



## **Pension Fund Committee**

**Date** Thursday 15 June 2023  
**Time** 10.00 am  
**Venue** Committee Room 1A/1B, County Hall, Durham

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### **Business**

#### **Part A**

#### **Items which are open to the Public and Press.**

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 16 March 2023 (Pages 23 - 32)
4. Pension Fund Committee Review of Terms of Reference (Pages 33 - 42)
5. Pension Fund Committee Training - Verbal Update
6. Overall Value of Pension Fund Investments to 31 March 2023 (Pages 43 - 48)
7. Performance Measurement of Pension Fund Investments to 31 March 2023 (Pages 49 - 58)
8. Feedback from Local Pension Board
9. External Audit - Audit Strategy Memorandum (Pages 59 - 88)
10. Internal Audit Plan 2022/23 - Progress Report to 31 March 2023 (Pages 89 - 94)
11. Regulatory Update (Pages 95 - 112)
12. Review of Pension Fund Risks (Pages 113 - 130)

13. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration
14. 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)**

15. The Minutes of the Meeting held on 16 March 2023 (Pages 131 - 136)
16. Report of the Independent Investment Adviser (Pages 137 - 166)
17. Investment Strategy Review Update (Pages 167 - 190)
18. Report of the Pension Fund Adviser (Pages 191 - 222)
19. Border to Coast Pensions Partnership Quarterly Performance Report (Pages 223 - 272)
20. Report of Alliance Bernstein (Pages 273 - 290)
21. Report of Mondrian Investment Partners (Pages 291 - 294)
22. Report of CBRE Global Investment Partners (Pages 295 - 322)
23. Report of Foresight (Pages 323 - 344)
24. Border to Coast Pensions Partnership Private Monitor Report (Pages 345 - 430)
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  
7 June 2023

To: The Members of the Pension Fund Committee

**County Council Members:**

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

**Darlington Borough Council Members**

TBC

**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 Pattison – Local Pension Board

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**Contact: Martin Tindle**

**Tel: 03000 269 713**

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Pension Fund Committee



Abbreviations

List of commonly used abbreviations

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

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

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

**Author(s)**

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## Glossary of commonly used terms

### A

#### **Active Management**

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

#### **Active Member**

A current employee who is contributing to the pension scheme.

#### **Actuary**

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

#### **Actuarial Valuation**

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

## **Additional Voluntary Contributions (AVCs)**

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

## **Administering Authority**

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

## **Admission/Admitted Body**

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

## **Asset Allocation**

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

## **Authorised Contractual Scheme (ACS)**

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

## **B**

### **Benchmark**

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

### **Border to Coast Pension Partnership (BCPP)**

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

### **Border to Coast Joint Committee**

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

## **C**

### **CARE (Career Average Revalued Earnings)**

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

### **Cash Equivalent Value (CEV)**

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

## **Consumer Price Index (CPI)**

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

## **Commutation**

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

## **Convertible Shares**

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

## **Custodian**

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

## **D**

### **Death Grant**

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

### **Deferred Member/Pensioner**

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

## **Defined Benefit Scheme**

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

## **Denomination**

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

## **Designating Body**

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

## **Discretion**

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

## **Direct Property**

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

## **Diversified Growth Funds (DGF)**

An alternative way of investing in shares, bonds, property and other asset classes; DGFs are funds that invest in a wide variety of asset classes in

order to deliver a real return over the medium to long-term. The Fund's DGF is managed by BlackRock.

## **E**

### **Employer Contribution Rates**

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

### **Employer Covenant**

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

### **Equities**

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

## **ESG**

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

## **F**

### **Fiduciary Duty**

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

## **Financial Instruments**

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

## **Fixed Interest Securities**

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

## **Fund of Funds (FoF)**

A fund that holds a portfolio of other investment funds.

## **G**

### **Guaranteed Minimum Pension (GMP)**

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

## **I**

### **Index**

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

## **Internal Rates of Return (IRR)**

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

## **L**

### **Local Government Pension Scheme (LGPS)**

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

### **Local Pension Board (LBP)**

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

## **M**

### **Myners Principles**

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

Effective decision-making

Clear objectives

Risk liabilities

Performance assessment



Responsible ownership

Transparency and reporting.

## O

### **Ordinary Shares**

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

## P

### **Partner Funds**

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

### **Pension Liberation Fraud**

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

### **Pensions Online**

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

### **Pensions Regulator**

The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes. TPR make sure that employers put their staff into a pension

scheme and pay money into it. TPR also make sure that workplace pension schemes are run properly so that people can save safely for their later years.

## **Pooled Funds**

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

## **Pooling in the LGPS**

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

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

## **Proxy Voting**

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

## **Q**

## **Quantitative Easing**

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

## **R**

### **Related Party Transactions**

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

### **Responsible Investment (RI)**

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

### **Retail Price Index**

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

### **Return**

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

### **Rule of 85**

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

## **S**

### **Scheduled Body**

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

### **Spot Rate**

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

### **State Pension Age (SPA)**

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

### **Stock Lending**

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

## **T**

### **TCFD**

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

## **The Pension Advisory Service (TPAS)**

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

## **Transfer Value**

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

## **Transferred Service**

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

## **U**

## **UK Stewardship Code**

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

## **Unrealised gains/losses**

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

## **Author(s)**

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**DURHAM COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

At a Meeting of **Pension Fund Committee** held in **Committee Room 2, County Hall, Durham** on **Thursday 16 March 2023** at **10.00 am**

**Present:**

**Councillor M Stead (Vice-Chair in the Chair)**

**Members of the Committee:**

Councillors J Atkinson, K Earley, C Fletcher, B Kellett, J Shuttleworth and D Sutton-Lloyd

**Apologies:**

**Scheme Member Representatives**

A Delandre

**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  
Jessie Wilson – BCPP

**Independent Advisers**

Sandy Dickson – Mercer  
Anthony Fletcher – MJ Hudson

**Also in attendance:**

N Hancock – Unison Representative and Local Pension Board Member  
Les Timbey – GMB Representative

Prior to the commencement of the meeting, the Chair announced with regret the sad passing of the Chair of the Council, Councillor B Bainbridge. Members stood and observed a minute's silence as a mark of respect.

## **1 Apologies for Absence**

Apologies for absence were received from Councillors M Abley and C Martin; and A Broadbent and J Taylor

## **2 Declarations of Interest**

There were no Declarations of Interest.

## **3 Minutes**

The minutes of the meeting held on 8 December 2022 were agreed as a correct record and signed by the Chair.

## **4 Overall Value of Pension Fund Investments to 31 December 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 31 December 2022, the movement in cash balances during the last quarter (for copy see file of Minutes).

Councillor B Kellett noted paragraph 16 of the report set out that the forecast indicated net cash outflows in future quarters of and asked as regards the large variation. The Finance Manager - Revenue, Pensions and Technical Accounting, Jo McMahon explained that the projections reflected the increased contributions following the triennial valuation.

### **Resolved:**

That the information contained in the report be noted.

## **5 Performance Measurement of Pension Fund Investments to 31 December 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 31 December 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 31 December 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 31 December 2022 as part of the 2022/2023 Internal Audit Plan (for copy see file of minutes).

### **Resolved:**

That the work undertaken by Internal Audit during the period ending 31 December 2022 be noted.

## **7 Draft Audit Plan 2023/24**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which presented the proposed Annual Audit Plan for 2023/2024 (for copy see file of Minutes).

### **Resolved:**

That the proposed Audit Plan for 2023/2024 be approved.

*Councillor J Shuttleworth left the meeting at 10.12am*

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

The Committee considered a report of the Corporate Director of Resources which updated Members of the Treasury Management Services provided to the Pension Fund and reviewed the charges for the services and the calculation of interest on short term investments administered by Durham County Council for 2023/2024 (for copy see file of Minutes).

### **Resolved:**

That

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

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

The Committee considered a report of the Corporate Director of Resources which updated the Committee on the accounting policies to be applied in the preparation of the 2022/23 financial statements of the Pension Fund and sought confirmation from the Committee that appropriate policies were being applied (for copy see file of Minutes).

The Committee having reviewed the accounting policies **Resolved:**

That

- 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.

## **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).

*Councillor J Shuttleworth entered the meeting at 10.22am*

Councillor J Atkinson asked for further information as regards the changes to pension tax following the Spring Budget. The Head of Pensions (LGPS), Paul Cooper noted the limits were for Scheme Members, not the Fund, with the Lifetime Allowance being £1.07 million for 2022/23, with anything above that being taxable. He added that changes were such that from 6 April 2023 the charge for breaching that limit would be abolished. He noted that the Annual Allowance also increased from £40,000 to £60,000. Councillor J Atkinson asked if there were many in that bracket and affected.

The Head of Pensions (LGPS) noted that the allowance had been frozen for this Parliament and now would be abolished, but stressed however, that the Opposition had noted their intention to roll back that change. He noted that whilst there are limited numbers of scheme members affected, those numbers had been increasing. The Head of Pensions also noted that the policy intention was aimed at the NHS to encourage Surgeons, Consultants and other higher earners to stay in their roles longer or return to those roles.

Councillor B Kellett asked as regards any movement in relation to McCloud, noting draft for October 2023. The Head of Pensions (LGPS) noted that Funds were awaiting regulations, and while Officers had a good line of sight, the information had not yet been received. He noted work was ongoing in the background in terms of data collection and working with our software provider.

Councillor D Sutton-Lloyd noted the amount of general information from relating to the Government Budget and ask if we had sufficient for our purposes. The Corporate Director of Resources, Paul Darby noted that was correct and that the details would come through in due course, with Officers looking at how the details would impact the Pension Fund and its administration. He added that the initial view was there was no major impacts for the Fund, other than the wider implications on the economy.

Councillor K Early asked as regards the number of those within the LGPS that would be affected by the abolition of the lifetime allowance. The Head of Pensions (LGPS) noted it would likely be a small number.

Anthony Fletcher reiterated that it was greater issue in the NHS and how it would impact those higher earners in that Scheme. The Corporate Director of Resources noted that in the same way that McCloud had started within the Fire Service Pension Scheme, any changes to just NHS pension funds could result in wider legal challenge if not applied across the public services areas equally.

**Resolved:**

That the information contained in the report be noted.

## **11 Pension Fund - GMP Rectification**

The Committee considered a report of the Corporate Director of Resources which updated the Committee on the Pension Fund - GMP Rectification (for copy see file of Minutes).

The Head of Pensions (LGPS) explained that finalised data, as set out in the table at paragraph 25 of the report, was comparatively very good, with no pensioner having an estimated reduction greater than £10.

**Resolved:**

- a) That the report be noted, and the Committee agree that the Corporate Director of Resources commits the additional resources necessary to bring to a conclusion the GMP Rectification,
- b) That the approach taken by the Fund in reconciling its GMP liabilities, and the setting of a £2 per week reconciliation tolerance be noted,
- c) That the correction of all under / overpaid pensions going forward be agreed,
- d) That the payment of all arrears that have accrued due to underpayments, with interest paid at 1% above the Bank of England Base Rate be agreed; and,
- e) That the write off of overpayments that have resulted from the GMP Reconciliation be agreed.

*Councillor J Shuttleworth left the meeting at 10.46am*

## **12 Pension Fund Policy Documents - Funding Strategy Statement**

The Committee considered a report of the Corporate Director of Resources which informed Members of the draft of the revised Funding Strategy Statement which has been out to consultation with Durham County Council Pension Fund employers (for copy see file of Minutes).

The Head of Pensions (LGPS) noted that the existing Funding Strategy Statement had previously been agreed by the Committee and noted that there was a requirement consultation with participating employers. He noted that following such consultation there had been no feedback received.

**Resolved:**

- a) That the report and to advise of any comments they may have on the draft Funding Strategy Statement and Employer Flexibilities Policy set out in the appendices to this report be noted, and;
- b) That the Corporate Director of Resources be authorised to finalise the wording of the Funding Strategy Statement and Employer Flexibilities Policy.

### **13 Feedback from Local Pension Board**

The Head of Pensions (LGPS) noted the last meeting of the Local Pension Board had taken place on 8 December 2022, and there were no specific issues to feedback to the Committee.

### **14 Exclusion of the Public**

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

### **15 Minutes of the Meeting held on 8 December 2022**

The minutes of the meeting held on 8 December 2022 were agreed as a correct record and signed by the Chair.

### **16 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.

### **17 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.

## **18 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.

## **19 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.

## **20 Report of Alliance Bernstein**

Consideration was given to a report from Alliance Bernstein which included:

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

### **Resolved:**

That the information contained in the report be noted.

## **21 Report of 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.

## **22 Report of CBRE Global Investment Partners**

Consideration was given to a report from CBRE which included:

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

### **Resolved:**

That the information contained in the report be noted.

## **23 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 September 2022.

### **Resolved:**

That the information contained in the report be noted

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## Pension Fund Committee

15 June 2023

### Pension Fund Committee Review of Terms of Reference



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## Report of Paul Darby, Corporate Director of Resources

### Purpose of the Report

- 1 To review the Terms of Reference for the Pension Fund Committee.

### Executive summary

- 2 The Pension Fund Committee Terms of Reference clearly define the responsibilities of the Committee, setting out its Objectives, Authority and Composition. The Terms are reviewed annually.
- 3 Whilst the Terms remain relevant and fit for purpose, it is good governance to evaluate the Terms periodically.

### Recommendation(s)

- 4 Members are asked to review the Terms of Reference, and:
  - (a) Provide any comments on the Terms,
  - (b) Authorise the Corporate Director of Resources to publish the Terms, subject to any comments of the Committee, and
  - (c) Agree that the Terms continue to be reviewed at least annually.

## **Background**

- 5 The Pension Fund Committee has responsibility delegated from the Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made following from this, including:
  - approval of applications from bodies seeking admission to the Local Government Pension Scheme;
  - appointment of external investment managers and advisers.
- 6 The Terms of Reference clarify the responsibilities of the Pension Fund Committee and ensure that they are clearly defined and understood.

## **Terms of Reference**

- 7 The Terms of Reference are attached at Appendix 1 and are intended to provide clarity to the members of the Pension Fund Committee in a number of areas:
  - High-Level Objective of the Committee,
  - Authority of the Committee,
  - Composition of the Committee,
  - Opportunities in Private Markets,
  - Detailed Terms of Reference to achieve the High-Level Objective,
  - Meetings,
  - Programme of work,
  - Performance and Review.
- 8 The Terms of Reference determine the future programme of work for the Pension Fund Committee and the frequency of reporting on the individual term of reference is included.
- 9 It was previously agreed that the Terms of Reference were to be reviewed at least annually to ensure that they include any changes, particularly with reference to amendments to the Authority delegated from the County Council through the County Council's Constitution.
- 10 Due to the time needed to build the required knowledge and understanding, the difficulty in filling these positions, and to better

enable the Committee to retain the skills and experience of representatives from other bodies, it was previously agreed that the Terms were amended to allow for an extension to the period of membership for such representatives.

11 As such, the Terms allow for:

*“Representatives of the colleges, other statutory bodies, and admitted bodies are selected by the Committee from nominations made by the employers and are appointed for 4 years with the option for an extension for a second 4 year term of office, subject to agreement of the Committee.”*

### **Training and Future Programme of Work**

12 The Terms of Reference outline that in order to take investment decisions members of the Committee must have sufficient expertise and will therefore undertake appropriate training. As such, an agenda item is included elsewhere on the agenda to discuss Committee training.

13 Now that the majority of the Fund’s assets are pooled with Border to Coast Pensions Partnership, going forward members of the Committee should be asked to make pooling decisions less frequently. As such, this should allow scope for the Committee to consider a wider range of issues.

14 It is proposed that, cross referencing the Terms of Reference, Officers discuss a future Programme of Work with the Chair and Vice Chair, to be brought for the Committee’s approval at a future meeting.

### **Author(s)**

Paul Cooper

Tel: 03000 269798

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## Pension Fund Committee – Terms of Reference

### 1. Objectives

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

### 2. Authority

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

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

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

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

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

appointment of external investment managers and advisers.

### 3. Composition

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

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

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

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

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

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

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

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

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

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

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



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

#### 4. Terms of Reference

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



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

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

## **5. Meetings**

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

## **6. Programme of Work**

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

## **7. Performance and Review**

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

**Pension Fund Committee**

**15 June 2023**

**Overall Value of Pension Fund  
Investments to 31 March 2023**



---

**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 March 2023;
  - (b) movement in the cash balance during the last four quarters.

**Executive Summary**

2. The overall value of the Fund as at 31 March 2023 was £3.354 billion and the cash balance held in the Durham County Council Pension Fund bank account was £41.257 million. Fund managers also held cash of £20.685 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.

**Recommendation**

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

## **Background**

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

4. Reports from the five listed fund managers, namely:
  - AB
  - BCPP
  - CB Richard Ellis
  - Mondrian
  - Foresight

are included in Part B of today's agenda.

5. The value of the Fund at 31 March 2023 was £3.354 billion compared to £3.232 billion at 31 December 2022. This is an increase of £123 million (or 3.8%) in the fourth quarter of 2022/23.

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

6. New investment money is allocated to fund managers when the Pension Fund has cash which is not required to be available as a working cash balance, for example to pay pensioners or fees.
7. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from fund managers.
8. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. As at 31 March 2023, the cash balance held in the Durham County Council Pension Fund bank account was £41.257 million. In addition to this, not included in this table, fund managers were holding cash of £20.685 million at 31 March 2023.
9. During the quarter ending 31 March 2023 further drawdowns totalling £21.665 million were made to BCPP to invest in private equity, infrastructure and private credit. No drawdowns were made to Foresight Regional Investment IV LP.
10. During the quarter ending 31 March 2023, actual net cash varied by £4.525 million to budget. Cash Inflows exceeded budget by £7.386 million. The main reasons being as follows:

- Additional contributions from scheme members - £2.526 million;
  - Additional transfer values - £1.707 million;
  - Funds recovered from Managers to support cash flows - £2.842 million.
11. Cash outflows exceeded budget by £2.861 million mainly relating to the timing of year end creditor payments (eg. fund manager, professional and advisory fees)
  12. Movement in scheme membership including transfers from other schemes along with the agreement of annual pay awards can be significant and complex and can make both membership and cash flow forecasting challenging. Pensions Accountancy and Administration teams work closely to ensure assumptions are applied consistently across forecasted data.

### **Fund Rebalancing**

13. 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.
14. Rebalancing was reported to Members at the 16 March Committee meeting transferring funds from Global Equity Alpha to Sterling Index linked bonds and Multi Asset Credit (MAC).
15. During February 2023 further rebalancing transactions were undertaken as follows:
  - £54.656 million transfer from Global Equity Alpha;
  - £11.056 million to Sterling Index-Linked Bonds;
  - £43.600 million to Listed Alts.
16. The strategic allocations have been amended as per the committee meeting decision in March 2023. There have been no further rebalancing exercises since February 2023 and rebalancing has been temporarily

suspended until the upcoming transfers into the pool have been completed in order to achieve those strategic allocations.

17. In addition, £16.000 million was drawn down from Global Equity Alpha in March for cashflow purposes.

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**Contact: Jo McMahon                      Tel: 03000 261968**

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## Actual Cash Flow – For the period 1 April 2022 to 31 March 2023

Quarter Ended	30.06.22		30.09.22		31.12.22		31.03.23	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
<b>Cash Inflows</b>								
Contributions - DCC	16,400,000	17,833,757	16,500,000	16,997,176	17,500,000	19,549,856	17,500,000	18,690,538
Contributions - Other	12,900,000	13,871,960	13,500,000	13,842,779	13,500,000	15,335,155	13,800,000	15,135,086
Unfunded pensions recharges	1,050,000	944,910	1,050,000	672,966	1,050,000	1,264,128	1,050,000	1,073,708
Transfer Values	1,250,000	1,320,801	1,250,000	3,023,323	1,250,000	1,805,173	1,250,000	2,957,084
Other income	1,500,000	1,052,313	1,500,000	716,378	1,500,000	1,072,000	1,500,000	1,675,539
Funds recovered from Managers	16,000,000	9,616,000	11,400,000	25,130,445	36,000,000	34,006,550	23,100,000	25,941,561
Interest on short term investments	2,500	70,476	55,000	112,025	45,000	196,816	185,000	297,673
<b>Total Cash Inflow</b>	<b>49,102,500</b>	<b>44,710,217</b>	<b>45,255,000</b>	<b>60,495,092</b>	<b>70,845,000</b>	<b>73,229,679</b>	<b>58,385,000</b>	<b>65,771,188</b>
<b>Cash Outflows</b>								
Payroll Paysheets	29,500,000	29,172,331	29,700,000	29,478,766	29,900,000	30,251,207	30,100,000	29,931,803
Payables Paysheets (incl. Managers' fees)	10,000,000	14,691,628	11,000,000	10,348,715	11,000,000	11,138,617	11,000,000	13,691,599
Funds transferred to Managers	24,000,000	9,646,960	21,500,000	16,975,527	25,000,000	30,781,357	23,000,000	23,336,647
Other Expenditure	1,000	910	1,000	883	1,000	1,420	1,000	2,057
<b>Total Cash Outflows</b>	<b>63,501,000</b>	<b>53,511,829</b>	<b>62,201,000</b>	<b>56,803,890</b>	<b>65,901,000</b>	<b>72,172,601</b>	<b>64,101,000</b>	<b>66,962,107</b>
<b>Net Cash Inflow / (-) Outflow</b>	<b>-14,398,500</b>	<b>-8,801,612</b>	<b>-16,946,000</b>	<b>3,691,201</b>	<b>4,944,000</b>	<b>1,057,078</b>	<b>-5,716,000</b>	<b>-1,190,919</b>
Balance at Bank (opening)		46,805,379		37,701,207		28,592,226		30,950,576
Balance at Bank (closing)		37,701,207		28,592,226		30,950,576		41,257,461

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**Pension Fund Committee**

**15 June 2023**



**Performance Measurement of Pension Fund Investments to 31 March 2023**

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

**Purpose of the Report**

- 1 To provide an overview of the investment performance of the Pension Fund to 31 March 2023.

**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 March 2023, 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 March 2023, plus the last 1, 3, 5 and 10 years and since inception.

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**Contact:**

Jo McMahon

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# Durham CC Pension Fund

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## Investment Risk & Analytical Services

March 31, 2023

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SECTION 1

# Durham CC Pension Fund

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Investment Risk & Analytical Services

March 31, 2023

## Investment Hierarchy (Arithmetic Excess)

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return								Inception to Date	Inception Date
			One Month	Three Months	One Year	Three Years	Five Years	Ten Years				
<b>Durham CC Pension Fund</b>	<b>3,354,464,368</b>	<b>100.00</b>	<b>0.85</b>	<b>3.10</b>	<b>-4.24</b>	<b>7.77</b>	<b>5.02</b>	<b>5.86</b>	<b>6.28</b>	<b>29/02/2008</b>		
<i>Durc Total Plan Benchmark</i>			1.92	3.81	-2.94	8.02	6.31	7.40	7.81	29/02/2008		
<i>Excess Return</i>			-1.07	-0.71	-1.30	-0.25	-1.28	-1.54	-1.53	29/02/2008		
<b>Alliance Bernstein</b>	<b>173,617,239</b>	<b>5.18</b>	<b>0.63</b>	<b>2.18</b>	<b>-0.97</b>	<b>1.32</b>	<b>0.54</b>	<b>1.50</b>	<b>2.70</b>	<b>29/02/2008</b>		
<b>Alliance Bernstein</b>	<b>173,617,239</b>	<b>5.18</b>	<b>0.63</b>	<b>2.18</b>	<b>-0.97</b>	<b>1.32</b>	<b>0.54</b>	<b>1.50</b>	<b>2.70</b>	<b>29/02/2008</b>		
<i>SONIA + 3%</i>			0.59	1.69	5.29	3.94	3.90	3.69	4.02	29/02/2008		
<i>Excess Return</i>			0.04	0.49	-6.26	-2.62	-3.36	-2.20	-1.32	29/02/2008		
<b>CBRE 1</b>	<b>217,532,299</b>	<b>6.48</b>	<b>-1.26</b>	<b>-1.72</b>	<b>-3.34</b>	<b>4.68</b>	<b>5.26</b>	<b>7.05</b>	<b>4.30</b>	<b>29/02/2008</b>		
<b>CBRE 1</b>	<b>217,532,299</b>	<b>6.48</b>	<b>-1.26</b>	<b>-1.72</b>	<b>-3.34</b>	<b>4.68</b>	<b>5.26</b>	<b>7.05</b>	<b>4.30</b>	<b>29/02/2008</b>		
<i>RPI + 5%</i>			1.14	3.11	18.51	12.88	10.76	9.06	8.84	29/02/2008		
<i>Excess Return</i>			-2.40	-4.83	-21.85	-8.21	-5.50	-2.01	-4.53	29/02/2008		
<b>CBRE 2</b>	<b>47,030,418</b>	<b>1.40</b>	<b>-4.40</b>	<b>0.31</b>	<b>-11.00</b>	<b>11.92</b>	<b>6.83</b>	<b>6.00</b>	<b>5.76</b>	<b>29/02/2008</b>		
<b>CBRE 2</b>	<b>47,030,418</b>	<b>1.40</b>	<b>-4.40</b>	<b>0.31</b>	<b>-11.00</b>	<b>11.92</b>	<b>6.83</b>	<b>6.00</b>	<b>5.76</b>	<b>29/02/2008</b>		
<i>RPI + 5%</i>			1.14	3.11	18.51	12.88	10.76	9.06	8.84	29/02/2008		
<i>Excess Return</i>			-5.54	-2.81	-29.51	-0.96	-3.93	-3.06	-3.08	29/02/2008		
<b>Mondrian</b>	<b>246,164,059</b>	<b>7.34</b>	<b>0.80</b>	<b>2.57</b>	<b>0.88</b>	<b>9.82</b>	<b>3.63</b>	<b>-</b>	<b>4.55</b>	<b>31/10/2014</b>		
<b>Mondrian</b>	<b>246,164,059</b>	<b>7.34</b>	<b>0.80</b>	<b>2.57</b>	<b>0.88</b>	<b>9.82</b>	<b>3.63</b>	<b>-</b>	<b>4.55</b>	<b>31/10/2014</b>		
<i>MSCI Emerging Markets GD +2.5%</i>			1.12	1.81	-1.88	10.98	4.54	-	8.24	31/10/2014		
<i>Excess Return</i>			-0.32	0.75	2.76	-1.16	-0.91	-	-3.69	31/10/2014		
<b>BCPP</b>	<b>2,494,226,404</b>	<b>74.36</b>	<b>1.33</b>	<b>4.98</b>	<b>-6.36</b>	<b>12.25</b>	<b>-</b>	<b>-</b>	<b>4.44</b>	<b>30/09/2019</b>		
<b>BCPP Global Equity Alpha Fund</b>	<b>1,416,597,341</b>	<b>42.23</b>	<b>0.28</b>	<b>6.49</b>	<b>3.69</b>	<b>18.51</b>	<b>-</b>	<b>-</b>	<b>9.60</b>	<b>24/10/2019</b>		
<i>MSCI ACWI ND + 2%</i>			1.09	4.89	0.68	17.60	-	-	10.99	24/10/2019		
<i>Excess Return</i>			-0.81	1.60	3.01	0.91	-	-	-1.39	24/10/2019		
<b>BCPP Listed ALT FD</b>	<b>154,480,075</b>	<b>4.61</b>	<b>-4.74</b>	<b>-0.73</b>	<b>-11.41</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-6.76</b>	<b>31/01/2022</b>		
<i>MSCI ACWI</i>			1.00	4.53	-0.93	-	-	-	0.48	31/01/2022		
<i>Excess Return</i>			-5.74	-5.26	-10.49	-	-	-	-7.25	31/01/2022		
<b>BCPP Multi Asset Credit Fund</b>	<b>516,144,486</b>	<b>15.39</b>	<b>0.75</b>	<b>2.72</b>	<b>-3.31</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-5.66</b>	<b>14/10/2021</b>		
<i>SONIA + 3%</i>			0.59	1.69	5.29	-	-	-	4.64	14/10/2021		
<i>Excess Return</i>			0.16	1.03	-8.60	-	-	-	-10.30	14/10/2021		
<b>BCPP Sterling Index Linked Bd</b>	<b>407,004,502</b>	<b>12.13</b>	<b>8.86</b>	<b>4.69</b>	<b>-39.08</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-18.19</b>	<b>08/10/2020</b>		
<i>FTSE Index Linked 15+Yrs+0.02%</i>			9.01	4.87	-39.08	-	-	-	-18.32	08/10/2020		
<i>Excess Return</i>			-0.15	-0.18	0.00	-	-	-	0.14	08/10/2020		
<b>BCPP Private Market</b>	<b>173,509,140</b>	<b>5.17</b>	<b>-1.62</b>	<b>-13.47</b>	<b>49.87</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19.94</b>	<b>30/11/2020</b>		
<b>BCPP Private Markets</b>	<b>173,509,140</b>	<b>5.17</b>	<b>-1.62</b>	<b>-13.47</b>	<b>49.87</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19.94</b>	<b>30/11/2020</b>		
<b>Foresight Regional Investments</b>	<b>2,384,808</b>	<b>0.07</b>	<b>0.00</b>	<b>0.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-0.85</b>	<b>31/08/2022</b>		

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return							Inception to Date	Inception Date
			One Month	Three Months	One Year	Three Years	Five Years	Ten Years			
<b>Foresight Regional Investment</b>	<b>2,384,808</b>	<b>0.07</b>	<b>0.00</b>	<b>0.00</b>	-	-	-	-	<b>-0.85</b>	<b>31/08/2022</b>	
<i>15% Absoulte Return</i>			1.17	3.56	-	-	-	-	8.49	31/08/2022	
<i>Excess Return</i>			<b>-1.17</b>	<b>-3.56</b>	-	-	-	-	<b>-9.34</b>	31/08/2022	

## Market Value Summary - One Month

Account/Group	28/02/2023 Market Value	Net Contribution*	Income	Fees	Appreciation	31/03/2023 Market Value
<b>Durham CC Pension Fund</b>	<b>3,328,293,206</b>	<b>-1,967,085</b>	<b>1,413,642</b>	<b>1,062</b>	<b>26,724,606</b>	<b>3,354,464,368</b>
<b>Alliance Bernstein</b>	<b>172,537,915</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,079,324</b>	<b>173,617,239</b>
Alliance Bernstein	172,537,915	0	0	0	1,079,324	173,617,239
<b>CBRE 1</b>	<b>220,307,211</b>	<b>-1,062</b>	<b>224,648</b>	<b>1,062</b>	<b>-2,998,497</b>	<b>217,532,299</b>
CBRE 1	220,307,211	-1,062	224,648	1,062	-2,998,497	217,532,299
<b>CBRE 2</b>	<b>49,193,870</b>	<b>0</b>	<b>250,868</b>	<b>0</b>	<b>-2,414,319</b>	<b>47,030,418</b>
CBRE 2	49,193,870	0	250,868	0	-2,414,319	47,030,418
<b>Mondrian</b>	<b>244,200,462</b>	<b>0</b>	<b>740,999</b>	<b>0</b>	<b>1,222,598</b>	<b>246,164,059</b>
Mondrian	244,200,462	0	740,999	0	1,222,598	246,164,059
<b>BCPP</b>	<b>2,477,417,308</b>	<b>-16,000,000</b>	<b>0</b>	<b>0</b>	<b>32,809,096</b>	<b>2,494,226,404</b>
BCPP Global Equity Alpha Fund	1,429,046,531	-16,000,000	0	0	3,550,810	1,416,597,341
BCPP Listed ALT FD	162,174,742	0	0	0	-7,694,667	154,480,075
BCPP Multi Asset Credit Fund	512,323,690	0	0	0	3,820,795	516,144,486
BCPP Sterling Index Linked Bd	373,872,345	0	0	0	33,132,157	407,004,502
<b>BCPP Private Market</b>	<b>162,251,632</b>	<b>14,033,977</b>	<b>197,127</b>	<b>0</b>	<b>-2,973,596</b>	<b>173,509,140</b>
BCPP Private Markets	162,251,632	14,033,977	197,127	0	-2,973,596	173,509,140
<b>Foresight Regional Investments</b>	<b>2,384,808</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,384,808</b>
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.  
Copied History or Backloaded Data may not display the correct Contributions/Withdrawals creating misrepresentation.



SECTION 2

# Appendix

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## Investment Risk & Analytical Services

March 31, 2023

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# Audit Strategy Memorandum

## Durham County Council Pension Fund

Year ending 31 March 2023



# Contents

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- 07** Materiality and misstatements
  
- A** Appendix A – Key communication points
- Appendix B – Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

This document is to be regarded as confidential to Durham County Council Pension Fund. It has been prepared for the sole use of The Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit Committee  
Durham County Council Pension Fund  
County Hall  
Durham  
DH1 5UQ

02 June 2023

Dear Audit Committee Members

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

## Audit Strategy Memorandum – Year ending 31 March 2023

We are pleased to present our Audit Strategy Memorandum for Durham County Council Pension Fund for the year ending 31 March 2023. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 6 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Durham County Council Pension Fund which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains appendices that outline our key communications with you during the course of the audit and explain the implications of the introduction of the new auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019).

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0191 383 6300.

Yours faithfully

Signed: 

Cameron Waddell

Mazars LLP

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

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861. VAT number: 839 8356 73

# 01

Section 01:

## **Engagement and responsibilities summary**

# 1. Engagement and responsibilities summary

## Overview of engagement

We are appointed to perform the external audit of Durham County Council Pension Fund (the Pension Fund) for the year to 31 March 2023. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

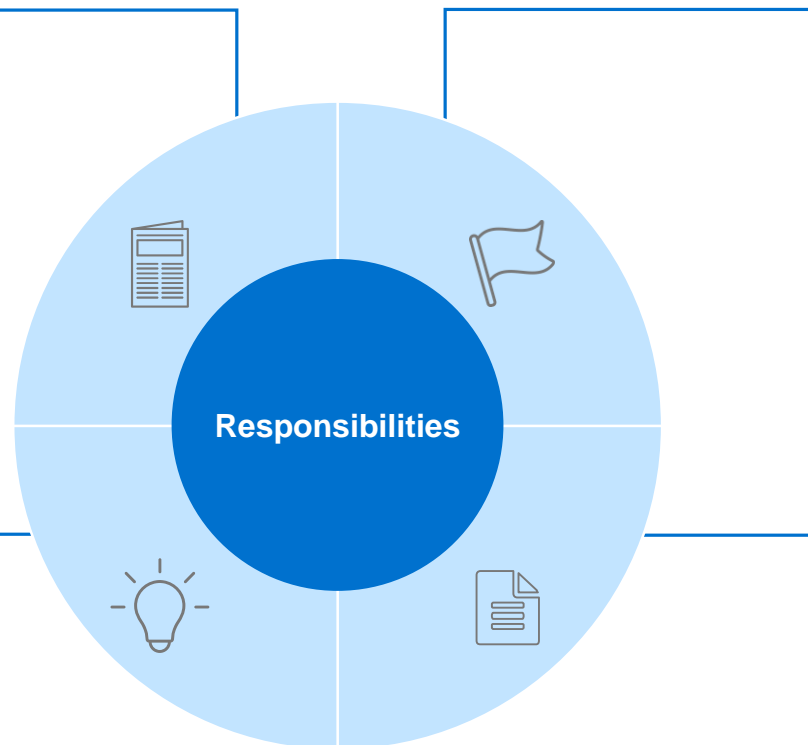
### Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with the Code of Practice on Local Authority Accounting. Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

The Corporate Director of Resources is responsible for the assessment of whether it is appropriate for the Pension Fund to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Corporate Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements.

### Consistency Statement

We are responsible for forming and expressing an opinion on the consistency of the financial statements within the Pension Fund's annual report and the Pension Fund's financial statements included in the Statement of Accounts of Durham County Council.



### Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

### Wider reporting and electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. This would include an objection made to the accounts of the Pension Fund included in the administering authority's financial statements. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

# 02

Section 02:

**Your audit engagement team**



# 2. Your audit engagement team

Below is your audit engagement team and their contact details.



**Cameron Waddell**  
Engagement Partner  
[cameron.waddell@mazars.co.uk](mailto:cameron.waddell@mazars.co.uk)  
07813 752 053



**Thomas Backhouse**  
Engagement Manager  
[thomas.backhouse@mazars.co.uk](mailto:thomas.backhouse@mazars.co.uk)  
07890 949 525

# 03

Section 03:

**Audit scope, approach and timeline**

# 3. Audit scope, approach and timeline

## Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

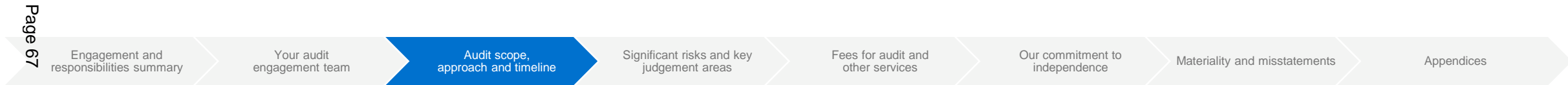
## Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the risks identified.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 7.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.



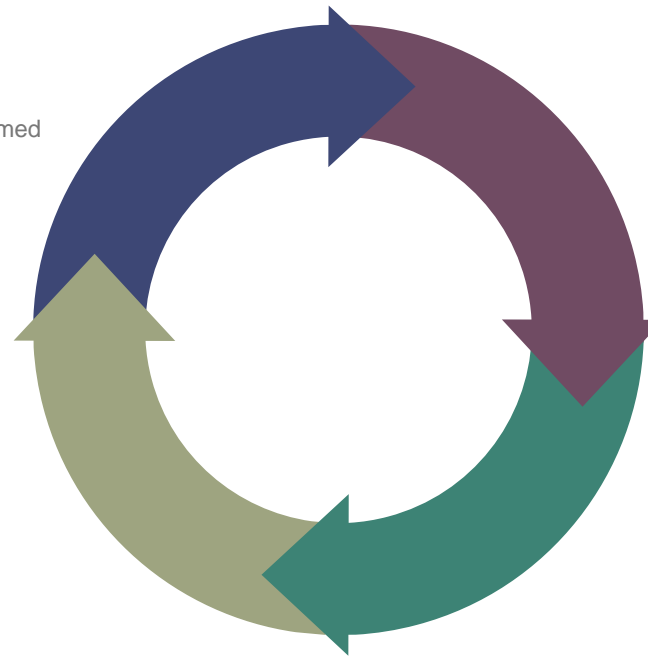
# 3. Audit scope, approach and timeline

## Planning and Risk Assessment [March]

- Planning visit and developing our understanding of the Pension Fund
- Initial opinion assessment
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

## Completion [September]

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the The Audit Committee
- Reviewing subsequent events
- Signing the independent auditor's reports



## Interim [April]

- Documenting systems and controls
- Performing walkthroughs
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

## Fieldwork [July and August]

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting



# 3. Audit scope, approach and timeline

## Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Where we intend to rely on the work on internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

## Management’s and our experts

Management makes use of experts in specific areas when preparing the Pension Fund’s financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management’s expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Aon Hewitt	None
Financial instrument disclosures	Mercer Limited	None

## Service organisations

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

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

# 04

Section 04:

**Significant risks and other key judgement areas**

# 4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

### Significant risk

Significant risks are those risks assessed as being close to the upper end of the spectrum of inherent risk, based on the combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. Fraud risks are always assessed as significant risks as required by auditing standards, including management override of controls.

### Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

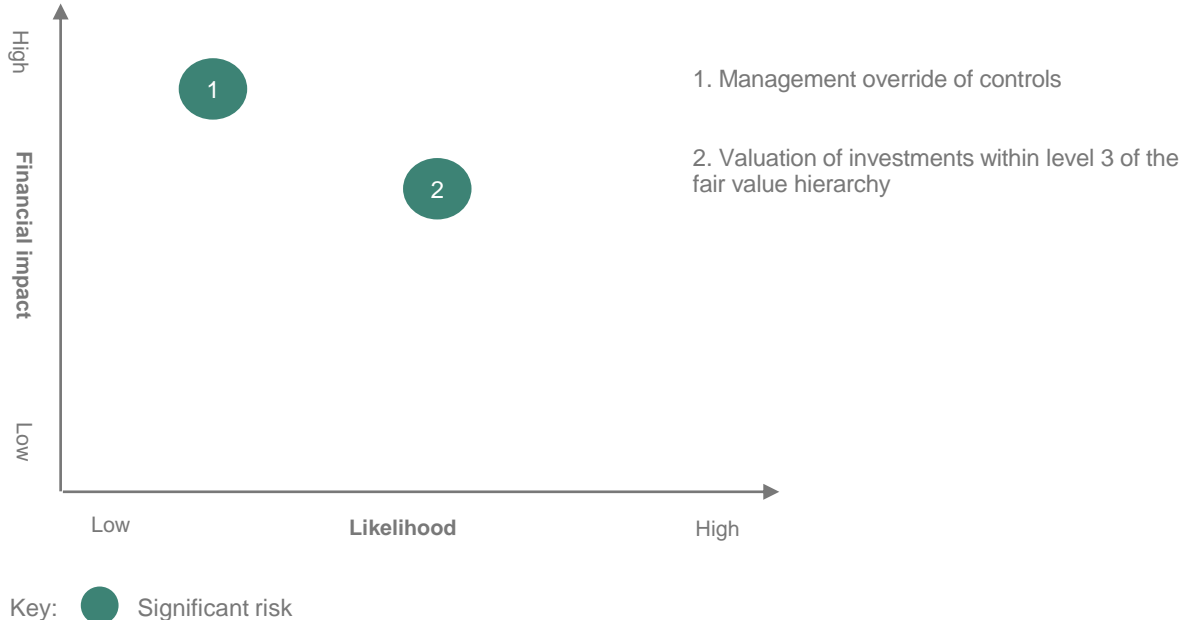
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

### Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

### Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Pension Fund. We have summarised our audit response to these risks on the next page.



# 4. Significant risks and other key judgement areas

## Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	<p><b>Management override of controls</b> This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	●	○	○	We plan to address the management override of controls risk by performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.





# 4. Significant risks and other key judgement areas

## Significant risks

	Description	Fraud	Error	Judgement	Planned response
2	<p><b>Valuation of investments within level 3 of the fair value hierarchy</b></p> <p>As at 31 March 2022 the fair value of level 3 investments was £303.967m, which accounted for 8.6% of net investment assets. The values included in the accounts are those provided by investment managers updated by the Pension Fund for cash movements, where the most recently available information from fund managers is at a date prior to the year end. The fair values of level 3 investments are based on unobservable inputs, which results in an increased risk of material misstatement.</p> <p>As at 31 March 2022 participation in level 3 investments was primarily through unlisted property funds managed by CBRE, for which CBRE provide the valuations as at the year end. CBRE base the valuations on the most recent valuation statements provided by the underlying funds, amended for cash movements where the valuation statement at 31 March is not available from the underlying funds at the time of preparing the fair value of the Pension Fund's unlisted property portfolio. Annual audited accounts are available for the underlying funds, but it is noted that these may be at a date prior to 31 March.</p> <p>BCPP also manage a portfolio of level 3 funds on behalf of the Pension Fund which in total will be material to the Fund's financial statements at 31 March 2023. BCPP provide the valuation of these funds based on audited financial statements as at 31 December, adjusted for cash movements or any other known movements in value.</p>	○	●	●	<p>We plan to address this risk by completing the following additional procedures on a sample basis:</p> <ul style="list-style-type: none"> <li>• agree holdings from fund manager reports to the global custodian's report;</li> <li>• agree valuations included in the Pension Fund's underlying financial systems to the most up-to date supporting documentation at the time of audit including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation;</li> <li>• agree the investment manager valuations to audited accounts or other independent supporting documentation, where available;</li> <li>• where audited accounts are available, check that they are supported by an unmodified opinion;</li> <li>• review the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required; and</li> <li>• where available, review independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund's financial statements.</li> </ul>

## Other key areas of management judgement and enhanced risks

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

# 05

Section 05:

**Fees for audit and other services**

## 6. Fees for audit and other services

### Fees for work as the Pension Fund's appointed auditor

Area of work	2022/23 Proposed Fee	2021/22 Actual Fee
<b>Code Audit Work</b>		
Scale fees <sup>1</sup>	£23,102	£19,957
Fee Variations	TBC	£4,994
<b>Audit Related fees</b>		
Pension Assurance letters to employer auditors	TBC	£6,500 <sup>3</sup>

### Fees for non-PSAA work

We have not been separately engaged by the Pension Fund to carry out additional work.

<sup>1</sup> The scale fee is set by the PSAA.

<sup>2</sup> The additional audit cost in 2021/22 relates to enhanced procedures required due to increased regulatory expectations, primarily related to the audit of level 3 investments. This work is required on an annual basis so an additional fee will be required until the scale fee fully reflects the audit time needed.

<sup>3</sup> During the year we responded to requests received from employer body auditors to undertake a programme of work to provide assurance in respect of data held by the Fund, which is used by the actuary to calculate pension assets and liabilities for individual employers. It is expected that the Fund will recharge these fees to the relevant employers. This approach is in line with the PSAA Terms of Appointment, and the expectation within NAO's AGN01 General Guidance Supporting Local Audit.

# 06

Section 06:

**Our commitment to independence**

# 7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Cameron Waddell in the first instance.

Prior to the provision of any non-audit services Cameron Waddell will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

# 07

## Section 07: **Materiality and misstatements**

# 8. Materiality and misstatements

## Summary of initial materiality thresholds

Threshold	Initial threshold £'000s
Overall materiality	32,320
Performance materiality: Overall	25,856
Specific materiality: Fund Account	14,432
Performance Materiality: Fund Account	11,546
Trivial threshold for errors to be reported to The Audit Committee	970

## Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Information is considered to be material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of net assets of the scheme available to pay benefits. We will identify a figure for materiality but identify separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that the net assets of the scheme available to pay benefits remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

# 8. Materiality and misstatements

## Materiality (continued)

We expect to set a materiality threshold at 1% of net assets of the scheme available to pay benefits. Based on net asset value submitted to the Pension Fund Committee we anticipate the overall materiality for the year ending 31 March 2023 to be in the region of £32.3m (£36.2m in the prior year).

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

## Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality.

## Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £0.9m based on 3% of overall materiality. If you have any queries about this, please do not hesitate to raise these with Cameron Waddell.

## Reporting to the Audit Committee

The following three types of audit differences above the trivial threshold will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).







# Appendices

A: Key communication points

B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

# Appendix A: Key communication points

We value communication with Those Charged With Governance as a two-way feedback process at the heart of our client service commitment. ISA 260 (UK) 'Communication with Those Charged with Governance' and ISA 265 (UK) 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

## Form, timing and content of our communications

We will present the following reports:

- Audit Strategy Memorandum;
- Audit Completion Report; and
- Auditor's Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;

- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

## Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices

# Appendix A: Key communication points

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: <ul style="list-style-type: none"> <li>• uncorrected misstatements and their effect on our audit opinion;</li> <li>• the effect of uncorrected misstatements related to prior periods;</li> <li>• a request that any uncorrected misstatement is corrected; and</li> <li>• in writing, corrected misstatements that are significant.</li> </ul>	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> <li>• enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• a discussion of any other matters related to fraud.</li> </ul>	Audit Completion Report and discussion at Audit Committee Audit planning and clearance meetings

# Appendix A: Key communication points

Required communication	Where addressed
<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• non-disclosure by management;</li> <li>• inappropriate authorisation and approval of transactions;</li> <li>• disagreement over disclosures;</li> <li>• non-compliance with laws and regulations; and</li> <li>• difficulty in identifying the party that ultimately controls the entity.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• significant difficulties, if any, encountered during the audit;</li> <li>• significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• written representations that we are seeking;</li> <li>• expected modifications to the audit report; and</li> <li>• other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities.</li> </ul>	<p>Audit Completion Report</p>
<p>Significant deficiencies in internal controls identified during the audit.</p>	<p>Audit Completion Report</p>
<p>Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.</p>	<p>Audit Completion Report</p>



# Appendix A: Key communication points

Required communication	Where addressed
<p>Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.</p>	<p>Audit Completion Report and the Audit Committee meetings</p>
<p>With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• whether the events or conditions constitute a material uncertainty;</li> <li>• whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• the adequacy of related disclosures in the financial statements.</li> </ul>	<p>Audit Completion Report</p>
<p>Reporting on the valuation methods applied to the various items in the annual financial statements including any impact of changes of such methods</p>	<p>Audit Completion Report</p>
<p>Indication of whether all requested explanations and documents were provided by the entity</p>	<p>Audit Completion Report</p>



# Appendix B: Revised auditing standard on Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

## Background

ISA (UK) 315 (Revised 2019) introduces major changes to the auditor's risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The new standard is effective for periods commencing on or after 15 December 2021 and therefore applies in full for the Pension Fund's 2022/23 audit.

The most significant changes relevant to the Pension Fund's audit are outlined below.

### Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the audited entity, its environment and the applicable financial reporting framework in order to identify and assess risk based on new inherent risk factors which include:

- Subjectivity
- Complexity
- Uncertainty and change
- Susceptibility to misstatement due to management bias or fraud.

Using these inherent risk factors, we assess inherent risk on a spectrum, at which the higher end of which lies significant risks, to drive an audit that is more focused on identified risks. Auditors are now also required to obtain sufficient, appropriate evidence from these risk identification and assessment procedures which means documentation and evidence requirements are also enhanced.

### Greater emphasis on understanding IT

In response to constantly evolving business environments, the standard places an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, we are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs).

### Increased focus on controls

Building on the need for auditors to gain a greater understanding of the IT environment, the standard also widens the scope of controls that are deemed relevant to the audit. We are now required to broaden our understanding of controls implemented by management, including ITGCs, as well as assess the design and implementation of those controls.

### Implications for the audit

Our risk assessment procedures will be more granular than in the prior year and we will be seeking more information from the Pension Fund to ensure that we can document our detailed understanding of the Fund and the environment that it operates in. This will build on the existing strong knowledge of the Fund we already have in place from our previous years' audits. In documenting our risk assessment, we will need to input additional time to assess inherent risks of the spectrum that the auditing standard requires.

In terms of IT, we have established a good understanding of the Fund's IT environment. We will keep this under review as part of our work. We do not plan to test ITGCs as we have designed our approach to gain assurance from substantive testing, which in our view remains the most efficient approach to take.

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**Pension Fund Committee**

15 June 2023



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

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

**Electoral division(s) affected:**

Countywide.

**Purpose of the Report**

- 1 To inform Members of the work that has been carried out by Internal Audit during the period 1 April 2022 to 31 March 2023 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 March 2023 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 March 2023.

## 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
<b>Audits brought forward from 2021/22</b>			
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	
<b>2022/23 audits</b>			
Compliance with Breach Policy	Assurance	In Progress	
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	Complete for 2022/23	Not Applicable

- 7 Seven assurance audits were originally planned for 2022/23, however, one of these reviews was deferred to 2023/24. Although no final reports were issued in the period, final reports for four of the six assurance reviews were issued in the year, with all four reports providing a Substantial level of assurance. The two reviews, which were in progress at the year end, have both been rolled forward to be completed in 2023/24.

**Background papers**

- Specific Internal Audit reports issued and working papers.

**Other useful documents**

- None

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

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## **Appendix 1: Implications**

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### **Legal Implications**

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

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

### **Finance**

There are no direct financial implications associated with this report.

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

### **Consultation**

Pensions Manager, Finance Manager and Corporate Director, Resources.

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

None.

### **Climate Change**

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

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

None.

## **Accommodation**

None.

## **Risk**

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

## **Procurement**

None.

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**Pension Fund Committee**

15 June 2023

Regulatory Update



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

**Purpose of the Report**

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

**Executive summary**

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

**Recommendation(s)**

- 3 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 6<sup>th</sup> 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 6<sup>th</sup> April 2016 and 5<sup>th</sup> December 2018 to those that reach state pension age on or before 5<sup>th</sup> 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 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 commenced implementation of its approach to GMP Rectification, with a separate report previously presented to the Committee.

### **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 (which were previously shared with the Committee) intended to drive growth and competitiveness in the financial services sector. It has been confirmed that the Government will be consulting 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. It is currently expected that the first LGPS TCFD reporting will become due in late 2025.

### **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 has been granted permission to appeal against the High Court's judgement to allow the inclusion of the McCloud remedy as a "member cost". Whilst the High Court previously dismissed the case, the Court of Appeal has granted permission to appeal the ruling. 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 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.

- 37 Following its 2020 consultation, on 30 May 2023 DLUHC launched a consultation seeking views on issues relating to the McCloud remedy, and the draft scheme regulations which would implement the remedy. At the time of writing Officers are considering the contents of the consultation, but an initial summary is set out in Appendix 1.
- 38 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. 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.
- 39 Additionally, 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**

- 41 Following a short consultation, DLUHC has implemented changes to the in-scheme revaluation date from 1 to 6 April, with effect from 1 April 2023. The change has the effect of removing the impact of high inflation (10.10% for 2023 revaluation) on the Annual Allowance and will 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 reflect the change in Annual Statements and Pension Savings Statements.

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

#### **SAB Review – Academies**

- 42 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.

43 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.

44 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.

45 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**

46 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.

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

48 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.

49 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.

- 50 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.
- 51 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**

- 52 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)
- 53 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**

- 54 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.

- 55 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>.
- 56 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**

- 57 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 to the SAB welcoming the Board's advice and recommendation to consider the separation of main authority accounts and the pension fund accounts. A copy of the correspondence was previously shared with the Committee. The Minister has asked his officials to consider the scope for developing this further. The Committee will be kept informed as the matter progresses.

### **SAB – Sharia Compliance**

- 58 The SAB has received legal advice suggesting that it should instruct an expert in Islamic finance to provide evidence on Sharia Compliance in the LGPS. Consequently, the Board has commissioned an expert in the field of Sharia finance and will subsequently instruct counsel upon receipt of the evidential findings. The Committee will be updated as further information emerges.

## Non- LGPS Specific Matters

### Public Sector Exit Payments Caps

- 59 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.
- 60 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.
- 61 Under the Regulations, the cap was to remain at £95,000 and include:
- redundancy payment(s);
  - any payment to offset an actuarial reduction to a pension arising by virtue of early retirement (known as 'strain on the fund' or 'early release' cost);
  - any payment made pursuant to an award of compensation under the ACAS arbitration scheme or a settlement or conciliation agreement;
  - any severance payment or ex gratia payment;
  - any payment in the form of shares or share options;
  - any payment on voluntary exit;
  - any payment in lieu of notice due under a contract of employment;
  - any payment made to extinguish any liability under a fixed term contract;
  - any other payment made, whether under a contract of employment or otherwise, in consequence of termination of employment or loss of office.
- 62 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.

- 63 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.
- 64 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**

- 65 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.
- 66 Due to the significant changes in the Investment Market since the introduction of the first Code, The UK Stewardship Code 2020 is now being introduced. This new Code expands on the previous requirements and comprises a set of 12 Principles which require reporting and disclosure on an 'apply and explain' basis.
- 67 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.
- 68 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**

- 69 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.
- 70 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 than the State Pension Age. The minimum age a scheme member can currently retire voluntarily in the LGPS is 55.
- 71 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.
- 72 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**

- 73 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.
- 74 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**

- 75 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.
- 76 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.
- 77 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**

- 78 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.
- 79 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.
- 80 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.
- 81 Following a major data breach at third-party pensions administrator, Capita, the Pensions Regulator has reminded pension funds of the importance of warning members about scams. A reminder will be

provided to all active and deferred scheme members in their Annual Benefit Statements.

### **Stronger Nudge**

- 82 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.
- 83 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.
- 84 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**

- 85 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.
- 86 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.

### **Changes to Pension Taxation**

- 87 In the Spring Budget, the Chancellor announced changes to pension taxation. The Annual Allowance (which is the maximum amount of pensions savings an individual can make each year before incurring a tax charge) was increased from £40,000 to £60,000 from 6 April 2023. Changes have also been made to the Lifetime Allowance, the charge for which will be reduced to zero from 6 April 2023, before being fully abolishing entirely in a future Finance Bill.
- 88 Officers will ensure that scheme members are appropriately advised of the implications through Annual Statements, and Pensions Savings Statements. All participating employers were made aware of the changes, enabling them to alert their employees who are most likely to be affected.

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## Appendix 1: Summary of 2023 McCloud consultation

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- **Aggregation** – DLUHC now proposes that service does not need to be aggregated for a member to qualify for McCloud, but, where a member who qualifies for underpin protection leaves and re-joins the LGPS or holds concurrent posts and LGPS membership ends in one post, that it is required in order for underpin figures to be recalculated when they next have an underpin
- **Club transfers** – DLUHC is now proposing that members will not need to have transferred their previous service in another public service pension scheme into the LGPS to qualify for underpin protection in the LGPS. Instead, if an LGPS member had membership of another public service pension scheme on or before 31 March 2012 and did not have a disqualifying gap, they would have underpin protection on their LGPS service in the underpin period (even if the previous service was not transferred to the LGPS)
- **Flexible retirement** – DLUHC proposes that a protected member will have a second underpin date if they took flexible retirement between 1 April 2014 and 31 March 2022 and continued to build up pension in the underpin period after their flexible retirement and before they reached their final salary normal pension age. The proposed treatment of partial flexible retirement is also set out. The approach may lead to multiple underpin and final underpin dates and will be complex to administer but DLUHC intends that the approach will deliver consistent protection
- **Divorce** – actuarial guidance will be updated to reflect the McCloud remedy and there will be minor changes to how pension debits are reflected in underpin calculations
- **Injury allowances** – DLUHC does not believe that any special provisions are required in relation to this group
- **Excess teacher service** - excess teacher service is pensionable in the LGPS, and members will be retrospectively admitted to the LGPS for the period they were in the TPS reformed scheme during the remedy period
- **Compensation** - draft regulations include provisions regarding payment of and applications for compensation
- **Interest** – draft regulations set out the interest applicable and the period applicable for various types of payment (e.g. retrospective pension/lump sum addition, direct/indirect compensation for financial loss/Part 4 tax loss)



**Pension Fund Committee**

**15 June 2023**

**Review of Pension Fund Risks**



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

**Purpose of the Report**

- 1 To update members on the revisions to the LGPS Pension Fund risk register, following a review with the Principal Risk and Governance Officer in May 2023.

**Executive summary**

- 2 The review of the risk register was undertaken in line with the Chartered Institute of Public Finance and Accountancy (CIPFA)'s 2018 guidance on Managing Risk in the Local Government Pension Scheme, an extract from which is attached as Appendix 1. There are 14 risks on the Pension Fund risk register, which is attached as Appendix 3. There are five medium risks and nine low risks.

**Recommendation(s)**

- 3 Members are asked to confirm that this report provides assurance that the Pension Fund risks are being effectively managed within the council's risk management framework, and
- 4 Agree to receive a report from the Fund's custodian at a future meeting of the Committee.

## Background

- 5 The introduction of new governance requirements in the LGPS in 2015, specifically the Pensions Regulator's new role and the establishment of local pension boards, reflects the increasing importance of risk management. It also reinforces the need for administering authorities to focus their risk management activities on all areas of scheme management and not just investment, noting of course that management of investment risk is rightly a fundamental concern.
- 6 The Chartered Institute of Public Finance and Accountancy (CIPFA) publication, *Managing Risk in the Local Government Pension Scheme 2018*, includes guidance on managing risks in LGPS financial management and administration. It states that, as part of their governance processes, funds should regularly report risks to committee and local pension boards, embedding robust risk management. An extract from the CIPFA guidance is attached as Appendix 1.
- 7 The Pension Fund risk register uses the council's corporate risk assessment methodology and is reviewed in detail by officers twice each year. In accordance with its terms of reference, the Pension Fund Committee will also review and monitor the Pension Fund risk register annually.

## Risk Update

- 8 There are 14 risks on the Pension Fund risk register, with the profile of those risks summarised in Appendix 2. There are five medium risks, whilst the remaining nine risks are within the corporate appetite and are therefore deemed to be at an acceptable level. The five areas assessed as medium risk are:
  - a) *Inappropriate investment in breach of the Fund's **environmental, social or governance principles**, leading to reputational damage*
  - b) *The **pension fund assets** may fail to grow in line with the developing cost of pension fund liabilities, leading to an adverse financial impact on the pension fund.*
  - c) Risk that the amount of money needed to meet the fund's **liabilities** turns out to be greater than expected, leading to an adverse financial impact on the pension fund.
  - d) *Risks associated with **asset pooling** through BCPP Ltd.*

e) A successful **cyberattack**, leading to disruption to the discharge of administering authority functions

- 9 Since the Committee last reviewed the register, the risk of a serious data breach (11) has increased. This is considered in the context of the major recent breach suffered by third-party pensions administration provider Capita. A statement on the breach from the Regulator is included in Appendix 5. Similarly, the implications (impact score) of a successful cyber-attack have been updated.

### **Sources of Assurance**

- 10 Appendix 4 summarises the sources of assurance in managing the Fund's 14 Risks. Each of the 14 Risks are mapped to a source of assurance, detailing when that assurance was provided and, where appropriate, the level of assurance provided.
- 11 Members of the Committee had previously asked for more detail on the Cybersecurity controls (12). A presentation from the council's ICT Strategic Manager, intended to provide assurance to the Committee on the management of this Risk, was subsequently provided for the Committee, outlining the role undertaken by the Council's ICT function in managing the Pension Fund's cyber security risk.
- 12 It is proposed that a similar session is provided for the Committee on the role of the custodian. Currently, the Fund's appointed custodian is Northern Trust.

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

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

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

- Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016.
- The Pensions Regulator's Code of Practice 14, which includes a section on internal controls and managing risks.
- The CIPFA Publication Delivering Good Governance in Local Government: Framework (2016 Edition).
- Statutory guidance under Regulation 58 of the LGPS Regulations 2013.
- Preparing and Maintaining a Funding Strategy Statement in the LGPS, 2016 Edition.
- CIPFA's guidance on Investment Pooling and Governance Principles, published in 2016.

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

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

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

## Appendix 2: Pension Fund Risk Profile

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

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

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**Notes on the Risk Register**

1. The full Pension Fund Risk Register is set out in the table below.
2. Risk assessment criteria are shown in the table on the right.
3. Significant changes to the risk register are highlighted in the column on the far right along with any outstanding actions to mitigate the risk.

Factor & Description		Financial impact	Likelihood
5	Critical	Over £15m	Highly Probable – more than once a year
4	Major	£5m - £15m	Probable – once a year
3	Moderate	£1m - £5m	Possible – every 1-3 years
2	Minor	£0.5m - £1m	Unlikely – every 3-5 years
1	Insignificant	£0.5m	Remote – over 5 years

Ref	Risk (and type)	Potential Impact	Potential Impact			Mitigating Controls	Net Scores		
			Gross Total Impact Score	Gross Likelihood Score	Gross Risk Score		Net Total Impact Score	Net Likelihood Score	Net Risk Score
1	The <b>pension fund assets</b> may fail to grow in line with the developing cost of pension fund liabilities, leading to an adverse financial impact on the pension fund (Asset & Investment Risk).	Financial	5	5	25	<ul style="list-style-type: none"> <li>1. Investment Strategy Statement (ISS) Approach to Risk.</li> <li>2. ISS Counterparty Risk Acceptability.</li> <li>3. Adoption of Myners Principles of Investment Decision Making and Disclosure.</li> <li>4. Local Pension Board reviews activity of the Pension Committee.</li> <li>5. Professional advice from Investment Consultants &amp; Independent Advisor.</li> <li>6. Extensive due diligence before any investment manager appointment.</li> <li>7. Range of underlying investment managers to spread risk.</li> <li>8. Diversified allocation of assets.</li> <li>9. Investment in both public and private markets.</li> <li>10. Investment advisor reviews the portfolios of the investment managers on a regular basis.</li> <li>11. Performance monitoring.</li> <li>12. Regular cashflow monitoring.</li> <li>13. Regular monitoring to ensure that funding objectives are achieved.</li> <li>14. Investment Advisors reports to Pension Fund Committee quarterly.</li> <li>15. Quarterly performance figures of the investment managers are reported and challenged at the Pension Fund Committee.</li> <li>16. Investing in assets which produce cashflows or withdrawing cash from fund managers.</li> </ul>	5	2	10



2	A <b>counterparty may default</b> in meeting its obligations, leading to an adverse financial impact on the pension fund (Asset & Investment Risk).	Financial	5	3	15	<ol style="list-style-type: none"> <li>1. Spreading of investments across different counter parties reduces risk of defaults being material.</li> <li>2. Investments made through Treasury Management (TM) Team are done in line with TM strategy and policy.</li> <li>3. Due diligence before appointing counterparty.</li> <li>4. Appointment of pension fund custodian.</li> <li>5. Cash balances are invested in line with the Council's Treasury Management Strategy. This sets out the maximum principal sums which can be invested and the maximum time limits which can be placed with each financial institution.</li> <li>6. The TM team reviews and monitors the Council's TM Strategy and updates counterparties in line with information supplied by the Council's TM Advisers.</li> <li>7. Uninvested cash held by custodian retained in segregated account. Tier 1 capital requirements for custodian.</li> </ol>	5	1	5
3	Inappropriate investment in breach of the Fund's <b>environmental, social or governance (ESG) principles</b> , leading to reputational damage (Asset & Investment Risk).	Financial and reputational	5	4	20	<ol style="list-style-type: none"> <li>1. Environmental, Social &amp; Governance Policy through the fund's Investment Strategy Statement.</li> <li>2. Environmental, Social &amp; Governance factors form part of asset manager selection rationale.</li> <li>3. Reporting from current investment managers includes details of voting activity. BCPP Ltd publish voting activity quarterly.</li> <li>4. Responsible Investment Policy agreed with BCPP Ltd and jointly owned with partner funds.</li> </ol>	5	2	10

4	Risk that the amount of money needed to meet the fund's <b>liabilities</b> turns out to be greater than expected, leading to an adverse financial impact on the pension fund (Liability Risk).	Financial	5	4	20	<ol style="list-style-type: none"> <li>1. Investment in a range of assets.</li> <li>2. Inflation linked income, subject to a tolerable level of volatility.</li> <li>3. Actuary takes a long -term view.</li> <li>4. Ongoing liaison with the actuary.</li> <li>5. Regular liaison with affected employers.</li> <li>6. Investing in assets which produce cashflows or withdrawing cash from fund managers.</li> <li>7. Regular cashflow monitoring.</li> <li>8. Quarterly reporting to Pension Fund Committee.</li> <li>9. Targeting returns in excess of the discount rate.</li> </ol>	5	2	10
5	<b>Scheme employers</b> may not meet their contribution requirements as they fall due, leading to an adverse financial impact on the pension fund (Employer Risk).	Financial	3	3	9	<ol style="list-style-type: none"> <li>1. Annual returns reconciled to monthly payments.</li> <li>2. As part of the process for the actuary's triennial valuation, bodies have opportunity to discuss funding.</li> <li>3. Use of bonds and guarantees.</li> <li>4. The Fund considers admittance of admitted bodies, following process to manage risk of each admission.</li> <li>5. Actuary calculation of the bond options (with DCC making final choice).</li> </ol>	3	2	6

6	Scheme employers may fail to <b>administer the scheme efficiently</b> , leading to disruption to the discharge of administering authority functions (Employer Risk).	Service delivery	1	4	4	<ol style="list-style-type: none"> <li>1. Clear communication of requirements to scheme employers.</li> <li>2. Electronic processing offered to all employers improving efficiency and ease of administration.</li> <li>3. As part of the process for the actuary's triennial valuation, bodies have opportunity to discuss funding.</li> <li>4. The Fund considers admittance of admitted bodies, following process to manage risk of each admission.</li> </ol>	1	3	3
7	Potential lack of <b>resources / skills</b> , leading to disruption to the discharge of administering authority functions (Resource and Skill Risk).	Service delivery	2	4	8	<ol style="list-style-type: none"> <li>1. Training for Pension Fund Committee and Local Pension Board.</li> <li>2. Appropriately qualified staff in key roles.</li> <li>3. Segregation of duties among pensions staff.</li> <li>4. Fit for purpose staffing structure in place.</li> <li>5. Training budget in place.</li> </ol>	2	2	4
8	Risks associated with <b>asset pooling</b> through BCPP Ltd (Administrative Risk).	Financial	5	3	15	<ol style="list-style-type: none"> <li>1. BCPP Ltd is a Financial-Conduct Authority regulated operator and alternative investment fund manager.</li> <li>2. Delay transition of assets during set up period, until necessary conditions for investment are met.</li> <li>3. PF Committee consider risks of investment and approve transitions into BCPP Ltd.</li> <li>4. Due diligence on sub-funds in conjunction with investment consultants.</li> <li>5. Part owners/control – fund represented on BCPP Joint Committee by Pension Fund Committee Chair, statutory officer groups, senior pension officer groups and AGM.</li> <li>6. Transitions managed by externally appointed Transitions Manager.</li> <li>7. Continued availability of external management within BCPP investment offerings (linked to control 5).</li> </ol>	5	2	10

9	A serious <b>ICT failure</b> , leading to disruption to the discharge of administering authority functions (Administrative Risk).	Service delivery	4	4	16	<ol style="list-style-type: none"> <li>1. Universal Pensions Management computer database system and ResourceLink system (pension payments) are supported by DCC ICT service for systems security.</li> <li>2. UPM computer database system and ResourceLink system (pension payments) are covered by the Resources BCP.</li> <li>3. Back up data centre is in place.</li> <li>4. Extensive Corporate controls.</li> <li>5. Business Continuity Plans in place for pensions administration and accounting functions.</li> </ol>	2	2	4
10	Poor standards of <b>data quality</b> , leading to disruption to the discharge of administering authority functions (Administrative Risk).	Service delivery	3	4	12	<ol style="list-style-type: none"> <li>1. Actuary gets annual reports and checks the figures against these.</li> <li>2. Collection of member data through automated monthly process for large employers.</li> <li>3. Internal checking and validation procedures.</li> <li>4. Checking and validation by the Actuary.</li> <li>5. Annual data quality report to regulator</li> </ol>	2	3	6
11	Serious breach of law regarding management of <b>data/information</b> , including an unauthorised release requiring notification to ICO, leading to disruption to the discharge of administering authority functions (Administrative Risk).	Service delivery and reputational	4	5	25	<ol style="list-style-type: none"> <li>1. Corporate Information Governance Group oversees policies, procedures &amp; activities.</li> <li>2. Comprehensive training to officers and members.</li> <li>3. Data breach procedure in place.</li> <li>4. Formal appointment of Senior Information Risk Owner to provide senior authority on information governance.</li> <li>5. Assurance obtained from third party suppliers &amp; contractors on compliance with relevant legislation.</li> <li>6. Data Protection Officer appointed as required by the GDPR legislation.</li> <li>7. Access levels in system set up for individual users.</li> <li>8. Secure data exchange for transmission of data with actuary.</li> </ol>	4	1	5

12	A successful <b>cyberattack</b> , leading to disruption to the discharge of administering authority functions (Administrative Risk).	Service delivery	4	4	16	<ol style="list-style-type: none"> <li>1. The LGPS application is hosted on premise at the Council's Data Centre and is covered by corporate cyber security measures.</li> <li>2. Strategic co-ordination of IT - business continuity incident management ensures clear system recovery priorities and staff redeployment.</li> <li>3. User awareness of social engineering and telephone -based cybercrime.</li> <li>4. Staff training and awareness.</li> <li>5. Software support agreements in place.</li> <li>6. Anti-Virus, Anti-spam, Spyware software protection in place.</li> <li>7. Regular Intrusion Detection test.</li> <li>8. Firewalls.</li> <li>9. Password protection.</li> <li>10. Email scanning for known phishing exploits and staged phishing exercises.</li> <li>11. Cyber Security Steering Group.</li> </ol>	4	2	8
13	Serious incident of <b>fraud / corruption</b> in the administration function, leading to an adverse financial impact on the pension fund (Administrative Risk).	Financial	3	3	9	<ol style="list-style-type: none"> <li>1. Segregation of duties among administering authority staff.</li> <li>2. Monthly reconciliations.</li> <li>3. Fraud awareness training.</li> <li>4. Participate in National Fraud Initiative data matching exercises.</li> <li>5. Rigorous checks of supporting documentation (e.g., death certificate).</li> <li>6. Pre-employment checks.</li> </ol>	3	1	3

14	<b>Material non-compliance</b> with some elements of pensions legislation may result in specific penalties or sanctions, leading to an adverse financial impact on the pension fund (Regulatory and Compliance).	Financial and reputational	3	4	12	<ol style="list-style-type: none"> <li>1. Participation in regional Pension Officer forums.</li> <li>2. Subscription to Local Government Association circulars.</li> <li>3. Professional advice taken from the Fund's Actuary and investment consultants, as well as the admin authority's Legal team.</li> <li>4. Staff training.</li> <li>5. Subscription to providers' legislative updates.</li> </ol>	2	2	4
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	A	B	C	D	E	F	G	H	I
1	<b>Pension Fund - Risks Mapped to Assurance</b>								
2									
3	#	Risk	Assurance Source	Title	Last Audit reported to PFC	Audit Committee	Assurance Level	Note	
4	1	Pension Fund Assets	Pension Fund Audit Assurance	Investments	2021/22		Substantial		
5			Pension Fund Audit Assurance	Contributions	2020/21		Substantial		
6			Pension Fund Audit Assurance	Governance Arrangements	2020/21		Substantial		
7			Pension Fund Audit Assurance	Bank Reconciliation	2022/23		Substantial		
8			Pension Fund Audit Assurance	Debt Recovery	2018/19		Substantial		
9			External Monitoring	Quarterly Investment Consultant Reporting to Pension Fund Committee	Quarterly		n/a		
10			External Monitoring	Quarterly Independent Advice to Pension Fund Committee	Quarterly		n/a		
11			External Audit	External Audit Report 2020/21	2020/21		n/a		
12			BCPP AAF	AAF Type II Assurance Report	2020/21*		n/a	*provided by BCPP	
13	2	Counterparty	Pension Fund Audit Assurance	Investments	2021/22		Substantial		
14			DCC Corporate Controls	Treasury Management		2020/21	Substantial		
15	3	ESG	Pension Fund Audit Assurance	Investments	2021/22		Substantial		
16			External Monitoring	Quarterly ESG Reporting to Pension Fund Committee	Quarterly		n/a		
17			BCPP RI Reporting	Annual RI Report, Annual TCFD Report, UK Stewardship Code Compliance	2021/22		n/a		
18	4	Liabilities	Valuation Report	Triennial Valuation	2019/20		n/a		
19			Annual Report	Annual Statement of the Fund Actuary 2020/21	2020/21		n/a		
20			External Monitoring	Quarterly Investment Consultant Reporting to Pension Fund Committee	Quarterly		n/a		
21			External Monitoring	Quarterly Independent Advice to Pension Fund Committee	Quarterly		n/a		
22	5	Employers	Pension Fund Audit Assurance	Contributions	2020/21		Substantial		
23			Pension Fund Audit Assurance	Admission Bodies / Funding Risks	2022/23		Substantial		
24	6	Administration	Pension Fund Audit Assurance	Pensions Payroll	2020/21		Substantial		
25			Pension Fund Audit Assurance	Transfer In/Out	2021/22		Substantial		
26			Pension Fund Audit Assurance	Additional Voluntary Contributions	2021/22		Substantial		
27			Pension Fund Audit Assurance	Benefit Calculations	2022/23		Substantial		
28			Pension Fund Annual Report	Governance Compliance Statement	2020/21		n/a		
29	7	Skills	Pension Fund Annual Report	Governance Compliance Statement	2020/21		n/a		
30	8	Pooling	Pension Fund Audit Assurance	Investments	2021/22		Substantial		
31			Pension Fund Audit Assurance	Governance Arrangements	2020/21		Substantial		
32			BCPP AAF	AAF Type II Assurance Report	2020/21*		n/a	*provided by BCPP	
33	9	ICT	Pension Fund Audit Assurance	Pension System ICT Controls, Data Quality and Performance	2022/23		Substantial		
34			DCC Corporate Controls	Corporate Controls Presented to PF Committee June 2022	2022/23		n/a		
35			DCC Corporate Controls	Windows Operating System		2017/18	Substantial		
36			DCC Corporate Controls	Backup Arrangements		2021/22	Moderate		
37			DCC Corporate Controls	Mobile Computing (Follow Up)		2018/19	n/a		
38			DCC Corporate Controls	Business Continuity for ICT		2018/19	Moderate		
39			DCC Corporate Controls	Incident Management		2019/20	Substantial		
40			DCC Corporate Controls	Vulnerability Management (Advice)		2021/2	n/a		
41	10	Data Quality	Pension Fund Audit Assurance	Pension System ICT Controls, Data Quality and Performance	2019/21		Substantial		
42	11	Data Breach	Pension Fund Audit Assurance	Pension System ICT Controls, Data Quality and Performance	2019/21		Substantial		
43			Pension Fund Audit Assurance	Compliance With Breach Policy	deferred		n/a*	*part of 2023/24 plan	
44			DCC Corporate Controls	Corporate Controls Presented to PF Committee June 2022	2022/23		n/a		
45	12	Cyber	Pension Fund Audit Assurance	Pension System ICT Controls, Data Quality and Performance	2019/23		Substantial		
46			DCC Corporate Controls	Corporate Controls Presented to PF Committee June 2022	2022/23		n/a		
47			DCC Corporate Controls	Windows Operating System		2017/18	Substantial		
48			DCC Corporate Controls	Backup Arrangements		2021/22	Moderate		
49			DCC Corporate Controls	Mobile Computing (Follow Up)		2018/19	n/a		
50			DCC Corporate Controls	Business Continuity for ICT		2018/19	Moderate		
51			DCC Corporate Controls	Incident Management		2019/20	Substantial		
52			DCC Corporate Controls	Vulnerability Management (Advice)		2021/2	n/a		
53	13	Fraud	Pension Fund Audit Counter Fraud	National Fraud Initiative – Data matching to identify potential error/fraud	2021/22		n/a		
54	14	Regulatory Compliance	Pension Fund Audit Assurance	Pensions Payroll	2020/21		Substantial		
55			Pension Fund Audit Assurance	Transfer In/Out	2021/22		Substantial		
56			Pension Fund Audit Assurance	Additional Voluntary Contributions	2021/21		Substantial		
57			Pension Fund Audit Assurance	Contributions	2020/21		Substantial		
58			Pension Fund Audit Assurance	Benefit Calculations	2022/23		Substantial		
59			Pension Fund Audit Assurance	Governance Arrangements	2020/21		Substantial		
60			Pension Fund Annual Report	Governance Compliance Statement	2020/21		n/a		

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# Capita cyber security incident

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Published: 12 May 2023.

Capita has recently experienced a cyber security incident and it is now known that some data has been exfiltrated from their servers.

As trustees, you are responsible for the security of your members' data. If you use Capita's services, you should check whether your pension scheme's data could be affected. Make sure you keep communicating with Capita as the situation evolves.

This situation is likely to cause concern to members and you should be prepared to answer their queries. You should contact your members proactively to [warn them about pension scams](#)

(</en/trustees/communicate-to-members/warn-members-about-pension-scams>)

and keep them updated while you confirm whether a data breach has taken place. You should also monitor increased or unusual [transfer requests](#)

(</en/document-library/scheme-management-detailed-guidance/administration-detailed-guidance/dealing-with-transfer-requests>)

If there has been a data breach in your scheme, you may need to notify affected individuals and should direct them to [data breaches guidance for individuals from the National Cyber Security Centre](#)

(<https://www.ncsc.gov.uk/guidance/data-breaches>)

. You may also need to [notify us](#)

(</en/document-library/codes-of-practice/code-1-reporting-breaches-of-the-law>)

and the [Information Commissioner's Office](#)

(<https://ico.org.uk/for-organisations/report-a-breach>)

This incident shows the importance of having a robust cyber security and business continuity plan in place. Make sure you have read our [cyber security guidance](#) (</en/document-library/scheme-management-detailed-guidance/administration-detailed-guidance/cyber-security-principles>)

and check that your own plans are up to date.

We may engage with you further to understand the steps you have taken and what progress you have made.

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