Pension Fund Committee

Date	**Thursday 11 March 2021**
Time	**9.30 am**
Venue	**Remote Meeting - This meeting is being held remotely via Microsoft Teams**

Business

Part A

Items which are open to the Public and Press

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 3 December 2020 (Pages 5 - 12)
4. Pension Fund Committee Training (Pages 13 - 14)
5. Overall Value of Pension Fund Investments to 31 December 2020 (Pages 15 - 18)
6. Performance Measurement of Pension Fund Investments to 31 December 2020 (Pages 19 - 28)
7. Provision of Treasury Management Services to the Pension Fund for 2021/22 (Pages 29 - 32)
8. Short Term Investments for the Period Ended 31 December 2020 (Pages 33 - 34)
9. Internal Audit Progress Report to 31 December 2021 (Pages 35 - 38)
10. Draft Audit Plan 2021/2022 (Pages 39 - 42)

11. Agreement of Accounting Policies for Application in the 2020/21 Financial Statements of the Pension Fund (Pages 43 - 50)
12. Pension Fund Policy Documents - Funding Strategy Statement (Pages 51 - 98)
13. Pension Administration Report (Pages 99 - 108)
14. Feedback from Local Pension Board
15. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration
16. 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)

17. The Minutes of the Meeting held on 3 December 2020 (Pages 109 - 116)
18. Investment Strategy Review Update (Pages 117 - 120)
19. Report of the Pension Fund Adviser (Pages 121 - 156)
20. Report of Independent Adviser (Pages 157 - 174)
21. Report of Alliance Bernstein (Pages 175 - 184)
22. Report of BlackRock (Pages 185 - 200)
23. Report of CBRE Global Investment Partners (Pages 201 - 216)
24. Report of Mondrian Investment Partners (Pages 217 - 222)
25. Report of Border to Coast Pensions Partnership (Pages 223 - 248)
26. Border to Coast Pensions Partnership Private Monitor Report (Pages 249 - 290)
27. 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
3 March 2021

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)

Advisers:
County Council Officers
J Hewitt, P Darby, H Lynch, P Cooper, B White

Independent Advisers
S Dickson - Mercer
A Fletcher – MJ Hudson Allenbridge

Investment Managers
Alliance Bernstein
BlackRock
CBRE
Mondrian
BCPP

Observers
N Hancock – UNISON and Local Pension Board
L Timbey - GMB
Councillors A Hopgood and F Tinsley,
I Densham and L Oliver – Local Pension Board

Contact: Jill Errington **Tel: 03000 269703**

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held remotely via Microsoft Teams on **Thursday 3 December 2020 at 9.30 am**

Present:

Councillor M Davinson in the Chair

Durham County Councillors
O Temple (Vice-Chair) J Atkinson, J Lethbridge, S Hugill, B Kellett, and J Shuttleworth

Darlington Borough Council Member
Councillors C Johnson

Scheme Member Representatives
John Taylor

Further Education Colleges Representative
Andrew Broadbent

Council Advisers
Paul Cooper – Pensions Manager
Bryan Smith – Litigation Manager
Beverley White – Finance Manager

Independent Advisers
Sandy Dickson – Mercer
Anthony Fletcher – MJ Hudson

Observers
Councillor A Hopgood - Local Pension Board
N Hancock – UNISON and Local Pension Board
Les Timbey – GMB Branch Officer

Daniel Reay – Mazars
Andrew Stone – BCPP

1. Apologies for Absence

Apologies for absence were received from Councillors C Carr, J Carr and M Wilson (Durham County Council) and A Delandre (Scheme Member Representative).

2. Declarations of interest

There were no declarations of interest.

3. Minutes

The minutes of the meeting held on 10 September 2020 were confirmed as a correct record and would be signed by the Chair.

4. Pension Fund Committee Training

The Committee considered a report of the Corporate Director of Resources which provided an overview of the issues considered by the Committee at training held since the last meeting (for copy see file of minutes).

Resolved:
That the information contained in the report be noted.

5. Overall Value of Pension Fund Investments to 30 September 2020

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 30 September 2020, movement in the cash balance during the last four quarters and the projected cash flow position up to 31 December 2021 (for copy see file of minutes).

Resolved:
That the information contained in the report be noted.

6. Performance Measurement of Pension Fund Investments to 30 September 2020

The Committee considered a report of the Corporate Director of Resources which provided an overview of the performance of the Pension Fund's assets, which were being held outside of Border to Coast Pensions Partnership to 30 September 2020 (for copy see file of minutes).

Resolved:
That the information contained in the report produced by the Fund's custodian, Northern Trust be noted.

7. Internal Audit Progress Report to 30 September 2020

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work that had been carried out by Internal Audit during the period 1 April 2020 to

30 September 2020 as part of the 2020/2021 Internal Audit Plan (for copy see file of minutes).

Resolved:
That the work undertaken by Internal Audit during the period ending 30 September 2020 be noted.

8. Audit Completion Report - Independent Auditor

The Committee considered a report of the Council's External Auditors (Mazars) as a result of their audit of the Pension Fund's accounts for the year ended 31 March 2020 (for copy see file of minutes).

Daniel Reay of Mazars presented the Audit Completion Report and provided an update of the report that was presented to the Pension Fund Committee in September.

Councillor Shuttleworth referred to Appendix B of the audit report which stated there was a risk that current valuations may be under or overstated in the accounts due to the effects of COVID-19. He commented that the risk of valuation of property investments had been underestimated as opposed to overestimated and should be reflected in the report. Daniel Reay explained that the report recognised the uncertainty in the market in general due to COVID-19, not necessarily one way or the other.

Responding to a query from Councillor Davinson regarding the internal controls recommendation regarding members declaration of interests, Daniel Reay advised that work carried out in that area looked at declaration forms signed by Pension Fund Committee Members and Audit Committee Members. It was reported there was a total of five instances of incomplete forms for 2019/20. It was recognised that processes would be improved to ensure all declaration of interests were received.

Resolved:
That

a) the External Auditor's report following the audit of the Statement of Accounts for the year ended 31 March 2020, including the summary of misstatements detailed in section 4 of the report, be noted;
b) the content of the Management Representation letter (Appendix A), Auditors 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), be noted.

9. Pension Fund Accounts for the Year Ended 31 March 2020

The Committee considered a report of the Corporate Director of Resources which presented the audited Pension Fund Accounts for the year ended 31 March 2020 which had been approved in accordance with the statutory deadlines and the Council's Constitution (for copy see file of minutes).

The Finance Manager presented the report and highlighted the key financial information. She explained that due to COVID-19, statutory deadlines for approval and publication of the accounts were extended to the 31 August 2020 for the draft accounts and the 30 November 2020 for the final set of accounts.

The external auditors made a small number of minor amendments as set out in the Audit Completion report presented at item 8 on the agenda.

The Finance Manager was pleased to report that the accounts received a clean bill of health from the external auditors, Mazars who provided an unqualified opinion on the Pension Fund accounts for 2019/20 and that all the deadlines relating to this year's accounts and the Pension Fund Annual Report have been met.

Resolved:
That the contents of the Pension Fund's financial statements for the financial year ended 31 March 2020 at Appendix 1 of the report be noted.

10. Border to Coast Pensions Partnership Responsible Investment Policy

The Committee considered a report of the Corporate Director of Resources that provided an update on the approach to Responsible Investment at Border to Coast Pension Partnership (BCPP) (for copy see file of minutes).

The Pensions Manager presented the report and highlighted BCPP approach to engage companies to drive change for the better as opposed to a blanket policy of divestment from specific sectors. He also highlighted the forward view of areas that BCPP would be reviewing in 2021 and noted that BCPP could potentially vote against board chairs of companies where not enough progress had been made in relation to climate change.

Councillor Temple welcomed the report and felt that having a dedicated department to manage Responsible Investment would be a move forward. He asked if there was sufficient capacity to influence the decision to move towards disinvestment if it was felt appropriate in future. The Pensions Manager agreed that a dedicated department responsible for investment was a welcome addition and a real benefit. He advised that there would be an opportunity to influence the direction of travel and setting out a standalone policy on climate change next year. The committee would have an opportunity to revisit Responsible Investment in June 2021 and provide

feedback to BCPP. He added that the Responsible Investment policy is a collective one, with BCPP managing assets on behalf of all 11 partner funds in line with the policy. Feedback from the Committee following the training session in June 2021 would be valuable.

The Chair commented that all involved in the pool were discussing the same topics at different levels. Moving in the same direction would be dependent on which investments they already had and how well they were doing. He advised that South Yorkshire were furthest forward towards their goals of the councils who are on the BCPP and were looking to disinvest from fossil fuels by 2030.

Councill J Atkinson commented that Border to Coast have set their own climate change policy and highlighted that other council's may be more draconian than others. He suggested that Border to Coast would have to have a fixed policy to take to the pool and asked how it would be achieved taking into account 11 partners who may have different perspectives.

Andrew Stone from Border to Coast accepted that different partner funds would have their own views on Responsible Investment. He advised that policies are developed with the aim to achieve consensus and develop best practice in the market during the course of a six-month process. Some partner funds would continue to drive further along the spectrum and their own Responsible Investment policy may include things that do not feature in Border to Coast policies. South Yorkshire had set ambitious goals of carbon neutrality by 2030 and were undertaking their own analysis to try and come up with a plan to put into practise. Border to Coast policies on Responsible Investment were not much different to other larger managers and would be receiving the same engagement on certain topics and there would be a clear view coming through on more contentious matters. He further advised that if a partner fund wished to vote on their holding on a particular stock, it was well within their rights to do as long as sufficient notice was given.

Resolved:
That

a) that the Responsible Investment Policy and Corporate Governance and Voting Guidelines Policy included in Appendices 1 and 2 that BCPP will operate on behalf of the Pension Fund for assets transferred into the pool be approved;
b) that the Corporate Director of Resources be authorised to amend the Fund's Investment Strategy Statement (ISS) in line with the principles of BCPP's RI Policy.

11. Implementation of Exit Policy

The Committee considered a report of the Corporate Director of Resources which informed Members of the finalisation of the Fund's Exit Policy and sought delegation to make a determination on any exit credit that may become payable under the Policy (for copy see file of minutes).

Resolved:
That

a) the contents of the report and the Exit Policy set out in Appendix 1 be noted;
b) the Corporate Director of Resources be authorised to make a determination on the amount of any exit credit payable to an exiting employer, in line with the Fund's Exit Policy.

12. Such other business as, in the opinion of the Chair of the Meeting is of sufficient urgency to warrant consideration

There was no urgent business to consider.

13. 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.

14. Minutes

The minutes of the meeting held on 10 September 2020 were confirmed as a correct record and would be signed by the Chair.

15. Investment Strategy Review Update

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

Resolved:
That the recommendations in the report be approved.

16. Report of the Pension Fund Adviser

The Committee considered the report of the Independent Adviser, Sandy Dickson of Mercer (for copy see file of minutes).

Resolved:
That the information contained in the report be noted.

17. Report of the Pension Fund Independent Adviser

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

Resolved:
That the information contained in the report be noted.

18. Report of Alliance Bernstein

Consideration was given to a report from Alliance Bernstein 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 contained in the report be noted.

19. 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 contained in the report be noted.

20. Report of CBRE Global Investment Partners

Consideration was given to a report from CBRE 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 contained in the report be noted.

21. Report of Mondrian Investment Partners

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 contained in the report be noted.

22. Report of Royal London

Consideration was given to a report 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 contained in the report be noted.

23. Report of Border to Coast Pensions Partnership

Andrew Stone provided an update to Members on progress with the Border to Coast Pensions Partnership 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 contained in the report be noted.

24. Border to Coast Pensions Partnership Private Monitor Report as at 30 June 2020

The Committee considered a report of Northern Trust which provided an analysis of cash flow, portfolio funding, partnership performance and comparative analysis to 30 June 2020 (for copy see file of minutes).

Resolved:
That the information contained in the report be noted.

Pension Fund Committee

11 March 2021

Pension Fund Committee Training

Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

1 To provide an overview of the issues considered by the Committee at training held since the last Committee Meeting.

Executive summary

2 Since the last meeting of the Committee on 3 December 2020, a remote training event was held for members on 4 March 2021. At the March training session, the primary focus of the Committee was the subscription to Series 1c of Border to Coast Pension Partnership's (BCPP) Private Market offerings, and the coming sub-fund launch at BCPP of Listed Alternatives.

Recommendation(s)

3 Members are asked to note this report.

Background

4 On 4 March a remote training session was held for the Committee, via 'Teams'. The Committee were supported by Officers, the Fund's Investment Consultants Mercer, and Independent Advisors MJ Hudson Allenbridge. The Committee considered a range of issues including:

- BCPP Private Markets, investments to date and strategy for Series 1c
- BCPP Listed Alternatives
- Update on Delivery of Pension Fund services during lockdown;
- Update on Pension Fund Risk;
- Funding level update;

5 Training materials, and reports of BCPP were circulated to Members in advance of the training session.

Author(s)

Paul Cooper Tel: 03000 269798

Pension Fund Committee

11 March 2021

Overall Value of Pension Fund Investments to 31 December 2020

Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

1. To provide an update to Members on the:

   (a) overall value of the Pension Fund's investments at 31 December 2020;
   (b) movement in the cash balance during the last four quarters.

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 31 December 2020 the value of the Fund was £3.391 billion and the cash balance held in the Durham County Council Pension Fund bank account was £30.290 million. Fund Managers also held cash of £35.363 million at that date.

Recommendation

3. Members are asked to note the information contained within this report.

Background

Value of the Pension Fund

4. Reports from the five appointed fund managers, namely:

   - AB
   - BlackRock
   - BCPP
   - CB Richard Ellis
   - Mondrian

   are included in Part B of today's agenda.

5. The value of the Fund at 31 December 2020 was £3.391 billion compared to £3.143 billion at 30 September 2020. This is an increase of £248.4 million (or 7.9%) in the third quarter of 2020/21.

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

6. 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.

7. 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.

8. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. As at 31 December 2020 the cash balance held in the Durham County Council Pension Fund bank account was £30.290 million. In addition to this, not included in this table, fund managers were holding cash of £35.363 million at 31 December 2020.

9. During the quarter ending 31 December 2020, further drawdowns totalling £3.344 million were made to BCPP, to invest in private equity, infrastructure and private credit.

Fund Rebalancing

10. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to fund 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.

11. Due to the current suspension of fund rebalancing, there was no rebalancing exercise this quarter.

Contact: Beverley White Tel: 03000 261900

Appendix 1

Actual Cash Flow – For the period 1 January 2020 to 31 December 2020

Quarter Ended	31.03.20		30.06.20		30.09.20		31.12.20	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	15,250,000	15,291,976	46,070,000	45,283,011	16,900,000	15,889,112	16,500,000	16,975,404
Contributions - Other	10,480,000	10,584,857	10,480,000	11,331,498	10,480,000	11,981,629	11,600,000	12,574,269
Unfunded pensions recharges	1,080,000	1,705,261	1,080,000	1,020,500	1,050,000	720,935	1,050,000	1,105,483
Transfer Values	1,250,000	2,658,626	1,250,000	1,276,938	1,250,000	1,012,935	1,250,000	699,626
Other income	2,000,000	2,592,811	2,000,000	1,002,018	2,000,000	1,041,720	1,500,000	1,094,288
Funds recovered from Managers	0	0	0	0	0	0	0	0
Interest on short term investments	65,000	73,147	75,000	70,000	80,000	11,744	2,000	2,605
Total Cash Inflow	30,125,000	32,906,678	60,955,000	59,983,965	31,760,000	30,658,075	31,902,000	32,451,677
Cash Outflows								
Payroll Paysheets	27,600,000	26,805,305	27,820,000	27,259,803	28,070,000	27,582,685	27,750,000	27,608,520
Payables Paysheets (incl. Managers' fees)	12,000,000	8,815,465	12,000,000	14,118,012	12,000,000	9,197,600	11,000,000	9,263,003
Funds transferred to Managers	0	3,917,330	0	4,164,024	0	3,046,947	3,000,000	3,343,661
Other Expenditure	1,000	1,298	1,000	1,169	1,000	1,361	1,000	1,013
Total Cash Outflows	39,601,000	39,539,397	39,821,000	45,543,008	40,071,000	39,828,593	41,751,000	40,216,198
Net Cash Inflow / (-) Outflow	-9,476,000	-6,632,719	21,134,000	14,440,957	-8,311,000	-9,170,518	-9,849,000	-7,764,521
Balance at Bank (opening)		39,426,392		32,792,549		47,222,886		38,050,655
Balance at Bank (closing)		32,792,549		47,222,886		38,050,655		30,290,299

Pension Fund Committee

11 March 2021

Performance Measurement of Pension Fund Investments to 31 December 2020

Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

1 To provide an overview of the investment performance of the Pension Fund to 31 December 2020.

Recommendation

2 Members to note the information contained within the attached report produced by Northern Trust, the Fund's custodian.

Background

3 The performance of the five fund managers is measured against personalised benchmarks chosen at the inception of the fund. The attached report from Northern Trust shows:

(a) The fund managers' benchmarks;

(b) The total fund performance for the quarter to 31 December 2020, plus the last 1, 3, 5 and 10 years and since inception;

(c) Individual fund managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter to 31 December 2020, plus the last 1, 3, 5 and 10 years and since inception.

Contact: Beverley White Tel: 03000 261900

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NORTHERN TRUST

Durham CC Pension Fund

Investment Risk & Analytical Services

December 31, 2020

Table of Contents

SECTION 1

Durham CC Pension Fund

Investment Risk & Analytical Services

December 31, 2020

Investment Hierarchy (Arithmetic Excess)

Account/Group	Ending Market Value GBP	Ending Weight	Policy Weight	% Rate of Return							Inception Date
				One Month	Three Months	One Year	Three Years	Five Years	Ten Years	Inception to Date	
Durham CC Pension Fund	**3,373,728,177**	**100.00**		**2.40**	**7.83**	**8.93**	**7.41**	**9.57**	**7.64**	**7.31**	**29/02/2008**
Durc Total Plan Benchmark				*1.54*	*5.13*	*10.85*	*8.26*	*10.76*	*8.93*	*8.74*	*29/02/2008*
Excess Return				*0.86*	*2.70*	*-1.92*	*-0.85*	*-1.18*	*-1.29*	*-1.44*	*29/02/2008*
Alliance Bernstein	**584,447,021**	**17.32**		**0.51**	**1.86**	**2.92**	**2.36**	**3.01**	**3.20**	**3.54**	**29/02/2008**
Alliance Bernstein	**584,447,021**	**17.32**		**0.51**	**1.86**	**2.92**	**2.36**	**3.01**	**3.20**	**3.54**	**29/02/2008**
3 Month Libor in GBP +3% pa				*0.25*	*0.76*	*3.60*	*3.72*	*3.59*	*3.64*	*4.01*	*29/02/2008*
Excess Return				*0.26*	*1.10*	*-0.68*	*-1.37*	*-0.58*	*-0.44*	*-0.47*	*29/02/2008*
BlackRock DAA	**437,261,122**	**12.96**		**2.27**	**6.05**	**8.77**	**6.03**	**5.27**	**-**	**4.49**	**31/12/2014**
Blackrock DAA	**437,261,122**	**12.96**		**2.27**	**6.05**	**8.77**	**6.03**	**5.27**	**-**	**4.49**	**31/12/2014**
3 Month Libor in GBP +3%				*0.25*	*0.76*	*3.60*	*3.72*	*3.64*	*-*	*3.78*	*31/12/2014*
Excess Return				*2.01*	*5.29*	*5.17*	*2.31*	*1.63*	*-*	*0.71*	*31/12/2014*
CBRE 1	**196,161,378**	**5.81**		**0.91**	**1.65**	**3.47**	**5.40**	**5.79**	**7.62**	**4.14**	**29/02/2008**
CBRE 1	**196,161,378**	**5.81**		**0.91**	**1.65**	**3.47**	**5.40**	**5.79**	**7.62**	**4.14**	**29/02/2008**
RPI +5%				*1.03*	*1.57*	*6.19*	*7.10*	*7.64*	*7.72*	*7.76*	*29/02/2008*
Excess Return				*-0.12*	*0.08*	*-2.71*	*-1.71*	*-1.85*	*-0.10*	*-3.62*	*29/02/2008*
CBRE 2	**40,032,759**	**1.19**		**1.92**	**7.09**	**-7.64**	**3.13**	**5.47**	**6.07**	**5.47**	**29/02/2008**
CBRE 2	**40,032,759**	**1.19**		**1.92**	**7.09**	**-7.64**	**3.13**	**5.47**	**6.07**	**5.47**	**29/02/2008**
RPI +5%				*1.03*	*1.57*	*6.19*	*7.10*	*7.64*	*7.72*	*7.76*	*29/02/2008*
Excess Return				*0.90*	*5.51*	*-13.83*	*-3.97*	*-2.17*	*-1.65*	*-2.29*	*29/02/2008*
Mondrian	**251,094,118**	**7.44**		**5.37**	**10.75**	**8.40**	**5.82**	**12.40**	**-**	**6.60**	**31/10/2014**
Mondrian	**251,094,118**	**7.44**		**5.37**	**10.75**	**8.40**	**5.82**	**12.40**	**-**	**6.60**	**31/10/2014**
MSCI Emerging Markets GD +2.5%				*4.99*	*13.66*	*17.47*	*8.71*	*17.70*	*-*	*12.22*	*31/10/2014*
Excess Return				*0.39*	*-2.91*	*-9.07*	*-2.90*	*-5.30*	*-*	*-5.62*	*31/10/2014*
Royal London	**0**	**0.00**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29/02/2008**
Royal London	**0**	**0.00**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29/02/2008**
BCPP	**1,864,731,779**	**55.27**		**2.82**	**12.14**	**8.55**	**-**	**-**	**-**	**10.98**	**30/09/2019**
BCPP Global Equity Alpha Fund	**1,364,429,765**	**40.44**		**3.64**	**13.77**	**10.13**	**-**	**-**	**-**	**12.93**	**24/10/2019**
MSCI ACWI ND + 2% pa				*2.32*	*8.83*	*14.49*	*-*	*-*	*-*	*16.10*	*24/10/2019*
Excess Return				*1.32*	*4.94*	*-4.36*	*-*	*-*	*-*	*-3.17*	*24/10/2019*
BCPP Sterling Index Linked Bd	**500,302,014**	**14.83**		**0.65**	**-**	**-**	**-**	**-**	**-**	**4.70**	**08/10/2020**
FTSE Index Linked 15+Yrs+0.02%				*0.68*	*-*	*-*	*-*	*-*	*-*	*4.56*	*08/10/2020*
Excess Return				*-0.02*	*-*	*-*	*-*	*-*	*-*	*0.14*	*08/10/2020*

Market Value Summary - One Month

Account/Group	30/11/2020 Market Value	Net Contribution*	Income	Fees	Appreciation	31/12/2020 Market Value
Durham CC Pension Fund	**3,294,564,376**	**-201**	**1,133,765**	**201**	**78,030,237**	**3,373,728,177**
Alliance Bernstein	**581,470,213**	**0**	**0**	**0**	**2,976,808**	**584,447,021**
Alliance Bernstein	581,470,213	0	0	0	2,976,808	584,447,021
BlackRock DAA	**427,571,826**	**0**	**196,613**	**0**	**9,492,683**	**437,261,122**
Blackrock DAA	427,571,826	0	196,613	0	9,492,683	437,261,122
CBRE 1	**194,393,293**	**-201**	**282,923**	**201**	**1,485,362**	**196,161,378**
CBRE 1	194,393,293	-201	282,923	201	1,485,362	196,161,378
CBRE 2	**39,277,324**	**0**	**152,781**	**0**	**602,654**	**40,032,759**
CBRE 2	39,277,324	0	152,781	0	602,654	40,032,759
Mondrian	**238,295,532**	**0**	**501,447**	**0**	**12,297,139**	**251,094,118**
Mondrian	238,295,532	0	501,447	0	12,297,139	251,094,118
Royal London	**0**	**0**	**0**	**0**	**0**	**0**
Royal London	0	0	0	0	0	0
BCPP	**1,813,556,188**	**0**	**0**	**0**	**51,175,591**	**1,864,731,779**
BCPP Global Equity Alpha Fund	1,316,503,820	0	0	0	47,925,945	1,364,429,765
BCPP Sterling Index Linked Bd	497,052,368	0	0	0	3,249,645	500,302,014

**Net Contributions include Cash Contributions/Distributions, Security Deliveries/Receipts, Fees/Fee Rebates, Inter Account transfers for Consolidations & Benefits Payments.*
Copied History or Backloaded Data may not display the correct Contributions/Withdrawals creating misrepresentation.

SECTION 2

Appendix

Investment Risk & Analytical Services

December 31, 2020

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Pension Fund Committee

11 March 2021

Provision of Treasury Management Services to the Pension Fund for 2021/22

Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of Report

1. To update the Committee of the Treasury Management services provided to the Pension Fund and to review the charges for the services and the calculation of interest on short term investments administered by Durham County Council (the Council) for 2021/22.

Executive Summary

2. As a result of changes to the Local Government Pension Scheme (Management and Investment of Funds) Regulations, in June 2010 the Pension Fund Committee agreed to invest the cash balances of the Pension Fund in line with the Council's Treasury Management Strategy and Annual Investment Strategy.

3. Since then the Council's Treasury Management team has continued to invest the balances of the Pension Fund on its behalf using approved counterparties in line with the Council's Treasury Management Strategy. This agreement is reviewed annually.

Recommendations

5. It is recommended that, with effect from 1 April 2021:

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

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

(c) an administration fee of £2,770 per quarter be paid to the Council for Treasury Management services; and

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

Background

6. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the 2009 Regulations) introduced changes which ended the use of Pension Fund money by the administering authority. (The 2009 Regulations have since been superseded by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, however the same principle applies).

7. As a result of these regulations, a report was presented to the Pension Fund Committee in June 2010. At this meeting, the Committee gave its agreement to the Council continuing to invest the cash balances of the Pension Fund in line with the Council's Treasury Management Strategy and Annual Investment Strategy. This agreement is reviewed annually and the Council continues to invest the balances of the Pension Fund on its behalf.

8. The Council's Treasury Management Strategy (approved by Council annually each February) sets out the maximum amounts and time limits in respect of deposits which can be placed with each financial institution.

9. The Pension Fund's cash balances are invested along with the Council's cash balances at the most advantageous rate that can be achieved using approved counterparties.

Administration of the Treasury Management Function

10. The Treasury Management team administer the cash balances of the Pension Fund in line with the Council's procedures.

11. The prime objective of the Council's investment strategy is to ensure prudent investment of surplus funds. The Council's investment priorities are therefore the security of capital, liquidity of investments and, within those objectives, to secure optimum performance.

12. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

13. After this main principle, the Council will ensure that it:

    (i) maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

    (ii) has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

    (iii) maintains a counterparty list in compliance with the CIPFA Treasury Management Code of Practice and credit rating information supplied by the Council's Treasury Management advisers and will revise the criteria and submit them to the Council for approval as necessary.

14. The treasury management team reviews and monitors the Council's Treasury Management Strategy on behalf of the Council and implement it on behalf of the Pension Fund. The team also updates counterparties in line with information supplied by the Council's Treasury Management Advisers.

15. The Council's treasury management team monitors the cash, the bank account balances and the cash codes for the Council and the Pension Fund and actions the necessary transfers and coding adjustments. The Pension Fund balance is corrected for any incorrect banking of funds prior to calculation of the interest on the cash balance.

16. The treasury management team maintains full and accurate records in the performance of this service and makes them available for inspection by the Pension Fund Accounting Team, Internal and External Auditors.

17. It is recommended that the charge for this service is increased from £2,715 to the flat fee of £2,770 per quarter.

Calculation of Interest on Cash Balances

18. With effect from 1st April 2018 the interest paid to the Pension Fund in respect of its cash balances was based upon the average three month rate of return earned by the Council on its own short term investments.

It is recommended that interest will continue to be paid to the Pension Fund using the average three month rate of return in 2021/22.

19. The choice of rate would however be subject to review by the Treasury Management team, to ensure an appropriate rate is applied.

Investments

20. It was also agreed by the Committee, that the Pension Fund's cash balances would be invested as part of the Council's overall investments.

21. As a result of this however, in the event of an investment being lost, for example due to the failure of a financial institution in which the cash is invested, the Council would be liable for the loss. This is due to the investment being in the name of the Council although the investment would include Pension Fund balances.

22. It was therefore agreed that the Pension Fund Committee share the risk of any investment in proportion to the value of cash balances at the time of investment. Any losses incurred as a result of impairment would then be split proportionately between the Council and the Pension Fund.

23. It is recommended that this arrangement continues.

Background Papers

(a) Pension Fund Committee - 21 June 2010 - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

(b) Pension Fund Committee – 14 March 2019 - Investment of the Pension Fund's Cash Balances

(c) DCC's Treasury Management Strategy 2021/22 approved 24 February 2021.

(d) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

Contact: Beverley White Tel: 03000 261900

Pension Fund Committee

11 March 2021

Short Term Investments for the period ended 31 December 2020

Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

1. To provide the Committee with information on the performance of the Pension Fund's short-term investments as at 31 December 2020.

Recommendation

2. Members are asked to note the position at 31 December 2020 regarding the Pension Fund's short-term investments where the Pension Fund's surplus cash holding was £30.290 million and £2,605 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 31 December 2020 was £30.290 million, which was held in the institutions listed in the following table, alongside their credit rating at 31 December 2020.

Financial Institution	Short-term Rating	Amount Invested £m
Bank Deposit Accounts		
Bank of Scotland	F1	0.992
Handelsbanken	F1+	3.718
Fixed Term Deposits		
Bank of Scotland	F1	0.992
Close Brothers	F2	2.480
Standard Chartered	F1	1.885
Santander UK Plc	F1	3.472
UK Local Authorities	N/A	6.449
Building Societies		
Skipton Building Society	F1	0.992
Nationwide Building Society	F1	1.984
Yorkshire Building Society	F1	2.480
Money Market Funds	N/A	4.846
Total		**30.290**

5. The following table provides information on the net interest earned during the three month period to 31 December 2020, 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 £2,715 paid for the Council undertaking the Treasury Management function for the Pension Fund.

	Total
Net Interest Earned	£2,605
Average Return Earned	0.05%
Average Bank of England base rate	0.10%
Average Daily Balance of Investments	£39.573m

Contact: Beverley White Tel: 03000 261900

Pension Fund Committee

11 March 2021

Internal Audit Progress Report to 31 December 2020

Report of Stephen Carter, 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 2020 to 31 December 2020 as part of the 2020/2021 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 2020/2021 up to 31 December 2020 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 31 December 2020.

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 2020 to 31 March 2021, was approved by the Pension Fund Committee on 12 March 2020.

Progress against 2020/21 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 2019/20			
Governance Arrangements	Assurance	In Progress	
Contributions	Assurance	In Progress	
Benefits	Assurance	Final Report	Substantial
2020/21 audits			
Compliance with Breach Policy	Assurance	Defer to 2021/22	
Pensions Payroll	Assurance	Final Report	Substantial
Additional Voluntary Contributions	Assurance	Not yet Started	
Bank Reconciliation	Assurance	Final Report	Substantial
Debt Recovery	Assurance	Defer to 2021/22	
Admission Bodies / Funding Risks	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 nine assurance reviews planned to be completed, three final reports have been issued. However, no final reports have been issued in the period. It has also been agreed, with the service, to defer two reviews from 2020/21 to 2021/22.

Background papers

- Specific Internal Audit reports issued and working papers.

Other useful documents

- None

Contact:	Paul Monaghan	**Tel:**	03000 269662

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Pension Fund Committee

11 March 2021

Draft Audit Plan 2021/22

Report of Stephen Carter, Chief Internal Auditor and Corporate Fraud Manager

Electoral division(s) affected:

Countywide.

Purpose of the Report

1 To present the proposed Annual Audit Plan for 2021/22 for approval.

Executive Summary

2 The Audit Plan for 2021/22 has been developed following discussions between officers from Internal Audit and officers who have responsibility for the Pension Fund, using the strategic audit plan as the basis of the discussion. The proposed plan is shown in the table below.

Audit Title	Audit Type
Pension System ICT Controls	Assurance
Investments	Assurance
Transfers In/Out	Assurance
Debt Recovery	Assurance
Compliance with Breach Policy	Assurance
National Fraud Initiative – Identification of potential error/fraud	Counter Fraud
Management time and ad hoc advice	Advice and Consultancy

Recommendation

3 Members are asked to approve the proposed audit plan for 2021/22.

Background

4 The Public Sector Internal Audit Standards (PSIAS), which came into effect from April 2013, define internal audit as, “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

5 The agreed terms of reference for the internal audit service to fulfil this objective are detailed in the Internal Audit Charter.

2021/22 Audit Plan

6 The Audit Plan for 2021/22 has been developed following discussions between officers from Internal Audit and officers who have responsibility for the Pension Fund, using the strategic audit plan as the basis of the discussion. The proposed plan is shown in the table below.

Audit Title	Audit Type
Pension System ICT Controls	Assurance
Investments	Assurance
Transfers In/Out	Assurance
Debt Recovery	Assurance
Compliance with Breach Policy	Assurance
National Fraud Initiative – Identification of potential error/fraud	Counter Fraud
Management time and ad hoc advice	Advice and Consultancy

Background papers

- Strategic Internal Audit Plan

Other useful documents

- None

Contact: Paul Monaghan **Tel:** 03000 269662

Appendix 1: Implications

Legal Implications

There are no specific legal implications associated with this report. Internal Audit contribute to the effective governance of the Council and provide relevant and appropriate challenge and oversight where necessary.

Finance

The audit fee for the 2021/22 internal audit plan, to be delivered by the DCC Internal Audit Service, which is chargeable direct to the Pension Fund, remains the same as 2020/21 at £19,500.

Consultation

Corporate Director Resources and Pension Fund Managers.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

There are no direct implications on climate change as a result of this report, however the Internal Audit Service ensures that it considers climate change and sustainability in the recommendations that are made.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Committee.

Procurement

None.

Pension Fund Committee

11 March 2021

Agreement of Accounting Policies for Application in the 2020/21 Financial Statements of the Pension Fund

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Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

1. To update the Pension Fund Committee on the accounting policies to be applied in the preparation of the 2020/21 financial statements of the Pension Fund and to seek confirmation from the Committee that appropriate policies are being applied.

Executive summary

2. All accounting policies which were agreed by the Pension Fund Committee at its meeting in March 2020 and applied in the preparation of the 2019/20 Statement of Accounts remain appropriate for the preparation of 2020/21 Statement of Accounts.

3. The full list of accounting policies proposed for disclosure in the Pension Fund's Financial Statements for 2020/21 is detailed in Appendix 1.

Recommendations

4. The Committee is recommended to:

- review the accounting policies;
- approve their use in the preparation of the 2020/21 financial statements for the Pension Fund; and
- authorise the Corporate Director of Resources (Interim) to revise the accounting policies as necessary and report any significant changes to the Committee.

Background

5. Although the Audit Committee has responsibility for the approval of Durham County Council's Statement of Accounts, which contains the Pension Fund Accounts, the Pension Fund Committee ought to approve the accounting policies to be used in the preparation of the Pension Fund accounts.

Accounting Policies

6. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices. The 'Code of Practice on Local Authority Accounting 2020/21' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) incorporates these requirements and therefore must be followed in completing the Accounts.

7. Accounting policies are defined in the Code as *"the specific principles bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements"*.

8. Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applies to omissions and misstatements:

   Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

9. The accounting policies applicable to the Pension Fund, in the main, relate to the valuation of assets held and the recognition of the contributions and benefits.

10. The proposed accounting policies are in line with those used in the preparation of the 2019/20 accounts and there have been no changes to the Code necessitating a change for 2020/21.

11. The full list of accounting policies for the Pension Fund that it is proposed to disclose in the Statement of Accounts notes is detailed in Appendix 1.

Contact: Beverley White Tel: 03000 261900

Appendix 1: Accounting Policies for 2020/21

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 £10,000 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 lifetime 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 Partnership (BCPP) have been valued at cost as a proxy for fair value;
- investments in private equity funds and unquoted infrastructure funds are valued based on the fund's share of the net assets in the private equity fund or infrastructure fund using the latest financial statements published by the respective fund managers, adjusted for cashflows;
- 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 i.e. 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 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.

Pension Fund Committee

11 March 2021

Pension Fund Policy Documents – Funding Strategy Statement

Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

1 To inform Members of the draft of the revised Funding Strategy Statement which must go out to consultation with Pension Fund employers.

Executive summary

2 The Local Government Pension Scheme (LGPS) Regulations require the Fund to maintain and publish a Funding Strategy Statement (FSS). The FSS has been amended to reflect the approach recommended by the Actuary in respect of MHCLG's partial response to its 'Changes to the Local Valuation Cycle and the Management of Employer Risk' consultation.

Recommendation(s)

3 Members are asked to:

(a) note the report and to advise of any comments they may have on the draft FSS set out in the appendices to this report, and;

(b) authorise the Corporate Director of Resources to finalise the wording of, and publish the FSS; and to expand the existing Exits Policy in respect of employer flexibilities, taking into account where appropriate both professional advice as well as comments received from employers.

Background

4 Regulation 58 of the Local Government Pension Scheme Regulations 2013 ('the LGPS regulations') requires Local Government Pension Schemes (LGPS) administering authorities to prepare, maintain and publish a 'Funding Strategy Statement' (FSS).

5 The key requirements for preparing the FSS can be summarised as follows:

> After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy; In preparing the FSS, the Authority must have regard to:
>
> i. the guidance issued by the Chartered Institute of Public Finance (CIPFA) for this purpose; and
> ii. their own Investment Strategy Statement (ISS)
> iii. the FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the ISS

6 On 8 May 2019 MHCLG launched its LGPS consultation 'Changes to the local valuation cycle and the management of employer risk'. To date there have been two partial responses to the consultation covering separately Exit Credits and Employer contributions and Exit Payments.

7 On 27 February 2020 the Local Government Pension Scheme (Amendment) Regulations 2020 were laid before parliament. They come into force on 20 March 2020, but have effect backdated to 18 May 2018. The amended rules give LGPS funds a discretion to determine the amount of exit credits when a participating employer leaves the fund in surplus. The Fund formulated an Exit Credit policy in response to the Amendment Regulations.

8 In August 2020 MHCLG issued a partial consultation response in respect of Employer contributions and Exit Payments. Statutory Guidance following MHCLG's response will allow administering authorities, where appropriate, to revise scheme employer contributions between valuations, spreading of Exit Payments and Deferred Debt Agreements.

9 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ('the 2016 investment regulations'), which took effect from 1 November 2016 require administering authorities, after taking proper advice, to prepare and publish a written statement setting out their investment strategy in relation to the Fund – the 'Investment Strategy Statement' (ISS). The ISS needs to be prepared in

accordance with guidance issued from time to time by the Secretary of State.

10 A revised draft FSS is included at Appendix 1.

Funding Strategy Statement

11 The Pension Fund Actuary has been closely involved in the preparation of draft revisions to the FSS, which reflects the funding approach taken to the latest triennial valuation, as at 31 March 2019. Significant changes from the previous version of the FSS are as follows:

(a) Amending the wording of the FSS to allow for the revision of scheme employer contributions between valuations where appropriate, once finalised Statutory Guidance is issued

(b) Amending the wording of the FSS to allow for spreading of Exit Payments where appropriate, once finalised Statutory Guidance is issued

(c) Amending the wording of the FSS to allow for Deferred Debt Agreements where appropriate, once finalised Statutory Guidance is issued

(d) Addition of Climate Change to Investment Risks

(e) Reference to covid-19 in respect of Employer Risks

(f) Update to Regulatory Risk

12 It is proposed that the FSS is finalised after Statutory Guidance is issued and after consultation with Pension Fund employers once Statutory Guidance, and that the Fund's existing Exit Credits policy is expanded to outline the approach to the employer flexibilities after further consultation with the Fund's Actuary.

Next Steps

13 The amended FSS will be sent to all Pension Fund employers following the Committee's Meeting of 11 March, with a request for comments within two weeks.

14 Officers to expand the existing Exits Policy in consultation with the Actuary and share finalised version with Committee for comment, before circulating the finalised policy to all participating employers.

Author(s)

Paul Cooper Tel: 03000 269 798

Appendix 1: Funding Strategy Statement

Pension Fund

Funding Strategy Statement

TABLE OF CONTENTS

STATUTORY BACKGROUND AND KEY ISSUES

1. The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 came into effect on 1 April 2004. They originally provided the statutory framework from which Local Government Pension Schemes (LGPS) administering authorities were required to prepare a Funding Strategy Statement (FSS) by 31 March 2005. The requirements at the date of writing this Statement are now set out under Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations).

2. Key issues:

- After consultation with such persons as it considers appropriate (including officers and elected members and Fund employers), the administering authority is required to prepare and publish their funding strategy.

- In preparing the FSS, the administering authority has to have regard to:

  - guidance published by CIPFA in September 2016 entitled "Guidance on Preparing and Maintaining a Funding Strategy Statement and to the Fund's Statement of Investment Principles"
  - the supplementary statutory guidance issued by MHCLG; Guidance on Preparing and Maintaining Policies on Review of Employer Contributions, Employer Exit Payments and Deferred Debt Agreements; and
  - its Investment Strategy Statement (ISS) published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

  - The Administering Authority has also considered the Scheme Advisory Board's Guide to Employer Flexibilities for Administering Authorities and Employers in developing the FSS

- The FSS must be revised and published whenever there is a material change in policy either on the matters set out in the FSS or the ISS.

- Each Fund Actuary must have regard to the FSS as part of the fund valuation process and the Fund Actuary has therefore been consulted on the contents of this FSS.

- The FSS addresses the issue of managing the need to fund benefits over the long term, whilst at the same time, allowing for scrutiny and accountability through improved transparency and disclosure.

- Until 1 April 2014, the Scheme was a defined benefit final salary scheme. From 1 April 2014, the Scheme is a defined benefit career average revalued earnings scheme. The benefits at the date of writing this Statement are specified in the Regulations. Constraints on the levels of employee contributions are also specified in the Regulations.

- Employer contributions are determined in accordance with the Regulations, which require that an actuarial valuation is completed every three years by the Fund Actuary.

3. This Statement was reviewed~~ as part of the triennial valuation as at 31 March 2019, and has been updated in March 2020~~ following changes in the regulations to introduce flexibilities around employer contributions and exits, and has been updated in February 2021.

(B) PURPOSE OF THE FUNDING STRATEGY STATEMENT

4. The purpose of this Funding Strategy Statement (FSS) is to document the processes by which the Administering Authority:

- establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- supports the regulatory requirement of the desirability of maintaining as nearly constant a primary rate of employer contribution rates as possible;
- enables overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks and ensuring that the regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating and admitted bodies;
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met; and
- takes a prudent longer-term view of funding the Fund's liabilities.

The intention is for this Strategy to apply comprehensively for the Fund as a whole to reflect its best interests, recognising that there will always be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the Statement, it must remain a single Strategy for the Administering Authority to implement and maintain.

(C) PURPOSE AND AIMS OF THE PENSION FUND

5. The purpose of the fund is to:

Invest monies in respect of contributions, transfer values and investment income to produce a Fund to pay Scheme benefits over the long term and in so doing to smooth out the contributions required from employers over the long term.

6. The aims of the fund are to:

- **Comply with Regulation 62 of the Regulations and specifically to adequately fund benefits to secure the Fund's solvency while taking account of the desirability of maintaining as nearly constant primary employer contribution rates as possible**

The Administering Authority aims to keep employer contributions as nearly constant as possible, whilst taking account of:

- the regulatory requirement to secure solvency and long term cost efficiency, which should be assessed in the light of the risk profile of the Fund and risk appetite of the Administering Authority and employers

- the requirement to ensure that costs are reasonable to Scheduled Bodies, Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks), and

- maximising return from investments within reasonable risk parameters

In order to achieve nearly constant employer contribution rates there may be a need to invest in assets that match the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

The Administering Authority currently invests a large proportion of the Fund in equities, which are perceived as having higher long-term rates of return consistent with the requirement to maximise the returns from investments, within reasonable risk parameters. These assets are more risky in nature than fixed interest investments, and this can lead to more volatile returns in the short-term and a failure to deliver the anticipated returns in the long term.

This can have an effect on employer contribution rates as the funding position of the Pension Fund is measured at the triennial valuations. The impact of this can be reduced by smoothing adjustments at each actuarial valuation. Smoothing adjustments recognise that markets can rise and fall too far.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant stability of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for admission bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

- **Manage employers' liabilities effectively**

The Administering Authority seeks to manage employers' liabilities effectively. In a funding context, this is achieved by seeking actuarial advice and regular monitoring of the investment of the Fund's assets through quarterly meetings of the Pension Fund Committee and appropriate segregation of employers for funding purposes.

- **Ensure that sufficient resources are available to meet all liabilities as they fall due**

The Administering Authority recognises the need to ensure that the Fund has sufficient liquid assets to pay pensions, transfer values and other expenses. This position is continuously monitored and the cash available from contributions and cash held by Fund Managers is reviewed on a quarterly basis by the Pension Fund Committee.

- **Maximise the returns from investments within reasonable risk parameters.**

The Administering Authority recognises the desirability of maximising returns from investments within reasonable risk parameters, through investment in unmatched investments. Investment returns higher than those of fixed interest and index-linked bonds are sought from investment in equities, property and other growth assets. The Administering Authority ensures that risk parameters are reasonable by:

- Taking advice from its professional advisers, e.g. the Fund Actuary, Investment advisers and investment managers
- Controlling levels of investment in asset classes through the ISS

- Limiting default risk by restricting investment to asset classes recognised as appropriate for UK Pension Funds.

- Analysing the volatility and absolute return risks represented by those asset classes in collaboration with the Investment Adviser and Fund Managers, and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy statement.

- Limiting concentration risk by developing a diversified investment strategy.

- Monitoring the mismatching risk, i.e. the risk that the investments do not move in line with the Fund's liabilities.

(D) RESPONSIBILITIES OF THE KEY PARTIES

7. Although a number of parties including investment fund managers and external auditors have responsibilities to the fund, the three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary:

8. The administering authority should:

- Administer the Fund

- Collect employer and employee contributions as set out in the Regulations

- Determine a schedule of due dates for the payment of contributions - Section 70(1)(a) of the Pensions Act 2004 suggests that Administering Authorities are now required to report breaches as defined in Section 70 (2) of the 2004 Act. This places monitoring of the date of receipt of employer contributions on the Administering Authority and therefore places a duty to report material late payments of contributions to the Pensions Regulator.

- Take action to recover assets from admission bodies whose Admission Agreement has ceased and other bodies whose participation in the Fund has ceased.

- Invest surplus monies in accordance with the Regulations.

- Pay from the Fund the relevant entitlements as set out in the Regulations.

- Ensure that cash is available to meet liabilities as and when they fall due.

- take measures as set out in the regulations to safeguard the fund against the consequences of employer default

- Manage the valuation process in consultation with the Fund's Actuary.

- Ensure effective communications with the Fund's Actuary to:

  - Ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement;
  - Ensure reports are made available as required by guidance and regulation;
  - Agree timetables for the provision of information and valuation results;
  - Ensure provision of accurate data; and
  - Ensure that participating employers receive appropriate communications.

- Consider the appropriateness of interim valuations.

- Prepare and maintain an FSS and an ISS, both after proper consultation with interested parties, and

- Monitor all aspects of the fund's performance and funding and amend the FSS and ISS regularly as part of the on-going monitoring process.

- Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.

- Enable the local Pension Board to review the valuation process as set out in their terms of reference
- ensure consistent use of policies relating to revising employer contributions between formal valuations, entering into deferred debt arrangements and spreading exit payments and ensure the process of applying those policies is clear and transparent to all fund employers

9. The individual employers should:

- Deduct contributions from employees' pay correctly.

- Pay all ongoing contributions, including their own as determined by the actuary, promptly by the due date (including contributions due under a Deferred Debt Agreement).

- Pay any exit payments required in the event of their ceasing participation in the Fund.

- Develop a policy on certain discretions and exercise discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions.

- Make additional contributions in accordance with agreed arrangements in respect of, for example, additional membership or pension, augmentation of scheme benefits and early retirement strain, and

- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.

- Noting, and if desired responding to, any consultation regarding the Funding Strategy Statement, the Statement of Investment Principles, or other policies.

10. The fund actuary should:

- Prepare triennial valuations including the setting of employers' contribution rates at a level to ensure solvency and long term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations.

- Prepare advice and calculations in connection with bulk transfers, the funding aspects of individual benefit-related matters, valuations of exiting employers and other forms of security for the Administering Authority against the financial effect on the Fund of the employer's default. Such advice will take account of the funding position and Funding Strategy Statement, as well as other relevant matters when instructed to do so.

- Assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as required or permitted by the Regulations.

- Assist the Administering Authority in relation to any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B.

- In response to a request from the Administering Authority, assess the impact of Regulatory changes on costs.

- Ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Administering Authority.

(E) FUNDING TARGETS, SOLVENCY AND EMPLOYER ASSET

SHARES Risk based approach

11. The Fund utilises a risk based approach to funding strategy.

12. A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund wants to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by modelling carried out by the Fund Actuary, define the discount rate and, by extension, the appropriate levels of contribution payable. Together they measure the riskiness of the funding strategy.

These three terms are considered in more detail below.

Solvency and 'funding success'

13. The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial methods and assumptions. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

14. The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%

- For tax-raising Scheduled Bodies, and certain other bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following the exit of the employer from the Fund, the Solvency Target is set at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period, based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases to pensions and pension accounts.

- For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government bonds after exit.
- For deferred employers it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the Deferred Debt Agreement (deferred debt agreement) ends. For most such bodies, the Solvency Target will be set commensurate with assumed investment in Government bonds at the end of the period of the deferred debt agreement.

Probability of Funding Success

15. The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on modelling carried out by the Fund Actuary.

16. Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk. The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

17. At the 2019 valuation, the Trajectory Period used was 25 years, and the probability of Funding Success was set to be 75%.

Funding Target

18. In order to satisfy the legislative requirement to secure long term cost efficiency the Administering Authority's aim is for employer contributions to be set so as to make provision for the cost of benefit accrual, with an appropriate adjustment for any surplus or deficiency. This is achieved through the setting of a Funding Target.

19. The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation

method, assumptions and data. The valuation calculations, including future service contributions and any adjustment for surplus or deficiency, set the level of contributions payable, and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).

20. Consistent with the aim of enabling employers' primary contribution rates to be kept as nearly constant as possible:

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service (primary) contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.

- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the future service (primary) contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

Application to different types of body

21. Some comments on the principles used to derive the Solvency and Funding Targets for different bodies in the Fund are set out below.

- **Tax-raising Scheduled Bodies and certain other bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following the exit of the Employer from the Fund**
  The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature. This is known as the Scheduled Body/Subsumption Funding Target.

- **Non tax-raising scheduled bodies (in particular colleges)**
  Whilst the Administering Authority will adopt a general approach of assuming indefinite investment in a broad range of assets of higher risk, a reduction will be made to the left service discount rate to reflect concerns about the covenant strength of Colleges. This is known as the Intermediate Funding Target

- **Admission Bodies and certain other bodies whose participation is limited**
  For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known

constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities). This is known as the Ongoing Orphan Funding Target.

For deferred employers where a deferred debt agreement is in place the funding target will take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the deferred debt agreement is expected to end and any other factors considered to be relevant by the Administering Authority on the advice of the Actuary, which may include, without limitation:

- the agreed period of the deferred debt agreement;
- the type/group of the employer;
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc

Full Funding and Solvency

22. The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers/groups of employers..

23. The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

Recovery Periods

24. The Recovery Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

25. Where a valuation shows the Fund to be in surplus or deficit against the Funding Target, employers' contribution rates will be adjusted to reach the solvent position over a number of years. The Recovery Period in relation to an employer or group of employers is therefore a period over which any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable.

26. The Recovery Period applicable for each employer is set by the Fund Actuary in consultation with the Administering Authority and the employer, with a view to

balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

27. The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefits payments over a long period of time. For employers of sound covenant, the Administering Authority is therefore prepared to agree Recovery Periods that are longer than the average future working lifetime of the membership of that employer. In general for employers that are closed to new

entrants and are of sufficient term, the Recovery Period is set to be the estimated future working lifetime of the active membership (i.e. the estimated period of time until the last active member leaves or retires). The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible.

28. However, the Administering Authority also recognises the risk involved in relying on long Recovery Periods and has agreed with the Actuary a maximum recovery period of 30 years for employers which are assessed by the Administering Authority as being a long term secure employer.

- For employers who are less than 100% funded, it is the intention of the Administering Authority to agree with employers a Recovery Period of as short a time as possible within this 30 year limit having regard to the affordability of the revised contribution rate in general taking into account the legislative requirements of securing solvency and maintaining as nearly a constant a contribution rate as possible.

- For employers who have a surplus, the Administering Authority will aim not to reduce the recovery period from that used at the previous valuation, noting that longer recovery periods lead to a smaller surplus reduction to the contribution rate.

- In line with the desirability of maintaining as nearly constant a contribution rate at this and future valuations, the Recovery Period shall not apply to any employer at a funding level of between 100% - 105%. Those employers will be required to pay the primary rate (i.e. the future service rate) in full, without any adjustment for a surplus. In respect of any employer at a funding level in excess of 105%, the Recovery Period shall only apply to any surplus above the 105% funding level.

A period of 18 years has been used for Durham County Council at the 2019 valuation, the largest employer in the Fund. Recovery Periods for other employers or employer groups may be shorter or longer and may not necessarily be the same as each other, in order to suitably balance risk to the Fund and cost to the employer.

29. For each individual employer the following will also be taken into account:

- covenant and strength of any guarantee relating to an employer and hence the risk of default

- length of participation in the Fund

- whether the employer is closed to new entrants or is likely to have a contraction in its membership of the Fund
- For deferred employers, the remaining period of the deferred debt agreement.

Stepping

30. The Administering Authority will also consider at each valuation whether new contribution rates should be payable immediately or reached by being stepped over a number of years. Stepping is a generally accepted method of smoothing the impact of rate changes for local authority pension funds. In consultation with the Actuary, the Administering Authority accepts that employers may step up (or down) to the new rates subject to this not introducing undue risk to the Fund. This is in line with the aim of having contribution rates as nearly constant as possible. The Administering Authority usually allows a maximum of three steps however, in exceptional circumstances up to six steps may be used.

Advance Funding of Secondary Contributions

31. The Administering Authority may at its discretion, and after considering the advice of the Fund Actuary, permit particular employers to opt to pay early, in lump sum form, the secondary contributions designed to meet a deficit, that would otherwise be payable over the following year (or longer period not exceeding three years). An appropriate discount, as determined by the Fund Actuary, would be applied to the secondary contributions to reflect the early payment.

Grouping / Pooling

32. In some circumstances it may be desirable to group or pool employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include:

- reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or
- accommodating employers who wish to share the risks related to their participation in the Fund such as outsourcings which have been carried out on a 'pass-through' approach where it makes sense for the service provider to be given either the same primary contribution rate as the outsourcing body or the fixed contribution rate agreed contractually, or
- employers have been grouped for practical or commercial reasons.

33. The Administering Authority recognises that grouping of employers can give rise to cross subsidies from one employer to another over time. Employers may be

grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority's policy is to consider the position carefully at initial grouping and at each valuation and to notify each employer that is grouped which other employers it is grouped with and details of the grouping method used. If the employer objects to this grouping, it will be set its own contribution rate.

34. Where employers are grouped together for funding purposes, this will only occur with the consent of the employers involved.

35. All employers in the Fund are grouped together in respect of the risks associated with payment of survivors pensions and lump sum benefits on death in service and, payment of ill health pensions – in other words, the cost of such benefits is shared across the employers in the Fund. Such benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

36. There are a small number of different groups and approaches used and these are set out in the Appendix to this FSS.

Asset shares notionally allocated to employers

37. In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers (or group of employers where grouping operates), as if each employer had its own asset share within the Fund.

38. This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, or ownership of any particular assets or groups of assets by any individual employer or group.

Roll-forward of asset shares

39. The asset share allocated to each employer will be rolled forward allowing for all cash flows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income. In general no allowance is made for the timing of contributions and cash flows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year. However, where significant one-off employer

contributions have been paid, allowance is made for the timing of such contributions.

40. Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.

- Allowance for any known material internal transfers in the Fund (cash flows will not exist for these transfers). The Fund Actuary will assume an estimated cash flow equal to the value of the cash equivalent transfer value based on appropriate factors set by the Government Actuary's Department.

- Allowance for death in service and ill-health benefits shared across all employers in the Fund (see earlier).

- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

41. In some cases information available will not allow for such cash flow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is of low materiality, estimated cash flows will be used.

- Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the asset share. Analysis of gains and losses methods are less precise than use of cash flows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.

42. Analysis of gains and losses methods will also be used where the results of the cash flow approach appears to give unreliable results perhaps because of unknown internal transfers.

Fund maturity

43. To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require contributions as monetary amounts from employers in respect of any disclosed funding deficiency.

44. In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the Administering Authority will consider requiring deficit contributions as monetary amounts rather than percentages of payroll.

(F) SPECIAL CIRCUMSTANCES RELATED TO CERTAIN

EMPLOYERS Interim reviews

45. Regulation 64 and 64A of the Regulations provide~~s~~ the Administering Authority with a power to carry out interim valuations ~~in respect of employers who are likely to become an exiting employer,~~ and for the Actuary to certify revised contribution rates, between triennial valuation dates. Further details of the Fund's policy in relation to Regulation 64A is set out in a separate policy.

46. The Administering Authority's overriding objective at all times in relation to employers is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any exit date may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

47. The Administering Authority's general approach in ~~this area~~respect of Regulation 64(4) is as follows:

- Where the exit date is known, and is more than 3 years hence, or is unknown and assumed to be indefinite, the Administering Authority will generally not deem it necessary to carry out an interim valuation.

- For Admission Bodies admitted under paragraph 1(d) of Part 3, Schedule 2 of the Regulations falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim

valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.

- A material change in circumstances, such as the exit date becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.

- For an employer whose participation is due to cease within the next 3 years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

48. Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) of the Regulations applies.

Guarantors

49. Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer exits and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.

- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

50. During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Target for the employer, which would probably lead to reduced contribution requirements.

Bonds and other securitisation

51. Paragraph 6 of Part 3, Schedule 2 of the Regulations creates a requirement for a new Admission Body to carry out, to the satisfaction of the Administering Authority (and the Scheme Employer in the case of an Admission Body admitted under paragraph 1(d)(i) of that Part), an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

52. Where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an Admission Body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the admission body.

53. The Administering Authority's approach in this area is as follows:

- In the case of Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter. The Administering Authority notes that levels of required bond cover can fluctuate and recommends that relevant Scheme Employers review the required cover regularly, at least once a year.

- In the case of:
  - admission bodies admitted under paragraph 1(e) of Part 3, Schedule 2;
  - admission bodies admitted under paragraph 1(d) of Part 3, Schedule 2 where the administering authority does not judge the Scheme Employer to be of sufficiently strong covenant;
  - other admission bodies with no Guarantor or where the administering authority does not judge the Guarantor to be of sufficiently strong covenant;

  the administering authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer to form a view on what level

of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body. The Administering Authority notes that levels of required bond cover can fluctuate and will recommend the relevant Scheme Employer to jointly review the required cover with it regularly, at least once a year.

Subsumed liabilities

54. Where an employer is exiting the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities. This is a form of risk sharing between the employers.

55. In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is taken on by the accepting employer).

Orphan liabilities

56. Where an employer is exiting the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64 of the Regulations, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

57. The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

58. To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the other employer's notional assets.

59. Liabilities in the Fund which are already orphaned will be assumed to be 100% funded on the appropriate funding target at each triennial valuation. This will be achieved by the Actuary notionally re-allocating assets within the Fund as required.

Commencement of Employers

60. When a new employer starts in the Fund, and members transfer from another employer in the Fund, a notional transfer of assets is needed from the original employer to the new employer. The approach used will depend on the circumstances surrounding the commencement of the new employer and some comments are set out below.

61. When a new admission body starts in the Fund due to an oursourcing event, they will usually start as fully funded on the Funding Target appropriate to the new employer. This means that any past service surplus or deficit for the members who are transferring to the new employer remains with the original employer and does not transfer to the new employer.

62. For academies, a prioritised share of fund approach is followed. This involves fully funding the non-active members of the original employer at the previous triennial valuation, and using the residual assets to calculate the funding level applicable to the active members of the original employer. This is rolled forward in line with the progression of the overall funding level of the original employer during the period from the last valuation date to the date of commencement of the academy, to a maximum of 100%. The funding level applicable to the active members is then used to calculate the notional asset transfer to the new employer.

63. In other circumstances the notional asset transfer will often be subject to the agreement between the relevant parties and the Administering Authority (who will take advice from the Fund Actuary). In the event of any dispute the Administering Authority will take make the final decision having taken account of the issues related to the setting up of the new employer.

Cessation of participation

64. ~~In light of changes recently introduced to the Regulations by The Local Government Pension Scheme (Amendment) Regulations 2020, the Administering Authority is, in line with guidance published by The Ministry of Housing, Communities and Local Government, currently formulating a detailed policy on its approach to exit credits and will publish this policy shortly in a separate document. This new policy will be circulated to Scheme Employers separately when finalised~~The Fund's policy on the following areas are set out in a separate policy document: exit valuations, exit payments and credits, spreading of exit payments, and the way benefit uncertainties (such as the proposed McCloud remedy and the expected changes to GMP indexation) are allowed for in exit valuations.

~~64.~~65. In certain circumstances it may be agreed to enter into a deferred debt agreement rather than require an immediate exit payment. In that case, the employer would remain a participating body as a deferred employer. Further details are set out in a separate policy.

(G) LINKS TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES OR INVESTMENT STRATEGY STATEMENT

65. The current investment strategy, as set out in the ISS, is summarised below:

General Principles and diversification

66. The Fund believes that the emphasis of investment over the long term should be on real assets, particularly equities and property. These are most likely to maximise the long term returns. The balance between UK and Overseas equities is, however, a matter of investment judgement. The Fund should also be diversified to include other real assets, such as Index-Linked and 'monetary' assets, such as Bonds and Cash.

67. The neutral benchmark proportions of the various asset classes have been determined by the Fund in consultation with the Investment Advisers and are

reviewed at least once every three years to coincide with the Triennial Actuarial Valuation.

68. The active Investment managers are expected to adopt an active asset allocation policy to take advantage of the shorter term relative attractions of the various asset types.

69. The Administering Authority has produced this Funding Strategy Statement having taken a view on the level of risk inherent in the investment policy set out in the SIP or ISS and the funding policy set out in this document.

70. The SIP or ISS sets out the investment responsibilities and policies relevant to the Fund.

71. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate.

(H) IDENTIFICATION OF RISKS AND COUNTER-MEASURES

72. The Administering Authority seeks to identify all risks to the Fund, will monitor the risks and take appropriate action to limit the impact of them wherever possible. The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework.

73. For ease of classification some of the key risks may be identified as follows:

74. Investment

These include:

a. assets not delivering the required return (for whatever reason, including manager underperformance)

b. systemic risk with the possibility of interlinked and simultaneous financial market volatility

c. having insufficient funds to meet liabilities as they fall due

d. inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon

e. counterparty failure

f. risks associated with the transition of assets to the pool

~~f.~~g. risks associated with climate change

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The Administering Authority reviews each investment manager's performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting. The Administering Authority also annually reviews the effect of market movements on the Fund's overall funding position.

75. Employer

These include:

a. the risk arising from ever changing mix of employers, from short term and exiting employers, and the potential for a shortfall in payments and / or orphaned liabilities.

~~a.~~b. The response to the COVID-19 pandemic may have adverse consequences in relation to employer finances and their ability to make contributions. The Administering Authority monitors employer payments and expects employers in financial difficulty to engage with the Fund, noting that contributions can be reviewed between formal valuations if the conditions in Regulation 64A and the terms of the Fund's policy are met

The Administering Authority will put in place a Funding Strategy Statement and a separate policy detailing the Fund's approach to exit valuations and payments and employer contribution reviews which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admission bodies) and other pension fund stakeholders.

The Administering Authority maintains a knowledge base on their employers, their basis of participation and their legal status and will use this information to set a funding strategy for the relevant employers

76. Liability

These include:

a. Interest rates being lower than expected
b. Pay increases being higher than expected
c. Price inflation being higher than expected
d. The longevity horizon continuing to expand

e. Deteriorating patterns of early retirements

The Administering Authority will ensure that the Actuary investigates these matters at each valuation. Prudent management of the fund should ensure that sound

policies and procedures are in place to manage, e.g. potential ill health or early retirements.

Where it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation the Administering Authority may consider revising an employer's contributions as permitted by Regulation 64A.

77. Regulatory

These include:

a. Changes to general and LGPS specific regulations, e.g. more favourable benefits package, potential new entrants to the scheme, e.g. part-time employees
b. Changes to national pension requirement and/or Inland Revenue rules

There are a number of uncertainties associated with the benefit structure at the current time including:

- How Government will address the issues of GMP indexation and equalisation for the LGPS beyond expiry of the current interim solution from 6 April 2021

- The timing of any final regulations in relation to the remedy to compensate members of illegal age discrimination following the outcome of the McCloud / Sargeant cases. As at 31 March 2016 and ~~Whilst the Government's application for leave to appeal has been denied there is currently still uncertainty relating to the remedy and exactly how this will apply to the LGPS~~

- The outcome of the cost management process as at 31 March 2016 and 31 March 2020, noting ~~and whether~~ the agreement reached in relation to the 2016 Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to aschieve an additional cost of 0.9% of pay ~~will change~~was paused as a result of the MccCloud / Sargeant ruling.

- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the chief secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed.

- Redundancy early retirement provisions - with effect from 4 November 2020 a cap on exit payments made by public sector employers came into effect, including the cost of early payment of LGPS pensions for those over aged 55. Whilst MHCLG has consulted on changes to amend the LGPS Regulations to allow for the cap these changes have not yet been implemented so there is an inconsistency between the HMT Regulations and the LGPS Regulations.

In determing how these uncertainties should be allowed for in employer conmtributions from 1 April 2020 the Administering Authority has had regard

to guidance issued by SAB and taken Fund Actuary advice and decided to add 0.9% of pay to each employer contribution rate.

In addition, a consultation document was issued by MHCLG entitled "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk" dated May 2019. This included a proposal to change the LGPS local fund valuations to quadrennial cycles. The Administering Authority will have regard to any changes in the LGPS 2013 Regulations as a result of this consultation and consider any actions required at the 2022 or subsequent valuations, taking account of the Fund Actuary's advice.

78. Liquidity and maturity

These include:

- An increased emphasis on outsourcing and alternative models for service delivery may result in active members leaving the LGPS (eg where new admissions are closed or scheduled bodies establish wholly owned companies which do not fully participate in the LGPS)
- Transfer of responsibility between different public sector bodies
- Scheme changes which might lead to increased opt-outs
- Spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken into account in previous forecasts.

The Administering Authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

79. Governance

These include:

- Administering authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements)
- Administering authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond

The Administering Authority requires regular communication with employers to ensure that it is made aware of any such changes in a timely manner.

80. Choice of Solvency and Funding Targets

The Administering Authority recognises that future experience and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made in determining the Funding Target and Solvency Target, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Funding Target and Solvency Target calculated by reference to those assumptions.

The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the probability of funding success is less than 65% the Administering Authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.

The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

81. Smoothing of Assets

These include:

- The utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position

The Administering Authority’s policy is to review whether an approach is suitable and if so ensure the impact of this adjustment remains within acceptable limits.

82. Recovery Period

These include:

- Permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements

The Administering Authority’s policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of Recovery Period where appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.

83. Stepping

These include:

a. Permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process

The Administering Authority’s policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps as appropriate. Details of the Administering Authority's Policy are set out earlier in this Statement.

(I) MONITORING AND REVIEW

84. The Administering Authority must keep the FSS under review and make appropriate revisions following a material change in policy. The triennial valuation exercise will establish contribution rates for all employers contributing to the fund within the framework provided by the strategy.

Appendix: Groups / Pooling

Issues relevant to all employers

The assets and liabilities for employers will allow for any assets and liabilities the employer has agreed to subsume relating to employers who have exited or have been taken over / merged as a result of reorganisation. This for example includes:

- For Durham County Council the assets and liabilities relating to the District Councils which formed the Durham County Council unitary authority and the assets and liabilities those District Councils originally were responsible for.
- For Multi Academy Trusts (MAT) the assets and liabilities relating to schools or other academies which now form part of the MAT.

Town Council Group

Employers in this group are pooled together for funding and contribution purposes, all risks are shared within the group and they have a single contribution rate.

The active participants of this Group at the date of writing this Statement are:

Brandon & Byshottles Parish Council
Chilton Town Council
Easington Colliery Parish Counci
Easington Village Parish Council
Esh Parish Council
Ferryhill Town Council
Fishburn Parish Council
Framwellgate Moor Parish Council
Great Aycliffe Town Council
Greater Willington Town Council
Haswell Parish Council
Healeyfield Parish Council
Horden Parish Council
Hutton Henry Parish Council
Lanchester Parish Council
Langley Parish Council
Monk Hesleden Parish Council
Murton Parish Council
Murton Welfare Association
North Lodge Parish Council
Peterlee Town Council
Seaham Town Council
Sedgefield Town Council
Shildon Town Council
Shotton Parish Council
South Hetton Parish Council
Spennymoor Town Council
Thornley Parish Council
Trimdon Foundry Parish Council
Trimdon Parish Council
Wheatley Hill Parish Council
Wingate Parish Council

In addition, there are liabilities related to the following bodies which currently have no active members. These liabilities remain part of the group:

Pelton Parish Council
Central Durham Joint Crematorium Committee

If a Town Council has no contributing members it will become an exiting employer under Regulation 64(1) unless a suspension notice has been issued (a suspension notice can be issued for a period of up to three years if there is a reasonable likelihood an active member will join the Fund within the suspension period (Regulations 64(2A) to 64(2C)).

Given the liabilities are generally small the Administering Authority will not expect an exiting employer from the Group to make an exit payment or receive any exit credit unless the exiting employer has a material impact on the other employers in the Group. The assets and liabilities relating to the exiting employer will remain part of the Group.

Durham County Council

In addition to the subsumption of the assets and liabilities relating to relevant exiting employers and District Councils referred to above, Durham County Council has a pass through contractual arrangement with the following employers who as a consequence have been pooled with Durham County Council and will pay the primary contribution rate relating to the pool:

Investing in Children (195)
Harbour Support Services (206)
Science Museum Locomotion (224)
YS Services (228)

Darlington County Borough Council

In addition to the subsumption of the assets and liabilities relating to relevant exiting employers Darlington Council has a pass through contractual arrangement with the following employers who as a consequence have been pooled with Darlington Council and will pay the primary contribution rate relating to the pool:

Blackwell Grange Golf Club (198)
NECA (199)
Making Space (205)

Pension Fund Committee

11 March 2021

Pension Administration Report

Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

1 This report briefs the Committee on developments in matters that are both Local Government Pension Scheme (LGPS) specific, as well as providing an update on non-LGPS specific matters which are of interest.

Executive summary

2 There are a number of developments that will potentially impact the requirements placed upon the Fund, both specific to the LGPS and more generally. This report seeks to keep the Committee updated with those developments

Recommendation(s)

3 Committee is asked to note the report.

Background

4 This report provides an update to Committee on important pensions administration and governance matters that are currently relevant. The report is split into 2 main sections:

(a) LGPS specific matters, and;

(b) Non-LGPS specific matters that are of interest to the Committee.

LGPS Specific Matters

MHCLG Consultation – LGPS: Fair Deal – Strengthening Pension Protection

5 In January 2019, MHCLG launched a consultation that would strengthen the pensions protections that apply when an employee of an LGPS employer is compulsorily transferred to the employment of a service provider. If the proposed amendments are introduced, the option for staff to be granted access to a Government Actuary's Department (GAD) certified broadly comparable scheme will be removed.

6 MHCLG are currently considering the responses received, with a consultation response expected in due course. Officers will continue to monitor the position.

MHCLG consultation – LGPS: Changes to the Local Valuation Cycle and the Management of Employer Risk

7 In May 2019 MHCLG consulted on a number of changes to the LGPS, encompassing the following areas:

- amendments to the local fund valuations from the current 3-year (triennial) to a 4-year (quadrennial) cycle
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
- proposals for flexibility on exit payments
- proposals for further policy changes to exit credits
- proposals for changes to the employers required to offer local government pension scheme membership

8 On 27 February MHCLG published a partial response to the consultation, covering proposals on exit credits only. MHCLG

confirmed their intention to amend the Regulations providing greater discretion to Administering Authorities over the amount of any exit credit. The Local Government Pension Scheme (Amendment) Regulations 2020 were subsequently laid before parliament, coming into force on 20 March 2020 with backdated effect to 18 May 2018. The Fund has published its policy in relation to Exit Credits.

9 MHCLG has also published a partial response in respect of employer contributions and flexibility on exit payments – details of the impact on the Fund's policies are included in a separate report 'Pension Fund Policy Documents'. Committee will be updated on further responses to the consultation.

Ongoing Consultation – Guaranteed Minimum Pensions (GMP)

10 In February 2017 the Treasury consulted on options for how the Guaranteed Minimum Pension (GMP) element of pensions paid to those members who will reach state pension age on or after 6th December 2018 should be indexed.

11 In January 2018 the Treasury published its response to this consultation, acknowledging that it is a complex area with more time required to identify a long-term solution. As a result, the existing interim solution was extended, covering those members of public service schemes reaching state pension age between 6th April 2016 and 5th December 2018 to those that reach state pension age on or before 5th April 2021.

12 The government is currently considering whether to extend the interim solution, or to make the interim solution permanent. The Committee will be kept up to date on this matter.

LGPS Scheme Advisory Board (SAB)

SAB Review – Academies

13 In 2017 SAB instigated a review of the participation of existing academies and commissioned Price Waterhouse Coopers to investigate issues of academy participation in the LGPS and prepare a report for the Board. The report made no recommendations but set out three broad types of approach or mechanisms to try and resolve these issues. These are:

- non-regulatory measures within the LGPS
- regulatory measures within the scheme, and
- measures outside of the LGPS, including through primary legislation.

14 The SAB review had been split between a funding working group and an administration working group. Work on the administration working group was put on hold due to competing work pressures and the project is no longer part of SAB's current projects. Officers will continue to monitor the position and update Committee if work on the project is revived.

SAB Review – Tier 3 Employers

15 In addition to the review of Academy participation, above, SAB also commissioned work in respect of 'Tier 3' employers participating in the LGPS. Broadly, Tier 3 employers are those employers which:

(i) have no tax raising powers,

(ii) are not backed by an employer with tax raising powers;

(iii) are not an academy.

16 SAB had established a small working group to review concerns expressed by Tier 3 employers and the ways in which they may be resolved. The working group had been tasked with reporting back to the SAB with a set of recommendations for further consideration.

17 The project is no longer part of SAB's current projects. Officers will continue to monitor the position and update Committee if work on the project is revived.

SAB Review – Good Governance in the LGPS

18 SAB is currently examining the effectiveness of current LGPS governance models with a focus on standards, consistency, representation, conflict management, clarity of roles and cost. The Board will consider a detailed paper in May 2020 which will likely result in new statutory guidance on Governance Compliance, with consideration in particular likely to be given to:

(a) changes to the scheme's regulatory provisions on Governance Compliance Statements,

(b) revised statutory guidance on Governance Compliance Statements,

(c) independent assessment of Governance Compliance Statements, and;

(d) establishing a set of Key Performance Indicators (KPIs)

19 SAB have recently completed their report on Good Governance and submitted an Action Plan to MHCLG to take the recommendations of the project forward. A more detailed update to Committee, and overview of the recommendations proposed to MHCLG will be provided in due course.

SAB Review – Responsible Investment Guidance

20 In November 2019, SAB drafted guidance for Responsible Investment in the LGPS, to clarify the parameters within which investment decisions can be made with regard to the integration of ESG factors. Following feedback, SAB has decided to take stock until more is known about the government's position on the proposed climate change provisions in the Pension Schemes Bill and the implications of the Supreme Court's judgement involving the Palestine Solidarity Campaign.

21 Committee will be updated as the matter progresses.

Cost Management Review/McCloud

22 The Committee has been informed previously of the Cost Management Review in the LGPS and other public sector schemes which sets both a cost 'ceiling' and 'floor' in respect of the ongoing affordability of public sector pensions.

23 Members were informed previously that it was not possible to assess the value of the public service pensions arrangements with any certainty due to the anticipated implications of the Court of Appeal judgements in McCloud and Sargeant.

24 The Fund's position on McCloud has been discussed previously, with the Actuary outlining in detail how the issue was to be reflected in the 2019. The approach taken added an additional 0.9% to the employer contribution rate for all employers at the 2019 valuation.

25 Before the impact of McCloud, provisional cost management assessments indicated floor breaches in most schemes. The government has recently announced its intention regards the unfunded public sector schemes, while at the time of writing an MHCLG statement on the funded LGPS was expected to follow in due course.

26 Committee will be updated on the position regards Cost Management in the LGPS.

Non- LGPS Specific Matters

Public Sector Exit Payments Cap

27 The Small Business, Enterprise and Employment Act 2015 introduced the concept of a ‘public sector exit payments cap’. The legislation provides that exit payments to be paid to a person are not to exceed £95,000. The 2015 Act provided the overarching principles of how the exit cap was to operate, but the detail was to be prescribed in regulations that were expected to soon follow.

28 After a period of delay the Treasury launched a new consultation on this matter in April 2019. Included in the consultation were draft regulations called ‘The Restriction of Public Sector Exit Payment Regulations 2019’ which provided detail on how the exit cap should operate from an employer’s perspective.

29 Under the Regulations, the cap was to remain at £95,000 and include:

- redundancy payment(s);
- any payment to offset an actuarial reduction to a pension arising by virtue of early retirement (know as ‘strain on the fund’ or ‘early release’ cost);
- any payment made pursuant to an award of compensation under the ACAS arbitration scheme or a settlement or conciliation agreement;
- any severance payment or ex gratia payment;
- any payment in the form of shares or share options;
- any payment on voluntary exit;
- any payment in lieu of notice due under a contract of employment;
- any payment made to extinguish any liability under a fixed term contract;
- any other payment made, whether under a contract of employment or otherwise, in consequence of termination of employment of loss of office.

30 Most significantly for the LGPS, was the inclusion of the ‘strain on the fund’ costs are included towards the cap. These costs of allowing unreduced access to pension benefits for members over 55 can

exceed £95,000 for scheme members with long periods of membership.

31 Separately to the Exit Payment Regulations, MHCLG consulted on further reforms to the LGPS Regulations that would accommodate the Exit Cap within the Scheme. As MHCLG's proposed changes were not implemented concurrently with the Exit Payment Regulations, there was legal uncertainty for both LGPS Administering Authorities and participating employers due to the conflicting legislation.

32 On 12 February however the Exit Cap was unexpectedly disapplied, after the Treasury issued the 'Exit Payment Cap Directions 2021'. The Treasury will bring forward at pace revised proposals in respect of public sector exits. The Committee will be updated as further details emerge.

Mandatory TCFD Reporting

33 Using powers granted under the Pension Schemes Bill, the Department for Works and Pensions (DWP) is consulting on draft regulations requiring occupational pension schemes to meet climate governance requirements, publish a Taskforce on Climate-related Financial Disclosures (TCFD) report and include a link to the report in their annual report and accounts.

34 Whilst the regulations will not apply to the LGPS it is expected that MHCLG will bring forward similar proposals requiring TCFD disclosures in the LGPS. An overview of TCFD was included in training for members of the Committee in December, and a more detailed report will be provided in June.

UK Stewardship Code 2020

35 The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. The Fund has previously signed up the Code, and BCPP also publish a UK Stewardship Code compliance statement.

36 Due to the significant changes in the Investment Market since the introduction of the first Code, The UK Stewardship Code 2020 is now being introduced. This new Code expands on the previous requirements and compromises a set of 12 Principles which require reporting and disclosure on an 'apply and explain' basis.

37 The LGPS (Management and Investment of Funds) 2016 Regulations state that the responsibility for stewardship, which includes

shareholder voting, remains with the Partner Funds. Stewardship, day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed a Responsible Investment Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.

38 Officers are currently working with peers at BCPP Partner Funds to consider the new Code and will work together, and in conjunction with BCPP, to ensure compliance. A more detailed report will be provided to the Committee in due course.

Consultation on Minimum Pension Age

39 A consultation entitled ‘Increasing the normal minimum pension age: consultation on implementation’ was launched on 11th February and runs until 22nd April 2021. The consultation proposes that, due to increases in longevity and changing expectations of how long individuals will remain in work and in retirement, the minimum pension age would increase from 55 to 57 in 2028. The minimum age a scheme member can currently retire voluntarily in the LGPS is 55.

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Agenda Item 20

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Agenda Item 26

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