

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in **Committee Room 2, County Hall, Durham** on **Thursday 14 September 2023** at **10.00 am**

Present:

Councillor D Sutton-Lloyd (Chair)

Members of the Committee:

Councillors M Stead (Vice-Chair), J Atkinson, C Fletcher, D Freeman, B Kellett, J Quinn, J Shuttleworth and W Stelling

Council Advisers

Paul Cooper – Head of Pensions (LGPS)

Paul Darby – Corporate Director of Resources

Jo McMahon – Finance Manager

Investment Advisers

Paul Campbell – BCPP

Milo Kerr – BCPP

Independent Advisers

Sandy Dickson – Mercer

Anthony Fletcher – MJ Hudson

1 Apologies for Absence

Apologies for absence were received from Councillor R Baker and A Delandre.

2 Declarations of Interest

There were no Declarations of Interest.

3 Minutes of the Meeting held on 15 June 2023

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

4 Pension Fund Committee Training - Verbal Update

The Head of Pensions (LGPS), Paul Cooper explained that while there were no investment decisions to be made at the meeting today, he noted there would be a full agenda for the December meeting. He added that in preparation for that meeting, he would propose for a training session to take place after the conclusion of the Annual Pension Fund meeting on 9 November. He noted that the Chief Executive of BCPP, Rachel Elwell, would be in attendance in December to speak to the Committee regards the future of BCPP; and the Committee would be asked to consider the refresh of the Responsible Investment Policy.

In respect of future training for Committee Members, the Head of Pensions (LGPS) noted the proposed online training solution that had been discussed was also supported by the Local Pension Board. He noted that work was ongoing with colleagues from Procurement. He added that new Members to the Committee had completed their training last week, with all Members now having gone through induction training.

The Head of Pensions (LGPS) noted the upcoming BCPP Conference on 28 September and noted previous good representation from Committee Members. He added he would provide further details as regards travel arrangements next week.

Councillor M Porter entered the meeting at 10.07am

The Head of Pensions (LGPS) noted that information as regards training would be formalised within a policy, with agreement in terms of the online training modules as described, and for new Member inductions. He concluded by asking Members to let him know as regards any thoughts on a training policy.

The Chair noted the Committee was one with heavy responsibility and fair amount of relevant legislation to take into account. He added that he felt Durham was 'ahead of the game' in many respects, however, it was important to ensure that the Committee had well-trained Members when looking to make decisions.

Resolved:

That the verbal update be noted.

5 Overall Value of Pension Fund Investments to 30 June 2023

The Committee considered a report of the Corporate Director of Resources which provided an update on the overall value of the Pension Fund investments to 30 June 2023, the movement in cash balances during the last quarter (for copy see file of Minutes).

The Finance Manager, Jo McMahon noted that the Finance Team were developing enhanced cashflow information which would be presented to the Committee in due course, and then every six month months thereafter.

Resolved:

That the information contained in the report be noted.

6 Performance Measurement of Pension Fund Investments to 30 June 2023

The Committee considered a report of the Corporate Director of Resources which provided an overview of the investment performance of the Pension Fund to 30 June 2023 (for copy see file of Minutes).

Councillor B Kellett noted the FTSE 100 had 'wallowed' this past year and asked why the Pension Fund had done so well, relatively. The Head of Pensions (LGPS) noted that the comments and outlined that individual managers and their performance would be considered to within the Part B section of the meeting.

Resolved:

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

7 Feedback from Local Pension Board

The Head of Pensions (LGPS) noted the last meeting of the Local Pension Board had taken place on 15 June 2023, and there were no specific issues he had been requested to feedback to the Committee.

He noted that following the last meeting of the Pension Fund Committee, the Local Pension Board had considered the Committee agenda and decisions,

reviewed issues of cybersecurity given the recent data breaches at Capita, the Board had been given assurance on the issue. He added the Board had also looked at key performance indicators, noting services to scheme members, and highlighted that the performance was very strong. He reiterated that the Board had discussed and agreed upon the approach to use the online training tool. The Head of Pensions (LGPS) noted that the Board had also reviewed Pension Fund communications, with the annual communication to scheme members having been issued by 31 August 2023.

Councillor J Atkinson noted the issues of cybersecurity and the recent incident at Capita, and asked about attacks on the Pensions System, he also asked whether any Board members were in attendance at Committee. The Chair noted there had been a good debate on the issue, with Councillor M Porter having asked the question previously. The Head of Pensions (LGPS) noted that there were robust systems in place, as previously noted by the Committee at previous meetings. He added that the Local Pension Board Members were always invited to the Committee, with there being 3 Scheme Member representatives and 3 scheme employer representatives, however, there was no requirement for them to attend Committee. He noted Local Pension Board Members have asked questions previously and have attended Committee in the past to provide feedback.

Councillor M Porter asked what it was looking like, in terms of the next Annual Pension Statement being in time. The Head of Pensions (LGPS) noted the statements had been sent out on time and he was confident of meeting deadlines in future. He added that the impact of McCloud would be felt in 2024 and 2025, though he would anticipate the required software developments to be in place. He noted he would discuss the impact of McCloud further with the Committee as work progresses and explained the regulator was live to the issue and the impact on the LGPS.

Resolved:

That the verbal update be noted.

8 Internal Audit Plan 2022/23 - Progress Report to 30 June 2023

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

In respect of a question from A Broadbent in terms of cybersecurity, the Audit Manager, Paul Monaghan noted the issue was one that was on the risk

register and was linked in with other assurances that came from the County Council's ICT arrangements. He added that a separate ICT Auditor had a rolling programme of testing in this regard looking at issues such as malware, viruses and so on, again an element that was reported back upon at the Council's Audit Committee.

The Head of Pensions (LGPS) noted there was assurance both for the Pension Fund Committee and Audit Committee and noted work with the Actuary in terms of assurance and they had been asked as regards any specific risks and prevention of fraud that could be undertaken including work on a cyber scorecard; as well as noting the assurance from the Council's ICT and added that should any Fund specific issues arise, they would be reported back to Members.

Councillor J Atkinson asked regards likelihood of successful cyber-attacks. The Head of Pensions (LGPS) noted that the issue would be incredibly serious and had moved up the risk register. He noted that Russia's invasion of Ukraine may exacerbate the risk. He added that the plans in place were robust and ICT had backups in terms of data, so information could be replicated should the need arise. He noted in terms of payroll, both the Council and BACS, who undertake external inspection of payroll arrangements, were satisfied in terms of the arrangements in place.

The Chair noted the levels of protections in place, adding Councillors were aware of the rigorous ICT processes that were in place.

Councillor M Porter asked about pensions payroll assurance. The Head of Pensions (LGPS) noted that there were three degrees of assurance from Internal Audit: substantial; moderate; or limited. He noted Internal Audit had noted substantial assurance, the highest assurance possible to give.

Resolved:

That the work undertaken by Internal Audit during the period ending 30 June 2023 be noted.

9 Pension Fund Annual Report and Accounts - Verbal Update

The Finance Manager, Jo McMahon gave a verbal update on the Pension Fund Annual Report and Accounts.

She explained that the Council had met their statutory deadline in having the accounts prepared and signed off by the Corporate Director of Resources by 31 May 2023, one of only three Local Authorities in the North-East.

She added that, however, External Audit had indicated that they would not be able to meet their deadline of the end of September in terms of signing off the accounts. She explained it had been a national issue, and the Council's External Auditor had noted they would report back to the Council's Audit Committee at a Special meeting scheduled for 30 October 2023. The Finance Manager reiterated that the Council had met its statutory deadlines and that the deadline to publish for the Pension Fund would be 1 December, with an item on the Annual Report to be considered at the Annual Pension Fund meeting in November.

The Committee thanked the Finance Manager and the Team for all their hard work in this regard.

Resolved:

That the verbal update be noted.

10 Regulatory Update

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

The Head of Pensions (LGPS) noted the most significant current issue was the LGPS Consultation from Government, which had its own separate agenda item. In terms of McCloud, he noted that the results would only be as good as the data used to calculate changes and explained that there had been a lot of very hard work to ensure that data was rectified. He noted that data for the national dashboard would require a cleanse to be ready for October 2026.

Councillor B Kellet asked as regards the Government White Paper on Levelling Up, noting a requirement of five percent of Fund Assets to be in the 'local area'. The Head of Pensions (LGPS) noted that their definition of 'local' was defined as anywhere in the UK, and noted the coming BCPP UK Opportunities Fund, with further information to be given at the Annual Meeting in November. He noted while the Government set its Levelling Up ambition as UK-wide, the Committee could decide to look to address geographic inequalities with a more local focus, for example the existing North-East Investment Fund, noting Durham's investment in this was one of four examples of best practice cited in the consultation.

Councillor J Atkinson asked as regards the Annual Report and moves to simplify, and whether there were cost implications in making the changes.

The Head of Pensions (LGPS) noted he shared the view of the SAB that the format was unwieldy and while at the moment the report is formatted as such to meet requirements, he would welcome any work from the SAB in terms of streamlining the Annual Report format.

Councillor M Porter noted at paragraph 43 of the report the reference to Academy Schools and asked if the process of schools moving to academy status had put a strain on the Durham LGPS. The Head of Pensions (LGPS) noted it had required some work, as initially all schools were maintained and had one rate for Durham, and one rate for Darlington. However, he noted once a school became an academy they became an employer with their own rate and valuation. He added it had increased work. The Head of Pensions (LGPS) noted that when outsourcing functions, only those previously transferred via TUPE had been guaranteed, now Government were putting aside funding to guarantee to support their participation in the LGPS.

Resolved:

That the information contained in the report be noted.

Councillor J Shuttleworth left the meeting at 10.55am

11 LGPS Consultation: Next Steps on Investments

The Committee considered a report of the Corporate Director of Resources which updated Members on the LGPS Consultation: Next Steps on Investments (for copy see file of Minutes).

The Head of Pensions (LGPS) reminded Members that Durham, along with 10 other Local Authorities, had come together to pool their Pension Funds within the Border to Coast Pension Partnership (BCPP). He noted that it contained around £60 Billion worth of assets and pooling had helped in terms of savings of working at scale, as well as having provided capacity and opportunity for investment, noting it had been the right thing to do for Durham.

In respect of the rest of the UK, there were eight pension pools, with eight models of how to organise and invest. He noted that some pools, whilst set up, had been very slow to actually pool assets, noting two Pension Funds having zero funds transferred to their pool and one Fund threatening to leave their pool. The Head of Pensions (LGPS) noted that following those issues, Government had issued a consultation on pooling with a view to complete the pooling of assets by 31 March 2025. He explained that it was not an issue for Durham and BCPP as we had now moved most of the funds over to

the pool. He noted that Government envisaged three stages, namely: 2025 deadline to pool; then greater collaboration between pools; and consolidation of pools, leading to fewer larger pools.

The Chair noted that the consultation appeared to vindicate all the work Durham had carried out so far in terms of pooling and were at an advanced state when looking at the consultation.

Councillor J Atkinson asked for more information in terms of requirements for consolidation in future. The Head of Pensions (LGPS) noted that individual Local Authorities are being challenged to pool assets and then there is an ambition for Pools to look to consolidate, with Government wanting fewer, larger Pools which could be through whole pool mergers or where Local Authorities leave one pool to join another. He added that BCPP had been 'Pool of the Year' several times and that some other Pools were not as large as BCPP. He noted while many Local Authorities did not support pooling, both Durham and Darlington, via the Committee, had gotten on with the task, with some Administering Authorities having zero percent of their assets pooled. Councillor J Atkinson noted he felt therefore our Fund Managers, at BCPP were very valuable. The Head of Pensions (LGPS) noted that if fewer Pools in future, there may be less chance to go elsewhere.

Councillor C Fletcher asked as regards the tight timescales and asked as regards the ability of smaller pools to be able to move more quickly in terms of their being flexible to take advantages of any opportunities that arise. The Head of Pensions (LGPS) noted the timescales for pooling assets were not an issue for this Fund specifically as Durham had gotten on with the process of pooling and was at an advanced stage. Councillor C Fletcher noted that if other Funds, that were not so advanced, then came to BCPP would that not impact upon Durham. The Head of Pensions (LGPS) noted that was an issue that would be picked up under Part B of the agenda. He added that in terms of the direction of travel, there was cross-party support for pooling consolidation.

Councillor B Kellett noted reference to a 'smaller number of larger pools' and while he understood economies of scale, if they were too large could they miss opportunities or be more prone to any potential 'larger mistake'. The Head of Pensions (LGPS) noted that he had paraphrased the consultation and noted that that is indeed an issue, with governance arrangements to avoid such mistakes more challenging with greater numbers of stakeholders. He added that it was felt the current size of 11 Local Authorities in our pool was felt to be working.

Councillor C Fletcher asked as regards the sizes of other Pools. The Independent Adviser, Sandy Dickson noted ranges of sizes participants in the pools noting that within London CIV there were 32 Local Authorities. He

added some Pools of larger Local Authorities only contained three Local Authorities, however, he would say BCPP with 11 was an average sized Pool.

Councillor M Porter noted paragraph 25 referred to a 'danger that returns were taken out of context'. The Head of Pensions (LGPS) noted that proposed standard benchmarking for all asset classes would not take into account each Pool's or Pension Fund's purpose in terms of risks versus returns, and therefore was a blunt tool that would not lead to fair comparisons.

Resolved:

That the information contained in the report be noted.

12 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.

13 The Minutes of the Meeting held on 15 June 2023

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

14 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.

15 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).

Councillor J Shuttleworth entered the meeting at 11.59am

Resolved:

That the information contained in the report be noted.

16 Border to Coast Pensions Partnership Quarterly Performance Report

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

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

Councillor J Atkinson left the meeting at 12.27pm

Resolved:

That the information contained in the report be noted.

17 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.

18 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.

19 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.

20 Report of CBRE Global Investment Partners

Consideration was given to a report from CBRE which included:

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

Resolved:

That the information contained in the report be noted.

21 Report of Foresight

Consideration was given to a report from Foresight which included:

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

Resolved:

That the information contained in the report be noted.

22 Border to Coast Pensions Partnership Private Monitor Report

The Committee considered a report of Northern Trust which provided an analysis of cash flow, portfolio funding, partnership performance and comparative analysis to March 2023.

Resolved:

That the information contained in the report be noted