British Coal Staff
Superannuation Scheme

BCSSS
British Coal
Staff Superannuation Scheme

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Staff Superannuation Scheme

For members
of the British Coal
Staff Superannuation Scheme

Report & Accounts

2016/2017

Notice of meeting

Notice is hereby given that the Seventieth Annual General Meeting of the Scheme will be held in the Crowne Plaza, Liverpool City Centre, Princes Dock, Pier Head, Liverpool, L3 1QW on Thursday 5 October 2017 at 2.00pm.

Business

To receive the Report and Accounts for the year to 31 March 2017 and to debate and vote on any Member Resolutions.
Resolutions to be received no later than 22 September 2017.
The meeting is open to pensioners and deferred pensioners.

By order of the Committee of Management
Jon Heathfield, Secretary
British Coal Staff Superannuation Scheme

Ventana House
2 Concourse Way
Sheaf Street
Sheffield S1 2BJ
Telephone (0114) 253 6444

July 2017

Contents

Membership of Committees

At 31 March 2017
Coal Staff Superannuation Scheme Trustees Limited (the Trustee)

Committee of Management (the Committee)

Appointed Members
Dame Kate Barker (Chairman)
Richard A Barfield
G James Shearer[1]
Alan Whalley

Elected Pensioner Representative Members
W John Sheldon – East Midlands, Southern England & Overseas
D Allen Clark – Scotland and North East England
Bleddyn W Hancock[2] – North West England, West Midlands, Wales & Northern Ireland
Stuart Jukes – Yorkshire and North Lincolnshire

Investment Sub-committee (ISC)[3]
Richard A Barfield (Chairman)
Kate Barker
Roger Bartley
W John Sheldon
Bleddyn W Hancock
Alan Rubenstein

Administration and Benefits Sub-committee (ABSC)
G James Shearer (Chairman)[1]
Alan Whalley[4]
D Allen Clark
Stuart Jukes

Discretions and Appeals Sub-committee (DASC)
G James Shearer (Chairman)[1]
Alan Whalley[4]
D Allen Clark
Stuart Jukes

Risk and Assurance Sub-committee (RASC)
Alan Whalley (Chairman)[4]
G James Shearer[1]
Stuart Jukes
W John Sheldon

[1] G James Shearer replaced Ray Proctor as a Trustee Director from 1 May 2016 and at that time he became a member of the Administration & Benefits Sub-committee (ABSC), Discretions & Appeals Sub-committee (DASC) and Risk & Assurance Sub-committee (RASC). He replaced Alan Whalley as the Chairman of ABSC and DASC from 1 October 2016.

[2] Bleddyn W Hancock was re-elected as Pensioner Representative for North West England, West Midlands, Wales & Northern Ireland with effect from 1 October 2016.

[3] Roger Bartley and Alan Rubenstein are investment advisers to and non-voting members of the Investment Sub-committee (ISC).

[4] Alan Whalley was appointed as Chairman of RASC and interim Chairman of DASC from 1 May 2016. G James Shearer replaced Alan Whalley as Chairman of ABSC and Chairman of DASC from 1 October 2016.

Appointments as at 31 March 2017

Trustee Company:
Coal Staff Superannuation Scheme Trustees Limited

Executive:
Coal Pension Trustees Services Limited (CPT)
Co-Chief Executives: Geoffrey Mellor & Gerard Lane[1]
Chief Investment Officer: Stefan Dunatov[2]
Scheme Secretary: Jon Heathfield

Principal Investment Managers[3]:
- **BlackRock Investment Management (UK)**
- **Wellington Management International Limited**
- **LaSalle Investment Management**
- **Insight Investment Management**

Investment Adviser:
Coal Pension Trustees Investment Limited (CPTI)

Actuarial Adviser:
PricewaterhouseCoopers LLP

Actuary:	**Martin Clarke, Government Actuary**
Principal Legal Advisers:	**Linklaters LLP**
Pensions Administrator:	**Aon Hewitt Limited**[4]
Auditor:	**Ernst & Young LLP**
Bankers:	**Lloyds Bank plc**
	JP Morgan Chase Bank N.A.
	National Westminster Bank plc (a member of the Royal Bank of Scotland Group)
Custodian:	**JP Morgan Investor Services**
Medical Adviser:	**Dr Raymond Quinlan, RPS Business Healthcare Limited**

The Scheme's registration number with the Pensions Regulator is 10151637.

[1] Gerard Lane was appointed Co-Chief Executive alongside Geoffrey Mellor with effect from 1 January 2017 following a restructure within the Executive.

[2] Stefan Dunatov resigned as Chief Investment Officer of CPT to take effect from 31 July 2017. A recruitment process is underway for his replacement.

[3] Principal Investment Managers are defined as those managing at least 5% of the Scheme's Net Assets by market value as at 31 March 2017.

[4] On 1 August 2017, following the transfer of the administration services contract, the Pensions Administrator will change to Capita Employee Benefits from Aon Hewitt.

Report of the Committee of Management

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 Director vacancy a Nomination Group of two appointed and two elected Trustee Directors 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.

As noted in last year's report, G James Shearer was appointed as a Trustee Director with effect from 1 May 2016 to replace Ray Proctor who retired as a member of the Committee of Management.

Attendance at Meetings

During the year there were five meetings of the Committee. One member was unable to attend one meeting. All other members attended all of the meetings. 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 5. Sub-committee meetings are open to all members of the Committee to attend.

There were 23 Sub-committee meetings during the year. With the exception of two members who were unable to attend two meetings and one member unable to attend one meeting, 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 Business, Energy and Industrial Strategy (Secretary of State). Following a market review and with the agreement of the Secretary of State, the remuneration paid to the Chairman of ABSC was increased by £1,900 per annum during the year.

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 reassurance 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 2017 the rates paid were:

Chairman of the Committee	£67,800 pa
Chairman of ISC	£53,750 pa
Chairman of RASC	£37,050 pa
Chairman of ABSC	£22,400 pa
Other Committee Members	£17,650 pa

The total remuneration paid in the year to the members of the Committee was £249,600 (2016: £245,600).

With effect from 1 April 2017 the rates of remuneration were increased in line with the increase in the Retail Prices Index to:

Chairman of the Committee	£69,950 pa
Chairman of ISC	£55,450 pa
Chairman of RASC	£38,200 pa
Chairman of ABSC	£23,100 pa
Other Committee Members	£18,200 pa

Conflicts of Interest

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

Evaluation of Trustee Director Performance

The Committee formally evaluates its performance and the performance of its Sub-committees on a periodic basis.

Appointments

A list of the key appointments made by the Committee is on page 5. 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 dealing with questions concerning the provisions of the Scheme and any correspondence addressed to the members of the Committee. The company also provides other services to the Trustee, including secretariat, financial management, actuarial support and investment monitoring.

A subsidiary company of CPT, Coal Pension Trustees Investment Limited (CPTI), is authorised by the Financial Conduct Authority (FCA) to provide investment advice to the Trustee.

Four members of the Committee sit on the Board of CPT. As at 31 March 2017 these were Dame Kate Barker, Richard A Barfield, D Allen Clark and Stuart Jukes. The Board met twice during the year.

Administration Services

The Scheme's benefits administration contract with Aon Hewitt was due for renewal at the end of 2016. The Committee decided to undertake a market benchmarking exercise to compare the services that Aon Hewitt offered and the fees they charge with those of other providers. Following that exercise and after further extensive due diligence reviews the Committee decided to transfer the Scheme's benefits administration to Capita Employee Benefits. The change is expected to be completed on 1 August 2017 and members will have received individual letters showing the new administrator's contact details.

The Committee wish to thank all of the staff at Aon Hewitt for the high level of service they have provided to Scheme members over the years.

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 Committee or to a person appointed by them.

The Committee has appointed the Scheme Secretary to consider complaints made by members. Any members not satisfied with a decision can appeal to the Discretions and Appeals Sub-committee (DASC).

During the year three complaints were made using the procedure and three appeal cases were considered by DASC. None of the complaints were upheld. One complaint was taken to the Pensions Ombudsman and the outcome of this is not yet known.

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.

Membership

The changes in membership for deferred pensioners and pensioners are detailed on pages 10 to 11. The Scheme has no active members and is fully closed with no provision for new entrants.

Report of the Committee of Management

Annual General Meeting

The 2016 Annual General Meeting (AGM) was held in Sheffield. The AGM included presentations by the Scheme Chairman, the Chairman of ISC and the Scheme Secretary, which covered specific topics of interest to Scheme members including the Annual Report and Accounts and Scheme investments. In addition, representatives of the Scheme administrator were present to answer members' questions. 62 Scheme members attended the meeting. Key documents containing a detailed account of the 2016 AGM can be found on the Scheme Publications section of the BCSSS website.

Arrangements for the 2017 AGM in Liverpool are shown at the front of this 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 Committee's objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss.

The RASC reviews and monitors the Risk Management Framework and makes 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 and Rules.

The Committee receives assurance over the operation of the system of internal controls from internal audit and other assurance reviews, according to a programme of audit and assurance work approved and overseen by the RASC.

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 Actuary in accordance with the Pension Schemes Act 1993. The Committee 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 British Coal Staff Superannuation Scheme is governed by the Scheme and Rules set out in the Schedule to the British Coal Staff Superannuation Scheme (Modification) Regulations 1994 and as subsequently amended. Under the Definitive Scheme and Rules, the Committee is required to obtain audited accounts. The Committee resolved to apply the accounting principles in accordance with applicable law and United Kingdom Accounting Standards including FRS 102 and for making available certain other information about the Scheme in the form of an Annual Report.

The Report of the Committee of Management and the Audited Accounts are the responsibility of the Committee. The Scheme and Rules require the Committee to prepare accounts and have them audited. The accounts will:

- 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
- Include a statement that the accounts have been prepared in accordance with UK Generally Accepted Accounting Practice.

The Committee has supervised the preparation of the accounts, and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements 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.

Report on the 2015 Actuarial Valuation

The Scheme is exempt from the statutory scheme funding requirements (Part 3 of the Pensions Act 2004). Instead the funding requirements of the Scheme are set out in the Agreement signed on 13 February 2015 between the Trustee and the Guarantor.

Schedule 2 of the Agreement states that the Actuary is required to perform an Actuarial Valuation and produce a report every three years to advise the Guarantor and the Trustee of the following percentages:

1. The annual compound real return on the Scheme's total assets that would be needed over the lifetime of the Scheme to expect to be able to meet the Scheme's future benefits payments and the Scheme's expenses (the 'Obligations Percentage'); and
2. The annual compound real return on the Scheme's total assets that would be needed over the lifetime of the Scheme to expect to be able to meet the Scheme's future benefit payments, the Scheme's expenses and a payment to the Guarantor on 31 March 2033 equal to the Investment Reserve at 31 March 2015 increased in line with cumulative changes in the Consumer Prices Index (the 'Buffer Percentage').

The last Actuarial Valuation was conducted as at 31 March 2015 and concluded on 18 March 2016. A summary of the valuation results is given in the table below:

	Result at 31 March 2015
Value of the Scheme assets	£9,571 million
Obligations percentage	1.8% pa
Buffer percentage	2.8% pa

Method and Significant Assumptions Adopted at the 2015 Actuarial Valuation

The valuation methodology is to project the expected cash flows of the Scheme (and target payment to the Guarantor, as appropriate) and then to calculate, at the valuation date, the annual real rates of return required on the Scheme's assets over the Scheme's lifetime, in order to meet the Scheme's expected cash flow requirements.

The following significant assumptions were adopted for this valuation:

- As at March 2015 the Actuary assumed the following about future annualised inflation:

Scheme year	Retail Price Index	Consumer Price
2015	1.10% per annum	0.0% per annum
2016	2.15% per annum	1.0% per annum
2017 onwards	3.15% per annum	2.0% per annum

- Pension increases are derived from the assumed future inflation assumptions (as shown above) according to the provisions of the Scheme Rules.
- Baseline mortality rates are assumed to be in line with standard tables, adjusted to reflect recent Scheme membership experience, with future improvements projected to be in line with those underlying the Office of National Statistics 2012-based principal UK population projections.

Further details about the Actuarial Valuation are included in the Actuary's report on page 38.

Analysis of Changes in the Number of Deferred Pensioners and Equivalent Pension Benefits (EPB)

During the year ended 31 March 2017

	Deferred pensioners	EPB only*
At the beginning of year	3,682	462
Additions during year:		
Pension credit members **	6	-
Total additions	**6**	-
Reductions during year:		
Retirements:		
- normal retirement age	101	4
- commuted trivial pension	-	6
- early retirement with no actuarial reduction	86	-
- early retirement with actuarial reduction	129	-
- ill-health	-	-
- after further deferment	119	-
Deaths notified to the Scheme	3	-
Transfers out	10	-
Total reductions	**448**	**10**
Net reduction	442	10
Total at end of year	3,240	452

* 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 could 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 2017

	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	38,300	400,930	15,114	106,256	154	463
Adjustments	-	-	-	-	-	-
Additions during the year:						
Awards on retirement	445	2,492	-	-	-	-
Awards on death of pensioners	-	–	676	4,821	4	15
Pension increases	-	5,661	-	1,684	-	8
Total additions	445	8,153	676	6,505	4	23
Deductions during year:						
Death of pensioners	1,538	15,206	1,239	8,472	-	-
Children attaining age 18 or ceasing full-time education	-	-	-	-	10	31
Total reductions	1,538	15,206	1,239	8,472	10	31
Total guaranteed pensions at end of year	37,207	393,877	14,551	104,289	148	455
Payments arising from surplus*:						
Reducing bonus	-	66,004	-	16,174	-	55
Level bonus	-	30,765	-	7,820	-	34
Total payments arising from surplus	-	96,769	-	23,994	-	89
Total	37,207	490,646	14,551	128,283	148	544

* Payments arising from surplus are bonuses paid to pensioners, as described on page 40.

Investment Report

Policy

The responsibility for setting the investment policy of the Scheme lies with the Committee. Decisions concerning the establishment of investment objectives and formulation of an investment strategy which seeks to achieve the objectives are made by the Committee. The Investment Sub-committee (ISC) is responsible for overseeing the efficient implementation of the investment strategy and deciding on the most appropriate investment structure within delegated parameters. Decisions are made after consideration of advice from CPTI, the Scheme's investment adviser.

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

The Committee takes professional advice to ensure that risk in the long-term strategy is appropriate to the profile of expected benefit payments.

Investment Review and Performance

The year to March 2017 saw the US Federal Reserve continue to raise interest rates but in a slow and gradual manner in order to support economic growth. Meanwhile, the rest of the developed world continued to engage in unconventional monetary policy as global inflationary pressures remained low. A major political event of the year was the UK's decision to leave the EU in June's referendum and it had an immediate short term negative impact on asset prices, with sterling in particular weakening significantly. Since then markets generally recovered and global equities continued to rise after the US election result.

Global equity markets as measured by the FTSE All World Index rose by 29.5% over the year in sterling terms whilst the FTSE All Gilt Total Return Index returned 6.6%.

UK commercial property as measured by the IPD All Property Index had a total return of 3.8%.

Sterling fell by 8.4% over the year on a trade weighted basis as uncertainty surrounding the economic impact of the decision to leave the EU caused it to fall against every major currency. Immediately after the vote sterling fell to a 31 year low and remained weak for most of 2016. However, this was to the benefit of the Scheme as it has the majority of its assets invested outside the UK. Given the relative weakness of sterling the Committee reviewed its currency hedging policy after the EU vote and began to currency hedge its foreign equity exposure. 50% of developed market public and private equity exposure in dollars, euros, yen and Swiss francs are now currency hedged. Government bonds, multi-asset credit, private debt, special situations debt and shipping mandates are 100% currency hedged.

Over the year to March 2017 the Scheme has continued to increase its exposure to illiquid assets such as private debt, special situations debt and shipping. The Scheme also invested in a new asset class of multi- asset credit towards the end of the year. Most of these moves were funded from cash proceeds arising from equity sales and the disposal of the emerging market government bond mandates.

During the year the Scheme held some positions in derivative markets which provided some downside protection for its holdings in European equities. These expired prior to the UK EU referendum, with the Scheme deciding not to continue this positioning. The Scheme also increased its exposure to emerging market equities during the year.

The Scheme's investment managers are shown below:

	Total Net Assets £m
Cash	
Insight & other cash	456
Fixed Income - Global Government Bonds	
BlackRock	510
Wellington	506
	1,016
Global Multi-Asset Credit	
Wellington	233
PGIM	234
	467
Private Debt	
Goldman Sachs MBD	241
Bain Capital	360
Apollo	332
Ares	105
	1,038
Special Situations Debt	
Apollo	71
HIG	12
M&G	139
Varde	42
Oak Hill	84
Castlelake	30
Atalaya	26
Anacap	15
LCM Credit III	5
	424
Public Equity	
BlackRock	1,403
Schroders	72
Lazard	112
Genesis	166
Edinburgh Partners	130
AQR	413
Baillie Gifford	130
Lansdowne	140
JO Hambro	156
Cantillon	200
	2,922
Private Equity	1,386
Property	
LaSalle	1,170
Global Infrastructure	
Alinda	105
Goldman Sachs	70
	175
Global Macro	
Bridgewater	219
Shipping	
Tufton Oceanic	98
Residual cash, assets and liabilities	(15)
Net Assets as at 31 March 2017	**9,356**

The manager totals include investment debtors, creditors and investment cash.

Investment Report

At the end of the year to 31 March 2017, 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	4.8	0.0
Fixed Income - Global Government Bonds	10.9	12.5
Global Multi-Asset Credit	5.0	5.0
Private Debt	11.1	13.5
Special Situations Debt	4.5	7.5
Public Equity	31.2	30.0
Private Equity	14.8	12.5
Property	12.5	13.0
Global Infrastructure	1.9	2.0
Global Macro	2.3	2.5
Shipping	1.0	1.5
Total Assets	**100.0**	**100.0**

A 5% allocation to global multi-asset credit was approved in November 2016 (as reflected in the table above), primarily through the reduction of 2.8% in emerging market global government bonds and 2.2% in public equity. Further investments in private debt, special situations debt and shipping will be funded from cash and equity sales.

Variations between actual and target allocations are monitored by ISC and are rebalanced as appropriate.

The above analysis is based on the underlying investments and differs from the classification used in note 7 to the accounts.

The Committee uses JP Morgan Investor Services (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 2013 to 31 March 2017 are shown below.

	Scheme Return %	Benchmark %
2017	16.1	17.3
2016	2.7	0.5
2015	14.5	15.9
2014	6.8	5.0
2013	12.9	12.5

Annualised Return on Investment Assets to 31 March 2017

The following table compares the annualised returns over the past one, three and five years.

	Trailing 1 Year		Trailing 3 Years		Trailing 5 Years	
	Scheme %	Benchmark %	Scheme %	Benchmark %	Scheme %	Benchmark %
Fixed Income	3.07	3.51	-1.34	-0.31	-2.22	-1.47
Private Debt	9.03	6.10	5.64	7.02	-	-
Special Situations Debt	18.68	10.00	-	-	-	-
Equities*	28.21	33.12	16.44	16.44	15.21	14.44
Private Equity	23.52	33.12	24.30	16.44	19.35	15.08
Property	6.64	6.50	9.37	6.81	8.96	6.71
Infrastructure	12.35	3.14	22.7	1.86	17.03	-
Global Macro	14.71	19.23	6.11	12.24	5.51	11.94
Shipping	-12.84	10.00	-	-	-	-
Total investments	**16.15**	**17.25**	**11.24**	**10.97**	**10.66**	**10.04**

*Equities includes the composite returns from both public and private equities.

The table highlights that the aggregate returns on the investment portfolio were behind the benchmark during the year to 31 March 2017, but ahead of the benchmark over longer time periods. There is no returns data for the new global multi-asset credit mandate as investments into this asset class were made just prior to the year-end.

Custodial and Cash Arrangements

The Scheme's quoted securities are held by a custodian, JP Morgan, who also provides investment accounting, investment performance measurement, securities lending and other fund services.

Insight Investment manages most sterling cash balances within their Liquidity funds. The remaining cash is either deposited with JP Morgan Chase Bank N.A. 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 facilities with JP Morgan Chase Bank N.A. and Lloyds Bank PLC.

Most public 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 Limited (CPPL) or Crucible Residential Properties Limited (CRPL) which are nominee companies controlled jointly by the Scheme and the MPS and incorporated for the purpose of holding title to the Scheme properties. A further subsidiary company set up as a joint venture between the Scheme and MPS holds title to one property. Title deeds are held by firms of solicitors. Trust deeds between the nominee companies and the Schemes establishes that the properties are held on behalf of the Schemes and which Scheme holds which property.

Private debt, private equity, special situations debt and shipping 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 and value 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 by investee companies will improve the quality of investee company management and, as a consequence, potentially increase the returns to long-term investors. The Scheme is a signatory to the Financial Reporting Council's (FRC) UK Stewardship Code, updated in 2016. This sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. It also describes steps asset owners can take to protect and enhance the value that accrues to the ultimate beneficiary. Effective intervention, however, requires a deep knowledge of the underlying businesses in which the Scheme effectively invests, which the Committee does not have. For this reason engagement and voting activities for equity managers are delegated to Hermes Equity Ownership Services or in some cases the investment managers and their reports are published on the Scheme website. For other investment classes the Committee relies upon its investment adviser to undertake effective due diligence and ongoing monitoring to ensure that environmental, social and governance considerations are taken into account in the selection, retention and realisation of investments through its investment managers.

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.

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 equity, foreign exchange and bond index futures and options, credit default swaps, currency, interest rate inflation and total return 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 Goldman Sachs International and JP Morgan Chase Bank N.A. during the year. JP Morgan Chase Bank N.A. also provides an independent valuation for derivatives.

Currency Hedge

Exposure to all non-sterling currencies within global government bonds, multi-asset credit, private debt, special situations debt and shipping is 100% hedged. Exposure to US dollars, euros, Swiss francs and yen is 50% hedged in relation to developed market public and private equity and infrastructure mandates.

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:

Chairman Dame Kate Barker

Committee Member Alan Whalley

Fund Account

Year ended 31 March 2017

	Note	2017 £m	2016 £m
Contributions and benefits			
Benefits	2	(636)	(646)
Payment to and on account of leavers	3	(2)	(2)
Payment due to the Guarantor	4	–	(500)
Administrative expenses	5	(6)	(4)
Net withdrawals from dealings with members and the Guarantor		**(644)**	**(1,152)**
Returns on investments			
Investment income	6	235	172
Change in market value of investments	7	1,152	92
Investment management expenses	8	(34)	(36)
Net returns on investments		**1,353**	**228**
Net increase/(decrease) in the Fund during the year		**709**	**(924)**
Net assets of the Scheme at the beginning of the year		**8,647**	**9,571**
Net assets of the Scheme at the end of the year		**9,356**	**8,647**

Statement of Net Assets

as at 31 March 2017

	Note	2017 £m	2016 £m Restated[1]
Investment assets	7		
Fixed interest securities		997	1,485
Global multi-asset credit		302	-
Private debt		926	767
Special situations debt		427	303
Public equity		1,664	1,282
Pooled investment vehicles		1,550	1,773
Derivatives		34	77
Property		1,099	1,006
Joint ventures		71	79
Shipping		90	30
Private equity		1,386	1,219
Cash and cash equivalents		937	661
Other financial assets		45	107
		9,528	**8,789**
Investment liabilities			
Derivatives		(53)	(57)
Other financial liabilities		(121)	(110)
Net investment assets		9,354	**8,622**
Current assets	9	11	**34**
Current liabilities	10	(9)	**(9)**
Net assets of the Scheme at 31 March		9,356	**8,647**

The accounts 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 accounts were approved by the Committee on 13 July 2017.

For and on behalf of the Committee of Management

Dame Kate Barker Chairman

Alan Whalley Committee Member

Scheme Registration Number: 10151637

[1] Please see the basis of preparation paragraph in note 1 of the notes to the accounts for an explanation of the reason for the restatement of the 2016 statement of net assets.

1. Accounting Policies

Basis of Preparation

The accounts have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) - the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidelines set out in the Statement of Recommended Practice – Financial Reports of Pension Schemes (revised November 2014) (SORP). The accounts also provide disclosure in accordance with the amendment to FRS 102: Fair value hierarchy disclosures which was approved on 8 March 2016 with an effective date of 1 January 2017. Pension funds are able to early adopt the revised fair value hierarchy from the date of approval and the Committee has chosen to do so. The principal accounting policies applied in the preparation of these accounts are set out below. The policies have been applied to all the years presented.

The statement of net assets as at 31 March 2016 has been restated as set out below. This has been done to more accurately reflect the requirements of FRS102 as they relate to the Scheme's joint venture investments. The impact of the restatement has been to reduce net investment assets by £79 million and reduce minority interests by £79 million and thus has no impact on the net assets of the Scheme as at 31 March 2016 nor on the net decrease in the Fund during the year to 31 March 2016 as reported in the Fund Account.

	As previously reported £m	As restated £m
Investment assets	8,710	8,789
Investment liabilities	(167)	(167)
Investment in joint ventures	158	-
Net investment assets	8,701	8,622
Minority interests	(79)	-
Current assets and liabilities	25	25
Net assets	**8,647**	**8,647**

Basis of accounting

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

Basis of consolidation

The results of subsidiary undertakings are included from the date of acquisition and up to the date of disposal using the acquisition method of accounting.

Investment income

Revenue is recognised when the Scheme's right to receive payment is established as follows:

Income from fixed income securities, multi-asset credit, private debt, property, shipping, private equity 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.

Income from public equity investments is included in the accounts on the date when the securities are quoted ex-dividend, or where no ex-dividend date is quoted, when the Scheme's right to receive the payment is established.

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. Where income is distributed it is included in investment income when the Scheme's right to receive payment is established.

Income from joint ventures is shown separately.

Income arising from special situations debt is included within the change in market value.

Individual transfers

Individual transfers from the Scheme during the year are included in the accounts on the basis of when the member liability is accepted or discharged by a registered pension arrangement.

Benefits

Benefits payable are included in the accounts 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, where they are invoiced directly, are accounted for on an accruals basis. Some investment managers deduct their fees directly from the fund and these are reflected within the change in market value. Irrecoverable VAT is reflected within the appropriate expense heading.

Foreign currencies

Transactions in foreign currencies during the period, including purchases and sales of securities, investment income and expenses, are translated at the rate of exchange prevailing on the date of the transaction. Amounts denominated in foreign currencies at the year-end are translated into sterling, the Scheme's functional currency, at the rate of exchange ruling at the year-end date. 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.

Change in Market Value

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

Investment Assets

The statement of net assets includes investments at fair value and details of the valuation techniques involved in estimating fair values of certain investments are included in note 1 and note 7.

Fair Value Measurement

The Scheme measures all of its investments at fair value at each reporting date.

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction. FRS 102 and the revised SORP requires the use of a three-level hierarchy to estimate the fair value of investments as shown in note 7.

The methods of determining fair value for the principal classes of investments are detailed below.

- Equities and bonds which are traded in an active market are included at the quoted price, which is normally the bid price. Transaction costs arising on all investment purchases and sales are charged to the Fund Account within the change in market value by adding to purchase costs and netting against sale proceeds, as appropriate for all investment types.
- Unitised pooled investment vehicles are not traded on an active market. Where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days, they are included at the last price provided by the manager at or before year-end.
- The value of private equity, bonds, private debt, special situations debt, shipping and pooled investment vehicles which are unquoted or not actively traded on a quoted market are estimated by the Committee based on advice from the respective investment manager. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value. Where the last valuation provided by the investment manager is prior to the year-end, the valuation is adjusted for cash flows in the intervening period.
- The fair value of multi-asset credit investments, which comprise various types of debt instruments, is evaluated by pricing vendors using financial models and comparable security data. Multi-asset credit investments are normally over the counter (OTC) transactions and are not actively traded on a quoted market. Some investments included in the multi-asset credit mandate which are exchange traded are included at the quoted price and are traded on an active market.
- Property is valued at open market value as at 31 March 2017, determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The properties have been valued by Cushman and Wakefield (C&W), Chartered Surveyors, an external independent valuer with recognised and relevant professional qualifications who has recent experience of the locations and types of properties held by the Scheme, taking account of, amongst other things, the current estimate of rental values and market yield.
- One property investment is held on behalf of the Scheme through an investment in a joint venture with MPS and is valued in the same way as the property investments described above.
- Futures are contractual arrangements to buy or sell a specified financial instrument at a specific price at a predetermined future date, are traded in standardised amounts on regulated exchanges, and are subject to daily cash margin requirements. They are valued at the fair value as determined by the closing exchange price as at the year-end.
- Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, and normally transacted OTC. They are valued at the current value of future expected cash flows arising from the swap, determined using a discounted cash flow model and market data at the reporting date.
- Options are contractual agreements that convey the right, but not the obligation, for the purchaser to either buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. Exchange traded options are valued at the fair value as determined by the exchange price for closing out the option as at the year-end. OTC options are valued at the fair value using options pricing models.
- Forward foreign exchange contracts are customised contracts transacted in the OTC market. They are valued by determining the gain or loss that would arise from closing out the contract at the year-end by entering into an equal or opposite contract at that date.

Other Investments Arrangements

The Trustee continues to recognise assets it has lent under securities lending arrangements to reflect its ongoing interest in those securities. Collateral received in respect of these arrangements is disclosed but not recognised as a Scheme asset.

Collateral payments and receipts in respect of OTC derivative contracts and initial margin deposits in respect of futures contracts are reported within cash.

2. Benefits

	2017 £m	2016 £m
Pensions	492	499
Dependant benefits	128	130
Commutations and lump sum retirement benefits	16	17
Total	636	646

3. Payments to and on Account of Leavers

	2017 £m	2016 £m
Individual transfers to other schemes	2	2

4. Payments due to Guarantor

	2017 £m	2016 £m
Payments to the Guarantor	–	500

Details of the above payment and future payments to be made to the Guarantor are shown in notes 11 and 12.

5. Administrative Expenses

	2017 £m	2016 £m
Pension Administration	4	3
Legal, Actuarial and Other Fees	2	1
Total	6	4

6. Investment Income

	2017 £m	2016 £m
Income from fixed income securities	47	39
Income from private debt	71	32
Dividends from public equities	32	34
Property rents (net of expenses)	50	48
Income from shipping	16	6
Interest on cash deposits and margin accounts	3	3
Income from private equity	10	–
Income from joint ventures	3	3
Other	3	7
Total	235	172

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

Income from private equity investments has been included within investment income above as this is considered to be a more appropriate classification. This income was £20 million in 2016 and is still included within change in market value.

Property expenses of £8 million (2016: £8 million) were deducted from property income.

7. Net Investment Assets

Investment reconciliation table

	Value at 1 April 2016 £m	Purchases at cost and derivative payments £m	Sale proceeds and derivative receipts £m	Change in market value £m	Value at 31 March 2017 £m
Fixed income securities	1,485	865	(1,483)	130	997
Global multi-asset credit	–	460	(157)	(1)	302
Private debt	767	444	(370)	85	926
Special situations debt	303	119	(88)	93	427
Public equity	1,282	759	(727)	350	1,664
Pooled investment vehicles	1,773	3	(608)	382	1,550
Derivatives	20	1,255	(1,091)	(203)	(19)
Property	1,006	115	(57)	35	1,099
Shipping	30	64	-	(4)	90
Private equity	1,219	147	(252)	272	1,386
Joint ventures	79	-	-	(8)	71
Cash and cash equivalents	661	258	-	18	937
Other financial assets and liabilities	(3)	-	(76)	3	(76)
Total investments	**8,622**	**4,489**	**(4,909)**	**1,152**	**9,354**

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 all profits and losses realised on sales of investments during the year.

	2017 £m	2016 £m
Fixed income securities	997	1,485

	2017 £m	2016 £m
Multi-asset credit	302	–

	2017 £m	2016 £m
Private debt	926	767

The Scheme's private debt investments are held through two wholly owned subsidiary undertakings. The private debt investments are secured loans made direct to entities through four investment managers and are principally made to businesses based in the UK, Continental Europe and the US. These investments are not traded on an active market which may restrict the ability of the Scheme to realise them at short notice. Details of private debt commitments are shown in note 12.

	2017 £m	2016 £m
Special situations debt	427	303

The majority of the Scheme's special situations debt investments are held through limited partnerships via pooled funds. The underlying investments are principally loans made to companies in Europe and the US. These investments are not traded on an active market which may restrict the ability of the Trustee to realise them at short notice. Details of special situations debt commitments are shown in note 12.

	2017 £m	2016 £m
Public equity	1,664	1,282

	2017 £m	2016 £m
Pooled investment vehicles	1,550	1,773

Pooled investment vehicles include holdings in UK and overseas equities, bonds and derivatives. The change in market value also includes expenses charged 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 (2017: 68.6%, 2016: 67.7%) with the balance being other managed funds.

	2017 £m	2016 £m
Derivative contracts		
Assets		
Futures contracts	1	1
Forward foreign exchange contracts	33	66
Swaps	-	8
Options	-	2
Liabilities		
Futures contracts	(1)	(1)
Forward foreign exchange contracts	(52)	(56)
Net derivative contracts	(19)	20

Objectives and Policies for Holding Derivatives

The Trustee has authorised the use of derivative financial instruments by its investment managers as follows:

- Forward foreign exchange contracts are used to provide the Scheme with protection against changes in exchange rates which may adversely affect the value of overseas investments in foreign currencies. The Trustee's policy is to hedge 100% of investments in the developed government bonds, private debt, special situations debt and shipping mandates and 50% of investments in public and private equity held in euros, Swiss francs, US dollars and yen.
- Futures are used to provide the Scheme with exposure to the equity and bond markets.

Forward Foreign Exchange

	Bought £m	Sold £m	Asset £m	Liability £m
US dollar	3,366	(6,042)	17	(38)
Euro	220	(717)	3	(6)
Yen	125	(302)	-	(3)
Other	594	1,230	13	5
Sterling	5,400	(2,012)	-	-
Total	9,705	(10,304)	33	(52)

Futures

The Scheme holds long and short index future contracts with economic exposure of £122 million and £31 million respectively. The majority expire in 3 months' time and are held on various global market indices. The market values of these positions are an asset of £1 million and a liability of £1 million giving a net liability position of nil.

	2017 £m	2016 £m
UK property	1,099	1,006

Whilst property investments are traded on an active market, the period between the inititiation and completion of the disposal process can take time. Details of property commitments are shown in note 12.

	2017 £m	2016 £m
Shipping	90	30

The Scheme's shipping investments are held through wholly owned subsidiary undertakings. Whilst shipping investments are traded on an active market, the period between the inititiation and completion of the disposal process can take time. Details of shipping commitments are shown in note 12.

	2017 £m	2016 £m
Private equity	1,386	1,219

All the Scheme's private equity investments are held through limited partnerships via pooled funds. Within the partnerships the underlying investments are principally management buyouts and institutional purchases of businesses based in the UK, Continental Europe, the US and Asia. Private equity investments are not traded on an active market which may restrict the ability of the Scheme to realise them at short notice. Details of private equity commitments are shown in note 12.

	2017 £m	2016 £m
Joint ventures		Restated
Investments in joint ventures	99	108
Investment liabilities in joint ventures	(28)	(29)
Net Investment in joint ventures	71	79

The amounts above include £71 million (2016: £79 million) of property investments held through interests in joint ventures with MPS.

As explained in note 1 the investments in the Scheme's joint ventures as at 31 March 2016 has been restated to more accurately reflect the requirements of FRS102.

	2017 £m	2016 £m
Cash and cash equivalents		
Sterling	626	538
Foreign currency	311	123
Total	937	661

	2017 £m	2016 £m
Other financial assets and liabilities		
Amounts due from brokers	24	84
Other debtors	19	21
Outstanding income and withholding tax	2	2
Amounts due to brokers	(98)	(90)
Other creditors	(23)	(20)
Total	(76)	(3)

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, and movements in the AVC fund value are included in the Fund Account. The AVC fund value at 31 March 2017 was £0.3 million (2016: £0.5 million).

Securities lending

The Scheme participates in public equity and fixed income securities lending through its custodian, JP Morgan. Approved borrowers are required to provide collateral valued in excess of securities on loan. The value of securities on loan and the collateral provided is shown in the table below.

	Securities on loan 2017 £m	Collateral provided 2017 £m	Securities on loan 2016 £m	Collateral provided 2016 £m
Fixed income securities	167	173	164	169
Public equity	104	107	162	168
Total	271	280	326	337

Concentration of Investments

Investments in the following funds account for more than 5% of the Scheme's net assets.

	Market Value 2017 £m		Market Value 2016 £m	
BlackRock Aquila Life US Equity Fund	496	5.3%	691	8.0%

Fair Value Hierarchy of Assets and Liabilities

FRS 102 requires the disclosure of financial instruments held at fair value by class under the following hierarchy:

- Level 1 - the unadjusted quoted price in an active market for an identical asset or liability that the entity can access at the measurement date;
- Level 2 - inputs other than quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly;
- Level 3 - inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Fair value hierarchy of investment assets and liabilities 2017

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fixed income securities	84	913	-	997
Global multi-asset credit	73	191	38	302
Private debt	-	-	926	926
Special situations debt	-	-	427	427
Public equity	1,664	-	-	1,664
Pooled investment vehicles	-	1,017	533	1,550
Derivatives	-	-	(19)	(19)
Property	-	-	1,099	1,099
Shipping	-	-	90	90
Private equity	-	-	1,386	1,386
Joint ventures	-	-	71	71
Cash and cash equivalents	463	474	-	937
Other financial assets and liabilities	(76)	-	-	(76)
Total investments	**2,208**	**2,595**	**4,551**	**9,354**

Fair value hierarchy of investment assets and liabilities 2016

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fixed income securities	84	1,401	-	1,485
Private debt	-	-	767	767
Special situations debt	-	-	303	303
Public equity	1,282	-	-	1,282
Pooled investment vehicles	-	1,201	572	1,773
Derivatives	2	8	10	20
Property	-	-	1,006	1,006
Shipping	-	-	30	30
Private equity	-	-	1,219	1,219
Joint ventures	-	-	79	79
Cash and cash equivalents	148	513	-	661
Other financial assets and liabilities	(3)	-	-	(3)
Total investments	**1,513**	**3,123**	**3,986**	**8,622**

Valuation Techniques

Fixed income securities

The Trustee invests in developed market government bonds. In the absence of a quoted price in an active market they are valued on a 'clean' basis which excludes accrued interest using observable market data such as recently executed transaction prices of securities of the issuer or comparable issuers. UK Gilts are included at level 1 in the fair value hierarchy whilst other developed government market bonds are included at level 2.

Multi-asset credit

The majority of multi-asset credit investments are traded over the counter and as such do not have an official last trade price. They are valued using an evaluated bid price provided by a pricing vendor using financial models and comparable market security data. Bonds which are included in the mandate are shown at level 2 in the hierarchy whilst the bank loans where market coverage maybe minimal are shown at level 3. Exchange traded UK Gilts included within the multi-asset credit mandate are shown at level 1 in the fair value hierarchy.

Private debt

The private debt mandates are valued using models developed by the investment managers. A typical model includes discounted cash flow techniques for which significant inputs are the amount and timing of future expected cash flows, market yields, current performance and recovery assumptions and applicable publicly available comparable company valuations. These are included at level 3 within the fair value hierarchy.

Special situations debt and private equity

The Trustee invests in special situations debt and private equity funds. These funds are not quoted in an active market. Where the value of the fund is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value. These are included at level 3 within the fair value hierarchy.

Public Equity

Public equities are normally quoted at bid prices which are readily available and regularly occurring in active markets from relevant securities exchanges. These are included at level 1 in the fair value hierarchy.

Pooled Investment Vehicles

Pooled investment vehicles which are traded regularly are included at level 2 of the fair value hierarchy. The prices are published by the pooled investment vehicle manager at bid price on a daily or weekly basis.

Unquoted pooled investment vehicles are reported using the net asset value (NAV) of the Fund. The NAV is determined by the pooled investment vehicle manager using fair value principles to value the underlying investments of the pooled arrangement. These investments which are subject to redemption notice periods and are not traded regularly are included at level 3 of the fair value hierarchy.

Derivatives

The investment managers use valuation models which incorporate foreign exchange spot and forward and interest rate curves for determining fair values of OTC forward foreign exchange contracts. The valuation techniques include forward pricing using present value calculations and significant inputs into these models are market observable. These investments are included at level 3 in the fair value hierarchy.

Property

The valuation of investment property is performed at December each year with a further valuation at the Scheme's year-end by C&W. C&W are an external, independent valuer with current knowledge of the relevant markets and the skills and understanding to undertake the valuations competently.

For properties in the course of development, construction and associated costs in respect of both the work completed and the work necessary for completion together with a completion date have been considered. Valuations of completed buildings have been based on an assumption that all works of construction have been carried out in accordance with the building contract and specifications, current British standards and any relevant codes of practice.

The properties have been valued at market value which is primarily derived using comparable recent market transactions on arm's length terms and has taken account of current and estimated annual rents receivable and market yields such as net initial yield, nominal equivalent yield and true equivalent yield.

Property investments are included at level 3 in the fair value hierarchy.

Shipping

With the exception of one vessel, the fair value of shipping investments is derived by obtaining a broker valuation for the vessels. The broker valuation uses the sales comparison approach which is then adjusted by the investment manager for differences in key attributes such as vessel type, features, age, cargo, capacity and potential freight earnings. For the vessel where a broker valuation is not available, the investment manager has determined the value using a discounted cash flow model where significant inputs are the amount and timing of expected future charter income.

Shipping investments are included at level 3 in the fair value hierarchy.

Joint ventures

Property held through joint ventures with MPS are valued by C&W at the Scheme year-end and are valued in the same way as the property investments described above. These are included at level 3 in the fair value hierarchy.

Cash and cash equivalents

The Trustee invests some Scheme cash in sterling liquidity funds. These funds are pooled investment vehicles which are traded regularly and are included at level 2 in the fair value hierarchy.

Investment Transaction Costs

	Commissions 2017 £m	Taxes 2017 £m	Total 2017 £m	Total 2016 £m
Public equities	1	-	1	1
Property	1	3	4	3
Total	**2**	**3**	**5**	**4**

Included within the purchases and sales figures in the investment reconciliation table are direct transaction costs comprising fees, commissions and taxes. The Scheme also incurs indirect transaction costs on private debt, special situations debt, private equity and pooled investment vehicles. Such costs are taken into account in calculating the bid-offer spread of these investments and are not separately reported.

8. Investment Management Expenses

	2017 £m	2016 £m
Administration, management and custody	29	31
Other advisory fees	5	5
Total	34	36

Other advisory fees include £2.7 million (2016: £2.1 million) of costs relating to CPTI, the Scheme's investment adviser. Also included in other advisory fees are £2.3 million (2016: £2.9 million) of legal and other third party adviser costs.

9. Current Assets

	2017 £m	2016 £m
Cash at bank	11	34

10. Current Liabilities

	2017 £m	2016 £m
Tax and VAT	(9)	(9)

11. Related Party Transactions

In accordance with the Agreement dated 13 February 2015, the Trustee paid £500 million to the Guarantor on 1 April 2015, being a part repayment of the former Investment Reserve which existed prior to the consolidation of the Sub-funds. It is intended that the remaining balance of the Investment Reserve, now known as the Adjusted Reserve (adjusted for increases in CPI between March 2015 and March 2033) will be paid to the Guarantor within twelve months of 31 March 2033. As at 31 March 2017 the balance of the Adjusted Reserve was £1.7 billion.

The Scheme owns UK Government bonds which at the year-end had a market value of £157 million (2016: £84 million).

Six members of the Committee including a member who retired during the year and a member who was appointed during the year were in receipt of a pension from the Scheme. The aggregate amount paid was £239,000 (2016: £287,000).

Members of the Committee are entitled to receive remuneration from the Scheme. The total remuneration paid in the year was £249,600 (2016: £245,600) and is detailed in the Report of the Committee of Management.

CPT is jointly owned by the Scheme and MPS with each appointing four members of their Committees of Management as directors. CPT costs, which are in respect of support services, are included within pensions administration costs in note 5 and were £1.7 million (2016: £1.6 million). CPTI costs, which are in respect of investment advisory services, are included within other advisory fees in note 8 and were £2.7 million (2016: £2.1 million).

The Scheme and the MPS jointly invest in properties and partnerships with a value to the Scheme of £112 million (2016: £119 million). Included in this balance is £71 million (2016: £79 million) of joint venture interest which is shown in note 7.

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

Forward commitments comprises expenditure on investments authorised and contractually committed before the year-end which is not provided for in the accounts as it is not yet due. This includes infrastructure and private equity investments of £480 million, private debt investments of £26 million, special situations debt investments of £371 million, property development costs of £61 million and shipping investments of £13 million.

The timing of infrastructure and private equity investment funding is uncertain and has been estimated. It is assumed £144 million (30%) will fall due in the next twelve months and the remaining £336 million in later years. Forward commitments in relation to private debt investments will be paid within approximately twelve months of the year-end whilst the special situations debt commitments are due to be paid within eighteen months. Property development costs of £35 million will be paid within twelve months of the year-end and it is expected that the balance of £26 million will be paid within three years. Shipping commitments were paid within two months of the year-end.

As explained in note 11 it is intended that the Adjusted Reserve will be paid to the Guarantor within twelve months of 31 March 2033. As at 31 March 2017, the balance of the Adjusted Reserve was £1.7 billion.

13. Contingent assets not provided for in the accounts

Claims for the recovery of UK and overseas tax credits valued at approximately £102 million are being processed through the Courts as part of a Group Order with other UK pension funds. Receipts are recognised on a cash received basis.

An investment in the Dakota, Minnesota and Eastern Railroad Corporation held through a joint venture was sold for initial consideration of £33 million on 10 October 2007. Dependant on rail track expansion into the Powder River Basin in North America, further contingent proceeds of up to £50 million (at year-end exchange rates) may be payable in the period to 2025 which would give rise to an additional tax liability of approximately £10 million.

14. Investment risk and management objectives and policies

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy. The objective of the Committee is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet the Scheme's future benefit payments, the Scheme's expenses and the lump sum payment due to the Guarantor on 31 March 2033, as they fall due.

The Committee sets the investment strategy for the Scheme taking into account considerations such as the Government Guarantee, the Scheme's future payments and the funding requirements of the Scheme as set out in the Agreement.

The Committee bases its investment views on an assessment of the economic situation, economic scenarios, and the valuation of assets through time. As a result, the actual asset allocation will change through time as a result of changes to the underlying valuation of different assets and the economic situation. There are no minimum or maximum levels for any asset category or region. However, the total portfolio will remain within the parameters set out below.

Asset liability modeling and other forms of risk analysis are used to estimate return expectations of the portfolio and the risks that the Committee is taking in achieving the investment objectives.

The Committee have completed a review of their investment strategy, funding objectives and risk tolerances and agreed a new risk management framework for measuring and managing the key components of the framework, outlined below:

i) Time horizon: 3 to 5 years.

ii) Return objective: Deliver rates of return required to be able to meet the Scheme's payment obligations. The minimum expected return objective is set to at least be equal to required returns.

iii) Risk measures:

a. Probability of being able to pay all future member benefits from the Scheme's assets without requiring funds from the Guarantor exceeds 50% on each of the economic scenarios with a measure of at least 70% targeted in the 'base case' economic scenario;

b. Cash flow coverage of the Scheme's payments over the next 5 years is above 90% on each of the economic scenarios.

Details of the target asset allocation are set out in the Investment Report on page 14.

These investment objectives and risk tolerances are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Committee by regular reviews of the investment portfolios. Further information on the Committee's approach to risk management and the Scheme's exposures to credit and market risks are set out below.

Notes to the Accounts

BCSSS British Coal Staff Superannuation Scheme

Credit Risk

The Scheme is subject to credit risk because it directly invests in bonds, private debt, multi-asset credit and special situations debt, holds cash balances and undertakes securities lending activities.

The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled fund. This is a result of the Scheme being dependent on the pool manager for delivery of the cash flows and for buying and selling of the shares within the pooled arrangement. The Scheme is also indirectly exposed to credit risks arising on the financial instruments held within the pooled investment vehicles.

A summary of exposures to credit risk is given in the following table, and the notes below, which explain how this risk is managed and mitigated for the different classes:

2017

	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Credit risk				
Fixed income securities	997	-	-	997
Global multi-asset credit	111	183	8	302
Private debt	-	-	926	926
Special situations debt	-	-	427	427
Pooled investment vehicles	-	-	1,550	1,550
Securities lending - collateral cash	82	-	-	82
Cash and cash equivalents	937	-	-	937
Total	**2,127**	**183**	**2,911**	**5,221**

2016

	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Credit risk				
Fixed income securities	1,384	101	-	1,485
Private debt	-	-	767	767
Special situations debt	-	-	303	303
Pooled investment vehicles	-	-	1,773	1,773
Derivatives	10	8	-	18
Securities lending - collateral cash	326	-	-	326
Cash and cash equivalents	661	-	-	661
Total	**2,381**	**109**	**2,843**	**5,333 Total**

Notes to the Accounts

Credit risk arising on fixed income securities is mitigated by investing in developed market government bonds which are rated at least investment grade in accordance with those deemed so by the major ratings agencies.

Investments via the multi-asset credit mandate include a broad spectrum of debt instruments which are investment grade and below. Where there are holdings in securities below investment grade the amount held in those which are considered a substantial risk is limited. The Committee also manages the credit risk by requesting the investment manager diversify the portfolio by sector, industry and issuer and limit investments to any one issuer.

Investments in private debt and special situations debt are not rated by recognised ratings agencies. Credit risk on these investments is mitigated by the credit analysis and due diligence undertaken by the respective investment managers, ensuring adequate security covenant against the loans and guidelines within the mandate that require diversification within the portfolio by region, sector and issuer. In the event that a loan becomes impaired and a credit event occurs the investment managers undertake any restructuring processes necessary to protect the interests of the Scheme.

The Scheme is directly exposed to credit risk in relation to the units it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held within the vehicles. Direct credit risk arising from pooled investment vehicle is mitigated by the underlying assets of the pooled arrangement being ring-fenced from the pooled manager. The Committee ensures that due diligence checks are undertaken on the appointment of any new pooled investment vehicle managers and any changes to the regulatory and operating environment of the manager is monitored on an ongoing basis. The indirect risk is mitigated by the Scheme investing in regulated markets and pooled arrangements where the portfolio of investments is diversified.

A summary of pooled investment vehicles by type of arrangement is as follows:

	2017 £m	2016 £m
Unit linked insurance contracts	1,017	1,201
Global macro fund	219	191
Infrastructure funds	174	188
Public equities funds	140	193
Total	1,550	1,773

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. OTC contracts do not occur via any regulated exchange and therefore the Scheme is subject to the risk of failure of the counterparty. The credit risk for OTC swaps and forward foreign currency contracts is reduced through collateral arrangements and ensuring all transactions in financial instruments are with reputable counterparties.

As explained in the Investment Report the Scheme participates in securities lending to approved borrowers who are required to provide collateral valued in excess of securities on loan. The Committee re-invests cash collateral received. Credit risk arising is managed by re-investing in permissible securities only, limiting the amount that can be re-invested with a given issuer, re-investing in securities that mature within agreed time limits and have a minimum rating as provided by the major ratings agencies.

Cash is held with financial institutions which are at least investment grade credit rated.

Currency Risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure).

The table below summarises the Scheme's net unhedged exposure by major currency at the year-end.

	2017 £m	2016 £m
Direct currency risk		
Brazilian real	46	91
Euro	104	205
Hong Kong dollar	171	111
Indonesian rupiah	25	72
Indian rupee	82	-
Japanese yen	49	70
Korean won	50	-
Mexican peso	26	72
Taiwan dollar	77	-
US dollar	1,056	1,641
South African rand	51	92
Other currencies	175	497
Indirect currency risk		
Pooled investment vehicles	616	1,491
Total	2,528	4,342

The Committee receives advice from CPTI regarding the management of currency risk which assists it in agreeing a currency hedging policy for the respective currency and asset class.

The Committee typically limits overseas currency exposure by hedging a proportion of the overseas investments' currency risk within agreed limits using forward foreign exchange contracts. The currency exposures within the developed government bonds, private debt, special situations debt and shipping mandates are fully hedged at the reporting date whilst exposure to euros, Swiss francs, US dollars and yen within the public and private equity mandates are 50% hedged.

Interest Rate Risk

The Scheme is subject to interest rate risk because some of the Trustee's investments are held in fixed income securities, multi-asset credit, private debt and special situations debt. The value of these investments is impacted by changes in interest rates which use valuation techniques where interest rates are an input. The private debt investments, bank loans included within the multi-asset credit mandate and most of the special situations debt funds are all based on floating interest rates and therefore carry negligible interest rate risk. They have a duration close to zero and their prices show very little sensitivity to changes in market rates as they are subject to the interest fixing period.

The table below summarises the Scheme's exposure to interest rate risk at the year-end.

	2017 £m	2016 £m
Interest rate risk		
Fixed income securities	997	1,485
Multi-asset credit	302	-
Private debt	926	767
Special situations debt	427	303
Swaps	-	8
Total	2,652	2,563

Other Price Risk

Other price risk arises principally in relation to directly-held public equities, property and shipping. Indirect price risk arises in relation to public equities held in pooled investment vehicles, private equity and public equities and commodities held within global macro funds.

The table below summarises the Scheme's exposure to other price risk at the year-end.

	2017 £m	2016 £m
Direct price risk		
Public equities	1,664	1,282
Property	1,099	1,006
Shipping	90	30
Joint ventures	71	79
Indirect price risk		
Equity pooled investment vehicles	1,157	1,394
Private equity	1,386	1,219
Total	5,467	5,010

The Committee manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

Related undertakings of British Coal Staff Superannuation Scheme

In accordance with The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015, a full list of related undertakings, the country of incorporation and the percentage of share class owned as at 31 March 2017 is disclosed below. All undertakings are indirectly owned by BCSSS.

Name of undertaking	Country of incorporation	Share class	% held by BCSSS
Coal Staff Superannuation Scheme Ltd[1]	England & Wales	Limited by guarantee	100
Coal Pension Trustees Services Ltd[1]	England & Wales	£1.00 B Ordinary shares[11]	100
Coal Pension Trustees Investments Ltd[1]	England & Wales	£1.00 Ordinary shares	50
Globe Investments UK Ltd[1]	England & Wales	£1.00 Ordinary shares	50
Coal Pension Securities Nominees Ltd[1]	England & Wales	Limited by guarantee	50
Coal Pension Venture Nominees Ltd[2]	England & Wales	Limited by guarantee	50
Coal Pension Securities Nominees Ltd 1[3]	Guernsey	Limited by guarantee	50
Coal Pension Properties Ltd[4]	England & Wales	Limited by guarantee	50
CPPL (Sefton Park 1) Ltd[4]	England & Wales	£1.00 Ordinary shares	100
CPPL (Sefton Park 2) Ltd[4]	England & Wales	£1.00 Ordinary shares	100
Crucible Residential Properties Ltd[4]	England & Wales	£1.00 Ordinary shares	50
BCSSS Property Holding Ltd[4]	England & Wales	£1.00 Ordinary shares	100
BCSSS Property GP Ltd[4]	England & Wales	£1.00 Ordinary shares	100
BCSSS The Curve Limited Partnership[4]	England & Wales	Limited Partnership	100
Darfield Investment Holdings Ltd[5]	British Virgin Islands	No par value Ordinary shares	50
Beeston Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Thira Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Bacaliaros Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Limassol Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Barbourni Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Cape Town Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Manzanillo Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Malmo Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Gwen Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Heranger Shipping Ltd[7]	Singapore	$1.00 Ordinary shares	100
BCSSS Investments Sárl[8]	Luxembourg	£1.00 Ordinary shares	100
BCSSS Investments Sárl 2[8]	Luxembourg	£1.00 Ordinary shares	100
BCSSS AAIP Cayman Feeder Ltd[9]	Cayman Islands	$1.00 Ordinary shares	100
BCSSS CIV Cayman Feeder Ltd[10]	Cayman Islands	$1.00 Ordinary shares	100

The registered office addresses of the above undertakings are as follows:
1 Ground Floor, Ventana House, 2 Concourse Way, Sheaf Street, Sheffield, S1 2BJ
2 C/o Hackwood Secretaries Ltd, One Silk Street, London, EC2Y 8HQ
3 East Wing, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3PP
4 One Curzon Street, London, W1J 5HD
5 Nemours Chamber, PO Box 3170, Road Town, Tortola, British Virgin Islands
6 St George's Court, Upper Church Street, Douglas, Isle of Man, IM1 1EE
7 4 Robinson Road, #05-01 The House of Eden, Singapore, 048543
8 7, rue Lou Hemmer, L-1748 Luxembourg - Findel
9 C/o Maples Corporate Services Ltd, PO Box 309, Ugland House, Grand Cayman, KY-1104, Cayman Islands
10 C/o Walkers Corporate Services Ltd, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman, KY1-9008, Cayman Islands
11 MPS holds 100% of the £1.00 A Ordinary shares of CPT Services Ltd. CPT Services Ltd is a jointly owned entity of the Scheme and MPS.

Independent Auditor's Report to the Trustee of the British Coal Staff Superannuation Scheme

We have audited the financial statements of the British Coal Staff Superannuation Scheme for the year ended 31 March 2017 which comprise the fund account, the statement of net assets and the related notes 1 to 15. 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), including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

This report is made solely to the Trustee, as a body, in accordance with the Scheme and Rules set out in the Schedule to the British Coal Staff Superannuation Scheme (Modification) Regulations 1994 and as subsequently amended. 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 Trustee and Auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 8, 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 Trustee; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Accounts 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 us in the course of performing the audit. 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 2017, 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 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
Leeds
13 July 2017

The maintenance and integrity of the British Coal Staff Superannuation Scheme website is the responsibility of the Trustee; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Summary of the Actuarial Review as at 31 March 2015

An actuarial review of the Scheme is carried out by the Government Actuary every three years. The most recent review was as at 31 March 2015 and is described in my report dated 18 March 2016.

The results of the 31 March 2015 review are set out below. The results are based on a total Scheme asset value of £9,071 million, being the market value as at 31 March 2015 excluding the £500 million payment to the Guarantor on 1 April 2015. Both the percentage figures quoted below are annual real returns (above RPI) which must be earned over the Scheme's lifetime.

Obligations Percentage: 1.8% pa	The real return required on the Scheme's total assets to meet the Scheme's expected future member benefit payments and associated expenses.
Buffer Percentage: 2.8% pa	The real return required on the Scheme's total assets to meet the Scheme's expected future member benefit payments, associated expenses and a payment to the Guarantor in 2033, equal to the 2015 Reserve* indexed in line with CPI inflation.

*The '2015 Reserve' is the Guarantor's share of the Scheme surplus when the coal industry was privatised, less the parts of that surplus already released to the Guarantor, accumulated with investment returns to 31 March 2015. The 2015 Reserve is £1,707 million.

The actuary is also required to advise the Guarantor and the Trustee if, in his opinion, the total value of the Fund is less than will be needed to meet the Scheme's benefit payments and expenses over a period of three years. In my opinion, the Fund is sufficient to meet the Scheme's benefit payments and expenses for a period well in excess of three years.

The valuation results depend on the value of the Scheme assets at the valuation date as well as on the assumptions made; the most important being the assumed rates of inflation (both RPI and CPI) and the future mortality rates.

For more information, please refer to my report dated 18 March 2016. Copies are available from the Scheme Secretary.

Martin Clarke
Fellow of the Institute and Faculty of Actuaries
Government Actuary
27 May 2016

GAD

Compliance Statement

This statement is included to comply with recommendations contained in the Statement of Recommended Practice 'Financial Reports of Pension Schemes' (revised November 2014), 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, 2 Concourse Way, 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 2005.
4. Cash equivalent transfer values paid during the year were calculated in accordance with the requirements of the Pension Schemes Act 1993.
5. The Trustee has written agreements in the form of contracts with all major service providers.
6. The Scheme's registration number with the Pensions Regulator is 10151637.
7. The Scheme is a registered pension scheme under the provisions of Schedule 36 of the Finance Act 2004. Accordingly under the provisions of sections 186 and 187 of the Finance Act 2004 its income and investment gains are free of taxation. However, income from trading activity is not investment income and will be assessed to tax in the normal way.

Changes to the Scheme Constitution, Rules or Basic Information

Constitution of the Scheme

The British Coal Staff Superannuation Scheme is governed by the Scheme and Rules dated October 1994, with subsequent amendments including the changes to the structure of the Scheme following the Sustainability Review and subsequent Agreement dated 13 February 2015.

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 Prices Index (RPI). The rise in the RPI over the twelve months to November 2016 was 2.2%; guaranteed pensions in payment and deferment were increased by this amount from 1 January 2017. However, standstill was triggered due to the outcome of the 2012 Actuarial Valuation and any previously awarded bonuses were, therefore, reduced by the same amount.

As a result of the Agreement made between the Trustee and the Guarantor on 13 February 2015, funds were allocated to provide three separate level bonuses, equivalent to 2% of Guaranteed Pension, in 2017, 2018 and 2019. The first of these level bonuses was effective on 1 January 2017.

In future members' pensions will increase as follows:

- Guaranteed pensions will continue to be increased annually in line with the percentage rise in RPI.
- Bonuses awarded up to and including 2013, all of which are now reducing bonuses, will continue to reduce in the same way up to and including 2019.
- The bonuses awarded between 2014 and 2017 will remain level throughout the future.
- New bonuses of 2% of Guaranteed Pensions will be awarded in 2018 and 2019.
- No new bonuses will be awarded after 2019.
- From 2020 onwards, all the bonuses in payment at that time will be consolidated into one total bonus: this total bonus will neither increase nor be reduced thereafter.

Summary of Guarantee Arrangements and For More Information

The Government Guarantee ensures that the Trustee will always be able to pay the promised benefits; these benefits will also include the consolidated bonuses from 2020.

Actuarial Valuations are performed on a three-yearly basis by the Actuary in order to assess the future returns required on the Scheme's assets in order to pay the benefits and Investment Reserve repayment. The Actuary's Report on the latest valuation as at 31 March 2015 can be found on page 38.

For more information

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, online 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 Scheme's website also contains a link to the member website, from which members can access their personal Scheme information and update the information the Scheme holds about them.

The current administration office address is:

BCSSS
PO Box 196
Huddersfield
HD8 1EG

With effect from 1 August 2017 the administration office address will be:

BCSSS
Hartshead House
2 Cutlers Gate
Sheffield
S4 7TL

The address for the Secretary is:

The Secretary
BCSSS
Ventana House
2 Concourse Way
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.

Resolving Difficulties

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. If the complaint is not satisfactorily resolved, the Government appointed Pensions Ombudsman can investigate complaints of injustice caused by bad administration, either by the trustee or scheme administrators, or disputes of fact or law. Although separate organisations, both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
London
SW1V 1RB

www.pensionsadvisoryservice.org.uk
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 9
Mail Handling Site A
Wolverhampton
WV98 1LU

www.gov.uk/find-pension-contact-details