Pension Fund Committee

Date **Thursday 14 June 2018**
Time **10.00 am**
Venue **Council Chamber - County Hall, Durham**

Business

Part A

Items during which the Press and Public are welcome to attend. Members of the Public can ask questions with the Chairman's agreement.

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 15 March 2018 (Pages 5 - 10)
4. Overall Value of Pension Fund Investments to 31 March 2018 (Pages 11 - 16)
5. Short Term Investments for the Period Ended 31 March 2018 (Pages 17 - 18)
6. Performance Measurement of Pension Fund Investments to 31 March 2018 (Pages 19 - 30)
7. Statement of Accounts for the Year Ended 31 March 2018 (Pages 31 - 76)
8. Internal Audit Progress Report to 31 March 2018 (Pages 77 - 78)
9. Local Government Pension Scheme (Amendment) Regulations 2018 (Pages 79 - 122)
10. Feedback from Local Pension Board

11. Such other business as, in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration
12. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)

13. The Minutes of the Meeting held on 15 March 2018 (Pages 123 - 130)
14. Report of the Pension Fund Adviser (Pages 131 - 170)
15. Funding Level Update as at 31 March 2018 (Pages 171 - 178)
16. Report of Aberdeen Standard (Pages 179 - 204)
17. Report of AB (Pages 205 - 222)
18. Report of BlackRock (Pages 223 - 238)
19. Report of Bank of New York Mellon (Walter Scott) (Pages 239 - 248)
20. Report of CB Richard Ellis (Pages 249 - 260)
21. Report of Mondrian (Pages 261 - 266)
22. Report of Royal London (Pages 267 - 268)
23. LGPS Investment Pooling - Verbal Update
24. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Helen Lynch
Head of Legal and Democratic Services

County Hall
Durham
6 June 2018

To: The Members of the Pension Fund Committee

County Council Members:
Councillors M Davinson, O Temple, J Atkinson, C Carr, J Carr, J Lethbridge, S Hugill, B Kellett, J Nicholson, J Shuttleworth and M Wilson

Darlington Borough Council Members
Councillor S Harker
Councillor I G Haszeldine

Scheduled Bodies Representative
(vacant)

Admitted Bodies Representative:
(vacant)

Pensioner Representative
(vacant)

Active Members Representative
(vacant)

Further Education Colleges Representative
A Broadbent

Advisers: County Council Officers

Chief Executive	T Collins
Corporate Director of Resources	J Hewitt
Head of Legal and Democratic Services	H Lynch
Pensions Manager	N Orton

Independent Adviser
J Holden – Mercer
S Dickson - Mercer

Investment Managers
Aberdeen Standard
AB
BlackRock
Bank of New York Mellon (Walter Scott)
CB Richard Ellis
Mondrian
Royal London

Staff Observers

UNISON	N Hancock
GMB	D Clegg

This page is intentionally left blank

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Committee Room 2 - County Hall, Durham on **Thursday 15 March 2018 at 10.00 am**

Present:

Councillor M Davinson (Chairman)

Members of the Committee:
Councillors O Temple (Vice-Chairman), J Atkinson, J Carr, S Hugill, J Nicholson, J Shuttleworth and M Wilson

Also Present:
Advisers: County Council Officers
John Hewitt – Corporate Director of Resources
Nick Orton – Pensions Manager

Independent Adviser:
Jo Holden - Mercer

1 Apologies for Absence

Apologies for absence were received from Councillors C Carr and Darlington Borough Councillor S Harker.

2 Declarations of interest

There were no declarations of interest.

3 Minutes

The Minutes of the meeting held on 7 December 2017 were agreed as a correct record and were signed by the Chairman.

Matters Arising from the Minutes

Training Needs Analysis – Self-Assessment

Nick Orton advised that almost all self-assessment forms had been received but would contact those Members directly who had not yet returned the information. On receipt of all forms a gap analysis of training needs would be carried out.

Committee Membership

Nick Orton provided an update on progress with regard to the filling of the current vacancies on the Committee. Further Education Colleges had been approached which had resulted in an expression of interest from one person to date. The next communication with pensioners would include information about making application to fill the pensioner representative position, and employers within the scheme would be contacted about the vacant positions for an admitted bodies and a scheduled bodies representative.

4 Overall Value of Pension Fund Investments to 31 December 2017

The Committee considered a report of the Corporate Director of Resources which informed Members of the overall value of the Pension Fund's investments as at 31 December 2017, movement in the cash balance during the last four quarters and the projected cash flow position up to 31 March 2018 (for copy see file of Minutes).

Resolved:

That the information contained in the report be noted.

5 Short Term Investments for the Period Ended 31 December 2017

The Committee considered a report of the Corporate Director of Resources which provided information on the performance of the Pension Fund's short term investments as at 31 December 2017 (for copy see file of Minutes).

Resolved:

That the position at 31 December 2017 regarding the Pension Fund's short term investments where £31,895 net interest was earned in the three month period, be noted.

6 Performance Measurement of Pension Fund Investments to 31 December 2017

The Committee considered a report of the Corporate Director of Resources which provided an overview for Members of the performance of the Fund to 31 December 2017 (for copy see file of Minutes).

Resolved:

That the information contained in the report produced by JP Morgan be noted.

7 Investment of the Pension Fund's Cash Balances

The Committee considered a report of the Corporate Director of Resources which provided an update of the Treasury Management Service provided to the Pension Fund and reviewed the charges for the services and the calculation of interest on

short term investments administered by Durham County Council for 2018/2019 (for copy see file of Minutes).

Councillor Shuttleworth had made reference to the average return earned in the last quarter of 0.56%, and was informed that the interest paid previously in respect of its cash balances was based upon the LIBID three month rate. For 2018/2019 it was recommended that interest would be paid to the Pension Fund at the average three month rate of return earned by the Council on its own short term investments.

Resolved:

That with effect from 1 April 2018:-

(i) the Pension Fund continues to invest its cash balances with the Council in line with the Council's Treasury Management Strategy;

(ii) interest be paid quarterly to the Pension Fund at a rate based on the daily cash balance and the 3 month rate of return earned by the Council on its own short term investments;

(iii) an administration fee of £2,600 per quarter be paid to the Council for Treasury Management services; and

(iv) in the event of the loss of an investment, the Pension Fund will bear the loss in proportion of the value of cash balances held at the time of the investment with Durham County Council.

8 Agreement of Accounting Policies for Application in the 2017/2018 Financial Statements of the Pension Fund

The Committee considered a report of the Corporate Director of Resources which informed the Committee of the accounting policies to be applied in the preparation of the 2017/2018 Final Accounts and sought confirmation from the Committee that appropriate policies were being applied (for copy see file of Minutes).

Resolved:

That having reviewed the accounting policies:-

- Their use be approved in the preparation of the 2017/2018 financial statements for the Pension Fund, and

- the Corporate Director of Resources be authorised to revise the accounting policies as necessary and report any significant changes to the Committee.

9 Procedure for Reporting Breaches

The Committee considered a report of the Corporate Director of Resources which provided Members with a copy of the Council's Procedure for Reporting Breaches

in relation to the Pension Fund, and explained how it operated (for copy see file of Minutes).

Councillor Temple welcomed the proposed procedure and that future meetings of the Committee would be provided with updates on the breaches record.

Resolved:

That the information contained in the report which included the Reporting Breaches Procedure, be noted.

10 Internal Audit Plan 2018/2019

The Committee considered a report of the Corporate Director of Resources which presented the proposed Annual Audit Plan for 2018/2019 for approval (for copy see file of Minutes).

Resolved:

That the proposed Audit Plan for 2018/2019 be approved.

11 Audit Strategy Memorandum for Year Ending 31 March 2018

Consideration was given to the report of the External Auditor which set out the work proposed in respect of the audit of the Council's financial statements and the value for money conclusion for the financial year 2017/2018 in relation to Durham County Council Pension Fund (for copy see file of Minutes).

Sharon Liddle of Mazars highlighted key points from the Audit Strategy Memorandum which included the following:-

- Scope of the audit
- Significant risks and key judgement areas
- The Audit Team
- Fees

Resolved:

That the contents of the Audit Strategy Memorandum be noted.

12 Feedback from Local Pension Board

Nick Orton provided feedback from the Local Pension Board, which included a recommendation to the Pension Fund Committee to assist in its effective and efficient governance and administration of the Scheme.

Following the Pension Fund Committee on 7 December 2017 the Local Pension Board had noted that there was only a short time for the Investment Managers to make their presentations and answer questions from the Committee due the volume of business to be conducted in the time available. The Board appreciated

that the meeting was often long and received a large amount of detail in the reports. However the reports of the Investment Managers and the ability to question them was vitally important and should not, if possible, be constrained to a short time at the end of a long meeting. The Board had made the recommendation previously that the Committee should plan and allow for sufficient time for questioning of the Managers and if necessary start the meeting earlier or invite the Managers following a lunch break.

The Board therefore recommended that the Pension Fund Committee give consideration to the timing of the agenda items with a view to allowing for sufficient time for questioning of the Managers and if necessary start the meeting earlier or invite the Managers in at an earlier stage.

Members discussed the Board's recommendation and considered whether sufficient time was allocated to the Investment Managers and whether allowing more time would be reasonable in terms of the governance of the Committee. Members acknowledged that it was about balancing whether it was proportionate to allocate more time to Investment Managers which represented a small proportion of the Fund's assets, against the volume and importance of business the Committee had to consider.

The Chairman advised that when this was raised at a previous meeting discussions were held with DCC Pensions staff, the advisers and the Corporate Director of Resources to make the most of the opportunity for the Committee to gain knowledge from the Managers.

The following was put into place:-

1) Managers were sent a template of relevant information the committee needed
2) Managers were asked to keep their presentations relevant to the Fund and be concise
3) Advisers were asked to produce a brief overview of each visiting Manager and suggest some questions which members may wish to ask.

This approach received positive feedback from Members at the September 2017 meeting and it was proposed that the situation be reviewed again after the June 2018 meeting. As always the needs of the Pension Fund, Members of the Fund and the Committee were the primary concerns. Whether the meetings were helpful or a useful way to spend time for the Investment Managers was not the concern of the Committee.

Resolved:
That the recommendation of the Local Pension Board be noted and the response of the Committee as outlined above be agreed.

This page is intentionally left blank

Pension Fund Committee

14 June 2018

Overall Value of Pension Fund Investments to 31 March 2018

John Hewitt, Corporate Director of Resources

Purpose of the Report

1. To provide an update to Members on the:

   (a) overall value of the Pension Fund's investments at 31 March 2018;
   (b) movement in the cash balance during the last four quarters;
   (c) projected cash flow position up to 30 June 2019.

Value of the Pension Fund

2. Reports from the seven appointed Fund Managers, namely:
   - Aberdeen Standard
   - AB
   - BlackRock
   - Bank of New York Mellon (Walter Scott)
   - CB Richard Ellis
   - Mondrian
   - Royal London

   are included in other papers within this agenda.

3. The value of the Fund at 31 March 2018 was £2.759 billion compared to £2.827 billion at 31 December 2017. This is an decrease of £68.63 million (or 2.43%) in the fourth quarter of 2017/18.

Allocation of New Investment Money/ Withdrawal of Investment Money to Deal with Estimated Shortfall

4. New investment money is allocated to Fund Managers when the Pension Fund has cash which is not needed to be available as a working cash balance, for example for the payment of pensioners or fees.

5. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Fund Managers.

6. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. As at 31 March 2018 the cash balance held in the Durham County Council Pension Fund bank account was

£35.681 million. In addition to this, not included in this table, Fund Managers were holding cash of £64.730 million at 31 March 2018.

Cash Flow Forecast 2018/19

7. Appendix 2 shows the projected cash flow for the Pension Fund for the period April 2018 to June 2019. It should be noted that this is only in respect of cash held in the Pension Fund bank account and that income earned from investments is currently retained by Managers.

8. The forecast includes the recovery of £20 million from Fund Managers, in the quarters ending 30 September 2018 and 31 March 2019. Without the recovery of the aforementioned amounts, the Pension Fund is estimated to be in a cash negative position in all quarters to 30 June 2019.

9. The forecast indicates net cash outflows in future quarters of between £10 million and £11.5 million. The size of the outflows are exacerbated due to the early receipt of Durham County and Darlington Borough Councils' deficit contributions in April 2017, the impact of which is an apparent reduction in future contributions receivable of £6.598 million per quarter.

10. The following assumptions have been used to calculate the cash flow forecast:

    (a) Annual dividend income receivable is estimated to be £28 million and profiled to be received as follows:

        (i) Quarter ended 30 June 2018 21%
        (ii) Quarter ended 30 September 2018 24%
        (iii) Quarter ended 31 December 2018 26%
        (iv) Quarter ended 31 March 2018 29%

    (b) Increases in contributions are included in line with the actuarial valuation.

    (c) Transfer values due in, are estimated at £1.25 million per quarter. It is anticipated that transfers in will continue as the LGPS remains relatively attractive to employees.

    (d) Pensions increase will be 3% with effect from 1 April 2018.

    (e) Payroll paysheets (payments to pensioners) are forecast to increase by £0.25 million per quarter, from 1 April 2018. This figure will alter if there are large numbers of retirements from the employing authorities. It is anticipated however that the actual figure will not be materially different to the forecast since the position of the County Council, being the largest employer in the Fund, has been taken into account.

(f) Payable paysheets are forecast on the basis of the previous year's profile and adjusted for known one-offs, although this can be the most volatile figure as it includes payments of lump sums and fees to Managers. This assumption errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.

11. Appendix 2 provides an early indication of the likely impact on the Pension Fund's cash flow position over the next 15 months. It is continuously under review and is refined to take any new information into account as it becomes available.

Fund Rebalancing

12. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to Investment Managers is maintained at the target levels previously agreed by the Pension Fund Committee and as set out in the Investment Strategy Statement (ISS). It is also the means by which cash is moved to or from Managers as a consequence of the cash flow forecasts.

13. Due to the current suspension of Fund rebalancing, there was no rebalancing exercise this quarter.

14. To meet the Fund's cashflow requirements £20 million was recalled from fund managers on 26 March 2018.

Recommendation

15. Members are asked to note the information contained in this report.

Contact: Beverley White Tel: 03000 261900

Appendix 1

Actual Cash Flow – For the period 1 April 2017 to 31 March 2018

Quarter Ended	30.06.17		30.09.17		31.12.17		31.03.18	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	70,970,000	70,523,690	13,805,000	13,689,270	13,775,000	13,793,663	13,775,000	13,821,664
Contributions - Other	14,611,000	15,336,280	8,610,000	8,496,465	8,665,000	8,659,201	8,665,000	8,539,955
Unfunded pensions recharges	1,131,000	1,111,670	1,145,000	1,168,998	1,145,000	1,111,703	1,135,000	1,127,645
Transfer Values	500,000	1,947,317	750,000	1,119,502	1,000,000	2,245,256	1,000,000	1,127,398
Other income	2,000,000	2,394,996	2,000,000	1,021,246	2,000,000	2,398,751	2,000,000	3,309,977
Funds recovered from Managers	0	0	0	0	15,000,000	15,000,000	20,000,000	20,000,000
Interest on short term investments	9,000	14,818	9,000	34,166	35,000	31,895	30,000	23,166
Total Cash Inflow	89,221,000	91,328,771	26,319,000	25,529,648	41,620,000	43,240,469	46,605,000	47,949,804
Cash Outflows								
Payroll Paysheets	23,800,000	23,842,253	24,000,000	24,164,845	24,400,000	24,294,397	24,600,000	24,489,507
Payables Paysheets (incl. Managers' fees)	11,000,000	14,736,537	11,250,000	12,798,593	12,000,000	12,225,874	12,000,000	10,303,580
Funds transferred to Managers	32,000,000	32,000,000	0	0	0	0	0	0
Other Expenditure	1,000	3,855	1,000	1,485	1,000	1,337	1,000	1,808
Total Cash Outflows	66,801,000	70,582,644	35,251,000	36,964,923	36,401,000	36,521,608	36,601,000	34,794,895
Net Cash Inflow / (-) Outflow	22,420,000	20,746,127	-8,932,000	-11,435,275	5,219,000	6,718,861	10,004,000	13,154,910
Balance at Bank (opening)		8,638,064		28,879,256		16,915,978		23,095,655
Balance at Bank (closing)		28,879,256		16,915,978		23,095,655		35,680,827

Appendix 2

Projected Cash Flow (including forecast dividends receivable by Fund Managers) - for the period 1 April 2018 to 30 June 2019

Quarter Ended	**30.06.18**	**30.09.18**	**31.12.18**	**31.03.19**	**30.06.19**
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£	**£**	**£**	**£**	**£**
Cash Inflows					
Contributions - DCC	13,800,000	13,810,000	13,810,000	13,810,000	13,810,000
Contributions - Other	8,925,000	9,055,000	9,055,000	9,055,000	9,055,000
Unfunded pensions recharges	1,170,000	1,170,000	1,170,000	1,170,000	1,170,000
Transfer Values	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Other income	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Funds recovered from Managers	0	20,000,000	0	20,000,000	0
Interest on short term investments	30,000	30,000	30,000	30,000	30,000
Total Cash Inflow	27,175,000	47,315,000	27,315,000	47,315,000	27,315,000
Cash Outflows					
Payroll Paysheets	25,500,000	25,750,000	26,000,000	26,250,000	26,500,000
Payables Paysheets (incl. Managers' fees)	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Funds transferred to Managers	0	0	0	0	0
Other Expenditure	1,000	1,000	1,000	1,000	1,000
Total Cash Outflows	37,501,000	37,751,000	38,001,000	38,251,000	38,501,000
Net Cash Inflow / (-) Outflow	-10,326,000	9,564,000	-10,686,000	9,064,000	-11,186,000
Balance at Bank (opening)	35,680,827	25,354,827	34,918,827	24,232,827	33,296,827
Balance at Bank (closing)	25,354,827	34,918,827	24,232,827	33,296,827	22,110,827
Dividends Received by Managers	5,740,000	6,830,000	7,360,000	8,070,000	5,740,000

This page is intentionally left blank

Pension Fund Committee

14 June 2018

Short Term Investments for the period ended 31 March 2018

John Hewitt, Corporate Director of Resources

Purpose of Report

1. To provide the Committee with information on the performance of the Pension Fund's short term investments as at 31 March 2018.

Short Term Investments

2. Durham County Council (the Council) invests the short term cash balances on behalf of the Pension Fund; this is done in line with the Council's Treasury Management Policy and Annual Investment Strategy. This investment strategy sets out the maximum amounts and time limits in respect of deposits which can be placed with each financial institution.

3. The Pension Fund's surplus cash holding as at 31 March 2018 was £35.681 million, which was held in the institutions listed in the table below, alongside their credit rating at 31 March 2018.

Financial Institution	Short-term Rating	Amount Invested £m
Bank Deposit Accounts		
Handelsbanken	F1+	0.972
Fixed Term Deposits		
Bank of Scotland	F1	6.852
Goldman Sachs	F1	4.282
Santander UK Plc	F1	1.713
UK Local Authorities	N/A	15.417
National Savings & Investments	N/A	0.171
Money Market Funds	N/A	6.274
Total		**35.681**

4. The following table provides information on the net interest earned during the three month period to 31 March 2018, the average daily investment balance and the average return earned in comparison to the average bank base rate. The interest paid to the Pension Fund is based on the London Interbank Bid (LIBID) three month rate and is net of the fees of £2,500 paid for the Council undertaking the Treasury Management function for the Pension Fund.

	Total
Net Interest Earned	£23,166
Average Return Earned	0.44%
Average Bank of England base rate	0.50%
Average Daily Balance of Investments	£23.399m

Recommendation

5. Members are asked to note the position at 31 March 2018 regarding the Pension Fund's short term investments where £23,166 net interest was earned in the three month period.

Contact: Beverley White Tel: 03000 261900

Pension Fund Committee
14 June 2018

Performance Measurement of Pension Fund Investments to 31 March 2018

John Hewitt, Corporate Director of Resources

Purpose of the Report

1 To provide an overview for Members of the performance of the Fund to 31 March 2018.

Background

2 The performance of the seven Managers is measured against personalised benchmarks chosen at the inception of the Fund. The attached report from JP Morgan, the Fund's custodian, shows:

(a) The Managers benchmarks;

(b) The total Fund performance, for the quarter to 31 March 2018, year to date and since inception;

(c) The Managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter to 31 March 2018, year to date and since inception;

(d) A portfolio comparison for the quarter ended 31 March 2018 and for the period since inception.

Recommendation

3 Members note the information contained in the attached report produced by JP Morgan.

Contact: Beverley White Tel: 03000 261900

This page is intentionally left blank

J.P.Morgan

Durham Quarterly Report

Report Package

Published 27-Apr-2018 05:00:32

Table of Contents

J.P.Morgan

Index and Benchmark Report - Monthly
Durham CC (UK005)
As at March 2018

Name	Month Return
Business Unit Indices	
Equities	
FT-All Share +3%	(1.58)
FTSE-Ftse All-Share (Gross)	(1.82)
FTSE-Ftse Aw Developed (Gross)	(3.78)
MSCI AC World Index (Gross) + 2.5%	(3.62)
MSCI AC World Index (Gross) + 3%	(3.58)
MSCI EM (Emerging Markets) (Net)	(3.60)
MSCI EM (Emerging Markets) (Net) + 2.5%	(3.40)
MSCI-Acwi (Gross)	(3.82)
MSCI-Em (Emerging Markets) (Gross) + 2.5%	(3.37)
MSCI-World (Gross)	(3.86)
Fixed Income	
British Gov Index Linked over 5 Yr + 0.5%	2.71
Cash And Cash Equivalent	
3 MONTH GBP LIBOR	0.05
3Month GBP Libor +4%	0.38
3Month libor in GBP plus 3%	0.30
GBP Zero Return Index	0.00
RPI + 5%	0.48
Retail Price Index (UK)	0.07

J.P.Morgan

Executive Summary

Durham CC (UK005)

As of March 2018

Gross of Fee

Total Fund Composite (0UK00501)

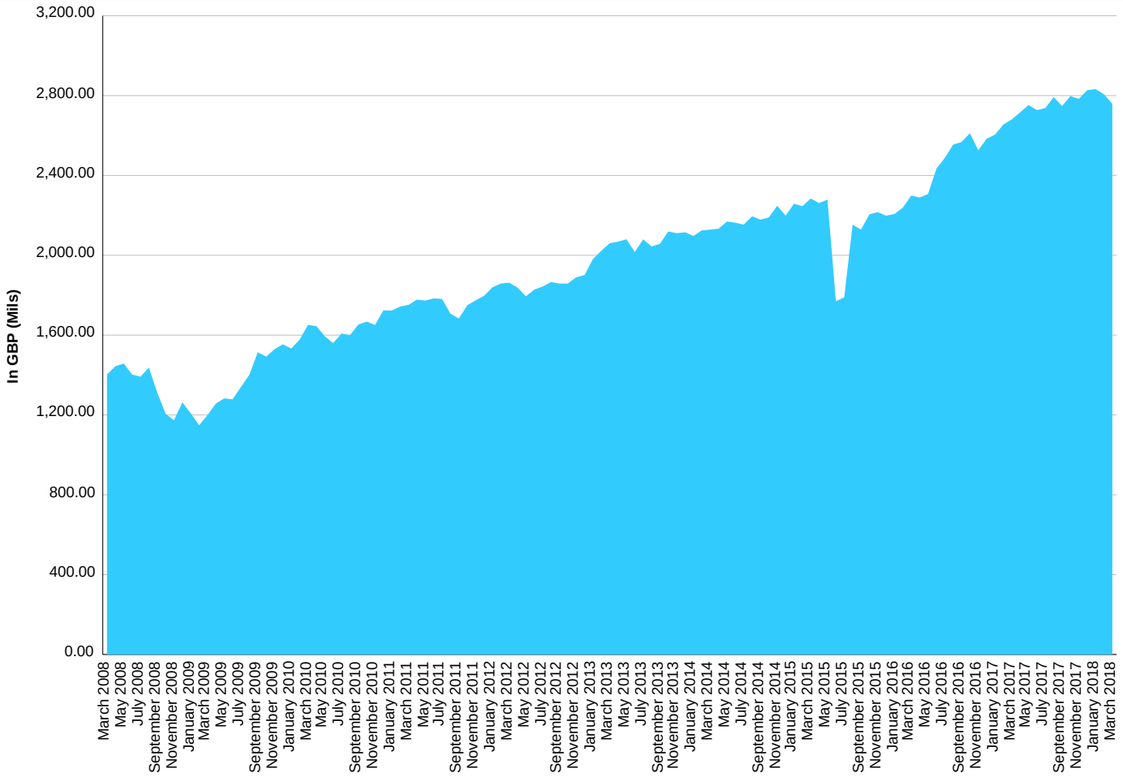
Market Value Overview

	In GBP (Mils)				
	March 2018	December 2017	September 2017	June 2017	March 2017
Market Value	2,758.82	2,827.45	2,747.63	2,727.25	2,680.74
Net Cash Flow	(20.00)	(14.98)	0.00	31.77	(0.10)
Net Income / Appreciation	(48.63)	94.79	20.38	14.74	96.82

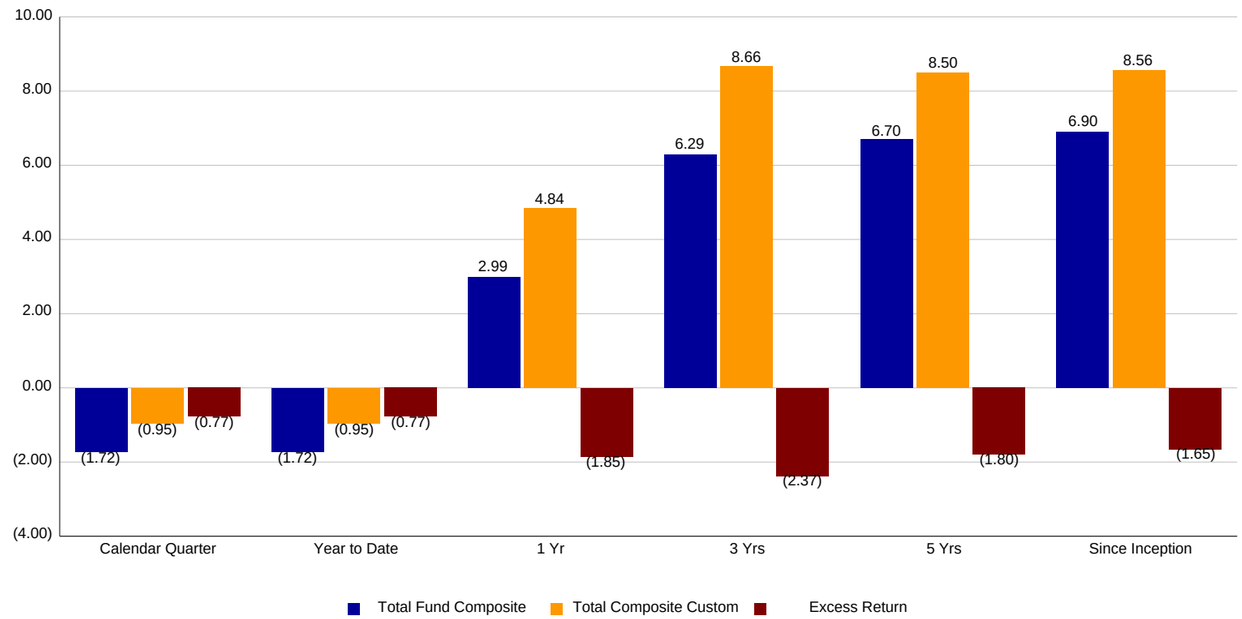
Performance Overview

	Performance (Annualised > 1 Year)					
	Calendar Quarter	Year to Date	1 Yr	3 Yrs	5 Yrs	Since Inception
Total Fund Composite	(1.72)	(1.72)	2.99	6.29	6.70	6.90
Total Composite Custom	(0.95)	(0.95)	4.84	8.66	8.50	8.56
Excess Return	(0.77)	(0.77)	(1.85)	(2.37)	(1.80)	(1.65)

Development of Market Value - Since Inception



Performance Returns



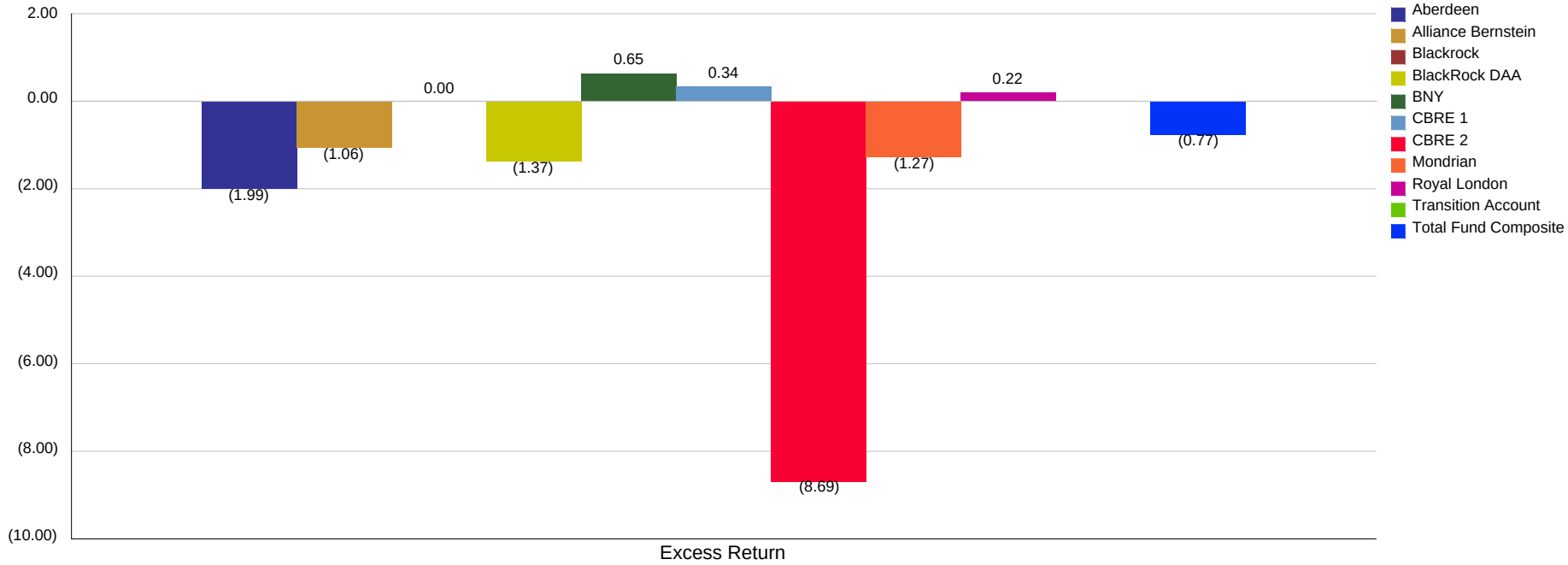
J.P.Morgan

Portfolio Comparison

Durham CC (UK005)
As of March 2018
Gross of Fee
Excess Return - Additive
Primary - Pound Sterling

Manager	Benchmark	Market Value (mils)	Weight	Trailing 3 Months Return	Benchmark Trailing 3 Months Return	Excess Returns	Current Contribution to Return
Aberdeen	MSCI-Acwi (Gross) + 3%	446.55	16.19	(5.67)	(3.68)	(1.99)	(0.92)
Alliance Bernstein	3 Month Libor in GBP +3% pa	396.40	14.37	(0.18)	0.88	(1.06)	(0.03)
Blackrock	Zero Return - Historically FTSE All Share (Gross) +3% pa	0.01	0.00	0.00	0.00	0.00	0.00
BlackRock DAA	3 Month Libor in GBP +3% pa	478.58	17.35	(0.48)	0.88	(1.37)	(0.08)
BNY	MSCI World Index (Gross) + 2.5%	466.03	16.89	(3.12)	(3.77)	0.65	(0.53)
CBRE 1	Headline RPI +5% pa (CBRE1)	191.81	6.95	1.64	1.30	0.34	0.11
CBRE 2	Headline RPI +5% pa (CBRE2)	33.77	1.22	(7.39)	1.30	(8.69)	(0.09)
Mondrian	MSCI EM (Emerging Markets) (Gross) + 2.5%	205.31	7.44	(2.81)	(1.54)	(1.27)	(0.21)
Royal London	FTSE index Linked more than 5 years +0.5% pa	540.34	19.59	0.35	0.13	0.22	0.07
Transition Account	Not Applicable	0.02	0.00	0.00	-	-	0.00
Total Fund Composite	**Total Composite Custom**	**2,758.82**	**100.00**	**(1.72)**	**(0.95)**	**(0.77)**	**(1.72)**

Excess Returns - Trailing 3 Months



J.P.Morgan

Relative Performance

Durham CC (UK005)

For Period Ending March 2018

Gross of Fee
Excess Return - Additive
Primary - Pound Sterling

Total Fund Composite (0UK00501)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00047880	Blackrock	10,317.74	0.00	0.00	0.00	0.00	0.00	1.60	4.42
	Zero Return - Historically FTSE All Share (Gross) +3% pa		0.00	0.00	0.00	0.00	0.00	2.31	5.87
	Excess Return		0.00	0.00	0.00	0.00	0.00	(0.71)	(1.45)
00047881	Royal London	540,341,926.29	2.77	0.35	0.35	1.47	8.15	8.04	9.03
	FTSE index Linked more than 5 years +0.5% pa		2.71	0.13	0.13	0.66	8.00	8.03	9.02
	Excess Return		0.06	0.22	0.22	0.81	0.15	0.01	0.01
00047882	Alliance Bernstein	396,399,158.49	(0.09)	(0.18)	(0.18)	1.65	2.49	2.46	3.78
	3 Month Libor in GBP +3% pa		0.30	0.88	0.88	3.42	3.46	3.49	4.08
	Excess Return		(0.39)	(1.06)	(1.06)	(1.77)	(0.97)	(1.03)	(0.30)
00047885	CBRE 1	191,811,328.58	0.01	1.64	1.64	5.94	8.10	8.88	3.83
	Headline RPI +5% pa (CBRE1)		0.48	1.30	1.30	8.49	7.80	7.38	7.89
	Excess Return		(0.47)	0.34	0.34	(2.56)	0.30	1.50	(4.06)
00051183	CBRE 2	33,767,514.32	(0.45)	(7.39)	(7.39)	(4.12)	2.12	5.18	5.23
	Headline RPI +5% pa (CBRE2)		0.48	1.30	1.30	8.49	7.80	7.38	7.89
	Excess Return		(0.93)	(8.69)	(8.69)	(12.62)	(5.68)	(2.20)	(2.66)
00082265	Transition Account	21,385.19	0.00	0.00	0.00	0.00	0.00	0.00	2.52
	Not Applicable		-	-	-	-	-	-	-
	Excess Return		-	-	-	-	-	-	-

J.P.Morgan

Relative Performance

Durham CC (UK005)

For Period Ending March 2018

Gross of Fee
Excess Return - Additive
Primary - Pound Sterling

Total Fund Composite (0UK00501)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00301582	BlackRock DAA	478,582,194.44	(0.68)	(0.48)	(0.48)	4.88	1.89	-	2.58
	3 Month Libor in GBP +3% pa		0.30	0.88	0.88	3.42	3.79	-	3.81
	Excess Return		(0.98)	(1.37)	(1.37)	1.46	(1.90)	-	(1.23)
00301629	Mondrian	205,306,064.00	(2.66)	(2.81)	(2.81)	4.31	6.53	-	5.91
	MSCI EM (Emerging Markets) (Gross) + 2.5%		(3.37)	(1.54)	(1.54)	14.52	14.05	-	13.90
	Excess Return		0.72	(1.27)	(1.27)	(10.22)	(7.52)	-	(7.99)
00301630	Aberdeen	446,547,603.47	(4.06)	(5.67)	(5.67)	0.95	7.39	-	8.12
	MSCI-Acwi (Gross) + 3%		(3.58)	(3.68)	(3.68)	5.99	14.10	-	15.92
	Excess Return		(0.48)	(1.99)	(1.99)	(5.04)	(6.72)	-	(7.81)
00301691	BNY	466,029,656.54	(2.90)	(3.12)	(3.12)	4.77	11.54	-	13.36
	MSCI World Index (Gross) + 2.5%		(3.65)	(3.77)	(3.77)	5.51	13.56	-	15.50
	Excess Return		0.76	0.65	0.65	(0.74)	(2.02)	-	(2.14)
0UK00501	Total Fund Composite	2,758,817,149.06	(0.99)	(1.72)	(1.72)	2.99	6.29	6.70	6.90
	Total Composite Custom		(0.83)	(0.95)	(0.95)	4.84	8.66	8.50	8.56
	Excess Return		(0.16)	(0.77)	(0.77)	(1.85)	(2.37)	(1.80)	(1.65)

J.P.Morgan

Relative Performance

Durham CC (UK005)

For Period Ending March 2018

Gross of Fee
Excess Return - Additive
Primary - Pound Sterling

CBRE Composite (0UK00502)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00047885	CBRE 1	191,811,328.58	0.01	1.64	1.64	5.94	8.10	8.88	3.83
	Headline RPI +5% pa (CBRE1)		0.48	1.30	1.30	8.49	7.80	7.38	7.89
	Excess Return		(0.47)	0.34	0.34	(2.56)	0.30	1.50	(4.06)
00051183	CBRE 2	33,767,514.32	(0.45)	(7.39)	(7.39)	(4.12)	2.12	5.18	5.23
	Headline RPI +5% pa (CBRE2)		0.48	1.30	1.30	8.49	7.80	7.38	7.89
	Excess Return		(0.93)	(8.69)	(8.69)	(12.62)	(5.68)	(2.20)	(2.66)
0UK00502	CBRE Composite	225,578,842.90	(0.06)	0.18	0.18	4.30	7.01	8.23	4.45
	CBRE Composite Custom		0.48	1.30	1.30	8.49	7.80	7.38	7.89
	Excess Return		(0.54)	(1.12)	(1.12)	(4.20)	(0.79)	0.85	(3.44)

J.P.Morgan

Disclaimer

This report is provided exclusively for the purpose of assisting the customer in monitoring the investment performance of its accounts. J.P. Morgan is providing a reporting service to the customer to assist it in the management of the accounts and, in doing so, is not acting in a fiduciary capacity for the accounts. J.P. Morgan has no responsibility for the selection, monitoring or termination of any investment manager with respect to any of the accounts. The reports are not intended to be considered the rendering of investment advice or in any way to influence any investment decisions or the selection of any investment managers for the accounts. The customer assumes sole responsibility for its use of the reports.

This report contains information that is the property of J.P. Morgan and/or its content providers, and is intended for use by the investment officers of our institutional clients. J.P. Morgan makes no warranty, express or implied, concerning the accuracy or completeness of this information and the information in this report should not be relied on in substitution for the exercise of independent judgment by any recipient. This report may not be copied, published, or used in whole or in part with third-parties for any purposes other than expressly authorized by J.P. Morgan.

The information furnished in this report may contain data obtained from third-party sources that J.P. Morgan believes to be reliable. However, J.P. Morgan makes no warranty, express or implied, concerning the accuracy or completeness of third-party data. Where J.P. Morgan relies on accounting, pricing and associated security data – or instructions for what accounts comprise composites – by the customer or its third party administrators, J.P. Morgan takes no responsibility for the accuracy of such information.

Third-party data is the intellectual property of those vendors and is subject to restrictions contained in the licenses, which J.P. Morgan cannot unilaterally change. If the third party supplier adds additional restrictions to data use, J.P. Morgan shall use reasonable efforts to notify the customer of such changes in writing. Customer's continued use of the report after receipt of notice shall constitute customer's acceptance of the revised usage provision.

The information contained in this report may be subject to change from time to time without prior notice to the Customer, for reasons including, but not limited to, the subsequent restating of accounting information or index returns.

The information furnished in this report does not constitute the provision of 'financial product advice' as defined under the Corporations Act 2001 (Cth) and does not take into account the financial situation, needs or objectives of individuals in Australia.

The information furnished in this report is available in New Zealand solely to persons who are wholesale clients for the purposes of the Financial Advisers Act 2008. If you do not meet this criterion, you are not entitled to this report.

J.P. Morgan shall not be liable to the customer or any other person for any direct or indirect liability, loss, claim, cost, damage, penalty, fine, obligation or expense of any kind whatsoever suffered or incurred by, or asserted against, the customer or any other person howsoever arising, whether in tort (including negligence), in contract or under statute, directly or indirectly from, or in connection with, the use of this report or report information, for any trading decision.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of Morgan Stanley Capital International Inc. ("MSCI") and Standard's,' a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by The JPMorgan Chase & Co. and its wholly owned subsidiaries.

Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Standard and Poor's including its subsidiary corporations ("S&P") is a division of the McGraw-Hill Companies, Inc. Reproduction of S&P Index Alerts in any form is prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P sources, S&P, or others, S&P does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P gives not express or implied warranties, including, but not limited to, any warranties or merchantability or fitness for a particular purpose or use. In no event shall S&P be liable for any indirect, special or consequential damages in connection with subscriber's or others' use of S&P Index Alerts.

The recipient of the credit ratings data (in any format other than locked, non-manipulable on-screen display) must ensure that a valid and fully paid license with the relevant credit ratings agency is in existence as at the time of receipt and throughout the period during which recipient retains or uses such credit ratings data.

This may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. THIRD PARTY CONTENT PROVIDERS GIVE NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. THIRD PARTY CONTENT PROVIDERS shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs OR LOSSES CAUSED BY NEGLIGENCE) in connection with any use of THEIR CONTENT, INCLUDING ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Neither JPMorgan Chase & Co nor any of its affiliates, subsidiaries, or third party suppliers ("JPMorgan") accepts any liability for any losses, costs, claims, damages, liabilities or expenses (including, without limitation, loss of profits) (collectively, "Losses") which the recipient may incur as a result of its use of the data or its failure to hold a valid and fully paid license with the relevant credit rating agencies." SM

Copyright MSCI 2014. Unpublished. All Rights Reserved. This information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used to create any financial instruments or products or any indices. This information is provided on an "as is" basis and the user of this information assumes the entire risk of any use it may make or permit to be made of this information. Neither MSCI, any of its affiliates or any other person involved in or related to compiling, computing or creating this information makes any express or implied warranties or representations with respect to such information or the results to be obtained by the use thereof, and MSCI, its affiliates and each such other person hereby expressly disclaim all warranties (including, without limitation, all warranties of originality,accuracy,completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any other person involved in or related to compiling, computing or creating this information have any liability for any direct,indirect,special,incidental,punitive, consequential or any other damages (including,without limitation, lost profits) even if notified of, or if it might otherwise have anticipated, the possibility of such damages.

FTSE ® is a trade mark of London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under license. All rights in the FTSE Indices vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE Indices or underlying data.

The Industry Classification Benchmark is a joint product of FTSE International Limited and Dow Jones & Company, Inc. and has been licensed for use. "FTSE" is a trade and service mark of London Stock Exchange and The Financial Times Limited."Dow Jones" and "DJ" are trade and service marks of Dow Jones Inc. FTSE and Dow Jones & Company do not accept any liability to any person for any loss or damage arising out of any error or omission in the ICB.

The Dow Jones Wilshire IndexesSM are calculated, distributed and marketed by Dow Jones & Company , Inc. pursuant to an agreement between Dow Jones and Wilshire and have been licensed for use. All content of the Dow Jones Wilshire IndexesSM © 2011 Dow Jones & Company, Inc. and Wilshire Associates Incorporated.

Frank Russell Company ("FRC") is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. The presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a USER presentation of the Russell Index data. Frank Russell Company is not responsible for the formatting or configuration of this material or for any inaccuracy in USER's presentation thereof.

The Merrill Lynch Indices are used with permission. Copyright 2011, Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. The Merrill Lynch Indices may not be copied, used, or distributed without Merrill Lynch's prior written approval. Merrill Lynch does not guarantee the quality, accuracy and/or completeness of the Merrill Lynch indices or any data included therein or derived therefrom and shall not be liable to any third party in connection with their use.

© UBS 2011. All rights reserved. The name UBS Global Convertible Bond Index and the names of the related UBS AG sub-indices (together the "UBS Indices") are proprietary to UBS AG ("UBS"). UBS and MACE Advisers Ltd (the UBS Global Convertible Bond Index Calculation Agent) are together the "Index Parties". SM

© IPD (Investment Property Databank Ltd.) 2011 All rights conferred by law of copyright, by virtue of international copyright conventions and all other intellectual property laws are reserved by IPD. No part of the Mercer / IPD Australian Pooled Property Fund Index - Wholesale Core may be reproduced or transmitted, in any form or by any means, without the prior written consent of IPD. This index is neither appropriate nor authorized by IPD for use as a benchmark for portfolio or manager performance, or as the basis for any business decision. IPD gives no warranty or representation that the use of this information will achieve any particular result for you. Neither Mercer nor IPD has any liability for any losses, damages, costs or expenses suffered by any person as a result of any reliance on this information.

The NZX indices referred to in this report are the property of NZX Limited ("NZX"). Any adaptation, reproduction or transmittance of the data or contents of the NZX indices in any form or by any means other than for private use is prohibited without the prior written permission of NZX. NZX and its affiliates, directors, officers, agents or employees do not make any warranty of any kind, either express or implied, as to the accuracy of the content of the NZX indices or fitness for a particular purpose or use. NZX hereby disclaims all liability to the maximum extent permitted by law in relation to the NZX indices. Neither NZX, its subsidiary companies, nor their directors, officers, agents or employees shall, under any circumstances, be liable to any person for any direct, indirect, consequential,

The calculation of Value-at-Risk requires numerous assumptions that should be kept in mind when interpreting it. These limitations include but are not limited to the following: VaR measures may not appropriately convey the magnitude of sudden and unexpected extreme events, historical data that forms the basis of VaR may fail to predict content and future market volatility, and our VaR methodology does not fully reflect the effects of market illiquidity (the inability to sell or hedge a position over a relatively long period) and does not incorporate credit risk events that may affect its value.

Pension Fund Committee

14 June 2018

Statement of Accounts for the year ended 31 March 2018

John Hewitt, Corporate Director of Resources

Purpose of the Report

1 To present to Members the Pension Fund Accounts for the year ended 31 March 2018 and raise any significant issues arising from the accounts.

Background

2 In England and Wales, the 'Code of Practice on Local Authority Accounting 2017/18' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires Pension Fund Accounts for the Local Government Pension Scheme (LGPS) to be included in the Statement of Accounts of every authority that administers a LGPS fund.

3 The County Council, as Administering Authority, therefore, includes the Pension Fund Accounts in its 'Statement of Accounts'. The Pension Fund accounts are included as Appendix 1.

4 The 'Accounts and Audit Regulations 2015' introduced revised statutory deadlines for both stages of the approval process for the Statement of Accounts. The statutory deadlines have been brought forward for local authority accounts produced from 2017/18 onwards which means that the responsible financial officer, by no later than 31 May, signs and certifies that the Statement of Accounts presents a "true and fair view" of the financial position of the Council for the year to 31 March previous, subject to the views of the External Auditor. This is one month earlier than in previous years. I am pleased to report that this first stage was completed by 31 May 2018.

5 The second stage requires that on or before the 31 July (previously 30 September), approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor. This is done in order that that the Statement of Accounts can then be published.

6 The Statement of Accounts is currently subject to audit by Mazars LLP. On completion, the Auditor's report will be incorporated into the published version of the document.

7 The full Statement of Accounts has been published on the County Council's website.

Accounting Requirements

8 The Statement of Accounts for the financial year 2017/18 is prepared in accordance with the 'Accounts and Audit (England) Regulations 2015' and the 'Code of Practice on Local Authority Accounting 2017/18' (the Code) published by CIPFA.

9 The Code is based upon approved accounting standards. In England and Wales, the local authority Code constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The Council is therefore legally required to follow the Code. As a result, the accounts contain detail and are unavoidably technical and complex.

10 The Code confirms that the objective of pension fund accounts is to provide information about the financial resources and activities of the fund that might be useful in assessing the relationships between its benefit obligations and the accumulation of resources available to meet those obligations over time.

11 The Code requires that the following are included in the Pension Fund Accounts:

- a fund account - this shows the changes in net assets available for benefits;
- a net assets statement - showing the assets available at the year end to meet benefits; and
- notes to the accounts.

Key information from the Pension Fund Accounts

12 The Pension Fund accounts demonstrate that during 2017/18:

- net assets have increased by £109.284 million to £2,801.739 million;
- there was a net addition of £33.784 million as a result of contributions from members exceeding the benefits paid. This

includes early payment of 2017/18 to 2019/20 deficit contributions from Durham County Council and Darlington Borough Council; and

- there was a net gain of £87.880 million on the Pension Fund's investments.

Audit Completion Report

13 The final audit of the Statement of Accounts is now underway. At the end of this process the Auditor will provide an Audit Completion Report detailing their comments and any recommendation for improvements, based on the position at 31 March 2018.

14 The Audit Completion Report will be presented to Members along with an Action Plan, if required, designed to address any Auditor's recommendations at the conclusion of the Audit.

Summary

15 Members are asked to note the contents of this report.

Contact: Beverley White Tel: 03000 261900

This page is intentionally left blank

APPENDIX 1

Fund Account

2016-17 £000	2016-17 £000		Notes	2017-18 £000	2017-18 £000
		DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND			
-106,715		Contributions receivable	7	-156,395	
-4,974		Transfers in from other pension funds	8	-6,453	
-3		Other income		-3	
	-111,692				-162,851
114,152		Benefits payable	9	117,788	
7,270		Payments to and on account of leavers	10	11,279	
	121,422				129,067
	9,730	**Net withdrawals/ -additions from dealings with members, employers and others**			**-33,784**
	11,877	**Management expenses**	11		12,380
		RETURN ON INVESTMENTS			
-26,122		Investment income	12	- 28,093	
-366,723		Profit and losses on disposal of investments and change in market value of investments	14	- 59,787	
	-392,845	**Net returns on investments**			**-87,880**
	-371,238	**NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR**			**-109,284**

Net Assets Statement

2016-17 £000	2016-17 £000		Notes	2017-18 £000	2017-18 £000
		INVESTMENT ASSETS			
282,942		Equities	14	307,224	
580,729		Bonds	14	556,309	
1,778,540	2,642,211	Pooled investment vehicles	14	1,838,878	2,702,411
327		Loans	14	304	
		Other cash deposits:			
31,491		Fund Managers	14	65,191	
8,431		Short term investments	14	35,041	
4,524	44,773	Derivative contracts	14	3,552	104,088
	2,686,984				2,806,499
		Other Investment Assets			
1,766		Dividend accruals	14,17	1,611	
480		Tax recovery	14,17	597	
3,230	5,476	Other investment balances	14,17	21,483	23,691
	2,692,460	**Total Investment Assets**			**2,830,190**
		INVESTMENT LIABILITIES			
-2,989		Derivative contracts	14	-5,834	
-1,981		Other investment balances	18	-25,981	
	-4,970	**Total Investment Liabilities**			**-31,815**
	2,687,490	**NET INVESTMENT ASSETS**			**2,798,375**
	625	**Long Term Assets**	17		417
		Current assets			
9,091		Contributions due from employers	17	7,760	
1,716		Other current assets	17	1,394	
	10,807				9,154
		Current liabilities			
-6,467		Current liabilities	18	-6,207	
	-6,467				-6,207
	2,692,455	**NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH**			**2,801,739**

The Pension Fund's accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Note 23.

These accounts should therefore be read in conjunction with the information contained within this note.

1. Fund Operation and Membership

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) which is administered by Durham County Council. The Council is the reporting entity for the Fund. The LGPS is a statutory scheme governed by the following legislation:

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2016

The Pension Fund Committee has responsibility delegated from Durham County Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder to ensure the effective stewardship of the Pension Fund's affairs. The delegation is wide ranging and covers the management of all of the Fund's activities, including the administration and investment of funds. The Committee meets at least quarterly to assess performance and annually to consider wider matters.

The Corporate Director of Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and Pension Fund Accounting teams in his statutory duty to ensure the Pension Fund is administered effectively and remains solvent.

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admitted bodies also participate in the Scheme.

The LGPS is a defined benefit occupational pension scheme to provide pensions benefits for pensionable employees of participating bodies. On retirement contributors receive annual pensions and where applicable lump sum payments. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age.

The following table provides a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

	2013/14	2014/15	2015/16	2016/17	2017/18
Contributing Members	17,454	18,011	18,530	18,630	19,219
Pensioners in Payment	16,700	17,193	17,715	18,139	18,618
Pensioners Deferred	13,040	13,165	14,451	15,104	15,746

In comparison to the figures reported at 31 March 2017, the number of pensionable employees in the Fund at 31 March 2018 has increased by 589 (3.16%) the number of pensioners has increased by 479 (2.64%) and deferred pensioners have increased by 642 (4.25%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 114 at 31 March 2018), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table. Further detailed information is provided in Notes 9 and 7 accordingly.

2016-17			2017-18	
Benefits	**Contributions**		**Benefits**	**Contributions**
£000	**£000**		**£000**	**£000**
86,173	-71,078	Administering Authority	90,326	-113,692
22,158	-28,273	Scheduled Bodies	20,549	-34,888
5,821	-7,364	Admission Bodies	6,913	-7,815
114,152	**-106,715**		**117,788**	**-156,395**

2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals and going concern basis.

The financial statements summarise the transactions and the net assets of the Pension Fund available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2016/17, the results of which determined the contribution rates effective from 1 April 2017 to 31 March 2020. Details of the latest valuation are included in Note 22.

3. Statement of Accounting Policies

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis).

Fund Account

Contributions receivable

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;
- Employers' augmentation contributions are accounted for in the year in which they become due;
- Employers' deficit funding contributions are accounted for in the year in which they become due in accordance with the Rates and Adjustment Certificate set by the actuary or on receipt, if earlier than the due date.

Transfers to and from other schemes

Transfer values represent amounts paid to or received from other local and public authorities, private, occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities. Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for in full in the year in which the transfer value is agreed by Durham County Council Pension Fund.

Pension benefits payable
Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due, but yet to be paid, are disclosed in the Net Assets Statement as current liabilities.

Management expenses
All management expenses, which include administrative expenses, investment management expenses and oversight and governance costs, are accounted for on an accruals basis.

All staffing and overhead costs of the pensions administration team are allocated to the Pension Fund as administrative expenses.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Note 11 provides further information regarding the basis of Investment Managers' Fees. Where an Investment Manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

Oversight and governance costs include costs relating to the pension fund accounting team, which are apportioned on the basis of staff time spent on the Fund and include all associated overheads, plus legal, actuarial and investments advisory services.

Investment income
Investment income is accounted for as follows:

- income from equities is recognised in the fund account on the date stocks are quoted ex-dividend;
- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis;
- interest income is recognised in the fund account as it accrues;
- income from other investments is accounted for on an accruals basis;
- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
- foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable on the last working day in March, where amounts were still outstanding at the year end;
- changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/ losses during the year.

Taxation
The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas

investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax would normally be accounted for as a fund expense as it arises, however when Investment Managers are not able to supply the necessary information, no taxation is separately disclosed in the Fund Account.

Net Assets Statement

Valuation of Investments

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund.
The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted equity securities traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities traded on an exchange are accounted for at bid market price where Investment Managers provide valuations in this manner;
- Index linked securities are valued at bid market value where Investment Managers provide valuations in this manner;
- Unitised managed funds are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised managed funds are valued at the reported price;
- Unitised, unquoted managed property funds are valued at the net asset value adjusted for cash flows or a single price advised by the fund manager.
- Unquoted equity investments are included based on an estimated price of the investments held. Investment Managers use valuation techniques to establish a price at the year-end date based on an arm's length exchange given normal business considerations;
- Derivative contracts outstanding at the year-end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

Where Investment Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Investment Manager, usually at mid-market price.

Cash and Cash Equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Assets
A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Pension Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 21.

Investment transactions
Investment transactions arising up to 31 March but not settled until later are accrued in the accounts. All purchases and sales of investments in foreign currency are accounted for in sterling at the prevailing rate on the transaction date.

Acquisition costs of investments
Acquisition costs of investments are added to book cost at the time of purchase.

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

Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (Note 23).

Additional Voluntary Contributions (AVCs)
The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Pension Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 19 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 7 as additional contributions from members.

Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

4. Critical judgements in applying accounting policies

The preparation of the statements in accordance with the Code of Practice on Local Authority Accounting requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the fair value of unquoted investments is highly subjective and based upon forward looking estimates and judgements involving many factors. The valuations of unquoted investments disclosed in the Net Assets Statement are based on the latest investor reports and financial statements provided by the fund managers of the underlying funds.

- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the future and other major sources of estimation uncertainty

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Items for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual differs from assumptions
Actuarial Valuation	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the salary increase projections, expected changes in retirement ages, mortality rates and returns on pension fund assets. A firm of actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. Note 22 summarises the results of the actuarial valuation.	The Actuary calculated the funding ratio to be 81% as at 31 March 2016 (the last triennial valuation). If the following figures were to differ from the assumptions used in the calculation, there would be a reduction in the funding ratio to: - 75% if life expectancy increases by 3 years - 67% if discount rate falls by 1% - 67% if inflation increases by 1% - 68% if equities fall by 25% - 78% if pensionable pay increases by 1%
Fair Value of Investments	The Accounts are as at 31 March 2018 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/ under-stated in the accounts. The total value of Level 3 investments (explained in Note 15) is £158.0m at 31/3/18 (£165.4m at 31/3/17). This consists of the Fund's unlisted property holding. In line with the market risk section within Note 16, there is a risk that the value of the Fund may be over/ under stated in the accounts by £22.28m (£23.99m at 31/3/17), which represents the potential market movement on the value of the unlisted property.

6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2018 which require any adjustments to be made to these accounts.

7. Contributions Receivable

2016-17 £000		2017-18 £000
	Employer contributions:	
-49,580	Normal	-59,903
-5,797	Augmentation	-3,994
-28,059	Deficit funding	-68,915
	Member contributions:	
-23,191	Normal	-23,493
-88	Additional contributions	-90
-106,715		**-156,395**
-71,078	Administering Authority	-113,692
-28,273	Scheduled Bodies	-34,888
-7,364	Admission Bodies	-7,815
-106,715		**-156,395**

Durham County Council and Darlington Borough Council paid their deficit contributions for the 3 year period; 01/04/17 to 31/03/20 in full during 2017-18. These contributions are reflected in the deficit funding figure of £68.915m in 2017-18.

8. Transfers in from other pension funds

2016-17 £000		2017-18 £000
-4,974	Individual Transfers	-6,453
-4,974		**-6,453**

9. Benefits Payable

2016-17 £000		2017-18 £000
93,285	Pensions	96,884
23,344	Commutations and lump sum retirement benefits	23,094
2,167	Lump sum death benefits	2,332
-4,644	Recharged benefits	-4,522
114,152		**117,788**
86,173	Administering Authority	90,326
22,158	Scheduled Bodies	20,549
5,821	Admission Bodies	6,913
114,152		**117,788**

10. Payments To And On Account Of Leavers

2016-17 £000		2017-18 £000
297	Refunds to members leaving service	327
75	Payments for members joining state scheme	20
6,329	Individual transfers to other schemes	10,932
569	Group transfers to other schemes	-
7,270		**11,279**

11. Management Expenses

Administration expenses include the cost of the administering authority in supporting the Fund.

Investment management expenses include any expenses in relation to the management of the pension fund assets. Investment manager fees are based on the value of assets under management. A performance related fee, derived from a base fee plus a percentage of out-performance, is paid to three of the Fund's investment managers; an ad-valorem fee is payable to the other managers.

Oversight and governance costs include costs relating to the pension fund accounting team, plus legal, actuarial and investments advisory services.

2016-17 £000	£000		2017-18 £000	£000
	905	Administration expenses		1,000
		Investment Management expenses		
9,891		Management fees	10,210	
230		Performance fees	116	
209		Custody fees	150	
0	10,330	Transaction costs	0	10,476
	642	Oversight and Governance costs		904
	11,877			**12,380**

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2017/18 of £0.026m (£0.026m in 2016/17). No fees have been paid to Mazars in 2017/18 in respect of non-audit work.

12. Investment Income

2016-17 £000		2017-18 £000
-5,620	Interest from bonds	-3,264
-7,071	Dividends from equities	-9,838
-48	Interest on cash deposits	-220
-13,383	Income from pooled investment vehicles	-14,771
-26,122		**-28,093**

13. Taxation

The Code requires that any withholding tax that is irrecoverable should be disclosed in the Fund Account as a tax charge, however as Investment Managers have not been able to supply information for the full year, no amount of irrecoverable withholding tax has been disclosed.

- **United Kingdom Income Tax**
  The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.
- **Value Added Tax**
  As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.
- **Foreign Withholding Tax**
  Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

14. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2017/18 to manage the Pension Fund's assets:

- Aberdeen Standard Investments
  (Formerly Aberdeen Asset Management Ltd)
- AB (Formerly AllianceBernstein Limited)
- Bank of New York Mellon Investment Management EMEA Limited (BNYM)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Royal London Asset Management (RLAM)

Durham County Council is one of twelve equal partners in the Border to Coast Pension Partnership (BCPP) which has been formed as a result of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require all Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools. BCPP is one of these investment pools.

It is anticipated that assets belonging to the Fund will start to be transferred into BCPP Limited towards the end of 2018/19.

BCPP Limited will be responsible for managing investments in line with the investment strategy and asset allocation requirements as instructed by the Fund.

The medium term and long-term strategic asset allocation as at 31 March was as follows:

31 March 2017	Asset Class	31 March 2018	
Long Term		Medium Term	Long Term
%		%	%
30	Global equities	40	40
15	Global Bonds	15	15
20	Dynamic Asset Allocation	5	0
8	Global property	8	8
0	Private Markets	5	10
7	Emerging Market Equities	7	7
20	Investment grade sterling bonds	20	20
100		**100**	**100**

Although the strategic asset allocation was revised and agreed during 2017/18, funds have yet to be transferred between managers and asset classes. Therefore the actual allocations vary from the long-term strategic allocations. The actual market values of investments held by each Investment Manager as at 31 March were as follows :

31-Mar-17				31-Mar-18	
£000	%	Investment Manager		£000	%
440,069	16.45	Aberdeen Standard	Global equities	450,516	16.29
357,972	13.38	AB	Global Bonds	396,399	14.34
444,824	16.63	BNYM	Global equities	466,030	16.85
489,644	18.30	BlackRock	Dynamic Asset Allocation	481,305	17.41
216,266	8.09	CBRE	Global property	225,228	8.14
197,224	7.37	Mondrian	Emerging Market Equities	204,554	7.40
529,238	19.78	RLAM	Investment grade sterling bonds	541,288	19.57
2,675,237	**100.00**			**2,765,320**	**100.00**

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2018 excludes loans of

£0.304m, cash invested by the administering authority of £35.041, other investment assets of £23.691m and other investment liabilities of £25.981m (£0.327m, £8.431m, £5.476m and £1.981m respectively as at 31 March 2017).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2018, £2.765m (98.82%) is invested through Investment Managers (£2.675m or 99.54% at 31 March 2017).

Reconciliation of Movements in Investments 2017/18

Investment category	Value at 31 March 2017	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2018
	£000	£000	£000	£000	£000
Equities	282,942	149,724	-127,792	2,350	307,224
Bonds	580,729	2,202,815	-2,227,677	442	556,309
Pooled investment vehicles	1,778,540	229,094	-200,204	31,448	1,838,878
	2,642,211	2,581,633	-2,555,673	34,240	2,702,411
Derivative contracts:					
Futures, margins & options	734	17,956	-18,694	111	107
Forward foreign currency	801	41,585	-86,842	42,067	-2,389
	2,643,746	**2,641,174**	**-2,661,209**	**76,418**	**2,700,129**
Other investment balances:					
Loans	327				304
Other cash deposits	39,922			-16,631	100,232
Dividend accruals	1,766				1,611
Tax recovery	480				597
Other investment balances	1,249				-4,498
Net Investment Assets	**2,687,490**			**59,787**	**2,798,375**

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

Reconciliation of Movements in Investments 2016/17

Investment category	Value at 31 March 2016	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2017
	£000	£000	£000	£000	£000
Equities	211,866	124,863	-107,999	54,212	282,942
Bonds	519,293	2,714,495	-2,756,492	103,433	580,729
Pooled investment vehicles	1,487,500	233,241	-203,684	261,483	1,778,540
	2,218,659	3,072,599	-3,068,175	419,128	2,642,211
Derivative contracts:					
Futures, margins & options	-691	28,754	-20,561	-6,768	734
Forward foreign currency	-4,214	139,497	-90,544	-43,938	801
	2,213,754	**3,240,850**	**-3,179,280**	**368,422**	**2,643,746**
Other investment balances:					
Loans	349				327
Other cash deposits	96,701			-1,699	39,922
Dividend accruals	1,925				1,766
Tax recovery	368				480
Other investment balances	3,654				1,249
Net Investment Assets	**2,316,751**			**366,723**	**2,687,490**

Purchases and sales of derivatives are recognised in the Reconciliation of Movements in Investments tables as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Options – premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a net basis as net receipts and payments.

Analysis of Investments

2016-17 £000	2016-17 £000		2017-18 £000	2017-18 £000
		ASSETS INVESTED THROUGH FUND MANAGERS		
		Bonds		
511,012		UK - Public sector - quoted	510,526	
69,717		Overseas - Public sector - quoted	41,089	
-		Overseas - Corporate - quoted	4,694	
	580,729			556,309
		Equities		
45,087		UK quoted	40,758	
237,855		Overseas quoted	266,466	
	282,942			307,224
		Pooled Investment Vehicles		
113,196		Managed funds - non property - UK quoted	126,156	
1,465,519		Managed funds - non property - overseas quoted	1,521,525	
2,086		Unit Trusts - property - UK quoted	2,202	
23,510		Unit Trusts - property - UK unquoted	18,345	
32,289		Unit Trusts - property - Overseas quoted	30,980	
141,940		Unit Trusts - property - Overseas unquoted	139,670	
	1,778,540			1,838,878
		Derivative Contracts		
4,524		Assets	3,552	
-2,989		Liabilities	-5,834	
	1,535			-2,282
31,491	31,491	**Fund Managers' Cash**	65,191	65,191
	2,675,237	**NET ASSETS INVESTED THROUGH FUND MANAGERS**		**2,765,320**
		OTHER INVESTMENT BALANCES		
	8,431	Short term investments (via DCC Treasury Management)		35,041
	327	Loans		304
	5,476	Other investment assets		23,691
	-1,981	Other investment liabilities		-25,981
	2,687,490	**NET INVESTMENT ASSETS**		**2,798,375**

Analysis of Derivatives

Objectives and policies for holding derivatives

Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates and stock market indices.

The Fund uses derivatives to manage its exposure to specific risks arising from its investment activities. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Pension Fund and its Investment Managers.

A summary of the derivative contracts held by the Pension Fund is provided in the following table:

2016-17		Derivative Contracts	2017-18	
£000	£000		£000	£000
		Forward foreign currency		
2,671		Assets	1,530	
-1,870		Liabilities	-3,919	
	801	**Net Forward foreign currency**		-2,389
		Futures		
585		Assets	1,865	
-155		Liabilities	-1,885	
	430	**Net Futures**		-20
		Options		
1,268		Assets	157	
-964		Liabilities	-30	
	304	**Net Options**		127
	1,535	**Net market value of derivative contracts**		**-2,282**

The Pension Fund invests in the following types of derivatives:

i. Forward foreign currency contracts

Currency is bought and sold by investment managers for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund’s investments.

The following tables list all of the forward foreign currency contracts held by the investment managers (BlackRock, CBRE and Royal London) on 31 March 2018 and 31 March 2017.

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	USD	1,700,000	AUD	-2,101,931	63	
0 to 1 mth	USD	3,200,000	CAD	-3,945,824	99	
0 to 1 mth	USD	4,495,000	CHF	-4,179,473	89	
0 to 1 mth	CHF	664,860	USD	-700,000		-3
0 to 1 mth	USD	3,500,000	COP	-10,150,000,000		-95
0 to 1 mth	USD	875,000	COP	-2,501,187,500		-14
0 to 1 mth	USD	875,000	COP	-2,504,250,000		-15
0 to 1 mth	USD	875,000	COP	-2,505,125,000		-15
0 to 1 mth	USD	875,000	COP	-2,508,187,500		-16
0 to 1 mth	GBP	61,875,250	EUR	-70,180,000	320	
0 to 1 mth	GBP	7,557,147	EUR	-8,600,000	14	
0 to 1 mth	EUR	4,300,000	HUF	-1,338,215,900	12	
0 to 1 mth	EUR	38,955,000	USD	-48,753,234		-563
0 to 1 mth	GBP	3,057,622	JPY	-470,000,000		-94
0 to 1 mth	GBP	117,944,077	USD	-167,410,000		-1,315
0 to 1 mth	GBP	4,760,000	USD	-6,756,803		-53
0 to 1 mth	USD	22,000,000	GBP	-15,508,357	164	
0 to 1 mth	USD	3,000,000	HKD	-23,415,288	11	
0 to 1 mth	HKD	23,425,800	USD	-3,000,000		-10
0 to 1 mth	USD	1,060,000	SGD	-1,387,574	1	
1 to 3 mths	USD	1,970,000	TWD	-58,597,650		-38
1 to 3 mths	USD	1,970,000	TWD	-58,646,900		-39
1 to 3 mths	USD	2,365,000	TWD	-70,559,775		-50
1 to 3 mths	USD	3,940,000	TWD	-117,254,400		-77
1 to 3 mths	USD	1,970,000	TWD	-58,745,400		-41
1 to 3 mths	USD	7,485,000	TWD	-223,240,125		-158
1 to 3 mths	USD	3,225,000	TWD	-97,878,750		-109
1 to 3 mths	USD	3,225,000	TWD	-97,911,000		-110
1 to 3 mths	TWD	78,123,125	USD	-2,615,000	58	
1 to 3 mths	TWD	123,693,500	USD	-4,130,000	100	
1 to 3 mths	TWD	94,011,600	USD	-3,140,000	75	
1 to 3 mths	TWD	93,886,000	USD	-3,140,000	72	
1 to 3 mths	TWD	78,083,900	USD	-2,615,000	57	
1 to 3 mths	TWD	39,077,300	USD	-1,310,000	28	
1 to 3 mths	TWD	39,057,650	USD	-1,310,000	27	
1 to 3 mths	TWD	78,005,450	USD	-2,615,000	55	
1 to 3 mths	TWD	39,064,490	USD	-1,310,000	27	
1 to 3 mths	TWD	9,232,730	USD	-310,000	6	
1 to 3 mths	TWD	29,787,000	USD	-1,000,000	20	
1 to 3 mths	TWD	79,039,350	USD	-2,655,000	52	
3 to 6 mths	GBP	13,179,189	USD	-18,375,611	118	
3 to 6 mths	GBP	2,405,773	EUR	-2,705,000	29	
3 to 6 mths	GBP	1,489,957	EUR	-1,678,458	15	
3 to 6 mths	EUR	2,076,589	GBP	-1,817,024	8	
3 to 6 mths	EUR	2,260,000	GBP	-1,990,920		-5
3 to 6 mths	GBP	3,812,420	USD	-5,374,472		-8
3 to 6 mths	GBP	1,992,861	EUR	-2,268,634		-1
1 to 3 mths	EUR	4,395,068	GBP	3,845,465		-17
1 to 3 mths	EUR	31,601,592	GBP	27,649,813		-125
1 to 3 mths	GBP	2,286,688	AUD	4,215,943		-11
1 to 3 mths	GBP	17,447,660	AUD	32,168,077		-83
1 to 3 mths	GBP	2,335,842	DKK	19,871,292		-7
1 to 3 mths	GBP	684,549	JPY	101,999,190		-
1 to 3 mths	GBP	13,744,363	JPY	2,047,937,602		-7
1 to 3 mths	GBP	3,160,324	JPY	470,894,542		-2
1 to 3 mths	GBP	1,276,313	SEK	14,835,254	10	
1 to 3 mths	GBP	125,286	USD	178,735		-2
1 to 3 mths	GBP	62,388,830	USD	89,005,152		-821
1 to 3 mths	GBP	267,091	USD	381,037		-4
1 to 3 mths	GBP	824,193	USD	1,175,810		-11
					1,530	**-3,919**
Net forward foreign currency contracts at 31 March 2018						**-2,389**

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 mths	USD	1,470,000	AUD	-1,914,703	9	
1 to 3 mths	USD	1,210,000	BRL	-3,802,062	25	
1 to 3 mths	USD	10,850,000	CAD	-14,150,896	184	
1 to 3 mths	USD	8,120,000	CHF	-8,058,126	31	
1 to 3 mths	USD	6,200,000	CLP	-3,990,940,000	152	
1 to 3 mths	GBP	49,018,213	EUR	-57,120,000	88	
1 to 3 mths	EUR	2,200,000	GBP	-1,915,903		-31
1 to 3 mths	SEK	27,573,779	EUR	-2,920,000		-28
1 to 3 mths	EUR	41,860,000	USD	-44,711,085	157	
1 to 3 mths	GBP	3,358,132	JPY	-470,000,000		-18
1 to 3 mths	GBP	5,150,000	PLN	-26,102,260		-107
1 to 3 mths	GBP	2,200,966	TRY	-10,380,000		-32
1 to 3 mths	GBP	1,585,000	USD	-1,973,404	9	
1 to 3 mths	GBP	40,444,159	USD	-50,355,000	236	
1 to 3 mths	GBP	1,585,000	USD	-1,973,420	9	
1 to 3 mths	GBP	40,443,834	USD	-50,355,000	236	
1 to 3 mths	GBP	1,590,000	USD	-1,980,459	9	
1 to 3 mths	GBP	40,423,195	USD	-50,350,000	219	
1 to 3 mths	USD	13,000,000	GBP	-10,619,874		-240
1 to 3 mths	USD	1,000,000	GBP	-801,852		-3
1 to 3 mths	USD	2,200,000	HKD	-17,052,792	2	
1 to 3 mths	IDR	21,845,700,000	USD	-1,620,000	9	
1 to 3 mths	INR	122,491,750	USD	-1,810,000	55	
1 to 3 mths	USD	1,200,000	KRW	-1,365,468,000		-18
1 to 3 mths	KRW	1,370,820,000	USD	-1,200,000	22	
1 to 3 mths	USD	10,210,000	MXN	-210,977,092		-703
1 to 3 mths	MYR	10,822,105	USD	-2,410,000	16	
1 to 3 mths	PHP	283,052,150	USD	-5,615,000		-3
1 to 3 mths	USD	1,660,000	SGD	-2,352,094		-19
1 to 3 mths	SGD	850,726	USD	-600,000	7	
1 to 3 mths	USD	3,880,000	THB	-135,889,240		-65
1 to 3 mths	USD	6,630,000	TRY	-24,967,917		-77
1 to 3 mths	USD	11,370,000	TWD	-347,626,380		-78
1 to 3 mths	AUD	11,299,503	GBP	-6,862,949		-3
1 to 3 mths	EUR	34,743,034	GBP	-30,033,616	263	
1 to 3 mths	USD	87,011,920	GBP	-69,340,495		-97
1 to 3 mths	JPY	1,889,517,790	GBP	-13,570,223		-6
1 to 3 mths	AUD	5,355,688	GBP	-3,252,870		-1
1 to 3 mths	USD	895,848	GBP	-713,908		-1
1 to 3 mths	JPY	164,020,249	GBP	-1,177,968		-1
1 to 3 mths	EUR	3,787,663	GBP	-3,274,245	28	
1 to 3 mths	USD	177,005	GBP	-141,057	-	
1 to 3 mths	DKK	16,843,346	GBP	-1,954,211	13	
1 to 3 mths	SEK	12,750,547	GBP	-1,157,457	13	
1 to 3 mths	JPY	972,939,089	GBP	-6,987,497		-3
1 to 3 mths	USD	2,510,935	GBP	-2,000,984		-3
1 to 3 mths	GBP	6,518,048	AUD	-10,486,913	139	
1 to 3 mths	GBP	2,897,543	CAD	-4,740,597	57	
1 to 3 mths	GBP	1,813,142	EUR	-2,086,806	25	
1 to 3 mths	GBP	2,221,207	USD	-2,711,838	56	
1 to 3 mths	GBP	8,875,167	USD	-10,812,261	244	
1 to 3 mths	GBP	837,978	EUR	-962,538	13	
1 to 3 mths	GBP	3,208,536	USD	-3,907,054	90	
1 to 3 mths	GBP	2,128,388	USD	-2,597,235	55	
1 to 3 mths	GBP	1,187,053	CAD	-1,951,331	18	
1 to 3 mths	GBP	1,200,107	USD	-1,469,644	27	
1 to 3 mths	GBP	1,921,738	USD	-2,352,067	44	
1 to 3 mths	USD	1,584,001	GBP	-1,293,520		-29
1 to 3 mths	USD	9,553,117	GBP	-7,714,928		-88
1 to 3 mths	USD	2,020,893	GBP	-1,630,774		-17

1 to 3 mths	USD	3,397,540	GBP	-2,738,373		-26
1 to 3 mths	CAD	3,404,106	GBP	-2,055,502		-16
1 to 3 mths	USD	5,756,705	GBP	-4,601,767		-6
1 to 3 mths	AUD	6,214,777	GBP	-3,804,205		-24
1 to 3 mths	USD	1,292,779	GBP	-1,034,930		-3
1 to 3 mths	GBP	9,094,175	EUR	-10,514,712	86	
1 to 3 mths	GBP	1,047,287	EUR	-1,209,613	11	
1 to 3 mths	GBP	7,377,220	USD	-9,232,590	6	
1 to 3 mths	USD	1,943,815	GBP	-1,543,862	8	
1 to 3 mths	AUD	4,515,187	GBP	-2,769,556		-23
1 to 3 mths	EUR	4,941,538	GBP	-4,285,455		-52
1 to 3 mths	EUR	4,654,606	GBP	-4,036,618		-49
					2,671	**-1,870**
Net forward foreign currency contracts at 31 March 2017						**801**

ii. Futures

When there is a requirement to hold cash assets, but the Investment Manager does not want this cash to be out of the market, index based futures contracts are bought which have an underlying economic value broadly equivalent to the cash held in anticipation of cash outflow required. Outstanding exchange traded futures contracts, held by BlackRock are as follows:

	Expires	**Product Description**	**Currency**	**Market Value at 31 March 18**	
				£000	**£000**
Assets					
Overseas equity	1 to 3 months	S&P500 EMINI JUN 18	USD	1,339	
Overseas equity	1 to 3 months	E-MINI CONSUMER STAPLES JUN 18	USD	428	
Overseas equity	1 to 3 months	EURO STOXX 50 JUN 18	EUR	70	
Overseas bonds	3 to 6 months	US 5YR NOTE JUN 18 29/6/2018	USD	22	
Overseas bonds	3 to 6 months	EURO-BUND JUN 18 7/6/2018	EUR	6	
Total assets					1,865
Liabilities					
Overseas equity	3 to 6 months	TOPIX INDEX JUN 18	JPY	-82	
Overseas equity	1 to 3 months	E-MINI HEALTH CARE SECTOR JUN 18	USD	-721	
Overseas equity	1 to 3 months	EURO STOXX MID JUN 18	EUR	-1,082	
Total liabilities					-1,885
Net Futures Contracts at 31 March 2018					-20

	Expires	Product Description	Currency	Market Value at 31 March 17 £000	£000
Assets					
Overseas equity	1 to 3 mths	S&P500 EMINI JUN 17	EUR	539	
Overseas equity	1 to 3 mths	EURO STOXX 50 JUN 17	USD	46	
Total assets					585
Liabilities					
UK equity	1 to 3 mths	FTSE 100 INDEX JUN 17	GBP	-34	
Overseas equity	1 to 3 mths	EURO STOXX BANK JUN 17	EUR	-58	
Overseas equity	1 to 3 mths	STOXX 600 HEALTH JUN 17	EUR	-63	
Total liabilities					-155
Net Futures Contracts at 31 March 2017					430

iii. Options

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, via Blackrock, has bought a number of equity option contracts. These option contracts are to protect it from falls in value in the main markets in which it is invested.

Type	Expires	Product Description	Currency	Market Value at 31 March 18 £000
Assets				
	0 to 1 month	EURO STOXX 50 INDEX 01-JAN-2050 20/4/2018 P @ 3350.000	EUR	157
Total assets				**157**
Liabilities				
	0 to 1 month	EURO STOXX 50 INDEX 01-JAN-2050 20/4/2018 P @ 3150.000	EUR	-30
Total liabilities				**-30**
Net Options at 31 March 2018				**127**

Type	Expires	Product Description	Currency	Market Value at 31 March 17 £000
Assets				
Overseas equity	1 to 3 mths	S&P 500 INDEX 19/05/2017 P @ 2300.000	USD	419
Overseas fixed interest	Less than 1 year	USD C CNH P @7.000000 EO	USD	188
UK equity	1 to 3 mths	FTSE 100 INDEX 16/06/2017 P @ 6900.000	GBP	179
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 16/06/2017 P @ 3150.000	EUR	168
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 16/06/2017 C @ 3725.000	EUR	98
Overseas equity	Less than 1 year	EURO STOXX 50 INDEX 15/12/2017 C @ 4000.000	EUR	96
Overseas equity	Less than 1 year	S&P 500 INDEX 15/12/2017 P @ 2000.000	USD	87
Overseas fixed interest	Less than 1 year	USD P CNH C @6.600000 EO	USD	17
UK fixed interest	1 to 3 mths	GBP C USD P @1.300000 EO	GBP	8
UK fixed interest	1 to 3 mths	GBP C USD P @1.300000 EO	GBP	4
UK fixed interest	1 to 3 mths	GBP C USD P @1.300000 EO	GBP	4
Total assets				**1,268**
Liabilities				
Overseas fixed interest	Less than 1 year	USD P CNH C @6.600000 EO	USD	-17
Overseas equity	Less than 1 year	S&P 500 INDEX 15/12/2017 P @ 1875.000	USD	-55
Overseas equity	1 to 3 mths	EURO STOXX BANKS 16/06/2017 C @ 140.000	EUR	-81
UK equity	1 to 3 mths	FTSE 100 INDEX 16/06/2017 P @ 6600.000	GBP	-82
Overseas equity	1 to 3 mths	EURO STOXX 50 INDEX 16/06/2017 P @ 3000.000	EUR	-87
Overseas fixed interest	Less than 1 year	USD C CNH P @7.000000 EO	USD	-188
UK equity	1 to 3 mths	FTSE 100 INDEX 16/06/2017 C @ 7300.000	GBP	-454
Total liabilities				**-964**
Net Options at 31 March 2017				**304**

Investments Exceeding 5% of the Market Value of the Fund

The investments in the following table individually represented more than 5% of the Pension Fund's total net assets available for benefits at 31 March:

Name of Fund	Investment Manager	At 31 March 2018		At 31 March 2017	
		£m	%	£m	%
BNYM Long Term Global Equity	BNYM	466.03	16.63	444.82	16.52
AAM L and P World Equity	Aberdeen Standard	450.52	16.08	440.07	16.34
Diversified Yield Plus	AB	396.40	14.15	357.97	13.30

15. Financial Instruments

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

2016-17				2017-18		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets			
282,942			Equities	307,224		
580,729			Bonds	556,309		
1,778,540			Pooled investment vehicles	1,838,878		
4,524			Derivative contracts	3,552		
	327		Loans		304	
	31,491		Cash held by Fund Managers		65,191	
	8,431		Short term investments		35,041	
	5,476		Other investment assets		23,691	
	11,432		Debtors		9,571	
2,646,735	57,157	-		2,705,963	133,798	-
			Financial liabilities			
-2,989			Derivative contracts	-5,834		
		-8,448	Creditors			-32,188
-2,989	-	-8,448		-5,834	-	-32,188
2,643,746	**57,157**	**-8,448**		**2,700,129**	**133,798**	**-32,188**
		2,692,455	**Net Assets at 31 March**			**2,801,739**

Net gains and losses on financial instruments

31 March 2017 £000		31 March 2018 £000
	Financial Assets	
368,422	Fair Value through profit and loss	76,418
-1,699	Loans and receivables	-16,631
	Financial Liabilities	
-	Fair Value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
366,723	**Total**	59,787

Valuation of financial instruments carried at fair value

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

LEVEL 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities, exchange traded derivatives and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

LEVEL 2

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

LEVEL 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted property funds, unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based upon valuations provided by the general partners to the private equity in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines,

which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2018 and 31 March 2017, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

Values at 31 March 2018	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	2,544,396	3,552	158,015	2,705,963
Loans and receivables	133,798	-	-	133,798
Total Financial Assets	**2,678,194**	**3,552**	**158,015**	**2,839,761**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-1,915	-3,919	-	-5,834
Financial Liabilities at amortised cost	-32,188	-	-	-32,188
Total Financial Liabilities	**-34,103**	**-3,919**	**-**	**-38,022**
Net Financial Assets	**2,644,091**	**-367**	**158,015**	**2,801,739**

Values at 31 March 2017	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	2,478,392	2,893	165,450	2,646,735
Loans and receivables	57,157	-	-	57,157
Total Financial Assets	**2,535,549**	**2,893**	**165,450**	**2,703,892**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-913	-2,076	-	-2,989
Financial Liabilities at amortised cost	-8,448	-	-	-8,448
Total Financial Liabilities	**-9,361**	**-2,076**	**-**	**-11,437**
Net Financial Assets	**2,526,188**	**817**	**165,450**	**2,692,455**

16. Nature and Extent of Risk Arising From Financial Instruments

Risk and risk management

The Pension Fund's activities expose it to a variety of financial risks. The key risks are:

i. **MARKET RISK** - the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;
ii. **CREDIT RISK** - the possibility that other parties may fail to pay amounts due to the Fund;
iii. **LIQUIDITY RISK** - the possibility that the Fund might not have funds available to meet its commitments to make payments.

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and maximise the opportunity for gains across the whole fund portfolio. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The administering body manages these investment risks as part of its overall Pension Fund risk management programme.

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 14. By dividing the management of the assets between a number of managers risk is further controlled. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the Investment Manager does not deviate from the Pension Fund Committee's investment strategy.

The Fund has appointed a Global Custodian that performs a range of services including collection of dividends and interest from the Investment Managers, administering corporate actions that the Pension Fund may join, dealing with taxation issues and proxy voting when requested. It also ensures that the settlement of purchases and sales of the Fund assets are completed. The Custodian has stringent risk management processes and controls. Client accounts are strictly segregated to ensure that the Fund assets are separately identifiable. Conservative investment practices are ensured by the Custodian where they invest cash collateral.

The Fund also employs a specialised service as an independent check to ensure that all dividends receivable are compared against those collected by the Custodian and that they were received on the due date; any discrepancies are investigated. In line with its Treasury Management Policy, Durham County Council as administering authority, invests the short term cash balances on behalf of the Pension Fund. Interest is paid over to the Fund on a quarterly basis.

Durham County Council's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to

minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act.

i. MARKET RISK

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisers undertake appropriate monitoring of market conditions. Risk exposure is limited by applying maximum exposure restrictions on individual investments to each Investment Manager's portfolio.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's Investment Managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund Investment Strategy.

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's investment advisers, an analysis of historical volatility and implied market volatility has been completed. From this, it has been determined that the potential market movements in market price risk, as shown in the following table, are

reasonably possible for the 2017/18 reporting period. The analysis assumed that all other variables remain the same.

If the market price of the Fund investments were to increase/ decrease in line with these potential market movements, the value of assets available to pay benefits would vary as illustrated in the following table (the prior year comparator is also provided):

Manager	Asset type	Asset value at 31 March 2018 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen Standard	Global equity	450,516	17.6%	529,807	371,225
AB	Broad Bonds	396,399	8.0%	428,111	364,687
BNYM	Global equity	466,029	17.6%	548,050	384,008
BlackRock	DAA	466,164	8.8%	507,186	425,142
CBRE	Unlisted property	158,015	14.1%	180,295	135,735
CBRE	Listed property	33,182	20.6%	40,017	26,347
Mondrian	Emerging market equity	202,570	26.3%	255,846	149,294
RLAM	UK Index Linked Gilts	529,535	9.0%	577,193	481,877
	Loans	304	0.0%	304	304
	Cash	100,233	0.0%	100,233	100,233
	Net derivative assets	-2,282	0.0%	-2,282	-2,282
	Net investment balances	-2,290	0.0%	-2,290	-2,290
Total change in net investment assets available		**2,798,375**		**3,162,470**	**2,434,280**

Manager	Asset type	Asset value at 31 March 2017 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen Standard	Global equity	440,069	18.7%	522,362	357,776
AB	Broad Bonds	357,972	8.0%	386,610	329,334
BNYM	Global equity	444,824	18.7%	528,006	361,642
BlackRock	DAA	480,622	9.4%	525,800	435,444
CBRE	Unlisted property	165,450	14.5%	189,440	141,460
CBRE	Listed property	34,375	21.7%	41,834	26,916
Mondrian	Emerging market equity	195,330	29.0%	251,976	138,684
RLAM	UK Index Linked Gilts	523,569	8.8%	569,643	477,495
	Loans	327	0.0%	327	327
	Cash	39,922	0.0%	39,922	39,922
	Net derivative assets	1,535	0.0%	1,535	1,535
	Net investment balances	3,495	0.0%	3,495	3,495
Total change in net investment assets available		**2,687,490**		**3,060,950**	**2,314,030**

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the administering authority (as part of its Treasury Management Service for investment of surplus cash), its managers, custodian and investment advisers in accordance with the Fund's risk management strategy. This includes monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2018 and the effect of a +/- 25 BPS change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset type	**Asset Values at 31 March 2018**	**Change in year in the net assets available to pay benefits**	
		+25 BPS	**-25 BPS**
	£000	**£000**	**£000**
Cash and cash equivalents	100,232	251	-251
Fixed interest securities	26,776	67	-67
Total change in net investment assets available	**127,008**	**318**	**-318**

Asset type	**Asset Values at 31 March 2017**	**Change in year in the net assets available to pay benefits**	
		+25 BPS	**-25 BPS**
	£000	**£000**	**£000**
Cash and cash equivalents	39,922	100	-100
Fixed interest securities	57,283	143	-143
Total change in net investment assets available	**97,205**	**243**	**-243**

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than GBP (the functional currency of the Fund). The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the likely fluctuation associated with foreign exchange rate movements is expected to be 10% for developed market currencies and 15% in emerging market currencies. This is based upon the adviser's analysis of long-term historical movements in the month end exchange rates of a broad basket of currencies against the pound. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Investment Manager, to what extent a 10% (or 15% for emerging markets) strengthening/ weakening of the pound, against the various currencies in which the fund holds investments, would increase/ decrease the net assets available to pay benefits (the prior year comparator is also provided):

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 18	Value on increase	Value on decrease
				£000	£000	£000
Aberdeen Standard	Global Equity	84%	15%	450,516	507,281	393,750
AB	Broad Bonds	0%	0%	396,399	396,399	396,399
BlackRock	DAA	5%	10%	466,029	468,359	463,699
BNYM	Global Equity	95%	15%	466,164	532,592	399,736
CBRE	Global Property	16%	10%	191,197	194,256	188,138
Mondrian	Emerging market equity	100%	15%	202,570	232,956	172,185
RLAM	UK Index Linked Gilts	0%	0%	529,535	529,535	529,535
	Loans	0%	0%	304	304	304
	Cash	24%	10%	100,233	102,639	97,827
	Net derivative assets	0%	0%	-2,282	-2,282	-2,282
	Net investment balances	0%	0%	-2,290	-2,290	-2,290
Total change in net investment assets available				**2,798,375**	**2,959,749**	**2,637,001**

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 17	Value on increase	Value on decrease
				£000	£000	£000
Aberdeen Standard	Global Equity	86%	15%	440,069	496,838	383,300
AB	Broad Bonds	0%	0%	357,972	357,972	357,972
BlackRock	DAA	5%	10%	480,622	483,025	478,219
BNYM	Global Equity	95%	15%	444,824	508,211	381,437
CBRE	Global Property	16%	10%	199,825	203,022	196,628
Mondrian	Emerging market equity	99%	15%	195,330	224,337	166,323
RLAM	UK Index Linked Gilts	0%	0%	523,569	523,569	523,569
	Loans	0%	0%	327	327	327
	Cash	12%	10%	39,922	40,401	39,443
	Net derivative assets	0%	0%	1,535	1,535	1,535
	Net investment balances	0%	0%	3,495	3,495	3,495
Total change in net investment assets available				**2,687,490**	**2,842,732**	**2,532,248**

ii. CREDIT RISK

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio is exposed to some form of credit risk with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. The Fund minimises credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Investment Managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the balance sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account. As at 31 March 2018, this level of exposure to the Custodian is 2.4% of the total value of the portfolio (1.2% as at 31 March 2017).

Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit Ratings Services. The Council's Investment Strategy sets out the

maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The cash holding under its treasury management arrangements was £35.041m as at 31 March 2018 (£8.431m at 31 March 2017). This was held with the following institutions:

	Rating as at 31 March 2018	Balances £000	Rating as at 31 March 2017	Balances £000
Bank Deposit Accounts				
Handelsbanken	F1+	955	F1+	259
Santander UK Plc		-	F1	458
Fixed Term Deposits				
Leeds Building Society		-	F1	687
Bank of Scotland	F1	6,729	F1	1,603
Nationwide Building Society		-	F1	458
Goldman Sachs	F1	4,205	F1	1,145
Santander UK Plc	F1	1,682		-
UK Local Authorities	N/A	15,140	N/A	2,861
Income Bond				
National Savings & Investments	N/A	168	N/A	46
Other				
Money Market Funds	N/A	6,162	N/A	914
Total		**35,041**		**8,431**

iii. LIQUIDITY RISK

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Steps are taken to ensure that the Fund has adequate cash resources to meet its commitments. Management prepares quarterly cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund Investment Strategy and rebalancing policy.

The vast majority of the Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Fund.

Durham County Council invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The Council manages its liquidity position to ensure that cash is available when needed, through the

risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system. Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, gives Durham County Council a limited power to borrow on behalf of the Pension Fund for up to 90 days. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible.

17. Analysis of Debtors

2016-17 £000		2017-18 £000
1,073	Central government bodies	887
8,347	Other local authorities	6,671
7,488	Other entities and individuals	25,704
16,908	**Total debtors**	33,262
	Included in the Net Assets Statement as:	
625	Long Term Assets	417
5,476	Other Investment Assets	23,691
10,807	Current Assets	9,154
16,908		33,262

The long term assets relate to the portion of the transfer value in from the Ministry of Justice for Magistrates' Courts staff which is repayable more than 12 months after the year end.

18. Analysis of Creditors

2016-17 £000		2017-18 £000
-828	Central government bodies	-832
-1,417	Other local authorities	-1,625
-6,203	Other entities and individuals	-29,731
-8,448	**Total creditors**	-32,188
	Included in the Net Assets Statement as:	
-1,981	Investment Liabilities - Other balances	-25,981
-6,467	Current Liabilities	-6,207
-8,448		-32,188

All of the £32.188m is expected to be paid by the Pension Fund within 12 months after the year end.

19. Additional Voluntary Contributions (AVCs)

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. The Pension Fund offers two types of AVC arrangement:

- Purchase of additional pension, which is invested as an integral part of the Fund's assets;
- Money purchase scheme, managed separately by Equitable Life, Standard Life and Prudential. AVCs may be invested in a range of different funds.

The following table refers only to the money purchase AVCs:

	Value at 31 March 2017 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2018 £000
Equitable Life	2,089	21	331	47	1,826
Prudential	5,109				5,109
Standard Life	1,776				1,776
Total	**8,974**	**21**	**331**	**47**	**8,711**

* Purchases represent the amounts paid to AVC providers in 2017/18

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with Regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

20. Related Party Transactions

Related parties are bodies or individuals that have the potential to control or influence the Pension Fund or to be controlled or influenced by the Pension Fund. Influence in this context is expressed in terms of a party:

- being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies; or
- actually subordinating its separate interests in relation to a particular transaction.

Related parties of the Pension Fund fall into three categories:

a) Employer related
b) Member related
c) Key management personnel

a) EMPLOYER RELATED

There is a close relationship between an employer and the Pension Fund set up for its employees and therefore each participating employer is considered a related party. The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2016/17	2017/18
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£106.715m	£156.395m
Debtors	Amounts due in respect of employers and employee contributions	£8.674m	£7.344m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.417m	£1.598m
Administration & Investment Management Expenses	The administration, and a small proportion of the investment management, of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund	£1.417m	£1.598m
Long term loans	The Pension Fund made loans to Durham County Council prior to January 1974 which earn interest of between 5.75% and 9.875% pa of the outstanding balance, in addition to capital repayments	Loans outstanding £0.233m	Loans outstanding £0.214m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance during the year and interest earned were:	Balance = £21.368m Interest = £0.069m	Balance = £27.093m Interest = £0.113m

b) MEMBER RELATED

Member related parties include:

- Members and their close families or households;
- companies and businesses controlled by the Members and their close families which have a financial contractual relationship with any of the organisations that contract with the Pension Fund.

Durham County Council and Darlington Borough Council have a number of Members who are on the Pension Fund Committee. These Members are subjected to a declaration of interest circulation on an annual basis. Each Member of the Pension Fund Committee is also required to declare their interests at the start of each meeting. There were no material related party transactions between any Members or their families and the Pension Fund.

As at 31 March 2018 there were two Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; a further two Members were deferred members of the Pension Fund.

In accordance with the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, with effect from 8 May 2017 elected Members are no longer allowed to be active members of the Pension Fund.

c) KEY MANAGEMENT PERSONNEL

Related parties in this category include:

- key management i.e. senior officers and their close families;
- companies and businesses controlled by the key management of the Pension Fund or their close families.

There were no material related party transactions between any officers or their families and the Pension Fund.

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Corporate Director of Resources, the Head of Corporate Finance and Commercial Services, the Finance Manager - Revenue, Pensions and Technical and the Pensions Manager.The proportion of employee benefits earned by key management personnel relating to the Pension Fund is set out below:

2016-17 £000		2017-18 £000
90	Short-term benefits	101
18	Post-employment benefits	27
108		**128**

21. Contingent Assets

a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS

Originally equal pay settlements were not deemed to be pensionable however, an element of choice has since been introduced. Individuals can choose to have their settlements considered to be pensionable. This provision has now been added to the agreements that individuals with pending equal pay settlements sign.

There is no certainty that an individual will pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain. The level of contributions likely to be received by the Pension Fund, are unlikely to have a material effect on the Pension Fund Accounts.

b) FOREIGN INCOME DIVIDENDS (FIDS)

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or dividends from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.
The UK tax law which gave rise to these consequences was arguably contrary to EU law, notably Article 56EC, in that it treated UK Pension Funds investing directly into overseas companies, or UK companies paying FIDs, less favourably than UK companies paying ordinary dividends.

The legal arguments to support the strongest element of the FID and Manninen type claims (for EU sourced dividends and FIDs) are considered to be very good. The points in issue are currently being considered at the High Court via a Group Litigation Order containing over 65 UK Pension Funds, including Durham County Council Pension Fund.

c) WITHHOLDING TAX (WHT) CLAIMS

Pension funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in December 2004 on the grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty. The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future. Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a “withholding tax” (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

As a result of a precedent for the change in WHT has been set by the Netherlands, other Member States have now reduced the level of WHT of non-residents; recovery is therefore probable, but the timing and amount of income is uncertain.

22. Funding Arrangements

In line with Regulation 62 of the Local Government Pension Scheme Regulations 2013 the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2016.

The key elements of the funding policy are to:

- ensure the long term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- ensure that employer contribution rates are as stable as possible;
- minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

At the 31 March 2016 actuarial valuation the Fund was assessed as being 81% funded (84% at 31 March 2013). This corresponded to a deficit of £529.3m (£379.2m at 31 March 2013).

The aim is to achieve 100% solvency over a period of 21 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers' primary rates) as 16.7% of pensionable pay.

The aggregate employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100%, using a recovery period of 21 years from 1 April 2017, is 24.6% of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

Across the Fund as a whole, the contributions required to remove the shortfall using a recovery period of 21 years from 1 April 2017 would be £28.6m per annum, increasing at 3.5% per annum. This is equivalent to approximately 7.9% per annum of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

The key assumptions used by the actuary to calculate the past service liabilities and the cost of future benefit accrual are set out in the following table:

	Valuation as at 31 March 2016	Valuation as at 31 March 2013
Financial Assumptions		
Discount rate for periods in service	4.5% pa	5.4% pa
Discount rate for periods after leaving service	4.5% pa	5.4% pa
Rate of revaluation of pension accounts	2.0% pa	2.4% pa
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.0% pa	2.4% pa
- post 1988 Guaranteed Minimum Pensions	1.8% pa	2.0% pa
Pensionable pay increase	3.5% pa	3.9% pa
Demographic Assumptions		
Post-retirement mortality assumption (normal health) - base table	Standard SAPS S2P tables with scaling factors of 95% for men and 100% for women	SAPS normal tables with scaling factors of 105% for men and women
Post-retirement mortality assumption - future improvements	CMI 2014 core projections with long annual improvement rate of 1.5%	CMI 2012 core projections with long annual improvement rate of 1.5%
Retirement cash sum	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted

23. Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 22 to these accounts).

The Pension Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2016.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2013 are provided for comparison purposes.

	Value as at 31 March 2016 £m	Value as at 31 March 2013 £m
Fair value of net assets	2,321	2,085
Actuarial present value of the promised retirement benefits	3,365	2,905
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,044	-820

As the liabilities above are calculated on an IAS 19 basis, they differ from those calculated for the triennial valuation because different assumptions are applied. The main IAS19 assumptions used are as follows:

	31 March 2016 (% p.a.)	31 March 2013 (% p.a.)
Discount rate	3.4	4.4
RPI Inflation	2.9	3.4
CPI Inflation	1.8	2.4
Rate of increase to pensions in payment *	1.8	2.4
Rate of increase to deferred pensions *	1.8	2.4
Rate of general increase in salaries **	3.3	3.9

* In excess of Guaranteed Minimum Pension increases in payment where appropriate

** In addition, we have allowed for the same age related promotional salary scales as used in the actuarial valuation of the Fund at the appropriate date

24. Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a Funding Strategy Statement. This statement has been adopted by the Pension Fund Committee and has been published on the County Council's website at durham.gov.uk.

The purpose of the Funding Strategy Statement is to:

- establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- take a prudent longer term view of funding the Pension Fund's liabilities.

25. Investment Strategy Statement

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pension Fund has prepared and reviewed a written statement of its investment policy. The Investment Strategy Statement sets out the principles for investing Fund monies. The document can be found on the Council's website at durham.gov.uk.

This page is intentionally left blank

Pension Fund Committee

14 June 2018

Internal Audit Progress Report to 31 March 2018

Report of Paul Bradley, Chief Internal Auditor & Corporate Fraud Manager

Purpose of the report

1 To outline progress made in delivering the 2017/18 internal audit plan relevant to the Pension Fund Committee, including:

(a) Providing a high level of assurance, or otherwise, on internal control systems operated in the areas that have been subject to audit;

(b) Advising on any significant issues where controls need to improve in order to effectively manage risks;

(c) Advising of any other types of audit work carried out, such as consultancy reviews where an assurance opinion on the control environment may not be applicable;

(d) Advising of any unplanned work carried out or due to be carried out and any changes to the audit process.

Progress against 2017/18 planned work

2 A summary of the approved audit plan, with the status of each audit, is shown below:

Audit Title	Audit Type	Status	Opinion
Audits brought forward from 2016/17			
Bank Reconciliation	Assurance	Final Report	Substantial
Debt Recovery	Assurance	Final Report	Substantial
2017/18 audits			
Payroll	Assurance	ToR issued	
Additional Voluntary Contributions	Assurance	Final Report	Limited
Bank reconciliation	Assurance	ToR issued	
Admission Bodies	Assurance	Final Report	Moderate
Investments	Advice/Consultancy	Cancelled	
National Fraud Initiative – Data matching to identify potential error/fraud	Advice/Consultancy	Complete for 2017/18	N/A
Ad hoc advice & guidance	Advice/Consultancy	Complete for 2017/18	N/A

3 The status shows that, of the six assurance reviews planned to be completed in 2017/18, four final reports have been issued and two reviews are at terms of reference issued stage. Both of these audits will be brought forward into the 2018/19 plan.

4 There were no final reports issued in the quarter.

Recommendation

5 Members are asked to note the work undertaken by Internal Audit during the period ending 31 March 2018.

Contact: Paul Monaghan Tel: 03000 269662

Pension Fund Committee

14 June 2018

Local Government Pension Scheme (Amendment) Regulations 2018

John Hewitt, Corporate Director of Resources

Purpose of the Report

1. This report is to advise the Committee of the changes made to the regulations governing the Local Government Pension Scheme (LGPS) by the introduction of the Local Government Pension Scheme (Amendment) Regulations 2018.

Background

2. On 19 April 2018 the Local Government Pension Scheme (Amendment) Regulations 2018 were laid before parliament. This followed a period of consultation on potential changes to the scheme that was started on 27 May 2016.

3. The regulations came into force on 14 May 2018 with some provisions backdated to 1 April 2014 (the start of the 'new' career average LGPS). The regulations are a mixture of correcting regulations designed to clarify the LGPS regulations and ensure policy intent is delivered, and new policy changes. Some areas where policy change was expected have not been taken forward.

Amendment Regulations

4. A summary of the main changes introduced by these amendment regulations is set out below.

Technical Amendments

5. There are a number of technical amendments to ensure the original policy intent of the LGPS is delivered, for example, to allow employers the option to use a higher pensionable pay figure to reflect the normal pay where a member retires on ill health and their pay was reduced. Most of these amendments will have no practical impact on the way the scheme is administered, as current working practices and guidance already reflect the original policy intent.

Policy Changes

6. Admission Agreements: The amending regulations confirm that admission agreements can be backdated. They also require Administering Authorities to publish a list of admission agreements it is party to by 13 May 2019. This

requirement will be met through the Pension Fund's annual report, which is expected to be produced by 31 July 2018.

7. Requirement to pay an exit credit to exiting employers: When an employer exits the scheme (either through ceasing to be a scheme employer such as at the end of an admission agreement, or no longer has any active members contributing to the scheme), the actuary has to carry out an exit valuation. Where a deficit is revealed the exiting employer has to make an exit payment to cover this deficit. From 14 May 2018 onwards the amendment regulations introduce a new requirement: where there is an exit valuation and a surplus is revealed the administering authority must pay an exit credit to the exiting employer. Previously any surplus would remain in the Pension Fund. The impact of this is being discussed with the Pension Fund actuary at an upcoming meeting, in particular in relation to scheme employers whose liabilities are currently being wholly or partially underwritten by other scheme employers.

8. Payment of deferred benefits – members who ceased employment before 1 April 2014 and were awarded deferred benefits could only access their benefits from age 55 and before age 60 with their previous employer's consent. The amendment regulations now allow those deferred members to access their benefits without consent from age 55 subject to actuarial reductions.

Proposed changes not taken forward

9. Changes to how access to the LGPS is dealt with following outsourcing exercises, to extend the central government 'New Fair Deal' arrangements to cover the LGPS have not been progressed. New proposals will be consulted on by the end of 2018.

10. The proposal to introduce a wider range of options for members to access benefits from the Additional Voluntary Contributions (AVC) arrangements is not going ahead owing to the administrative complexities that would arise. If scheme members want to use their AVC funds more flexibly, they will have to transfer them out of the LGPS.

11. The decision was taken to continue with the automatic aggregation of pension accounts when a member with a deferred account becomes an active member again. This was because the proposed changes would not be consistent with the final salary protection provisions for members who re-join a public service pension scheme within 5 years of leaving their previous public service pension scheme.

Next Steps

12. The Local Government Association has produced a bulletin summarising the impact of the amendment regulations (attached at appendix A). Analysis will take place to ensure any necessary system and process changes are made to ensure the Pension Fund complies with the amendment regulations. This will include discussion with the Pension Fund actuary as set out in paragraph 7 above.

13. Those scheme members affected by the changes will be advised of the changes. To comply with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, this communication will need to take place within three months of the date of change, so by 14 August 2018.

Recommendation

14. That the Committee notes this report.

Contact:	**Nick Orton**	**Tel:**	**03000 269798**

This page is intentionally left blank

Local Government Pensions Committee
Secretary, Jeff Houston

APPENDIX A

LGPC Bulletin 171 – May 2018

This bulletin provides a commentary for LGPS administering authorities in England and Wales on the changes to the LGPS introduced by the Local Government Pension Scheme (Amendment) Regulations 2018 (SI 2018/493).

Background

On 27 May 2016, the Ministry for Housing, Communities and Local Government (MHCLG) opened a consultation on proposed changes to the LGPS in England and Wales. On 19 April 2018, the LGPS (Amendment) Regulations 2018 were laid before parliament; MHCLG responded to the consultation on the same day.

The regulations come into force on 14 May 2018 but the provisions listed in regulation 1(3) have effect from 1 April 2014. The regulations amend the LGPS Regulations 2013 [SI 2013/2356] and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 [SI 2014/525].

Disclosure Requirements

LGPS administering authorities will need to communicate the changes to scheme members, as required under regulation 8 and Part 1 of Schedule 2 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [SI 2013/2734). Communication of the changes should take place as soon as possible, and in any event, within three months of the date of change (i.e. by 14 August 2018). The Communications Working Group are meeting on 16 May 2018 and will discuss producing a newsletter for administering authorities to use – we will keep you posted on progress with this.

Updates to online resources

We will update the technical guides, member communications and the national LGPS member website in due course.

The changes

New policy

- Admission agreement changes
- Requirement to pay an exit credit to exiting employers
- Payment of deferred benefits at age 55 for leavers before 1 April 1998
- Payment of deferred benefits from age 55 for leavers between 1 April 1998 and 31 March 2008
- Payment of deferred benefits from age 55 for leavers between 1 April 2008 and 31 March 2014
- Expansion of the underpin
- Alignment of pre and post 2014 AVC contracts

Technical amendments to deliver policy intent

- Change to the definition of local government service
- Cancellation of membership of the 50/50 section
- Contributions during absence from work
- Calculation of assumed pensionable pay (APP)
- Benefits payable where a member is dismissed on the grounds of redundancy or business efficiency
- Maximum tax-free lump sum payable from an AVC plan started on or after 1 April 2014
- Inclusion of ill health enhancement when calculating survivor benefits
- Lifetime allowance protections
- Scheme employer additional payments in respect of early retirement (regulation 30(5))
- Transfers
- Clarification of the definitions: partner, statutory pay and revaluation adjustment
- Connected scheme employers reference corrected
- Aggregation – clarification of NPA
- Aggregation – introduction of a time limit
- Correction to include additional contributions paid before 1 April 2014 in a refund paid under the 2013 Regulations

Proposed changes not taken forward

Fair Deal – in its response to the consultation MHCLG confirm that, in view of the range and diversity of issues highlighted in the consultation responses, they will not be introducing Fair Deal into the LGPS at this time. However, they state they still remain committed to introducing Fair Deal into the LGPS and intend to commence a consultation on new proposals for achieving this by the end of the year.

AVCs – the Uncrystallised Funds Pension Lump Sum (UFPLS) option will not be introduced directly into the LGPS Regulations due to the substantial administrative complexities that would be created. The complexities would primarily be due to difficulties in standardising procedures among the large number of AVC providers. If a member wishes to use their AVC to take one or more UFPLS, they can do this by transferring their AVC out of the LGPS.

Aggregation – the proposal to end the automatic aggregation of pension accounts where a member with a deferred benefit becomes active again is not being taken forward. MHCLG concluded that introducing these changes would not be consistent with Schedule 7 of the Public Service Pensions Act 2013, which provides that final salary protection must be provided where a member re-joins a public service pension scheme within five years of leaving their previous public service pension scheme.

Change to the definition of local government service				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulations - 3, 4(1), 4(3), 8(b), 12, 18, 19, 20(b) and 25	**LGPS Regulations 2013:** • New reg 2(1A) • New reg 2(1B) • New reg 2(1C) • Amends reg 3(1) • Amends reg 3(2) • New reg 30(12A) • New reg 51(9) • Amends reg 102(3) • New reg 102(3)(c) • Schedule 1 **LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014**: New reg 7(5A)	14 May 2018 (with the exception of regulation 8(b) which amends regulation 30 with effect from 1 April 2014)	The definition of local government service has changed to align the admission body provisions within the LGPS more closely with the Public Service Pensions Act 2013. Prior to the change 'local government service' is defined as meaning an employment by virtue of which the person employed is or has been a member of the Scheme (paragraph 1 of Schedule 1). This definition means that members who had opted out within three months of joining would not be deemed to be in local government service by virtue of regulation 5(5). From 14 May 2018, 'local government service' is defined as an employment with a body specified in Part 1 of Schedule 2. A person is deemed to be in 'local government service' if that person is employed by a designated body and the person is designated as being eligible for membership, or the person is specified in column 1 of Part 4 of Schedule 2 e.g. employed by the governing body of a foundation or	**Technical amendment** There is no change to the eligibility criteria of the scheme. The changing of the definition is simply a technical amendment to align with the wording of Section 25 of the Public Service Pensions Act 2013. The amendment has a couple of unintended changes however: 1. The new definition makes it clear that a member can draw a pension in respect of an employment where they are no longer eligible for membership in that employment e.g. where an admission agreement designated the employee to be eligible for membership but the admission agreement has ceased to have effect. This would also apply where an employee of a Part 2 of Schedule 2 body is no longer eligible for membership because the employer no longer designates them for membership.

			voluntary school. New regulation 3(1C) states that the scheme may potentially relate to a person employed by an admission body. It follows that persons employed by admission bodies are therefore not in local government service. Therefore, each regulation in the LGPS 2013 Regulations that references 'local government service' (i.e. regulation 30, 51 and 102) now set out that 'local government service' includes employment in respect of which the member satisfies the conditions in regulation 3(1)(b) i.e. where the member is eligible for membership of the scheme with an admission body.	2. Before 14 May 2018, a deferred member of the 2014 scheme who re-joined the LGPS and opted out within three months of re-joining would not be treated as being in local government service in respect of the second employment by virtue of regulation 5(5). This member would be able to take payment of any bare GMP in respect of the deferred benefit from pensionable age (age 60 for women and 65 for men) under regulation 51. From 14 May 2018, the change in the definition of local government service means this member would now be deemed to be in local government service and would no longer be eligible for payment of their bare GMP at pensionable age under regulation 51. We have raised the issue with MHCLG and await a response.
Publication of admission agreements				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulations 4(2), 21(b)(i) and 31	**LGPS Regulations 2013:** • New reg 3(1A)	14 May 2018	**New admission agreements established on or after 14 May 2018** When an administering authority makes an admission agreement it no longer	**New policy** These changes are made with reference to section 25(9) of the Public Service Pensions Act 2013

	• Deletes para 11 in Sch 2 of Part 3		has to keep a copy available for public inspection at its offices or inform MHCLG of the below: a) The date the agreement takes effect b) The admission body's name, and c) The name of any Scheme employer that is party to the agreement. However, the administering authority must publish a list of the persons included in admission agreements to which it is party and keep the published list up to date. **Admission agreements made before 14 May 2018** - the administering authority must publish a list of the persons included in admission agreements to which it is party within 12 months i.e. by 13 May 2019.	Whilst there is no detail as to what "*a list of the persons included in admission agreements to which it is party*" actually means, MHCLG have confirmed that administering authorities should not publish a list of the names of members designated for membership by an admission agreement. In our view, the publication of the pension fund annual report will meet this requirement as the report must include a full list of employers split between scheduled and admitted bodies. Administering authorities are required to publish the annual report by the 1 December following the end of the scheme year. Should it transpire that more detail needs be included in the list in order to comply with new regulation 3(1A)(b), we will raise the issue with the CIPFA pensions panel with a view to including any additional information requirement in the 'Preparing an Annual Report' document, which carries the weight of statutory guidance.

Backdating of admission agreements				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 21(b)(ii)	**LGPS Regulations 2013:** • New para 14 of Sch 2	1 April 2014	The start date of an admission agreement may be earlier than the date the admission agreement is completed.	**New policy** This change is made with reference to section 25(10) of the Public Service Pensions Act 2013. Administering authorities and scheme employers may find this change useful where there are delays in finalising admission agreements, or where they are simply unaware that an outsourcing has taken place.
Cancellation of membership of the 50/50 section				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 5	**LGPS Regulations 2013:** • Amends reg 10(5)	1 April 2014	To make clear that where a member is contributing to the 50/50 section of the scheme, membership of that section is cancelled from the beginning of the first pay period after: a) the member's automatic re-enrolment date, or	**Technical amendment to deliver policy intent** Prior to this amendment, the regulation could have been incorrectly interpreted to mean that the member had to satisfy both requirements (a & b) before membership of the 50/50 section

			b) the member goes onto nil pay as a result of sickness, injury, or child-related leave provided that the member is still on no pay at the beginning of that pay period.	ceased. Scheme employers should have been applying the regulations in their intended format, as per section 8 of the HR Guide to the 2014 Scheme.
Contributions during absence from work				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 6	**LGPS Regulations 2013:** • Amends reg 11(4)	1 April 2014	The words below are deleted from the end of regulation 11(4) *"and if in receipt of any pay, the member continues to accrue earned pension in accordance with regulation 23(4) or (5) (active member's pension account)"*	**Technical amendment to deliver policy intent** Before the change, the regulation could be interpreted incorrectly to mean that where a member is on either child related leave, reserve forces leave or on leave due to sickness, they would only be credited with earned pension if they were in receipt of pensionable pay. Members deemed to be in receipt of pensionable pay under regulation 21 (assumed pensionable pay) would have been excluded. Scheme employers should have been applying the regulations in their intended format, as per section 4.2 of the Payroll Guide to

				the 2014 Scheme.
Calculation of assumed pensionable pay (APP)				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 7	**LGPS Regulations 2013**: • Amends reg 21(4) • New reg 21(5A) • New reg 21(5B) • New reg 21(5C)	1 April 2014	1. Where APP applies, regulation 21(4) sets out how APP is calculated. However, there may be occasions where the outcome of the prescribed calculation is, in the employer's opinion, materially lower than the actual level of pensionable pay the member would normally receive had they been at work. In these circumstances, the employer may substitute a higher level of pensionable pay than the APP value to reflect the level of pay the member would normally have received. In making such a determination, the scheme employer must have regard to the pensionable pay received by the member in the previous 12 months. If the member has not received any pensionable pay in the previous 12 months, this does not prevent an employer from making a determination to substitute a higher level of pensionable pay. 2. Where APP applies for a returning or	**Technical amendment to deliver policy intent** The changes are introduced to align the regulations with what is likely to be happening in practice, where: • a member receives no pay in the 3 months or 12 weeks preceding an absence, or • earnings are derived from fees in respect of a returning/acting returning officer. As mentioned, it is likely these changes are amending the regulations to reflect what is already current practice and may already be written into the scheme employer's policy document. However, if this is not the case, scheme employers should: • consider whether they wish to use the new discretion to increase the value of APP. This should be documented in a revision to their discretionary

			acting returning officer (whose pensionable earnings are derived from fees), APP should be calculated as the annual average of the pensionable pay relating to those fees during the three years (or the average of the length of membership if this is less than 3 years) preceding the absence, ill health retirement or death.	policies setting out the circumstances (or not) for use. • consider whether they wish to review any historical cases given that the change is backdated to 1 April 2014. • ensure that the calculation of APP in respect of returning/acting returning officer fees are averaged appropriately.
Benefits payable where a member is dismissed on the grounds of redundancy or business efficiency				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 8	**LGPS Regulations 2013:** • Amends reg 30(7)(b)	1 April 2014	To make clear that where an active member, aged 55 or over, is dismissed from an employment on the grounds of redundancy or business efficiency, or whose employment is terminated by mutual consent on business efficiency, only the benefits derived from the member's active pension account are payable without reduction under this regulation.	**Technical amendment to deliver policy intent** Before the amendment, the regulation could be incorrectly interpreted to mean that any un-aggregated period of membership in relation to the same employment would also be payable unreduced. For example, where the member opted out, was awarded deferred benefits, opted back in again and was subsequently made redundant. Administering authorities and scheme employers should have

				been applying the regulations in their intended format, as per section 14 of the HR Guide to the 2014 Scheme.
Maximum tax free lump sum payable from an AVC plan established on or after 1 April 2014				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 9	**LGPS Regulations 2013**: • Amends reg 33(2)	14 May 2018	To make clear that the maximum tax-free lump sum payable from an AVC plan (established on or after 1 April 2014) is limited to 100% of the value of the AVC plan.	**Technical amendment to deliver policy intent** Prior to this amendment, the regulation could have been interpreted to mean that a maximum tax-free lump sum of up to 125% of the value of the AVC plan (established on or after 1 April 2014), could have been paid (although this would have been an unauthorised payment under the Finance Act 2004). Although administering authorities should already be implementing the policy intention, the paragraph 2.7 of the extant Secretary of State guidance (Limit on cash commutation – consolidated working copy – dated 26 March 2014 / amended up to July 2015) will need to be updated to reflect the correct position.

Inclusion of Tier 1 and Tier 2 enhancement when calculating survivor benefits				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 10	**LGPS Regulations 2013:** • Amends reg 47(4)(a) • Amends reg 48(4)(a) • Amends reg 48(5)(a) • Amends reg 48(9)(a) • Amends reg 48(10)(a)	1 April 2014	To make clear that where survivor benefits are payable upon the death of a member who was in receipt of a Tier 1 or Tier 2 ill health pension under the 2014 Scheme, a proportion of the ill health enhancement is fed into the calculation of any survivor benefits	**Technical amendment to deliver policy intent** Prior to this amendment, the regulation could be incorrectly interpreted to exclude such enhancements. Administering authorities should have been applying the regulations in their intended format, as per section 8 of the now withdrawn LGPS 2014 course notes for practitioners.
Lifetime allowance protections				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 11	**LGPS Regulations 2013:** • Amends reg 50(2)	1 April 2014	To make clear that in determining a member's lifetime allowance, primary, enhanced, fixed and individual protection may be taken into account, as appropriate.	**Technical amendment to update regulations with over-riding legislative changes** Prior to this amendment, the regulation could have been incorrectly interpreted to mean that in determining a member's lifetime allowance only primary, enhanced and fixed protections could be

				taken into account. Administering authorities should already be implementing the policy intention, although the extant Secretary of State guidance (Limit on total amount of benefits – lifetime allowance – dated 14 April 2016) requires updating to include fixed protection 2016 and individual protection 2016.
Requirement to pay exit credits				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 13	**LGPS Regulations 2013:** • Amend reg 64(1) • Amends reg 64(2) • New reg 64(2ZA) • New reg 64(2ZB) • Amends reg 64(8)	14 May 2018	These amendments provide for the payment of an exit credit by the appropriate administering authority to an exiting employer. An exit credit is the amount the administering authority is required to pay an exiting employer to meet the excess of assets in the fund relating to that employer over the liabilities. An exiting employer is an employer that: • ceases to be a scheme employer (including ceasing to be an admission body participating in the scheme), or • is or was a scheme employer, but irrespective of whether that employer	**New policy** The policy allows administering authorities to pay exit credits where an exiting employer's liabilities are fully funded and there is a surplus of assets in the pension fund. Administering authorities should discuss with their fund actuary their approach to the payment of an exit credit. Contractual changes may be needed to admission agreements already containing similar provisions so as not to duplicate such entitlements or put funds at risk where negative

			employs active members contributing to one or more other funds, no longer has an active member contributing towards a fund which has liabilities in respect of benefits in respect of current and former employees of that employer. An exit credit must be paid by the administering authority to an exiting employer within 3 months of the date on which the employer ceases to be a scheme employer (or such a longer time as agreed between the administering authority and the exiting employer). Once an exit credit is paid, no further payments are due from the administering authority in respect of any surplus assets relating to the benefits of any current or former employees of the exiting employer.	liabilities are been retained by the fund on the assumption that any excess liabilities would also be retained. Where an employer becomes an exiting employer the administering authority must obtain: (a) an actuarial valuation as at the exit date of the liabilities of the fund in respect of benefits in respect of the exiting employer's current and former employees; and (b) a revised rates and adjustments certificate showing the exit payment due from the exiting employer or exit credit payable to the exiting employer in respect of those benefits. Note, regulation 64(2A) allows the administering authority to suspend an employer's liability to pay an exit payment for up to three years, where, in the reasonable opinion of the administering authority, the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice. There is no corresponding provision to suspend payment of an exit credit. The tax positon of an exit credit payment is unclear. We

				understand MHCLG are querying this with HMRC.
Scheme employer additional payments in respect of early retirement (regulation 30(5))				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 14	**LGPS Regulations 2013:** • Amends reg 68(2)	1 April 2014	The change clarifies that if a strain cost is payable in respect of regulation 30(5) (early retirement) because the scheme employer agrees to waive early retirement reductions, the administering authority may require the scheme employer to make an additional payment to the fund.	**Technical amendment to deliver policy intent** Prior to this amendment, the regulations had inadvertently missed this cost from the list of additional payments that a scheme employer may be required to make to a fund. It is unlikely that this oversight has prevented administering authorities from recovering such additional payments. However, if this is the case, because these amendments are backdated to 1 April 2014, recovery of such costs is now possible.

Transfers				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 15(a)	**LGPS Regulations 2013:** • Amends reg 96(1)	14 May 2018	To make clear that where a member transfers their benefits out of the scheme, they do so under Chapters 1 or 2 of Part 4ZA of the Pension Schemes Act 1993.	**Technical amendment to update regulations with over-riding legislative changes** Prior to this amendment, the regulations incorrectly referenced revoked legislation within the Pensions Schemes Act (PSA) 1993. Administering authorities should already be implementing the appropriate over-riding legislation, by virtue of the commentary within the now withdrawn Freedom and Choice guide. In due course, further amendments will be made to regulation 96 to account for pension credit members transferring their benefits out of the scheme under Chapter II Part IVA of the PSA 1993.

Transfers				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 15(b), 16, 17, 20(a) and 20(d)	**LGPS Regulations 2013:** • New reg 96(1A) • New reg100(8) • Amends reg 101(2) • Amends Sch 1	1 April 2014	To make clear that where a club transfer is performed this should comply with the provisions of the club memorandum. Additionally, Schedule 1of the LGPS 2013 Regulations now includes the definition of both the club memorandum and a club transfer.	**Technical amendment to deliver policy intent** Prior to this amendment administering authorities relied on the instructions within the Secretary of State guidance covering Individual Incoming and Outgoing transfers, in which paragraph 1.16 made clear that the Club memorandum should at all times be complied with. MHCLG have confirmed that the Secretary of State guidance will continue to include guidance for club transfers to cover areas that are specific to the LGPS and not covered in the club memorandum.
Regulation 26(a)	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • Amends reg 9(1)	1 April 2014	To make clear that a transfer from another public service pension scheme (PSPS) can be in relation to final salary benefits built up on or after 1 April 2015.	**Technical amendment to deliver policy intent** Prior to this amendment the regulations did not address transfers in respect of members who had remained in the final salary pension scheme of another PSPS after the effective date of the introduction of that scheme's new CARE scheme (i.e. after 1

				April 2015) . Administering authorities should already be implementing the policy intention by virtue of paragraph 7.2 of the Secretary of State guidance covering Individual Incoming and Outgoing transfers, which makes clear that final salary transfers, whilst typically related to benefits built up prior to 1 April 2015, are not restricted to benefits built up prior to this date.
Clarification of the partner definition				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 20(c)	**LGPS Regulations 2013:** • Amends Sch 1	1 April 2014	To make clear that a partner can be the partner of an active, deferred, deferred pensioner and pensioner member.	**Technical amendment to deliver policy intent** Prior to this amendment, the definition of partner in Schedule 1 was specific to the partner of an active member only. Administering authorities should have been applying the regulations in their intended format in accordance with the content of the survivor benefit guide.

Clarification of the revaluation adjustment definition				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 20(e)	**LGPS Regulations 2013**: • Amend Sch 1	1 April 2014	To make clear that where the LGPS receives a club transfer from a scheme that participates in the inner club scheme, the revaluation adjustment applied each 1 April to the resultant earned pension credited by the transfer (adjusted to take account of differences in scheme design), is that which would have applied in the sending scheme club scheme.	**Technical amendment to deliver policy intent** Prior to this amendment, the definition of revaluation adjustment did not include this provision. Administering authorities should have been applying the regulations in their intended format by virtue of paragraph 1.3a extant club memorandum and the list of participating club schemes.

Clarification of the statutory pay definition				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 20(f)	**LGPS Regulations 2013**: • Amends Sch 1	1 April 2014	To make clear that statutory pay includes statutory sick pay.	**Technical amendment to deliver policy intent** Prior to the amendment, statutory sick pay was inadvertently not included in the definition of statutory pay. Scheme employers should have been applying the regulations in their intended format, as per

				sections 4.1 and 4.2 of the Payroll Guide to the 2014 Scheme.
Connected scheme employers reference corrected				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 21(a) and 22	**LGPS Regulations 2013:** • Amends para 5, Part 2 of Sch 2 • Amends table in Part 2 of Sch 3	1 April 2014	To correct paragraph 5 of Part 2 of Schedule 2 to reference a body rather than a local authority when referring to an entity connected with scheme employers listed in paragraphs 1 to 5 of Part 1 (as they are not all local authorities). A corresponding amendment is also made to the table in Part 2 of Sch 3.	**Technical amendment to deliver policy intent** Prior to the amendments, the regulations incorrectly referred to an entity connect to a scheme employer in paragraphs 1 to 5 of Schedule 1 as being connected to a local authority, when in fact scheme employers are not always local authorities. Administering authorities should have been applying the regulations in their intended format.
Election for early payment of deferred benefits at age 55 for leavers before 1 April 1998				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 24(a) and 30(d)	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:**	14 May 2018	**1995 Regulations** The changes provide that where a member left active membership of the scheme prior to 1 April 1998, they may voluntarily elect for early payment of	**New policy** This change will align the entitlement to early payment of deferred benefits for a member who left the scheme prior to 1 April

	• New reg 3(5A)(a)		their deferred benefits prior to their normal retirement date (NRD) at: • age 55 providing they have ceased to be employed in local government employment, or • at such a later date upon ceasing to be employed in local government employment. The deferred benefits will be reduced for early payment. The reduction will be based on the period from the date on which the benefits became payable, to the member's NRD under the 1995 Regulations (note: the 85-year rule is not a feature of the 1995 Regulations). NRD under the 1995 Regulations is defined as the earlier of: • age 60 if, by that age, the member would have had 25 or more years membership of the scheme if they had remained in the scheme until then, or • the date the member would have achieved 25 years membership, if that date would fall after age 60 and before age 65, or • age 65 if, by that age, the member would not have had 25 years membership of the scheme if they had remained in the scheme until then.	1998 with those of deferred members who left the scheme on or after 1 April 2014. However, deferred members who left the scheme on or after 1 April 2014 (and who ceased the employment in which their benefits are derived) are able to elect for payment of their deferred benefits from <u>any</u> date on or after age 55 (but they must be paid by age 75). This flexibility is not available to deferred members who left the scheme prior to 1 April 1998. Prior to the change these members had the option to either take early payment at age 60 (if they had an NRD of above 60) or to take their benefits at NRD. The change means that an election for early payment prior to NRD can now <u>only</u> be made <u>at</u> age 55 (or such a later date when the member ceases to be employed in local government employment) i.e. the option to take early payment at age 60 for members with an NRD of above age 60 is removed. This creates a transitional issue for those deferred members that have already attained age 55 on 14 May

			Existing provisions for payment of a deferred benefit under the 1995 regulations remain. A deferred member: • must be paid their unreduced deferred benefits from their NRD, • may be paid their unreduced deferred benefits at any age prior to NRD, on health grounds (subject to qualification), • may be paid their unreduced deferred benefit from any date on or after age 50 and prior to NRD, on compassionate grounds (subject to the discretion of the scheme employer). Note: benefits paid before age 55 would be unauthorised under the Finance Act 2004.	2018: • a member over the age of 55 on 14 May 2018 with a NRD of later than 60 has had the option for early payment taken away from them (as the only option for early payment is now 55 and their 55th birthday has been and gone). We think that this will have a limited impact as it will only affect those members who joined the LGPS after 1 April 1993 and who left the scheme prior to 1 April 1998 with an entitlement to a deferred benefit. This is because members who joined prior to that date will have an NRD of age 60. • a member who is over age 55 on 14 May 2018 with an NRD of 60 cannot take advantage of the new early payment option from age 55. Whilst this member would not previously have had an option for early payment because their NRD is age 60, they are not being afforded the same early payment options that are now available to younger members e.g. a member who is age 58

				on 14 May 2018 may only take payment of their benefits at NRD (age 60). However, a member who reaches age 55 on or after 14 May 2018, can now elect for early payment at age 55 or wait and take payment from their NRD. We have raised the above points with MHCLG and are awaiting their response. Administering authorities will need to change their communications, processes and pensions administration system to account for these changes. This will be especially important for those deferred members who reach age 55 on or shortly after 14 May 2018, as the new provisions will apply immediately. The Secretary of State guidance (Early payment of pension – 18 April 2016) appears to already cater for these amendments as the guidance is written generically to account for reductions to be made from the date of payment to the earliest date at which unreduced benefits may be taken (i.e. NRD).

Election for early payment of deferred benefits from age 55 for leavers between 1 April 1998 and 31 March 2008				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 24(a), 30(e) and 30(f)	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • New reg 3(5A)(b) • New para1(1)(e) of Sch 2 • New para 1(1)(f) of Sch 2 • Amends para 1(2) of Sch 2 • Amends para 2(3) of Sch 2	14 May 2018	**1997 Regulations** **Deferred / Deferred councillor member** The changes provide that a member who left active membership of the scheme between 1 April 1998 and 31 March 2008 may elect for payment of their deferred benefits at any time between their 55th birthday and the eve of their 75th birthday (provided they have ceased the employment in which their benefits are derived). Where the member elects for voluntary early retirement before age 60, the deferred benefits will be reduced for early payment. The reduction will be based on the period from the date on which the benefits became payable, to the later of: • age 60, or • the date by which the member satisfies the 85-year rule, or • age 65, if the member would not satisfy the 85-year rule by that date. The scheme employer may, in respect	**New policy** These changes are introduced, to align: • the entitlement to early payment of deferred benefits for a member/councillor who left the scheme between 1 April 1998 and 31 March 2008 with those of deferred members who leave the scheme on or after 1 April 2014. • the entitlement to early payment of pension credit benefits awarded under the 1997 Regulations (i.e. where the debited member left the LGPS prior to 1 April 2014 or the transfer date is prior to 1 April 2014) with the entitlement to early payment of pension credit benefits awarded under the 2014 scheme (i.e. where the debited member has been a member of the 2014 scheme and the transfer date is on or after 1 April 2014).

			of deferred members who choose to voluntarily draw their benefits on or after age 55 and prior to age 60, choose to: • 'switch on' the 85-year rule in full • waive on the grounds of compassion any reduction for early payment. Where there is a strain cost payable to the fund as result of the employer exercising either of the above options, the administering authority may require the scheme employer to make an additional payment. Existing provisions for payment of a deferred benefit under the 1997 regulations remain. A deferred member who has ceased the employment in which their benefits are derived, may: • voluntarily elect for payment of their unreduced deferred benefits at NRD, • voluntarily elect to defer payment up to the eve of their 75th birthday and receive actuarially increased benefits • be paid their unreduced deferred benefits at any age prior to NRD, on health grounds (subject to qualification), • voluntarily elect to be paid deferred benefits from any date on or after age 50 and prior to age 55 (subject to the discretion of the scheme employer). Where this is the case, the deferred	Although paragraph 1(2) of schedule 2 has been amended to provide that a scheme employer may 'switch on' the 85 year rule, this is not reflected in paragraph 1(3)(b). We will raise this discrepancy with MHCLG. Although not explicitly stated scheme employers (and administering authorities where the scheme employer no longer exists), should revise their discretionary policy to account for this change. (We will raise the fact the requirement is not legislated for with MHCLG) Administering authorities will need to change their communications, processes and pensions administration system to account for these changes. This will be especially important for those deferred members and pension credit members who reach age 55 on or shortly after 14 May 2018, as the new provisions will apply immediately. The Secretary of State guidance (Early payment of pension – 18 April 2016) appears to already cater for these amendments as the

			benefit will be reduced for early payment in accordance with guidance issued by the Secretary of State, unless the scheme employer chooses to waive that reduction on the grounds of compassion. Note that benefits paid before age 55 would be unauthorised under the Finance Act 2004. NRD under the 1997 Regulations is age 65, with the exception of a member who left the scheme prior to 1 October 2006 and who was an active member on 31 March 1998 – these members have a NRD equal to the NRD under the 1995 Regulations. **Pension credit member** A pension credit member may voluntarily elect for early payment of their pension credit from <u>any</u> date on or after age 55 and prior to normal benefit age. Where the pension credit is voluntarily paid on or after age 55 and prior to normal benefit age, the pension credit will be reduced for early payment. The reduction for early payment will be based on the period from the date on which the benefits became payable, to normal benefit age. The normal benefit age of a member	guidance is written generically to account for reductions to be made from the date of payment to the earliest date at which unreduced benefits may be taken and includes reference to the 85-year rule protections. The Secretary of State guidance - Application of a pension credit to the former spouse or civil partner of a pre-2014 leaver will need amending as this states that pension credit benefits can be taken on an actuarially reduced basis at or after age 60.

			who was awarded a pension credit under the 1997 Regulations is age 65 (Note: this will include pension credits awarded up to and including 31 March 2014; the 85-year rule does not apply to pension credit members).	
Election for early payment of deferred benefits from age 55 for leavers between 1 April 2008 and 31 March 2014				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 24(a), 30(a), 30(c), 30(e) and 30(f)	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • New reg 3(5A)(c) • Amends para 1(1)(a) of Sch 2 • New para 1(1)(aa) of Sch 2 • Amends para 1(1)(c) of Sch 2 • Amends para 1(2) of Sch 2 • Amends para 2(3) of Sch 2	14 May 2018	**2007 Regulations** **Deferred member / Deferred pensioner member** The changes provide that the members below may elect for payment of their benefits from any date on or after their 55th birthday (but they must be paid by age 75): • a member who left active membership of the scheme between 1 April 2008 and 31 March 2014 (and who has ceased the employment in which their benefits are derived), or • a member who was awarded a Tier 3 ill health pension under the 2007 Regulations and who subsequently became a deferred pensioner member Where the benefits are voluntarily paid on or after age 55 and prior to age 60,	**New policy** This change is introduced to align the entitlement to early payment of: • deferred benefits for a member who left the scheme between 1 April 2008 and 31 March 2014, and • the benefits of a deferred pensioner member awarded a Tier 3 ill health pension under the 2007 regulations, with those of deferred and deferred pensioner members, who left the scheme on or after 1 April 2014. Although not explicitly stated scheme employers (and

			they will be reduced for early payment. The reduction will be based on the period from the date on which the benefits became payable, to the later of: • age 60, or • the date by which the member satisfies the 85-year rule, or • age 65, if the member would not satisfy the 85-year rule by that date. The scheme employer may, in respect of members who choose to voluntarily draw their benefits on or after age 55 and prior to age 60, choose to: • 'switch on' the 85-year rule in full. • waive on the grounds of compassion any reduction for early payment. Where there is a strain cost payable to the fund as result of the employer exercising either of the above options, the administering authority may require the scheme employer to make an additional payment. Existing provisions for payment of a deferred benefit/deferred pensioner benefit under the 2007 regulations remain. A deferred member (who has ceased the employment in which their benefits are derived) or a deferred pensioner member may: • voluntarily elect for payment of their	administering authorities where the scheme employer no longer exists), should revise their discretionary policy to account for this change. (We have raised this with MHCLG and await a response.) Administering authorities will need to change their communications, processes and pensions administration systems to account for these changes. This will be especially important for those deferred members and deferred pensioner members who reach age 55 on or shortly after 14 May 2018, as the new provisions will apply immediately. The Secretary of State guidance (Early payment of pension – 18 April 2016) appears to already cater for these amendments as the guidance is written generically to account for reductions to be made from the date of payment to the earliest date at which unreduced benefits may be taken and includes reference to the 85-year rule protections. **Underpin impact**

			unreduced deferred/deferred pensioner benefits at NRD, • voluntarily elect to defer payment up to their 75th birthday and receive actuarially increased benefits • be paid their unreduced deferred/deferred pensioner benefits at any age prior to NRD, on health grounds (subject to qualification), NRD under the 2007 Regulations is age 65.	Before the change, the underpin amount for a deferred member who left the 2014 scheme between age 55 and 60 would (in most cases) be nil. This is because when calculating the underpin amount it is the amount of benefits the member would have had an entitlement to take immediate payment of under the 2008 scheme that is compared with the 2014 benefits. From 14 May 2018, a deferred member can voluntarily elect for payment of their benefits from age of 55, so it no longer follows that the underpin amount will be nil. However, because the change is not retrospective, the impact is academic. For the underpin to apply a member must have been within 10 years of their NPA under 2008 scheme on 1 April 2012, this means these members will now be at least age 61 and already able to take immediate payment of benefits so the change will have no impact for the underpin. The underpin date is the earlier of: • the date the member attains their NRA under the 2008 scheme (in most cases 65), or

				• the date the member ceases to be an active member of the 2014 scheme with an immediate entitlement to pension. To confirm, it is our understanding that there is no change for deferred members who left before 14 May 2018 who were between age 55 and 60 at leaving and who met the criteria for the underpin, but the underpin amount was nil because they were not entitled to immediate payment under the 2008 scheme at the underpin date. The underpin amount for these members will continue to be nil.
Aggregation				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 24(b)	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • New reg 3(6A)	1 April 2014	To make clear that where the member re-joins the scheme: • on or after 1 April 2014 (without having had a continuous break in active membership of a public service pension scheme of more than 5 years), and • aggregates deferred benefits to the	**Technical amendment to deliver policy intent** Prior to the amendments, the regulations inadvertently protected the NPA of the aggregated benefits to that of the 1995 regulations. This meant that the NPA for the aggregated benefits was the later of (1) age 60 if, by

			active membership of the 2014 scheme - where the deferred benefits are derived from membership where the member left active membership either prior to 1 October 2006 (where the member was also an active member on 31 March 1998) or prior to 1 April 1998 then the NPA of the aggregated benefits is age 65.	that age, the member would have had 25 or more years membership of the scheme if they had remained in the scheme until then, or (2) the date the member would have achieved 25 years membership, if that date would fall after age 60 and before age 65, or (3) age 65 if, by that age, the member would not have had 25 years membership of the scheme if they had remained in the scheme until then). Administering authorities should have been applying the regulations in line with policy intent which replicates the position had the member re-joined the scheme prior to 1 April 2014 and aggregated membership.
Aggregation				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 27	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • Amends reg 10(6)	14 May 2018	The change imposes a time limit for members to elect to aggregate a deferred benefit where: • the member has a deferred benefit derived solely from membership built up before 1 April 2014 and re-	**Technical amendment to deliver policy intent** This amendment closes the door on an unintended provision for certain members who have an open ended right to elect for the aggregation of a deferred benefit.

	• New regulation 10(6A)		joins the scheme on or after 14 May 2018, and • a transfer value of the deferred benefits would buy earned pension under regulation 10(6)[1]	Members who joined the 2014 scheme before 14 May 2018 can elect to aggregate benefits that were solely built up prior to 1 April under regulation 10 (6) (i.e. where the transfer buys earned pension) at any time prior to leaving active membership of the scheme. Members who join the 2014 scheme on or after 14 May 2018 must make such an election within 12 months of re-joining the scheme (or such longer time as the scheme employer allows) Note: members who re-joined the scheme on or after 1 April 2014 and prior to 14 May 2018, may still take advantage of the open ended clause (i.e. this change does not affect them). Administering authorities may need to change their communications and processes to account for these changes. Scheme employers may also need

[1] a transfer value would buy earned pension under regulation 10(6) where the member has a continuous break in active membership of a public service pension scheme of more than five years or, where the member does not have such a break but does not elect to be treated as if they had become an active member of the 2014 scheme by virtue of regulation 5(1).

				to amend their communications and revise their discretion policy document to confirm if they will allow an extension of the 12-month time limit in such circumstances (if their policy document currently treats this group of members differently.)
Expansion of the underpin				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 26(b)	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • New reg 9(1A)	1 April 2014	This change provides that: • where a transfer value is received into the 2014 scheme from a different public service pension scheme, and • all or part of the transfer purchases final salary benefits in the LGPS, and • the member has not had a continuous break in active membership of a public service pension scheme of more than five years since ceasing active membership in the scheme from which the transfer payment is received - the statutory underpin will apply to the person, if applicable, and the membership to which the transfer	**New policy** This amendment intends to align the LGPS with other public service schemes in their approach to transitional protection under section 18(5) of the Public Service Pensions Act (PSPA) 2013. The transitional protection being introduced is a somewhat simplified version to that which is already present in other public service pension schemes. Administering authorities should note: • that PSPS is defined in section 1 of the PSA 1993, and section 192(2) confirms that PSPS in

			relates will be treated is if it were membership of the 2008 scheme. Where such a transfer is received the underpin will apply where the member: (a) was an active member of the other public service pension scheme on 31 March 2012[2]; (b) was, on 1 April 2012, 10 years or less from the normal retirement age applicable in the 2008 scheme (65); (c) was an active member before the underpin date; (d) receives payment of benefits under the 2014 scheme on or after the underpin date; (e) does not have a disqualifying break in service; and (f) has not, prior to the underpin date, drawn benefits under the 2013 regulations in relation to an employment. A disqualifying break in service for the purpose of paragraph (e) is a continuous break after 31 March 2012 or more than 5 years in active membership in of a public service	Northern Ireland (NI) are included. We are seeking confirmation from MHCLG as to whether or not, given that NI PSPS do not fall under the PSPA 2013, it is intended that the underpin should apply. Administering authorities will need to change their communications, processes and pensions systems to account for these changes. In addition, they will also need to review past cases to determine if the underpin should have applied to benefits that are already in payment.

2 Where a member was not an active member of the transferring PSPS on 31/3/2012 but was an active member of another PSPS on 31/3/2012 and that membership has been transferred to the transferring PSPS this condition will still be met

			pension scheme.	
Correction to include additional contributions paid before 1 April 2014 in a refund paid under the 2013 Regulations				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 28	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:** • Reg 14(2)	1 April 2014	To make clear that a member entitled to a refund under the 2013 Regulations, who has paid contributions in respect of pre 2014 aggregated membership (including additional contributions) is also entitled to a refund of the additional contributions paid before 1 April 2014.	**Technical amendment to deliver policy intent** Prior to this amendment, the regulations could have been interpreted to mean that the additional contributions (including AVCs) were not refunded at the same time as the main scheme contributions. This could have resulted in orphan AVCs. Administering authorities should have been applying the policy intention, as per section 8 of the now withdrawn LGPS 2014 course notes for practitioners.
Alignment of pre and post April 2014 AVC contracts				
SI 2018/493	Regulations amended/inserted or deleted	Effective date of amendment	Description of change	Impact of change
Regulation 29	**LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014:**	14 May 2018	**The changes** From 14 May 2018, the rules that apply to post 2014 AVC contracts will apply to pre 2014 AVC contracts, with some exceptions, as detailed below:	**New policy** These amendments align the provisions of AVC plans entered into before 1 April 2014 with those entered into on or after that date,

	• Delete reg 15(1)(b) • Amends reg 15(1)(d) • New reg 15(2A) • Deletes reg 15(4) • Amends reg 15(5)		This change will affect: • active members on 14 May 2018 who have an AVC contract that started before 1 April 2014, and • members who have an AVC contract that started before 1 April 2014 who left active membership of the scheme on or after 1 April 2014 and take payment of their AVC plan on or after 14 May 2018. This means that, in respect of pre 2014 AVC contracts, from 14 May 2018 the following changes are applicable: **Contributions** The maximum contribution limit will increase from 50% of pensionable pay (based on the 2008 scheme definition) up to 100% of pensionable pay (based on the 2014 scheme definition). **Option to defer payment** Where a member takes payment of their main scheme benefits, they are not able to defer payment of their AVCs (except for some flexible retirees). The facility to defer payment of what was a 'pre 2014' AVC has been removed. **Purchase scheme pension** Deferred members can use their AVCs to buy additional pension when they take their main scheme benefits.	with certain exceptions noted in the previous column. Accordingly, the AVC provisions extant prior to 1 April 2014, remain in place for those members who left scheme prior to that date. In addition, these amendments do not apply to Councillor members, as Councillor members who pay AVCs are doing so under the 1997 Regulations. Scheme employers will need to ensure that from 14 May 2018 AVCs are deducted from pensionable pay as defined under the LGPS 2013 Regulations. Members paying AVCs where the contract started before 1 April 2014 should be made aware that AVCs will now be deducted from additional pensionable elements (e.g. overtime). The ambiguity surrounding the payment of a 'pre 2014' AVC plan, in the event of a member's death on or after 14 May 2018, has been removed and the monies may now be paid in accordance with regulation 17(12) of the 2013

			Prior to these amendments, a pre 2014 AVC plan could only be used to purchase scheme pension where the member left active membership of the scheme and was entitled to the immediate payment of their main scheme benefits. **Death benefits** Where a member dies before the AVC plan has come into payment, an administering authority can now use their discretion to pay the death grant and any life assurance sum to the member's nominee, personal representatives or any person appearing to the authority to have been a relative or dependent of the member. **Aggregation** A member with a deferred refund containing pre 1 April 14 membership only (D1 member), who joins the scheme on or after 14 May 2018 must aggregate their 'pre-2014' AVC plan at the same time as their main scheme benefits. Prior to the change, a member had to positively elect to aggregate their AVC plan or could leave it as an orphan AVC. A member: • with a deferred benefit containing pre 1 April 14 membership only (D2 member), who joins the scheme on	Regulations. Administering authorities will need to change their communications, processes and pensions systems to account for these changes.

			or after 14 May 2018 with a break of less than 5 years active membership in a public service pension scheme, and • who does not elect to be treated as if they are a member on 31 March 2014 and 1 April 2014 within 12 months of re-joining must aggregate their 'pre2014' AVC plan at the same time as their main scheme benefits. Prior to the change, the member had to positively elect to aggregate their AVC plan or could leave as an orphan AVC. A member with: • a deferred benefit containing pre 1 April 14 membership only (D3 member), who joins the scheme on or after 14 May 2018 with a break of more than 5 years active membership in a public service pension scheme must aggregate their 'pre2014' AVC plan at the same time as their main scheme benefits. Prior to the change, the member had to positively elect to aggregate their AVC plan or could leave as an orphan AVC. **Provisions in respect of pre 2014 AVCs that remain:** The following provisions remain for an active member of the 2014 scheme	

			who, on or after 14 May 2018, is paying AVCs in respect of a contract that was entered into prior to 1 April 2014: a) They retain a normal pension age in respect of the AVC of age 65. b) A member who started their AVC contract prior to 13 November 2001 retains the right to buy scheme membership in certain circumstances (i.e. regulation 66(8) of the 1997 Regulations is saved).	

Useful Links

LGA Pensions page

LGPS member website (England and Wales)

LGPS 2015 member website (Scotland)

LGPS Advisory Board website (England and Wales)

LGPS Regulations and Guidance website (England and Wales)

LGPS Regulations and Guidance website (Scotland)

Public Sector Transfer Club

Recognised Overseas Pension Schemes approved by HMRC that agree to have their details published.

LGPS pensions section contact details

If you have a technical query, please email query.lgps@local.gov.uk and one of the team's LGPS pensions advisers will get back to you.

Jeff Houston (Head of Pensions)
Telephone: 0207 187 7346
Email: jeff.houston@local.gov.uk

Jayne Wiberg (Pensions Adviser – LGPC Secretariat)
Telephone: 07979 715825
Email: jayne.wiberg@local.gov.uk

Lorraine Bennett (Pensions Adviser – LGPC Secretariat)
Telephone: 0207 187 7374
Email: lorraine.bennett@local.gov.uk

Con Hargrave (Pensions Adviser – LGPC Secretariat) - currently on secondment to MHCLG

Karl White (Pensions Adviser (Training) – LGPC Secretariat)
Telephone: 07464 652886
Email: karl.white@local.gov.uk

Bob Holloway (Pensions Secretary – LGPS Scheme Advisory Board (E&W))
Telephone: 07919 562847
Email: robert.holloway@local.gov.uk

Liam Robson (Pensions Analyst – LGPS Scheme Advisory Board (E&W))
Telephone: 0207 664 3328
Email: liam.robson@local.gov.uk

Elaine English (LGPS Executive Officer)
Telephone: 0207 187 7344
Email: elaine.english@local.gov.uk

Distribution sheet

Pension managers (internal) of administering authorities
Pension managers (outsourced) and administering authority client managers
Local Government Pensions Committee
Trade unions
CLG
COSLA
SPPA
Regional Directors
Private clients

Copyright

Disclaimer

LGPC Secretariat
Local Government Association
18 Smith Square
Westminster
London
SW1P 3HZ

or email: Jayne Wiberg
tel: 07979 715825

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank