

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in **Committee Room 1A/1B, County Hall, Durham** on **Thursday 15 June 2023** at **10.00 am**

Present:

Councillor D Sutton-Lloyd (Chair)

Members of the Committee:

Councillors M Stead (Vice-Chair), J Atkinson, K Earley, D Freeman, B Kellett, M Porter (DBC), J Shuttleworth and W Stelling

Council Advisers

Paul Cooper – Head of Pensions (LGPS)
Paul Darby – Corporate Director of Resources
Jo McMahon – Finance Manager

Investment Advisers

Paul Campbell – BCPP
Milo Kerr – BCPP

Independent Advisers

Sandy Dickson – Mercer
Anthony Fletcher – MJ Hudson

1 Apologies for Absence

Apologies for absence were received from Councillors C Fletcher, A Broadbent, A Delandre and J Taylor.

2 Declarations of interest

There were no Declarations of Interest.

3 Minutes

The minutes of the meeting held on 16 March 2023 were agreed as a correct record and signed by the Chair.

4 Pension Fund Committee Review of Terms of Reference

The Committee considered a report of the Corporate Director of Resources which provided an update on the Pension Fund Committee Review of Terms of Reference (for copy see file of Minutes).

The Head of Pensions (LGPS), Paul Cooper noted that whilst the Terms of Reference remained relevant and fit for purpose, it was good governance to evaluate the Terms periodically. He added that there were no proposed changes, though noted a typographical error within Appendix A which would be amended to read "Investment Strategy Statement".

Resolved:

- (a) Provide any comments on the Terms,
- (b) That the Corporate Director of Resources be authorised to publish the Terms, subject to any comments of the Committee, and
- (c) Agreed that the Terms continue to be reviewed at least annually.

5 Pension Fund Committee Training - Verbal Update

The Head of Pensions (LGPS) noted that Officers were reviewing a new online training offering which would support the mandatory training requirement for members of the Local Pension Board (LPB). While the requirements were not the same for the Committee, he wished to note that the offering would also be suitable in supporting the development needs of the Committee, and was seeking commitment from the Committee to support the undertaking of the online training offering being considered. He asked Members for their comments.

The Chair thanked The Head of Pensions (LGPS) and noted that he felt it was important to set a good example and felt such online bite-sized learning as described would prove useful. Councillor J Atkinson noted the size of the agenda packs and the breadth of the content and welcome any training, though noted he preferred in-person rather than electronic. He added that, if possible, a reduction in the size of agenda reports would be preferable, allowing Members to concentrate on any questions.

The Chair noted he had met with the Head of Pensions (LGPS) and the Chief Executive from BCPP and noted that whilst the reports were often technical, Officers were looking at how they could continue to make the reports more digestible and easier to understand.

Councillor K Early noted that such bite-size training may be beneficial, and looking at how Members offer challenge to Officers was important, especially given the number of commitments for Members in general.

The Head of Pensions (LGPS) agreed that being a Member of the Pension Fund Committee was a significant undertaking, with responsibility for almost £3.5 billion worth of assets, and it was important to understand the governance required and to provide challenge. He noted that the training proposed was in addition to the usual training that was delivered prior to any investment decisions.

Councillor B Kellett noted, as former Chair of the Committee, and Chair at the former City of Durham Council, that normally Pension Fund Committee reports were often lengthy, and he preferred hard copies where sections could be highlighted. Councillor J Atkinson noted the use of acronyms within reports. The Corporate Director of Resources, Paul Darby noted that bespoke training would be useful which could be included in the online package proposed, in terms of what lens to look at reports, how to question Officers and provide challenge to Officers, Advisors and Fund Managers. He noted similar types of training that had been delivered to Overview and Scrutiny Members in terms of scrutinising budgets in order to be confident in holding Officers to account. The Head of Pensions (LGPS) noted in terms of acronyms, a glossary of terms and abbreviations was appended to each set of agenda papers.

Resolved:

That the Head of Pensions (LGPS) bring further information relating to the additional training offering, and future training plans back to the Committee in due course.

6 Overall Value of Pension Fund Investments to 31 March 2023

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 31 March 2023, the movement in cash balances during the last quarter (for copy see file of Minutes).

Councillor M Porter referred to paragraph 11 and asked as regards the cash outflow exceeding budgets and whether this had been mapped in advance and whether processes were in place to do so. The Finance Manager - Revenue, Pensions and Technical Accounting, Jo McMahon explained that the issue arose from the timing of payment of some creditors' invoices.

Resolved:

That the information contained in the report be noted.

7 Performance Measurement of Pension Fund Investments to 31 March 2023

The Committee considered a report of the Corporate Director of Resources which provided an overview of the investment performance of the Pension Fund to 31 March 2023 (for copy see file of Minutes).

Councillor M Porter asked as regards how sound were investments made in terms of publicity and reputation. The Head of Pensions (LGPS) noted that in terms of reputational risk, that was an element within training for Pension Fund Committee Members, and that the Fund works closely with Border to Coast on its Responsible Investment Strategy, which the Fund adopts. He noted that it was a primary responsibility of the Committee was in relation to investment returns, but noted there was also a balance in terms of appropriately considering reputational damage that can arise from ESG issues. He reiterated that BCPP and their Responsible Investment Team helped to ensure this, working with Durham County Council (DCC) Officers and the Committee. Councillor M Porter noted as the Cabinet at Darlington Borough Council (DBC) were in the process of looking to obtain accreditation in investment, which may be useful in terms of decision making. The Head of Pensions (LGPS) noted he would be happy to speak to Councillor M Porter in this regard.

Councillor B Kellett noted the rate of return and asked if there were any more positive signs on the horizon. The Head of Pensions (LGPS) noted that markets had remained difficult since March 2022, however, noted further information from Advisors to the Committee would follow in the closed session following the exclusion of the public.

Resolved:

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

8 Feedback from Local Pension Board

The Head of Pensions (LGPS) reminded Members that the Local Pension Board (LPB) met on an afternoon following Pension Fund Committee (PFC) meetings.

He noted that there had been no specific issues to feedback to the Committee from the last meeting in March, however, issues that the LPB had considered included pensions administration and the key performance indicators (KPIs), communications policy, internal disputes and LGPS appeals. He added that there was assurance that the LPB were reviewing all of those elements and reviewing them appropriately.

Resolved:

That the verbal update be noted.

9 External Audit - Audit Strategy Memorandum

The Committee considered a report of the External Auditor, Mazars relating to the Audit Strategy Memorandum (for copy see file of Minutes).

The Head of Pensions (LGPS) noted that representatives from Mazars were unfortunately not able to attend, however, noted the report set out the terms of reference for External Audit for the year ending 31 March 2023. He noted the report contained sections on risk, statement of accounts and explained that the DCC Statement of Accounts and PFC Statement of Accounts had been completed and signed off by the Corporate Director of Resources within the statutory deadline of 31 May and published the same day. He added that only around one third of Local Authorities had met this deadline.

The Corporate Director of Resources thanked the Finance Manager and her Team for all their work in producing the Statement of Accounts and meeting deadlines which had now reverted to pre-pandemic timescales. He noted that DCC was only one of three Local Authorities within the region that had met the deadlines.

Councillor J Atkinson asked as regards costs relating to external audit and pre-pandemic levels. The Corporate Director of Resources noted there had been an increase, however, updated audit requirements and value for money elements had increased costs. Councillor J Atkinson still felt the increase was large.

The Corporate Director of Resources noted that one element was that costs had increased across the whole sector, not just for the North-East, with a lot of the large accountancy firms no longer being interested such work and therefore there had been some Government money in terms of making such work more attractive to those large accountancy firms.

Resolved:

That the External Audit - Audit Strategy Memorandum be noted.

10 Internal Audit Plan 2022/23 - Progress Report to 31 March 2023

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 31 March 2023 as part of the 2022/2023 Internal Audit Plan (for copy see file of minutes).

Councillor M Porter noted that, from the number identified, there did not appear to be many issues from Internal Audit's perspective. The Audit Manager, Paul Monaghan noted Audit issued three levels of assurance, 'limited', 'moderate' and 'substantial', with the latter being the case and a very assured position. Councillor M Porter asked if all processes were automated, the Head of Pensions (LGPS) noted that processes were automated where possible, with some area being manually completed.

Councillor M Porter noted, as a former Pensions Manager, that she found a degree of concern that no issues had been found at all, noting in her experience all audit processes would find some issues. The Head of Pensions (LGPS) noted that the 'substantial' assurance did not mean that no issues had been found and raised with him, rather it was the highest-level assurance. He explained that such levels of assurance had not always been given in the past, the current position being as a result of work to improve processes in order to achieve a higher level of assurance. The Audit Manager noted that had there been any issues of significance they would have been flagged within the Committee report and a Part B report, containing details to be discussed in closed session, would be produced as necessary so that Members would be fully appraised of any issue. The Corporate Director of Resources noted for Councillor M Porter's information that Members from the DCC Audit Committee would be able to note that 'substantial' assurance levels were not given out as a matter of course, and that Members both on this Committee and Audit Committee were rigorous in their questioning and willing to call out any issues. The Chair agreed, noting he felt the processes were robust and reiterating that Members were thorough in their approach when looking at such reports.

Resolved:

That the work undertaken by Internal Audit during the period ending 31 March 2023 be noted.

11 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).

Councillor B Kellett noted the points outlined regards the McCloud judgement and separately asked if there had been any interest from the Scheme Advisory Board (SAB) in terms of the LGPS Annual Report. The Head of Pensions (LGPS) noted Members were aware that Pension Fund Statement of Accounts formed part of Local Authority Statements of Accounts and while that had never been any issue for Durham, in some other areas and for other Pension Funds it had proven to be an issue, where those Local Authorities had not completed their Statement of Accounts on time. He added that therefore consideration was being given as to whether the two should be separated, however, those deliberations were at an early stage.

Councillor M Porter noted the importance of the McCloud judgement and noted the implications would result in a huge piece of work, noting the cost implications and asked as regards process and systems that would be utilised. The Head of Pensions (LGPS) agreed it would be a substantial piece of work and noted that one element of frustration was that the work would likely benefit a small proportion of scheme members. He noted that currently data was being pulled together and test loading undertaken but reiterated that it was anticipated there would be very few pensioners/scheme members impacted, though there would only be positive outcomes for those impacted. Councillor M Porter noted the huge task and the need to obtain external data from other providers. The Head of Pensions (LGPS) noted one issue had been as a result of GDPR where data relevant to McCloud that did not need to be collected at the time, and indeed could not be collected under the GDPR, had not been obtained since 2014. He noted that as a result of the McCloud judgement there was a need to identify gaps and go forward from there. He noted that the range of employers from whom data was required ranged from the largest ones, such as DCC and DBC, right through to much smaller employers. He noted processing would be ran on a test database initially, then worked on the live data, but reiterated it was a lengthy process.

Councillor J Atkinson noted paragraph 58 referred to LGPS and Sharia compliance and asked for additional information. The Head of Pensions (LGPS) noted it was an issue the SAB was looking at, though as they were not experts, a Sharia Law Scholar had been appointed to look at the matter. He added that there was concern that Sharia provisions had meant that many Muslim employees throughout the country had opted out of the LGPS. Councillor K Early noted the issue was complex and noted similar issues in relation to mortgages and that mechanisms had been developed in these cases. The Head of Pensions (LGPS) noted that the issue had been driven by scheme members, and there was evidence from other Local Authorities that many Muslim employees had perhaps been opting out of the LGPS.

Councillor J Shuttleworth entered the meeting at 11.00am

The Independent Investment Adviser, Anthony Fletcher noted the issue arose as Islam did not allow for interest on loans or investments and as it was a complex issue it was sensible for SAB to employ a Sharia Scholar to look at the issue, to try and help address the issue of those opting out of the LGPS.

Resolved:

That the information contained in the report be noted.

12 Review of Pension Fund Risks

The Committee considered a report of the Corporate Director of Resources which updated Members on the revisions to the Local Government Pension Scheme (LGPS) Pension Fund Risk Register, following a review with the Principal Risk and Governance Officer in May 2023 (for copy see file of Minutes).

The Chair noted frustration in terms of the security breach at Capita, a third-party pensions administration provider, and noted that the updates received were very useful, especially the recent update relating to cybersecurity from the DCC ICT Officers. Councillor M Porter asked as regards cyber risk. The Head of Pensions (LGPS) noted that transfer information to Capita had been paused while the issue was resolved, with those impacted to be contact in writing and asked if they wish to continue. He noted that the Actuary, AON was undertaking a bespoke review of cybersecurity specific to Pension Funds and a free review and 'scorecard' were available which would help determine if there were any pensions-specific deficiencies or issues. Initial feedback from AON advisors was that the Fund was robust regards cybersecurity.

Councillor K Early noted that the information provided some reassurance, noting another large cybersecurity issue recently reporting in the press relating to outsourced payroll services for large organisations such as the BBC and British Airways. The Head of Pensions (LGPS) noted that within DCC that service sat with the Corporate Director of Resources directorate, though he understood some Local Authorities use third-party organisations. Councillor K Early noted that the likely reason the third-party payroll organisation was targeted was due to the large number of larger companies it dealt with. The Corporate Director of Resources noted that wherever DCC outsourced any function, within contract there were references to data protection, and he explained that during the procurement process there was great emphasis placed on cybersecurity and a number of checks had to be satisfied. He noted that alongside these elements, DCC issued regular updates and training relating to cyberattacks and common methods used such as phishing e-mails.

The Independent Investment Adviser noted two observations in respect of the risk register, the first being that, in his experience in dealing with many Local Authorities, the one from Durham was very clear in the way it was set out. He added that it may be beneficial for Members if the risks were highlighted red, amber, green to give an indication of their significance. He Head of Pensions (LGPS) noted that risks were scored on such a 'RAG' basis in terms of net scores, but agreed that it could be highlighted within the tables used. Councillor K Early agreed that would be helpful for Members.

Resolved:

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

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.

Councillor W Stelling left the meeting at 11.30am

14 Minutes

The minutes of the meeting held on 16 March 2023 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

P Campbell and 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;
- d) Information on Global Real Estate Strategy.

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 Report of Foresight

Consideration was given to a report from Foresight which included:

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

Resolved:

That the information contained in the report be noted.

23 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 December 2022.

Resolved:

That the information contained in the report be noted