Pension Fund Committee

Date	**Thursday 9 December 2021**
Time	**10.00 am**
Venue	**Council Chamber, County Hall, Durham**

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 11 October 2021 (Pages 23 - 30)
4. Overall Value of Pension Fund Investments to 30 September 2021 (Pages 31 - 34)
5. Performance Measurement of Pension Fund Investments to 30 September 2021 (Pages 35 - 44)
6. Internal Audit Plan 2021/2022 - Progress Report to 30 September 2021 (Pages 45 - 50)
7. Audit Completion Report (Pages 51 - 84)
8. Pension Fund Accounts for the year ended 31 March 2021 (Pages 85 - 132)
9. Review of Pension Fund Risks (Pages 133 - 146)
10. Border to Coast Pensions Partnership Responsible Investment Policy (Pages 147 - 186)
11. Regulatory and Administration Update (Pages 187 - 198)
12. Employer Flexibility Policy (Pages 199 - 220)

13. Feedback from Local Pension Board
14. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration
15. 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)

16. The Minutes of the Meeting held on 11 October 2021 (Pages 221 - 228)
17. Investment Strategy Review Update (Pages 229 - 300)
18. Report of the Pension Fund Adviser (Pages 301 - 338)
19. Report of the Independent Investment Adviser (Pages 339 - 364)
20. Border to Coast Pensions Partnership Quarterly Performance Report and Quarterly Environmental, Social and Governance Report (Pages 365 - 394)
21. Report of Alliance Bernstein (Pages 395 - 412)
22. Report of BlackRock (Pages 413 - 428)
23. Report of CBRE Global Investment Partners (Pages 429 - 444)
24. Report of Mondrian Investment Partners (Pages 445 - 450)
25. Border to Coast Pensions Partnership Private Monitor Report (Pages 451 - 502)
26. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Helen Lynch
Head of Legal and Democratic Services

County Hall
Durham
1 December 2021

To: The Members of the Pension Fund Committee

County Council Members:
Councillors B Kellett, M Abley, J Atkinson, K Earley, C Fletcher, C Martin, J Shuttleworth, M Stead, D Sutton-Lloyd and C Varty

Darlington Borough Council Members
Councillors S Durham and M Renton

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 – Chief Executive
P Darby – Corporate Director of Resources
H Lynch – Head of Legal and Democratic Services
P Cooper – Pensions Manager
B White – Finance Manager

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
Councillor A Hopgood, and L Oliver – Local Pension Board

Contact: Martin Tindle **Tel: 03000 269 713**

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Pension Fund Committee

Abbreviations

List of commonly used abbreviations

AB	Alliance Bernstein, the Fund's Bonds manager
ACS	Authorised Contractual Scheme, the collective investment scheme used by BCPP for asset pooling
AUM	Assets Under Management
BCPP	Border to Coast Pensions Partnership, the Fund's asset pool
CBRE	Coldwell Banker Richard Ellis, the Fund's Real Estate manager
CEO	Chief Executive Officer
CIO	Chief Investment Officer
CIPFA	The Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government (former name of MHCLG)
COO	Chief Operating Officer
COP	Conference of Parties, a UN conference on climate change
CPI	Consumer Price Index
CSR	Corporate Social Responsibility, a term under which companies report their social, environmental and ethical performance
DAA	Dynamic Asset Allocation
DGF	Diversified Growth Fund

EM	Emerging Markets
EMEA	Europe, Middle East & Africa
ESG	Environmental, Social, and Governance – factors in assessing an investment’s sustainability
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
FTA	FTSE Actuaries UK Gilts Index Series
FTSE	Financial Times Stock Exchange
GEM	Global Emerging Markets
GRESB	Global ESG Benchmark for Real Assets
HMT	Her Majesty’s Treasury
Infra	Infrastructure
IRR	Internal Rate of Return
ISS	Investment Strategy Statement
JC	Joint Committee
LGA	Local Government Association
LGPS	Local Government Pension Scheme
LAPFF	Local Authority Pension Fund Forum
LIBOR	London Inter Bank Offered Rate, a benchmark interest rate at which global banks lend to one another
LPB	Local Pension Board
MAC	Multi Asset Credit
MHCLG	Ministry of Housing, Communities and Local Government
MSCI	formerly Morgan Stanley Capital International, publisher of global indexes

NED	Non-Executive Director
NT	Northern Trust, the Fund's Custodian
OECD	Organisation for Economic Co-operation and Development
PF	Pension Fund
PFC	Pension Fund Committee
PLSA	Pensions and Lifetime Savings Association
PRI	The UN-supported Principles for RI
RI	Responsible Investment
RPI	Retail Price Index
S&P	Standard & Poor's, ratings agency and provider of equity indices
S151	An officer with responsibilities under s151 of the Local Government Act 1972
SAB	Scheme Advisory Board
SDG	the UN's Sustainable Development Goals
SILB	Sterling Index Linked Bonds
SONIA	Sterling Over Night Index Average, the overnight interest rate paid by banks
TCFD	Taskforce on Climate Related Financial Disclosures
TER	Total Expense Ratio
TPR	The Pensions Regulator

Author(s)

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Glossary of commonly used terms

A

Active Management

Appointing investment professionals to track the performance of the Fund's mandates, making buy, hold and sell decisions about the assets with a view to outperforming the market.

Active Member

A current employee who is contributing to the pension scheme.

Actuary

An independent professional who advises the Council in its capacity as Administering Authority on the financial position of the Fund.

Actuarial Valuation

The Fund's actuary carries out a valuation every three years and recommends an appropriate rate of contributions for each of the Fund's participating employers for the following three years. The valuation measures the Fund's assets and liabilities, with contribution rates set according to the Fund's deficit or surplus.

Additional Voluntary Contributions (AVCs)

An option available to active members to build up a pot of money which is then used to provide additional pension benefits. The money is invested separately with one of the Fund’s external AVC providers.

Administering Authority

The LGPS is run by local Administering Authorities. An Administering Authority is responsible for maintaining and investing its own Fund for the LGPS.

Admission/Admitted Body

An organisation whose employees can become members of the Fund by virtue of an admission agreement made between the council in its capacity as Administering Authority and the organisation. It enables contractors who take on council services to offer staff transferred to the organisation continued membership of the LGPS.

Asset Allocation

The apportionment of the Fund’s assets between different types of investment (or asset classes). The long-term strategic asset allocation of the Fund will reflect the Fund’s investment objectives and is set out in the Investment Strategy Statement.

Authorised Contractual Scheme (ACS)

A collective investment scheme used by BCPP. An ACS is a form of investment fund that enables a number of investors to ‘pool’ their assets and invest in a professionally managed portfolio of investments, typically gilts, bonds, and quoted equities. Regulated by the Financial Conduct Authority, it is “tax transparent”; making it particularly useful for pooling pension assets.

B

Benchmark

A measure against which the investment policy or performance of an investment manager can be compared.

Border to Coast Pension Partnership (BCPP)

The Fund’s chosen asset pool. BCPP has 11 Partner Funds who collectively have around £45bn of assets. The Partner Funds have appointed a Board of Directors, chaired by Chris Hitchen, which is responsible for ensuring that Border to Coast is run effectively and in line with the guiding principles set by the shareholders. The Chief Executive Officer, Rachel Elwell, is responsible for the day to day running of Border to Coast along with her team.

Border to Coast Joint Committee

As part of their oversight, BCPP Partner Funds formed a Joint Committee which consists of the Chairs of each of the Partner Fund Pension Committees together with other non-voting representatives.

C

CARE (Career Average Revalued Earnings)

From 1 April, 2014, the LGPS changed from a final salary scheme to a Career Average (CARE) scheme. The LGPS remains a defined benefit scheme but benefits built up from 2014 are now worked out using a member’s pay each scheme year rather than the final salary at leaving.

Cash Equivalent Value (CEV)

This is the cash value of a member’s pensions rights for the purposes of divorce or dissolution of a civil partnership.

Consumer Price Index (CPI)

A method of measuring the changes in the cost of living, similar to the Retail Price Index. Since April 2011 LGPS pensions are increased annually in line with movement in the Consumer Price Index during the 12 months to the previous September.

Commutation

A scheme member may give up part or all of the pension payable from retirement in exchange for an immediate lump sum.

Convertible Shares

Shares that include an option for holders to convert into a predetermined number of ordinary shares, usually after a set date.

Custodian

A financial institution that holds customers' securities for safekeeping to minimise the risk of theft or loss. Most custodians also offer account administration, transaction settlements, collection of dividends and interest payments, tax support and foreign exchange. Custody is currently provided to the Fund by Northern Trust.

D

Death Grant

A lump sum paid by the Fund to the dependents or nominated representatives of a member who dies.

Deferred Member/Pensioner

A scheme member who has left employment or otherwise ceased to be an active member of the scheme who retains an entitlement to a pension from the Fund.

Defined Benefit Scheme

A pension scheme like the LGPS where the benefits that will ultimately be paid to the employee are fixed in advance and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the future pension promise.

Denomination

The face value of a bank note, coin or postage stamp, as well as bonds and other fixed-income investments. Denomination can also be the base currency in a transaction or the currency a financial asset is quoted in.

Designating Body

Organisations that can designate employees for access to the LGPS. Employees of town and parish councils, voluntary schools, foundation schools, foundation special schools, among others, can be designated for membership of the scheme.

Discretion

The power given by the LGPS to enable a participating employer or Administering Authority to choose how they will apply the scheme in respect of several its provisions. For some of these discretions it is mandatory to pass resolutions to form a policy as to how the provision will apply. For the remaining discretionary provisions, a policy is advised.

Direct Property

Direct investment in property is buying all or part of a physical property. Property owners can receive rent directly from tenants and realise gains or losses from the sale of the property.

Diversified Growth Funds (DGF)

An alternative way of investing in shares, bonds, property and other asset classes; DGFs are funds that invest in a wide variety of asset classes in order to deliver a real return over the medium to long-term. The Fund's DGF is managed by BlackRock.

E

Employer Contribution Rates

The percentage of an employee's salary participating employers pay as a contribution towards that employee's LGPS pension.

Employer Covenant

The covenant is an employer's legal obligation and financial ability to support their defined benefit (DB) obligation now and in the future.

Equities

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

ESG

ESG is the consideration of environmental, social and governance factors alongside financial ones in the investment decision-making process. E, S, and G are the three key factors in assessing an investment's sustainability

F

Fiduciary Duty

Fiduciary duties exist to ensure that those who manage other people's money act in beneficiaries' interests rather than their own.

Financial Instruments

Tradable assets of any kind, which can be cash, evidence of an ownership interest in an entity or a contractual right to receive or deliver cash or another financial instrument.

Fixed Interest Securities

Investments, mainly in Government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date that can be traded on a recognised stock exchange in the meantime.

Fund of Funds (FoF)

A fund that holds a portfolio of other investment funds.

G

Guaranteed Minimum Pension (GMP)

The LGPS guarantees to pay a pension that is at least as high as a member would have earned had they not been contracted out of the State Earning Related Pension Scheme (SERPS) at any time between 6 April 1978 and 5 April 1997. This is called the guaranteed minimum pension (GMP).

I

Index

A calculation of the average price of shares, bonds or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Internal Rates of Return (IRR)

The internal rate of return (IRR) is a metric used to estimate the profitability of potential investments. Generally, the higher an IRR, the more desirable an investment is to undertake.

L

Local Government Pension Scheme (LGPS)

The LGPS is collectively the largest public sector pension scheme in the UK, which provides DB benefits to employees of local government employers and other organisations that have chosen to participate.

Local Pension Board (LBP)

Since April 2015, each Administering Authority is required to establish and operate a Local Pension Board. The Pension Board is responsible for assisting the Administering Authority in securing compliance with the LGPS regulations, overriding legislation and guidance from the Pensions Regulator. The Board is made up of equal representation from employer and scheme member representatives.

M

Myners Principles

A set of principles based on Paul Myners' 2001 report, Institutional Investment in the United Kingdom. The Myners' principles for defined benefit schemes cover:

Effective decision-making

Clear objectives

Risk liabilities

Performance assessment

Responsible ownership

Transparency and reporting.

O

Ordinary Shares

An ordinary share represents equity ownership in a company and entitles the owner to vote at the general meetings of that company and receive dividends on those shares if a dividend is payable.

P

Partner Funds

The Fund's chosen asset pool, BCPP, has 11 Partner Funds - Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear, Warwickshire.

Pension Liberation Fraud

Members with deferred benefits may be approached by companies offering to release funds early from these benefits. The Pensions Regulator has advised pension funds to make members aware of the potential warning signs of pension liberation fraud.

Pensions Online

The Fund's online portal where scheme members may view their pensions records, complete retirement calculations, and update personal details.

Pensions Regulator

The Pensions Regulator (TPR) s the UK regulator of workplace pension schemes. TPR make sure that employers put their staff into a pension scheme and pay money into it. TPR also make sure that workplace pension schemes are run properly so that people can save safely for their later years.

Pooled Funds

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Pooling in the LGPS

Central government requires local authorities to pool their pension assets, to achieve four principles:

1. Cost savings through economies of scale
2. Improved governance
3. Improved approach to responsible investment
4. Improved ability to invest in infrastructure

Proxy Voting

Proxy voting allows shareholders to exercise their right to vote without needing to attend AGMs. This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

Q

Quantitative Easing

Quantitative easing (QE) is when a central bank creates new money electronically to buy financial assets like Government bonds with the aim of directly increasing private sector spending in the economy and returning inflation to target.

R

Related Party Transactions

This is an arrangement between two parties joined by a special relationship before a deal, like a business transaction between a major shareholder and a corporation.

Responsible Investment (RI)

Responsible investment involves incorporating environmental, social and governance (ESG) considerations into investment decision-making while practising active ownership. RI can help deliver sustainable, long-term returns for investors.

Retail Price Index

A method of measuring the changes in the cost of living. It reflects the movement of prices covering goods and services over time. Until April 2011, the amount by which LGPS pensions were increased annually was based on movement in the Retail Price Index during the 12 months to the previous September. From April 2011, the Government changed the amount by which pensions increase from Retail Price Index to Consumer Price Index (CPI).

Return

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

Rule of 85

Under previous LGPS regulations, when a member elected to retire before age 65, the Rule of 85 test was used to find out whether the member retired on full or reduced pension benefits. If the sum of the member's age and the number of whole years of their scheme membership was 85 or more, benefits were paid in full. If the total was less than 85, the benefits were reduced. The Rule of 85 was abolished on 1 October, 2006 - however, members contributing to the LGPS prior to this date will have some or all of their pension benefits protected under this rule.

S

Scheduled Body

An organisation that has the right to become a member of the LGPS under the scheme regulations. Such an organisation does not need to be admitted as its right to membership is automatic.

Spot Rate

The price quoted for immediate settlement on a commodity, security or currency. It is based on the value of an asset at the moment of the quote, which in turn is based on how much buyers are willing to pay and how much sellers are willing to accept depending on factors such as current market value and expected future market value.

State Pension Age (SPA)

The earliest age at which State Pension can be paid, which different to the earliest age LGPS may be claimed. Under the current law, the State Pension age is due to increase to 68.

Stock Lending

This is loaning a stock, derivative or other security to an investor or firm. It requires the borrower to put up collateral (cash, security or a letter of credit). When stock is loaned, the title and the ownership is transferred to the borrower and title is returned at the end of the loan period.

T

TCFD

The Taskforce on Climate Related Financial Disclosures was set up to develop voluntary, consistent, climate related financial risk disclosures to guide companies in providing information to investors, lenders, insurers and other stakeholders. It is expected that MHCLG will consult on mandatory TCFD disclosures in the LPGS by the end of 2021.

The Pension Advisory Service (TPAS)

The Pensions Advisory Service (TPAS) gives information and guidance to members of the public on state, company and personal pensions. It helps any member of the public who has a problem with their occupational or private pension arrangement. TPAS is an executive non-departmental public body, sponsored by the Department for Work and Pensions.

Transfer Value

A transfer value is a cash sum representing the value of a member's pension rights.

Transferred Service

Any pension that members have transferred into the LGPS from a previous pension arrangement that now counts towards their LGPS membership.

U

UK Stewardship Code

A code first published by the FRC in 2010 to enhance the quality of engagement between asset managers and companies in the UK. Its principal aim is to make asset managers more active and engaged in corporate governance matters in the interests of their beneficiaries. The Code was revised in 2020.

Unrealised gains/losses

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

Author(s)

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Council Chamber, County Hall, Durham on **Monday 11 October 2021 at 10.00 am**

Present:

Councillor B Kellett (Chair)

Members of the Committee:
Councillors M Abley (Vice-Chair), J Atkinson, K Earley, C Fletcher, C Martin, J Shuttleworth, M Stead, D Sutton-Lloyd and C Varty

Darlington Borough Council Members:
Councillors Scott Durham and Mike Renton

Scheme Member Representative
John Taylor

Further Education Colleges Representative
Andrew Broadbent

Council Advisers/Officers
Paul Cooper – Pensions Manager
Beverley White – Finance Manager
Bryan Smith – Litigation Manager
Paul Monaghan – Audit Manager

Independent Advisers
Sandy Dickson – Mercer
Anthony Fletcher – MJ Hudson

BCPP
Andy Stone
George Kendall

Observers
Les Timbey - GMB

1 Apologies for Absence

An apology for absence was received from Scheme Member Representative Anne Delandre.

2 Declarations of interest

There were no declarations of interest.

3 Minutes

The Minutes of the meeting held on 26 July 2021 were agreed as a correct record and were signed by the Chair.

4 Overall Value of Pension Fund Investments to 30 June 2021

The Committee considered a report of the Corporate Director of Resources (Interim) which provided an update on the overall value of the Pension Fund investments to 30 June 2021, the movement in cash balances during the last four quarters and the cash flow forecast for the next five quarters, up to 30 September 2022 (for copy see file of Minutes).

Resolved:

That the information contained in the report be noted.

5 Performance Measurement of Pension Fund Investments to 30 June 2021

The Committee considered a report of the Corporate Director of Resources (Interim) which provided an overview of the investment performance of the Pension Fund to 30 June 2021 (for copy see file of Minutes).

Resolved:

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

6 Internal Audit Plan 2021/2022 - Progress Report to 30 June 2021

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work carried out by Internal Audit during the period 1 April 2021 to 30 June 2021 as part of the 2021/2022 Internal Audit Plan (for copy see file of Minutes).

Following a question from Councillor Earley, Paul Monaghan confirmed that he anticipated that those Audits in progress should be completed by the end of the financial year. Those reflected in the report as ‘Not Yet Started’ had been scheduled to commence later in the financial year.

Resolved:

That the work undertaken by Internal Audit during the period ending 30 June 2021 be noted.

7 Regulatory and Administration Update

The Committee considered a report of the Corporate Director of Resources (Interim) which briefed the Committee on developments in matters that were both Local Government Pension Scheme (LGPS) specific, as well as providing an update on non-LGPS specific matters of interest (for copy see file of Minutes).

Councillor Atkinson asked a question about the Pensions Regulator. Paul Cooper advised that the Regulator’s role was to oversee for example the services delivered to scheme members and how Funds worked with Scheme Employers. The investment requirements within the LGPS were set out in legislation, and the 2016 Regulations determined how Funds should invest.

Following questions from Councillor Fletcher regarding the cost control mechanism and the McCloud Judgement, Paul Cooper stated that the purpose of the cost control mechanism was to control overall scheme costs to ensure they did not increase above what was anticipated. Tramlines were introduced nationally of 2%, which meant that the scheme could become up to 2% more expensive, or 2% cheaper, without triggering the cost control mechanism. The proposed increase to 3% would be a positive change for Employers. In terms of the McCloud judgement, LGPS Regulations were expected in 2023 which would require all public sector pension schemes to apply the same protections afforded to older members to all scheme members.

Resolved:

That the information contained in the report be noted.

8 Feedback from Local Pension Board

Paul Cooper provided feedback from the Local Pension Board meeting of 26 July 2021.

The Board considered the following:

- Regulatory and Administration update
- Delivery of services to scheme members
- Pension Regulator Code of Practice update

Resolved:

That the information given be noted.

9 Verbal Update - Annual Report and Accounts

Beverley White provided an update on publication of the Annual Report and Accounts, and the requirement to approve the Council's Draft Statement of Accounts, which include the Pension Fund Accounts by 31 July, and the Final accounts by 30 September 2021.

The draft accounts were approved by the Corporate Director of Resources (Interim) on 18 June 2021 and were published on the Council's website that day. The accounts were then reviewed by Mazars, the External Auditor and presented to Audit Committee on 30 September 2021. An unqualified opinion was issued by the External Auditors, and Audit Committee Members approved the final set of accounts at their meeting on 30 September 2021, after first considering the views of the External Auditors. She was pleased to report that the statutory deadlines for approving and publishing the Statement of Accounts was met.

The Pension Fund accounts must be included in the Pension Fund Annual Report. The publication deadline for this was 1 December 2021, but had been approved by the Corporate Director of Resources (Interim) on 30 September 2021. The Pension Fund Annual Report and Accounts would be published on the Council's website before the deadline. Highlights from the Annual Report and Accounts would be presented to the Pension Fund's Annual meeting on 10 November 2021, and reported to the Pension Fund Committee's next meeting on 9 December 2021 when the External Auditor would present the Audit Completion Report.

The headline financial outturn position reported in the Statement of Accounts was that net assets had increased by £694m up to £3.84bn during the year.

Following a question from Councillor Renton, Beverley White stated that until recently legislation required the draft accounts to be published by 31 May 2021 and the final accounts by the end of July. Due to the pandemic the deadlines were extended and the Redmond Review recommended changes to the deadlines, initially to allow Auditors to complete audits on time and allow Councils to meet the deadlines to publish the final accounts. Durham had the support of its External Auditors and with regular meetings and dialogue were able to publish on time. Many local authorities were not in this position. She was hopeful that the deadlines could be achieved again next year.

The Chair congratulated Officers on the achievement.

Resolved:

That the information given be noted.

10 Any Other Business - BCPP Annual Conference 30 September and 1 October 2021

The Chair requested feedback on the recent BCPP Annual Conference. Paul Cooper advised that eight representatives from the Pension Fund Committee had attended, and invited members to provide their comments.

Councillor Sutton-Lloyd stated that as a new member he found it very useful to meet representatives from BCPP and also other members in the Partnership.

Councillor Earley stated that a presentation at the Conference aimed at new members was very useful and suggested that it be circulated to all members.

Councillor Atkinson stated that he had attended the conference for a number of years, and he was always impressed with the level of knowledge. It was a good opportunity to ask questions and overall had been an excellent event.

Councillor Renton stated that it was important that Darlington Borough Council was represented at the event and echoed the views of members. He thanked Paul Cooper for organising their attendance.

The Chair stated that he found the virtual attendance of speakers from Hong Kong to be very useful.

Resolved:

That the information given be noted.

11 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.

12 Minutes

The Minutes of the meeting held on 26 July 2021 were agreed as a correct record and were signed by the Chair.

13 Investment Strategy Review Update

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

Resolved:

That the information contained in the report be noted.

14 Report of the Pension Fund Adviser

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

Resolved:

That the information given be noted.

15 Report of the Independent Adviser

The Committee received a presentation from the Independent Investment Adviser, Anthony Fletcher of MJ Hudson which provided an update for the second quarter 2021 (for copy see file of minutes).

Resolved:

That the information given be noted.

16 Border to Coast Pensions Partnership Quarterly Investment Report

The Committee considered the quarterly investment report of the Border to Coast Pensions Partnership. Andrew Stone and George Kendall were in attendance to present the report which included an update on Responsible Investment (for copy see file of Minutes).

Resolved:

That the information given be noted.

17 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.

18 Report of BlackRock

Consideration was given to a report from BlackRock which included:

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

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

19 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.

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 Border to Coast Pensions Partnership Private Monitor Report

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

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

Pension Fund Committee

9 December 2021

Overall Value of Pension Fund Investments to 30 September 2021

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1. To provide an update to Members on the:

   (a) overall value of the Pension Fund's investments at 30 September 2021; and
   (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 30 September 2021 the value of the Fund was £3.610 billion and the cash balance held in the Durham County Council Pension Fund bank account was £30.642 million. Fund Managers also held cash of £39.424 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 30 September 2021 was £3.610 billion compared to £3.601 billion at 30 June 2021. This is an increase of £9 million (or 0.25%) in the second quarter of 2021/22.

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 30 September 2021 the cash balance held in the Durham County Council Pension Fund bank account was £30.642 million. In addition to this, not included in this table, fund managers were holding cash of £39.424 million at 30 September 2021.

9. During the quarter ending 30 September 2021, further drawdowns totalling £12.017 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 October 2020 to 30 September 2021

Quarter Ended	31.12.20		31.03.21		30.06.21		30.09.21	
	Estimate	**Actual**	**Estimate**	**Actual**	**Estimate**	**Actual**	**Estimate**	**Actual**
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	16,500,000	16,975,404	16,500,000	16,373,095	16,500,000	16,179,251	16,400,000	16,368,529
Contributions - Other	11,600,000	12,574,269	11,600,000	13,840,399	11,600,000	12,519,409	12,500,000	12,927,581
Unfunded pensions recharges	1,050,000	1,105,483	1,050,000	997,505	1,050,000	1,282,189	1,050,000	963,123
Transfer Values	1,250,000	699,626	1,250,000	1,295,926	1,250,000	2,401,896	1,250,000	2,347,137
Other income	1,500,000	1,091,573	1,500,000	2,134,211	1,500,000	759,882	1,500,000	715,767
Funds recovered from Managers	0	0	20,000,000	20,000,000	0	0	20,000,000	20,000,000
Interest on short term investments	2,000	5,320	2,000	3,567	2,000	6,198	2,000	3,066
Total Cash Inflow	31,902,000	32,451,677	51,902,000	54,644,703	31,902,000	33,148,825	52,702,000	53,325,203
Cash Outflows								
Payroll Paysheets	27,750,000	27,608,520	28,000,000	27,749,126	28,450,000	27,884,214	28,000,000	28,160,229
Payables Paysheets (incl. Managers' fees)	11,000,000	9,263,003	11,000,000	9,155,996	11,000,000	13,108,703	10,000,000	10,321,204
Funds transferred to Managers	3,000,000	3,343,661	3,000,000	4,971,934	3,000,000	7,355,588	7,000,000	12,017,375
Other Expenditure	1,000	1,013	1,000	914	1,000	902	1,000	920
Total Cash Outflows	41,751,000	40,216,198	42,001,000	41,877,970	42,451,000	48,349,407	45,001,000	50,499,728
Net Cash Inflow / (-) Outflow	-9,849,000	-7,764,521	9,901,000	12,766,733	-10,549,000	-15,200,583	7,701,000	2,825,475
Balance at Bank (opening)		38,050,655		30,290,299		43,058,895		27,855,839
Balance at Bank (closing)		30,290,299		43,058,895		27,855,839		30,642,471

Pension Fund Committee

9 December 2021

Performance Measurement of Pension Fund Investments to 30 September 2021

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 To provide an overview of the investment performance of the Pension Fund to 30 September 2021.

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 30 September 2021, 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 30 September 2021, 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

September 30, 2021

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SECTION 1

Durham CC Pension Fund

Investment Risk & Analytical Services

September 30, 2021

Investment Hierarchy (Arithmetic Excess)

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return One Month	Three Months	One Year	Three Years	Five Years	Ten Years	Inception to Date	Inception Date
Durham CC Pension Fund	**3,609,835,424**	**100.00**	**-1.70**	**0.45**	**15.27**	**8.61**	**7.71**	**8.70**	**7.42**	**29/02/2008**
Durc Total Plan Benchmark			*-1.74*	*1.12*	*12.43*	*9.06*	*8.75*	*9.75*	*8.78*	*29/02/2008*
Excess Return			*0.04*	*-0.67*	*2.84*	*-0.44*	*-1.03*	*-1.06*	*-1.36*	*29/02/2008*
Alliance Bernstein	**584,447,021**	**16.19**	**-0.34**	**0.26**	**1.86**	**2.61**	**1.95**	**3.12**	**3.34**	**29/02/2008**
Alliance Bernstein	**584,447,021**	**16.19**	**-0.34**	**0.26**	**1.86**	**2.61**	**1.95**	**3.12**	**3.34**	**29/02/2008**
3 Month Libor in GBP +3% pa			*0.25*	*0.77*	*3.08*	*3.57*	*3.52*	*3.58*	*3.96*	*29/02/2008*
Excess Return			*-0.59*	*-0.51*	*-1.22*	*-0.97*	*-1.58*	*-0.46*	*-0.62*	*29/02/2008*
BlackRock DAA	**413,408,991**	**11.45**	**-0.36**	**0.22**	**10.13**	**6.45**	**5.92**	**-**	**4.56**	**31/12/2014**
Blackrock DAA	**413,408,991**	**11.45**	**-0.36**	**0.22**	**10.13**	**6.45**	**5.92**	**-**	**4.56**	**31/12/2014**
3 Month Libor in GBP +3%			*0.25*	*0.77*	*3.08*	*3.57*	*3.52*	*-*	*3.70*	*31/12/2014*
Excess Return			*-0.61*	*-0.55*	*7.05*	*2.88*	*2.40*	*-*	*0.86*	*31/12/2014*
CBRE 1	**213,599,478**	**5.92**	**1.47**	**3.53**	**10.71**	**6.13**	**6.57**	**7.91**	**4.56**	**29/02/2008**
CBRE 1	**213,599,478**	**5.92**	**1.47**	**3.53**	**10.71**	**6.13**	**6.57**	**7.91**	**4.56**	**29/02/2008**
RPI +5%			*0.77*	*2.67*	*9.90*	*7.85*	*8.20*	*7.74*	*7.94*	*29/02/2008*
Excess Return			*0.70*	*0.86*	*0.81*	*-1.72*	*-1.63*	*0.17*	*-3.38*	*29/02/2008*
CBRE 2	**48,541,419**	**1.34**	**-3.96**	**3.06**	**29.85**	**9.13**	**5.70**	**9.95**	**6.66**	**29/02/2008**
CBRE 2	**48,541,419**	**1.34**	**-3.96**	**3.06**	**29.85**	**9.13**	**5.70**	**9.95**	**6.66**	**29/02/2008**
RPI +5%			*0.77*	*2.67*	*9.90*	*7.85*	*8.20*	*7.74*	*7.94*	*29/02/2008*
Excess Return			*-4.73*	*0.39*	*19.95*	*1.28*	*-2.50*	*2.22*	*-1.28*	*29/02/2008*
Mondrian	**248,305,910**	**6.88**	**-2.68**	**-8.12**	**9.52**	**6.28**	**6.50**	**-**	**5.69**	**31/10/2014**
Mondrian	**248,305,910**	**6.88**	**-2.68**	**-8.12**	**9.52**	**6.28**	**6.50**	**-**	**5.69**	**31/10/2014**
MSCI Emerging Markets GD +2.5%			*-1.72*	*-5.07*	*16.20*	*10.31*	*11.43*	*-*	*11.18*	*31/10/2014*
Excess Return			*-0.96*	*-3.05*	*-6.68*	*-4.03*	*-4.93*	*-*	*-5.49*	*31/10/2014*
BCPP	**2,056,496,020**	**56.97**	**-2.68**	**1.10**	**23.68**	**-**	**-**	**-**	**12.08**	**30/09/2019**
BCPP Global Equity Alpha Fund	**1,564,891,587**	**43.35**	**-1.55**	**0.74**	**30.49**	**-**	**-**	**-**	**15.65**	**24/10/2019**
MSCI ACWI ND + 2% pa			*-1.98*	*1.81*	*24.23*	*-*	*-*	*-*	*17.35*	*24/10/2019*
Excess Return			*0.43*	*-1.07*	*6.26*	*-*	*-*	*-*	*-1.69*	*24/10/2019*
BCPP Sterling Index Linked Bd	**491,604,434**	**13.62**	**-6.14**	**2.28**	**-**	**-**	**-**	**-**	**2.88**	**08/10/2020**
FTSE Index Linked 15+Yrs+0.02%			*-6.14*	*2.26*	*-*	*-*	*-*	*-*	*2.43*	*08/10/2020*
Excess Return			*0.00*	*0.02*	*-*	*-*	*-*	*-*	*0.45*	*08/10/2020*
BCPP Private Market	**45,036,584**	**1.25**	**8.37**	**12.80**	**-**	**-**	**-**	**-**	**1.66**	**30/11/2020**
BCPP Private Markets	**45,036,584**	**1.25**	**8.37**	**12.80**	**-**	**-**	**-**	**-**	**1.66**	**30/11/2020**

Market Value Summary - One Month

Account/Group	31/08/2021 Market Value	Net Contribution*	Income	Fees	Appreciation	30/09/2021 Market Value
Durham CC Pension Fund	**3,689,336,740**	**-16,856,424**	**3,832,195**	**0**	**-66,477,086**	**3,609,835,424**
Alliance Bernstein	**586,431,560**	**0**	**0**	**0**	**-1,984,539**	**584,447,021**
Alliance Bernstein	586,431,560	0	0	0	-1,984,539	584,447,021
BlackRock DAA	**434,935,001**	**-20,000,000**	**2,566,417**	**0**	**-4,092,426**	**413,408,991**
Blackrock DAA	434,935,001	-20,000,000	2,566,417	0	-4,092,426	413,408,991
CBRE 1	**210,505,994**	**0**	**310,266**	**0**	**2,783,218**	**213,599,478**
CBRE 1	210,505,994	0	310,266	0	2,783,218	213,599,478
CBRE 2	**50,540,335**	**0**	**242,533**	**0**	**-2,241,449**	**48,541,419**
CBRE 2	50,540,335	0	242,533	0	-2,241,449	48,541,419
Mondrian	**255,131,973**	**0**	**688,369**	**0**	**-7,514,432**	**248,305,910**
Mondrian	255,131,973	0	688,369	0	-7,514,432	248,305,910
BCPP	**2,113,229,121**	**0**	**0**	**0**	**-56,733,101**	**2,056,496,020**
BCPP Global Equity Alpha Fund	1,589,462,757	0	0	0	-24,571,170	1,564,891,587
BCPP Sterling Index Linked Bd	523,766,364	0	0	0	-32,161,931	491,604,434
BCPP Private Market	**38,562,757**	**3,143,576**	**24,609**	**0**	**3,305,642**	**45,036,584**
BCPP Private Markets	38,562,757	3,143,576	24,609	0	3,305,642	45,036,584

**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.

Category: **Total Fund Gross of Fees** • Currency: **GBP**

SECTION 2

Appendix

Investment Risk & Analytical Services

September 30, 2021

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Pension Fund Committee

9 December 2021

Internal Audit Plan 2021/22 - Progress Report to 30 September 2021

Report of Stephen Carter, Interim 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 2021 to 30 September 2021 as part of the 2021/22 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 2021/22 up to 30 September 2021 and aims to:

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

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

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

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

Recommendation

3 Members are asked to note the work undertaken by Internal Audit during the period ending 30 September 2021.

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 2021/22, covering the period 1 April 2021 to 31 March 2022, was approved by the Pension Fund Committee on 11 March 2021.

Progress against 2021/22 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 2020/21			
Additional Voluntary Contributions	Assurance	Final Report	Substantial
Admission Bodies / Funding Risks	Assurance	Preparation	
2021/22 audits			
Pension System ICT Controls	Assurance	Not yet started	
Investments	Assurance	Not yet started	
Transfers In/Out	Assurance	In Progress	
Debt Recovery	Assurance	Not yet started	
Compliance with Breach Policy	Assurance	Not yet started	
National Fraud Initiative – Data matching to identify potential error/fraud	Counter Fraud	In Progress	
Management time and ad hoc advice & guidance	Advice/Consultancy	In Progress	

7 The table above shows nine areas planned for completion in 2021/22. Of the seven assurance reviews, one final report was issued in the quarter, with the detail of its scope shown below. Three reviews are in progress, with all other audits scheduled to commence later in the year.

Audit Area	Brief Scope	Assurance Opinion
Additional Voluntary Contributions	Assurance review of the arrangements in place to mitigate against the risks of; - Members not being aware of all the AVC options available to allow an informed decision to be made; - Applications and subsequent deductions are not processed or are not processed accurately or on a timely basis; - System records are incomplete or inaccurate; - Payment of contributions to investment providers are inaccurate, are not paid or are not paid on a timely basis.	Substantial

Background papers

- Specific Internal Audit reports issued and working papers.

Other useful documents

- None

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

Appendix 1: Implications

Legal Implications

The Accounts and Audit Regulation 2015 (Part 2, Section 5) states a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.

Furthermore, Internal Audit assists the Corporate Director of Resources in fulfilling their duties under Section 151 of the Local Government Act 1972 which requires each Local Authority to make arrangements for the proper administration of their financial affairs.

Finance

There are no direct financial implications associated with this report.

Internal Audit work has clear and direct effects, through recommendations made, to assist in improving value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

Consultation

Pensions Manager, Finance Manager and Corporate Director, Resources.

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 Pension Fund 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 Pension Fund Committee.

Procurement

None.

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Audit Completion Report

Durham County Council Pension Fund – Year ended 31 March 2021

September 2021

mazars

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02 Status of the audit

03 Audit approach

04 Significant findings

05 Internal control recommendations

06 Summary of misstatements

Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Draft consistency report

Appendix D: Independence

Appendix E: Other communications

mazars

Audit Committee
Durham County Council
County Hall
DH1 5UQ

Mazars LLP
The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

September 2021

Dear Committee Members

Audit Completion Report – Year ended 31 March 2021

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 25 February 2021 We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

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

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

Yours faithfully

Signed: MJKirkham
Mark Kirkham (Sep 21, 2021 14:01 GMT+1)

Mark Kirkham

Mazars LLP

01

Section 01:
Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- valuation of level 3 investments; and
- management override of controls

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements; unadjusted misstatements total £3.9m.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report, significant matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:

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

Consistency report
We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of Durham County Council. Our draft consistency report is provided in Appendix C.

Wider powers
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Fund and to consider any objection made to the accounts. We have received no objections or questions from local electors.

02

Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Purchases and sales of investments	Red	Our review of the reconciliation of movements in derivatives and cash is outstanding.
Review of IT general controls	Green	We have some procedures to complete on our IT General Control testing and will do so when we receive the remaining responses to our audit queries.
Review of the Pension Fund Annual Report	Green	Annual report to be reviewed when prepared.
Audit closure procedures	Amber	We have several audit closure procedures to complete. This includes reviewing the final version of the Statement of Accounts.

Red: Likely to result in material adjustment or significant change to disclosures within the financial statements.

Amber: Potential to result in material adjustment or significant change to disclosures within the financial statements.

Green: Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in February 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum

Materiality

Our provisional materiality at the planning stage of the audit was set at £31.5m using a benchmark of 1% of net assets available to pay benefits. We set a provisional specific materiality for the fund account of £14.1m at the planning stage of the audit using a benchmark of 10% of contributions receivable.

Our final assessment of materiality, based on the final financial statements and qualitative factors was:

- statement materiality £34.8m, set using the same benchmark as at planning.
- fund account specific materiality £13,0, set using a benchmark of 10% of benefits payable.

Use of experts

As detailed in our Audit Strategy Memorandum, management makes use of experts in specific areas when preparing the financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account. There are no changes to our or management's use of experts:

Item of account	Management's expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Aon Hewitt	NAO's consulting actuary (PWC)
Financial instrument disclosures	Mercer Limited	None

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Pension Fund that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Pension Fund and planned audit approach.

Items of account	Service organisation	Audit approach
Investment valuations and related disclosures Investment income and related disclosures	Investment Managers Custodian	Substantive testing of in year transactions and valuations applied to investments at the year end.

04

Section 04:
Significant findings

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 14 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls	**Description of the risk** In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.
	How we addressed this risk We addressed this risk by carrying out audit work in the following areas: • accounting estimates impacting amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger (selected based on our fraud risk characteristics) and other adjustments made in preparation of the financial statements.
	Audit conclusion Our work has provided the required assurance and we have no matters to report.

4. Significant findings

Page 62

Valuation of level 3 investments	
	Description of the risk As at 31 March 2021, the fair value of unquoted investments classified within level 3 of the fair value hierarchy was £201.4m, accounting for 5.8% of the Fund's net investment assets. These investments are not quoted on an active market, and their value is estimated using unobservable inputs. As prices for these investments are not quoted in active markets the values used are provided by fund managers and this increases the risk of material misstatement.
	How we addressed this risk We carried out procedures over and above our standard audit programme for investments and: • agreed holdings from fund manager reports to the global custodian's report; • agreed the valuation to supporting documentation including the investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation; • agreed the investment manager valuation to audited accounts or other independent supporting documentation, where available; • where audited accounts were available, checked that they are supported by an unmodified opinion; • reviewed the valuation methodologies for reasonableness through review of accounting policies within audited financial statements and challenge of the fund manager, where necessary; and • compared valuations used in the accounts to more up-to-date valuations available at the time of audit which incorporate information up to or beyond 31 March.2021, where available.
	Audit conclusion Our work provided the required assurance and we have no matters to report.

Key areas of management judgement

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

Qualitative aspects of the Fund's accounting practices

We have reviewed the Fund's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Fund's circumstances.

Significant difficulties during the audit

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

The Pension Fund was not able to obtain information from Prudential for inclusion in the Additional Voluntary Contributions (AVC) disclosure in the financial statements. This is a consequence of Prudential updating their IT systems and has impacted on all Local Government Pension Schemes to which Prudential provide AVC services. As an industry-wide issue the matter has been reported to the Pensions Regulator on behalf of the LGPS by the Local Government Association. Prudential indicated to the Pension Fund that the information will not be available until 31 October. As the balance of AVCs held with Prudential is not material and, in accordance with Regulation 4(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), AVCs are not included in the Pension Fund's accounts, this matter will have no impact on our audit opinion.

Wider responsibilities

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

issue a report in the public interest;

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

We have not exercised any of these powers as part of our 2020/21 audit. [

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

05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

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

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

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

5. Internal control recommendations

Follow up on previous internal control points

Description of deficiency

As part of the controls in place to identify related party transactions, members of the Audit Committee and Pension Fund Committee are requested to complete annual declarations of interests. There were a total of five instances where these forms were not completed for 2019/20.

Potential effects

Declared interests are not captured or up to date. This increases the risk the related party disclosures are inaccurate and potential conflicts of interest are not identified. This could have and impact public perception of transparency.

Recommendation

The Council, as administering authority of the Pension Fund, should ensure all committee members make a declaration at least annually.

20/21 update

Three members did not submit declarations of interest. For two members there were mitigating circumstances and he members had not attended committee meetings in year. For one Pension Fund Committee member, no declaration of interest was received and the member both attending meetings and had voting rights in the year ended 31 March 2021.

Management response

In March 2021 Democratic Services requested that all members return related party declaration of interest forms for the 2020/21 financial year and issued reminders where declarations were not received on time. One member was experiencing IT difficulties and therefore posted a return to County Hall after speaking to management confirming he had no interests to declare. Due to Covid restrictions and officers working from home until recently, the form has yet to be located and provided to the auditor.

Description of deficiency

Shared privileged accounts were found to be present on the network active directory (AD) and the payroll and pension system, ResourceLink (RL). The password for the AD shared accounts was shared through an encrypted file which was accessible to the IT team .For RL, the password was shared verbally.

Potential effects

Actions could be undertaken using privileges are not attributable to an individual, and which cannot be traced.

Recommendation

Disable shared accounts and create individual access for each of the users allowed privileged access for AD and RL.

2020/21 update

An update will be provided to members on completion of our review of IT general controls.

06

Section 06:

Summary of misstatements

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £1.0m. The table below outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

We have not identified any misstatements in the primary statements that have been adjusted by management during the course of the audit to date.

Unadjusted misstatements		**Fund Account**		**Net Assets Statement**	
		Dr (£m)	**Cr (£m)**	**Dr (£m)**	**Cr (£m)**
1	Dr: Pooled investment vehicles			3.9	
	Cr: Profit and losses on disposal of investments and change in market value		3.9		
	Extrapolated difference between the fair value of level 3 investments included within the Pension Fund accounts and third party confirmations provided to auditors because more up to date information was available at the time of the audit than was available to officers when preparing the draft accounts. The actual difference on the sampled items was £2.3m				
	Total unadjusted misstatements				

6. Summary of misstatements

Disclosure amendments

Note 15, Analysis of investments: Presentation amended In order to comply with Code requirements.

Note 16, Financial Instruments: Transfer of £3.2m from level 1 to level 3 within the fair value hierarchy, to correct misclassification of private credit investments.

Note 16, Financial Instruments: Transfer of £153.7m (comparative £162.6m) from level 1 to level 2 within the fair value hierarchy, to correct misclassification of pooled investment vehicles managed by BlackRock.

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

Appendices

A: Draft management representation letter

B: Draft audit report

C: Draft consistency report

D: Independence

E: Other communications

Appendix A: Draft management representation letter

Durham County Council
County Hall
Durham
DH1 5UZ

X September 2021

Dear Mark

Durham County Council Pension Fund- audit for year ended 31 March 2021

This representation letter is provided in connection with your audit of the financial statements of Durham County Council Pension Fund (the Pension Fund) for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

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

My responsibility for the financial statements and accounting information

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

My responsibility to provide and disclose relevant information

I have provided you with:

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

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

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

Appendix A: Draft management representation letter (continued)

Accounting records

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

Accounting policies

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

Accounting estimates, including those measured at fair value

I confirm that the methods, significant assumptions and the data used in making the accounting estimates are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

Contingencies

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

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

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

There are no contingent gains which should be disclosed.

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

Appendix A: Draft management representation letter (continued)

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

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

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

Assets

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

Appendix A: Draft management representation letter (continued)

Future commitments

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

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

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

Specific representation on level 3 investments

Level 3 investments are included in the net assets statement at the value provided by our fund managers which have been estimated in accordance with the guidelines used by the industry and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, that the valuations are materially correct , and am not aware of any subsequent events that would have a material impact on the estimated value of the level 3 investments

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. *Please make sure the appendix is attached to the letter and not cross-referenced to the appendix in the ACR. Unadjusted should be numerical AND disclosure.*

Yours faithfully

Corporate Director of Resources: ………………………

Date: ………………………

Appendix B: Draft audit report

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

Report on the audit of the financial statements

Opinion on the financial statements

We have audited the financial statements of Durham County Council Pension Fund ("the Pension Fund") for the year ended 31 March 2021, which comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2021; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Corporate Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Corporate Director of Resources with respect to going concern are described in the relevant sections of this report.

Appendix B: Draft audit report (continued)

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the Corporate Director of Resources for the financial statements

As explained more fully in the Statement of the Corporate Director of Resources' Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view. The Corporate Director of Resources is also responsible for such internal control as the Corporate Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Corporate Director of Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution of the Pension Fund without transfer of services or function to another entity. The Corporate Director of Resources is responsible for assessing each year whether or not it is appropriate for the Pension Fund to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Appendix B: Draft audit report (continued)

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Pension Fund, we identified that the principal risks of non-compliance with laws and regulations related to the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and we considered the extent to which non-compliance might have a material effect on the financial statements.

We evaluated the Corporate Director of Resources incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Pension Fund which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

Appendix B: Draft audit report (continued)

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Corporate Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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

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

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

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

We have nothing to report in these respects.

Appendix B: Draft audit report (continued)

Use of the audit report

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

Signature]

Mark Kirkham, Partner
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

[*Date*]

Appendix C: Draft consistency report

Independent auditor's statement to the members of Durham County Council on the Pension Fund financial statements included within the Durham County Council Pension Fund annual report

Report on the financial statements

We have examined the Pension Fund financial statements for the year ended 31 March 2021 included within the Durham County Council Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including the summary of significant accounting policies.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of Durham County Council for the year ended 31 March 2021 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

[Where there is a delay between giving the auditor's report on the pension fund statements included within the administering body's financial statements, and issuing this consistent with report, include the following: I have not considered the effects of any events between the date I signed my report on the full financial statements [insert date] and the date of this statement.]

Respective responsibilities of the Corporate Director of Resources and the auditor

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

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

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

Appendix C: Draft consistency report (continued)

Use of this auditor's statement

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

[*Signature*]

Mark Kirkham, Partner
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

[*Date*]

Appendix D: Independence

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

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

Appendix E: Other communications

Other communication	Response
Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any issues with respect to obtaining external confirmations.
Related parties	We did not identify any significant matters relating to the audit of related parties. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	We have not identified any evidence to cause us to disagree with the Corporate Director of Resources that Durham County Council Pension Fund will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

Appendix E: Other communications

Other communication	Response
Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
Matters related to fraud	We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Audit Committee confirming that a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. management; ii. employees who have significant roles in internal control; or iii. others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Mazars
The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.

Pension Fund Committee

9 December 2021

Pension Fund Accounts for the year ended 31 March 2021

Ordinary Decision

Report of Paul Darby, Corporate Director of Resources

Electoral division(s) affected:
Countywide

Purpose of the Report

1 To present to Members the audited Pension Fund Accounts for the year ended 31 March 2021 which have been approved in accordance with the statutory deadlines and the council's constitution.

Executive Summary

2 In compliance with statutory deadlines the draft (unaudited) statement of accounts for Durham County Council, which includes the Pension Fund accounts, for the financial year ended 31 March 2021, was authorised by the responsible financial officer and published on the council's website on 18 June 2021.

3 The external auditor has issued an unqualified opinion on the financial statements of the council and the Pension Fund. He is expected to formally conclude the audit and issue an audit certificate, upon completion of the audit work in relation to the council's Whole of Government Accounts consolidation pack.

4 On 30 September 2021, after considering the views of the external auditor, approval was given to the final statement of accounts by resolution of the council's Audit Committee. The final statement of accounts was published on the council's website on 30 September 2021.

5 The Annual Report and Accounts of the Pension Fund 2020/21, which contains the Pension Fund audited Statement of Accounts

for the year ended 31 March 2021, was authorised by the responsible financial officer on 30 September 2021 and published on the council's website on 28 October 2021.

6 In preparing and publishing the council's statements of accounts, which include the Pension Fund accounts, and the Pension Fund Annual Report and Accounts for 2020/21, all statutory deadlines have been met.

Recommendation

7 It is recommended that Members note the contents of the Pension Fund's financial statements for the financial year ended 31 March 2021 which are included as Appendix 1.

Background

8 In England and Wales, the ‘Code of Practice on Local Authority Accounting 2020/21’ (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires Pension Fund Accounts for the Local Government Pension Scheme (LGPS) to be included in the Statement of Accounts of every authority that administers a LGPS fund.

9 The county council, as administering authority, therefore includes the Pension Fund accounts in its ‘Statement of Accounts’. The Pension Fund accounts are included as Appendix 1.

10 The Accounts and Audit (Amendment) Regulations 2021, which stipulate a two stage approval process for the statement of accounts, have extended the statutory audit deadlines for 2020/21 and 2021/22 for local authorities. The first statutory deadline requires that the responsible financial officer, by no later than 31 July, should sign and certify that the statement of accounts presents a true and fair view of:

a) the financial position of the council for the year to 31 March previous, and

b) its expenditure and income for the year to 31 March previous,

subject to the views of the external auditor.

11 The second stage requires that on or before 30 September, approval needs to be given to the statement of accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take account of the views of the external auditor. Once approved, the statement of accounts must be formally published on the council’s website.

12 The first stage was completed on 18 June 2021 and the draft accounts were presented to Members of the Audit Committee on 30 June 2021.

13 The audited Statement of Accounts for 2020/21 was approved by the Audit Committee and published on the council’s website on 30 September 2021.

14 The Annual Report and Accounts of the Pension Fund, which contains the Pension Fund audited Statement of Accounts, for the year ended 31 March 2021, was authorised by the responsible financial officer on 30 September 2021 and published on the

council’s website on 28 October 2021. A summary of the document was presented to Members and employer representatives at the Pension Fund Annual meeting held on 10 November 2021.

Accounting Requirements

15 The statement of accounts for the financial year 2020/21 has been prepared in accordance with the ’Accounts and Audit Regulations 2003’, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2009, the ‘Accounts and Audit (England) Regulations 2015, the Accounts and Audit (Amendment) Regulations 2021 and the ‘Code of Practice on Local Authority Accounting 2020/21’ (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

16 The Code is based on approved accounting standards in England and Wales and constitutes ‘proper accounting practice’ under the terms of section 21(2) of the Local Government Act 2003. The council is therefore legally required to follow this Code. Explanatory notes are included in the document to assist in the interpretation of the accounts which are unavoidably technical and complex.

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

18 The Code requires that the following are included in the Pension Fund accounts:

a) a fund account - which shows the changes in net assets available for benefits;

b) a net assets statement - showing the assets available at the year end to meet benefits; and

c) supporting notes to the accounts.

19 During the audit review of the draft statement of accounts a number of ‘misstatements’ were identified which were mainly due to the classification of assets. These have since been amended. There was one issue identified by the auditor which has not been adjusted for as it does not materially affect the accuracy/ integrity of the statement of accounts. These are set out in Section 6 of the Audit Completion Report.

Key information from the Pension Fund Accounts

20 The Pension Fund accounts demonstrate that during 2020/21 net assets increased by £694 million to £3,480 million due to:

a) net additions of £17.8 million resulting from the contributions from members and employers exceeding the benefits paid to pensioners the in year;

b) management expenses totalling £13.1 million in 2020/21; and

c) a net gain of £689.6 million on the Pension Fund's investments.

Audit Opinion

21 On completion of the audit of the accounts, auditors must give their opinion on the financial statements of the Pension Fund, including:

a) whether they give a true and fair view of the financial position of the Pension Fund and the expenditure and income for the year in question; and

b) whether they have been prepared properly in accordance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

22 The auditor can issue a 'qualified opinion' where he has some reservations or concerns, or an 'unqualified opinion' where he does not have any such reservations.

23 The auditor has issued an unqualified opinion on the accounts of the Pension Fund 2020/21. He is expected to formally conclude the audit and issue an audit certificate once the audit work in relation to the council's Whole of Government Accounts consolidation pack has been completed. At the time of writing this report, officers and auditors are still awaiting instructions from the National Audit Office to enable work on this return to commence.

Background Papers

a) Audit Committee – 30 September 2021 - Audit Completion Report 2020/21 - Pension Fund.

b) Audit Committee - 30 September 2021 - Statement of Accounts for the year ended 31 March 2021.

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Fund Account

2019-20				2020-21	
£000	£000		Notes	£000	£000
		DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND			
-106,029		Contributions Receivable	8	-147,634	
-8,910		Transfers in from Other Pension Funds	9	-4,128	
-4		Other Income		-3	
	-114,943				-151,765
126,817		Benefits Payable	10	129,937	
12,556		Payments to and on Account of Leavers	11	3,990	
	139,373				133,927
	24,430	**Net Withdrawals / -Additions from Dealings with Members, Employers and Others**			**-17,838**
	15,589	**Management Expenses**	12		13,187
	40,019	**Net Withdrawals / -Additions Including Fund Management Expenses**			**-4,651**
		RETURN ON INVESTMENTS			
-30,524		Investment Income	13	-20,665	
186,297		Profit and Losses on Disposal of Investments and Change in Value of Investments	15	-668,983	
	155,773	**Net Return on Investments**			**-689,648**
	195,792	**NET INCREASE (-) / DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR**			**-694,299**

Net Assets Statement

31 March 2020				31 March 2021	
£000	**£000**		**Notes**	**£000**	**£000**
		INVESTMENT ASSETS			
273,429		Equities	15	387,003	
624,790		Bonds	15	48,905	
1,814,357		Pooled Investment Vehicles	15	2,941,246	
	2,712,576				3,377,154
252		Loans	15	223	
		Other Cash Deposits:			
52,716		Fund Managers	15	50,651	
32,720		Short Term Investments	15	43,051	
15,898		Derivative Contracts	15	3,650	
	101,586				97,575
	2,814,162				3,474,729
		Other Investment Assets			
1,594		Dividend Accruals	15,18	1,528	
725		Tax Recovery	15,18	736	
9,030		Other Investment Balances	15,18	1,598	
	11,349				3,862
	2,825,511	**Total Investment Assets**			**3,478,591**
		INVESTMENT LIABILITIES			
-16,378		Derivative Contracts	15	-2,838	
-24,998		Other Investment Balances	19	-1,307	
	-41,376	**Total Investment Liabilities**			**-4,145**
	2,784,135	**NET INVESTMENT ASSETS**			**3,474,446**
		Current Assets			
8,436		Contributions Due from Employers	18	9,279	
1,101		Other Current Assets	18	1,874	
	9,537				11,153
		Current Liabilities			
-7,425		Current Liabilities	19	-5,053	
	-7,425				-5,053
	2,786,247	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			**3,480,546**

The Pension Fund’s accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Note 24.

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

1. Fund Operation and Membership

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

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

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

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

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

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

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

	2016/17	2017/18	2018/19	2019/20	2020/21
Contributing Members	18,630	19,219	20,116	20,901	21,340
Pensioners in Payment	18,139	18,618	19,404	20,109	20,652
Pensioners Deferred	15,104	15,746	15,987	16,420	16,595

In comparison to the figures reported at 31 March 2020, the number of pensionable employees in the Fund at 31 March 2021 has increased by 439 (2.10%), the number of pensioners has increased by 543 (2.70%) and deferred pensioners have increased by 175 (1.07%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 110 at 31 March 2021), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table. Further detailed information is provided in Notes 10 and 8 accordingly.

2019-20			2020-21	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
93,368	-62,686	Administering Authority	96,890	-96,562
25,785	-34,213	Scheduled Bodies	25,187	-39,354
7,664	-9,130	Admission Bodies	7,860	-11,718
126,817	**-106,029**		**129,937**	**-147,634**

2. Basis of Preparation

The Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

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

The financial statements summarise the transactions and the net assets of the Fund available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years.

The Actuary completed a valuation during 2019/20, the results of which determined the contribution rates effective from 1 April 2020 to 31 March 2023. Details of the latest valuation are included in Note 23.

3. Accounting Standards issued but not yet adopted

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

No such accounting standards have been identified for 2020/21 that are applicable to the Fund accounts.

4. Statement of Accounting Policies

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis). The Fund has a policy of accruing for items of £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 members' liability transfers, where the transfer value is agreed by Durham County

Council Pension Fund. Where the transfer value has not been agreed in the year in which the member liability transfers, the transfer will be accounted for in full in the year in which the transfer value is agreed.

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 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 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;
- distributions from pooled investment vehicles are accounted for on an accruals basis on the date of issue;
- 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 or expenditure 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 Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension. Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

Net Assets Statement

Valuation of Investments

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- quoted equity securities and fixed interest securities traded on an exchange are accounted for at bid market price;
- index linked securities traded on an exchange are valued at bid market value;
- 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 most recently available net asset value adjusted for cash flows, where appropriate, or a single price advised by the fund manager;
- shares in the Border to Coast Pensions Pool (BCPP) have been valued at cost i.e. transaction price, as an appropriate estimate of fair value. This is reviewed and assessed each year. Relevant factors include that there is no market in the shares held, disposal of shares is not a matter in which any shareholder can make a unilateral decision, and the company is structured as not to make a profit. As at 31 March 2021, taking into consideration of audited accounts for the company at 31 December 2020, there is also no evidence of any impairment in the value of shares held. It has therefore been determined that cost remains an appropriate proxy for fair value at 31 March 2021;
- investments in private equity funds, private credit funds and unquoted infrastructure funds are valued based on the fund's share of the net assets in the private equity fund, private credit fund or infrastructure fund using the latest financial statements published by the respective fund managers, adjusted for cashflows; and
- 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 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.

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 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 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 Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 8 as additional contributions from members.

Prior Period Adjustments

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

Events After the Reporting Period

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

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

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

5. Critical judgements in applying accounting policies

The preparation of the statements in accordance with the Code of Practice on Local Authority Accounting requires management to make judgements which affect the application of accounting policies. The Fund can confirm it has made no such critical judgements during 2020/21.

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

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

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

Item	Uncertainties	Effect if actual differs from assumptions
Fair Value of Investments	The Accounts are as at 31 March 2021 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments could reduce / increase in value during the 2021/22 reporting. The total value of Level 3 investments (explained in Note 16) is £201.419m at 31/3/21 (£193.099m at 31/3/20). This consists of the Fund's unlisted property holding, Private Equity and Private Infrastructure and Private Credit. In line with the market risk section within Note 17, there is a risk that the value of the Fund may reduce / increase during the 2021/22 reporting period by £29.289m at 31/3/21 (£28.172m at 31/3/20), which represents the potential market movement on the value of the above investments.

7. Events After the Reporting Period

There have been no events after 31 March 2021 which require any adjustments to be made to these accounts.

8. Contributions Receivable

2019-20 £000		2020-21 £000
	Employer Contributions:	
-68,437	Normal	-83,814
-2,738	Augmentation	-2,262
-8,662	Deficit Funding	-33,874
	Member Contributions:	
-26,111	Normal	-27,590
-81	Additional Contributions	-94
-106,029		**-147,634**
-62,686	Administering Authority	-96,562
-34,213	Scheduled Bodies	-39,354
-9,130	Admission Bodies	-11,718
-106,029		**-147,634**

9. Transfers in From Other Pension Funds

2019-20 £000		2020-21 £000
-8,910	Individual Transfers	-4,128
-8,910		**-4,128**

10. Benefits Payable

2019-20 £000		2020-21 £000
107,103	Pensions	110,209
22,017	Commutations and Lump Sum Retirement Benefits	20,560
1,999	Lump Sum Death Benefits	3,279
-4,302	Recharged Benefits	-4,111
126,817		**129,937**
93,368	Administering Authority	96,890
25,785	Scheduled Bodies	25,187
7,664	Admission Bodies	7,860
126,817		**129,937**

11. Payments To and On Account of Leavers

2019-20		2020-21
£000		£000
332	Refunds to Members Leaving Service	229
72	Payments for Members Joining State Scheme	-1
12,152	Individual Transfers to Other Schemes	3,762
12,556		**3,990**

12. Management Expenses

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

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

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

2019-20			2020-21	
£000	£000		£000	£000
	1,124	Administration Expenses		999
		Investment Management Expenses		
9,109		Management Fees	5,998	
410		Performance Fees	78	
136		Custody Fees	120	
3,827		Transaction Costs	5,233	
	13,482			11,429
	983	Oversight and Governance Costs		759
	15,589			**13,187**

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2020/21 of £0.020m (£0.032m in 2019/20). Included in the 2019/20 fee is £0.012m audit fee variations for additional work required. It is possible that additional costs may be incurred relating to the 2020/21 audit. The statutory audit fee does not include fees chargeable to the Fund for pension assurance work undertaken by Mazars at the request of employer auditors. Fees payable for this work in 2020/21 is £0.011m (£0.009m in 2019/20). These fees will be recharged to the employers for whom the information is provided. No fees have been paid to Mazars in 2020/21 in respect of non-audit work.

13. Investment Income

2019-20 £000		2020-21 £000
-2,829	Interest from Bonds	-1,203
-9,197	Dividends from Equities	-6,398
-742	Interest on Cash Deposits	-209
-17,756	Income from Pooled Investment Vehicles	-12,855
-30,524		**-20,665**

14. Taxation

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

- **United Kingdom Income Tax**

  The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

- **Value Added Tax**

  As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.

- **Foreign Withholding Tax**

  Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

15. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2020/21 to manage the Fund's assets:

- AB (Formerly AllianceBernstein Limited)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Royal London Asset Management (RLAM)
- Border to Coast Pension Partnership (BCPP)

Durham County Council is one of eleven equal partners in the Border to Coast Pension Partnership Ltd (BCPP) which has been formed as a result of the Local Government

Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require all Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools. BCPP is one of these investment pools.

It is anticipated that all assets belonging to the Fund will be transferred to BCPP as and when BCPP launch investment funds which match our investment strategy and satisfy due diligence. BCPP will be responsible for managing investments in line with the Fund's Investment Strategy and asset allocation requirements.

In line with the Fund's strategic asset allocation, during 2020/21, the Fund continued investment into private markets through BCPP and successfully transferred all of its Index Linked Gilt allocation into the pool.

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

31 March 2020	Asset Class	31 March 2021
%		%
40	Global Equities	40
15	Global Bonds	15
13	Global Property	13
10	Private Markets	10
7	Emerging Market Equities	7
15	Sterling Indexed Linked Bonds	15
100		**100**

Although the strategic asset allocation was reviewed and agreed during 2020/21, the Fund holds assets that have yet to be transferred into BCPP as we await the required product launch. Due to the requirement to pool our assets, asset reallocation has temporarily been suspended and consequently actual allocations vary from the strategic allocation.

The actual market values of investments held by each Investment Manager as at 31 March were as follows:

31 March 2020 £000	31 March 2020 %	Investment Manager	Asset Class	31 March 2021 £000	31 March 2021 %
		Investments managed by BCPP asset pool:			
976,643	35.32		Global Equities	1,450,550	42.31
2,907	0.11		Private Equity	8,610	0.25
-	0.00		Private Credit	3,255	0.10
-	0.00		Bonds	458,726	13.38
3,696	0.13		Infrastructure	10,750	0.31
983,246	**35.56**			**1,931,891**	**56.35**
		Investments managed outside of BCPP asset pool:			
391,519	14.16	AB	Global Bonds	577,005	16.83
385,835	13.96	BlackRock	Dynamic Asset Allocation	418,827	12.22
227,434	8.23	CBRE	Global Property	240,036	7.00
184,824	6.68	Mondrian	Emerging Market Equities	259,676	7.57
591,121	21.38	RLAM	Investment Grade Sterling Bonds	-	0.00
833	0.03	BCPP	Unquoted UK Equity	1,182	0.03
1,781,566	**64.44**			**1,496,726**	**43.65**
2,764,812	**100.00**			**3,428,617**	**100.00**

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2021 excludes loans of £0.223m, cash invested by the administering authority of £43.051m, other investment assets of £3.862m and other investment liabilities of £1.307m (£0.252m, £32.720m, £11.349m and £24.998m respectively as at 31 March 2020).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2021, £3,429m (98.68%) is invested through Investment Managers (£2,764m or 99.31% at 31 March 2020).

Reconciliation of Movements in Investments 2020/21

Investment Category	Value at 31 March 2020	Reclassification	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2021
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Equities	276,336	-2,907	208,480	-191,966	97,060	387,003
Bonds	624,790		618,409	-1,227,445	33,151	48,905
Pooled Investment Vehicles	1,811,450	2,907	749,575	-140,952	518,266	2,941,246
	2,712,576	**-**	**1,576,464**	**-1,560,363**	**648,477**	**3,377,154**
Derivative Contracts:						
Futures, Margins & Options	2,264		8,412	-6,553	-5,241	-1,118
Forward Foreign Currency	-2,744		41,733	-59,213	22,154	1,930
	2,712,096	**-**	**1,626,609**	**-1,626,129**	**665,390**	**3,377,966**
Other Investment Balances:						
Loans	252					223
Other Cash Deposits	85,436				3,591	93,702
Dividend Accruals	1,594					1,528
Tax Recovery	725					736
Other Investment Balances	-15,968					291
Net Investment Assets	**2,784,135**				**668,981**	**3,474,446**

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

Reconciliation of Movements in Investments 2019/20

Investment Category	Value at 31 March 2019	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2020
	£000	**£000**	**£000**	**£000**	**£000**
Equities	348,884	144,241	-174,844	-41,945	276,336
Bonds	575,582	2,459,266	-2,430,894	20,836	624,790
Pooled Investment Vehicles	1,962,121	1,432,511	-1,429,090	-154,092	1,811,450
	2,886,587	**4,036,018**	**-4,034,828**	**-175,201**	**2,712,576**
Derivative Contracts:					
Futures, Margins & Options	1,711	5,622	-7,609	2,540	2,264
Forward Foreign Currency	1,348	55,940	-58,770	-1,262	-2,744
	2,889,646	**4,097,580**	**-4,101,207**	**-173,923**	**2,712,096**
Other Investment Balances:					
Loans	279				252
Other Cash Deposits	77,843			-12,374	85,436
Dividend Accruals	1,642				1,594
Tax Recovery	639				725
Other Investment Balances	8,728				-15,968
Net Investment Assets	**2,978,777**			**-186,297**	**2,784,135**

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

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

Analysis of Investments

31 March 2020			31 March 2021	
£000	**£000**		**£000**	**£000**
		ASSETS INVESTED THROUGH FUND MANAGERS & POOL		
		Bonds		
618,905		Government Bonds	39,689	
5,885		Corporate Bonds	9,216	
	624,790			48,905
	273,428	**Equities**		387,003
		Pooled Investment Vehicles		
471,727		Bonds	1,125,587	
1,049,951		Equities	1,523,207	
219,593		Property	222,013	
4,648		Infrastructure	10,750	
12,442		Private Credit	17,405	
4,161		Private Equity	9,760	
51,836		Other	32,524	
	1,814,358			2,941,246
		Derivative Contracts		
15,898		Assets	3,650	
-16,378		Liabilities	-2,838	
	-480			812
	52,716	**Fund Managers' Cash**		50,651
	2,764,812	**NET ASSETS INVESTED**		**3,428,617**
		OTHER INVESTMENT BALANCES		
	32,720	Short Term Investments (via DCC Treasury Management)		43,051
	252	Loans		223
	11,349	Other Investment Assets		3,862
	-24,998	Other Investment Liabilities		-1,307
	2,784,135	**NET INVESTMENT ASSETS**		**3,474,446**

Analysis of Derivatives

Objectives and policies for holding derivatives

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

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

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

31 March 2020		**Derivative Contracts**	**31 March 2021**	
£000	**£000**		**£000**	**£000**
		Forward Foreign Currency		
8,291		Assets	3,298	
-11,035		Liabilities	-1,368	
	-2,744	**Net Forward Foreign Currency**		1,930
		Futures		
5,820		Assets	235	
-2,123		Liabilities	-1,469	
	3,697	**Net Futures**		-1,234
		Options		
1,787		Assets	117	
-3,220		Liabilities	-1	
	-1,433	**Net Options**		116
	-480	**Net Market Value of Derivative Contracts**		**812**

The Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

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

The following tables list all of the forward foreign currency contracts held by the investment managers (BlackRock, CBRE and Royal London) on 31 March 2021 and 31 March 2020.

31 March 2021

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	AUD	6,559,050	EUR	-6,521,263	38	
0 to 1 month	USD	6,321,471	SEK	-6,559,050		-238
0 to 1 month	EUR	38,489,416	EUR	-36,989,173	1,500	
0 to 1 month	GBP	2,556,266	EUR	-2,582,541		-26
0 to 1 month	EUR	10,119,735	USD	-9,969,438	150	
0 to 1 month	USD	164,000,000	JPY	-162,819,120	1,181	
0 to 1 month	GBP	25,759,026	GBP	-26,000,000		-241
0 to 1 month	USD	4,500,000	GBP	-4,536,727		-37
0 to 1 month	USD	4,200,000	USD	-4,254,883		-55
0 to 1 month	ZAR	8,479,646	GBP	-8,620,791		-141
0 to 1 month	ZAR	3,261,402	GBP	-3,365,578		-104
1 to 3 months	GBP	23,865	USD	-33,327		-1
1 to 3 months	GBP	15,867,761	AUD	-28,515,240	125	
1 to 3 months	GBP	57,165,686	USD	-79,616,365		-523
1 to 3 months	GBP	24,724	USD	-34,433		-
1 to 3 months	GBP	1,457,153	EUR	-1,702,898	4	
1 to 3 months	GBP	2,077,085	DKK	-18,050,282	7	
1 to 3 months	GBP	23,118,380	JPY	-3,501,532,931	138	
1 to 3 months	GBP	599,711	AUD	-1,077,714	5	
1 to 3 months	GBP	42,902,983	EUR	-50,138,465	124	
1 to 3 months	GBP	1,137,896	SEK	-13,511,377	14	
1 to 3 months	GBP	1,960,991	JPY	-297,013,590	11	
1 to 3 months	GBP	199,953	USD	-278,481		-2
1 to 3 months	GBP	528,287	EUR	-618,314	1	
					3,298	**-1,368**
Net Forward Foreign Currency Contracts at 31 March 2021						**1,930**

31 March 2020

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	GBP	69,729,236	EUR	-71,855,092		-2,126
0 to 1 month	EUR	5,800,000	SEK	-4,954,002	180	
0 to 1 month	SEK	31,278,994	EUR	-2,566,886		-21
0 to 1 month	SEK	31,244,107	EUR	-2,566,886		-23
0 to 1 month	EUR	54,645,000	USD	-49,296,137		-928
0 to 1 month	GBP	5,610,385	JPY	-5,978,420		-368
0 to 1 month	JPY	1,000,000,000	GBP	-7,566,723		-94
0 to 1 month	USD	4,168,416	GBP	-3,200,000	161	
0 to 1 month	GBP	107,751,242	USD	-113,166,758		-5,416
0 to 1 month	USD	8,330,000	GBP	-6,386,905	329	
0 to 1 month	USD	30,000,000	GBP	-24,201,921		-14
0 to 1 month	USD	7,300,000	HKD	-5,908,844		-23
0 to 1 month	USD	10,500,000	IDR	-7,181,986	1,284	
0 to 1 month	IDR	30,943,500,000	USD	-1,693,138		-159
0 to 1 month	IDR	30,933,000,000	USD	-1,693,138		-160
0 to 1 month	IDR	30,939,300,000	USD	-1,693,138		-159
0 to 1 month	IDR	14,479,500,000	USD	-790,131		-72
0 to 1 month	IDR	17,354,750,000	USD	-947,351		-87
0 to 1 month	IDR	30,071,725,000	USD	-1,648,794		-158
0 to 1 month	USD	8,340,000	JPY	-6,824,278		-100
0 to 1 month	USD	10,500,000	KRW	-8,212,280	253	
0 to 1 month	USD	1,970,000	KRW	-1,574,393	14	
0 to 1 month	USD	2,950,000	KRW	-2,359,310	19	
0 to 1 month	KRW	6,984,675,000	USD	-4,474,747	145	
0 to 1 month	KRW	2,683,800,000	USD	-1,741,523	33	
0 to 1 month	KRW	5,343,537,500	USD	-3,487,078	47	
0 to 1 month	KRW	2,665,735,000	USD	-1,737,492	26	
0 to 1 month	KRW	1,523,970,000	USD	-991,701	16	
0 to 1 month	USD	15,800,000	SGD	-12,426,730	312	
0 to 1 month	USD	1,905,000	SGD	-1,516,009	20	
0 to 1 month	USD	5,430,000	SGD	-4,331,698	46	
0 to 1 month	SGD	3,384,266	USD	-1,866,494	50	
0 to 1 month	SGD	3,360,463	USD	-1,866,494	37	
0 to 1 month	SGD	6,705,621	USD	-3,728,956	69	
0 to 1 month	SGD	3,352,857	USD	-1,864,478	35	
0 to 1 month	SGD	10,038,766	USD	-5,595,450	90	
0 to 1 month	SGD	3,348,995	USD	-1,866,494	30	
0 to 1 month	SGD	3,344,890	USD	-1,864,478	30	
0 to 1 month	USD	26,500,000	TWD	-21,149,396	216	
0 to 1 month	TWD	126,862,106	USD	-3,409,462		-19
0 to 1 month	TWD	120,881,400	USD	-3,241,165		-11
0 to 1 month	TWD	130,867,750	USD	-3,511,263		-14
0 to 1 month	TWD	65,078,300	USD	-1,749,584		-10
0 to 1 month	TWD	120,559,800	USD	-3,241,165		-19
0 to 1 month	TWD	120,399,000	USD	-3,241,165		-24
0 to 1 month	TWD	23,034,150	USD	-616,789		-1
0 to 1 month	TWD	60,380,400	USD	-1,620,583		-7
0 to 1 month	TWD	3,610,800	USD	-96,751		0
0 to 1 month	TWD	23,769,544	USD	-637,964		-3
1 to 3 months	GBP	1,742,031	EUR	-1,891,867	65	
1 to 3 months	GBP	218,056	USD	-260,533	8	
1 to 3 months	GBP	39,409	USD	-47,086	1	

31 March 2020

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 months	GBP	278,635	AUD	-555,876	5	
1 to 3 months	GBP	518,707	AUD	-1,034,820	9	
1 to 3 months	GBP	24,411,095	JPY	-3,254,975,453	41	
1 to 3 months	GBP	40,993,265	EUR	-44,519,185	1,524	
1 to 3 months	GBP	21,295	USD	-25,443	1	
1 to 3 months	GBP	1,239,097	SEK	-14,827,034	32	
1 to 3 months	GBP	17,530,144	AUD	-34,972,638	289	
1 to 3 months	GBP	3,313,986	JPY	-441,886,922	6	
1 to 3 months	GBP	68,346,261	USD	-81,660,112	2,588	
1 to 3 months	GBP	2,274,724	DKK	-18,436,640	84	
1 to 3 months	GBP	1,294,123	USD	-1,661,000		-44
1 to 3 months	GBP	7,769,634	EUR	-8,943,000		-155
1 to 3 months	USD	1,646,000	GBP	-1,268,771	57	
1 to 3 months	GBP	1,953,847	EUR	-2,234,000		-26
1 to 3 months	GBP	15,021,579	USD	-19,345,000		-563
1 to 3 months	EUR	3,884,000	GBP	-3,433,275	8	
1 to 3 months	GBP	5,131,124	EUR	-5,643,000	131	
1 to 3 months	USD	1,519,000	GBP	-1,312,668		-89
1 to 3 months	EUR	2,559,000	GBP	-2,409,759		-142
					8,291	**-11,035**
Net Forward Foreign Currency Contracts at 31 March 2020						**-2,744**

ii. Futures

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

2020-21

Type	Expires	Product Description	Currency	Market Value at 31 March 21 £000	£000
Assets					
Overseas Equity	1 to 3 months	MSCI SING IX ETS APR 21	SGD	40	
Overseas Equity	1 to 3 months	EMINI FINANCIAL SELECT SECTOR JUN	USD	22	
Overseas Equity	1 to 3 months	EURO STOXX 50 JUN 21	EUR	151	
Overseas Equity	0 to 1 month	EURO STOXX BANK JUN 21	EUR	22	
Total Assets					**235**
Liabilities					
Overseas Equity	1 to 3 months	S&P500 EMINI JUN 21	USD	-702	
Overseas Equity	1 to 3 months	IBEX 35 INDEX APR 21	EUR	-56	
Overseas Equity	1 to 3 months	MSCI WORLD INDEX JUN 21	USD	-333	
UK Equity	1 to 3 months	FTSE 100 INDEX JUN 21	GBP	-15	
Overseas Equity	1 to 3 months	NASDAQ 100 E-MINI JUN 21	USD	-338	
Overseas Fixed Interest	1 to 3 months	US 10YR NOTE JUN 21 21/6/2021	USD	-25	
Total Liabilities					**-1,469**
Net Futures Contracts at 31 March 2021					**-1,234**

2019-20

Type	Expires	Product Description	Currency	Market Value at 31 March 20 £000	£000
Assets					
Overseas Equity	1 to 3 months	EURO STOXX 50 JUN 20	EUR	339	
Overseas Equity	1 to 3 months	CBOE VIX MAY 20	USD	907	
Overseas Fixed Interest	1 to 3 months	US 10YR NOTE JUN 20 19/6/2020	USD	1,646	
Overseas Equity	0 to 1 month	CBOE VIX APR 20	USD	2,928	
Total Assets					**5,820**
Liabilities					
Overseas Equity	3 to 6 months	CBOE VIX AUG 20	USD	-269	
Overseas Equity	3 to 6 months	CBOE VIX JUL 20	USD	-181	
Overseas Equity	1 to 3 months	S&P500 EMINI JUN 20	USD	-690	
UK Equity	1 to 3 months	FTSE 100 INDEX JUN 20	GBP	-983	
Total Liabilities					**-2,123**
Net Futures Contracts at 31 March 2020					**3,697**

iii. Options

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

2020-21

Type	Expires	Product Description	Currency	Market Value at 31 March 21 £000	£000
Assets					
Overseas Equity	1 to 3 months	MSCI EMERGING MARKETS INDEX JUN C @ 1450	USD	114	
Overseas Equity	0 to 1 month	S&P 500 INDEX APR P @ 3885	USD	3	
Total Assets					**117**
Liabilities					
Overseas Equity	0 to 1 month	S&P 500 INDEX APR P @ 3690	USD	-1	
Total Liabilities					**-1**
Net Options at 31 March 2021					**116**

2019-20

Type	Expires	Product Description	Currency	Market Value at 31 March 20 £000	£000
Assets					
Overseas Equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 C @ 3550.000	EUR	12	
Overseas Equity	1 to 3 months	NASDAQ 100 INDEX ND 01-JAN-2050 19/6/2020 P @ 7200.000	USD	732	
Overseas Equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 4000.000	EUR	11	
Overseas Equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 2900.000	EUR	1,032	
Total Assets					**1,787**
Liabilities					
Overseas Equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 P @ 2125.000	EUR	-182	
Overseas Equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 P @ 2450.000	EUR	-662	
Overseas Equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 3050.000	EUR	-681	
Overseas Equity	0 to 1 month	SPX VOLATILITY INDEX UX 01-JAN-2050 15/4/2020 C @ 37.500	USD	-1,384	
Overseas Equity	1 to 3 months	SPX VOLATILITY INDEX UX 01-JAN-2050 20/5/2020 C @ 45.000	USD	-311	
Total Liabilities					**-3,220**
Net Options at 31 March 2020					**-1,433**

Investments Exceeding 5% of the Net Assets available for Benefits

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

At 31 March 2020 £m	%	Name of Fund	Investment Manager	At 31 March 2021 £m	%
976.64	35.05	GLOBAL EQUITY ALPHA A ACC	BCPP	1450.55	41.68
-	-	STERLING INDEX-LINKED BOND	BCPP	458.73	13.18
391.52	14.05	Diversified Yield Plus	AB	577.00	16.58

16. Financial Instruments

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

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

2019-20 Fair Value through Profit and Loss	2019-20 Financial Assets at Amortised Cost	2019-20 Financial Liabilities at Amortised Cost		2020-21 Fair Value through Profit and Loss	2020-21 Financial Assets at Amortised Cost	2020-21 Financial Liabilities at Amortised Cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
273,428			Equities	387,003		
624,790			Bonds	48,905		
			Pooled Investment Vehicles:			
471,727			Bonds	1,125,587		
1,049,951			Equities	1,523,207		
219,593			Property	222,013		
4,648			Infrastructure	10,750		
12,442			Private Credit	17,405		
4,161			Private Equity	9,760		
51,836			Other	32,524		
15,898			Derivative Contracts	3,650		
	252		Loans		223	
	52,716		Cash held by Fund Managers		50,651	
	32,720		Short Term Investments		43,051	
	11,349		Other Investment Assets		3,862	
	9,537		Debtors		11,153	
2,728,474	106,574	-		3,380,804	108,940	-
			Financial Liabilities			
-16,378			Derivative Contracts	-2,838		
		-32,423	Creditors			-6,360
-16,378	-	-32,423		-2,838	-	-6,360
2,712,096	**106,574**	**-32,423**		**3,377,966**	**108,940**	**-6,360**
		2,786,247	**Net Assets at 31 March**			**3,480,546**

Net gains and losses on financial instruments

31 March 2020 £000		31 March 2021 £000
	Financial Assets	
-173,923	Fair Value through Profit and Loss	665,390
-12,374	Financial assets measured at amortised cost	3,591
	Financial Liabilities	
-	Fair Value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
-186,297	**Total**	**668,981**

Valuation of Financial Instruments Carried at Fair Value

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

Level 1

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

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include unquoted property funds, private equity, infrastructure and private credit, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2021 and 31 March 2020, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable:

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2021	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	3,021,165	158,220	201,419	3,380,804
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	-1,470	-1,368		-2,838
Net Financial Assets at Fair Value	**3,019,695**	**156,852**	**201,419**	**3,377,966**

This table excludes financial assets and financial liabilities at amortised cost. Please refer to the Classification of Financial Instruments table on the previous page, for the total net financial assets figure.

Values at 31 March 2020 (Restated*)	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	2,363,604	171,771	193,099	2,728,474
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	-5,343	-11,035		-16,378
Net Financial Assets at Fair Value	**2,358,261**	**160,736**	**193,099**	**2,712,096**

This table excludes financial assets and financial liabilities at amortised cost. Please refer to the Classification of Financial Instruments table on the previous page, for the total net financial assets figure.

*Restated due to changes in classification of assets held with Blackrock

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2020/21	Market Value 01 April 2020 £000	Purchases During the Year £000	Sales During the Year £000	Unrealised Gains / (Losses) £000	Realised Gains / (Losses) £000	Market Value 31 March 2021 £000
Pooled Investment Vehicles	186,495	13,296	-8,693	-12,047	-247	178,804
Private Equity	2,908	4,812	-	890	-	8,610
Infrastructure	3,696	7,367	-	-313	-	10,750
Private Credit	-	3,300	-	-45	-	3,255
	193,099	**28,775**	**-8,693**	**-11,515**	**-247**	**201,419**

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2019/20	Market Value 01 April 2019 £000	Purchases During the Year £000	Sales During the Year £000	Unrealised Gains / (Losses) £000	Realised Gains / (Losses) £000	Market Value 31 March 2020 £000
Pooled Investment Vehicles	171,029	23,498	-14,737	3,969	2,736	186,495
Private Equity	-	2,907	-125	126	-	2,908
Infrastructure	-	3,854	-15	-143	-	3,696
	171,029	**30,259**	**-14,877**	**3,952**	**2,736**	**193,099**

17. Nature and Extent of Risk Arising From Financial Instruments

Risk and risk management

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

i. **Market Risk** - the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;

- **ii. Credit Risk** - the possibility that other parties may fail to pay amounts due to the Fund;
- **iii. Liquidity Risk** - the possibility that the Fund might not have funds available to meet its commitments to make payments.

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

The Fund’s assets are managed by a number of Investment Managers, as disclosed in Note 15. Risk is further controlled by dividing the management of the assets between a number of managers and ensuring the Fund’s portfolio is well diversified across region, sector and type of security. As different asset classes have varying correlations with other asset classes, the Fund can minimise the level of risk by investing in a range of different investments.

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

In line with its Treasury Management Policy, Durham County Council as administering authority, invests the short term cash balances on behalf of the Fund. Interest is paid over to the Fund on a quarterly basis.

Durham County Council’s overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act.

i. Market Risk

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

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

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's Investment Managers mitigate this price risk through diversification of asset types, across different regions and sectors.

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's investment advisers, an analysis of historical volatility and implied market volatility has been completed. From this, it has been determined that the potential market movements in market price risk, as shown in the following table, are reasonably possible for the 2021/22 reporting period. The analysis assumed that all other variables remain the same.

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

Manager	Asset Type	Asset Value at 31 March 2021 £000	Potential Market Movements %	Value on Increase £000	Value on Decrease £000
AB	Broad Bonds	577,005	7.0%	617,395	536,615
BlackRock	Dynamic Growth Fund	388,721	10.6%	429,925	347,517
CBRE	Unlisted Property	178,804	14.1%	204,015	153,593
CBRE	Listed Property	41,762	20.5%	50,323	33,201
Mondrian	Emerging Market Equity	257,789	26.3%	325,588	189,990
BCPP	Unquoted UK Equity	1,182	0.0%	1,182	1,182
BCPP	Global Equity	1,450,550	17.5%	1,704,396	1,196,704
BCPP	Private Equity	8,610	24.0%	10,676	6,544
BCPP	Infrastructure	10,750	15.5%	12,416	9,084
BCPP	Private Credit	3,255	10.6%	3,600	2,910
BCPP	UK Index Linked Bonds	458,726	9.8%	503,681	413,771
	Loans	223	0.0%	223	223
	Cash	93,702	0.0%	93,702	93,702
	Net Derivative Assets	812	0.0%	812	812
	Net Investment Balances	2,555	0.0%	2,555	2,555
Total Change in Net Investment Assets Available		**3,474,446**		**3,960,489**	**2,988,403**

Manager	Asset Type	Asset Value at 31 March 2020 £000	Potential Market Movements %	Value on Increase £000	Value on Decrease £000
AB	Broad Bonds	391,518	7.0%	418,924	364,112
BlackRock	Dynamic Growth Fund	349,557	11.9%	391,154	307,960
CBRE	Unlisted Property	186,497	14.2%	212,980	160,014
CBRE	Listed Property	32,952	25.6%	41,388	24,516
Mondrian	Emerging Market Equity	181,549	30.3%	236,558	126,540
RLAM	UK Index Linked Gilts	586,424	9.4%	641,548	531,300
BCPP	Unquoted UK Equity	833	0.0%	833	833
BCPP	Global Equity	976,643	22.6%	1,197,364	755,922
BCPP	Private Equity	2,907	36.5%	3,968	1,846
BCPP	Infrastructure	3,696	17.0%	4,324	3,068
	Loans	252	0.0%	252	252
	Cash	85,436	0.0%	85,436	85,436
	Net Derivative Assets	-480	0.0%	-480	-480
	Net Investment Balances	-13,649	0.0%	-13,649	-13,649
Total Change in Net Investment Assets Available		**2,784,135**		**3,220,600**	**2,347,670**

Interest Rate Risk

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

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

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the Fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2021 and the effect of a +/- 25 Basis Points (BPS) change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset Type	**Asset Values at 31 March 2021**	**Change in Year in the Net Assets Available to Pay Benefits**	
		+25 BPS	**-25 BPS**
	£000	**£000**	**£000**
Cash and Cash Equivalents	93,702	234	-234
Fixed Interest Securities	48,905	122	-122
Total Change in Net Investment Assets Available	**142,607**	**356**	**-356**

Asset Type	**Asset Values at 31 March 2020**	**Change in Year in the Net Assets Available to Pay Benefits**	
		+25 BPS	**-25 BPS**
	£000	**£000**	**£000**
Cash and Cash Equivalents	85,436	214	-214
Fixed Interest Securities	63,884	160	-160
Total Change in Net Investment Assets Available	**149,320**	**374**	**-374**

Currency Risk

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

Currency Risk - Sensitivity Analysis

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

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

Manager	**Currency Exposure by Asset Type**	**Level of Unhedged Exposure**	**Total Volatility**	**Asset Value at 31 March 21**	**Value on Increase**	**Value on Decrease**
				£000	**£000**	**£000**
AB	Broad Bonds	0%	0%	577,005	577,005	577,005
BlackRock	DAA	5%	10%	388,721	390,665	386,777
CBRE	Global Property	18%	10%	220,566	224,536	216,596
Mondrian	Emerging Market Equity	100%	15%	257,789	296,457	219,121
BCPP	Unquoted UK Equities	0%	0%	1,182	1,182	1,182
BCPP	Global Equity	88%	10%	1,450,550	1,578,198	1,322,902
BCPP	Private Equity	93%	10%	8,610	9,411	7,809
BCPP	Infrastructure	93%	10%	10,750	11,750	9,750
BCPP	Private Credit	74%	10%	3,255	3,496	3,014
BCPP	UK Indexed Linked Bonds	0%	0%	458,726	458,726	458,726
	Loans	0%	0%	223	223	223
	Cash	22%	10%	93,702	95,763	91,641
	Net Derivative Assets	0%	0%	812	812	812
	Net Investment Balances	0%	0%	2,555	2,555	2,555
	Total Change in Net Investment Assets Available			**3,474,446**	**3,650,779**	**3,298,113**

Manager	**Currency Exposure by Asset Type**	**Level of Unhedged Exposure**	**Total Volatility**	**Asset Value at 31 March 20**	**Value on Increase**	**Value on Decrease**
				£000	**£000**	**£000**
AB	Broad Bonds	0%	0%	391,518	391,518	391,518
BlackRock	DAA	5%	10%	349,557	351,305	347,809
CBRE	Global Property	15%	10%	219,449	222,741	216,157
Mondrian	Emerging Market Equity	100%	15%	181,549	208,781	154,317
RLAM	UK Index Linked Gilts	0%	0%	586,424	586,424	586,424
BCPP	Unquoted UK Equities	0%	0%	833	833	833
BCPP	Global Equity	86%	10%	976,643	1,060,634	892,652
BCPP	Private Equity	100%	10%	2,907	3,198	2,616
BCPP	Infrastructure	100%	10%	3,696	4,066	3,326
	Loans	0%	0%	252	252	252
	Cash	21%	10%	85,436	87,230	83,642
	Net Derivative Assets	0%	0%	-480	-480	-480
	Net Investment Balances	0%	0%	-13,649	-13,649	-13,649
	Total Change in Net Investment Assets Available			**2,784,135**	**2,902,853**	**2,665,417**

ii. Credit Risk

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

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

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the balance sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account, and the risk is mitigated by the Custodian's high "tier one" capital ratio, conservative balance sheet management and a high and stable credit rating. As at 31 March 2021, this level of exposure to the Custodian is 1.5% of the total value of the portfolio (1.9% as at 31 March 2020).

Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit Ratings Services. The council's Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits. The Fund has experienced no defaults from fund managers, brokers or bank accounts over the past five years.

The cash holding under its treasury management arrangements was £43.377m as at 31 March 2021 (£32.720m as at 31 March 2020). This was held with the following institutions:

	Rating as at 31 March 2021	Balances as at 31 March 2021 £000	Rating as at 31 March 2020	Balances as at 31 March 2020 £000
Bank Deposit Accounts				
Handelsbanken	F1+	6,809	F1+	3,025
Bank of Scotland	F1	1,362		-
Fixed Term Deposits				
Bank of Scotland	F1	-	F1	4,929
Yorkshire Building Society	F1	3,406		-
Close Brothers	F2	3,406	F1	2,464
Nationwide Building Society	F1	4,769		-
Goldman Sachs	F1	4,769	F1	-
Santander UK Plc	F1	4,769	F1	4,929
Landesbank Hessen-Thueringen Girozentrale (Helaba)	F1+	-		1,232
Standard Chartered	F1	3,542		-
UK Local Authorities	N/A	10,219	N/A	13,862
Unrated Building Societies	N/A			2,156
Income Bond				
National Savings & Investments	N/A	-	N/A	123
Total		**43,051**		**32,720**

iii. Liquidity Risk

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

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

Durham County Council invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system. Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, gives Durham County Council a limited power to borrow on behalf of the Fund for up to 90 days. The council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible. As disclosed in Note 19, The Fund expects all liabilities to be paid within 12 months of the year end.

18. Analysis of Debtors

2019-20 £000		2020-21 £000
	Included in the Net Assets Statement as:	
11,349	Other Investment Assets	3,862
9,537	Current Assets	11,153
20,886		**15,015**

All of the £15.015m is due to be received within 12 months after the year end.

19. Analysis of Creditors

2019-20 £000		2020-21 £000
	Included in the Net Assets Statement as:	
-24,998	Investment Liabilities - Other balances	-1,307
-7,425	Current Liabilities	-5,053
-32,423		**-6,360**

All of the £6.360m is expected to be paid by the Fund within 12 months after the year end.

20. Additional Voluntary Contributions (AVCs)

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

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

The following table refers only to the money purchase AVCs:

	Value at 31 March 2020 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2021 £000
Utmost (formally Equitable Life)	1,440	10	184	169	1,435
Prudential	7,744	TO BE CONFIRMED			
Standard Life	1,601	149	272	278	1,756
Total	**10,785**	**159**	**456**	**447**	**3,191**

* Purchases represent the amounts paid to AVC providers in 2020/21

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with

Regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

21. Related Party Transactions

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

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

Related parties of the Fund fall into three categories:

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

a) Employer Related

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

Transaction	Description of the Financial Effect	Amount	
		2019/20	2020/21
Contributions Receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£106.029m	£147.634m
Debtors	Amounts due in respect of employers and employee contributions	£8.437m	£9.279m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.830m	£1.535m
Administration & Investment Management Expenses	The administration, and a small proportion of the investment management, of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund	£1.830m	£1.535m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance during the year and interest earned were:	Balance = £38.895m Interest = £0.319m	Balance = £43.059m Interest = £0.061m

b) Member Related

Member related parties include:

- Members and their close families or households;

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

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

As at 31 March 2021 there were 5 Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; 1 further member was a deferred member of the Fund.

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

c) Key Management Personnel

Related parties in this category include:

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

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

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

2019-20 £000		2020-21 £000
103	Short-term benefits	107
15	Post-employment benefits	24
118		**131**

22. Contingent Assets

a) Pension Contributions On Equal Pay Payments

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

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

b) Foreign Income Dividends (FIDs)

The Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain, therefore it is not possible to estimate the value of any reclaims.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK sourced dividends came with a 20 percent tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or dividends from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

The UK tax law which gave rise to these consequences was arguably contrary to EU law, notably Article 56EC, in that it treated UK Pension Funds investing directly into overseas companies, or UK companies paying FIDs, less favourably than UK companies paying ordinary dividends.

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

c) Withholding Tax (WHT) Claims

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

As a result of a precedent for the change in WHT has been set by the Netherlands, other Member States have now reduced the level of WHT of non-residents; recovery is therefore probable, but the timing and amount of income is uncertain, therefore it is not possible to estimate the value of these claims.

23. Funding Arrangements

In line with Regulation 62 of the Local Government Pension Scheme Regulations 2013 the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2019.

The key elements of the funding policy are to:

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

At the 31 March 2019 actuarial valuation the Fund was assessed as being 94% funded (81% at 31 March 2016). This corresponded to a deficit of £195.5m (£529.3m at 31 March 2016).

The aim is to achieve 100% solvency over a period of 18 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers' primary rates) is 17.9% of pensionable pay.

The aggregate employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100%, using a recovery period of 18 years from 1 April 2020, is 21.8% of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

Across the Fund as a whole, the contributions required to remove the shortfall using a recovery period of 18 years from 1 April 2020 would be £12.5m per annum, increasing at 3.1% per annum. This is equivalent to approximately 3.0% per annum of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

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

	Valuation as at 31 March 2019	Valuation as at 31 March 2016
Financial Assumptions		
Discount rate for periods in service	4.25% pa	4.5% pa
Discount rate for periods after leaving service	4.25% pa	4.5% pa
Rate of revaluation of pension accounts	2.1% pa	2.0% pa
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.1% pa	2.0% pa
- post 1988 Guaranteed Minimum Pensions	1.9% pa	1.8% pa
Pensionable pay increase	3.1% pa	3.5% pa
Demographic Assumptions		
Post-retirement mortality assumption (normal health) - base table	Standard SAPS S2N tables with scaling factors for actives and deferreds of 110% (males) and 105% (females) and 100% for pensioners	Standard SAPS S2P tables with scaling factors of 95% for men and 100% for women
Post-retirement mortality assumption - future improvements	CMI 2018 projections with Sk=7.5, A=0.0 long annual improvement rate of 1.5%	CMI 2014 core projections with long annual improvement rate of 1.5%
Retirement cash sum	Each member is assumed to surrender pension on retirement, such that total cash received is 85% of the maximum amount permitted	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted

24. Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 23 to these accounts).

The Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts.

This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2019.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2016 are provided for comparison purposes.

	Value as at 31 March 2019 £m	Value as at 31 March 2016 £m
Fair value of net assets	2,982	2,321
Actuarial present value of the promised retirement benefits	4,512	3,365
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,530	-1,044

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

	31 March 2019 (% p.a.)	31 March 2016 (% p.a.)
Discount rate	2.4	3.4
CPI Inflation *	2.2	1.8
Rate of increase to pensions in payment	2.2	1.8
Rate of increase to deferred pensions *	2.2	1.8
Rate of general increase in salaries **	3.2	3.3

* In excess of Guaranteed Minimum Pension increases in payment for members whose State Pension Age is on or before 5 April 2016 where appropriate

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

25. Funding Strategy Statement

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

The purpose of the Funding Strategy Statement is to:

- 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.

Investment Strategy Statement

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

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Pension Fund Committee

9 December 2021

Review of Pension Fund Risks

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 To update members on the revisions to the LGPS Pension Fund risk register, following a review with the Principal Risk and Governance Officer in November 2021.

Executive summary

2 The review of the risk register was undertaken in line with the Chartered Institute of Public Finance and Accountancy (CIPFA)'s 2018 guidance on Managing Risk in the Local Government Pension Scheme, an extract from which is attached as Appendix 1. There are 14 risks on the Pension Fund risk register, which is attached as Appendix 2. There are four medium risks and ten low risks.

Recommendation(s)

3 Members are asked to confirm that this report provides assurance that the Pension Fund risks are being effectively managed within the council's risk management framework.

Background

4 The introduction of new governance requirements in the LGPS in 2015, specifically the Pensions Regulator's new role and the establishment of local pension boards, reflects the increasing importance of risk management. It also reinforces the need for administering authorities to focus their risk management activities on all areas of scheme management and not just investment, noting of course that management of investment risk is rightly a fundamental concern.

5 The Chartered Institute of Public Finance and Accountancy (CIPFA) publication, *Managing Risk in the Local Government Pension Scheme 2018*, includes guidance on managing risks in LGPS financial management and administration. It states that, as part of their governance processes, funds should regularly report risks to committee and local pension boards, embedding robust risk management. An extract from the CIPFA guidance is attached as Appendix 1.

6 The Pension Fund risk register uses the council's corporate risk assessment methodology and is reviewed in detail by officers twice each year. In accordance with its terms of reference, the Pension Fund Committee will also review and monitor the Pension Fund risk register annually.

Risk Update

7 There are 14 risks on the Pension Fund risk register, which is attached as Appendix 2. There are four medium risks, whilst the remaining ten risks are within the corporate appetite and are therefore deemed to be at an acceptable level. The four areas assessed as medium risk are:

a) *Inappropriate investment in breach of the Fund's* ***environmental, social or governance principles****, leading to reputational damage*

b) *The* ***pension fund assets*** *may fail to grow in line with the developing cost of pension fund liabilities, leading to an adverse financial impact on the pension fund.*

c) Risk that the amount of money needed to meet the fund's **liabilities** turns out to be greater than expected, leading to an adverse financial impact on the pension fund.

d) *Risks associated with* ***asset pooling*** *through BCPP Ltd.*

Author(s)

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Appendix 1: Extract from Managing Risk in the LGPS (CIPFA, 2018)

Effective risk management stands at the heart of sound corporate governance across all organisations and functions and the Local Government Pension Scheme (LGPS) is no exception. Using established risk management techniques, risks can be identified, analysed and managed effectively.

As part of their governance processes funds should be regularly reporting all risks to committee and the local pension board, embedding a robust risk management approach and processes which link to all key strategic documents as well as recording risks and progress on an active risk register. Effective risk management will lead to substantial financial and non-financial benefits and should be an integral part of both committee and local pension board meetings. The need for effective risk management is reflected throughout LGPS regulation and guidance, including:

- Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016.

- The Pensions Regulator's Code of Practice 14, which includes a section on internal controls and managing risks.

- The CIPFA Publication Delivering Good Governance in Local Government: Framework (2016 Edition).

- Statutory guidance under Regulation 58 of the LGPS Regulations 2013.

- Preparing and Maintaining a Funding Strategy Statement in the LGPS, 2016 Edition.

- CIPFA's guidance on Investment Pooling and Governance Principles, published in 2016.

Overall responsibility for risk management falls to the body with delegated responsibility for managing the fund, and the legal requirements relating to internal controls apply equally where schemes outsource services connected with the running of the scheme. However, the local pension board and officers advising the committee and assisting in the running of the fund should also have a role in relation to risk management.

The Pensions Regulator's Code of Practice 14 states that scheme managers must establish and operate internal controls. The risk management process should use a risk-based approach and ensure that sufficient time and attention is spent in:

- identifying, evaluating and managing risks
- developing and monitoring appropriate controls

Appendix 2: Pension Fund Risk Register

The table below profiles the pension fund risks by net risk evaluation. The full risk register is shown in the subsequent pages of this appendix.

Net Impact					
Critical Over £15m	2 Counterparty	1 Assets 3 Environmental, Social, Governance 4 Liabilities 8 Pooling			
Major £5m - £15m					
Moderate £1m - £5m	11 Data Breach 13 Fraud	5 Employers			
Minor £0.5m - £1m		12 Cyberattack 14 Non-compliance	7 Resources 10 Data Quality		
Insignificant £0.5m		9 ICT Failure	6 Administration		
Net Likelihood	**Remote** over 5 years	**Unlikely** every 3-5 years	**Possible** every 1-3 years	**Probable** once a year	**Highly Probable** more than once a year

Ref	Risk	Potential Impact	Gross Impact Score	Likelihood	Gross Risk Score	Mitigating controls	Net Impact Score	Net Likelihood	Net Risk Score
1	The **pension fund assets** may fail to grow in line with the developing cost of pension fund liabilities, leading to an adverse financial impact on the pension fund (Asset & Investment Risk).	Financial	5	5	25	1. Investment Strategy Statement (ISS) Approach to Risk. 2. ISS Counterparty Risk Acceptability. 3. Adoption of Myners Principles of Investment Decision Making and Disclosure. 4. Local Pension Board reviews activity of the Pension Committee. 5. Professional advice from XYZ. 6. Extensive due diligence is to select investment managers. 7. Several investment managers are chosen to spread risk. 8. Diversified allocation of investments. 9. Significant investment in bonds and alternatives. 10. Investment advisor reviews the portfolios of the investment managers on a regular basis. 11. Performance monitoring. 12. Regular cashflow monitoring. 13. Regular monitoring to ensure that funding objectives are achieved. 14. Investment Advisors reports to Pension Fund Committee quarterly. 15. Quarterly performance figures of the investment managers are reported and challenged at the Pension Fund Committee. 16. Investing in assets which produce cashflows or withdrawing cash from fund managers.	5 (Critical)	2 (Unlikely)	10 (Medium)

Ref	Risk	Potential Impact	Gross Impact Score	Likelihood	Gross Risk Score	Mitigating controls	Net Impact Score	Net Likelihood	Net Risk Score
2	A counterparty may default in meeting its obligations, leading to an adverse financial impact on the pension fund (Asset & Investment Risk). Cash balances are invested using approved counterparties. There is a risk that the investment could be lost, e.g. due to the failure of a financial institution in which the cash is invested.	Financial	5	3	15	1. Spreading of investments across different counter parties reduces risk of defaults being material. 2. Investments made through Treasury Management (TM) Team are done in line with TM strategy and policy. 3. Due diligence before appointing counterparty. 4. Appointment of pension fund custodian. 5. Cash balances are invested in line with the Council's Treasury Management Strategy. This sets out the maximum principal sums which can be invested and the maximum time limits which can be placed with each financial institution. 6. The TM team reviews and monitors the Council's TM Strategy and updates counterparties in line with information supplied by the Council's TM Advisers	5 (Critical)	1 (Remote)	5 (Low)

Ref	Risk	Potential Impact	Gross Impact Score	Likelihood	Gross Risk Score	Mitigating controls	Net Impact Score	Net Likelihood	Net Risk Score
3	Inappropriate investment in breach of the Fund's **environmental, social or governance principles**, leading to reputational damage (Asset & Investment Risk).	Financial and reputational	5	3	15	1. Environmental, Social & Governance Policy through the fund's Investment Strategy Statement. 2. Environmental, Social & Governance factors form part of asset manager selection rationale. 3. Reporting from current investment managers includes details of voting activity. BCPP Ltd publish voting activity quarterly. 4. Responsible Investment Policy agreed with BCPP Ltd and jointly owned with partner funds.	5 (Critical)	2 (Unlikely)	10 (Medium)
4	Risk that the amount of money needed to meet the fund's **liabilities** turns out to be greater than expected, leading to an adverse financial impact on the pension fund (Liability Risk).	Financial	5	3	15	1. Investment in a range of assets. 2. Inflation linked income, subject to a tolerable level of volatility. 3. Actuary takes a long-term view. 4. Ongoing liaison with the actuary. 5. Regular liaison with affected employers. 6. Mitigating actions would be taken such as investing in assets which produce cashflows or withdrawing cash from fund managers. 7. Regular cashflow monitoring. 8. Quarterly reporting to Pension Fund Committee. 9. Targeting returns in excess of the discount rate.	5 (Critical)	2 (Unlikely)	10 (Medium)

Ref	Risk	Potential Impact	Gross Impact Score	Likelihood	Gross Risk Score	Mitigating controls	Net Impact Score	Net Likelihood	Net Risk Score
5	Scheme **employers** may not meet their contribution requirements as they fall due, leading to an adverse financial impact on the pension fund (Employer Risk).	Financial	3	3	9	1. Annual returns reconciled to monthly payments. 2. As part of the process for the actuary's triennial valuation, bodies have opportunity to discuss funding. 3. Use of bonds and guarantees. 4. The Fund considers admittance of admitted bodies, following process to manage risk of each admission. 5. Actuary calculation of the bond options (with DCC making final choice).	3 (Moderate)	2 (Unlikely)	6 (Medium)
6	Scheme employers may fail to **administer the scheme efficiently**, leading to disruption to the discharge of administering authority functions (Employer Risk). Includes potential data quality issues.	Service delivery	1	4	4	1. Clear communication of requirements to scheme employers. 2. Electronic processing offered to all employers improving efficiency and ease of administration. 3. As part of the process for the actuary's triennial valuation, bodies have opportunity to discuss funding. 4. The Fund considers admittance of admitted bodies, following process to manage risk of each admission.	1 (Insignificant)	3 (Possible)	3 (Low)

Ref	Risk	Potential Impact	Gross Impact Score	Likelihood	Gross Risk Score	Mitigating controls	Net Impact Score	Net Likelihood	Net Risk Score
7	Potential lack of **resources / skills**, leading to disruption to the discharge of administering authority functions (Resource and Skill Risk).	Service delivery	2	3	6	1. Training for Pension Fund Committee and Local Pension Board. 2. Appropriately qualified staff in key roles. 3. Segregation of duties among pensions staff. 4. Fit for purpose staffing structure in place. 5. Training budget in place.	2 (Minor)	3 (Possible)	6 (Low)
8	Risks associated with **asset pooling** through BCPP Ltd (Administrative Risk).	Financial	5	3	15	1. BCPP Ltd is a Financial-Conduct-Authority regulated operator and alternative investment fund manager. 2. Delay transition of assets during set-up period, until necessary conditions for investment are met. 3. PF Committee consider risks of investment and approve transitions into BCPP Ltd. 4. Due diligence on sub-funds in conjunction with investment consultants. 5. Part owners/control – fund represented on BCPP Joint Committee by Pension Fund Committee Chair, statutory officer groups, senior pension officer groups and AGM. 6. Transitions managed by externally appointed Transitions Manager.	5 (Critical)	2 (Unlikely)	10 (Medium)

Ref	Risk	Potential Impact	Gross Impact Score	Likelihood	Gross Risk Score	Mitigating controls	Net Impact Score	Net Likelihood	Net Risk Score
9	A serious **ICT failure**, leading to disruption to the discharge of administering authority functions (Administrative Risk).	Service delivery	4	4	16	1. UPM computer database system and ResourceLink system (pension payments) are supported by DCC ICT service for systems security. 2. UPM computer database system and ResourceLink system (pension payments) are covered by the Resources BCP. 3. Back up data centre is in place.	1 (Insignificant)	2 (Unlikely)	2 (Low)
10	Poor standards of **data quality**, leading to disruption to the discharge of administering authority functions (Administrative Risk).	Service delivery	3	4	12	1. Actuary gets annual reports and checks the figures against these. 2. Collection of member data through automated monthly process for large employers. 3. Internal checking and validation procedures. 4. Checking and validation by the Actuary. 5. Annual data quality report to regulator.	2 (Minor)	3 (Possible)	6 (Low)

Ref	Risk	Potential Impact	Gross Impact Score	Likelihood	Gross Risk Score	Mitigating controls	Net Impact Score	Net Likelihood	Net Risk Score
11	Serious breach of law regarding management of **data/information**, including an unauthorised release requiring notification to ICO, leading to disruption to the discharge of administering authority functions (Administrative Risk).	Service delivery	2	5	10	1. Corporate Information Governance Group oversees policies, procedures & activities. 2. Comprehensive training to officers and members. 3. Data breach procedure in place. 4. Formal appointment of Senior Information Risk Owner to provide senior authority on information governance. 5. Assurance obtained from third party suppliers & contractors on compliance with relevant legislation. 6. Data Protection Officer appointed as required by the GDPR legislation. 7. Access levels in system set up for individual users. 8. Secure data exchange for transmission of data with actuary.	3 (Moderate)	1 (Remote)	3 (Low)

Ref	Risk	Potential Impact	Gross Impact Score	Likelihood	Gross Risk Score	Mitigating controls	Net Impact Score	Net Likelihood	Net Risk Score
12	A serious **cyberattack**, leading to disruption to the discharge of administering authority functions (Administrative Risk).	Service delivery	2	4	8	1. The LGPS application is hosted on premise at the Council's Data Centre and is covered by corporate cyber security measures. 2. Strategic co-ordination of IT-business continuity incident management ensures clear system recovery priorities and staff redeployment. 3. User awareness of social engineering and telephone-based cybercrime. 4. Staff training and awareness. 5. Software support agreements in place. 6. Anti-Virus, Anti-spam, Spyware software protection in place. 7. Regular Intrusion Detection test. 8. Firewalls. 9. Password protection. 10. Email scanning for known phishing exploits and staged phishing exercises. 11. Cyber Security Steering Group.	2 (Minor)	2 (Unlikely)	4 (Low)

Ref	Risk	Potential Impact	Gross Impact Score	Likelihood	Gross Risk Score	Mitigating controls	Net Impact Score	Net Likelihood	Net Risk Score
13	Serious incident of **fraud / corruption** in the administration function, leading to an adverse financial impact on the pension fund (Administrative Risk).	Financial	3	3	9	1. Segregation of duties among administering authority staff. 2. Monthly reconciliations. 3. Fraud awareness training. 4. Participate in National Fraud Initiative data matching exercises. 5. Rigorous checks of supporting documentation (e.g., death certificate). 6. Pre-employment checks.	3 (Moderate)	1 (Remote)	3 (Low)
14	**Non-compliance** with some elements of pensions legislation may result in specific penalties or sanctions, leading to an adverse financial impact on the pension fund (Regulatory and Compliance).	Financial and reputational	2	4	8	1. Participation in regional Pension Officer forums. 2. Subscription to Local Government Association circulars. 3. Professional advice taken from the Fund's Actuary and investment consultants, as well as the admin authority's Legal team. 4. Staff training. 5. Subscription to providers' legislative updates.	2 (Minor)	2 (Unlikely)	4 (Low)

Pension Fund Committee

9 December 2021

Border to Coast Pensions Partnership Responsible Investment Policy

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 To provide the Committee with an update on the approach to Responsible Investment at Border to Coast Pension Partnership (BCPP).

Executive summary

2 BCPP's Responsible Investment Policy and Corporate Governance & Voting Guidelines were originally developed in 2017 in conjunction with all eleven Partner Funds and are due to be reviewed annually.

3 The Committee has previously approved the Policies and is asked to approve the updated Policies which BCPP have reviewed with their voting and engagement partner Robeco.

Recommendation(s)

4 It is recommended that the Committee:

(a) Provides any comments on the Policies and the key changes highlighted in Appendix 1;

(b) Notes and approves the Responsible Investment Policy and Corporate Governance & Voting Guidelines Policy included in Appendices 2 and 3 that BCPP will operate on behalf of the Pension Fund for assets transferred into the pool;

(c) Approves the adoption of the BCPP Voting Guidelines for the Fund's asset managers outside of the pool, and;

(d) Authorise the Corporate Director of Resources to amend the Fund's Investment Strategy Statement (ISS) in line with the principles of BCPP's RI Policy

Background

5 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) require LGPS administering authorities to formulate and publish a statement of their investment strategy in accordance with guidance published by the Secretary of State. This must include details of how Environmental, Social and Governance (ESG) issues are incorporated into the investment decision-making process and a policy on investment stewardships - the exercise of rights (including voting rights) attaching to investments.

6 The Fund's Investment Strategy Statement, published on the Council's website, sets out the Fund's policy on ESG and stewardship (often referred to collectively as Responsible Investment or RI Policy).

7 Although the Pension Fund will still retain control over its own policy on responsible investment, as The Fund's assets are transferred to the pool, responsibility for implementing this policy will move to BCPP. In the same way that the Fund has previously relied on its fund managers to take into account any relevant ESG issues when acquiring, retaining or realising investments, and in exercising any investment rights (including voting), the Fund will rely on BCPP to implement its RI Policy in respect of assets in the pool.

8 The Committee originally approved BCPP's Responsible Investment Policy back in 2017 and has subsequently approved an update to the Policy in the years following. The 11 Administering Authorities in BCPP and their Pension Funds are again being asked to approve the updated RI Policy that BCPP will operate. BCPP's Responsible Investment Policy and its Corporate Governance and Voting Policy are included at Appendix 2 and 3. These documents were supported by BCPP's Joint Committee, constituted of each of the 11 Partner Fund Chairs, at its meeting on 23 November 2021.

9 The updated Policies have been reviewed by BCPP's voting and engagement partner Robeco using the International Corporate Governance Network Global Governance Principles, UK Stewardship Code and Principles for Responsible Investment as benchmarks.

10 Fundamental to BCPP's RI approach is the belief that influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. BCPP's approach is not to divest or exclude entire sectors, however there may be specific instances when BCPP will look to sell or not invest in some industries based on investment criteria, the investment time horizon and the likelihood for success in influencing company strategy and behaviour. BCPP's Climate Change Policy however includes specific exclusions covering companies with >90% of revenue from thermal coal and tar sands.

This is the first time BCPP have had exclusions. The specific exclusions of thermal coal and tar sands are based on investment criteria, and the potential for stranded assets.

11 BCPP's approach to Climate Change is outlined in its existing Policy, included for reference in Appendix 4. Regards diversity, BCPP consider diversity and diversity of thought on Boards to be significant for the good governance of a company. This investment belief is reflected through both the RI Policy and in the Voting Guidelines.

12 In terms of Engagement, BCPP have reviewed their Engagement Themes using a newly developed framework. This is the first review of BCPP's priority themes, and the process followed is outlined in the RI Policy. The new themes are Low-Carbon Transition, Waste and Water Management, Social Inclusion through Labour Management and Diversity of thought.

13 A summary of the key updates to the Policy and Voting Guidelines are included in Appendix 1.

14 The approach BCPP will take in its RI Policy is consistent with the approach the Pension Fund has set out in its Investment Strategy Statement and requires its current fund managers to adopt. At the time of writing, BCPP were scheduled to present the policy to the Committee at a training session on 2 December 2021.

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Appendix 1: Key Changes to RI Policy & Voting Guidelines

RI Policy Changes

Section	Page	Type of Change	Rationale
1. Introduction	2	Addition	Include wording on diversity/diversity of thought.
5.4 Integrating RI into investment decisions – Real estate	5	Addition	New asset class.
5.6 Climate change	6	Revision	Section edited as Climate Change Policy details our approach.
5.6 Climate change	6	Addition	Wording on exclusions covered in Climate Change Policy.
6. Stewardship	8	Revision	Explanation on UK Stewardship Codes signatory status.
6.2.1 Engagement themes	11	Addition	New section on key engagement themes and review process.

Voting Guidelines Changes

Section	Page	Type of Change	Rationale
Diversity	5	Addition	Strengthening position on ethnic diversity at FTSE 100 companies.
Long-term incentives	8	Clarification	Splitting out executives from other employees.
Directors' contracts	8	Clarification	Executive pensions.
Lobbying	10	Addition	Company stance on climate change lobbying.
Shareholder proposals	12	Clarification	Shareholders' best interests.
Climate change	12	Addition	Strengthening voting stance to include CA100+ net zero benchmark indicators.

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Responsible Investment Policy

Border to Coast Pensions Partnership

November 2021~~0~~

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of the implementation of certain responsible investment (RI) and stewardship responsibilities.

1. Introduction

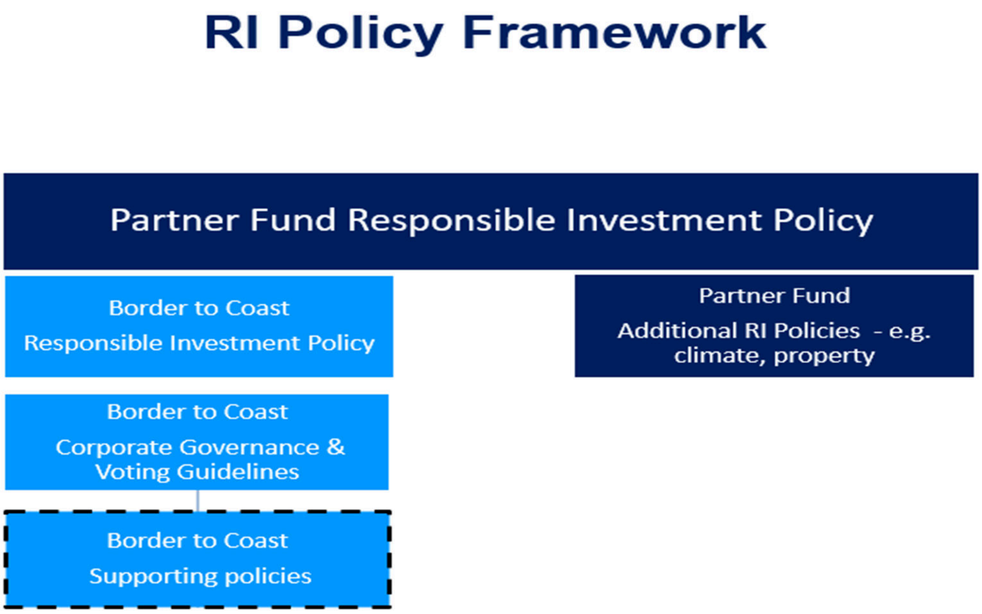
Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and experience on boards is significant for good governance, reduces the risk of 'group think' leading to better decision making. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, ~~long term~~long-term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, we will hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

1.1 Policy framework

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 this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds. This collaborative approach results in an RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:



2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines (available on the **website**). Border to Coast has dedicated staff resources for managing RI within the organisational structure.

The RI Policy is owned by Border to Coast and created after collaboration and engagement with our eleven Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed, taking into account evolving best practice, and updated, as necessary.

4. Skills and competency

Border to Coast will, where needed, take proper advice in order to formulate and develop policy. The Board and staff will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast considers material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class, the overarching principles outlined in this policy are applied to all internally and externally managed assets of Border to Coast. More information on specific approaches is outlined below.

5.1. Listed equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a necessary complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase and maintain knowledge, and portfolio managers will be involved in the voting process.

5.2. Private markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast takes the following approach to integrating ESG into the private market investment process:

- The assessment of ESG issues is integrated into the investment process for all private market investments.

- A manager's ESG strategy is assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

5.3. Fixed income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis is therefore incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data is used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis is used to determine a bond's credit quality. Information is shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. Real estate

Border to Coast is considering making Real Estate investments through both direct properties and real estate funds. For real estate funds, a central component of the fund selection/screening process will be reviewing the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies. Key performance indicators will be energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for direct investment which will involve procuring a third-party manager and working with them to develop a best-in-class approach to managing ESG risks.

~~5.4.~~5.5. External manager selection

RI is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process and to their approach to engagement. We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy.

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. We will encourage managers to become signatories to the UN-supported Principles for Responsible Investment. Managers will be required to report to Border to Coast on their RI activities quarterly.

~~5.5.~~5.6. Climate change

~~Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes.~~The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and the likelihood for success in influencing company strategy and behaviour. Using these criteria and due to the potential for stranded assets, we interpret this to cover pure coal and tar sands companies and will therefore not invest in these companies. Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

~~Risks and opportunities can be presented through a number of ways and include:~~

- ~~Physical impacts – damage to land, infrastructure and property due to extreme weather events, rising sea levels and flooding.~~
- ~~Technological changes - technological innovations such as battery storage, energy efficiency, and carbon capture and storage will displace old technologies with winners and losers emerging.~~

- ~~Regulatory and policy impact - financial impairment due to policy and regulation changes such as carbon pricing or levies, capping emissions or withdrawal of subsidies.~~
- ~~Transitional risk - financial risk associated with the transition to a low-carbon economy, also known as carbon risk. It may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change, creating investment opportunities as well as risks.~~
- ~~Litigation risk - litigation is primarily aimed at companies failing to mitigate, adapt or disclose.~~

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website. ~~Border to Coast is:~~

- ~~Assessing its portfolios in relation to climate change risk where practicable.~~
- ~~Incorporating climate considerations into the investment decision making process.~~
- ~~Engaging with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)[1] recommendations.~~
- ~~Encouraging companies to adapt their business strategy in alignment with a low carbon economy.~~
- ~~Supporting climate related resolutions at company meetings which we consider reflect our RI policy.~~
- ~~Encouraging companies to publish targets and report on steps taken to reduce greenhouse gas emissions.~~
- ~~Using the Transition Pathway Initiative (TPI)[2] toolkit to assess companies and inform company engagement and voting.~~
- ~~Voting against company Chairs in high emitting sectors where the climate change policy does not meet our minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel.~~
- ~~Co-filing shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.~~
- ~~Monitoring and reviewing our fund managers in relation to climate change approach and policies.~~
- ~~Participating in collective initiatives collaborating with other investors including other pools and groups such as the Local Authority Pension Fund Forum (LAPFF).~~
- ~~Engaging with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).~~
- ~~Reporting on the actions undertaken with regards to climate change on an annual basis in our TCFD report.~~

~~[1] The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions. https://www.fsb-tcfd.org/publications/finalrecommendations-report/~~

~~[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.~~

~~Key investment themes pursued by the private markets team include Energy Transition opportunities which support the move to a lower carbon economy.~~

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practis~~e~~ses active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, ~~we are a signatory to the UK Stewardship Code[3] and~~we ~~–~~are committed to being a signatory to the 2020 UK Stewardship Code[4] and [have made an application to become a signatory by submitting our 2021 Responsible Investment & Stewardship Report to the Financial Reporting Council] ; we are also a signatory to the UN - supported Principles of Responsible Investment[5].

6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our **website** at: Corporate Governance & Voting Guidelines. Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund.

6.1.1 Use of proxy advisers

Border to Coast appointed Robeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co) provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A Robeco team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

Robeco evaluates their proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's

~~[3] 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. https://www.frc.org.uk/directors/corporate-governance-and-stewardship~~

[4] 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. https://www.frc.org.uk/directors/corporate-governance-and-stewardship

[5] The UN-supported Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

Voting Guidelines. This review is part of Robeco's control framework and is externally assured. Border to Coast also monitors the services provided by Robeco monthly, with a six monthly and full annual review.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted, when any, or a combination of the following, occur:

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies to deposit their shares before the date of the meeting (usually one day after cut-off date) with a designated depositary until one day after meeting date.

During this blocking period, shares cannot be sold; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may refrain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights.

The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies are an integral part of the investment process. As part of our stewardship duties, we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

Border to Coast has several approaches to engaging with investee holdings:

- Border to Coast and all eleven Partner Funds are members of the LAPFF. Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.

- We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, an external voting and engagement service provider has been appointed. Border to Coast provides input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participates in some of the engagements undertaken on our behalf.
- Engagement will take place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[6] breaches or OECD Guidelines[7] for Multinational Enterprises breaches.
- We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

Engagement conducted can be broadly split into two categories: engagement based on financially material ESG issues, or engagement based on (potential) violations of global standards such as the UN Global Compact or OECD Guidelines for Multinational Enterprises.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises. Both sets of principles cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on 1) validation of a potential breach, 2) the severity of the breach and 3) the degree of to which management can be held accountable for the issue. For all engagements, SMART[8] engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues. Members of the investment team have access to our engagement provider's Active Ownership profiles and engagement records. This additional information feeds into the investment analysis and decision making process.

[6] UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

[7] OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

[8] SMART objectives are: specific, measurable, achievable, relevant and time bound.

We engage with regulators, public policy makers, and other financial market participants as and when required. We encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

6.2.1. ~~Escalation~~Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought
- Waste and water management
- Social inclusion through labour management

~~6.2.1.~~6.2.2. Escalation

Border to Coast believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

6.3. Due diligence and monitoring procedure

Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. Robeco, as the external Voting and Engagement provider, is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

Robeco also undertakes verification of its active ownership activities. Robeco's external auditor audits active ownership controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We will work with industry professionals to facilitate this.

8. Communication and reporting

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on our **website** quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; and in our annual RI report.

We also report in line with the TCFD recommendations.

9. Training and assistance

Border to Coast will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to the Border to Coast Board and the Joint Committee as and when required.

10. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest.

Appendix 3

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

November 2021~~0~~

1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role includes appointing the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures, and no simple model can be adopted by all companies.

The board of large cap companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than nine years will be assessed on a case-by-case basis.

The company should, therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.

- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

Leadership

The role of the Chair is distinct from that of other board members and should be seen as such. The Chair should be independent upon appointment and should not have previously been the CEO. The Chair should also take the lead in communicating with shareholders and the media. However, the Chair should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair’s performance.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chair and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity and inclusion policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company, it should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 33~~0~~% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, we will vote against the chair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, unless there are mitigating circumstances or plans to address this have been disclosed.

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chair or Senior Independent Non-executive Director except when it is appointing the Chair’s successor. External advisors may also be employed.

Directors’ availability and attendance

It is important that directors have sufficient time to devote to the company’s affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors’ other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with issues such as stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality[1] voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

Where a company with a single share class structure has received 20% votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that high executive pay does not systematically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary

[11] A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.

levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues. The selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should, therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

• **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. ~~The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, p~~Poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. ~~Employee~~ Executives' incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should be aligned with those of the majority of the workforce~~not be excessive~~, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks.

We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met, or there is insufficient disclosure that the money is not being used for political party donations, political donations will be opposed. Any proposals concerning political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.

Shareholder rights

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

Mergers and acquisitions

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

~~If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.~~

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. If extraordinary circumstances rule out a physical meeting, we expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

Climate change

We expect companies with high emissions or in high emitting sectors to have a climate change policy in place, which at minimum includes greenhouse gas emission reduction targets and disclosure of Scope 1 and 2 emissions. We use the Transition Pathway Initiative (TPI)[2] toolkit and the Climate Action 100+ Net Zero Benchmark (CA100+ NZB) to assess our listed equities investments. Both tools~~TPI~~ enable us to~~s~~ assess~~ment of~~ how companies are managing climate change, the related business risk and the progress being made. Where a company in a high emitting sector receives a score of zero or one by the TPI, or fails to meet the expectations above, we will vote against the Chair of the board if we consider the company is not making progress. Where a company covered by CA100+ NZB fails the first four indicators of the Benchmark which includes a net-zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the board.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

Climate Change Policy

Border to Coast Pensions Partnership

Policy Owner: The Chief Investment Officer
Live from: 1 October 2021

Climate Change Policy

This Climate Change Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of our Partner Funds.

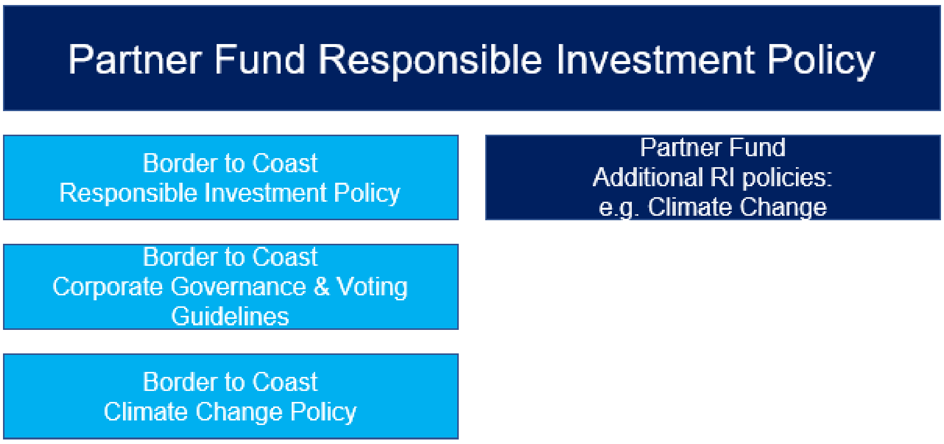
1 Introduction

Border to Coast Pensions Partnership Ltd is an FCA regulated and authorised investment fund manager (AIFM), operating investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). As a customer-owned, customer-focused organisation, our purpose is to make a sustainable and positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.

1.1 Policy framework

Border to Coast has developed this Climate Change Policy in collaboration with our Partner Funds. It sits alongside the Responsible Investment Policy and other associated policies, developed to ensure clarity of approach and to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements. This collaborative approach resulted in the RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:

RI Policy Framework



2 Policy overview

2.1 Our views and beliefs on climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. Our planet has warmed by over 1ºC relative to the pre-industrial average temperature, and we are starting to experience the significant effects of this warming.

Atmospheric CO_2 is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO_2 and other greenhouse gases (GHG) are not reduced to mitigate global warming, scientists have suggested that global society will be catastrophically disrupted beyond its capability to adapt, with material capital market implications.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2ºC and to pursue efforts to limit the temperature increase to 1.5ºC. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report, "Global warming of 1.5ºC"[1], which starkly illustrated how critical successful adaptation to limit global warming to 1.5ºC is. The report found that limiting global warming to 1.5°C would require "rapid and far-reaching" transitions in land, energy, industry, buildings, transport, and cities. This includes a need for emissions of carbon dioxide to fall by approximately 45 percent from 2010 levels by 2030, and reach 'net zero' around 2050. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change.

2.2 Why climate change is important to us

The purpose of embedding sustainability into our actions is twofold: we believe that considering sustainable measures in our investment decisions will increase returns for our Partner Funds, in addition to positively impacting the world beneficiaries live in.

Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We develop and operate a variety of internally and externally managed investments across a range of asset classes both in public and private markets for our Partner Funds to invest in.

We try to mitigate these exposures by taking a long-term approach to investing as we believe that businesses that are governed well and managed in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Climate change can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore needs to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. Transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers, which is why divesting from and excluding entire sectors may not be appropriate. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Our climate change strategy is split into four pillars**: Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.** We will continue to monitor scientific research in this space; evolving and adapting our strategy in order to best respond to the impacts of climate change.

[1] https://www.ipcc.ch/sr15/

2.3 How we execute our climate change strategy

We integrate climate change risks within our wider risk management framework and have robust processes in place for the identification and ongoing assessment of climate risks.

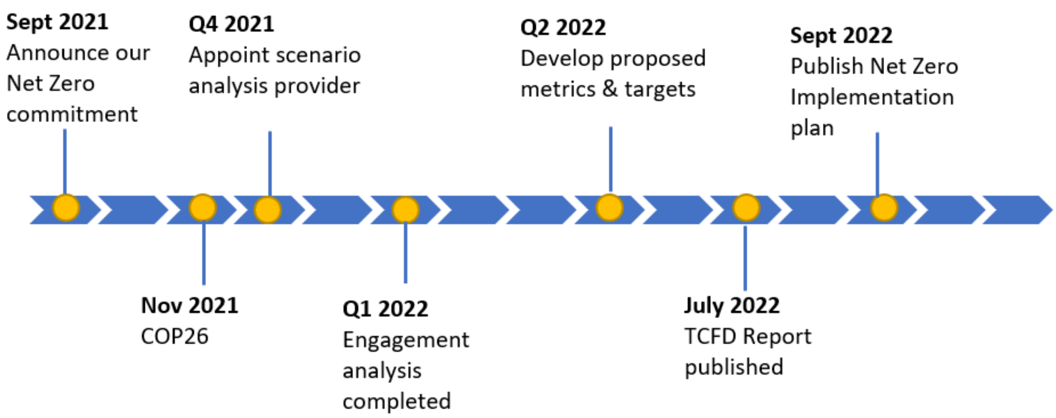
We consider climate change risks and opportunities within our investment decision making process.

Border to Coast, as a large investor, aims to influence companies to adapt and articulate their climate change strategy, to enable them to be well prepared for the transition to a low carbon economy. This in turn will improve investment outcomes.

We are committed to transparency regarding our climate change issues and activities.

2.4 Roadmap

The roadmap demonstrates the milestones to implement the policy over the next 12 months.



3 Climate change strategy and governance

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC.

We recognise that assessing and monitoring climate risk is under constant development, and that tools and underlying data are developing rapidly. There is a risk of just focusing on carbon emissions, a backwards looking metric, and it is important to ensure that metrics we use reflect the expected future state and transition plans that companies have in place or under development. We will continue to assess the metrics and targets used as data and industry standards develop.

As a supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we will continue to embed climate change into our investment process and risk management systems, reporting annually on our progress in the TCFD report.

In support of our Net Zero commitment, we will develop and set out a plan with high-level targets for each of the four supporting pillars of our climate change strategy which will be published in September 2022.

3.2 Governance and implementation

We take a holistic approach to sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability is considered and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our website.

3.3 Division of roles and responsibilities

The Board determines the Company's overall strategy for climate change and with support from the Board Risk Committee, oversees the identification and management of risk and opportunities. The Board is responsible for the oversight of climate related impacts as part of its remit with respect to Border to Coast's management of investments. The Board approves the Responsible Investment strategy and policies, which includes the Climate Change Policy. Updates on Responsible Investment are presented to the Board at regular intervals, this includes activities related to climate change. The Board reviews and approves the TCFD report prior to publication.

The Climate Change Policy is owned by Border to Coast and created after collaboration and engagement with our Partner Funds. We will, where needed, take appropriate advice in order to further develop and implement the policy.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the Climate Change Policy, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. Each year the CIO reviews the implementation of the policy and reports any findings to the Board. The policy is reviewed annually, taking into account evolving best practice, and updated as needed.

The Investment Team, which includes a dedicated Responsible Investment Team, works to manage environmental, social and governance (ESG) issues including climate change. Climate change is one of our responsible investment priorities and sits at the core of our sustainability dialogue. We are on the front foot with UK, European and Global climate change regulation, horizon scanning for future regulation and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

3.4 Training

Border to Coast's Board and colleagues maintain appropriate skills in responsible investment, including climate change, maintaining and increasing knowledge and understanding of climate change risks, available risk measurement tools, and policy and regulation. Where necessary expert advice is taken from suitable climate change specialists to fulfil our responsibilities. We also offer our Partner Funds training on climate change related issues.

3.5 Regulatory change management

Regulatory change horizon scanning is the role of the Compliance function, which regularly scans for applicable regulatory change. This includes FCA, associated UK regulations, and wider regulation including Responsible Investment, and climate change. The relevant heads of functions and departments, as subject matter experts, also support the process and a tracker is maintained to ensure applicable changes are appropriately implemented.

4 Identification and assessment

4.1 How we identify climate-related risks

The Identification and Assessment pillar is a key element of our climate change strategy. Our investment processes and approach towards engagement and advocacy reflect our desire to culturally embed climate change risk within our organisation and drive change in the industry.

The risk relating to climate change is integrated into the wider Border to Coast risk management framework. The Company operates a risk management framework consistent with the principles of the 'three lines of defence' model, with external assurance providers acting as a fourth line. Risks to the Company are owned and managed by the business or functional areas (1st Line of Defence) and are subject to oversight and challenge by the Risk and Compliance Function (2nd Line of Defence) and independent assurance by Internal Audit (3rd Line of Defence).

We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations). The latter relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk arising from rising sea levels and increased frequency and severity of extreme weather events).

4.2 How we assess climate-related risks and opportunities

We currently use a number of different tools and metrics to measure and monitor climate risk across portfolios. We acknowledge that this is a rapidly evolving area, and we are developing our analytical capabilities to support our ambition. Carbon data is not available for all equities as not all companies disclose, therefore there is a reliance on estimates. Data is even more unreliable for fixed income and is only just being developed for Private Markets. We will work with our managers and the industry to improve data disclosure and transparency in this area.

We utilise third party carbon portfolio analytics to conduct carbon footprints across equity and fixed income portfolios, analysing carbon emissions, carbon intensity and weighted carbon intensity and fossil fuel exposure when assessing carbon-related risk, on a quarterly basis. The Transition Pathway Initiative[2] tool and climate Action 100+ Net Zero Company Benchmark analysis is used to support portfolio managers in decision making with respect to net zero assessments. We use research from our partners and specific climate research, along with information and data from initiatives and industry associations we support.

[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

We are developing climate risk assessment for our listed equity investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement (to limit global warming to 2ºC), so that we can both engage appropriately with the company on their direction of travel and also track our progress. This will necessarily be an iterative process, recognising that data, tools and methodologies are developing rapidly.

We are reviewing how we conduct scenario analysis across our portfolios, evaluating tools and external providers and different scenarios and expect to have this in place during 2022.

We are using the Net Zero Investment Framework to support us in implementing our strategy to being Net Zero by 2050. Work will be undertaken during 2022 to assess and define any targets based around this commitment.

5 Investment strategy

5.1 Our approach to investing

We believe that climate change should be systematically integrated into our investment decision-making process to identify related risks and opportunities. This is critical to our long-term objective of improving investment outcomes for our Partner Funds.

Border to Coast offers Partner Funds a variety of internally and externally managed investment funds covering a wide-ranging set of asset classes with different risk-return profiles. Partner Funds then choose the funds which support their strategic asset allocation.

Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.

We consider climate change risks and opportunities in the process of constructing and developing investment funds. Climate change is also considered during the external manager selection and appointment process. We monitor and challenge our internal and external managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks.

We monitor a variety of carbon metrics, managing climate risk in portfolios through active voting and engagement, whilst also looking to take advantage of the long-term climate-related investment opportunities.

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. Using these criteria and due to the potential for stranded assets, we interpret this to cover pure coal and tar sands companies and will therefore not invest in these companies. Any companies excluded will be monitored with transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

We integrate climate change risks and opportunities into our investment decisions within each asset class. The approach we take for each asset class is tailored to the nature of the risk and our investment process for that asset class. The timeframe for the impact of climate change can vary, leading to differing risk implications depending on the sector, asset class and region. These variations are considered at the portfolio level. This policy gives our overall approach and more detail on the processes and analysis can be found in our annual TCFD report.

Climate risks and opportunities are incorporated into the stock analysis and decision-making process for **listed equities** and **fixed income**. Third party ESG and carbon data are used to assess individual holdings. We also use forward looking metrics including the TPI ratings and Climate Action 100+ Net Zero Company Benchmark to assess companies' transition progress. Internal, sell-side and climate specific research, and engagement information are also utilised.

Carbon footprints are conducted relative to the benchmark.

For our **alternative funds**, ESG risks, which includes climate change, are incorporated into the due diligence process including ongoing monitoring. Across both funds and co-investments, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies and industries. We assess and monitor if our GPs track portfolio metrics in line with TCFD recommendations. Climate change presents real financial risks to portfolios but also provides opportunities with significant amounts of private capital required to achieve a low-carbon transition. We are therefore considering the role private markets will play in managing transition risk and how we can invest in climate change opportunities as part of our Private Markets offering.

5.3 Working with external managers

Assessing climate risk is an integral part of the external manager selection and appointment process. It also forms part of the quarterly screening and monitoring of portfolios and the annual manager reviews. We monitor and review our fund managers on their climate change approach and policies. Where high emitting companies are held as part of a strategy managers are challenged and expected to provide strong investment rationale to substantiate the holding. We encourage managers to support collaborative initiatives on climate, and to report in line with the TCFD recommendations. In addition, we assess and monitor where managers are making net zero commitments.

6 Engagement and advocacy

As a shareholder, we have responsibility for effective stewardship of all companies or entities in which we invest, whether directly or indirectly. We take the responsibilities of this role seriously, and we believe success for our climate ambition can be supported by effective stewardship and governance oversight.

6.1 Our approach to engagement

As a long-term investor and representative of asset owners, we will hold companies and asset managers to account regarding environmental, social and governance issues, including climate change factors, that have the potential to impact corporate value. We support engagement over divestment as we believe that constructive dialogue with companies in which we invest is more effective than excluding companies from the investment universe. If engagement does not lead to the desired results, we have an escalation process which forms part of our RI Policy. We practice active ownership through voting, monitoring companies, engagement and litigation. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change. Climate is one of our key engagement themes. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reaching Net-Zero by 2050 or sooner. The areas we consider in our engagement activities include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; and exposure to climate-stressed regions.

In order to increase our influence with corporates and policy makers we work collaboratively with other like-minded investors and organisations. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups on climate related issues, including the Institutional Investors Group on Climate Change, Climate Action 100+, the UN-supported Principles for Responsible Investment, the Local Authority Pension Fund Forum and the Transition Pathway Initiative.

In particular, we are currently focusing on the following actions:

- Vote against company Chairs in high emitting sectors where the climate change policy does not meet our minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.
- Support climate-related resolutions at company meetings which we consider reflect our Climate Change Policy. We will co-file shareholder resolutions at company AGMs on climate risk disclosure, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the TCFD recommendations.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner Robeco and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.
- Use carbon footprints and the TPI toolkit to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.
- Engage collaboratively alongside other institutional investors with policy makers through membership of the Institutional Investor Group on Climate Change ('IIGCC'). We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

7 Disclosures and reporting

Transparency is one of our key organisational values. We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities. We will keep our Partner Funds and our stakeholders informed on our progress of implementing the Climate Change Policy, as well as our exposure to the risks and opportunities of climate change.

During 2021 and 2022 we will be focusing on the following actions:

- Reviewing on an annual basis how we are implementing this Climate Change Policy. The findings will be reported to our Board and Partner Funds, as well as made publicly accessible through our TCFD and Stewardship reports and other disclosures.
- Reporting in line with the TCFD recommendations on an annual basis, including reporting on the actions undertaken with regards to climate change. We published our first TCFD report in 2020 and will look to evolve and refine our TCFD report, reflecting further developments that we undertake as part of implementation of this policy.
- Disclosing our voting activity.
- Reporting on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.
- Disclosing climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.
- Reporting our progress against the Net Zero Investment Framework.

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Pension Fund Committee

9 December 2021

Regulatory and Administration Update

Report of Paul Darby, Corporate Director of Resources

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

DLUHC Consultation – LGPS: Fair Deal – Strengthening Pension Protection

5 In January 2019, The Department for Levelling Up Housing and Communities (DLUHC), formerly 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 DLUHC are currently considering the responses received, with a consultation response expected in due course. Officers will continue to monitor the position.

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

7 In May 2019 DLUHC 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 DLUHC published a partial response to the consultation, covering proposals on exit credits only. DLUHC 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, which will be reviewed in light of a recent High Court judgement that provided further direction to LGPS Funds.

9 DLUHC has also published a partial response in respect of employer contributions and flexibility on exit payments. Elsewhere in the agenda, Committee are asked to consider adopting a policy approach to Employer Flexibilities.

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 On 23 March 2021 Her Majesty's Treasury (HMT) discounted conversion (of GMP into main scheme benefits) as their long-term policy solution and instead will make full GMP indexation the permanent solution for public service pension schemes. Currently members covered by the interim solution have their GMP pensions fully uprated by their scheme in line with CPI. The new policy will extend this to members whose State Pension Age (SPA) is on or after 6 April 2021.

13 The full impact of from a funding perspective will become more clear during the 2022 Valuation process.

LGPS Scheme Advisory Board (SAB)

SAB Review – Academies

14 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.

15 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

16 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.

17 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.

18 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

19 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. SAB's work 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)

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

SAB Review – Responsible Investment Guidance

21 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. Committee will be updated as the matter progresses.

22 Notwithstanding this decision, SAB have progressed with further work in respect of Responsible Investment (RI), including the production of an RI A-Z Guide. It is intended that the A-Z Guide will provide LGPS stakeholders a "one stop shop for information, links and case studies in this fast growing and complex arena". The guide will evolve over time, as new entries are added. The A-Z Guide can be found online at the following link https://ri.lgpsboard.org/items.

23 The Board has also established an RI Advisory Group (RIAG). The main role of the group will be to advise SAB on all matters relating to RI. It will also be responsible for assisting the Board in maintaining

the online A-Z Guide. The Group will also assist SAB in developing recommendations to DLUHC on how the Taskforce on Climate-Related Financial Disclosures (TCFD) reporting should be applied to the LGPS.

Cost Control Mechanism & Review

24 The Committee has been informed previously of the Cost Control Mechanism 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. This creates a “cost corridor” designed to keep schemes within 2% of target costs.

25 Before the impact of McCloud, provisional cost management assessments indicated floor breaches in most public sector schemes, that may have resulted in an improvement to benefits or reduction in member contributions. At the request of HMT, GAD carried out a review of the Cost Control Mechanism across the public sector.

26 Members were informed previously that it had not previously been 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.

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

28 In July 2021 however, it was confirmed that the impact of McCloud would be classed as “member costs” for the purpose of the 2016 cost control review, with the pause on the review lifted. This was confirmed by HMT Directions in October 2021. Subsequently, SAB found that the LGPS showed only a slight reduction in costs. Despite this slight reduction, SAB confirmed that they are no longer recommending any LGPS benefit structure changes. SAB has however reaffirmed its commitment to revisiting both Tier 3 ill health and contribution rates for the lowest paid members.

29 Whilst it appears that the 2016 Cost Review is coming to a conclusion, it should be noted that the Fire Brigade Union is considering a judicial review of the decision to include the McCloud remedy as a “member cost”. If successful, the 2016 review may be reopened.

30 When the Cost Cap Mechanism was first introduced in 2016 across the public sector it was anticipated that the mechanism would be

triggered only by “extraordinary” event. As noted above however, the initial assessment of public sector schemes showed cost floor breaches leading to HMT’s request for a review of the mechanism.

31 Following a review by GAD, the government have taken forward three main principles to adjust the mechanism for the 2020 review, so that the new Cost Control Mechanism will:

(a) Be based on the reformed scheme only, ie. in the LGPS the mechanism will assess post 2014 costs only

(b) Adjust the cost floor and ceiling from +/-2% to +/- 3%

(c) Introduce an economic check linked to GDP

McCloud

32 The Committee has been kept up to date with the impact and issues surrounding the McCloud judgement itself. To recap briefly, when the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination.

33 In July 2021, the Public Service Pensions and Judicial Offices Bill was laid before Parliament. This bill seeks to amend the Public Service Pensions Act 2013 by making provision to rectify the unlawful discrimination by the 2014 Scheme. If made law, it would enable the LGPS to make provision for final salary benefits to be paid in respect of the remedy period.

34 The estimated cost across the whole of the LGPS is £1.8bn. As noted above, the Fund made an estimated provision for the impact at local level at the last Valuation. In terms of scheme member impact, HMRC have recently announced a range of measures intended to protect members from annual and lifetime allowance impacts.

35 Whilst it is anticipated that the necessary LGPS Regulations will not come into force until 2023, Officers of the Fund are actively working with Participating Employers to ensure all of the necessary data is collected to be able to properly implement the anticipated remedy.

Non- LGPS Specific Matters

Public Sector Exit Payments Caps

36 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.

37 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.

38 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.

39 Most significantly for the LGPS, was the inclusion of the ‘strain on the fund’ costs being 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.

40 Separately to the Exit Payment Regulations, DLUHC consulted on further reforms to the LGPS Regulations that would accommodate the Exit Cap within the Scheme. As DLUHC'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.

41 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

42 Using powers granted under the Pension Schemes Bill, the Department for Works and Pensions (DWP) has consulted 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.

43 Whilst the regulations will not apply to the LGPS it is expected that DLUHC will bring forward similar proposals requiring TCFD disclosures in the LGPS. At the time of writing, consultation on such requirements in the LGPS is expected soon.

44 The Fund's pooling partner, Border to Coast Pensions Partnership (BCPP) are supporters of the Task Force on Climate-related Financial Disclosures (TCFD) and have just published their second TCFD report aligned with the recommendations. This covers the approach to climate change across the four thematic areas of Governance, Strategy, Risk Management, and Metrics and Targets. The report demonstrates the improvements and developments made across the four key areas. The report can be found online at the following link https://www.bordertocoast.org.uk/sustainability/.

45 BCPP will support Partner Funds ahead of any mandatory reporting requirements through the Officers Operation Group RI workshops, delivering training, and by providing reporting. BCPP have held discussions to understand all Partner Funds' requirements on carbon reporting on assets, including those that are currently not held in the pool.

46 A BCPP procurement for carbon data, including forward-looking metrics (scenario analysis), taking place this year will take into account the reporting requirements of Partner Funds for equity and

fixed income portfolios. Obtaining carbon data for Private Markets is more challenging and BCPP are looking into solutions for these portfolios held in the pool.

47 An overview of TCFD was included in training for members of the Committee last year. A more detailed report, and further training will be provided to the Committee on the details of DLUHC's anticipated consultation on TCFD, and the availability of data through BCPP.

UK Stewardship Code 2020

48 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.

49 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.

50 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.

51 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

52 A consultation entitled 'Increasing the normal minimum pension age: consultation on implementation' was launched on 11th February and ran 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. When the policy

was first announced, it was intended that the NMPA would be 10 years earlier that the State Pension Age. The minimum age a scheme member can currently retire voluntarily in the LGPS is 55.

TPR Code of Practice

53 The Pensions Regulator (TPR) has consulted on a single Code of Practice to cover all regulated schemes. Presently, the Regulator has a specific Code for Public Service Pensions. Whilst the new Code does not extend TPR's powers in the LGPS beyond its existing remit on governance and administration, there are some concerns over how the provisions of the Code fit with the LGPS. SAB have responded on behalf of the LGPS. The new Code will not come into force before summer 2023. Compliance with the existing Code will continue to be reported to the Local Pension Board.

Boycotts, Divestment and Sanctions Bill

54 The government's legislative programme was laid out in May. The programme includes a Boycotts, Divestment and Sanctions Bill the purpose of which will be to stop public bodies from taking a different approach to UK Government sanctions and foreign relations and will cover purchasing, procurement, and investment decisions. Members will be kept up to date, as the matter progresses.

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Pension Fund Committee

9 December 2021

Employer Flexibility Policy

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 To seek agreement on implementing a policy approach to new powers allowing Administering Authorities to exercise discretion in respect of Employer Flexibilities.

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 DLUHC's partial response to its 'Changes to the Local Valuation Cycle and the Management of Employer Risk' consultation.

3 Additionally, the Fund has drafted a Policy approach to the range of flexibilities in respect of Participating Employers (the 'Employer Flexibilities') set out in the 'Changes to the Local Valuation Cycle and the Management of Employer Risk' consultation.

Recommendation(s)

4 Members are asked to:

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

(b) authorise the Corporate Director of Resources to finalise the wording of, publish and implement the finalised policy; taking into account comments of the Committee and employer feedback received, and amend the Funding Strategy Statement (FSS) to signpost the new policy and approach, and;

(c) authorise the Corporate Director of Resources to make a determination in respect of the flexibilities implemented as the requirement to do occurs

Background

5 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).

6 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

7 On 8 May 2019 DLUHC 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.

8 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.

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

Employer Flexibilities

10 The introduction of 'The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020', DLUHC's Statutory Guidance and the more detailed guidance prepared by the LGPS Scheme Advisory Board (SAB) enables Administering Authorities to review employer contributions, spread exit payments and set up Deferred Debt

Agreements (DDA). Whilst utilising these powers is not mandatory, SAB "actively encourages" Administering Authorities to do so.

11 The contribution rates payable by Participating Employers in the Fund are set every three years at the Fund's Valuation. Due to the nature of the Fund's liabilities a long-term view is taken at the Valuation. There are circumstances however, where there are short-term changes that are sufficiently material to warrant consideration of a change in contribution rate. The new powers in respect of Employer Flexibilities allow Administering Authorities to consider a rate change where:

(a) the Administering Authority believes that there is a reasonable likelihood that there has been a change in liabilities arising,

(b) the Administering Authority believes that there is a reasonable likelihood that there has been a change in the employer's ability to meet their obligations, or;

(c) the employer has requested a review

12 Where a Participating Employer leaves the Fund and their notional share of the assets and liabilities are in deficit, the default position remains that any deficit payment would normally be levied on the exiting employer as a single capital payment. The new powers allow Administering Authorities to recover that exit debt over an agreed period through a Debt Spreading Agreement (DSA).

13 SAB outlines that a DSA arrangement may be appropriate for an employer which has no active members, no intention of returning to active employer status in the future and wishes to crystallise any debt to the Fund. Employers have an obligation to make good on the payments due under the DSA, which when completed will finalise their exit.

14 Finally, the new powers introduce the concept of a Deferred Debt Agreement (DDA). A DDA allows Administering Authorities to defer the triggering of an exit debt, enabling an employer to terminate future accrual in the scheme. When a DDA is in place the employer becomes a 'deferred employer' in the Fund and will continue to make deficit contributions to the Fund and continue to benefit from positive investment returns whilst remaining exposed to investment risk.

15 SAB identify that a DDA arrangement may be appropriate for an employer which although they have no active members may return to active employer status at some point. Alternatively, a DDA may be used for employers who do wish to exit but do not wish to crystallise any debts to the Fund. They continue to share in the fortunes and risks of the Fund for the duration of the DDA.

Fund Policy and Consultation

16 The Fund's draft 'Policy on Employer Flexibilities' is included in Appendix 1. The policy was drafted in consultation with the Fund's Actuary and sets out the approach of the Fund in respect of the review of employer contributions, employer exit payments and deferred debt agreements (collectively, 'Employer Flexibilities').

17 The policy takes into account changes introduced by the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020. The policy also takes account of "Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments, and deferred debt agreements" issued by MHCLG (now 'DLUHC'). The policy aims to take a balanced approach, protecting all employers in the Fund.

18 The policy has been shared with all employers for consultation and an overview was provided at the Fund's Annual Meeting, held in November. Only one employer sought to comment on the policy and provided detailed feedback on the policy. An anonymised copy of the feedback is included in Appendix 2.

19 The employer feedback was constructive and as noted went into some detail on aspects of the Fund's approach. The most significant aspect of the feedback related to the mechanics of any DDA arrangement, in particular where there is a weakening of covenant over time. It is proposed that further actuarial guidance is sought, and that Officers finalise the policy taking into account any comments from the Committee and employer feedback received.

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Appendix 1: Policy on Employer Flexibilities

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Pension Fund
Policy on Employer Flexibilities

This document sets out the approach of Durham County Council (the "Administering Authority") as administering authority of the Durham County Council Pension Fund (the "Fund") in respect of the review of employer contributions, employer exit payments and deferred debt agreements (collectively, 'Employer Flexibilities'). This policy takes into account changes introduced by the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020. The policy also takes account of "Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments, and deferred debt agreements" issued by MHCLG (now 'DLUHC').

Employer Flexibilities Policy
Spreading exit payments

1. Although the default position remains that any deficit payment would normally be levied on the exiting employer as a single capital payment, the Administering Authority may choose to allow phased payments as permitted under Regulation 64B at the request of an employer. The Administering Authority will consult with the employer to consider its request and determine whether or not spreading the exit payment is appropriate and the terms which should apply.

2. In determining whether or not to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

2.1 The ability of the employer to make a single capital payment. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread

2.2 Whether any security is in place, including a charge over assets, bond, guarantee or other indemnity.

2.3 Whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

2.4 Any actuarial, covenant or legal advice the Administering Authority deems necessary.

2.5 The views of any guarantor, and whether the guarantee will continue in force during the spreading period.

3. The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 1 month, or later date at the Administering Authority's sole discretion, of any request.

4. In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be three years but longer periods (not exceeding nine years) will be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

5. Whilst the default position would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate

may not be possible until the employer has exited. At its sole discretion the Administering Authority may therefore consider a request for spreading debt on or after the date of exit.

6. Instalments due under an exit deficit spreading agreement will generally be calculated as level monthly amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Alternative payment arrangements may be made with the agreement of the Administering Authority as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

7. Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

8. Employers will be asked to pay all costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread).

9. The Administering Authority will review spreading agreements as follows:

9.1 The Administering Authority will generally review spreading agreements as part of its preparation for each triennial valuation and will take actuarial, covenant, legal and other advice as considered necessary.

9.2 Employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework. Notifiable events include:

- Material change in LGPS membership, where the definition of material is both transparent and appropriate to each fund

- Material change in total employer payroll and LGPS pensionable pay

- Change in employer legal status or constitution (to include matters which might change qualification as a Scheme employer under the LGPS Regulations)

- A decision which will restrict the employer’s active membership in the Fund in future

- Any restructuring or other event which could materially affect the employer’s membership.

- Confirmation of wrongful trading

- Conviction of senior personnel

- Decision to cease business

- Breach of banking covenant

9.3 If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented.

9.4 Any review will not consider changes to the original exit amount nor interest rate applicable.

10. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek

actuarial advice in relation to whether there should be a discount for early payment given interest will have been added over the expected spreading period. The cost of any such advice will be recharged to the employer.

Deferred Debt Agreements

11. Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate (a 'Deferred Debt Agreement' or DDA).

12. In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

12.1 The materiality of the employer and any exit deficit in terms of the Fund as a whole.

12.2 The risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and generally supported by a financial risk assessment or more detailed covenant review carried out by the actuary or other covenant adviser.

12.3 The rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit.

12.4 Whether an up front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

13. Where it is expected that the employer's covenant may materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA. The Administering Authority is unlikely to enter into a DDA unless it is clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

14. DDAs will generally only be entered into at the request of an employer. The Administering Authority will then consult with the employer to consider the request and determine whether or not a DDA is appropriate and the terms which should apply (including the precise details of the DDA). As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. Employers should be aware that all costs incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.

15. The matters which the Administering Authority will reflect in the DDA, include:

15.1 An undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions.

15.2 A provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer.

15.3 A provision that the DDA will terminate on the first date on which one of the following events occurs:
- the deferred employer enrols new active members;
- the period specified, or as varied, elapses;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
- the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.

15.4 The responsibilities of the deferred employer.

15.5 Conditions triggering the implementation of a recovery plan, i.e. when the secondary contributions payable and/or the period of the DDA may be varied.

15.6 The circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64(7E) and above.

15.7 Any other matter the Administering Authority considers relevant.

16. The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

17. The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

17.1 Where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund.

17.2 Where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that the deferred employer’s ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months.

17.3 Where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate.

18. At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will

terminate on the grounds that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d).

19. Advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. Estimated costs can be provided on request.

20. Employers are expected to make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and the normal expectation is that a request to enter into a DDA should be made in advance of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA request may be considered on or after the date the employer would have otherwise exited the Fund under Regulation 64(1).

21. Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

Policy on review of employer contributions

22. This Policy supplements the general funding policy as set out in the Funding Strategy Statement and should be read in conjunction with that statement. It is intended to provide transparency and consistency for employers in use of the flexibilities within the Regulations.

23. The Administering Authority will consider reviewing employer contributions between formal valuations, as permitted by Regulations 64(4) and 64A, in the following circumstances:

23.1 it appears to the administering authority that it is likely that the Scheme employer will become an exiting employer

23.2 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.

23.3 it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme.

23.4 a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

For the avoidance of doubt, the Administering Authority will not consider a review of contributions under Regulation 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

24. In determining whether or not a review should take place under Regulation 64A, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

24.1 the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as the restructuring of a Multi-Academy Trust, a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract.

24.2 the materiality of any change in the employer's membership or liabilities, taking account of the actuary's view of how this might affect its funding position, primary or secondary contribution rate.

24.3 whether, having taken advice from the actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, risk-sharing arrangement, or other form of indemnity in relation to the employer's liabilities in the Fund

24.4 the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the actuary or other covenant adviser to the Fund.

24.5 the general level of engagement from the employer and its adherence to its legal obligations, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms.

24.6 Whether the employer has requested a review in the previous 12 months. The Administering Authority is unlikely to agree to more than one review per year.

25. In determining whether or not a review for an admission body should take place under Regulation 64(4), the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

25.1 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.

25.2 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.

25.3 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.

26. 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) or 64A applies.

27. In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels.

27.1 The Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Fund employers.

27.2 Where contributions are being reviewed for an employer with links to another Fund employer, particularly where this is a formal organisational or contractual link, e.g. there is a tripartite admission agreement, an ownership relationship or a formal guarantee, subsumption commitment or risk sharing arrangement is in place, the Administering Authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the actuary as required.

28. The Administering Authority will involve the employer in the process in the following ways:

28.1 In most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities. In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed.

28.2 the Administering Authority will advise the employer that a review is being carried out and share the outcome of the review and any risk or covenant assessment as appropriate.

28.3 the Administering Authority will inform the employer of the indicative timetable for completion of the review. In general, the results of the review will be available no more than 3 months after all data and information has been received by the Administering Authority, and the employer will be informed where there are circumstances that means this timescale will vary.

28.4 The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases.

29. When determining whether employer contributions should be adjusted as the result of the review, the Administering Authority will consider: the materiality of the changes, representations from the employer, the proximity to the next formal valuation, the outcome of any discussions with the employer and any related/linked employer in the Fund and any other factors.

29.1 Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related/linked employers seeking their view on such an approach.

29.2 Contribution reviews under Regulation 64A are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the valuation.

29.3 Employers should be aware that all costs incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

30. Any appeal against the Administering Authority's decision regarding Employer Flexibilities must be made in writing to the Pensions Manager within 6 months of being notified of the decision. An appeal will require the employer to evidence one of the following:

31.1 deviation from the published policy or process by the Administering Authority, or

31.2 any further information (or interpretation of information provided) which could influence the outcome, noting new evidence will be considered at the discretion of the Administering Authority.

32. Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities.

32.1 The employer should contact the Pensions Manager and complete the necessary information requirements for submission to the Administering Authority in support of their application.

32.2 The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost.

33. All employers are expected to engage with the Administering Authority and adhere to the notifiable events framework as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the employer's circumstances and any change in covenant. Notifiable events include:

- Material change in LGPS membership, where the definition of material is both transparent and appropriate to each fund

- Material change in total employer payroll and LGPS pensionable pay

- Change in employer legal status or constitution (to include matters which might change qualification as a Scheme employer under the LGPS Regulations)

- A decision which will restrict the employer's active membership in the Fund in future

- Any restructuring or other event which could materially affect the employer's membership.

- Confirmation of wrongful trading

- Conviction of senior personnel

- Decision to cease business

- Breach of banking covenant

Appendix 2: Employer Feedback Received

We would like to thank the Fund for sharing the draft policy with us and entering into this consultation. We hope our response to it and our subsequent discussions continue to develop our open and collaborative relationship with the Fund, which we believe will increase the chances of good outcomes where both ours and the Fund's objectives can be best met.

Our most significant point of principle relates to paragraph 13 where there is an assumption that a DDA would not be agreed if a covenant may get worse. If this is the case then the best outcomes for the Fund may not be achieved. By not allowing an employer with a deteriorating covenant to enter into a DDA, the build-up of accrual would continue, and the level of debt within the scheme versus net assts of the employer would increase, which in turn increases the risk for other employers. Therefore, even though we expect our own covenant to improve over time, we do not agree with this assumption on principle as each case should be considered on its own merits taking in to account the impact on all of the stakeholders.

We have also included comments on the policy on review of employer contributions for completeness, although we do not expect this to have any direct relevance to our individual circumstance as we are seeking to utilise the exit flexibilities, subject to the outcome of this consultation.

Comments on Exit Spreading Payments policy

We welcome the proposal to include exit payment spreading within the Fund's policies. In particular, we agree with the statement in the LGPS SAB guide which states that a Debt Spreading Arrangement may *"better enable the employer to afford to leave the scheme and manage the impact on the business' cashflow"*. However, we have some specific comments on the draft wording which we believe can improve the way that this change is implemented.

Paragraph 2.1 - notes the primary factor in determining whether the Administering Authority will agree to phased payments would be the employer's financial ability to make a single capital payment. We would want to see the Administering Authority also consider an employer's other needs for cash – including, but not limited to, capital investment in the business, obligations to other creditors and ongoing spending. As well as considering needs for cash to meet obligations, we would also request that the Administering Authority considers reasons why employers may need to retain capital within the business at certain times, for example due to banking covenants..

Paragraph 3 states that employers are expected to share their financial position, business plans and financial forecasts with the Administering Authority and we would like to see that these are used to gather a holistic picture of the employer, not only to determine financial affordability. The policy and this process would in our view be enhanced by explicitly noting that the Administering Authority will consider the representations of the Employer and their advisors as part of this process.

Paragraph 3 – The draft policy includes a deadline within which employers must provide financial information in order for an exit payment to be spread. In our view, the proposed timescale of 1 month may often be too short to be achievable (depending where in the financial year the request is made, and the nature of the information requested). We would prefer to have a standard 2 to 3 months, along with flexibility for a longer timescale to be agreed. This will provide more flexibility to the Fund and to employers to agree timescales appropriate to the situation and to the information being sought.

Paragraph 4 - states that the default spreading period will be "three years but longer periods (not exceeding nine years) will be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund...". We support this flexibility around an appropriate time period, although do not see the reason for a nine-year limit – particularly if suitable long term security is in place for the Fund to call upon or otherwise there is a strong covenant. We would like to see this maximum term supplemented with wording which permits the Fund and employers to agree a (potentially longer) term which is appropriate to each situation.

Paragraph 5 – We appreciate the flexibility that the proposed wording gives, rightly acknowledging that there are circumstances when a request to spread an exit payment would not be made until after the exit date.

Paragraph 6 - We appreciate the general flexibility around the frequency and nature of payments. Please could you confirm whether this flexibility is intended to include the rate of interest on payments as well as payment timing, and seek to clarify this within the wording of the policy.

Paragraph 7 - It is helpful that the draft policy sets out the process that the Administering Authority will follow in communicating its decision. It would be helpful if this paragraph could also set out the process that an employer would need to follow if it disagrees with the Administering Authority's decision. In particular, the paragraph could set out if there is a practical appeals process, or the process for a dialogue between the employer and Administering Authority before a final decision is made.

Paragraph 8 - Please can you include more detail on what is reasonably expected to be included in your costs (e.g. actuarial, covenant and legal fees, investment related fees, administration fees etc). Where possible, we would like to see costs provided to employers upfront and any applicable rates/terms of advisers and suppliers. In addition, we would request that the term "all costs" is updated so as to read "all reasonable costs".

Paragraph 9.1 – Please could you provide more detail (including within the policy) as to what a triennial review of spreading arrangements will entail. In particular, do you envisage that the amount or timing of payments due from employers will be altered in any circumstances as part of such a review? Our expectation is that this would not be the case, with employers crystallising their

obligations at the point of exit and only altering the payment profile upon mutual agreement between the Fund and the employer.

Paragraph 9.2 – This paragraph notes that adherence to 'the' notifiable events framework will be required during the spreading period. This paragraph would be made more transparent by explicitly cross-referencing the applicable notifiable events framework that the policy would expect employers to follow. Additionally, as an example of a notifiable event, the draft policy mentions restrictions on employer active membership. Our understanding is that an exit spreading agreement would only be possible if there were no active members remaining and therefore we believe this point can be removed from the draft policy.

Paragraph 10 - states that actuarial advice will be sought on whether there should be a discount given for early payments. In our view it would be reasonable to establish the principles for this in advance and to document these principles in the policy. Our expectation would be that without strong justification to the contrary, a discount should be given to employers who make payments early.

Comments on Deferred Debt Agreement (DDA) policy

We are pleased to see that the Fund will be considering requests from employers wishing to adopt a deferred debt agreement. As above, we have some comments on the wording in the draft policy.

Paragraphs 12.1-12.4 - We welcome the fact while there are examples of factors that the Administering Authority will consider when allowing an exit payment to be spread, it does not present this as an exhaustive list. This wording acknowledges that each employer's circumstances will be different, and we believe this is appropriate. We would appreciate further detail on 12.3 (the rationale for the employer requesting a DDA) to acknowledge the types of reasons which could be acceptable to the Administering Authority (e.g. financial stability of the employer, business planning, a capital investment programme, tolerance of DB risk) together with an acknowledgement that there may be individual circumstances beyond this list in which a DDA would also be reasonable.

Paragraph 13 – notes that a DDA is unlikely to be agreed if it is expected that the employer's covenant may materially weaken. Notwithstanding the fact that "may" is a subjective word and should be clarified, we do not agree with this starting position for DDAs. Specifically, if an employer's covenant is expected to materially weaken it might be in the interests of the Fund and the employer (and other employers in the Fund) to allow a DDA so that no further liabilities are accrued by that employer. Whilst this might be the case even without additional security, if extra security is obtained by the Fund through the DDA process then it will be more likely that the DDA is helpful to all parties. Using fully taxpayer-backed employers as the only example in this paragraph of a circumstance in which risk to the Fund would not be increased in our view gives a perception that DDAs will not be agreed in an appropriately broad set of circumstances

Paragraph 14 – Please can you confirm the type of information employers may reasonably expect to provide. Please could you also consider updating this paragraph to replace the phrase "all costs" with "all reasonable costs" when describing the costs that can be recharged to employers. Alternatively, the comments in this paragraph regarding employers meeting costs could be deleted given that they are closely replicated by paragraph 19, which helpfully also includes a comment noting that estimated costs can be provided on request.

Paragraph 15.3 – notes the situations when a DDA will terminate.

- In the scenarios of a take-over or amalgamation, would the Administering Authority be amenable to re-negotiating a DDA?
- In the scenario of the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months, please could you include an acknowledgement that employers will be able to provide input into the Administering Authority's assessment prior to such a notice being served.

Paragraph 20 – we can realistically see how an employer may exit the fund at short notice (e.g. if the last active member leaves). We are reassured to see that the Administering Authority will consider a DDA in this situation.

Finally on DDA's, we believe the Fund should be open to discussions around an employer specific investment strategy in the event of a DDA to find the best cost/risk balance, together with the funding agreement and covenant position.

Comment on policy on review of employer contributions

Paragraph 23-23.3 – the phrase "it appears likely to the Administering Authority" is used in a number of places. However, it does not go on to say either (a) what information the Administering Authority will use in determining what is likely or unlikely, or (b) what level of consultation there will be between the Administering Authority and the employer in question when reaching conclusions about that employer's circumstances. Especially as some of the points in these paragraphs relate to the future actions of the employer, we believe it would be appropriate for the Policy to explicitly acknowledge the role of the employer in providing information to the Administering Authority in order for the Fund to make this assessment.

Paragraph 23.3 - also states that contributions may change if "it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme". We would appreciate if the wording of this point could explicitly note that contributions payable by employers will not be increased between valuations except in certain exceptional circumstances (which we would expect to be listed and consult ed on explicitly).

Paragraph 23.4 – we agree that a review of contributions on the grounds of market conditions is not desirable, as stability of cost is important to employers. In our view this point should be extended so as to also explicitly note that a review of contributions will not be made between valuations due to a change in actuarial approach or firm of actuarial advisors. For example, it would not be appropriate outside of the triennial valuation cycle to change (without consultation on this particular issue) the methodology for deriving CPI inflation assumptions in light of the proposed reforms to the RPI inflation index. Making this point explicit would be consistent with the LGPS SAB guide which states that *"the financial and demographic assumptions used should be consistent in their structure and derivation with the principles in the FSS and those used at the last Fund valuation."*

Paragraph 24.1-24.6 – on the whole, we appreciate being informed of the changes that could lead to a review of contributions. We agree with most of these although we would like you to confirm that if 24.3 is intended to also include a change in actuarial methodology by the actuary (or a change in actuary). We also note that under 24.4, the Fund intends to take a wide view in assessing the employer's long term financial strength – this is appreciated, and would like to see similar breadth in considering suitability for a DSA or DDA (which appear to focus more narrowly on current affordability of a lump sum).

Paragraph 28.4 - states that there will be a minimum of 4 weeks' notice given of any contribution increases. In relation to this, we note firstly that 4 weeks is a short notice period for an increase in contributions, given the potential effect on employers' budgeting and broader finances, as well as the practicalities around payroll, and we would appreciate a longer period (e.g. 12 weeks) being the expected minimum.

Paragraph 29.1 – We support the Fund's intention to consider not increasing employer contributions "if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term" and thank the Administering Authority for including these provisions.

Comment on appeals process

Paragraphs 30-31 – We would appreciate clarification over the appeals policy, e.g. whether current contributions will continue while an appeal is underway. We also note the following is required – *"31.2 any further information (or interpretation of information provided) which could influence the outcome, noting new evidence will be considered at the discretion of the Administering Authority."*

We would like this to be reworded so that all new evidence brought forward would be considered, and not at the discretion of the Administering Authority. We believe that this is fair, and essential for an appeals process to be heard properly.

For this appeals process to be authentic, we would like to have written into the policy that the Administering Authority will make their decision in collaboration with the employer, taking into consideration the employer's reasons for the request and their business plans, as well as simple factors such as affordability (see comment on paragraph 2.1 above).

Closing remarks

We hope that you have found our input helpful. Our overriding view is that the best outcomes for the Fund and for employers can be found through collaborative discussions and through considering in detail each employer's business and objectives. You will note that many of our comments encourage a collaborative and open way of working.

We would welcome the opportunity to discuss this with you as soon as possible and certainly in time for you to be in a position to fully understand and reflect our comments in the papers that are put to Committee in December. Even though time is tight, it is very important to us that our perspective is

taken into account as this policy has significant and immediate relevance

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Agenda Item 18

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Agenda Item 23

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