



## **Pension Fund Committee**

**Date** Monday 14 March 2022  
**Time** 10.00 am  
**Venue** Committee Room 2, County Hall, Durham

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### **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 9 December 2021 (Pages 23 - 32)
4. Overall Value of Pension Fund Investments to 31 December 2021 (Pages 33 - 38)
5. Performance Measurement of Pension Fund Investments to 31 December 2021 (Pages 39 - 48)
6. Provision of Treasury Management Services to the Pension Fund for 2022/23 (Pages 49 - 52)
7. Short Term Investments for the Period ended 31 December 2021 (Pages 53 - 56)
8. Internal Audit Plan 2021/22 - Progress Report to 31 December 2021 (Pages 57 - 62)
9. Draft Audit Plan 2022/23 (Pages 63 - 66)
10. Agreement of Accounting Policies for Application in the 2021/22 Financial Statements of the Pension Fund (Pages 67 - 74)
11. Regulatory and Administration Update (Pages 75 - 86)

12. Pension Fund Committee Training (Pages 87 - 104)
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 9 December 2021 (Pages 105 - 110)
17. Investment Strategy Review Update (Pages 111 - 174)
18. Report of the Pension Fund Adviser (Pages 175 - 210)
19. Report of the Independent Investment Adviser (Pages 211 - 240)
20. Border to Coast Pensions Partnership Quarterly Performance Report (Pages 241 - 346)
21. Report of Alliance Bernstein (Pages 347 - 364)
22. Report of BlackRock (Pages 365 - 382)
23. Report of CBRE Global Investment Partners (Pages 383 - 410)
24. Report of Mondrian Investment Partners (Pages 411 - 414)
25. Border to Coast Pensions Partnership Private Monitor Report (Pages 415 - 468)
26. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

**Helen Lynch**

Head of Legal and Democratic Services

County Hall  
Durham  
**4 March 2022**

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 – Local Pension Board

Councillor D Stoker – Local Pension Board

L Oliver – Local Pension Board

W Pattinson – Local Pension Board

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**Contact: Martin Tindle**

**Tel: 03000 269 713**

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Pension Fund Committee



Abbreviations

List of commonly used abbreviations

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

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

<b>NED</b>	Non-Executive Director
<b>NT</b>	Northern Trust, the Fund's Custodian
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PF</b>	Pension Fund
<b>PFC</b>	Pension Fund Committee
<b>PLSA</b>	Pensions and Lifetime Savings Association
<b>PRI</b>	The UN-supported Principles for RI
<b>RI</b>	Responsible Investment
<b>RPI</b>	Retail Price Index
<b>S&amp;P</b>	Standard & Poor's, ratings agency and provider of equity indices
<b>S151</b>	An officer with responsibilities under s151 of the Local Government Act 1972
<b>SAB</b>	Scheme Advisory Board
<b>SDG</b>	the UN's Sustainable Development Goals
<b>SILB</b>	Sterling Index Linked Bonds
<b>SONIA</b>	Sterling Over Night Index Average, the overnight interest rate paid by banks
<b>TCFD</b>	Taskforce on Climate Related Financial Disclosures
<b>TER</b>	Total Expense Ratio
<b>TPR</b>	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) is 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 LGPS 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 **Thursday 9 December 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, D Sutton-Lloyd and C Varty

**Scheme Member Representative**

Anne Delandre

**Further Education Colleges Representative**

Andrew Broadbent

**Council Advisers**

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

**Independent Advisers**

Sandy Dickson – Mercer  
Anthony Fletcher – MJ Hudson

**Observers**

Neville Hancock – UNISON and Local Pension Board  
Les Timbey - GMB

**1 Apologies for Absence**

Apologies for absence were received from Councillors C Martin, J Shuttleworth and S Durham and Mr L Oliver and Mr J Taylor.

**2 Declarations of interest**

There were no declarations of interest.

### **3 Minutes**

The Minutes of the meeting held on 11 October 2021 were agreed as a correct record and were signed by the Chair.

### **4 Overall Value of Pension Fund Investments to 30 September 2021**

The Committee considered a report of the Corporate Director of Resources which provided an update on the overall value of the Pension Fund investments to 30 September 2021, the movement in cash balances during the last four quarters (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 September 2021**

The Committee considered a report of the Corporate Director of Resources which provided an overview of the investment performance of the Pension Fund to 30 September 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 September 2021**

The Committee considered a report of the Interim 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 September 2021 as part of the 2021/22 Internal Audit Plan (for copy see file of Minutes).

#### **Resolved:**

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



## **7 Audit Completion Report**

The Committee considered a report of the Council's External Auditors (Mazars) as a result of their audit of the Pension Fund's accounts for the year ended 31 March 2021 (for copy see file of minutes). Sharon Liddle of Mazars presented the Audit Completion Report and provided an update of the report

In response to question from Councillor J Atkinson relating to business continuity, the Pensions Manager, Paul Cooper noted that issues were not pension specific, rather a consequence of the COVID-19 pandemic and he would bring back further information to a future meeting.

### **Resolved:**

- a) That the External Auditor's report following the audit of the Statement of Accounts for the year ended 31 March 2021, including the summary of misstatements detailed in section 6 of the report, be noted;
- b) That the content of the Management Representation letter (Appendix A), Auditors report on the Council's Statement of Accounts (Appendix B) and the Consistency report to be included in the Pension Fund Annual report (Appendix C), be noted.

## **8 Pension Fund Accounts for the year ended 31 March 2021**

The Committee considered a report of the Corporate Director of Resources which presented the audited Pension Fund Accounts for the year ended 31 March 2021 which had been approved in accordance with the statutory deadlines and the Council's Constitution (for copy see file of minutes).

The Finance Manager was pleased to report that the accounts received a clean bill of health from the external auditors, Mazars who provided an unqualified opinion on the Pension Fund accounts for 2020/21 and that all the deadlines relating to this year's accounts and the Pension Fund Annual Report have been met.

### **Resolved:**

That the contents of the Pension Fund's financial statements for the financial year ended 31 March 2021 at Appendix 1 of the report be noted.

## **9 Review of Pension Fund Risks**

The Committee considered a report of the Corporate Director of Resources which updated Members on the revisions to the Local Government Pension Scheme (LGPS) Pension Fund Risk Register, following a review with the Principal Risk and Governance Officer in November 2021 (for copy see file of Minutes).

In response to a question from Andrew Broadbent relating to third lines of control, the Pensions Manager noted it may be possible to bring in third party assurance to provide additional assurance.

### **Resolved:**

That the report provides assurance that the Pension Fund risks are being effectively managed within the Council's risk management framework.

## **10 Border to Coast Pensions Partnership Responsible Investment Policy**

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

The Pensions Manager presented the report and highlighted that BCPP's Responsible Investment Policy and Corporate Governance and Voting Guidelines were originally developed in 2017 in conjunction with all eleven Partner Funds and were due to be reviewed annually. He noted that the Committee had previously approved the Policies and was asked to approve the updated Policies which BCPP had reviewed with their voting and engagement partner Robeco.

### **Resolved:**

That the Committee

- a) Provide any comments on the Policies and the key changes highlighted in Appendix 1;
- b) Notes and approves the Responsible Investment Policy and Corporate Governance and 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) Authorises the Corporate Director of Resources to amend the Fund's Investment Strategy Statement (ISS) in line with the principles of BCPP's Responsible Investment Policy.

## **11 Regulatory and Administration Update**

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

### **Resolved:**

That the information contained in the report be noted.

## **12 Employer Flexibility Policy**

The Committee considered a report of the Corporate Director of Resources which sought agreement on implementing a policy approach to new powers allowing Administering Authorities to exercise discretion in respect of Employer Flexibilities (for copy see file of Minutes).

The Pensions Manager explained LGPS Regulations required the Fund to maintain and publish a Funding Strategy Statement (FSS) and noted the FSS had been amended to reflect the approach recommended by the Actuary in respect of the Department for Levelling Up, Housing and Communities' partial response to its 'Changes to the Local Valuation Cycle and the Management of Employer Risk' consultation. He noted that, additionally, the Fund had 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.

In response to a question from Councillor J Atkinson as regards discussions with employers and where the decision would rest in respect of the Employer Flexibilities, the Pensions Manager noted it would be the same as the existing Exit Policy, notably with the Corporate Director following an application being submitted and consultation with the Fund's Actuary to ensure that the decision could be made in the best interests of the wider fund. He added the cost of the Actuary work would fall to the employer making the request.

**Resolved:**

- a) to note the report and to advise of any comments the Committee may have on the draft policy set out in the appendices to the report,
- b) to 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) to authorise the Corporate Director of Resources to make a determination in respect of the flexibilities implemented as the requirement to do occurs.

**13 Feedback from Local Pension Board**

The Pensions Manager noted that the last meeting of the Local Pension Board, 11 October 2021 had not been quorate.

N Hancock noted that the report from BCPP relating to Responsible Investment and Climate Change was welcomed as, since COP26 he had been inundated with queries from scheme members on where to find information on where funds were invested, for example in fossil fuels. The Pensions Manager noted the interest generated by COP26, perhaps increased as it was held in the UK. He added that BCPP were very positive in their leading role in producing their Responsible Investment Policy and that such issues were indeed high up on the agenda.

**Resolved:**

That the information given be noted.

**14 Exclusion of the Public**

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.

**15 Minutes**

The Minutes of the meeting held on 11 October 2021 were agreed as a correct record and were signed by the Chair.

## **16 Investment Strategy Review Update**

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

### **Resolved:**

That the recommendations in the report be approved.

## **17 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.

## **18 Report of the Independent Investment 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.

## **19 Border to Coast Pensions Partnership Quarterly Performance Report and Quarterly Environmental, Social and Governance Report**

The Committee considered the quarterly investment report of the Border to Coast Pensions Partnership (for copy see file of Minutes).

### **Resolved:**

That the information contained in the report be noted.

## **20 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.

## **21 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.

## **22 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.

## **23 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.

## **24 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 June 2021 (for copy see file of minutes).

### **Resolved:**

That the information contained in the report be noted.

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## Pension Fund Committee

14 March 2022

### Overall Value of Pension Fund Investments to 31 December 2021



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## 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 31 December 2021;
  - (b) movement in the cash balance during the last four quarters; and
  - (c) projected cash flow position up to 31 March 2023.

### Executive Summary

2. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. At 31 December 2021, the value of the Fund was £3.729 billion and the cash balance held in the Durham County Council Pension Fund bank account was £14.923 million. Fund managers also held cash of £57.507 million at that date.
3. Appendix 2 sets out the cash flow forecast up to the quarter ending 31 March 2023. The forecast includes the recovery of £50 million from Fund Managers during the first quarter. With effect from 1 April 2022, funds will be drawn from the Listed Alternatives portfolio to match the value of investments being made in private markets, and in the final quarter ending 31 March 2023, the forecast includes income due from the BCPP MAC fund.
4. If the cash transfers to/from fund managers were excluded from the forecast, the net cash outflows in each of the future quarters are between £6 million and £7 million.

### Recommendation

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

## **Background**

### **Value of the Pension Fund**

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

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

are included in Part B of today's agenda.

7. The value of the Fund at 31 December 2021 was £3.729 billion compared to £3.610 billion at 30 September 2021. This is an increase of £119 million (or 3.3%) in the third quarter of 2021/22.

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

8. 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.

9. 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.

10. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. As at 31 December 2021, the cash balance held in the Durham County Council Pension Fund bank account was £14.923 million. In addition to this, not included in this table, fund managers were holding cash of £57.507 million at 31 December 2021.

11. During the quarter ending 31 December 2021 further drawdowns totalling £29.768 million were made to BCPP to invest in private equity, infrastructure and private credit.

### **Cash Flow Forecast**

12. Appendix 2 shows the projected cash flow for the Pension Fund for the period 1 January 2022 to 31 March 2023. It should be noted that this is only in respect of cash held in the Pension Fund bank account and that income earned from investments is currently retained by managers.

13. In the quarter ending 31 March 2022, the forecast includes the recovery of £50 million from Fund Managers. In the following three quarters, it is anticipated that funds will be drawn from the Listed Alternatives portfolio to match the funds expected to be invested in private markets. In order to maintain the Fund's working cash position, the forecast for the quarter ending 31 March 2023 includes income due to be received from the BCPP MAC fund.
14. The following assumptions have been used in the cash flow forecast:
- (a) Annual investment income receivable is estimated to be £14 million and profiled to be received as follows:
- |       |                                 |     |
|-------|---------------------------------|-----|
| (i)   | Quarter ended 31 March 2022     | 25% |
| (ii)  | Quarter ended 30 June 2022      | 25% |
| (iii) | Quarter ended 30 September 2022 | 25% |
| (iv)  | Quarter ended 31 December 2022  | 25% |
- (b) Increases in contributions are included in line with the actuarial valuation.
- (c) Transfer values due in are estimated at £1.250 million per quarter. It is anticipated that transfers in will continue as the LGPS remains relatively attractive to employees.
- (d) Pensions increase applied is the estimated pension indexation rate of 3.1% for 2022/23 with effect from 4 April 2022.
- (e) Payroll paysheets (payments to pensioners) are forecast to increase by £0.20 million per quarter. This figure will alter if there are large numbers of retirements from the employing authorities. It is anticipated however that the actual figure will not be materially different to the forecast since the position of the County Council, being the largest employer in the Fund, has been taken into account.
- (f) Payable paysheets are forecast on the basis of the previous year's profile and adjusted for known one-off payments, although this can be the most volatile figure as it includes payments of lump sums and fees to managers. This assumption errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.

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

### **Fund Rebalancing**

16. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to 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.
17. Due to the current suspension of fund rebalancing, there was no rebalancing exercise this quarter.

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**Contact: Beverley White      Tel: 03000 261900**

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## Actual Cash Flow – For the period 1 January 2021 to 31 December 2022

Quarter Ended	31.03.21		30.06.21		30.09.21		31.12.21	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
<b>Cash Inflows</b>								
Contributions - DCC	16,500,000	16,373,095	16,500,000	16,179,251	16,400,000	16,368,529	16,400,000	16,062,865
Contributions - Other	11,600,000	13,840,399	11,600,000	12,519,409	12,500,000	12,927,581	12,500,000	13,008,928
Unfunded pensions recharges	1,050,000	997,505	1,050,000	1,282,189	1,050,000	963,123	1,050,000	989,384
Transfer Values	1,250,000	1,295,926	1,250,000	2,401,896	1,250,000	2,347,137	1,250,000	2,065,930
Other income	1,500,000	2,134,211	1,500,000	759,882	1,500,000	715,767	1,500,000	1,119,736
Funds recovered from Managers	20,000,000	20,000,000	0	0	20,000,000	20,000,000	0	20,000,000
Interest on short term investments	2,000	3,567	2,000	6,198	2,000	3,066	2,000	4,104
<b>Total Cash Inflow</b>	<b>51,902,000</b>	<b>54,644,703</b>	<b>31,902,000</b>	<b>33,148,825</b>	<b>52,702,000</b>	<b>53,325,203</b>	<b>32,702,000</b>	<b>53,250,947</b>
<b>Cash Outflows</b>								
Payroll Paysheets	28,000,000	27,749,126	28,450,000	27,884,214	28,000,000	28,160,229	28,200,000	28,679,140
Payables Paysheets (incl. Managers' fees)	11,000,000	9,155,996	11,000,000	13,108,703	10,000,000	10,321,204	10,000,000	10,561,452
Funds transferred to Managers	3,000,000	4,971,934	3,000,000	7,355,588	7,000,000	12,017,375	7,000,000	29,768,186
Other Expenditure	1,000	914	1,000	902	1,000	920	1,000	876
<b>Total Cash Outflows</b>	<b>42,001,000</b>	<b>41,877,970</b>	<b>42,451,000</b>	<b>48,349,407</b>	<b>45,001,000</b>	<b>50,499,728</b>	<b>45,201,000</b>	<b>69,009,654</b>
<b>Net Cash Inflow / (-) Outflow</b>	<b>9,901,000</b>	<b>12,766,733</b>	<b>-10,549,000</b>	<b>-15,200,583</b>	<b>7,701,000</b>	<b>2,825,475</b>	<b>-12,499,000</b>	<b>-15,758,707</b>
Balance at Bank (opening)		30,290,299		43,058,895		27,855,839		30,642,471
Balance at Bank (closing)		43,058,895		27,855,839		30,642,471		14,922,665

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**Projected Cash Flow for the period 1 January 2022 to 31 March 2023**

Quarter Ended	31.03.22	30.06.22	30.09.22	31.12.22	31.03.23
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
<b>Cash Inflows</b>					
Contributions - DCC	16,400,000	16,400,000	16,400,000	16,400,000	16,400,000
Contributions - Other	12,900,000	12,900,000	12,900,000	12,900,000	12,900,000
Unfunded pensions recharges	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000
Transfer Values	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Other income	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Funds recovered from Managers	50,000,000	16,000,000	32,000,000	24,000,000	35,000,000
Interest on short term investments	1,500	2,500	2,000	1,500	1,500
<b>Total Cash Inflow</b>	<b>83,101,500</b>	<b>49,102,500</b>	<b>65,102,000</b>	<b>57,101,500</b>	<b>68,101,500</b>
<b>Cash Outflows</b>					
Payroll Paysheets	28,400,000	29,500,000	29,700,000	29,900,000	30,100,000
Payables Paysheets (incl. Managers' fees)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Funds transferred to Managers	19,000,000	24,000,000	24,000,000	24,000,000	24,000,000
Other Expenditure	1,000	1,000	1,000	1,000	1,000
<b>Total Cash Outflows</b>	<b>57,401,000</b>	<b>63,501,000</b>	<b>63,701,000</b>	<b>63,901,000</b>	<b>64,101,000</b>
<b>Net Cash Inflow / (-) Outflow</b>	<b>25,700,500</b>	<b>-14,398,500</b>	<b>1,401,000</b>	<b>-6,799,500</b>	<b>4,000,500</b>
Balance at Bank (opening)	14,922,665	40,623,165	26,224,665	27,625,665	20,826,165
Balance at Bank (closing)	40,623,165	26,224,665	27,625,665	20,826,165	24,826,665
Investment Income Received by Managers	3,500,000	3,500,000	3,500,000	3,500,000	13,750,000

**Pension Fund Committee**

**14 March 2022**



**Performance Measurement of Pension Fund Investments to 31 December 2021**

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**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 31 December 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 31 December 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 31 December 2021, plus the last 1, 3, 5 and 10 years and since inception.

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**Contact:**

Beverley White

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# Durham CC Pension Fund

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## Investment Risk & Analytical Services

December 31, 2021

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SECTION 1

# Durham CC Pension Fund

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Investment Risk & Analytical Services

December 31, 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
<b>Durham CC Pension Fund</b>	<b>3,728,918,574</b>	<b>100.00</b>	<b>0.77</b>	<b>3.07</b>	<b>10.19</b>	<b>11.20</b>	<b>8.23</b>	<b>8.37</b>	<b>7.51</b>	<b>29/02/2008</b>
<i>Durc Total Plan Benchmark</i>			<i>-0.23</i>	<i>4.09</i>	<i>11.32</i>	<i>11.76</i>	<i>9.16</i>	<i>9.49</i>	<i>8.93</i>	<i>29/02/2008</i>
<i>Excess Return</i>			<i>1.00</i>	<i>-1.02</i>	<i>-1.13</i>	<i>-0.55</i>	<i>-0.93</i>	<i>-1.13</i>	<i>-1.41</i>	<i>29/02/2008</i>
<b>Alliance Bernstein</b>	<b>180,555,833</b>	<b>4.84</b>	<b>0.34</b>	<b>-0.55</b>	<b>-0.55</b>	<b>2.45</b>	<b>1.89</b>	<b>2.93</b>	<b>3.24</b>	<b>29/02/2008</b>
<b>Alliance Bernstein</b>	<b>180,555,833</b>	<b>4.84</b>	<b>0.34</b>	<b>-0.55</b>	<b>-0.55</b>	<b>2.45</b>	<b>1.89</b>	<b>2.93</b>	<b>3.24</b>	<b>29/02/2008</b>
<i>3 Month Libor in GBP +3% pa</i>			<i>0.23</i>	<i>0.75</i>	<i>3.08</i>	<i>3.50</i>	<i>3.51</i>	<i>3.56</i>	<i>3.94</i>	<i>29/02/2008</i>
<i>Excess Return</i>			<i>0.12</i>	<i>-1.30</i>	<i>-3.63</i>	<i>-1.06</i>	<i>-1.61</i>	<i>-0.62</i>	<i>-0.70</i>	<i>29/02/2008</i>
<b>BlackRock DAA</b>	<b>256,164,786</b>	<b>6.87</b>	<b>1.04</b>	<b>1.36</b>	<b>5.26</b>	<b>8.74</b>	<b>6.37</b>	<b>-</b>	<b>4.60</b>	<b>31/12/2014</b>
<b>Blackrock DAA</b>	<b>256,164,786</b>	<b>6.87</b>	<b>1.04</b>	<b>1.36</b>	<b>5.26</b>	<b>8.74</b>	<b>6.37</b>	<b>-</b>	<b>4.60</b>	<b>31/12/2014</b>
<i>3 Month Libor in GBP +3%</i>			<i>0.23</i>	<i>0.75</i>	<i>3.08</i>	<i>3.50</i>	<i>3.51</i>	<i>-</i>	<i>3.68</i>	<i>31/12/2014</i>
<i>Excess Return</i>			<i>0.82</i>	<i>0.61</i>	<i>2.18</i>	<i>5.24</i>	<i>2.86</i>	<i>-</i>	<i>0.92</i>	<i>31/12/2014</i>
<b>CBRE 1</b>	<b>221,633,293</b>	<b>5.94</b>	<b>2.37</b>	<b>3.76</b>	<b>13.01</b>	<b>7.22</b>	<b>6.68</b>	<b>8.09</b>	<b>4.76</b>	<b>29/02/2008</b>
<b>CBRE 1</b>	<b>221,633,293</b>	<b>5.94</b>	<b>2.37</b>	<b>3.76</b>	<b>13.01</b>	<b>7.22</b>	<b>6.68</b>	<b>8.09</b>	<b>4.76</b>	<b>29/02/2008</b>
<i>RPI +5%</i>			<i>1.42</i>	<i>4.02</i>	<i>12.55</i>	<i>8.65</i>	<i>8.61</i>	<i>7.96</i>	<i>8.10</i>	<i>29/02/2008</i>
<i>Excess Return</i>			<i>0.95</i>	<i>-0.26</i>	<i>0.46</i>	<i>-1.43</i>	<i>-1.93</i>	<i>0.13</i>	<i>-3.34</i>	<i>29/02/2008</i>
<b>CBRE 2</b>	<b>54,978,129</b>	<b>1.47</b>	<b>4.38</b>	<b>13.26</b>	<b>37.33</b>	<b>15.16</b>	<b>8.91</b>	<b>10.70</b>	<b>7.50</b>	<b>29/02/2008</b>
<b>CBRE 2</b>	<b>54,978,129</b>	<b>1.47</b>	<b>4.38</b>	<b>13.26</b>	<b>37.33</b>	<b>15.16</b>	<b>8.91</b>	<b>10.70</b>	<b>7.50</b>	<b>29/02/2008</b>
<i>RPI +5%</i>			<i>1.42</i>	<i>4.02</i>	<i>12.55</i>	<i>8.65</i>	<i>8.61</i>	<i>7.96</i>	<i>8.10</i>	<i>29/02/2008</i>
<i>Excess Return</i>			<i>2.96</i>	<i>9.24</i>	<i>24.78</i>	<i>6.51</i>	<i>0.29</i>	<i>2.74</i>	<i>-0.60</i>	<i>29/02/2008</i>
<b>Mondrian</b>	<b>247,278,100</b>	<b>6.63</b>	<b>0.79</b>	<b>-0.41</b>	<b>-1.52</b>	<b>7.14</b>	<b>6.50</b>	<b>-</b>	<b>5.43</b>	<b>31/10/2014</b>
<b>Mondrian</b>	<b>247,278,100</b>	<b>6.63</b>	<b>0.79</b>	<b>-0.41</b>	<b>-1.52</b>	<b>7.14</b>	<b>6.50</b>	<b>-</b>	<b>5.43</b>	<b>31/10/2014</b>
<i>MSCI Emerging Markets GD +2.5%</i>			<i>-0.22</i>	<i>-1.04</i>	<i>1.18</i>	<i>11.66</i>	<i>10.88</i>	<i>-</i>	<i>10.61</i>	<i>31/10/2014</i>
<i>Excess Return</i>			<i>1.01</i>	<i>0.62</i>	<i>-2.70</i>	<i>-4.52</i>	<i>-4.37</i>	<i>-</i>	<i>-5.18</i>	<i>31/10/2014</i>
<b>BCPP</b>	<b>2,692,550,392</b>	<b>72.21</b>	<b>0.51</b>	<b>3.90</b>	<b>14.59</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12.57</b>	<b>30/09/2019</b>
<b>BCPP Global Equity Alpha Fund</b>	<b>1,627,900,824</b>	<b>43.66</b>	<b>3.10</b>	<b>4.03</b>	<b>19.31</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15.80</b>	<b>24/10/2019</b>
<i>MSCI ACWI ND + 2% pa</i>			<i>1.70</i>	<i>6.56</i>	<i>21.63</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>18.60</i>	<i>24/10/2019</i>
<i>Excess Return</i>			<i>1.40</i>	<i>-2.53</i>	<i>-2.32</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-2.79</i>	<i>24/10/2019</i>
<b>BCPP Multi Asset Credit Fund</b>	<b>542,651,393</b>	<b>14.55</b>	<b>1.04</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-0.07</b>	<b>14/10/2021</b>
<i>SONIA + 3% Huddle Rate</i>			<i>0.26</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>0.64</i>	<i>14/10/2021</i>
<i>Excess Return</i>			<i>0.79</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-0.71</i>	<i>14/10/2021</i>
<b>BCPP Sterling Index Linked Bd</b>	<b>521,998,175</b>	<b>14.00</b>	<b>-7.24</b>	<b>6.18</b>	<b>4.34</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7.45</b>	<b>08/10/2020</b>
<i>FTSE Index Linked 15+Yrs+0.02%</i>			<i>-7.25</i>	<i>6.21</i>	<i>4.04</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>7.08</i>	<i>08/10/2020</i>
<i>Excess Return</i>			<i>0.01</i>	<i>-0.03</i>	<i>0.29</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>0.36</i>	<i>08/10/2020</i>
<b>BCPP Private Market</b>	<b>75,758,040</b>	<b>2.03</b>	<b>3.24</b>	<b>3.14</b>	<b>4.85</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4.46</b>	<b>30/11/2020</b>

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return							Inception to Date	Inception Date
			One Month	Three Months	One Year	Three Years	Five Years	Ten Years			
<b>BCPP Private Markets</b>	<b>75,758,040</b>	<b>2.03</b>	<b>3.24</b>	<b>3.14</b>	<b>4.85</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4.46</b>	<b>30/11/2020</b>	

## Market Value Summary - One Month

Account/Group	30/11/2021 Market Value	Net Contribution*	Income	Fees	Appreciation	31/12/2021 Market Value
<b>Durham CC Pension Fund</b>	<b>3,702,396,386</b>	<b>-1,938,367</b>	<b>3,796,401</b>	<b>0</b>	<b>24,664,154</b>	<b>3,728,918,574</b>
<b>Alliance Bernstein</b>	<b>179,939,077</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>616,756</b>	<b>180,555,833</b>
Alliance Bernstein	179,939,077	0	0	0	616,756	180,555,833
<b>BlackRock DAA</b>	<b>273,453,844</b>	<b>-20,000,000</b>	<b>87,519</b>	<b>0</b>	<b>2,623,423</b>	<b>256,164,786</b>
Blackrock DAA	273,453,844	-20,000,000	87,519	0	2,623,423	256,164,786
<b>CBRE 1</b>	<b>216,501,402</b>	<b>-0</b>	<b>2,916,569</b>	<b>0</b>	<b>2,215,323</b>	<b>221,633,293</b>
CBRE 1	216,501,402	-0	2,916,569	0	2,215,323	221,633,293
<b>CBRE 2</b>	<b>52,672,938</b>	<b>0</b>	<b>168,848</b>	<b>0</b>	<b>2,136,342</b>	<b>54,978,129</b>
CBRE 2	52,672,938	0	168,848	0	2,136,342	54,978,129
<b>Mondrian</b>	<b>245,338,122</b>	<b>0</b>	<b>619,093</b>	<b>0</b>	<b>1,320,884</b>	<b>247,278,100</b>
Mondrian	245,338,122	0	619,093	0	1,320,884	247,278,100
<b>BCPP</b>	<b>2,678,823,159</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>13,727,233</b>	<b>2,692,550,392</b>
BCPP Global Equity Alpha Fund	1,579,001,763	0	0	0	48,899,061	1,627,900,824
BCPP Multi Asset Credit Fund	537,059,288	0	0	0	5,592,105	542,651,393
BCPP Sterling Index Linked Bd	562,762,108	0	0	0	-40,763,933	521,998,175
<b>BCPP Private Market</b>	<b>55,667,843</b>	<b>18,061,633</b>	<b>4,372</b>	<b>0</b>	<b>2,024,193</b>	<b>75,758,040</b>
BCPP Private Markets	55,667,843	18,061,633	4,372	0	2,024,193	75,758,040

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

SECTION 2

# Appendix

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## Investment Risk & Analytical Services

December 31, 2021

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**Pension Fund Committee**

**14 March 2022**



**Provision of Treasury Management Services to the Pension Fund for 2022/23**

---

**Report of Paul Darby, Corporate Director of Resources**

**Purpose of Report**

1. To update the Committee of the Treasury Management services provided to the Pension Fund and to review the charges for the services and the calculation of interest on short term investments administered by Durham County Council (the Council) for 2022/23.

**Executive Summary**

2. As a result of changes to the Local Government Pension Scheme (Management and Investment of Funds) Regulations, in June 2010 the Pension Fund Committee agreed to invest the cash balances of the Pension Fund in line with the Council's Treasury Management Strategy and Annual Investment Strategy.
3. Since then the Council's Treasury Management team has continued to invest the balances of the Pension Fund on its behalf using approved counterparties in line with the Council's Treasury Management Strategy. This agreement is reviewed annually.

**Recommendations**

5. It is recommended that with effect from 1 April 2022:
  - (a) the Pension Fund continues to invest its cash balances with the Council in line with the Council's Treasury Management Strategy;
  - (b) interest be paid quarterly to the Pension Fund at a rate based on the daily cash balance and the 3 month rate of return earned by the Council on its own short term investments;
  - (c) an administration fee of £2,855 per quarter be paid to the Council for Treasury Management services; and

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

## **Background**

- 6. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the 2009 Regulations) introduced changes which ended the use of Pension Fund money by the administering authority. (The 2009 Regulations have since been superseded by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, however the same principle applies).
- 7. As a result of these regulations, a report was presented to the Pension Fund Committee in June 2010. At this meeting, the Committee gave its agreement to the Council continuing to invest the cash balances of the Pension Fund in line with the Council's Treasury Management Strategy and Annual Investment Strategy. This agreement is reviewed annually and the Council continues to invest the balances of the Pension Fund on its behalf.
- 8. The Council's Treasury Management Strategy (approved by Council annually each February) sets out the maximum amounts and time limits in respect of deposits which can be placed with each financial institution.
- 9. The Pension Fund's cash balances are invested along with the Council's cash balances at the most advantageous rate that can be achieved using approved counterparties.

## **Administration of the Treasury Management Function**

- 10. The Treasury Management team administer the cash balances of the Pension Fund in line with the Council's procedures.
- 11. The prime objective of the Council's investment strategy is to ensure prudent investment of surplus funds. The Council's investment priorities are therefore the security of capital, liquidity of investments and, within those objectives, to secure optimum performance.
- 12. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.
- 13. After this main principle, the Council will ensure that it:

- (a) maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
  - (b) has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
  - (c) maintains a counterparty list in compliance with the CIPFA Treasury Management Code of Practice and credit rating information supplied by the Council's Treasury Management advisers and will revise the criteria and submit them to the Council for approval as necessary.
14. The treasury management team reviews and monitors the Council's Treasury Management Strategy on behalf of the Council and implements it on behalf of the Pension Fund. The team also updates counterparties in line with information supplied by the Council's Treasury Management Advisers.
  15. The Council's treasury management team monitors the cash, the bank account balances and the cash codes for the Council and the Pension Fund and actions the necessary transfers and coding adjustments. The Pension Fund balance is corrected for any incorrect banking of funds prior to calculation of the interest on the cash balance.
  16. The treasury management team maintains full and accurate records in the performance of this service and makes them available for inspection by the Pension Fund Accounting Team, Internal and External Auditors.
  17. It is recommended that the charge for this service is increased from £2,770 to the flat fee of £2,855 per quarter.

### **Calculation of Interest on Cash Balances**

18. With effect from 1st April 2018 the interest paid to the Pension Fund in respect of its cash balances has been based upon the average three month rate of return earned by the Council on its own short term investments. It is recommended that interest will continue to be paid to the Pension Fund using the average three month rate of return in 2022/23.
19. The choice of rate would however be subject to review by the Treasury Management team, to ensure an appropriate rate is applied.

## **Investments**

20. It was also agreed by the Committee, that the Pension Fund's cash balances would be invested as part of the Council's overall investments.
21. As a result of this however, in the event of an investment being lost, for example due to the failure of a financial institution in which the cash is invested, the Council would be liable for the loss. This is due to the investment being in the name of the Council although the investment would include Pension Fund balances.
22. It was therefore agreed that the Pension Fund Committee share the risk of any investment in proportion to the value of cash balances at the time of investment. Any losses incurred as a result of impairment would then be split proportionately between the Council and the Pension Fund.
23. It is recommended that this arrangement continues.

## **Background Papers**

- (a) Pension Fund Committee - 21 June 2010 - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- (b) Pension Fund Committee – 11 March 2021 - Provision of Treasury Management Services to the Pension Fund for 2021/22
- (c) DCC's Treasury Management Strategy 2022/23 approved 23 February 2022.
- (d) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

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**Contact: Beverley White                      Tel: 03000 261900**

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**Pension Fund Committee**

**14 March 2022**

**Short Term Investments for the period  
ended 31 December 2021**



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**Report of Paul Darby, Corporate Director of Resources**

**Purpose of the Report**

1. To provide the Committee with information on the performance of the Pension Fund's short-term investments as at 31 December 2021.

**Recommendation**

2. Members are asked to note the position at 31 December 2021 regarding the Pension Fund's short-term investments where the Pension Fund's surplus cash holding was £14.923 million and £1,322 net interest was earned in the three month period.

## Short Term Investments

3. Durham County Council (the Council) invests the short-term cash balances on behalf of the Pension Fund; this is done in line with the Council's Treasury Management Policy and Annual Investment Strategy. This investment strategy sets out the maximum amounts and time limits in respect of deposits that can be placed with each financial institution.
4. The Pension Fund's surplus cash holding as at 31 December 2021 was £14.923 million, which was held in the institutions listed in the following table, alongside their credit rating at 31 December 2021.

Financial Institution	Short-term Rating	Amount Invested £m
Bank Deposit Accounts		
Bank of Scotland	F1	0.406
Handelsbanken	F1+	0.033
Fixed Term Deposits		
Santander (Fixed)	F1	1.421
Close Brothers	F2	1.015
Standard Chartered	F1	1.421
Goldman Sachs Int	F1	1.421
Sumitomo Mitsui BC Europe	F1	0.406
Helaba	F1+	1.826
National Bank of Canada		
London	F1	0.812
UK Local Authorities	N/A	2.233
Building Societies		
Nationwide Building Society	F1	0.812
Leeds Building Society	F1	0.812
Yorkshire Building Society	F1	0.609
Money Market Funds	N/A	1.696
<b>Total</b>		<b>14.923</b>

5. The following table provides information on the net interest earned during the three month period to 31 December 2021, the average daily investment balance and the average return earned in comparison to the average bank base rate. The interest paid to the Pension Fund is based upon the average three month rate of return earned by the Council and is net of the fees of

£2,770 paid for the Council undertaking the Treasury Management function for the Pension Fund.

	<b>Total</b>
Net Interest Earned	£1,322
Average Return Earned	0.07%
Average Bank of England base rate	0.25%
Average Daily Balance of Investments	£24.424m





**Pension Fund Committee**

**14 March 2022**



**Internal Audit Plan 2021/22 - Progress  
Report to 31 December 2021**

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**Report of Tracy Henderson, 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 31 December 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 31 December 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 31 December 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
<b>Audits brought forward from 2020/21</b>			
Additional Voluntary Contributions	Assurance	Final Report	Substantial
Admission Bodies / Funding Risks	Assurance	Terms of Reference Issued	
<b>2021/22 audits</b>			
Pension System ICT Controls	Assurance	Not yet started	
Investments	Assurance	Terms of Reference Issued	
Transfers In/Out	Assurance	Draft Report	
Debt Recovery	Assurance	Not yet started	
Compliance with Breach Policy	Assurance	Defer to 2022/23	
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 has been issued, one draft report has been issued and one review is to be deferred to 2022/23. All other assurance reviews are scheduled to start in the final quarter of the year.

### **Background papers**

- Specific Internal Audit reports issued and working papers.

### **Other useful documents**

- None

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**Contact:** Paul Monaghan

**Tel:** 03000 269662

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## **Appendix 1: Implications**

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### **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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**Pension Fund Committee**

14 March 2022

Draft Audit Plan 2022/23



## Report of Tracy Henderson, Chief Internal Auditor and Corporate Fraud Manager

### Electoral division(s) affected:

Countywide.

### Purpose of the Report

- 1 To present the proposed Annual Audit Plan for 2022/23 for approval.

### Executive Summary

- 2 The Audit Plan for 2022/23 has been developed following discussions between officers from Internal Audit and officers who have responsibility for the Pension Fund, using the strategic audit plan as the basis of the discussion. The proposed plan is shown in the table below.

Audit Title	Audit Type
<b><u>Deferred from 2021/22</u></b>	
Compliance with Breach Policy	Assurance
<b><u>Scheduled for 2022/23</u></b>	
Pensions Payroll	Assurance
Benefit Calculations	Assurance
Bank Reconciliation	Assurance
National Fraud Initiative – Identification of potential error/fraud	Counter Fraud
Management time and ad hoc advice	Advice and Consultancy

### Recommendation

- 3 Members are asked to approve the proposed audit plan for 2022/23.

## Background

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

## 2022/23 Audit Plan

- 6 The Audit Plan for 2022/23 has been developed following discussions between officers from Internal Audit and officers who have responsibility for the Pension Fund, using the strategic audit plan as the basis of the discussion. The proposed plan is shown in the table below.

<b>Audit Title</b>	<b>Audit Type</b>
<b><u>Deferred from 2021/22</u></b>	
Compliance with Breach Policy	Assurance
<b><u>Scheduled for 2022/23</u></b>	
Pensions Payroll	Assurance
Benefit Calculations	Assurance
Bank Reconciliation	Assurance
National Fraud Initiative – Identification of potential error/fraud	Counter Fraud
Management time and ad hoc advice	Advice and Consultancy

## Background papers

- Strategic Internal Audit Plan

## Other useful documents

- None

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**Contact:** Paul Monaghan

**Tel:** 03000 269662

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## **Appendix 1: Implications**

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### **Legal Implications**

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

### **Finance**

The audit fee for the 2022/23 internal audit plan, to be delivered by the DCC Internal Audit Service, which is chargeable direct to the Pension Fund, remains the same as 2021/22 at £19,500.

### **Consultation**

Corporate Director Resources and Pension Fund Managers.

### **Equality and Diversity / Public Sector Equality Duty**

None.

### **Climate Change**

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

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

None.

### **Accommodation**

None.

### **Risk**

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

### **Procurement**

None.

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**Pension Fund Committee**

**14 March 2022**

**Agreement of Accounting Policies for  
Application in the 2021/22 Financial  
Statements of the Pension Fund**



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**Report of Paul Darby, Corporate Director of Resources**

**Purpose of the Report**

1. To update the Pension Fund Committee on the accounting policies to be applied in the preparation of the 2021/22 financial statements of the Pension Fund and to seek confirmation from the Committee that appropriate policies are being applied.

**Executive summary**

2. All accounting policies which were applied in the preparation of the 2020/21 Statement of Accounts remain appropriate for the preparation of 2021/22 Statement of Accounts.
3. The full list of accounting policies proposed for disclosure in the Pension Fund's Financial Statements for 2021/22 is detailed in Appendix 1.

**Recommendations**

4. The Committee is recommended to:
  - (a) review the accounting policies;
  - (b) approve their use in the preparation of the 2021/22 financial statements for the Pension Fund; and
  - (c) authorise the Corporate Director of Resources to revise the accounting policies as necessary and report any significant changes to the Committee.

## Background

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

## Accounting Policies

6. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices. The 'Code of Practice on Local Authority Accounting 2021/22' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) incorporates these requirements and therefore must be followed in completing the Accounts.
7. Accounting policies are defined in the Code as *"the specific principles bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements"*.
8. Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applies to omissions and misstatements:  
  
*Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.*
9. The accounting policies applicable to the Pension Fund, in the main, relate to the valuation of assets held and the recognition of the contributions and benefits.
10. The proposed accounting policies are in line with those used in the preparation of the 2020/21 accounts and there have been no changes to the Code necessitating a change for 2021/22.
11. The full list of accounting policies for the Pension Fund that it is proposed to disclose in the Statement of Accounts notes is detailed in Appendix 1.

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**Contact: Beverley White Tel: 03000 261900**

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## **Appendix 1: Accounting Policies for 2021/22**

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### **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 lifetime allowance in exchange for a reduction in pension. Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

### ***Net Assets Statement***

#### **Valuation of Investments**

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

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

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

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

- quoted equity securities 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.

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**Pension Fund Committee**

**14 March 2022**

**Regulatory and Administration Update**



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**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. The Fund is currently finalising its 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.

### **Levelling Up White Paper – LGPS Local Investment Plans**

- 14 In February 2022 the government published its Levelling Up whitepaper which includes references to LGPS funds having plans for

up to 5% of assets to be allocated to projects which support local areas. The whitepaper indicates government intention to “work with Local Government Pension Funds to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas”.

- 15 The Fund does not presently have a specific strategic allocation to local investment, but is currently considering an impact investment in the North East which would support SME finance in the region. Additionally, as part of their strategic plan BCPP propose to launch an impact investment fund during 2023.
- 16 The LGPS Scheme Advisory Board have indicated that in the context of ‘local’ the whitepaper refers to UK rather than local to a particular LGPS fund. The Board have also advised that their understanding is that there will be no mandatory requirement beyond the requirement to have a plan. Further details will emerge over the period up to an expected summer consultation which is expected to also include the outstanding climate risk and reporting regulations and the pooling guidance.

## **LGPS Scheme Advisory Board (SAB)**

### **SAB Review – Academies**

- 17 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.
- 18 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**

- 19 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.
- 20 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.
- 21 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**

- 22 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)
- 23 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**

- 24 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.
- 25 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>.
- 26 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**

- 27 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.
- 28 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.
- 29 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.



- 30 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.
- 31 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.
- 32 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.
- 33 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.
- 34 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**

- 35 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.

- 36 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. It is expected that the Bill will gain royal assent in March.
- 37 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.
- 38 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**

- 39 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.
- 40 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.
- 41 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 (known 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 or loss of office.
- 42 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.
- 43 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.
- 44 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**

- 45 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.

- 46 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.
- 47 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/>.
- 48 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.
- 49 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.
- 50 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 (now expected in the summer), and the availability of data through BCPP.

## **UK Stewardship Code 2020**

- 51 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.

- 52 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 comprises a set of 12 Principles which require reporting and disclosure on an 'apply and explain' basis.
- 53 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.
- 54 Together with peers at BCPP Partner Funds, Officers are working to consider the new Code and how to ensure compliance. A more detailed report will be provided to the Committee in due course.

### **Consultation on Minimum Pension Age**

- 55 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 than the State Pension Age. The minimum age a scheme member can currently retire voluntarily in the LGPS is 55.

### **TPR Code of Practice**

- 56 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 the summer. Compliance with the existing Code will continue to be reported to the Local Pension Board.

## **Boycotts, Divestment and Sanctions**

- 57 The government's legislative programme was laid out in May 2021. The programme included a Boycotts, Divestment and Sanctions (BDS) Bill the purpose of which was to be to stop public bodies from taking a different approach to UK Government sanctions and foreign relations covering purchasing, procurement, and investment decisions.
- 58 In advance of the BDS Bill an amendment to the Public Services Pensions Bill passed, which proposed conferring powers to the Secretary of State to make guidance in respect of BDS. The clause would enable the Secretary of State to issue guidance to LGPS administering authorities that they may not make investment decisions that conflict with the UK's foreign and defence policy.
- 59 The Public Services Pensions Bill is expected to gain royal assent in March, at which time the amendment may be subject to further debate. Members will be kept up to date, as the matter progresses.

### **Author(s)**

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**Pension Fund Committee**

**14 March 2022**

**Pension Fund Committee Training**



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**Report of Paul Darby, Corporate Director of Resources**

**Purpose of the Report**

- 1 To provide an overview of the issues considered by the Committee at training held during 2021-22.

**Executive summary**

- 2 During the 2021-22 financial year the Committee have engaged in a range of training activities to support their overall knowledge and understanding of the Local Government Pension Scheme (LGPS). Additional training has been provided to support any investment decision made by the Committee.

**Recommendation(s)**

- 3 Members are asked to note this report, and authorise a summary of the Committee's training activity to be published in the Fund's Governance Compliance Statement and Annual Report.

## Background

### June

- 4 As part of the council's Members' Induction Programme, induction training for the Pension Fund Committee was held on 2<sup>nd</sup> and 17<sup>th</sup> June 2021, via 'Teams'. The sessions covered an overview of the Public Service Pension Schemes, Legal Framework and Committee's Terms of Reference, LGPS Benefits and Administration, and Investments. The Investment training was supported by the Fund's consultants, and provided an overview of:
  - The Fund's Primary Objective,
  - Key Considerations When Setting Investment Objectives,
  - Understanding the Asset Allocation,
  - Underlying Asset Classes.
- 5 Supplementary sessions were provided on 16<sup>th</sup> July for those Members unable to attend.

### September

- 6 In September 2021, the Fund's asset pool Border to Coast Pension Partnership held their Annual Conference over two days in conference facilities at Leeds Marriott. The Conference, 'Investing for a Sustainable Recovery', was supported by the pool's external partners and, as well as round table discussions, featured presentations from BCPP, their external asset managers, and the LGA, covering:
  - Pooling in Perspective,
  - Investment Trends,
  - Responsible Investment,
  - Opportunities in Private Markets,
  - Multi-Asset Credit,
  - Investing in China,
  - The Road to Net Zero,
  - Looking Ahead.



- 7 Prior to the Conference, training for new members of the Committee was facilitated by BCPP. The session gave an insight on effective investment strategy, and how asset classes work.
- 8 On 24<sup>th</sup> September the Fund held a training session focused on a particular asset class: Real Estate. Training was provided in how Real Estate fits within the Fund's current and future strategy, supported by a presentation and question and answer session with the Fund's Investment Consultants. Members also received a presentation from BCPP's Property Team and had the opportunity to discuss BCPP's Real Estate programme with the Team.

## **October**

- 9 In October the Fund held training focused on its Private Markets Considerations. Held remotely via Teams on 8<sup>th</sup> October 2021, the Fund's Investment Consultants provided a presentation covering:
  - Private Markets within the Fund's Strategic Asset Allocation,
  - Durham's Private Market's Portfolio,
  - Liquid Alternatives
  - Impact Investing
- 10 BCPP also attended the session, with the Pool's Portfolio Manager providing a detailed overview of BCPP's planned Listed Alternatives strategy. BCPP facilitated a question-and-answer session with members regarding Listed Alternatives.

## **November**

- 11 On 10<sup>th</sup> November the Fund held its Annual Meeting, attended by Fund Employers and members of the Committee. Officers of the Fund presented the Fund's Annual Report for 2020-21 and provided an annual LGPS update. BCPP provided an update on the pool's strategic progress, whilst the Fund's Investment Consultants provided a review of 2020-21 Investment Markets and Investment Management Arrangements. Finally, the Fund's actuary updated members and employers on the funding position since the last Valuation.

## **December**

- 12 Ahead of investment decisions regarding the Fund's Private Markets strategy, the Fund held a training session on 2<sup>nd</sup> of December 2021 to support members in relation to those decisions. BCPP provided a recap of their Listed Alternatives strategy and discussed that strategy with members. Additionally, members considered a presentation from Foresight who detailed their proposed Regional Investment strategy. Foresight facilitated a discussion with members on the detail of this strategy.
- 13 Supplementing the Private Markets focus, additional training was provided on Responsible Investment (RI) supported by BCPP's Head of RI.

## **February**

- 14 On 10<sup>th</sup> February the Fund held training to recap the existing strategy in respect of BCPP's Private Markets programme and to consider the pool's Climate Opportunities fund. Members were supported by the Fund's Investment Consultants and Officers, receiving a presentation from BCPP on their Private Markets Series 2. BCPP engaged in a Q&A session with members in respect of Series 2, and the new Climate Opportunities Fund.

## **Next Steps**

- 15 It is proposed that at the next meeting of the Committee a review of the Terms of Reference is undertaken and corresponding training needs analysis is commenced; with a view to establishing a training plan to support the needs of the Committee. A summary of the Committee's training activity will be included as an appendix to the Fund's Governance Compliance Statement, which is included in the Annual Report and Accounts. A copy of the existing Terms of Reference and Governance Compliance Statement are included in appendix 1 and 2 respectively.

## **Author(s)**

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## **Pension Fund Committee – Terms of Reference**

### **1. Objectives**

1.1. The Pension Fund Committee's objective is to ensure effective stewardship of the Fund's affairs. The Pension Fund is governed by Local Government Pension Scheme Regulations and the Committee will ensure that the Pension Fund is run in accordance with the Regulations.

### **2. Authority**

2.1 The Local Government Pension Scheme is a statutory scheme governed by Regulations. Durham County Council, acting as Administering Authority for the Pension Fund has determined to delegate all functions relating to the maintenance of the Pension Fund to the Pension Fund Committee for its governance, and for prudent and effective stewardship.

2.2 Members act as committee members and not as Trustees. There is no Trust Deed or Agreement as with Private Pension funds. Nonetheless, Members have fiduciary duties to participating employers and scheme members and take decisions with advice from Corporate Director Resources, officers and professional advisors, in accordance with the committee rules and voting procedures.

2.3 Under the terms of the County Council's Constitution, the Pension Fund Committee has been delegated the following terms of reference:

2.3.1. Powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder including:

approval of applications from bodies seeking admission to the Local Government Pension Scheme;

appointment of external investment managers and advisers.

### **3. Composition**

3.1. The Myners' first principle states that decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively. In order to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take. The Fund holds training sessions in advance

of decisions being taken, in particular when the investment strategy is considered, presentations on topical issues, related to possible choices of future investment. Further training in time for actuarial valuations is also undertaken.

3.2. The structure of the Pension Fund Committee is as follows:

<b>Body/ category of bodies represented</b>	<b>Number of Committee Members</b>
Durham County Council	11
Darlington Borough Council	2
Colleges	1
Other Statutory Bodies	1
Admitted Bodies	1
Member representatives	2
<b>Total</b>	<b>18</b>
<i>plus non-voting union observers</i>	2

3.3. The allocation of members to the Committee broadly reflects the number of active members, pensioners and deferred pensioners each of the larger employers has within the Fund. It has appropriate representation for the large employers within the Fund whilst maintaining a manageable governance framework for the size of the committee. The two trade union representatives are invited as observers.

3.4. The representatives from Durham County and Darlington Borough Councils are appointed by decisions of the respective councils. Representatives of the colleges, other statutory bodies, and admitted bodies are selected by the Committee from nominations made by the employers and are appointed for 4 years. The two scheme member representatives are selected by the Committee from applications received from the membership following advertisement in the newsletter: one from active scheme members and one from pensioner members.

3.5. All members of the Committee, union observers and independent advisers are given full access to papers and are allowed to participate in meetings.

3.6. All members appointed to the Committee have voting rights. Union observers and advisers do not have voting rights as they do not act as formal members of the Committee.

3.7. The Pension Fund Committee meets four times a year and occasionally holds special meetings when required.

3.8. The quorum for each regular meeting of the Committee is 5.

3.9. Minutes of the Committee are reported under the existing County Council Committee framework.

3.10. Detailed performance reports will remain confidential items on Committee agenda as will any other item deemed as such by the Chairman although the Committee will aim to operate as transparently as feasible.

#### 4. Terms of Reference

Number	Term of Reference	Frequency of Reporting
	The Pension Fund Committee's objective is to ensure effective stewardship of the Fund's affairs. The Pension Fund is governed by Local Government Pension Scheme Regulations and the Committee will ensure that the Pension Fund is run in accordance with the Regulations.	
1	To prepare, monitor and undertake an annual review of policy documents including the:  Funding Strategy Statement Statement of Investment Principles Governance Policy Communications Policy Administration Strategy (discretionary)	Annually
2	To review policy on social, environmental and ethical matters and on the exercise of rights, including voting rights.	Annually
3	To appoint and terminate, within the procurement and contract rules,:  investment managers custodian actuary independent external advisers Additional Voluntary Contribution (AVC) providers, and other contracts related to the management of the Pension Fund	In line with contractual requirements and as and when required
4	To consider the appropriateness of the committee structure to deliver the outcomes required by the Terms of Reference, e.g the establishment of an investment sub-committee.	Annually

<b>Number</b>	<b>Term of Reference</b>	<b>Frequency of Reporting</b>
5	To be responsible for governance arrangements including regulatory compliance and implementation of audit recommendations	Quarterly
6	To approve the annual internal audit plan and monitor progress on it's delivery.	Annually and quarterly monitoring
7	To review and monitor the Pension Fund Risk Register.	Annually
8	To determine the overall investment strategy and strategic asset allocation, ensuring that investments are sufficiently diversified, not over concentrated in any one type of investment and that the pension fund is invested in suitable types of investments;	Minimum of 2 yearly reviews
9	To obtain, and have due regard to, professional advice from the fund managers, investment advisers, officers and the fund actuary as appropriate;	Quarterly and as and when required
10	To monitor and review the investment managers' performance against established benchmarks and to be satisfied of the investment managers' expertise and the quality of their internal systems and controls;	Quarterly
11	To take appropriate and timely action in cases of unsatisfactory performance of the investment managers and independent external advisers;	Quarterly and as and when required
12	To monitor the cash flow forecasts of the fund;	Quarterly
13	To review the resources allocated to investment managers on a regular basis;	Quarterly
14	Ensure appropriate arrangements are in place for the administration of benefits and contributions.	Annually

<b>Number</b>	<b>Term of Reference</b>	<b>Frequency of Reporting</b>
15	To approve, apply and decide upon employers joining and leaving the Fund. To consider, and if appropriate, approve applications of employers to become admitted bodies to the fund.	As and when required
16	To agree an accounting policy for the Fund consistent with IFRS and relevant authoritative guidance in order to prepare and publish a Pension Fund Annual Report including an abstract of accounts.	Annually
17	To review the Annual Report and Accounts of the Pension Fund and report its findings to the Audit Committee, where the Accounts are approved.	Annually
18	To consider all other relevant matters to the investment and administration of the fund.	As and when required
19	To establish constitutional documents, codes, policies, plans, frameworks and protocols connected with the establishment and operation of the Local Pension Board	As and when required

## **5. Meetings**

5.1. The Pension Fund Committee meets four times a year and occasionally holds special meetings when required. The Pension Fund Committee also holds an Annual General Meeting to which all employers are invited. This maintains a manageable governance framework in terms of the frequency of meetings.

## **6. Programme of Work**

6.1. An annual programme of work, cross referenced to the terms of reference, will be agreed annually by the Pension Fund Committee showing expected documents and reports to be presented and any training requirements.

## **7. Performance and Review**

7.1. The Pension Fund Committee will carry out an annual self-assessment, including a review of these terms of reference, to evaluate its own performance and determine any action required to improve its effectiveness.

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Durham County Council is the Administering Authority for the Durham County Council Pension Fund.

The Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund.

This statement sets out the Fund’s scheme of delegation and the terms of reference, structure and operational procedures of the delegation, and the extent of its compliance with 2008 statutory guidance issued by the Secretary of State (CLG) and the provisions of regulation 55 Of the Local Government Pension Scheme Regulations 2013.

The following sections set out the principles of governance as prescribed in the guidance and describe the Fund’s current arrangements for compliance.

Principle A – Structure	Fully compliant
<p>a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p> <p>b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</p> <p>c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	

The constitution of the Council delegates to the **Pension Fund Committee** “powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder” regarding the administration of the Scheme and investment of funds, including:

- Approval of applications from bodies seeking admission to the Local Government Pension Scheme;
- Appointment of external investment managers and advisers.

The following function is delegated to the **Corporate Director of Resources** by the Council:

“To take all necessary actions of a routine nature to properly administer the financial affairs of the Council including ... the Council’s functions as a pension fund administering authority under the Superannuation Act 1972 and associated regulations.”

The structure of the Pension Fund Committee was reviewed in December 2008 and revised with effect from 1 April 2009 to reflect the composition of Durham County Council as a unitary authority from that date. The structure of the Pension Fund Committee is as follows:

<b>Body / category of bodies represented</b>	<b>Number of Committee Members</b>
Durham County Council	11
Darlington Borough Council	2
Colleges	1
Scheduled Bodies	1
Admitted Bodies	1
Active Members	1
Pensioners	1
<b>Total</b>	<b>18</b>
<i>(plus 2 non-voting union observers)</i>	

The Terms of Reference of the Committee is available at [www.durham.gov.uk/lgps](http://www.durham.gov.uk/lgps). A secondary committee or panel has not been established due to the full extent of representation on the Committee.

The Local Pension Board is established by Durham County Council and will be governed by Durham County Council’s Constitution. The Board was established on 1 April 2015 under Regulations 105 to 109 of the Local Government Pension Scheme Regulations 2013 (as amended) and operates independently of the Pension Fund Committee.

The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

- a) Secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;
- b) To ensure the effective and efficient governance and administration of the Scheme.

The Board consists of six voting members of which three represent Scheme Members and three represent Scheme Employers, and there shall be an equal number of Member and Employer representatives. The Board appoints a chair from its membership.

All members of the Board must declare on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

Knowledge and understanding must be considered in the light of the Board's purposes as set out above. The Board shall establish and maintain a record of training to address the knowledge and understanding requirements that apply to Board members under the Regulations.

The Board meets four times each year and may hold additional meetings if agreed by the Board. The quorum for each meeting is one Scheme Member representative and one Scheme Employer representative. A meeting that becomes inquorate may continue but any decisions will be non-binding.

The Chair shall agree with the Monitoring Officer (the 'Board Secretary') an agenda prior to each meeting which, together with supporting papers, will be issued at least five working days (where practicable) in advance of the meeting to all members of the Board. The Board meetings can be open to the general public.

The Administering Authority may meet the expenses of Board members as agreed by the Corporate Director of Resources in consultation with the Leader and Deputy Leader of the Council. The Administering Authority shall not pay allowances for Board members.

The Board should in the first instance report its requests, recommendations or concerns to the Pension Fund Committee. In support of this, any member of the Board may attend a Committee meeting as an observer.

The detailed terms of reference of the Local Pension Board may be found on the Council's website [www.durham.gov.uk/article/6164/Durham-County-Council-Pension-Fund-Local-Pension-Board](http://www.durham.gov.uk/article/6164/Durham-County-Council-Pension-Fund-Local-Pension-Board).

<b>Principle B - Representation</b>	<b>Fully compliant</b>
<p>a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> <li>i) employing authorities (including non-scheme employers e.g. admitted bodies);</li> <li>ii) scheme members (including deferred and pensioner scheme members),</li> <li>iii) where appropriate, independent professional observers,</li> <li>iv) expert advisers (on an ad-hoc basis).</li> </ul> <p>b) That where lay members sit on a main or secondary committee they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	

The allocation of members to the Committee broadly reflects the number of active members, pensioners and deferred pensioners each of the larger employers has within the Fund.

The two Trade Union representatives are invited as observers.

The Committee does not consider it appropriate to appoint an independent professional observer to the Committee but these governance arrangements have been independently audited by Peter Scales of MJ Hudson Allenbridge on behalf of the Committee.

Investment Consultancy is provided to the Fund by Mercer, and the Committee has appointed Anthony Fletcher of MJ Hudson Allenbridge to provide independent investment advice.

All members of the Committee, union observers and independent advisers are given full access to papers and are allowed to participate in meetings.

<b>Principle C - Selection and role of lay members</b>	<b>Fully compliant</b>
<p>a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p> <p>b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	

The representatives from Durham County Council and Darlington Borough Council are appointed by decisions of the respective councils.

The representatives of the Colleges, other Statutory Bodies, and Admitted Bodies are selected by the Committee from nominations made by the employers and appointed for a period of 4 years.

The two scheme member representatives are selected by the Committee from applications received from the membership following advertisement in the newsletter - one from active scheme members and one from pensioner members.

All Committee members are made fully aware of their role and functions as set out in the terms of reference for the Committee and other documentation.

Applicants from the scheme membership are provided with an information pack setting out the duties and responsibilities of a Pension Fund Committee Member together with a description of the type of individual qualities and experience seen as essential or desirable for the role.

All members are also made aware that as well as having legal responsibilities for the prudent and effective stewardship of the Fund, in more general terms they have a clear fiduciary duty to participating employers, local tax payers and scheme beneficiaries in the performance of their responsibilities.

There is a standing agenda item at the start of each meeting inviting members to declare any financial or pecuniary interest related to specific matters on the agenda. The register of Members' interests is available online at [www.durham.gov.uk](http://www.durham.gov.uk).

<b>Principle D - Voting</b>	<b>Fully compliant</b>
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	

All members appointed to the Committee have voting rights.

Union observers and advisers do not have voting rights as they do not act as formal members of the Committee.

<b>Principle E - Training/Facility Time/Expenses</b>	<b>Fully compliant</b>
<p>a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p> <p>b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</p> <p>c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.</p>	

The Committee has established a policy on training, facility time and reimbursement of expenses which applies to all members of the Committee.

Consideration has been given to the adoption of annual training plans and the maintenance of a log of all such training undertaken. The Committee receives specific training before making investment decisions. The training requirements of individual Committee Members is informed by Member self-assessment.

<b>Principle F – Meetings (frequency/ quorum)</b>	<b>Fully compliant</b>
<p>a) That an administering authority's main committee or committees meet at least quarterly.</p> <p>b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</p> <p>c) That an administering authority which does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</p>	

The Pension Fund Committee meets four times a year and occasionally holds special meetings when required. The Pension Fund Committee also holds an Annual General Meeting each year to which all employers are invited.

The quorum for each regular meeting of the Committee is 5.

<b>Principle G - Access</b>	<b>Fully compliant</b>
<p>a) That subject to any rules in the council’s constitution all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</p>	

All members of the Committee have equal access to committee papers, documents and advice to be considered at each meeting. Public documents are posted on the website.

<b>Principle H - Scope</b>	<b>Fully compliant</b>
<p>a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</p>	

As set out in the terms of reference, the Committee regularly considers “wider issues” and not just matters relating to the investment of the Fund.

<b>Principle I - Publicity</b>	<b>Fully compliant</b>
<p>a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</p>	

The Governance Compliance Statement is distributed to all employers, is reproduced in the Annual Report, and is published on the Council’s website. The appointment of member representatives was advertised to all members for them to express an interest.

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