016/17 relates mainly to cessation debt for an employing authority which became insolvent during the year and for which recovery of the debt is doubtful.

\*\* Employing authority debt written off in 2016/17 related mainly to cessation debt and redundancy strain costs for an employing authority which entered into a creditors' voluntary liquidation during the year. The amount of write-off is based on the dividend expected to be received in the liquidation process.

**8. Investment income**

	<b>2016/17</b>	2015/16
	<b>£'000</b>	£'000
Fixed interest securities	<b>5,640</b>	5,829
Dividends from equities	<b>54,696</b>	54,463
Pooled investment vehicles	<b>889</b>	829
Infrastructure/private equity investments	<b>686</b>	287
Net rents from properties	<b>34,854</b>	37,007
Interest on deposits	<b>439</b>	521
Stock lending income	<b>2,481</b>	1,172
Foreign exchange losses	<b>(25,336)</b>	(11,993)
Other - Class actions/other income	<b>11</b>	81
	<b><u>74,360</u></b>	<u>88,196</u>
Irrecoverable withholding tax	<b>(445)</b>	(342)
Total Investment Income	<b><u>73,915</u></b>	<u>87,854</u>

## 8. Investment income (continued)

### Stock Lending

The Fund's securities lending programme continued during the year ended 31 March 2017. 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 2017, there was one nil paid rights position with nil value on loan against collateral of £1,060.66 (2015/16: Securities amounting to £193,235,915 were on loan against collateral of £208,254,171). 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 2016 £' 000	Purchases at cost £' 000	Sales proceeds £' 000	Change in market value £' 000	Value at 31 03 2017 £' 000
Fixed interest securities	216,907	264,938	(285,243)	22,541	<b>219,143</b>
Equities	2,232,108	1,010,076	(929,343)	546,126	<b>2,858,967</b>
Pooled investment vehicles	2,528,031	3,757,009	(3,724,784)	619,529	<b>3,179,785</b>
Derivative contracts	1,638	117	(54)	(1,203)	<b>498</b>
Infrastructure/Private Equity	35,521	26,637	(883)	6,601	<b>67,876</b>
	<b>5,014,205</b>	<b>5,058,777</b>	<b>(4,940,307)</b>	<b>1,193,594</b>	<b>6,326,269</b>

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

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £2,685,608 (2015/16: £2,347,893). 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.

**9. Financial assets (continued)**

	<b>2016/17</b>	2015/16
	<b>£'000</b>	£'000
<b>Fixed interest securities</b>	<b>9,271</b>	10,640
UK public sector	<b>4,811</b>	5,900
UK other	<b>205,061</b>	200,367
Overseas fixed interest	<b>219,143</b>	216,907
<b>Equities</b>		
UK quoted	<b>1,495,079</b>	1,261,256
Overseas quoted	<b>1,363,888</b>	970,852
	<b>2,858,967</b>	2,232,108
<b>Pooled investment vehicles</b>		
Unit trusts - other	<b>3,179,785</b>	2,528,031
	<b>3,179,785</b>	2,528,031
<b>Derivative contracts</b>		
CBT 10yr note future	<b>8</b>	-
CBT 10yr ultra future	<b>(27)</b>	-
CBT 2yr note future	<b>8</b>	-
Forward currency contracts	<b>509</b>	1,638
	<b>498</b>	1,638
<b>Infrastructure/Private Equity</b>		
UK	<b>10,200</b>	400
Overseas	<b>57,676</b>	35,121
	<b>67,876</b>	35,521

**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 2017 and 31 March 2016 as shown in the analysis above.

## 9. Financial assets (continued)

### 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 2017 £'000	% of Total Fund	Market Value 31 March 2016 £'000	% of Total Fund
Legal & General – North America Equity Index	341,137	4.82%	615,314	10.58%
Legal & General – Europe (ex UK) Equity Index	664,193	9.38%	583,999	10.04%
Legal & General – Japan Equity Index – GBP Hedged	391,032	5.52%	297,483	5.11%

### Employer-Related Investments

The Scheme had no employer-related investments as at 31 March 2017 and 31 March 2016.

### 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.

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

	2016/17			2015/16		
	Equitable Life £' 000	Prudential £' 000	Total £' 000	Equitable Life £' 000	Prudential £' 000	Total £' 000
Value at start of year	293	21,942	22,235	314	24,452	24,766
Contributions invested	2	6,726	6,728	3	6,371	6,374
Sales of investments	(24)	(6,876)	(6,900)	(27)	(8,874)	(8,901)
Change in market value	22	1,533	1,555	3	(7)	(4)
Value at end of year	<b>293</b>	<b>23,325</b>	<b>23,618</b>	293	21,942	22,235

**10. Investment property**

	<b>2016/17</b>	2015/16
	<b>£' 000</b>	£' 000
<b>Fair Value</b>		
At start of year	<b>729,191</b>	722,910
Additions	<b>8,297</b>	10,777
Sales	<b>(6,793)</b>	(36,992)
(Losses)/gains arising from changes in fair values	<b>(9,115)</b>	32,496
At end of year	<b><u>721,580</u></b>	<u>729,191</u>

The investment properties were valued as at 31 March 2017 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 (2015/16: £37.0m) 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:

	<b>2016/17</b>	2015/16
	<b>£' 000</b>	£' 000
Not later than one year	<b>36,414</b>	35,952
Later than one year and not later than five years	<b>122,202</b>	124,855
Later than five years	<b>208,161</b>	223,164
	<b><u>366,777</u></b>	<u>383,971</u>



**11. Investment management expenses**

	2016/17 £' 000	2015/16 £' 000
Administration, management and custody	18,915	18,005
Performance measurement services	26	26
Other advisory fees	326	273
	<u>19,267</u>	<u>18,304</u>

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.

Investment management expenses for 2015/16 exclude investment management fees of £1.151m relating to an infrastructure investment that were incorrectly capitalised as part of the cost of the investment. An adjustment has been made in 2016/17 to correctly classify these fees as investment management expenses.

**12. Intangible assets**

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

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
<b>Cost</b>				
At 1 April 2016	1,150	417	977	<b>2,544</b>
Revaluation	75	-	-	<b>75</b>
Additions	-	26	-	<b>26</b>
Disposals	-	(38)	-	<b>(38)</b>
<b>At 31 March 2017</b>	<b>1,225</b>	<b>405</b>	<b>977</b>	<b>2,607</b>
<b>Depreciation</b>				
At 1 April 2016	-	319	757	<b>1,076</b>
Charge for the year	46	54	21	<b>121</b>
Revaluation Adjustment	(46)	-	-	<b>(46)</b>
Depreciation on disposals	-	(38)	-	<b>(38)</b>
<b>At 31 March 2017</b>	<b>-</b>	<b>335</b>	<b>778</b>	<b>1,113</b>
<b>Net book value</b>				
At 31 March 2016	1,150	98	220	<b>1,468</b>
<b>At 31 March 2017</b>	<b>1,225</b>	<b>70</b>	<b>199</b>	<b>1,494</b>

## 13. Property, Plant and Equipment (continued)

	Property £' 000	Fixtures, Fittings & Equipment £' 000	Refurbishment £' 000	Total £' 000
<b>Cost</b>				
At 1 April 2015	1,000	387	958	<b>2,345</b>
Revaluation	150	-	-	<b>150</b>
Additions	-	42	19	<b>61</b>
Disposals	-	(12)	-	<b>(12)</b>
<b>At 31 March 2016</b>	<b>1,150</b>	<b>417</b>	<b>977</b>	<b>2,544</b>
<b>Depreciation</b>				
At 1 April 2015	-	266	737	<b>1,003</b>
Charge for the year	40	65	20	<b>125</b>
Revaluation Adjustment	(40)	-	-	<b>(40)</b>
Depreciation on disposals	-	(12)	-	<b>(12)</b>
<b>At 31 March 2016</b>	<b>-</b>	<b>319</b>	<b>757</b>	<b>1,076</b>
<b>Net book value</b>				
At 31 March 2015	1,000	121	221	<b>1,342</b>
<b>At 31 March 2016</b>	<b>1,150</b>	<b>98</b>	<b>220</b>	<b>1,468</b>

The property was valued as at 31 March 2017 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

	2016/17 £'000	2015/16 £'000
At 1 April 2016	(130)	-
Revaluation during the year	(121)	(130)
<b>At 31 March 2017</b>	<b>(251)</b>	<b>(130)</b>

**15. Trade and other receivables**

	2016/17 £'000	2015/16 £'000
Receivables and other current assets	10,419	17,287
VAT and other receivables	1,294	786
Less: Provision for impairment of receivables	<u>(2,236)</u>	<u>(276)</u>
Receivables and other current assets-net	9,477	17,797
Pension contributions due *	11,412	11,591
Prepayments and accrued income	<u>13,749</u>	<u>14,581</u>
	<u><b>34,638</b></u>	<u>43,969</u>

\*All contributions due to the Scheme relate to the month of March 2017 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.

	2016/17 £'000	2015/16 £'000
At 1 April	61,915	52,263
Net change in cash balances	<u>(27,046)</u>	<u>9,652</u>
	<u>34,869</u>	<u>61,915</u>
The following balances at 31 March were held at:		
Commercial banks and cash in hand	11,220	11,193
Investment cash	<u>23,649</u>	<u>50,722</u>
	<u><b>34,869</b></u>	<u>61,915</u>

**17. Trade and other payables**

	2016/17 £'000	2015/16 £'000
Trade payables and other current liabilities	88	23
Unpaid benefits	6,328	5,302
Social Security and other taxes	2,641	3,046
Accruals and deferred income	<u>22,121</u>	<u>19,992</u>
	<u><b>31,178</b></u>	<u>28,363</u>

## 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 2017 NILGOSC had 73 active members (2015/16:64), 56 deferred members (2015/16:57) and 16 pensioners (2015/16:14).

### Net defined benefit liability

	<b>2016/17</b>	2015/16
	<b>£'000</b>	£'000
Fair value of assets	<b>10,527</b>	7,917
Present value of funded defined benefit obligation	<b>(15,093)</b>	(10,322)
Net defined benefit liability	<b>(4,566)</b>	(2,405)

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

Active members	<b>47%</b>
Deferred pensioners	<b>18%</b>
Pensioners	<b>35%</b>

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 2017. 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.

	<b>2016/17</b>	2015/16
	%	%
Rate of increases in salaries	<b>3.5</b>	3.3
Discount rate	<b>2.6</b>	3.5
Inflation / Pension increase rate	<b>2.0</b>	1.8

**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:

	<b>2016/17</b>	2015/16
	Years	Years
Current pensioners (at age 65) - males	<b>23.2</b>	22.3
Current pensioners (at age 65) - females	<b>25.8</b>	24.8
Future pensioners (at age 65) - males	<b>25.4</b>	24.5
Future pensioners (at age 65) - females	<b>28.1</b>	27.2

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:

	<b>2016/17</b>	2015/16
	%	%
Equities	<b>74.5</b>	71.9
Bonds	<b>11.5</b>	12.1
Property	<b>10.5</b>	13.2
Cash	<b>2.6</b>	2.3
Other	<b>0.9</b>	0.5

**18. Retirement benefit obligations (continued)****Analysis of amounts charged against profits**

	2016/17 £' 000	2015/16 £' 000
<b>Operating cost</b>		
Current service cost	419	356
Total	<u>419</u>	<u>356</u>
<b>Finance cost</b>		
Interest on net defined benefit liability	78	93
Total	<u>78</u>	<u>93</u>

**Remeasurement Gains and Losses**

	2016/17 £' 000	2015/16 £' 000
Return on plan assets (in excess of)/below that recognised in net interest	(2,057)	26
Actuarial losses/(gains) due to change in financial assumptions	2,987	(710)
Actuarial losses due to changes in demographic assumptions	4	-
Actuarial losses/(gains) due to liability experience	1,101	(99)
Net loss/(gain)	<u>2,035</u>	<u>(783)</u>

**Scheme assets**

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

	2016/17 £' 000	2015/16 £' 000
Fair value of scheme assets at start of year	7,917	7,575
Interest income on assets	282	244
Contributions by Members	124	112
Contributions by the Employer	371	328
Benefits paid	(224)	(316)
Re-measurement gains/(losses) on assets	2,057	(26)
Fair value of scheme assets at end of year	<u>10,527</u>	<u>7,917</u>

The actual return on assets is as follows:

	2016/17 £' 000	2015/16 £' 000
Interest income on assets	282	244
Re-measurement gain/(loss) on assets	2,057	(26)
Actual return on assets	<u>2,339</u>	<u>218</u>

**18. Retirement benefit obligations (continued)****Present value of defined benefit obligation**

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

	<b>2016/17</b>	2015/16
	<b>£' 000</b>	£' 000
Present value of obligations at start of year	<b>10,322</b>	10,642
Current service cost	<b>419</b>	356
Interest cost	<b>360</b>	337
Contributions by Members	<b>124</b>	112
Benefits paid	<b>(224)</b>	(316)
Actuarial losses/(gains) on liabilities – change in financial assumptions	<b>2,987</b>	(710)
Actuarial losses on liabilities – change in demographic assumptions	<b>4</b>	-
Actuarial losses/(gains) on liabilities – experience	<b>1,101</b>	(99)
Present value of obligation at end of year	<b>15,093</b>	10,322

**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 2017 and 31 March 2016. In each case only the assumption stated is altered; all other assumptions remain the same.

**Discount rate assumption**

	<b>31 March 2017</b>		31 March 2016	
	<b>+0.1% p.a.</b>	<b>-0.1% p.a.</b>	+0.1% p.a.	-0.1% p.a.
Adjustment to discount rate				
Present value of total obligation (£000's)	<b>14,760</b>	<b>15,433</b>	10,107	10,542
% change in present value of total obligation	<b>-2.2%</b>	<b>2.3%</b>	-2.1%	2.1%
Projected service cost (£000's)	<b>603</b>	<b>645</b>	318	343
Approximate % change in projected service cost	<b>-3.3%</b>	<b>3.4%</b>	-3.7%	3.8%

**Rate of general increase in salaries**

	<b>31 March 2017</b>		31 March 2016	
	<b>+0.1% p.a.</b>	<b>-0.1% p.a.</b>	+0.1% p.a.	-0.1% p.a.
Adjustment to salary increase rate				
Present value of total obligation (£000's)	<b>15,188</b>	<b>14,999</b>	10,379	10,266
% change in present value of total obligation	<b>0.6%</b>	<b>-0.6%</b>	0.6%	-0.5%
Projected service cost (£000's)	<b>624</b>	<b>624</b>	330	330
Approximate % change in projected service cost	<b>0.0%</b>	<b>0.0%</b>	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 2017		31 March 2016	
	+0.1% p.a.	-0.1% p.a.	+0.1% p.a.	-0.1% p.a.
Adjustment to pension increase rate				
Present value of total obligation (£000's)	<b>15,337</b>	<b>14,854</b>	10,484	10,163
% change in present value of total obligation	<b>1.6%</b>	<b>-1.6%</b>	1.6%	-1.5%
Projected service cost (£000's)	<b>645</b>	<b>603</b>	343	318
Approximate % change in projected service cost	<b>3.4%</b>	<b>-3.3%</b>	3.8%	-3.7%

**Post retirement mortality assumption**

	31 March 2017		31 March 2016	
	-1 year	+ 1 year	-1 year	+ 1 year
Adjustment to mortality age rating assumption*				
Present value of total obligation (£000's)	<b>15,534</b>	<b>14,654</b>	10,588	10,055
% change in present value of total obligation	<b>2.9%</b>	<b>-2.9%</b>	2.6%	-2.6%
Projected service cost (£000's)	<b>646</b>	<b>602</b>	342	318
Approximate % change in projected service cost	<b>3.5%</b>	<b>-3.5%</b>	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.

<b>Asset volatility</b>	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.
<b>Changes in Bond Yield</b>	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.
<b>Inflation Risk</b>	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.
<b>Life Expectancy</b>	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.
<b>Exiting Employers</b>	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 contributions to the Fund for accounting period ending 31 March 2018 is £373k.

**19. Staff Numbers and Related Costs****Staff costs comprise:**

	Permanently employed staff £' 000	Others £' 000	2016/17 Total £' 000	2015/16 Total £' 000
Wages and salaries	1,694	321	2,015	1,808
Social security costs	152	23	175	109
Other pension costs	364	55	419	356
<b>Total</b>	<b>2,210</b>	<b>399</b>	<b>2,609</b>	<b>2,273</b>

**Average number of persons employed**

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

	Permanently employed staff	Others	2016/17 Total	2015/16 Total
Directly employed	61	17	78	63
Other	-	-	-	1
<b>Total</b>	<b>61</b>	<b>17</b>	<b>78</b>	<b>64</b>

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.

<b>Market risk</b>	<p>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.</p> <p>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.</p>
<b>Interest rate risk</b>	<p>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.</p>
<b>Credit risk</b>	<p>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.</p>
<b>Currency risk</b>	<p>Currency risk is the risk 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.</p>
<b>Liquidity risk</b>	<p>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.</p>

## 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 2017 was £8,826m (31 March 2016: £7,408m).

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.

	<b>31 March 2017</b>	31 March 2016
	%	%
Rate of increases in salaries	<b>3.5</b>	3.3
Discount rate	<b>2.6</b>	3.4
Inflation / Pension increase rate	<b>2.0</b>	1.8

### 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:

	<b>2016/17</b>	2015/16
	Years	Years
Current pensioners (at age 65) - males	<b>23.2</b>	22.3
Current pensioners (at age 65) - females	<b>25.8</b>	24.8
Future pensioners (at age 65) - males	<b>25.4</b>	24.5
Future pensioners (at age 65) - females	<b>28.1</b>	27.2

The changes in actuarial assumptions as at 31 March 2017 increased the actuarial present value of promised retirement benefits by £1,089m.

The net assets available for benefits are £7,083m which give a shortfall of £1,743m when compared to the actuarial present value of promised retirement benefits of £8,826m calculated on an IAS 19 basis. Details of the funding position of the Scheme are set out in the Actuarial Statement on pages 97 to 98.

## 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 received only one claim from a potential co-habitee however they did not meet the criteria to be entitled to a pension. There may be other potential applications for pensions by survivors in similar circumstances but the quantum of the liability cannot be determined with reasonable certainty. Based on an initial analysis carried out by NILGOSC, the potential back payment of survivors' pension is not expected to be material.

## 24. Contractual commitments

Outstanding capital commitments (investments) at 31 March 2017 totalled £218m (31 March 2016: £55m). 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.

During 2015/16 one of the employers of the Scheme rented property owned by the Scheme and rental income with respect to this property totalled £61,000. The property was sold by the Scheme in August 2015 and therefore there was no rental income from this property during 2016/17.

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 as a "Change in Market Value" in Note 9 and "Gains/losses arising from changes in fair value" in Note 10.

Losses incurred during the year in respect of pension overpayments total £11,495. £6,661 relates to the non-recovery of pensioner overpayments as a result of death and £4,834 relates to non-death related pensioner overpayments. £2,897 of the non-death pensioner overpayments relates to overpayments less than £250 per case identified as a result of the GMP reconciliation exercise. The Department for Communities approved the write off of GMP related overpayments less than £250 per case in October 2016.

Bad debts written off during the year total £629,722 and relate to cessation debt and redundancy strain costs in relation to two employing authorities that are not recoverable. These write offs required approval by the Department of Finance which was received in June 2017.

### (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 2017.

**The Financial Statements were authorised for issue by the Accounting Officer on 22 August 2017.**

## 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 Hewitt Limited, 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 Hewitt Limited'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	4.5% p.a.
Intermediate funding target	4.5% p.a.
Orphan body funding target	4.5% p.a.
Left-service discount rate	
Main Employer Group funding target	4.5% p.a.
Intermediate funding target	3.5% p.a.
Orphan body funding target	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:

	<b>Men</b>	<b>Women</b>
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. 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. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 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.
9. 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**  
**12 May 2017**

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

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



# APPENDICES



## APPENDICES

### ANNUAL EQUALITY STATEMENT YEAR ENDED 31 MARCH 2017

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 2016/17 and the equality agenda continues to be promoted and supported by the most senior levels of the organisation.

The NILGOSC Corporate Plan for 2016/17 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's Equality Scheme was last approved by the Equality Commission on 25 July 2012. NILGOSC carried out a review of effectiveness in implementing the arrangements under the Equality Scheme in late 2016. A summary report was produced, outlining the results of the findings, and NILGOSC's Equality Scheme was updated for minor changes. The updated Scheme was issued for a 12 week consultation on 9 March 2017.

NILGOSC carried out its duties in relation to the Equality Scheme throughout 2016/17 to ensure that its policies and procedures are fair and lawful. NILGOSC undertook

an Audit of Inequalities in 2014/15 to identify any inequalities that exist for those affected by the functions and policies of the pension scheme. The results were used to inform NILGOSC's Equality Scheme Action Plan for 2015 to 2018. A number of the actions set out in the Action Plan 2015-2018 were further progressed during the 2016/17 financial year. Some of the actions that have been taken or that are in progress include:

- In 2015, NILGOSC enrolled 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 also completed the course by August 2016.
- NILGOSC's policies have been updated to reflect the Shared Parental Leave arrangements applicable from 5 April 2015. A new Shared Parental Leave Policy was created and this was issued to staff for consultation in March 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 considered for required action where appropriate.
- 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. As at 31 March 2017, there are 56 individuals who have requested to receive communications from NILGOSC in alternative formats.
- Following an external review by an organisation specialising in communications, the content and design of the Annual Pension Benefit Statements was revised with a view to improving member communications.

## APPENDICES

- A staff survey regarding Equality and Good Relations was issued during the 2015/16 financial year. The results were communicated in June 2016 and used to help identify actions that could promote improved good relations among staff. This included the formation of a Staff Forum in June 2016.
- Management met on 1 February 2017 to consider and review equality monitoring datasets held and agreed actions for taking forward, to improve the comprehensiveness of the datasets held by NILGOSC.

In line with its Equality Scheme, NILGOSC carried out screening of any new or revised policies for equality impacts during 2016/17 and published quarterly screening reports on the website.

NILGOSC received one equality related complaint in the 2016/17 year relating to the revised Equality Scheme not initially being issued for consultation. There is no formal requirement to issue the Scheme for consultation as the changes were not considered to be substantive. NILGOSC however decided to issue the Scheme for consultation in March 2017 and the complaint was therefore resolved.

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](mailto: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](http://www.nilgosc.org.uk/equality-scheme).

## ANNUAL REPORT OF THE AUDIT AND RISK ASSURANCE COMMITTEE FOR YEAR ENDED 31 MARCH 2017

### 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 2017.
- 1.2 This report provides a summary of the main areas and issues considered by the Audit & Risk Assurance Committee during 2016/17.

### 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 2016/17 period. As at 31 March 2017, 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 The Annual Report and Accounts 2015/16 were prepared in line with the new Accounts Direction, in accordance with the FReM, IAS 26 'Accounting and Reporting by Retirement Benefit Plans' and other applicable International Financial Reporting Standards. This was presented to the Audit & Risk Assurance Committee on 8 August 2016. In line with DAO (DFP) 10/12 'Requirement to Complete a Governance Statement', the Chief Executive prepared his Governance Statement for 2015/16, which was considered and endorsed by the Audit & Risk Assurance Committee for inclusion in the 2015/16 Annual Report.
- 3.2 In addition to the Governance Statement, the Annual Report 2015/16 also included the Annual Report of the Audit & Risk Assurance Committee. On the recommendation of the Audit & Risk Assurance Committee, the Annual Report 2015/16 was approved by the Management Committee at its meeting on 23 August 2016 and laid before the Assembly on 6 September 2016.

### 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) appointed KPMG to provide the external audit function on its behalf. KPMG had previously been sub-contracted to carry out the external audit for NILGOSC and were reappointed through a tender exercise during 2016/17. KPMG appointed a new audit partner for provision of the external audit function from 2015/16. The Local Government Auditor has retained responsibility for signing the audit report and providing an annual opinion.
- 4.2 The NIAO presented its Report to Those Charged with Governance for 2015/16 (RTTCWG) to the Audit & Risk Assurance Committee on 8 August 2016.
- 4.3 The External Auditor advised the Audit & Risk Assurance Committee that, other than the required adjustment to the financial statements, relating to accounting for lease incentives, there were no

significant issues or weaknesses identified during the audit. The financial statements were adjusted accordingly and the final version was presented to the Management Committee on 23 August 2016. 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 2016.

- 4.4 The Local Government Auditor issued a clean audit opinion for the year ended 31 March 2016. There were no significant issues reported in the 2015/16 RTTCWG.
- 4.5 The Local Government Auditor presented its Audit Strategy 2016/17 to the Audit & Risk Assurance Committee at its meeting on 20 February 2017, which was subsequently approved.

**5 Internal Audit**

- 5.1 The current internal audit service contract is for a three year period to 31 March 2018, with NILGOSC having the option to extend the contract for two further one-year periods. The five-year Internal Audit Strategy was presented to the Audit & Risk Assurance Committee and approved in June 2015.
- 5.2 The Internal Auditor presented the final audit plan for 2016/17 to the Audit & Risk Assurance Committee on 6 June 2016 and confirmed that the plan was established within the context of NILGOSC’s Internal Audit Strategy. The Audit & Risk Assurance Committee approved the 2016/17 Internal Audit Plan and no further revisions were made to the plan during 2016/17.
- 5.3 The internal audit reviews conducted during 2016/17 and the assurance opinion provided in respect of each is set out in the table below:

Review	Assurance Opinion
Investment Monitoring and Reporting	Satisfactory
Maintenance of Scheme records	Satisfactory
Guaranteed Minimum Pension Reconciliations	Satisfactory
Pensioners’ Payroll	Satisfactory
IT Systems and Security	Satisfactory

5.4 NILGOSC adopted revised assurance and priority ratings for all internal audit reviews carried out in 2016/17, following changes as a result of the Department of Finance’s Circular DAO (DoF) 07/16 “Internal Audit opinions and Prioritisation of Recommendations”. ‘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 2016/17.

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 2016 and February 2017 and the Audit & Risk Assurance Committee noted the progress that had been made during 2016/17.

5.6 In their Annual Assurance Report, the Internal Auditors stated that, during the twelve month period ended 31 March 2017, 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 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 2017.

**6 Risk, Control and Governance**

6.1 During the annual review of the risk register in May 2016, the risk register was extensively reviewed, with risks being re-assessed and re-evaluated. A number of amendments were made to the Risk Register following the review including risk scoring and risk owners. There were no new risks added or risks removed from the register. The Audit & Risk Assurance Committee reviewed the risk register 2016/17 and approved the content.

6.2 A review of NILGOSC’s Risk Management Policy, Risk Appetite and Risk Evaluation guidance was also carried out. No changes were required as a result of the review.

6.3 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.

- 6.4 The quarterly risk reviews and subsequent reports provided during 2016/17 resulted in an increase in the net risk score of one risk on the risk register and decrease in the net score of two risks. Two new risks were also added to the risk register during 2016/17. The changes to the risk register were all approved by the Audit & Risk Assurance Committee.
- 6.5 A report on information risk was presented to the Audit & Risk Assurance Committee in February 2017. This provided an overview of the sources of assurance and controls in place within NILGOSC to manage information risk, including cyber security. In November 2016, NILGOSC carried out a review of cyber security controls in line with governmental guidance to identify any gaps or areas for improvement. Any areas for improvement were noted and steps have been taken to enhance protection, where appropriate.
- 6.6 The Department for Communities 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. The Departmental Assurance reporting process and statements were revised during the year following reorganisation and formation of the new Northern Ireland Civil Service Departments. Key changes included the requirement for Departmental Assurance Statements to be presented to the Audit and Risk Assurance Committee and Management Committee for noting and feedback, including a signed Statement from the Committee Chairperson, as a further source of assurance to the Department.

## **7 Fraud and Whistleblowing**

- 7.1 During 2016/17, there were five cases of attempted cyber fraud in the form of emails from an unknown perpetrator. Appropriate controls were in place to detect these and the attempted frauds were reported to the appropriate bodies. There were no other cases of suspected fraud identified or whistleblowing reported during the year ended 31 March 2017.

- 7.2 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 the National Fraud Initiative and mortality tracing exercises. It includes any cases that have been reported through NILGOSC's Whistleblowing Policy and also provides details of any anti-fraud initiatives undertaken by NILGOSC, such as the commencement of monthly matching of NILGOSC data to death records provided by the General Register Office for Northern Ireland.
- 7.3 In December 2016, NILGOSC completed the NIAO 'Managing Fraud Risk in a Changing Environment' Self-Assessment checklist, identifying some minor enhancements and areas for improvement to further minimise fraud risks. The required enhancements are being monitored of which some have already been implemented.
- 7.4 The Department of Finance issued DAO 09/16 "Good Practice in Fraud Investigations" on 1 November 2016, to advise of recommended practices in fraud investigations, in line with recent Northern Ireland Audit Office and Public Accounts Committee reports. This was presented to the Audit & Risk Assurance Committee on 21 November 2016. At the end of 2016, NILGOSC reviewed and updated all relevant policies in line with DAO 09/16 and best practice, including actions identified from the cyber security review and fraud risk assessment. The updated Anti-Bribery Policy, Anti-Fraud Policy and Fraud & Corruption Response Plan were presented to the Audit & Risk Assurance Committee and Management Committee for approval on 20 February 2017.

## **8 Other**

- 8.1 In June 2016, the Audit & Risk Assurance Committee reviewed the outcome of the annual Business Continuity Plan (BCP) test undertaken in March 2016. The test was mainly a procedural exercise, designed to test NILGOSC's ability to run the monthly pension payroll in the absence of key staff. Additional exercises tested NILGOSC's ability to submit a BACS file and the functionality of the finance systems at the disaster recovery site. The standard incident reporting procedures were also tested. The Audit & Risk Assurance Committee noted that all elements tested were deemed to be successful. Some actions and areas for improvement were identified further to the tests, which were included in an action plan and implemented during 2016/17. The Audit & Risk Assurance Committee took assurance from the successful outcome of the tests, noting the report and action plan.

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 amendments to the Terms of Reference were minor in nature, mainly to reflect the changes to the Audit and Risk Assurance Committee Handbook and changes in NILGOSC’s management structure. At its meeting on 21 November 2016, the Audit & Risk Assurance Committee reviewed and considered the changes made to the Terms of Reference since the last review in November 2015 and was content to recommend them to the Management Committee for approval. A summary of the changes to the HM Treasury Handbook

was also presented to the Audit & Risk Assurance Committee on 21 November 2016. The approved Terms of Reference are available to view on NILGOSC’s website.

8.3 The Departmental representative was in attendance at three Audit & Risk Assurance Committee meetings held in 2016/17.

**9 Effectiveness of the Audit & Risk Assurance Committee**

9.1 The Audit & Risk Assurance Committee met four times during 2016/17 in accordance with the planned work programme.

9.2 The following table sets out the attendance record for 2016/17:

Member	Meetings Called	Meetings Attended	Attendance %
Bumper Graham	4	3	75%
Linda Neilan	4	3	75%
Joan McCaffrey	4	2	50%
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.

from the internal auditor every two years and to attend a refresher governance related course in the interim year. Members of the Audit & Risk Assurance Committee attended governance related courses during 2016/17 and this was considered sufficient. It was also agreed that a closed meeting would be scheduled with the internal and external auditors following the Audit & Risk Assurance Committee meeting on 8 August 2016, which was carried out accordingly.

9.4 The Audit & Risk Assurance Committee met on 25 April 2017 to discuss the questions on the checklist and review its effectiveness for the reporting period 1 April 2016 to 31 March 2017. 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.

**10 Opinion**

10.1 Based on the assurances and information provided during the year ended 31 March 2017, the Audit & Risk Committee is satisfied that the Management Committee can rely on the risk management, internal control and corporate governance arrangements currently in operation.

9.5 One of the actions arising from the review of effectiveness in 2015/16 was that the Audit & Risk Assurance Committee agreed to have refresher training on relevant issues and topics

## EMPLOYING AUTHORITIES CONTRIBUTING TO THE SCHEME AT 31 MARCH 2017

### 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  
 Fold Housing Association  
 Graham Asset Management  
 HSG Zander Ireland Facilities Services Limited  
 Mourne Heritage Trust  
 Northern Community Leisure Trust  
 Northern Community Leisure Trust 2  
 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 Gaelscolaíochta  
 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  
 Covenanters Residential Association Limited

## APPENDICES

Derry Visitor and Convention Bureau  
General Teaching Council for Northern Ireland  
Greenwich Leisure Limited  
Grove Housing Association Limited  
Habinteg Housing Association (Ulster) Limited  
Helm Housing Association 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 Screen  
Northern Ireland Tourist Board  
Northern Ireland Transport Holding Company  
Outdoor Recreation (NI)  
Probation Board for Northern Ireland  
Rural Development Council for Northern Ireland  
Rural Housing Association  
Sports Council for Northern Ireland  
St Matthew's Housing Association Limited  
Ulsterbus Limited  
Woodvale and Shankhill

### **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

## APPENDICES

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  
Stranmillis University College  
St Mary's University College  
University of Ulster

## GLOSSARY

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

TERM	DEFINITION
<b>Accrual rate</b>	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.
<b>Active Member</b>	Current member of the pension scheme who is building up retirement benefits from their present job.
<b>Active Management</b>	A style of investment management whereby the manager seeks to add value to the fund by actively buying and selling shares.
<b>Actuary</b>	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.
<b>Actuarial Valuation</b>	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.
<b>Additional Voluntary Contributions (AVCs)</b>	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.
<b>Asset Allocation</b>	The decision as to which mix of assets to buy – shares, bonds, property or cash.
<b>Automatic Enrolment</b>	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.
<b>Balanced Management</b>	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.
<b>Benchmark</b>	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.
<b>Benefit Statement</b>	A statement showing an individual the pension benefits they have earned so far together with a forecast of what their final pension might be.
<b>Career Average Revalued Earnings (CARE)</b>	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.
<b>Cohabiting Partner</b>	Couples who live together but do not marry or enter a civil partnership.
<b>Consumer Price Index (CPI)</b>	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
<b>Contributions</b>	The money paid by an individual or his/her employer into a pension fund.
<b>Corporate Bonds</b>	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.
<b>Coupon</b>	The nominal interest a bond will pay at each payment date.

<b>Death Benefit</b>	This may be paid to a member's dependants if the member dies. It may be a pension or a one-off payment.
<b>Deferred Benefits</b>	Benefits which are calculated at the time an individual leaves the scheme and are payable at a later date.
<b>Deferred Member</b>	An individual who has left the scheme but will get pension benefits when they reach their normal retirement age.
<b>Defined Benefit Scheme</b>	A pension scheme which states in advance the level of benefits that will be paid on retirement, usually based on the service and earnings.
<b>Dependant</b>	This is someone who is dependent on a member of the pension scheme (or on a pensioner of the scheme).
<b>Eligible Child</b>	<p>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).</p> <p>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.</p>
<b>Expression of wish</b>	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.
<b>Final Pensionable Pay</b>	The pensionable earnings on which the 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.
<b>Final Salary Scheme</b>	A defined benefit scheme where the pension benefits paid on retirement are based on how much an individual is earning when they retire.
<b>Fund Manager</b>	A professional manager of investments often employed by a pension scheme to manage assets on their behalf.
<b>Gilts</b>	Bonds issued by the Government.
<b>Ill-health retirement</b>	If a member meets the qualifying criteria for ill-health retirement, their benefits will be brought into payment early. Active members receive enhanced pension benefits, depending on the severity of their medical condition.
<b>Index</b>	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.
<b>Index Linked Gilts</b>	A type of bond where the interest payment is guaranteed to rise in line with the Retail Prices Index.
<b>Index Tracking Fund</b>	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.
<b>Inflation</b>	The general rate of increase in prices and wages over a period of time.
<b>Occupational Pension Scheme</b>	A pension scheme established by an employer to provide pension benefits to its employees on their retirement.

<b>Opting Out</b>	<p>This is when an employee leaves a pension scheme or chooses not to join one.</p> <p>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.</p>
<b>Passive Management</b>	A style of investment management where no active management is required, instead investments are made in line with an index.
<b>Pension</b>	A regular income paid to an individual on their retirement.
<b>Pensions Increase</b>	In April each year NILGOSC increases pensions to reflect rises in the cost of living.
<b>Pensionable pay</b>	These are the earnings used to work out a member's benefits and contributions. They might not include overtime.
<b>Pensionable Service</b>	The period of employment that is taken into account when calculating final salary pension benefits.
<b>Retail Prices Index (RPI)</b>	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.
<b>Revaluation</b>	In April each year NILGOSC will apply CARE revaluation in accordance with the Public Service Pensions Revaluation (Prices) Order (Northern Ireland).
<b>Rule of 85</b>	<p>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:</p> <ul style="list-style-type: none"> <li>- 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.</li> <li>- 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.</li> <li>- 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.</li> </ul>
<b>Securities</b>	A general name for shares, stocks and bonds issued to investors.
<b>Shares</b>	Sold by companies looking to raise money. Shares give the holders an interest in the company and a right to share in the profits.

<b>State Pension Age</b>	<p>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 by 2046.</p> <p>The Pensions Act 2014 provides for a regular review of the State Pension Age, at least once every five years. The Government is not planning to revise the existing timetables for the equalisation of State Pension Age to 65 or the rise in State Pension Age to 66 or 67. However, the timetable for the increase in the State Pension Age from 67 to 68 could change as a result of the review.</p>
<b>Stock Selection</b>	The process of selecting which individual shares and bonds to buy and sell.
<b>Superannuation</b>	A term used to describe contributions made to a pension scheme, particularly in the public sector.
<b>Transfer Value</b>	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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