



Pension Fund Committee

Date Monday 24 June 2024
Time 10.00 am
Venue Committee Room 2, County Hall, Durham

Business

Part A

Items which are open to the Public and Press.

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the meeting held on 14 March 2024 (Pages 23 - 32)
4. Local Pension Board Annual Report and Pension Administration Performance 2023/24 (Pages 33 - 50)
5. Review of Pension Fund Committee Terms of Reference (Pages 51 - 60)
6. Overall Value of Pension Fund Investments to 31 March 2024 (Pages 61 - 64)
7. Performance Measurement of Pension Fund Investments to 31 March 2024 (Pages 65 - 74)
8. Internal Audit Plan 2023/24 - Progress Report to 31 March 2024 (Pages 75 - 80)
9. Update on Pension Fund Statement of Accounts - Verbal Update
10. External Audit Strategy Memorandum (Pages 81 - 116)
11. Regulatory Update (Pages 117 - 156)

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

14. The Minutes of the Meeting held on 14 March 2024 (Pages 157 - 164)
15. Report of the Independent Investment Adviser (Pages 165 - 192)
16. Investment Strategy Review Update (Pages 193 - 212)
17. Border to Coast 2030 Strategy (Pages 213 - 222)
18. Report of the Pension Fund Adviser (Pages 223 - 260)
19. Independent Advisor Annual Review of External Equities (Pages 261 - 266)
20. Border to Coast Pensions Partnership Joint Committee Annual Review of Global Equity Alpha (Pages 267 - 290)
21. Border to Coast Pensions Partnership Quarterly Performance Report (Pages 291 - 352)
22. Report of Alliance Bernstein (Pages 353 - 370)
23. Report of CBRE Global Investment Partners (Pages 371 - 400)
24. Report of Foresight (Pages 401 - 426)
25. Border to Coast Pensions Partnership Private Monitor Report (Pages 427 - 526)
26. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Helen Bradley
Director of Legal and Democratic Services

County Hall
Durham
14 June 2024

To: The Members of the Pension Fund Committee

County Council Members

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

Darlington Borough Council Members

Councillor M Porter

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 Bradley – Director 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

CBRE

Foresight

BCPP

Observers

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

Contact: Martin Tindle

Tel: 03000 269 713

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Pension Fund Committee



Abbreviations

List of commonly used abbreviations

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

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

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

Author(s)

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Glossary of commonly used terms

A

Active Management

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

Active Member

A current employee who is contributing to the pension scheme.

Actuary

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

Actuarial Valuation

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

Additional Voluntary Contributions (AVCs)

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

Administering Authority

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

Admission/Admitted Body

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

Asset Allocation

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

Authorised Contractual Scheme (ACS)

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

B

Benchmark

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

Border to Coast Pension Partnership (BCPP)

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

Border to Coast Joint Committee

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

C

CARE (Career Average Revalued Earnings)

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

Cash Equivalent Value (CEV)

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

Consumer Price Index (CPI)

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

Commutation

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

Convertible Shares

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

Custodian

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

D

Death Grant

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

Deferred Member/Pensioner

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

Defined Benefit Scheme

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

Denomination

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

Designating Body

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

Discretion

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

Direct Property

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

Diversified Growth Funds (DGF)

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

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

E

Employer Contribution Rates

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

Employer Covenant

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

Equities

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

ESG

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

F

Fiduciary Duty

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

Financial Instruments

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

Fixed Interest Securities

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

Fund of Funds (FoF)

A fund that holds a portfolio of other investment funds.

G

Guaranteed Minimum Pension (GMP)

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

I

Index

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

Internal Rates of Return (IRR)

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

L

Local Government Pension Scheme (LGPS)

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

Local Pension Board (LBP)

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

M

Myners Principles

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

Effective decision-making

Clear objectives

Risk liabilities

Performance assessment

Responsible ownership

Transparency and reporting.

O

Ordinary Shares

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

P

Partner Funds

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

Pension Liberation Fraud

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

Pensions Online

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

Pensions Regulator

The Pensions Regulator (TPR) 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.

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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 14 March 2024** at **10.00 am**

Present:

Councillor D Sutton-Lloyd (Chair)

Members of the Committee:

Councillors K Earley, C Fletcher, B Kellett, J Quinn, J Shuttleworth and C Varty

Also Present:

Scheme Member Representatives

A Delandre and J Taylor

Council Advisers

Paul Cooper – Head of Pensions (LGPS)

Stephanie Robinson – Legal Assistant

Jo McMahon – Finance Manager

Investment Advisers

Milo Kerr – BCPP

Independent Advisers

Sandy Dickson – Mercer

Anthony Fletcher – MJ Hudson

Also in attendance:

Thomas Backhouse – Mazars

Smriti Sood – Mazars

1 Apologies for Absence

Apologies for absence were received from Councillors J Atkinson, R Baker and D Freeman and Mr A Broadbent.

2 Declarations of Interest

There were no Declarations of Interest.

3 Minutes

The minutes of the meeting held 7 December 2023 were agreed as a correct record and signed by the Chair.

4 Feedback from Local Pension Board

The Head of Pensions (LGPS), Paul Cooper noted the last meeting of the Local Pension Board was held after the Pension Fund Committee meeting on 7 December 2023. He explained that the Board received detailed information on the Debt Management Policy which had earlier been approved by the Committee, as well as information relating to the Fund's Responsible Investment Policy implemented by Border to Coast. He noted the Board received the regular updates in relation to key performance indicator relating to services to scheme members and on regulatory matters. He noted the next meeting of the Board was scheduled for 20 March 2024.

Resolved:

That the verbal update be noted.

5 Overall Value of Fund and Cashflow Management

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

The Head of Pensions (LGPS) thanked the Finance Manager (Revenue, Pensions and Technical Services), Jo McMahon the work of her and the team in preparing the report and enhanced cashflow reporting. He asked the Committee if they were happy with the format and whether they would wish to receive the information quarterly or six-monthly. Councillor C Fletcher noted she felt six-monthly would be sufficient, given the amount of work involved.

Councillor M Porter entered the meeting at 10.15am

Councillor C Fletcher added that, however, if an issue arose that the Committee would need to be sighted, she would expect the issue to be brought to the next meeting of the Committee.

The Chair agreed, noting that it was good to see all of the work that had gone into producing the report, and that the information was as clear as possible for Members. The cashflow information would be brought to Committee every six months.

Resolved:

That the information contained in the report be noted.

6 Performance Measurement of Pension Fund Investments to 31 December 2023

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

Resolved:

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

7 Internal Audit Plan 2023/24 - Progress Report to 31 December 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 2023 to 31 December 2023 as part of the 2023/2024 Internal Audit Plan (for copy see file of minutes).

Resolved:

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

8 Draft Audit Plan 2024/25

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which presented the proposed Annual Audit Plan for 2024/2025 (for copy see file of Minutes).

Resolved:

That the proposed Audit Plan for 2024/2025 be approved.

9 Provision of Treasury Management Services to the Pension Fund for 2024/25

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 2024/2025 (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 £3,148 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.

10 Agreement of Accounting Policies for Application in the 2023/24 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 2023/24 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 2023/24 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.

11 Regulatory Update

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

The Head of Pensions (LGPS) noted significant current issues related to Government's LGPS Consultation, noting cross-party support in terms of the push in respect of pooling and allocations which support Levelling Up missions. He outlined updates in the report including scheme-wide enhanced key performance indicators. He added that, in respect of the McCloud judgement, he had attended a recent regional meeting where progress was discussed with other Pension Funds; explaining that with a limited number of software providers in the LGPS, Funds' progress was broadly aligned to the availability of software solutions. He noted there was a DCC Project Team in place working on the relevant dataset.

The Head of Pensions (LGPS) noted that the review into whether the LGPS complied with Sharia Law had concluded that as a part of the contractual arrangement between employer and employees, Muslim employees can continue to contribute to, and benefit from, the excellent benefits offered by the LGPS. It was hoped that the report will offer comfort to Muslim members of the LGPS in the knowledge that they can continue to participate in the scheme and may encourage some who had opted out to opt back in.

In respect of the Boycotts, Divestments and Sanctions Bill (BDS), the Government's policy was that Pension Funds should not be taking investment decisions that were contrary to UK foreign policy and legislation was going through Parliament at the moment.

In respect of the Pension Dashboard, it was explained that the process of data cleansing was ongoing. He added that while this was mandatory, the Council's own Pension's Portal already provided the Fund's members quality information online.

The Head of Pensions (LGPS), noted that the publication of the Pensions Regulator's Code of Practice, which consolidates multiple codes into the sector into a single code; effective from March.

He added that there would be a need to undertake a gap analysis to understand which elements would apply to the LGPS specifically and what must be adhered to and which would be best practice. He added there would be a report on this to the Local Pension Board, to inform their work programme.

Councillor M Porter noted reference at Paragraph 81 of the report to Public Sector Exit Payments Caps. The Head of Pensions (LGPS) noted that it was an issue adjacent to the LGPS, however, Government had yet to issue guidance. Councillor M Porter asked as regards the impact upon Local Authorities, as employers to those within the LGPS. The Head of Pensions (LGPS) noted that the cap was £95,000 in terms of redundancy and 'strain on the fund' or 'early release' costs and, if enacted, there could be impact. Councillor M Porter asked if Local Authorities were aware. The Head of Pensions (LGPS) noted they were, with the proposals having been mooted in 2019 and had been a clear policy objective of Government at that time.

Councillor B Kellett referred to paragraph 21 of the report, which referred to 'since 2025'. The Head of Pensions (LGPS) noted this was a typographical error and should have read '2015'.

Resolved:

That the information contained in the report be noted.

12 Pension Fund Training Policy and Governance Compliance Statement

The Committee considered a report of the Corporate Director of Resources which set out a codified training approach that the Fund would follow and sought approval of the Fund's Governance Compliance Statement (for copy see file of Minutes).

The Head of Pensions (LGPS) noted that outline training policy mirrored that of the Local Pension Board and explained that having a single document for assurance was beneficial. He added there would be an induction toolkit, LGPS Online Learning Academy (LOLA) training made available and there would be the opportunity to attend the BCPP Conference. He noted that there would be individual training sessions held ahead of investment decisions on that specific area, as well as any training required as a result of any regulatory changes as required.

Councillor M Porter felt the report and proposed training was very good and included a lot of detail. She asked as regards the date of the BCPP Conference.

The Head of Pensions (LGPS) noted for 2024 it was brought forward from to July. Milo Kerr, of BCPP, noted the dates were 18-19 July. The Chair added it was very beneficial to attend, with the Head of Pensions (LGPS) noting that there had been very positive feedback from those Members who had attended previous conferences, and highlighted the calibre of speakers the event attracted, with Mark Carney, former Governor of the Bank of England having spoken at the conference last year. M Kerr noted that a comparable speaker had been arranged to speak at this year's conference.

The Chair noted that the Committee had been keen to get a training programme in place and thanked the Head of Pensions (LGPS) for his work in this regard.

Resolved:

- (a) That the Committee note the report;
- (b) That the Committee agree the Training Requirements set out in Table (1) of the Outline Training Policy, noting the further information provided in Table (2);
- (c) That the Corporate Director of Resources be authorised to publish details of training activity and attendance at Committee meetings;
- (d) That the Corporate Director of Resources be authorised to finalise the wording of the Compliance Statement, taking into account where appropriate both professional advice as well as comments received from employers, and publish a final version by 31 March 2024, and;
- (e) That the Corporate Director of Resources be authorised to finalise the wording of and publish and maintain a Pension Fund Training Policy for Members of both the Committee and Local Pension Board, following appropriate consultation and feedback from the Local Pension Board.

13 Exclusion of the Public

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

14 Minutes

The minutes of the meeting held 7 December 2023 were agreed as a correct record and signed by the Chair.

15 Employer Exits

The Head of Pensions (LGPS) gave a verbal update in relation to Employer Exits from the LGPS.

Resolved:

That the verbal update be noted.

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).

Councillor B Kellett left the meeting at 12.00pm

Councillors J Quinn and J Shuttleworth left the meeting at 12.07pm

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

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 September 2023.

Resolved:

That the information contained in the report be noted

Pension Fund Committee

24 June 2024

Local Pension Board Annual Report



**Report of Paul Darby, Corporate Director of Resources and
The Local Pension Board**

Purpose of the Report

- 1 To provide an overview of the work completed by Local Pension Board during 2023/24.

Executive summary

- 2 During the last year the Board have considered 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.

Recommendation(s)

- 3 The Committee is asked to note this report and provide any comments.

Background

- 4 The Public Service Pensions Act 2013 introduced the requirement to have a Local Pension Board to assist in the good governance of the scheme.
- 5 Durham County Council Pension Fund's Local Pension Board was established in 2015, first meeting on 9 July 2015. The Board meets four times a year and consists of three scheme member representatives, two employer representatives, with one current employer representative vacancy. Attendance of Board members is summarised in Appendix 1.
- 6 The Board's role is to assist the Administering Authority in its role as a scheme manager of the Pension Fund. Such assistance is to:
 - Secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the scheme and;
 - To ensure the effective and efficient governance and administration of the scheme
- 7 The Board's Minutes and Agendas are available at:
<https://democracy.durham.gov.uk/ieListMeetings.aspx?CIId=1065&Year=0>

The Board's Terms of Reference are set out at:

<https://www.durham.gov.uk/media/7086/Local-Pension-Board-terms-of-reference/pdf/LocalPensionBoardTermsOfReference.PDF?m=1516355752593>.

June 2023

- 8 In June the Board reviewed the agenda items considered by the Pension Fund Committee noting the Committee's decision in relation to Global Real Estate and considering the approach whereby the Fund's mandate would transition from CBRE's management to the BCPP pool, noting the support of Townsend Group. The Board noted the training on Real Estate undertaken by the Committee prior to making a decision, noting also that BCPP Real Estate specialists had attended Committee three times in advance of the decision; providing Committee the opportunity to provide input and challenge, and ask any questions of the BCPP Team.
- 9 The Board noted the Committee's review of its Terms of Reference, as well as regular update reports, including in respect of Regulatory matters. The Board noted that information regarding Councillor attendances over the last two years had been fed back to each of the

council's Group Leaders, as previously requested by Board members, in advance of the Council's Annual Meeting.

- 10 The Board considered a report from the Corporate Director of Resources which provided details on developments in matters that were both Local Government Pension Scheme (LGPS) specific, as well as providing an update on non-LGPS specific matters of interest and the approach that the Fund was taking to emerging matters.
- 11 The Board also considered a report from the Corporate Director of Resources regarding the Fund's pension administration and service provision to members, as well as providing an update on Key Performance information. The Board considered the development of KPI data provided.
- 12 In June the Board also reviewed in detail the Fund's AVC provision and considered service provision and performance of one of the Fund's providers, Prudential. The Board took assurance from Officers on steps taken to address any previous performance issues.
- 13 The Board reviewed the Fund's approach to communications and considered the provision of Online Services and Telephone Helpline for scheme members. The Fund's Communications Policy is included in Appendix 3. The Board also agreed to consider the development of a Training Policy for its members.

September 2023

- 14 In September the Board considered in detail progress on the publication of the Fund's Annual Report and Accounts, gaining assurance that the Council had met their statutory deadline in having the draft 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 to do so. The Board considered the national issue regarding delays in sign off-of accounts by External Auditors.
- 15 The Board reviewed the agenda items considered by the Pension Fund Committee, noting that no investment decisions were made this quarter. The Board considered the progress made by the Funds regards asset pooling, noting the clear progress of external mandates transitioning into the Border to Coast Pool.
- 16 The Board considered a report from the Corporate Director of Resources regarding the Fund's pension administration and service provision to members, as well Key Performance information for the quarter. The Board also considered a report from the Corporate Director of Resources which provided details on developments in matters that were both Local Government Pension Scheme (LGPS) specific, as well

as providing an update on non-LGPS specific matters of interest. The Board considered in detail the McCloud remedy, the Annual Report, Pension Scams and the Dashboard.

- 17 The Board considered a report from the Corporate Director of Resources which provided details on the LGPS Consultation - Next Steps on Investments and the implications for the Fund. The Board reviewed the Fund's triennial valuation process, and the SAB's report on the 2022 LGPS Valuations. The Board supported Officers' proposals to enhance the Fund's training offer.

December 2023

- 18 At its December meeting, the Board reviewed the agenda items considered by the Pension Fund Committee, noting that the most significant issues considered had been the Accounts and External Audit opinion; and BCPP Responsible Investment (RI) Policy updates, including on climate change and voting. The Board noted the Committee's meeting with Border to Coast CEO Rachel Elwell on the future of pooling.
- 19 The Board noted the Committee had received a report of the Corporate Director of Resources on the Pension Fund - Debt Management and Write-off Policy and received a briefing on the approach from the Head of Pensions. The Board agreed to undertake an annual review of the application of the policy.
- 20 The Board considered in detail a report from the Corporate Director of Resources regarding BCPP's Responsible Investment (RI) Policy, gaining assurance on the approach taken by BCPP on behalf of the Fund.
- 21 The Board considered a report from the Corporate Director of Resources regarding the Fund's pension administration and service provision to members, as well Key Performance information for the quarter. The Board also considered a report from the Corporate Director of Resources which provided details on developments in matters that were both Local Government Pension Scheme (LGPS) specific, as well as providing an update on non-LGPS specific matters of interest.
- 22 The Board reviewed progress on publication of the Annual Report and Accounts, noting that the Statement of Accounts was signed off in November, with Durham being one of only a small number of Local Authorities to have their accounts signed off at this point. The Board noted that there had been two recommendations from External Audit, both of which had been taken on board, with a working group having been set up with alongside Border to Coast colleagues to address the relevant matters.

- 23 Following the completion of the Fund's GMP Rectification exercise, the Board were updated by the Head of Pensions on the outcome and impact on scheme members, gaining assurance that the project had been implemented effectively and noting the effectiveness of the approach to communications.

March 2024

- 24 At its March meeting, the Board reviewed the agenda items considered by the Pension Fund Committee and noted the Internal Audit report in which a substantial assurance rating had been given, in relation to scheme member transfers. They also welcomed the addition of the cybersecurity Audit to the 2024/25 Audit plan.
- 25 The Board considered a report from the Corporate Director of Resources regarding the Pension Fund Training Policy and Governance Compliance Statement. The Board agreed that the new training policy, which intends to codify the Fund's approach and ensure its compliance with new Governance requirements, was a positive improvement for both Board and Committee members. The Board also discussed upcoming training opportunities and available conferences.
- 26 The Board discussed its current composition, and was supportive of a proposed increase of its membership to eight members, equally made up of both Scheme Members Representatives and Scheme Employer Representatives. The Board supported the proposal which requires Full Council agreement.
- 27 The Board considered a report from the Corporate Director of Resources which provided details on developments in matters that were both Local Government Pension Scheme (LGPS) specific, as well as providing an update on non-LGPS specific matters of interest. This included an update on LGPS pooling, local investments, McCloud, Pensions Dashboard, standardised KPI reporting and the Pensions Code of Practise (COP 14)
- 28 The Board considered a report from the Corporate Director of Resources regarding the Fund's pension administration and service provision to members, as well Key Performance information for the quarter. The expansion and standardisation of LGPS KPIs was discussed, a local approach considered.
- 29 The Board were also provided with an update on the Fund's AVC provision and noted an uptake in AVC membership. The Fund were also briefed on improvements currently being made by Prudential in order that AVC members receive an enhanced standard of service. Finally, the Board considered a report regarding details of how different stakeholder groups receive communication from the Pension Fund.

Work Plan

- 30 The future work plan for the Local Pension Board will be informed following gap analysis against the Pension Regulator's new Code of Practice with an initial assessment against the Code to be considered by the Board in June.

Pensions Administration Performance 2023/24

- 31 As set out above, the Board consider performance in respect of services to provided to Scheme Members on a quarterly basis. The Board scrutinises performance against a number of agreed indicators that cover retirements, deferments, transfers and estimates.
- 32 The Board also review the volume of calls received through the Fund's telephone Helpline and the percentage of calls answered first time. The Board also reviews take up of the Fund's Online Services (<https://pensionsonline.durham.gov.uk/>), considering registrations, logins, and usage of the Portal's functionality.
- 33 A summary of the Fund's performance against Pension Administration KPIs during 2023/24 is set out in Appendix 2.

Contact: Paul Cooper

Tel: 03000 269798

Appendix 1: Local Pension Board Attendance

2023/24	Cllr A Hopgood	Cllr D Stoker	Neville Hancock	Wendy Pattison	Les Oliver
June 2023	N	Y	N	N	Y
September 2023	Y	N	Y	N	N
December 2023	Y	N	N	Y	Y
March 2024	Y	N	n/a	Y	N

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Pension Administration Performance 2023/24

Durham County Council Pension Fund Administration 2023/24



Pensions Online Portal

52,931 log ins



Pensions Helpline

13,846 Calls



Retirements 2023/24

850



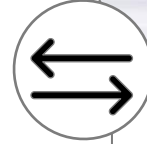
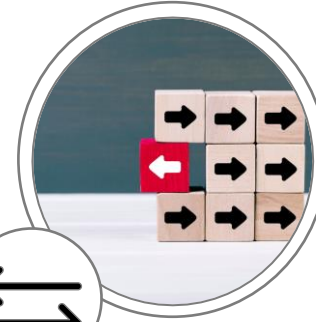
Pensions Team*

28.00 FTE



Online Calculations

51,153



Transfers calculated

123

How is the service performing against delivery of its priorities?

How is the fund delivering against its priorities in 2023/24?

- The key pensions administration priority for 2023/24 was completion of the Fund's **GMP Rectification** exercise. 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. This work was brought to a conclusion in October 2023, with the Fund communicating with affected pensioners ahead of October pensions payroll. Individual overpayments were exacerbated by the April 2023 pensions increase of 10.10%, however, around 550 pensions in payment were adjusted and despite this higher than usual rate of inflationary increase, 83% of pensions changed by no more than £10 per month. The total amount of arrears paid to underpaid pensioners was c£41k whilst the total amount of overpayments written-off by the Fund was c£171k. Both the value of arrears and value of write offs compare favourably with initial modelling. The Pensions Team have received a very low volume of telephone queries from impacted pensioners, and a single IDR appeal.
- The Fund has continued to strengthen its **governance** arrangements and, following consultation with both the Pension Fund Committee and Local Pension Board, formalised a Training Policy for members of the Fund's governance bodies. The Policy builds on the extensive training already undertaken by members of these bodies, bringing together activity into a unified approach. The Fund's approach to training will be reviewed during 2024/25 to inform an annual review of the Policy.
- In terms of LGPS **asset pooling**, the Fund continued its progress against its transition plan. During 2023/24 the Fund transitioned its emerging markets mandate into Border to Coast's innovative Emerging Markets Alpha Fund which will feature China specialists complementing EM ex-China managers. Additionally, the Fund committed £45m to 'UK Opportunities' which whilst primarily seeking returns, may well be impactful through the creation of jobs, housing and infrastructure amongst other benefits additional to return. This is a UK-wide strategy, with no guarantee of deployment into Border to Coast Partner Fund regions. The thematic UK Opportunities Fund will invest in the UK across (a) Real Estate – housing and commercial property (20-60%), (b) Infrastructure (20-60%), (c) Corporate Finance (10-30%), (d) Social Bonds (0-10%).

How is the service performing against delivery of its priorities?

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What are the key areas of performance in 2023/24?

- The Fund is required to issue **Annual Benefit Statements** to all active members by 31st August, and Pensions Savings Statements by 6th October. As in previous years, the Fund completed the necessary calculations and preparatory work to issue the required communications ahead of the statutory deadlines.
- Following the **pooling** of the Fund's Emerging Markets mandate, all listed elements of the Fund's strategic asset allocation are now pooled. The only assets intentionally held outside of the pool, aside from cash, will be small impact investments such as the Fund's allocation to North-East SMEs. Transition of the Fund's Real Estate assets will be a key focus during 2024/25. The most recent savings generated from pooling total £9.02m – this cumulative total is expected to continue to increase as the Fund's leverages the pool's economies of scale.
- The Fund strengthened its **AVC arrangements** by supporting the introduction of Share Cost Salary Sacrifice AVCs by a number of Fund employers, including Durham County Council. The arrangements benefit both scheme members and employers through National Insurance savings.
- Take up of the Fund's **Online Portal** has continued to prove popular with our members who logged in to their online pension accounts 52,931 times during 2023/24. The Portal was accessed by 9,142 unique users during 2023/24. These users have completed 51,153 self-service calculations since the Portal's inception – significantly enhancing the provision of information to the Fund's members.
- Performance against local **KPIs** has remained strong during 2023/24:
 - 850 retirements were processed, with 98% of those retirees receiving a statement of retirement information within 10 days of the Fund receiving the necessary information to do so
 - 1,376 deferments were processed, with the Fund issuing a statement to 96% of those leavers within a month of being notified
 - 123 transfers out were processed, with a CETV issued within 3 months for 93% of requests
 - 13,846 Helpline calls were taken with 99% of those calls answered first time

2023/24 Service Key Performance Indicators

A – Casework Processing

Key Performance Indicators		Total Cases	Performance Target	Performance 2023/24	Performance 2022/23	Performance 2021/22
A1	Retirements Disclosure - Within two months of retirement provide a statement containing retirement benefit information.	850	100%	81.94%	82.61%	86.65%
A2	Retirements in Fund's Control - Within 10 days of receiving all required information provide a statement containing retirement benefit information.	850	100%	98.23%	98.47%	98.99%
A3	Deferment Disclosure - Within one month of being notified of a leaver, provide that member information as to the rights and options available.	1,376	100%	96.07%	95.91%	86.70%
A4	Transfers out Disclosure - Within one month of a request, provide that member information as to the transfer rights and options available.	108	100%	100%	99.22%	-
A5	Transfers out Quotation - Within three months of a request, provide a quotation of the cash equivalent transfer value to which a member is entitled.	123	100%	93.00%	99.22%	-
A6	Estimates - Within two months of a request, provide a statement* of estimated pension entitlement online or in writing.	14,733	100%	100%	100%	-

2023/24 Service Key Performance Indicators

B Communications

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Key Performance Indicators		Total Cases	Performance Target	Performance 2023/24	Performance 2022/23	Performance 2021/22
B1	Pensions Helpline - Calls from Scheme Members answered first time	13,846	100%	99.30%	99.40%	98.47%
Key Performance Indicators		Total Registrations to date	Total Online Calculations Completed	Total Self-Service Online Changes	Secure messages sent Through Portal	
B2	Online Portal Since Launch - Total Registrations & Activity through Pensions Online portal (https://pensionsonline.durham.gov.uk/)	22,438	51,153	20,672	4,038	
Key Performance Indicators		Total Log ins during 2023/24		Individual Members logging in during 2023/24		
B3	Online Portal in Year - Total logins through Pensions Online portal during year (https://pensionsonline.durham.gov.uk/)	52,931		9,142		
Key Performance Indicators		Performance Target	Performance 2023/24	Performance 2022/23	Performance 2021/22	
B4	Annual Benefit Statements – Statements made available online* by 31 st August for active members known to the Fund	100%	100%	100%	100%	

*paper copies made available to those opting out of online services

Durham County Council

Pension Fund

Communications Policy



Introduction

Durham County Council is the administering authority for the Durham County Council Pension Fund. This Communication Policy Statement has been drawn up to comply with regulation 61 of the Local Government Pension Scheme Regulations 2013 and to ensure the Council offers clear communication to stakeholders of the Local Government Pension Scheme.

Who we communicate with:

- Scheme members (active members, pensioners and deferred members);
- Representatives of scheme members;
- Prospective scheme members;
- Employers participating in the scheme;
- Advisers (for example actuaries, investment advisers, Local Government Pensions Committee);
- Other bodies (for example prospective employing authorities and their representatives).

Key objectives:

- To ensure communication is clear, factual and concise;
- To ensure communication is designed and delivered in a manner appropriate to its audience;
- To ensure that the correct information reaches the right people at the right time.

Communicating with scheme members

Scheme members need access to detailed information about the scheme and their own benefits to allow them to make informed choices about their own pension benefits.

The Fund provides:

- **Scheme literature**
The pension section produces a summary guide to benefits in the scheme along with specific guides for certain circumstances, such as how divorce can affect scheme benefits or on the internal dispute resolution procedure.
- **Annual benefit statements**
All active members are sent a benefit statement each year setting out the benefits they have earned in the scheme up to 31 March that year. All deferred members are sent a benefit statement each year setting out the current value of their deferred benefits payable at the earliest date on or after age 60 that unreduced benefits can be paid to them. The statement also sets out the effect of pension increases on their benefits since they left service. Benefit Statements are made available online, annually, for all active and deferred members. A paper copy will be provided to members who opt-out of online receipt.
- **Newsletters**
All active members and pensioners are sent a copy of each issue of the relevant newsletter, as issued from time to time.
- **Telephone helpline**
All communications contain contact telephone numbers for general enquiries. Active members, pensioners and deferred members can contact the Pension Administration Team by telephone between 9:00am and 4:30pm Mon to Thu, and 9:00am to 4.00pm Fri. Bulk communications also contain the email address where general enquires can be submitted – personal queries are discouraged due to the availability of secure messaging.
- **Online Portal**
All scheme members can inform the Fund of personal changes, and update their nomination online. Members can see the information that the Fund holds, whilst active members can produce an estimate of their prospective retirement benefits on demand. Scheme Members are able to raise queries with the Fund, securely through the Portal.

Communicating with employers participating in the scheme

Employers need to be kept up to date with developments in the scheme and need to be informed of consultation exercises that could influence the future of the scheme.

Employers are sent information on scheme developments as and when changes are proposed to the scheme. Employers are often sent copies of circulars provided by the Employers' Organisation or are directed to copies of these circulars via web-links. Where possible this is provided by email.

Meetings with individual employers are arranged as necessary or as requested to deal with any significant pension issues that arise. Support is provided to employers who want to provide further pension information to their employees - this includes pre-retirement seminars and mid-life seminars.

All employers are invited to attend the Annual Meeting of the Pension Fund Committee. Copies of the annual report and accounts for the Pension Fund are distributed at this meeting and are also sent to all employers in the scheme.

Communicating with prospective members

The Pension Administration Team issues pension packs to prospective members. These contain a summary of the benefits of scheme membership, information comparing the scheme with other pension options, a nomination form, an opt-out form and an authorisation form for investigating potential pension transfers into the scheme.

Communicating with representatives of scheme members

The Pension Administration Team produces a summary guide to benefits in the scheme along with specific guides for certain circumstances, such as how divorce can affect scheme benefits or on the internal dispute resolution procedure. This information is available to representatives of scheme members.

The Pension Administration Team telephone helpline is also available between 9:00am and 4:30pm Mon to Thu, and 9:00am to 4.00pm Fri for any queries representatives of scheme members may have.

The main local government unions are represented on the Pension Fund Committee. This means they are sent agenda items and minutes from the meetings as well as being able to participate in the meetings (in a non-voting capacity). Scheme members are represented on the Local Pensions Board.

Fund publications

COMMUNICATION DOCUMENT	AVAILABLE TO	WHEN PUBLISHED
Starter Packs	Prospective members	Issued to all starters upon creation of a corresponding UPM record
Summary scheme guide	Prospective members Active members	Online version provided in starter pack
Newsletter: Pensions News	Active members	Issued on occasion, as required
Annual benefit statement	Active members Deferred members	Once per year
Newsletter: Years Ahead	Pensioners	Issued on occasion, as required
Payslips	Pensioners	Following a change to net pension of more than £5
P60s	Pensioners	Once per year
Pension Increase Information	Pensioners	Once per year
Update letter on changes to regulations and other issues	Employers	When required
Valuation report	Employers	Every three years
Report and accounts	All stakeholders	Once per year – distributed to all employers and available on the DCC website and on request to all

Pension Fund Committee

24 June 2024

**Pension Fund Committee Review of
Terms of Reference**



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.”

12 There are no material changes proposed to the Terms this year, but the frequency of reporting has been updated to reflect the Committee’s current approach.

Future Programme of Work

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 following an assessment against the Pension Regulator’s single code of practice, 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.

15 More detail on the Regulator’s Code of Practice is included in the Regulatory Update.

Author(s)

Paul Cooper

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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:

Body/ category of bodies represented	Number of Committee Members
Durham County Council	11
Darlington Borough Council	2
Colleges	1
Other Statutory Bodies	1
Admitted Bodies	1
Member representatives	2
Total	18
<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 Investment Strategy Statement Governance Compliance Communications Policy	At least triennially Annually Annually 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:- <ul style="list-style-type: none"> • investment managers • custodian • actuary • independent external advisers • Additional Voluntary Contribution (AVC) providers, and • Other contracts related to the management of the Pension Fund 	Appropriate delegation to Officers. Reporting 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

Number	Term of Reference	Frequency of Reporting
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.	At least 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;	At least triennially
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 With Annual Review of Funds
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;	Six Monthly
13	To review the resources allocated to investment managers on a regular basis;	Six Monthly
14	Ensure appropriate arrangements are in place for the administration of benefits and contributions.	Annually

Number	Term of Reference	Frequency of Reporting
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.	Process delegated to officers. Reporting at least triennially.
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.

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Pension Fund Committee

24 June 2024

Overall Value of Pension Fund Investments to 31 March 2024



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 2024;
 - (b) movement in the cash balance during the quarter, and;
 - (c) rebalancing activity undertaken during the quarter 1 January – 31 March 2024.

Executive Summary

2. The overall value of the Fund as at 31 March 2024 was £3.665 billion and the cash balance held in the Durham County Council Pension Fund bank account was £29.428 million. Fund managers also held cash of £38.311 million at that date.
3. During March 2024, in order to maintain the strategic allocation to Private Markets and replenish working cash balances, £33.00m was transferred from Listed Alts as follows:
 - £18.96 million to Sterling Index Linked Bonds
 - £5.040 million to Emerging Markets Alpha
 - £9 million to cash.
4. Rebalancing reviews continue to be undertaken. No asset classes hit the trigger point for rebalancing requirements after the quarter end.

Recommendation

5. Members are asked to note and agree the information relating to the Fund value as at 31 March 2024.

Value of the Pension Fund

6. Reports from the four listed fund managers, namely:
 - AB
 - BCPP
 - CB Richard Ellis
 - Foresight

are included in Part B of today's agenda.

7. The value of the Fund at 31 March 2024 was £3.665 billion compared to £3.549 billion at 31 December 2023. This is an increase of £116 million (or 3.29%) in the fourth quarter of 2023/24. Details of the funds performance are provided later in the meeting.

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

8. 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.
9. 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. The working cash balance requirement has been calculated as between £33 million and £35 million.
10. As at 31 March 2024, the cash balance held by the Pension Fund was £29.428 million. Cash of £9 million was drawn as part of a larger transfer from Listed Alts during March in order to replenish the cash balance to the working requirement. Timing delays as a result of the Easter bank holidays however, delayed receipt into Pension Fund until 2nd April 2024. The cash balance at this date was £36.428 million.

Fund Rebalancing

11. Fund rebalancing is the mechanism by which the Pension Fund ensures 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.

12. In line with decisions taken by the Committee, periodic rebalancing is undertaken. The revised rebalancing approach reflects the change in the composition of the liquid assets held by the Fund.
13. During the quarter, no asset class hit a trigger point for rebalancing. However, as capital calls to Private Markets continued to be made and in line with the policy of Listed Alts being primarily held as a proxy for the BCPP Private Markets commitments, a withdrawal of £33 million from Listed Alts was undertaken and transferred as follows:
 - £18.96 million to Sterling Index Linked Bonds
 - £5.040 million to Emerging Markets Alpha
14. The remaining £9 million was transferred as cash as noted in earlier paragraphs.
15. The table below highlights the fund balance by fund manager and asset class as at 31 March 2024 following the above transfers:

Fund Manager and Asset Class	As of 31-03-24 Market Value £000's	Actual Weight	Current Target Weight
ALLIANCE BERNSTEIN *	185.95	5.07%	5.00%
CBRE 1 *	215.63	5.88%	8.61%
CBRE 2 *	50.81	1.39%	1.39%
BCPP GLOBAL EQUITY ALPHA FUND	1,575.81	42.99%	40.00%
BCPP STERLING INDEX LINKED BOND	371.00	10.12%	10.00%
BCPP PRIVATE MARKETS	246.58	6.73%	6.73%
BCPP MULTI ASSET CREDIT FUND	564.47	15.40%	15.00%
BCPP LISTED ALT FD	91.54	2.5%	3.19%
FORESIGHT REGIONAL INVESTMENT*	2.92	0.08%	0.08%
BCPP EMERGING MARKETALPHA FUND	182.70	4.99%	5.00%
BCPP INVESTMENT GRADE CREDIT	177.79	4.85%	5.00%
TOTAL	3,665.20	100.00%	100.00%

**Not within scope of rebalancing*

Background Papers

16. Investment Strategy Statement:
<https://www.durham.gov.uk/media/44693/Pension-Fund-Investment-Strategy-Statement/pdf/PensionFundInvestmentStrategyStatement.pdf?m=1716909339213>

Contact: Jo McMahon 03000 261968

Pension Fund Committee

24 June 2024



Performance Measurement of Pension Fund Investments to 31 March 2024

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 2024.

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 four 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 2024, 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 2024, plus the last 1, 3, 5 and 10 years and since inception.

Contact:

Jo McMahon

Tel: 03000 261968

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Durham CC Pension Fund

Investment Risk & Analytical Services

March 31, 2024

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SECTION 1

Durham CC Pension Fund

Investment Risk & Analytical Services

March 31, 2024

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				
Durham CC Pension Fund	3,665,062,392	100.00	1.44	2.76	8.51	2.65	5.10	6.31	6.41	29/02/2008		
<i>Durc Total Plan Benchmark</i>			2.46	5.06	12.44	5.70	7.13	8.12	8.09	29/02/2008		
<i>Excess Return</i>			-1.02	-2.30	-3.93	-3.05	-2.04	-1.81	-1.67	29/02/2008		
Alliance Bernstein	185,952,368	5.07	0.96	1.60	7.10	1.23	1.67	2.05	2.97	29/02/2008		
Alliance Bernstein	185,952,368	5.07	0.96	1.60	7.10	1.23	1.67	2.05	2.97	29/02/2008		
<i>SONIA + 3%</i>			0.69	2.06	8.17	5.53	4.75	4.15	4.27	29/02/2008		
<i>Excess Return</i>			0.27	-0.46	-1.07	-4.30	-3.08	-2.10	-1.31	29/02/2008		
CBRE 1	215,500,203	5.88	-0.42	-0.21	-0.91	2.77	3.73	6.10	3.97	29/02/2008		
CBRE 1	215,500,203	5.88	-0.42	-0.21	-0.91	2.77	3.73	6.10	3.97	29/02/2008		
<i>RPI + 5%</i>			0.93	2.28	9.27	13.59	10.95	9.15	8.81	29/02/2008		
<i>Excess Return</i>			-1.34	-2.50	-10.18	-10.82	-7.22	-3.05	-4.84	29/02/2008		
CBRE 2	50,774,046	1.39	3.51	0.74	7.96	6.20	4.54	7.23	5.89	29/02/2008		
CBRE 2	50,774,046	1.39	3.51	0.74	7.96	6.20	4.54	7.23	5.89	29/02/2008		
<i>RPI + 5%</i>			0.93	2.28	9.29	13.60	10.95	9.15	8.81	29/02/2008		
<i>Excess Return</i>			2.59	-1.54	-1.33	-7.40	-6.41	-1.92	-2.92	29/02/2008		
Mondrian	22,996	0.00	-0.18	-1.47	-2.41	-2.77	2.11	-	3.79	31/10/2014		
Mondrian	22,996	0.00	-0.18	-1.47	-2.41	-2.77	2.11	-	3.79	31/10/2014		
BCPP	2,963,319,298	80.85	2.59	4.29	10.94	3.46	-	-	5.85	30/09/2019		
BCPP Emerging Mkt Alpha Fund	182,704,359	4.99	2.51	4.42	-	-	-	-	7.20	10/07/2023		
<i>MSCI Emerging Markets ND</i>			2.62	3.30	-	-	-	-	9.29	10/07/2023		
<i>Excess Return</i>			-0.11	1.11	-	-	-	-	-2.09	10/07/2023		
BCPP Global Equity Alpha Fund	1,575,810,074	43.00	3.14	7.90	18.38	9.70	-	-	11.51	24/10/2019		
<i>MSCI ACWI ND + 2%</i>			3.42	9.68	22.79	12.22	-	-	13.54	24/10/2019		
<i>Excess Return</i>			-0.28	-1.78	-4.41	-2.52	-	-	-2.03	24/10/2019		
BCPP Investment Grade Credit F	177,790,541	4.85	1.72	0.56	-	-	-	-	9.94	23/06/2023		
<i>DURC14 iBoxx £ Non-Gilts+0.6%</i>			1.70	0.21	-	-	-	-	9.80	23/06/2023		
<i>Excess Return</i>			0.01	0.35	-	-	-	-	0.14	23/06/2023		
BCPP Listed ALT FD	91,543,773	2.50	2.21	0.72	11.34	-	-	-	1.20	31/01/2022		
<i>MSCI ACWI</i>			3.33	9.31	21.18	-	-	-	9.56	31/01/2022		
<i>Excess Return</i>			-1.13	-8.58	-9.84	-	-	-	-8.36	31/01/2022		
BCPP Multi Asset Credit Fund	564,466,308	15.40	1.06	1.78	9.36	-	-	-	0.18	14/10/2021		
<i>SONIA + 3%</i>			0.69	2.06	8.17	-	-	-	6.06	14/10/2021		
<i>Excess Return</i>			0.37	-0.28	1.19	-	-	-	-5.88	14/10/2021		

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return							
			One Month	Three Months	One Year	Three Years	Five Years	Ten Years	Inception to Date	Inception Date
BCPP Sterling Index Linked Bd	371,004,244	10.12	3.28	-3.20	-11.42	-17.51	-	-	-16.28	08/10/2020
<i>FTSE Index Linked 15+Yrs+0.02%</i>			3.24	-3.43	-11.84	-17.66	-	-	-16.50	08/10/2020
<i>Excess Return</i>			0.04	0.23	0.42	0.15	-	-	0.21	08/10/2020
BCPP Private Market	246,577,455	6.73	-9.45	-9.89	-4.51	17.05	-	-	12.01	30/11/2020
BCPP Private Markets	246,577,455	6.73	-9.45	-9.89	-4.51	17.05	-	-	12.01	30/11/2020
Foresight Regional Investments	2,916,024	0.08	0.00	-8.42	-46.19	-	-	-	-32.75	31/08/2022
Foresight Regional Investment	2,916,024	0.08	0.00	-8.42	-46.19	-	-	-	-32.75	31/08/2022
<i>15% Absolute Return</i>			1.17	3.56	15.00	-	-	-	15.00	31/08/2022
<i>Excess Return</i>			-1.17	-11.98	-61.19	-	-	-	-47.75	31/08/2022

Market Value Summary - One Month

Account/Group	29/02/2024 Market Value	Net Contribution*	Income	Fees	Appreciation	31/03/2024 Market Value
Durham CC Pension Fund	3,585,338,344	27,601,300	2,172,018	0	49,950,731	3,665,062,392
Alliance Bernstein	184,179,194	0	0	0	1,773,175	185,952,368
Alliance Bernstein	184,179,194	0	0	0	1,773,175	185,952,368
CBRE 1	216,399,436	0	213,782	0	-1,113,015	215,500,203
CBRE 1	216,399,436	0	213,782	0	-1,113,015	215,500,203
CBRE 2	49,050,838	0	234,899	0	1,488,309	50,774,046
CBRE 2	49,050,838	0	234,899	0	1,488,309	50,774,046
Mondrian	1,894,509	-1,868,666	2,968	0	-5,814	22,996
Mondrian	1,894,509	-1,868,666	2,968	0	-5,814	22,996
BCPP	2,889,033,540	-605,244	605,213	0	74,285,789	2,963,319,298
BCPP Emerging Mkt Alpha Fund	173,312,501	5,049,188	0	0	4,342,670	182,704,359
BCPP Global Equity Alpha Fund	1,527,791,483	0	0	0	48,018,590	1,575,810,074
BCPP Investment Grade Credit F	175,387,396	-605,213	605,213	0	2,403,145	177,790,541
BCPP Listed ALT FD	113,159,993	-24,043,760	0	0	2,427,539	91,543,773
BCPP Multi Asset Credit Fund	558,566,550	0	0	0	5,899,757	564,466,308
BCPP Sterling Index Linked Bd	340,815,615	18,994,541	0	0	11,194,088	371,004,244
BCPP Private Market	241,864,803	30,075,210	1,115,155	0	-26,477,713	246,577,455
BCPP Private Markets	241,864,803	30,075,210	1,115,155	0	-26,477,713	246,577,455
Foresight Regional Investments	2,916,024	0	0	0	0	2,916,024
Foresight Regional Investment	2,916,024	0	0	0	0	2,916,024

*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

Investment Risk & Analytical Services

March 31, 2024

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Pension Fund Committee

24 June 2024



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

**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 2023 to 31 March 2024 as part of the 2023/24 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 2023/24 up to 31 March 2024 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 2024.

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 2023/24, covering the period 1 April 2023 to 31 March 2024, was approved by the Pension Fund Committee on 16 March 2023.

Progress against 2023/24 planned work:

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

Audit Title	Audit Type	Status	Opinion
Audits brought forward from 2022/23			
Compliance with Breach Policy	Assurance	Final Report	Substantial
Pensions Payroll	Assurance	Final Report	Substantial
2023/24 audits			
Debt Recovery	Assurance	In Progress	
Transfer Values In and Out of the Pension Fund	Assurance	Final Report	Substantial
Additional Voluntary Contributions	Assurance	In Progress	
Contributions	Assurance	In Progress	
Governance Arrangements (including Pool)	Assurance	Deferred to 2024/25 (at Service Request)	
Management time and ad hoc advice & guidance	Advice/Consultancy	Complete for 2023/24	Not Applicable

- 7 Of the seven assurance audits originally planned for 2023/24, two of which relate to audits brought forward from the 2022/23 audit year, final reports have been issued for three reviews.
- 8 Of the four remaining audits, one has been deferred to 2024/25, with the other three being in progress at the 31 March 2024. As a result of this, these audits have been brought forward into 2024/25.

Background papers

- Specific Internal Audit reports issued and working papers.

Other useful documents

- None

Contact: Nicola Cooke

Tel: 03000 269665

Appendix 1: Implications

Legal Implications

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

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

Finance

There are no direct financial implications associated with this report.

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

Consultation

Pensions Manager, Finance Manager and Corporate Director, Resources.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

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

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

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

Procurement

None.

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Audit Strategy Memorandum

Durham County Council Pension Fund

Year ending 31 March 2024



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- 06** Our commitment to independence
- 07** Materiality and misstatements

Appendix A – Key communication points

Appendix B - Current year updates, forthcoming accounting and other issues

Appendix C: Consultations on measures to tackle the local government financial reporting and audit backlog

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.

Annual Audit Plan – Year ending 31 March 2024

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

Audit Committee
Durham County Council Pension Fund
Resources, County Hall
Durham
DH1 5UL

20 May 2024

Dear Audit Committee Members

Audit Strategy Memorandum – Year ending 31 March 2024

We are pleased to present our Audit Strategy Memorandum for Durham County Council Pension Fund for the year ending 31 March 2024. 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 7 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 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 an appendix that outlines our key communications with you during the course of the audit.

Providing a high-quality 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. If you have any concerns or comments about this report or our audit approach, please contact me on +44 (0)7813 752 023.

Yours faithfully



Cameron Waddell

Mazars LLP

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 2024. 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.psaa.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 overleaf.

At the time of presenting our Audit Strategy Memorandum, there are a series of active consultations in place that could impact upon both the Pension Fund's financial statements and the work we are required to undertake. Appendix C summarises the proposals under each of the consultations and further details can be found on the Financial Reporting Council's [website](#). Should the outcome of these consultations affect the risks we have identified or the scope of our work, we will provide further information to the Audit Committee in due course.

Engagement area	Responsibilities
 Audit opinion	<p>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.</p> <p>The Chief Finance Officer is responsible for the assessment of whether is it 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:</p> <ul style="list-style-type: none">a) whether a material uncertainty related to going concern exists; andb) consider the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements.

1. Engagement and responsibilities summary

Overview of engagement (continued)

Engagement area	Responsibilities
 Internal control	<p>Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.</p> <p>We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Durham County Council Pension Fund's internal control.</p>
 Fraud	<p>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 compliance with relevant laws and regulations, and the reliability of financial reporting.</p> <p>As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management personnel 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.</p>
 Wider reporting and electors' rights	<p>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 Pension Fund 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.</p>
 Consistency Statement	<p>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.</p>

02

Section 02:

Your audit engagement team

2. Your audit engagement team

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Below is your audit engagement team and their contact details.



Cameron Waddell

Engagement Lead

Cameron.waddell@mazars.co.uk

+44 (0)7813 752 053



Thomas Backhouse

Engagement Manager

thomas.backhouse@mazars.co.uk

+44 (0)7890 949 525

03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Risk-based Approach

Page 90



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 the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately-designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit will be planned and performed so as 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.

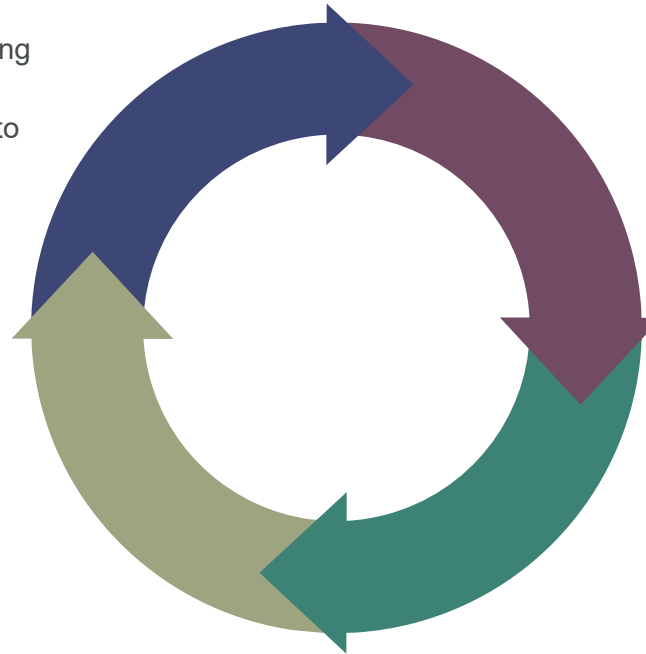
3. Audit scope, approach and timeline

Planning and Risk Assessment [March]

- Planning visit and developing our understanding of the Pension Fund
- Initial opinion risk assessments
- Risk identification and 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 [November]

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



Interim [April]

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Reassessment of audit plan and revision if necessary

Fieldwork [July to October]

- 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
- Review of Audit Report
- Communicating progress and issues
- ATS review of financial statements
- Clearance meeting

3. Audit scope, approach and timeline

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 Instruments Disclosure	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 valuation applied to investments at the year end
Investment Valuations and related disclosures	Custodian	Substantive testing of in year transactions and valuation 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

A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. A fraud risk is always assessed as a significant risk (as required by auditing standards), including management override of controls and revenue recognition.

Enhanced risk

An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:

- Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- Risks relating to other assertions and arising from significant events or transactions that occurred during the period.

Standard risk

A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or

the likelihood of a 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>Management override of controls 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 through 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>Valuation of investments within level 3 of the fair value hierarchy</p> <p>As at 31 March 2023 the fair value of level 3 investments was £397.494m, which accounted for 11.85% 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 2023 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 2024. 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"> • agree holdings from fund manager reports to the global custodian's report; • 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; • agree the investment manager valuations to audited accounts or other independent supporting documentation, where available; • where audited accounts are available, check that they are supported by an unmodified opinion; • review the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required; and • 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.

4. Significant risks and other key judgement areas

Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, as part of our audit we obtain the views of, and enquire whether the Audit Committee has knowledge of, the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- Are you aware of any significant communications between the Group and regulators?
- Are there any matters that you consider warrant particular attention during the course of our audit, and any areas where you would like additional procedures to be undertaken?

We plan to do this by formal letter to the Audit Committee which we will obtain prior to completing our audit.

Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 *Communication with Those Charged with Governance*, we are required to communicate certain matters to the Audit Committee which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- Significant delays in management providing information that we require to perform our audit.
- An unnecessarily brief time within which to complete our audit.
- Extensive and unexpected effort to obtain sufficient appropriate audit evidence.
- Unavailability of expected information.
- Restrictions imposed on us by management.
- Unwillingness by management to make or extend their assessment of an entity's ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor's report).

05

Section 05:

Fees for audit and other services

5. Fees for audit and other services

Fees for audit and other services

Our fees (exclusive of VAT) for the audit of Durham County Council Pension Fund for the year ended 31 March 2024, are outlined below:

Fees for work as the Pension Fund's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA.

Area of work	2023/24 Proposed Fee	2022/23 Actual Fee
Code Audit Work	£88,405	£24,303
Fee Variations	TBC	£24,188
Audit Related Fees		
Pensions assurance letter to employer auditors	TBC	£8,250

Fees for non-PSAA work

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

06

Section 06:

Our commitment to independence

6. Our commitment to independence



Requirements

We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Ethical Standard 2019.



Compliance

We are not aware of any relationship between Mazars and Durham County Council Pension Fund that, in our professional judgement, may reasonably be thought to impair our independence.

We are independent of Durham County Council Pension Fund and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.



Non-audit and Audit fees

We have set out a summary any non-audit services provided by Mazars (with related fees) to Durham County Council Pension Fund in Section 5, together with our audit fees and independence assessment.

6. Our commitment to independence

We are committed to independence and confirm that we comply with the FRC's Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our 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, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that 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 complete annual ethical training.
- Rotation policies covering audit engagement partners and other key members of the audit team.
- 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 report, 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 independence as auditor.

Principal threats to our independence and the associated safeguards we have identified and/ or put in place are set out in Terms of Appointment issued by PSAA available from the PSAA website: [Terms of Appointment from 2018/19 - PSAA](#). Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

07

Section 07: **Materiality and misstatements**

7. Materiality and misstatements

Definitions

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

Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.

Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to the Audit Committee.

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 a consideration of the common financial information needs of users as a group and not on specific individual users.

An 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 consideration of future events; and
- Will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors.

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provides a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality 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.

7. Materiality and misstatements

Materiality (continued)

We consider that net assets is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold of 1% of net assets.

As set out in the table below, based on currently available investments at 31 December 2023 reported to March 2024 Pension Fund Committee, we anticipate overall materiality for the year ended 31 March 2024 to be in the region of £35.5m (£32.3m in the prior year), and performance materiality to be in the region of £28.4m (£25.85m in the prior year).

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

	2023/24 £'000s	2022/23 £'000s
Overall materiality	£35,489	£32,320
Performance materiality	£28,391	£25,856
Specific materiality: Fund Account	£14,469	£14,432
Performance Materiality: Fund Account	£11,575	£11,546
Clearly trivial	£1,065	£970

7. Materiality and misstatements

Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to the Audit Committee and management that is consistent with a threshold where misstatements below that amount 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 clearly trivial threshold is £1.1m, based on 3% of overall materiality. If you have any queries about this, please raise these with Cameron Waddell.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to the Audit Committee as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover quantitative misstatements, including those relating to the notes of the financial statements.

Reporting

In summary, we will categorise and report misstatements above the reporting threshold to the Audit Committee as follows:

- Adjusted misstatements;
- Unadjusted misstatements; and
- Disclosure misstatements (adjusted and unadjusted).



Appendices

A: Key communication points

B: Current year updates, forthcoming accounting & other issues

C: Consultations on measures to tackle the local government financial reporting and audit backlog

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:

- Our Audit Strategy Memorandum;
- Our 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.

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"> • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • enquiries of Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud. 	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"> • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity. 	<p>Audit Completion Report</p>
<p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • 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 Pension Fund or Audit Committee in the context of fulfilling their responsibilities. 	<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>
<p>Indication of whether all requested explanations and documents were provided by the entity</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 Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that Audit Committee may be aware of.</p>	<p>Audit Completion Report and 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"> • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements. 	<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>Communication regarding our system of quality management, compliant with ISQM 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, the firm’s ISQM 1 team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on the firm’s System of Quality Management:</p> <ul style="list-style-type: none"> • Ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership • Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities • Identify, review and update quality risks each quarter, taking into consideration of number of input sources (such as FRC / ICAEW review findings, AQT findings, RCA findings, etc.) • Identify, design and implement responses as part of the process to strengthen the firm's internal control environment and overall quality • Evaluate responses to identify and remediation process / control gaps <p>We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website here.</p>	<p>Audit Strategy Memorandum</p>

Appendix B: Current year updates, forthcoming accounting & other issues Applicable for IFRS Reporters

Current and forthcoming accounting issue

New standards and amendments

Effective for accounting periods beginning on or after 1 January 2023

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements: Disclosure of Accounting Policies* (Issued February 2021)

- The amendments set out new requirements for material accounting policy information to be disclosed, rather than significant accounting policies. Immaterial accounting policy information should not be disclosed as accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates* (Issued February 2021)

- The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

IFRS 17 *Insurance Contracts* (issued May 2017) and Amendments to IFRS 17 *Insurance Contracts* (Issued June 2020)

- IFRS 17 is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities.

Amendments to IFRS 17 *Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 *Financial Instruments (Issued December 2021)**

- The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis.

IFRS 17 *Insurance Contracts* has not yet been adopted by the FReM. Adoption in the FReM is expected to be from April 2025; early adoption is not permitted.

Appendix B: Current year updates, forthcoming accounting & other issues Applicable for IFRS Reporters

Current and forthcoming accounting issue (continued)

New standards and amendments (continued)

Effective for accounting periods beginning on or after 1 January 2024

The information detailed on this slide is for wider IFRS information only. They will be subject to inclusion within the FReM and Code as determined by FRAB.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Issued January 2020), Deferral of Effective Date (Issued July 2020) and Non-current Liabilities with Covenants (Issued October 2022)

- The January 2020 amendments clarify the requirements for classifying liabilities as current or non-current in IAS 1 by providing clarification surrounding: when to assess classification; understanding what is an 'unconditional right'; whether to determine classification based on an entity's right versus discretion and expectation; and dealing with settlements after the reporting date.

The October 2022 amendments specify how covenants should be taken into account in the classification of a liability as current or non-current. Only covenants with which an entity is required to comply with by the reporting date affect the classification as current or non-current. Classification is not therefore affected if the right to defer settlement of a liability for at least 12 months is subject to compliance with covenants at a date after the reporting date. These amendments also clarify the disclosures about the nature of covenants, so that users of financial statements can assess the risk that non-current debts accompanied by covenants may become repayable within 12 months.

Amendments to IAS 16 Leases: Lease Liability in Sale and Leaseback (Issued September 2022)

- The amendments include additional requirements to explain how to subsequently measure the lease liability in a sale and leaseback transaction, specifically how to include variable lease payments.

For further information, please refer to our blog article: [Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback](#)

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued May 2023)

- The amendments introduce changes to the disclosure requirements around supplier finance arrangements with the intention of providing more detailed information to help users analyse and understand the effects of such arrangements.

The amendments provide an overarching disclosure objective to ensure that users of financial statements are able to assess the effects of such arrangements on an entity's liabilities and cash flows, as well as some additional disclosure requirements relating to the specific terms and conditions of the arrangement, quantitative information about changes in financial liabilities that are part of the supplier financing arrangement, and about an entity's exposure to liquidity risk.

For further information, please refer to our blog article: [IASB publishes final amendments on supplier finance arrangements](#)

Appendix C: Consultations on measures to tackle the local government financial reporting and audit backlog

As we outline in the introduction to this report, there are a number of consultations currently taking place that may have implications for: the format and content of the Pension Fund's financial statements, the work we are required to undertake under the Code of Audit Practice and the timetable for the publication of the audited statements of account.

In this Appendix, we summarise the proposals in each of the consultations for information.

CIPFA/LASAAC consultation on short-term measures to aid the recovery of local authority reporting and audit

This consultation proposes amendments to the Code of Practice on Local Authority Accounting (the Accounting Code), applicable only to relevant bodies in England. The proposals are to:

- Extend the current temporary solution for accounting for infrastructure assets beyond 2024/25;
- Remove some disclosure requirements relating to a body's net defined benefit liabilities / assets; and
- Simplify the measurement for operational property, plant and equipment in specific circumstances up to 2025/26.

DLUHC consultation on addressing the local audit backlog in England

This consultation proposes a range of measures aimed at 'clear the backlog and put the system on a sustainable footing' and outlines two key phases of recovery up to 2027/28. A key aspect of the proposals is to require Category 1 bodies, such as the Pension Fund, to publish audited financial statements by a series of backstop dates. This proposal will be put in place by amending the Accounts and Audit Regulations 2015. For statements of account for financial years up to and including 2022/23, this would mean audited accounts will need to be published by 30 September 2024 unless a pre-defined exemption criteria has been

met (such as there being an outstanding objection to the accounts at the backstop date).

The consultation sets out other proposals including:

- Publishing a list of bodies and audit firms which do not meet the statutory deadline for publishing audited statements of account; and
- Setting out 'backstop' dates for each financial year up to and including 2027/28.

In including a statutory backstop date for the publication of audited statements of account, the consultation makes it clear that the DLUHC expects that this will give rise to auditors issuing modified audit reports where they have not been able to complete their work on the financial statements.

NAO consultation on draft amendments to the Code of Audit Practice

This consultation has been launched alongside DLUHC's consultation on amendments to the Accounts and Audit Regulations 2015 and seeks to introduce measures that support more timely auditor reporting. The principle changes to the Code of Audit Practice being proposed are to:

- Require the auditor to issue an opinion on the financial statements by the 'backstop' date outlined in the amended Accounts and Audit Regulations 2015, whether this opinion is modified or not (subject to a number of exemptions);
- Allow the auditor to apply a reduced scope of work in relation to VFM arrangements work for outstanding audits up to and including 2022/23; and
- Require the auditor to publish the Auditor's Annual Report by 30 November each year from the 2023/24 audit year, and for this report to provide a summary of progress on the audit at the time of issue (even if the audit is not complete).

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Pension Fund Committee

24 June 2024

Regulatory Update



Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

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

Executive summary

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

Recommendation(s)

- 3 The Pension Fund Committee is asked to note the report.

Background

- 4 This report provides an update to Committee on important pensions administration and governance matters that are currently relevant. The report is split into 2 main sections:
 - (a) LGPS specific matters, and;
 - (b) Non-LGPS specific matters that are of interest to the Committee.

LGPS Specific Matters

DLUHC Consultation – LGPS: Fair Deal – Strengthening Pension Protection

- 5 In January 2019, The Department for Levelling Up Housing and Communities (DLUHC), formerly MHCLG, launched a consultation that would strengthen the pensions protections that apply when an employee of an LGPS employer is compulsorily transferred to the employment of a service provider. If the proposed amendments are introduced, the option for staff to be granted access to a Government Actuary's Department (GAD) certified broadly comparable scheme will be removed.
- 6 DLUHC are currently considering the responses received, with a consultation response expected in due course. The Chair of the LGPS Scheme Advisory Board (SAB), has written to DLUHC to request an update on the Fair Deal policy. The Ministry was asked whether the policy was under active consideration and how the SAB could contribute to the process. On 17 October 2023, the SAB Chair wrote to DLUHC for an update with progress with the implementation of New Fair Deal in LGPS. 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.
- 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, which was considered and approved by the Committee.

Ongoing Consultation – Guaranteed Minimum Pensions (GMP)

- 10 In February 2017 the Treasury consulted on options for how the Guaranteed Minimum Pension (GMP) element of pensions paid to those members who will reach state pension age on or after 6th December 2018 should be indexed.
- 11 In January 2018 the Treasury published its response to this consultation, acknowledging that it is a complex area with more time required to identify a long-term solution. As a result, the existing interim solution was extended, covering those members of public service schemes reaching state pension age between 6th April 2016 and 5th December 2018 to those that reach state pension age on or before 5th April 2021.
- 12 On 23 March 2021 Her Majesty's Treasury (HMT) discounted conversion (of GMP into main scheme benefits) as their long-term policy solution and instead will make full GMP indexation the permanent solution for public service pension schemes. Currently members covered by the interim solution have their GMP pensions fully updated 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.

- 14 This work was brought to a conclusion in October 2023, with the Fund communicating with affected pensioners ahead of October pensions payroll. As previously highlighted to the Board and Committee in March 2023, individual overpayments would be exacerbated by the April 2023 pensions increase of 10.10%. However, around 550 pensions in payment were adjusted and despite this higher than usual rate of inflationary increase, 83% of pensions changed by no more than £10 per month.
- 15 The total amount of arrears paid to underpaid pensioners was c£41k whilst the total amount of overpayments written-off by the Fund was c£171k. Both the value of arrears and value of write offs compare favourably with initial modelling. The number of pensions in payment requiring rectification were lower than initially anticipated at the beginning of the project, and less than amounts experienced by similarly sized LGPS Funds who have completed their rectification. This is at least in part, due to accurate historic record keeping.

Levelling Up White Paper – LGPS Local Investment Plans

- 16 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”.
- 17 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.
- 18 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.

- 19 Separately, On 9 December 2022, 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 is also expected that there will be a consultation on new guidance on Local Government Pension Scheme asset pooling.

DLUHC Consultation – LGPS: Next Steps on Investments

- 20 A detailed briefing was considered by both the Pension Fund Committee and Local Pension Board in September 2023, following the launch of DLHC’s consultation ‘LGPS: Next Steps on Investments’.
- 21 Since 2015, the Pension Fund has worked in collaboration with 10 local authority partners to pool its c£3.5bn assets through its chosen pooling company, Border to Coast Pension Partnership. As of summer 2023, the Fund has pooled all of the liquid assets in its investment strategy. The Fund has benefitted from the availability of a Private Markets programme through the pool, extensive Responsible Investment resource, and has generated cost savings which are reported annually in the Fund’s Annual Report and Accounts.
- 22 More widely however, progress on pooling has stalled across much of England and Wales. Despite a clear policy intention to deliver pooling, in the absence of guidance or regulation, many Administering Authorities have chosen to retain their assets outside of their respective pool.
- 23 In light of the lack of progress, DLUHC consulted on pooling consolidation, setting Administering Authorities a deadline of 2025 to pool liquid assets and introducing enhanced reporting requirements on pooling progress. The consultation proposed that a smaller number of larger pools would provide greater economies of scale, and that greater collaboration should be pursued. In a wide-ranging consultation, the government also proposed directing LGPS Funds in the way in which they invest. In particular, targets were proposed for allocations to investments which support UK Levelling Up and allocations to Private Markets more generally.
- 24 Following consultation with the Committee and Board, the Fund responded to the consultation and separately, worked with its pooling partners to formulate a collective response.
- 25 Subsequently, on 22 November, DLUHC responded to the consultation. The Fund is considering the consultation response individually, and collectively with its pooling Partners. The SAB is continuing to read and absorb the response, and a SAB update will

follow soon. On January 16 SAB representatives met the minister for local government, Simon Hoare MP, in person. Topics discussed included McCloud; the next steps on investments consultation; as well as government progress on the Good Governance recommendations and on the climate risk reporting consultation response.

- 26 The Minister later went on record at the LGA conference in February expressing that he was giving “serious thoughts to the prudence of retaining 87 LGPS funds”; and subsequently in discussion with the All-Party Parliamentary Group (APPG) for Local Authority Pension Funds on 22 February, the Minister outlined the intention to explore the pros and cons of 87 Administering Authorities in England and Wales, recognising that it “may well be that 87 is the right number”. The APPG discussion is available online at the following link <https://www.youtube.com/watch?v=p8fPHqVUYN8>.
- 27 On 15 May, the Minister wrote to all Administering Authorities in England asking that they respond by July 19 setting out their responses to a number of questions. The questions relate to the completion of pension asset pooling by the March 2025 deadline, as well as to how funds ensure that they are run efficiently, with appropriate governance structures in place.
- 28 Funds are specifically asked whether they could achieve long-term savings and efficiencies if they were to become part of a larger fund through merger or creation of a larger pensions authority. The council will respond in its capacity as Administering Authority of the Pension Fund. A copy of the letter is included in Appendix 3.
- 29 Subsequently, Officers of the Fund were invited in person to a roundtable with the Minister, to discuss related matters.
- 30 Once party manifestos are published, Officers will check whether any party outlines policy implications for the LGPS.

Mandatory TCFD Reporting

- 31 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.

- 32 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.
- 33 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/>.
- 34 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.
- 35 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.
- 36 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).
- 37 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.

- 38 An overview of TCFD was included in training for members previously, as well as a dedicated training session with the Fund's Actuary focused on scenario analysis. Further training will be provided to the Committee on the details of the TCFD expectations, as well as the availability of data through BCPP. It is currently expected that the first LGPS TCFD reporting will become due in late 2025.

Cost Control Mechanism & Review

- 39 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.
- 40 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.
- 41 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.
- 42 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.
- 43 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.
- 44 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 granted permission to appeal the ruling.

- 45 The full judgment in the Fire Brigades Union and British Medical Association vs HM Treasury Cost Control Mechanism appeal has now been published. The Court of Appeal agreed with the earlier ruling from the High Court (published in March 2023) which ruled in favour of HM Treasury on all grounds. The Court of Appeal's judgment can be read online at <https://www.bailii.org/ew/cases/EWCA/Civ/2024/355.html>.
- 46 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.
- 47 The Government Actuary's Department has completed the valuation of the Local Government Pension Scheme (England and Wales) as at 31 March 2020. This was the first scheme valuation undertaken since revisions were made to the cost control mechanism, which the Government consulted on in 2021. The methodology by which this is undertaken was revised last year, which widened the cost corridor (the amount by which the scheme costs could vary from the target cost before action was taken to address it) from 2% to 3%. The process was also revised to include consideration of the wider economic situation through a new "economic check" that was introduced alongside the previously established core cost control mechanism.
- 48 The valuation has found that the core 'cost cap cost' of the scheme lies outside the 3% cost control mechanism corridor (3.2% below target cost). The new 'economic cost cap cost' of the scheme also lies outside the 3% corridor, but in the other direction (7.3% above target cost).
- 49 As a result, the mechanism, as a whole, is not breached and there is no proposal to make any changes to scheme benefits. The Scheme Advisory Board will shortly be publishing the final report of the scheme cost assessment that it is required to undertake under Regulation 116 of the LGPS Regulations 2013. However, the Board has already seen the initial results and agreed that it is not minded recommending to the Secretary of State any changes to scheme benefits through that process.

- 50 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.
- 51 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.
- 52 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.
- 53 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. A summary has previously been shared with the Board and Committee.
- 54 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. The LGA's Communications Working Group meanwhile is working on member communications, and the Fund's software supplier have established a McCloud Project Board – the Durham Fund is represented on both groups. Resources are expected to be published by the LGA on 1 October.
- 55 Additionally, 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.

- 56 Officers of the Fund continue to work in readiness for resolution of the issues McCloud presents. Whilst software solutions are in place to ensure that the 'underpin' is correctly provided for some categories of members, manual intervention will be required for others. The Fund continues to work with its software supplier in consideration of future Annual Benefit Statements, with the Pensions Regulator outlining that whilst accurate Benefit Statements are still expected to be issued accurately and on time and that failure to do so would be a reportable breach, a risk-based approach will be taken in response to any such breach. DLUHC expect to issue guidance outlining that 2024 LGPS Statements do not need to reflect the remedy.
- 57 The Fund continues to work closely with its software supplier with imminent updates to support the upload of data from employers, as well as delivery of a module to allow for the calculating of service for missing data. A dedicated McCloud project team is now in place. Once all data has been successfully uploaded, the McCloud remedy will be applied to all 'new' leavers. A module is expected to become available from our software supplier in October 2024, to allow a bulk recalculation of all historical cases. Detailed reporting will be provided to the Local Pensions Board.

DLUHC Consultation on Change to the LGPS Revaluation Date

- 58 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

- 59 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.

60 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. In the meantime, SAB has produced guidance for converting Academies intended to provide information and common nomenclature for common actuarial approaches adopted by LGPS funds on a local authority (LA) school's conversion to academy status. The Fund will consider how best to utilise the guide to support converting schools.

61 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.

SAB Annual Report

62 On 12 June, the Scheme Advisory Board published its LGPS Scheme Annual Report. The aim of the Scheme Annual Report is to provide a single source of information about the status of the Local Government Pension Scheme for its members, employers, and other stakeholders. The report aggregates information supplied in the 86 fund annual reports, as of 31 March 2023, for the reporting year 2022/23 and can be found online at <https://lgpsboard.org/index.php/foreword-2023>.

SAB Review – Tier 3 Employers

63 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.

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

65 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.

- 66 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.
- 67 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.
- 68 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

- 69 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)
- 70 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.
- 71 A further update to both the Committee and Local Pension Board will be provided at such time as there is progress on the implementation of the Good Governance recommendations.

SAB Review – Responsible Investment Guidance

- 72 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.
- 73 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>.
- 74 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

- 75 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.
- 76 The SAB issued a short response to the DLUHC consultation on "Addressing the local audit backlog in England". The consultation was discussed at the Compliance and Reporting Committee when it met on 12th February. The Committee agreed that the Board should express concern that if there were wide-spread disclaiming of LGPS

administering authority accounts in order to meet the new deadlines, then there would be knock-on consequences for the 18,000 scheme employers that rely on information from the pension fund audit in order to complete their own audits.

- 77 Essentially, the scheme employer auditor will need to do further work to gain assurance on the information provided to it by the LGPS actuary on its assets and liabilities under the scheme, which will be material, depending on a range of factors. The Board's response also took the opportunity to re-emphasise the representations it made in its earlier letter asking that pension fund audit should be separated out from the host authority audit.

SAB – Preparing the Annual Report

- 78 The SAB Compliance and Reporting Committee (CRC) has convened a working group to review the 2019 CIPFA 'Preparing the Annual Report' guidance and has identified several areas within the current guidance which now require updating and clarification. A priority has been to streamline the guidance and reduce duplication wherever possible with other reporting obligations – SAB reported that this direction was supported by DLUHC.
- 79 The updated guidance has now been published. The guidance is the first publication which has been reviewed and jointly approved by the SAB's Compliance and Reporting Committee (CRC), the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Department for Levelling Up, Housing and Communities (DLUHC). It replaces the 2019 guidance produced by the CIPFA Pensions Panel, which was disbanded in 2021.
- 80 The new guidance applies to 2023/24 annual reports which are due for publication by 1 December 2024, and later years. The guidance sets out that funds should use their best endeavours to comply fully with the requirements for 2023/24 but exercise judgement where, because of changes to the previous content, to do so would require disproportionate effort or cost. The new reporting requirements are set out in Appendix 1. Officers are consulting with the Local Pension Board over ongoing monitoring of compliance.
- 81 Following completion of the Annual Report guidance, the CRC has agreed its next priority will be to revise the Funding Strategy Statement (FSS) guidance. This was last updated in 2016 and the aim is to create content in relation to:
- setting up of academies on conversion
 - use of employer flexibilities and deferred debt arrangements

- employer representations around asset strategies and partial terminations
- treatment of exit debts and credits
- consultation with employers.

SAB – Sharia Compliance

- 82 Committee members have previously been briefed on the issue of LGPS members opting out of the scheme on the basis of their (principally Islamic) religious belief, and whether this might constitute unlawful discrimination on behalf of the scheme. The SAB had 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 commissioned an expert in the field of Sharia finance seeking advice on whether the LGPS is Sharia compliant, and the range of views that Muslim members and potential members might have on that question. The Board commissioned Mufti Faraz Adam of Amanah Advisors to produce a report.
- 83 This report has now been received by SAB and examines the issue primarily from the starting point that a statutory defined benefit pension scheme, like the LGPS, is an extension of the employer/employee contract. The report concludes that as a part of the contractual arrangement between employer and employees, Muslim employees can continue to contribute to, and benefit from, the excellent benefits offered by the LGPS.
- 84 The SAB hopes that the report will offer comfort to Muslim members of the LGPS in the knowledge that they can continue to participate in the scheme. Indeed, SAB hopes that the report may encourage some who had opted out of the LGPS to opt back in and ensure that they benefit from the employer contribution to their pension, as well as the valuable benefits that the LGPS offers. A copy of the report was previously shared with the Committee.

SAB - Gender Pay Gap

- 85 The Scheme Advisory Board has written to Treasury, suggesting that a consistent and active approach to the gender pensions gap is taken across public sector pension schemes. The Board set out that a gender pensions gap analysis, like that commissioned by the Board, would give a dynamic picture of how scheme members' salaries change over time and illustrates the different trajectory of men and women's careers. A copy of SAB's letter is included in Appendix 2.

Non- LGPS Specific Matters

Public Sector Exit Payments Caps

- 86 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.
- 87 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.
- 88 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.
- 89 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.

- 90 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.
- 91 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

- 92 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.
- 93 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.
- 94 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.
- 95 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

- 96 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.
- 97 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.
- 98 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.
- 99 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 Annual Benefit Statements.

TPR Code of Practice

- 100 The Pensions Regulator (TPR) has consulted on a single Code of Practice to cover all regulated schemes. Previously, the Regulator had a specific Code for Public Service Pensions (Code of Practice 14). Whilst the new Code does not extend TPR's powers in the LGPS beyond its existing remit on governance and administration, there had been some concerns over how the provisions of the Code fit with the LGPS. SAB subsequently responded on behalf of the LGPS.
- 101 The Regulator carried out a full review of the comments received through the consultation, and subsequently published its General Code of Practice ('the Code') which has been laid in Parliament and which is expected to come into force on 27th March 2024. It replaces Code of Practice 14 for Public Sector Pension Schemes and brings together 10 previous TPR Codes into one single Code.

- 102 The Regulator's research on governance and administration shows that the LGPS already has high standards of governance in place, but the Code provides an opportunity for Funds to review current practices, but also presents challenges during what is an already busy time within the LGPS. Clarity is required on which parts of the Code specifically apply to the LGPS and what these mean for funds and how they should be applied in practice. The SAB is working to support funds in understanding any new requirements in the Code and where needed, will produce new or update existing guidance to assist funds with their responsibilities.
- 103 Officers will continue to consult with the Local Pension Board, whose work plan will be informed by the General Code of Practice. A copy of the Code has previously been shared with the Committee and Board; and a detailed overview of the Code and its applicability to the LGPS will be considered at the Board's June meeting.

Boycotts, Divestment and Sanctions

- 104 The legislative programme was laid out in May 2021, 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.
- 105 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. The Public Services Pensions Bill gained royal assent, but this does not place any immediate duty on Funds.
- 106 It was intended however to implement the commitment to prevent public bodies pursuing boycotts, divestments and sanctions campaigns (BDS) against foreign countries or territories, unless in line with the UK's official foreign policy, through the Foreign Affairs (Economic Activity of Public Bodies) Bill. 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 Board and Committee.
- 107 It is understood that the dissolution of Parliament means that the Bill falls, as it has not proceeded through all stages and therefore cannot be given Royal Assent prior to dissolution. Once party manifestos are

published, Officers will check whether any party commits to bringing the Bill back to Parliament in future.

Pension Scams and new Restrictions on Transfers

- 108 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.
- 109 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.
- 110 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.
- 111 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. The Committee have previously been informed of the Pensions Regulator's statement on the Capita Breach.
- 112 On 10 August 2023, the Money and Pensions Service (MaPS) published its evidence review into pension scams in the U K. The key findings are:
- there remain significant challenges to estimate the scale of the problem
 - the types of scams and tactics are very similar to investment scams
 - the financial and emotional cost to individuals is high, going beyond financial loss and impacting on health and relationships
 - scams can happen to anyone

- once an individual has been targeted, there is a high risk of retargeting
- government bodies, administrators and other organisations have at their disposal a range of touchpoints to provide strong protection against scams.

Stronger Nudge

- 113 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.
- 114 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.
- 115 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

- 116 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.
- 117 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.

- 118 Subsequently, DWP confirmed that The Pensions Dashboards Programme (PDP) is currently in reset, as part of refreshing its delivery plan for a new connection deadline of 31 October 2026. The process aims to allow DWP the opportunity to review the programme and reset the plan. It also provides the time to ensure required resources are in place to complete the delivery of the technical solution and documentation to support connection. The Committee will be kept informed.

Changes to Pension Taxation

- 119 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.
- 120 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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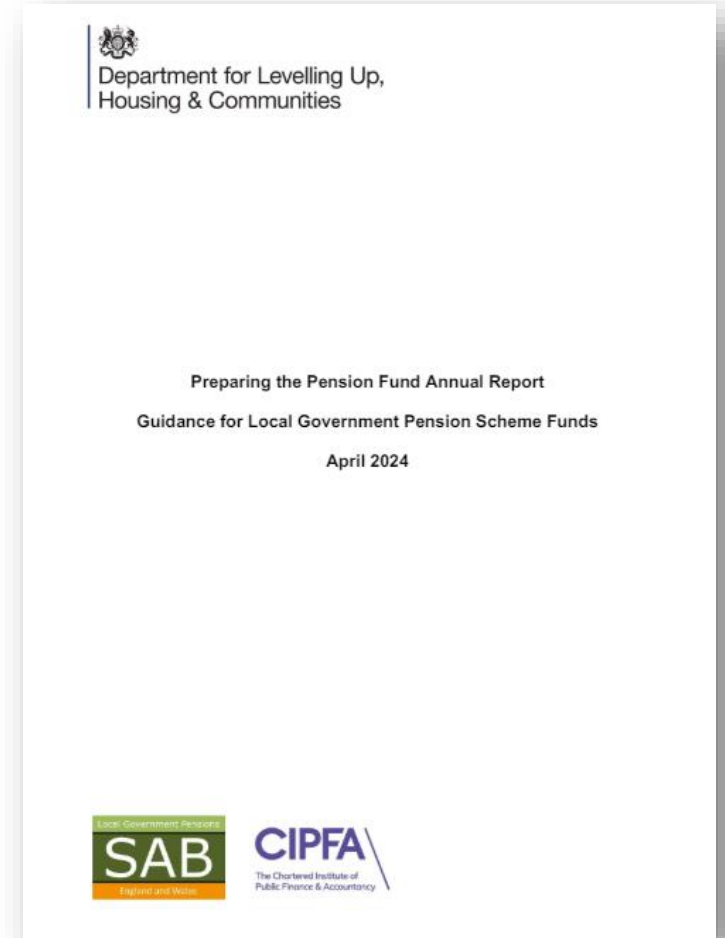
Requirements based on

The updated guidance for preparing the LGPS Fund Annual Report contains provisions for standardised performance indicators to be used across the LGPS in England and Wales. This guidance is the first publication which has been reviewed and jointly approved by the SAB's Compliance and Reporting Committee (CRC), the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Department for Levelling Up, Housing and Communities (DLUHC). It replaces the 2019 guidance produced by the CIPFA Pensions Panel, which was disbanded in 2021.

The new guidance applies to 2023/24 annual reports which are due for publication by 1 December 2024, and later years. The guidance says that funds should use their *best endeavours* to comply with the requirements for 2023/24 but exercise judgement where, because of changes to the previous content, to do so would require disproportionate effort or cost. The guidance will be kept under regular review.

The guidance is available online at:

<https://lgpsboard.org/images/Guidance/Annual%20Report%20Guidance%202024.pdf>



Service Performance Indicators

(2024/25 KPIs to be reported in Fund Annual Report)

A – Total Casework

Key Performance Indicators		Total number of cases open as at 31 March (starting position)	Total number of new cases created in the year (1 April to 30 March)	Total number of cases completed in year	Total number of cases completed in previous year	Total % of cases completed in previous year
A1	Deaths recorded of active, deferred, pensioner and dependent members					
A2	<i>New dependent member benefits</i>					
A3	Deferred member retirements					
A4	Active member retirements					
A5	Deferred benefits					
A6	Transfers in (including interfunds in, club transfers)					
A7	Transfers out (including interfunds out, club transfers)					

Service Performance Indicators

(2024/25 KPIs to be reported in Fund Annual Report)

A – Total Casework

Key Performance Indicators		Total number of cases open as at 31 March (starting position)	Total number of new cases created in the year (1 April to 30 March)	Total number of cases completed in year	Total number of cases completed in previous year	Total % of cases completed in previous year
A8	Refunds					
A9	Divorce quotations issued					
A10	Actual divorce cases					
A11	Member estimates requested either by scheme member and employer					
A12	New joiner notifications					
A13	Aggregation cases					
A14	Optants out received after 3 months membership					

Service Performance Indicators

(2024/25 KPIs to be reported in Fund Annual Report)

B – Casework Processing Time

Key Performance Indicators		Proposed Target Days	% completed within fund target in year	% completed in previous year
B1	Communication issued with acknowledgement of death of active, deferred, pensioner and dependent member	5 days		
B2	Communication issued confirming the amount of dependents pension	10 days		
B3	Communication issued to deferred member with pension and lump sum options (quotation)	15 days		
B4	Communication issued to active member with pension and lump sum options (quotation)	15 days		
B5	Communication issued to deferred member with confirmation of pension and lump sum options (actual)	15 days		
B6	Communication issued to active member with confirmation of pension and lump sum options (actual)	15 days		
B7	Payment of lump sum (both actives and deferreds)	15 days		
B8	Communication issued with deferred benefit options	30 days		

Service Performance Indicators

(2024/25 KPIs to be reported in Fund Annual Report)

B – Casework Processing Time

Key Performance Indicators		Proposed Target Days	% completed within fund target in year	% completed in previous year
B8	Communication issued to scheme member with completion of transfer in	15 days		
B9	Communication issued to scheme member with completion of transfer out	15 days		
B10	Payment of refund	10 days		
B11	Divorce quotation	45 days		
B12	Communication issued following actual divorce proceedings i.e application of a Pension Sharing Order	15 days		
B13	Communication issued to new starters	40 days		
B14	Member estimates requested by scheme member and employer	15 days		

Service Performance Indicators

(2024/25 KPIs to be reported in Fund Annual Report)

C – Communications and engagement

Key Performance Indicators		% as at 31 March	% in previous year
KPI	Engagement with online portals		
C1	% of active members registered		
C2	% of deferred member registered		
C3	% of pensioner and survivor members		
C4	% total of all scheme members registered for self-service		
C5	Number of registered users by age		
C6	% of all registered users that have logged onto the service in the last 12 months		

Service Performance Indicators

(2024/25 KPIs to be reported in Fund Annual Report)

C – Communications and engagement

Key Performance Indicators		Number in Year	Number in Previous Year
KPI	Communication		
C1	Total number of telephone calls received in year		
C2	Total number of email and online channel queries received		
C3	Number of scheme member events held in year (total of in-person and online)		
C4	Number of employer engagement events held in year (in-person and online)		
C5	Number of active members who received a one-to-one (in-person and online)		
C6	Number of times a communication (i.e newsletter) issued to each of: Active Members / Deferred Members / Pensioners		

Service Performance Indicators

(2024/25 KPIs to be reported in Fund Annual Report)

D – Resources

Key Performance Indicators		Number in Year	Number in Previous Year
D1	Total number of all administration staff (FTE)		
D2	Average service length of all administration staff		
D3	Staff vacancy rate as %		
D4	Ratio of all administration staff to total number of scheme members (all staff including management)		
D5	Ratio of administration staff (excluding management) to total number of scheme members		

Service Performance Indicators

(2024/25 KPIs to be reported in Fund Annual Report)

E – Data Quality

Key Performance Indicators		Current Year	Previous Year
KPI	Annual Benefit Statements		
E1	Percentage of annual benefit statements issued as at 31 August		
	Short Commentary if below 100%		
	Data Category		
E2	Common data score		
E3	Scheme Specific data score		
E4	Percentage of active, deferred and pensioner members recorded as 'gone away' with no home address held, or address is known to be out of date		
E5	Percentage of active, deferred and pensioner members with an email address held on file		

Service Performance Indicators

(2024/25 KPIs to be reported in Fund Annual Report)

E – Data Quality

Key Performance Indicators		Current Year	Previous Year
KPI	Employer performance		
E7	Percentage of employers set up to make monthly data submissions		
E8	Percentage of employers who submitted monthly data on time during the reporting year		

Service Performance Indicators

(2024/25 KPIs to be reported in Fund Annual Report)

F – Investments

UK Listed Equities		Pooled	Under Pool Management	Not Pooled	Total
KPI	UK Exposure - £m Asset values as at 31 March				
F1	UK Listed Equities				
	UK Government Bonds				
	UK Infrastructure				
	UK Private Equity				
	Total				
F2	Total Private Equity Exposure - £m Asset values as at 31 March				
F3	Levelling Up Investment - £m Asset values as at 31 March				

Service Performance Indicators

(2024/25 KPIs to be reported in Fund Annual Report)

G1 Pooled Assets

Assets Pooled		Pooled	Under Pool Management	Not Pooled	Total
G1	Total				
Pooling Savings		Total			
G2	Cumulative Pooling Savings since inception	£			
G3	Pooling Savings in year to 31 March	£			

Local Government Pension Scheme
Scheme Advisory Board

The Rt Hon Laura Trott MBE MP
Chief Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

17 May 2024

Please reply to joanne.donnelly@local.gov.uk

Dear Laura

Gender Pensions Gap – Local Government Pension Scheme Advisory Board

I am writing to you on behalf of the Local Government Pension Scheme Advisory Board (“the Board”) to follow up on a letter you have recently received from Garry Graham, Deputy General Secretary of the Prospect Union.

The Board is a statutory body which was established under the Public Service Pensions Act 2013 to advise Ministers on the desirability of making changes to the Local Government Pension Scheme in England and Wales (LGPS). As you may know, the LGPS is the largest funded defined benefit pension scheme in the UK and has 6.6 million members, including many of the lowest paid employees in the public sector, and some £359 billion in assets. Full details of the Board can be found at www.lgpsboard.org.

During 2022/23, the Board commissioned the Government Actuary’s Department to undertake some analysis of the gender pensions gap in the LGPS and two reports on this issue have been published on the Board’s website. The [first report](#) identified a substantial difference in the pensions accrued by men and women in the LGPS, showing a gender pensions gap of 34.7% in the reformed Career Average Revalued Earnings (CARE) scheme. The second report explored in more depth how career patterns and differences within LGPS employers affected the gap. We are now actively considering how best to address the significant gaps which have been found, and have set up a dedicated working group to take forward an action plan.

Due to our progress in highlighting this issue, local government employers and unions have found that the gender pensions gap analysis has given a more dynamic picture of how scheme members’ salaries change over time and some of the graphs in our reports very clearly illustrate the different trajectory of men and women’s careers. Additionally, this analysis adds context and richness to the existing data that the Local Government Association has gathered as part of the statutory gender pay analysis that local government employers undertake.

Scheme Advisory Board

We recognise that these gaps have many causes both in the workplace and wider society, and won't be resolved overnight, but calculating the gender pensions gap gives us a benchmark by which we can assess how well we are progressing in delivering more equal employment opportunities in the public sector (which I am sure we are all committed to).

I would like to place on record the Board's support for Prospect's call to take a consistent and active cross-public sector approach to assessing and addressing the gender pensions gap. As a body which has already given much thought to the issues arising, we would be keen to be part of any discussions on how we could 'mainstream' this type of analysis into the management of public service pension schemes.

As providers of social care and support, many councils are well aware of the challenges of achieving pension adequacy, especially for older women. We therefore also feel that if gender pension gap information were more widely produced, it would be an important evidence base for Government to use when exploring how future tax and state pension changes might be made to improve pension adequacy for women.

As the Board's Chair, I hope to be able to work with you and your officials on this important question.

Yours sincerely



Cllr Roger Phillips
Chair of the Board

cc Simon Hoare MP, Local Government Minister



Department for Levelling Up, Housing & Communities

Simon Hoare MP
Minister for Local Government
2 Marsham Street
London
SW1P 4DF

Chief Executives and Section 151 Officers of
Administering Authorities in England

By email

15
May 2024

Dear Colleagues,

Efficiencies in local government and the management of Local Government Pension Scheme (LGPS) funds

I wrote to all chief executives on 16 April setting out my expectations for the productivity plans to be developed by each authority as announced at the local government finance settlement. In this, I asked for plans covering service transformation, better use of technology and data and reduction of wasteful spend as well as views on barriers which government could remove (letter at annex A).

I am now writing to you to ask you to set out your approach to efficiencies in the management, governance and administration of your LGPS fund and asset pool in a separate letter. I am interested in what is happening across local government to deliver efficiencies in the management of the £359 billion of pension assets you hold, and in your administration of pension benefits for the 6.6 million members.

Since taking on ministerial responsibility for the LGPS I have been grateful for the generous engagement I have received, and I have been struck by the generally strong financial position of the scheme, as well as the strong commitment to serving scheme members. However, it is clear that there is also a need for improvements, including to meet the expectations set out on asset pooling and investments set out at the [Autumn Statement](#). More efficiencies in fund administration and management should also be achieved: across the scheme in 2022-3 investment management costs were £1.7 billion and £280 million on administration and governance.

Your response should consider the following themes on pensions.

1. How your fund will complete the process of pension asset pooling to deliver the benefits of scale.


- What proportion of assets have been pooled in your chosen LGPS asset pool? Is your fund on track to pool all listed assets by March 2025, and if not, what are the barriers to this?
- Is there scope for minimising waste and duplication by making use of your LGPS asset pool's services and expertise in reporting and development of the pensions investment strategy? What is your expenditure on pensions investment consultancy?
- Does your LGPS asset pool have an effective, modern governance structure in place, which is able to deliver timely decisions and ensure proper oversight? If not, what steps are you taking to make your pool's governance more effective?

2. How you ensure your LGPS fund is efficiently run, including consideration of governance and the benefits of greater scale.

- Does your LGPS fund have effective and skilled governance in place, which is able to hold officers, service providers and the pool to account on performance and efficiency?
- Would you be likely to achieve long-term savings and efficiencies if your LGPS fund became part of a larger fund through merger or creation of a larger pensions authority?

As set out in my previous letter I do not wish to impose excessive burdens. I expect your letter to be no more than two pages in length. Your plans must be returned by 19 July 2024, by email to lgpensions@levellingup.gov.uk. We will review your responses and consider the issues emerging and the implications for future national policy.

I look forward to working with you to deliver the best outcomes.

With every good wish.
Yours,

SIMON HOARE MP
Minister for Local Government

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