

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in **Committee Room 2, County Hall, Durham** on **Monday 24 June 2024** at **10.00 am**

Present:

Councillor D Sutton-Lloyd (Chair)

Members of the Committee:

Councillors M Stead (Vice-Chair), J Atkinson, K Earley, C Fletcher, D Freeman, B Kellett and J Shuttleworth

Also Present:

Scheme Member Representatives

J Taylor

Further Education Colleges Representative

A Broadbent

Council Advisers

Paul Cooper – Head of Pensions (LGPS)

Paul Darby – Corporate Director of Resources

Jo McMahon – Finance Manager

Investment Advisers

Milo Kerr – BCPP

Graham Long – BCPP

Sharmila Sikdar – BCPP

Independent Advisers

Sandy Dickson – Mercer

Anthony Fletcher – MJ Hudson

1 Apologies for Absence

Apologies for absence were received from Councillors M Porter, J Quinn and C Varty and A Delandre.

2 Declarations of Interest

There we no Declarations of Interest.

3 Minutes

The minutes of the meeting held 14 March 2024 were agreed as a correct record and signed by the Chair.

4 Local Pension Board Annual Report and Pension Administration Performance 2023/24

The Committee considered a report of the Corporate Director of Resources which set out the Local Pension Board Annual Report (for copy see file of Minutes).

The Head of Pensions (LGPS), Paul Cooper explained the report set out the work of the Board over the last year, covering a broad range of areas in assisting the Administering Authority to secure compliance with regulations, and ensuring the effective and efficient governance and administration of the Local Government Pension Scheme.

Councillor A Hopgood, a member of the Board, was in attendance to explain the work of the Board, giving information on the process by which the Board operated, noting the same training requirements for Board Members as for Committee Members.

The Chair thanked Councillor A Hopgood and the Board for their work, and agreed as regards importance of the training carried out, especially prior to investment decisions being made.

Councillor A Hopgood noted that where issues stood out within key performance indicators (KPIs), these were questioned by the Board to understand any underlying issues. The Head of Pensions (LGPS) noted the KPIs were referred to within Appendix 2 of the report and highlighted the main issues.

Resolved:

That the report be noted.

Councillor A Hopgood left the meeting at 10.11am

5 Review of Pension Fund Committee Terms of Reference

The Committee considered a report of the Corporate Director of Resources which updated Members on a review of the Pension Fund Committee Terms of Reference (for copy see file of Minutes).

The Head of Pensions (LGPS) reminded Members that Pension Fund Committee Terms of Reference clearly defined the responsibilities of the Committee, setting out its Objectives, Authority and Composition and were reviewed annually. He added that whilst the Terms of Reference remain relevant and fit for purpose, it was good governance to evaluate the Terms periodically. He noted no significant changes this year, other than in terms of reporting frequency as previously discussed by the Committee.

Resolved:

- a) That the Corporate Director of Resources be authorised to publish the Terms of Reference, subject to any comments of the Committee;
- b) That the Terms of Reference continue to be reviewed at least annually.

6 Overall Value of Pension Fund Investments to 31 March 2024

The Committee considered a report of the Corporate Director of Resources which provided an update on the overall value of the Pension Fund investments to 31 March 2024, the movement in cash balances during the last quarter (for copy see file of Minutes).

Councillor J Atkinson asked as regards the £38 million listed as cash held. The Finance Manager (Revenue, Pensions and Technical Services), Jo McMahon explained this was cash that Fund Managers held on our behalf to be reallocated as required.

Resolved:

That the information contained in the report be noted.

7 Performance Measurement of Pension Fund Investments to 31 March 2024

The Committee considered a report of the Corporate Director of Resources which provided an overview of the investment performance of the Pension Fund to 31 March 2024 (for copy see file of Minutes).

Resolved:

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

8 Internal Audit Plan 2023/24 - Progress Report to 31 March 2024

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 2023 to 31 March 2024 as part of the 2023/2024 Internal Audit Plan (for copy see file of minutes).

Councillor B Kellett asked as regards the governance arrangements audit deferred at the service's request. The Head of Pensions (LGPS) noted the changes and the new training policy, with the audit having been deferred to so that the audit could take place after those changes were in place.

Resolved:

That the work undertaken by Internal Audit during the period ending 31 March 2024 be noted.

9 Update on Pension Fund Statement of Accounts and External Audit Strategy Memorandum

The Chair noted Items 9 and 10 would be taken together. The Finance Manager explained that the Statement of Accounts was published by the Corporate Director of Resources on 31 May 2024 and published on the Council's website the same day. She noted a 30-day public inspection period 3 June to 12 July. She added that Auditors has started their process 8 July, to be completed mid-November. She noted this was subsequent to the 30 September deadline, however, reiterated previous information in this regard, namely the national backlog in terms of audit work.

The Finance Manager noted that representatives from Mazars were unfortunately not able to attend, however, noted the report set out the terms of reference for External Audit for the year ending 31 March 2024. She noted the report contained sections on the audit opinion, internal controls, fraud, risk, and audit fees.

Councillor J Atkinson noted the audit backlog, post-COVID, and asked whether audit companies were hiring enough staff, and whether we were getting what we needed. The Corporate Director of Resources, Paul Darby noted that Durham County Council (DCC) was largely unaffected, with its

accounts having been completed within the requisite timescales and was classed a 'low risk'. He reminded Members that DCC was one of a very few Local Authorities last year that had their accounts signed off by External Audit by 30 November.

The Corporate Director of Resources explained that Government had said Local Authorities should put in place arrangements to show that the work would be done, and a qualified opinion could be given. He added that DCC was not at that point, and that it was anticipated that the audit would be completed by 30 November as the local audit market had not been as impacted as much as other areas in the country. He added that Mazars were subject to robust questioning at the Council's Audit Committee, and it was noted that Mazars were also engaged in carrying out audits of other public sector bodies within the region.

Councillor J Atkinson asked as any fees would be incurred as a result of the delay. The Corporate Director of Resources noted there would be resources used in recalculating figures, adding it was best to carry out any audit as soon as possible after the year end. He reminded Members of the good working relationship between Mazars, DCC and the Pension Fund Committee and reiterated that the Audit Committee, as well as the Pension Fund Committee, rightly scrutinised the process as they were paying for a service.

The Chair noted the mitigating factors as previously discussed in terms of the estimated date for completion of the audit. The Corporate Director of Resources noted the issues in terms of resourcing and staffing was an issue with audit companies, noting that Statements of Accounts were now hugely complex and a lot of work for those companies.

A Broadbent asked as regards the Council being 'low risk'. The Corporate Director of Resources noted DCC being low risk as a Local Authority, given its history and the quality of the work of the Finance Manager and her team over many years. He added that, following the Redmond Review, fees had increased, although the Council had received some additional Government funding in this regard.

Councillor C Fletcher noted the position was that of 'catch-up' nationally in terms of audit completion and that if Mazars was not as badly impacted and they could only aim for November, it seemed the deadline of the end of September was not realistic. The Corporate Director of Resources noted that if deadlines were relaxed, then there was the possibility that audits could slip further behind. He reiterated that DCC had hit all of its deadlines and very few Local Authorities of similar size and complexity had managed to do so. He thanked the Finance Manager and her Team for their excellent work

and reiterated that a number of other public sector audits were being carried out, including the NHS, which was impacting upon auditors.

Resolved:

That the update on Pension Fund Statement of Accounts and External Audit - Audit Strategy Memorandum 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 that the main issues were set out within the appendices, with Appendix 1 referring to the new suite of KPIs, Appendix 2 referring to gender pay gap, and Appendix 3 referring to a letter from the Local Government Minister to all Chief Executives and s151 Officers asking whether the current number of Pension Funds was right, or whether they could consolidate further.

The Head of Pensions (LGPS) noted continued cross-party support in respect of greater LGPS support for "UK Plc", however, he would note that the first duty was a fiduciary one to make sufficient returns in order to pay pensions. He added that the Committee had already committed to supporting the UK in terms of the UK Opportunities Fund with BCPP to try and help benefit the UK and our region.

Councillor K Earley asked whether there were further advantages of scale in further consolidation of Pension Funds, noting he felt 87 Pension Funds seemed about right. He added he would support other Funds catching up in respect of pooling and noted that if further consideration was to create something 'too large to fail', then perhaps it would also be too large for local influence. The Head of Pensions (LGPS) noted that there were fee savings in terms of larger pools, however, there was a concentration of risk. He added that perhaps if there was focus on consolidation of existing pools, that may generate greater inertia in those yet to pool.

The Chair noted Durham had been clearly ahead of the game in this regard, working with others in terms of BCPP. He noted there needed to be balance between local control and working at a scale to bring about the associated benefits, such as in respect of fees and investment opportunities.

Councillor K Early noted that post-national elections seemed a good time to lobby in respect of our position working with BCPP. The Head of Pensions (LGPS) noted that the letter to Chief Executives and s151 Officers would be responded to by Officers, providing an opportunity to set out our position and progress to Civil Servants.

Councillor J Atkinson asked if it would be helpful to ask 'what has pooling done for us' in order to set out the progress we had made working with BCPP, to then be able to see what we needed to do next. The Head of Pensions (LGPS) noted that objectives that had been achieved included: fee savings; investment in infrastructure; internal management capabilities and approach to Responsible Investment. He noted the significant value added by Border to Coast in respect of Private Markets, with Climate Opportunities and UK Opportunities, as well as UK Real Estate.

Councillor B Kellett noted it appeared the Minister was stating 'there was room for improvement' and that Government were looking for further economies of scale with larger pools. He noted he felt Government wanted further control, and he felt that should be a matter for Pension Fund Committees. The Head of Pensions (LGPS) noted that there was a school of thought that larger was better in terms of pooling. However, he noted we would be able to point to the success of BCPP and our pooling progress, though that would not mean we would be immune to further pressure from Government. Councillor B Kellett noted the 'five percent to local investment', with still no definition of 'local'. The Head of Pensions (LGPS) noted there was a lot of work in the background in this regard, and in terms of defining 'local', adding that the UK Opportunities Fund would be part of that five percent 'local' investment. The Chair noted he agreed with Councillor B Kellett in terms of having the control at local level with local accountability in terms of investment.

Councillor J Shuttleworth entered the meeting at 11.00am

Resolved:

That the information contained in the report be noted.

11 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.

12 Minutes

The minutes of the meeting held 14 March 2024 were agreed as a correct record and signed by the Chair.

13 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.

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 Border to Coast 2030 Strategy

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 information contained in the report be noted.

16 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.

17 Independent Advisor Annual Review of External Equities

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

Resolved:

That the information contained in the report be noted.

18 Border to Coast Pensions Partnership Joint Committee Annual Review of Global Equity Alpha

The Committee considered the report in respect of the Border to Coast Pensions Partnership Joint Committee Annual Review of Global Equity Alpha, presented by Graham Long, Border to Coast Partnership (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

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 CBRE Global Investment Partners

Consideration was given to a report from CBRE which included:

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

Resolved:

That the information contained in the report be noted.

22 Report of Foresight

Consideration was given to a report from Foresight which included:

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

Resolved:

That the information contained in the report be noted.

23 Border to Coast Pensions Partnership Private Monitor Report

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

Resolved:

That the information contained in the report be noted