



British Coal Staff Superannuation Scheme

Report & Accounts

2010/2011

BCSS

Notice of meeting

Notice is hereby given that the
Sixty-Fourth Annual General Meeting
of the Scheme will be held in
the Crowne Plaza, St Nicholas Place,
Princes Dock, Pier Head, Liverpool, L3 1QW
on Thursday 6 October 2011 at 2.00pm.

Business

To receive the Report and Accounts for the
year to 31 March 2011 and to debate and
vote on any member Resolutions. Resolutions
to be received no later than 22 September 2011.
The meeting is open to pensioners and
deferred pensioners.

By order of the Committee of Management
Michael Furbank, Secretary
British Coal Staff Superannuation Scheme

Ventana House
2 Concourse Way
Sheaf Street
Sheffield S1 2BJ
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July 2011

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Committee of Management

Appointed Members

Philip E Read (Chairman)
Heather McGuire
Ray Proctor CBE
Richard A Barfield

Elected Pensioner Representative Members

Bob S Chappell – East Midlands, Southern England and Overseas
D Allen Clark – Scotland and North East England
Bleddyn W Hancock – North West England, West Midlands, Wales and Northern Ireland
Stuart Jukes – Yorkshire and North Lincolnshire

Investment Sub-committee (ISC¹)

Richard A Barfield (Chairman)	Bob S Chappell
Philip E Read	Bleddyn W Hancock
Roger Bartley ¹	David Brief ¹

Administration and Benefits Sub-committee (ABSC)

Heather McGuire (Chairman)	D Allen Clark
Ray Proctor CBE	Stuart Jukes

Discretions and Appeals Sub-committee (DASC)

Ray Proctor CBE (Chairman)	D Allen Clark
Heather McGuire	Stuart Jukes

Risk and Assurance Sub-committee (RASC)

Ray Proctor CBE (Chairman)	Bob S Chappell
Philip E Read	Stuart Jukes

¹ Roger Bartley and David Brief are non-voting members of the Investment Sub-committee.

Appointments as at 31 March 2011

Trustee Company:

Coal Staff Superannuation Scheme Trustees Limited

Secretariat¹:

Coal Pension Trustees Services Limited (CPT)

Chief Executive: Geoffrey Mellor
Chief Investment Officer: Michael Pratten
Chief Risk Officer: Alastair Moffatt
Scheme Secretary: Dawn Shirley²

Principal Investment Managers⁴:

BlackRock Investment Management (UK)
LaSalle Investment Management

Consulting Actuary:	Mr T Llanwarne, Government Actuary
Principal Legal Advisers:	Linklaters LLP
Pensions Administrator:	Aon Hewitt Consulting Limited was formerly Aon Consulting Limited
Auditor:	Ernst & Young LLP
Bankers:	Lloyds TSB Bank plc JP Morgan Chase Bank NA National Westminster Bank plc (a member of the Royal Bank of Scotland Group)
Custodian:	JP Morgan World Wide Security Services
Medical Adviser:	Dr R M Quinlan, RPS Business Healthcare Limited

The Scheme's registration with the Pension Schemes Regulator is 10151637.

Investment Consultants:

Towers Watson LLP
Mercer LLC

Investment Adviser³:

Mr C Maltby

Actuarial Adviser:

Mr B Duffin

¹ Samuel Wilde was appointed as Shared Services Director with effect from 3 May 2011 and Gerard Lane was appointed as Chief Operating Officer with effect from 1 July 2011.

² Dawn Shirley resigned as Scheme Secretary on 6 May 2011 and was replaced by Michael Furbank.

³ Dr R Barras retired as investment adviser on 30 September 2010.

⁴ Principal Investment Managers are defined as those managing at least 5% of the Scheme's Net Assets as at 31 March 2011.

Report of the Committee of Management

The Committee of Management is pleased to present the Annual Report and Accounts of the Scheme for the year ended 31 March 2011.

Membership of the Committee of Management

The Scheme's Committee of Management (the Committee) has eight members. Four are appointed, and may be removed, by the Committee itself. This is subject to the rules set out in the Articles of Association of the Trustee Company. Should there be an appointed trustee vacancy a Nomination Group of two appointed and two elected trustees is established to recommend a suitable candidate to the Committee.

The remaining four members of the Committee are Pensioner Representatives elected by Scheme members from four geographical constituencies.

Attendance at meetings

During the year there were five meetings of the Committee of Management. One member was not present at one meeting. For decisions to be valid a minimum of four members of the Committee must be present (of whom two must be appointed directors and two must be Pensioner Representatives). In the case of an equality of votes, the Chairman of the meeting has a second or casting vote.

Sub-committees

To help perform its duties and to streamline decision making the Committee has established, and delegated some of its powers to, four Sub-committees. Each Sub-committee has its own written Terms of Reference agreed by the Committee. Papers for Sub-committee meetings and the minutes of those meetings are circulated to all members of the Committee. The membership of each Sub-committee is shown on page 3. Sub-committee meetings are open to all members of the Committee to attend.

There were 18 Sub-committee meetings during the year. Every Sub-committee meeting was fully attended by all members of that Sub-committee.

Remuneration

Members of the Committee are entitled to remuneration for the work they undertake for the Scheme.

For all the Committee members other than the Chairman and the Chairmen of the Investment Sub-committee (ISC) and the Risk and Assurance Sub-committee (RASC) the rates of remuneration are set by the Secretary of State for Energy and Climate Change.

The Committee determines the remuneration of the Chairman of the Committee and the Chairmen of the ISC and RASC, subject to the Committee providing the Secretary of State with suitable re-assurance that the rate of remuneration granted is appropriate relative to the wider market and that the individual's competence for the role has been measured.

During the Scheme year to 31 March 2011 the rates were £57,450 a year for the Chairman of the Committee, £45,550 a year for the Chairman of ISC, £31,350 for the Chairman of RASC, £17,100 a year for the Chairman of the Administration and Benefits Sub-committee (ABSC) and £14,850 a year for other members of the Committee.

The total remuneration paid in the year to the members of the Committee of Management was £210,850 (2010: £198,337).

With effect from 1 April 2011 the rates of remuneration were increased in line with the increase in the Retail Price Index, rounded to the nearest £50. The rate of remuneration from 1 April 2011 for the Scheme Chairman is £60,500 a year, £47,950 a year for the Chairman of ISC, £33,000 a year for the Chairman of RASC, £18,000 for the Chairman of ABSC and £15,650 a year for other members of the Committee.

Conflicts of Interest

The Committee has a conflicts of interest policy which sets out its principles for identifying, managing and monitoring any Trustee, Scheme official or Scheme adviser's actual or potential conflicts of interest which may arise in the conduct of Trustee business and decision making. The policy is reviewed regularly.

Evaluation of Trustee Performance

The Committee formally evaluates its performance and the performance of its Sub-committees on an annual basis.

Appointments

A list of the key appointments made by the Committee is on page 3. All of these appointments are periodically reviewed by the Committee.

Coal Pension Trustees Services Limited

Coal Pension Trustees Services Limited (CPT), a company owned jointly by the Scheme and the Mineworkers' Pension Scheme (MPS), acts as the Scheme's executive.

CPT is responsible for responding to questions concerning the provisions of the Scheme, and deals with correspondence addressed to the members of the Committee.

Four members of the Committee sit on the Board of CPT. As at 31 March 2011 these were Philip Read, Richard Barfield, Allen Clark and Stuart Jukes.

The Board met three times during the year.

CPT has created a subsidiary company called Coal Pension Trustees Investment Ltd (CPTI). This company has been authorised by the Financial Services Authority with effect from 1st June 2011. This means it is authorised to provide investment advice to the Trustees of both BCSSS and the Mineworkers' Pension Scheme.

Internal Dispute Resolution Procedure

In accordance with the requirements of Section 50 of the Pensions Act 1995 and The Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008, the Scheme operates an Internal Dispute Resolution procedure. This legislation provides members with the right to ask for any complaint which the Scheme's administrators have been unable to resolve to be referred to the Trustee or to a person appointed by them.

The Committee has appointed the Scheme Secretary to consider complaints made by members. Members not satisfied with any decisions can appeal to the Discretions and Appeals Sub-committee (DASC), which considers appeals on behalf of the Committee.

During the year, six complaints were made using the procedure, and two appeal cases were considered by DASC. Two members took their complaints to the Pensions Ombudsman. After investigation, the Deputy Pensions Ombudsman did not uphold either of the complaints against the Scheme.

Statement of Investment Principles

The Scheme is exempt from producing a Statement of Investment Principles (SIP) under the Occupational Pension Schemes (Investment) Regulations 2005. However, under Clause 10A of the Scheme and Rules the Trustee is required to prepare and maintain a written statement of the principles governing decisions about investments for the purposes of the Scheme. The statement is reviewed at least every three years and immediately after any significant change in investment policy.

A copy of the current statement of the principles governing decisions about investments for the purposes of the Scheme is available on application to the Scheme Secretary.

Discretionary Benefit Fund

The purpose of the Discretionary Benefit Fund is to enable payments to be made at the Committee's discretion to members, or dependants of members, in circumstances where they did not qualify automatically for benefits from the Scheme, and who are suffering financial hardship.

During the year no applications were made for payment from the Discretionary Benefit Fund.

Membership

The changes in membership for deferred pensioners and pensioners are detailed on pages 8 to 9. The Scheme has no active members and is fully closed with no provision for new entrants.

Annual General Meeting

The 2010 Annual General Meeting (AGM) was held in Sheffield. The AGM included presentations by the Scheme Chairman, the Chairman of ISC and the Chief Executive of CPT, which covered specific topics of interest to Scheme members including the Annual Report and Accounts and Scheme investments. In addition, representatives of the Coal Industry Social Welfare Organisation (CISWO) and the Scheme administrator were present to answer members' questions – 69 Scheme members attended the meeting.

Arrangements for the 2011 AGM in Liverpool are shown at the front of the Annual Report and Accounts.

Risk Management

The Committee is responsible for the Scheme's Risk Management Framework, which includes the system of internal control, and for reviewing its effectiveness.

The Risk Management Framework is designed to manage the risk of failure to achieve the Trustee's objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss.

The Committee has established a Risk and Assurance Sub-committee, with the remit to review and monitor the Risk Management Framework and make recommendations to the Committee, where appropriate, for improvement. It assists the Committee and other Sub-committees in discharging their responsibilities in relation to financial reporting, risk management and internal controls.

A risk register is maintained by the Committee which records the assessment of applicable risks facing the Scheme together with the effectiveness of controls in place to mitigate each risk. Each Sub-committee has responsibility for ensuring that the specific risks that fall within its remit are being adequately managed. The risk register is reviewed and updated regularly.

Key risks are prioritised to enable attention to be focussed appropriately. Risk appetite measures have been established and compliance with these is monitored by the Committee.

Controls are designed to provide reasonable assurance that the assets are safeguarded against loss from unauthorised use and that benefits are paid in accordance with the Scheme Rules.

The Committee receives assurance over the operation of the system of internal controls from internal audit reviews, according to a programme of audit work approved and overseen by the Risk and Assurance Sub-committee.

Transfers out of the Scheme

Transfer values paid during the Scheme year in respect of transfers to other pension schemes have been calculated on a basis provided and verified by the Consulting Actuary in accordance with the Pension Schemes Act 1993. The Trustee has directed the Actuary not to take discretionary pension increases into account in the calculation of transfer payments.

Statement of Trustee's Responsibilities in Respect of the Accounts

The Committee is responsible for obtaining audited financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Committee also makes available certain other information about the Scheme in the form of an Annual Report.

The financial statements are also the responsibility of the Committee. Pension scheme regulations require the Committee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- Show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- Contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement as to whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes' (revised May 2007).

The Committee supervises the preparation of the financial statements, and has agreed suitable accounting policies, which are to be applied consistently, any estimates and judgements are made on a prudent and reasonable basis.

The Committee has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

2009 Actuarial Valuation

The last actuarial valuation was conducted as at 31 March 2009 and reported fully in last year's Report and Accounts. A summary of the valuation results at that date for each sub-fund provided by the Government Actuary in his valuation report is given in the table below:

Sub-fund	Assets £m	Liabilities £m	Surplus/(Deficit) £m
Guaranteed Fund	5,266	6,226	(960)
Bonus Augmentation Fund	964	1,092	(128)
Guarantor's Fund	342	249	93

As reported in last year's Report and Accounts, a transfer from the Investment Reserve took place under the Guarantee Arrangements to eliminate the £960m deficit in the Guaranteed Fund (plus £19m to cover the projected future expenses of that fund).

The next actuarial valuation is due to be conducted as at 31 March 2012. Under the terms of the Guarantee Arrangements, if this or subsequent valuations reveal a surplus in the Guaranteed Fund, the first call on that surplus is to restore the Investment Reserve to the position it would have been in had the earlier transfer of assets to the Guaranteed Fund not been made.

Analysis of changes in the number of deferred pensioners and Equivalent Pension Benefits (EPB)

During the year ended 31 March 2011

	Deferred pensioners	EPB only*
At the beginning of year	7,443	2,334
Reclassifications	1	(10)
	7,444	2,324
Additions during year:		
Pension credit members **	15	–
Total additions	15	–
Reductions during year:		
Retirements:		
- normal retirement age	108	76
- commuted trivial pension	12	329
- early retirement with no actuarial reduction	339	–
- early retirement with actuarial reduction	245	–
- ill-health	12	–
- after further deferment	122	–
Deaths notified to the Scheme	10	52
Transfers out	2	–
Total reductions	850	457
Net reduction	835	457
Total at end of year	6,609	1,867

* Equivalent Pension Benefit (EPB)

Members who left service early with a refund of contributions and who were contributors between April 1961 and April 1975 generally had an Equivalent Pension Benefit (EPB) preserved in the Scheme. This is broadly equivalent to the pension to which they would have been entitled from the State Graduated Pension Scheme, had the BCSSS not been contracted out of that scheme. The BCSSS pays this from age 60 rather than from State pension age.

** Pension credit members

For divorce petitions initiated from 1 December 2000, courts have the power to give a former spouse of a pension scheme member the right to a transfer of part of the member's pension rights. The Committee agreed that where benefits were to be divided in accordance with a court order, the former spouse of the Scheme member should have the option to use the transfer payment to secure a pension entitlement in the BCSSS in his/her own right.

Analysis of changes in the number of pensioners and pensions in payment including bonuses



During the year ended 31 March 2011

	Former contributors		Widow(er)s and dependants		Children	
	Number	Annual rate £,000	Number	Annual rate £,000	Number	Annual rate £,000
Guaranteed						
At the beginning of year	43,596	402,395	17,602	100,777	217	499
Additions during year:						
Awards on retirement	895	5,039	–	–	–	–
Awards on death of pensioners	–	–	861	5,395	6	18
Pension increases	–	16,240	–	4,267	–	21
Total additions	895	21,279	861	9,662	6	39
Deductions during year:						
Death of pensioners	1,696	14,672	1,334	7,262	–	–
Children attaining age 18 or ceasing full-time education	–	–	–	–	21	43
Total reductions	1,696	14,672	1,334	7,262	21	43
Total guaranteed pensions at end of year	42,795	409,002	17,129	103,177	202	495
Payments arising from surplus*:						
Reducing bonus	–	85,311	–	22,195	–	89
Level bonus	–	16,093	–	4,244	–	25
Total payments arising from surplus	–	101,404	–	26,439	–	114
Total	42,795	510,406	17,129	129,616	202	609

* Payments arising from surplus are bonuses paid to pensioners, as described on page 28.

Policy

The responsibility for setting the investment policy of the Scheme lies with the Committee of Management. The Committee delegates some of the investment decisions in order to ensure that these decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where delegation takes place, it is done under clear terms of reference and the performance of the delegate is monitored by the Committee.

Decisions concerning broad investment objectives and asset allocation are made by the Committee. The Investment Sub-committee is responsible for developing the manager structure and implementing and monitoring the investment strategy agreed by the Committee. Decisions are made after consideration of advice from the Scheme's investment consultants and advisers.

All day-to-day investment decisions are delegated to the Scheme's investment managers who are typically required to follow specific guidelines.

The Committee is responsible for securing and maintaining sufficient assets to meet the Scheme's liabilities as they fall due. The Committee aims to achieve this by deciding on a long-term strategy for allocating risk and expected returns in a portfolio that comprises a suitable mix of assets, bearing in mind the need to maintain sufficient liquidity to make the payments required by the Scheme's Rules to the members and the Guarantor.

The Committee takes professional advice to ensure that risk in the long-term strategy is appropriate both to the profile of expected benefit payments, and payments due to the Guarantor, and to the long-term aspiration of the Committee to maintain or improve Bonus Augmentations.

Investment Review and Performance

The majority of asset classes recorded reasonable returns over the year to 31 March 2011, as economic growth in the developing economies and the maintenance of an easy monetary stance by the major developed monetary authorities helped to support global economic activity. However, the markets also exhibited periods of turbulence, as a series of economic and geopolitical shocks tested market sentiment and the strength of the global economic recovery.

Concern over the ability of Greece to service its national debt and fears that this might spread to the other European markets emerged at the start of 2010 and, despite the efforts of European governments and major international institutions, the sovereign debt crisis remains an ongoing concern.

The UK election had relatively limited impact on the markets, but efforts to control fiscal deficits have increased political tensions in the UK, the US and continental Europe.

The strength of economic activity in emerging markets and geopolitical tensions in the Middle East caused a rise in commodity prices. The headline rate of inflation moved higher in most economies and the authorities in the developing economies have responded by tightening monetary policy.

This combined with the earthquake in Japan and the slow withdrawal of monetary support in the developed economies, suggests that global economic activity will moderate and inflationary pressures will come under control over the coming year. However, the risk of a further escalation of the sovereign debt crisis, tensions in the Middle East and the possibility of a major policy mistake continue to overhang the markets.

A divergence in economic performance between the emerging and developed economies was reflected in the performance of the equity markets. The equity portfolio was reviewed over the course of the year, with an increased weighting being given to international and emerging markets and the addition of a number of new managers to diversify the active equity portfolio.

The maintenance of low short term interest rates helped to support the nominal fixed income markets in the face of rising headline inflation. Although a moderation in economic activity and inflation pressures should help to support bonds, many sovereign fixed income markets seem likely to face a testing period over the coming year.

Corporate bonds are slightly better positioned in this regard, while emerging market debt remains an attractive diversifier. As with the equity portfolio there has been a restructuring of the fixed income portfolio, away from relatively low yielding UK index-linked gilts, towards a more globally diversified bond portfolio.

Although the euro has exhibited some volatility, the major currencies largely enjoyed a year of relative stability. Sterling appreciated by some 6.7% against the US dollar and 1.3% against the euro, to stand at US\$/£1.60 and €/£1.13 at the end of March 2011.

The Scheme's investment managers and the nature of each mandate are shown below:

	£m
Cash and Fixed Income	
Wellington	328
GSAM	284
Mondrian	238
Insight	219
GAM	177
BlueBay	156
Stone Harbour	144
Other holdings	75
	1,621
Equities	
BlackRock – Passive	2,934
Private Equity	956
Long Short	455
Schroder	281
First State	267
Lazard	235
Comgest	211
Genesis	198
Southeastern	187
Edinburgh Partners	151
Baillie Gifford	148
JO Hambro	102
Other	26
	6,151
Property and Infrastructure	
LaSalle – UK Property	748
Infrastructure	180
	928
Uncorrelated Investments	
Bridgewater	442
Other	96
	538
Net Investment Assets as at 31 March 2011	9,238

Investment Review and Performance (continued)

At the end of the year to 31 March 2011, the actual proportion of investment assets held at market value in comparison to the target asset allocation was as follows:

	Actual %	Target Asset Allocation %
Cash and Fixed Income		
Cash	1.9	4.0
Nominal Fixed Income*	15.6	16.0
Equities		
Passive Equity	31.8	32.5
Active Equity (incl. long/short equity)	24.5	22.5
Private Equity	10.4	10.0
Property		
UK Property	8.1	8.0
Infrastructure	1.9	2.0
Uncorrelated/Alternative Strategies		
GTAA & Other Opportunities	5.8	5.0
Total Assets	100.0	100.0

* Nominal Fixed Income is comprised of: Global Sovereign Debt, Global Corporate Credit and Emerging Market Debt.

The asset categories used in the above table are based on the key economic drivers of the underlying investments and differ from the classifications used in the accounts, due to the different treatment of pooled funds.

The Committee uses JP Morgan as its independent investment performance measurer. The annual returns achieved by the Scheme and the comparable Scheme benchmarks for each of the Scheme Years from 31 March 2007 to 2011 are shown below.

Annual Return on Investment Assets for each of the Scheme Years 2007 to 2011

	Scheme Return %	Benchmark %
2011	10.8	9.4
2010	31.0	31.3
2009	(24.6)	(14.3)
2008	(2.2)	(2.6)
2007	8.9	8.7

As highlighted in last year's Report and Accounts, there has been a change in the composition of the Scheme benchmark for the last two years, compared to the period 2007 to 2009.

Following a review of the Scheme's benchmarks, the Committee decided to amend a number of benchmarks to be more reflective of the underlying holdings and has reclassified the Scheme's investments according to their economic drivers of returns. The Committee feels that this reclassification of asset categories on the basis of economic drivers gives a clearer representation of the absolute and relative performance of the Scheme's assets, especially when markets are volatile.

The following table compares the returns over the past two years. The change in the composition of the Scheme benchmark makes it difficult to make meaningful longer term comparisons of the annualised relative performance of the portfolio due to the different benchmarks.

Annualised Return on Investment Assets to 31 March 2011

	Trailing 1 Year		Trailing 2 Years	
	Scheme %	Benchmark %	Scheme %	Benchmark %
Cash	2.7	0.5	4.3	0.6
Fixed Income	6.8	5.2	11.1	7.8
Equities	11.0	9.6	29.2	28.0
Property	12.2	13.3	16.3	9.8
Uncorrelated	10.8	6.1	18.0	11.2
Total	10.8	9.4	20.5	19.9

The table above highlights that there were reasonable gains across almost all the asset classes during the year to 31 March 2011. Moreover, the overall investment portfolio performed well and was ahead of benchmark.

In Fixed Income, the allocation to emerging markets debt was profitable. The credit segment of the portfolio also did well, as banks and other corporate issuers continued on the path to recovery.

The performance of the active equity portfolio was generally strong.

Conditions in private equity markets improved over the course of the year. The valuation of portfolio companies increased as companies reported stronger operating performance, merger and acquisition activity picked up and public markets became receptive to initial offerings of shares in privately held companies.

Although the Scheme's property portfolio underperformed its benchmark, it remains well positioned in quality assets. The uncorrelated portfolio benefited from a particularly strong performance of the global macro asset allocation fund incorporated in this segment of the portfolio.

Investment Review and Performance (continued)

Custodial and Cash Arrangements

The Scheme's quoted securities are held by a custodian, JP Morgan World Wide Security Services, who also provide investment accounting, investment performance measurement, compliance monitoring, securities lending services and derivatives valuation services.

Insight manages most sterling cash balances, which include short term certificates of deposit, commercial paper and floating rate notes. The remaining cash is either deposited with JP Morgan Chase Bank, NA or placed on deposit in the name of the Scheme.

The Committee's approval is required for any borrowings in excess of agreed short-term overdraft facilities with JP Morgan Chase Bank, NA and Lloyds TSB Bank plc.

Most equities and bonds are registered in the name of nominee companies controlled by the Scheme's custodian or sub-custodians. Bearer securities, where title is conferred by possession, are held through agent banks to the Scheme's order. Passively managed securities are mainly held in pooled funds, who appoint their own custodian.

Property investments are registered in the name of Coal Pension Properties Ltd, a nominee company controlled jointly by the Scheme and the Mineworkers' Pension Scheme (MPS) or, in a few cases, other companies controlled jointly by the Scheme and MPS. Title deeds are held by firms of solicitors. A trust deed between Coal Pension Properties Ltd and the Scheme establishes that the properties are held on behalf of the Scheme.

Private equity investments are held in the name of the Coal Staff Private Equity Trust, on behalf of the Scheme.

Regular reconciliations are carried out of evidence of title held by the custodian with records maintained by the Scheme's investment managers.

Corporate Governance

The Committee believes that widespread adoption of good corporate governance practice will improve the quality of company management and, as a consequence, is likely to increase the returns available to long term investors. Effective intervention, however, requires a deep knowledge of the underlying businesses, which the Trustee does not have. For this reason monitoring is delegated to each investment manager.

Securities Lending

The Scheme participates in securities lending through its custodian, JP Morgan. Approved borrowers are required to provide collateral valued in excess of securities on loan. Additional controls include limits on lending to borrowers and restrictions on acceptable collateral. The Scheme also benefits from an indemnity from JP Morgan against losses on borrower default. The value of securities on loan at the year end was £134m (2010: £183m).

Transaction costs

The management of transaction costs and the obligation to seek best execution is the responsibility of each investment manager, with whom there is a regular dialogue.

Derivatives

The Committee has authorised the use of stock, foreign exchange and bond index futures and options, foreign exchange swaps, credit default swaps and interest rate and inflation swaps. These are used by the Scheme's investment managers to contribute to the reduction of risk and to facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).

Controls in place include authorisation of permitted instruments, limits on market exposures and on total tracking errors and collateral requirements.

Futures contracts were cleared through Bank of America, Merrill Lynch and JP Morgan Chase Bank NA during the year. JP Morgan Chase Bank NA also provides an independent valuation for derivatives.

Currency Hedge

The currency exposures arising from overseas equities are typically hedged at 65% into Sterling. The purpose of the currency hedging is to reduce the impact of currency volatility on investment returns as measured in Sterling terms.

Appreciation

The Committee wishes to acknowledge the assistance it has received from all its appointees over the year and to record its thanks for the work carried out by them.

For and on behalf of the Committee of Management

Philip E Read Chairman
Michael Furbank Secretary

Consolidated Fund Account

Year ended 31 March 2011

	Note	2011 £m	2010 £m
Contributions and benefits			
Benefits	3	(667)	(674)
Payment to and on account of leavers	4	–	(3)
Payment due to Guarantor	5	(47)	(192)
Administration expenses	6	(7)	(6)
Net withdrawals from dealings with members and Guarantor		(721)	(875)
Returns on investments			
Investment income	7	152	162
Change in market value of investments	12	794	2,113
Investment management expenses	8	(28)	(22)
Net returns on investments		918	2,253
Net increase in Fund during year		197	1,378
Net assets of the Scheme at 31 March 2010/2009		9,036	7,658
at 31 March 2011/2010		9,233	9,036

Consolidated Net Assets Statement

At 31 March 2011

	Note	2011 £m	2010 £m
Investments			
Investment assets	9	9,454	9,190
Investment liabilities	11	(216)	(167)
Net investment assets		9,238	9,023
Current assets	13	4	21
Current liabilities	14	(9)	(8)
Net assets of the Scheme at 31 March 2011		9,233	9,036
Assigned as:			
	16		
Guaranteed Fund		7,786	7,549
Bonus Augmentation Fund		1,058	1,094
Investment Reserve		154	139
Guarantor's Fund		234	254
		9,233	9,036

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposition of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year.

These financial statements were approved by the Committee on 13 July 2011.

For and on behalf of the Committee of Management

Philip E Read Chairman

Ray Proctor Committee Member

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 1996 and with the guidelines set out in the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes (revised May 2007), published by the Pensions Research Accountants Group.

2. Accounting Policies

Basis of consolidation

The accounts include the assets and liabilities excluding obligations to pay pensions and benefits after the end of the scheme year, the majority of which are held through nominee and trustee companies, limited partnerships and other pooling arrangements, together with the net income arising during the year.

Certain investments are held on behalf of the Scheme through companies which are either solely owned or owned jointly with the Mineworkers' Pension Scheme (MPS). The interests of the Scheme in these companies are consolidated in these accounts on a proportional basis derived from the latest audited accounts of the companies, augmented where necessary by management information.

Investment income

Income from fixed interest securities, index-linked securities, property and cash is taken into account on an accruals basis. Income from property is stated net of any expenses which relate directly to the income against which it has been incurred, where such expenses are not deemed material.

Income from equity investments is included in the accounts on the date when the securities are quoted ex-dividend.

Income arising from the underlying investments of the pooled investment vehicles that is reinvested within the pooled investment vehicles is reflected in the unit price and is reported within the change in market value.

Individual Transfers

Individual transfers from the Scheme during the year are included in the financial statements on the basis of when the member liability is accepted by a registered arrangement.

Benefits

Benefits payable are included in the financial statements on an accruals basis when the member notifies the Trustee as to the type or amount of benefit to be taken, or where there is no choice, on the date of retirement or leaving.

Administrative Expenses and Investment Management Expenses

Administrative expenses and investment management expenses are accounted for on an accruals basis.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the Scheme year-end. Gains and losses on foreign currency denominated investments are shown in aggregate within the change in market value of investments to which they relate in the Fund Account. Gains and losses relating to cash are included in investment income.

Investment income denominated in foreign currencies is recorded by applying the spot exchange rate ruling at the date on which the income relating to the investment falls due.

Investment assets

Listed investments are valued at closing prices on the recognised stock exchange as at the year-end, which are either the last quoted trade price or bid price depending on the market on which they are quoted.

Unlisted investments are stated at the Trustee's estimate of fair value based on advice of the investment manager or other appropriate professional adviser.

Pooled investment vehicles are valued at the closing bid price or, if single priced, at the closing single price.

Property investments are valued each year on the basis of open market values in accordance with valuation principles laid down by the Royal Institution of Chartered Surveyors. Valuations are conducted at June and December each year by DTZ Debenham with a further review at the Scheme's year-end by CPT taking into account changes to the IPD property indices as advised by LaSalle, and any other specific indications of market value changes.

Fixed interest securities are stated at a value which excludes the value of interest accruing from the previous interest payment date to the valuation date. Accrued income is accounted for within investment income.

Underlying investments in limited partnerships are valued at fair value for unlisted investments, or in accordance with the above policy for listed investments. Fair value is generally assessed by the General Partner responsible for selecting the underlying investments, according to standards applicable in the jurisdiction in which the General Partner is based. Changes in fair value are included in the net movement in the market value of investments. Where the last valuation provided by the General Partner is prior to the year end, the valuation is adjusted for cash flows in the intervening period. Market values of non-sterling currency balances have been translated at closing rates of exchange.

Derivatives

Derivatives with an initial purchase price are reported as purchases. Those that do not have an initial purchase price but require a deposit, such as an initial margin to be placed with the broker, are recorded at nil cost on purchase.

Derivative contracts are included in the net assets statement at fair value. Exchange traded derivatives with positive values are included in the Net Assets Statement as assets at bid price, and those with negative values as liabilities at offer price.

Futures

Open futures contracts are recognised in the net asset statement at their fair value, which is the unrealised profit or loss at the closing bid or offer exchange price of the contract at the year-end.

Amounts outstanding in respect of the initial margin and any variation margin due to or from the broker are included in investment assets and liabilities.

Amounts included in the change in market value represent realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.

Forward foreign exchange contracts

Forward foreign exchange contracts outstanding at the year-end are stated at fair value, which is determined as the gain or loss that would arise if each outstanding contract was matched at the year-end with an equal and opposite contract at that date.

Changes in the fair value of the forward contracts are reported within change in market value in the Fund Account.

Options

Traded options are valued at the fair value as determined by the exchange price for closing out the option as at the year-end. Options which are over the counter contracts are valued at fair value using a pricing model where inputs are based on market data at the year-end.

Changes in the fair value of the option are reported within change in market value.

Collateral payments and receipts are reported within cash, and do not form realised gains or losses reported within change in market value.

Swaps

Swaps are valued at fair value, as determined by the current value of future expected net cash flows arising from the swap, for which the time value of money is taken into account. Interest is accrued monthly under the terms relating to individual contracts.

Net receipts or payments on swap contracts together with realised gains and losses on closed contracts and unrealised gains or losses on open contracts are included within change in market value.

Sub funds

The Scheme is notionally split into four sub-funds. Three of these are the Guaranteed Fund, from which the guaranteed benefits are paid, the Bonus Augmentation Fund, from which Bonus Augmentations are paid from the members' 50% share of post-1994 surpluses, and the Guarantor's Fund, from which payments to the Government are made from its share of post-1994 surpluses.

A fourth fund, the Investment Reserve, contains the unused balance of British Coal's share of pre-1994 valuation surpluses.

3. Benefits

	2011 £m	2010 £m
Pensions	513	520
Commutations and lump sum retirement benefits	26	25
Dependant benefits	128	129
Total	667	674

4. Payments to and on account of leavers

	2011 £m	2010 £m
Individual transfers to other schemes	-	3

5. Payments due to Guarantor

	2011 £m	2010 £m
Payments from the Guarantor's fund	47	192

6. Administrative Expenses

	2011 £m	2010 £m
Pension Administration	2	2
Legal, Actuarial and Other fees	5	4
Total	7	6

7. Investment Income

	2011 £m	2010 £m
Income from fixed interest securities	63	66
Dividends from equities	32	31
Income from index-linked securities	4	15
Property rents	50	40
Interest on cash deposits and margin accounts	4	12
Other	(1)	(2)
Total investment income	152	162

Overseas investment income is stated net of withholding taxes. The above table excludes reinvested income arising from pooled funds.

8. Investment Management Expenses

	2011 £m	2010 £m
Administration, management, custody	28	22

9. Investment Assets

	2011 £m	2010 £m
Equities	1,674	1,512
Fixed interest securities	1,350	1,124
Index linked	29	491
Property	684	573
Pooled investments	4,111	4,005
Cash and Cash equivalents	470	480
Derivative contracts	66	94
Private Equity	956	800
Other investments	64	73
Other financial assets	50	38
Total Investment Assets	9,454	9,190

	2011 £m	2010 £m
Equities		
UK quoted	329	322
Overseas quoted	1,345	1,190
Total	1,674	1,512

	2011 £m	2010 £m
Fixed Interest Securities		
UK public sector quoted	35	118
UK corporate quoted	103	239
UK corporate unquoted	1	-
Overseas public sector quoted	567	256
Overseas public sector unquoted	68	8
Overseas corporate quoted	557	490
Overseas corporate unquoted	19	13
Total	1,350	1,124

	2011 £m	2010 £m
Pooled Investment Vehicles		
Managed funds	4,111	4,005

Pooled investment vehicles are all managed by companies registered in the United Kingdom. UK registered investment vehicles include holdings in overseas equities, bonds and derivatives.

Where the investments are held in managed funds the change in market value also includes expenses both implicit and explicit to the Scheme and any reinvested income, where the income is not distributed.

The majority of the Scheme's pooled funds represent unitised insurance policies (2011: 66.4%, 2010: 65.9%) with the balance being other managed funds.

At the year end the holding in the individual BlackRock North America equity fund represented 15% of Scheme assets (2010: 8%), and the BlackRock European equity fund 5% (2010: 6%).

	2011 £m	2010 £m
Properties		
UK	684	573

	2011 £m	2010 £m
Private Equity	956	800

All the Scheme's private equity investments are held through limited partnerships. Within the partnerships the underlying investments are principally management buyouts and institutional purchases of businesses based in the UK, Continental Europe and the US. By their nature these investments represent long term commitments which may restrict the ability of the Scheme to realise them at the accounting date. Details of forward private equity commitments are shown in note 18.

	2011 £m	2010 £m
Derivative Contracts		
Futures contracts	1	1
Interest rate swaps	6	14
Credit default & currency swaps	1	1
Forward Foreign Exchange Contracts	58	76
Options	-	2
Total Derivative Assets	66	94

Derivative Contracts outstanding**a) Futures**

The Scheme holds long and short interest rate future contracts with economic exposures of £232 million and (£477 million) respectively. The majority expire within six months and are held in Sterling, Euro, Swiss Francs, Yen, Australian dollars, Canadian dollars and US dollars. The market value of these positions are an asset of £1 million, and a liability of £6 million giving a net liability of £5 million as reflected in note 12.

The economic exposure represents the notional value of securities (or bonds) purchased under the futures contract and therefore the value is subject to market movements.

b) Options

Contract	Expiration	Underlying investment	Notional principal £m	Asset £m	Liability £m
Purchased FX call	3 months – 22 months	Currency contracts	35	–	–
Purchased FX put	3 months – 15 months	Currency contracts	2	–	–
Written FX call	3 months – 15 months	Currency contracts	(2)	–	–
Written Put	15 months	Currency contracts	(–)	–	–

c) Swaps

Contract	Expiration	Nature of swap	Notional principal £m	Asset £m	Liability £m
Interest rate swaps (OTC)	1 – 30 years	Paying and receiving fixed for floating	748	6	(7)
Credit default swaps (OTC)	4 – 5 years	Buying and selling credit exposure	36	1	–
Currency swaps	1 – 10 years	Buying and selling currency exposure	3	–	–
Total				7	(7)

The denomination of the swap contracts included Euros, US\$, Columbian Peso and Russian Rouble. The notional principal of the swap is the amount used to determine the value of swapped interest receipts and payments. Where contracts are of a similar nature they have been aggregated.

d) Forward foreign exchange

	Bought £m	Sold £m	Asset £m	Liability £m
US Dollar	2,048	(4,486)	46	(46)
Euro	351	(1,031)	6	(33)
Yen	42	(335)	2	(1)
Other	215	(638)	4	(15)
Sterling	4,900	(1,103)	–	–
Total	7,556	(7,593)	58	(95)

The above table aggregates the exposures to currencies acquired or sold through over the counter forward foreign exchange contracts at year end sterling values. Contracts are typically of 3 months duration with approximately a third maturing each month as part of the passive currency hedge. Counterparties are mainly UK and overseas banks.

	2011 £m	2010 £m
Cash Deposits		
Sterling	347	417
Foreign currency	123	63
Total	470	480

Other Financial Assets		
Amounts due from broker	25	8
Other debtors	24	29
Outstanding income and recoverable withholding tax	1	1
Total	50	38

Other Investments		
Indirect property investments	64	73

These represent investments in Property partnerships.

10. AVC Investments

Members' additional voluntary contributions (AVCs) are invested separately from the Scheme in investments administered by the Prudential Assurance Company Limited. The value of the AVC fund is included in other financial assets (Note 9), and movements in the AVC fund value are included in the Fund Account. The AVC fund value at 31 March 2011 was £0.5 million (2010: £0.5 million).

11. Investment Liabilities

	2011 £m	2010 £m
Derivative Contracts		
Futures	(6)	(1)
Interest rate swaps	(7)	(10)
Credit default swaps	–	(2)
Forward foreign exchange	(95)	(117)
Options	–	(1)
Total Derivative Liabilities	(108)	(131)
Other Liabilities		
Amounts due to broker	(107)	(27)
Investment income received in advance	(1)	(9)
Total Other Liabilities	(108)	(36)
Total Investment Liabilities	(216)	(167)

12. Net Investment Assets

Investment Reconciliation Table

	Value at 1 April 10	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31 March 11
	£m	£m	£m	£m	£m
Equities	1,512	1,669	(1,564)	57	1,674
Fixed interest securities	1,124	2,123	(1,882)	(15)	1,350
Index linked	491	46	(568)	60	29
Private Equity	800	149	(121)	128	956
Other investments	73	-	(15)	6	64
Pooled investment vehicles	4,005	148	(491)	449	4,111
Property	573	73	-	38	684
Cash & cash equivalents	480	-	(11)	1	470
Total	9,058	4,208	(4,652)	724	9,338
Net derivative contracts					
Futures	-	37	(46)	4	(5)
Swaps	3	88	(97)	6	-
Options	1	1	(2)	-	-
Forward foreign exchange	(41)	802	(844)	46	(37)
Total net derivative contracts (notes 9 and 11)	(37)	928	(989)	56	(42)
	9,021	5,136	(5,641)	780	9,296
Other financial assets (net) (notes 9 and 11)	2	-	(74)	14	(58)
Total investment assets	9,023	5,136	(5,715)	794	9,238
2010	7,471	4,491	(5,052)	2,113	9,023

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

Transaction costs are included in the cost of purchases and sale 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 £5.2m (2010: £1.8m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately identified.

13. Current Assets

	2011 £m	2010 £m
Cash	4	21

14. Current Liabilities

	2011 £m	2010 £m
Tax and VAT	(9)	(8)

15. Related Party Transactions

The Scheme's accounts are required to comply with Financial Reporting Standard 8 – Related Party Disclosures. This standard requires the accounts to include details of transactions involving the Scheme with parties who can exert control or influence over the Scheme or vice versa. These are detailed below.

The Secretary of State for Energy and Climate Change acts as Guarantor to the Scheme.

The Scheme owns UK Government bonds which at the year end had a market value of £64 million (2010: £748 million).

Five members of the Committee are in receipt of a pension from the Scheme. The aggregate amount paid was £241,000 (2010:£239,000).

Members of the Committee of Management are entitled to receive remuneration from the Scheme. The total remuneration paid to the Trustees in the year was £211,000 (2010: £198,000) and is detailed in the Committee of Management Report.

Coal Pension Trustees Services Limited is jointly owned by the Scheme and MPS with each appointing four members of their Committees of Management as directors. CPT costs are included within Legal, Actuarial and Other costs in note 6.

The Scheme and the MPS jointly invest in properties and partnerships with a value to the Scheme of £145 million (2010: £96 million).

As part of the fixed income transition the Scheme sold assets to the MPS for which it was paid £105m. The transaction was at arms length and the assets were transferred at mid price. These assets were independently valued by both BlueBay, the investment manager, and JPM, the transition manager. The purpose of the transaction was to minimise the transaction costs associated with selling the securities on the open market.

16. Market Value of Sub-funds

The notional allocation of the value of the Fund to four Sub-funds is detailed in the table below. Each of the Sub-funds is allocated a proportional share of income, expenses and movements in asset values.

Movements on the various Sub-funds during the year, as confirmed by the Scheme's Actuary, are set out below:

	Guaranteed Fund £m	Bonus Augmentation Fund £m	Investment Reserve £m	Guarantor's Fund £m	Total Fund £m
Market Values at 31 March 2010	7,549	1,094	139	254	9,036
Transfers following valuation	–	–	–	–	–
Transfer in respect of early retirement factors	–	–	–	–	–
Benefits paid	(525)	(142)	–	–	(667)
Payment to the Guarantor	–	–	–	(47)	(47)
Allocation of income, expenses and movement in asset values	763	107	15	26	911
Market Values at 31 March 2011	7,786	1,058	154	234	9,233

17. Payments To Guarantor

Releases from the Investment Reserve and Guarantor's Fund are determined by the Actuary. The Actuary recommended no release from the Investment Reserve before the next valuation. The Actuary also recommended that £47m should be paid to the Guarantor from the Guarantor's Fund on 31 March 2011, and £47m for each of the following five years.

18. Forward commitments and contingent assets and liabilities not provided for in the accounts

Forward commitments comprise expenditure on investments authorised and contractually committed before the year-end which is not provided for in the accounts. This includes property purchases and redevelopments of £3m (2010: £1 million) and infrastructure and private equity investments of £541m (2010: £729 million). The timing of private equity and infrastructure investment funding is uncertain and has been estimated. Property commitments of £3 million will be paid within twelve months of the year-end.

Claims for the recovery of UK and overseas tax credits valued at approximately £60 million are being processed through the Courts as part of a Group Order with other UK pension funds. Potential receipts have not been recognised in the accounts.

We have audited the financial statements of the British Coal Staff Superannuation Scheme for the year ended 31 March 2011 which comprise the fund account, the net assets statement and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Trustees, as a body, in accordance with regulation 3 (c) of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustees as a body, for our audit work, for this report, or the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities (set out on page 6) the Scheme's trustees are responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us 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 scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the Financial Statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2011, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Ernst & Young LLP
Statutory Auditor
London
July 2011

This statement is included to comply with recommendations contained in the Statement of Recommended Practice (SORP) Financial Reports of Pension Schemes, as revised in May 2007, issued by the Pensions Research Accountants Group.

1. A printable version of the Pensions Regulator's Guidance for Trustees is available from the Pensions Regulator's website: www.thepensionsregulator.gov.uk or a copy is available for inspection at the address of the Scheme Secretary; Ventana House, Sheaf Street, Sheffield, S1 2BJ.
2. Coal Staff Superannuation Scheme Trustees Limited is registered with the Information Commissioner under the terms of the Data Protection Act 1998.
3. The investments of the Scheme are made in compliance with the Occupational Pension Schemes (Investment) Regulations 1996 and 2005.
4. The Scheme's investments are managed by investment managers. The Scheme's principal investment managers are shown in the Appointments on page 3. The majority of the Scheme's investment managers are regulated by the FSA. The following managers have dual regulation by both the FSA and Securities and Exchange Commission (SEC); BlackRock, Lazard, Southeastern, GSAM and Wellington. Stone Harbor is regulated exclusively by the SEC. Long short equity, private equity, infrastructure and other opportunities are managed in the UK, US and Europe by appropriate organisations.
5. Cash equivalent transfer values paid during the year were calculated in accordance with the requirements of the Pension Schemes Act 1993.
6. The Trustee has written agreements in the form of contracts with all major service providers.
7. The Scheme's registration number with the Registrar of Occupational and Personal Pension Schemes is 10151637.
8. The indices against which investment returns are benchmarked are the 7 day LIBID and 3 month LIBID JPM Global Government Bond index, Barclays Global Aggregate Credit index, JPM Government Bond Index Emerging Market Global Diversified, FTSE All World, IPD Life & Pensions £300m-£2bn, RPI and 3 Month LIBOR. The benchmark for total assets is based on the asset allocation benchmarks set by the Committee.

Amendments to the Scheme and Rules

The power to amend the Scheme and Rules lies with the Guarantor, subject to prior consultation with the Committee.

No Rule amendments were made during the year.

Pension Increases

The Rules provide that guaranteed pensions (in excess of the Guaranteed Minimum Pension (GMP)) should be increased annually in line with the percentage rise in the Retail Price Index (RPI). The rise in the RPI over the 12 months to November 2010 was 4.7%, and guaranteed pensions in payment and deferment were increased by this amount from 1 January 2011.

In principle, the terms of the guarantee are that:

- the Government guarantees the solvency of the Scheme so that, with the exception of Bonus Augmentations, it is always able to pay the benefits promised in the Rules of the Scheme, including the annual indexation of guaranteed pensions in line with price inflation;
- in return for the guarantee, the Government receives, over a 10 year period, a 50% share of any valuation surpluses disclosed after 31 October 1994;
- the remaining 50% share of any such valuation surpluses can be used to improve benefits by way of Bonus Augmentations; and
- Bonus Augmentations are covered by a lesser guarantee, to the extent that in the event of a valuation deficit, the total amount of any pension payable from the Scheme will not be allowed to fall in cash terms.

To facilitate the operation of the guarantee, the Scheme is notionally split into four sub-funds (detailed in the notes to the accounts). Three of these are the Guaranteed Fund, from which the guaranteed benefits are paid, the Bonus Augmentation Fund, from which Bonus Augmentations are paid from the members' 50% share of post-1994 surpluses, and the Guarantor's Fund, from which payments to the Government are made from its share of post-1994 surpluses.

A fourth fund, the Investment Reserve, contains the unused balance of British Coal's share of pre-1994 valuation surpluses. The additional cost of paying pensions early on redundancy under British Coal's contractual redundancy terms is met by transfers from the Investment Reserve to the Guaranteed Fund. These terms apply in perpetuity to deferred pensioners who were transferred to new employment when British Coal was privatised, as long as there is continuity of employment until their redundancy. To the extent that the Investment Reserve is not required for this purpose, it can be drawn down by the Government over a period ending not earlier than 2019. The rate of draw down is determined by the Scheme's Actuary.

In the event of a valuation surplus, 50% of the surplus in the Guaranteed Fund is credited to the Bonus Augmentation Fund where it can be aggregated with any surplus in that fund and distributed to members by way of Bonus Augmentations. The remaining 50% share of the surplus in the Guaranteed Fund is credited to the Guarantor's Fund and released to the Government as a stream of 10 annual payments. Any surplus in the Guarantor's Fund is used to top up payments already being made to the Government from previous surpluses.

In the event of a valuation deficit, the deficit in the Guaranteed Fund would be corrected:

- firstly, by a transfer of assets from the Investment Reserve;
- secondly, by equal transfers of assets from the Guarantor's Fund and the Bonus Augmentation Fund; and
- thirdly, by direct payments to the Scheme from the Government, spread over 10 years.

If the subsequent valuation reveals surplus in the Guaranteed Fund, the first call on that surplus is to restore the Investment Reserve so that it is in the position it would have been in had the earlier transfer of assets to the Guaranteed Fund not been made.

There is no provision in the guarantee arrangements for making good a deficit in the Bonus Augmentation Fund. Bonus Augmentations may therefore have to be reduced or withdrawn. The guarantee does however ensure that the total pension payable does not fall in cash terms. This works by reducing Bonus Augmentations each year by an amount equal to the index linked increase paid on guaranteed pension in that year. This process continues until Bonus Augmentations existing at the time a deficit was discovered in the Bonus Augmentation Fund have been reduced to zero.

The Scheme's administration office will be able to provide information and answer questions about Scheme benefits. Questions about the general operation of the Scheme and the policy of the Committee of Management should be addressed to the Scheme Secretary. Mail addressed to a member of the Committee will normally be dealt with by the Secretary.

The Scheme website gives members access to information about the Scheme, on-line copies of Scheme publications, and forms which can be printed off to notify the Scheme of changes in circumstances. The address is: www.bcsss-pension.org.uk.

The administration office address is:

**BCSSS
5th Floor
The Fountain Precinct
Balm Green
Sheffield
S1 2JA**

The address for the Secretary is:

**The Secretary
BCSSS
Ventana House
Sheaf Street
Sheffield
S1 2BJ**

This is also the registered office of Coal Staff Superannuation Scheme Trustees Limited.

Copies of the Scheme and Rules, the Annual Report and Accounts, Actuarial Valuation Reports and other Scheme publications are available from the Secretary.

It is expected that most queries about benefits can be resolved by the Scheme's administration office. In the event that a complaint cannot be resolved by the administration office, Scheme members can lodge a formal complaint using the Scheme's Internal Dispute Resolution Procedure. Information about the procedure can be obtained from the Secretary at the address shown on the previous page.

Complainants have recourse to The Pensions Advisory Service (TPAS) to assist them in taking their complaint through the dispute procedure. TPAS is an independent voluntary organisation which gives free and independent advice to members of the public to help them deal with pension problems. The name and address of the local TPAS adviser can be obtained from any local Citizens Advice Bureau. If the complaint is not satisfactorily resolved, the Government appointed Pensions Ombudsman can investigate complaints of injustice caused by bad administration, either by the trustees or scheme administrators, or disputes of fact or law. The Pensions Ombudsman can be contacted at:

11 Belgrave Road
London
SW1V 1RB
www.pensions-ombudsman.org.uk

The Pensions Regulator (TPR) can intervene if it considers that a scheme's trustees, advisers or the employer are not carrying out their duties correctly. The address for TPR is:

Napier House
Trafalgar Place
Brighton
BN1 4DW
www.thepensionsregulator.gov.uk

BCSSS is registered with the Pension Tracing Service which maintains a list of the up-to-date addresses of pension schemes to assist ex-members trace their rights if they have lost contact with a previous employer's scheme. The address for the Pension Tracing Service is:

Pension Tracing Service
The Pension Service
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA

