Pension Fund Committee

Date **Thursday 16 March 2023**
Time **10.00 am**
Venue **Committee Room 2, County Hall, Durham**

Business

Part A

Items which are open to the Public and Press.

1. Apologies for Absence
2. Declarations of interest (if any)
3. Minutes of the Meeting held on 8 December 2022 (Pages 23 - 32)
4. Overall Value of Pension Fund Investments to 31 December 2022 (Pages 33 - 40)
5. Performance Measurement of Pension Fund Investments to 31 December 2022 (Pages 41 - 50)
6. Internal Audit Plan 2022/23 - Progress Report to 31 December 2022 (Pages 51 - 56)
7. Draft Audit Plan 2023/24 (Pages 57 - 62)
8. Provision of Treasury Management Services to the Pension Fund for 2023/24 (Pages 63 - 66)
9. Agreement of Accounting Policies for Application in the 2022/23 Financial Statements of the Pension Fund (Pages 67 - 74)
10. Regulatory Update (Pages 75 - 100)
11. Pension Fund - GMP Rectification (Pages 101 - 110)

12. Pension Fund Policy Documents - Funding Strategy Statement (Pages 111 - 168)
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. Minutes of the Meeting held on 8 December 2022 (Pages 169 - 174)
17. Report of the Independent Investment Adviser (Pages 175 - 202)
18. Investment Strategy Review Update (Pages 203 - 264)
19. Report of the Pension Fund Adviser (Pages 265 - 296)
20. Border to Coast Pensions Partnership Quarterly Performance Report (Pages 297 - 346)
21. Report of Alliance Bernstein (Pages 347 - 364)
22. Report of Mondrian Investment Partners (Pages 365 - 368)
23. Report of CBRE Global Investment Partners (Pages 369 - 396)
24. Border to Coast Pensions Partnership Private Monitor Report (Pages 397 - 480)
25. 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
8 March 2023

To: The Members of the Pension Fund Committee

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

Darlington Borough Council Members
Councillors S Durham and H Scott OBE

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 – Head of Pensions (LGPS)
J McMahon – Finance Manager

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

Investment Managers
Alliance Bernstein
Mondrian
CBRE
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

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

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Pension Fund Committee

Abbreviations

List of commonly used abbreviations

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

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

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

Author(s)

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Glossary of commonly used terms

A

Active Management

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

Active Member

A current employee who is contributing to the pension scheme.

Actuary

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

Actuarial Valuation

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

Additional Voluntary Contributions (AVCs)

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

Administering Authority

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

Admission/Admitted Body

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

Asset Allocation

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

Authorised Contractual Scheme (ACS)

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

B

Benchmark

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

Border to Coast Pension Partnership (BCPP)

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

Border to Coast Joint Committee

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

C

CARE (Career Average Revalued Earnings)

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

Cash Equivalent Value (CEV)

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

Consumer Price Index (CPI)

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

Commutation

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

Convertible Shares

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

Custodian

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

D

Death Grant

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

Deferred Member/Pensioner

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

Defined Benefit Scheme

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

Denomination

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

Designating Body

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

Discretion

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

Direct Property

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

Diversified Growth Funds (DGF)

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

E

Employer Contribution Rates

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

Employer Covenant

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

Equities

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

ESG

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

F

Fiduciary Duty

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

Financial Instruments

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

Fixed Interest Securities

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

Fund of Funds (FoF)

A fund that holds a portfolio of other investment funds.

G

Guaranteed Minimum Pension (GMP)

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

I

Index

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

Internal Rates of Return (IRR)

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

L

Local Government Pension Scheme (LGPS)

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

Local Pension Board (LBP)

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

M

Myners Principles

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

Effective decision-making

Clear objectives

Risk liabilities

Performance assessment

Responsible ownership

Transparency and reporting.

O

Ordinary Shares

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

P

Partner Funds

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

Pension Liberation Fraud

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

Pensions Online

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

Pensions Regulator

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

Pooled Funds

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

Pooling in the LGPS

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

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

Proxy Voting

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

Q

Quantitative Easing

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

R

Related Party Transactions

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

Responsible Investment (RI)

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

Retail Price Index

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

Return

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

Rule of 85

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

S

Scheduled Body

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

Spot Rate

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

State Pension Age (SPA)

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

Stock Lending

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

T

TCFD

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

The Pension Advisory Service (TPAS)

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

Transfer Value

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

Transferred Service

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

U

UK Stewardship Code

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

Unrealised gains/losses

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

Author(s)

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in **Committee Room 2, County Hall, Durham** on **Thursday 8 December 2022** at **10.00 am**

Present:

Councillor M Abley (Chair)

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

Scheme Member Representatives
A Delandre and J Taylor

Council Advisers
Paul Cooper – Head of Pensions (LGPS)
Paul Darby – Corporate Director of Resources
Jennifer Rogers – Senior Lawyer Commercial and Corporate Governance

Investment Advisers
Milo Kerr – BCPP

Independent Advisers
Sandy Dickson – Mercer
Anthony Fletcher – MJ Hudson

Also in attendance:
N Hancock – Unison Representative and Local Pension Board Member

1 Apologies for Absence

Apologies for absence were received from Councillors C Martin, J Shuttleworth and H Scott and A Broadbent.

2 Declarations of Interest

There were no Declarations of Interest.

3 Minutes

The minutes of the meeting held on 15 September 2022 were agreed as a correct record and signed by the Chair.

4 Overall Value of Pension Fund Investments to 30 September 2022

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 2022, the movement in cash balances during the last four quarters (for copy see file of Minutes).

The Head of Pensions (LGPS), Paul Cooper explained as regards the value of the fund and the ongoing impacts of the invasion of Ukraine, inflation and rising rates, resulting in the need for rebalancing the Fund in relation to Index Linked Gilts and Multi-Asset Credit (MAC)

Councillor B Kellett asked as regards the differences between the estimates and actual figures. The Head of Pensions (LGPS) noted that there was a higher level held in cash, and rising interest rates

Resolved:

That the information contained in the report be noted.

5 Performance Measurement of Pension Fund Investments to 30 September 2022

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 2022 (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 2022/23 - Progress Report to 30 September 2022

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work that had been carried out by Internal Audit during the period 1 April 2022 to 30 September 2022 as part of the 2022/2023 Internal Audit Plan (for copy see file of minutes).

Councillor C Fletcher asked whether there were any concerns for Members to be aware of. The Audit Manager, Paul Monaghan noted no areas of concern, with the Chair noting that there had been the highest level of assurance across the Audits carried out.

Resolved:

That the work undertaken by Internal Audit during the period ending 30 September 2022 be noted.

7 Feedback from Local Pension Board

The Head of Pensions (LGPS) noted the standing item in the agenda, noting that the last meeting of the Local Board had not met, and no further feedback had been received from the Board.

8 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, Audit and Technical Manager from Mazars presented the Audit Completion Report and provided an update of the report

Councillor K Earley entered the meeting at 10.13am

In response to question from Councillor J Atkinson relating whether BCPP were asked for information. The Audit and Technical Manager noted information included statements from BCPP, the Pension Fund Committee and investment managers. She added that the difference in three months from the draft statement to the final draft statement accounted for the difference in the valuation between Officers and Auditors.

Councillor C Fletcher noted the change in the report style from BCPP which she felt was now easier to understand.

The Audit and Technical Manager noted it may be BCPP had amended the format as they report to a number Pension Funds. The Head of Pensions (LGPS) noted that he had spoken to the Finance Team at BCPP and would feed into any queries from External Audit.

Resolved:

a) That the External Auditor's report following the audit of the Statement of Accounts for the year ended 31 March 2022, 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.

9 Pension Fund Accounts for the year ended 31 March 2022

The Committee considered a report of the Corporate Director of Resources which presented the audited Pension Fund Accounts for the year ended 31 March 2022 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 2021/22 and that all the deadlines relating to this year's accounts and the Pension Fund Annual Report have been met and that they represented a true and fair view of the financial position and were prepared in line with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting.

Resolved:

That the contents of the Pension Fund's financial statements for the financial year ended 31 March 2022 at Appendix 1 of the report be noted.

10 Regulatory 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).

In relation to the position with colleges, Councillor J Atkinson asked if they would be treated less favourably in terms of the LGPS. The Head of Pensions (LGPS) noted that without a cash guarantee from Department for Education (DfE), they would be less favourably than academies and mainstream schools as they were backed by the DfE therefore those Further Education colleges not backed by the DfE had a different risk profile than Academies. He added that should Government add a contingency for colleges, then they could be revisited on the same basis as academies.

Councillor C Varty noted she was delighted to hear as regards the updates in relation to Climate Change. Councillor B Kellett asked for further information in relation to the McCloud judgement. The Head of Pensions (LGPS) noted that following the judgement in the Hight Court relating to the LGPS protecting older members from 2014 that was found to be age discriminatory against younger members. He added Pension Funds were still awaiting final regulations, expected in 2023, noting the amount of work involved for the Pensions Team in terms of data collection, with that work ongoing. He explained that the Team was working with employers and the software provider to go through over 200,000 lines of data to be able to rectify as efficiently as possible. He emphasised that the position would be corrected and that there would only be ‘winners’ in terms of benefit to scheme members, no ‘losers’.

Resolved:

That the information contained in the report be noted.

11 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).

M Kerr from BCPP explained as regards the three key policies, the Responsible Investment Policy, Climate Change Policy and Voting Guidelines. It was explained that they were subject to annual review against market practice, other organisations, other competition and their voting and engagement partner Robeco.

Councillor J Atkinson asked as regards the makeup of the Joint Committee. M Kerr explained each of the 11 Local Authorities had a representative, usually the Chair of their Pension Fund Committee, or a representative put forward by them. He added that BCPP representatives were also on the Joint Committee as regards joint oversight.

Councillor J Atkinson asked how information is transacted between the Joint Committee and Pension Fund Committees. M Kerr noted that the key format was the quarterly Joint Committee meetings, with the Head of Pensions (LGPS) noting they were similarly formal meetings to that of the Pension Fund Committee, and that the Chair and Head of Pensions acted as a conduit between the two.

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.

12 Triennial Valuation Update

The Head of Pensions (LGPS) reminded Members of the update in terms of valuation rates and new employer rates as discussed at the Annual Meeting, coming into effect from 1 April 2023. He noted the next step would be for the Committee to receive a report at its meeting in March 2023 in terms of its Funding Strategy Statement. He added that once agreed that would be published and kept up-to-date.

Resolved:

That the verbal update be noted.

13 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.

14 Minutes of the meeting held on 15 September 2022

The minutes of the meeting held on 15 September 2022 were agreed as a correct record and signed by the Chair.

15 Report of the Independent Investment Adviser

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

Resolved:

That the information contained in the report be noted.

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

Resolved:

That the information contained in the report be noted.

18 Border to Coast Pensions Partnership Quarterly Performance Report

M Kerr provided an update to Members on progress with the Border to Coast Pensions Partnership which included:

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

Resolved:

That the information contained in the report be noted.

19 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.

20 Report of Mondrian Investment Partners

Consideration was given to a report from Mondrian Investment Partners 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 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.

22 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 to June 2022.

Resolved:

That the information contained in the report be noted

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Pension Fund Committee

16 March 2023

Overall Value of Pension Fund Investments to 31 December 2022

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 2022;
   (b) movement in the cash balance during the last four quarters; and
   (c) projected cash flow position up to 31 March 2024.

Executive Summary

2. The overall value of the Fund as at 31 December 2022 was £3.232 billion and the cash balance held in the Durham County Council Pension Fund bank account was £30.950 million. Fund managers also held cash of £15.211 million at that date. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters.

3. The cash flow forecast includes the recovery of funds from Fund Manager – BCPP, which will be drawn from the Listed Alternatives portfolio to match the value of investments being made in private markets. Appendix 2 sets out the cash flow forecast up to the quarter ending 31 March 2024.

4. The quarter ending 31 March 2023 projected figures shown within Appendix 2 include income from the BCPP Equity Alpha fund of £16 million to cover BCPP drawdowns for February and March.

5. In June 2022 a commitment of £18 million was allocated to Foresight Regional Investment IV LP and the forecast within Appendix 2 includes capital calls on this sum estimated at £1m each quarter.

6. Should cash transfers to/from fund managers be excluded from the cash flow forecast, the net cash outflows in each of the future quarters are between £4 million and £6 million.

Recommendation

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

Background

Value of the Pension Fund

8. Reports from the four listed fund managers, namely:

    - AB
    - BCPP
    - CB Richard Ellis
    - Mondrian

    are included in Part B of today's agenda.

9. The value of the Fund at 31 December 2022 was £3.232 billion compared to £3.152 billion at 30 September 2022. This is an increase of £80 million or 2.51% in the third quarter of 2022/23.

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

10. 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.

11. 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.

12. 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 2022, the cash balance held in the Durham County Council Pension Fund bank account was £30.950 million. In addition to this, not included in this table, fund managers were holding cash of £15.211 million at 31 December 2022.

13. During the quarter ending 31 December 2022 further drawdowns totalling £28.352 million were made to BCPP to invest in private equity, infrastructure and private credit. No drawdowns were made to Foresight Regional Investment IV LP.

Cash Flow Forecast

14. Appendix 2 shows the projected cash flow for the Pension Fund for the period 1 January 2023 to 31 March 2024. 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.

15. 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 Equity Alpha fund.

16. The forecast indicates net cash outflows in future quarters of between £3 million and £6 million. The size of the outflows are exacerbated due to the early receipt of Durham County deficit contributions in April 2023, the impact of which is an apparent reduction in future contributions receivable of £1.375 million per quarter.

17. The following assumptions have been used in the cash flow forecast:

(a) Annual investment income receivable is estimated to be £20 million and profiled to be received as follows:

(i)	Quarter ended 31 March 2023	25%
(ii)	Quarter ended 30 June 2023	25%
(iii)	Quarter ended 30 September 2023	25%
(iv)	Quarter ended 31 December 2023	25%

(b) Increases in contributions have been included in line with actuals, until the new employer contribution rates resulting from the 2022 actuarial valuation are made available.

(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 9% 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.

18. 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

19. 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.

20. As reported to the committee in December a rebalancing exercise took place during this quarter. The Fund became significantly overweight in Global Equity Alpha, whilst Gilts became significantly underweight relative to its strategic allocation within the portfolio. Officers therefore took steps to rebalance from the overweight equity position, into both Gilts and Multi-Asset Credit. This rebalancing is reflected in reporting for quarter end 31st December 2022. £82.4m transferred from Global Equity Alpha into Sterling Index-linked Bonds £65.4m and Multi-Asset Credit (MAC) £17m.

21. The Committee approved a policy approach to rebalancing at the September meeting. A rebalancing exercise took place in reporting quarter end 31st March 2023 in line with the agreed policy. Full details will be provided of all rebalancing carried out at the June committee.

22. Appendix 3 shows the approved policy approach to rebalancing.

Contact: Jo McMahon Tel: 03000 261968

Appendix 1

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

Quarter Ended	31.03.22		30.06.22		30.09.22		31.12.22	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	16,400,000	16,522,541	16,400,000	17,833,757	16,500,000	16,997,176	17,500,000	19,549,856
Contributions - Other	12,900,000	13,194,458	12,900,000	13,871,960	13,500,000	13,842,779	13,500,000	15,335,155
Unfunded pensions recharges	1,050,000	972,201	1,050,000	944,910	1,050,000	672,966	1,050,000	1,264,128
Transfer Values	1,250,000	1,073,906	1,250,000	1,320,801	1,250,000	3,023,323	1,250,000	1,805,173
Other income	1,500,000	1,823,950	1,500,000	1,052,313	1,500,000	716,378	1,500,000	1,072,000
Funds recovered from Managers	50,000,000	49,904,456	16,000,000	9,616,000	11,400,000	25,130,445	36,000,000	34,006,550
Interest on short term investments	1,500	16,973	2,500	70,476	55,000	112,025	45,000	196,816
Total Cash Inflow	83,101,500	83,508,485	49,102,500	44,710,217	45,255,000	60,495,092	70,845,000	73,229,679
Cash Outflows								
Payroll Paysheets	28,400,000	28,318,989	29,500,000	29,172,331	29,700,000	29,478,766	29,900,000	30,251,207
Payables Paysheets (incl. Managers' fees)	10,000,000	10,243,308	10,000,000	14,691,628	11,000,000	10,348,715	11,000,000	11,138,617
Funds transferred to Managers	19,000,000	13,329,520	24,000,000	9,646,960	21,500,000	16,975,527	25,000,000	30,781,357
Other Expenditure	1,000	853	1,000	910	1,000	883	1,000	1,420
Total Cash Outflows	57,401,000	51,892,671	63,501,000	53,511,829	62,201,000	56,803,890	65,901,000	72,172,601
Net Cash Inflow / (-) Outflow	25,700,500	31,615,815	-14,398,500	-8,801,612	-16,946,000	3,691,201	4,944,000	1,057,078
Balance at Bank (opening)		14,922,665		46,805,379		37,701,207		28,592,226
Balance at Bank (closing)		46,805,379		37,701,207		28,592,226		30,950,576

Appendix 2

Projected Cash Flow – For the period 1 January 2023 to 31 March 2024

Quarter Ended	31.03.23	30.06.23	30.09.23	31.12.23	31.03.24
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Cash Inflows					
Contributions - DCC	17,500,000	37,097,500	20,597,500	20,597,500	20,597,500
Contributions - Other	13,800,000	16,615,500	16,615,500	16,615,500	16,615,500
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	23,100,000	24,000,000	24,000,000	24,000,000	24,000,000
Interest on short term investments	185,000	200,000	200,000	200,000	200,000
Total Cash Inflow	58,385,000	81,713,000	65,213,000	65,213,000	65,213,000
Cash Outflows					
Payroll Paysheets	30,100,000	33,220,000	33,420,000	33,620,000	33,820,000
Payables Paysheets (incl. Managers' fees)	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Funds transferred to Managers	23,000,000	25,000,000	25,000,000	25,000,000	25,000,000
Other Expenditure	1,000	1,000	1,000	1,000	1,000
Total Cash Outflows	64,101,000	69,221,000	69,421,000	69,621,000	69,821,000
Net Cash Inflow / (-) Outflow	-5,716,000	12,492,000	-4,208,000	-4,408,000	-4,608,000
Balance at Bank (opening)	30,950,576	25,234,576	37,726,576	33,518,576	29,110,576
Balance at Bank (closing)	25,234,576	37,726,576	33,518,576	29,110,576	24,502,576
Investment Income Received by Managers	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000

Appendix 3

Fund Rebalancing

Proposed Ranges:

Asset Class	Benchmark Allocation (%)	Proposed Ranges
Global Equity	40.0	+/-4.0
EM Equity	7.0	+/-1.0
Index Linked Gilts	15.0	+/-2.0
Multi Asset Credit	15.0	+/-2.0
Property	13.0	n/a
Private Markets	10.0	+/-1.5
Total	**100.0**	

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Pension Fund Committee

16 March 2023

Performance Measurement of Pension Fund Investments to 31 December 2022

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 2022.

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 performance report from Northern Trust shows:

(a) The fund managers' benchmarks;

(b) The total fund performance for the quarter to 31 December 2022, 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 31 December 2022, plus the last 1, 3, 5 and 10 years and since inception.

Contact:	Jo McMahon	Tel: 03000 261968

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Durham CC Pension Fund

Investment Risk & Analytical Services

December 31, 2022

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SECTION 1

Durham CC Pension Fund

Investment Risk & Analytical Services

December 31, 2022

Investment Hierarchy (Arithmetic Excess)

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return One Month	Three Months	One Year	Three Years	Five Years	Ten Years	Inception to Date	Inception Date
Durham CC Pension Fund	**3,231,585,784**	**100.00**	**-2.55**	**3.34**	**-10.81**	**2.30**	**4.02**	**6.39**	**6.17**	**29/02/2008**
Durc Total Plan Benchmark			*-3.29*	*0.69*	*-8.29*	*4.21*	*5.31*	*7.76*	*7.67*	*29/02/2008*
Excess Return			*0.74*	*2.64*	*-2.53*	*-1.92*	*-1.29*	*-1.37*	*-1.50*	*29/02/2008*
Alliance Bernstein	**169,916,700**	**5.26**	**0.32**	**2.94**	**-5.89**	**-1.24**	**0.07**	**1.41**	**2.59**	**29/02/2008**
Alliance Bernstein	**169,916,700**	**5.26**	**0.32**	**2.94**	**-5.89**	**-1.24**	**0.07**	**1.41**	**2.59**	**29/02/2008**
SONIA + 3%			*0.51*	*1.42*	*4.42*	*3.70*	*3.73*	*3.61*	*3.97*	*29/02/2008*
Excess Return			*-0.19*	*1.52*	*-10.31*	*-4.94*	*-3.66*	*-2.20*	*-1.38*	*29/02/2008*
CBRE 1	**221,195,606**	**6.84**	**-1.05**	**-1.72**	**0.99**	**5.70**	**5.97**	**7.56**	**4.50**	**29/02/2008**
CBRE 1	**221,195,606**	**6.84**	**-1.05**	**-1.72**	**0.99**	**5.70**	**5.97**	**7.56**	**4.50**	**29/02/2008**
RPI + 5%			*0.93*	*4.69*	*18.44*	*12.28*	*10.37*	*8.94*	*8.77*	*29/02/2008*
Excess Return			*-1.97*	*-6.41*	*-17.45*	*-6.58*	*-4.40*	*-1.38*	*-4.27*	*29/02/2008*
CBRE 2	**46,886,137**	**1.45**	**-3.37**	**0.28**	**-14.72**	**2.65**	**5.14**	**7.16**	**5.84**	**29/02/2008**
CBRE 2	**46,886,137**	**1.45**	**-3.37**	**0.28**	**-14.72**	**2.65**	**5.14**	**7.16**	**5.84**	**29/02/2008**
RPI + 5%			*0.93*	*4.69*	*18.44*	*12.28*	*10.37*	*8.94*	*8.77*	*29/02/2008*
Excess Return			*-4.30*	*-4.40*	*-33.16*	*-9.63*	*-5.23*	*-1.78*	*-2.93*	*29/02/2008*
Mondrian	**240,003,378**	**7.43**	**-2.15**	**5.12**	**-2.94**	**1.19**	**2.52**	**-**	**4.37**	**31/10/2014**
Mondrian	**240,003,378**	**7.43**	**-2.15**	**5.12**	**-2.94**	**1.19**	**2.52**	**-**	**4.37**	**31/10/2014**
MSCI Emerging Markets GD +2.5%			*-2.06*	*2.55*	*-7.12*	*3.35*	*3.84*	*-*	*8.27*	*31/10/2014*
Excess Return			*-0.09*	*2.57*	*4.18*	*-2.16*	*-1.32*	*-*	*-3.90*	*31/10/2014*
BCPP	**2,397,988,587**	**74.20**	**-4.44**	**2.36**	**-15.04**	**1.86**	**-**	**-**	**3.23**	**30/09/2019**
BCPP Global Equity Alpha Fund	**1,396,381,118**	**43.21**	**-4.91**	**5.31**	**-6.68**	**7.03**	**-**	**-**	**8.22**	**24/10/2019**
MSCI ACWI ND + 2%			*-4.63*	*2.38*	*-6.08*	*9.36*	*-*	*-*	*10.23*	*24/10/2019*
Excess Return			*-0.27*	*2.93*	*-0.60*	*-2.33*	*-*	*-*	*-2.01*	*24/10/2019*
BCPP Listed ALT FD	**120,891,998**	**3.74**	**-3.63**	**2.81**	**-**	**-**	**-**	**-**	**-7.17**	**31/01/2022**
MSCI ACWI			*-4.85*	*1.97*	*-*	*-*	*-*	*-*	*-3.79*	*31/01/2022*
Excess Return			*1.22*	*0.83*	*-*	*-*	*-*	*-*	*-3.38*	*31/01/2022*
BCPP Multi Asset Credit Fund	**502,490,762**	**15.55**	**-0.46**	**4.70**	**-10.52**	**-**	**-**	**-**	**-8.80**	**14/10/2021**
SONIA + 3%			*0.51*	*1.42*	*4.42*	*-*	*-*	*-*	*4.17*	*14/10/2021*
Excess Return			*-0.97*	*3.28*	*-14.94*	*-*	*-*	*-*	*-12.97*	*14/10/2021*
BCPP Sterling Index Linked Bd	**378,224,710**	**11.70**	**-7.96**	**-12.94**	**-46.81**	**-**	**-**	**-**	**-21.61**	**08/10/2020**
FTSE Index Linked 15+Yrs+0.02%			*-7.50*	*-12.74*	*-46.90*	*-*	*-*	*-*	*-21.81*	*08/10/2020*
Excess Return			*-0.46*	*-0.19*	*0.09*	*-*	*-*	*-*	*0.20*	*08/10/2020*
BCPP Private Market	**153,210,567**	**4.74**	**30.54**	**30.72**	**68.48**	**-**	**-**	**-**	**31.40**	**30/11/2020**
BCPP Private Markets	**153,210,567**	**4.74**	**30.54**	**30.72**	**68.48**	**-**	**-**	**-**	**31.40**	**30/11/2020**
Foresight Regional Investments	**2,384,808**	**0.07**	**0.00**	**-0.85**	**-**	**-**	**-**	**-**	**-0.85**	**31/08/2022**

Category: **Total Fund Gross of Fees**

			% Rate of Return							
Account/Group	Ending Market Value GBP	Ending Weight	One Month	Three Months	One Year	Three Years	Five Years	Ten Years	Inception to Date	Inception Date
Foresight Regional Investment	**2,384,808**	**0.07**	**0.00**	**-0.85**	**-**	**-**	**-**	**-**	**-0.85**	**31/08/2022**
15% Absoulte Return			*1.17*	*3.56*	-	-	-	-	*4.77*	*31/08/2022*
Excess Return			*-1.17*	*-4.40*	-	-	-	-	*-5.62*	*31/08/2022*

Category: **Total Fund Gross of Fees**

Market Value Summary - One Month

Account/Group	30/11/2022 Market Value	Net Contribution*	Income	Fees	Appreciation	31/12/2022 Market Value
Durham CC Pension Fund	**3,341,835,298**	**-25,361,995**	**2,090,999**	**0**	**-86,978,518**	**3,231,585,784**
Alliance Bernstein	**169,377,122**	**0**	**0**	**0**	**539,578**	**169,916,700**
Alliance Bernstein	169,377,122	0	0	0	539,578	169,916,700
CBRE 1	**224,678,030**	**-1,136,870**	**197,713**	**0**	**-2,543,266**	**221,195,606**
CBRE 1	224,678,030	-1,136,870	197,713	0	-2,543,266	221,195,606
CBRE 2	**48,521,992**	**0**	**201,340**	**0**	**-1,837,196**	**46,886,137**
CBRE 2	48,521,992	0	201,340	0	-1,837,196	46,886,137
Mondrian	**245,266,568**	**0**	**1,073,361**	**0**	**-6,336,551**	**240,003,378**
Mondrian	245,266,568	0	1,073,361	0	-6,336,551	240,003,378
BCPP	**2,534,469,575**	**-24,400,001**	**0**	**0**	**-112,080,987**	**2,397,988,587**
BCPP Global Equity Alpha Fund	1,485,425,035	-17,000,000	0	0	-72,043,917	1,396,381,118
BCPP Listed ALT FD	150,309,535	-24,400,000	0	0	-5,017,537	120,891,998
BCPP Multi Asset Credit Fund	487,816,185	16,999,999	0	0	-2,325,423	502,490,762
BCPP Sterling Index Linked Bd	410,918,820	0	0	0	-32,694,111	378,224,710
BCPP Private Market	**117,137,203**	**174,876**	**618,585**	**0**	**35,279,904**	**153,210,567**
BCPP Private Markets	117,137,203	174,876	618,585	0	35,279,904	153,210,567
Foresight Regional Investments	**2,384,808**	**0**	**0**	**0**	**0**	**2,384,808**
Foresight Regional Investment	2,384,808	0	0	0	0	2,384,808

**Net Contributions include Cash Contributions/Distributions, Security Deliveries/Receipts, Fees/Fee Rebates, Inter Account transfers for Consolidations & Benefits Payments.*
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Category: Total Fund Gross of Fees • Currency: GBP

SECTION 2

Appendix

Investment Risk & Analytical Services

December 31, 2022

Disclaimer(s)

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Pension Fund Committee

16 March 2023

Internal Audit Plan 2022/23 - Progress Report to 31 December 2022

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 2022 to 31 December 2022 as part of the 2022/23 Internal Audit Plan.

Executive Summary

2 The report provides Members with the progress that has been made in delivering the Pension Fund Internal Audit Plan for 2022/23 up to 31 December 2022 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 2022.

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 2022/23, covering the period 1 April 2022 to 31 March 2023, was approved by the Pension Fund Committee on 14 March 2022.

Progress against 2022/23 planned work:

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

Audit Title	Audit Type	Status	Opinion
Audits brought forward from 2021/22			
Admission Bodies / Funding Risks	Assurance	Final Report	Substantial
Pension System ICT Controls	Assurance	Final Report	Substantial
Debt Recovery	Assurance	Service Request to defer to 2023/24	
2022/23 audits			
Compliance with Breach Policy	Assurance	Scheduled Q4	
Pensions Payroll	Assurance	In Progress	
Benefit Calculations	Assurance	Final Report	Substantial
Bank Reconciliation	Assurance	Final Report	Substantial
Management time and ad hoc advice & guidance	Advice/Consultancy	In Progress	

7 There were seven assurance audits planned for 2022/23, one of which has now been deferred to 2023/24. No final reports were issued in the period, however, all remaining audits in the plan are scheduled to start prior to the end of 2022/23.

8 With regards to the Debt Recovery audit, the service requested that this be deferred to 2023/24, as a revised policy is planned to be brought to the Committee in June, and the audit will be scheduled thereafter.

Background papers

- Specific Internal Audit reports issued and working papers.

Other useful documents

- None

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

Appendix 1: Implications

Legal Implications

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

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

Finance

There are no direct financial implications associated with this report.

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

Consultation

Pensions Manager, Finance Manager and Corporate Director, Resources.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

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

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

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

Procurement

None.

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Pension Fund Committee

16 March 2023

Draft Audit Plan 2023/24

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 2023/24 for approval.

Executive Summary

2 The Audit Plan for 2023/24 has been developed following discussions between officers from Internal Audit and officers who have responsibility for the Pension Fund, using the strategic audit plan and the risk assurance map as the basis of the discussion. The proposed plan is shown in the table below.

Audit Title	Audit Type	Opinion from Previous Audit	Year of Previous Audit
Deferred from 2022/23			
Debt Recovery	Assurance	Substantial	2018/19
Scheduled for 2023/24			
Transfer Values In and Out of the Pension Fund	Assurance	Substantial	2021/22
Additional Voluntary Contributions	Assurance	Substantial	2021/22
Contributions	Assurance	Substantial	2020/21
Governance Arrangements (including Pool)	Assurance	Substantial	2020/21
Management time and ad hoc advice	Advice and Consultancy	N/A	N/A

Recommendation

3 Members are asked to approve the proposed audit plan for 2023/24.

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.

2023/24 Audit Plan

6 The Audit Plan for 2023/24 has been developed following discussions between officers from Internal Audit and officers who have responsibility for the Pension Fund, using the strategic audit plan and the risk assurance map as the basis of the discussion. The proposed plan is shown in the table below.

Audit Title	Audit Type	Opinion from Previous Audit	Year of Previous Audit
Deferred from 2022/23			
Debt Recovery	Assurance	Substantial	2018/19
Scheduled for 2023/24			
Transfer Values In/Out	Assurance	Substantial	2021/22
Additional Voluntary Contributions	Assurance	Substantial	2021/22
Contributions	Assurance	Substantial	2020/21
Governance Arrangements (including Pool)	Assurance	Substantial	2020/21
Management time and ad hoc advice	Advice and Consultancy	N/A	N/A

7 Any audits from the 2022/23 plan, which are not complete by the end of March 2023, will also be brought forward and added to the 2023/24 plan.

Background papers

- Strategic Internal Audit Plan
- Pension Fund Risk Assurance map

Other useful documents

- None

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

Appendix 1: Implications

Legal Implications

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

Finance

The audit fee for the 2023/24 internal audit plan, to be delivered by the DCC Internal Audit Service, which is chargeable direct to the Pension Fund, remains the same as 2022/23 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

16 March 2023

Provision of Treasury Management Services to the Pension Fund for 2023/24

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 2023/24.

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 2023:

   (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 £2,998 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 £2,855 to the flat fee of £2,998 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 2023/24.

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

Investments

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

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

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

23. It is recommended that this arrangement continues.

Background Papers

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

(b) Pension Fund Committee – 14 March 2022 - Provision of Treasury Management Services to the Pension Fund for 2022/23

(c) DCC's Treasury Management Strategy 2023/24 approved 22 February 2023.

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

Contact: Jo McMahon Tel: 03000 261968

Pension Fund Committee

16 March 2023

Agreement of Accounting Policies for Application in the 2022/23 Financial Statements of the Pension Fund

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 2022/23 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 2021/22 Statement of Accounts remain appropriate for the preparation of 2022/23 Statement of Accounts.

3. The full list of accounting policies proposed for disclosure in the Pension Fund's Financial Statements for 2022/23 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 2022/23 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 2022/23 (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 2021/22 accounts and there have been no changes to the Code necessitating a change for 2022/23.

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

Contact: Jo McMahon Tel: 03000 261968

Appendix 1: Accounting Policies for 2022/23

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;

- Each of the partners in Border to Coast Pension Pool (BCPP) have an equal shareholding in BCPP which 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 to not make a profit. As at 31 March 2022, taking into consideration the audited accounts for the company at 31 December 2021, there is also no evidence of any impairment in the value of shares held. It has therefore been determined that costs remain an appropriate proxy for fair value at 31 March 2022. All investments managed by BCPP are valued at their fair value;

- 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.

Pension Fund Committee

16 March 2023

Regulatory Update

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

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

Executive summary

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

Recommendation(s)

3 The Pension Fund 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. The Chair of the LGPS Scheme Advisory Board (SAB), has written to DLUHC to request an update on the Fair Deal policy. The Ministry was asked whether the policy was under active consideration and how the SAB could contribute to the process. 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 has finalised its policy approach to Employer Flexibilities following consultation with participating employers – the Committee are asked elsewhere on the agenda to approve the consolidation of the Fund's policies on Employer Flexibilities and Employer Exits.

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 conclusion of the 2022 Valuation process. Additionally, the Fund has gone through a significant exercise to reconcile the GMP

data it holds. Individual GMP values can often misalign with the values held by HMRC with discrepancies occurring both in terms of membership periods for which GMP accrued, and the GMP value itself. Following the conclusion of the reconciliation exercise, the Fund has set out a proposed approach to GMP Rectification, with a separate report presented to the Committee setting out this approach.

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 recently finalised an impact investment in the North-East which will support SME finance in the region, which is understood to meet the definitions set out in the whitepaper. Meanwhile, as part of their strategic plan, BCPP are progressing development of impact investing capabilities which will consider opportunities to support local investment decisions.

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 consultation which is expected to also include statutory pooling guidance.

17 Separately, On December 9th, the Chancellor of the Exchequer announced a set of reforms (Appendix 1 - ‘the Edinburgh Reforms’) intended to drive growth and competitiveness in the financial services sector. It has been confirmed that the Government will be consulting in ‘early 2023’ on issuing new guidance on Local Government Pension Scheme asset pooling. The government will also consult on requiring LGPS funds to ensure they are considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy. The Committee will be kept informed.

Mandatory TCFD Reporting

18 The Committee have previously been informed that, using powers granted under the Pension Schemes Bill, the Department for Works and Pensions (DWP) 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.

19 Whilst the regulations will not apply to the LGPS it was always expected that DLUHC would bring forward similar proposals requiring TCFD disclosures in the LGPS.

20 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/.

21 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.

22 A BCPP procurement for carbon data, including forward-looking metrics (scenario analysis), 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. Additionally, Officers are working with the Fund actuary to consider how to reflect climate scenario analysis in 2022 valuation reporting.

23 On 1 September DLUHC launched its consultation regarding governance and reporting of climate change risks. The consultation seeks views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

24 The consultation proposes that LGPS administering authorities would calculate the 'carbon footprint' of their assets and assess how the value of each fund's assets or liabilities would be affected by different temperature rise scenarios, including the ambition to limit the global average temperature rise to below 2 degrees set out in the Paris Agreement. The consultation (previously shared with the Committee)

closed on 24 November 2022. As discussed with the Committee previously, Officers prepared a response in consultation with the Chair and Vice Chair of the Committee. A copy of the response is has previously been shared with the Committee and Board.

25 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 the TCFD expectations, as well as the availability of data through BCPP, and scenario analysis commissioned through the Fund actuary.

Cost Control Mechanism & Review

26 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.

27 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.

28 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.

29 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.

30 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.

31 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.

32 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.

33 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

34 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.

35 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. Now made law, the Bill established the overarching framework for the retrospective changes required for the McCloud. Additionally, however, LGPS Amendment Regulations are required to make the necessary changes to the Scheme Regulations.

36 It is expected that later this year DLUHC will set out its decisions on its intended approach to McCloud for the LGPS and re-establish a SAB McCloud-implementation group. It is anticipated that draft Regulations will be published and come into force in October 2023. The Regulations will be supplemented by Statutory Guidance,

following a period of consultation. The LGA is currently working with DLUHC to help deliver the McCloud remedy for the LGPS.

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 late 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.

39 Additionally, Officers continue to work with the Fund’s software suppliers to ensure solutions are as effective as possible. Note that, DLUHC are also working directly with the LGPS software suppliers to discuss the implementation of the McCloud remedy. The LGA’s Communications Working Group is beginning work on member communications, and the Fund’s software supplier have established a McCloud Project Board – the Durham Fund is represented on both groups.

40 Finally, as part of the McCloud remedy for the Teachers’ Pensions Scheme (TPS), Chapter 1 Part 1 of the Public Service Pensions and Judicial Offices Act 2022 means that some teachers may be retrospectively eligible for the LGPS for the period from 1 April 2015 to 31 March 2022. This exercise will be administratively challenging for both the TPS and individual LGPS Funds. The LGA is currently working with DfE to identify how to identify affected members.

DLUHC Consultation on Change to the LGPS Revaluation Date

DLUHC has issued a consultation on changing the in-scheme revaluation date from 1 to 6 April, with effect from 1 April 2023. The proposed change will remove the impact of high inflation (10.10% for 2023 revaluation) on the Annual Allowance and reduce the number of members incurring a consequent tax charge. The Fund is working with its software supplier to ensure processes are in place to implement the change. The Committee and Board will be updated after the end of the short consultation.

LGPS Scheme Advisory Board (SAB)

SAB Review – Academies

41 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.

42 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.

43 Separately, the DfE guarantee for Academy participation in the LGPS has been increased to £20m. A copy of the Secretary of State's statement has previously been shared with the Committee.

44 Government has previously indicated plans for every school to be in, or in the process of joining, an academy trust. This has potential impact on the make-up of scheme membership, and admissions to the Fund. Officers will continue to monitor the position and keep the Committee informed.

SAB Review – Tier 3 Employers

45 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.

46 Examples of Tier 3 employers include universities, further education colleges, housing associations and charities.

47 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.

48 Whilst the third Tier Employer review is no longer part of SAB's current projects, an Office for National Statistics (ONS) review of the Further Education sector may change the classification of Colleges within the LGPS.

49 It is proposed that Colleges are reclassified as 'public sector', with the possibility of tighter restrictions on debt / borrowing. Additionally, the Department for Education (DfE) is considering putting in place a guarantee, similar to the one already provided for academies which would provide greater protection to LGPS Funds.

50 The DfE is collating relevant data directly from LGPS actuaries to better understand Colleges' funding requirements and consider the merits of providing the additional covenant assurances. Officers will continue to monitor the position, to ensure that the correct level of prudence is taken in finalising rates for Colleges in the Fund's triennial valuation. The Fund will initially maintain the rates for Colleges in line with the 2019 valuation, but will reconsider the position after the outcome of the College reclassification.

SAB Review – Good Governance in the LGPS

51 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)

52 SAB have completed their report on Good Governance and submitted an Action Plan to DLUHC to take the recommendations of the project forward. It is expected that the next stage is for DLUHC to take the recommendations forward for implementation through legislation and / or Statutory Guidance. A more detailed update to both the Committee and Local Pension Board, and overview of the

recommendations proposed to DLUHC will be provided in due course.

SAB Review – Responsible Investment Guidance

53 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.

54 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.

55 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.

SAB Correspondence – LGPS Audit

56 In August 2022 the SAB Chair, Cllr Roger Phillips, wrote to DLUHC proposing a separation of pension fund accounts from main local authority accounts, due to each having the potential to delay the other. On 15 February the Minister for Local Government, Lee Rowley MP, responded (Appendix 2) to the SAB welcoming the Board's advice and recommendation to consider the separation of main authority accounts and the pension fund accounts. The Minister has asked his officials to consider the scope for developing this further. The Committee will be kept informed as the matter progresses.

Non- LGPS Specific Matters

Public Sector Exit Payments Caps

57 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.

58 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.

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

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

60 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.

61 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.

62 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.

UK Stewardship Code 2020

63 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.

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

65 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.

66 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.

Increasing the UK Minimum Pension Age

67 The Committee have previously been informed of the intention to raise the Normal Minimum Pension Age (NMPA) in the UK and members will recall that a consultation entitled ‘Increasing the normal minimum pension age: consultation on implementation’ was launched on 11th February and ran until 22nd April 2021.

68 The consultation proposed that, due to increases in longevity and changing expectations of how long individuals will remain in work and in retirement, the minimum pension age would increase from 55 to 57 in 2028. When the policy was first announced, it was intended that the NMPA would be 10 years earlier that the State Pension Age. The minimum age a scheme member can currently retire voluntarily in the LGPS is 55.

69 The Finance Act gained Royal Assent on 24 February, which will increase the minimum retirement age in the UK from 55 to 57 from April 2028. The Act provides for protected pension ages for members who meet entitlement conditions. The government will need to change the LGPS rules to align with the NMPA at some point on or before 6 April 2028. It will also need to consider whether LGPS members who qualify for protection will be allowed to receive payment before 57.

70 The LGA have advised that the change is not material, such that scheme members must be immediately informed of the change. Nonetheless, the Fund informed its active and deferred members of the proposed change within this year’s Annual Benefit Statements.

TPR Code of Practice

71 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.

72 The Regulator plans to carry out a full review of the comments received through the consultation which it will consider carefully. TPR do not currently have a firm final publication date for the new code. The Local Pension Board’s existing Workplan addressing the existing ‘Public Service Pension Code of Practice’ has been rolled forward until the revised Code emerges.

Boycotts, Divestment and Sanctions

73 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.

74 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.

75 The Public Services Pensions Bill gained royal assent, but this does not place any immediate duty on Funds. For the position to change for the LGPS, a full 12 week consultation would be required. SAB Guidance on the matter was previously shared with the Committee.

Pension Scams and new Restrictions on Transfers

76 From 30 November 2021 new regulations ('the Occupational and Personal Pension Schemes Conditions for Transfers Regulations 2021') place greater restrictions on transferring out of the Pension Fund. The new Regulations require the Fund to carry out greater due diligence to protect scheme members from falling foul of Pension Scams.

77 The Fund will be required to notify members seeking to transfer out, that the transfer can only proceed if there are no due diligence red flags, or, if the transfer is to a public service scheme, master trust or collective money purchase scheme.

78 The Fund already provides warnings to its scheme members of the risks of pension scams through the Pensions Regulator's 'Scams warning' – a copy of which has previously been provided to the Local Pension Board. The Fund has also worked with the Regulator to provide a bespoke warning through the Online Portal. In light of the new Regulations however, Officers have amended the Fund's transfer process to reflect the new requirements. Scheme Members were again warned against scams in 2022 Annual Benefit Statements.

Stronger Nudge

79 The government has introduced legislation to ensure that individuals are made aware of ‘Pension Wise’ guidance as part of the process for taking or transferring Defined Contribution (DC) pension savings. Whilst the LGPS is not a DC Scheme, the legislation is applicable to the Scheme’s AVC provision.

80 The ‘Stronger Nudge’ requirement is introduced by the Occupational and Personal Pension Schemes (Disclosure of Information) (Requirements to Refer Members to Guidance etc) (Amendment) Regulations 2022 (SI 2022/30). These ‘Nudge’ Regulations require the Fund to refer scheme members who are seeking to take or transfer their AVCs to the Pension Wise service.

81 The requirement applies to all applications received on or after 1 June 2022 in respect of retirees taking payment of their AVCs, and those aged over 50 seeking to transfer their AVCs to another DC Scheme. The Fund has amended its processes and paperwork to ensure compliance with the Nudge Regulations. The Fund will offer to book a Pension Wise appointment at a date and time suitable for the scheme member where required. It should be noted that scheme members retain the right to opt out of receiving Pension Wise guidance. Further detail of the Fund’s compliance has been provided to the Local Pension Board.

Dashboard

82 Pensions dashboards are digital services — apps, websites or other tools — which savers will be able to use to see their pension information in one place. It is the government’s intention to create a national Pensions Dashboard that will enable savers to see all their pensions information in one place online, including on their State Pension. It is hoped that through the Dashboard savers will be able to make better informed decisions about their retirement, as well as find lost and forgotten pots.

83 Like all large pension schemes, the LGPS will be required to connect and supply data to the government’s national Pensions Dashboard. It was expected that pensions schemes would start to connect to the Dashboard from August 2023, with the LGPS expected to connect in Autumn 2024. However, the Pensions Minister, Laura Trott MP, made a statement on 2 March announcing the intention to amend the staging timetable to allow more time for the technological system enabling dashboards to be delivered. As a result all schemes' deadlines will be changing. The Committee will be kept informed.

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Appendix 1

UK Parliament

Written questions, answers and statements

Financial Services

Statement made on 9 December 2022

Statement UIN HCWS425

Statement made by

Jeremy Hunt
The Chancellor of the Exchequer
Conservative
South West Surrey
Commons

Statement

In the Autumn Statement, I set out the government's strategy for boosting growth by investing in our people, in the infrastructure that connects our country, by creating the right environment for business investment, and by supporting our world-leading financial services companies and innovators. Alongside this, I identified five growth sectors – one being financial services – for which the government will prioritise the review of retained EU law, to ensure we identify changes that will support these sectors to grow.

I am today setting out a bold collection of reforms taking forward the government's vision for an open, sustainable, and technologically advanced financial services sector that is globally competitive and acts in the interests of communities and citizens. These reforms will create jobs, support businesses, and power growth across all four nations of the UK.

The UK is one of the world's leading financial centres and our financial services sector is one of the engines of the UK's economy. Financial and related professional services employ over 2.3 million people, two thirds of whom are outside of London, with hubs in Belfast, Birmingham, Cardiff, Edinburgh, Glasgow, Leeds, and Manchester.[1] In 2021, the financial services sector contributed £173.6 billion to the UK economy, 8.3% of total economic output.[2]

The announcements being made today build on the reform agenda the government is taking forward through the Financial Services and Markets (FSM) Bill. The government's approach recognises and protects the foundations on which the UK's success as a financial services hub is built: agility, consistently high regulatory standards, and openness. This approach will ensure that the sector benefits from dynamic and proportionate regulation, and that consumers and citizens benefit from high quality services, appropriate consumer protection, and a sector that embraces the latest technology.

I have set out below details of the measures being taken forward, which I look forward to delivering in close collaboration with our vibrant financial services sector.

A competitive marketplace promoting effective use of capital

Building a smarter regulatory framework for the UK

The government has today published its policy statement *Building a smarter financial services framework for the UK*. A copy will be deposited in the Library. This is an ambitious plan for repealing retained EU law in financial services and replacing it with a new framework tailored to the UK, embracing the new opportunities presented by our position outside the EU.

Our approach includes:

- Publishing draft Statutory Instruments to demonstrate how the government can use the powers within the FSM Bill to reform the prospectus and securitisation regimes and to ensure the Financial Conduct Authority (FCA) has sufficient rulemaking powers to regulate payments services and e-money. Overhauling the prospectus regime will enable the government to implement recommendations from Lord Hill's UK Listing Review, helping to widen participation in the ownership of public companies, simplify the capital raising process for companies on UK markets, and make the UK a more attractive destination for Initial Public Offerings. The government is also committed to working with the FCA and Prudential Regulation Authority (PRA) to bring forward relevant reforms identified in HM Treasury's 2021 review of the Securitisation Regulation.
- Plans to repeal the regulations for the European Long Term Investment Fund (ELTIF), without replacement. This reflects the fact that no ELTIFs have been established in the UK, removing unnecessary retained EU law, and that the newly established Long Term Asset Fund (LTAF) regime provides a fund structure better suited to the needs of the UK market. Firms have already begun to seek FCA authorisation for funds taking advantage of this new structure.
- Publishing the *Short Selling Regulation Review*, a Call for Evidence on the UK's regime for regulating short selling, with the aim of putting in place a regulatory regime tailored to the UK, which supports market integrity and bolsters the competitiveness of UK financial markets.
- Publishing *PRIIPs and UK Retail Disclosure*, a consultation on a proposed alternative framework for retail disclosure in the UK. Following the repeal of the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, the new framework for retail disclosure in the UK will work more effectively with the UK's dynamic capital markets and foster more informed retail investor participation.
- Publishing the *Information Requirements in the Payment Account Regulations Consultation* which examines proposals to remove unnecessary customer information requirements related to bank accounts imposed by the EU in the Payment Accounts Regulations. This would reduce unnecessary regulations on banks, freeing them up to better meet the needs of UK customers.

Updating banking regulation and the ring-fencing regime

The government will bring forward secondary legislation in 2023 to improve the functionality of the ring-fencing regime. These reforms, in response to the independent review on Ring-fencing and Proprietary Trading, will benefit customers, the financial services industry, and the economy, while maintaining appropriate financial stability safeguards. The government will also issue a public Call for Evidence in the first quarter of 2023 to review the practicalities of aligning the ring-fencing and resolution regimes.

The PRA intends to consult on removing rules for the capital deduction of certain non-performing exposures (NPEs) held by banks. This would allow the PRA to apply a judgement-led approach to address the adequacy of firms' provisioning for NPEs, help to simplify the UK rulebook and avoid the unnecessary gold plating of prudential standards. Such an approach would be possible only because of our regulatory freedoms outside the EU.

The PRA intends to consult on removing rules for the capital deduction of certain non-performing exposures (NPEs) held by banks. This would allow the PRA to apply a judgement-led approach to address the adequacy of firms' provisioning for NPEs, help to simplify the UK rulebook, and avoid the unnecessary gold plating of prudential standards. Such an approach would only be possible because of our regulatory freedoms outside the EU. The government will also legislate, when parliamentary time allows, to amend the Building Societies Act 1986 to give building societies in the UK greater flexibility to raise wholesale funds, enabling them to grow and compete on a more level playing field with retail banks, while retaining their mutual model. As part of this, the government will also modernise relevant corporate governance requirements in line with the Companies Act 2006.

Ensuring a regulatory focus on growth and competitiveness

The government is legislating through the FSM Bill to introduce new secondary objectives for the FCA and PRA to provide for a greater focus on growth and international competitiveness while maintaining their existing primary objectives. To further support this aim, I will today lay before Parliament new remit letters for the FCA and the PRA which will set clear, targeted recommendations for how the regulators should have regard to the government's economic policy.

Separately, the government and regulators will separately commence a review of the Senior Managers & Certification Regime in Q1 2023. The government will launch a Call for Evidence to look at the legislative framework of the regime, and the FCA and PRA will review the regulatory framework. The government's Call for Evidence will be an information gathering exercise to garner views on the regime's effectiveness, scope and proportionality, and to seek views on potential improvements and reforms.

Wholesale markets reforms

The government is committed to strengthening the UK's position as a world-leading wholesale capital markets centre, and is taking forward reforms to the Markets in Financial Instruments Directive (MiFID) framework through the Wholesale Markets Review. Measures in the FSM Bill deliver key elements of this. To further support this agenda, the government:

- Will today lay before Parliament The Markets in Financial Instruments (Investor Reporting) (Amendment) Regulations 2022, which will remove burdensome EU requirements related to reporting rules. This also builds on the reforms brought forward through The Markets in Financial Instruments (Capital Markets) (Amendment) Regulations 2021 laid in June 2021.
- Will bring forward secondary legislation in Q1 2023 to remove burdens for firms trading commodities derivatives as an ancillary activity, for example, when manufacturers seek to fix the future price of their purchases of specific raw materials.
- Is committing, alongside the FCA, to having a regulatory regime in place by 2024 to support a consolidated tape for market data. A consolidated tape will bring together market data from multiple platforms into one continuous feed. This will improve market efficiency, lower costs for firms and investors, and make UK markets more attractive and competitive.
- Will launch the Investment Research Review: an independent review of investment research and its contribution to UK capital markets competitiveness. The review is part of the government's wider commitment to enhance the UK's ability to attract companies to list and grow.
- Will establish a new industry-led Accelerated Settlement Taskforce to explore the potential of faster settlement of financial trades in the UK. Reducing settlement times from the current industry standard of two days could reduce counterparty risk and increase operational efficiency. The taskforce will bring together industry stakeholders to recommend an approach that works for the UK.

Unlocking investment to drive growth across the whole economy

The UK's financial services sector is an engine for growth across all four nations of the UK. The government is therefore bringing forward measures that will unleash the sector to drive investment and growth.

The government set out its plans to reform Solvency II at Autumn Statement, unlocking more than £100bn pounds for UK insurers to invest in long-term productive assets. HM Treasury is working with BEIS to deliver the recommendations made to government as part of the Secondary Capital Raising Review, and more broadly on reforms to corporate governance, to further enhance the attractiveness of UK public markets.

Going further, the government announces today that it:

- Will, in early 2023, consult on new guidance to the Local Government Pension Scheme (LGPS) in England and Wales on asset pooling. The government will also consult on requiring LGPS funds to ensure they are considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy.
- Is committed to accelerating the pace of consolidation so that no pension savers are left in poorly governed and underperforming schemes. In the new year DWP will lead the way by consulting on a new Value for Money framework, alongside the FCA and the Pensions Regulator, which will set required metrics and standards in key areas such as investment performance, cost and charges and quality of service that all schemes must meet.
- Will amend the tax rules for Real Estate Investment Trusts (REITs). With effect from April 2023, new rules will remove the requirement for a REIT to own at least three properties, where they hold a single commercial property worth at least £20 million; and amend the rule that applies to properties disposed of within three years of significant development activity, to ensure that this rule operates in line with its original intention.
- Has today published a technical consultation, *VAT treatment of fund management: consultation*, which sets out proposals for legislative reform intended to codify existing policy to give legal clarity and certainty, not to make policy changes. The consultation seeks input on whether the proposed changes achieve this objective.

A World Leader in Sustainable Finance

The government is ensuring that the financial system plays a major role in the delivery of the UK's net-zero target, and is acting to secure the UK as the best place in the world for responsible and sustainable investment. The UK is the world's premier financial centre for sustainable finance. The government is acting to ensure the UK retains global leadership in this rapidly growing sector. To deliver on its commitment align the financial services sector with Net Zero and to support the sector to unlock the necessary private financing, the government:

- Will publish an updated Green Finance Strategy early 2023.
- Will consult in Q1 2023 on bringing Environmental, Social, and Governance (ESG) ratings providers into the regulatory perimeter. HM Treasury will also join the industry-led ESG Data and Ratings Code of Conduct Working Group, recently convened

by the FCA, as an observer. These services are increasingly a component of investment decisions, and the government wants to ensure improved transparency and good market conduct.

A sector at the forefront of technology and innovation

Our regulatory framework for financial services must support innovation and leadership in emerging areas of finance. To ensure the sector is prepared to embrace and facilitate the adoption of cutting-edge technologies, the government is:

- Setting up a Financial Market Infrastructure Sandbox in 2023, and is legislating to implement this in the FSM Bill. This will enable firms to test and adopt new technology and innovations, such as distributed ledger technology, in providing the infrastructure services that underpin markets.
- Working with the regulators and market participants to bring forward a new class of wholesale market venue, which would operate on an intermittent trading basis. This highly innovative approach would be a global first and would act as a bridge between public and private markets, boosting the UK as a destination for all companies to get the investment they need to create jobs and grow.
- Legislating in the FSM Bill to establish a safe regulatory environment for stablecoins – which may be used for payments – and ensure the government has the necessary powers to bring a broader range of investment-related cryptoasset activities into UK regulation.
- Publishing its formal response to the consultation on expanding the Investment Manager Exemption to include cryptoassets, which will facilitate their inclusion in the portfolios of overseas funds managed in the UK. The government intends for this change to be made through HMRC regulations this year
- Bringing forward a consultation in the coming weeks to explore the case for a central bank digital currency – a sovereign digital pound – and consult on a potential design. The Bank of England will also release a Technology Working Paper setting out cutting-edge technology considerations informing the potential build of a digital pound.

Delivering for consumers and businesses

The government is committed to a financial services sector that supports the real economy and will continue to work with the regulators and industry to ensure that the sector is delivering for people and businesses across the UK. The government:

- Has published a consultation, *Reforming the Consumer Credit Act 1974*. By modernising the regulation of consumer lending, reform will update consumer protections and ensure they work well in a modern and increasingly digital economy. It will also increase accessibility of credit products by allowing firms to better serve consumers through more innovative credit products.
- Has consulted on reforms to remove well-designed performance fees from the pensions regulatory charge cap and will lay regulations early in the New Year. This will provide clarity for industry and ensure pension savers can benefit from investing in UK innovation.
- Is committed to working with the FCA to examine the boundary between regulated financial advice and financial guidance, with the objective of improving access to helpful support, information and advice, while maintaining strong protections for consumers.

I am confident that the measures announced today, in tandem with the work taken forward through the FSM Bill, will deliver for this key growth sector, and the people and businesses that rely upon it.

Documents relating to all announcements can be found on GOV.UK www.gov.uk/government/collections/financial-services-the-edinburgh-reforms

[1] State of the Sector Report (July 2022) available at: State of the sector: Annual review of UK financial services 2022 - GOV.UK (www.gov.uk)

[2] House of Commons Library ‘Financial services: contribution to the UK economy’: https://commonslibrary.parliament.uk/research-briefings/sn06193/

Statement from

Treasury

Linked statements

This statement has also been made in the House of Lords

Treasury

Financial Services

Baroness Penn

The Treasury Lords Minister

Conservative, Life peer

Statement made 14 December 2022

HLWS437 Lords

Appendix 2

Department for Levelling Up,
Housing & Communities

Lee Rowley MP
Parliamentary Under-Secretary of State for Local Government and Building Safety

Department for Levelling Up, Housing and Communities
Fry Building
2 Marsham Street
London
SW1P 4DF

Our Ref:20072812

Councillor Roger Phillips
Chair, LGPS Advisory Board
Local Government Association
Smith Square
London
SW1P 3HZ

15 February 2023

Dear Roger,

Thank you for your letter dated 3 August to Paul Scully MP regarding delays in the external audit of local authority accounts, including pension fund accounts. I am replying as since 1 November, this matter falls within my ministerial responsibilities. Please accept my apologies for the delay in responding to you.

I recognise the scope and complexity of issues affecting external local audit, and the impact that this is having on reporting by local authorities and LGPS funds. The Pension Fund Annual Reports and the Scheme Annual Report are vital in maintaining transparency and accountability of the LGPS to members, employers, and taxpayers, and in informing the work that the Scheme Advisory Board does to help maintain the scheme.

I welcome the Board's advice and recommendation to consider the separation of main authority accounts and the pension fund accounts, in addition to the package of support for local audit already in place. I have asked my officials to consider the scope for developing this further.

I would like to thank you and the Scheme Advisory Board for your hard work, and commitment to making the LGPS a valuable part of the lives and futures for millions of workers.

Yours sincerely,

LEE ROWLEY MP

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Pension Fund Committee

16 March 2023

Pension Fund – GMP Rectification

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 This report highlights the need for the Pension Fund to complete a rectification of LGPS pensions in payment due to the implications arising from a reconciliation of Guaranteed Minimum Pension data held by the Fund and HMRC.

Executive Summary

2 Guaranteed Minimum Pension (GMP) is an element of pension accrued by scheme members in respect of service prior to April 1997. The amount of GMP is calculated by HMRC based upon service records held by HMRC and UK pension funds. Following the closure of HMRC's GMP support, all defined benefit schemes in the UK were required to undertake a reconciliation of the GMP data held locally with the corresponding record held by HMRC. As the value of GMP affects the rate of annual pension increase enjoyed by pensioners, discrepancies in this data can lead to both under and overpayments.

3 Having carried out its reconciliation, the Pension Fund has identified 1,282 pensioners whose pension needs to be corrected due to discrepancies between the data held by the Fund and that held by HMRC. Correcting the pensions in payment will result in the Fund paying an estimated £247k in arrears due to underpayments. It is also proposed that overpayments totalling £250k are written off.

Recommendation(s)

4 The Committee are recommended to:

(a) Note the report and agree that the Corporate Director of Resources commits the additional resources necessary to bring to a conclusion the GMP Rectification,

(b) Note the approach taken by the Fund in reconciling its GMP liabilities, and the setting of a £2 per week reconciliation tolerance,

(c) Agree to the correction of all under / overpaid pensions going forward,

(d) Agree to payment of all arrears that have accrued due to underpayments, with interest paid at 1% above the Bank of England Base Rate; and,

(e) Agree to write off overpayments that have resulted from the GMP Reconciliation.

Background

5 From 6 April 1978 to 31 March 2016 the State Pension was made up of a basic element and an additional element known as the State Second Pension – known previously as State Earnings Related Pension Scheme or ‘SERPS’. Occupational pension schemes were able to ‘contract out’ of SERPS, and in return their members could pay reduced National Insurance contributions.

6 Like all other public sector pension schemes the Local Government Pension Scheme (LGPS) contracted-out of SERPS. As such, the public sector schemes, including the LGPS, were required to ensure that their scheme members were paid a pension at least equal to that which would have been due under SERPS. This amount is known as the Guaranteed Minimum Pension (GMP). GMP accrued in two distinct periods – that which was earned before April 1988 (‘pre-88 GMP’), and that which was earned after April 1988 (‘post-88’ GMP). Accrual of GMPs ceased in April 1997.

7 GMP that has accrued becomes payable from State Pension Age (SPA), and pension funds must check the value of the GMP against the pension currently in payment. The value of the LGPS pension payable almost always exceeds the GMP. On rare occasions where an LGPS pension is less than the GMP however, then that pension must be uplifted to the value of the GMP on and from SPA.

The Impact of GMP

8 In addition to checking the level of pension in payment at SPA against the value of GMP, the Pension Fund must also take the GMP into account when calculating annual increases for the Fund’s 21,346 pensioners. For pensioners who attained SPA before 6 April 2016, the Fund pays lower increases to those pensioners who have accrued a GMP. As set out below, the Fund is not responsible for all of the increases due on GMPs:

Tranche of pension	**Who pays increase?**
Pre-88 GMP	DWP, through State Pension
Post-88 GMP	LGPS Fund, up to 3% DWP, through State Pension, increase in excess of 3%
Pension in excess of GMP	LGPS Fund

9 The Fund is not responsible for paying any increase on the pre-88 GMP – the increase on this amount is paid as part of the State Pension. Additionally, for pensioners who attained SPA before 6 April 2016 and who also have a post-88 GMP, the process is more complicated. The Fund has responsibility for the first 3% of any increase on the post-88 GMP, with any increase in excess of 3% paid as part of the State Pension. An example of how this works is shown in the table below, reflecting the application of the 2023 annual increase of 10.10%:

	2022 Starting pension (£ p/a)	**Increase on pre-88 GMP paid by LGPS**	**Increase on post-88 GMP paid by LGPS**	**Increase on excess over GMP**	**2023 Increased Pension**
Pensioner, with no GMP	£1,000	n/a	n/a	£1,000 x 10.10% = £101	£1,101.00
Pensioner, with £100 pre-88 GMP only	£1,000	£zero	n/a	£900 x 10.10% = £90.90	£1090.90
Pensioner, with £100 pre and £100 post-88 GMP	£1,000	£zero	£100 x 3% = £3	£800 x 10.10% = £80.80	£1083.80

10 On 6 April 2016, a new State Pension was introduced, replacing the two-tier system which included the State Second Pension. The change caused uncertainty over responsibility for the ongoing increases (known as indexation) to GMP. This led to an interim solution for members attaining SPA on or after 6 April 2016, whereby LGPS funds took responsibility for paying all of the increase on both pre-88 and post-88 GMPs. In 2021, the interim solution was made permanent. The Pension Fund therefore pays full increases to all pensioners attaining SPA after April 2016.

Problems with GMP data

11 In 2008 the Government announced that £126m of overpayments had been made to 95,000 pensioners in the five centrally managed public service pension schemes (the NHS, Teachers, Armed Forces, Judicial and Civil Service schemes). The overpayments had arisen due to the incorrect recording of GMP values, which had been reconciled against values held by HMRC. The inaccuracies had led to the incorrect application of pensions increase over a 30-year period.

12 The sources of the errors leading to the £126m overpaid in the centrally managed public sector schemes was not always the same for each individual. The interaction between the State Pension system and occupational pension schemes is noted as being complex, with shared responsibility for GMP indexation as noted previously. The historic, paper-based, administrative process for establishing and transacting GMP accrual was complex and fragmented, vulnerable to error. Indications in 2008 were that the locally managed public service pension schemes, such as the LGPS, were not affected to the same extent as the centrally managed schemes.

13 In a December 2008 statement to the Commons, the Minister for the Cabinet Office announced the Government's decision not to recover monies already overpaid to pensioners in the centrally managed schemes, but to correct ongoing payments on and from April 2009. It was noted that it was not cost-effective to seek recovery of historic overpayments. Those pensioners who were underpaid, were paid full arrears with interest.

14 Subsequently, following the end of the State Second Pension and Contracting-Out in 2016, HMRC announced its intention to stop supporting the reconciliation of GMP. Ahead of the cessation of its GMP support, HMRC would make full information on GMP liabilities available to all former contracted-out pension schemes to allow pension funds to undertake a full reconciliation. It was a requirement in both the public and private sectors for all Defined Benefit pension schemes, like the LGPS, to carry such a reconciliation with HMRC.

The Need for GMP Reconciliation

15 GMP reconciliation is the process of comparing a pension fund's GMP data with that held by HMRC. The process seeks to investigate any discrepancies between pension fund data and HMRC data, with the aim of achieving consistent GMP data and benefit records. HMRC's approach placed the investigative responsibility for all reconciliation queries back onto the individual pension fund.

16 Following HMRC's requirement to undertake such a reconciliation exercise, the Pension Fund registered with HMRC's scheme reconciliation service and received an initial data file listing the contracted-out periods and GMP data for members who had left contracted-out employment.

17 When the Pension Fund Committee considered the GMP Reconciliation in March 2017 it was noted that not all variances were to be investigated, and that a tolerance would be set. An HM Treasury

working group provided the following recommendation on how any discrepancies should be dealt with:

"*Where discrepancies are small, for example if a service period discrepancy is less than a year, or if the discrepancy in weekly GMP amount is no more than £2, schemes should use the data provided by HMRC in respect of any individuals who have not reached state pension age, or the data held by the scheme in respect of any individuals who have reached state pension age*."

18 Following agreement of the Pension Fund Committee to commit the necessary resources to carry out the GMP Reconciliation, the Fund worked with its software supplier Civica, to carry out the GMP Reconciliation. This was a significantly protracted process, with many delays due to changes in HMRC delivery dates.

19 The subsequent reconciliation involved detailed investigative work, reviewing decades of data and benefit accrual. Ultimately, the Fund's GMP and membership data was compared to that which was held by HMRC. Where service could be matched within the recommended tolerances, the GMP value provide by HMRC was accepted to be correct. Where service did not match this was queried with HMRC.

20 Following the completion of the reconciliation and closure of HMRC's Scheme Reconciliation Service, the Fund was issued with a final data cut from HMRC, based on the completion of all queries. There is no opportunity for pension funds to further query the data due to the Reconciliation Service closure. Following receipt of the final data cut, the Fund undertook a final rematching exercise against this data cut.

21 The rematching process identified 2,715 pensioners who had attained SPA as being in scope of rectification, based on the recommended £2 per week reconciliation tolerance. This population included a number of pensioners who reached SPA after April 2016, and are therefore entitled to, and have been receiving, full increase on their GMP. The estimated population of pensioners for whom rectification will impact the rate of pension increase is therefore reduced to 1,282.

LGPS Rectification

22 Following the completion of the Pension Fund's GMP Reconciliation, the Fund must now go through a process of correcting the data held and implementing an approach to pensions currently paid at the incorrect rate. This stage of the process is known as the GMP Rectification. Initial work has been undertaken with the Fund's software supplier to run results through it's GMP Rectification solution. The solution will provide bulk data correction, and calculation of arrears.

23 The results from this initial work have helped to verify the number of pensioners who require an adjustment to their pensions and helped to scope the scale of work required to rectify records for other membership populations. The GMP Rectification will facilitate the payment of correct pension benefits going forward and inform the delivery of member communications.

24 The Rectification exercise is necessary as pension schemes have a duty to pay the correct benefits to the right members at the right time. Additionally, the Pensions Regulator regards accurate record keeping as fundamental to good governance, falling within the statutory duty to establish and operate adequate internal controls. Inaccuracies in scheme data such as GMP can result in over or understatement of scheme liabilities.

25 As noted, this initial work following the final rematching exercise has revealed 1,282 pensioners who are in receipt of a pension paid at the incorrect rate due to the impact of incorrect GMP on the annual pension increase exercise. Of this population, 677 cases ran through the automated software solution without manual intervention. The results from these 677 cases provide an indication of the scale of over / under payments across the total population as estimated in the table below:

Under / Overpayment Range	**Estimated Number of Pensioners**	**Estimated Over/Under Payment Accrued**
Overpayment £3,000+	23	-£120,227
Overpayment £2000-£3000	11	-£26,402
Overpayment £1000-£2000	36	-£49,146
Overpayment £500-£1000	44	-£31,302
Overpayment £250-£500	32	-£11,645
Overpayment up to £250	282	-£11,374
No Change	670	£0
Underpayment up to £250	121	£2,844
Underpayment £250-£500	15	£5,137
Underpayment £500-£1000	8	£5,799
Underpayment £1000-£2000	17	£25,532
Underpayment £2000-£3000	8	£19,227
Underpayment £3000+	15	£189,073
Total	**1,282**	

26 The scale of over / underpayments is significantly lower than that experienced in other centrally managed schemes. Additionally, the corrected pensions that become due to the 1,282 affected pensioners is also lower – with no individual pensioner anticipated to see an increase or decrease of more than £10 per month to their pension. The impact on the Fund's pensioners is shown in the table below:

Monthly Pension Variance	**Estimated Number of Pensioners**
Reduction greater than £50	0
Reduction between £20 and £50	0
Reduction between £10 and £20	0
Reduction between £2 and £10	47
Reduction between £1 and £2	40
Reduction between £0.03 and £1	165
No material impact	933
Increase between £0.03 and £1	66
Increase between £1 and £2	17
Increase between £2 and £10	13
Increase between £10 and £20	0
Increase between £20 and £50	0
Increase greater than £50	0
Total	**1,282**

27 The approach to under / overpayments across the LGPS is still emerging, as Funds experienced significant delays in receipt of final data cuts from HMRC. HM Treasury's GMP working group made clear however that there is an expectation that pensioners who have been underpaid, should be paid their pension arrears in full, with interest. Payment of the arrears will incur an estimated cost to the Pension Fund of £247k + interest.

28 Treasury guidance also clarifies that in the case of the LGPS, decisions on whether and how to recover overpayments are a matter for the relevant local authority. As the Fund participates in the North of England Pension Officer's Forum (NEPOF) with 7 other LGPS Funds based in

the northeast; the Fund has been able to discuss progress with regional peers. Amongst those funds, only one has concluded their Rectification exercise to date. That fund took the decision to correct all pensions going forward, but to write off any past overpayments; consistent with the approach taken in the centrally managed funds.

29 There is a possible reputational risk associated with either writing off overpayments, or conversely from trying to reclaim such overpayments from elderly scheme members. The context must be noted that the recipients of the overpayments are highly unlikely to have any awareness of having been overpaid, due to the complexity of the GMP calculation underlying the overpayment. Additionally, it would not be cost effective to seek to recover small overpayments from the Fund's pensioners who would have the right to appeal against the decision to do so.

30 The Pension Fund does, however, have an obligation to correct errors of which it has become aware. It is therefore proposed to correct overpaid pensions at the earliest opportunity, but to write off the overpayment that has accrued to date. This will write off an estimated £250k of overpayments from the Pension Fund and would be consistent with central government approach, and the emerging approach in the wider LGPS.

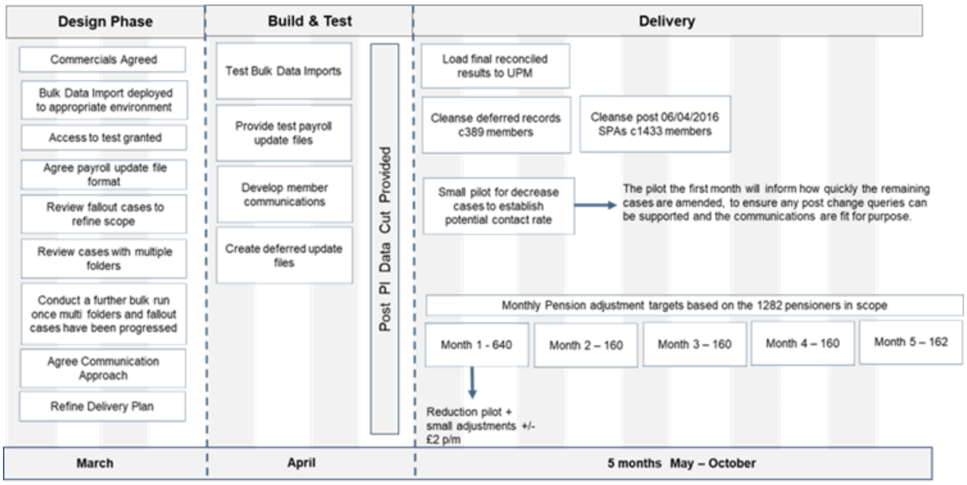
31 It should be noted that the modelling of impact at both pensioner and total fund level is based upon initial analysis only. Further quality checks will be undertaken, and the pattern seen in the 677 cases which did not require manual intervention has been applied to the whole population. The results could therefore be under / overestimated. Additionally, as the rectification will occur after the 2023 pensions increase exercise in April, the under / overpayments will be further exacerbated by CPI of 10.10%.

32 There is also significant further work to correct the records of those membership populations whose rate of pension is not affected by the exercise – including pensioners who attained SPA after April 2016, deferred members, and active members with membership before April 1997. Bulk Data Import (BDI) through the Fund's software supplier will be utilised to correct all records on the Fund's pension administration database. The proposed project delivery plan is shown below

33 Whilst it is initially planned that monthly pensions are corrected over a 5-month period May – October, due to the lower than expected over / underpayments, this period is likely to be shortened after reviewing the success of the pilot in May. Member communications will be developed ahead of the pilot, and it is proposed that a written notification is sent to all pensioners whose change in monthly pension would trigger a payslip

(i.e. a change of £5 or more) - consideration will be given to communications for smaller adjustments. Active and Deferred members will be kept informed through online Annual Benefit Statements.

Next Steps



34 It has been a protracted process to get to the stage where the Fund is able to progress its GMP Rectification. Subject to the Committee's agreement to the proposed strategy, the Fund's software supplier will be engaged to complete the Rectification through a Contract Change Notice. Communications will be developed, with the intention that all under / overpayments are corrected before October with pensioners notified of their own position as required. Both the Pension Fund and Corporate Risk Register will be updated as the project progresses.

Author(s)

Paul Cooper Tel: 03000 269798

Pension Fund Committee

16 March 2022

Pension Fund Policy Documents – Funding Strategy Statement

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 To inform Members of the draft of the revised Funding Strategy Statement which has been out to consultation with Durham County Council Pension Fund employers.

Executive summary

2 The Local Government Pension Scheme (LGPS) Regulations require the Fund to maintain and publish a Funding Strategy Statement (FSS). The FSS has been amended to reflect the approach recommended by the Actuary for the 2022 valuation as well as changes in the legislative environment.

Recommendation(s)

3 Members are asked to:

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

(b) authorise the Corporate Director of Resources to finalise the wording of the FSS and Employer Flexibilities Policy.

Background

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

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

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

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

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

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

9 A red-line copy of the draft FSS is included at Appendix 1 and a red-line copy of the proposed Policy on Employer Flexibilities and Exits is included in Appendix 2 – this Policy consolidates policies on Flexibilities and Exits which the Fund previously formulated in separate documents.

Funding Strategy Statement

10 The Pension Fund Actuary has been closely involved in the preparation of the revised FSS, which reflects the funding approach taken to the latest triennial valuation, as at 31 March 2022. Significant changes from the previous version of the FSS are as follows:

- Setting out the proposed Probability of Funding of Success, of 76%.
- Setting out the approach to allowing for the anticipated McCloud remedy.
- Proposing the introduction of climate change scenario analysis in the 2022 valuation report, as required by Government Actuary's Department (GAD).
- Reflecting changes to the legislative environment, including the change from MHCLG to DLUHC, the cost management process, and removal of public sector exit payments cap.
- Deletion from the FSS matters which are set out separately in the Employer Flexibilities Policy.
- Setting out the Fund’s approach to surplus amortisation.

Next Steps

11 The draft FSS was sent (Appendix 3) to all Pension Fund employers on 15 February 2023 with a request for comments by 3 March 2023. No comments have been received. Officers of the Fund will therefore finalise the draft FSS, subject to comments from the Committee, in consultation with the Fund Actuary.

12 Additionally, there are occasions when participating employers do not inform the Fund of an outsourcing with enough time for the Fund Actuary to calculate an employer contribution rate for the new admission body. To calculate such a rate data needs to be obtained and passed to the Fund Actuary to calculate a new contribution rate for the new admission body

13 Officers are therefore in discussion with the Fund Actuary regarding the possibility of setting such new admission bodies an interim contribution rate that can be used in the short term in such situations, alongside other alternative approaches. This would allow the new admission body to pay contributions until such time as the full calculation of their specific contribution rate is completed. An addition would be needed to the Employer Flexibilities Policy to allow for this - Officers are consulting with the Fund Actuary regarding the required wording.

14 Final versions of both the FSS and the Employer Flexibilities Policy will be circulated by 31 March 2023, together with the Fund Actuary's 2022 Valuation Report. Separately, the ISS may need to be revised, in line with any agreed changes to the Fund's investment strategy.

Author(s)

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Pension Fund

Funding Strategy Statement

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STATUTORY BACKGROUND AND KEY ISSUES

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

2. Key issues:

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

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

     - guidance published by CIPFA in September 2016 entitled "Guidance on Preparing and Maintaining a Funding Strategy Statement and to the Fund's Statement of Investment Principles"
     - the supplementary statutory guidance issued by MHCLG (now DLUHC); Guidance on Preparing and Maintaining Policies on Review of Employer Contributions, Employer Exit Payments and Deferred Debt Agreements; and
     - its Investment Strategy Statement (ISS) published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).
     - The Administering Authority has also considered the Scheme Advisory Board's Guide to Employer Flexibilities for Administering Authorities and Employers in developing the FSS

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

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

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

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

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

3. This Statement was reviewed ~~following changes in the regulations to introduce flexibilities around employer contributions and exits~~ as part of the 2022 triennial actuarial valuation process, and has been updated in ~~February~~ March 2023~~1~~.

(B) PURPOSE OF THE FUNDING STRATEGY STATEMENT

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

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

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

(C) PURPOSE AND AIMS OF THE PENSION FUND

5. The purpose of the fund is to:

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

6. The aims of the fund are to:

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

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

  - ➢ the regulatory requirement to secure solvency and long term cost efficiency, which should be assessed in the light of the risk profile of the Fund and risk appetite of the Administering Authority and employers
  - ➢ the requirement to ensure that costs are reasonable to Scheduled Bodies, Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks), and
  - ➢ maximising return from investments within reasonable risk parameters

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

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

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

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

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

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- **Manage employers' liabilities effectively**

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

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

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

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

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

  ➢ Taking advice from its professional advisers, e.g. the Fund Actuary, Investment advisers and investment managers

  ➢ Controlling levels of investment in asset classes through the ISS

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

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

  ➢ Limiting concentration risk by developing a diversified investment strategy.

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

(C) RESPONSIBILITIES OF THE KEY PARTIES

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

8. The administering authority should:

   - Administer the Fund

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

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

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

   - Invest surplus monies in accordance with the Regulations.

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

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

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

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

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

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

- Consider the appropriateness of interim valuations.

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

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

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

- Enable the local Pension Board to review the valuation process as set out in their terms of reference

- ensure consistent use of policies relating to revising employer contributions between formal valuations, entering into deferred debt arrangements and spreading exit payments and ensure the process of applying those policies is clear and transparent to all fund employers

9. The individual employers should:

    - Deduct contributions from employees' pay correctly.

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

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

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

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

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

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

10. The fund actuary should:

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

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

- Assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as required or permitted by the Regulations.
- Assist the Administering Authority in relation to any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B.

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

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

(E) FUNDING TARGETS, SOLVENCY AND EMPLOYER ASSET SHARES

Risk based approach

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

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

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

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

    These three terms are considered in more detail below.

Solvency and 'funding success'

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

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

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

- For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government bonds after exit.

- For deferred employers it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the Deferred Debt Agreement ~~(deferred debt agreement)~~ ends. For most such bodies, the Solvency Target will be set commensurate with assumed investment in UK Government bonds at the end of the period of the deferred debt agreement.

Probability of Funding Success

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

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

17. At the 2022~~19~~ valuation, the Trajectory Period used was 25 years, and the probability of Funding Success was set to be ~~75~~76%.

Funding Target

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

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

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

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

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service (primary) contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the future service (primary) contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

Application to different types of body

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

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

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

- **Admission Bodies and certain other bodies whose participation is limited**
  For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become

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

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

Full Funding and Solvency

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

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

Recovery Periods

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

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

26. The Recovery Period applicable for each employer is set by the Fund Actuary in consultation with the Administering Authority and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

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

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

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

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

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

- In line with the desirability of maintaining as nearly constant a contribution rate at this and future valuations, the Recovery Period shall not apply to any employer subject to the scheduled body and subsumption and intermediate funding targets at a funding level of between 100% - ~~105~~110%. Those employers will be required to pay the primary rate (i.e. the future service rate) in full, without any adjustment for a surplus. In respect of any employer at a funding level in excess of 110~~05~~%, the Recovery Period shall only apply to any surplus above the 110~~05~~% funding level.

A period of ~~18~~ 16 years has been used for Durham County Council at the ~~2019~~ 2022 valuation, the largest employer in the Fund. Recovery Periods for other employers or employer groups may be shorter or longer and may not necessarily be the same as each other, in order to suitably balance risk to the Fund and cost to the employer.

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

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

- length of participation in the Fund

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

Stepping

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

Advance Funding of Secondary Contributions

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

Grouping / Pooling

32. In some circumstances it may be desirable to group or pool employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include:
    - reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or
    - accommodating employers who wish to share the risks related to their participation in the Fund such as outsourcings which have been carried out on a 'pass-through' approach where it makes sense for the service provider to be given either the same primary contribution rate as the outsourcing body or the fixed contribution rate agreed contractually, or
    - employers have been grouped for practical or commercial reasons.

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

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

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

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

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

Asset shares notionally allocated to employers

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

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

Roll-forward of asset shares

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

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

40. Further adjustments are made for:

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

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

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

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

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

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

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

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

Fund maturity

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

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

(F) SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

Interim reviews

45. Regulation 64 and 64A of the Regulations provide the Administering Authority with a power to carry out interim valuations and for the Actuary to certify revised contribution rates, between triennial valuation dates. Further details of the Fund's policy in relation to Regulation 64A is set out ~~in a separate policy~~the Pension Fund’s Policy on Employer Flexibilities.

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

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

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

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

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

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

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

~~48.~~47. Further details of the Fund's policy in relation to Regulation 64(4) are set out in the Pension Fund's Policy on Employer Exits and Flexibilities. Notwithstanding ~~the above guidelines~~these, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) of the Regulations applies.

Guarantors

~~49.~~48. Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

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

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

~~50.~~49. During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Target for the employer, which would probably lead to reduced contribution requirements.

Bonds and other securitisation

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~~51.~~50. Paragraph 6 of Part 3, Schedule 2 of the Regulations creates a requirement for a new Admission Body to carry out, to the satisfaction of the Administering Authority (and the Scheme Employer in the case of an Admission Body admitted under paragraph 1(d)(i) of that Part), an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

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~~52.~~51. Where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an Admission Body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the admission body.

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~~53.~~52. The Administering Authority's approach in this area is as follows:

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

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

  the administering authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer to form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body. The Administering Authority notes that levels of required bond cover can fluctuate and will recommend the relevant Scheme Employer to jointly review the required cover with it regularly, at least once a year.

Subsumed liabilities

~~49.~~53. Where an employer is exiting the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities. This is a form of risk sharing between the employers.

~~50.~~54. In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is taken on by the accepting employer).

Orphan liabilities

~~51.~~55. Where an employer is exiting the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64 of the Regulations, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

~~52.~~56. The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally UK Government fixed interest and index linked bonds.

~~53.~~57. To the extent that the Administering Authority decides not to match these liabilities with UK Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the other employer~~'~~s' notional assets.

~~54.~~58. Liabilities in the Fund which are already orphaned will be assumed to be 100% funded on the appropriate funding target at each triennial valuation. This will be achieved by the Actuary notionally re-allocating assets within the Fund as required.

Commencement of Employers

~~55.~~59. When a new employer starts in the Fund, and members transfer from another employer in the Fund, a notional transfer of assets is needed from the original employer to the new employer. The approach used will depend on the circumstances surrounding the commencement of the new employer and some comments are set out below.

~~56.~~60. When a new admission body starts in the Fund due to an out~~r~~sourcing event, they will usually start as fully funded on the Funding Target appropriate to the new employer. This means that any past service surplus or deficit for the members who are transferring to the new employer remains with the original employer and does not transfer to the new employer.

~~57.~~61. For academies, a prioritised share of fund approach is followed. This involves fully funding the non-active members of the original employer at the previous triennial valuation, and using the residual assets to calculate the funding level applicable to the active members of the original employer. This is rolled forward in line with the progression of the overall funding level of the original employer during the period from the last valuation date to the date of commencement of the academy, to a maximum of 100%. The funding level applicable to the active members is then used to calculate the notional asset transfer to the new employer.

~~58.~~62. In other circumstances the notional asset transfer will often be subject to the agreement between the relevant parties and the Administering Authority (who will take advice from the Fund Actuary). In the event of any dispute the Administering Authority will ~~take~~ make the final decision having taken account of the issues related to the setting up of the new employer.

Cessation of participation

~~59.~~63. The Fund's policy on the following areas are set out in ~~a separate policy document~~the Fund's Employer Exits and Flexibilities Policy: exit valuations, exit payments and credits, spreading of exit payments, and the way benefit uncertainties (such as the proposed McCloud remedy and the expected changes to GMP indexation) are allowed for in exit valuations.

~~60.~~64. In certain circumstances it may be agreed to enter into a deferred debt agreement rather than require an immediate exit payment. In that case, the employer would remain a participating body as a deferred employer. Further details are set out in ~~a separate~~the Fund's Exits and Flexibilities ~~p~~Policy.

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

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

General Principles and diversification

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

67. The neutral benchmark proportions of the various asset classes have been determined by the Fund in consultation with the Investment Advisers and are reviewed at least once every three years to coincide with the Triennial Actuarial Valuation.

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

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

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

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

(H) IDENTIFICATION OF RISKS AND COUNTER-MEASURES

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

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

74. Investment

These include:

a. assets not delivering the required return (for whatever reason, including manager underperformance)
b. systemic risk with the possibility of interlinked and simultaneous financial market volatility
c. having insufficient funds to meet liabilities as they fall due
d. inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
e. counterparty failure
f. risks associated with the transition of assets to the pool
g. risks associated with climate change

The specific risks associated with assets and asset classes are:

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

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

At the 2022 valuation the Fund Actuary will undertake scenario analysis to assess the resilience of the funding strategy to climate change risk over an agreed period.

75. Employer

These include:

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

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

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

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

76. Liability

These include:

a. Interest rates being lower than expected
b. Pay increases being higher than expected
c. Price inflation being higher than expected
d. The longevity horizon continuing to expand
e. Deteriorating patterns of early retirements

The Administering Authority will ensure that the Actuary investigates these matters at each valuation. Prudent management of the fund should ensure that sound policies and procedures are in place to manage, e.g. potential ill health or early retirements.

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

77. Regulatory

These include:

a. Changes to general and LGPS specific regulations, e.g. more favourable benefits package, potential new entrants to the scheme, e.g. part-time employees

b. Changes to national pension requirement and/or HMRC~~Inland Revenue~~ rules

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

- ~~How Government will address the issues of GMP indexation and equalisation for the LGPS beyond expiry of the current interim solution from 6 April 2021~~
- The timing and detail of any final regulations in relation to the remedy to compensate members of illegal age discrimination following the outcome of the McCloud / Sargeant cases. ~~As at 31 March 2016 and~~
- The outcome of the cost management process as at ~~31 March 2016 and~~ 31 March 2020~~, noting the agreement reached in relation to the 2016 Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to aschieve an additional cost of 0.9% of pay was paused as a result of the MccCloud / Sargeant ruling~~.
- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the chief secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed.
- ~~Redundancy early retirement provisions - with effect from 4 November 2020 a cap on exit payments made by public sector employers came into effect, including the cost of early payment of LGPS pensions for those over aged 55. Whilst MHCLG has consulted on changes to amend the LGPS Regulations to allow for the cap these changes have not yet been implemented so there is an inconsistency between the HMT Regulations and the LGPS Regulations.~~

  In determining how these uncertainties should be allowed for in employer con~~m~~tributions ~~from 1 April 2020~~ the Administering Authority ~~has had~~will have regard to guidance issued by SAB and take~~n~~ advice from the Fund Actuary ~~advice and decided to add 0.9% of pay to each employer contribution rate~~.

  For the purposes of the 2022 valuation, an approximate employer specific allowance will be made in respect of the McCloud remedy based on a high level analysis of the employer's fund membership. Members' benefits will be valued as required by relevant legislation as in force as at 31 March 2022, except for the following assumptions:

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- It will be assumed that the current underpin (which only applies to those members within 10 years of their Normal Pension Age at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the 2014 Scheme without a disqualifying service gap.
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).
- Where a member remains in active service beyond 31 March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (whichever is sooner).
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.
- The underpin will consider when members take their benefits, so they can be assured they are getting the higher benefit.

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

78. Liquidity and maturity

These include:

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

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

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

79. Governance

These include:

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

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

80. Choice of Solvency and Funding Targets

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

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

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

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

81. Smoothing of Assets

These include:

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

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

82. Recovery Period

These include:

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

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

83. Stepping

These include:

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

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

(I) MONITORING AND REVIEW

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

Appendix: Groups / Pooling

Issues relevant to all employers

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

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

Town Council Group

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

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

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

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

~~Pelton Parish Council~~
Central Durham Joint Crematorium Committee
Esh Parish Council
North Lodge Parish Council
Trimdon Foundry Parish Council

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

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

Durham County Council

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

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

Darlington County Borough Council

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

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

Pension Fund
Policy on Employer Exits and Flexibilities

This document sets out the approach of Durham County Council (the "Administering Authority") as administering authority of the Durham County Council Pension Fund (the "Fund") to exiting employers from the Fund, and also in respect of the review of employer contributions, employer exit payments and deferred debt agreements (collectively, 'Employer Flexibilities'). This policy takes into account changes introduced by the Local Government Pension Scheme (Amendment) Regulations 2020 and the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020. The policy also takes account of "Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments, and deferred debt agreements" issued by MHCLG (now 'DLUHC').

Employer Exits Policy

1. Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64 of the Regulations. That valuation will take account of any activity as a consequence of exit regarding any existing contributing members (for example any bulk transfer payments due, and any asset transfer associated with the transfer of active members to another employer in the Fund) and the status of any liabilities that will remain in the Fund.

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

3. The exit valuation will assess the assets held as at the exit date in the Fund in respect of the exiting employer, as compared to the liabilities of the Fund in respect of benefits attributable to the exiting employer's current and former employees. The exit valuation will normally conclude that there is either:

   3.2. a deficit, in that the liabilities have a higher value than the assets; or

   3.3. a surplus, in that the assets have a higher value than the liabilities.

4. When calculating the liabilities in the Fund in respect of the exiting employer, an increase ~~of 0.6%~~ will be applied to these liabilities to allow for the potential increase in benefits due to the cost management process and the McCloud[1] judgement, as advised by the Fund Actuary. ~~The form and extent of any such increase in benefits is currently uncertain, and so this is an approximate allowance calculated to cover the expected increase in liabilities for an average employer in the fund. The adjustment to apply to liabilities on exit has been calculated consistently with the addition to contribution rates applied at the 2019 valuation (see paragraph 5).~~

~~5. The 0.6% above is calculated as follows: 5.1. 2.8% of pay increase to active past service liabilities as set out in our advice on McCloud for the valuation (re-attached for convenience), equivalent to 0.35% of total liabilities; plus~~

~~5.2. 0.3% pay increase in contribution rate (0.9% pay allowance made at the valuation in contribution rates vs 0.6% pay calculated in respect of McCloud only in the attached advice) plus the future service cost in respect of McCloud (0.4% pay pa) capitalised over the 3 year period of the current Rates and Adjustments Certificate, equivalent to 0.26% of total liabilities.~~

[1] Lord Chancellor and Secretary of State for Justice and another v McCloud and others; Secretary of State for the Home Department and others v Sargeant and others, [2018] EWCA Civ 2844

~~6.~~5. Where the exit valuation shows a deficit, an exit payment will usually be required from the exiting employer. The administering authority, at its sole discretion, may allow phased payments.

~~7.~~6. The Administering Authority may, with the consent of the scheme employer in question, allow another employer in the fund to subsume the assets and liabilities of the exiting employer. This may include the Administering Authority agreeing to the other scheme employer accepting ongoing liability for any deficit in substitution of the requirement for an exit payment from the exiting employer.

~~8.~~7. For exits on or after 14 May 2018, where the exit valuation shows that there is a surplus in the Fund in respect of the exiting employer, the Administering Authority will follow the process set out in paragraphs ~~9~~ 8 to ~~15~~ 14 below.

~~9.~~8. As soon as is practicable after the production of the applicable exit valuation, the Administering Authority will notify the exiting employer and, where the exiting employer has been admitted to the fund as an admission body:

8.1. any party that has given a guarantee under paragraph 8 of Part 3 to Schedule 2 to the Regulations;

8.2. (in respect of admissions under paragraph (1)(d) of Part 3 of Schedule 2 to the Regulations) any scheme employer connection with the exercise of whose function the exiting employer was providing a service or assets; and

8.3. any employer who has provided a subsumption guarantee in respect of the exiting employer.

of the fact that the exit valuation shows a surplus, that the Administering Authority intends to make a determination of whether this surplus should be passed in whole or in part to the exiting employer, and to request that each party, within 14 days, provides their written representations to the Administering Authority in relation to any factors which, in their view, would influence such a decision and make the payment of a surplus to the exiting employer more or less appropriate.

9. The representations of the parties mentioned in paragraph ~~9~~ 8 above may (but need not) detail any risk sharing arrangement agreed between the parties as regards the participation of the exiting employer in the Fund.

10. The Administering Authority will make a determination of the amount of the exit credit (if any) payable to the exiting employer. In reaching this decision the Administering Authority will have regard to the following factors:

~~9.1.~~10.1. the extent to which there is a surplus;

~~9.2.~~10.2. the proportion of the excess of assets which has arisen because of the value of the exiting employer's contributions;

~~9.3.~~10.3. the representations received from the parties under paragraph ~~9~~8;

~~9.4.~~10.4. where part or all of the surplus relates to an increase in the value of the assets of the Fund as at exit date due to better-than-expected investment growth or returns, the extent to which that increase in asset value can be regarded as a stable and long-term value increase;

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~~9.5.~~10.5. (where the Administering Authority is aware of the same) whether or not the exiting employer has been exposed to the full financial risk of participation in the Fund and the existence of any risk-sharing arrangements in place with third parties;

~~9.6.~~10.6. the date on which the admission and/or commercial arrangements between the exiting employer and scheme employer came into effect, and whether therefore the parties had the opportunity to deal with the chance of an exit credit in their contractual arrangements; and

~~9.7.~~10.7. any other relevant factors.

~~10.~~11. No single factor will be conclusive and the Administering Authority will consider all the circumstances in the round in coming to its decision on the correct level of an exit payment. In order to help the parties in formulating their representations, the Administering Authority sets out below the factors it may consider, and some guidance as to the usual implication of those factors: :

Factor	**The Administering Authority's view on how this may influence the determination**
The extent to which there is a surplus	Will not of itself influence the determination in favour or against the exit credit, but the Administering Authority may decide to truncate the determination process where the surplus is so small as to make the full process administratively disproportionate;
The proportion of the excess of assets which has arisen because of the value of the exiting employer's contributions	In general, the Administering Authority considers that where the surplus exceeds the total employer contributions received over the course of the admission, this would weigh against the payment of the full surplus as an exit credit;
The representations received from the parties	Dependent on their content;
Where part or all of the surplus relates to an increase in the value of the assets of the Fund as at exit date due to better-than-expected investment growth or returns, the extent to which that increase in asset value can be regarded as a stable and long-term value increase;	In general, the Administering Authority considers that where the exit took place at a time when the value of assets held by the Fund were unexpectedly high, and subsequently declined, or appear to the Administering Authority reasonably likely to decline in the short or medium term, then this will weigh against the payment an exit credit (either in full or in part dependent on the circumstances). Where the Authority relies on this factor in making a determination, it will provide the parties with details of why it considers that is the case;
Whether or not the exiting employer has been exposed to the full financial	In general, the Administering Authority considers that where the exiting employer

risk of participation in the Fund and the existence of any risk-sharing arrangements in place with third parties	has not been exposed to the usual financial risks associated with admission by reason of its commercial arrangements with third parties (for example the scheme employer), this would weigh against the payment of an an exit credit (either in full or in part dependent on the circumstances of the arrangement in question);
The date on which the admission and/or commercial arrangements between the exiting employer and scheme employer came into effect, and whether therefore the parties had the opportunity to deal with the chance of an exit credit in their contractual arrangements	In general, the Authority considers that where the arrangements pre-date the introduction into the Regulations of the concept of exit credits, this will weigh against the payment of an exit credit (either in full or in part dependent on the circumstances), and where the arrangements post-date the concept of exit credits, this will weigh in favour of the payment of an exit credit (either in full or in part dependent on the circumstances); and
Any other relevant factors.	Dependent on the factor in question.

In making a determination under paragraph ~~11~~10, the Administering Authority will take such legal and actuarial advice as it considers appropriate.

14. The Administering Authority will notify each of the parties identified in paragraph ~~9~~ 8 of the amount of any surplus which it has determined should be returned to the exiting employer, if any (the "**exit credit**").

15. The Administering Authority will, unless otherwise agreed with the exiting employer, pay any exit credit to the exiting employer within 6 months of the later of the exit date and the date when the employer has provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final assets and liabilities on exit.

Employer Flexibilities Policy

Spreading exit payments

1. Although the default position remains that any deficit payment would normally be levied on the exiting employer as a single capital payment, the Administering Authority may choose to allow phased payments as permitted under Regulation 64B at the request of an employer. The Administering Authority will consult with the employer to consider its request and determine whether or not spreading the exit payment is appropriate and the terms which should apply.
2. In determining whether or not to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:
   - 2.1 The ability of the employer to make a single capital payment. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread
   - 2.2 Whether any security is in place, including a charge over assets, bond, guarantee or other indemnity.
   - 2.3 Whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.
   - 2.4 Any actuarial, covenant or legal advice the Administering Authority deems necessary.
   - 2.5 The views of any guarantor, and whether the guarantee will continue in force during the spreading period.
   - ~~2.5~~2.6 The written representations of the employer in relation to any factors which, in their view, would influence such a decision.
3. The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 1 month, or later date at the Administering Authority's sole discretion, of any request.
4. In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be three years but longer periods (not exceeding nine years) will be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

5. Whilst the default position would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. At its sole discretion the Administering Authority may therefore consider a request for spreading debt on or after the date of exit.
6. Instalments due under an exit deficit spreading agreement will generally be calculated as level monthly amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Alternative payment arrangements may be made with the agreement of the Administering Authority as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.
7. Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.
8. Employers will be asked to pay actuarial, legal and covenant advice ~~all~~ costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread).
9. The Administering Authority will review spreading agreements as follows:
   - 9.1 The Administering Authority will generally review spreading agreements as part of its preparation for each triennial valuation and will take actuarial, covenant, legal and other advice as considered necessary.
   - 9.2 Employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework. Notifiable events include:
   - 9.3 Material change in LGPS membership, where the definition of material is both transparent and appropriate to each fund
   - 9.4 Material change in total employer payroll and LGPS pensionable pay
   - 9.5 Change in employer legal status or constitution (to include matters which might change qualification as a Scheme employer under the LGPS Regulations)
   - 9.6 A decision which will restrict the employer's active membership in the Fund in future
   - 9.7 Any restructuring or other event which could materially affect the employer's membership.
   - 9.8 Confirmation of wrongful trading
   - 9.9 Conviction of senior personnel
   - 9.10 Decision to cease business
   - 9.11 Breach of banking covenant
   - 9.12 If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented.
   - 9.13 Any review will not consider changes to the original exit amount nor interest rate applicable.

10. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether there should be a discount for early payment given interest will have been added over the expected spreading period. The cost of any such advice will be recharged to the employer.

Deferred Debt Agreements

11. Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate (a 'Deferred Debt Agreement' or DDA).

~~11.~~12. DDAs will generally only be entered into at the request of an employer. The Administering Authority will then consult with the employer to consider the request and determine whether or not a DDA is appropriate and the terms which should apply (including the precise details of the DDA). As part of its application for a DDA, the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. Employers should be aware that all costs incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.

~~12.~~13. In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

~~12.1~~13.1 The materiality of the employer and any exit deficit in terms of the Fund as a whole.

~~12.2~~13.2 The risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and generally supported by a financial risk assessment or more detailed covenant review carried out by the actuary or other covenant adviser.

~~12.3~~13.3 The rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit.

13.4 Whether an up front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

~~12.4~~13.5 The written representations of the employer in relation to any factors which, in their view, would influence such a decision.

~~13.~~14. Where ~~it is expected that~~ the employer's covenant ~~may~~ is expected to materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA. The Administering Authority is unlikely to enter into a DDA unless it is clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

~~14. DDAs will generally only be entered into at the request of an employer. The Administering Authority will then consult with the employer to consider the request and determine whether or not a DDA is appropriate and the terms which should apply (including the precise details of the DDA). As part of its application for a DDA, the~~

~~Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. Employers should be aware that all costs incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.~~

15. The matters which the Administering Authority will reflect in the DDA, include:

    15.1 An undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions.

    15.2 A provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer.

15.3 A provision that the DDA will terminate on the first date on which one of the following events occurs: - the deferred employer enrols new active members; - the period specified, or as varied, elapses; - the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer; - the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or - the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.

15.4 The responsibilities of the deferred employer.

15.5 Conditions triggering the implementation of a recovery plan, i.e. when the secondary contributions payable and/or the period of the DDA may be varied.

15.6 The circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64(7E) and above.

15.7 Any other matter the Administering Authority considers relevant.

16. The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

17. The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

17.1 Where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund.

17.2 Where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that the deferred employer’s ability to meet the contributions payable under the DDA has weakened materially, or is likely to weaken materially in the next 12 months.

17.3 Where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate.

18. At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d).
19. Advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. Estimated costs can be provided on request.
20. Employers are expected to make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and the normal expectation is that a request to enter into a DDA should be made in advance of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA request may be considered on or after the date the employer would have otherwise exited the Fund under Regulation 64(1).
21. Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

Policy on review of employer contributions

22. This Policy supplements the general funding policy as set out in the Funding Strategy Statement and should be read in conjunction with that statement. It is intended to provide transparency and consistency for employers in use of the flexibilities within the Regulations.
23. The Administering Authority will consider reviewing employer contributions between formal valuations, as permitted by Regulations 64(4) and 64A, in the following circumstances:

    23.1 it appears to the administering authority that it is likely that the Scheme employer will become an exiting employer

    23.2 it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation.

    23.3 it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme.

    23.4 a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

    For the avoidance of doubt, the Administering Authority will not consider a review of contributions under Regulation 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

24. In determining whether or not a review should take place under Regulation 64A, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

    24.1 the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as the restructuring of a Multi-Academy Trust, a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract.

    24.2 the materiality of any change in the employer's membership or liabilities, taking account of the actuary's view of how this might affect its funding position, primary or secondary contribution rate.

    24.3 whether, having taken advice from the actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, risk-sharing arrangement, or other form of indemnity in relation to the employer's liabilities in the Fund

    24.4 the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the actuary or other covenant adviser to the Fund.

    24.5 the general level of engagement from the employer and its adherence to its legal obligations, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms.

    24.6 Whether the employer has requested a review in the previous 12 months. The Administering Authority is unlikely to agree to more than one review per year.

25. In determining whether or not a review for an admission body should take place under Regulation 64(4), the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

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

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

    25.3 For Admission Bodies admitted under paragraph 1(d) of Part 3, Schedule 2 of the Regulations falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.

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

27. In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels.

    27.1 The Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Fund employers.

    27.2 Where contributions are being reviewed for an employer with links to another Fund employer, particularly where this is a formal organisational or contractual link, e.g. there is a tripartite admission agreement, an ownership relationship or a formal guarantee, subsumption commitment or risk sharing arrangement is in place, the Administering Authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the actuary as required.

28. The Administering Authority will involve the employer in the process in the following ways:

    28.1 In most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities. In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed.

    28.2 the Administering Authority will advise the employer that a review is being carried out and share the outcome of the review and any risk or covenant assessment as appropriate.

    28.3 the Administering Authority will inform the employer of the indicative timetable for completion of the review. In general, the results of the review will be available no more than 3 months after all data and information has been received by the Administering Authority, and the employer will be informed where there are circumstances that means this timescale will vary.

    28.4 The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases.

29. When determining whether employer contributions should be adjusted as the result of the review, the Administering Authority will consider: the materiality of the changes, representations from the employer, the proximity to the next formal valuation, the outcome of any discussions with the employer and any related/linked employer in the Fund and any other factors.

    29.1 Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related/linked employers seeking their view on such an approach.

29.2 Contribution reviews under Regulation 64A are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the valuation.

29.3 Employers should be aware that all costs incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

~~30.~~1. ~~Any appeal against the Administering Authority's decision regarding Employer Flexibilities must be made in writing to the Pensions Manager within 6 months of being notified of the decision. An appeal will require the employer to evidence one of the following:~~

~~31.0~~1.1 ~~deviation from the published policy or process by the Administering Authority, or~~

~~32.0~~1.1 ~~any further information (or interpretation of information provided) which could influence the outcome, noting new evidence will be considered at the discretion of the Administering Authority.~~

~~33.~~30. Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities.

~~33.1~~30.1 The employer should contact the ~~Pensions Manager~~Head of Pensions and complete the necessary information requirements for submission to the Administering Authority in support of their application.

~~33.2~~30.2 The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost.

~~34.~~31. All employers are expected to engage with the Administering Authority and adhere to the notifiable events framework as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the employer's circumstances and any change in covenant. Notifiable events include:

~~34.1~~31.1 Material change in LGPS membership, where the definition of material is both transparent and appropriate to each fund

~~34.2~~31.2 Material change in total employer payroll and LGPS pensionable pay

~~34.3~~31.3 Change in employer legal status or constitution (to include matters which might change qualification as a Scheme employer under the LGPS Regulations)

~~34.4~~31.4 A decision which will restrict the employer's active membership in the Fund in future

~~34.5~~31.5 Any restructuring or other event which could materially affect the employer's membership.

~~34.6~~31.6 Confirmation of wrongful trading

~~34.7~~31.7 Conviction of senior personnel

~~34.8~~31.8 Decision to cease business

31.9 Breach of banking covenant

32. Any appeal against the Administering Authority's decision regarding Employer Flexibilities must be made in writing to the ~~Pensions Manager~~Head of Pensions within 6 months of being notified of the decision. An appeal will require the employer to evidence one of the following:

32.1 deviation from the published policy or process by the Administering Authority, or

32.2 any further information (or interpretation of information provided) which could influence the outcome, noting new evidence will be considered at the discretion of the Administering Authority.

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Paul Cooper - Corporate Finance & Commercial Services

From:	Pensions
Sent:	15 February 2023 12:19
Subject:	Durham County Council Pension Fund Valuation & Funding Strategy Statement
Attachments:	Durham FSS 2023 - redline.pdf; Durham Employer Flexibilities 2023 - redline.pdf
Importance:	High

Dear Fund Employer

I am contacting you to make you aware of proposed changes to the Durham County Council Pension Fund Funding Strategy (codified in the Funding Strategy Statement, "FSS"), as well as proving a general update on the progress of the 2022 Valuation.

Funding Strategy

The current version of the FSS was approved by the Pension Fund Committee following a consultation with all participating employers in the Fund. Following review of the Funding Strategy as part of the 2022 valuation process, it is necessary to make some amendments to the FSS. The Fund is therefore seeking views on the proposed changes.

Please find attached a redline version of the FSS and the Fund's Employer Flexibilities Policy, reflecting the proposed changes. A summary of the main proposals is as follows:

- Setting out the proposed Probability of Funding of Success.
- Setting out the approach to allowing for the anticipated McCloud remedy.
- Proposing the introduction of climate change scenario analysis in the 2022 valuation report.
- Reflecting changes to the legislative environment, including the change from MHCLG to DLUHC, the cost management process, and removal of public sector exit payments cap.
- Deletion from the FSS matters which are set out separately in the Employer Flexibilities Policy.
- Setting out the approach to surplus amortisation.

If you wish to make any representations on the proposed changes, then please contact Paul Cooper. The deadline for making representations is close of business on **Friday, 3 March**. The Fund is not seeking representations on other areas of the FSS as these have already been approved and implemented.

Update on the 2022 Valuation:

The 2022 Valuation is well advanced and almost all employers have received their individual employer results. If you have not received your results or would like to discuss the results you have received, please contact Paul Cooper as soon as possible.

The Valuation process must be completed by 31 March 2023. The process will end when the Fund Actuary issues its Valuation Report and the Rates and Adjustments Certificate. The new employer contribution rates will apply from 1 April 2023 until 31 March 2026. If you have not already done so, please inform your payroll provider of your new contribution rate.

Next Steps:

The revised FSS will be considered by the Pension Fund Committee on 16 March 2023 for formal approval and adoption. If you wish to make representations on the proposed changes then please do so by close of business on **Friday, 3 March 2023**.

Please ensure that this message is shared with all relevant colleagues in your organisation or any organisation(s) in the Fund whom you represent.

Kind regards

Paul

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Head of Pensions
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Agenda Item 18

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Agenda Item 19

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Agenda Item 20

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Agenda Item 22

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