



Pension Fund Committee

Date Thursday 12 September 2019
Time 10.00 am
Venue Committee Room 2 - 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 6 June 2019 (Pages 5 - 12)
4. Feedback from Local Pension Board
5. Overall Value of Pension Fund Investments to 30 June 2019 (Pages 13 - 18)
6. Performance Measurement of Pension Fund Investments to 30 June 2019 (Pages 19 - 32)
7. Short Term Investments for the Period Ended (Pages 33 - 36)
8. Internal Audit Progress Report (Pages 37 - 40)
9. Audit Completion Report 2018/2019 - Durham County Council Pension Fund (Pages 41 - 64)
10. Pension Fund Statement of Accounts (Pages 65 - 112)

11. Pension Fund Committee Training Needs Self Assessment (Pages 113 - 120)
12. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration
13. 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)

14. The Minutes of the Meeting held on 6 June 2019 (Pages 121 - 128)
15. Border to Coast Pension Partnership Update (Pages 129 - 156)
16. Investment Strategy Progress Update (Pages 157 - 176)
17. Report of the Pension Fund Adviser (Pages 177 - 216)
18. Report of the Pension Fund Independent Adviser (Pages 217 - 246)
19. Report of Aberdeen Standard (Pages 247 - 282)
20. Report of Alliance Bernstein (Pages 283 - 292)
21. Report of BlackRock (Pages 293 - 306)
22. Report of BNY Mellon (Walter Scott) (Pages 307 - 314)
23. Report of CBRE Global Investment Partners (Pages 315 - 330)
24. Report of Mondrian Investment Partners Ltd (Pages 331 - 338)
25. Report of Royal London (Pages 339 - 342)
26. 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

4 September 2019

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 Shuttleworth, W Stelling and M Wilson

Darlington Borough Council Members

Councillors C Johnson and S Durham

Scheme Member Representatives

A Delandre and J Taylor

Further Education Colleges Representative

A Broadbent

Scheduled Bodies Representative

(vacant)

Admitted Bodies Representative

(vacant)

Advisors:

County Council Officers

T Collins, J Hewitt, H Lynch, P Cooper, B White

Independent Advisers

C Arbuckle – Mercer

S Dickson – Mercer

A Fletcher – MJ Hudson Allenbridge

Investment Managers

Aberdeen Standard

AB

BlackRock

BNY Mellon (Walter Scott)

CBRE Global Investment Partners

Mondrian Investment Partners Ltd

Royal London

Staff Observers

Unison – N Hancock

GMB – D Clegg

Contact: Jill Errington

Tel: 03000 269703

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 6 June 2019 at 10.00 am**

Present:

Councillor M Davinson (Chair)

Members of the Committee:

Councillors O Temple (Vice-Chair), J Atkinson, C Carr, J Carr, B Kellett, J Shuttleworth, W Stelling and M Wilson

Also Present:

Scheme Member Representatives

Anne Delandre and John Taylor

Council Advisors

Paul Cooper – Pensions Manager
Beverley White – Finance Manager

Independent Advisors

Sandy Dickson – Mercer
Anthony Fletcher – MJ Hudson

Observers

Councillor A Hopgood and Ian Densham – Local Pension Board Members
David Clegg - GMB

1 Apologies for Absence

Apologies for absence were received from Councillors J Lethbridge, S Hugill, A Broadbent and N Hancock

2 Declarations of interest

There were no declarations of interest.

3 Minutes

The Minutes of the meeting held on 14 March 2019 were agreed as a correct record and signed by the Chairman.

4 Overall Value of Pension Fund Investments to 31 March 2019

The Committee considered a report of the Corporate Director of Resources which provided an update on the overall value of the Pension Fund's investments at 31 March 2019, the movement in the cash balance during the last four quarters and the projected cash flow position up to 30 June 2020 (for copy see file of Minutes).

With regard to the cash flow forecast, Councillor Carr asked if the pension increase was 2.4% of the overall pension fund. He was advised that this was the rate of inflation applied to payments of pensions with effect from 1 April 2019. Councillor Carr further asked if the number of retirements had been taken into account for the valuation. He was informed that the cash flow forecast was continuously reviewed and refined to take the most up-to-date information into account.

Councillor Temple asked if money was taken out of Blackrock and was informed that the cash flow was managed by disinvestment and whilst we had BCPP transaction this would be the case for some time.

Resolved:

That the information contained in the report be noted.

5 Performance Measurement of Pension Fund Investments to 31 March 2019

The Committee considered a report of the Corporate Director of Resources which provided Members with an overview of the performance of the Fund to 31 March 2019 (for copy see file of Minutes).

Resolved:

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

6 Short Term Investments for the Period ended 31 March 2019

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 March 2019 (for copy see file of Minutes).

Resolved:

That the position at 31 March 2019 regarding the Pension Fund's short term investments where the Pension Fund's surplus cash holding was £37.290 million and £104,769 net interest was earned in the three month period, be noted.

7 Internal Audit Progress Report to 31 March 2019

The Committee considered a report of the Corporate Director of Resources which outlined progress made in delivering the 2018/2019 internal audit plan relevant to the Pension Fund Committee (for copy see file of Minutes).

Resolved:

That the work undertaken by Internal Audit during the period ending 31 March 2019, be noted.

8 Local Pension Board Annual Report

The Committee received a report of the Corporate Director of Resources that provided an overview of the work completed by the Local Pension Board during 2018/19 and the work plan which would help frame the work of the board over the next two years (for copy see file of Minutes).

Anne Delandre asked how often the make up of the board was reviewed and Paul Cooper advised that a new chair would be elected at the meeting of the board later today. One of the members was stepping down and he was actively looking to appoint a replacement.

With reference to paragraph 14 of the report, Councillor Carr asked if the Pension Fund Committee should have been notified of these cases of internal dispute. Paul Cooper advised that these cases were reported to the board and included appeals about ill-health retirement with nothing of concern in the reporting period. If a case was reported to the Ombudsman this was also flagged to the board.

Councillor Hopgood added that this was now a standard item on the board's agenda with a particular emphasis on cases that go to the Ombudsman when the pension scheme was not upheld.

Resolved:

That the report be noted.

9 Any Other Business - Draft Statement of Accounts

The Finance Manager, Beverley White informed the members that the deadline for the draft statement of accounts to be approved by the Section 151 Officer was 31 May 2019. This had been completed, signed off and published and would be reported to the Committee in September as part of the annual report. Mazars were now in receipt of the accounts and would provide an opinion by the deadline of 31 July 2019.

Resolved:

That the update be noted.

10 Exclusion of the public

Resolved:

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

11 Minutes

The Minutes of the meeting held on 14 March 2019 were agreed as a correct record and signed by the Chairman.

12 Investment Strategy Review Update

The Committee considered a report of the Corporate Director of Resources which provided the Committee with an update on progress made towards implementing asset allocation decisions (for copy see file of Minutes).

Resolved:

That the recommendation in the report be approved.

13 Report of the Pension Fund Adviser

The Committee considered a report of the Independent Adviser Mercers (for copy see file of Minutes).

Resolved:

That the information given be noted.

14 Report of the Pension Fund Independent Advisor

The Committee considered a report of the Independent Investment Adviser, Anthony Fletcher (for copy see file of Minutes).

Resolved:

That the information given be noted.

15 Border to Coast Pensions Partnership - Update

16 Report of Aberdeen Standard

Consideration was given to a report from Aberdeen Standard which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

17 Report of AB

Consideration was given to a report from the Managers in attendance from AB which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

18 Report of BlackRock

Consideration was given to a report from BlackRock which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

19 Report of BNY Mellon (Walter Scott)

Consideration was given to a report from Bank of New York Mellon (Walter Scott) which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

20 Report of CBRE Global Investment Partners

Consideration was given to a report from CB Richard Ellis which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

21 Report of Mondrian Investment Partners Ltd

Consideration was given to a report from Mondrian which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

22 Report of Royal London

Consideration was given to a report of the Managers in attendance from Royal London which included:

- a) Manager's views on the economy and investment strategy for the future
- b) Investment Policy
- c) List and valuation of investment holdings.

Resolved:

That the information given be noted.

This page is intentionally left blank

Pension Fund Committee

12 September 2019

**Overall Value of Pension
Fund Investments to 30 June 2019**



Report of 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 30 June 2019;
 - (b) movement in the cash balance during the last four quarters;
 - (c) projected cash flow position up to 30 September 2020.

Executive Summary

2. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. At 30 June 2019 the value of the Fund was £3,034 million and the cash balance held in the Durham County Council Pension Fund bank account was £42.646 million. Fund Managers also held cash of £10.116 million at that date.
3. The cash flow forecast detailed in Appendix 2 indicates net cash outflows, excluding cash withdrawals from fund managers, in future quarters of between £9 million and £11 million. As fund rebalancing has been suspended whilst the strategic asset allocation is under review, a recovery of £20 million from Fund Managers in the quarters ending 31 December 2019 and 30 June 2020 has been included in the forecast.

Recommendation

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

Background

Value of the Pension Fund

5. 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.

6. The value of the Fund at 30 June 2019 was £3.034 billion compared to £2.935 billion at 31 March 2019. This is an increase of £99.312 million (or 3.38%) in the first quarter of 2019/20.

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

7. New investment money is allocated to Fund Managers when the Pension Fund has cash which is not required to be available as a working cash balance, for example to pay pensioners or fees.
8. 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.
9. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. As at 30 June 2019 the cash balance held in the Durham County Council Pension Fund bank account was £42.646 million. In addition to this, not included in this table, Fund Managers were holding cash of £10.116 million at 30 June 2019.
10. During the last quarter £3 million was returned to one fund manager for capital calls and the first Private Equity drawdown of £0.640 million was made to BCPP.

Cash Flow Forecast 2019/20

11. Appendix 2 shows the projected cash flow for the Pension Fund for the period July 2019 to September 2020. 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.
12. The forecast includes the recovery of £20 million from Fund Managers in the quarters ending 31 December 2019 and 30 June 2020. Without the recovery of the aforementioned amounts, the Pension Fund is estimated to be in a cash negative position in all quarters to 30 September 2020.
13. The forecast indicates net cash outflows in future quarters of between £9 million and £11 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.
14. The following assumptions have been used in the cash flow forecast:
 - (a) Annual investment income receivable is estimated to be £26.5 million and profiled to be received as follows:

(i)	Quarter ended 30 September 2019	24%
(ii)	Quarter ended 31 December 2019	26%
(iii)	Quarter ended 31 March 2020	29%
(iv)	Quarter ended 30 June 2020	21%
 - (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 applied is 2.4% with effect from 1 April 2019.
 - (e) Payroll paysheets (payments to pensioners) are forecast to increase by £0.25 million per quarter, from 1 April 2019. 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-off payments, 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.
15. 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

16. 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. It is also the means by which cash is moved to or from managers as a consequence of the cash flow forecasts.
17. Due to the current suspension of fund rebalancing, there was no rebalancing exercise this quarter.

Contact: Beverley White Tel: 03000 261900

Actual Cash Flow – For the period 1 July 2018 to 30 June 2019

Quarter Ended	30.09.18		31.12.18		31.03.19		30.06.19	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	13,810,000	14,031,093	13,810,000	13,958,692	13,950,000	14,096,247	13,950,000	14,914,521
Contributions - Other	9,055,000	9,427,471	9,055,000	9,655,168	9,600,000	9,821,075	9,760,000	10,469,144
Unfunded pensions recharges	1,170,000	1,120,692	1,170,000	1,101,373	1,120,000	1,124,595	1,140,000	1,007,809
Transfer Values	1,250,000	808,619	1,250,000	1,024,338	1,250,000	805,197	1,250,000	832,205
Other income	2,000,000	2,028,874	2,000,000	1,126,820	2,000,000	3,311,968	2,000,000	1,563,888
Funds recovered from Managers	20,000,000	20,000,000	0	26,000,000	0	0	20,000,000	20,000,000
Interest on short term investments	40,000	38,822	50,000	65,169	85,000	104,769	85,000	78,697
Total Cash Inflow	47,325,000	47,455,569	27,335,000	52,931,560	28,005,000	29,263,850	48,185,000	48,866,264
Cash Outflows								
Payroll Paysheets	25,750,000	25,426,232	25,750,000	25,727,276	26,000,000	25,824,012	26,850,000	26,499,473
Payables Paysheets (incl. Managers' fees)	12,000,000	10,557,206	12,000,000	13,631,809	12,000,000	11,429,632	12,000,000	12,642,023
Funds transferred to Managers	0	0	0	0	5,600,000	0	5,900,000	3,640,602
Other Expenditure	1,000	785	1,000	790	1,000	794	1,000	1,284
Total Cash Outflows	37,751,000	35,984,223	37,751,000	39,359,875	43,601,000	37,254,438	44,751,000	42,783,382
Net Cash Inflow / (-) Outflow	9,574,000	11,471,347	-10,416,000	13,571,685	-15,596,000	-7,990,588	3,434,000	6,082,882
Balance at Bank (opening)		22,076,786		32,948,356		45,870,405		37,289,542
Balance at Bank (closing)		32,948,356		45,870,405		37,289,542		42,645,995

Projected Cash Flow (including forecast dividends receivable by Fund Managers) - for the period 1 July 2019 to 30 September 2020

Quarter Ended	30.09.19	31.12.19	31.03.20	30.06.20	30.09.20
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Cash Inflows					
Contributions - DCC	15,100,000	15,100,000	15,100,000	15,100,000	15,100,000
Contributions - Other	9,950,000	9,950,000	9,950,000	9,950,000	9,950,000
Unfunded pensions recharges	1,080,000	1,080,000	1,080,000	1,080,000	1,080,000
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	84,000	80,000	84,000	80,000	83,000
Total Cash Inflow	29,464,000	49,460,000	29,464,000	49,460,000	29,463,000
Cash Outflows					
Payroll Paysheets	27,100,000	27,350,000	27,600,000	27,850,000	28,100,000
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	39,101,000	39,351,000	39,601,000	39,851,000	40,101,000
Net Cash Inflow / (-) Outflow	-9,637,000	10,109,000	-10,137,000	9,609,000	-10,638,000
Balance at Bank (opening)	42,645,995	33,008,995	43,117,995	32,980,995	42,589,995
Balance at Bank (closing)	33,008,995	43,117,995	32,980,995	42,589,995	31,951,995
Investment Income Received by Managers	6,360,000	6,890,000	7,685,000	5,565,000	6,360,000

Pension Fund Committee

12 September 2019

**Performance Measurement of Pension
Fund Investments to 30 June 2019**



Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

- 1 To provide an overview of the performance of the Pension Fund to 30 June 2019.

Recommendation

- 2 Members note the information contained in the attached report produced by the Fund's custodian, JP Morgan.

Background

- 3 The performance of the seven fund managers is measured against personalised benchmarks chosen at the inception of the fund. The attached report from JP Morgan shows:
 - (a) The fund managers' benchmarks;
 - (b) The total fund performance for the quarter to 30 June 2019, year to date and since inception;
 - (c) The managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter to 30 June 2019, year to date and since inception;
 - (d) A portfolio comparison for the quarter ended 30 June 2019 and for the period since inception.

Contact:	Beverley White	Tel: 03000 261900
-----------------	----------------	-------------------

This page is intentionally left blank

J.P.Morgan

***Durham Quarterly Report
Report Package***

Published 30-Jul-2019 05:38:36

Table of Contents

1	Index and Benchmark Report - Monthly - Filtered	1 - 1
2	Executive Summary - Filtered	2 - 2
3	Portfolio Comparison - Filtered	3 - 4
4	Relative Performance - Composite Level - Monthly - Filtered	5 - 9

Index and Benchmark Report - Monthly
Durham CC (UK005)
As at June 2019

Name	Month Return
Business Unit Indices	
Equities	
FT-All Share +3%	3.92
FTSE-Ftse All-Share (Gross)	3.67
FTSE-Ftse Aw Developed (Gross)	5.59
MSCI AC World Index (Gross) + 2.5%	5.78
MSCI AC World Index (Gross) + 3%	5.82
MSCI EM (Emerging Markets) (Net)	5.21
MSCI EM (Emerging Markets) (Net) + 2.5%	5.43
MSCI-Acwi (Gross)	5.56
MSCI-Em (Emerging Markets) (Gross) + 2.5%	5.50
MSCI-World (Gross)	5.60
Fixed Income	
British Gov Index Linked over 5 Yr + 0.5%	(0.92)
Cash And Cash Equivalent	
3 MONTH GBP LIBOR	0.06
3Month GBP Libor +4%	0.39
3Month libor in GBP plus 3%	0.31
GBP Zero Return Index	0.00
RPI + 5%	0.55
Retail Price Index (UK)	0.14

Executive Summary

Durham CC (UK005)

As of June 2019

Gross of Fee

Total Fund Composite - Actual (0UK00501)

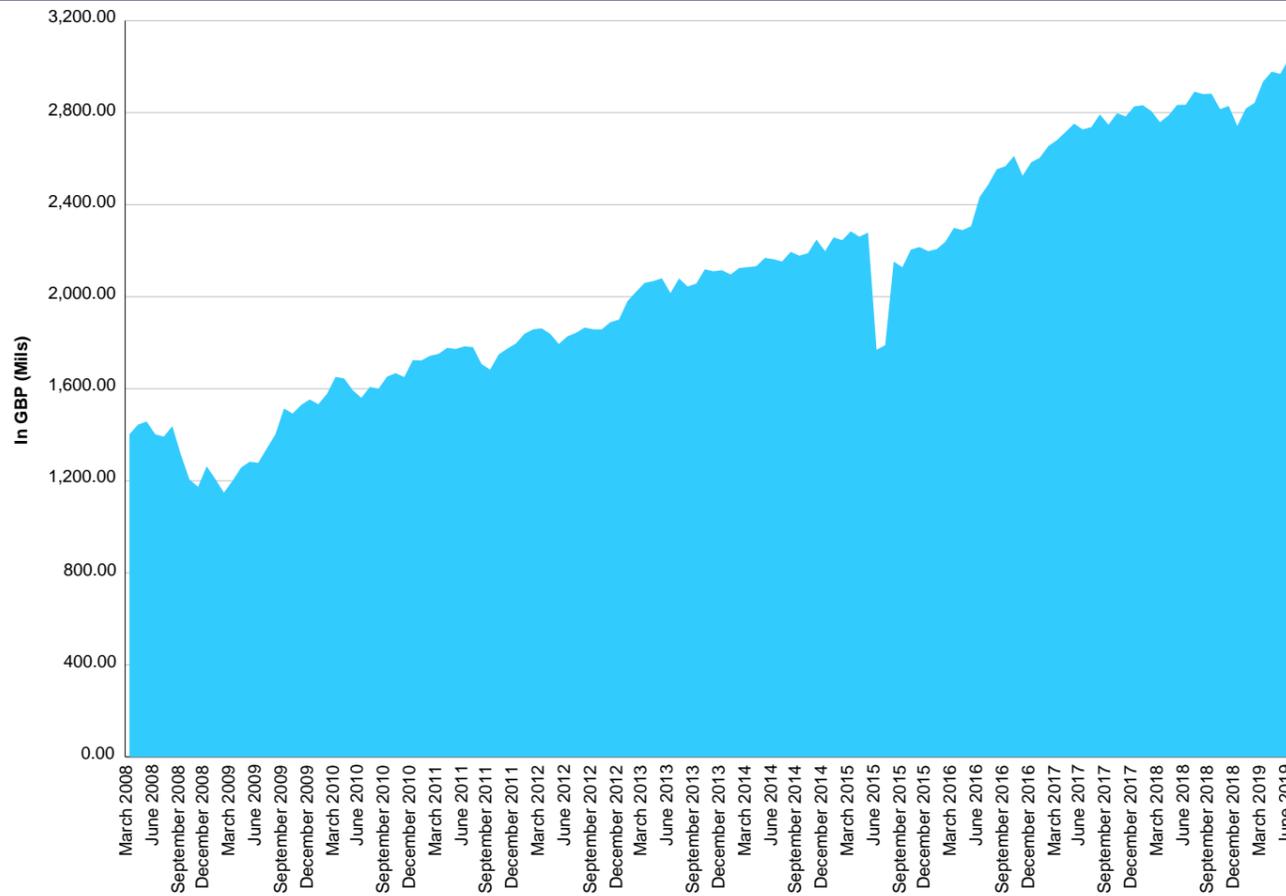
Market Value Overview

	In GBP (Mils)				
	June 2019	March 2019	December 2018	September 2018	June 2018
Market Value	3,034.15	2,934.83	2,742.48	2,882.68	2,834.64
Net Cash Flow	(17.01)	0.00	(26.00)	(20.00)	0.00
Net Income / Appreciation	116.32	192.36	(114.21)	68.05	75.82

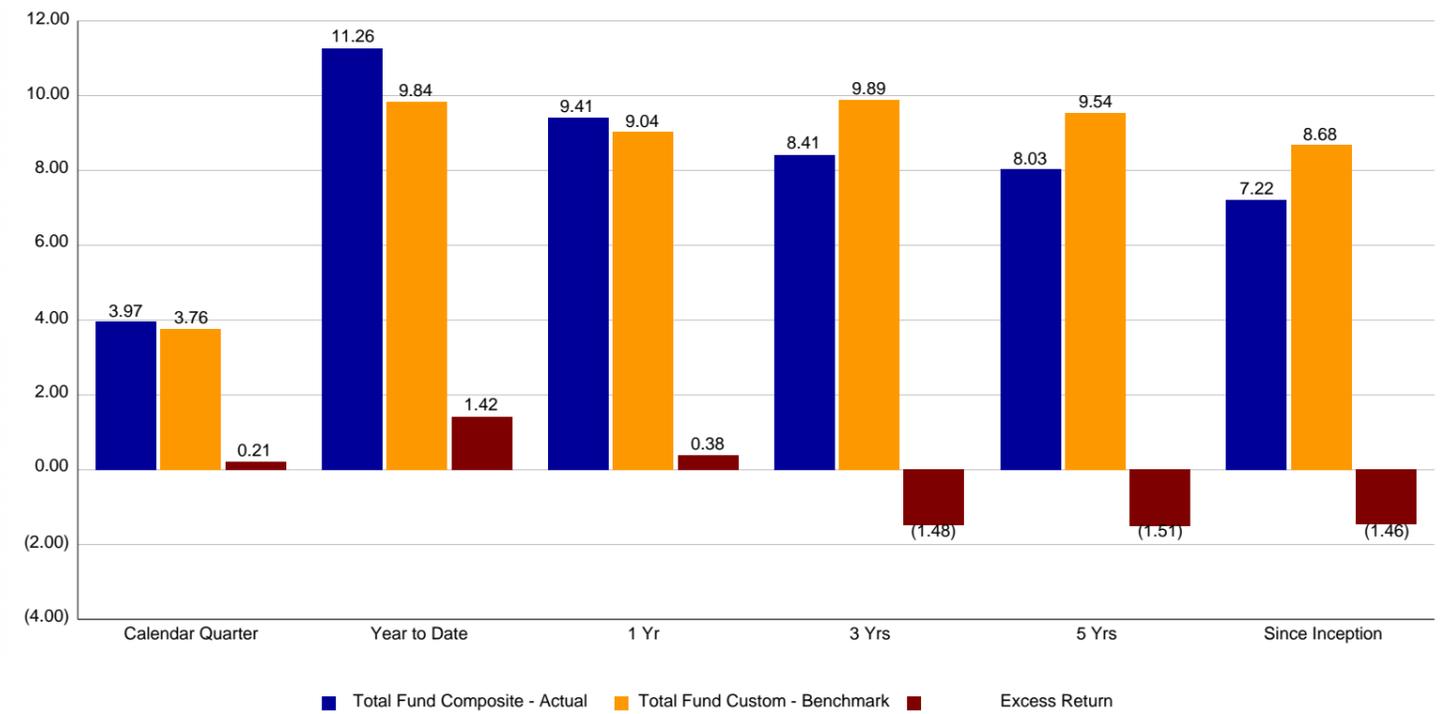
Performance Overview

	Performance (Annualised > 1 Year)					
	Calendar Quarter	Year to Date	1 Yr	3 Yrs	5 Yrs	Since Inception
Total Fund Composite - Actual	3.97	11.26	9.41	8.41	8.03	7.22
Total Fund Custom - Benchmark	3.76	9.84	9.04	9.89	9.54	8.68
Excess Return	0.21	1.42	0.38	(1.48)	(1.51)	(1.46)

Development of Market Value - Since Inception



Performance Returns



Portfolio Comparison

Durham CC (UK005)

As of June 2019

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%	516.37	17.02	7.02	7.06	(0.04)	1.19
Alliance Bernstein	3 Month Libor in GBP +3% pa	408.69	13.47	1.80	0.94	0.86	0.24
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	467.56	15.41	2.28	0.94	1.34	0.35
BNY	MSCI World Index (Gross) + 2.5%	606.90	20.00	7.16	7.34	(0.18)	1.43
CBRE 1	Headline RPI +5% pa (CBRE1)	186.38	6.14	2.90	2.82	0.08	0.18
CBRE 2	Headline RPI +5% pa (CBRE2)	42.08	1.39	3.62	2.82	0.80	0.05
Mondrian	MSCI EM (Emerging Markets) (Gross) + 2.5%	222.12	7.32	2.95	3.77	(0.82)	0.22
Royal London	FTSE index Linked more than 5 years +0.5% pa	584.00	19.25	1.92	2.06	(0.14)	0.37
Transition Account	Not Applicable	0.02	0.00	0.00	-	-	0.00
Total Fund Composite - Actual	Total Fund Custom - Benchmark	3,034.15	100.00	3.97	3.76	0.21	3.97

Portfolio Comparison

Durham CC (UK005)

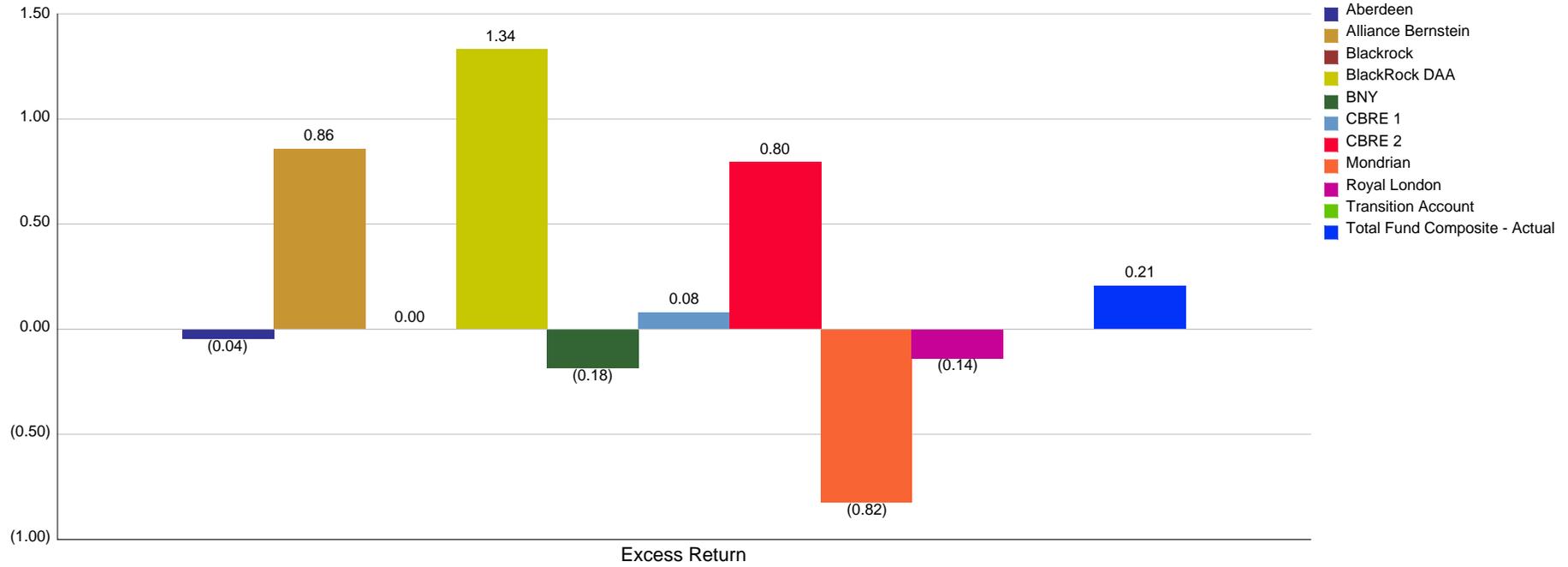
As of June 2019

Gross of Fee

Excess Return - Additive

Primary - Pound Sterling

Excess Returns - Trailing 3 Months



Relative Performance

Durham CC (UK005)

For Period Ending June 2019

Gross of Fee

Excess Return - Additive

Primary - Pound Sterling

Total Fund Composite - Actual (OUK00501)

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	10,317.75	0.00	0.00	0.00	0.00	0.00	(0.26)	3.92
	Zero Return - Historically FTSE All Share (Gross) +3% pa		0.00	0.00	0.00	0.00	0.00	(0.63)	5.20
	Excess Return		0.00	0.00	0.00	0.00	0.00	0.37	(1.29)
00047881	Royal London	584,003,827.57	(0.87)	1.92	8.58	9.21	6.34	10.22	8.74
	FTSE index Linked more than 5 years +0.5% pa		(0.92)	2.06	8.43	9.12	6.07	10.30	8.71
	Excess Return		0.05	(0.14)	0.15	0.09	0.27	(0.08)	0.03
00047882	Alliance Bernstein	408,690,593.42	0.98	1.80	3.76	4.05	2.37	2.58	3.64
	3 Month Libor in GBP +3% pa		0.31	0.94	1.91	3.85	3.55	3.56	4.05
	Excess Return		0.67	0.86	1.86	0.20	(1.18)	(0.99)	(0.41)
00047885	CBRE 1	186,382,551.33	(0.18)	2.90	3.86	6.03	6.66	8.64	4.25
	Headline RPI +5% pa (CBRE1)		0.55	2.82	3.90	8.01	8.40	7.59	7.95
	Excess Return		(0.73)	0.08	(0.04)	(1.98)	(1.74)	1.05	(3.70)
00051183	CBRE 2	42,084,519.66	(0.18)	3.62	17.02	13.39	5.84	9.54	6.69
	Headline RPI +5% pa (CBRE2)		0.55	2.82	3.90	8.01	8.40	7.59	7.95
	Excess Return		(0.73)	0.80	13.12	5.38	(2.56)	1.95	(1.25)
00082265	Transition Account	21,775.95	0.00	0.00	0.00	0.00	0.00	0.00	2.09
	Not Applicable		-	-	-	-	-	-	-
	Excess Return		-	-	-	-	-	-	-

Relative Performance
Durham CC (UK005)
For Period Ending June 2019
 Gross of Fee
 Excess Return - Additive
 Primary - Pound Sterling

Total Fund Composite - Actual (OUK00501)

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	467,557,643.11	2.62	2.28	8.32	4.31	4.90	-	3.23
	3 Month Libor in GBP +3% pa		0.31	0.94	1.91	3.85	3.55	-	3.81
	Excess Return		2.31	1.34	6.41	0.45	1.35	-	(0.58)
00301629	Mondrian	222,121,514.06	4.75	2.95	10.81	10.98	9.55	-	6.07
	MSCI EM (Emerging Markets) (Gross) + 2.5%		5.50	3.77	12.21	8.03	15.69	-	11.48
	Excess Return		(0.75)	(0.82)	(1.40)	2.96	(6.15)	-	(5.41)
00301630	Aberdeen	516,373,155.65	4.70	7.02	16.27	9.30	11.65	-	9.23
	MSCI-Acwi (Gross) + 3%		5.82	7.06	18.40	13.60	17.50	-	16.37
	Excess Return		(1.12)	(0.04)	(2.13)	(4.31)	(5.85)	-	(7.14)
00301691	BNY	606,900,262.11	6.76	7.16	20.57	18.63	16.77	-	16.00
	MSCI World Index (Gross) + 2.5%		5.82	7.34	18.90	13.70	17.63	-	16.35
	Excess Return		0.94	(0.18)	1.67	4.93	(0.86)	-	(0.35)
OUK00501	Total Fund Composite - Actual	3,034,146,160.61	2.78	3.97	11.26	9.41	8.41	8.03	7.22
	Total Fund Custom - Benchmark		2.43	3.76	9.84	9.04	9.89	9.54	8.68
	Excess Return		0.35	0.21	1.42	0.38	(1.48)	(1.51)	(1.46)

Relative Performance

Durham CC (UK005)

For Period Ending June 2019

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	186,382,551.33	(0.18)	2.90	3.86	6.03	6.66	8.64	4.25
	Headline RPI +5% pa (CBRE1)		0.55	2.82	3.90	8.01	8.40	7.59	7.95
	Excess Return		(0.73)	0.08	(0.04)	(1.98)	(1.74)	1.05	(3.70)
00051183	CBRE 2	42,084,519.66	(0.18)	3.62	17.02	13.39	5.84	9.54	6.69
	Headline RPI +5% pa (CBRE2)		0.55	2.82	3.90	8.01	8.40	7.59	7.95
	Excess Return		(0.73)	0.80	13.12	5.38	(2.56)	1.95	(1.25)
0UK00502	CBRE Composite	228,467,070.99	(0.18)	3.03	6.09	7.41	6.60	8.84	5.01
	CBRE Composite Custom		0.55	2.82	3.90	8.01	8.40	7.59	7.95
	Excess Return		(0.73)	0.22	2.19	(0.60)	(1.80)	1.25	(2.94)

Disclaimer

Copyright © 2014 JPMorgan Chase & Co. All rights reserved.

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 its 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 disseminated 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,

incidental, special or punitive damages, howsoever arising (whether in negligence or otherwise), out of or in connection with the content, any omission from the content, any use of the content or any actions taken or reliance by ; Barclays Capital is the source of its respective indices.DAX indices are registered trademarks of Deutsche Borse AG.Fixed income risk characteristics provided by BlackRock Solutions.Trust Universe Comparison Service ® and Citigroup is the source of its respective indices.© TSX Copyright 2014 TSX Inc. All Rights Reserved.Hang Seng Indexes Company Limited is the source of its respective indices.

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.

The information furnished in this report may be based in part on services provided by Algorithmics (U.S.), Inc. and/or its affiliates ("Algorithmics"). Algorithmics does not make any express or implied warranty or representation regarding its services or contributions to this report, including any warranty of originality, accuracy, completeness, merchantability or fitness for a particular purpose, nor shall its services or contributions to this report be construed as providing any financial advice, auditing, accounting, appraisal, regulatory or compliance services. Algorithmics is not responsible for the data or assumptions that are processed through Algorithmics' services nor can Algorithmics guarantee the accuracy or validity of data received from third parties that enables the service to generate the information contained in this report. In no event shall Algorithmics have any liability for any direct, indirect, special, punitive, consequential or any other damages arising out or relating to its services or contributions to this report, or your reliance thereon. By accepting this report, the recipient is agreeing to the foregoing limitations on Algorithmics' responsibility and liability.

Please review this report carefully. The contents of this report will be considered correct and the recipient will be taken to have read, accepted and acknowledged the correctness and accuracy of this report, if no error is reported by the recipient within 3 business days of the issue of this report.

This page is intentionally left blank

Pension Fund Committee

12 September 2019



Short Term Investments for the period ended 30 June 2019

Ordinary Decision

Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

1. To provide the Committee with information on the performance of the Pension Fund's short-term investments as at 30 June 2019.

Recommendation

2. Members are asked to note the position at 30 June 2019 regarding the Pension Fund's short-term investments where the Pension Fund's surplus cash holding was £42.646 million and £78,697 net interest was earned in the three month period.

Short Term Investments

3. 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 that can be placed with each financial institution.
4. The Pension Fund's surplus cash holding as at 30 June 2019 was £42.646 million, which was held in the institutions listed in the following table, alongside their credit rating at 30 June 2019.

Financial Institution	Short-term Rating	Amount Invested £m
Bank Deposit Accounts Handelsbanken	F1+	0.435
Fixed Term Deposits		
Bank of Scotland	F1	6.223
Close Brothers	F1	1.383
Goldman Sachs	F1	2.766
Santander UK Plc	F1	6.915
UK Local Authorities	N/A	15.144
Building Societies	N/A	6.223
National Savings & Investments	N/A	0.138
Money Market Funds	N/A	3.419
Total		42.646

5. The following table provides information on the net interest earned during the three month period to 30 June 2019, 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 upon the average three month rate of return earned by the Council and is net of the fees of £2,650 paid for the Council undertaking the Treasury Management function for the Pension Fund.

	Total
Net Interest Earned	£78,697
Average Return Earned	0.845%
Average Bank of England base rate	0.75%
Average Daily Balance of Investments	£38.567m

Contact: Beverley White Tel: 03000 261900

This page is intentionally left blank

Pension Fund Committee

12 September 2019

**Internal Audit Progress Report to 30
June 2019**



**Report of Paul Bradley, Chief Internal Auditor and Corporate Fraud
Manager**

Electoral division(s) affected:

Countywide.

Purpose of the Report

- 1 To inform Members of the work that has been carried out by Internal Audit during the period 1 April 2019 to 30 June 2019 as part of the 2019/2020 Internal Audit Plan

Executive Summary

- 2 The report provides Members with the progress that has been made in achieving the Pension Fund Internal Audit Plan for 2019/2020 up to 30 June 2019 and aims to:
 - (a) Provide a high level of assurance, or otherwise, on internal control systems operated in the areas that have been subject to audit;
 - (b) Advise 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) Advise of any unplanned work carried out or due to be carried out and any changes to the audit process.

Recommendation

- 3 Members are asked to note the work undertaken by Internal Audit during the period ending 30 June 2019.

Background

- 4 As an independent consultancy service, the Internal Audit Team strives to continue to add value and improve the organisation's operations as well as providing objective assurance to service managers and the Pension Fund Committee.
- 5 The Annual Internal Audit Plan, covering the period 01 April 2019 to 31 March 2020, was approved by the Pension Fund Committee on 14 March 2019.

Progress against 2019/20 planned work:

- 6 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 2018/19			
Pension System ICT Controls, Data Quality and Performance	Assurance	Draft Report	
Governance Arrangements (of the Pool)	Assurance	Preparation	
2019/20 audits			
Contributions	Assurance	Not yet started	
Benefits	Assurance	Not yet started	
Compliance with Breach Policy	Assurance	Not yet started	
National Fraud Initiative – Data matching to identify potential error/fraud	Counter Fraud	In Progress	
Management time and ad hoc advice & guidance	Advice/Consultancy	In Progress	

- 7 The status shows that, of the five assurance reviews, planned to be completed in 2019/20, no final reports have yet been issued.

Conclusion

- 8 From the work carried out during the period, in delivering the 2019/20 Internal Audit Plan, there are no significant control issues to bring to Members' attention.

Background papers

- Specific Internal Audit reports issued and working papers.

Other useful documents

- None

Contact: Paul Monaghan

Tel: 03000 269662

This page is intentionally left blank

Pension Fund Committee

12 September 2019

**Audit Completion Report 2018/2019 –
Durham County Council Pension Fund**



Report of the External Auditor

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 The Committee is asked to note the contents of the attached report prepared by the Council's External Auditor (Mazars) as a result of their audit of the Pension Fund's accounts for the year ended 31 March 2019.

Executive summary

- 2 The external audit is now complete. The statutory deadline for completing the audit is 31 July 2019.

Recommendation(s)

- 3 The Pension Fund Committee is recommended to:
 - (a) note the External Auditor's report following the audit of the Statement of Accounts for the year ended 31 March 2019, including the summary of misstatements detailed in section 4 of the report.
 - (b) note the content of the Management Representation Letter (Appendix A), Auditor's Report on the Council's Statement of Accounts (Appendix B), and the Consistency Report to be included in the Pension Fund Annual Report (Appendix C).

Background

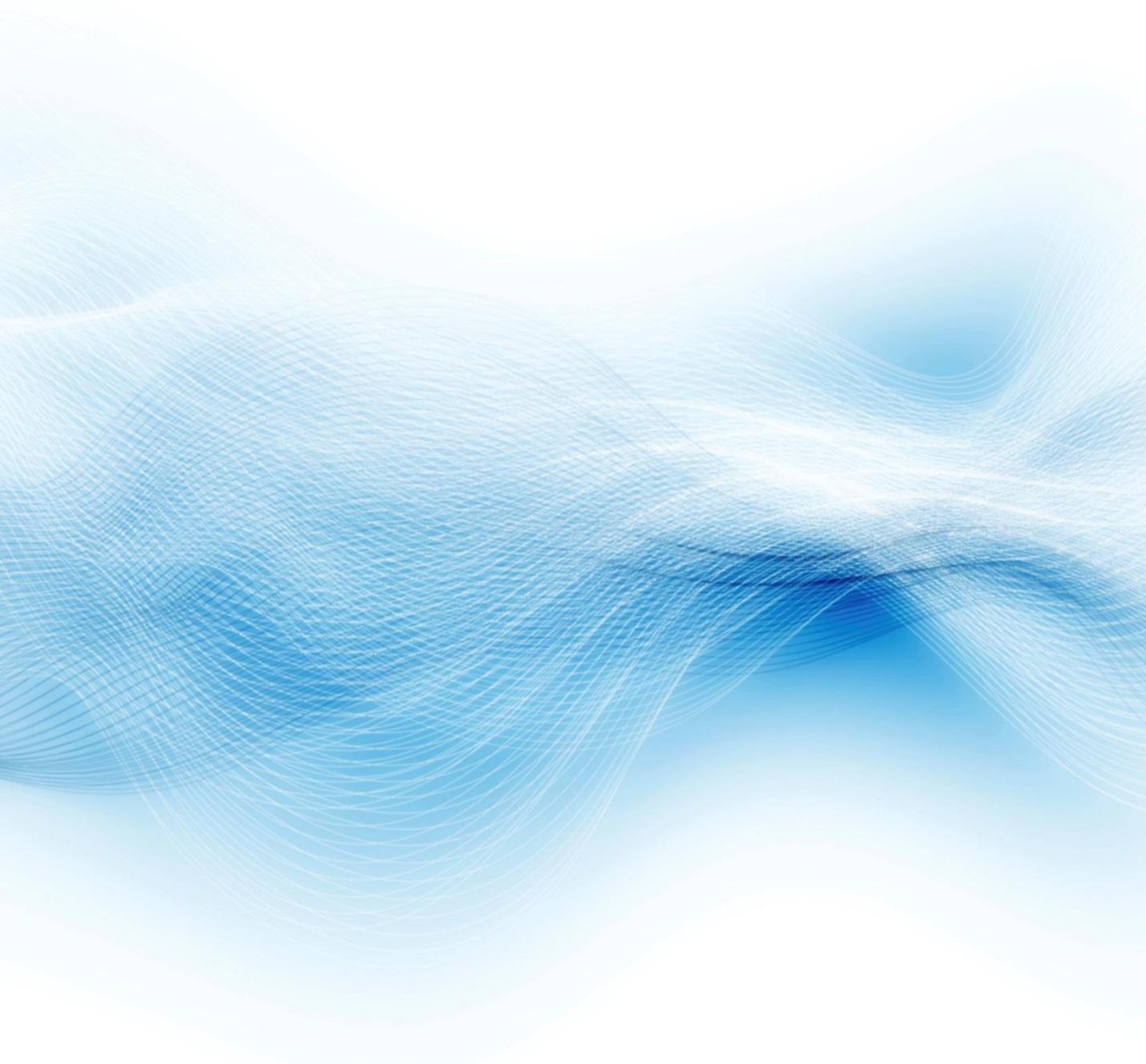
- 4 This report details the findings of the external audit completed by Mazars LLP for the year ended 31 March 2019 for Durham County Council Pension Fund.
- 5 The audit has been completed in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board.

Contact:	Mark Kirkham	Tel: 0191 383 6300
	Sharon Liddle	Tel: 0191 383 6300



Audit Completion Report

Durham County Council Pension Fund
Year ending 31 March 2019



CONTENTS

1. Executive summary
2. Significant findings
3. Internal control recommendations
4. Summary of misstatements

Appendix A – Draft management representation letter

Appendix B – Draft audit report

Appendix C – Draft consistency report

Appendix D – Independence

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Terms of Appointment' issued by Public Sector Audit Appointments Limited.

Reports and letters prepared by appointed auditors and addressed to the Administering Authority are prepared for the sole use of the Administering Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

Members of the Audit Committee
Durham County Council
County Hall
Durham
DH1 5UE

31 July 2019

Dear Members

Audit Completion Report – Year ended 31 March 2019

We are pleased to present our Audit Completion Report for Durham County Council Pension Fund for the year ended 31 March 2019. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 26 February 2019. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6300.

Yours faithfully

Mark Kirkham
Partner
Mazars LLP

Mazars LLP – Salvus House - Aykley Heads - Durham - DH1 5TS
Tel: +44 (0) 191 383 6300 – Fax: +44 (0) 191 383 6350 – www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

We are registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.
VAT number: 839 8356 73

1. EXECUTIVE SUMMARY

Purpose of this report and principle conclusions

The Audit Completion Report sets out the findings from our audit of Durham County Council Pension Fund ('the Pension Fund') for the year ended 31 March 2019, and forms the basis for discussion at the Audit Committee meeting on 31 July 2019.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Section 2 of this report outlines the detailed findings from our work on the financial statements. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- management override of control; and
- valuation of unquoted investments.

Purpose of this report and principal conclusions

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Consistency report

We anticipate concluding that the Pension Fund financial statements within the Pension Fund's annual report are consistent with Pension Fund financial statements within the statement of accounts of Durham County Council. Our draft consistency report is provided in Appendix C

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Pension Fund and consider any objection made to the accounts.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements for the year ended 31 March 2019, and there are no significant matters outstanding. We will provide the Audit Committee with an update in a follow-up letter, prior to signing the auditor's report., if any issues arise.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set overall materiality at the planning stage of the audit at £28.86m using a benchmark of 1% of net assets available to pay benefits. We set a specific materiality for the fund account of £12.13m at the planning stage of the audit using a benchmark of 10% of benefits payable.

Our final assessment of overall materiality, based on the final financial statements is £29.82m, and our final specific materiality for the fund account is £12.65m, using the same benchmarks. We set our trivial threshold (the level under which individual errors are not communicated to the Audit Committee) at £0.90m based on 3% of overall materiality.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit Committee in a follow-up letter.

2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 7 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk by performing audit work in the following areas:

- accounting estimates impacting on amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Based on work completed to date, our work has provided us with the assurance we sought and has not highlighted any material issues to bring to your attention.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Valuation of unquoted investments for which a market price is not readily available

Description of the risk

As at 31 March 2019, the fair value of property unit trusts that were not quoted on an active market was £172 million, which accounted for 6% of the Pension Fund's net investment assets. As prices for these investments are not quoted in active markets, the values used in the accounts are estimated by fund managers, mostly based on Net Asset Value statements, updated for cash movements where appropriate, which is considered to be an appropriate methodology for these investments. This results in an increased risk of material misstatement.

How we addressed this risk

In addition to our standard programme of work in this area we have:

- agreed holdings from fund manager reports to the global custodian's report;
- agreed the valuation to supporting documentation including investment manager valuation statements, distribution and capital statements and audited accounts, where available;
- where audited accounts were available, we checked that they were supported by a clear opinion; and
- agreed the price to independent evidence, for those valuations not supported by valuation statements.

Audit conclusion

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. We have not identified any such judgements.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the entity's accounting practices

We have reviewed the Pension Fund's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Pension Fund's circumstances.

Draft accounts were received from the Pension Fund on 31 May 2019 and were of a good quality.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2018/19 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such objections have been received in relation to the Pension Fund.

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	1
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other recommendations on internal control – Level 2

Description of deficiency

At the planning stage we noted that while management reviews the risk register on a regular basis, the PF Committee Members had not reviewed the risk register since December 2016 and did not have plans to do so until March 2019. The Pension Fund Committee terms of reference, however, state that the Committee will review and monitor the Pension Fund Risk Register annually. This is not considered to be an opinion risk but we was highlighted so that the Committee could respond.

Potential effects

Inadequate oversight of risk management by the Pension Fund Committee.

Recommendation

The Council should ensure policies are complied with.

Management response

The risk register was presented to the March Pension Fund Committee and will be considered by the Pension Fund at least annually going forward.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other recommendations on internal control – Level 3

Description of deficiency

Our testing of IT general controls noted the following matters:

- There was no specific periodic review of active directory accounts. We were informed by ICT Management that a recent review of old active directory accounts (i.e. older than 12 months) has been undertaken but this was undertaken outside of the audit period (i.e. post 31st March 2019).
- Resource Link (payroll system) password parameters, such as minimum character length, were not in line with the policy requirements.

Compensating controls are in place and neither matter affected our audit approach.

Potential effects

There is inappropriate access to the Council's financial systems.

Recommendation

The Council should ensure policies are complied with.

Management response

ICT are notified of all leavers via an electronic alert from the HR system and immediately deactivate the user account, however on rare occasions, when the user is an agency worker, ICT are not always informed when the user leaves. HR are to remind managers to report agency workers as leavers through the HR system and with immediate effect will run weekly reports out of the Agency Worker system in order that ICT are notified automatically to deactivate these users.

Resourcelink can only be accessed once the user is logged into the council's network and Pulse Secure is required to access systems outside of the council network, using dual authentication and a random token number. Signing in to the Resourcelink system also requires knowledge of the user's personal employee number and the answer to a secondary personalised security question. Going forward ICT are working towards single sign on to access the council's network and are to increase the security of devices when users work outside of the council's network using 'mobile device management' software.

ICT are also reviewing the current password policy.

Follow up of previous internal control points

The only internal control point raised in the prior year was a level 2 point in relation to IT leaver access deficiency wherein three leavers (from 25 tested) still had access to Council IT systems after their leaving date.

We carried out the same testing for our 2018/19 audit and there were no unexplained cases where employees still had access to IT systems after their leaving date.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified during the course of the audit, above the level of trivial threshold of £0.90m.

The table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

Unadjusted misstatements 2018/19

	Fund Account		Net Assets Statement	
	Dr (£m)	Cr (£m)	Dr (£m)	Cr (£m)
1 Investment assets				1,026
Profit and loss on disposal of investments and change in market value of investments		1,026		

Our audit testing of unquoted pooled property investments identified an extrapolated difference between the fair value of unquoted pooled property investments in the accounts compared to the fair value provided to us by the fund manager at the time of audit, due to more up to date information being available at the time. The actual difference on the sampled items was £0.722m.

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

The following disclosure amendments were made:

Note 4, Statement of Accounting Policies: Paragraph referring to acquisition costs of investments being added to book cost at time of purchase was removed as acquisition costs are now included within management expenses.

Note 12, Management Expenses: Additional narrative added to disclosure to reflect the fact that the Pension Fund will be charged an audit fee variation of £4,800 in relation to IAS19 assurance work carried out to provide assurance to employer auditors. This will be recharged by the Pension Fund to the relevant employers.

Note 16, Financial Instruments: Amendment to remove the category 'loans and receivables', which is no longer a class of financial instrument under IFRS 9. The category has been replaced with 'financial assets at amortised cost'.

General: A number of other minor changes were made to the financial statements not requiring individual analysis.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Durham County Council Pension Fund
County Hall
Durham
DH1 5UL

31 July 2019

Dear Mark

Durham County Council Pension Fund - audit for year ended 31 March 2019

This representation letter is provided in connection with your audit of the financial statements of Durham County Council Pension Fund ('the Pension Fund') for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Corporate Director Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Pension Fund's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at fair value, are reasonable.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

(CONTINUED)

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Pension Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom. The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Corporate Director Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Assets

I confirm that all assets held are free from liens, charges or any other encumbrance.

Related party transactions

I confirm that all related party relationships, transactions and balances have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER (CONTINUED)

Going concern

To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Specific representation on unquoted investments

Unquoted investments are included in the net assets statement at the value provided by our fund managers which have been estimated in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Yours sincerely

Corporate Director Resources

APPENDIX B

DRAFT AUDITOR'S REPORT

Independent auditor's report to the members of Durham County Council

Report on the financial statements

Opinion on the financial statements of Durham County Council

We have audited the financial statements of Durham County Council ('the Council') for the year ended 31 March 2019, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31st March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Opinion on the financial statements of Durham County Council Pension Fund

We have audited the financial statements of Durham County Council Pension Fund ('the Pension Fund') for the year ended 31 March 2019, which comprise the Fund Account, the Net Assets Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of Durham County Council Pension Fund during the year ended 31 March 2019, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council and the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director of Resources use of the going concern basis of accounting in the preparation of the Council's and the Pension Fund's financial statements is not appropriate; or
- the Corporate Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's or the Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

Other information

The Corporate Director of Resources is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinions on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Corporate Director of Resources for the financial statements

As explained more fully in the statement of the Corporate Director of Resources' Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Council's and Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Corporate Director of Resources is also responsible for such internal control as the Corporate Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Corporate Director of Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Corporate Director of Resources is responsible for assessing each year whether or not it is appropriate for the Council and the Pension Fund to prepare the accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Council's and Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

APPENDIX B

DRAFT AUDITOR'S REPORT (CONTINUED)

Conclusion on Durham County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Durham County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of Durham County Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

We certify that we have completed the audit of Durham County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Mark Kirkham
For and on behalf of Mazars LLP
Salvus House
Ayckley Heads
Durham
DH1 5TS
31 July 2019

APPENDIX C

DRAFT CONSISTENCY REPORT

Independent Auditor's Statement to the Members of Durham County Council on the Pension Fund Financial Statements included within Durham County Council Pension Fund Annual Report

We have examined the Pension Fund financial statements for the year ended 31 March 2019 included within the Durham County Council Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the related notes.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of Durham County Council for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Respective responsibilities of the Corporate Director Resources and the auditor

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director Resources is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of Durham County Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Durham County Council.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of Durham County Council describes the basis of our opinions on the financial statements.

Use of this auditor's statement

This report is made solely to the members of Durham County Council, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of Durham County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Durham County Council and Durham County Council's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Mark Kirkham
For and on behalf of Mazars LLP

Salvus House,
Aykley Heads,
Durham
DH1 5TS
31 July 2019

APPENDIX D INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

CONTACT

Mark Kirkham

Partner

Phone: 0113 387 8850

Mobile: 07747 764 529

Email: mark.kirham@mazars.co.uk

Sharon Liddle

Manager

Phone: 0191 383 6311

Mobile: 07881 283 343

Email: sharon.liddle@mazars.co.uk

Pension Fund Committee

12 September 2019

**Pension Fund Accounts for the year
ended 31 March 2019**

Ordinary Decision



Report of John Hewitt, Corporate Director of Resources

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To present to Members the audited Pension Fund Accounts for the year ended 31 March 2019 which have been approved in accordance with the statutory deadlines and the council's constitution.

Executive Summary

- 2 In compliance with the Accounts and Audit Regulations 2015, the draft (unaudited) statement of accounts for Durham County Council, which includes the Pension Fund accounts, for the financial year ended 31 March 2019 was authorised by the responsible financial officer and published on the council's website on 31 May 2019.
- 3 The auditor has issued an unqualified opinion on the financial statements of the council and the Pension Fund. He has formally concluded the audit and issued his audit certificate.
- 4 On 31 July 2019, after considering the views of the external auditor, approval was given to the final statement of accounts by resolution of the council's Audit Committee. The statement of accounts was subsequently published on the council's website.
- 5 The Annual Report and Accounts of the Pension Fund, which contains the Pension Fund audited Statement of Accounts, for the year ended 31 March 2019, is expected to be published on the

council's website before 30 September 2019. The intention is to circulate this document to Members for presentation at the annual meeting of the Pension Fund to be held on 14 November 2019.

Recommendation

- 6 It is recommended that Members note the contents of the Pension Fund's financial statements for the financial year ended 31 March 2019 which are included as Appendix 1.

Background

- 7 In England and Wales, the 'Code of Practice on Local Authority Accounting 2018/19' (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.
- 8 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.
- 9 The 'Accounts and Audit Regulations 2015' requires 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. I am pleased to report that this first stage was completed by 31 May 2019.
- 10 The second stage requires that on or before the 31 July, 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 takes into account the views of the External Auditor. This is done in order that that the Statement of Accounts can then be published.
- 11 The Statement of Accounts was approved by the Audit Committee and published on the council's website on 31 July 2019.
- 12 The Annual Report and Accounts of the Pension Fund, which contains the Pension Fund audited Statement of Accounts, for the year ended 31 March 2019, is expected to be published on the County Council's website before 30 September 2019. The intention is to present this document for information at the annual meeting of the Pension Fund on 14 November 2019.

Accounting Requirements

- 13 The Statement of Accounts for the financial year 2018/19 is prepared in accordance with the 'Accounts and Audit (England) Regulations 2015' and the 'Code of Practice on Local Authority Accounting 2018/19' (the Code) published by CIPFA.
- 14 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.
- 15 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.
- 16 The Code requires that the following are included in the Pension Fund Accounts:
 - a) a fund account - this shows the changes in net assets available for benefits;
 - b) a net assets statement - showing the assets available at the year end to meet benefits; and
 - c) notes to the accounts.

Key information from the Pension Fund Accounts

- 17 The Pension Fund accounts demonstrate that during 2018/19 net assets have increased by £180.3 million to £2,982.039 million due to:
 - a) a net withdrawal of £30.023 million as a result of the benefits paid to pensioners exceeding the contributions from members in year;
 - b) management expenses totalling £15.458 million in 2018/19; and

- c) a net gain of £225.781 million on the Pension Fund's investments.

Audit Opinion

- 18 On completion of the audit of the accounts, auditors must give their opinion on the financial statements of the Pension Fund, including:
 - a) whether they give a true and fair view of the financial position of the Pension Fund and the expenditure and income for the year in question; and
 - b) whether they have been prepared properly in accordance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
- 19 The auditor can issue a 'qualified opinion' where he has some reservations or concerns, or an 'unqualified opinion' where he does not have any such reservations.
- 20 For 2018/19, the auditor has issued an unqualified opinion on the accounts of the Pension Fund, has formally concluded the audit and issued his audit certificate.

Background Papers

- a) Audit Committee - 31 July 2019 - Audit Completion Report 2018/19 - Pension Fund
- b) Audit Committee - 31 July 2019 - Statement of Accounts for the year ended 31 March 2019

Contact: Beverley White

Tel: 03000 261900

Appendix 1

This page is intentionally left blank

Fund Account

2017-18			2018-19		
£000	£000		Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND					
-156,395		Contributions receivable	8	-99,068	
-6,453		Transfers in from other pension funds	9	-4,033	
-3		Other income		-3	
	-162,851				-103,104
117,788		Benefits payable	10	126,503	
11,279		Payments to and on account of leavers	11	6,624	
	129,067				133,127
	-33,784	Net withdrawals/ -additions from dealings with members, employers and others			30,023
	17,124	Management expenses	12		15,458
	-16,660	Net withdrawals/ -additions including Fund Management Expenses			45,481
RETURN ON INVESTMENTS					
- 28,093		Investment income	13	-26,513	
- 64,531		Profit and losses on disposal of investments and change in market value of investments	15	-199,268	
	-92,624	Net returns on investments			-225,781
	-109,284	NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR			-180,300

Net Assets Statement

31 March 2018		31 March 2019		
£000	£000	Notes	£000	£000
INVESTMENT ASSETS				
307,224		Equities	15	348,884
556,309		Bonds	15	575,582
<u>1,838,878</u>		Pooled investment vehicles	15	<u>1,962,121</u>
	2,702,411			2,886,587
304		Loans	15	279
		Other cash deposits:		
65,191		Fund Managers	15	40,910
35,041		Short term investments	15	36,933
3,552		Derivative contracts	15	7,052
	<u>104,088</u>			<u>85,174</u>
	2,806,499			2,971,761
Other Investment Assets				
1,611		Dividend accruals	15,18	1,642
597		Tax recovery	15,18	639
<u>21,483</u>		Other investment balances	15,18	<u>27,214</u>
	23,691			29,495
2,830,190	Total Investment Assets			3,001,256
INVESTMENT LIABILITIES				
-5,834		Derivative contracts	15	-3,993
<u>-25,981</u>		Other investment balances	19	<u>-18,486</u>
	-31,815	Total Investment Liabilities		-22,479
2,798,375	NET INVESTMENT ASSETS			2,978,777
	417	Long Term Assets	18	208
Current assets				
7,760		Contributions due from employers	18	8,189
<u>1,394</u>		Other current assets	18	<u>1,862</u>
	9,154			10,051
Current liabilities				
<u>-6,207</u>		Current liabilities	19	<u>-6,997</u>
	<u>-6,207</u>			<u>-6,997</u>
2,801,739	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			2,982,039

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 24.

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.

	2014/15	2015/16	2016/17	2017/18	2018/19
Contributing Members	18,011	18,530	18,630	19,219	20,116
Pensioners in Payment	17,193	17,715	18,139	18,618	19,404
Pensioners Deferred	13,165	14,451	15,104	15,746	15,987

In comparison to the figures reported at 31 March 2018, the number of pensionable employees in the Fund at 31 March 2019 has increased by 897 (4.67%), the number of pensioners has increased by 786 (4.22%) and deferred pensioners have increased by 241 (1.53%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 112 at 31 March 2019), 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 10 and 8 accordingly.

2017-18			2018-19	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
90,326	-113,692	Administering Authority	94,357	-59,075
20,549	-34,888	Scheduled Bodies	24,210	-31,424
6,913	-7,815	Admission Bodies	7,936	-8,569
117,788	-156,395		126,503	-99,068

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 2018/19 (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 23.

3. Accounting Standards issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

No such accounting standards have been identified for 2018/19 that are applicable to the pension fund accounts.

4. 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). The Fund has a policy of accruing for items of £10k or over, unless in exceptional circumstances.

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 12 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:

- dividend income 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 using the effective interest rate of the financial instrument as at the date of acquisition.
- 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.

Voluntary and Mandatory Scheme Pays (VSP, MSP) and Lifetime Allowances

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

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;

- Shares in the Border to Coast Pensions Pool (BCPP) have been valued at cost as a proxy for fair value;
- 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 22.

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.

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 in the Fund Account as part of the Change in Value of Investments. Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

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 24).

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 20 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 8 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.

5. 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 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. These assumptions are summarised in Note 24.

6. 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 23 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: <ul style="list-style-type: none"> - 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 2019 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 16) is £171.0m at 31/3/19 (£158.0m at 31/3/18). This consists of the Fund's unlisted property holding. In line with the market risk section within Note 17, there is a risk that the value of the Fund may be over/ under stated in the accounts by £23.77m (£22.28m at 31/3/18), which represents the potential market movement on the value of the unlisted property.

7. Events After the Reporting Period

There have been no events after 31 March 2019 which require any adjustments to be made to these accounts.

8. Contributions Receivable

2017-18 £000		2018-19 £000
	Employer contributions:	
-59,903	Normal	-63,158
-3,994	Augmentation	-4,247
-68,915	Deficit funding	-7,293
	Member contributions:	
-23,493	Normal	-24,298
-90	Additional contributions	-72
-156,395		-99,068
-113,692	Administering Authority	-59,075
-34,888	Scheduled Bodies	-31,424
-7,815	Admission Bodies	-8,569
-156,395		-99,068

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.

9. Transfers in from other pension funds

2017-18 £000		2018-19 £000
-6,453	Individual Transfers	-4,033
-6,453		-4,033

10. Benefits Payable

2017-18 £000		2018-19 £000
96,884	Pensions	102,008
23,094	Commutations and lump sum retirement benefits	26,989
2,332	Lump sum death benefits	1,944
-4,522	Recharged benefits	-4,438
117,788		126,503
90,326	Administering Authority	94,357
20,549	Scheduled Bodies	24,210
6,913	Admission Bodies	7,936
117,788		126,503

11. Payments To And On Account Of Leavers

2017-18			2018-19	
£000			£000	
327		Refunds to members leaving service		256
20		Payments for members joining state scheme		1
10,932		Individual transfers to other schemes		6,367
<u>11,279</u>			<u>6,624</u>	

12. 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; when applicable 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.

2017-18			2018-19	
£000	£000		£000	£000
	1,000	Administration expenses		996
		Investment Management expenses		
10,210		Management fees	11,202	
116		Performance fees	203	
150		Custody fees	158	
4,744		Transaction costs	1,914	
	15,220			13,477
	904	Oversight and Governance costs		985
	<u>17,124</u>			<u>15,458</u>

All of the Fund's managers provided information on transaction costs for 18/19, which total £1.914m. Only 6 of the 7 managers provided transaction costs for 2017/18, making up the total of £4.744m.

- Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2018/19 of £0.025m (£0.026m in 2017/18). Included in the 2018/19 audit fee is £4,800 for audit work undertaken on behalf of auditors of fund employers in relation to IAS 19 assurance. These fees will be recharged to the employers to whom the information is provided. No fees have been paid to Mazars in 2018/19 in respect of non-audit work.

13. Investment Income

2017-18 £000		2018-19 £000
-3,264	Interest from bonds	-2,659
-9,838	Dividends from equities	-9,997
-220	Interest on cash deposits	-847
-14,771	Income from pooled investment vehicles	-13,010
<u>-28,093</u>		<u>-26,513</u>

14. 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.

15. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2018/19 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 during 2019/20.

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

The strategic asset allocation as at 31 March was as follows:

31 March 2018	Asset Class	31 March 2019
%		%
40	Global equities	40
15	Global Bonds	15
0	Dynamic Asset Allocation	0
8	Global property	8
10	Private Markets	10
7	Emerging Market Equities	7
20	Investment grade sterling bonds	20
100		100

Although the strategic asset allocation was reviewed and agreed during 2018/19, funds have yet to be transferred between managers and asset classes. Therefore the actual allocations vary from the strategic allocations. The actual market values of investments held by each Investment Manager as at 31 March were as follows :

31 March 2018		Investment Manager	Asset Class	31 March 2019	
£000	%			£000	%
450,516	16.29	Aberdeen Standard	Global equities	487,448	16.63
396,399	14.34	AB	Global Bonds	401,460	13.70
466,030	16.85	BNYM	Global equities	566,360	19.33
481,305	17.41	BlackRock	Dynamic Asset Allocation	477,375	16.29
225,228	8.14	CBRE	Global property	218,754	7.46
204,554	7.40	Mondrian	Emerging Market Equities	215,055	7.34
541,288	19.57	RLAM	Investment grade sterling bonds	563,271	19.22
-	0.00	BCPP	Unquoted UK Equity	833	0.03
2,765,320	100.00			2,930,556	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 2019 excludes loans of

£0.279m, cash invested by the administering authority of £36.933m, other investment assets of £29.495m and other investment liabilities of £18.486m (£0.304m, £35.041m, £23.691m and £25.981m respectively as at 31 March 2018).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2019, £2,931m (98.38%) is invested through Investment Managers (£2,765m or 98.82% at 31 March 2018).

Reconciliation of Movements in Investments 2018/19

Investment category	Value at 31 March 2018	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2019
	£000	£000	£000	£000	£000
Equities	307,224	172,889	-147,387	16,158	348,884
Bonds	556,309	2,102,826	-2,116,491	32,938	575,582
Pooled investment vehicles	1,838,878	145,824	-191,410	168,829	1,962,121
	2,702,411	2,421,539	-2,455,288	217,925	2,886,587
Derivative contracts:					
Futures, margins & options	107	2,960	-848	-508	1,711
Forward foreign currency	-2,389	55,682	-32,803	-19,142	1,348
	2,700,129	2,480,181	-2,488,939	198,275	2,889,646
Other investment balances:					
Loans	304				279
Other cash deposits	100,232			993	77,843
Dividend accruals	1,611				1,642
Tax recovery	597				639
Other investment balances	-4,498				8,728
Net Investment Assets	2,798,375			199,268	2,978,777

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 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	149,452	-128,009	2,839	307,224
Bonds	580,729	2,201,577	-2,228,991	2,994	556,309
Pooled investment vehicles	1,778,540	228,336	-201,057	33,059	1,838,878
	2,642,211	2,579,365	-2,558,057	38,892	2,702,411
Derivative contracts:					
Futures, margins & options	734	17,911	-18,741	203	107
Forward foreign currency	801	27,922	-59,784	28,672	-2,389
	2,643,746	2,625,198	-2,636,582	67,767	2,700,129
Other investment balances:					
Loans	327				304
Other cash deposits	39,922			-3,236	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			64,531	2,798,375

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

31 March 2018			31 March 2019	
£000	£000		£000	£000
ASSETS INVESTED THROUGH FUND MANAGERS				
Bonds				
510,526		UK - Public sector - quoted	514,079	
41,089		Overseas - Public sector - quoted	56,628	
4,694		Overseas - Corporate - quoted	4,875	
	556,309			575,582
Equities				
40,758		UK quoted	32,258	
-		UK unquoted	833	
266,466		Overseas quoted	315,793	
	307,224			348,884
Pooled Investment Vehicles				
130,441		Managed funds - non property - UK quoted	117,374	
1,517,240		Managed funds - non property - overseas quoted	1,633,504	
2,202		Unit Trusts - property - UK quoted	1,703	
18,345		Unit Trusts - property - UK unquoted	17,968	
30,980		Unit Trusts - property - Overseas quoted	38,511	
139,670		Unit Trusts - property - Overseas unquoted	153,061	
	1,838,878			1,962,121
Derivative Contracts				
3,552		Assets	7,052	
-5,834		Liabilities	-3,993	
	-2,282			3,059
65,191	65,191	Fund Managers' Cash	40,910	40,910
2,765,320		NET ASSETS INVESTED THROUGH FUND MANAGERS		2,930,556
OTHER INVESTMENT BALANCES				
35,041		Short term investments (via DCC Treasury Management)		36,933
304		Loans		279
23,691		Other investment assets		29,495
-25,981		Other investment liabilities		-18,486
2,798,375		NET INVESTMENT ASSETS		2,978,777

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:

31 March 2018		Derivative Contracts	31 March 2019	
£000	£000		£000	£000
1,530		Forward foreign currency		
<u>-3,919</u>		Assets	4,798	
	-2,389	Liabilities	<u>-3,450</u>	
		Net Forward foreign currency		1,348
		Futures		
1,865		Assets	1,302	
<u>-1,885</u>		Liabilities	<u>-543</u>	
	-20	Net Futures		759
		Options		
157		Assets	952	
<u>-30</u>		Liabilities	<u>-</u>	
	127	Net Options		952
	<u><u>-2,282</u></u>	Net market value of derivative contracts		<u><u>3,059</u></u>

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 2019 and 31 March 2018.

31 March 2019

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	USD	3,000,000	CHF	-2,920,743	51	
0 to 1 month	GBP	70,496,283	EUR	-78,780,000	2591	
0 to 1 month	GBP	6,044,228	EUR	-6,900,000	97	
0 to 1 month	EUR	46,475,000	USD	-53,642,607		-1097
0 to 1 month	EUR	11,000,000	USD	-12,394,146		-26
0 to 1 month	GBP	3,392,382	JPY	-470,000,000	133	
0 to 1 month	GBP	146,780,186	USD	-189,330,000	1542	
0 to 1 month	USD	15,736,634	GBP	-12,200,000		-128
0 to 1 month	GBP	5,537,708	USD	-7,300,000		-62
0 to 1 month	GBP	1,931,180	USD	-2,500,000	13	
0 to 1 month	USD	10,600,000	TWD	-326,215,000	22	
0 to 1 month	USD	10,600,000	TWD	-326,904,000	5	
0 to 1 month	USD	10,230,000	TWD	-316,004,700		-8
0 to 1 month	USD	1,841,400	TWD	-56,899,260		-2
0 to 1 month	USD	1,790,000	TWD	-55,311,000		-2
0 to 1 month	USD	1,790,000	TWD	-55,298,470		-2
0 to 1 month	USD	1,795,000	TWD	-55,447,550		-1
0 to 1 month	USD	1,153,600	TWD	-35,634,704		-1
3 to 6 months	GBP	8,424,637	EUR	-9,640,000	100	
3 to 6 months	EUR	5,685,000	GBP	-4,950,083		-41
3 to 6 months	GBP	214,054	AUD	-400,000		-4
3 to 6 months	GBP	5,464,373	EUR	-6,374,000		-40
3 to 6 months	EUR	5,594,000	GBP	-4,787,066	44	
3 to 6 months	EUR	4,681,000	GBP	-4,032,911	9	
3 to 6 months	GBP	7,882,159	EUR	-9,139,000		-10
3 to 6 months	GBP	7,343,312	USD	-9,674,902		-59
3 to 6 months	GBP	3,717,397	EUR	-4,326,000		-18
3 to 6 months	GBP	449,138	USD	-590,000		-2
3 to 6 months	EUR	9,177,000	GBP	-7,939,527		-15
3 to 6 months	USD	9,745,313	GBP	-7,445,115	11	
3 to 6 months	EUR	4,320,000	GBP	-3,701,817	29	
3 to 6 months	GBP	1,936,899	USD	-2,573,364		-32
3 to 6 months	USD	3,030,000	GBP	-2,271,092	47	
3 to 6 months	GBP	2,282,166	USD	-3,040,000		-44
3 to 6 months	GBP	1,649,515	EUR	-1,917,000		-6
3 to 6 months	GBP	4,146,683	EUR	-4,778,000	21	
3 to 6 months	GBP	8,225,859	EUR	-9,466,000	52	
3 to 6 months	GBP	7,956,675	USD	-10,496,000		-74
3 to 6 months	GBP	7,120,239	EUR	-8,278,000		-28
3 to 6 months	GBP	2,398,312	USD	-3,174,000		-30
3 to 6 months	GBP	5,643,589	EUR	-6,563,000		-24
3 to 6 months	EUR	1,636,000	GBP	-1,396,198	17	
3 to 6 months	EUR	1,201,000	GBP	-1,024,933	12	
3 to 6 months	EUR	5,150,000	GBP	-4,445,392	2	
3 to 6 months	USD	4,636,000	GBP	-3,548,732		-2
1 to 3 months	EUR	40,560,857	GBP	-34,727,395		-329
1 to 3 months	EUR	2,037,142	GBP	-1,744,160		-17
1 to 3 months	GBP	2,921,869	AUD	-5,466,156		-50

1 to 3 months	GBP	17,123,018	AUD	-32,033,296	-295
1 to 3 months	GBP	2,382,240	DKK	-20,717,388	-18
1 to 3 months	GBP	1,999,463	JPY	-290,518,952	-20
1 to 3 months	GBP	14,610,374	JPY	-2,122,865,411	-147
1 to 3 months	GBP	1,029,231	JPY	-149,545,732	-10
1 to 3 months	GBP	1,373,031	SEK	-16,767,597	-17
1 to 3 months	GBP	110,594	USD	-146,578	-1
1 to 3 months	GBP	60,670,273	USD	-80,410,438	-784
1 to 3 months	GBP	186,789	USD	-247,564	-2
1 to 3 months	GBP	132,414	USD	-175,497	-2

4,798	-3,450
--------------	---------------

Net forward foreign currency contracts at 31 March 2019

1,348

31 March 2018

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

Net forward foreign currency contracts at 31 March 2018

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:

<u>2018-19</u>		Expires	Product Description	Currency	Market Value at 31 March 19	
					£000	£000
Assets						
Overseas fixed interest	1 to 3 months	US 10YR NOTE JUN 19 19/6/2019	USD	285		
Overseas fixed interest	1 to 3 months	US 5YR NOTE JUN 19 28/6/2019	USD	550		
Overseas equity	0 to 1 month	BIST 30 FUTURES APR 19	TRY	276		
Overseas equity	1 to 3 months	EURO STOXX 50 JUN 19	EUR	46		
Overseas equity	1 to 3 months	TOPIX INDEX JUN 19	JPY	145		
Total assets						1,302
Liabilities						
Overseas equity	1 to 3 months	WIG20(PLN20) INDEX JUN	PLN	-18		
Overseas equity	1 to 3 months	S&P500 EMINI JUN 19	USD	-394		
UK equity	1 to 3 months	FTSE 100 INDEX JUN 19	GBP	-131		
Total liabilities						-543
Net Futures Contracts at 31 March 2019						759

<u>2017-18</u>		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	USD	22		
Overseas bonds	3 to 6 months	EURO-BUND JUN 18	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	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

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.

2018-19

Type	Expires	Product Description	Currency	Market Value at 31 March 19 £000
Assets				
Overseas fixed interest	1 to 3 months	GBP C USD P @1.350000 EO	GBP	177
Overseas equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 20/12/2019 C @ 3350.000	EUR	775
Total assets				952
Liabilities				-
Net Options at 31 March 2019				952

2017-18

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

Investments Exceeding 5% of Net Assets

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 2019		At 31 March 2018	
		£m	%	£m	%
BNYM Long Term Global Equity	BNYM	566.36	18.99	466.03	16.63
AAM L and P World Equity	Aberdeen Standard	487.45	16.35	450.52	16.08
Diversified Yield Plus	AB	401.46	13.46	396.40	14.15

16. 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 accounting standards for financial instruments have changed between financial years. In 2017-18 the accounting standard was International Accounting Standard 39 (IAS39), and in 2018-19 the accounting standard is International Financial Reporting Standard 9. The change in accounting standards has not changed the treatment of the Fund's financial instruments, but financial assets classified as loans and receivables under IAS39 are classified as financial assets at amortised cost under IFRS9.

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

2017-18			2018-19		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial assets			Financial assets		
307,224			348,884		
556,309			575,582		
1,838,878			1,962,121		
3,552			7,052		
	304			279	
	65,191			40,910	
	35,041			36,933	
	23,691			29,495	
	9,571			10,259	
2,705,963	133,798	-	2,893,639	117,876	-
Financial liabilities			Financial liabilities		
-5,834			-3,993		
		-32,188			-25,483
-5,834	-	-32,188	-3,993	-	-25,483
2,700,129	133,798	-32,188	2,889,646	117,876	-25,483
	2,801,739	Net Assets at 31 March		2,982,039	

Net gains and losses on financial instruments

31 March 2018		31 March 2019
£000		£000
Financial Assets		
67,767	Fair Value through profit and loss	198,275
-3,236	Loans and receivables	-
-	Financial assets measured at amortised cost	993
Financial Liabilities		
-	Fair Value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
64,531	Total	199,268

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 include unquoted property funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2019 and 31 March 2018, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Financial Assets at fair value through profit and loss	2,716,801	5,809	171,029	2,893,639
Financial assets at amortised cost	117,876	-	-	117,876
Total Financial Assets	2,834,677	5,809	171,029	3,011,515
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-2,663	-1,330		-3,993
Financial Liabilities at amortised cost	-25,483			-25,483
Total Financial Liabilities	-28,146	-1,330	-	-29,476
Net Financial Assets	2,806,531	4,479	171,029	2,982,039

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Financial Assets at fair value through profit and loss	2,546,418	1,530	158,015	2,705,963
Loans and receivables	133,798	-	-	133,798
Total Financial Assets	2,680,216	1,530	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	2,646,113	-2,389	158,015	2,801,739

17. 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 15. 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 2018/19 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 2019 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen Standard	Global equity	487,448	19.2%	581,038	393,858
AB	Broad Bonds	401,460	8.0%	433,577	369,343
BNYM	Global equity	566,360	19.2%	675,101	457,619
BlackRock	DAA	464,634	9.7%	509,703	419,565
CBRE	Unlisted property	171,029	13.9%	194,802	147,256
CBRE	Listed property	40,214	22.2%	49,142	31,286
Mondrian	Emerging market equity	212,439	25.4%	266,399	158,479
RLAM	UK Index Linked Gilts	542,170	9.2%	592,050	492,290
BCPP	Unquoted UK Equity	833	0.0%	833	833
	Loans	279	0.0%	279	279
	Cash	77,843	0.0%	77,843	77,843
	Net derivative assets	3,059	0.0%	3,059	3,059
	Net investment balances	11,009	0.0%	11,009	11,009
Total change in net investment assets available		2,978,777		3,394,835	2,562,719

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

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 2019 and the effect of a +/- 25 Basis Points (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 2019 £000	Change in year in the net assets available to pay benefits	
		+25 BPS £000	-25 BPS £000
Cash and cash equivalents	77,843	195	-195
Fixed interest securities	33,412	84	-84
Total change in net investment assets available	111,255	279	-279

Asset type	Asset Values at 31 March 2018 £000	Change in year in the net assets available to pay benefits	
		+25 BPS £000	-25 BPS £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

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	Value on	Value on
				31 March 19	increase	decrease
				£000	£000	£000
Aberdeen Standard	Global Equity	86%	15%	487,448	550,329	424,567
AB	Broad Bonds	0%	0%	401,460	401,460	401,460
BlackRock	DAA	5%	10%	566,360	569,192	563,528
BNYM	Global Equity	94%	15%	464,634	530,147	399,121
CBRE	Global Property	18%	10%	211,243	215,045	207,441
Mondrian	Emerging market equity	100%	15%	212,439	244,305	180,573
RLAM	UK Index Linked Gilts	0%	0%	542,170	542,170	542,170
BCPP	Unquoted UK Equities	0%	0%	833	833	833
	Loans	0%	0%	279	279	279
	Cash	11%	10%	77,843	78,699	76,987
	Net derivative assets	0%	0%	3,059	3,059	3,059
	Net investment balances	0%	0%	11,009	11,009	11,009
Total change in net investment assets available				2,978,777	3,146,527	2,811,027

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at	Value on	Value on
				31 March 18	increase	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

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 2019, this level of exposure to the Custodian is 1.4% of the total value of the portfolio (2.4% as at 31 March 2018).

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 £36.933m as at 31 March 2019 (£35.041m at 31 March 2018). This was held with the following institutions:

	Rating as at 31 March 2019	Balances as at 31 March 2019 £000	Rating as at 31 March 2018	Balances as at 31 March 2018 £000
Bank Deposit Accounts				
Handelsbanken	F1+	3,129	F1+	955
Fixed Term Deposits				
Bank of Scotland	F1	5,230	F1	6,729
Close Brothers	F1	1,307		-
Goldman Sachs	F1	1,307	F1	4,205
Santander UK Plc	F1	5,885	F1	1,682
UK Local Authorities	N/A	19,944	N/A	15,140
Income Bond				
National Savings & Investments	N/A	131	N/A	168
Other				
Money Market Funds	N/A	-	N/A	6,162
Total		36,933		35,041

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.

18. Analysis of Debtors

2017-18 £000	Included in the Net Assets Statement as:	2018-19 £000
417	Long Term Assets	208
23,691	Other Investment Assets	29,495
9,154	Current Assets	10,051
33,262		39,754

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.

19. Analysis of Creditors

2017-18 £000	Included in the Net Assets Statement as:	2018-19 £000
-25,981	Investment Liabilities - Other balances	-18,486
-6,207	Current Liabilities	-6,997
-32,188		-25,483

All of the £25.483m is expected to be paid by the Pension Fund within 12 months after the year end.

20. 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 2018 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2019 £000
Equitable Life	1,826	13	310	67	1,596
Prudential	5,954	1,817	1,116	219	6,874
Standard Life	1,727	183	258	60	1,712
Total	9,507	2,013	1,684	346	10,182

* Purchases represent the amounts paid to AVC providers in 2018/19

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.

21. 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	
		2017/18	2018/19
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£156.395m	£99.068m
Debtors	Amounts due in respect of employers and employee contributions	£7.344m	£7.770m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.598m	£1.608m
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	£1.598m	£1.608m
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 £0.214m	Loans outstanding £0.200m
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 = £27.093m Interest = £0.113m	Balance = £36.119m Interest = £0.262m

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 2019 there were 4 Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; a further 3 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:

2017-18 £000		2018-19 £000
101	Short-term benefits	87
27	Post-employment benefits	23
<u>128</u>		<u>110</u>

22. 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, and therefore it is not possible to estimate the value of any future contributions. However, 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, therefore it is not possible to estimate the value of any reclaims.

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.

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, therefore it is not possible to estimate the value of these claims.

23. 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:

Financial Assumptions	Valuation as at 31 March 2016	Valuation as at 31 March 2013
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

24. 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 23 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

25. 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.

26. 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

12 September 2019

**Pension Fund Committee Training
Needs Analysis**



Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

- 1 This report provides the outcome of the self-assessment training needs analysis carried out by member of the Committee and sets out a proposal to address the needs identified.

Executive summary

- 2 Committee members are asked to complete a self-assessment training needs analysis questionnaire in order to identify areas where further training may be required. A copy of the training needs questionnaire is included at Appendix 1.

- 3 The training needs analysis asks Members to rate themselves in a wide range of knowledge areas according to the following scale:

1 = I have no knowledge and understanding of this area

2 = I have a basic knowledge and understanding of this area

3 = I have appropriate knowledge and understanding of this area

4 = I have a good knowledge and understanding of this area

5 = I have an excellent understanding and am confident in this area

- 4 Analysis of the self-assessments will identify areas of training needs, and how these needs could best be met.

Recommendation(s)

- 5 That Members note this report and agree:
 - i) To complete the self-assessment questionnaire included in Appendix 1, and return to the Pensions Manager, Paul Cooper;

- ii) That the Pensions Manager arranges training as necessary based upon the training needs identified, and;
- iii) That the training needs analysis questionnaire is recirculated to Members after the training session for completion and review.

Contact: Paul Cooper

Tel: 03000 269798

Appendix 1: Training needs analysis questionnaire

This page is intentionally left blank

Appendix 1 - Training Needs Analysis Self Assessment Questionnaire

Please enter a score in the column which corresponds to your current level of understanding using the following scale:

- 1 = I have no knowledge and understanding of this area
- 2 = I have a basic knowledge and understanding of this area
- 3 = I have appropriate knowledge and understanding of this area
- 4 = I have a good knowledge and understanding of this area
- 5 = I have an excellent understanding and am confident in this area

1. Pensions legislation	Score (1-5)
A general awareness of the pensions legislative framework in the UK.	
An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment.	
An awareness of the LGPS Regulations and their main features.	
An understanding of choices (discretions) employers have in the LGPS and how the way these choices are exercised can affect the pension fund, employers and taxpayers.	

2. Pensions governance	Score (1-5)
Knowledge of the role of the administering authority in relation to the LGPS	
An understanding of how the roles and powers of the Department for Communities and Local Government, the Pensions Regulator, the Pensions Advisory Service, the Pensions Ombudsman and the Scheme Advisory Board relate to the workings of the scheme.	
Broad understanding of the role of pensions fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.	
Awareness of the role and statutory responsibilities of the Director of Resources and the Monitoring Officer.	
An awareness of the main features of the LGPS	
A detailed knowledge of the duties and responsibilities of committee members.	
Knowledge of the stakeholders of the pension fund and the nature of their interests.	
Knowledge of consultation, communication and involvement options relevant to the stakeholders.	
An understanding of how pooling will impact on governance of the LGPS.	

3. Pensions administration	Score (1-5)
Understanding of the required and adopted scheme policies and procedures relating to: <ul style="list-style-type: none"> • member data maintenance and record-keeping processes • internal dispute resolution • contributions collection • scheme communication and materials 	
Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).	
An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration	
An understanding of what Additional Voluntary Contribution (AVC) arrangements exist and the principles relating to the operation of those arrangements	

4. Pensions accounting and auditing standards	Score (1-5)
Awareness of the role of the Audit committee in approving the accounts, and the role of the Director of Resources and the auditor in signing off the accounts and annual report.	
Awareness of the role of both internal and external audit in the governance and assurance process.	

5. Financial services procurement and relationship management	Score (1-5)
Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.	
A general understanding of the main public procurement requirements of UK and EU legislation.	
An understanding of how the Pension Fund monitors and manages the performance of outsourced providers	

6. Investment performance and risk management	Score (1-5)
Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks	
Performance of advisors – awareness of the <i>Principles for Investment Decision Making and Disclosure</i> on performance management and the approach adopted by the committee.	
Performance of the committee – awareness of the <i>Principles for Investment Decision Making and Disclosure</i> and the need to set targets for the committee and to report against them.	
An awareness of the Myners principles of performance management and the approach adopted by the Council (as set out in the Pension Fund's Investment Strategy Statement)	
Performance of support services – awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	
An understanding of how pooling will impact on the monitoring of asset returns and performance measurement.	

7. Financial markets and products knowledge	Score (1-5)
Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property etc.).	
Understanding of the role of these assets classes in long-term pension fund investing.	
Understanding of the primary importance of the Pension Fund's Investment Strategy Statement and investment strategy decisions.	
A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.	
An awareness of the limits placed by regulation on the investment activities of local government pension funds.	
An understanding of how MIFID II will have an impact on Local Government Pension Fund activities.	
Awareness of how pooling will impact on the investment activities of local government pension funds.	

8. Actuarial methods, standards and practices	Score (1-5)
A general understanding of the role of the fund actuary	
Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and the inter-valuation monitoring.	
Awareness of the importance of monitoring early and ill health retirement strain costs.	
A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.	
A general awareness of the relevant considerations in relation to outsourcing and bulk transfers.	
A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers	

Please add a comment where your level of understanding is 2 or below, indicating the specific areas you feel you need further training to cover.

Comments – please complete if scored any of the above as 1 or 2

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

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