Pension Fund Committee

Date	**Tuesday 17 December 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 12 September 2024 (Pages 23 - 32)
4. Overall Value of Pension Fund Investments to 30 September 2024 (Pages 33 - 36)
5. Performance Measurement of Pension Fund Investments to 30 September 2024 (Pages 37 - 46)
6. Feedback from Local Pension Board - Verbal Update
7. Pension Fund Annual Report and Accounts; and Audit Completion Report (Pages 47 - 206)
8. Responsible Investment Policy and Carbon Metrics (Pages 207 - 234)
9. Regulatory Update (Pages 235 - 300)
10. LGPS Consultation - 'LGPS: Fit for the future' (Pages 301 - 392)
11. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration

12. 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)

13. The Minutes of the Meeting held on 12 September 2024 (Pages 393 - 402)
14. Participating Employer Update - Verbal Update
15. Report of the Independent Adviser (Pages 403 - 430)
16. Investment Strategy Review Update (Pages 431 - 472)
17. Report of the Pension Fund Adviser (Pages 473 - 512)
18. Independent Advisor Annual Review of Assets held outside of the Border to Coast Pool (Pages 513 - 518)
19. BCPP Global Equity Alpha Review (Pages 519 - 548)
20. Border to Coast Pensions Partnership Quarterly Performance Report (Pages 549 - 610)
21. Report of Alliance Bernstein (Pages 611 - 628)
22. Report of CBRE Global Investment Partners (Pages 629 - 656)
23. Report of Foresight (Pages 657 - 686)
24. 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
9 December 2024

To: The Members of the Pension Fund Committee

County Council Members:
Councillors D Sutton-Lloyd, M Stead, J Atkinson, K Earley, C Fletcher, D Freeman, B Kellett, J Quinn, J Shuttleworth, W Stelling and C Varty

Darlington Borough Council Members
Councillors R Baker and 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
L Oliver – Local Pension Board
W Pattison – Local Pension Board
I Pritchard – 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) s 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 LPGS by the end of 2021.

The Pension Advisory Service (TPAS)

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

Transfer Value

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

Transferred Service

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

U

UK Stewardship Code

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

Unrealised gains/losses

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

Author(s)

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in **Committee Room 1A/1B, County Hall, Durham** on **Thursday 12 September 2024** at **10.00 am**

Present:

Councillor D Sutton-Lloyd (Chair)

Members of the Committee:
Councillors M Stead (Vice-Chair), J Atkinson, K Earley, C Fletcher, D Freeman, M Porter and C Varty

Also Present:

Scheme Member Representatives
J Taylor

Council Advisers
Paul Cooper – Head of Pensions (LGPS)
Shareen Din – Lawyer (Employment)
Ashleigh Phillips – Pensions Team Leader

Investment Advisers
Milo Kerr – BCPP

Independent Advisers
Sandy Dickson – Mercer
Anthony Fletcher – MJ Hudson

Observers
Ian Pritchard (UNISON)

1 Apologies for Absence

Apologies for absence were received from Councillors B Kellett and J Shuttleworth, and A Broadbent and A Delandre.

2 Declarations of Interest

There were no Declarations of Interest.

3 Minutes

The minutes of the meeting held 24 June 2024 were agreed as correct record and signed by the Chair.

4 Overall Value of Pension Fund Investments to 30 June 2024

The Committee considered a report of the Corporate Director of Resources which provided an update on the overall value of the Pension Fund investments to 30 June 2024, the movement in cash balances during the last quarter (for copy see file of Minutes).

Councillor K Earley asked as regards the projections and what criteria are looked at in terms of actions, such as drawdowns. The Head of Pensions (LGPS) Paul Cooper explained as regards the broad focus on Listed Alternatives at BCPP, having been a proxy for Private Markets, reminding that the Committee had approved a strategy to run down the Listed Alternatives exposure, as deployment into Private Markets increased. He noted that if cash increased as significantly as projected and was not drawn down, then there would be further discussion with the Committee accordingly.

Councillor M Porter asked as regards pension transfers, including the current number. The Head of Pensions (LGPS) noted that there had recently been a number of regulation changes and that the numbers of members consequently transferring in and out of the Fund went through peaks and troughs. He noted that there had been a recent pause in terms of transfers, now released. He added that the numbers and performance were reported to the Local Pension Board where they were scrutinised and were included for information within agenda pack for Committee Members.

Resolved:

That the information contained in the report be noted.

5 Performance Measurement of Pension Fund Investments to 30 June 2024

The Committee considered a report of the Corporate Director of Resources which provided an overview of the investment performance of the Pension Fund to 30 June 2024 (for copy see file of Minutes).

Resolved:

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

6 Feedback from Local Pension Board

The Head of Pensions (LGPS) noted a new appointment to the Local Pension Board, with Ian Pritchard representing Unison, who was in attendance at Committee to observe. He reminded the Committee that Councillor A Hopgood had attended the last meeting of the Committee to present the Annual Report of the Local Pension Board detailing work undertaken by the Board. He reiterated that the Board scrutinise performance in respect of services to scheme members and are receiving updates in respect of The Pensions Regulator Single Code of Practice, with 14 codes being brought into one; as well as their regular updates in relation to key performance indicators, regulatory matters and Pension Fund breaches. He noted the next meeting of the Board was scheduled for later today, 12 September 2024.

Councillor M Porter noted the performance figures looked very good and asked that thanks be passed to the Pensions Team for all their hard work. She noted that while still in the 90 percent range, the performance in relation to communications acknowledging the death of a scheme member. The Head of Pensions (LGPS) explained that the performance indicator in particular started as soon as the Team were made aware of a death, however, in some cases for reasons of sensitivity, communications were intentionally delayed such where a family requests that communication waited until after a funeral. Councillor M Porter appreciated the approach taken and reiterated her thanks to the Team for their very good performance. The Chair agreed, noting that the approach was sensible, and understood that the Local Pension Board did scrutinise performance very carefully.

The Fund's Advisor, Sandy Dickson of Mercer, noted that he attended a number of different Pension Funds as part of his work and that he would agree with Councillor M Porter in saying the performance figures for Durham were very strong, with scheme members experience being very important, with the figures suggesting excellent delivery locally.

Resolved:

That the verbal update be noted.

7 Internal Audit Plan 2024/25 - Progress Report to 30 June 2024

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager, presented by the Internal Audit Manager, Nicola Cooke, which informed Members of the work that had been carried out by Internal Audit during the period 1 April 2024 to 30 June 2024 as part of the 2024/2024 Internal Audit Plan (for copy see file of minutes).

Councillor C Varty asked for clarity in respect of the ‘in progress’ status relating to Pension Fund bank reconciliations. The Internal Audit Manager noted that as at the cut off for reporting date to Committee, that was the position, however she reassured Members that the bulk of the work in respect of that audit was completed and that colleagues were close to being able to provide an assurance position on the matter.

Councillor J Atkinson noted the report was of the Chief Internal Auditor and Corporate Fraud Manager and asked as regards the link between Internal Audit and Corporate Fraud in looking at issues of potential fraud. The Internal Audit Manager noted that she worked under the Chief Internal Auditor in heading up the Internal Audit side, with the Corporate Fraud Manager working on the fraud side. She noted the teams referred work to each other accordingly and linked with each other in terms of any areas and actions as required. Councillor J Atkinson noted it was very important, highlighting the hack to Capita as an example. The Internal Audit Manager noted that the Corporate Fraud Team at DCC were very good and added that there could be assurance taken in respect of the ‘protecting the public purse’ element of reporting at the Council’s Audit Committee.

Resolved:

That the work undertaken by Internal Audit during the period ending 30 June 2024 be noted.

8 Regulatory Update

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

The Head of Pensions (LGPS) noted that the main issues to highlight related to the Review of the LGPS 2022 Fund Valuations - Section 13 Report, and the Pensions Review, which had accelerated following the election of a new Government in May, noting that ‘Phase One’ of the review was to include the LGPS. He reminded the Committee that issues within the review would include consideration of consolidation within the LGPS, and ‘local investment’, into regions of the UK. He noted that there was a Government call for evidence and that given the short timescales, he would liaise with the Chair and Vice-Chair in terms of a response, with Partner Funds working closely with BCPP so that responses from across the Pool were broadly aligned. He added the response could be shared with Members, however, it was not practical to finalise in time for Committee. The Chair noted that the work that had been undertaken over the last few years in terms of consolidation and pooling had meant that Durham was in a good position. The Head of Pensions (LGPS) noted that the previous Local Government Minister had already been looking at issues of consolidation and pooling, and that there had already been broad alignment between Conservative and Labour on those issues prior to the general election. He added that the new Labour Government had moved quickly, including the call for evidence, with the direction of travel remaining broadly consistent.

Councillor J Atkinson noted the push for greater investment within the UK, however, he emphasised that while that could be beneficial the main concern was to create a return upon investments. The Chair agreed and noted that the Committee had previously stated that any UK investment must be a good investment for the Fund. The Head of Pensions (LGPS) agreed, noting the fiduciary duty of the Committee and the primary responsibility in terms of ensuring sufficient funds to pay pensions and maintaining stability of contributions for scheme employers. He reminded the Committee of investments already made in terms of the UK, as well as the targets set by the Committee in that regard. Councillor J Atkinson asked if the Advisors could give their opinion in terms of the Government’s push for Pension Funds to invest in the UK. The Independent Pension Fund Advisor reiterated the fiduciary duty and noted some advantages of UK investment, noting as pensions were paid in sterling there was some benefit in that respect. He reiterated the points made by the Head of Pensions (LGPS) in terms of UK investment already undertaken by the Committee, and that those investments had been taken by the Committee, without the intervention of Government, and he felt that the Committee could be confident in being able to justify they investment decisions in that regard.

Councillor K Earley noted a recent article in the Guardian newspaper which had referred to UK investment, which had a tone which appeared to be attempting to frame the debate.

The Head of Pensions (LGPS) noted he had read the article, noting quotes from Northern Gritstone, a private asset management firm. He reminded the Committee of the progress made with BCPP in terms of their £500million UK Opportunities Fund, in which Durham is an investor.

Councillor M Porter asked as regards the 'white flag' was part of the Section 13 Report from GAD. The Head of Pensions (LGPS) noted this related to deficit recovery and following discussions with GAD, they had given a white flag, adding there had been no red or amber ratings.

Resolved:

That the information contained in the report be noted.

9 Review of Pension Fund Risks

The Committee considered a report of the Corporate Director of Resources which updated Members on the revisions to the Local Government Pension Scheme (LGPS) Pension Fund Risk Register, following a review by the Risk and Governance Team in August 2024 (for copy see file of Minutes).

The Head of Pensions (LGPS) asked for any feedback on areas that Members may wish for a deep dive at a future meeting of the Committee. Members noted several issues, including recent cyberattacks that had impacted organisations within the UK. The Head of Pensions (LGPS) reminded Members of previous presentations in relation to cybersecurity. Members noted the importance of protecting data, with the Internal Audit Manager providing assurance that cybersecurity was taken very seriously and could come back with further information for Members. The Vice-Chair, Councillor M Stead noted he understood Members' thoughts were 'what if', and how we would respond. The Head of Pensions (LGPS) noted an update in terms of security of data and disaster recovery may therefore be useful to provide members further assurance.

Resolved:

That the information contained in the report be noted.

10 Update on Pension Fund Statement of Accounts

The Head of Pensions (LGPS) noted that the Statement of Accounts for the Pension Fund had been completed in line with statutory deadlines, and was with the External Auditors, Mazars and was on track for sign off by the 30 November deadline.

He reiterated the work required by the Team had been completed within deadlines. The Chair thanked the Head of Pensions (LGPS) and the Finance Team for their work in completing the accounts on time.

11 Pension Scheme Members and Border to Coast Pension Partnership Conference

J Taylor, Scheme Member representative explained that since retiring as a former Assistant Director, he had been drawing his pension over the last 27 years, noting contributions rates of around six percent when he was paying into the scheme. He noted that payments were always on time and always included the relevant uplifts over time. He noted the huge amount of work undertaken by the Pensions Team and thanked them for ensuring that pensioners were paid on time and that all were looked after in terms of any queries. The Chair noted it was always important to hear from scheme members and pensioners and to reflect on the reason why the Pension Fund existed, and for the Committee to always be mindful of this when making decisions.

Councillor C Varty explained that she had found it incredibly helpful and informative to attend the BCPP Conference and thanked the Chair for the opportunity to attend, and Officers for making the necessary arrangements. The Chair thanked Members who had attended the Conference, adding he felt the Durham Fund had been well represented with a strong delegation at the event.

12 Exclusion of the Public

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

13 Minutes

The minutes of the meeting held 24 June 2024 were agreed as a correct record and signed by the Chair.

14 Report of the Independent 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.

15 Investment Strategy and Governance 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 D Freeman left the meeting at 12.16pm

Resolved:

That the recommendations in the report be approved.

16 Report of the Pension Fund Adviser

The Committee considered the report of the Independent Adviser, Sandy Dickson of Mercer (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.

17 Private Markets Performance Metrics

The Committee considered the report in respect of the Private Markets Performance Metrics, presented by M Kerr (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.

18 Independent Advisor Annual Review of Private Markets

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

Resolved:

That the information contained in the report be noted.

19 Global Equity Alpha Update and Responsible Investment Metrics

The Committee considered the report in respect of the Global Equity Alpha Update and Responsible Investment Metrics, presented by M Kerr (for copy see file of minutes).

Resolved:

That the information contained in the report be noted.

20 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.

21 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.

22 Report of CBRE Global Investment Partners

Consideration was given to a report from CBRE which included:

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

Resolved:

That the information contained in the report be noted.

23 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.

Pension Fund Committee

17 December 2024

Overall Value of Pension Fund Investments to 30 September 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 30 September 2024;

   (b) movement in the cash balance during the quarter, and;

   (c) rebalancing activity undertaken during the quarter two (1 July – 30 September 2024).

Executive Summary

2. The overall value of the Fund as at 30 September 2024 was £3.705 billion and the cash balance held in the Durham County Council Pension Fund bank account was £35.159 million. Fund managers also held cash of £50.470 million at that date.

3. Working cash balance levels and rebalancing reviews continue to be undertaken. No asset classes hit the trigger point for rebalancing requirements during the quarter to 30 September 2024.

Recommendation

4. Members are asked to note and agree the information relating to the Fund value as at 30 September 2024 and cash flows contained within the report.

Value of the Pension Fund

5. Reports from the four listed fund managers, namely:

- AB
- BCPP
- CB Richard Ellis
- Foresight

are included in Part B of today’s agenda.

6. The value of the Fund at 30 September 2024 was £3.705 billion compared to £3.655 billion at 30 June 2024. This is an increase of £50 million (or 1.37%) in the second quarter of 2024/25. Details of the fund’s performance are provided later in the meeting.

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

7. 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.

8. 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.

Fund Rebalancing

9. 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.

10. 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.

11. No rebalancing has been undertaken during the second quarter.

12. The table below highlights the fund balance by fund manager and asset class as at 30 September 2024 :

Fund Manager and Asset Class	As of 30 September 2024 Market Value £000's	Actual Weight	Current Target Weight	Rebalancing Range – Trigger Points
ALLIANCE BERNSTEIN *	192.20	5.19%	5.00%	n/a
CBRE 1 *	226.52	6.11%	8.66%	n/a
CBRE 2 *	54.31	1.46%	1.34%	n/a
BCPP GLOBAL EQUITY ALPHA FUND	1,571.91	42.42%	40.00%	36%-44%
BCPP STERLING INDEX LINKED BOND	361.59	9.76%	10.00%	10%-12%
BCPP PRIVATE MARKETS*	292.55	7.90%	6.10%	n/a
BCPP MULTI ASSET CREDIT FUND	582.62	15.72%	15.00%	13%-17%
BCPP LISTED ALT FD	48.90	1.32%	3.86%	1%-3%
FORESIGHT REGIONAL INVESTMENT*	4.28	0.12%	0.04%	n/a
BCPP EMERGING MARKETALPHA FUND	192.54	5.20%	5.00%	4%-6%
BCPP INVESTMENT GRADE CREDIT	177.94	4.80%	5.00%	4%-6%
TOTAL	**3,705.36**	**100.00%**	**100.00%**	

**Not within scope of rebalancing*

Background Papers

13. 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

17 December 2024

Performance Measurement of Pension Fund Investments to 30 September 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 30 September 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 30 September 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 30 September 2024, plus the last 1, 3, 5 and 10 years and since inception.

Contact:	Jo McMahon	Tel: 03000 261968

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NORTHERN TRUST

Durham CC Pension Fund

Investment Risk & Analytical Services

September 30, 2024

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SECTION 1

Durham CC Pension Fund

Investment Risk & Analytical Services

September 30, 2024

Investment Hierarchy (Arithmetic Excess)

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
Durham CC Pension Fund	**3,705,426,694**	**100.00**	**0.80**	**1.74**	**11.41**	**1.62**	**4.07**	**6.11**	**6.34**	**02/29/2008**
Durc Total Plan Benchmark			*0.53*	*1.43*	*15.00*	*4.86*	*6.31*	*8.05*	*8.06*	*02/29/2008*
Excess Return			*0.27*	*0.31*	*-3.59*	*-3.25*	*-2.24*	*-1.94*	*-1.71*	*02/29/2008*
Alliance Bernstein	**192,197,028**	**5.19**	**0.69**	**2.51**	**8.96**	**1.92**	**1.80**	**2.24**	**3.08**	**02/29/2008**
Alliance Bernstein	**192,197,028**	**5.19**	**0.69**	**2.51**	**8.96**	**1.92**	**1.80**	**2.24**	**3.08**	**02/29/2008**
SONIA + 3%			*0.64*	*2.00*	*8.38*	*6.40*	*5.20*	*4.39*	*4.39*	*02/29/2008*
Excess Return			*0.04*	*0.51*	*0.58*	*-4.48*	*-3.40*	*-2.14*	*-1.31*	*02/29/2008*
CBRE 1	**226,523,185**	**6.11**	**5.40**	**5.64**	**4.81**	**2.38**	**3.80**	**6.08**	**4.16**	**02/29/2008**
CBRE 1	**226,523,185**	**6.11**	**5.40**	**5.64**	**4.81**	**2.38**	**3.80**	**6.08**	**4.16**	**02/29/2008**
RPI + 5%			*0.07*	*1.53*	*7.67*	*12.71*	*10.80*	*9.18*	*8.79*	*02/29/2008*
Excess Return			*5.33*	*4.11*	*-2.86*	*-10.32*	*-7.00*	*-3.10*	*-4.62*	*02/29/2008*
CBRE 2	**54,312,015**	**1.47**	**1.69**	**10.02**	**20.89**	**3.81**	**3.57**	**7.40**	**6.14**	**02/29/2008**
CBRE 2	**54,312,015**	**1.47**	**1.69**	**10.02**	**20.89**	**3.81**	**3.57**	**7.40**	**6.14**	**02/29/2008**
RPI + 5%			*0.07*	*1.53*	*7.68*	*12.71*	*10.81*	*9.18*	*8.79*	*02/29/2008*
Excess Return			*1.61*	*8.49*	*13.22*	*-8.90*	*-7.24*	*-1.79*	*-2.65*	*02/29/2008*
Mondrian	**67,124**	**0.00**	**-0.55**	**10.93**	**186.09**	**41.35**	**25.97**	**-**	**15.41**	**10/31/2014**
Mondrian	**67,124**	**0.00**	**-0.55**	**10.93**	**186.09**	**41.35**	**25.97**	**-**	**15.41**	**10/31/2014**
BCPP	**2,935,495,899**	**79.22**	**0.18**	**1.10**	**13.01**	**1.34**	**5.51**	**-**	**5.51**	**09/30/2019**
BCPP Emerging Mkt Alpha Fund	**192,541,498**	**5.20**	**3.93**	**1.28**	**12.48**	**-**	**-**	**-**	**10.45**	**07/10/2023**
MSCI Emerging Markets ND			*4.52*	*2.46*	*14.70*	*-*	*-*	*-*	*14.04*	*07/10/2023*
Excess Return			*-0.60*	*-1.19*	*-2.22*	*-*	*-*	*-*	*-3.59*	*07/10/2023*
BCPP Global Equity Alpha Fund	**1,571,908,563**	**42.42**	**-0.56**	**-0.58**	**14.13**	**6.88**	**-**	**-**	**10.23**	**10/24/2019**
MSCI ACWI ND + 2%			*0.40*	*0.91*	*21.96*	*10.33*	*-*	*-*	*13.02*	*10/24/2019*
Excess Return			*-0.96*	*-1.49*	*-7.83*	*-3.45*	*-*	*-*	*-2.79*	*10/24/2019*
BCPP Investment Grade Credit F	**177,938,102**	**4.80**	**0.41**	**2.32**	**10.72**	**-**	**-**	**-**	**9.67**	**06/23/2023**
DURC14 iBoxx £ Non-Gilts+%0.6			*0.40*	*2.42*	*10.34*	*-*	*-*	*-*	*9.67*	*06/23/2023*
Excess Return			*0.01*	*-0.10*	*0.38*	*-*	*-*	*-*	*-0.01*	*06/23/2023*
BCPP Listed ALT FD	**48,896,548**	**1.32**	**1.22**	**7.08**	**21.62**	**-**	**-**	**-**	**4.20**	**01/31/2022**
MSCI ACWI			*0.29*	*0.57*	*20.43*	*-*	*-*	*-*	*9.11*	*01/31/2022*
Excess Return			*0.92*	*6.51*	*1.19*	*-*	*-*	*-*	*-4.91*	*01/31/2022*
BCPP Multi Asset Credit Fund	**582,624,691**	**15.72**	**1.45**	**4.49**	**13.66**	**-**	**-**	**-**	**1.95**	**10/14/2021**
SONIA + 3%			*0.64*	*2.00*	*8.38*	*-*	*-*	*-*	*6.44*	*10/14/2021*
Excess Return			*0.80*	*2.49*	*5.28*	*-*	*-*	*-*	*-4.49*	*10/14/2021*

Category: **Total Fund Gross of Fees**

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	**361,586,497**	**9.76**	**-0.75**	**1.52**	**7.40**	**-20.08**	**-**	**-**	**-14.94**	**10/08/2020**
FTSE Index Linked 15+Yrs+0.02%			*-0.73*	*1.54*	*7.10*	*-20.20*	*-*	*-*	*-15.13*	*10/08/2020*
Excess Return			*-0.02*	*-0.01*	*0.30*	*0.12*	*-*	*-*	*0.19*	*10/08/2020*
BCPP Private Market	**292,552,467**	**7.90**	**3.72**	**3.47**	**-0.13**	**15.28**	**-**	**-**	**12.25**	**11/30/2020**
BCPP Private Markets	**292,552,467**	**7.90**	**3.72**	**3.47**	**-0.13**	**15.28**	**-**	**-**	**12.25**	**11/30/2020**
Foresight Regional Investments	**4,278,975**	**0.12**	**-1.90**	**-5.34**	**-19.62**	**-**	**-**	**-**	**-28.40**	**08/31/2022**
Foresight Regional Investment	**4,278,975**	**0.12**	**-1.90**	**-5.34**	**-19.62**	**-**	**-**	**-**	**-28.40**	**08/31/2022**
15% Absolute Return			*1.17*	*3.56*	*15.00*	*-*	*-*	*-*	*15.00*	*08/31/2022*
Excess Return			*-3.07*	*-8.90*	*-34.62*	*-*	*-*	*-*	*-43.40*	*08/31/2022*

Category: **Total Fund Gross of Fees**

Market Value Summary - One Month

Account/Group	08/31/2024 Market Value	Net Contribution*	Income	Fees	Appreciation	09/30/2024 Market Value
Durham CC Pension Fund	**3,681,590,136**	**-5,760,535**	**2,220,392**	**1,907**	**27,376,700**	**3,705,426,694**
Alliance Bernstein	**190,886,420**	**0**	**0**	**0**	**1,310,608**	**192,197,028**
Alliance Bernstein	190,886,420	0	0	0	1,310,608	192,197,028
CBRE 1	**214,983,534**	**-65,907**	**328,516**	**1,907**	**11,277,041**	**226,523,185**
CBRE 1	214,983,534	-65,907	328,516	1,907	11,277,041	226,523,185
CBRE 2	**53,410,404**	**-0**	**222,415**	**0**	**679,196**	**54,312,015**
CBRE 2	53,410,404	-0	222,415	0	679,196	54,312,015
Mondrian	**67,494**	**0**	**294**	**0**	**-664**	**67,124**
Mondrian	67,494	0	294	0	-664	67,124
BCPP	**2,937,714,302**	**-7,647,163**	**647,163**	**0**	**4,781,597**	**2,935,495,899**
BCPP Emerging Mkt Alpha Fund	185,266,114	0	0	0	7,275,384	192,541,498
BCPP Global Equity Alpha Fund	1,580,711,971	0	0	0	-8,803,408	1,571,908,563
BCPP Investment Grade Credit F	177,853,782	-647,163	647,163	0	84,321	177,938,102
BCPP Listed ALT FD	53,254,378	-5,000,000	0	0	642,170	48,896,548
BCPP Multi Asset Credit Fund	576,291,853	-2,000,000	0	0	8,332,838	582,624,691
BCPP Sterling Index Linked Bd	364,336,204	0	0	0	-2,749,707	361,586,497
BCPP Private Market	**280,249,006**	**1,871,202**	**1,022,004**	**0**	**9,410,256**	**292,552,467**
BCPP Private Markets	280,249,006	1,871,202	1,022,004	0	9,410,256	292,552,467
Foresight Regional Investments	**4,278,975**	**81,333**	**0**	**0**	**-81,333**	**4,278,975**
Foresight Regional Investment	4,278,975	81,333	0	0	-81,333	4,278,975

**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.

Category: Total Fund Gross of Fees • Currency: GBP

SECTION 2

Appendix

Investment Risk & Analytical Services

September 30, 2024

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Pension Fund

Annual Report and Accounts

For the year ended 31 March 2024

The Durham County Council Pension Fund is registered with the Pension Schemes Registry

No. 10079166

Contents

Introduction

Welcome to the Annual Report and Accounts of the Durham County Council Pension Fund for the financial year ended 31 March 2024.

These are the key issues:

- Contributing members increased by 763 (3.30%) to 23,902
- Market value of the Fund’s assets increased by 8.71% from £3.423 billion to £3.721 billion;

The report provides further information on these issues and on the activities and management of the Pension Fund during the year.

I hope this report provides useful information about your Pension Fund. However, it is important that we try to improve the quality and suitability of information provided within the report and feedback is welcomed.

For further information on Durham County Council Pension Fund or for providing me with your views on this report, contact details are provided at the end of the report.

Paul Darby C.P.F.A.

Corporate Director of Resources

26 November 2024

The Local Government Pension Scheme

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) administered by Durham County Council. It is a statutory scheme governed by regulations made under the Public Service Pensions Act 2013.

The Fund is currently administered in accordance with the following secondary legislation:

- LGPS Regulations 2013 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2016
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)

How The Scheme Presently Works

The LGPS is required to be funded. Scheme funds, currently surplus to immediate pension benefit requirements, are invested in approved securities. The Fund must be sufficient to sustain future pension entitlements of past and present members. The Fund is financed by members and employers' contributions and earnings from investments.

Until 31 March 2014 the LGPS was classified as a final salary scheme whereby the annual pension and any retirement grant were paid based on the period of membership and (usually) the final twelve months pay. Benefits built up in the LGPS up to and including 31 March 2014 will continue to be calculated on a final salary basis.

With effect from 1 April 2014 the LGPS changed from a final salary scheme to a career average scheme. All benefits built up in the LGPS after 31 March 2014 will be calculated under the rules of the new career average scheme.

An independent actuarial valuation of the Fund is carried out every three years to review the assets and liabilities of the Fund and to determine the rate of contributions which the employers must make to the Fund. The most recent valuation applicable to the period covered by the report was undertaken as at 31 March 2022 and a report of the actuary is provided on page 37. The next review will take place during 2025/26 for the valuation as at 31 March 2025.

From 1 April 2014 contributors to the scheme are required to pay between 5.5% and 12.5% of their pensionable salary to the Fund. The rate they pay depends on which of the nine different salary bands their pay falls into. Employee contributions qualify for income tax relief. Members may have additional voluntary contributions (AVCs) deducted from pay and paid into a personal fund. AVCs can be invested with any of the following companies: Standard Life, Prudential and Utmost Life (closed to new investors).

Contributors to the scheme can also choose to pay additional pension contributions (APCs) over a number of years or by a one-off payment to buy additional pension on retirement.

Members who leave the scheme may transfer their accrued benefits to other approved schemes. Members who leave with less than two years membership may choose to receive a refund of their contributions (less income tax) provided they have no other LGPS benefits and, in most circumstances, have not transferred in other pension benefits. New members may transfer benefits accrued with other schemes into the Fund (usually within a deadline of twelve months).

The scheme includes a 50/50 option which allows a member to contribute half of their normal contribution rate into the scheme in return for half of their normal pension. Under this option full life assurance and ill health cover is retained.

Pension Benefits

Scheme members accrue annual pension during each year of membership at a rate of 1/49th of the amount of pensionable pay received in that year (or half that rate under the 50/50 option). This annual pension amount is added to a member's pension account and revalued at the end of each year, in line with inflation.

For membership before 2014 pension is determined at a rate of 1/60th of final pay for each year of membership between 1 April 2008 and 31 March 2014, and 1/80th of final pay for each year of membership before 1 April 2008. Final pay is usually the pensionable pay earned in the year prior to leaving the scheme, however, one of the two previous years' pay can be used, if higher.

Retirement grants are based on 3/80th of final pay for each year of membership before 1 April 2008. Although an automatic lump sum is not a feature of the retirement benefits after that date, retirees have the option to take a lump sum from the scheme up to certain limits, getting £12 of tax free lump sum for every £1 of annual (taxable) pension given up.

Where a member dies in service, a lump sum in the form of a death grant would be paid equal to three years' pensionable pay, provided that the member is under age 75 at the date of death.

Survivor's pensions are payable on the death of a scheme member to the scheme member's spouse, registered civil partner, or subject to certain qualifying conditions an eligible co-habiting partner. The survivor pension for an eligible co-habiting partner only takes account of the member's pensionable service after 5 April 1988. Children's pensions are also payable to eligible children of deceased scheme members.

In the main, benefits can be paid upon leaving to a member with at least 2 years qualifying membership in the following circumstances:

- on reaching State Pension Age, without any early retirement reductions applied;

- between Normal Minimum Pension Age and State Pension Age, however early retirement reductions will normally apply where someone draws their pension benefits before State Pension Age. The amount of reduction that applies depends on the individual's age, sex, length of pensionable service and the date they joined the scheme;

- at any age, if the member retires on the grounds of permanent ill-health. Three different levels of ill-health benefit are payable, depending on how soon it is judged that an individual will be able to obtain gainful employment again in future. In the case of death in service, dependants' benefits are paid even if the membership is less than 3 months.

- from Normal Minimum Pension Age, if the member retires by reason of redundancy or business efficiency, without any early retirement reductions applied.

It should be noted that the Finance Act which gained Royal Assent on 24 February 2022, 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 and will also need to consider whether LGPS members who qualify for protection will be allowed to receive payment before 57.

If a member leaves with at least 2 years membership and is not entitled to immediate payment of benefits and does not choose to transfer out their accrued benefits, deferred benefits are awarded. Deferred benefits are benefits which remain in the Fund and are paid when the member reaches retirement age. Such benefits are subject to inflationary increases between the date of leaving and the date of payment.

Pension Increases

Mandatory increases in pensions and deferred benefits are made in accordance with annual statutory Pension Increase (Review) Orders to help protect pensions against inflation. The pension increase is currently linked to the Consumer Price Index (CPI).

The following table shows the pension increases over the last 5 years:

Effective Date	***% Increase***
06 April 2020	1.70
12 April 2021	0.50
11 April 2022	3.10
10 April 2023	10.10
10 April 2024	6.7

Pensioners must be over the age of fifty-five or have retired due to permanent ill-health to receive the increase. Those in receipt of a widow's, widower's or dependant's benefit receive the increase regardless of age.

Management and Financial Performance Report

Pension Fund Committee Members, Managers and Advisers

The Constitution of Durham County Council, as administering authority to the Fund, has delegated to the Pension Fund Committee powers and duties arising from the Public Service Pensions Act 2013 and Regulations made thereunder, regarding the administration and investment of funds.

In order to effectively carry out their role, the Committee obtains professional advice, as and when required, from suitably qualified persons, including external advisers, investment managers and officers of the Council. The members of the Pension Fund Committee and contact details of managers and advisers as at 31 March 2024 were as follows

Pension Fund Committee
Councillor David Sutton-Lloyd (Chair)
Councillor Michael Stead (Vice Chair)
Councillor Jim Atkinson
Councillor Kevin Earley
Councillor Christine Fletcher
Councillor David Freeman
Councillor Bill Kellett
Councillor Joe Quinn
Councillor John Shuttleworth
Councillor Watts Stelling
Councillor Chris Varty

Darlington Borough Council Members:
Councillor Mandy Porter
Councillor Rebecca Baker

Scheduled Body Representative: (Vacancy)

Admission Body Representative: (Vacancy)

Pensioner Representatives:
A Delandre
J Taylor

Active Member Representative: (Vacancy)

Further Education Colleges Representative:
A Broadbent

Staff Observers:
Unison GMB
I Pritchard
L Timbey

Pension Board Members:
Scheme Member Representatives:
Mr I Pritchard
Mr L Oliver
Ms W Pattison (Chair)

Scheme Employer Representatives:

Councillor Amanda Hopgood
Councillor David Stoker

Administering Authority Members:
J Hewitt - Chief Executive
P Darby - Corporate Director of Resources
H Bradley - Head of Legal and Democratic Services
P Cooper - Head of Pensions (LGPS)

Global Custodian:
Northern Trust - 50 Bank Street, Canary Wharf, London, E14 5NT.

Actuary:
Aon Hewitt - 40 Queen Square, Bristol, BS1 4QP

Investment Managers:
AB Ltd - 50 Berkeley Street, London, W1J 8HA
Border to Coast Pensions Partnership - 5th Floor, Toronto Square, Toronto, Street, Leeds, LS1 2HJ
CB Richard Ellis Collective Investors Ltd - 3rd Floor, One New Change, London, EC4M 9AF.
Foresight, The Shard, 32 London Bridge Street, London, SE1 9SG

Investment Advisors:
Mercer Ltd - 1 Tower Place West, Tower Place, London, EC3R 5BU
Apex Investment Advisors Ltd – A Fletcher - 8 Old Jewry, London, EC2R 8DN.

AVC Providers:
Utmost Life and Pensions - PO Box 177, Walton Street, Aylesbury, Bucks. HP21 7YH
Prudential - Local Government AVC Department, Stirling, FK9 4UE
Standard Life - Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH

Auditor:
Forvis Mazars LLP - 30 Old Bailey, London, EC4M 7AU

Banker:
Lloyds Bank Plc - PO Box 1000, Andover, BX1 1LT

Risk Management

The Investment Strategy Statement (ISS) sets out the roles of the Fund's investment managers and custodian, who have a responsibility for the management and safekeeping of the Pension Fund's assets. The Funding Strategy Statement (FSS) identifies the Fund's key risks and counter measures taken by the administering authority to mitigate those risks. The administering authority takes professional advice from the actuary, custodian and advisers before taking appropriate action.

The FSS is available online at https://www.durham.gov.uk/lgps.

The Fund's primary long-term risk is that the Fund's assets fall short of its liabilities (i.e. promised benefits payable to members). The Fund's assets are diversified to reduce exposure to market (price, currency and interest rate) risk and credit risk. The assets are divided across investment managers to further control risk. Asset allocation benchmarks have been set and performance is monitored relative to these benchmarks to ensure compliance with the Fund's investment strategy.

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The administering authority manages the Fund's liquidity position through a comprehensive cashflow management system to ensure cash is available when needed.

Note 16 of the Pension Fund's Accounts provides more detail on the nature and extent of risks rising from financial instruments and how the administering authority manages those risks. The Pensions Administration team manages the risk of late payment of contributions by monitoring contribution payments, identifying cases of late payment and contacting employing bodies as appropriate.

Overall responsibility for the Fund's risk management rests with the Pension Fund Committee. The objective of the risk management strategy is to identify, manage and control the risks faced by the Fund whilst achieving a good return on investment. Risk is measured, in part, in collaboration with the administering authority's risk management team, and was reviewed as part of the independent governance review undertaken by the Pension Fund.

Performance of investment managers is reported monthly; reviews are carried out by officers on a monthly basis and by the Pension Fund Committee quarterly. A detailed summary of all internal audit reports and all external audit reports are reviewed by the Pension Fund Committee.

The investment managers and custodian are audited by companies outside of the administering authority's control. Their auditors produce reports which are made available and utilised to provide a level of assurance to the Pension Fund that the managers and custodian have effective internal controls in operation within their organisations.

Regular review of the Fund's risks and mitigating actions are undertaken by Officers of the Fund, informing an actively managed risk register. This review process, and the risk register is regularly reported to the Pension Fund Committee, in line with the Committee's Terms of Reference, with reporting available online at:
https://democracy.durham.gov.uk/ieListMeetings.aspx?CommitteeId=250.

Key Financial Information

The following table and bar chart provide an overview of the Fund's financial position as at 31 March for the last five years. The key financial information over this time period is summarised below:

- Over the 5 year period the market value of the net assets has increased by 33.5% to £3.721 billion.
- Income from contributions has generally been gradually increasing in line with a steady increase in the number of contributing members. Following the 2019 and 2022 valuations, one employer has chosen to make early repayments of their 3 year deficit amounts, all in the initial year following the valuation. As a consequence, contributions into the Pension Fund in the remaining two years of that triennial valuation period appear lower than would have been the case if regular contributions had been received.
- Pension benefit payments have been rising over the 5 year period in line with the increasing number of pensioners in payment and the annual pension increases;
- The increase in the value of investments of £297 million was the main contributor to the increase in the fund value in 2023/24, and was mainly due to favourable market conditions.

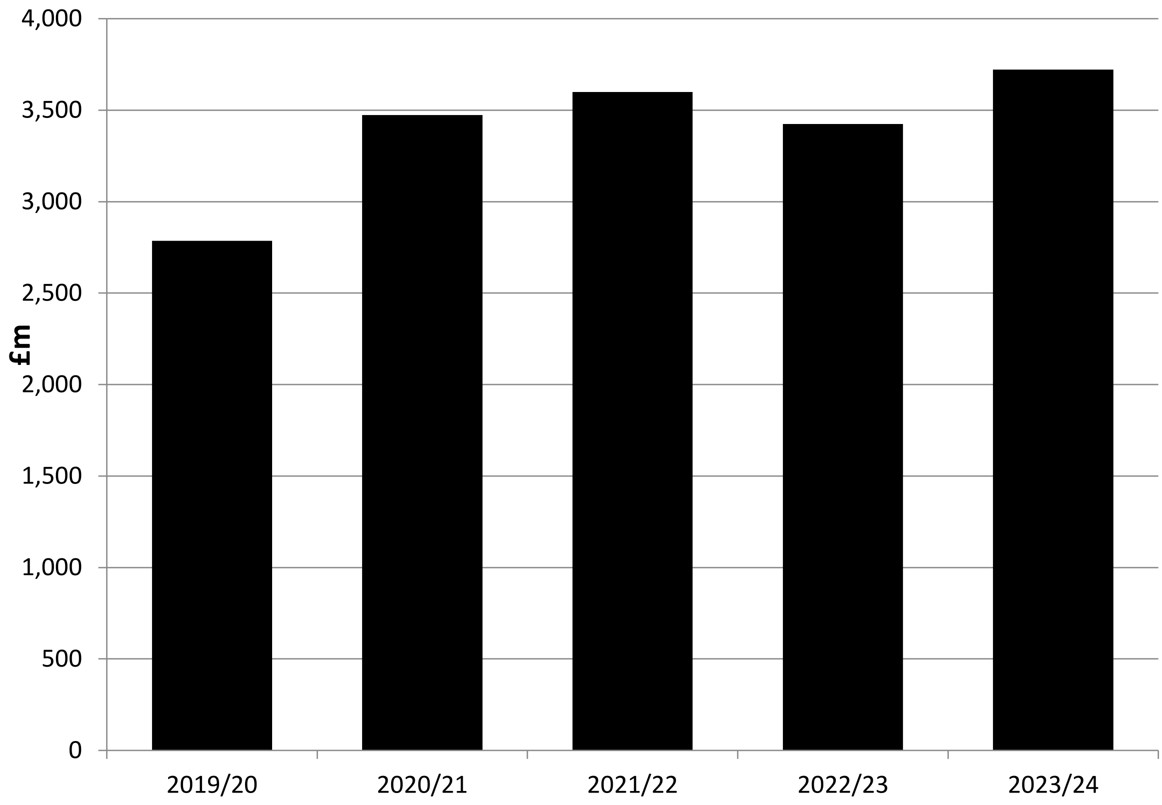
Income	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
Contributions	106,029	147,634	119,756	131,120	157,489
Investment and Other Income	39,438	24,796	36,077	29,702	30,898
Total Income	**145,467**	**172,430**	**155,833**	**160,822**	**188,387**

Expenditure	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
Benefits	126,817	129,937	137,698	144,687	162,390
Other Expenses	28,145	17,177	28,659	22,163	18,893
Net Income	**-9,495**	**25,316**	**-10,524**	**-6,028**	**7,104**

	2019/20 £000	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
Increase / - Decrease in Value of Investments	-186,297	668,983	129,994	-170,000	289,694
Increase / - Decrease in Fund During the Year	-195,792	694,299	119,470	-176,028	296,798
Net Assets at 31 March	**2,786,247**	**3,480,546**	**3,600,014**	**3,423,986**	**3,720,784**

Net Assets Of The Fund

The following graph shows how the net assets of the Fund have changed over the last five years:



Membership

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and fire-fighters, for whom separate arrangements exist. A number of other bodies also participate in the Scheme. These include Parish and Town Councils, Further Education Colleges, Academy Schools, Police and Fire Authorities (non-uniformed staff only) and Admission Bodies. Admission Bodies are those which are able to apply for membership of the Scheme under the Regulations, or in some circumstances have an automatic right to participate in the Scheme provided they meet certain criteria under the Regulations. If the Pension Fund Committee agrees to the application, or the organisation meets the criteria giving them the automatic right to participate in the Scheme, an Admission Agreement is drawn up admitting the body into the Scheme.

A list of all organisations currently contributing to the Fund is on page 101. It includes their contribution rates as set by the actuary, expressed as a percentage of employees' pensionable pay, and additional annual payments for those participating bodies which would otherwise have a shortfall in contributions by the end of the recovery period.

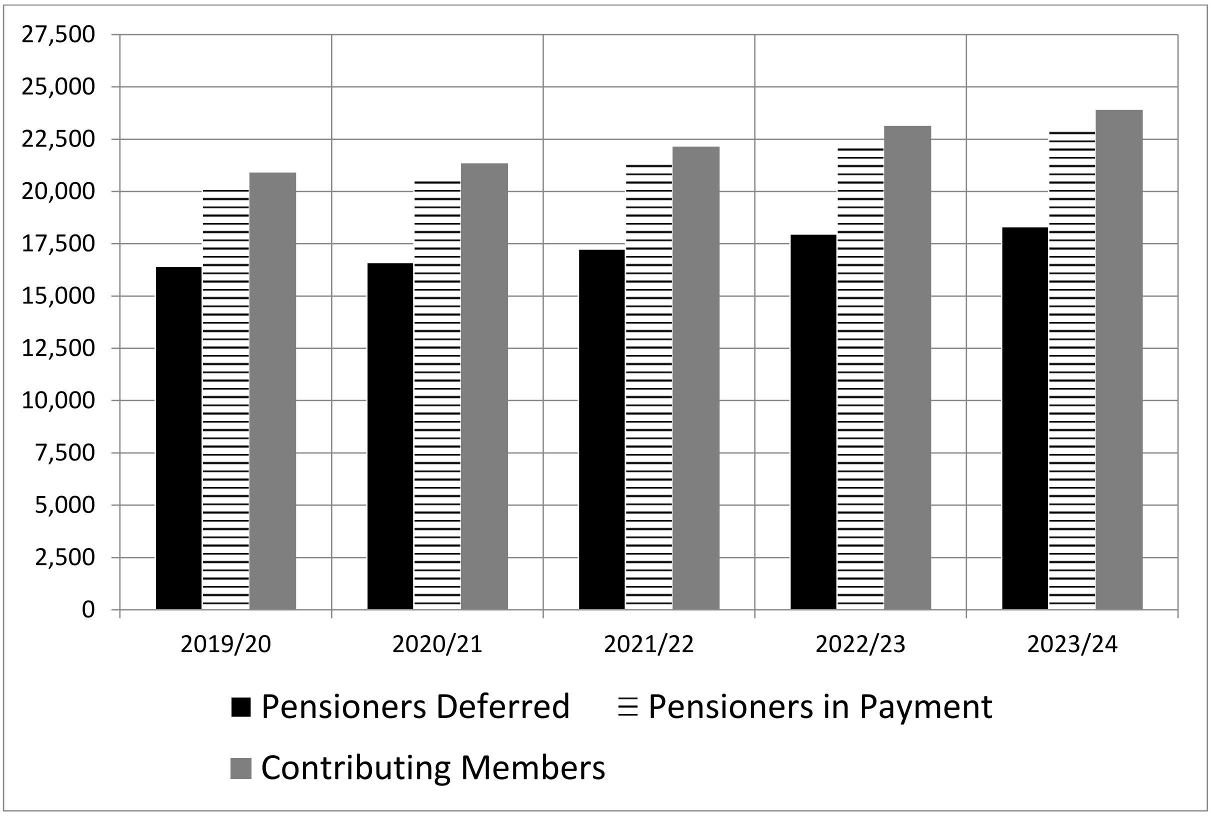
During 2023/24 the number of contributing members within the Pension Fund increased by 3.30% from 23,139 to 23,902.

The number of pensioners in receipt of payments from the Fund increased by 4.16% from 22,200 to 23,123.

The following table and bar chart provide a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

Year	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Contributing Members	20,901	21,340	22,141	23,139	23,902
Pensioners in Payment	20,109	20,652	21,346	22,200	23,123
Pensioners Deferred	16,420	16,595	17,244	17,970	18,308

The following graph shows the number of contributing members, pensioners in payments and deferred pensioners over the last five years:



A detailed analysis of the numbers of pensionable employees and pensioners of the scheme at 31 March 2023 and 31 March 2024 is on page 105.

Investment Policy and Performance Report

Investment Powers and Duties

Durham County Council, as administering authority, has delegated responsibility for the investment arrangements of the Fund to the Pension Fund Committee who decide on the investment policy most suited to the meet the liabilities of the Fund. The principal powers to invest are contained within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which permit a wide range of investments in the UK and overseas markets.

Income to the Fund is primarily from the contributions of the Fund members and their employers and from the interest and dividends received from investments. Income to the Fund, which is not required to pay pension and other benefits, must be invested having regard to the need for a suitably diversified portfolio of investments and the advice of appropriately qualified advisers.

Funding Strategy Statement

The Local Government Pension Regulations 2013 provide the statutory framework from which administering authorities are required to prepare a Funding Strategy Statement.

The purpose of the Funding Strategy Statement is to establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward and to provide a means of supporting the requirement to maintain employer contribution rates at a level which is as constant as possible. The Statement raises the level of transparency and accountability and provides a helpful context for adopting higher levels of communication with scheme employers.

The FSS is available online at https://www.durham.gov.uk/lgps.

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities, after taking proper advice, to formulate and publish a statement of its investment strategy, namely the Investment Strategy Statement.

The current ISS is available online at https://www.durham.gov.uk/lgps.

Asset Allocation

The medium and long-term strategic target asset allocations have been determined by the Committee after having taken proper advice and in line with the Fund's Investment Strategy Statement. The target asset allocations and actual asset allocations at 31 March 2024, split between investment managers, are detailed in the table below:

Investment Manager	**Asset Class**	**Permitted Assets**	**Benchmark & Performance Target**	**Strategic Allocation within Fund**	**Actual % 31/03/2024**
AB	Broad Bonds	Global bonds	SONIA +3.0%	-[1]	5.06%
Border to Coast Pensions Partnership (BCPP)	Global Equities	Global Equities	MSCI All Country World Index (ACWI) (gross) +2%	40%	42.87%
BCPP	Emerging Markets Equities	Emerging Market Equities	MSCI Emerging markets Index +1.5%	5%	4.97%
BCPP	Multi-Asset Credit (MAC)	MAC, High Yield, Securitised Credit, Loans, EM Debt	5 Year SONIA + 3-4%	15%	15.36%
BCPP	Sterling Index Linked Bonds	UK Index-Linked Gilts & Sterling Investment Grade Corporate Index-Linked Bonds	FTSE Over 15 Year Index-Linked Gilt Index +0.2%	10%	10.09%
BCPP	Sterling Investment Grade Credit	UK Corporate Bonds	iBoxx Sterling Non-Gilts Index +0.6%	5%	4.84%
BCPP	Listed Alternatives	Listed securities providing exposure to infrastructure, specialist real estate, private	Outperform MSCI ACWI	-[2]	

[1] The Fund currently holds a 5% allocation in Global Bonds, with the intention to deploy this into UK Property when the BCPP pool has Real Estate investment capabilities

[2] The Fund holds Listed Alternatives as a proxy for Private Markets. The Fund's target allocation to Private Markets is 15%, with Listed Alternatives used as a source of liquidity to fund private markets investments

		equity and alternative credit			9.05%
BCPP	Private Markets	Private Equity, Private Debt, Infrastructure, Climate Opportunities	10% IRR, 6% IRR, 8% IRR, 8% IRR	15%[3]	
Foresight	Private Markets	Private Equity	15% IRR		
CBRE	Global Property	Global property	UK Retail Price Inflation +5.0%	10%[4]	7.66%

Although the strategic asset allocation was reviewed during 2023/24, some funds have yet to be transferred into BCPP as the Fund awaits the launch of an appropriate fund through its LGPS Pool. Following the implementation of the 2022 Valuation (effective from 1 April 2023), a comprehensive review of the Fund's strategy was undertaken, resulting in a change in the strategic asset allocation, reflected in the table above.

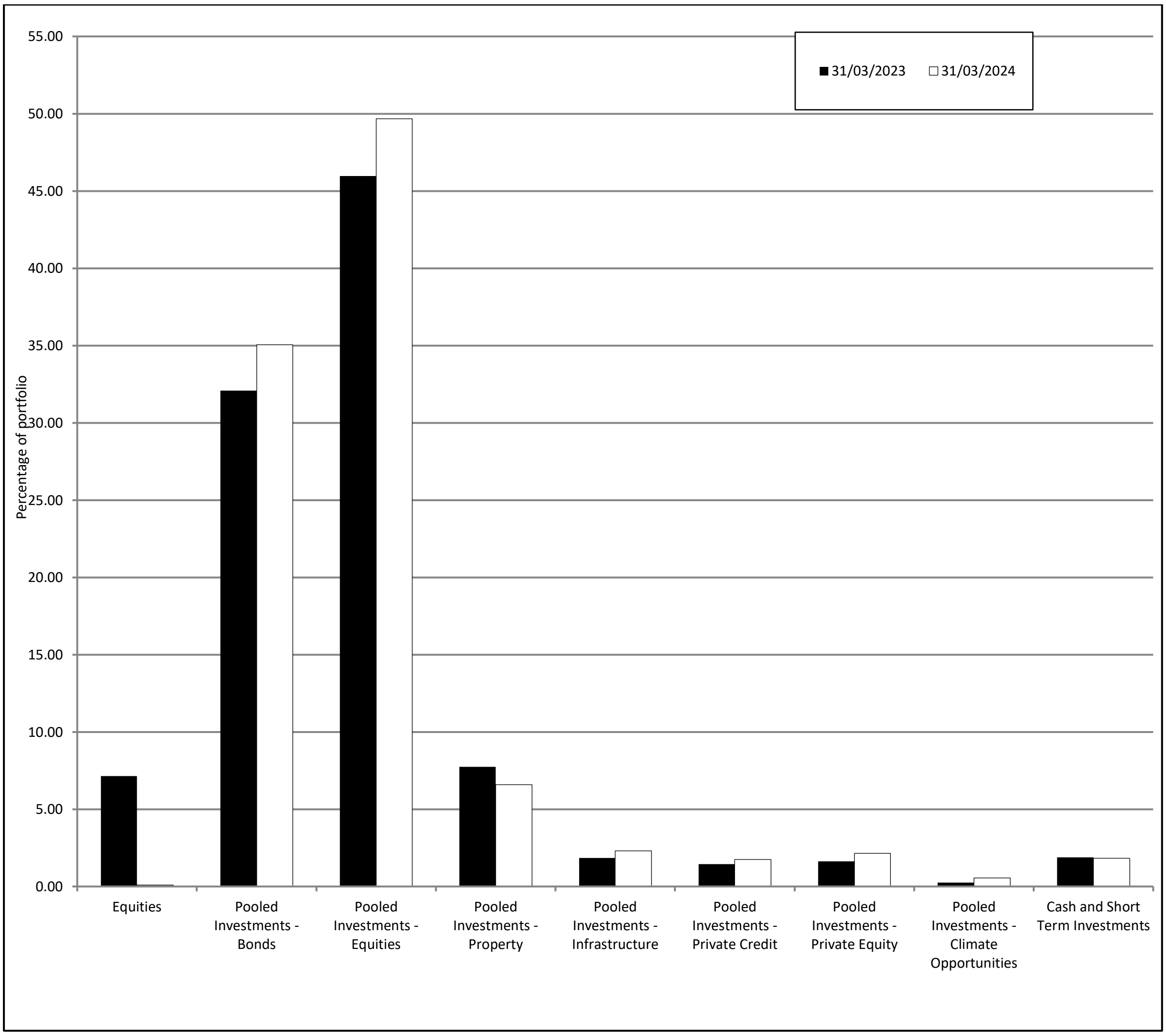
More information on the requirement for all LGPS funds to pool their assets and in particular BCPP, the pool in which Durham County Council Pension Fund will be investing, can be found on pages 26 to 29.

[3] The Fund has committed to each of the BCPP Pool's Private Markets offerings across Equity, Debt and Infrastructure; as well as BCPP's Climate Opportunities which will have exposure across all three classes. Additionally, the Fund has committed c0.5% to provide the cornerstone investment required to support the launch of Foresight's North-East Regional Investment Fund.

[4] The Fund has committed 5% to Border to Coast's Global Real Estate Fund and 5% to Border to Coast's UK Direct Real Estate Fund. A Real Estate transition plan is in development with Border to Coast.

Distribution of Investments

The following graph shows the distribution of Fund investments (by market value) as at 31 March 2023 and 31 March 2024. Further details of the distribution are shown in Note 14 to the Pension Fund Accounts.



Investment Monitoring and Performance Statistics

The performance of the investment managers is monitored and reported to the Pension Fund Committee on a quarterly basis, with an annual meeting to consider the full year's performance. At the quarterly meetings of the committee, the investments are reviewed and advice from the Fund's advisors is considered by the Committee. The Committee consider detailed information on transactions, views on the economy and investment strategy, including any proposed changes in asset allocation and a valuation of the investments and cash under management as at the end of the quarter.

Performance measurement is undertaken by Northern Trust, the Pension Fund's Global Custodian. Performance reports are produced on a quarterly basis, and the results are considered by the Fund's officers and advisers and reported to the Pension Fund Committee.

Market Conditions

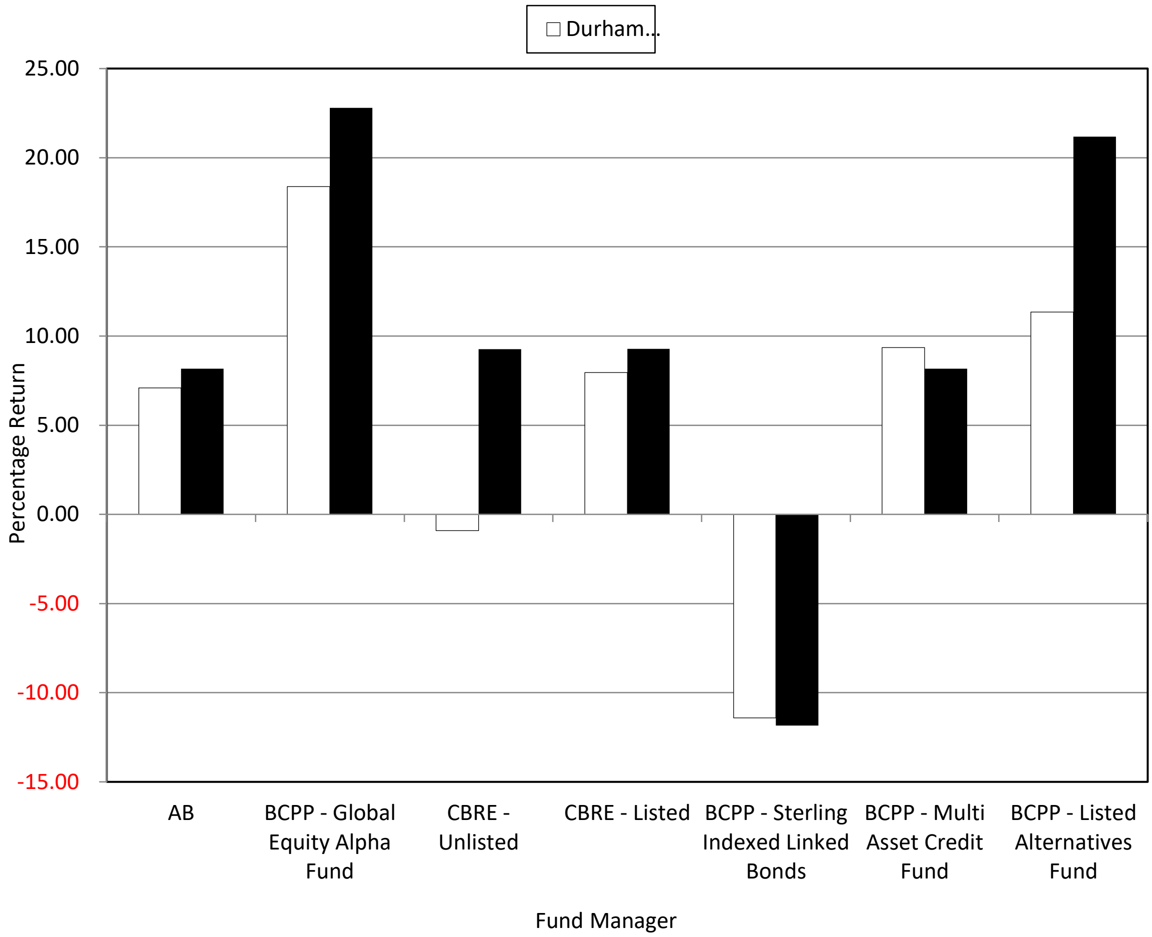
Over the Financial year ended 31st March 2024 the global economy turned out to be more resilient than perhaps had been expected at the start of the year. Although outcomes were mixed, growth was higher than expected in all regions except China. Of the Developed economies, US growth was the strongest and while Europe and the UK's growth rates oscillated around zero for the year it was not the extended period of negative growth expected. Chinese domestic growth was much weaker than expected as the property market contraction impacted consumer sentiment and the post covid bounce did not materialise. Despite stubbornly high core inflation data and higher for longer interest rates, economic activity was supported by higher Fiscal spending and higher real incomes from both earnings and savings and a significant improvement in world trade flows.

In the second half of the financial year a new conflict in the Middle East had the potential to renew inflationary pressures in Europe, especially as tensions increased attacks on shipping in the Red Sea causing traffic to re-route around Africa rather than using the Suez Canal.

The dominant macro-economic factor of the financial year remained higher and more persistent inflation than expected. Base effects from the energy and food price spike following the invasion of Ukraine and falling goods prices following the improvements in the flow of global trade have enabled headline inflation rates to continue to trend lower but tight labour markets and strong wage growth has kept core rates much higher. Stronger than expected growth and high core rates of inflation made it much more difficult for central banks to cut rates.

Total Fund Performance

The following chart illustrates the performance of the Fund by Investment Manager in comparison to their target (benchmark + outperformance) for the 12 months to 31 March 2024.



Please note unlisted assets and assets without a 12 month performance period are not included in the above chart.

The following table shows the actual performance of the total fund compared to the fund's benchmark and target as at 31 March 2024 for the last 1, 3 and 5 year periods.

Year	**1 year**	**3 years**	**5 years**
Performance	Performance (%) to 31 March 2024	Performance (%) to 31 March 2024	Performance (%) to 31 March 2024
Total Fund	8.5	2.7	5.1
Total Fund Benchmark	11.0	4.3	5.7
Relative to Benchmark	-2.5	-1.7	-0.6
Target (benchmark + outperformance)	12.4	5.7	7.1
Relative to Target	-3.9	-3.1	-2.0
Funding Target	4.4	4.3	4.3
Relative to Funding Target	4.1	-1.7	0.8

As demonstrated in the table, over twelve months the Fund delivered a positive absolute return of +8.50%, although this was below benchmark.

The dominant contributors to performance were the strong returns of Global Equities and Fixed Income in absolute terms; offset by negative contribution from Index-Linked Gilts.

Whilst Global Equities delivered strong absolute returns, Border to Coast underperformed against their benchmark, whilst CBRE also underperformed versus their inflation-plus benchmark. Fixed Income investments with Border to Coast performed strongly against their benchmark.

Over the rolling 3 year period the Fund delivered +2.7% p.a. compared to +4.3% p.a. for the benchmark, whilst over 5 years the Fund returned +5.10% p.a.; ahead of the actuarial funding target rate of return of 4.3% p.a. Over 10 years, the Fund has returned +6.3% p.a. well ahead of the actuarial funding target of 4.6% p.a.

BCPP is responsible for the manager selection of most of Durham's assets, with only Global Bonds, Property managed by external legacy managers selected in the past by the Fund.

Investment Managers' Performance

The following tables show performance for each of the Pension Fund's investment managers in turn. In all cases the manager's benchmark and performance target are shown and the benchmark figures quoted include the out-performance objective.

AB

AB manages a global bonds portfolio. It is important to note that the objective for this portfolio, and therefore its composition, is quite different from the matching bonds portfolio and this is reflected in the benchmark index.

The Fund's bonds made a positive return of +7.1% over the year, compared to the SONIA +3% target return of +8.2%.

Compared to the Global Bonds fund's cash-plus benchmark, performance is below target. Relative to the market in which it invests however, AB's returns are in line with market expectations.

Currency GBP	2023/24	3 years Performance (%)	5 years Performance (%)	Since inception February 2008 Performance (%)
AB	7.10	1.23	1.67	2.97
3 Month GBP SONIA +3% pa	8.17	5.53	4.76	4.27
Relative Performance	-1.07	-4.30	-3.08	-1.31

Border To Coast Pension Partnership (BCPP)

The BCPP Global Equity Alpha Fund underperformed target and benchmark over the last year, despite strong absolute returns. Performance over twelve months and three years was below the benchmark, and consequently below the outperformance target. Over the year, Global Equity Alpha returned

+18.4%, compared to benchmark returns of +20.6%. Over three years Global Equity Alpha has returned +9.7% p.a. versus benchmark returns of +10.2 p.a.%.

The fortunes for the UK index linked market had a negative impact on overall Fund performance. The BCPP Index linked bond fund could not escape this, but it's positioning and allocation to corporate linkers enabled it to slightly outperform over the year. The fund had negative returns of -11.4%, out-performing benchmark returns of -11.9%.

MAC meanwhile has much lower interest rate sensitivity than UK Index linked Gilts hence the fund's better absolute returns over twelve months. MAC's strong absolute returns also compared favourably to the cash plus benchmark. MAC returned +9.4% in the year against the benchmark +8.7%.

The BCPP Listed Alternatives fund underperformed its benchmark over the year, however, the fund's investment universe differs significantly from that of its benchmark. As a result, the performance of the fund may diverge materially from that of its benchmark over short time periods. The Listed Alternatives Fund had a positive absolute return of +11.5% in the year, against +20.6% benchmark.

The pace of drawdowns of commitments to Private Markets has been consistent with BCPP's deployment plan over the last 12 months. Early indications of performance in all asset classes is positive, with preliminary IRR in line with expectations, but it remains too early to make any meaningful comments about the performance of the BCPP private markets programme.

Currency GBP	**2023/24**	**3 years Performance (%)**	**5 years Performance (%)**	**Since inception* Performance (%)**
BCPP – Global Equity Alpha Fund	18.38	9.70	n/a	11.51
MSCI AC World index +2% pa	22.79	12.22	n/a	13.54
Relative Performance	-4.41	-2.52	n/a	-2.03
BCPP – Sterling Indexed Linked Bonds	-11.42	-17.51	n/a	-16.28
FTSE Index Linked 15+ Yrs +0.02%	11.84	-17.66	n/a	-16.50
Relative Performance	0.42	0.15	n/a	0.21
BCPP Listed Alternative Fund	11.34	n/a	n/a	1.20
MSCI ACWI	21.18	n/a	n/a	9.56
Relative Performance	-9.84	n/a	n/a	-8.36
BCPP Multi Asset Credit Fund	9.36	n/a	n/a	0.18
SONIA +3%	8.17	n/a	n/a	6.06
Relative Performance	1.19	n/a	n/a	-5.88
BCPP Investment Grade Credit**	n/a	n/a	n/a	9.94
iBoxx £ Non Gilts +0.6%	n/a	n/a	n/a	9.80
Relative Performance	n/a	n/a	n/a	0.14

BCPP Emerging Markets Equity**	n/a	n/a	n/a	7.20
MSCI Emerging Markets ND	n/a	n/a	n/a	9.29
Relative Performance	n/a	n/a	n/a	-2.09

*Inception Dates:

- Global Equity Alpha Fund – October 2019
- Sterling Indexed Linked Bonds – October 2020
- Multi Asset Credit Fund – October 2021
- Listed Alternatives Fund – February 2022
- Investment Grade Credit – June 2023
- Emerging Markets Equity – July 2023

** as the investment commenced during 2023/24 there are no full-year performance number yet available. Inception to date returns represent less than one full year's performance.

CB Richard Ellis Investors (CBRE)

CBRE manages the global real estate portfolio. The mandate is subdivided into listed and unlisted holdings.

The performance of property is better measured over longer timeframes than annually because of the high transaction costs and the illiquid nature of the asset class. Additionally, the sharp uptick in RPI has resulted in an outsized under-performance against the benchmark. CBRE's performance relative to the market and currency movements however, is broadly in line with expectation. Over 10 years the combined CBRE portfolio has achieved a total return of +6.3% p.a. versus the RPI + 5% benchmark return of +9.2% p.a.

Currency GBP	**2023/24**	**3 years Performance (%)**	**5 years Performance (%)**	**Since inception in February 2008 Performance (%)**
CBRE – Unlisted	-0.91	2.77	3.73	3.97
Headline RPI +5% pa	9.27	13.59	10.95	8.81
Relative Performance	-10.18	-10.82	-7.22	-4.84
CBRE – Listed	7.96	6.20	4.54	5.89
Headline RPI +5% pa	9.29	13.60	10.95	8.81
Relative Performance	-1.33	-7.40	-6.41	-2.92

LGPS Asset Pooling

On 1 November 2016 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force. These regulations and the associated statutory guidance require all of the Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools.

Under the regulations each LGPS administering authority must formulate and publish, having taken proper advice, an investment strategy. That investment strategy must include the administering authority's approach to pooling investments including the use of collective investment vehicles, and must be in accordance with guidance issued by the Secretary of State. The Investment Strategy is available online at https://www.durham.gov.uk/lgps .

The Guidance stated that each LGPS administering authority must commit to a suitable pool to achieve benefits of scale and confirm their chosen investment pool meets the Investment Reform and Criteria issued in November 2015. The Secretary of State has direction and intervention powers if not satisfied that an administering authority is complying with its obligations in relation to the regulations.

The Secretary of State approved the Border to Coast Pensions Partnership ('Border to Coast') as meeting the requirements of the Investment Reform and Criteria document by letter dated 12 December 2016. At its meeting on 22 February 2017, the County Council agreed to become a member of Border to Coast and adopt its arrangements.

Border to Coast Pension Partnership ('Border To Coast')

Border to Coast was created in 2017 as a wholly owned private limited company registered in England and Wales, authorised and regulated by the Financial Conduct Authority (FCA) as an alternative investment fund manager (AIFM). BCPP has 11 equal shareholders who are the administering bodies of the following 11 partner Funds:

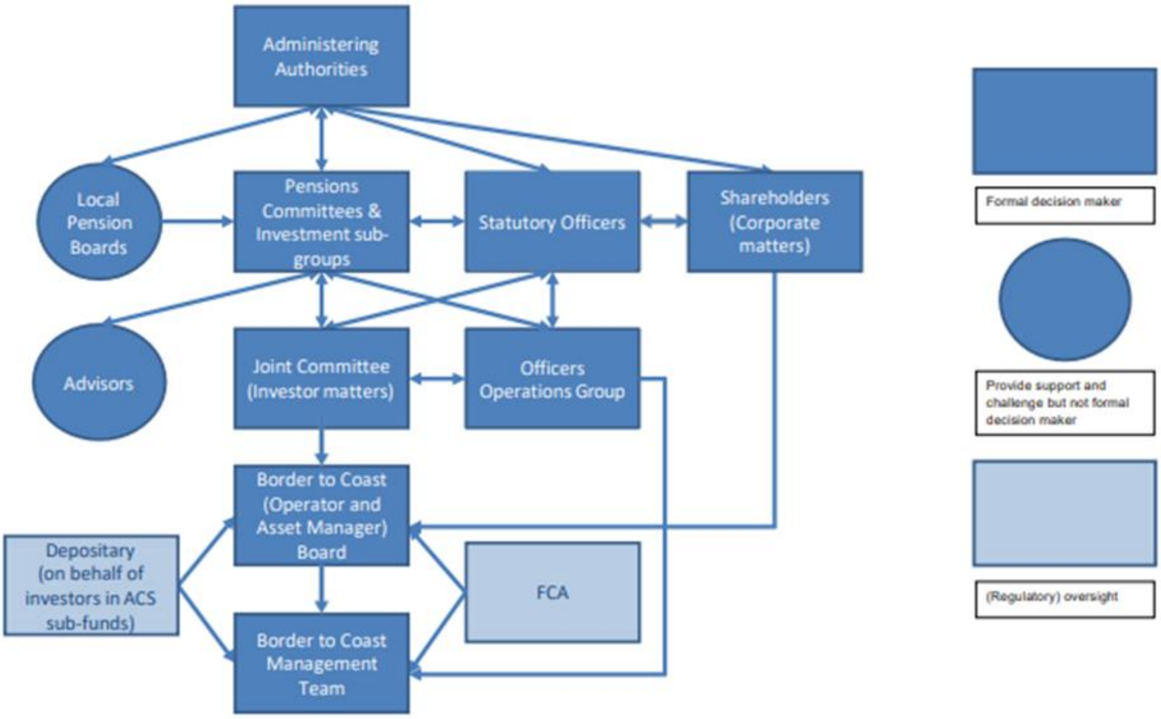
- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The partner Funds submitted their proposal to Government on 15th July 2016 and have received written confirmation from the Secretary of State to confirm that the proposal meets the criteria laid down in the guidance issued in November 2015 and set out below:

a) Asset pool(s) that achieve the benefits of scale;
b) Strong governance and decision making;
c) Reduced costs and excellent value for money; and
d) An improved capacity to invest in infrastructure.

Durham Pension Fund is represented by the Chair of the Pensions Committee or any other person nominated from time to time on the Joint Committee, Border to Coast's oversight body which will focus on investor issues of the partner funds, and in exercising voting rights at shareholder meetings.

The governance structure of Border to Coast is as follows:



Border to Coast will be responsible for managing investments in line with the investment strategy and asset allocation requirements as instructed by the Durham County Council Pension Fund and the other partner funds. While there will be some changes required from the current processes, much will remain as is, for example instead of overseeing a range of external managers, the Pension Fund Committee will oversee a range of sub-funds managed by Border to Coast. The Pension Fund Committee will therefore retain responsibility for setting the investment strategy and asset allocation of the Fund.

The key change is that responsibility for the appointment, monitoring and termination of investment managers will pass from the Pension Fund Committee to Border to Coast. It is generally accepted that over 80% of investment performance is driven by determining the investment strategy and asset allocation, rather than selecting investment managers to implement that strategy.

Border to Coast is an authorised investment fund manager, offering regulated products as an operator of an Authorised Contractual Scheme (ACS). Border to Coast is also a service provider to General Partners managing ten Scottish Limited Partnerships that provide Partner Funds access to Private Markets. During 2023/24 Border to Coast continued to build on the progress made since the company's launch with £52.3bn of Partner Fund assets now pooled (82% of collective AUM). At the 2024 LAPFF Investment Awards, BCPP won 'Pool Innovation Award' in addition to Equity Manager of the Year and Alternative Investment Manager of the Year at the Professional Pensions Awards 2023.

As at 31 March 2024 Border to Coast has £31.3 billion of assets under management within the ACS, and a further £15.6 billion of commitments to Private Markets.

It is Durham Pension Fund's intention to invest its assets via Border to Coast as and when suitable sub-Funds become available. The key criteria for the Pension Fund's assessment of a BCPP Ltd sub-funds will be as follows:

- that the sub-Fund enables access to an appropriate investment that meets the objectives and benchmark criteria set by the Pension Fund; and
- that there is financial benefit to the Pension Fund in investing in the sub-Fund offered by BCPP Ltd.

The Fund made its first investment through Border to Coast, which meet the criteria above, in 2019. The Fund transitioned £1.2 billion Global Equity holdings into the pool and began the development of a Private Market portfolio with commitments to BCPP across Private Equity, Infrastructure and Private Credit. During 2023/24 the Fund continued to provide capital to these Private Markets commitments. The Fund has continued to successfully transitioned legacy mandates into the Border to Coast pool, gaining exposure through BBPP to Emerging Markets Equity, Index Linked Gilts, Listed Alternatives, UK Corporate Bonds and MAC.

The Fund's remaining assets will be invested into the BCPP pool as and when suitable investment solutions become available. Any assets not invested in BCPP Ltd will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

During the 2023/24 year, the Fund transitioned its Emerging Markets Equity mandate into the BCPP pool, meaning that all of the liquid assets in the Fund's strategy are now pooled.

The table below is set out in the format required in the statutory guidance on the production of LGPS Annual Reports and shows in more detail which assets are either directly managed by Border to Coast (pooled), those over which the Pool exercises management oversight, and those which are not pooled.

£m Asset values as at 31 March 2024	**Pooled £m**	**Under pool management £m**	**Not pooled £m**	**Total £m**
Equities (including convertible shares)	1,842.2	0.0	0.0	1,842.2
Bonds	548.8	0.0	186.0	734.8
Property	0.0	0.0	244.0	244.0
Multi-asset credit	564.5	0.0	0.0	564.5
Private equity	79.2	0.0	2.6	81.8
Private debt	64.8	0.0	0.0	64.8
Infrastructure	106.2	0.0	0.0	106.2
Derivatives	-0.7	0.0	0.0	-0.7
Cash and net current assets	0.0	0.0	77.7	77.7
Total	3,204.9	0.0	510.3	3,715.2

The table below sets out the value of the above assets that are invested in the UK.

£m Asset values as at 31 March 2024	Pooled £m	Under pool management £m	Not pooled £m	Total £m
UK Listed Equities	144.8	0.0	0.0	144.8
UK Government Bonds	317.5	0.0	8.8	326.3
UK Infrastructure	18.2	0.0	0.0	18.2
UK Private Equity	10.0	0.0	211.7	221.7

Included in the table above are UK investments that match the aim of the Levelling Up Agenda. The Fund has allocated 5% of it's investments, specifically to UK investments. These include UK Opportunities and UK Corporate Bonds via Border to Coast, plus and £18m commitment to Foresight, which is a regional, north-east based investment.

LGPS Pooling Savings

During 2020/21 Border to Coast worked with the Partner Funds to gather data, agree assumptions, and build a savings model and process that will enable consistent reporting against this key metric going forward. This supports one of the original objectives of pooling i.e. to reduce costs and deliver value for money. Savings from future launches are not included and the level of savings should grow over the long term as further funds are developed. The table below shows the updated position to 2023/24:

Year	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Total Set up and Operating Costs	(0.54)	(0.61)	(0.64)	(0.59)	(0.39)
Transition Costs	(1.08)	(0.04)	(0.24)	0.00	0.00
Total Fee Savings	0.68	2.61	4.17	5.90	6.31
Net Position	(0.94)	1.96	3.29	5.31	5.92
Cumulative Net Position	(1.54)	0.42	3.71	9.02	14.94

Over the period, 2016/17 to 2023/34, the Fund has benefitted from cumulative net savings of £14.94m, of which £5.92m was generated in 2023/24. The cumulative position, however, may be impacted in future years by the set-up costs associated with pooling Real Estate. Prior years' savings have been updated to reflect a move towards more consistent reporting of operating costs.

Scheme Administration Report

Durham County Council is the administering authority for the Durham County Council Pension Fund, and the scheme administration is the responsibility of the Corporate Director of Resources; the costs of administering the scheme are charged to the Pension Fund. A summary of all employers participating in the Fund is included on page 101, and an analysis of the Fund's membership is presented on page 105.

Resources staff assist the Corporate Director of Resources in his statutory duty to ensure that the Pension Scheme remains solvent and is administered effectively, adhering to the Local Government Pension Scheme Regulations in order to meet any current and future liabilities.

The Pensions Administration Team structure comprises 24.5 full time equivalent staff who provide a wide range of services including:

- administration of the affairs of Durham County Council Pension Scheme;
- calculation of pensions and lump sums for retiring members of the LGPS and provision of early retirement estimates;
- administration of new starters in the Scheme;
- calculation of service credit calculations, outgoing transfer value calculations and divorce estimates for the Scheme;
- collection of employee and employer contributions to be invested into the LGPS;
- preparation of the monthly pensions payroll;
- staffing and running the Pensions Helpline and email inbox;
- provision of annual benefit statements and deferred benefit statements;
- development and maintenance of the Pensions Administration System, online member and employer portals, and Fund website;
- production of newsletters for active and retired members;
- calculation of deferred pensions and refunds for early leavers;
- preparation of Pensions Fund Committee reports relating to benefits related issues;
- recovery of early release costs and recharges from employers;
- undertaking the annual pension increase exercise;
- calculation of widows and dependants benefits for retired and active members;
- dealing with the administration of in-house AVCs and APCs;
- working with Pension Fund employers to assist them in understanding and managing the cost of participation in the LGPS;
- reporting data quality annually to the Pensions Regulator;
- liaison with the Actuary to provide information for the triennial valuation, annual accountancy disclosures and ad hoc costings for employers and prospective employers.

The Local Pension Board reviews the Pension Administration team's performance against a number of KPIs that measure the Fund's effectiveness in providing services to its scheme members. The performance against locally agreed KPIs for processes measured during 2023/24 is summarised in the tables below.

The updated guidance, issued in April 2024, 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 new measures are being reported to the Local Pension Board throughout 2024/25, with the intention that all measures are included in the 2024/25 Annual Report. Quarterly reporting against these measures is provide to the Local Pension Board, and is available online at https://democracy.durham.gov.uk/ieListMeetings.aspx?CId=1065&Year=0. The LGPS Scheme Standard KPIs which can be measured for 2023/34 without disproportionate effort or cost are included in the tables below.

Durham County Council Pension Fund Local KPIs 2023/24

Category	Performance Indicator	Total Cases in 2023-2024	Performance Target	Performance 2023/2024	Performance 2022/23	Performance 2021/22
Retirements – Disclosure	Within two months of retirement provide a statement containing retirement benefit information.	850	100%	81.94%	82.61%	86.65%
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%
Deferments - 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%
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%	-
Transfers Out – Quotation	Within three months of a request, provide	123	100%	93.00%	99.22%	-

	a quotation of the cash equivalent transfer value to which a member is entitled.					
Estimates	Within two months of a request, provide a statement of estimated pension entitlement online or in writing.	14,733	100%	100%	100%	-
Telephone Helpline	Calls from Scheme Members answered first time	13,846	100%	99.30%	99.40%	98.47%

Category	Performance Indicator	Total Registrations to date	Total Online Calculations Completed	Total Self-Service Online Changes	Secure Messages sent through Portal
Online Portal Since Launch	Total registrations and activity through Pension Online Portal	22,438	51,153	20,672	4,038

Category	Performance Indicator	Total Log ins during 2023/24	Individual members logging in during 2023/24
Online Portal in Year	Total logins through Pensions Online Portal	52,931	9,142

Category	Performance Indicator	Performance Target	Performance 2023/2024	Performance 2022/23	Performance 2021/22
Annual Benefit Statements	Statements made available online by 31st August for active members known to the fund	100%	100%	100%	100%

LGPS Scheme Standard KPIs 2023/24

LGPS Scheme Standard Key Performance Indicators - Casework		**Total Number of cases completed in year**
A1	Deaths recorded of active, deferred, pensioner and dependent members	785
A2	New dependent member benefits	286
A3	Deferred member retirements	705
A4	Active member retirements	624
A5	Deferred benefits	1,366
A6	Transfers in (including interfunds in, club transfers)	224
A7	Transfers out (including interfunds out, club transfers)	189
A8	Refunds	554
A9	Divorce quotations issued	109
A10	Actual divorce cases	1
A11	Member estimates requested either by scheme member and employer	14,733
A11	New joiner notifications	567
A13	Aggregation cases	389

LGPS Scheme Standard Key Performance Indicators – Engagement with Online Portals		**% as at 31 March**
C1	% of active members registered	43%
C2	% of deferred members registered	27%
C3	% of pensioners and survivor members	30%
C4	% total of all scheme members registered for self service	34%
C6	% of all registered users that have logged onto the service in the last 12 months	35%

LGPS Scheme Standard Key Performance Indicators - Communication		**Number in Year**
C7	Total number of telephone call received in year	13,846
C8	Total number of online channel queries received (through Online portal, excludes emails)	1,139

C9	Number of scheme member events held in year (total of in-person and online)	8
C10	Number of employer engagement events held in year (in-person and online)	7
C12	Number of times a communication (i.e. newsletter) issued to each of: Active Members/Deferred members/Pensioners	1/1/1

LGPS Scheme Standard Key Performance Indicators - Administration		**Number in Year**
D1	Total number of all administration staff (FTE)	24.50
D3	Staff vacancy rate as %	0.0%
D4	Ratio of all administration staff to total number of scheme members (all staff including management)	1:2,667
D5	Ratio of administration staff (excluding management) to total number of scheme members	1:3,187

LGPS Scheme Standard Key Performance Indicators – Annual Benefit Statements and Data Category		**Current Year**
E1	Percentage of annual benefit statements issued as at 31 August	100%
E3	Common data score	98%
E5	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	Actives: 0.2% Deferreds: 7.2% Pensioners: 0.08%

LGPS Scheme Standard Key Performance Indicators – Employer Performance		**Current Year**
E7	Percentage of employers* set up to make monthly data submissions	55.51%
E8	Percentage of employers* who submitted monthly data on time during the reporting period	55.51%
*% based upon proportion of scheme members represented by those employers		

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 undertaken. The Pensions Team received a very low volume of telephone queries from impacted pensioners.

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.

The administration team has continued to develop technological enhancements during 2023/24. The Team has continued to develop its web-based communication platform for scheme employers. A number of scheme employers utilise the platform to run benefit estimates, allowing those employers to see the cost of allowing an employee to access benefits early on redundancy or business efficiency grounds. The Team has also rolled out secure information exchange for employers, replacing many paper forms. Major work is in train to overhaul the Fund's employer portal, with preparations underway ahead of installation and launch in 2023/24.

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 benefits both scheme members and employers through National Insurance savings.

During 2023/24 Annual Benefit Statements were made available to members through the Fund's online portal. The portal provides a range of services to members, who are able to access their own pension record online and run estimates of retirement benefits. Scheme members can view and amend Nomination details as well as the personal details held by the Fund. As at March 2024, 22,438 members had registered for the Portal, 51,153 online estimates had been carried out, and 20,672 changes had been transacted online.

The Pension Fund Accounting Team of 4.3 full time equivalent staff support to the provisions of accounting and investment related activities for the Fund, including:

- preparation of the Pension Fund Accounts for inclusion in Durham County Council's Statement of Accounts;
- preparation of the Annual Report and Accounts of the Pension Fund;
- liaison with External and Internal Audit;
- day-to-day accounting for the Pension Fund;
- completion of statistical and financial returns for Government and other bodies ;
- co-ordination of the production of FRS102/ IAS19 information for employers;
- preparation of Pension Fund Committee reports relating to investments and accounting issues;
- co-ordination of reports for quarterly Pension Fund Committee meetings and the Pension Fund's Annual Meeting;
- liaison with Investment Managers, Advisers and Actuary;
- appointment of Investment Managers, Advisers and Actuary;
- monitoring and review of Investment Managers, Advisers and Actuary;

- preparation of the Investment Strategy Statement and Funding Strategy Statement;
- allocation of cash to Investment Managers;
- rebalancing of Investment Managers' portfolios to their target asset allocations;
- investment of the Fund's surplus cash balances;
- reconciliation of all Managers' purchases, sales and dividends received

Internal Dispute Resolution Procedure

The Pensions Advisory Service offers a free service to all members of the Fund who have problems with their pensions. There are set procedures in the Local Government Pension Scheme Regulations for dealing with disputes about the pension scheme, namely the Internal Dispute Resolution Procedure. Under this procedure initial queries should be referred to the employing body or the administering authority's Pension Administration Team, who should be able to explain the reasons behind any decision made.

Following this, if a complainant has a dispute, the first stage of appeal is to refer it to the adjudicator (currently an independent Pensions Officer from another Local Authority Pension Fund). If still not satisfied after that, the complaint must be referred to the administering authority in writing as a second stage appeal. A further referral is available to The Pensions Advisory Service (TPAS) and then the Pensions Ombudsman.

The following table summarises the number of disputes made through the Fund's internal dispute resolution procedure at each stage of appeal:

Appeals Stage	**2021-22**	**2022-23**	**2023-24**
First Stage Appeals	10	7	17
Upheld	3	1	1
Declined	7	5	13
Ongoing	0	1	3
Second Stage Appeals	0	3	0
Upheld	0	4	0
Declined	0	0	1
Ongoing	2	1	2

Statement of the Actuary for the year ended 31 March 2024

Introduction

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013 (the 'LGPS Regulations').

The LGPS Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Durham County Council Pension Fund (the 'Fund') is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2022 by Aon, in accordance with Regulation 62 of the LGPS Regulations.

Actuarial Position

1. The valuation as at 31 March 2022 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2022 (of £3,606.2 M) covering 98% of the liabilities.

2. The valuation also assessed each individual employer's (or group of employers') position separately. Contribution requirements were determined based on the principles in the Fund's Funding Strategy Statement and are set out in Aon's report dated 30 March 2023 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2026 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2023	18.9%	19.1
2024	18.9%	2.7
2025	19.0%	2.8

The high contribution in the year from 1 April 2023 is due to Durham County Council paying part of their deficit contributions that would otherwise have been due over the three year period in a single lump sum.

3. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution changes and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.

4. The valuation was carried out using the projected unit actuarial method for most employers, allowing for future increases in pensionable pay. The main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	4.40% p.a.
Discount rate for periods after leaving service	
Scheduled body and subsumption funding target *	4.40% p.a.
Intermediate funding target	3.95% p.a.
Ongoing orphan funding target	1.30% p.a.
Rate of pay increases	3.3% p.a.
Rate of increase to pension accounts **	2.3% p.a.
Rate of increases in pensions in payment ** (in excess of Guaranteed Minimum Pension)	2.3% p.a.

** The secure scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.*
*** In addition, a 5% uplift has been applied to the past service liabilities on the scheduled body and subsumption and intermediate funding targets to make allowance for short-term inflation above the long-term assumption.*

In addition, the discount rate and rate of increases to pensions for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and the employer has exited the Fund) were assumed to be 1.7% p.a. and 3.4% p.a. respectively.

The assets were valued at market value.

5. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S3 mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons^{TM} longevity model, and included an allowance for future improvements based on the 2021 Continuous Mortality Investigation Projections Model, with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.1	24.3
Current active members aged 45 at the valuation date	23.4	25.4

Further details of the assumptions adopted for the valuation, including the other demographic assumptions, are set out in the actuarial valuation report.

6. The valuation results summarised in paragraph 1 above are based on the financial position and market levels at the valuation date, 31 March 2022. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Actuary, in conjunction with the Administering Authority, monitors the funding position on a regular basis.

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2023 to 31 March 2026 were signed on 30 March 2023. Other than as agreed or otherwise permitted or required by the

Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2025 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2022. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, Durham County Council, the Administering Authority of the Fund, in respect of this Statement.

9. The report on the actuarial valuation as at 31 March 2022 is available on the Fund's website at the following address:

Durham CC Pension Fund - 2022 Actuarial Valuation Report - Final

Aon Solutions UK Limited
April 2024

Governance Compliance Statement

Durham County Council is the Administering Authority for the Durham County Council Pension Fund.

The Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund.

This statement sets out the Fund's scheme of delegation and the terms of reference, structure and operational procedures of the delegation, and the extent of its compliance with 2008 statutory guidance issued by the Secretary of State (CLG) and the provisions of regulation 55 of the Local Government Pension Scheme Regulations 2013.

The following sections set out the principles of governance as prescribed in the guidance and describe the Fund's current arrangements for compliance.

Principle A – Structure: Fully compliant

a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

The constitution of the Council delegates to the Pension Fund Committee "powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder" regarding the administration of the Scheme and investment of funds, including:

1. Approval of applications from bodies seeking admission to the Local Government Pension Scheme;
2. Appointment of external investment managers and advisers

The following function is delegated to the Corporate Director of Resources by the Council:
"To take all necessary actions of a routine nature to properly administer the financial affairs of the Council including … the Council's functions as a pension fund administering authority under the Superannuation Act 1972 and associated regulations."

The structure of the Pension Fund Committee was reviewed in December 2008 and revised with effect from 1 April 2009 to reflect the composition of Durham County Council as a unitary authority from that date. 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
Scheduled Bodies	1
Admitted Bodies	1
Active Members	1
Pensioners	1
Total	18
(non-voting union observers)	2

The Terms of Reference of the Committee is available at www.durham.gov.uk/lgps . A secondary committee or panel has not been established due to the full extent of representation on the Committee.

The Local Pension Board is established by Durham County Council and will be governed by Durham County Council's Constitution. The Board was established on 1 April 2015 under Regulations 105 to 109 of the Local Government Pension Scheme Regulations 2013 (as amended) and operates independently of the Pension Fund Committee.

The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

a) 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;
b) To ensure the effective and efficient governance and administration of the Scheme.

The Board consists of six voting members of which three represent Scheme Members and three represent Scheme Employers, and there shall be an equal number of Member and Employer representatives. The Board appoints a chair from its membership.

All members of the Board must declare on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

Knowledge and understanding must be considered in the light of the Board's purposes as set out above. The Board shall establish and maintain a record of training to address the knowledge and understanding requirements that apply to Board members under the Regulations.

The Board meets four times each year and may hold additional meetings if agreed by the Board. The quorum for each meeting is one Scheme Member representative and one Scheme Employer representative. A meeting that becomes inquorate may continue but any decisions will be non-binding.

The Chair shall agree with the Monitoring Officer (the 'Board Secretary') an agenda prior to each meeting which, together with supporting papers, will be issued at least five working days (where practicable) in advance of the meeting to all members of the Board. The Board meetings can be open to the general public.

The Administering Authority may meet the expenses of Board members as agreed by the Corporate Director of Resources in consultation with the Leader and Deputy Leader of the Council. The Administering Authority shall not pay allowances for Board members.

The Board should in the first instance report its requests, recommendations or concerns to the Pension Fund Committee. In support of this, any member of the Board may attend a Committee meeting as an observer.

The detailed terms of reference of the Local Pension Board may be found on the Council's website www.durham.gov.uk/article/6164/Durham-County-Council-Pension-Fund-Local-Pension-Board.

Principle B – Representation: Fully compliant

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:
    i. employing authorities (including non-scheme employers e.g. admitted bodies);
    ii. scheme members (including deferred and pensioner scheme members),
    iii. where appropriate, independent professional observers,
    iv. expert advisers (on an ad-hoc basis).
b) That where lay members sit on a main or secondary committee they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

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.

The two Trade Union representatives are invited as observers.

The Committee does not consider it appropriate to appoint an independent professional observer to the Committee but these governance arrangements have been independently audited by Peter Scales of MJ Hudson Allenbridge on behalf of the Committee.

Investment Consultancy is provided to the Fund by Mercer, and the Committee has appointed Anthony Fletcher of MJ Hudson Allenbridge to provide independent investment advice.

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

Principle C – Selection and role of lay members: Fully compliant

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

The representatives from Durham County Council and Darlington Borough Council are appointed by decisions of the respective councils.

The representatives of the Colleges, other Statutory Bodies, and Admitted Bodies are selected by the Committee from nominations made by the employers and appointed for a period of 4 years.

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.

All Committee members are made fully aware of their role and functions as set out in the terms of reference for the Committee and other documentation.

Applicants from the scheme membership are provided with an information pack setting out the duties and responsibilities of a Pension Fund Committee Member together with a description of the type of individual qualities and experience seen as essential or desirable for the role.

All members are also made aware that as well has having legal responsibilities for the prudent and effective stewardship of the Fund, in more general terms they have a clear fiduciary duty to participating employers, local taxpayers and scheme beneficiaries in the performance of their responsibilities.

There is a standing agenda item at the start of each meeting inviting members to declare any financial or pecuniary interest related to specific matters on the agenda. The register of Members' interests is available online at www.durham.gov.uk.

Principle D – Voting: Fully compliant

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

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.

Principle E - Training/Facility Time/Expenses: Fully compliant

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

The Committee has established a policy on training, facility time and reimbursement of expenses which applies to all members of the Committee.

Consideration has been given to the adoption of annual training plans and the maintenance of a log of all such training undertaken. The Committee receives specific training before making investment decisions. The training requirements of individual Committee Members is informed by Member self-assessment.

A summary of key training undertaken in the year by the Fund is summarised on page 46.

Principle F – Meetings (frequency/ quorum): Fully compliant

a) That an administering authority's main committee or committees meet at least quarterly.
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

c) That an administering authority which does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

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 each year to which all employers are invited. The quorum for each regular meeting of the Committee is 5.
Attendance at Committee Meetings during the year is summarised on page 45.

Principle G – Access: Fully compliant

a) That subject to any rules in the council's constitution all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

All members of the Committee have equal access to committee papers, documents and advice to be considered at each meeting. Public documents are posted on the website.

Principle H – Scope: Fully compliant

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

As set out in the terms of reference, the Committee regularly considers "wider issues" and not just matters relating to the investment of the Fund.

Principle I – Publicity: Fully compliant

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

The Governance Compliance Statement is distributed to all employers, is reproduced in the Annual Report, and is published on the Council's website. The appointment of member representatives was advertised to all members for them to express an interest.

Approved by the Pension Fund Committee
14 March 2024

Governance Compliance Statement – Summary of Pension Fund Committee Attendance

Attendance at Pension Fund Committee in the year, 2023/24.

	Voting Rights	**June 2023**	**September 2023**	**December 2023**	**March 2024**
D Sutton-Lloyd (Chair)	Yes	Yes	Yes	Yes	Yes
M Stead (Vice-Chair)	Yes	Yes	Yes	Yes	Apologies
M Abley (until July 2023)	Yes	Absent	n/a	n/a	n/a
J Atkinson	Yes	Yes	Yes	Yes	Apologies
K Earley	Yes	Yes	Absent	Yes	Yes
C Fletcher	Yes	Apologies	Yes	Apologies	Yes
D Freeman	Yes	Yes	Yes	Yes	Apologies
B Kellett	Yes	Yes	Yes	Yes	Yes
J Quinn (from July 2023)	Yes	n/a	Yes	Yes	Yes
J Shuttleworth	Yes	Yes	Yes	Yes	Yes
W Stelling	Yes	Yes	Yes	Absent	Absent
C Varty	Yes	Absent	Absent	Yes	Yes
R Baker (DBC) (from July 2023)	Yes	n/a	Apologies	Absent	Apologies
M Porter (DBC) (from July 2023)	Yes	n/a	Yes	Apologies	Yes
A Broadbent	Yes	Apologies	Yes	Yes	Apologies
A Delandre	Yes	Apologies	Apologies	Yes	Yes
J Taylor	Yes	Apologies	Yes	Yes	Yes

Governance Compliance Statement –Training Review

Key training undertaken by the Committee in the year, 2023/24.

Date	Event	Member Attendees	Officer Attendees
June 2023	Quarterly Investment Strategy Review	8	3
June 2023	Quarterly Markets Update	8	3
June 2023	Quarterly Pooling Update	8	3
June 2023	BCPP ESG Review	8	3
September 2023	Quarterly Investment Strategy Review	12	3
September 2023	Quarterly Markets Update	12	3
September 2023	Quarterly Pooling Update	12	3
September 2023	BCPP Real Estate Update	12	3
September 2023	BCPP Investment Seminar	6	
September 2023	BCPP Annual Conference 2023	7	3
November 2023	Responsible Investment Workshop	1	1
November 2023	Presentation of the Fund Actuary	15	3
November 2023	Annual Markets Review	15	3
November 2023	BCPP Annual Review	15	3
November 2023	Annual Report & LGPS Scheme Update	15	2
November 2023	Private Markets Seminar	14	2
November 2023	UK Opportunities Workshop	14	2
November 2023	Climate Scenario Analysis	14	2
December 2023	Quarterly Investment Strategy Review	12	3
December 2023	Quarterly Markets Update	12	3
December 2023	Quarterly Pooling Update	12	3
December 2023	Pooling CEO Strategic Update	12	3
January 2024	LGPS Governance Conference 2024		1
February 2024	Private Markets Seminar	8	1
February 2024	UK Opportunities Workshop	8	1
February 2024	Climate Opportunities Workshop	8	1
March 2024	Quarterly Investment Strategy Review	10	3
March 2024	Quarterly Markets Update	10	3
March 2024	Quarterly Pooling Update	10	3
March 2024	BCPP Private Markets Update	10	3
March 2024	LGC Investment Seminar		1

Independent Review Of Governance Arrangements

I have undertaken an independent review of the Governance Compliance Statement and other statutory statements relating to the investment and administration of the Durham County Council Pension Fund.

In my opinion, the Pension Fund is compliant with the statutory requirements for the publication and review of a Governance Compliance Statement and, overall, the Pension Fund Committee demonstrates a good standard of governance in the operation of its responsibilities.

I am also satisfied that the Pension Fund complies with the statutory requirements relating to the publication of policy statements, e.g. the Funding Strategy Statement, the Investment Strategy Statement, details of which are reviewed by the Local Pension Board.

In my review I referred to initiatives being developed nationally, e.g. Government guidance on pooling and responsible investment, the Good Governance review, which are likely to change the current regulatory framework. Progress has been delayed due to the working restrictions put in place nationally in response to the Coronavirus epidemic, but progress should be expected over the coming year.

My conclusion is that the arrangements now in place for the Pension Fund regarding independent advice and review provide a robust basis for the Committee to maintain its governance standards in an efficient and effective manner.

Peter Scales 11th May 2020
Senior Adviser
MJ Hudson Allenbridge

Independent auditor's statement to the members of Durham County Council on the Pension Fund financial statements included within the Durham County Council Pension Fund annual report.

Report on the audit of the financial statements

Opinion on the financial statements of Durham County Council Pension Fund

We have audited the financial statements of Durham County Council Pension Fund ('the Pension Fund') for the year ended 31 March 2024, which comprise the Fund Account, the Net Assets Statement, and notes to the financial statements, including a summary of material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2024, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2024; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council, as administering authority for the Pension Fund, in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Corporate Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. Our responsibilities and the responsibilities of the Corporate Director of Resources with respect to going concern are described in the relevant sections of this report.

Other information
The other information comprises the Annual Governance Statement and other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Corporate Director of Resources is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Corporate Director of Resources for the financial statements
As explained more fully in the Statement of the Corporate Director of Resources' Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, and for being satisfied that they give a true and fair view. The Corporate Director of Resources is also responsible for such internal control as the Corporate Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Corporate Director of Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and prepare the financial statements on a going concern basis unless the Council is informed of the intention for dissolution of the Pension Fund without transfer of services or function to another entity. The Corporate Director of Resources is responsible for assessing each year whether or not it is appropriate for the Pension Fund to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Pension Fund, we identified that the principal risks of non-compliance with laws and regulations related to the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- inquiring with management and the Audit Committee, as to whether the Pension Fund is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Fund which were contrary to applicable laws and regulations, including fraud.

We evaluated the Corporate Director of Resources' incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Corporate Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in November 2024.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to the members of Durham County Council, as a body and as administering authority for the Durham County Council Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Outterside, Key Audit Partner
For and on behalf of Forvis Mazars LLP

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

29 November 2024

Fund Account

Dealings With Members, Employers and Others Directly Involved in The Fund

2022-23				2023-24	
£000	£000		Notes	£000	£000
		DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND			
-131,120		Contributions Receivable	8	-157,489	
-9,410		Transfers in from Other Pension Funds		-11,661	
-4		Other Income		-3	
	-140,534				-169,153
144,687		Benefits Payable	9	162,390	
8,866		Payments to and on Account of Leavers	10	13,985	
	153,553				176,375
	13,019	**Net Withdrawals /(Additions) from Dealings with Members, Employers and Others**			**7,222**
	13,297	**Management Expenses**	11		4,908
	26,316	**Net Withdrawals /(Additions) Including Fund Management Expenses**			**12,130**
		RETURN ON INVESTMENTS			
-20,288		Investment Income	12	-19,258	
-		Taxes on Income		24	
170,000		Profit and Losses on Disposal of Investments and Change in Value of Investments	14	-289,694	
	149,712	**Net Return on Investments**			**-308,928**
	176,028	**NET (INCREASE)/DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR**			**-296,798**

Net Assets Statement

31 March 2023				31 March 2024	
£000	£000		Notes	£000	£000
		INVESTMENT ASSETS			
243,968		Equities	14	3,742	
3,109,345		Pooled Investment Vehicles	14	3,634,461	
	3,353,313				3,638,203
27		Loans	14	17	
		Other Cash Deposits:			
19,123		Fund Managers	14	38,102	
54,074		Short Term Investments	14	28,766	
1,478		Derivative Contracts	14	8	
	74,702				66,893
	3,428,015				3,705,096
		Other Investment Assets			
1,733		Dividend Accruals	14	197	
265		Tax Recovery	14	285	
298		Other Investment Balances	14	10,542	
	2,296				11,024
	3,430,311	**Total Investment Assets**			**3,716,120**
		INVESTMENT LIABILITIES			
-		Derivative Contracts	14	-756	
-		Other Investment Balances	17	-199	
	-	**Total Investment Liabilities**			**-955**
	3,430,311	**NET INVESTMENT ASSETS**			**3,715,165**
		Current Assets			
10,142		Contributions Due from Employers	18	11,959	
2,110		Other Current Assets	18	1,917	
	12,252				13,876
		Current Liabilities			
-18,577		Current Liabilities	17	-8,257	
	-18,577				-8,257
	3,423,986	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			**3,720,784**

The Pension Fund's accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the reported accounting period. The actuarial present value of promised retirement benefits, which does take account of such obligations, is disclosed in Note 23.

These accounts should therefore be read in conjunction with the information contained within this note.

1. Fund Operation and Membership

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) which is administered by Durham County Council. The council is the reporting entity for the Fund. The LGPS is a statutory scheme governed by the following legislation:

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2016

The Pension Fund Committee has responsibility delegated from Durham County Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder to ensure the effective stewardship of the Fund's affairs. The delegation is wide ranging and covers the management of all of the Fund's activities, including the administration and investment of funds. The Committee meets at least quarterly to assess performance and annually to consider wider matters.

The Corporate Director of Resources is responsible for the administration of the Fund. He is assisted by the Pensions Administration and Pension Fund Accounting teams in his statutory duty to ensure the Fund is administered effectively and remains solvent.

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admitted bodies also participate in the Scheme.

The LGPS is a defined benefit occupational pension scheme to provide pension benefits for pensionable employees of participating bodies. On retirement contributors receive annual pensions and where applicable lump sum payments. Entitlement to these benefits arises mainly on the grounds of reaching retirement age and retirement through early retirement schemes or being made redundant. Contributors who leave and who are not immediately entitled to these benefits may have their pension rights transferred or preserved until reaching retirement age.

The following table provides a summary of contributing members, pensioners in payment and deferred pensioners over the last five years.

Year	2019/20	2020/21	2021/22	2022/23	2023/24
Contributing Members	20,901	21,340	22,141	23,139	23,902
Pensioners in Payment	20,109	20,652	21,346	22,200	23,123
Pensioners Deferred	16,420	16,595	17,244	17,970	18,308

In comparison to the figures reported at 31 March 2023, the number of pensionable employees in the Fund at 31 March 2024 has increased by 763 (3.30%), the number of pensioners has increased by 923 (4.16%) and deferred pensioners have increased by 338 (1.88%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 111 at 31 March 2024), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table. Further detailed information is provided in Notes 9 and 8 accordingly.

2022-23 Benefits	2022-23 Contributions		2023-24 Benefits	2023-24 Contributions
£000	£000		£000	£000
104,716	-72,554	Administering Authority	115,917	-94,509
31,075	-47,412	Scheduled Bodies	37,019	-10,978
8,897	-11,153	Admission Bodies	9,454	-52,002
144,688	**-131,119**		**162,390**	**-157,489**

2. Basis of Preparation

The Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The functions of the Pension Fund will continue in operational existence for the foreseeable future.

The financial statements summarise the transactions and the net assets of the Fund available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years.

The Actuary completed the most recent triennial valuation as at 31 March 2022, the results of which determined the contribution rates effective from 1 April 2023 to 31 March 2026. Details of the latest valuation are included in Note 22.

3. Accounting Standards issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

The Fund considers that the following amendments to the code will be considered from the 2024/25 accounting period.

1) IFRS 9 and IFRS 7 Financial Instruments

Related to the classification and measurement of financial instruments. Pension funds typically hold a variety of financial instruments, including equities, bonds, and derivatives, which fall within the scope of IFRS 9 and IFRS 7. The Fund already applies IFRS9 when disclosing its financial assets and financial liabilities in the accounts, as such there may be changes to disclosures required arising from the amendment to this standard.

The amendments cover four main changes:

a) clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for derecognising some financial liabilities settled through an electronic cash transfer system;
b) clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
c) add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement environment, social and governance (ESG) targets); and
d) update the disclosures for equity instruments designated at fair value through other comprehensive income (FVOCI).

2) IFRS 18 Presentation and Disclosure in Financial Statements

The IASB is proposing changes to the IFRS Accounting Taxonomy to reflect the changes to presentation and disclosure requirements arising from IFRS 18 Presentation and Disclosure in Financial Statements, issued in April 2024.

IFRS 18 supersedes IAS 1 Presentation of Financial Statements. IFRS 18 includes presentation and disclosure requirements that are new and requirements that have been carried forward from IAS 1.

This is the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to:

- the structure of the statement of profit or loss;
- required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

4. Statement of Accounting Policies

Material accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis). The Fund has a policy of accruing for items of £10,000 or over, unless in exceptional circumstances.

Fund Account

Contributions receivable

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;
- Employers' augmentation contributions are accounted for in the year in which they become due;
- Employers' deficit funding contributions are accounted for in the year in which they become due in accordance with the Rates and Adjustment Certificate set by the actuary or on receipt, if earlier than the due date.

Transfers to and from other schemes

Transfer values represent amounts paid to or received from other local and public authorities, private, occupational, or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for in full in the year in which the members' liability transfers, where the transfer value is agreed by Durham County Council Pension Fund. Where the transfer value has not been agreed in the year in which the member liability transfers, the transfer will be accounted for in full in the year in which the transfer value is agreed.

Pension benefits payable

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due, but yet to be paid, are disclosed in the Net Assets Statement as current liabilities.

Management expenses

All management expenses, which include administrative expenses, investment management expenses and oversight and governance costs, are accounted for on an accruals basis.

All staffing and overhead costs of the pensions administration team are allocated to the Fund as administrative expenses.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Note 11 provides further information regarding the basis of Investment Managers' fees. Where an Investment Manager's fee note has not been received by the Balance Sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

Oversight and governance costs include costs relating to the Fund accounting team, which are apportioned on the basis of staff time spent on the Fund and include all associated overheads, plus legal, actuarial and investments advisory services.

Investment Income

Investment income is accounted for as follows:

- dividend income is recognised in the fund account on the date stocks are quoted ex-dividend;
- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis using the effective interest rate of the financial instrument as at the date of acquisition;

- distributions from pooled investment vehicles and private markets are accounted for on an accruals basis on the date of issue;
- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
- accumulated profit income is reinvested within the pooled investments vehicle and reflected in both the unit price and the change in market value of the investment;
- foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable on the last working day in March, where amounts were still outstanding at the year end. Accrued income is first recognised on the transaction date, with any foreign exchange gain or loss recognised separately until settlement;
- changes in the net value of investments are recognised as income or expenditure and comprise all realised and unrealised profits/ losses during the year.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax would normally be accounted for as a fund expense as it arises, however when Investment Managers are not able to supply the necessary information, no taxation is separately disclosed in the Fund Account.

Net Assets Statement

Valuation of Investments

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- quoted equity securities and fixed interest securities traded on an exchange are accounted for at bid market price;
- index linked securities traded on an exchange are valued at bid market value;
- unitised managed funds are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised managed funds are valued at the reported price;
- unitised, unquoted managed property funds are valued at the most recently available net asset value adjusted for cash flows, where appropriate, or a single price advised by the fund manager;
- each of the partners in Border to Coast Pension Pool (BCPP) have an equal shareholding in BCPP which have been valued at cost i.e. transaction price, as an appropriate estimate of fair value. This is reviewed and assessed each year. Relevant factors include that there is no market in the shared held, disposal of shares is not a matter in which any shareholder can make a unilateral decision, and the company is structured as to not make a profit. As at 31 March 2024, taking into

consideration the audited accounts for the company at 31 December 2023, there is also no evidence of any impairment in the value of shares held. It has therefore been determined that costs remain an appropriate proxy for fair value at 31 March 2024. All investments managed by BCPP are valued at their fair value;

- investments in private equity funds, private credit funds and unquoted infrastructure funds are valued based on the fund's share of the net assets in the private equity fund, private credit fund or infrastructure fund using the latest financial statements published by the respective fund managers, adjusted for cashflows; and
- derivative contracts outstanding at the year-end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

Where Investment Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Investment Manager, usually at mid-market price.

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Assets and Liabilities

A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Fund.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the Net Assets Statement however details are disclosed in Note 21.

Investment Transactions

Investment transactions arising up to 31 March but not settled until later are accrued in the accounts. All purchases and sales of investments in foreign currency are accounted for in sterling at the prevailing rate on the transaction date.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (Note 23).

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 19 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis.

Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

5. Critical judgements in applying accounting policies

The Code of Practice on Local Authority Accounting requires disclosure of judgements made by management that affect the application of accounting policies. The Fund can confirm it has made no such critical judgements during 2023/24.

6. Assumptions made about the future and other major sources of estimation uncertainty

The Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Items for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual differs from assumptions
Fair Value of Investments	The Accounts are as at 31 March 2024 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'..	The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments could reduce / increase in value during the 2024/25 reporting. The total value of Level 3 investments (explained in Note 15) is £446.445m at 31/03/24 (£397.493m at 31/03/23). This consists of the Fund's unlisted property holding, Private Equity and Private Infrastructure and Private Credit. In line with the market risk section within Note 16, there is a risk that the value of the Fund may reduce / increase during the 2024/25 reporting period by £66.314m at 31/03/24 (£59.899m at 31/03/23), which represents the potential market movement on the value of the above investments.

7. Events after the Reporting Period

There are no events after the reporting period to be disclosed separately in the Statement of Accounts in 2023/24.

8.Contributions Receivable

2022-23 £000		2023-24 £000
	Employer Contributions:	
-94,492	Normal	-103,437
-1,682	Augmentation	-2,568
-2,712	Deficit Funding	-18,353
	Refund of Exit Surplus	1,569
-32,233	**Member Contributions**	-34,700
-131,119		**-157,489**
-72,554	Administering Authority	-94,509
-47,412	Scheduled Bodies	-52,002
-11,153	Admission Bodies	-10,978
-131,119		**-157,489**

9. Benefits Payable

2022-23 £000		2023-24 £000
118,810	Pensions	132,765
26,894	Commutations and Lump Sum Retirement Benefits	28,963
2,758	Lump Sum Death Benefits	4,542
-3,774	Recharged Benefits	-3,880
144,688		**162,390**
104,716	Administering Authority	115,917
31,075	Scheduled Bodies	37,019
8,897	Admission Bodies	9,454
144,688		**162,390**

10. Payments to and On Account of Leavers

2022-23 £000		2023-24 £000
320	Refunds to Members Leaving Service	481
-	Payments for Members Joining State Scheme	-
8,546	Individual Transfers to Other Schemes	13,504
8,866		**13,985**

11. Management Expenses

Administration expenses include the cost of the administering authority in supporting the Fund.

Investment management expenses include any expenses in relation to the management of the Fund's assets. Investment manager fees are based on the value of assets under management. A performance related fee, derived from a base fee plus a percentage of out-performance, is paid to two of the Fund's investment managers; when applicable an ad-valorem fee is payable to the other managers.

Oversight and governance costs include costs relating to the Fund accounting team, plus legal, actuarial and investments advisory services.

2022-23 £000	2022-23 £000		2023-24 £000	2023-24 £000
	1,034	Administration Expenses		1,351
		Investment Management Expenses		
3,925		Management Fees	2,717	
684		Performance Fees	-	
85		Custody Fees	61	
5,895		Transaction Costs	233	
	10,589			3,011
	1,674	Oversight and Governance Costs		546
	13,297			**4,908**

Included within oversight and governance costs is the external audit fee payable to Forvis Mazars LLP in 2023/24 of £0.112m (£0.022m in 2022/23). The 2023/24 audit fee includes £0.024m in fee variations relating to 2022/23). The statutory audit fee does not include fees chargeable to the Fund for work undertaken by Forvis Mazars at the request of employer auditors as this is fully rechargeable to the employers of whom the information is provided. Fees for this work in 2023/24 is £0.000m (£0.008m in 2022/23). No fees have been paid to Forvis Mazars in 2023/24 in respect of non-audit work.

12. Investment Income

2022-23 £000		2023-24 £000
-31	Interest from Bonds	-5,778
-7,421	Dividends from Equities	-4,004
-974	Interest on Cash Deposits	-3,446
-8,364	Income from Pooled Investment Vehicles	-10,431
-3,498	Income from Private Markets	4,401
-20,288		**-19,258**

13. Taxation

The Code requires that any withholding tax that is irrecoverable should be disclosed in the Fund Account as a tax charge, however as Investment Managers have not been able to supply information for the full year, no amount of irrecoverable withholding tax has been disclosed.

- **United Kingdom Income Tax**

The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

- **Value Added Tax**

As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.

- **Foreign Withholding Tax**

Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

14. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2023/24 to manage the Fund’s assets:

- AB (Formerly AllianceBernstein Limited)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)

- Border to Coast Pension Partnership (BCPP)
- Foresight Regional Investment IV LP

Investments were held with Mondrian until July 2023, when all of the assets with Mondrian were transferred to BCPP, in line with the Fund's Investment Strategy and asset allocation requirements.
Durham County Council is one of eleven equal partners in the Border to Coast Pension Partnership Ltd (BCPP) which has been formed as a result of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require all Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools.

It is anticipated that all assets belonging to the Fund will be transferred to BCPP as and when BCPP launch investment funds which match our investment strategy and satisfy due diligence. BCPP will be responsible for managing investments in line with the Fund's Investment Strategy and asset allocation requirements.

In line with the Fund's strategic asset allocation, as at 31 March 2024 the Fund had pooled Global Equities, Sterling Index-Linked Bonds, Multi-Asset Credit, Listed Alternatives, Emerging Markets Equities and UK Corporate Bonds, as well as commencing a Private Markets programme through BCPP.

The strategic asset allocation as at 31 March was as follows:

31 March 2023 %	Asset Class	31 March 2024 %
40.00	Global Equities	40.00
13.00	Global Property	10.00
10.00	Private Markets / Listed Alternatives	15.00
7.00	Emerging Market Equities	5.00
15.00	Multi-Asset Credit	15.00
15.00	Sterling Indexed Linked Bonds	10.00
0.00	UK Corporate Bonds	5.00
100.00		**100.00**

Although the strategic asset allocation was reviewed during 2023/24, the Fund holds assets that have yet to be transferred into BCPP as we await the required product launch. Due to the requirement to pool our assets, actual allocations vary from the strategic allocation.

The actual values of investments held by each Investment Manager as at 31 March were as follows:

31 March 2023 £000	31 March 2023 %	Investment Manager	Asset Class	31 March 2024 £000	31 March 2024 %
		Investments managed by BCPP asset pool:			
1,416,597	41.99		Global Equities	1,575,810	42.87
-	-		Emerging Markets Equity	182,704	4.97
55,931	1.66		Private Equity	79,165	2.15
49,307	1.46		Private Credit	64,799	1.76
407,005	12.06		Sterling Index Linked Bonds	371,004	10.09
-	-		UK Corporate Bonds	177,791	4.84
62,907	1.86		Infrastructure	85,421	2.32
516,144	15.30		Multi Asset Credit	564,466	15.36
154,480	4.58		Listed Alternatives	82,544	2.25
8,479	0.25		Climate Opportunities	20,757	0.57
2,670,850	**79.16**			**3,204,461**	**87.18**
		Investments managed outside of BCPP asset pool:			
173,617	5.15	AB	Global Bonds	185,952	5.06
-28.00	-	BlackRock	Cash Only	-	-
281,138	8.33	CBRE	Global Property	281,402	7.66
244,750	7.25	Mondrian	Emerging Market Equities	-	-
1,182	0.04	BCPP	Unquoted UK Equity	1,182	0.03
2,405	0.07	Foresight	Private Equity	2,560	0.07
703,064	**20.84**			**471,096**	**12.82**
3,373,914	**100.00**			**3,675,557**	**100.00**

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2024 excludes loans of

£0.017m, cash invested by the administering authority of £28.766m, other investment assets of £11.024m and other investment liabilities of £0.199m (£0.027m, £54.074m, £2.296m and NIL respectively as at 31 March 2023). Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2024, £3,676m (98.93%) is invested through Investment Managers (£3,374m or 98.74% at 31 March 2023).

Reconciliation of Movements in Investments 2023/24

Investment Category	Value at 31 March 2023	Reclassification	Purchases and Derivative Payments	Sales and Derivative Receipts	Change in Market Value	Value at 31 March 2024
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Equities	243,968	-	13,078	-245,550	-7,754	3,742
Pooled Investment Vehicles	3,109,345	-	486,009	-253,915	293,022	3,634,461
	3,353,313	**-**	**499,087**	**-499,465**	**285,268**	**3,638,203**
Derivative Contracts:						
Forward Foreign Currency	1,478	-	6,141	-18,369	10,002	-748
	3,354,791	**-**	**505,228**	**-517,834**	**295,270**	**3,637,455**
Other Investment Balances:						
Loans	27					17
Other Cash Deposits	73,197				-5,576	66,868
Dividend Accruals	1,733					197
Tax Recovery	265					285
Other Investment Balances	298					10,343
Net Investment Assets	**3,430,311**				**289,694**	**3,715,165**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Reconciliation of Movements in Investments 2022/23

Investment Category	Value at 31 March 2022	Reclassification	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2023
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Equities	240,159	-	56,857	-48,040	-5,008	243,968
Pooled Investment Vehicles	3,289,424	-	315,800	-334,320	-161,559	3,109,345
	3,529,583	**-**	**372,657**	**-382,360**	**-166,567**	**3,353,313**
Derivative Contracts:						
Futures, Margins & Options	-	-	-	-	-	-
Forward Foreign Currency	-1,504	-	27,406	-21,433	-2,991	1,478
	3,528,079	**-**	**400,063**	**-403,793**	**-169,558**	**3,354,791**
Other Investment Balances:						
Loans	193					27
Other Cash Deposits	65,346				-442	73,197
Dividend Accruals	1,296					1,733
Tax Recovery	204					265
Other Investment Balances	-1,764					298
Net Investment Assets	**3,593,354**				**-170,000**	**3,430,311**

Purchases and sales of derivatives are recognised in the Reconciliation of Movements in Investments tables as follows:

- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a net basis as net receipts and payments.

Analysis of Investments

Assets Invested Through Fund Managers & Pool

31 March 2023 £000	31 March 2023 £000		31 March 2024 £000	31 March 2024 £000
		ASSETS INVESTED THROUGH FUND MANAGERS & POOL		
	243,968	**Equities**		3,742
		Pooled Investment Vehicles		
1,096,766		Bonds	1,299,213	
1,571,076		Equities	1,841,058	
264,879		Property	244,048	
62,907		Infrastructure	85,421	
49,307		Private Credit	64,799	
55,931		Private Equity	79,165	
8,479		Climate Opportunities	20,757	
	3,109,345			3,634,461
		Derivative Contracts		
1,478		Assets	8	
-		Liabilities	-756	
	1,478			-748
	19,123	**Fund Managers' Cash**		38,102
	3,373,914	**NET ASSETS INVESTED**		**3,675,557**
		OTHER INVESTMENT BALANCES		
	54,074	Short Term Investments (via DCC Treasury Management)		28,766
	27	Loans		17
	2,296	Other Investment Assets		11,024
	-	Other Investment Liabilities		-199
	3,430,311	**NET INVESTMENT ASSETS**		**3,715,165**

Analysis of Derivatives

Objectives and policies for holding derivatives.

Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates and stock market indices.

The Fund uses derivatives to manage its exposure to specific risks arising from its investment activities. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset or hedge against the risk of adverse currency movement on the Fund's investments. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and its Investment Managers.

A summary of the derivative contracts held by the Fund is provided in the following table:

31 March 2023		Derivative Contracts	31 March 2024	
£000	£000		£000	£000
		Forward Foreign Currency		
1,478		Assets	8	
-		Liabilities	-756	
	1,478	**Net Forward Foreign Currency**		-748
	1,478	**Net Market Value of Derivative Contracts**		**-748**

The Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

Currency is bought and sold by investment managers for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund's investments.

The following tables list all of the forward foreign currency contracts held by the investment managers (CBRE) on 31 March 2024 and 31 March 2023.

31 March 2024

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 months	GBP	23,450,394	AUD	-23,592,091	-	-142
1 to 3 months	GBP	53,492,180	EUR	-53,573,738	-	-81
1 to 3 months	GBP	52,262,654	USD	-52,565,114	-	-302
1 to 3 months	GBP	66,718	JPY	-67,266	-	-1
1 to 3 months	GBP	27,485,395	JPY	-27,711,480	-	-226
1 to 3 months	GBP	1,336,328	EUR	-1,338,365	-	-2
1 to 3 months	GBP	320	USD	-322	-	-
1 to 3 months	GBP	124,354	USD	-125,074	-	-1
1 to 3 months	GBP	516,878	SEK	-509,098	8	-
1 to 3 months	GBP	40,653	AUD	-40,898	-	-
1 to 3 months	GBP	88,837	USD	-89,351	-	-1
					8	**-756**
Net Forward Foreign Currency Contracts at 31 March 2024						**-748**

31 March 2023

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 months	GBP	1,634,527	EUR	-1,628,872	6	
1 to 3 months	GBP	1,834	USD	-1,814	0	
1 to 3 months	GBP	874,070	AUD	-866,993	7	
1 to 3 months	GBP	750,385	SEK	-741,193	9	
1 to 3 months	GBP	66,812,419	USD	-66,151,265	661	
1 to 3 months	GBP	92,977	USD	-92,018	1	
1 to 3 months	GBP	31,400,353	JPY	-30,947,506	453	
1 to 3 months	GBP	306,448	USD	-303,139	3	
1 to 3 months	GBP	62,491,931	EUR	-62,322,365	170	
1 to 3 months	GBP	17,230,521	AUD	-17,105,012	125	
1 to 3 months	GBP	2,976,058	JPY	-2,932,895	43	
					1,478	**-**
Net Forward Foreign Currency Contracts at 31 March 2023						**1,478**

Investments Exceeding 5% of the Net Assets available for Benefits.

The investments in the following table individually represented more than 5% of the Fund's total net assets available for benefits at 31 March:

At 31 March 2023 £m	%	Name of Fund	Investment Manager	At 31 March 2024 £m	%
1,416.60	41.53%	Global Equity Alpha	BCPP	1,575.81	42.35%
407.00	11.93%	Sterling Index-Linked Bonds	BCPP	371.00	9.97%
516.14	15.13%	MAC Fund	BCPP	564.47	15.17%
173.62	5.09%	Global Dynamic Bonds	AB	185.95	5.00%

15. Financial Instruments

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

As at 31 March 2023				As at 31 March 2024		
Fair Value through Profit and Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost		Fair Value through Profit and Loss	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
243,968			Equities	3,742		
			Pooled Investment Vehicles:			
1,096,766			Bonds	1,299,213		
1,571,077			Equities	1,841,058		
264,878			Property	244,048		
62,907			Infrastructure	85,421		
49,307			Private Credit	64,799		
55,931			Private Equity	79,165		
8,479			Climate Opportunities	20,757		
1,478			Derivative Contracts	8		
	27		Loans		17	
	19,123		Cash held by Fund Managers		38,102	
	54,074		Short Term Investments		28,766	
	2,296		Other Investment Assets		11,024	
	12,252		Debtors		13,876	
3,354,791	87,772	-		3,638,211	91,785	-
			Financial Liabilities			
-			Derivative Contracts			-756
-			Other Investment Liabilities			-199
		-18,577	Creditors			-8,257
-	-	-18,577		-	-	-9,212
3,354,791	**87,772**	**-18,577**		**3,638,211**	**91,785**	**-9,212**
		3,423,986	**Net Assets at 31 March**			**3,720,784**

Net gains and losses on financial instruments

31 March 2023 £000		31 March 2024 £000
	Financial Assets	
-169,558	Fair Value through Profit and Loss	291,147
-442	Financial assets measured at amortised cost	-1,453
-170,000	**Total**	**289,694**

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities, exchange traded derivatives and unit trusts. Listed investments are shown at bid prices.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include unquoted property funds, private equity, infrastructure and private credit, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2024 and 31 March 2023, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable:

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2024	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	236,258	2,955,509	446,445	3,638,212
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	-	-756	-	-756
Net Financial Assets at Fair Value	**236,258**	**2,954,753**	**446,445**	**3,637,456**

This table excludes financial assets and financial liabilities at amortised cost. Please refer to the Classification of Financial Instruments table at the beginning of this note, for the total net financial assets figure.

Values at 31 March 2023	Quoted Market Price (restated) Level 1 £000	Using Observable Inputs (restated) Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	460,411	2,496,886	397,494	3,354,791
Net Financial Assets at Fair Value	**460,411**	**2,496,886**	**397,494**	**3,354,791**

This table excludes financial assets and financial liabilities at amortised cost. Please refer to the Classification of Financial Instruments table at the beginning of this note, for the total net financial assets figure.

The fair value hierarchy classification of three funds managed by BCPP has been reassessed during 2023/24. Although the underlying investments within these funds are classified as level 1 within the fair value hierarchy, the funds themselves (which had a fair value of £1.978m at 31 March 2023) were previously incorrectly classified as level 1 but have been reclassified as level 2. This has been reflected in the prior year comparators above.

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2023/24	Market Value 31 March 2023 £000	Purchases During the Year £000	Sales During the Year £000	Unrealised Gains / (Losses) £000	Realised Gains / (Losses) £000	Market Value 31 March 2024 £000
Pooled Investment Vehicles	218,465	9,884	-10,882	-25,574	1,850	193,743
Private Equity	58,336	22,996	-2,015	2,408	-	81,725
Infrastructure	62,907	20,829	-48	1,733	-	85,421
Private Credit	49,307	12,479	-172	3,185	-	64,799
Climate Opportunities	8,479	14,350	-2,523	451	-	20,757
	397,494	**80,538**	**-15,640**	**-17,797**	**1,850**	**446,445**

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2022/23	Market Value 31 March 2022 £000	Purchases During the Year £000	Sales During the Year £000	Unrealised Gains / (Losses) £000	Realised Gains / (Losses) £000	Market Value 31 March 2023 £000
Pooled Investment Vehicles	216,181	24,728	-26,027	1,885	1,697	218,464
Private Equity	34,420	21,222	-	2,694	-	58,336
Infrastructure	31,566	19,709	-	11,633	-	62,908
Private Credit	21,800	25,949	-	1,557	-	49,306
Climate Opportunities	-	8,574	-	-94	-	8,480
	303,967	**100,182**	**-26,027**	**17,675**	**1,697**	**397,494**

Disclosures

1. There was no rebalancing between levels during the year.
2. There has been no change in valuation techniques.
3. There are no assets or liabilities within the fund of a non-recurring nature.

Fair Value – Basis of Valuation

Level 2

Description of asset	Basis of Evaluation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Unquoted equity investments	Shareholdings in BCPP have been valued at cost i.e. transaction price as an appropriate estimate of fair value.	No market for shares held in BCPP. Disposal of shares is not a matter in which any shareholder can make a unilateral decision. Company is structured so as not to make a profit.	Not required
Unquoted fixed income bonds and unit trusts	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange currency	Market forward exchange rates at the year end	Exchange rate risk	Not required

Level 3

Description of asset	Basis of Evaluation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Investment Properties: Freehold and leasehold properties and property funds	The properties are valued at fair value at the yearend using the investment method of valuation by independent valuers CBRE Ltd in accordance with the RICS Valuation Global Standards (incorporating the International Valuation Standards) and the UK national supplement ('the red book') current as at the valuation date.	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants. Assumed vacancy levels. Estimated rental growth. Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

Private/Unquoted equity (pooled funds in Alternative Assets)	Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.	Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material event occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Fair Value – Sensitivity of Assets values at Level 3

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above for the Level 3 instruments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of Level 3 investments held at 31 March 2024.

FAIR VALUE - SENSITIVITY ANALYSIS OF LEVEL 3

Period 2023/24	Assessed valuation range (+/-)	Value at 31 March 2024	Value on increase	Value on decrease
Pooled Investment Vehicles	**%**	**£000**	**£000**	**£000**
Property	14.0%	193,743	220,867	166,619
Private Equity	24.9%	81,725	102,075	61,375
Infrastructure	12.8%	85,421	96,355	74,487
Private Credit	8.1%	64,799	70,048	59,550
Climate Opportunities	12.8%	20,757	23,414	18,100
		446,445	**512,759**	**380,131**

Period 2022/23	Assessed valuation range (+/-)	Value at 31 March 2023	Value on increase	Value on decrease
	FAIR VALUE - SENSITIVITY ANALYSIS OF LEVEL 3			
Pooled Investment Vehicles	**%**	**£000**	**£000**	**£000**
Property	14.1%	218,465	249,269	187,661
Private Equity	24.1%	58,336	72,395	44,277
Infrastructure	15.4%	62,907	72,595	53,219
Private Credit	8.2%	49,307	53,350	45,264
Climate Opportunities	15.4%	8,479	9,785	7,173
		397,494	**457,393**	**337,595**

Further details on estimates of values are set out in Note 6 to the Accounts (assumptions made about the future and other major sources of estimation uncertainty).

16. Nature and Extent of Risk Arising From Financial Instruments

Risk and risk management

The Fund's activities expose it to a variety of financial risks. The key risks are:

I. **Market Risk** - the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;
II. **Credit Risk** - the possibility that other parties may fail to pay amounts due to the Fund;
III. **Liquidity Risk** - the possibility that the Fund might not have funds available to meet its commitments to make payments.

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and maximise the opportunity for gains across the whole fund portfolio. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The administering body manages these investment risks as part of its overall Pension Fund risk management programme.

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 14. Risk is further controlled by dividing the management of the assets between a number of managers and ensuring the Fund's portfolio is well diversified across region, sector and type of security. As different asset classes have varying correlations with other asset classes, the Fund can minimise the level of risk by investing in a range of different investments.

The Fund has appointed a Global Custodian that performs a range of services including collection of dividends and interest from the Investment Managers, administering corporate actions that the Fund may join, dealing with taxation issues and proxy voting when requested. It also ensures that the settlement of purchases and sales of the Fund assets are completed. The Custodian has stringent risk management processes and controls. Client accounts are strictly segregated to ensure that the Fund assets are separately identifiable.

In line with its Treasury Management Policy, Durham County Council as administering authority, invests the short term cash balances on behalf of the Fund. Interest is paid over to the Fund on a quarterly basis.

Durham County Council's overall risk management procedures focus on the unpredictability of financial markets and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act.

I. Market Risk

Market risk is the risk of loss from fluctuations in market prices, interest and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisers undertake appropriate monitoring of market conditions. Risk exposure is limited by applying maximum exposure restrictions on individual investments to each Investment Manager's portfolio.

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's Investment Managers mitigate this price risk through diversification of asset types, across different regions and sectors.

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's investment advisers, an analysis of historical volatility and implied market volatility has been completed. From this, it has been determined that the potential market movements in market price risk, as shown in the following table, are reasonably possible for the 2023/24 reporting period. The analysis assumed that all other variables remain the same.

If the market price of the Fund investments were to increase / decrease in line with these potential market movements, the value of assets available to pay benefits would vary as illustrated in the following table (the prior year comparator is also provided):

Manager	Asset Type	Asset Value at 31 March 2024 £000	Potential Market Movements %	Value on Increase £000	Value on Decrease £000
AB	Broad Bonds	185,952	7.0%	198,969	172,935
CBRE	Unlisted Property	193,742	14.0%	220,866	166,618
CBRE	Listed Property	50,306	22.2%	61,474	39,138
Foresight	Private Equity	2,560	24.9%	3,198	1,923
BCPP	Unquoted UK Equity	1,182	0.0%	1,182	1,182
BCPP	Global Equity	1,575,810	19.2%	1,878,366	1,273,255
BCPP	Private Equity	79,165	24.9%	98,878	59,453
BCPP	Infrastructure	85,421	12.8%	96,355	74,487
BCPP	Private Credit	64,799	8.1%	70,048	59,551
BCPP	Climate Opportunities	20,757	12.8%	23,413	18,100
BCPP	Emerging Market Equity	182,704	24.0%	226,553	138,855
BCPP	UK Index Linked Bonds	371,004	9.5%	406,250	335,759
BCPP	UK Corporate Bonds	177,791	7.6%	191,303	164,278
BCPP	Multi Asset Credit	564,466	6.9%	603,414	525,518
BCPP	Listed Alternatives	82,544	19.2%	98,392	66,695
	Loans	17		17	17
	Cash	66,868		66,868	66,868
	Net Derivative Assets	8		8	8
	Net Investment Balances	11,024		11,024	11,024
Total Change in Net Investment Assets Available		**3,716,120**		**4,256,578**	**3,175,664**

Manager	Asset Type	Asset Value at 31 March 2023 £000	Potential Market Movements %	Value on Increase £000	Value on Decrease £000
AB	Broad Bonds	173,617	7.0%	185,770	161,464
CBRE	Unlisted Property	218,465	14.1%	249,269	187,661
CBRE	Listed Property	46,413	21.2%	56,253	36,573
Foresight	Private Equity	2,405	24.1%	2,985	1,825
Mondrian	Emerging Market Equity	240,381	23.6%	297,111	183,651
BCPP	Unquoted UK Equity	1,182	0.0%	1,182	1,182
BCPP	Global Equity	1,416,597	18.2%	1,674,418	1,158,776
BCPP	Private Equity	55,931	24.1%	69,410	42,452
BCPP	Infrastructure	62,907	15.4%	72,595	53,219
BCPP	Private Credit	49,307	8.2%	53,350	45,264
BCPP	Climate Opportunities	8,479	15.4%	9,785	7,173
BCPP	UK Index Linked Bonds	407,005	9.6%	446,077	367,933
BCPP	Multi Asset Credit	516,144	9.0%	562,597	469,691
BCPP	Listed Alternatives	154,480	18.2%	182,595	126,365
	Loans	27		27	27
	Cash	73,197		73,197	73,197
	Net Derivative Liabilities	1,478		1,478	1,478
	Net Investment Balances	2,296		2,296	2,296
Total Change in Net Investment Assets		**3,430,311**		**3,940,395**	**2,920,227**

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

During 2023/24 Consumer Price Index inflation (CPI) in the UK Economy reduced in 2023/24 from its 11.1% peak (October 2022) to 3.8% as at 31 March 2024. Whilst recent announcements highlights further reductions in inflation, CPI is forecast to stay higher for longer than the Chancellor originally set in his budget forecasts in early 2023.

The Fund's interest rate risk is routinely monitored by the administering authority (as part of its Treasury Management Service for investment of surplus cash), its managers, custodian and investment advisers in accordance with the Fund's risk management strategy. This includes monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. During periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the Fund and the value of the net assets available to pay benefits. The following table shows the fund's asset values having direct exposure to interest rate movements as at 31 March 2024 and the effect of a +/- 500 Basis Points (BPS) change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset Type	**Asset Values at 31 March 2024**	**Change in Year in the Net Assets Available to Pay Benefits**	
		+500 BPS	**- 500BPS**
	£000	**£000**	**£000**
Cash and Cash Equivalents	66,893	3,345	-3,345
Total Change in Net Investment Assets Available	**66,893**	**3,345**	**-3,345**

Asset Type	**Asset Values at 31 March 2023**	**Change in Year in the Net Assets Available to Pay Benefits**	
		+500 BPS	**- 500BPS**
	£000	**£000**	**£000**
Cash and Cash Equivalents	74,702	3,735	-3,735
Total Change in Net Investment Assets Available	**74,702**	**3,735**	**-3,735**

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than GBP (the functional currency of the Fund). The Fund's currency rate risk is routinely monitored by the Fund and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the likely fluctuation associated with foreign exchange rate movements is expected to be 10% for developed market currencies and 15% in emerging market currencies. This is based upon the adviser's analysis of long-term historical movements in the month end exchange rates of a broad basket of currencies against the pound. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Investment Manager, to what extent a 10% (or 15% for emerging markets) strengthening / weakening of the pound, against the various currencies in which the fund holds investments, would increase / decrease the net assets available to pay benefits (the prior year comparator is also provided):

Manager	Currency Exposure by Asset Type	Level of Unhedged Exposure	Total Volatility	Asset Value at 31 March 24	Value on Increase	Value on Decrease
				£000	£000	£000
AB	Broad Bonds	0%	0%	185,952	185,952	185,952
CBRE	Global Property	21%	10%	244,048	249,173	238,923
Foresight	Private Equity	0%	0%	2,560	2,560	2,560
BCPP	Unquoted UK Equity	0%	0%	1,182	1,182	1,182
BCPP	Global Equity	100%	10%	1,575,810	1,733,391	1,418,229
BCPP	Private Equity	100%	10%	79,165	87,082	71,249
BCPP	Infrastructure	100%	10%	85,421	93,963	76,879
BCPP	Private Credit	100%	10%	64,799	71,279	58,319
BCPP	Climate Opportunities	100%	10%	20,757	22,833	18,681
BCPP	Emerging Market Equity	100%	15%	182,704	210,110	155,298
BCPP	UK Index Linked Bonds	0%	0%	371,004	371,004	371,004
BCPP	UK Corporate Bonds	0%	0%	177,791	177,791	177,791
BCPP	Multi Asset Credit	5%	10%	564,466	567,176	561,758
BCPP	Listed Alternatives	100%	10%	82,544	90,798	74,290
	Loans	0%	0%	17	17	17
	Cash	1%	10%	66,868	66,910	66,826
	Net Derivative Assets	0%	0%	8	8	8
	Net Investment Balances	0%	0%	10,825	10,825	10,825
	Total Change in Net Investment Assets Available			**3,715,921**	**3,942,054**	**3,489,791**

Manager	Currency Exposure by Asset Type	Level of Unhedged Exposure	Total Volatility	Asset Value at 31 March 23	Value on Increase	Value on Decrease
				£000	£000	£000
AB	Broad Bonds	0%	0%	173,617	173,617	173,617
CBRE	Global Property	18%	10%	264,878	269,646	260,110
Mondrian	Emerging Market Equity	100%	15%	240,381	276,438	204,324
Foresight	Private Equity	0%	0%	2,405	2,405	2,405
BCPP	Unquoted UK Equities	0%	0%	1,182	1,182	1,182
BCPP	Global Equity	100%	10%	1,416,597	1,558,257	1,274,937
BCPP	Private Equity	100%	10%	55,931	61,524	50,338
BCPP	Infrastructure	100%	10%	62,907	69,198	56,616
BCPP	Private Credit	100%	10%	49,307	54,238	44,376
BCPP	Climate Opportunities	100%	10%	8,479	9,327	7,631
BCPP	UK Indexed Linked Bonds	0%	0%	407,005	407,005	407,005
BCPP	Multi Asset Credit	6%	0%	516,144	516,144	516,144
BCPP	Listed Alternatives	100%	10%	154,480	169,928	139,032
	Loans	0%	0%	27	27	27
	Cash	8%	10%	73,197	73,810	72,584
	Net Derivative Assets	0%	0%	1,478	1,478	1,478
	Net Investment Balances	0%	0%	2,296	2,296	2,296
	Total Change in Net Investment Assets Available			**3,430,311**	**3,646,520**	**3,214,102**

II. Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio is exposed to some form of credit risk with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. The Fund minimises credit risk by undertaking transactions with a large number of high quality counterparties, brokers and institutions.

Investment Managers adopt procedures to reduce credit risk related to its dealings with counterparties on behalf of its clients. Before transacting with any counterparty, the Investment Manager evaluates both credit worthiness and reputation by conducting a credit analysis of the party, their business and reputation. The credit risk of approved counterparties is then monitored on an ongoing basis, including periodic reviews of financial statements and interim financial reports as required.

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the Balance Sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account, and the risk is mitigated by the Custodian's high "tier one" capital ratio, conservative Balance Sheet management and a high and stable credit rating. As at 31 March 2024, this level of exposure to the Custodian is 1.0% of the total value of the portfolio (0.6% as at 31 March 2023).

Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit

Ratings Services. The council's Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits. The Fund has experienced no defaults from fund managers, brokers or bank accounts over the past five years.

The cash holding under its treasury management arrangements was £28.766m as at 31 March 2024 (£54.074m as at 31 March 2023). This was held with the following institutions:

Rating	Balances		Rating	Balances
as at 31 March 2023			as at 31 March 2024	
	£000			£000
		Bank Deposit Accounts		
F1+	1,896	Handelsbanken	F1+	3,215
F1	3,191	Lloyds	F1	-
F1	1	Barclays	F1	-
		Fixed Term Deposits		
F2	3,723	Close Brothers	F2	1,787
F1+	6,915	First Abu Dhabi Bank PJSC	F1+	5,004
F1	4,787	Goldman Sachs	F1	1,787
F1+	532	Landesbank Hessen-Thueringen Girozentrale (Helaba)		-
	-	Lloyds Bank Corporate Markets plc	F1	1,192
F1	4,787	National Bank of Canada London		-
F1	4,255	National Bank of Kuwait	F1	5,957
F1	3,191	Natwest (RFB)	F1	-
F1	1,064	Natwest Markets (NRFB)	F1	-
F1	3,723	Santander UK Plc	F1	5,362
	-	SMBC Bank International plc	F1	596
F1	1,064	Standard Chartered	F1	2,383
F1	1,064	Sumitomo Mitsui Banking Corp.		-
N/A	1,064	UK Local Authorities	N/A	2,145
	41,257	Total Short Term Cash Deposits with Lloyds Bank		29,428
	12,817	Cash at Bank		-662
	54,074	**Total Short Term Investments**		**28,766**

III. Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. Steps are taken to ensure that the Fund has adequate cash resources to meet its commitments. Management prepares quarterly cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund Investment Strategy and rebalancing policy.

The vast majority of the Fund's investments are readily marketable and may be easily realised if required. Some investments may be less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Fund.

Durham County Council invests the cash balances of the Fund in line with its Treasury Management Policy and as agreed by the Pension Fund Committee. The council manages its liquidity position to ensure that cash is available when needed, through the risk management procedures set out in the prudential indicators and treasury and investment strategy reports, and through a comprehensive cash flow management system.

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, gives Durham County Council a limited power to borrow on behalf of the Fund for up to 90 days. The council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible. As disclosed in Note 17, the Fund expects all liabilities to be paid within 12 months of the year end.

17. Analysis of Creditors

As at 31 March 2023 £000		As at 31 March 2024 £000
	Included in the Net Assets Statement as:	
-	Investment Liabilities - Other balances	-199
-18,577	Current Liabilities	-8,257
-18,577		**-8,456**

All of the £8.456m is expected to be paid by the Fund within 12 months after the year end.

18. Analysis of Debtors

As at 31 March 2023 £000		As at 31 March 2024 £000
	Included in the Net Assets Statement as:	
2,296	Other Investment Assets	11,024
12,252	Current Assets	13,876
14,548		**24,900**

All of the £24.9m is expected to be received by the Fund within 12 months after the year end.

19. Additional Voluntary Contributions (AVCs)

AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. The Fund offers two types of AVC arrangement:

- purchase of additional pension, which is invested as an integral part of the Fund's assets;
- money purchase scheme, managed separately by Utmost (formerly Equitable Life), Standard Life and Prudential. AVCs may be invested in a range of different funds.

The following table refers only to the money purchase AVCs:

	Value at 31 March 2023 £000 (restated)	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2024 £000
Utmost (formally Equitable Life)	1,153	6	145	104	1,118
Prudential	8,979	2,295	1,760	481	9,995
Standard Life	1,827	393	312	148	2,056
Total	**11,437**	**2,694**	**2,217**	**733**	**13,169**

* Purchases represent the amounts paid to AVC providers in 2023/24

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with Regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

20. Related Party Transactions

Related parties are bodies or individuals that have the potential to control or influence the Fund or to be controlled or influenced by the Fund. Influence in this context is expressed in terms of a party:

- being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies; or
- actually subordinating its separate interests in relation to a particular transaction.

Related parties of the Fund fall into three categories:

a) Employer related
b) Member related
c) Key management personnel

a) Employer Related

There is a close relationship between an employer and the Fund set up for its employees and therefore each participating employer is considered a related party. The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2022/23	2023/24
Contributions Receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£131.119m	£157,489m
Debtors	Amounts due in respect of employers and employee contributions	£10.142m	£10,815m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.762m	£2.447m
Administration & Investment Management Expenses	The administration, and a small proportion of the investment management, of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund	£1.773m	£2.459m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance during the year and interest earned were:	Balance = £40.968m Interest = £0.677m	Balance = £34.813m Interest = £1.837m

b) Member Related

Member related parties include:

- Members and their close families or households;
- companies and businesses controlled by the Members and their close families which have a financial contractual relationship with any of the organisations that contract with the Fund.

Durham County Council and Darlington Borough Council have a number of Members who are on the Pension Fund Committee. These Members are subjected to a declaration of interest circulation on an annual basis. Each Member of the Pension Fund Committee is also required to declare their interests at the start of each meeting. There were no material related party transactions between any Members or their families and the Fund (none in 22/23).

As at 31 March 2024 there were 2 Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund.

In accordance with the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, with effect from 8 May 2017 elected Members are no longer allowed to be active members of the Fund.

c) Key Management Personnel

Related parties in this category include:

- key management i.e. senior officers and their close families;
- companies and businesses controlled by the key management of the Fund or their close families.

There were no material related party transactions between any officers or their families and the Fund (none in 22/23).

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Corporate Director of Resources, the Head of Pensions, the Head of Corporate Finance and Commercial Services, and the Finance Manager - Revenue, Pensions. The proportion of employee benefits earned by key management personnel relating to the Fund is set out below:

2022-23 £000		2023-24 £000
134	Short-term benefits	139
24	Post-employment benefits	25
158		**164**

21. Contingent Assets and Liabilities

a) Pension Contributions On Equal Pay Payments

Originally equal pay settlements were not deemed to be pensionable however, an element of choice has since been introduced. Individuals can choose to have their settlements considered to be pensionable. This provision has now been added to the agreements that individuals with pending equal pay settlements sign.

There is no certainty that an individual will pay pension contributions on their equal pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain, and therefore it is not possible to estimate the value of any future contributions. However, the level of contributions likely to be received by the Fund are unlikely to have a material effect on the Fund Accounts.

b) Withholding Tax (WHT) Claims

Pension Funds, investment funds and other tax exempt bodies across Europe have in recent years been pursuing claims against a number of EU Member States for the recovery of withholding taxes suffered on EU sourced dividend income. These claims were made in the light of the Fokus Bank (Case E-1/04) ruling in December 2004 on the grounds that the WHT rules of those Member States are in breach of the free movement of capital principle of the EC Treaty. The legal arguments used to support Fokus claims are strong and rely on existing case law. The EU Commission announced that it is taking action against a number of member states which operate discriminatory rules regarding the taxation of outbound dividends.

As a result of a precedent for the change in WHT has been set by the Netherlands, other Member States have now reduced the level of WHT of non-residents; recovery is therefore probable, but the timing and amount of income is uncertain, therefore it is not possible to estimate the value of these claims.

c) Virgin Media

In June 2023 the High Court (Virgin Media Limited v NTL Pension Trustees II Limited) ruled that amendments to certain defined benefit pension schemes were void if they were not accompanied by section 37 actuarial certificates. The Court of Appeal rejected an appeal of this decision in July 2024. The Local Government Pension Scheme is affected by this ruling.

The Government Actuary's Department is the actuary for the Local Government Pension Scheme and has so far failed to evidence that section 37 certificates are in place for all amendments. Work is ongoing to discover whether the evidence exists. Until this work is complete, it is not possible to conclude whether there is any impact on the value of retirement benefits under IAS26 or if it can be reliably estimated.

Although this is the current position in law, the Government is being lobbied to make a change to the regulations which would retrospectively validate amendments which would otherwise be void because of a failure to have obtained section 37 certificates. The Government has an existing power to make the necessary regulations but not yet said whether it will do anything. There is also the possibility that Virgin Media could seek permission to appeal to the Supreme Court.

Developments are being monitored. In the current circumstances, it is not considered necessary to make any allowance for the potential impact of the Virgin Media case in the disclosure of the value of retirement benefits in the financial statements.

22. Funding Arrangements

In line with Regulation 62 of the Local Government Pension Scheme Regulations 2013 the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2022.

The key elements of the funding policy are to:

- ensure the long term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- ensure that employer contribution rates are as stable as possible;
- minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- use reasonable measures to reduce the risk to other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

At the 31 March 2022 actuarial valuation the Fund was assessed as being 98% funded (94% at 31 March 2019). This corresponded to a deficit of £93.1m (£195.5m at 31 March 2019).

The aim is to achieve 100% solvency over a period of 16 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers' primary rates) is 18.9% of pensionable pay.

Across the Fund as a whole, the secondary contributions required to remove the deficit over a recovery period of 16 years from 1 April 2023 are 1.3% of Pensionable Pay.

The aggregate employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100%, using a recovery period of 16 years from 1 April 2023, is 20.2% of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

The key assumptions used by the actuary to calculate the past service liabilities and the cost of future benefit accrual are set out in the following tables:

Scheduled body and subsumption funding target	**2019 Valuation**	**2022 Valuation**
Discount rate (p.a.)	4.25%	4.40%
Long-term CPI inflation (pension increases/revaluation) (p.a.)	2.10%	2.30%
Post 88 GMP pension increases (p.a.) where full CPI does not apply	1.90%	2.00%

Low risk (exit) funding target	**2019 Valuation**	**2022 Valuation**
Discount rate (p.a.)	1.30%	1.70%
CPI inflation (pension/revaluation) (p.a.)	2.10%	3.40%
Post 88 GMP pension increases (p.a.) where full CPI does not apply	1.90%	2.60%

Intermediate funding target	**2019 Valuation**	**2022 Valuation**
In service discount rate (p.a.)	4.25%	4.40%
Left service discount rate (p.a.)	3.80%	3.95%
CPI inflation / Post 88 GMP increases as for the scheduled bodies and subsumption funding target		

Ongoing orphan funding target	2019 Valuation	2022 Valuation
In service discount rate (p.a.)	4.25%	4.40%
Left service discount rate (p.a.)	1.60%	1.30%
CPI inflation / Post 88 GMP increases as for scheduled bodies and subsumption funding target		

Assumption	2019 Valuation	2022 Valuation
Pay Increases (in addition to promotional increases)	CPI + 1.00%	CPI + 1.00%
Administration expenses (% of pay)	0.5%	0.5%

Mortality assumptions:

Pre/Post Retirement Mortality	Morality Assumptions	Members currently in this category	Future contingent dependants of members currently in this category
Pre	Active males	40% of S3NMA	n/a
Pre	Active females	40% of S3NFA	n/a
Post	Active and deferred males -(normal health)	115% of S3NMA	145% of S3NFA
Post	Active and deferred females -(normal health)	125% of S3NFA	135% of S3NMA
Post	Active and deferred males - (ill health)	130% of S3IMA	145% of S3NFA
Post	Active and deferred females – (ill health)	125% of S3IFA	135% of S3NMA
Post	Pensioner males – (normal health)	110% of S3NMA	135% of S3NFA
Post	Pensioner females – (normal health)	115% of S3NFA	125% of S3NMA
Post	Pensioner males – (ill health)	130% of S3IMA	135% of S3NFA
Post	Pensioner females – (ill health)	120% of S3IFA	125% of S3NMA
Post	Dependant Males	110% of S3NMA	n/a
Post	Dependant females	130% of S3NFA	n/a
n/a	**Projection model**	CMI 2021 with long-term improvement rate of 1.50% p.a./ sk of 7.0/ A parameter of 0.5%/ w 2020 and w 2021 of 0	

Other demographic assumptions:

Demographic	Allowance
Ill health Tier 1/2/3 proportions	85%/5%/10%
Commutation	Each member is assumed to surrender pension on retirement, such that the total cash received is 85% of the permitted maximum
Family details (males)	85% of non-pensioners are assumed to have a partner at retirement or earlier death. 85% of pensioners are assumed to have a partner at age 65. Surviving widow assumed to be three years younger.
Family details (females)	75% of non-pensioners are assumed to have a partner at retirement or earlier death. 75% of pensioners are assumed to have a partner at age 65. Surviving widower assumed to be one year older.
Take up of 50:50 scheme	All members are assumed to remain in the scheme they are in at the date of the valuation
Discretionary benefits	No Allowance

23. Actuarial Present Value of Promised Retirement Benefits

The CIPFA Code of Practice indicates that Pension Fund accounts should disclose the actuarial present value of promised retirement benefits as set out in the accounting standard IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 rather than on funding assumptions (set out in Note 22 to these accounts).

The Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2022.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2019 are provided for comparison purposes.

	Value as at 31 March 2019 £m	Value as at 31 March 2022 £m
Fair value of net assets	2,982	3,606
Actuarial present value of the promised retirement benefits	4,512	5,473
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,530	-1,867

As the liabilities above are calculated on an IAS 19 basis, they differ from those calculated for the triennial valuation because different assumptions are applied. The main IAS19 assumptions used are as follows:

	31 March 2019 (% p.a.)	31 March 2022 (% p.a.)
Discount rate	2.4	2.7
CPI Inflation *	2.2	3.0
Rate of increase to pensions in payment *	2.2	3.0
Rate of increase to deferred pensions **	2.2	3.0
Rate of general increase in salaries ***	3.2	4.0

* In excess of Guaranteed Minimum Pension increases in payment where appropriate

** We recommend the assumption for revaluation rate of pension accounts is set equal to the assumption for pension increases

*** In addition, we have allowed for the same age related promotional salary scales as used in the actuarial valuation of the Fund at the appropriate date

24. Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a Funding Strategy Statement. This statement has been adopted by the Pension Fund Committee and has been published on the County Council’s website at durham.gov.uk.

The purpose of the Funding Strategy Statement is to:

- establishes a clear and transparent fund-specific strategy which will identify how employers’ pension liabilities are best met going forward;
- supports the regulatory requirement of the desirability of maintaining as nearly constant a primary rate of employer contribution rates as possible;
- enables overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks and ensuring that the regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating and admitted bodies;
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met; and
- takes a prudent longer-term view of funding the Fund’s liabilities.

The intention is for this Strategy to apply comprehensively for the Fund as a whole to reflect its best interests, recognising that there will always be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the Statement, it must remain a single Strategy for the Administering Authority to implement and maintain.

25. Funding Strategy Statement

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Fund has prepared and reviewed a written statement of its investment policy. The Investment Strategy Statement sets out the principles for investing Fund monies. The document can be found on the council's website at www.durham.gov.uk

Pension Fund

Exit Policy

This documents sets out the approach of Durham County Council (the "Administering Authority") as administering authority of the Durham County Council Pension Fund (the "Fund") to exiting employers from the Fund. This revised policy takes into account changes introduced by the Local Government Pension Scheme (Amendment) Regulations 2020.

1. Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64 of the Regulations. That valuation will take account of any activity as a consequence of exit regarding any existing contributing members (for example any bulk transfer payments due, and any asset transfer associated with the transfer of active members to another employer in the Fund) and the status of any liabilities that will remain in the Fund.
2. In particular, the Administering Authority will seek to minimise the risk to other employers in the Fund that after exit any deficiency arises on the liabilities of the exiting employer such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally UK Government fixed interest and index linked bonds.
3. The exit valuation will assess the assets held as at the exit date in the Fund in respect of the exiting employer, as compared to the liabilities of the Fund in respect of benefits attributable to the exiting employer's current and former employees. The exit valuation will normally conclude that there is either:
    - 3.1. a deficit, in that the liabilities have a higher value than the assets; or
    - 3.2. a surplus, in that the assets have a higher value than the liabilities.

4. When calculating the liabilities in the Fund in respect of the exiting employer, an increase will be applied to these liabilities to allow for the potential increase in benefits due to the cost management process and the McCloud1 judgement, as advised by the Fund Actuary.

5. Where the exit valuation shows a deficit, an exit payment will usually be required from the exiting employer. The administering authority, at its sole discretion, may allow phased payments.

6. The Administering Authority may, with the consent of the scheme employer in question, allow another employer in the fund to subsume the assets and liabilities of the exiting employer. This may include the Administering Authority agreeing to the other scheme employer accepting ongoing liability for any deficit in substitution of the requirement for an exit payment from the exiting employer.

7. For exits on or after 14 May 2018, where the exit valuation shows that there is a surplus in the Fund in respect of the exiting employer, the Administering Authority will follow the process set out in paragraphs 8 to 14 below.

8. As soon as is practicable after the production of the applicable exit valuation, the Administering Authority will notify the exiting employer and, where the exiting employer has been admitted to the fund as an admission body:
    - 8.1. any party that has given a guarantee under paragraph 8 of Part 3 to Schedule 2 to the Regulations;
    - 8.2. (in respect of admissions under paragraph (1)(d) of Part 3 of Schedule 2 to the Regulations) any scheme employer connection with the exercise of whose function the exiting employer was providing a service or assets; and
    - 8.3. any employer who has provided a subsumption guarantee in respect of the exiting employer.

of the fact that the exit valuation shows a surplus, that the Administering Authority intends to make a determination of whether this surplus should be passed in whole or in part to the exiting employer, and to request that each party, within 14 days, provides their written representations to the Administering Authority in relation to any factors which, in their view, would influence such a decision and make the payment of a surplus to the exiting employer more or less appropriate.

9. The representations of the parties mentioned in paragraph 8 above may (but need not) detail any risk sharing arrangement agreed between the parties as regards the participation of the exiting employer in the Fund.

10. The Administering Authority will make a determination of the amount of the exit credit (if any) payable to the exiting employer. In reaching this decision the Administering Authority will have regard to the following factors:
    - 10.1. the extent to which there is a surplus;
    - 10.2. the proportion of the excess of assets which has arisen because of the value of the exiting employer's contributions;
    - 10.3. the representations received from the parties under paragraph 8;
    - 10.4. where part or all of the surplus relates to an increase in the value of the assets of the Fund as at exit date due to better-than-expected investment growth or returns, the extent to which that increase in asset value can be regarded as a stable and long-term value increase;
    - 10.5. (where the Administering Authority is aware of the same) whether or not the exiting employer has been exposed to the full financial risk of participation in the Fund and the existence of any risk-sharing arrangements in place with third parties;
    - 10.6. the date on which the admission and/or commercial arrangements between the exiting employer and scheme employer came into effect, and whether therefore the parties had the opportunity to deal with the chance of an exit credit in their contractual arrangements; and
    - 10.7. any other relevant factors.

11. No single factor will be conclusive and the Administering Authority will consider all the circumstances in the round in coming to its decision on the correct level of an exit payment. In order to help the parties in formulating their representations, the Administering Authority sets out below the factors it may consider, and some guidance as to the usual implication of those factors:

Factor	The Administering Authority's view on how this may influence the determination
The extent to which there is a surplus	Will not of itself influence the determination in favour or against the exit credit, but the Administering Authority may decide to truncate the determination process where the surplus is so small as to make the full process administratively disproportionate;
The proportion of the excess of assets which has arisen because of the value of the exiting employer's contributions	In general, the Administering Authority considers that where the surplus exceeds the total employer contributions received over the course of the admission, this would weigh against the payment of the full surplus as an exit credit;
The representations received from the parties	Dependent on their content;
Where part or all of the surplus relates to an increase in the value of the assets of the Fund as at exit date due to better-than-expected investment growth or returns, the extent to which that increase in asset value can be regarded as a stable and long-term value increase;	In general, the Administering Authority considers that where the exit took place at a time when the value of assets held by the Fund were unexpectedly high, and subsequently declined, or appear to the Administering Authority reasonably likely to decline in the short or medium term, then this will weigh against the payment an exit credit (either in full or in part dependent on the circumstances). Where the Authority relies on this factor in making a determination, it will provide the parties with details of why it considers that is the case;
Whether or not the exiting employer has been exposed to the full financial	In general, the Administering Authority considers that where the exiting employer
risk of participation in the Fund and the existence of any risk-sharing arrangements in place with third parties	has not been exposed to the usual financial risks associated with admission by reason of its commercial arrangements with third parties (for example the scheme employer), this would weigh against the payment of an an exit credit (either in full or in part dependent on the circumstances of the arrangement in question);
The date on which the admission and/or commercial arrangements between the exiting employer and scheme employer came into effect, and whether therefore the parties had the opportunity to deal with the chance of an exit credit in their contractual arrangements	In general, the Authority considers that where the arrangements pre-date the introduction into the Regulations of the concept of exit credits, this will weigh against the payment of an exit credit (either in full or in part dependent on the circumstances), and where the arrangements post-date the concept of exit credits, this will weigh in favour of the payment of an exit credit (either in full or in part dependent on the circumstances); and
Any other relevant factors.	Dependent on the factor in question.

In making a determination under paragraph 10, the Administering Authority will take such legal and actuarial advice as it considers appropriate.

12. The Administering Authority will notify each of the parties identified in paragraph 8 of the amount of any surplus which it has determined should be returned to the exiting employer, if any (the "**exit credit**").

13. The Administering Authority will, unless otherwise agreed with the exiting employer, pay any exit credit to the exiting employer within 6 months of the later of the exit date and the date when the employer has provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final assets and liabilities on exit.

July 2023

COMMUNICATIONS POLICY STATEMENT

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 Council 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	Once a year or upon 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

PARTICIPATING BODIES AND CONTRIBUTION RATES

The contribution rates of participating bodies as set by the Fund's actuary at the most recent valuation, are shown below, expressed as a percentage of employees' pensionable pay and an additional annual payment where applicable:

Employer	Employer Contributions: % of pensionable pay	Employer Contributions: Additional Annual Payment (£)
Ad Astra Academy Trust	19.90%	
Advance Learning Partnership	19.90%	
Apollo Studio Academy	21.40%	
Aramark	19.30%	

Employer	Employer Contributions: % of pensionable pay	Employer Contributions: Additional Annual Payment (£)
Ascent Academies Trust/Hopewood	17.70%	
Barnard Castle Town Council	19.50%	
Believe Housing (County Durham Housing Group)	27.10%	184,000
Bishop Auckland College	19.30%	43,000
Bishop Auckland Town Council	19.50%	
Bishop Chadwick CET	23.70%	
Bishop Hogarth CET	21.30%	
Bishop Wilkinson CET	24.00%	
Blackwell Grange Golf Club Ltd	18.30%	
Bowes Museum	0.00%	
Brandon & Byshottles Parish Council	19.50%	
Bulloughs (Police Contract)	38.90%	
Bulloughs (Swift)	38.90%	
Bulloughs (Eden)	38.90%	
Cestria Housing (Karbon Homes)	27.00%	
Chartwells	24.30%	
Chilton Town Council	19.50%	
Churchill Contract Services (St Johns Cleaning)	35.80%	2,710
Cleves Cross Academy Trust/ Together Learning Partnership	20.00%	
Co Durham & Darlington Fire & Rescue Service	17.60%	22,300
Creative Management	18.90%	
Darlington Borough Council	18.40%	280,000
Darlington College	18.30%	
Derwentside College	20.30%	92,000
Derwentside Homes (Karbon Homes)	27.00%	
Durham City Parish Council	19.50%	
Durham County Council	18.10%	6,896,000
Durham & Newcastle Diocesan Learning Trust	20.00%	
Durham Police & Crime Commissioner	16.20%	
Easington Colliery Parish Council	19.50%	
Easington Village Parish Council	19.50%	
East Durham College	19.50%	83,000
Eden Academy Trust	20.10%	
Eden Learning Trust	21.50%	
Education Village	17.60%	
Framwellgate School /Excel Academy Partnership	18.20%	
Federation of Mowden Schools Academy Trust	19.60%	
Ferryhill Town Council	19.50%	
Firthmoor Primary School	21.50%	
Fishburn Parish Council	19.50%	
Framwellgate Moor Parish Council	19.50%	
Future Leisure in Coxhoe	10.20%	
Great Aycliffe Town Council	19.50%	
Greater Willington Town Council	19.50%	

Employer	Employer Contributions: % of pensionable pay	Employer Contributions: Additional Annual Payment (£)
Haswell Parish Council	19.50%	
Horden Parish Council	19.50%	
Hummersknott Academy Trust	20.60%	
Hutton Henry Parish Council	19.50%	
Investing in Children CIC	18.10%	
Jigsaw Learning Trust	25.20%	
King James I Academy	18.40%	
Laidlaw	18.90%	
Lanchester Parish Council	19.50%	
Lingfield Education Trust	20.10%	
Livin Housing Limited	26.00%	
Making Space	18.30%	
Mears	18.60%	
Melrose Learning Trust	23.90%	
MITIE	0.00%	
Monk Hesledon Parish Council	19.50%	
Murton Parish Council	19.50%	
Murton Welfare Association	0.00%	
New College Durham	20.40%	
New College Durham Academies Trust	17.70%	
New Seaham Academy	20.40%	
North East Learning Trust	19.50%	
OCS Group Ltd	18.10%	
Park View Academy	20.40%	
Peterlee Town Council	19.50%	
Providence Learning Partnership	14.90%	
Queen Elizabeth Sixth Form College	20.70%	
RCCN	22.00%	
Reed in Partnership	20.40%	
Reid Street Primary School	21.00%	
Ribbon Academy Trust	19.40%	
Science Museum Group	18.10%	
Seaham Town Council	19.50%	
Sedgefield Town Council	19.50%	
Shildon Town Council	19.50%	
Shincliffe Parish Council	19.50%	
Shotton Parish Council	19.50%	
South Hetton Parish Council	19.50%	
Spennymoor Town Council	19.50%	
St Aidan's CE Academy	14.20%	
Stanley Learning Partnership	22.60%	
Stanley Town Council	19.50%	
Swift Academies	20.00%	
The Federation of Abbey Schools Academy Trust	19.60%	
The Forge	0.00%	

Employer	Employer Contributions: % of pensionable pay	Employer Contributions: Additional Annual Payment (£)
Thornley Parish Council	19.50%	
Trimdon Foundry Parish Council	19.50%	
Trimdon Parish Council	19.50%	
Tudhoe Learning Trust	23.10%	
UTC South Durham	17.40%	
We Are With You	18.40%	
West Park Academy (Shared Vision LT)	17.10%	
Wheatley Hill Parish Council	19.50%	
Wingate Parish Council	19.50%	
Winston Parish Council	19.50%	
Wolsingham Parish Council	19.50%	
Woodard Academies/Polam Hall	19.20%	
Wyvern Academy (Consilium Academies)	17.50%	
YS Services (Embracing Care)	18.10%	
1Excellence Academy	17.60%	

MEMBERSHIP STATISTICS

The following table provides details of the number of pensionable employees in the scheme and the number of pensioners.

Scheduled Bodies	Number of Pensionable Employees as at 31/03/2023	Number of Pensionable Employees as at 31/03/2024	Number of Pensioners as at 31/03/2023	Number of Pensioners as at 31/03/2024
Co Durham & Darlington Fire and Rescue	136	121	86	93
Darlington Borough Council	2,045	1,991	2,364	2,469
Durham County Council	14,054	13,003	16,094	16,523
Durham Police and Crime Commissioner	1,177	1,140	623	672
Parish Councils	62	62	48	51
Town Councils	201	182	165	178
1Excellence MAT	27	31	1	1
Ad Astra Academy Trust	0	30	0	0
Advanced Learning Partnership	705	707	92	126
Apollo Studio Academy	10	10	5	5
Ascent Academies Trust (Hopewood)	95	95	9	10
Bishop Auckland College	230	198	139	146
Bishop Chadwick	181	157	14	23
Bishop Hogarth CET	550	474	73	103
Bishop Wilkinson CET	489	489	39	54
Cleves Cross Academy Trust	51	46	12	12
Darlington College	280	238	166	194
Derwentside College	134	125	131	141
Durham & Newcastle Diocesan Learning Trust	173	154	19	25
East Durham College	313	269	175	184
Eden Academy Trust	4	30	0	0
Eden Learning Trust	356	344	64	74
Education Village	234	221	28	33
Federation of Mowden Schools Academy Trust	52	43	7	8
Firthmoor Primary	20	20	3	5
Investing in Children	1	1	4	4
Jigsaw Learning Trust	17	17	4	4
Laidlaw	96	95	0	5
Lingfield Education Trust	186	231	29	32
Melrose Learning Trust	134	126	22	28
New College Durham	517	498	262	289
New College Durham Academies Trust	114	250	40	46
New Seaham Primary School	9	10	2	4

Scheduled Bodies	Number of Pensionable Employees as at 31/03/2023	Number of Pensionable Employees as at 31/03/2024	Number of Pensioners as at 31/03/2023	Number of Pensioners as at 31/03/2024
North East Learning Trust	317	285	57	68
Park View Academy	75	70	15	15
Providence Learning Trust	0	67	0	1
Queen Elizabeth Sixth Form College	78	78	45	49
Reid Street Primary School	29	26	7	11
Ribbon Academy Trust	62	46	13	15
St Aidans CE Academy	22	23	20	21
Stanley Learning Partnership	195	212	16	25
Swift Academies Trust	162	156	53	67
The Excel Academy Partnership	89	77	9	10
Tudhoe Learning Trust	193	161	23	31
UTC South Durham	29	30	1	1
West Park Academy	61	45	12	12
Woodard Academies Trust (Polam Hall)	55	70	16	21
Wyvern Academy (formerly DSMS)	37	45	16	19

Admission Bodies	Number of Pensionable Employees as at 31/03/2023	Number of Pensionable Employees as at 31/03/2024	Number of Pensioners as at 31/03/2023	Number of Pensioners as at 31/03/2024
Believe Housing Group	610	631	112	128
Derwentside Homes	122	109	144	149
Livin	139	133	69	73
Cestria Community Housing	90	75	55	57
Aramark Limited	1	1	0	0
Barnard Castle School	12	0	59	59
Blackwell Grange Golf Club	1	1	2	2
Bowes Museum	1	1	17	17
Bulloughs (Hopewood)	0	1	0	0
Bulloughs (NCD)	3	0	1	2
Bulloughs (SWIFT)	12	9	2	2
Bulloughs Cleaning Services (Police Contracts)	17	11	9	13
Chartwell's	33	37	0	3
Churchill (St John's)	4	0	0	1
Churchill Contract Services Ltd	1	1	1	4
Compass Group UK	1	0	6	6
Creative Management (Laidlaw Catering)	0	8	0	0

Admission Bodies	Number of Pensionable Employees as at 31/03/2023	Number of Pensionable Employees as at 31/03/2024	Number of Pensioners as at 31/03/2023	Number of Pensioners as at 31/03/2024
Former Employers	0	0	576	563
Future Leisure in Coxhoe	3	2	0	1
Harbour Support	2	0	0	0
Making Space	9	9	18	18
Mears	29	27	69	71
Mellors	2	0	2	3
Mitie PFI	1	0	3	4
Murton Welfare Association	2	1	1	0
OCS Group Ltd	5	3	0	2
Reed In Partership	3	1	1	1
Science Museum Group	13	10	3	3
The Forge	1	1	0	0
YS Services	44	31	27	33
Totals	**25,218**	**23,902**	**22,200**	**23,123**

GLOSSARY OF TERMS

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.

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.

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.

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.

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

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.

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).

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.

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.

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.

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.

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) s 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.

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.

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.

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.

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 LPGS 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.

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.

CONTACTS FOR FURTHER INFORMATION

For further information on issues relating to the Pension Fund, please contact the Corporate Director of Resources.

Telephone	03000 260 000
Email	help@durham.gov.uk

or you can write to:

Corporate Director of Resources
Durham County Council
County Hall
DURHAM
DH1 5UE

or visit Durham County Council's website at www.durham.gov.uk

Audit Completion Report

Durham County Council Pension Fund – year ended 31 March 2024

22 November 2024

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Members of the Durham County Council Audit Committee

Durham County Council

County Hall

Durham

DH1 5UQ

22 November 2024

Forvis Mazars

The Corner

Bank Chambers

26 Mosley Street

Newcastle-upon-Tyne
NE1 1DF

Dear Committee Members,

Audit Completion Report – Year ended 31 March 2024

We are pleased to present our Audit Completion Report for Durham County Council Pension Fund for the year ended 31 March 2024. The purpose of this report is to summarise our audit findings and conclusions. The scope of our work, including identified significant audit risks, and other key judgement areas, was outlined in our Audit Strategy Memorandum, which we presented to you on 20 May 2024.

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We have reviewed our Audit Strategy Memorandum and concluded that the significant audit risks and other key judgement areas set out in that report remain appropriate.

We would like to express our thanks for the assistance of your team during our audit. If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0191 383 6339.

Yours faithfully,

Mark Outterside

Forvis Mazars LLP

Contents

01

Executive Summary

Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2023/24 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- management override of controls; and
- Valuation of Level 3 (unquoted) investments.

Misstatements and internal control recommendations

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2024.

At the time of preparing this report, certain matters remain outstanding and are outlined in Section 2.

We will provide an update to you in relation to the significant matters outstanding through issuance of a follow up letter.

Audit opinion
We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Consistency report
We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of Durham County Council. Our draft consistency report is provided in Appendix C.

Wider powers
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 Fund and to consider any objection made to the accounts.

02

Status of the audit

Status of our audit

Our audit work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the satisfactory resolution of the outstanding matters set out below.

Investment Assets This comprises review procedures on testing of investment assets and classification within the accounts.	Green
Annual Report This includes reviewing the final version of the Statement of Accounts with the balances disclosed in the Annual Report and completing quality review procedures.	Green
Audit Closure Procedures These are our standard closure procedures including: reviewing the final version of the Statement of Accounts, consideration of post-balance sheet events and completing our final quality review procedures.	Green

Status

Red	Likely to result in a material adjustment or a significant change to disclosures in the financial statements.
Amber	Potential to result in a material adjustment or a significant change to disclosures in the financial statements.
Green	Not considered likely to result in a material adjustment or a change to disclosures in the financial statements.

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03

Audit Approach

Audit Approach

Changes to our audit approach

There have been no changes to the audit approach we communicated in our Audit Strategy Memorandum, issued on 20 May 2024.

Materiality

Our provisional performance materiality at the planning stage of the audit was set at £28.391m using a benchmark of 1% of net assets available to pay benefits. We set a provisional specific materiality for the Fund Account of £11.575m at the planning stage of the audit using a benchmark of 10% of benefits payable.

Based on the final financial statement figures and other qualitative factors, performance materiality was set at £29.766m; the trivial threshold was set at £1.116m and the final specific materiality for the Fund Account was £12.991m.

Use of experts

As detailed in our Audit Strategy Memorandum, management makes use of experts in specific areas when preparing the financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account. There have been no changes to our or management's use of experts since the Audit Strategy Memorandum was issued.

Item of Account	Management's Expert	Our expert
Disclosure notes on funding arrangements and actuarial present value of promised retirement benefits.	Aon Hewitt	NAO's consulting actuary
Financial instrument disclosures	Mercer Limited	None.

Service organisations

The table below summarises the service organisations used by the Pension Fund and our planned audit approach. There has been no change to the service organisation used or our planned audit approach since the ASM was issued.

Issue	Impact on audit opinion	Audit Approach
Investment valuations and related disclosures Investment income and related disclosures	Investment managers Custodian	Substantive testing of in-year transactions and valuations applied to investments at the year-end

04

Significant findings

Significant findings

Significant findings, including key areas of management judgement

The significant findings from our audit include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 13 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant Risks

Management override of controls

Description of the risk

This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.

In all entities, 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- accounting estimates impacting amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements

Audit conclusion

Our work has provided the required assurance, and we have no matters to report.

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Significant findings

Valuation of Level 3 (Unquoted) Investments

Description of the risk

4.Significant findings
As at 31 March 2024, the fair value of investments classified within level 3 of the fair value hierarchy was £446.445m, accounting for 12.0% of the Fund's net investment assets. These investments are not quoted on an active market, and their value is estimated using unobservable inputs, which increases the risk of material misstatement. The values of level 3 investments are provided by fund managers.

How we addressed this risk

In addition to our standard program for investments, we performed the following additional procedures:

- compared holdings from fund manager reports to the global custodian's report;
- agreed the valuation to supporting documentation including the investment manager valuation statements and cash flows for any cash adjustments made to the investment manager valuation;
- agreed the investment manager valuation to audited accounts or other independent supporting documentation, where available;
- where audited accounts were available, checked that they are supported by an unmodified opinion;
- reviewed the valuation methodologies for reasonableness through review of valuation policies within audited financial statements and challenge of the fund manager, where necessary;

Audit conclusion

We compared the holdings from the fund manager reports (BCPP, CBRE, Foresight) to those received from the custodian Northern Trust. For the fund manager CBRE, we identified differences in the holdings figures compared to Northern Trust and have reported this as an internal control deficiency in Section 5 of this report. We have no other issues to report.

We have agreed the market values of investments held by the Fund to valuations provided by the fund managers. We have identified differences amounting to £8.048m when comparing market values for the Fund and the fund manager BCPP. This has been reported in Section 6. We have no other issues to report.

We have compared the market values communicated by the fund managers to information provided by the custodian. We have identified differences in market values provided by the fund manager CBRE and the custodian and have reported these within Section 5 of this report. We have no other issues to report.

We have reviewed the valuation methodologies provided by each fund manager and have no issues to report.

Significant findings

Qualitative aspects of the Fund's accounting practices

We have reviewed the Fund's accounting policies and disclosures and concluded they comply with the 2023/24 Code of Practice on Local Authority Accounting, appropriately tailored to the Fund's circumstances.

Draft accounts were received from the Fund on 30 May 2024 and were of a good quality.

Significant matters discussed with management

During our audit we communicated the following significant matters to management:

- Understanding the reasons for differences between the information provided by fund managers BCPP and CBRE and the information per the custodian Northern Trust, specifically where there are non-trivial differences in holdings and/or fair values. This has been reported as part of our internal control conclusions within section 5 of this report.

Significant findings

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2023/24 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account.

05

Internal control conclusions

Internal control conclusions

Overview of engagement

As part of our audit, we obtained an understanding of the Fund's internal control environment and control activities relevant to the preparation of the financial statements, which was sufficient to plan our audit and determine the nature, timing, and extent of our audit procedures. Although our audit was not designed to express an opinion on the effectiveness of the Fund's internal controls, we are required to communicate to the Audit Committee any significant deficiencies in internal controls that we identified in during our audit.

Deficiencies in internal control

A deficiency in internal control exists if:

- a control is designed, implemented, or operated in such a way that it is unable to prevent, detect, and/ or correct potential misstatements in the financial statements; or
- a necessary control to prevent, detect, and/ or correct misstatements in the financial statements on a timely basis is missing

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we have considered the Fund's internal controls relevant to the preparation of the financial statements to design audit procedures to allow us to express an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal controls or to identify any significant deficiencies in their design or operation.

The matters reported in this section of our report are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and which we consider to be of sufficient importance to merit being reported.

If we had performed more extensive procedures on internal control, we might have identified more deficiencies to report or concluded that some of the reported deficiencies need not in fact have been reported.

Our comments in this section should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The deficiencies in the Fund's internal controls that we have identified as at the date of this report are in set out on the following pages.

Significant deficiencies in internal control

A significant deficiency in internal control is one which, in our professional judgement, has the potential for financial loss, damage to reputation, or a loss of information which may have implications on the achievement of business strategic objectives. Our view is that observations categorised as a significant deficiency is of sufficient importance to merit the attention of the Audit Committee.

We have not identified any significant deficiencies in the Fund's internal controls as at the date of this report.

Other observations

We also record our observations on the Fund's internal controls where, in our professional judgement, there is a need to strengthen internal control or enhance business efficiency that do not constitute significant deficiencies in internal control but which we view as being important for consideration by management.

We do not have any other internal control observations to bring to your attention as at the date of this report.

Whether internal control observations merit attention by the Audit Committee and/ or management is a matter of professional judgment, taking into account the risk of misstatement that may arise in the financial statements as a result of those observations.

Internal control conclusions

Deficiencies in internal control - MEDIUM

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

During the course of the audit testing on Level 3 investments, we discovered differences in the reporting of holdings values by the fund manager, CBRE, and the Custodian, Northern Trust.

Our audit work identified that the report from the Custodian (Northern Trust) discloses a share/Par (nominal) value in the report which equates to the holdings value for some investments (9 of 18 tested in our sample) and the investment cost value for other investments (9 of 18 tested in our sample). Where we compared the share/Par value to the holdings value per CBRE, no significant differences (threshold: 100,000 and/or 5%) in the holdings' value were identified. However, for 8 investments where we compared the share/Par value to the investment cost, the difference exceeded our tolerable threshold.

Potential effects

The market value of investments is derived from calculating a net asset value (NAV) per units and multiplying by the number of units (holdings) held for a particular investment. If the holdings value were to be significantly over/undervalued, the difference in the market value could increase beyond trivial limits and, if applied to several investments, could give rise to a material misstatement in the Level 3 investments balances included in the financial statements of Durham County Council Pension Fund.

NB: we performed additional audit work to calculate an indicative error in the market value of Level 3 investments if the unit holdings per the custodian Northern Trust were to be used instead of those per fund manager CBRE. This identified an indicative error of £7.217m.

Recommendation

The Pension Fund accounting team should discuss the matter further with CBRE and Northern Trust to fully understand the reason for differences in the reporting of holdings values. There should be an ongoing review of all information communicated to DCCPF by CBRE and Northern Trust to ensure consistency between information provided.

Management response

We continue to work with both CBRE and Northern Trust to review all information communicated to DCCPF.

Internal control conclusions

Deficiencies in internal control - MEDIUM

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

During the course of our audit testing on Level 3 investments, we discovered that there are differences in the market value reported by the fund manager, CBRE, and the custodian, Northern Trust.

£15.901m of these differences are related to two securities: Healthcare Activos and CBRE Europe Logistics. While the Fund's accounts are consistent with the balances per CBRE, it is unclear why these balances do not agree with the figures reported by Northern Trust.

Management have followed this up with CBRE and Northern Trust, and have obtained the following explanations for the differences in market values:

1. Healthcare Activos

The difference for the reported market values for this investment is due to different market value per units being used by the fund manager vs Northern Trust. CBRE have used a market value of €2.60/unit and Northern Trust have used a market value of €1.33/unit. We have assessed the financial statements of Healthcare Activos and have calculated a market price of €2.66 /unit. This is consistent with the statement from CBRE at 31 March 2024.

Northern Trust confirmed the information they received from CBRE related to listed shares and that they are receiving a market price from the Spanish stock exchange for these daily. However, it remains unclear why the figure per the Spanish stock exchange differs from those in the CBRE capital statements and Healthcare Activos' financial statements.

2. CBRE Europe Logistics

CBRE have confirmed, in May 2022, CBRE Europe Logistics Venture was formed after a merger between two other funds: CBRE Logistics Venture and CBRE European Investment Fund. The Investment Value reported by CBRE (per CBRE's capital statement) as at 31/3/2024 is €11.4m. This is consistent with the value in DCCPF's accounts. We compared the figures to those within the report from Northern Trust (Custodian) which reported a market value of €1. DCCPF have queried this matter with both CBRE and NT to establish the reason for the difference. NT explained that they needed to amend their system to reflect that the 2 assets (CBRE Europe Logistics Partners and CBRE Logistics Venture) have merged. We can confirm that, in November 2024, the Pension Fund have provided information they have received from Northern Trust which indicates Northern Trust have amended their records to reflect the market value reported by the fund manager CBRE.

Potential effects

Information relating to the market value of investments at the year-end could be materially misstated in the Fund's financial statements.

Recommendation

Management should seek to obtain a better understanding of the information provided in the reports from CBRE and Northern Trust. Management should also conduct a regular (minimum quarterly) review of information received from CBRE and Northern Trust and, where any significant differences arise in the figures communicated from CBRE and Northern Trust, discuss the matter with the organisations to establish the reasons for the differences arising.

Management response

We continue to work with both CBRE and Northern Trust to review all information received. Regular reviews will be undertaken and a detailed review will be undertaken in connection with the Healthcare Activos Audit findings.

Internal control conclusions

Deficiencies in internal control - LOW

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

On a monthly basis, management review the value of all investments invested with each fund manager and reallocate funds according to their investment strategy. This is recorded and monitored on a spreadsheet in the first instance before a journal is posted to move balances between different funds. During our walkthrough of the Investments key business process, we reviewed the process for preparing and reviewing the journal for rebalancing investment transactions. While the journal had been created during the audit year, it had not been posted until April 2024.

We note that, from discussion with officers, the journals were being monitored in a spreadsheet (external to the GL) and the spreadsheet was updated each month. Therefore, a monthly check/control was in place throughout the period.

Potential effects

There is a possibility the transactions are not correctly recorded in the general ledger due to omission of journals which should have bene posted. This could have a material impact on the investments balances reported in the Pension Fund's financial statements.

Recommendation

Journals to be prepared and posted to the general ledger on a timely basis following the rebalancing transactions being recorded in the spreadsheet used to track the transactions.

Management response

Due to a staff shortages, this journal was posted at year end instead of earlier in the year. Moving forward, all journals will be posted as part of the monthly reconciliation process. We have reviewed our processes and determined that, in the event where there is a repeat of this staff absence, the journal will instead be prepared by the Principal Accountant and authorised by the Finance Manager.

Internal control conclusions

Deficiencies in internal control - LOW

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

The December 2023 reconciliation for the fund manager CBRE was carried out by the Principal Accountant on 29 February 2024. The reconciliation directly reconciles book value of investments per general ledger to the fund manager's reports.

Due to staff shortages, this reconciliation was undertaken as part of the year-end closedown process by senior team staff so it was not checked and authorised by another senior employee.

Potential effects

There is a possibility the transactions are misreported, and this could have a material impact on Pension Fund financial statements.

Recommendation

Monthly reconciliations, reviewed and authorised by an appropriate level employee, are to be reinstated as a monthly activity.

Management response

Due to staff long-term absence, this journal was posted as part of the year end closedown process. The reconciliation will be reinstated as a monthly exercise going forward, with clear authorisation included.

Internal control conclusions

Deficiencies in internal control - LOW

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

There is an annual reconciliation of the market value of investments from fund manager statements to statements from the custodian. This reconciliation should be signed as prepared and reviewed.

When we reviewed the reconciliation as part of our walkthrough of critical business processes, we observed that the reconciliation had not been signed as being prepared and reviewed as expected.

Potential effects

There is a possibility that misstatements are carried through the reconciliation as they have not been sufficiently reviewed, which may in turn lead to misstatements in the figures reported for the purchases, sales and market value of investments reported in the Pension Fund's accounts.

Recommendation

Management should ensure that an appropriate member of staff reviews the reconciliation once prepared and records evidence of this review on the reconciliation document.

Management response

Due to staff long-term absence, the reconciliation was prepared by senior team staff. Reviews of the reconciliation will be reinstated as a monthly exercise going forward with clear authorisations processes included.

Internal control conclusions

Deficiencies in internal control - LOW

In our view, there is a need to address the deficiencies in internal control set out in this section (which are not deemed to be significant deficiencies) to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Description of deficiency

From the most recent Data Protection Policy document reviewed as part of our audit, we noted this was last reviewed in June 2021. Per the document, the next review was due on 28 June 2023. Management have confirmed the review was not completed in 2023 due to staffing shortages. We however note that the Data Protection Review Policy also states it should be reviewed at least every 3 years, so this is within expected timescales at 31 March 2024.

Potential Effects

The policy may be out of date and may not include required amendments and updates regarding the Council's approach to ensuring data protection.

Recommendation

Management should ensure the Data Protection Policy is reviewed in line with the timescales contained within the Data Protection Policy document.

Management response

The Policy review commenced in September 2024. We can confirm that the Data Management team have employed a new member of staff who will be looking to review and update a number of policies in the coming weeks, including the Data Protection Policy.

Internal control conclusions

Follow up on previous internal control points - MEDIUM

We set out below an update on internal control points raised in the prior year.

Description of deficiency

During the course of the audit testing on Level 3 investments, we discovered that there are differences in the reporting of holdings values by the fund manager, CBRE, and the Custodian, Northern Trust.

There is currently no reconciliation of the holdings values communicated by the fund managers to those reported by the custodian.

Potential effects

The market value of investments is derived from calculating a net asset value (NAV) per units and multiplying by the number of units (holdings) held for a particular investment. If the holdings value were to be significantly over/undervalued, the difference in the market value could increase beyond trivial limits and, if applied to a large number of investments, could give rise to a material misstatement in the Level 3 investments balances included in the financial statements of Durham County Council Pension Fund.

Recommendation

The Pension Fund accounting team should discuss the matter further with CBRE and Northern Trust to fully understand the reason for differences in the reporting of holdings values. There should be an ongoing review of all information communicated to DCCPF by CBRE/Northern Trust to reconcile the information provided.

Management Response

Officers will discuss with NT and CBRE our end user requirements from reporting. Further work via the Pool will also be fed back into this action.

2023/24 update

Management have contacted CBRE and Northern trust regarding the differences in holdings figures and their associated market values communicated by each party. Work performed to date has helped to establish the reasons for differences in communicated figures, particularly for CBRE European Logistics Venture and Healthcare Activos. However, there are still differences in information that need to be resolved. Consequently, this has been retained as a deficiency for the current year. Management should continue to discuss the issues with CBRE and Northern Trust and consider implementing a reconciliation to check for any differences in communicated information from Northern Trust and CBRE on a quarterly basis.

Internal control conclusions

Follow up on previous internal control points - MEDIUM

We set out below an update on internal control points raised in the prior year.

Description of deficiency

During the course of our audit work, we attempted to agree the balances for the book (holdings) value of Level 3 investment assets per the Pension Fund's records to balances per the confirmations received from the fund manager Border to Coast Pensions Partnership (BCPP) and the custodian Northern Trust. There were significant differences between the figures per BCPP and Northern Trust, so it was unclear what the correct value was for the book cost/holdings value of these investments.

Potential effects

Information relating to the market value of investments and holdings at the year-end could be materially misstated in the Pensions Fund's financial statements.

Recommendation

The Pension Fund accounting team should seek to obtain an improved understanding of the information provided in the reports from BCPP and Northern Trust. The Pension Fund should also conduct a regular review of information received from BCPP and Northern Trust and, where any significant differences arise in the figures communicated from BCPP and Northern Trust, discuss the matter with the organisations to establish the reasons for the differences arising.

Management Response

Discussion has commenced with BCPP regarding our end user reporting requirements. A wider action plan is now being developed in which both DCC and BCPP officers will discuss separately with Northern Trust the overall system reports requirement. We have also commenced networking groups with other pension authorities to identify best practice and report change requirements requests to both BCPP and Northern Trust.

2023/24 update

Management have made significant progress with this during the year, liaising with both BCPP and with partner Pension Funds to better understand any differences in holdings values (book cost) communicated by BCPP and Northern Trust. A comparison of the holdings/book cost values communicated by BCPP and those per Northern Trust for 31 March 2024 gave an indictive difference in market value of £0.614m,. This is within the trivial limits and no further issues are arising in 2023/24.

Internal control conclusions

Follow up on previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

As part of the Pension Fund's control environment for contributions receivable, the accounting team prepare a year-end reconciliation between the cashbook and GL. This reconciliation is expected to be reviewed and authorised by a senior officer. When we obtained a copy of the reconciliation, we were unable to establish if this review had been completed by a senior officer.

Potential effects

There is a risk that the year-end reconciliation may not be accurate and the contributions receivable figure may not agree to cash book records. This could mean the figure for contributions receivable is not appropriately stated within the Fund's financial statements.

Recommendation

The accounting team should ensure the year-end reconciliation is reviewed by a senior officer and this review is evidenced on a copy of the reconciliation control document.

Management Response

Year-end process reflection is diarised for December 2023. This recommendation will be included in the discussion points.

2023/24 update

From a review of the reconciliation for the year ended 31 March 2024, the reconciliation of the cash book and the GL had been signed and approved by appropriate officers. Therefore, no issues arising in respect of this issue in 2023/24.

06

Summary of misstatements

Summary of misstatements

We set out below and on the following pages a summary of the misstatements we identified during our audit, above the trivial threshold for adjustment of £1.116m.

The first table in this section sets out the misstatements we identified which management has assessed as not being material, individually or in aggregate, to the financial statements and does not plan to adjust. The second table outlines the misstatements we identified that have been adjusted by management.

Our overall materiality, performance materiality, and clearly trivial (reporting) threshold were reported in our Audit Summary Memorandum, issued on 20 May 2024. Any subsequent changes to those figures are set out in the section 3 of this report.

Unadjusted misstatements

Management has assessed the misstatements in the table below as not being material, individually or in aggregate, to the financial statements and does not plan to adjust. We only report to you unadjusted misstatements that are either material by nature or which exceed our reporting threshold.

Details of adjustment	Fund Account		Net Asset Statement	
	Dr (£'000s)	Cr (£'000s)	Dr (£'000s)	Cr (£'000s)
Dr: Pooled Private Equity			3,501	
Dr: Pooled Private Credit			2,079	
Dr: Pooled Infrastructure			2,256	
Dr: Climate Opportunities			212	
Cr: Change in Market Value of Investments		- 8,048		
Being an adjustment to recognise the difference in the valuation of Level 3 investment between BCPP and the Pension Fund at 31 March 2024.				

forvis mazars

Summary of misstatements

Details of adjustment	Fund Account		Net Asset Statement	
	Dr (£'000s)	Cr (£'000s)	Dr (£'000s)	Cr (£000's)
Dr: Book cost of investments Cr: Investment income **Being an adjustment to remove reversals in investment income related to prior periods and allocate costs to the book costs of investments.**		- 4,401	4,401	
Dr: Management expenses Cr: Book cost of investments **Being an adjustment for differences in the book cost debited to transaction costs rather than the book value of investments.**	6,335			-6,335
Dr: Change in Market Value Cr: Investment assets **Being an adjustment for distributions and rebates for private market investments with the fund manager BCPP.**	2,783			- 2,783
Aggregate Effect of Unadjusted Misstatements		**-3,331**	**3,331**	

We will obtain written representations confirming that, after considering the unadjusted misstatements, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments are required.

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Summary of misstatements

Disclosure misstatements

We identified the following disclosure misstatements during our audit that have been corrected by management:

- General: several other changes were made to the financial statements not requiring individual analysis.
- Note 1 - Fund membership: figure amended to reflect total number of employing authorities within the Fund.
- Note 3 - Accounting Standards issued but not yet adopted amended to reflect IFRS9 and IFRS7 and IFRS18 accounting standard changes.
- Note 8 - Contributions receivable: amendment to swap the figures stated for scheduled bodies to admitted bodies and vice versa.
- Note 11 - Management Expenses: amendment for the figures to reflect the audit fees for 2022/23 and 2023/24.
- Note 11 - Management Expenses: reclassification of management fees and transaction costs for £6.3m.
- Note 12 - Investment Income: amendment to classification for dividends from equities and interest in cash deposits.
- Note 14 - Investments: amendment to balances for other investment assets and other investment liabilities to reflect figures per the Net Assets Statement.
- Note 14 - Investments: disclosure amendment for the total investment liabilities balances not managed by investment managers.
- Note 14 - Investments: analysis of investments disclosure amended for other investment assets and other investment liabilities for 2023/24.
- Note 15 - Financial Instruments: amendment to the classification of derivative contracts as fair value through profit or loss.
- Note 15 - Financial Instruments: amendment to reflect the reclassification of BCPP investments within the Authorised Contractual Scheme from fair value level 1 to fair value level 2.
- Note 16 - Financial Instruments: currency risk sensitivity analysis updated to be consistent with the balance per the Net Assets Statement (10.825m).
- Note 19 - Additional Voluntary Contributions: the note has been amended for information provided by Prudential which was not available to officer when the draft accounts were produced.
- Note 20 - Related Party Transactions: comparator figures added to confirm prior year material related party transactions balances.
- Note 21 - Contingent Assets and Liabilities: disclosure added for the Virgin Media High Court ruling.
- Note 22 - Funding Arrangements: minor amendment to mortality assumptions

We will obtain written representations confirming that, after considering the unadjusted disclosure misstatements, both individually and in aggregate, in the context of the annual report and financial statements taken as a whole, no adjustments are required.

Appendices

Appendix A: Draft management representation letter

To be provided on client headed paper, signed by the s151 officer and dates as close to (but not after) the date of the audit report as possible.

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

15 November 2024

Dear Mark

Durham County Council Pension Fund - Audit for Year Ended 31 March 2024

This representation letter is provided in connection with your audit of the financial statements of Durham County Council Pension Fund (the Pension Fund) for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code), and applicable law.
I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code, as amended by the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund, you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Corporate Director of Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund and committee meetings, have been made available to you.

Appendix A: Draft management representation letter

To be provided on client headed paper, signed by the s151 officer and dates as close to (but not after) the date of the audit report as possible.

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Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Pension Fund's financial position, financial performance and cash flows.

Accounting estimates

I confirm that the methods, significant assumptions and the data used by the Pension Fund in making the accounting estimates are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:
- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Pension Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code, as amended by the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Corporate Director of Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error and I believe I have appropriately fulfilled those responsibilities.

I have disclosed to you:
- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund involving:

Appendix A: Draft management representation letter

To be provided on client headed paper, signed by the s151 officer and dates as close to (but not after) the date of the audit report as possible.

- management and those charged with governance;
- employees who have significant roles in internal control; and
- others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code, as amended by the Code and applicable law.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Charges on assets

All the Pension Fund's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments

The Pension Fund has no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code, as amended by the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Specific Representation of Level 3 investments

Level 3 investments are included in the Net Assets Statement at the value provided by our fund managers which have been estimated in accordance with the guidelines used by the industry and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, that the valuations are materially correct, and am not aware of any subsequent events that would have a material impact on the estimated value of the level 3 investments.

Appendix A: Draft management representation letter

To be provided on client headed paper, signed by the s151 officer and dates as close to (but not after) the date of the audit report as possible.

Unadjusted misstatements

We confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

Yours faithfully,

Paul Darby, Corporate Director of Resources

29 November 2024

Appendix A: Draft management representation letter

To be provided on client headed paper, signed by the s151 officer and dates as close to (but not after) the date of the audit report as possible.

Appendix

Schedule of unadjusted misstatements

	Fund Account		Net Assets Statement	
	Dr (£000's)	**Cr (£000's)**	**Dr (£000's)**	**Cr (£000's)**
Dr: Pooled Private Equity			3,501	
Dr: Pooled Private Credit			2,079	
Dr: Pooled Infrastructure			2,256	
Dr: Climate Opportunities			212	
Cr: Change in Market Value of Investments		-8,048		
Being an adjustment to recognise the difference in the valuation of Level 3 investment between BCPP and the Pension Fund at 31 March 2024.				
Dr: Book cost of investments			4,401	
Cr: Investment income		-4,401		
Being an adjustment to remove reversals in investment income related to prior periods and allocate costs to the book costs of investments.				
Dr Management expenses	6,335			
Cr Book cost of investments				-6,335
Being an adjustment for differences in the book cost debited to transaction costs rather than the book value of investments.				
Dr Management expenses	2,783			
Cr Investment assets				-2,783
Being an adjustment for distributions and rebates for private market investments with the fund manager BCPP.				
Aggregate Effect of Unadjusted Misstatements		**-3,331**	**3,331**	

Appendix B: Draft audit report

Report on the audit of the financial statements

Opinion on the financial statements of Durham County Council Pension Fund

We have audited the financial statements of Durham County Council Pension Fund (‘the Pension Fund’) for the year ended 31 March 2024, which comprise the Fund Account, the Net Assets Statement, and notes to the financial statements, including a summary of material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2024, and the amount and disposition of the Pension Fund’s assets and liabilities as at 31 March 2024; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities section of our report. We are independent of the Council, as administering authority for the Pension Fund, in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Corporate Director of Resources’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, and taking into account the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Corporate Director of Resources with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the Annual Governance Statement and other information included in the Statement of Accounts, other than the financial statements and our auditor’s report thereon. The Corporate Director of Resources is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in that regard.

Appendix B: Draft audit report

Responsibilities of the Corporate Director of Resources for the financial statements
As explained more fully in the Statement of the Corporate Director of Resources' Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, and for being satisfied that they give a true and fair view. The Corporate Director of Resources is also responsible for such internal control as the Corporate Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Corporate Director of Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution of the Pension Fund without transfer of services or function to another entity. The Corporate Director of Resources is responsible for assessing each year whether or not it is appropriate for the Pension Fund to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Pension Fund, we identified that the principal risks of non-compliance with laws and regulations related to the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and we considered the extent to which non-compliance might have a material effect on the financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Pension Fund, we identified that the principal risks of non-compliance with laws and regulations related to the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and we considered the extent to which non-compliance might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- inquiring with management and the Audit Committee, as to whether the Pension Fund is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Fund which were contrary to applicable laws and regulations, including fraud.

Appendix B: Draft audit report

We evaluated the Corporate Director of Resources' incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:
- making enquiries of management and the Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Corporate Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in November 2024.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to the members of Durham County Council, as a body and as administering authority for the Durham County Council Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Outterside, Key Audit Partner
For and on behalf of Forvis Mazars LLP

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

Appendix C: Draft consistency report

Independent auditor’s statement to the members of Durham County Council on the Pension Fund financial statements included within the Durham County Council Pension Fund annual report

Report on the financial statements

We have examined the Pension Fund financial statements for the year ended 31 March 2024 included within the Durham County Council Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including material accounting policy information.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of Durham County Council for the year ended 31 March 2024 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

Respective responsibilities of the Corporate Director of Resources and the auditor

As explained more fully in the Statement of the Corporate Director of Resources’ Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Pension Fund’s financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of Durham County Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Durham County Council.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of Durham County Council describes the basis of our opinions on the financial statements.

Use of this auditor’s statement

This report is made solely to the members of Durham County Council, as a body and as administering authority for the Durham County Council Pension Fund, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of Durham County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Durham County Council and Durham County Council’s members as a body, for our audit work, for this statement, or for the opinions we have formed.

Mark Outterside, Key Audit Partner
For and on behalf of Forvis Mazars LLP

The Corner

Bank Chambers

26 Mosley Street

NE1 1DF

Appendix C: Confirmation of our independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Appendix D: Other communications

Other communication	Response
Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any issues with respect to obtaining external confirmations.
Related parties	We did not identify any significant matters relating to the audit of related parties. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	We have not identified any evidence to cause us to disagree with the Finance Manager that the Fund will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

Appendix D: Other communications

Other communication	Response
Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
Matters related to fraud	We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and where appropriate the Audit Committee, confirming that a) they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b) they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c) they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. management; ii. employees who have significant roles in internal control; or iii. others where the fraud could have a material effect on the financial statements; and d) they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Contact

Forvis Mazars

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Date: 02 December 2024

Dear Audit Committee Members

Conclusion of pending matters – Audit Completion Report for Durham County Council Pension Fund for the year ended 31 March 2024

As required by International Standards on Auditing (UK), I am writing to communicate an update on those matters that were marked as outstanding within our Audit Completion Report and were reported to the Audit Committee on 29 November 2024.

The outstanding matters and the conclusions we reached are detailed below:

Matter	Update/conclusion reached
Investment Assets	We have completed our review procedures on testing of Investment Assets and classification within the accounts. We have no further issues to report.
Annual Report	We have completed our review of the final version of the Statement of Accounts and the balances disclosed in the Annual Report. We have no further issues to report.
Audit completion procedures	We have completed our closure procedures, including review of the amended accounts.

If you wish to discuss these or any other points, then please do not hesitate to contact me.

Yours faithfully

Mark Outterside

Director

For an on behalf of Forvis Mazars LLP

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Pension Fund Committee

17 December 2024

Border to Coast Pensions Partnership Responsible Investment Policy

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 To provide the Committee with an update on the approach to Responsible Investment at Border to Coast Pension Partnership (BCPP).

Executive summary

2 Border to Coast's Responsible Investment Policy and Corporate Governance & Voting Guidelines were originally developed in 2017 in conjunction with all eleven Partner Funds and are to be reviewed on an annual basis.

3 The Committee has previously approved the Policies and is asked to approve the updated Policies which Border to Coast have reviewed with their voting and engagement partner Robeco. Current versions of the policies are available online at https://www.bordertocoast.org.uk/publications/?_sfm_publication_document_type=Responsible%20Investment%20Policies.

Recommendation(s)

4 It is recommended that the Committee:

(a) Provides any comments on the Policies and the key changes highlighted in Appendix 1 to 3;

(b) Notes and approves changes to (i) the Responsible Investment Policy, (ii)the Corporate Governance & Voting Guidelines Policy, and (iii) the Climate Change Policy included in Appendices 1, 2 and 3 which Border to Coast will operate on behalf of the Pension Fund for assets transferred into the pool;

(c) Approves the adoption of the Border to Coast Voting Guidelines for any remaining assets held outside of the pool, and;

(d) Authorise the Corporate Director of Resources to amend the Fund’s Investment Strategy Statement (ISS) in line with the principles of Border to Coast’s RI Policy.

Background

5 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) require LGPS administering authorities to formulate and publish a statement of their investment strategy in accordance with guidance published by the Secretary of State. This must include details of how Environmental, Social and Governance (ESG) issues are incorporated into the investment decision-making process and a policy on investment stewardships - the exercise of rights (including voting rights) attaching to investments.

6 The Fund's Investment Strategy Statement, published on the Council's website, sets out the Fund's policy on ESG and stewardship (often referred to collectively as Responsible Investment or RI Policy).

7 Although the Pension Fund will still retains responsibility for its beliefs and objectives relating to responsible investment, as the Fund's assets have transferred to the pool, responsibility for implementing this policy has transferred to Border to Coast for pooled assets. In the same way that the Fund has previously relied on its external fund managers to take into account any relevant ESG issues when acquiring, retaining or realising investments, and in exercising any investment rights (including voting), the Fund will rely on BCPP to implement the RI Policy in respect of assets transitioned into the pool, which now covers the majority of the Fund's asset allocation.

8 The Committee originally approved BCPP's Responsible Investment Policy back in 2017 and has subsequently approved an update to the Policy in the years following. The 11 Administering Authorities in BCPP and their Pension Funds are again being asked to approve the updated RI Policy that BCPP will operate. Border to Coast's current policies are published online at https://www.bordertocoast.org.uk/publications/?_sfm_publication_document_type=Responsible%20Investment%20Policies.

9 Proposed changes to the Responsible Investment Policy, Corporate Governance and Voting Policy, and its Climate Change Policy are included at Appendix 1, 2 and 3 respectively. These documents were presented to BCPP's Joint Committee, constituted of each of the 11 Partner Fund Chairs, at its meeting on 26 November 2024.

10 The updated Policies have been reviewed by BCPP's voting and engagement partner Robeco using the International Corporate Governance Network Global Governance Principles. The policies have also been reviewed against best-in-class asset managers, and asset owners considered to be RI leaders to determine how best practice has developed.

11 Fundamental to BCPP’s RI approach is the belief that influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. BCPP’s approach is not to divest or exclude entire sectors, however there may be specific instances when BCPP will look to sell or not invest in some industries based on investment criteria, the investment time horizon and the likelihood for success in influencing company strategy and behaviour.

12 The existing Climate Change Policy however includes specific exclusions covering companies with >25% of revenue from thermal coal and oil sands (or 25% for Private Markets). BCPP will exclude public market companies in developed markets with >50% revenue derived from thermal coal power-generation and will apply a >70% threshold in emerging markets to support a just transition towards a low-carbon economy.

13 In previous years it was highlighted to the Committee that additional screening tools were available, and it was proposed to extend the exclusion policy to cover companies manufacturing cluster munition whole weapons systems and companies that manufacture components that were developed or are significantly modified for exclusive use in cluster munitions.

14 The exclusion relating to controversial weapons had been extended to cover landmines, biological and chemical weapons. The exclusions in place take into account material financial factors and are limited to areas where it is important to give explicit indications to the investment decision makers.

15 For 2024, there are only minor changes to the RI Policy, with material changes to both the standalone Climate Change Policy, and Voting Policy relating to deforestation. The proposed amendments to the RI Policy, set out in full in Appendix 1, are:

(a) Amendment to clarify that ESG risk forms part of the risk management framework,

(b) Update following Real Estate launch and ESG scorecard.

16 BCPP’s approach to Climate Change is outlined in its standalone Policy, with proposed changes set out in Appendix 3. The Policy has been reviewed by Robeco and against asset managers and asset owners to determine developments across the industry. Key changes (reflected in Appendix 3) are:

(a) Amendment correcting the objectives of the Paris Agreement,

(b) Amendment correcting the 2050 Net Zero Targets,

(c) Proposed addition to the Policy to mitigate deforestation risk.

17 The only material change is the proposed approach to companies with high exposure to deforestation risk commodities. Deforestation can result in the loss of market access, more expensive financing, stranded assets, regulatory costs, and reputational risk. For companies with such exposures where there are either a lack of adequate mitigations or are involved in severe deforestation controversies, Border to Coast will oppose the re-election of the Chair of the Sustainability Committee.

18 In terms of Voting Guidelines, 2024's assessment of best practice asset owners and asset managers' voting policies identified deforestation as a gap in Border to Coast voting policy. The only material change to the Voting Policy therefore relates to deforestation as a climate change issue. Regulatory pressures on companies to curb deforestation are increasing, with the EU agreeing regulation which will require companies to conduct due diligence on commodity imports to ensure they are deforestation free.

19 The proposed changes to the Voting Policy, as set out in Appendix 2, are:

(a) Addition setting general intention to vote in favour of shareholder proposals that ask companies to mitigate deforestation risks,

(b) Addition setting stance on companies with high exposures to deforestation risk commodities.

20 Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering Partner Fund objectives. Increasing regulation and pressure from beneficiaries and stakeholders has propelled RI and ESG up the agenda for investors and our Partnership. There may be reputational risk if we are perceived to be failing in our commitment of this objective. It is therefore recommended, as set out in Paragraph 4, that the Committee support the proposed changes.

21 Finally, Quarterly Responsible Investment Reports covering ESG and Carbon Metrics are appended as follows:

(a) Appendix 4 – Global Equity Alpha

(b) Appendix 5 – Listed Alternatives

(c) Appendix 6 – Investment Grade Credit

(d) Appendix 7 – Emerging Markets Alpha

Contact:	Paul Cooper	Tel: 03000 269798

Appendix 1 – Extracts showing proposed amendments

Responsible Investment Policy

5.2. Private markets

~~Border to Coast believes that~~ ESG risk forms an integral part of the overall risk management framework for private market investment.

5.4. Real Estate

Border to Coast ~~is preparing to launch funds to make~~manages Real Estate investments through both direct properties and indirect through investing in real estate funds. For real estate funds, a central component of the fund selection/screening process is an assessment of the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies.

A Responsible Investment framework has been developed for Real Estate to ensure the integration of ESG factors throughout the investment process. This covers the stages of selection, appointment and monitoring and a feedback loop to report performance and review processes. It includes pre-investment, post-acquisition and post-investment phases. An ESG scorecard ~~will be~~has been developed tailored to the direct or indirect property fund, monitoring key performance indicators such as energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). For direct real estate, the RI Policy will be implemented through ESG strategies embedded into the asset management plans of individual properties; this is to ensure a perpetual cycle of review and improvement against measurable standards.

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Appendix 2 – Extracts showing proposed amendments

Corporate Governance & Voting Guidelines

Shareholder Proposals

We will assess shareholder proposals on a case-by-case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

We will generally vote in favour of shareholder proposals that are aligned with the objectives of the Paris climate agreement, taking a 'comply or explain' approach, publicly disclosing our rationale if we vote against.

We will generally vote in favour of shareholder proposals that ask companies to mitigate deforestation risks, taking a 'comply or explain' approach, publicly disclosing our rationale if we vote against.

Climate change

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related voting and engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, climate accounting, a just transition and exposure to climate-stressed regions.

For companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the Transition Pathway Initiative ('TPI'), the Climate Action 100+ ('CA100+') Net Zero Benchmark and the Urgewald Global Coal Exit List. We use TPI scores and will vote against the Chair (or relevant agenda item) where companies are scored 2 or lower, and for Oil and Gas companies scoring 3 or lower, unless more up to date information is available. Where a company covered by CA100+ Net Zero Benchmark fails indicators of the Benchmark, which includes a net zero by 2050 (or sooner) ambition, short, medium and long-term emission reduction targets, and decarbonisation strategy, we will also vote against the Chair of the Board.

Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change and not covered by the industry benchmarks.

Where management put forward a ‘Say on Climate’ resolution, we will vote against the agenda item if, following our analysis, we believe it is not aligned with the Paris Agreement.

We expect companies that have high exposure to deforestation risk commodities (palm oil, soy, beef, and timber, paper and pulp) to take action to address those risks within their operations and supply chains. For companies that have such exposure, but either don’t have adequate policies and processes in place to reduce their impact or are involved in severe deforestation-linked controversies, we will oppose the re-election of the Chair of the Sustainability Committee (or most appropriate agenda item). Assessments of the quality of mitigating actions are based on external benchmarks such as the Forest500.

Banks will play a pivotal role in the transition to a low carbon economy, and we will therefore be including the sector when voting on climate-related issues. We will assess banks using the IIGCC/TPI framework and will vote against the Chair of the Sustainability Committee, or the agenda item most appropriate, in the case where we have significant concerns regarding the bank’s transition plans to net zero.

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications when considering our voting decisions on a case-by-case basis.

Appendix 3 – Extracts showing proposed changes

Climate Change Policy

2.1 Our views and beliefs on climate change

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to well below 2ºC and to pursue efforts to limit the temperature increase to 1.5ºC. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to ~~under~~ 1.5ºC.

6.1 Our approach to engagement

In particular, we are currently focusing on the following actions:

- When exercising our voting rights for companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the TPI, CA 100+ Net Zero Company Benchmark and the Urgewald Global Coal Exit List. Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.

- We will generally vote in favour of shareholder resolutions that are aligned with the objectives of the Paris climate agreement, taking a 'comply or explain' approach, publicly disclosing our rationale if we vote against.

- We will vote against management 'Say on Climate' resolutions that are not aligned with the Paris climate agreement.

- For companies that have high exposure to deforestation risk commodities (palm oil, soy, beef, and timber, paper and pulp), but either don't have adequate policies and processes in place to reduce their impact or are involved in severe deforestation-linked controversies, we will oppose the re-election of the Chair of the Sustainability Committee (or most appropriate agenda item). Assessments of the quality of mitigating actions are based on external benchmarks such as the Forest500.

- We will generally vote in favour of shareholder proposals that ask companies to mitigate deforestation risks, taking a 'comply or explain' approach, publicly disclosing our rationale if we vote against.

- We will co-file shareholder resolutions at company AGMs on climate risk disclosure, emission reduction targets, transition plans, and lobbying, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.

- Engage with companies in relation to business sustainability, disclosure of climate risk and to publish greenhouse gas emissions reduction targets in line with the TCFD recommendations.

- Engage with the largest emitters across our portfolios on transition plans and science aligned capital expenditure plans.

- Engage with the banking sector as it plays a pivotal role in the transition to a low-carbon economy.

- Engage with our largest portfolio emitters and all fossil fuel companies and banks subject to votes against management due to failure to meet our climate policies.

- Support a Just Transition through collaboration with other investors and consider in our engagement and voting.

- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.

- Implementing our net zero stewardship strategy developed using IIGCC's Net Zero Stewardship Toolkit.

- Use carbon footprints, the TPI toolkit, CA100+ Net Zero Company Benchmark, SBTi along with other data sources to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.

Appendix 4

BORDER TO COAST GLOBAL EQUITY ALPHA FUND

ESG & CARBON REPORT

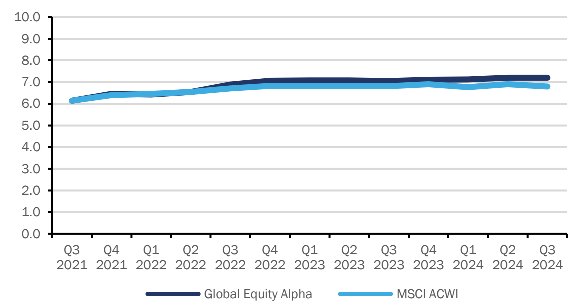
Q3 2024

MSCI ESG RATING

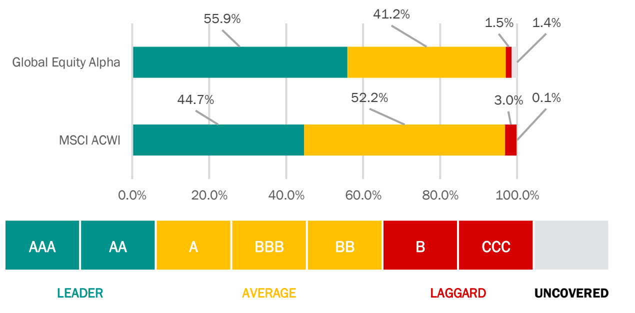
A

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	**Weighted ESG Score**	**vs. Benchmark**		Fund has an equal or better *Weighted ESG Score* than the benchmark.
Global Equity Alpha	A [1]	7.2 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
MSCI ACWI	A [1]	6.8[1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]				Lowest ESG Rated Issuers [1]			
	% Portfolio Weight	**% Relative Weight**	**MSCI Rating**		**% Portfolio Weight**	**% Relative Weight**	**MSCI Rating**
ASML	1.9%	+1.5%	AAA [1]	Jiangsu Hengli Hydraulic	0.1%	+0.1%	CCC [1]
Intuit	1.6%	+1.4%	AAA [1]	Hyundai Motor Company	<0.1%	-<0.1%	CCC [1]
Taiwan Semiconductor	1.4%	+0.4%	AAA [1]	Amber Enterprises	<0.1%	+<0.1%	CCC [1]
Nvidia	1.4%	-2.5%	AAA [1]	Meta Platforms	0.8%	-0.9%	B [1]
Kering	1.1%	+1.0%	AAA [1]	PetroChina	0.1%	+0.1%	B [1]

Quarterly ESG Commentary

- No change in the Fund's overall ESG score. The Fund holds large active positions in several ESG Leaders contributing to the higher relative overall ESG score.
- The number of CCC companies held by the Fund portfolio is broadly consistent with last quarter. A reduced holding in Joint Stock Company Kaspi saw it replaced by PetroChina as the fifth lowest ESG rated issuer held by the Fund. PetroChina is the feature stock for the quarter.

Feature Stock: PetroChina

PetroChina is the listed arm of one of China's two integrated oil majors and is China's largest oil and gas producer. The company has monopolistic rights to produce oil and gas within its operating area, mainly onshore China, due to China's regulation on oil production. PetroChina is well positioned to benefit from an upcycle in the global oil market.

The company has set a 'near-zero' net emissions target by 2050. The company's rich natural gas resources are an essential part of China's carbon neutral roadmap. The company is also targeting US$0.4–0.7 billion per year investment in geothermal, solar, wind and hydrogen between 2020 and 2025; rising to US$1.5 billion per year following.

China's carbon capture, utilization and storage ("CCUS") capacity was 3.5mn tons in 2023, only 6% of global capacity. PetroChina is leading China's CCUS construction and application. The company's largest CCUS project is in the Jilin province with 0.8mn tons capacity and it is planned to expand to 3mn tons in the next 5 years and 30mn tons by 2035. The CCUS project will not only reduce carbon emissions but will also increase its oil recovery rate.

PetroChina has been identified as potentially being in breach of UN Global Compact (UNGC) by MSCI because of alleged links to coercive state sponsored labour transfer schemes. We are working with our China-based manager to further understand the circumstances of this.

[1]Source: MSCI ESG Research 30/09/2024

BORDER TO COAST GLOBAL EQUITY ALPHA FUND

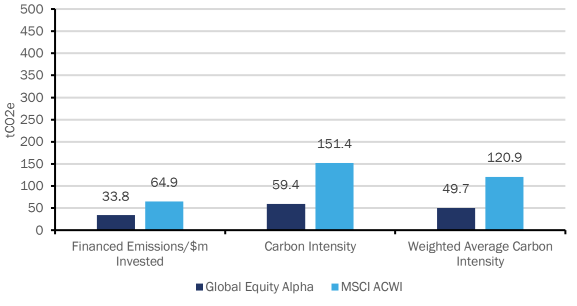
ESG & CARBON REPORT

Q3 2024

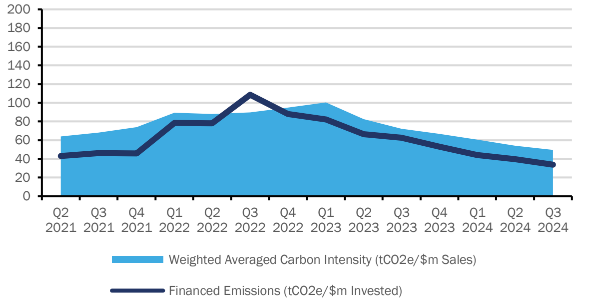
MSCI ESG RATING
A

BORDER TO COAST PENSIONS PARTNERSHIP

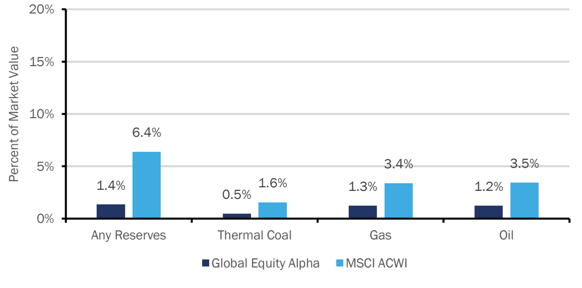
Carbon Emissions and Intensity¹



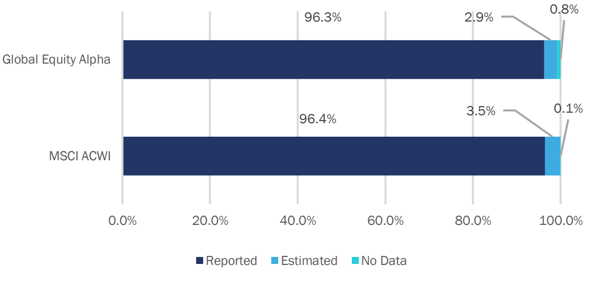
Carbon Trends¹



Weight of Holdings Owning Fossil Fuel Reserves¹



Availability of Carbon Emissions Data (% of Market Value)¹



Largest Contributors to Financed Emissions¹

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Heidelberg Materials	0.2%	+0.2%	23.7% [1]	Yes	4
Phillips 66	0.4%	+0.3%	9.7% [1]	Yes	3
Jet2 plc	0.4%	+0.4%	8.5% [1]	No	N/A
Linde	1.0%	+0.7%	5.7% [1]	No	4
Glencore	0.5%	+0.4%	5.2% [1]	Yes	4

Quarterly Carbon Commentary

- The Fund saw a 14% reduction in financed emissions, and continues to be materially below the benchmark on all emissions metrics. A reduced position in Heidelberg Materials is a significant factor in the drop in financed emissions. Heidelberg accounted for 33% of the Fund's financed emissions in the previous quarter.
- An increase in the Fund's position in Glencore saw the company enter the Fund's top 5 highest emission contributors. Glencore is this quarter's feature stock.

Feature Stock: Glencore

Glencore is considered an attractive investment for a number of reasons. The company differentiates itself from other miners with its trading business that provides high returns and cash flow with low cyclicality and significant barriers to entry. Glencore exhibits strong governance, with a capable management team focused on improving asset returns. The company holds leading market positions in attractive commodities and the company's existing mining operations are expected to benefit from normalised prices, higher volumes, lower costs and the move towards a low carbon economy.

As a coal producer, Glencore had set out a plan to navigate the transition away from fossil fuels including a phased withdrawal from thermal coal operations. However, in August 2024, Glencore reversed its decision to spin out the coal arm of its business. The company had set out an ambitious pathway to completely transform its business and reach net zero emissions by 2050. These emissions targets placed it significantly under the IEA's Announced Pledges Scenario, which is aligned with a global temperature increase of 1.7C. Given Glencore's recent strategic shift on coal we are monitoring future climate strategy updates to understand the feasibility of its emissions targets.

[1]Source: MSCI ESG Research 30/06/2024

Issuers Not Covered [1]		
Reason	ESG (%)[1]	Carbon (%)[1]
Company not covered	1.4%	0.8%
Investment Trust/ Funds	0.0%	0.0%

Important Information

The material in this report has been prepared by Border to Coast Pensions Partnership Limited ("Border to Coast") and is designed for the use of professional investors and provides investor information about this Fund. The MSCI ESG Fund Ratings and material in this document are for information purposes only and should not be considered as investment advice or a recommendation of any particular security, strategy, or investment product. There is no assurance that any socially responsible investing strategy and techniques employed will be successful. Past performance is not a guarantee or reliable indicator of future results. The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested. Border to Coast accepts no liability for any loss or damage arising from any use of, or reliance on, any information provided in this document. Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511).

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* In accordance with the licence agreement between Border to Coast and MSCI

[1]Source: MSCI ESG Research 30/09/2024

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Appendix 5

BORDER TO COAST
LISTED ALTERNATIVES FUND

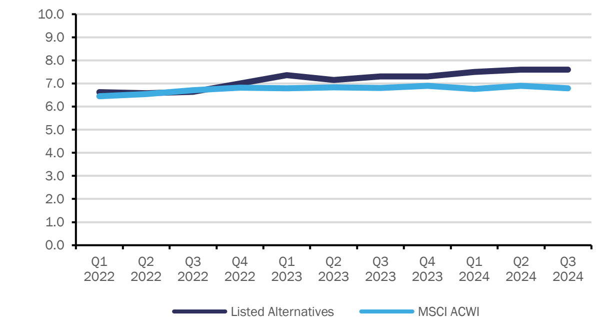
ESG & CARBON REPORT **Q3 2024**

MSCI ESG RATING
AA

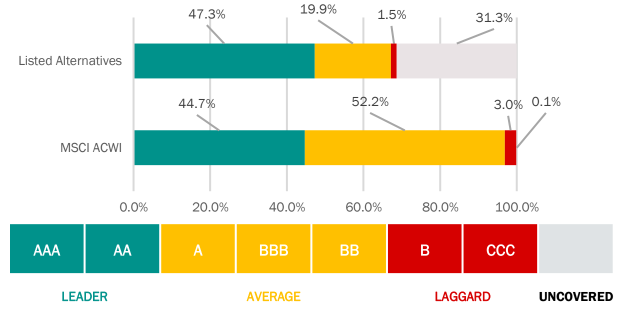
BORDER TO COAST PENSIONS PARTNERSHIP

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	**Weighted ESG Score**	**vs. Benchmark**		Fund has an equal or better *Weighted ESG Score* than the benchmark.
Listed Alternatives	AA [1]	7.6 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
MSCI ACWI	A [1]	6.8 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]				Lowest ESG Rated Issuers [1]			
	% Portfolio Weight	**% Relative Weight**	**MSCI Rating**		**% Portfolio Weight**	**% Relative Weight**	**MSCI Rating**
American Tower Corporation	3.5%	+3.3%	AAA [1]	Blue Owl Capital	2.2%	+2.2%	CCC [1]
Cheniere Energy	3.4%	+3.3%	AAA [1]	Hercules Capital	0.5%	+0.5%	B [1]
Iberdrola	3.2%	+3.1%	AAA [1]	TPG	0.3%	+0.3%	B [1]
National Grid	1.7%	+1.6%	AAA [1]	KKR	4.3%	+4.2%	BBB [1]
3I Group	1.7%	+1.6%	AAA [1]	Alexandria Real Estate Equities	2.4%	+2.4%	BBB [1]

Quarterly ESG Commentary

- The Fund's ESG score continues to be above the benchmark .
- The Fund still has a relatively high proportion of issuers that do not have an ESG Rating .

Feature Stock: KKR

KKR is a leading Alternative Investment Manager with a strong track record of delivering superior returns. Their comprehensive investment platform allows them to capitalize on a diverse range of opportunities across various alternative asset. KKR's robust fee-generating capacity, driven by its substantial asset base and strong investment performance, provides a stable revenue stream. This combination of a diversified investment platform and a strong fee-generating capacity positions KKR as a compelling investment choice.

KKR has implemented a comprehensive governance framework that places significant emphasis on responsible investing. The firm's responsible investing policy outlines its dedication to integrating environmental, social, and governance (ESG) considerations into its investment decision-making process. This policy ensures that KKR's portfolio companies adhere to ethical standards and contribute positively to society.

To assess the ESG risks and opportunities associated with potential investments, KKR conducts a thorough due diligence process. The firm undertakes meticulous investigations into companies' environmental practices, social impact, and governance structures. This due diligence process enables KKR to identify potential risks and collaborate with portfolio companies to implement sustainable practices and mitigate negative consequences.

Furthermore, KKR has demonstrated its support for the Walker Report, a comprehensive review of the UK's corporate governance landscape. The firm recognizes the importance of robust corporate governance in fostering transparency, accountability, and sustainable business practices. By endorsing the Walker Report, KKR reinforces its commitment to enhancing corporate governance standards and contributing to a more responsible and ethical business environment.

[1]Source: MSCI ESG Research 30/09/2024

BORDER TO COAST
LISTED ALTERNATIVES FUND

ESG & CARBON REPORT

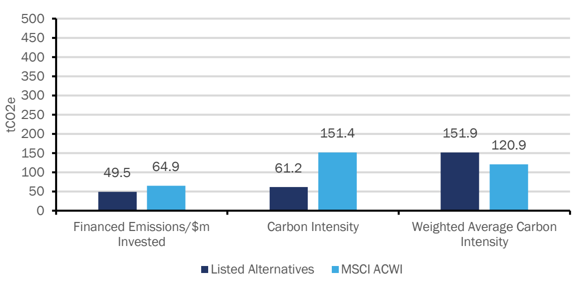
Q3 2024

MSCI ESG RATING

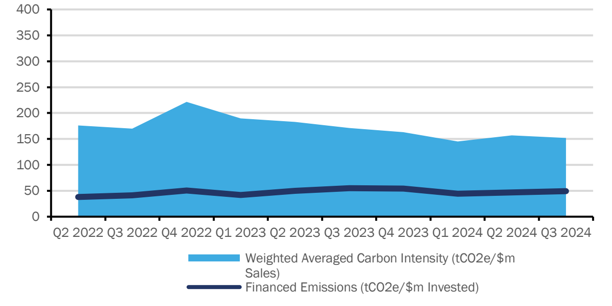
AA

BORDER TO COAST PENSIONS PARTNERSHIP

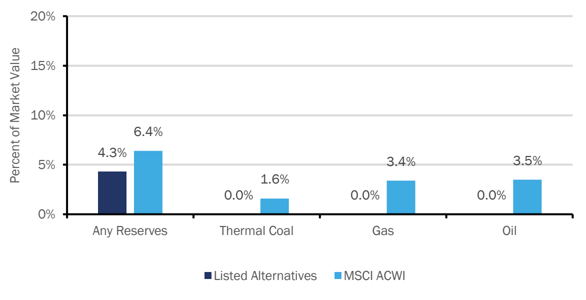
Carbon Emissions and Intensity[1]



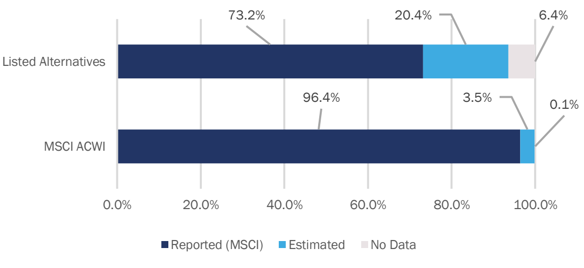
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
NextEra Energy	3.8%	+3.6%	31.8% [1]	Yes	4
Cheniere Energy	3.4%	+3.3%	18.7% [1]	No	4
Enbridge	3.0%	+2.9%	14.4% [1]	No	3
Iberdrola	3.2%	+3.1%	12.8% [1]	Yes	4
National Grid	1.7%	+1.6%	5.3% [1]	Yes	4

Quarterly Carbon Commentary

- Despite a 5% increase in the Fund's financed emissions, the Fund remains significantly below the benchmark for both carbon emissions and carbon intensity.
- The Fund is overweight in Utilities. This is mainly due to the active position in NextEra. This overweight position drives the Fund's higher WACI compared to the benchmark.

Feature Stock: Enbridge

Enbridge Inc. is a leading North American energy infrastructure company well-positioned to benefit from growing energy demand. Its extensive network, stable cash flow, and attractive dividend yield make it an appealing investment. As North America's energy needs increase, with Enbridge's strong infrastructure and financial position, it is positioned well for long-term growth.

Enbridge, has embarked on a journey to achieve carbon net zero by 2050. To accomplish this ambitious goal, the company has implemented a comprehensive strategy that focuses on renewable energy investments and innovative carbon reduction initiatives.

One key component of Enbridge's carbon net zero strategy is its significant investment in renewable energy projects. The company is actively developing and acquiring renewable energy assets, including solar, wind, and geothermal power generation facilities. These investments not only diversify Enbridge's energy portfolio but also contribute to the reduction of greenhouse gas emissions.

In addition to renewable energy investments, Enbridge is exploring innovative carbon reduction technologies. One such initiative is the company's involvement in reef carbon sequestration. By supporting the restoration and conservation of coral reefs, Enbridge aims to capture and store carbon dioxide from the atmosphere. This natural carbon sequestration approach complements Enbridge's efforts to reduce emissions from its operations and contribute to a more sustainable future.

[1]Source: MSCI ESG Research 30/09/2024

Issuers Not Covered [1]		
Reason	ESG (%)[1]	Carbon (%)[1]
Company not covered	26.7%	29%
Investment Trust/ Funds	5.0%	3.5%

Important Information

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[1]Source: MSCI ESG Research 30/09/2024

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Appendix 6

BORDER TO COAST STERLING INVESTMENT GRADE CREDIT FUND

ESG & CARBON REPORT

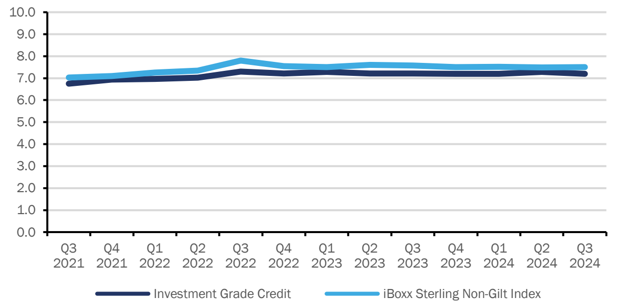
Q3 2024

MSCI ESG RATING

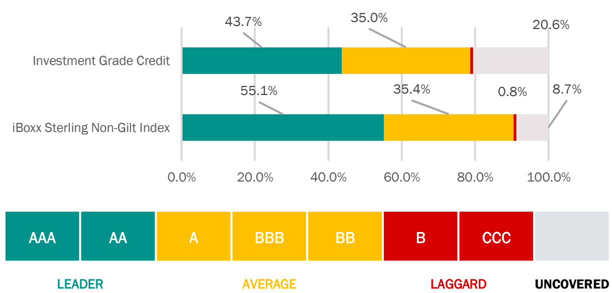
AA

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark		Fund has an equal or better *Weighted ESG Score* than the benchmark.
Sterling Investment Grade Credit	AA [1]	7.2 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
iBoxx Sterling Non-Gilt Index	AA [1]	7.5 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend¹



MSCI ESG Weightings Distribution¹



Highest ESG Rated Issuers [1]				Lowest ESG Rated Issuers [1]			
	% Portfolio Weight	% Relative Weight	MSCI Rating		% Portfolio Weight	% Relative Weight	MSCI Rating
European Investment Bank	1.5%	-2.1%	AAA [1]	Volkswagen Group	0.4%	-0.2%	B [1]
KFW	0.9%	-3.4%	AAA [1]	Akelius Residential Property	0.3%	+0.3%	B [1]
Land Securities	0.8%	+0.4%	AAA [1]	GB Social Housing	0.1%	+0.1%	B [1]
Yorkshire Building Society	0.7%	+0.4%	AAA [1]	Eversholt	0.4%	+0.2%	BB [1]
Aviva	0.7%	+0.3%	AAA [1]	Realty Income Corportation	0.4%	+ <0.1%	BB [1]

Quarterly ESG Commentary

- The overall ESG rating of the Fund decreased marginally in the quarter, remaining slightly below the benchmark.
- The Fund continues to have a large overweight position (5%) in UK Government Bonds. UK Bonds have an ESG rating of 'A' which negatively influences the Fund's ESG scoring relative to benchmark.

Feature Stock: Eversholt Funding plc

Eversholt is a provider of UK passenger and freight railway vehicles (rolling stock). The company currently leases trains to 10 train operators and 2 freight operators within the UK providing essential infrastructure. The company is well suited for Buy & Maintain portfolios thanks to stable cash flows from its long-term contracts. The attractiveness of Eversholt bonds is enhanced by security over the rolling stock and strong covenants that cement lending position.

Eversholt does not perform particularly well in third-party metrics. From an ESG perspective this is driven by the company's governance structure. The chair of Eversholt UK Rails' board, the company's parent, is a representative of the founding family. This raises governance risks for minority shareholders. This risk is less relevant for bond holders.

With an implied temperature rise (ITR) of 2.9 °C and a lack of science-based targets validated by SBTi, the company also scores less favourably from a climate perspective. However, with 81% of the fleet being electrified or bi-modal and action to find alternatives to diesel-powered trains, therefore the company's net zero risks are manageable. As the UK energy grid decarbonises, the relatively high electrified portion of Eversholt's fleet will lead to a natural decrease in emissions. The company was engaged in 2023 to discuss the actions being taken to improve energy efficiency and reduce emissions from its fleet.

[1] Source: MSCI ESG Research 30/09/2024

BORDER TO COAST STERLING INVESTMENT GRADE CREDIT FUND

ESG & CARBON REPORT

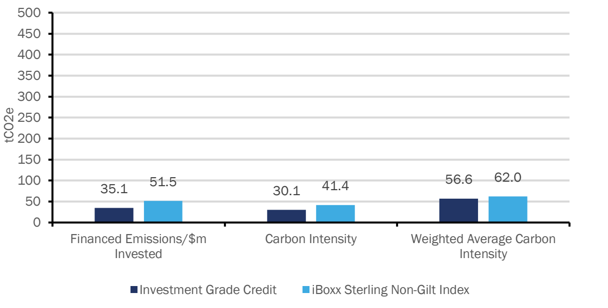
Q3 2024

MSCI ESG RATING

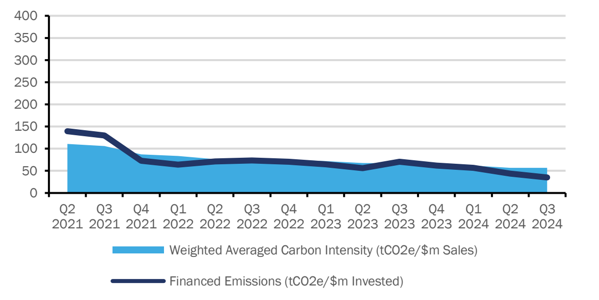
AA

BORDER TO COAST PENSIONS PARTNERSHIP

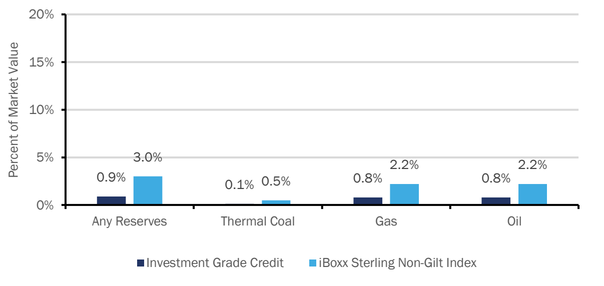
Carbon Emissions and Intensity[1]



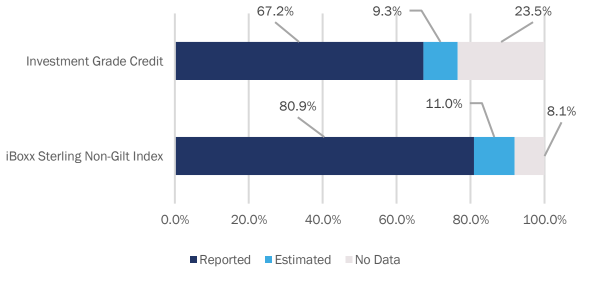
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Enel	0.5%	-0.1%	14.9% [1]	Yes	4
Mobico	0.1%	+<0.1%	7.7% [1]	No	N/A
Air Canada	<0.1%	+<0.1%	7.2% [1]	No	4
Engie	0.1%	-0.3%	6.2% [1]	Yes	4
Fedex	0.3%	+0.3%	5.0% [1]	No	3

Quarterly Carbon Commentary

- The Fund's financed emissions decreased by 20%. This was driven by a decrease in emissions from the Fund's top emitters last quarter, Enel and Mobico, which accounting for 23% and 18.8% of financed emissions at end Q2, respectively. Enel saw a 33% decrease in reported emissions. Mobico saw a significant increase in market cap. Both factors materially reduced the Fund's financed emissions.
- The Fund's underweight positions in high emitting sectors, materials, industrials, energy and utilities, continues to drive its relative position versus benchmark across all emissions metrics.

Feature Stock: Air Canada

Air Canada is Canada's largest Airline company. The company operates across more than 180 airports providing passenger services within Canada, across the Canada-United States transborder market and internationally. The company also has freight lift and vacation tour business segments. The Fund has had long term exposure to Air Canada and the company's credit risk-return profile remaining strong.

Air Canada has a 2050 net zero commitment and an interim 2030 target to reduce emissions by 20% compared to a 2019 baseline. The company is seen to industry peers in emission mitigation efforts to meet this target. Long term decarbonisation of the airline industry depends on the development of sustainable and low carbon aviation fuels. Air Canada has pledged to invest $50 million by 2030 into sustainable aviation fuels, low carbon aviation fuels and carbon capture/reduction technologies. To address near term decarbonisation targets, the company has continued to invest in the modernisation of its fleet deploying Airbus A220 and Boeing 737 MAX that use 20% less fuel consumption per seat, roughly 20% less CO2e, and 50% less nitrogen oxide than older aircraft.

With operations in the U.S. and Canada accounting for 46% of revenue in FY 2023, increasingly stringent emissions regulations and changing customer behaviours in these countries present clear transition risks that need to be managed by the company.

[1]Source: MSCI ESG Research 30/09/2024

Issuers Not Covered		
Reason	ESG (%)[1]	Carbon (%)[1]
Company not covered	10.1%	12.1%
Investment Trust/ Funds	10.5%	11.4%

Important Information

[1]Source: MSCI ESG Research 30/09/2024

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Appendix 7

BORDER TO COAST EMERGING MARKETS EQUITY ALPHA FUND

ESG & CARBON REPORT

Q3 2024

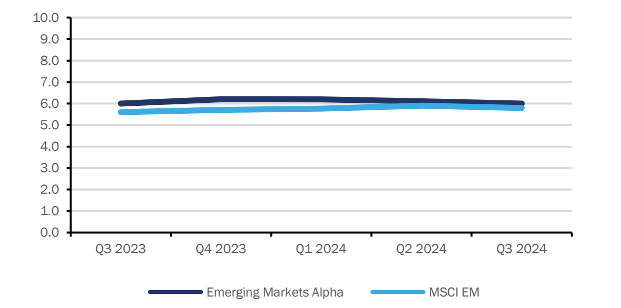
MSCI ESG RATING

A

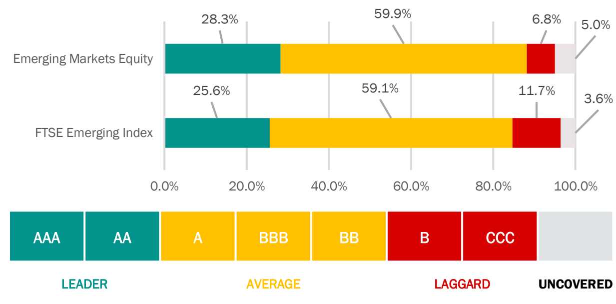
BORDER TO COAST PENSIONS PARTNERSHIP

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark		Fund has an equal or better *Weighted ESG Score* than the benchmark.
Emerging Markets Equity Alpha	A [1]	6.1 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
MSCI Emerging Index	A [1]	5.8 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating	Lowest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating
Taiwan Semiconductor	10.7%	+1.7%	AAA [1]	Hyundai Motor Company	1.0%	+0.6%	CCC [1]
Allegro	0.5%	+0.4%	AAA [1]	Jiangsu Hengli Hydraulic	0.5%	+0.5%	CCC [1]
KB Financial Group	0.5%	+0.2%	AAA [1]	Amber Enterprises	0.2%	+0.2%	CCC [1]
Samsung Electronics	4.2%	+1.1%	AA [1]	Saudi Tadawul Group	0.2%	+0.2%	CCC [1]
Zomato	1.1%	+0.8%	AA [1]	Sea Limited	0.9%	+0.9%	B [1]

Quarterly ESG Commentary

- The Fund's ESG score continues to be above the benchmark. The Fund's lesser coverage results in a higher proportion of "ESG leader" rated companies held by the Fund and a higher ESG score relative to benchmark.
- This quarter the Fund saw no change in the number of 'CCC' rated companies in the Fund. Hyundai Motor Company, one of the Fund's four CCC rated companies is this quarter's feature stock.

Feature Stock: Hyundai Motor Company

Hyundai is a Korean based automobile manufacturer that is well placed to gain market share in the EV market. Hyundai's vehicles have gained wider acceptance globally owing to better designs and higher value add features, which means the vehicles have moved up on the customer desirability ladder. This improved desirability combined with focused efforts on the SUV market has seen significantly improved margins. The company's attractiveness has been amplified by its recent IPO of its Indian business which is expected to further improve value.

Though the company scores poorly on ESG metrics, our in-house assessment sees the company as in line with peers from an ESG perspective. Hyundai is scored poorly by MSCI primarily based on governance issues. The company is controlled by the Chung family through a cross-shareholding structure, and a member of the family, Mr. Eui Sun Chung, serves as the co-CEO and chair. These governance factors, though misaligned with global practice are common across Chaebols (family-owned conglomerates) in South Korea.

Beyond these geographically specific governance peculiarities the company has improved practices in other areas. The company has taken steps to increase female representation on the board and have made shareholder returns more investor friendly by moving from a payout ratio based on free cash flow to a net income-based payout. The company has managed regarding recent engine recalls across US, Canada, Australia and South Korea and has stated it is unlikely to see further escalations in the future.

Our external manager last engaged with the company in June 2024, where management discussed net zero targets and implementation, human rights and labor rights processes and policies, board composition, and circular shareholding.

[1]Source: MSCI ESG Research 30/09/2024

BORDER TO COAST EMERGING MARKETS EQUITY ALPHA FUND

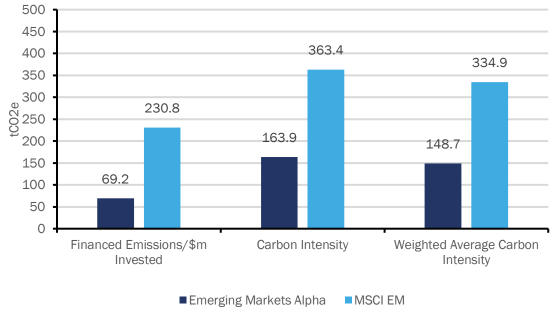
ESG & CARBON REPORT

Q3 2024

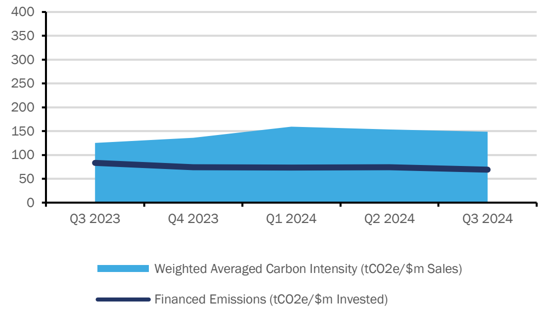
MSCI ESG RATING

A

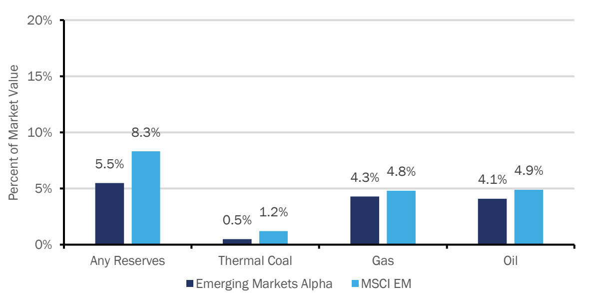
Carbon Emissions and Intensity[1]



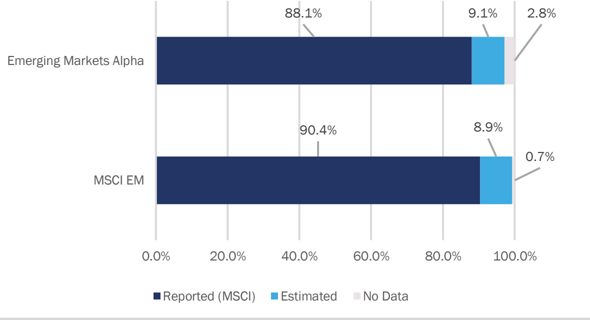
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Hindalco Industries	0.5%	+0.1%	11.2% [1]	N/A	3
Cemex	0.2%	+0.2%	9.8% [1]	Yes	4
UltraTech Cement	0.3%	+0.2%	7.9% [1]	Yes	3
Petroleo Brasileiro	1.2%	+1.2%	7.1% [1]	Yes	4
PetroChina	0.6%	+0.6%	6.6% [1]	Yes	3

Quarterly Carbon Commentary

- The Fund remains materially below the benchmark across all emissions metrics. The Fund saw a 7% quarter-on-quarter reduction in financed emissions and 3% reduction in weighted average carbon intensity (WACI). Movements in these metrics were caused by a 10% increase in market cap of the Fund's top emitter, Hindalco Industries, and reduced positions in PetroChina and Petrobras.
- The position in Ultratech Cement and Cemex, two of the Fund's most carbon intensive entities, remained consistent across the quarter contributing to the stability in the Fund's carbon intensity. Ultratech Cement is this quarter's feature stock.

Feature Stock: UltraTech Cement

Ultratech Cement is India's largest cement producer, providing a critical product in a country where urbanisation and ambitious infrastructure improvement plans are expected to drive strong demand for many years. It is a market leader that is taking share in a growing industry with significant structural tailwinds, with consolidation to support pricing power over time, existing limestone contracts to support capacity expansion and operating costs, and the possibility of further acquisitions adding to growth.

The Indian cement industry is more energy and carbon efficient than in other countries. The chemical process for "clinker" (a mix of limestone and minerals that has been heated in a kiln) is the biggest source of emissions for the company (approx. 65%). Ultratech is actively managing its emissions having significantly improved "clinker factor" over the last 5 years and by increasing its clean energy usage.

The company has been engaged multiple times. Engagement with management has focused on assessing the company's plans on decarbonisation, evolving environmental regulation, carbon pricing and improving related disclosures.

[1]Source: MSCI ESG Research 30/09/2024

Issuers Not Covered		
Reason	ESG (%)[1]	Carbon (%)[1]
Company not covered	7.5%	2.5%
Investment Trust/ Funds	0.0%	0.3%

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* In accordance with the licence agreement between Border to Coast and MSCI

[1]Source: MSCI ESG Research 30/09/2024

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Pension Fund Committee

17th December 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

Levelling Up White Paper – LGPS Local Investment Plans

5 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”.

6 The Fund committed the necessary capital to enable 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. The Fund’s initial £18m cornerstone commitment enabled the launch of the fund in region, which has subsequently attracted additional capital. The regional fund now has £98m of committed capital in the North-East.

7 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.

8 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 was also expected that there would be a consultation on new guidance on Local Government Pension Scheme asset pooling.

9 Further direction re local investment is set out in the ‘Fit for the Future’ consultation on the LGPS.

MHCLG Consultation – LGPS: Next Steps on Investments

10 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'.

11 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.

12 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.

13 In light of the lack of progress, MHCLG 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.

14 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.

15 Subsequently, on 22 November, MHCLG 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.

16 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.

17 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.

18 Subsequently, Officers of the Fund were invited in person to a roundtable with the Minister, to discuss related matters.

19 In the Ministerial letter, Funds were 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 responded in its capacity as Administering Authority of the Pension Fund.

20 Subsequently, further direction around the future of the LGPS and pooling, was set out in the ‘Fit for the Future’ consultation.

HM Treasury – Pensions Review – Terms of Reference: Phase One

21 On 16 February HM Treasury published the Terms of Reference the Chancellor’s review of the pensions system, with the Chancellor appointing the Minister for Pensions to lead the review. The review will focus on both defined contribution workplace schemes and the LGPS.

22 It is proposed that the review will work closely wit the Minister of State at MHCLG, Jim McMahon MP, and will look at “how tackling fragmentation and inefficiency can unlock the investment potential of the £360 billion LGPS in England and Wales”.

23 The Policy remit for the first phase of the review will focus on:

(a) Driving scale and consolidation of defined contribution workplace schemes;

(b) Tackling fragmentation and inefficiency in the Local Government Pension Scheme through consolidation and improved governance;

(c) The structure of the pensions ecosystem and achieving a greater focus on value to deliver better outcomes for future pensioners, rather than cost; and

(d) Encouraging further pension investment into UK assets to boost growth across the country.

24 In developing its recommendations, the review will have regard to "improving the affordability and sustainability of the LGPS in the interest of members, employers and local taxpayers", the "role of pension funds in capital and financial markets to boost returns and UK growth" and a "wide range of external viewpoints" including local government.

25 The terms of reference note that co-creation with the LGPS will be an essential part of the process, with the initial findings from the first phase expected to report later this year, ahead of the introduction of the Pension Schemes Bill. The terms of reference are published online at the following link: https://www.gov.uk/government/publications/pensions-review-terms-of-reference-phase-one/terms-of-reference.

26 Following the first phase of the Pensions Review, the government launched its 'Fit for the Future' consultation.

LGPS 'Fit for the Future' Consultation

27 Further to the Pensions Review, the Chancellor has announced plans for further reforms in the LGPS in a consultation which closes on January 16th 2025, focusing on the existing eight LGPS asset pools in England and Wales.

28 The proposals include the requirement for LGPS pools to be FCA regulated, having capability to manage assets internally, be able to provide investment advice and the ability to implement Fund investment strategy. Proposed changes for Funds include taking principal investment strategy advice from the pool, transferring legacy assets to the pool, and work more closely with Combined Mayoral Authorities to plan for investments in local growth.

29 Officers are currently reviewing the proposals with a separate agenda item for consideration by the Committee, before responding to the consultation.

Review of the LGPS 2022 Fund Valuations - Section 13 Report

30 The Government Actuary's Department (GAD) has published its report to the Ministry of Housing, Communities and Local Government on the 2022 fund valuations, which is required by section 13 of the Public Service Pensions Act 2013.

31 The purpose of the report is to examine whether the separate 87 fund valuations have achieved the 4 aims set out in the Act – they are compliance, consistency, solvency and long-term cost efficiency.

32 As part of the process, GAD also analysed other data provided by the funds and their actuaries and undertook engagement exercises with relevant funds. GAD assess all funds against a number of measures, each of which is RAG rated.

33 A detailed update on the current funding position and the Fund's valuation approach was provided to the Committee and Board, as well as participating employers, at the Fund's November 2024 Annual Meeting. A further detailed training session on the triennial valuation approach and Section 13 Review followed the meeting.

Mandatory TCFD Reporting

34 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.

35 Whilst the regulations will not apply to the LGPS it was always expected that MHCLG would bring forward similar proposals requiring TCFD disclosures in the LGPS.

36 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/.

37 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.

38 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.

39 On 1 September 2022 MHCLG 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).

40 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.

41 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 has been anticipated that the first LGPS TCFD reporting may become due in late 2025.

Cost Control Mechanism & Review

42 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 target costs.

43 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.

44 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.

45 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 Fund’s own valuation, which added an additional 0.9% to the employer contribution rate for all employers back at the 2019 valuation.

46 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.

47 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.

48 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.

49 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.

50 The Government Actuary's Department (GAD) completed the valuation of the Scheme in 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, widening 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%.

51 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. The valuation found that the cost control mechanism, as a whole, is not breached and there is no proposal to make any changes to scheme benefits.

52 Subsequently, SAB announced on 19 April that it would shortly be publishing the final report of the separate scheme cost assessment that it is required to undertake under Regulation 116 of the LGPS Regulations 2013, in which different actuarial assumptions are used.

53 GAD has now completed the scheme cost assessment required under Regulation 116. The final report was completed using methodology and assumptions determined by the Board, following discussion at the Cost Management, Benefit Design and Administration Committee. Scheme costs were assessed as being 20.5 per cent of pensionable pay - 1 per cent above the 19.5 per cent target overall cost.

54 This is within the range where the Board may make recommendations to amend benefits to bring scheme costs back towards the target cost but is not obliged to. Following discussion, the Board agreed not to recommend any changes in its letter informing the Secretary of State of the outcome.

McCloud

55 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.

56 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. The estimated cost across the whole of the LGPS is £1.8bn. As discussed with the Committee in the past, the Fund made an estimated provision for the impact at local level back at the 2019 Valuation.

57 Following its 2020 consultation, on 30 May 2023 MHCLG 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.

58 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. 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.

59 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.

60 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.

61 MHCLG launched a limited technical consultation on potential changes to the LGPS regulations concerning McCloud protection and annual benefit statements (ABS); and in particular on whether underpin information is included in ABSs for Scheme years 2023/24 and 2024/25. The consultation contains draft regulations that would mean administering authorities do not need to include estimated underpin information in the 2023/24 ABSs.

62 This would implement the approach set out in the Ministry’s response to the 2020 McCloud consultation, which set out that “the inclusion of an underpin estimate within a member’s total pension on their ABS will not be required until the ABSs for the 2024/25 scheme year are issued”. The amendment would be backdated to 1 October 2023, so that it captures 2023/24 ABS that were sent before the regulations are made. The Ministry is also considering a further change which would extend this to the 2024/25 ABS, giving Funds discretion not to include the estimated underpin information for certain members or classes of members if they consider it reasonable to do so.

63 Officers of the Fund continue 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 the New Year, to allow a bulk recalculation of all historical cases. Detailed reporting will be provided to the Local Pensions Board.

MHCLG Consultation – LGPS: Fair Deal – Strengthening Pension Protection

64 In January 2019, the Ministry of Housing, Communities, and Local Government (MHCLG), formerly DLUHC, 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.

65 MHCLG 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 MHCLG 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 MHCLG for an update with progress with the implementation of New Fair Deal in LGPS. Officers will continue to monitor the position.

MHCLG consultation – LGPS: Changes to the Local Valuation Cycle and the Management of Employer Risk

66 In May 2019 MHCLG 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

67 On 27 February MHCLG published a partial response to the consultation, covering proposals on exit credits only. MHCLG 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.

68 MHCLG 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)

69 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.

70 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.

71 On 23 March 2021 Her Majesty's Treasury (HMT) discounted conversion (of GMP into main scheme benefits) as their long-term policy solution and instead will make full GMP indexation the permanent solution for public service pension schemes. Currently members covered by the interim solution have their GMP pensions fully uprated by their scheme in line with CPI. The new policy will extend this to members whose State Pension Age (SPA) is on or after 6 April 2021.

72 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.

73 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.

74 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.

Changes to the LGPS Revaluation Date and Lifetime Allowance

75 Following a short consultation, MHCLG 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 in conjunction with its software supplier ensures that processes are in place to maintain the accuracy of Annual Statements and Pension Savings Statements.

76 On 12 March 2024, the Pensions (Abolition of Lifetime Allowance Charge etc) Regulations 2024 were laid before Parliament. The Regulations came into force on 6 April 2024, along with the related provisions of the Finance Act 2024. The Regulations make a large number of mostly minor changes to legislation relating to the abolition of the lifetime allowance.

77 Subsequently on 22 March, the LGA issued guidance for administering authorities which sets out how funds should approach all the different types of calculations affected by the changes, and the updates that LGPS Funds will need to put in place. The Fund has worked closely with the LGA to ensure that the small number of cases which are affected by the change, are processed correctly.

Department for Education (DfE) Guarantee

78 On November 2024, Bridget Phillipson MP, Secretary of State for Education made a statement which confirmed that the Department for Education (DfE) has put in assurance to the LGPS for Further Education (FE) bodies. The assurance is a DfE guarantee covering FE providers. The guarantee, however, does not cover Higher Education institutions and covers only the organisations that were reclassified as public sector by the Office for National Statistics in November 2022. The statement is available online at https://questions-statements.parliament.uk/written-statements/detail/2024-11-12/hcws202.

79 The DfE guarantee is already applicable to academies within the LGPS, enabling the administering authority to offer access to a lower risk funding strategy when setting employer contribution rates, deficit recovery periods and funding strategies. It is hoped that this mechanism can now be extended to FE bodies. This announcement provides clarity for both administering authorities and FE employers in the scheme, particularly leading into the upcoming 2025 Actuarial Valuation exercise. Officers are currently working with the Fund Actuary to consider the implications.

LGPS Scheme Advisory Board (SAB)

SAB Review – Academies

80 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.

81 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.

82 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

83 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

84 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.

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

86 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.

87 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.

88 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.

89 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

90 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)

91 SAB have completed their report on Good Governance and submitted an Action Plan to MHCLG to take the recommendations of the project forward. It is expected that the next stage is for MHCLG to take the recommendations forward for implementation through legislation and / or Statutory Guidance.

92 It is now anticipated that the Good Governance provisions will be taken forward as part of the 'Fit for the Future' consultation.

SAB Review – Responsible Investment Guidance

93 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.

94 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.

95 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 MHCLG on how the Taskforce on Climate-Related Financial Disclosures (TCFD) reporting should be applied to the LGPS.

96 Updates to the Fund's own approach to Responsible Investment is considered annually, and is included elsewhere on the agenda.

SAB Correspondence – LGPS Audit

97 In August 2022 the SAB Chair, Cllr Roger Phillips, wrote to MHCLG 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.

98 The SAB issued a short response to the MHCLG 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.

99 Essentially, the scheme employer auditor will need to do further work to gain assurance on the information provided it to it by the LGPS actuary on its assets and liabilities under the scheme, which well may 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.

100 In November 2024 the Board Secretary again wrote to MHCLG to reconfirm the previous recommendation for the separation of pension fund accounts from the administering authority's main accounts. This recent letter sets out the opportunities that separation of accounts might bring the scheme and highlights that the King's Speech in July 2024 contained a commitment to bring forward a number of potential vehicles for the Board's recommendation to be enacted – for example, the Pension Schemes Bill, the Devolution Bill or the draft Audit Reform and Corporate Governance Bill.

SAB – Preparing the Annual Report

101 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 MHCLG.

102 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 (MHCLG). It replaces the 2019 guidance produced by the CIPFA Pensions Panel, which was disbanded in 2021.

103 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 have been set out in detail for both the Committee and Board. Officers are consulting with the Local Pension Board over ongoing monitoring of compliance.

104 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

105 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.

106 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.

107 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

108 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 was previously shared with the Committee.

SAB – Fiduciary Duty and Lobbying

109 The Scheme Advisory Board has published a statement (Appendix A) which it considered was necessary to address the current situation whereby administering authorities are dealing with increasing queries about how LGPS funds are invested. The Board hopes that the statement is helpful to pension committee and board members, as well as LGPS officers, advisers, scheme members and others involved in lobbying activity.

110 Additionally, SAB highlighted that several administering authorities have received letters that allege they are acting unlawfully by holding, and failing to divest from, investments in companies which have been linked to the ongoing situation in the Middle East. To help administering authorities to assess these accusations and respond appropriately the Board sought leading Counsel advice on behalf of the LGPS (Appendix B).

111 Specifically, Counsel was asked for an opinion on the allegation that funds might face future criminal action by the International Court of Justice or have liability in domestic law under the Terrorism Act 2000 or the International Criminal Court Act 2001, as a result of holding such investments.

112 It is hoped that this advice assists funds in responding to any similar letters but advises that funds should consider their own legal advice in relation to specific circumstances and investments. The advice is also limited to the question of whether any specific criminal liability attaches to the holding of these investments, and not whether it is appropriate for funds to choose to divest. The Committee will be kept informed should any correspondence of this nature be received.

SAB – Funding Strategy Statement guidance

113 The Scheme Advisory Board has written to MHCLG to recommend Ministerial approval on guidance produced by the Board and the Chartered Institute of Public Finance and Accountancy (CIPFA), for administering authorities to follow when preparing the Funding Strategy Statement (FSS). The new FSS guidance was approved by the Board and by CIPFA's Public Finance Management Board in November 2024. Following

Ministerial approval this will be adopted as statutory guidance. Officers will consider the implications when preparing for the 2025 Valuaiton and ensure that the Fund remains compliant with relevant Statutory Guidance when reviewing the Funding Strategy Statement.

Non- LGPS Specific Matters

Public Sector Exit Payments Caps

114 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.

115 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.

116 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 (know 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 of loss of office.

117 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.

118 Separately to the Exit Payment Regulations, MHCLG consulted on further reforms to the LGPS Regulations that would accommodate the Exit Cap within the Scheme. As MHCLG’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.

119 On 12 February however the Exit Cap was unexpectedly disapplied, after the Treasury issued the ‘Exit Payment Cap Directions 2021’. The Treasury intended to 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

120 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.

121 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 compromises a set of 12 Principles which require reporting and disclosure on an ‘apply and explain’ basis.

122 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.

123 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

124 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.

125 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 that the State Pension Age. The minimum age a scheme member can currently retire voluntarily in the LGPS is 55.

126 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.

127 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

128 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.

129 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.

130 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.

131 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, its applicability to the LGPS, and main provisions, was considered by the Board in June. An external review of the extent of the Fund's compliance with the Code is proposed before the end of the Municipal Year.

Boycotts, Divestment and Sanctions

132 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.

133 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.

134 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.

135 It was previously reported to members that the dissolution of Parliament before the 2024 General Election meant that the Bill falls, as it has not proceeded through all stages and therefore cannot be given Royal Assent prior to dissolution. Officers will check whether the government commits to bringing the Bill back to Parliament in future.

Pension Scams and new Restrictions on Transfers

136 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.

137 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.

138 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.

139 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.

140 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

141 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.

142 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.

143 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

144 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.

145 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.

146 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 and progress will be reported to the Pension Board.

Changes to Pension Taxation

147 In the 2023 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.

148 Changes were also made to the Lifetime Allowance, which reduced to zero from 6 April 2023, before being fully abolishing entirely in a subsequent Finance Bill. Following this, the government introduced new limits on the maximum amount of tax-free cash an individual can receive from all pension provisions over their lifetime. A Lump Sum Allowance (LSA) of £268,275 on retirement lump sums was introduced, as well as Lump Sum Death Benefit Allowance (LSDBA) of £1,073,100.

149 Officers will continue to 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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Scheme Advisory Board (SAB) Statement on Fiduciary Duty and dealing with lobbying

Purpose of this statement

As one of the largest funded pension schemes in the world it is important that the LGPS continues to hold itself to the highest standards of stewardship and governance.

Discussion around the content of responsible investment policies is not new and the majority of lobbying and decision-making is done in a respectful, thoughtful and transparent manner. However, the Board is aware that LGPS administering authorities (AAs) are dealing with increasing levels and extreme forms of lobbying about how LGPS funds are invested. The Board has decided to make this statement to make clear its view on the flexibility decision makers have to respond to lobbying; the standards of behaviour expected when discussing what can be emotionally charged issues, and where to go for support if those standards are not being met.

What kinds of Environmental, Social and Governance (ESG) considerations are appropriate?

When decision makers exercise their LGPS investment responsibilities, the primary purpose must be to achieve the required returns in an appropriately risk-managed way to pay pensions when they become due, minimising the need for additional funding in the future. AAs need to invest the contributions they collect from employers and employees in the best interests of those scheme members and employers.

The phrase “best interests” in the context of pension scheme investments will typically mean “the best financial interests” of scheme members and this is referred to as the fiduciary duty. Value, risk and yield of investments should therefore drive an AA’s decisions. AAs also have a duty to scheme employers to invest competently so as not to unnecessarily inflate the contributions needed from them in the future. Because of these duties, financial factors must always be taken into consideration by AAs in setting their investment strategy.

Under the LGPS Investment Regulations 2016 AAs are required to include in their investment strategy a policy on how ESG considerations are taken into account in the selection, non-selection, retention and realisation of investments. AAs may choose to clarify in their Investment Strategy Statements what they believe to be material financial risks and how they take these into account. Consideration of non-financial factors is also permitted, the amount of weight (if any) attached to such factors is at the discretion of the administering authority. AAs may do so only where it would not lead to significant financial detriment and where it would have the support of the scheme beneficiaries.

Increasingly, the distinction between financial and non-financial factors is becoming more difficult to maintain. For example, the consequences of climate change (both physical and financial) are now widely seen as material financial risks and are no longer seen as just a responsible or sustainable investment concern. The distinction between financial and non-financial factors can also become blurred when systemic risks or benefits are considered, e.g. investors signalling to the market their preference for sustainable, longer-term, value-adding companies. A recent report produced by the Financial Markets Law Committee recognised that it is appropriate for decision makers to "situate their pension fund within the wider economy" and take into account factors like sustainability and business ethics as part of constructing and implementing an investment strategy which seeks to achieve the purpose of the scheme in paying members the benefits to which they are entitled.

The Board is seeking an opinion from Counsel as to whether there is a need to update the previous advice received on the nature of fiduciary duty for LGPS AAs.

It is also important that those charged with management of an LGPS fund understand the decision-making function they have and maintain an appropriate level of knowledge and skills, as underpinned by legislation, legal opinions and guidance to exercise their duties.

Considerations that are not appropriate

It is not appropriate for investment decisions to be driven directly by the political views of Pension Committee members or indeed Government ministers (except as where prescribed in law, e.g. under the Sanctions and Anti-Money Laundering Act 2018). The Supreme Court held, in its judgment on the Palestine Solidarity Campaign case, that it is not appropriate for political preferences, whether local or national, to take precedence over what is required under the fiduciary duty.

This makes Pension Committees different from other local government committees that are dealing with service provision, and which have to make political choices about the prioritisation of scarce public resources. The Supreme Court (in the above case) was clear that administering LGPS funds is not best understood as a "local government function" or "part of the machinery of the state", instead Pension Committees operate in a quasi-trustee role.

To the extent that environmental, social or governance considerations are applied, these should be framed in terms of what the scheme members would support or share the concern about those considerations. It may be reasonable to assume that elected members have a better understanding of local scheme member views than professional advisers, who in turn are better placed to understand the implications of financial factors. Those appointed to represent members on committees or boards may similarly have a good understanding of member views.

In a scheme with six million members there will inevitably be a wide range of views amongst scheme members. That means that consideration should also be given to exploring the range of concerns, and the relative priority amongst them, that members hold. There is no one right approach to doing this, but some AAs have carried out surveys, consultation events and even formal market research.

The quasi-trustee role means that decisions made by the Pension Committee should not privilege one group of scheme members over another. This creates an obvious tension when Pension Committees know that scheme members are likely to hold strong but very different views on a particular subject. Where such disagreements are anticipated, the Pension Committee should try and keep focus on financial factors and avoid taking one position against another.

Expected behaviour at Pension Committee and other official meetings

Pension Committee members should focus on ensuring that good decisions are made in the best interests of scheme members, taking into account all relevant considerations and excluding irrelevant ones. They should not use committee meetings as a forum to rehearse their own political positions or engage in antagonistic debate with other committee members. They must not direct unfair comments or abuse at officers or others invited to attend meetings to present to the Committee. Pension Committee and Board meetings should be conducted in a way that reflects the seven Principles of Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership).

Under the Localism Act, local authorities are required to establish a Code of Conduct for elected and co-opted members to follow. Action should be taken if conduct at Pension Committees or Boards does not comply with the Principles of Public Life or the council's own Code of Conduct.

Scheme members and the public do have a right to lobby the AA and peacefully protest against decisions. It may help to engage with those organising protests and explain to them that Pension Committee members and officers cannot allow themselves to be unduly influenced by these representations. When acting within their fiduciary duty the AA is legally obliged to limit itself to acting in the best interests of scheme members (as defined above) and the views of local residents generally on ESG matters is not relevant.

Officers, elected members and others have the right to go about their lawful duty of administering the LGPS without abuse. Where the actions of those protesting or lobbying amounts to attempting to intimidate, cause unease or harass those administering the scheme then this needs to be taken very seriously and reported to the appropriate authorities.

Where to go for support

AAs should clearly define the process for officers or elected members to raise concerns when inappropriate behaviour or language are directed against them.

The Local Government Association (LGA) is aware that councillors are often unsure as to where to go for support in their councils. Therefore, there should be a clear and formalised process for raising concerns, either through a specific individual or department, and responsible persons should be assigned who are well equipped and located in the council to provide them with the support they need.

Levels of abuse and intimidation of officers and councillors will vary from place to place. Councils that have robust and embedded arrangements for supporting councillors dealing with abuse and intimidation have often been galvanised into action by a local high-profile event or national event that has caused them to reflect on their local arrangements. The Board strongly recommends not waiting for such an event but putting in place appropriate arrangements now to ensure the safety of those administering the pension scheme.

The LGA has worked with the sector to produce a toolkit that helps identify good practices and the most impactful approaches when supporting councillors across prevention, incident management and aftercare.

September 2024

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LOCAL GOVERNMENT PENSION SCHEME: IMPLICATIONS OF THE CURRENT EVENTS CONCERNING GAZA

OPINION

1. I am instructed to advise the Local Government Association ("the LGA"). The advice is intended to assist administering authorities of Local Government Pension Scheme ("LGPS") funds. My conclusions are summarised at the end of this Opinion.

Introduction

2. It appears that numbers of administering authorities have recently received letters in similar terms, raising concerns about the investment of LGPS funds in what are said to be "companies in violation of international law". The particular letter which I have seen is addressed to Reigate & Banstead BC, from a Dr Christina Peers (I shall call it the "Peers letter"), and I shall assume for the purposes of this Opinion that it is typical.

3. More specifically, the "violations" alleged by the Peers letter relate ultimately to the conduct of the state of Israel in relation to Palestine and the Palestinian people. They are not limited to the recent events concerning Gaza, but it is evident that those events give the allegations a particular focus. The letter starts with a reference to a "case against four UK ministers now being considered by Scotland Yard", and it appears that this is a reference to complaints made to the police in January and May 2024 by the International Centre of Justice for Palestinians ("ICJP"), which are specifically about alleged war crimes and crimes against humanity in Gaza.

4. The thrust of the Peers letter is that Israel is enabled to continue in the actions to which its author refers "because of products, equipment and

services it received from a range of complicit companies”, and that LGPS funds should not be invested in such companies.

5. I am currently engaged in preparing for the LGA an opinion which will update and elaborate upon more general advice which I gave (and was published) in 2014 concerning the nature and extent of the duties of administering authorities in relation to the investment of funds, and what are sometimes referred to as non-financial factors in the taking of investment decisions. That advice will address, in a wider context including problems of climate change, and government policy ambitions for the investment of pension funds, as well as boycott and disinvestment campaigns of various kinds, questions such as the dividing line between financial and non-financial, and what authorities may, may not, or might in future be compelled to do by way of consideration of such questions, pursuant to their ordinary public law and fiduciary duties.

6. This Opinion is intended to provide more urgent and finite advice about the suggestion, made in the Peers letter, that to make or maintain particular investments might be positively unlawful because of the alleged linkage between those investments and the commission of what are said to be crimes. It is <u>not</u> about what an administering authority might be <u>entitled</u> to do by way of refraining or divesting from such investments if it so decided – my more general opinion will, I hope, cast more light upon that.

7. I shall consider, first, the suggestion that administering authorities (or perhaps the individual members or officers who take or implement decisions) might themselves have some criminal liability; and secondly, the question of whether any underlying criminality on the part of relevant companies or those to whom they supply might mean that investing in those companies was unlawful as a matter of public law.

8. I should make clear that, as those instructing me are aware, I am a purely civil practitioner (and specifically a public law specialist with a particular

interest in, amongst other matters, the public law aspects of pensions). However, there are obvious advantages to having the present issues addressed in the context of the wider issues of LGPS investment with which I am familiar, and to the extent that this Opinion needs to deal with matters of criminal law, they are discrete and specific legal questions of a somewhat unusual nature which I am content that I have been able properly to research and address, rather than matters of ordinary criminal evidence and procedure.

9. This Opinion is concerned with the law as it applies in England. I have not looked specifically into the position in the remainder of the United Kingdom. However, I should be extremely surprised if the position in Wales was materially different, and I think it reasonably likely that it will be the same in Northern Ireland as well. There obviously are differences between the criminal law of England and Scotland, on which I cannot comment, although I think that the general statutory and public law position concerning local government pensions and their investment is probably fairly similar.

Potential criminal liability

10. The Peers letter does not offer very much by way of systematic legal analysis, although it does refer in a rather scattergun way to a number of domestic statutory provisions and provisions of treaties or other principles of international law. The ICJP letters are a little more closely argued, and the ICJP's published summary of its police complaint makes clear that it is based upon alleged "complicity" in acts which are war crimes, although of course this complaint is against government ministers, and the nature of the acts of complicity is not made very clear (the summary refers without further detail to "providing political cover, encouraging criminal acts, supplying weapons [and] withholding funds from agencies that provide life sustaining humanitarian aid." In the absence of some specific and focused allegation against one or more LGPS administering authorities, I shall seek

to undertake a systematic analysis of how (if at all) any criminal liability might arise.

International Criminal Court Act 2001

11. The most obvious starting-point for the discussion is ss 51 and 52 of the International Criminal Court Act 2001 ("ICCA").

12. Under ICCA s 51, it is an offence against the law of England and Wales to commit genocide, a crime against humanity or a war crime (all as defined in the 2001 Act, essentially by reference to the articles of the Rome Statute of the International Criminal Court ("ICC")), where the relevant acts are either committed within the jurisdiction or else committed elsewhere by UK nationals and residents (and service personnel, who can be ignored for present purposes).

13. Under ICCA s 52, it is also an offence against the law of England and Wales to engage in "conduct ancillary to" an act to which s 52 applies, namely an act which would be either a s 51 or a s 52 offence if it was committed in England and Wales. Again, the ancillary conduct must consist of or include an act committed either within the jurisdiction or by a UK national or resident. Ancillary conduct means conduct which would constitute an ancillary offence if the relevant offence was committed in England and Wales.

14. Ancillary offences are defined by ICCA s 55. I do not think we need be concerned in the present context with incitement, attempt, conspiracy, assisting offenders or concealing offences. That leaves (see ss 55(1)(a) and 55(2)) conduct which, if committed in England and Wales, would be punishable under s 8 of the Accessories and Abettors Act 1861, namely aiding, abetting, counselling or procuring the commission of an offence. In modern language, this is usually expressed as either assisting or

encouraging the commission of an offence – again, encouragement can be left aside for these purposes.

15. In substance, this can be summarised by saying that it is a criminal offence to do something in England which assists the commission of genocide, a crime against humanity, or a war crime, regardless of where the assisted act occurs. Further, if there is a criminal act of assistance, it is also criminal to assist that assistance.

16. Accordingly, the questions which would arise in relation to any alleged criminality on the part of an administering authority or an individual would be as follows (perhaps more accurately, these are the elements which a prosecutor would have to prove beyond reasonable doubt):

(i) Has something been done (by Israel or its agents, if one focuses on the complaints made by the current letter) which amounts to genocide, a crime against humanity or a war crime?

(ii) If so, did the authority or the individual assist that act? Alternatively, did they assist someone else's act of assistance, and would that person's act have been criminal if committed in England and Wales?

(iii) If so, did the authority or the individual have the necessary *mens rea*?

17. I shall consider these elements in turn.

Commission of a substantive ICCA offence

18. There has been immense controversy over the last year (and indeed before) as to whether Israel has committed or continues to commit the kind of offences to which ICCA applies. There are undoubtedly what I would seek neutrally to characterise as informed and coherent assertions that it has.

For example, it is well known that the Prosecutor of the International Criminal Court has applied for an arrest warrant against the Israeli Prime Minister and Minister of Defence, on the basis that there are reasonable grounds to believe that war crimes or crimes against humanity have been committed. Again, the 12 June 2024 report of the Independent International Commission of Inquiry established by the UN Human Rights Council concluded (at paragraph 97) that in Israel's military operations in Gaza it had "committed war crimes, crimes against humanity and violations of IHL [international humanitarian law] and IHRL [international human rights law]."

19. As against that, Israel itself denies the commission of such offences, and there have been critiques, both legally and factually, of the allegations made, from sources which again include what I would characterise as informed and coherent commentators. Simply by way of example, the organisation UK Lawyers for Israel has published or provided links to various such critiques.

20. There exists a huge volume of other commentary on these matters, academic and non-academic, from a range of sources which are to various degrees objective or partisan, and expressing a range of views. So far as I am aware, there is currently no relevant ruling from any domestic court or any international court or judicial tribunal. The International Court of Justice ("ICJ") issued an important advisory opinion on 19 July 2024 in which it concluded that various of the policies and practices of Israel in relation to the occupied Palestinian territories were contrary to international law, but that opinion was not concerned one way or the other with the offences to which ICCA applies (and it was focused primarily on the longer-term situation in the occupied territories, rather than on the immediate situation in Gaza to which current allegations of criminal conduct mainly relate).

21. One important point to make is that in ordinary day to day affairs it should not normally be too difficult for a person (who knows or is deemed to know

the law) to understand whether something which is happening, or may be about to happen, constitutes or is likely to constitute the commission of a crime. But the application of the law on war crimes in particular may involve, and in this context probably does involve, the application of concepts of proportionality, of discriminate or indiscriminate action, and the principle of self-defence. These all call for the exercise of judgment, and that judgment needs to be applied to the facts of what is happening in a confused zone of conflict, facts which are frequently hotly disputed. Additionally, the ICCA crimes are only committed if the perpetrator has the intent and knowledge specified in ICCA s 66, meaning that in this context it is effectively necessary to enquire into the state of mind of a foreign government and its agents.

22. It is perfectly obvious that an LGPS administering authority is, to put it mildly, not well placed to know whether ICCA crimes have in fact been committed or are likely to be committed in the future. Even if it were to conduct or commission significant investigatory work, which might be thought a questionable use of pension fund resources, and is certainly not something positively required by the criminal law, the authority might very well be left in a state of considerable uncertainty.

23. Authorities will probably be aware of the policy paper published by the Foreign, Commonwealth & Development Office on 2 September 2024, which explained the basis for the government's recent decision[1] to refuse certain statutory export licences on the ground that there was a "clear risk that the items might be used to commit or facilitate a serious violation of international humanitarian law". But not all violations of IHL are ICCA offences. The statement is focused on what it concludes is a breach of Israel's duties as (in the FCDO's view) an occupying power, and/or to allow the free passage of humanitarian relief by others, and its failure to respond

[1] I note for completeness that UK Lawyers for Israel has apparently threatened to seek judicial review of this decision.

satisfactorily to credible claims of the mistreatment of detainees (in terms of sufficiency of investigation, and access for the Red Cross). The fact that there have been, in the FCDO's view, these breaches or apparent breaches does not carry the necessary implication that ICCA offences have been committed by or on behalf of Israel. What the FCDO statement says about the conduct of hostilities is that there is "cause for concern" about Israel's attitude and approach. It then continues:

> "Despite the mass casualties of the conflict, it has not been possible to reach a determinative judgment on allegations regarding Israel's conduct of hostilities. This is in part due to the opaque and contested information environment in Gaza and the challenges of accessing the specific and sensitive information necessary from Israel, such as intended targets and anticipated civilian harm. This is further complicated by credible reports that Hamas embeds itself in a tightly concentrated civilian population and in civilian infrastructure."

24. Against this background, it seems to me that the only realistic view to be taken from an administering authority perspective is that Israel and its agents might or might not currently be committing ICCA offences. That such offences are being committed is not a merely fanciful possibility, but it is certainly not obvious that they are, or even highly likely. I doubt that an administering authority without some special and unusual knowledge of the relevant facts could even sensibly say whether the existence of offences is more or less probable than not. I shall return below to what implications this has for the question of *mens rea*.

25. The known factual position in relation to the commission of the alleged offences might of course change in the future. For example, one or more individuals might be charged or convicted before the ICC[2]; or there might be some other authoritative judicial ruling; or a consensus of authoritative opinion might emerge to the extent that a person who committed the

[2] The fact that a crime had been committed in the past would not, of course, automatically mean that similar crimes were likely in the future – that would all depend upon what was found to have occurred, and how far that appeared to be part of a course of conduct which was still continuing.

necessary *actus reus* could be said to be at least reckless as to whether what their assistance was facilitating was a war crime.

Assistance

26. In order to assist in the commission of an offence, it is necessary that there should be some "connecting link" between the act of assistance and the commission of the offence. However, it is not necessary that the assistance should have caused the commission of the crime, in the sense of it being proved that but for the assistance the crime would not have been committed: see *R v Stringer* [2012] QB 160 at [48].

27. *Stringer* also notes at [51-52] that what degree of assistance is required is a "common sense" question for the jury on particular facts, and that sometimes any assistance provided is "so distanced in time, place or circumstances" from the conduct of the principal offender that it would be unjust to regard the latter's act as being done with the defendant's assistance. The Supreme Court judgment in *R v Jogee* [2017] AC 387 at [12] puts it this way:

> ". . . there may be cases where anything said or done by [D] has faded to the point of mere background, or has been spent of all possible force by some overwhelming intervening occurrence by the time the offence was committed. Ultimately it is a question of fact and degree whether [D's] conduct was so distanced in time, place or circumstances from the conduct of [P] that it would not be realistic to regard [P's] offence as encouraged or assisted by it."

28. It is not straightforward to translate these principles into the context where the alleged principal offender is in effect a state, and the alleged assistance consists of financial investment which directly or indirectly helps the state to carry on the offending activity. However, there is some assistance to be gained from *R (Islamic Human Rights Commission) v Civil Aviation Authority, Foreign & Commonwealth Office and Ministry of Defence* [2006]

EWHC 2465 (Admin) ("*IHRC*"), a case with a not dissimilar factual background to the present problem.

29. In *IHRC*, permission to apply for judicial review was refused at a renewal hearing (although one at which there appears to have been fairly full argument and a reserved judgment) because the claim was held to fall a "very long way" short of being arguable. The claimant sought to prevent the use of British airports and airspace for the transport of military equipment for use by Israel in what is usually known as the 2006 Lebanon War (when Israeli forces launched attacks into southern Lebanon in response to Hezbollah rocket attacks). The transport was being effected by US air freight companies, and the flights transited through the UK. The basis of the argument was that granting the necessary authorisations amounted to a criminal offence, either under the Geneva Conventions Act 1957 or under ICCA. The claimant's case, as summarised at [30], was that regardless of how any particular munitions in any particular cargo might be used, the effect of the flights was to "provide military assistance to a war being carried on in a way which involved disproportionate and indiscriminate bombing of civilians." So the basic nature of the complaint was not very different from that made in the Peers letter.

30. The main reason given by Ouseley J for refusing permission in *IHRC* was that the claimant had failed to identify any "directing mind" individuals who were said to have the necessary *mens rea*, and that it was inappropriate to use judicial review proceedings as a means of carrying out an investigation into the legality of Israel's conduct in international law, although the court recognised that such issues might indeed need to be investigated in the event of a prosecution. The judge also said at [36] that it was inappropriate to resort to judicial review, rather than prosecution, in support of the criminal law "unless the offence is clear and it cannot be prevented in the usual way through criminal prosecution" – whatever else might be said,

according to the judge, it was certainly not clear that offences had been committed.

31. More significantly for present purposes, Ouseley J commented at [35] that it was "far from clear" that the grant of authorisations could amount to aiding and abetting an offence:

> "Those would be actions much more remote than those which led to the murder conviction [in *R v Bryce* [2004] 2 CrAppR 35 – where the defendant had driven a hitman to a location near the victim's house]. The analogy would be with the person who might have put the petrol in the motor bike or car which carried the criminals. It is far from clear that the criminal law could possibly extend that far. It would at least have to be shown that the individual, because this is an offence that is committed by individuals because it involves a guilty mind, knew of the destination of the cargoes and that the use of the cargoes would be likely to be disproportionate in the public international law sense or in some illegal attack. It would then have to be shown that the munitions in question were so used. It would be a very considerable extension of the criminal law to say that lawfully used munitions and weapons could not be supplied to a belligerent without aiding and abetting a substantive offence, simply because of the general conduct of the war using other munitions which would thereby be aided or encouraged."

32. These comments were not, I think, part of the *ratio decidendi* of *IHRC*, and nor would the case be a binding precedent even if they were. It may also be the case that some of Ouseley J's comments, perhaps influenced by his general views of the weakness and inappropriateness of the overall challenge, go somewhat further than is really justifiable. Nonetheless, the thrust of what he said is as good an indicator as one has of how a jury might be directed, or how it might be expected to react, or indeed of whether the case would be regarded as fit to be left to a jury. At an earlier stage, this would feed into the application of the evidential test when the CPS came to consider whether that was satisfied[3].

[3] That would obviously occur, as part of the Full Code Test, if the CPS was itself considering whether to initiate a prosecution. As I understand it, the CPS will also apply the Full Code Test if asked to take over a private prosecution either to continue or to stop it. I deal further below with the statutory consents that would be required for prosecution.

33. It will be noted that the potential assistance in this case is at least one stage, and perhaps more than one stage, further removed from the (assumed) offences than the alleged assistance was in *IHRC*. There, the suggestion was that the transported munitions were being supplied for the general purposes of a war in which at least some munitions were being or were likely to be used in ways constituting an offence; and that the authorisations were what allowed the munitions to reach Israel. Here, the allegations about the war are much the same. But the supplies to which the Peers letter refers are, in many cases, ones which might be characterised as supportive of the Israeli war effort, but are not items which would actually be used in the commission of war crimes (if any). Further, the complaint here is not of supplying those items, or even (as in *IHRC*) of doing something directly in relation to those items – rather, it is of investing in the companies which produce the items. I imagine that in many cases the LGPS fund will not even have invested directly in the relevant companies: rather, it will have invested in some collective investment scheme or undertaking which itself holds the company's shares or bonds.

34. The linkage with the alleged offences here, in other words, is a very remote one. I have not identified any case, whether in a context similar to this one or not, in which such an indirect and tangential connection with a crime has been the foundation for a person to be convicted of assisting that crime.

35. There is also a question as to whether investing in a company by purchasing shares in it, certainly if one is talking about minority interests in a publicly quoted company, really constitutes assistance to that company in its activities. Usually the purchase of shares in an already established and capitalised company simply means that one shareholder is replaced by another, without any direct impact on the company's activities. Of course the share price is a function of demand for the shares, and companies will normally wish to see their share price increase as one means of delivering value for existing shareholders, so in that sense the company benefits from

equity investment: but to describe that as assisting (or, for that matter, encouraging) its activities strikes me as artificial at best.

36. My Instructions do draw attention to the fact that the government of Israel, like other national governments, from time to time issues bonds. They point, for example, to a March 2024 bond sale which press reports expected to be for large volumes given the country's "significant funding needs". Without doubt Israel's current funding needs will have been significantly increased by its military operations in Gaza (and now in Lebanon): I have read, for example, that the government's 2023 borrowing requirement doubled following the 7 October attacks. Nonetheless, the same March 2024 press reports make clear that those bond proceeds were to be used for general budgetary purposes. Even if an administering authority were the actual purchaser of such a bond (as opposed to being an investor in a fund which might purchase such bonds), I doubt that it could be said thereby to be assisting the conduct of the war, let alone assisting the commission of criminal offences which might be committed during that war. There might be more room for argument if a particular bond issue was specifically to finance military operations in Gaza, but that does not seem to be what happens in practice.

37. So, whilst at one level the ultimate answer to all such questions is that assistance is a matter of fact and degree for a jury, the case on assistance in the present context seems so weak that it is hard to imagine a prosecution ever getting off the ground.

38. As noted at paragraphs 13 and 15 above, it is an offence under ICCA not only to assist the commission of substantive ICCA offences, but also to assist someone who commits the offence of assisting (or would do if acting in England and Wales). Whilst this potentially removes one level of remoteness from the equation, I am still extremely sceptical (especially for the reasons given at paragraph 35 above) that one assists the activities of a company merely by investing in it; and there will be in most cases be real

questions as to whether the company's activity is itself proximate enough to any war crimes for that activity to be "conduct ancillary" under ICCA.

39. Thus far I have made the assumption that one is talking about a new investment made by the relevant LGPS fund which could potentially be classified as an act of assistance. But to a large extent the Peers letter is focused upon existing investments, and is concerned to urge divestment from them. Although English law does sometimes impose criminal liability for omissions, usually in circumstances where there is some independent legal duty to take action, or where the omission is a negligent or deliberate failure to rectify a danger created by the defendant's own action, liability for omissions is not the norm. I think it is very difficult to see that failing to dispose of an investment could ever be an act of assistance, even if one postulates a case in which making the equivalent investment for the first time would be such an act.

Mens rea

40. Where the alleged accessory is a corporation rather than an individual (which would be the position if an attempt was made to prosecute an administering authority), the question will be whether the *actus reus*, or at any rate some necessary element of it, was carried out by a person who had the necessary *mens rea* and is to be treated as the "directing mind and will" of the corporation for the purpose of such acts: see e.g. *Serious Fraud Office v Barclays plc* [2020] 1 CrAppR 28.

41. As to what that required *mens rea* actually is, the mental state for accessory liability is not a straightforward topic[4]. However, in the light of the Supreme Court decision in *R v Jogee* [2017] AC 387, and other established authority including *R v Bryce* [2004] 2 CrAppR 35, the following propositions relevant to this case can be formulated (I refer to the person who commits the

[4] I should point out that, under the Rome Statute itself, article 25(3) limits liability for aiding and abetting to cases in which the defendant acts "for the purpose of facilitating the commission of such a crime." However, ICCA does not reproduce this narrow test of *mens rea*.

substantive offence as P, and to the defendant who is accused of the secondary, accessory offence as D):

(i) The act constituting the assistance must be done intentionally by D (i.e. deliberately rather than accidentally).

(ii) However, D need not have the desire or motive that P should commit the crime (if I supply a weapon to someone who proposes to rob a bank, it does not matter whether I want him to rob the bank, or whether I am just interested in getting money for the gun).

(iii) D must have knowledge of the essential facts which are necessary for P's conduct to be criminal, including P's own intent where that is an element of the offence (although D need not know that the law is such as to make P's act criminal). In *Jogee*, the Supreme Court referred to this as knowledge of "any existing facts". Smith, Hogan & Ormerod, *Criminal Law* (16th edition) at page 213 endorses the view of Professor Jeremy Horder that, given that P's conduct will take place in the future:

> ". . . the Supreme Court must have meant . . . that what matters is whether D knows that, when P acts on D's assistance or encouragement, the facts making P's act criminal will exist at that later time."

Smith, Hogan & Ormerod also suggests that the better view is that, following *Jogee*, it is actual knowledge and not mere recklessness that is required, although there are earlier cases which have not been explicitly overruled, and which suggest that it is enough if D knows that the relevant fact "probably" exists or will exist.

(iv) D must also know that his act is capable of assisting P's crime, and he must appreciate that there is at least a real possibility that P will in fact do the act which constitutes the offence.

(v) If P's crime might take a number of forms, D does not need to know the specific form which the crime will take, so long as P's actual offence is within the range of possible offences in relation to which the accessory had the necessary intention.

42. It is the knowledge requirement set out at paragraph 41(iii) above which seems to me, at least as matters stand, to represent a clear barrier to accessory liability in this case, even if (contrary to my view) any alleged assistance was not too remote to found the offence. I do not see how the confused and conflicting information currently in the readily accessible public domain (see paragraphs 18 to 24 above) could lead to the conclusion that an administering authority would know that, if Israel made use in the conflict of items supplied by companies in which the authority had invested, it would do so in a way which was criminal, or with the mental element required by ICCA s 66. Even if it was sufficient to know merely that these things were probable, I doubt that the test would be passed here.

43. If the suggested offence by the administering authority was one of "assisting an assistor" (see paragraph 38 above), it would become even harder to prove the necessary *mens rea*. In that scenario, the administering authority would still need to know the facts which mean that Israel's conduct would be criminal. But additionally the administering authority would have to know enough about the assistor's role and its state of knowledge to conclude that it was (at least) probably committing an offence. Whilst that cannot be ruled out in theory, it strikes me as very unlikely in practice.

Conclusions on criminal liability under ICCA

44. Whether Israel and its agents have committed and are committing offences, such as war crimes, to which ICCA applies may be a debateable question. But there are two reasons why, even if that is the position, it is very unlikely indeed that any investments by an administering authority would amount to an ancillary conduct offence under ICCA. The first is that such

investments will, at least in any normal case which I can envisage, be too remote from and tangentially connected with any war crimes to constitute assistance with their commission. The second is that, certainly as matters stand, it is very unlikely that an administering authority or anyone acting on its behalf would have the necessary *mens rea*. Those points apply to making new investments: it is still less likely that a failure to dispose of existing investments could amount to an offence.

45. Although it is apparent that there is an increasing level of interest around in the world in the potential criminal liability of commercial corporations and their officers for assisting or encouraging activity caught by the Rome Statute of the ICC (by no means only in the context of conflict in the Middle East), I am not aware that any serious attempt has ever been made to prosecute in a context similar to the present one. There is an ongoing trial in Sweden (*Lundin and Schneiter* – the Lundin Oil case) which has received considerable attention, and in which two senior executives are being prosecuted for aiding and abetting alleged war crimes by the Sudanese government. But the facts of that case are strikingly different from what is under discussion here. The allegation, effectively, is that Lundin Oil had a concession to exploit oil in a certain area of Sudan where rebel militia groups were active, requested or demanded that the government take steps to bring the militia activity under control so that oil extraction could proceed in safety, and knew that this was being done in a way which involved systematic attacks against civilians and their property. The company's alleged involvement in the alleged offences, that is to say, is vastly more direct than anything alleged against most of what the Peers letter refers to as the "complicit companies", let alone those who are merely investors in those companies.

Other offences

46. It does not seem to me at all likely that, if there was no ancillary conduct offence under ICCA, an administering authority could instead be guilty of

an offence under ss 44 to 46 of the Serious Crime Act 2007. The broad effect of those provisions is to criminalise the assistance and encouragement of crime, even in cases in which secondary liability cannot arise because no offence is in fact committed. But they all require either a belief that the act done will encourage or assist the commission of an offence, or an intention to encourage or assist which cannot (see s 44(2)) be taken to exist merely because the encouragement or assistance was a foreseeable consequence of the act done.

47. Are there any potential substantive offences other than those created by ICCA which change the picture materially? The Peers letter refers to ss 1, 15, 17 and 19 of the Terrorism Act 2000 ("TA2000"). Section 1 does not itself create an offence: it defines "terrorism" for the purposes of the Act, and I shall need to return in a moment to whether the actions of the state of Israel could fall within that definition.

48. TA2000 s 19 can be put aside as irrelevant. It requires disclosure to the police when a person believes or suspects that particular offences have been committed, if that suspicion or belief is based upon information coming to the person's attention in the course of a trade, profession, business or employment. I can see no reason why an administering authority should have any such suspicion or belief, and even if it did, any relevant information appears to be in the public domain and not something discovered by the administering authority in its capacity as such (even if one assumes that the discharge of administering authority functions amounts to a "business" for these purposes).

49. TA2000 s 15 (headed "Fund-raising") creates a number of offences, of which the most relevant seems to that under s 15(3), the offence of providing money or other property, knowing or with reasonable cause to suspect that it will or may be used for the purposes of terrorism. "Providing", by s 15(4), covers giving, lending, and otherwise making available, whether or not for consideration. The implication of the drafting

is clearly that money is something which can in principle be used for the purposes of terrorism, presumably where some terrorist organisation is provided with the money to enable it to buy supplies and carry on activities. But even if actions of the state of Israel amounted to terrorism, simply to invest in companies which supply to Israel surely cannot amount to the provision of money (or other property) which is so used. The money invested, even if it is "provided" to the company (which itself seems doubtful), is not provided to Israel itself.

50. A somewhat less unnatural way of seeking to bring relevant investment activities within TA2000 would be via s 17. A s 17 offence is committed if a person:

> "enters into or becomes concerned in an arrangement as a result of which money or other property is made available or is to be made available to another, and . . . he knows or has reasonable cause to suspect that it will or may be used for the purposes of terrorism."

51. I imagine that the author of the Peers letter would argue that Israel's actions in Gaza fall within the TA2000 s 1 definition of terrorism because they endanger lives and cause serious damage to property, and have the purpose of "advancing a political, religious, racial or ideological cause", and that because they involve the use of firearms and explosives (see s 1(3)) it is unnecessary to show that the purpose of the acts is to intimidate a section of the public. The argument would then no doubt be that investing in one of the companies supplying equipment or munitions to Israel[5] amounts to entering into an arrangement as a result of which property is made available to Israel.

52. It is certainly true that, by virtue of TA2000 s 1(4), actions and impacts outside the United Kingdom can be caught by the definition of terrorism. It is also true that, if the definition of terrorism was satisfied here, then (since

[5] That is not what all of the "complicit companies" are in fact said to do, but since I think that the argument is wrong even in relation to such companies, it is unnecessary to consider how far the argument might extend if it was valid.

the relevant information about events in Gaza is in the public domain) the "reasonable cause to suspect" test would presumably be satisfied. Nonetheless, there are three reasons why I think that any argument such as I have outlined in the preceding paragraph would be unsound.

53. First, although the concept of an "arrangement" in s 17 is, no doubt deliberately, not a hard-edged one, so that an arrangement might take many forms, it does seem to me that there must be some linkage between the arrangement and the making available of the property which goes beyond simple causal connection. Put another way, it should be sensibly possible to describe the parties to the arrangement as "arranging" for that supply. Otherwise the offence created would be so broad and nebulous, in my view, as to offend against ordinary principles of interpretation of penal statutes. Even though aspects of the context are different, there is some analogy to be drawn with *Bowman v Fels* [2005] 1 WLR 3083, where a similarly worded provision in anti-money laundering legislation was held not to extend to the ordinary conduct of litigation – to adapt what the Court of Appeal suggested there at [62-63], if Parliament had intended that the ordinary making of investments in a company might constitute an "arrangement" for that company to carry on its trading activities, it is hard to imagine that the legislation would not have included further detail as to when that would or would not be the case, especially given the objective nature of the "reasonable cause to suspect" test. See also *R v Zafar* [2008] QB 810 at [29].

54. Secondly, even if a genuine investment counted as an "arrangement" for this purpose, I doubt that in ordinary circumstances a supply by a company could be said to be the "result" of investment in that company (cf. paragraph 35 above).

55. Thirdly, I am very dubious that action taken by a foreign government with a view to combating persons whom it regards as an internal or external threat to the state and its territory should be regarded as "advancing a

political, religious, racial or ideological cause" within the meaning of TA2000 s 1. This is not to pass any comment or judgment, one way or another, upon the policies or methods of the government of Israel. Rather, it is to suggest that there is a distinction to be drawn between pursuit by a state of what it perceives as the interests of the state, as such, and the pursuit of a "cause". The fact that all governments will in some sense themselves have a political character (and perhaps a religious, racial or ideological one as well) is not to the point. Again, if s 1 had been capable of criminalising the supply of equipment to a foreign government, potentially a friendly government, it is hard to imagine that Parliament would not have defined more carefully the circumstances in which that would or would not be the case.

56. I do not think that what I have just said is inconsistent either with the fact that there is no "just cause" exception to the TA2000 (see *R v F* [2007] QB 960), or with the (provisional) view expressed by Elisabeth Laing J in *Begg v HM Treasury* [2017] EWHC 3329 (Admin) at [31] as to an act being capable of having a terrorist purpose even though done in (perceived) self-defence, or with the Supreme Court decision in *R v Gul* [2014] AC 1260 that TA2000 terrorism can include military attacks in the context of a non-international armed conflict. The issue for the Supreme Court in *Gul* was specifically defined in terms of attacks by a "non-state" armed group, and whilst the Court emphasised the breadth of the TA2000 s 1 definition, there is no hint in the judgment or in the arguments that it might extend to actions by the state itself. Whilst there has been some academic and extra-judicial discussion of the potential criminal liability of state forces operating abroad, I am not aware that there has been any serious suggestion that the legislation might catch the sort of state actions under consideration here.

57. Finally, the Peers letter makes various references to international law. However, whilst crimes exist in public international law, and historically it appears that the English courts have sometimes been prepared to develop

the common law in line with international law in this respect, there is no automatic assimilation of domestic criminal law with international law. It is now for Parliament, not for the courts through development of the common law, to create new offences: see the House of Lords' decision in *R v Jones* [2007] 1 AC 136, especially at [27-29], [60 and 62] and [101-102].

58. In *Jones* it was thought to be well arguable that war crimes fell into the category which had historically been accepted into domestic common law. However, it seems plain that the extent to which war crimes or any secondary actions in relation to them are criminalised in English law is now governed by ICCA. Other established international law crimes (such as piracy) are simply not relevant in the present case.

59. Accordingly, I conclude that an administering authority in these circumstances has no potential criminal liability under the TA2000, nor for any other non-ICCA offence.

Consent to prosecution

60. Prosecutions under ICCA require the consent of the Attorney General: see ICCA s 53(3). Prosecutions for the relevant offences under TA2000 require the consent of the DPP under s 117(2), and in the present contest such consent could probably only be given with the permission of the Attorney, by virtue of s 117(2A).

61. The stated policy of the Crown Prosecution Service, in cases where DPP consent is necessary and sought for a private prosecution, is to apply the normal evidential and public interest tests, and to prosecute itself where they are satisfied, and to refuse consent where they are not.

62. I would be astonished if consent was forthcoming in current circumstances for a prosecution of an administering authority or its members or officers.

Obligations arising in public law

63. I now turn to the different topic of whether, if an administering authority's investments could be regarded as providing some form of support or assistance for Israel's current course of conduct towards Gaza, or the Palestinian people and territories more generally, that might be regarded as a breach of the authority's public law obligations. I repeat (see paragraph 6 above) that in this Opinion I am concerned only with potential *obligations* to disinvest or refrain from investment.

64. English law adheres to the dualist theory of international treaties – that is to say, that when the Crown concludes a treaty in the exercise of prerogative powers, that in itself has no impact upon domestic law. Legislation will be required before the treaty provisions, or equivalent statutory provisions, are enforceable in the national courts. See *R (Miller) v Secretary of State for Exiting the European Union* [2023] 1 WLR 2011 at [55-57]. Similarly, customary international law can no longer be regarded as an automatic source of domestic law rights and obligations, although here there may be a presumption that the common law should develop in line with international law: see *R (Freedom and Justice Party) v Secretary of State for Foreign & Commonwealth Affairs* [2019] QB 1075 at [113-123].

65. This is not to say that international law has no influence on the domestic courts. It may be relevant, for example, when deciding how an ambiguous statutory provision should be construed; or in influencing the incremental development of the common law; or in giving detailed content to the generally expressed rights in the ECHR as incorporated through the Human Rights Act 1998. But none of these possibilities represent a free-standing source of obligations.

66. Further, in *R (SG) v Secretary of State for Work and Pensions* [2015] 1 WLR 1449 Lord Reed JSC made it clear at [90-91] that international law obligations could not be introduced into domestic public law by the back

door[6], by inviting the court to hold that an authority had misunderstood the nature of those obligations and had thereby misdirected itself in law, or failed to have regard to a relevant consideration – save perhaps in a case where the authority had demonstrated an intention to act in whatever way international law required, but had demonstrably got that requirement wrong. See also *R (Friends of the Earth Ltd) v Secretary of State for International Trade* [2023] 1 WLR 2011.

67. If that is true even where the defendant is an organ of central government, and therefore (at least in a non-technical sense) the party which has undertaken any relevant treaty obligations, it must be all the more true if the defendant is a local authority having no functions in relation to the conclusion of international treaties. In *R (Tilley) v Vale of Glamorgan Council* [2016] EWHC 2272 (Admin), Lewis J at [75] and [78] held in effect that a local authority was only bound to have regard to the provisions of a treaty if that was what the applicable domestic legislation expressly or impliedly required it to do.

68. To the extent that the Peers letter suggests that local authorities are under some sort of general positive obligation to uphold international law, that is plainly wrong. Nor, in the light of the discussion above, can I see any rule or provision of domestic law which might plausibly fall to be interpreted one way or another in order to give effect to a particular international law obligation of relevance here.

69. Indeed, it is not even clear what specific international law obligation is being relied upon by the Peers letter. Leaving aside the Rome Statute which I have already in effect discussed, and the Nuremberg Code (whose relevance here is not explained), the only reference in the letter to an identifiable provision or rule of international law is to Article 41 of the UN Charter. Article 41, read with Article 39, empowers the Security Council to decide

[6] For an analogous approach in private law, see *The Law Debenture Trust Corpn plc v Ukraine* [2024] AC 411 at [159-167].

what measures (not involving the use of armed force) are to be taken to maintain or restore international peace and security, and to call upon the UN members to apply such measures.

70. It is clear that Security Council resolutions do not have automatic binding effect in the United Kingdom. Quite apart from the general principles discussed above, that is the whole reason why s 1 of the United Nations Act 1946 provides for the making of Orders in Council to enable Article 41 measures to be effectively applied.

71. In the ICJ's advisory opinion of 19 July 2024 (see paragraph 20 above), the Court discussed at paragraphs 273 to 279 "the legal consequences of Israel's internationally wrongful acts in the Occupied Palestinian Territory as regards other States". It identified certain of those breaches as being of obligations *erga omnes*, i.e. ones owed to the international community as a whole, and held that whilst the "modalities" of required action were for the General Assembly and the Security Council, all states must co-operate with the UN to put those modalities into effect. Having identified various relevant resolutions, the Court summarised the obligations of member states at [278-279]. For present purposes one should note in particular what was said about obligations: to abstain from entering economic or trade dealings with Israel which might entrench its unlawful presence in the occupied territories; to take steps to prevent trade or investment relations assisting in the maintenance of the illegal situation created there; and not to render aid or assistance in maintaining the situation created by Israel's illegal presence in the occupied territories.

72. On 18 September 2024 the General Assembly passed a resolution in response to the ICJ's advisory opinion. Amongst other points, this called upon member states to fulfil their obligations, set out in terms similar to those used in the opinion. More specifically, paragraph 5 of the resolution called upon member states:

"(a) To take steps to ensure that their nationals, and companies and entities under their jurisdiction, as well as their authorities, do not act in any way that would entail recognition or provide aid or assistance in maintaining the situation created by Israel's illegal presence in the Occupied Palestinian Territory;

(b) To take steps towards ceasing the importation of any products originating in the Israeli settlements, as well as the provision or transfer of arms, munitions and related equipment to Israel, the occupying Power, in all cases where there are reasonable grounds to suspect that they may be used in the Occupied Palestinian Territory;

(c) To implement sanctions, including travel bans and asset freezes, against natural and legal persons engaged in the maintenance of Israel's unlawful presence in the Occupied Palestinian Territory, including in relation to settler violence . . ."

73. No doubt both the advisory opinion and this resolution will be welcomed by those who want to see the sort of disinvestment contemplated by the Peers letter. But in my view, whatever their political significance, they do not operate to impose any relevant domestic law obligations upon administering authorities or their members and officers. Quite apart from the fact that the terms of the resolution do not, at least directly, address the issue of investment in companies which behave in particular ways, neither an ICJ advisory opinion nor a General Assembly (as opposed to Security Council) resolution has binding force in international law. Further, even if they were binding in international law, that would not mean that they automatically became part of domestic law, for the reasons already discussed. Finally, the resolution is, plainly, addressed to UN member states as such, just as the advisory opinion is concerned with the obligations of such states.

74. It is therefore clear that international law does not impose any enforceable legal obligation upon administering authorities, or their members and personnel, to disinvest from or refrain from making particular investments. Further, even to say that the ICJ opinion, the resolutions referred to in it, or the 18 September 2024 resolution, were matters to which administering authorities were obliged to have regard (i.e. mandatory relevant

considerations, looked at in *Wednesbury* terms) would not in my view be correct. Approaching the matter in the way suggested by *Tilley*, above, I see nothing in the Public Service Pensions Scheme Act 2013 ("PSPA" - under which the LGPS is established), or in the regulations establishing and governing the LGPS, from which such a requirement could be derived.

75. In fact, the position is the other way round. Under PSPA s 3 and Schedule 3 paragraph 12(a), there is an express power for scheme regulations to include provision for the giving of guidance or directions by the responsible authority (i.e. the Secretary of State):

> "including guidance or directions on investment decisions which it is not proper for the scheme manager [i.e. the administering authority] to make in light of UK foreign and defence policy"

76. These words were added by amendment, by the Public Service Pensions and Judicial Offices Act 2022. They were designed to reverse the decision of the Supreme Court in *R (Palestine Solidarity Campaign Ltd) v Secretary of State for Housing, Communities and Local Government* [2020] 1 WLR 1774, which had held that there was no such power. It is evident that the Secretary of State could now[7] impose upon administering authorities the obligation to refrain from particular investments, or to have regard to the position in international law before making investment decisions, or indeed not to have regard to such matters. But no such steps have so far been taken. Where the responsible authority has elected not to exercise an express power conferred by Parliament so as to impose particular obligations upon administering authorities, it is not for the courts to do so by way of developing those authorities' general public law obligations.

77. I would not attach any particular significance one way or another to the fact that the previous government introduced an Economic Activity of Public

[7] Whether the Secretary of State could do that immediately by way of directions or mandatory "guidance", or whether she would first have to amend the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, is debateable, but is not the point for present purposes.

Bodies (Overseas Matters) Bill, which was lost when Parliament was dissolved earlier this year, save to note that the Bill was controversial, and the existence of political controversy about these matters perhaps emphasises that it would not be appropriate for the courts to refashion the law themselves.

CONCLUSIONS

78. This Opinion is concerned with the suggestion that it would be unlawful for administering authorities to invest, or continue to invest, LGPS funds in undertakings engaged in certain activities with a bearing upon Israel's conduct in and in relation to Gaza or the other Palestinian territories.

79. In my view, any such suggestion is incorrect.

80. As to suggested criminal liability of administering authorities or their officers or members, I consider that any attempted prosecution would be misconceived, because:

  (i) Merely to make an ordinary investment in a company will not in normal circumstances amount to assistance in that company's activities. Still less will it amount to assistance in the commission of the criminal acts (if any) of a person to whom that company supplies goods and services as part of its business. Therefore the *actus reus* of any "ancillary conduct" offence under the International Criminal Court Act 2001 is not established even for new investments (let alone the mere continuation of existing investments).

  (ii) Although closer to the line, I think that the conclusion about assistance would be the same even if an LGPS fund were to invest directly in Israeli government bonds, unless perhaps the proceeds of the bond issue were specifically earmarked for the activity said to involve the commission of an ICCA offence (such as a war crime).

(iii) Further, whilst the position might change in the future, I do not consider that on the information currently available to administering authorities (by which I mean the information readily accessible in the public domain) it is possible to say that Israel is committing ICCA offences. The position is simply uncertain. Therefore I do not consider that the administering authority (or individuals comprising its directing mind) would have the necessary *mens rea* to commit the ICCA ancillary conduct offence.

(iv) For similar reasons to those set out in (i) above, I do not consider that to make such investments amounts to becoming concerned in an "arrangement" for the purposes of s 17 of the Terrorism Act 2000. Nor do I think that the actions of a foreign government, in pursuit of the perceived interests of the state which it governs, amount to terrorism within the meaning of TA2000.

(v) I do not see any other plausible basis for criminal liability here, whether by way of other TA2000 offences or otherwise. I would also be extremely surprised if the Attorney General or DPP were to consent to a prosecution, which is required under ICCA and under the TA2000.

81. It may be that actions by Israel are in breach of international law in certain respects (indeed, the International Court of Justice has so held in its advisory opinion), and there may be international law obligations which rest upon states as to how they should respond to such breaches, although the precise nature and extent of any such obligations is no doubt highly debateable. But what matters for the purposes of this Opinion is that it is in my view clear that local authorities, in their capacity as administering

authorities, are not subject to obligations imposed directly by international law. Nor, in my opinion, is there any public law obligation to have regard to such matters.

82. This Opinion is not about the extent to which, or the circumstances in which, administering authorities might be entitled (rather than obliged) to have regard to any such matters. I shall be dealing with that topic as part of further, more general advice.

NIGEL GIFFIN KC

11KBW

8 October 2024

11 King's Bench Walk
Temple
London EC4Y 7EQ

IN THE MATTER OF
THE LOCAL GOVERNMENT
PENSION SCHEME

AND IN THE MATTER OF
EVENTS CONCERNING GAZA

OPINION

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Pension Fund Committee

17 December 2024

LGPS Consultation – 'LGPS: Fit for the Future'

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1 This report briefs the Committee on the government's proposals for further reform of the LGPS following the first phase of the Pensions Review.

Executive summary

2 In July 2024 the government launched a Pensions Review of both workplace defined contribution (DC) pensions schemes and the Local Government Pension Scheme in England and Wales (LGPS).

3 The focus of the Review for the LGPS was to look at how "tackling fragmentation and inefficiency" could unlock the investment potential of the scheme, including through further consolidation. As part of the first phase of the Review, the Fund responded to a government 'Call for Evidence'.

4 The government is now consulting on proposals to put the LGPS on a "clearer, firmer trajectory to scale and consolidation", as well as measures to improve scheme governance and investment. Together these proposals are intended to provide long-term clarity and sustainability for the future.

Recommendation(s)

5 The Pension Fund Committee is asked to:

(a) note the report,

(b) provide any comments,

(c) delegate authority to the Corporate Director of Resources to respond in consultation with the Chair and Vice Chair of the Committee.

Background

6 In July 2024 the government launched a Pensions Review of workplace defined contribution (DC) pensions schemes and the Local Government Pension Scheme in England and Wales (LGPS). This was followed by a Call for Evidence issued by the government in September 2024 – which was subsequently responded to by the Durham County Council Pension Fund.

7 In her first Mansion House Speech on 14 November 2024, the Chancellor confirmed that the government will legislate that the 86 LGPS Funds in England and Wales must consolidate their assets into 8 “megafunds” supporting change in the UK economy. The full text of the Mansion House speech is available online at https://www.gov.uk/government/speeches/mansion-house-2024-speech.

8 Following the Mansion House speech, the government immediately published a consultation titled “Local Government Pension Scheme (England and Wales): Fit for the future”. The consultation runs for 9 weeks and closes on 16 January 2025. The consultation is available online at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future#introduction, and is included in full in Appendix 1.

9 LGPS Funds are currently working with key LGPS stakeholders including the Scheme Advisory Board (SAB) and their own investment pools in preparation to submit responses to the consultation.

Summary of the consultation

10 The consultation includes 30 questions covering 18 proposals. It should be noted that despite earlier press coverage to the contrary, there are no proposals for mandated mergers of LGPS Funds or their Pools. The Government is clear however in setting out minimum expectations of pools and asking pools to submit their plans to respond to the changes by March 2026.

11 The consultation seeks views on proposals to strengthen the management of LGPS investments in three key areas:

(a) Reforming the LGPS asset pools,

(b) Boosting LGPS investment in their localities and regions in the UK, and;

(c) Strengthening the governance of both LGPS Funds and LGPS pools.

Reforming the LGPS asset pools

12 Under the proposals consulted on, a more uniform approach to pooling would be implemented, with a target operating model, and minimum standards for LGPS pooling consistent with international best practice. The minimum standards for LGPS Pooling proposed are:

(a) Funds would be required to fully delegate the implementation of investment strategy to the pool, and to take their principal investment strategy advice from the pool. The proposed separation of roles and responsibilities and sample template for strategic asset allocation are set out in the tables below:

	Task	Impact on overall investment outcome of the fund	AA Role	Pool role	Definitions
Strategy	Investment objectives	High	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
	Strategic asset allocation		Decide (optional)	Advise/ Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Implementation	Tactical asset allocation		Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.
	Investment manager selection		Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
	Stock selection		Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
	Investment stewardship		Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.
	Cashflow management	Low	Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with administrators and Fund Actuary

Asset class	Strategic asset allocation (%)	Tolerance range (±%)
Listed equity		
Private equity		
Private credit		
Property / Real estate		
Infrastructure		
Other alternatives		
Credit (i)		
UK Government bonds		
Cash (ii)		

(b) Pools would be required to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies.

(c) Funds would be required to transfer legacy assets to the management of the pool.

Boosting LGPS investment in their localities and regions in the UK

13 Under the proposals consulted on, LGPS Funds will be required to:

(a) Set out their approach to local investment in their investment strategy including a target range for the allocation having regard to local growth plans and priorities,

(b) Collaborate with Local Authorities, Combined Authorities, Mayoral Combined Authorities, Combined County Authorities to identify local investment opportunities, and;

(c) Set out their local investment and its impact in Annual reports.

Strengthening the governance of both LGPS AAs and LGPS pools

14 Building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review(Appendix 2) the government proposes the following:

(a) Committee members be required to have the appropriate knowledge and skills.

(b) Funds be required to publish a governance and training strategy (including a conflicts of interest policy), an administration strategy, to appoint a senior LGPS officer, and to undertake independent biennial reviews to consider whether administering authorities are fully equipped to fulfil their responsibilities.

(c) The Board of the pool would be required to include representatives of their shareholders and to improve transparency.

Durham County Council Pension Fund Consultation Response

15 The consultation proposes some significant changes to how the LGPS operates and it is therefore essential that the Fund responds. The Fund is well placed to respond positively to the consultation, due to our Border to Coast Partnership already having in place many of the components that government see as optimal (an FCA entity, internal management capability, and an established private markets program which supports productive UK investment). As part of the Partnership's 2030 strategy plans were already in place to develop advisory capabilities.

16 The Fund has made significant progress in transitioning its assets to the Border to Coast pool, with very limited assets held outside of the pool and a commitment to pool the remaining assets as appropriate Real Estate products become available through Border to Coast. Additionally, the Fund has sought to continually improve its governance arrangements.

17 There are, however, areas which the Fund needs to give consideration, where the proposed approach differs from existing arrangements. This includes the role of Border to Coast as its principal investment advisor, and the role of the independent advisor. The provision of advice from Border to Coast will need to be supported by robust governance and oversight. The Fund will need to consider how it procures appropriate advice to properly discharge its fiduciary duty, and to oversee the performance of the pool. The proposals also seek to expand the role of independent advisor.

18 Officers of the Fund are also carefully considering how the Fund will consider local growth plans and local economic priorities in and how these interact with the Fund's investment objectives. Whilst the Durham Fund already has an explicit 5% allocation to impact investing with the objective of greater local investments, it

had been anticipated that some of this allocation would be transacted outside of the pool. Under consultation proposals, no further investment should be made outside of the pool, including local investment. It is now proposed that Border to Coast would carry out due diligence on local investment opportunities, which will require capability development at the pool.

19 The Fund will consult with stakeholders and pooling partners in forming a draft response to the consultation. The proposed schedule of consultation is as follows:

Date	**Activity**
Week commencing 18 November 2024	Officer sessions including Border to Coast partners, to map out indicative position on key points.
26 November 2024	Border to Coast Joint Committee briefing.
6 December 2024	Border to Coast Officer Operations Group and Senior Officer Group meetings.
17 December 2024	Pension Fund Committee and Local Pension Board meetings.
January 2025, date tbc	Draft response issued to members of the Pension Fund Committee, Local Pension Board and other stakeholders.
January 2025, date tbc	Final draft, considering any feedback received, by Head of Pensions and Corporate Director of Resources; in consultation with Chair and Vice Chair of Committee.
16 January 2025	Submission of consultation.

Author(s)

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GOV.UK

Ministry of Housing, Communities & Local Government

Open consultation

Local Government Pension Scheme (England and Wales): Fit for the future

Published 14 November 2024

Applies to England and Wales

Contents

This publication is available at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future

Scope of the consultation

Topic of this consultation

This consultation seeks views on proposals relating to the investments of the Local Government Pensions Scheme (LGPS). It covers the areas of asset pooling, UK and local investment and governance.

Scope of this consultation

The Ministry of Housing, Communities and Local Government (MHCLG) is consulting on proposals for new requirements on LGPS administering authorities.

Geographical scope

This consultation applies to England and Wales.

Impact assessment

The proposed interventions affect the investment of assets by LGPS administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

Basic information

Body responsible for the consultation

Ministry of Housing, Communities and Local Government

Duration

This consultation will last for 9 weeks from 14 November 2024 to 16 January 2025.

Enquiries

For any enquiries about the consultation please contact: LGPensions@communites.gov.uk

How to respond

Please respond by completing an online survey (https://consult.communities.gov.uk/local-government-pensions/fit-for-the-future). You can also access the online survey by scanning the following QR code:

Alternatively, please email your response to the consultation to LGPensions@communities.gov.uk.

Alternatively, please send postal responses to:

> LGF Pensions Team
> Ministry of Housing, Communities and Local Government
> 2nd Floor
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

When you reply, it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name
- your position (if applicable)
- the name of organisation (if applicable)
- an email address

1. Introduction

1. In July 2024 the government launched a landmark Pensions Review of workplace defined contribution (DC) pensions schemes and the Local Government Pension Scheme in England and Wales (LGPS). The UK has the third largest stock of pension assets in the world. It is crucial that those assets are invested effectively, to provide security in retirement. Pension funds are also critical as a major source of domestic investment. That is why the Pensions Review has been set up with the twin objectives of improving pension outcomes and increasing investment in the UK.

2. The LGPS is fully funded with good investment returns and has achieved many successes in recent years. These include the establishment of LGPS asset pools as strong regional investment managers, thanks to the commitment and hard work of people across the scheme. But few in the scheme would disagree that pooling has not delivered to its full potential and that change is needed to ensure that the scheme continues to perform in the long term in the best interests of members, employers, local communities and the wider UK economy.

3. The focus of the review for the LGPS is to look at how tackling fragmentation and inefficiency can unlock the investment potential of the scheme, including through further consolidation. The government is now consulting on proposals to put the LGPS on a clearer, firmer trajectory to scale and consolidation, as well as measures to improve scheme governance and investment. Together these proposals seek to provide long-term clarity and sustainability, putting the scheme on the strongest possible footing for the future.

4. The LGPS is one of the world’s largest funded pension schemes, managing the pensions of 6.7m members and investing £392 billion worldwide, as at March 2024. Its scale makes it a significant investor with the potential to boost growth across the country, while delivering its core duty to make long-term stable returns to pay the pensions of those who have delivered vital local services. At present, however, the scheme does

not reach its full potential as an investor and engine of growth due to the fragmented nature of the scheme, and inconsistent standards of governance.

5. Since 2015, the 86 administering authorities (AAs) have come together in 8 groups of their own choosing to move towards managing their investments through 8 LGPS asset pools. The previous Government consulted on proposals to accelerate and expand the pooling of LGPS assets, to increase investment in local projects , and ambitions to grow investment in unlisted equity. The responses to that consultation, along with responses to the recent Pensions Review Call for Evidence and engagement undertaken with LGPS stakeholders have informed the proposals in this consultation. The government is grateful to those who have contributed their views.

6. In August 2024 the Chancellor of the Exchequer met with leaders of Canadian pension schemes. The Canadian model has key strengths including the integration of investment advice, consistent delegation and in-house investment management, which enhance control over investments and reduce reliance on external managers. The model's governance structures ensure accountability and strategic alignment with long-term goals. Importantly, the consolidation of multiple pension funds under a unified governance framework has proven effective in achieving economies of scale and optimising resource allocation. Their model has demonstrated robust performance, setting an example globally. In developing proposals the Pensions Review has taken valuable learnings from the Canadian model.

7. The proposals will complement key Government growth programmes aimed at creating an attractive pipeline of investment opportunities such as the National Wealth Fund and the British Growth Partnership. This is the first step to drive greater alignment and coherence across the UK's public finance institutions, enabling a more strategic and impact focused approach to mobilising capital. The Pensions Review will therefore use its next stage to consider whether further interventions may be needed by the government to ensure that these reforms are benefiting UK growth.

8. This consultation seeks views on proposals to strengthen the management of LGPS investments in 3 areas:

Reforming the LGPS asset pools by mandating certain minimum standards deemed necessary for an optimal and consistent model in line with international best practice. The minimum standards proposed are:

- AAs would be required to fully delegate the implementation of investment strategy to the pool, and to take their principal advice on their investment strategy from the pool;

- pools would be required to be investment management companies authorised and regulated by the Financial Conduct Authority (FCA), with the expertise and capacity to implement investment strategies;
- AAs would be required to transfer legacy assets to the management of the pool.

Boosting LGPS investment in their localities and regions in the UK, by requiring AAs to:

- set out their approach to local investment in their investment strategy including a target range for the allocation and having regard to local growth plans and priorities,
- to work with local authorities, Combined Authorities, Mayoral Combined Authorities, Combined County Authorities and the Greater London Authority to identify local investment opportunities; in Wales, AAs would work with relevant Corporate Joint Committees on their proposed economic development priorities and plans, and with local authorities more broadly to identify investment opportunities.
- to set out their local investment and its impact in their annual reports.

Pools would be required to conduct suitable due diligence on potential investments and make the final decision on whether to invest.

Strengthening the governance of both LGPS AAs and LGPS pools in the following ways, building on the recommendations of the Scheme Advisory Board (SAB) in their 2021 Good Governance Review:

- committee members would be required to have the appropriate knowledge and skills.
- AAs would be required to publish a governance and training strategy (including a conflicts of interest policy) and an administration strategy, to appoint a senior LGPS officer, and to undertake independent biennial reviews to consider whether AAs are fully equipped to fulfil their responsibilities.
- pool boards would be required to include representatives of their shareholders and to improve transparency.

9. The following chapters describe the government's proposals in more detail and provide the rationale behind them. Chapter 2 sets out proposals regarding asset pooling, Chapter 3 sets out proposals regarding UK and local investment, and Chapter 4 sets out proposals on governance. Finally, Chapter 5 sets out our initial assessment of potential equalities impacts and invites views.

10. Government has received representations on the issue of LGPS fund mergers. The government recognises that fund mergers can incur significant costs and risk. Nonetheless, a number of LGPS funds have successfully merged on a voluntary basis and the government encourages

administering authorities to consider whether there would be benefit in merging with another fund, taking into account final decisions on the reforms proposed in this consultation.

11. To assist those wishing to respond to the consultation, Annex A lists the proposals and Annex B lists the consultation questions.

2. LGPS pooling

Background

12. Following the publication of guidance on the pooling of LGPS assets in 2015, the 86 AAs came together in groups of their own choosing to establish 8 asset pools. As of 31 March 2024, £178 billion (45%) of LGPS assets were invested through these pools, with a further £107 billion (27%) of assets managed by the pools outside of pool investment vehicles.

13. The scale and expertise of the asset pools have delivered a step change in the expertise, capacity and resilience of the LGPS. This has enabled AAs to diversify their portfolios significantly, and to manage assets more efficiently, at reduced risk. AAs have been able to use the pools to invest in asset classes they would previously not have had the expertise or capacity to invest in, particularly in private markets. The pools have supported their partner funds by delivering investments, reporting and engagement that meets the AA's requirements on responsible investment, and which individual funds may not have had capacity to pursue by themselves. As a result, since their inception the pools have reported that they have delivered net savings of £870 million, against total costs of £675 million.

14. Examples of the benefits of scale since the inception of asset pooling in the LGPS in 2015 have included:

- Lower fees: pooling has allowed for access to complex asset classes at lower rates of management fees. For example, the cumulative net savings of Local Pension Partnership (LPP) to 31 March 2024 amounted to over £200 million. A significant proportion of these savings derives from their use of direct internal management including private market mandates such as the GLIL direct infrastructure vehicle, which is able to provide access to the asset class at a lower fee rate than comparable private sector asset managers.

- Enhanced investment opportunities: pooling allows for more sophisticated investment in diverse and large-scale projects that individual funds might not be able to access. For example, Border to Coast have launched a UK Opportunities private markets programme, which has recently committed £48.5 million to build onshore solar and wind farms as well as battery storage. The investment will develop 4 wind farms in Scotland with further sites in the pipeline. LGPS Central has introduced substantial growth funds with a focus on sustainable investing, including an internally managed £5.2 billion climate factor fund which invests in publicly listed companies targeting lower carbon emissions.
- Improved efficiencies and resilience: pooling has allowed for expertise and capacity to be shared including on reporting, and the development of in-house management of assets ('internal management') with associated lower costs, by LPP, LGPS Central and Border to Coast.

15. Most respondents to the Pensions Review Call for Evidence were positive about LGPS pooling as a concept, and thought that it was delivering scale, diversification of assets and cost savings. More than half of responses also recognised greater collaboration between funds in the same pool since pooling's introduction.

16. In addition to the evidence from LGPS pooling to date, the Pensions Review has established a broader evidence base on the benefits of investing at scale, including through analysis of international comparators such as Canadian pension schemes. The Pensions and Lifetime Savings Association found that schemes between £25 billion and £50 billion assets under management (AUM) had strong governance and could more easily invest in productive finance directly. Going further, a report by JP Morgan analysing Australian superfunds showed how funds of more than £50 billion AUM were able to drive down costs through internal management. A report by NMG consulting, which compared seven LGPS pools to eleven international comparators, also showed the benefits of economies of scale materialising once a pool reaches more than £80 billion AUM.

17. These analyses are consistent with the responses to the recent Call for Evidence which demonstrated wide support and agreement that scale leads to greater economies, efficiencies and reduced risks, as well as enabling greater expertise and diversification in investments which can importantly deliver better long-term returns for scheme members. Academic research (https://www.top1000funds.com/wp-content/uploads/2024/05/CEM-BBFS_JPM2021_CanadianModelQuantitativePortrait.pdf) also suggests the model deployed by Canadian pensions schemes, including the integration of advice, consistent delegation and in-house investment management, is able to generate 0.4% a year of additional returns vs their international competitors. Taken together, the findings of the analytical work of Phase 1 of the review suggest a clear link between scale and both asset diversification and lower costs. This is set out in further detail in the Pension fund investment and the UK economy paper

(https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy) published alongside the Pensions Review Interim Report (https://www.gov.uk/government/publications/pensions-investment-review-interim-report).

18. In the light of the evidence set out above the government has considered the current position of LGPS pooling. The 8 pools each have different models: 5 are standalone FCA-authorised investment management companies (‘LGPS pool companies’), 2 have an outsourced model that relies on external providers, and one has a model in which a joint committee provides oversight, but the partner funds retain management of most assets. As shown in Table 1 below the pools vary in their capability to provide advice and/or internally manage assets, in their number of partner funds, the total assets held by those partner funds, and the degree to which those assets have been pooled. The table below distinguishes between assets that are invested in pooled vehicles, and those that are managed by the pool but have not been transferred to a pooled vehicle. Assets invested via the pool are distributed across a number of separate sub-funds designed to meet different investment objectives, each with one or more investment managers, and the pools also vary in the number of sub-funds that have been established.

19. As Table 1 shows, some of the pools have made very limited progress transferring assets from partner funds to the pool. Others have created large numbers of sub-funds, often with multiple sub-funds for the same asset class, which reduces the potential benefits of scale. Although each of these models has reported successes to date, they are not equal in their ability to continue to develop to meet future challenges.

Table 1: Overview of existing LGPS pooling models.

	Model (Ownership, capability, services)	**Number of partner funds (AAs)**	**Total fund assets (includes cash) (£bn)**	**Assets invested in pooled vehicles (£bn/%) (i)**	**Tota Ass mar by p (£br (ii)**
ACCESS	Joint Committee management Fully outsourced investment management provider	11	64.6	32.7 (51%)	44.7 (69

	Model (Ownership, capability, services)	Number of partner funds (AAs)	Total fund assets (includes cash) (£bn)	Assets invested in pooled vehicles (£bn/%) (i)	Tota Ass mar by p (£br (ii)
Border to Coast	Partner/shareholder FCA regulated Internal management Developing advisory	11	63.7	37 (58%)	45.3 (71
Brunel	Partner/shareholder FCA regulated External management only	10	40.3	32.2 (80%)	34.7 (86
LGPS Central	Partner/shareholder FCA regulated Internal management Developing advisory	8	61.4	19.7 (32%)	27.5 (45
Local Pensions Partnership (LPP) (iv)	Partner/shareholder Advisory FCA regulated Internal management Administrator	3	23	21.9 (95%)	23 (10
London CIV	Partner/shareholder FCA regulated External management only Developing advisory	32	50.8	17.2 (34%)	31.6 (62
Northern LGPS (v)	Joint Committee management Two pooled investment vehicles – GLIL infrastructure and	3	61.4	3.7 (6%)	59 (96

	Model (Ownership, capability, services)	Number of partner funds (AAs)	Total fund assets (includes cash) (£bn)	Assets invested in pooled vehicles (£bn/%) (i)	Tota Ass mar by p (£bı (ii)
	NPEP private equity				
Wales	Joint Committee management Fully outsourced investment management provider	8	25	13.3 (53%)	18.5 (74%

(i) Assets invested in pooled vehicles reflects those assets that are managed via the pool's sub-funds, which are shared investment vehicles across the partner LGPS funds.
(ii) Assets managed by the pool also includes additional investments specific to an individual partner fund, including legacy investments in closed-end fund vehicles being managed to maturity on the fund's balance sheet by the asset pool.
(iii) This treats multiple vintages as the same sub-fund.
(iv) These figures are in respect of LPPI's three partner funds only.
(v) Although Northern LGPS report 96% of partner funds' assets as being under pool management, the Government's understanding is that this refers to oversight by the pool committee of investment management and decisions made by the pension committees of the individual AAs.

20. The government's view is that pools with outsourced models, or pooling of some private markets assets only, have delivered significant savings and diversification to date but are not well placed to deliver for the future while retaining their current model. They lack the substantial in-house expertise, capacity and resilience provided on a non-profit basis by the LGPS pool companies. In addition, the pool companies that have - or are in a position to develop - in-house investment management capabilities should benefit from significantly lower costs compared to the use of external private sector investment managers, given existing experience within the LGPS. Some existing expertise formerly within larger funds has already been transferred to the pools, and other AAs have capacity and expertise that could be more widely shared.

21. The government believes that, to deliver successfully for members and employers, all the pools will need to develop further as powerful global and local investors, able to deliver strong performance, value for money and resilience over the long term. The proposals set out below draw on the evidence and experience of the advantages and disadvantages of the range of models built up over the 5 years since all the pools became operational.

Proposals - Optimising pooling for the future

22. For the LGPS to adapt to future challenges and maximise its success the government believes that all funds and pools need to adopt an operating model that meets the following minimum standards:

- AAs would remain responsible for setting an investment strategy for their fund, and would be required to fully delegate the implementation of that strategy to the pool;
- AAs would be required to take principal advice on their investment strategy from the pool;
- Pools would be required to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies;
- AAs would be required to transfer legacy assets to the management of the pool;
- Pools would be required to develop the capability to carry out due diligence on local investments and to manage such investments.

23. The first 4 proposals are set out in more detail below, with the final proposal covered in Chapter 3. These measures build on the strengths of the asset pools established over the last decade and would allow for funds and pools to operate with clarity and efficiency over the long-term.

Requirement that implementation of the investment strategy is fully delegated to the pool

24. At present, AAs set the investment strategy for their fund including setting the strategic asset allocation to meet requirements on diversification and suitability of investments to meet liabilities, as well as describing the approach to pooling and responsible investment, in line with statutory guidance. This gives AAs the most significant influence on returns, as the strategy is the key factor in the difference in net returns between portfolios, while implementation decisions such as manager selection play a much smaller role.

25. Since AAs were invited to form pools in 2016, guidance has set out that the selection of external fund managers and the implementation of the

investment strategy should be delegated to the pool, in order to streamline decision making, reduce the number of external managers and deliver reduced fees. In practice, AAs have adopted a range of approaches as shown by the table above, ranging from full delegation to no or very limited delegation, and from significant alignment of investment strategies to no alignment. Many AAs continue to set tactical asset allocation and select investment managers.

26. Limited delegation to the pool has prevented the delivery of the full benefits of scale and resulted in continuing duplication of effort across funds in the same pool. Pension committees may focus on manager selection and detailed asset allocation, when they may not have the skills and experience to be discerning and challenging clients of advice. A more efficient model would be for these decisions to be delegated to the asset pool with the capability and expertise to assess options and make robust decisions on behalf of the pension committee. Further, if funds are unable to reach agreement on manager selection, this can result in multiple similar sub-funds being created in a single pool for a similar purpose, and a consequent reduction in scale.

27. The government's view is that full, effective and consistent delegation of strategy implementation is needed to ensure the benefits of scale and ensure that decisions are taken at the appropriate level by people best placed to make those decisions. This would require clarity on the roles and responsibilities of the AA and their pool as further set out below.

28. The government is proposing that AAs retain responsibility for setting a high-level investment strategy for their fund, defined as an investment strategy consisting of:

- the high-level investment objectives including on:
- funding, for example funding level, return, risk, income and stability of contributions
- environmental, social and governance (ESG) matters and responsible investment
- local investments, with a target range (further discussed in chapter 3)
- If the AA wishes to do so, a high-level strategic asset allocation – although the government believes that expertise in the pools makes them best placed to set the strategic asset allocation and that funds may wish to delegate this to the pool.

29. This proposal draws on good practice in board-level governance, as found in overseas comparators and closer to home, the balance of responsibilities of the Universities Superannuation Scheme trustee and in house investment manager. The key is that decision-makers focus their efforts where these will have greatest impact. This approach has become widespread across trust-based pension schemes, where fiduciary

management employs those best equipped to make the strategic and implementation decisions.

30. Setting the investment objectives and determining the strategic asset allocation are the most impactful investment decisions for a pension fund as they have the greatest bearing on the investment return achieved by the fund overall. These decisions lay the foundation for the entire investment strategy, guiding how capital is allocated across different asset classes to balance risk and return. By clearly defining the financial goals and establishing a long-term asset mix, these steps ensure that the portfolio is aligned with the fund's objectives, ultimately driving its sustainability and stability. The government considers that this proposal would allow the AA to ensure that the investment strategy is appropriate to deliver its funding requirements and to pay pensions over the long term, and is therefore sufficient to satisfy its fiduciary duty.

31. Implementation of this high-level investment strategy would be fully delegated to the pool to ensure that decisions are made by experienced investment professionals, and to give the pools flexibility to set tactical asset allocation, define sub-funds, manager selection, cashflow management, and decisions to buy sell or hold individual holdings, as required to meet the high-level objectives and strategic asset allocation set by the strategy. To achieve the full benefits of scale it would be important for AAs and their pools to work together on alignment of their approaches to ESG and responsible investment matters, to achieve a common approach.

32. The proposed roles and responsibilities of the pool and AA are summarised in Figure 1 below:

Figure 1: The roles and responsibilities of the Administering Authority versus the pool

	Task	Impact on overall investment outcome of the fund	AA Role	Pool role	Definitions
Strategy	Investment objectives	High	Decide	Advise	Return objectives, risk tolerances, investment preferences, constraints and limitations, and the approaches to local investment and responsible investment.
	Strategic asset allocation		Decide (optional)	Advise/ Decide	Long-term, stable allocation based on overall investment objectives and risk tolerance
Implementation	Tactical asset allocation		Monitor	Decide	Adjustments to the asset mix, such as in respect of geographic allocation, consistent with the asset allocation strategy.
	Investment manager selection		Monitor	Decide	Appointment of external (or in-house) managers of specific investment mandates
	Stock selection		Monitor	Decide	Choosing individual investment opportunities based on detailed analysis of the opportunity
	Investment stewardship		Monitor	Decide	Engagement with the invested companies in line with Investment Objectives.
	Cashflow management	Low	Monitor	Decide	Management of the disinvestment (or investment of contributions) in collaboration with administrators and Fund Actuary

Figure 1: The role and responsibilities of the Administering Authority versus the pool - accessible version

Task	Strategy or Implementation	Impact on overall investment outcome of the Fund	Administering Authority role	Pool role
Investment objectives	Strategy	High	Decide	Advise

Task	Strategy or Implementation	Impact on overall investment outcome of the Fund	Administering Authority role	Pool role
Strategic asset allocation	Strategy	High	Decide or Monitor	Advise or Decide
Tactical asset allocation	Implementation	Med	Monitor	Decide
Investment manager selection	Implementation	Med	Monitor	Decide
Stock selection	Implementation	Med	Monitor	Decide

Task	Strategy or Implementation	Impact on overall investment outcome of the Fund	Administering Authority role	Pool role
Investment stewardship	Implementation	Low	Monitor	Decide
Cashflow management	Implementation	Low	Monitor	Decide

33. Where AAs choose to set a strategic asset allocation, the government's view is that this should be limited to either setting target ranges either for growth and income assets, or for a small number of broad asset classes. There are differences between funds in their membership, proportion of non-statutory employers, maturity, cashflow and funding, and the government expects the pools to consider these features in their operation. But the government does not consider that these justify or require asset allocation below this level, in addition to the investment objectives. In response to feedback during engagement on the need for clarity and consistency, the government proposes stipulating in guidance that funds would need to record their strategic asset allocation in the Investment Strategy Statement, based on a template. This would support pension committees in establishing a strategic asset allocation and also provide a coherent and consistent framework for pools to implement at scale.

34. The government has considered a range of options for the level of involvement AAs should have in any strategic asset allocation, from full delegation to the pool, to setting ranges for growth and income assets, to setting allocations to a wide range of detailed asset classes. Government recognises the range of approaches currently in place within the LGPS, and in other comparable schemes, which may include fewer asset classes and wider asset class definitions than those listed below. This includes dividing the allocation into 2 categories – growth and matching assets.

35. The proposed template aims to strike a balance between on the one hand, ensuring investment decisions are made by those with appropriate professional expertise and avoiding loss of scale that can arise from AAs requiring a detailed asset allocation, and on the other hand, allowing AAs to take local decisions on high level asset allocation and recognising their fiduciary duty.

36. AAs would have the option of completing the template themselves or allowing the pool to choose an appropriate allocation in line with their investment strategy. The AA's objectives for local investment would be captured in the high-level investment objectives. Any strategic asset allocation set by the AA would therefore not include an explicit asset class for local investment, which in practice may be invested across private equity, credit, property or other asset classes. The asset classes in the template are and would be expected to remain, different from the requirements of national data collection, which are set and collected for a different purpose.

37. The government invites views on templates which best meet the objectives described above noting the range in possible approaches, and particularly invites views on the following template:

Table 2: template for strategic asset allocation

Asset class	Strategic asset allocation (%)	Tolerance range (± %)
Listed equity		
Private equity		
Private credit		
Property / Real estate		
Infrastructure		

Asset class	Strategic asset allocation (%)	Tolerance range (± %)
Other alternatives		
Credit (i)		
UK Government bonds		
Cash (ii)		

(i) Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds
(ii)For the purposes of this table this refers to cash held by the pool. AAs would still be expected to hold cash for the purpose of paying benefits outside the pool.

Requirement for principal advice on investment strategy to be taken from or through the pool

38. Under these proposals, the AA's responsibility in respect of investments is to set the investment strategy. At present investment advice may be sought from investment consultants, with each AA using their own. Whilst it is recognised advice needs to be bespoke, there may be duplication and inefficiency across a pool and AAs may receive divergent advice from the same providers without clear justification, which inhibits asset pooling.

39. The government proposes that AAs should be required to take principal advice on their investment strategy from their pool. This would ensure that advice is provided on a consistent basis, tailored to individual AA's requirements, and free from competing interests given that the pools exist solely to serve the AAs. The requirement for AAs to have an independent adviser or committee member would equip them to challenge the pool's advice in the majority of circumstances, however it is recognised that in exceptional circumstances AAs may wish to seek additional advice from external investment advisers to help them test the advice given to them by the pool.

40. Not all pools have the existing capability to provide advice to the AAs. Full advisory capability, or the means to share advisory capability across pools, would need to be developed over time. In the meantime, the government expects that pools would seek to procure advice on behalf of their partner funds. The government's intention would be to set out a timeline for this, subject to the outcome of this consultation.

Requirement that LGPS pools are established as investment management companies, regulated and authorised by the FCA

41. Currently, 5 of the 8 pools are established as FCA authorised investment management companies, with their partner AAs as their sole shareholders and clients. As set out above the government's view is that this model has clear advantages over other approaches. It provides in-house expertise, capacity and resilience on a non-profit basis and the ability to provide, share or develop in-house investment management to reduce costs. FCA authorisation and supervision provides vital assurance to members and employers that very large pools of capital will be properly managed. It also provides a basis for the development of capabilities to provide advice to AAs on investment strategies and to assess and manage the local investments that the government's proposals envisage.

42. The government therefore proposes that all pools should be established as investment management companies, with the full range of expertise and capacity to deliver the following requirements as envisaged by our proposals:

- Implementation of the investment strategies of their partner AAs, including any strategic asset allocation
- Provision of advice on investment strategies
- Management of legacy assets
- Due diligence on local opportunities and management of such investments.

All such companies would require FCA authorisation for regulated activities. They would need to meet the threshold conditions for authorisation and demonstrate that staff have relevant skills and competence.

43. Government's expectation is that pools will develop capabilities to deliver the implementation of investment strategies through in-house investment management in time. This approach has been demonstrated to have favourable outcomes when also combined with asset pooling at scale. Where it is thought to be inefficient to deliver a mandate in-house, pools should consider partnering with other LGPS asset pools or third-party investment managers to deliver select mandates.

44. The government recognises that this proposal would represent a substantial challenge for all pools whatever their starting point. For the 5 pools which already constitute investment management companies, most will need to develop new capabilities to deliver in all these areas, in particular building capacity on local investment and providing advice on investment strategies to funds. There will be costs involved in building capacity and expertise, offset by reduced costs for AAs.

45. This will be a substantial undertaking for all pools, especially those 3 which have adopted other models. The government believes that this step

change in the investment framework of the LGPS creates an opportunity for increasing effective scale and encourages all pools to carefully consider all options in that light. These may include establishing a new pool company, merging with another pool, or becoming a client of another pool company for some or all services required. Depending on the approach chosen, there will be set up and ongoing costs. But as has been demonstrated by existing asset pools using a pooling company model, these costs should be recouped through savings in reduced investment management fees. Pools will need to consider which route is most viable and efficient over the expected timescale (discussed below).

46. The government encourages pool mergers and sharing of services where this provides a more efficient route to the required standard. As part of their proposal, each pool will be expected to demonstrate why a merger with another pool, or use of existing capability in an established pool company, would not be a more cost effective or otherwise more preferable approach to achieving compliance with the reform proposals. For the avoidance of doubt, Government is not seeking to use this process to move to a single pool for all AAs.

Requirement to transfer legacy assets to the management of the pool

47. In November 2023 the previous government set out its expectation (https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/outcome/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response) that AAs should pool all listed assets as a minimum, by March 2025, on a comply or explain basis. Transition of all assets was expected to be considered in this timeframe given pooling of illiquid investments may offer the greatest opportunities for reducing savings combined with higher returns.

48. The present government, alongside its announcement of the Pensions Review (https://www.gov.uk/government/news/chancellor-vows-big-bang-on-growth-to-boost-investment-and-savings), signalled that it would consider legislating to mandate pooling if insufficient progress towards the March 2025 deadline was made. Many AAs have made significant progress on pooling assets, but there remains significant variation with the percentage invested in pooled vehicles ranging from 6% to 95% as of March 2024, and total assets under pool management ranging from 45% to 100%. The government is aware that AAs have been considering how they can transition further assets by the deadline, and will take progress into account when making final decisions on reforms.

49. The government's view remains that in order to deliver the full benefits of scale AAs would need to transfer 100% of their invested assets to their pool with no new investments being made outside the pool, including local assets. However, the government recognises that transferring legacy assets

into pooled vehicles may incur unnecessary costs in the short term, including for termination of long-term contracts.

50. For these reasons legacy assets are already managed by some pools with the assets remaining in the ownership of the AA rather than in pooled vehicles. This ensures that:

- staff with the appropriate specialist skill sets are only required at the pool level, where their expertise can be shared across the pool and free up capacity at the AA;
- reporting across an AA’s entire portfolio can be consolidated;
- pools can assess the merits and risks of all investments, with AAs able to hold them to account for all outcomes; and
- decisions on whether to hold to investments to maturity, rollover long-term contracts or invest elsewhere would rest with the pool - taking account of the objectives of the AA’s investment strategy - rather than with the AA which may be influenced by the legacy investment manager or investment consultant.

51. The government therefore proposes that, in line with previous communications, AAs should be required to transfer any remaining listed assets invested outside the pool to pooled vehicles managed by their pool, and further, to transfer legacy illiquid investments to the management of their pool.

52. The pools would be required to develop and maintain capacity and expertise to manage all legacy assets which will often be unlisted illiquid investments. This would include management of risk and asset valuations. As pools vary in the capacity and expertise that they currently have to take on this role, the government seeks views on what steps would need to be taken to develop this capacity.

Question 1

Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

Question 2

Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

Question 3

Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority’s fiduciary duty?

Question 4

What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

Question 5

Do you agree that the pool should provide principal investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

Question 6

Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

Question 7

Do you agree that AAs should be required to transfer all listed assets into pooled vehicles managed by their pool company?

Question 8

Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

Question 9

What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds?

Implementation

53. The government believes that reforming pooling in this way would deliver the full benefits of scale to the benefit of members employers and taxpayers. Subject to the outcomes of this consultation, the government will consider legislating to require in law the pool minimum standards set out above, including transition or management of all assets.

54. The King's Speech (https://www.gov.uk/government/speeches/the-kings-speech-2024) set out plans for a Pension Schemes Bill in this session of Parliament. The Bill provides an opportunity to introduce any primary legislation required to implement outcomes from the Pensions Review, with

any necessary secondary legislation and guidance updated when parliamentary time allows.

55. In advance of this, asset pools, working with their partner AAs, are invited to submit a separate proposal, in addition to their response to this consultation, setting out how they would deliver the proposed pooling model and complete the transfer of all assets including legacy assets. Proposals will need to include their view of the costs, timeline and potential barriers and solutions. Government will continue to work closely with pools ahead of proposals being submitted, and expects pools to be working closely and collaboratively in doing so.

56. The government is proposing an indicative timeline to move to the new model of March 2026. Government expects each pool to consider and provide submissions on the viability of meeting this timescale. This is broadly aligned with the point at which reviews of investment strategy would be completed following the 2025 actuarial valuations, and takes account of the timescale over which the Financial Conduct Authority (FCA) may consider applications for investment management companies and authorisation to provide investment advice. Pools working with their partner AAs are invited to comment on the viability of meeting this timeline.

57. Each pool is invited to demonstrate a clear path to meeting the requirements outlined in this consultation document. In these reports pools will be expected to provide clear evidence that they are able to capture the advantages of managing investments at very large scale, such as by being able to invest cost effectively or directly, and at scale, in alternative asset classes such as unlisted infrastructure and private equity.

58. We will expect proposals to be submitted by 1 March 2025. This will provide 15 weeks for pools and AAs to consider how these could be delivered if required.

Question 10

Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

Other developments

Collaboration and specialisation

59. Some pools are already developing significant investment specialisms and share expertise between pools. This would be expected to increase as

the pools mature and adapt to the model outlined above. The government encourages pools to consider how they could collaborate with each other in areas where they have specialisms – for example through joint investment vehicles such as the London Fund (London CIV and LPP) and GLIL (LPP and Northern).

60. Government understands that many asset pooling companies were established under the vertical exemption to public procurement as within the 2023 Procurement Act, previously known as the 'Teckal' exemption as set out in regulation 12 of the Public Contracts Regulations 2015. Engagement has indicated that there are differing views in AAs and pools on the degree to which this is a barrier to greater collaboration between pool. Government welcomes views on this issue and any other barriers to collaboration between pools.

61. Collaboration between pools could deliver many of the benefits of additional scale and avoid duplication. In addition, collaboration could avoid competition between pools driving up costs for investments in the same specialist asset classes. Areas where specialisation or collaboration may be particularly attractive include alternative investments including private equity, private debt and venture capital, as well as infrastructure and investment in specific local or regional investments.

Scale and regional alignment

62. The government has considered whether any additional reforms are needed to the existing pools to redraw them along regional lines. It is recognised that there are factors at play, other than eventual pool size, when considering which funds should collaborate together in a pool. In particular, the Wales Pension Partnership operates within a devolved nation and has separate partnerships with the Welsh Corporate Joint Committees. It may therefore make sense for Welsh LGPS funds to continue in a separate pool.

63. The existing pools differ in that some bring together AAs from geographically contiguous areas, whereas elsewhere the partner AAs are geographically scattered but share other similarities. This reflects their origins, developing out of existing collaborations or through AAs collaborating with other like-minded partners. There are benefits to regionally defined pools in that the partner funds have a mutual interest in local investment and can typically build on existing strong working relationships, for example in Wales. However, other pools have demonstrated that shared geography is not the only determinant of success, provided there are strong partnerships and a shared commitment to collaborate and compromise to deliver shared goals. Chapter 3 sets out proposals to strengthen the role of the pools in local investment. For these reasons, the government does not consider it necessary to redraw pooling arrangements along geographic lines where this alignment does not already exist.

Role in administration

64. In the longer-term, the government is interested to hear views as to whether there is a role for the pools in the administration of the LGPS, or whether there could be greater collaboration and cooperation between funds on administration issues, for example shared service arrangements and the training of officers, councillors, and pension board members.

Question 11

What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

Question 12

What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

3. Local investment

65. Growth is the number one mission of this government. Through the growth mission, the government is restoring economic stability, increasing investment and reforming the economy to drive up prosperity and living standards across the UK. The government will invest in transport, including schemes like East West Rail, kickstart the delivery of 1.5 million homes, support new industries and job creation, and back innovation through research and development funding. In total, the government will spend 2.6% of GDP on public sector net investment on average over the Parliament, with an increase of over £100 billion in capital investment over the next 5 years.

66. In addition to the Pensions Review, the government is supporting UK investment in several ways. It has created the National Wealth Fund, which is expected to catalyse over £70 billion of private investment, and has set out plans for a modern Industrial Strategy to support investment in growth sectors. The British Business Bank will create a new vehicle, the British Growth Partnership, to crowd-in UK pension fund and other institutional investment into venture capital funds and innovative businesses, supported by a cornerstone government investment. The Budget outlined plans to reform how the government delivers infrastructure, including the planned publication of a 10-year infrastructure strategy, the establishment of the National Infrastructure and Service Transformation Authority and ambitious planning reform.

67. This is the first step to drive greater alignment and coherence across the UK’s public finance institutions, enabling a more strategic and impact focused approach to mobilising capital. The Pensions Review will therefore use its next stage to consider whether further interventions may be needed by the government to ensure that these reforms are benefiting UK growth.
Investing in local communities

68. The LGPS already invests approximately 30% of its assets in the UK, as part of its duty to invest to pay pensions. The government believes that as an institutional investor the LGPS can make a distinctive contribution to UK and local growth, building on its local role and networks, through increasing its long-term investment in local communities. Many AAs have already deeply embedded these wider considerations into their investments. It is in the interest of the 6.7 million hard-working LGPS members that LGPS investments support the prosperity and wellbeing of their local communities, just as members did through their working lives. LGPS investments can both pay pensions and unlock growth in local communities.

69. There are other aims which AAs may wish to pursue, including boosting UK economic growth and taking into account other environmental, social and governance (ESG) issues. These may contribute to the government’s key missions including making Britain a clean energy superpower and accelerating to net zero is one of the key missions of the government. This consultation focusses on local investment by LGPS funds.

The roles of AAs and pools

70. AAs are already committed investors in projects which support growth in their local areas. These are investments which, in addition to being suitable pensions investments and generate good returns, have external benefits which support the AA’s local area. But it is recognised that identifying and assessing the suitability of local investments requires resource intensive due diligence, and AAs may not have the capacity to undertake this work. AAs may also be concerned about reputational and concentration risks. Funds must also navigate conflicts of interest if there is a link between the employer authorities and the investments selected. These factors may limit local investments unnecessarily.

71. The pools can address many of the specific factors which make local investment harder for AAs to consider. Pools are in a position to provide central source of investment expertise to assess, commit to and manage local investments and do not face the same potential conflict of interests, as their role is serving the AAs. Pools create a degree of separation between AAs and their investments, reducing any reputational risk. For example, Border to Coast and Local Pensions Partnership have facilitated pool investment in local opportunities and worked closely with their partner AAs

to identify local opportunities. The government recognises that pools currently have different approaches to local investment and vary in the extent to which they have the capability to assess and manage local investments, but it is the government's view that it is the pool which is in the best position to provide the central capability to carry out due diligence and manage local investments.

72. In addition, pools invest over a wider geographical area than AAs, reducing risks from under performing assets. But pools and AAs may both lack a comprehensive view of investment requirements and opportunities across a wider regional area, as set out in local growth plans. When fully implemented, local growth plans will act as a guide to investors seeking opportunities which support local growth and contribute to the National Industrial Strategy.

Proposals

73. With these considerations in mind, Government's view is that the right approach to increasing local investment brings together the distinctive strengths of AAs and pools and takes account of the role of Combined Authorities (CAs), Mayoral Combined Authorities (MCAs), Combined County Authorities (CCAs) and the Greater London Authority (GLA) in regional growth and development. The government wishes to see greater collaboration between AAs, pools and combined authorities of all types on local investment, for the long-term benefit of local areas, and believes that scheme members support the LGPS in making local investments.

74. For the purposes of this consultation, the term 'local investment' is used to include investments local to any of a pool's partner AAs, or investments in their region (or in Wales, for Welsh AAs). The government invites views on the appropriate definition of the term 'local investment' for reporting purposes.

Requirement to set out approach to local investment in the Investment Strategy Statement

75. AAs normally review their Investment Strategy Statements every 3 years following the triennial valuation of the fund. To ensure that local and wider investment priorities are fully considered by AAs as part of deciding their investment strategy, the government proposes a requirement in regulations for AAs to set out their high-level objective on local investment in their Investment Strategy Statement, including a target range for local investment as a proportion of the fund.

76. AAs would also be required to take account of local growth plans, including local economic priorities and specific investment requirements, in

setting their investment strategies. For areas where there is no local growth plan, we would expect AAs to work closely with local authorities in their areas to identify local opportunities. In Wales, AAs would be required to take account of the economic development priorities and plans of the relevant Corporate Joint Committee (CJC) or Committees.

77. Our intention would be to include guidance on the new requirement in statutory guidance on investment strategy statements. This would include guidance on government's expectations on working with CAs, MCAs, CCAs, CJCs and other local authorities and Local Growth Plans to identify opportunities.

Requirement to work with combined authorities and similar bodies

78. AAs are well placed to draw on their knowledge of the local area and its changing circumstances, in identifying potential investment opportunities which may align with their investment strategies and with local growth plans or equivalent. The government therefore proposes setting new requirements for AAs to work with CAs, MCAs, CCAs or the GLA, or local authorities in other areas, with a view to identifying potential local investment opportunities for consideration by their pool. In Wales, AAs would be required to work with the relevant Corporate Joint Committee or Committees and with local authorities more broadly to identify investment opportunities. AAs would be expected to put forward opportunities they have identified to their pool at any time in the valuation period as they arise.

79. In line with the proposals set out in chapter 2, it would then be for the pools to make the final decision on whether to invest, and to manage all assets on behalf of their partner AAs including legacy and new local investments. Requirement for pools to carry out due diligence on potential local investments

80. The proposal above to require AAs to identify local investment opportunities to put forward to their pool means pools would need to have arrangements to receive proposals and conduct due diligence on projects. Pools may also be able to assist in developing some proposals into investable opportunities. For some pools this would be a significant development. But as set out above, it is the government's view that pools are in the best position to provide the necessary expertise and capacity.

81. The government therefore proposes a new requirement for pools to develop the capability to carry out due diligence on local investment opportunities. Pools would be expected to collaborate as necessary with their partner AAs, CAs, MCAs or CCAs, and other relevant authorities (including the GLA in London and Corporate Joint Committees in Wales) to support local investment. Some projects for which LGPS support would be considered may be inappropriate for pensions investment, or require disproportionate resources to assess and manage, but many should benefit from collaboration across AAs, pools and CAs.

Requirement to report annually on local investment

82. To ensure funds are accountable, the government is proposing that funds include in their annual report, as part of the report on the fund's investments, a report on the extent and impact of their local investments. This will increase transparency and allow members to see the locally important projects delivered thanks to LGPS investment.

83. Our intention would be to work with the SAB to include guidance on reporting of local investment reporting in statutory guidance on annual reports, and to consider how to reflect this new requirement in the Scheme Annual Report.

Question 13

What are your views on the appropriate definition of 'local investment' for reporting purposes?

Question 14

Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

Question 15

Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

Question 16

Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

Question 17

Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?

Implementation

84. The government proposes to set out new requirements in regulations. Our intention would be to work with the Scheme Advisory Board to include in new statutory guidance on pooling, and updated guidance on investment strategy statements and annual reports.

4. Governance of funds and pools

85. LGPS assets have more than doubled in the last decade, membership has increased by almost 50%, and there are now nearly 20,000 employers, so it is more important than ever that the scheme is effectively governed. Members and employers have a right to expect consistently high standards across the scheme with robust and resilient governance and administration in every AA.

86. There is evidence to suggest that good governance also has financial and wider benefits through a governance premium for well governed pension schemes which benefit from sustained and resilient returns compared to less well governed schemes. Well governed schemes are likely to be more effective and agile, and therefore better managing risk and picking up opportunities. Research from the Pensions Policy Institute (https://www.pensionspolicyinstitute.org.uk/media/t2djkxca/201702-bn89-db-the-role-of-governance.pdf) suggests that this premium could be as high as 2% greater returns a year. This benefit would be much greater than the cost of investment in improved governance.

87. The proposals set out below aim to enhance the capability of the LGPS as a well-governed institutional investor on a global scale, ensure it continues to deliver for members and employers.

Fund governance and reporting

88. The government's aim is to encourage continuous improvement across the scheme, combined with consistent standards on knowledge and understanding and improved reporting. The majority of our proposals are based on the recommendations submitted to MHCLG by the SAB in 2021 at the conclusion of their Good Governance project, which were strongly supported by respondents to the Call for Evidence.

89. In summary the government's proposals are:

- New requirements on AAs to:
  - appoint a senior LGPS officer who has overall delegated responsibility for the management and administration of the fund
  - participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified.
  - prepare and publish a governance and training strategy (replacing the governance compliance statement), including a conflicts of interest policy, and
  - prepare and publish an administration strategy
  - improve accessibility of annual reports
- New requirements on knowledge and training for those involved in the management of LGPS funds

90. In addition to these proposals, the government is considering one further change, to require AAs to appoint an independent adviser.

Requirement to prepare a governance and training strategy

91. The government proposes that AAs should be required to prepare and publish a governance and training strategy to replace the governance and compliance statement. This new strategy would set out the AA's approach to governance, knowledge and training, representation, and conflicts of interest; and set out objectives and planned actions in these areas, to be reviewed at least once every valuation period. It would replace the governance compliance statement. Such actions could include a plan on how the AA aims to address gaps in knowledge and skills for committee members over a certain period, and how it might manage potential conflicts of interest between the local authority as administering authority and as an employer within the pension fund.

92. It is the government's view that the requirement to review this strategy at least once in each valuation period provides AAs with the flexibility to update it as required and will ensure the strategy is a live document. We are also proposing that as with the other strategies which AAs are required to prepare, AAs must have regard to statutory guidance on governance.

93. The government proposes that a conflict of interest policy must be included in this strategy. There is no current requirement for conflicts of interest policies to consider conflicts of interest for members serving on pension committees, or to cover conflicts between the AA and the employer. There may be specific conflicts that arise in managing a pension fund within the local authority environment and this may become more common as pools and partner AAs consider further local investment.

94. It is important that in a conflict of interest policy, AAs consider how they will recognise, manage, and mitigate all conflicts of interest. Requiring each AA to have a specific conflicts of interest policy within its governance and

training strategy should ensure that AAs are taking proactive steps to mitigate the risks of conflicts not being addressed appropriately; by setting out how actual, potential, and perceived conflicts are addressed within the governance of the fund.

Requirement to identify a senior LGPS officer

95. The government's proposal is that every AA must have a single named officer (the senior LGPS officer) who has overall delegated responsibility for the management, strategy and administration of the fund. The senior officer would be identified within the AA's Governance and Training Strategy. The government recognises that management structures differ but expects that the role would be carried out by a Director, Assistant Director or Head of Service, i.e. at a level that is either already part of the senior leadership team or is comfortable operating in that environment. The senior officer would be expected to ensure that the LGPS function has sufficient resourcing to meet its duties, and so should be involved in the local authority's budget-setting process.

96. The senior officer would be a substantial role that will require significant time and energy. The expectation would be that the LGPS role would be the main priority for the senior officer. Senior officers should have authority and be able to set strategic direction. Officers reporting to the senior officer should be responsible for all LGPS functions.

97. The senior officer's role would be to lead delivery of the LGPS function under the direction of the AA or pensions committee. The government expects the senior officer's role to include the areas below, although this list is not intended to be exhaustive:

- providing advice to the pension committee and local pensions board
- developing the fund's strategic approach to funding, investment, administration, governance and communication;
- ensuring that risk management arrangements effectively identify and manage risks
- ensuring the fund is organised and managed to deliver statutory responsibilities and regulatory compliance, and meet service level agreements including timely and accurate pension payments
- ensuring that the role of the pension fund and LGPS matters are understood and represented by the AA's senior leadership
- working with other partner AAs and the pool company as appropriate

Requirement to prepare an administration strategy

98. Currently AAs may prepare an administration strategy but are not required to do so. Administration strategies must set out procedures relating to employer communication, administrative procedures, and administrative performance. There is currently no statutory guidance to assist fund in the

preparation of this strategy, and while AAs must keep any administration strategy under review, there is no specific timeframe required.

99. The government believes that if AAs were required to prepare and maintain this strategy and have regard to guidance, this would increase consistency on how administrative matters are approached across the scheme (including in working with employers) and drive improvement in administration of pensions.

100. The government is therefore proposing that AAs should be required to prepare and publish an administration strategy and to have regard to statutory guidance in its preparation. The government is also proposing that AAs review this strategy at least once in every 3 years in line with the proposed requirement for other strategies; and that AAs should no longer be required to send the administration strategy to the Secretary of State upon publication, as this is no longer considered to be necessary.

Improving readability of annual reports

101. Each year AAs publish an annual report on management and financial performance, which includes fund accounts. It is a key document for members, employers and other stakeholders with an interest in the fund. The SAB uses the annual reports to compile the scheme annual report.

102. Currently the annual report is required to include the funding strategy, investment strategy and governance compliance statements in full. The readability and accessibility of the reports is reduced by the size and complexity of the combined document.

103. The government is therefore proposing that, in line with the LGPS in Scotland, funds should no longer be required to include the full texts of any strategy, including the governance and administration strategies we are proposing. It is the government's intention to work with the SAB to update guidance on annual reports to set out how funds should ensure accessibility and transparency for members, employers and others.

Requirement to participate in a biennial independent governance review

104. Under this requirement, each AA would participate in an independent governance review every 2 years, in order for administering authorities to receive assurance that they are meeting governance requirements. The review would need to be carried out by independent experts in the field with good understanding of the LGPS. The Secretary of State for MHCLG would reserve the right to commission reviews of specific funds where there is reason to believe the fund may not be equipped or resourced to fulfil its responsibilities.

105. Once complete, the draft report on the review would go to the senior LGPS officer, pensions committee and local pensions board. The pension committee would be required to add commentary and an action plan in the final report. This could include a range of actions including to seek peer support to address problems or to disseminate good practice. Administering authorities would be required to publish a summary of the final report and submit it to MHCLG.

106. The Scheme Advisory Board is developing a peer support offer including identifying experts already associated with the LGPS to be available to conduct the independent governance review and assess the report and action plan. In cases where the process was not successful at delivering change or peer support was not deemed a realistic way to address issues, it would be open to the Secretary of State to make use of powers under the Public Service Pensions Act 2013 and the Investment Regulations 2016 to issue a direction or to wind up a fund.

107. Government will be working closely with the Scheme Advisory Board and the Pensions Regulator on further detail of the review process and welcomes views on the format and assessment criteria that could be applied.

Requirements on knowledge and skills for those involved in the management of LGPS funds

108. There is an expectation that those responsible for making key decisions within LGPS funds, which provide benefits to millions and manage significant amounts of money, should have the right level of knowledge and training to carry out the functions of their role. In most cases in the LGPS, the role of scheme manager held by the AA is delegated to a pension committee, who are responsible for all key decisions related to the pension fund. Pension committees are composed largely of councillors, with a SAB survey (https://lgpsboard.org/images/CRC/12022024_Item6PaperD_Workstream_update.pdf) showing that 66% possess little or no knowledge of the LGPS prior to appointment. High turnover of committee members can in some cases compound the problem.

109. Currently, there are no statutory requirements for committee members and officers to maintain appropriate knowledge and skills specific to the LGPS or to undertake training of any kind. By contrast, members of the local pension board (which brings together union and employer representatives to assist the AA and committee), have a statutory duty to have appropriate knowledge and skills under s.248A of the Pensions Act 2004. Committees are required to take proper advice, but where there are gaps in the knowledge of and skills of committee members and officers, it may be difficult to ensure that this advice is tested and challenged appropriately.

110. The SAB survey showed strong support for higher standards of knowledge and understanding for pension committee members. A very large majority (90%) of respondents supported new guidance on minimum training requirements, and 67% agreed that requirements for pension committee members should be the same as for local pension board members.

111. The government therefore proposes to require that committee members, the senior officer and officers should have the appropriate level of knowledge and understanding for their roles, and that the requirements for pension committee members and local pension board members should be aligned. This change aims to ensure that those involved in the management of LGPS funds have the capability to carry out their duties as needed and can exercise the correct level of oversight on investments, governance, and administrative matters. This will include the knowledge and skills, for both officers and committee members, to challenge and test advisers and hold their pool to account.

112. The government is also proposing to require AAs to set out within their governance and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge requirements. The government expects AAs to include their policy on training and assessment to meet this requirement. It is recognised that committee members and officers on appointment will possess different levels of relevant prior knowledge. The government therefore also proposes that the requirement on knowledge and understanding will apply to individuals within a reasonable period from taking up the role or appointment.

Role of independent adviser

113. In addition to requiring pension committee members to have appropriate knowledge and skills, the government is also considering how best to bring professional and independent expertise to pension committees to improve governance, improve scrutiny and challenge of advice and delivery, and advise on improvements.

114. One way in which this could be achieved would be to require pension committees to appoint an independent person who is a pensions professional, whether as a voting member of the pensions committee or as an adviser. The role would encompass supporting the committee on investment strategy, governance and administration. Those who were or might be involved in recommending specific investment products to the committee would not be eligible. We expect that suitable pensions professionals would have one or more of the following qualifications and experience:

- Qualifications from Pensions Management Institute (PMI) – the award in pension trusteeship, diploma in professional trusteeship, certificate in professional trusteeship, accreditation for professional trustees

- Member of, and accredited by, the Association of Professional Pension Trustees (APPT)
- Significant experience of pensions and/or investments

115. The small number of administering authorities with no pension committee could be required to have an independent person as adviser to the senior officer.

116. The government recognises that the aim may be achieved in a range of ways and invites views on the best approach.

Question 18
Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

Question 19
Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

Question 20
Do you agree with the proposals regarding the appointment of a senior LGPS officer?

Question 21
Do you agree that administering authorities should be required to prepare and publish an administration strategy?

Question 22
Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

Question 23
Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

Question 24
Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

Question 25

Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

Question 26

What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

Pool governance and reporting

117. Under the government's proposed reforms, all pools would need to move to the new minimum standards for pooling set out in chapter 2. Consistent high standards of governance for all the pools would be essential in delivering the full benefits to members and employers, providing assurance for the partner AAs that the pool is properly managed and ensuring that the AAs are able to hold the pools to account.

118. In summary the government proposes to require:

- Boards to include a representative or representatives of the group of partner AAs
- Requirement for pools to publish asset performance and transaction costs

Requirements on pool company board membership

119. The minimum standards on pooling set out in Chapter 2 would require boards of all pool companies to have the skills and experience appropriate to the leadership of an investment management company. Boards would meet the requirements for FCA authorisation including independent directors.

120. To ensure that shareholder AAs can hold the pool to account, it is important to include shareholder representation on the board. The government's proposal is that in addition to meeting the requirements of the FCA, boards should also include one or two representatives for the group of shareholder AAs, such as the chair of the shareholder committee or equivalent. These representatives would require the appropriate skills and training.

121. It will also be important to ensure that scheme members' views and interests are properly understood and taken into account by the pools. The

government therefore invites views on the best way to achieve this.

Requirement to meet transparency and reporting standards

122. The government also wishes to introduce a greater level of consistency and transparency through reporting standards for pools. Currently, all pools publish annual reports and financial statements, while some go further and publish regular in-depth reports on responsible investment or separate reports which detail breakdowns of performance by sector, such as private markets. In order to achieve a greater level of accountability and to encourage greater efficiency, the government is proposing to add requirements for pools to improve transparency and reporting, including publication of performance and transaction costs.

123. The government is exploring what this could look like for pools, and welcome views on what data and reporting would be most useful for increasing transparency. It is our intention to set out in new pooling guidance how pools should ensure transparency and accountability to members, employers and others.

Question 27

Do you agree that pool company boards should include one or two shareholder representatives ?

Question 28

What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

Question 29

Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

Implementation

124. The government proposes to set out new requirements in regulations. Our intention would be to work with the Scheme Advisory Board to provide new statutory guidance on governance and training, on administration and on pooling and updated guidance on annual reports.

5. Equality impacts

Public sector equality duty

125. The Department's policies, guidance and procedures aim to ensure that the equalities impact of any decisions, new policies or policy changes upon groups with protected characteristics is properly considered, and that in formulating them the Department has had due regard to its obligations under the Public Sector Equality Duty at s.149(1) of the Equality Act 2010.

126. We have made an initial assessment and we believe our proposals on the LGPS in chapters 2 and 4 do not affect any particular groups with protected characteristics adversely, as there will be no change to member contributions or benefits as a result. There may be an indirect benefit to protected groups who live in disadvantaged areas which benefit from local investments.

Question 30

Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so, please provide relevant data or evidence.

Annex A: List of consultation proposals

Chapter 2: LGPS pooling

Proposal 1: Requirement on AAs to fully delegate the implementation of their investment strategy to their pool.

Proposal 2: Requirement on AAs to take their principal investment advice from the pool.

Proposal 3: Requirement for pools to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies.

Proposal 4: Requirement for AAs to transfer legacy assets to the management of their pool.

Chapter 3: Local investment

Proposal 5: Requirement on AAs to set out their approach to local investment, including a target range for investment, in their Investment Strategy Statement, and to have regard to local growth plans and local economic priorities in setting their investment strategy.

Proposal 6: Requirement on AAs to work with CAs, MCAs, CCAs, and local authorities in other areas to identify suitable local investment opportunities,

Proposal 7: Requirement for the pools to develop the capability to carry out due diligence on local investment opportunities.

Proposal 8: Requirement on AAs to include in their annual report a report on the extent and impact of their local investments.

Chapter 4: Governance of funds and pools

Proposal 9: Requirement to prepare and publish a governance and training strategy (replacing the governance compliance statement), including a conflicts of interest policy.

Proposal 10: Requirement to appoint a senior LGPS officer with overall delegated responsibility for the management and administration of the Scheme.

Proposal 11: Requirement to prepare and publish an administration strategy.

Proposal 12: Changes to the way in which strategies on governance and training, funding, administration and investments are published

Proposal 13: Requirement for AAs to participate in a biennial independent governance review and, if applicable, produce an improvement plan to address any issues identified.

Proposal 14: Requirement for pension committee members, the senior officer, and officers to have the appropriate level of knowledge and understanding for their roles, with requirements for pension committee members and local pension board members aligned.

Proposal 15: Requirement for AAs to set out within their government and training strategy how they will ensure that any committee, sub-committee, or officer will meet the new knowledge requirements within a reasonable period from appointment.

Proposal 16: Requirement for pension committees to include an independent person who is a pensions professional, whether as a voting member or as an adviser.

Proposal 17: Requirement for boards to include one or two representatives of shareholder AAs, such as the chair of the shareholder committee or equivalent.

Proposal 18: Requirement for pools to publish asset performance and transaction costs

Annex B: List of consultation questions

Chapter 2: LGPS pooling

Proposals

Question 1: Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

Question 2: Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

Question 3: Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority's fiduciary duty?

Question 4: What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

Question 5: Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

Question 6: Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

Question 7: Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?

Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?

Question 9: What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered? Implementation

Question 10: Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

Other developments

Question 11: What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

Question 12: What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?

Chapter 3: Local investment

Proposals

Question 13: What are your views on the appropriate definition of 'local investment' for reporting purposes ?

Question 14: Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

Question 15: Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?

Question 16: Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

Question 17: Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?

Chapter 4: Governance of funds and pools

Fund governance

Question 18: Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

Question 19: Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

Question 20: Do you agree with the proposals regarding the appointment of a senior LGPS officer?

Question 21: Do you agree that administering authorities should be required to prepare and publish an administration strategy?

Question 22: Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

Question 23: Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

Question 24: Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

Question 25: Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

Question 26: What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

Pool governance

Question 27: Do you agree that pool company boards should include one or two shareholder representatives?

Question 28: What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

Question 29: Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

Chapter 5: Equality impacts

Question 30: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

About this consultation

This consultation document and consultation process have been planned to adhere to the consultation principles (https://www.gov.uk/government/publications/consultation-principles-guidance) issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 and UK data protection legislation). In certain circumstances this may therefore include personal data when required by law.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the information access regimes and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing Communities and Local Government will at all times process your personal data in accordance with UK data protection legislation and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included below.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not, or you have any other observations about how we can improve the process please contact us via the complaints procedure (https://www.gov.uk/guidance/contact-the-ministry-of-housing-communities-and-local-government).

Personal data

The following is to explain your rights and give you the information you are entitled to under UK data protection legislation.

Note that this section only refers to personal data (your name, contact details and any other information that relates to you or another identified or identifiable individual personally) not the content otherwise of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer

The Ministry of Housing Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk or by writing to the following address:

> Data Protection Officer
> Ministry of Housing Communities and Local Government
> Fry Building

2 Marsham Street
London
SW1P 4DF

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

We will collect your IP address if you complete a consultation online. We may use this to ensure that each person only completes a survey once. We will not use this data for any other purpose.

Sensitive types of personal data

Please do not share special category (https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/lawful-basis-for-processing/special-category-data/#scd1) personal data or criminal offence data if we have not asked for this unless absolutely necessary for the purposes of your consultation response. By 'special category personal data', we mean information about a living individual's:

- race
- ethnic origin
- political opinions
- religious or philosophical beliefs
- trade union membership
- genetics
- biometrics
- health (including disability-related information)
- sex life; or
- sexual orientation.

By 'criminal offence data', we mean information relating to a living individual's criminal convictions or offences or related security measures.

3. Our legal basis for processing your personal data

The collection of your personal data is lawful under article 6(1)(e) of the UK General Data Protection Regulation as it is necessary for the performance by MHCLG of a task in the public interest/in the exercise of official authority vested in the data controller. Section 8(d) of the Data Protection Act 2018 states that this will include processing of personal data that is necessary for the exercise of a function of the Crown, a Minister of the Crown or a government department i.e. in this case a consultation.

Where necessary for the purposes of this consultation, our lawful basis for the processing of any special category personal data or 'criminal offence' data (terms explained under 'Sensitive Types of Data') which you submit in response to this consultation is as follows. The relevant lawful basis for the processing of special category personal data is Article 9(2)(g) UK GDPR ('substantial public interest'), and Schedule 1 paragraph 6 of the Data Protection Act 2018 ('statutory etc and government purposes'). The relevant lawful basis in relation to personal data relating to criminal convictions and offences data is likewise provided by Schedule 1 paragraph 6 of the Data Protection Act 2018.

4. With whom we will be sharing your personal data

MHCLG may appoint a 'data processor', acting on behalf of the Department and under our instruction, to help analyse the responses to this consultation. Where we do we will ensure that the processing of your personal data remains in strict accordance with the requirements of the data protection legislation.

5. For how long we will keep your personal data, or criteria used to determine the retention period

Your personal data will be held for 2 years from the closure of the consultation, unless we identify that its continued retention is unnecessary before that point.

6. Your rights, e.g. access, rectification, restriction, objection

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record

c. to ask to have your data corrected if it is incorrect or incomplete

d. to object to our use of your personal data in certain circumstances

e. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/ (https://ico.org.uk/), or telephone 0303 123 1113.

Please contact us at the following address if you wish to exercise the rights listed above, except the right to lodge a complaint with the ICO: dataprotection@communities.gov.uk or

> Knowledge and Information Access Team
> Ministry of Housing Communities and Local Government
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making

9. Your personal data will be stored in a secure government IT system

We use a third-party system, Citizen Space, to collect consultation responses. In the first instance your personal data will be stored on their secure UK-based server. Your personal data will be transferred to our secure government IT system as soon as possible, and it will be stored there for 2 years before it is deleted.

Appendix 2

Good Governance: Phase 3 Report to SAB

February 2021

Contents

Good Governance: Phase 3

Report to SAB

Introduction

The Scheme Advisory Board accepted the proposals in the Good Governance report Phase 2 on 3 February 2020 and requested that the project team and working groups provide further detail on the implementation of these proposals. The project has suffered delays as a result of COVID and the requirement for key stakeholders in their main roles to focus on and prioritise the response to the pandemic. However, some meetings were held early in 2020 and working papers and notes have been circulated over the last months to collate feedback and reflect the wide range of views from the group.

We considered that some proposals from Phase 2 didn't need further detail in order to progress with implementation and focussed on the proposals which needed further analysis or consideration ahead of implementation. We have provided additional details on these proposals for the consideration of the SAB. This paper should be read in conjunction with the paper from Phase 2.

For reference, all the proposals from Phase 2 are listed below and we have indicated with a * the proposals addressed further in this report.

Area	Proposal
A. General	***A.1** MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").
	***A.2** Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").
	A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS senior officer and S151.
B. Conflicts of interest	***B.1** Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.
	B.2** The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB – **now updated
C. Representation	***C.1** Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.
D. Knowledge and understanding	***D.1** Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	***D.2** Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.
	***D.3** Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	***D.4** CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.
E. Service Delivery for the LGPS Function	**E.1** Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of

	delegation and constitution and be consistent with role descriptions and business processes.
	***E.2** Each administering authority must publish an administration strategy.
	***E.3** Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
	***E.4** Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
F. Compliance and improvement	***F.1** Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	F.2 LGA to consider establishing a peer review process for LGPS Funds.

Atypical administering authorities

This report has been drafted largely using terminology relevant to the majority of administering authorities who are local authorities. However, it is recognised that there are some administering authorities which do not fit this model. In taking forward any of the proposals outlined in this report it will be necessary to ensure that principles can be applied universally to LGPS funds and that any guidance recognises the unique position of some funds.

Use of terms

Throughout this document the following terms have a specific meaning unless the context makes clear that another meaning is intended;

Administering authority refers to a body listed in part 1 of Schedule 3 to the LGPS Regulations 2013 that is required to maintain an LGPS pension fund. In particular the term is used here when such a body is carrying out LGPS specific functions.

For example "Each administering authority must publish an annual report".

Committee a committee formed under s101 of the Local Government Act 1972 to which the administering authority delegates LGPS responsibilities and decision making powers. Alternatively, can refer to an advisory committee or panel which makes recommendations on LGPS matters to an individual to whom the administering authority has delegated LGPS decision making responsibility.

For example "The pensions committee should have a role in developing the business plan".

Host authority refers to a council or other body that is also an administering authority but is used to refer to that body when it is carrying out wider non-LGPS specific functions.

For example "Delivery of the LGPS function must be consistent with and comply with the constitution of the host authority"

The fund carries a more general meaning and is used to refer to the various activities and functions that are necessary in order to administer the LGPS.

For example "Taking this course of action will improve the fund's administration".

Alternatively, the term is used in the context of the scheme members and employers who contribute to the LGPS arrangements of a specific administering authority.

For example “The number of fund employers has increased in recent years”.

Further Discussion on Recommendations

A General

A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").

The intention throughout this review has been that any SAB recommendations should be enacted via the introduction of new statutory governance guidance which will supersede current guidance[1]. It was felt that this approach would be quicker and more responsive than relying on changes to secondary legislation. The LGPS regulations contain a provision[2] that allows the secretary of state to issue guidance on the administration and management of the scheme.

We have noted that he outcome of The Supreme Court's judgment on LGPS boycotts (The Palestinian Case)[3] may impact the extent to which future changes are enacted through guidance rather than changes to legislation.

A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").

This is one of the core recommendations in Phase 2 report and we have provided further detail on the proposal below, including details on the core requirements of the role, organisational guidelines and personal competencies for individuals.

Core Requirements

The role of the LGPS senior officer is to lead and take responsibility for the delivery of the LGPS function. The core requirements include but are not limited to:

- Following appropriate advice, developing the fund's strategic approach to funding, investment, administration, governance and communication;
- Ensuring that there is a robust LGPS specific risk management framework in place which embeds risk management into the culture of the fund and identifies, assesses and mitigates the risks facing the fund;
- Ensuring the pension fund is organised and structured in such a way as to deliver its statutory responsibilities and compliance with The Pensions Regulator's codes of practice;
- Managing delivery of the LGPS function to meet service level agreements;
- Providing advice to members of committees that have a delegated decision-making responsibility in respect of LGPS matters;
- Providing advice and information to members of local pensions board to assist them in carrying out their responsibilities;
- Ensuring that the role of the pension fund and LGPS matters are understood and represented at the local authority's senior leadership level;

[1] **LOCAL GOVERNMENT PENSION SCHEME GOVERNANCE COMPLIANCE STATEMENTS STATUTORY GUIDANCE – NOVEMBER 200**
[2] **See Regulation 2(3A)**
[3] **R (on the application of Palestine Solidarity Campaign Ltd and another) (Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent**

- Working with partner funds and the pool company (if appropriate) to ensure effective governance in respect of investment pooling arrangements;
- Where the LGPS Senior Officer is not themselves the local authority's s151 officer, support the s151 officer to ensure the proper administration of the fund's financial affairs; and
- Acting with the highest integrity in the interests of the fund's members and employers.

Underpinning principles and characteristics

This section considers what needs to be in place for an LGPS senior officer to successfully deliver the role. It is split into the organisation principles that the administering authority should consider when drawing up the role of Senior Officer as well as the personal characteristics and competencies that the individual should exhibit.

Organisational Principles

In appointing a LGPS senior officer, administering authorities should have consideration of the following organisational principles.

Representing the fund at a senior level. The Senior Officer should be of sufficient seniority to ensure that pension issues can be brought the attention of the senior leadership team as necessary. This also ensures that the Senior Officer is close enough to the strategic direction of the host organisation and able to influence decisions where they impact on the management of the fund. It is unlikely that the Senior Officer role could be carried out effectively by an individual lower than third tier in the organisation.

Capacity. The role of Senior Officer is demanding and those undertaking it should be able to give it the necessary attention. While the Senior Officer might have some other responsibilities within the organisation, these should not be of a scale that they impact adversely on the ability to ensure the effective delivery of the LGPS function. When considering capacity, it would be appropriate to consider both the Senior Officer role and the capacity and seniority of their direct reports working in the LGPS.

Reporting Lines. As the individual with responsibility for delivering the LGPS function, it is appropriate that those with key LGPS functions come under a reporting structure which falls under the Senior Officer's supervision.

From time to time the fund will employ resource and expertise from other areas of the authority, for example project management, IT or legal services. It is not the intention that all that all of these functions should fall under the Senior Officer, however the expectation is that key functions such as investment, administration, employer liaison, communications, fund accounting etc do.

Resourcing. The senior officer is responsible for the delivery of the LGPS function and as such must be able to ensure that they run an operation that is sufficiently resourced. The intention is that the Senior Officer is responsible for drawing up the fund's budget and agreeing it with the Pension Committee.

In doing so the Senior Officer needs to be cognisant of the need to maximise the value of any spend from the public purse.

Personal Competencies

The following are the personal and professional attributes that should be embodied by the LGPS Senior Officer.

An ability to build strong relationships and influence. The Senior officer will be expected to influence matters at the highest levels of the organisation. They should be comfortable dealing with elected members and understand the requirements of working in a political environment.

The Senior Officer will need to build and maintain strong relationships with employers within the Fund as well as partners within the investment pool.

The Senior Officer will also need the ability to build strong relationships with professional advisers, including challenging them when appropriate and work to enable the effective operation of the pension board

The Senior Officer will also be expected to represent the fund at a national level.

Strong technical skills. There is no requirement for an LGPS senior officer to have a specific professional qualification, although a relevant qualification (accounting, investment, actuarial, pensions management, legal) may be advantageous. They should have a strong understanding of all aspects of the LGPS. The Senior Officer should have a good grasp of the funding, investment and regulatory matters that impact the fund. They should also be able to explain and simplify difficult concepts to non-technical audiences.

Strategic thinking. It is the role of the Senior Officer to set the strategic direction of the fund. This requires an individual who can synthesise information from a broad range of sources, learn from experiences and bring new ideas to the table. The LGPS senior officer should develop a strong idea of how the delivery of the service will change over time and how the fund can be ready to meet new challenges.

Operational effectiveness. The Senior Officer should be leader with the ability to drive improvement within the organisation and motivate others to buy into their vision. They will need to put plans in place to deliver effective services yet be flexible enough to deal with a volatile pensions landscape.

Strong ethical standards. The LGPS environment can produce the potential for conflicts of interest to arise. The Senior officer should be an individual who embodies the highest ethical standards and acts in the interests of the fund's members and employers. They demonstrate and positively promote the seven principles of public life.

Organisational Structure

Appendix 1 contains examples of how the Senior officer role could be incorporated into various organisational structures.

A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.

In order to improve the transparency and auditability of governance arrangements, each fund must produce an enhanced annual governance compliance statement, in accordance with the statutory governance guidance, which sets out details of how each fund has addressed key areas of fund governance. The preparation and sign off of this statement will be the responsibility of the LGPS senior officer and it must be co-signed by the host authority's s151 officer, where that person is not also the LGPS senior officer. The expectation will also be that committees and local pension boards would be appropriately involved in the process.

It should be noted that the current LGPS regulations[4] require that administering authorities publish an annual governance compliance statement concerning matters relating to delegation and representation on pension committees. We recommend that amendments are made such that all requirements are incorporated into a single governance compliance statement.

[4] **See Regulation 55 “Administering Authorities: Governance Compliance Statement”**

B Conflicts of Interest

B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.

One of the key objectives of the Good Governance Review was to consider how potential conflicts of interest manifest themselves within current LGPS set up and to suggest how those potential conflicts can be managed to ensure that they do not become actual conflicts. In doing so, the SAB was of the view that the democratically accountable nature of the LGPS be maintained.

Since almost all LGPS funds are rooted in local authority law and practice, those elected members who serving on pension committees are subject to local authority member codes of conduct[5]. These will require members to register existing conflicts and to recognise when conflicts arise during the course of their duties and how to deal with them. Elected members must also comply with the Seven Principles of Public Life (often referred to as the Nolan Principles). Non-elected members sitting on committees and local pension boards should be subject to the same codes and principles.

There are, however, specific conflicts that can arise as a result of managing a pension fund within the local authority environment. The intention of this recommendation is that all administering authorities publish a specific LGPS conflicts of interest policy. This should include information on how it identifies, monitors and manages conflicts, including areas of potential conflict that are specific to the LGPS and will be listed in The Guidance. The expectation is that the areas covered will include:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations;
- Contribution setting for the administering and other employers;
- Cross charging for services or shared resourcing between the administering authority and the fund and ensuring the service quality is appropriate for the fund;
- Dual role of the administering authority as an owner and client of a pool;
- Investment decisions about local infrastructure; and
- How the pension fund appropriately responds to Council decisions or policies on global issues such as climate change.
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or cabinet should be disclosed.

[5] Similar codes apply for non-local authority administering authorities.

Each administering authority's policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded; and
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.

In putting together such a policy it is recognised that membership of the LGPS is not, in and of itself, a conflict of interest.

The Guidance should require each fund to make public its conflicts of interest policy.

B.2 The Guidance should include reference to the latest available legal opinion on how statutory and fiduciary duties impact on all those involved in the management of the LGPS, and in particular those on decision making committees.

There are no immediate plans for SAB to opine on or publish a statement on fiduciary duty given the conflict between Nigel Giffin's opinion and those of the Supreme Court in the Palestine case. Therefore, this recommendation has been updated.

C Representation

C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.

One of the key principles of the Good Governance Review is the recognition that each administering authority knows its own situation best and that The Guidance should avoid being overly prescriptive and limiting. In the matters of delegating responsibilities and appointing members to committees, most administering authorities must comply with the Local Government Act 1972. Nothing within The Guidance can, or should, override or limit the provisions of the 1972 Act. The intention behind this recommendation is simply that administering authorities prepare, maintain and publish their policy on representation and to require that they provide:

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and
- the rationale as to whether those representatives have voting rights or not.

The SAB''s view is that **it would expect** scheme managers to have the involvement employers and member representatives on any relevant committees.

In addition to representation on committees, administering authorities should state other ways in which they engage their wider employer and Scheme membership

The Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

D Skills and training

D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.

There was widespread agreement throughout the Good Governance Review process that those making decisions about billions of pounds of public money and the pension provision of millions of members should be properly trained to carry out the responsibilities of their role. The level of knowledge and understanding of technical pensions topics will vary according to role.

The Guidance should require the Administering Authority to identify training requirements for key individuals having regard for:

- topics identified in relevant frameworks or in publications by relevant bodies (e.g. CIPFA, TPR etc)
- the workplan of the Administering Authority; and
- current or topical issues.

The Administering Authority should develop a training plan to ensure these training requirements are met and maintain training records of key individuals against the training plan. These records should be published in the Governance Compliance Statement.

Pension Committees

The private sector has seen an increasing move towards the professionalisation of trustees and the introduction in to the LGPS in recent years of TPR, local pension boards and MIFID have made knowledge and skills for committees and boards a greater focus.

The membership of committees typically includes some or all of the following:

- administering authority elected members;
- other local authority elected members;
- other employer representatives; and
- scheme member representatives.

Training requirements for pensions committees apply to all members.

The Guidance should clarify that the expectation is that the TPR requirements that apply to Local Pension Boards should equally apply to pension committees. As a minimum those sitting on pension committees or the equivalent should comply with the requirements of MiFID II opt-up to act as a professional client but the expectation is that a higher level and broader range of knowledge will be required.

At committee, knowledge should be considered at a collective level and it should be recognised that new members will require a grace period over which to attain the requisite knowledge.

A pension committee member is not being asked to be a subject matter expert or act operationally. Instead the role involves receiving, filtering and analysing professional advice in order to make informed decisions.

A pension committee member should put aside political considerations, act in the interest of all employers and members and act within a regulatory framework.

When considering what training is appropriate for committee members, it might help to consider how pension committee operate and what makes an effective committee. To carry out the role effectively a committee member must have the following;

- An ability to focus on the issues that make the most difference and produce the most value and not be distracted by lower order issues;
- Access expert professional advice in the form of external advisers and administering authority officers; and
- An ability to seek reassurance, challenge the information provided and bring their own experiences to bear in decision making.

D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.

Treasury Guidance[6] requires that all government departments should have professional finance directors and that "It is good practice for all other public sector organisations to do the same, and to operate to the same standards".

Professionally qualified in this context refers to both being a qualified member of one of the five bodies comprising the Consultative Committee of Accounting Bodies (CCAB) in the UK and Ireland; and having relevant prior experience of financial management in either the private or the public sector.

The intention behind this recommendation is that an understanding of the LGPS should be a requirement for s151 officers (or those aspiring to the role). During the Good Governance project itself the view was put forward by some the profession that requiring an element of LGPS training could form part of an individual's ongoing continuous professional development requirements. This would have the advantage of ensuring the topics covered remain current and relevant.

The expectation would be that an appropriate level of LGPS knowledge must be attained by S151 officers of an administering authority. A level of LGPS knowledge should also be attained by S151 officers of other public bodies participating in the LGPS in order that they can understand issues relating to the participation of their own organisation, although it is not expected that that they should have the depth and breadth of knowledge required of the S151 officer of an administering authority.

D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.

Many funds already publish training strategies which set out training strategies which establish how members of the Pension Committee, Pension Board and fund officers will attain the knowledge and understanding they need to be effective and to challenge and effectively carry out their decision making responsibilities. The intention is that all LGPS funds should produce a strategy which should set out how those involved with the fund will:

- have their knowledge measured and assessed;
- receive appropriate training to fill any knowledge gaps identified;
- ensure that knowledge is maintained; and
- evidence the training that is taking place

[6] See Managing Public Money (July 2013), Annex 4.1

D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

The intention is that SAB engage with the professional accountancy bodies to develop LGPS training modules for accountancy professionals operating within local authorities.

E Service delivery for the LGPS Function

E.2 Each administering authority must publish an administration strategy.

This proposal has been progressed by the Cost Management, Benefit Design and Administration subcommittee to the SAB. When it met on the 6th January 2020 the following proposals were discussed:

- Changing the status of Regulation 59 from discretionary to mandatory and introduce the requirement for Pension Administration Strategy statements to be prepared and maintained in accordance with new statutory guidance
- Reviewing the remainder of Regulations 59 and 70 to identify whether any additional changes should be made;
- Exploring the scope for empowering administering authorities to penalise inefficient scheme employers in a more effective way;
- Recommending that MHCLG publishes new statutory guidance including :-
  - Minimum standards of performance;
  - Assessment of inefficiency costs;
  - Timescales for submitting scheme data
- Extending Regulation 80 to include a duty on all scheme employers to comply with the new Pension Administration Strategy statements.
- Changing the name of the statement to make it clear that it is wholly relevant to scheme employers.

E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.

The working group considered this and recommend that rather than attempting to define a universal set of standards for administration across the LGPS. the KPIs should focus on ensuring that each fund has defined service standards, and has the governance in place to monitor their service standards and to benchmark those standards against other funds where appropriate.

Governance KPIs

Subject Area	***KPI***	***Notes***
Breadth of representation	1. Percentage make-up (employer/member) on committee and board and number of LPB representation	
	2. Average attendance level at meetings (percentage) – split between absence and vacancies	*1. and 2. may be incorporated in the Governance Compliance Statement (GCS) by including a clear statement of committee members and their attendance at meetings*
Training and expertise	3. Hours of relevant training undertaken across panel/board in last year	
	4. Relevant experience across senior management team	A qualitative statement on the LGPS Senior Officer and their direct reports (or other senior pensions staff) to include professional qualifications and financial services/pension/LGPS experience. Also include % time spent on pension fund business by each person
Compliance/ Risk	*5.* Number of times risk register reviewed annually – number of times on agenda at committee/board.	This is not measuring the quality of the register but the expectation that it will be viewed regularly at the committee should also improve quality.
	6. Number of times carried out business continuity testing and/or cyber security penetration testing	*Key focus of TPR*
Appropriate governance time spent on key areas	7. Split of committee/board spent on administration/governance/investment	How should this be measured, is it just by number of items on the agenda keeping in mind it needs to be auditable?

Administration KPIs

		Notes
Data quality	1. Common/conditional data score, in line with TPR expectations	
	2. Annual Benefit Statement percentage as at 31 August	*Include explanation where less than 100%.*
Service standards/SLAs	3. Number and percentage of pension set-ups (new retirements) within disclosure requirement timeframe	
	4. Does the Fund monitor and report its own standards?	*Y/N*
	5. Percentage of calls to customer helpline answered and resolved at first point of contact	
Engagement and communication – capabilities and take-up	6. Specify which online services are available to members/employers	*Measuring services provided by Fund online, perhaps against an agreed standardised list.*
	7. Percentage of members registered for the fund's online services and the percentage that have logged onto the service in the last 12 months split by status	*Measuring take up of services*
	8. Number of employer engagement events and/or briefings held in last 12 month and percentage take-up	*Percentage take-up could be weighted to size of employer.*
Customer satisfaction	9. Percentage of members (or employers if appropriate) satisfied with the service provided by their LGPS fund (this could be obtained via a simple questionnaire of no more than 5 questions).	*Members and employers should be measured separately, and funds should also report the number completing the questionnaire to ensure appropriate coverage. For consistency in comparison we suggest a general question is drafted and Funds told to incorporate into their surveys – e.g. "The service was excellent – Strongly Disagree/ Disagree/Agree/Strongly Agree."*

E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.

Each Administering Authority has a specific legal responsibility to administer the LGPS within their geographical region and to maintain a specific reserve for that purpose. It is important therefore that the fund's budget is set and managed separately from the expenditure of the host authority.

Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers. The budget setting process should be one initiated and managed by the fund's officers and the pension committee and assisted by the local pension board.

Required expenditure should be based on the fund's business plan and deliverables for the forthcoming year. The practice should not simply be to uprate last year's budget by an inflationary measure or specify an "available" budget and work back to what level of service that budget can deliver.

The body or individual with delegated responsibility for delivering the LGPS service should have a role in setting that budget. Typically, this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund's business plan, but it is recognised that other governance models exist within the LGPS. Whichever approach is used, it should be clearly set out in the roles and responsibilities matrix and be consistent with the host authority's scheme of delegation and constitution.

Where a proposed budget is approved, the senior LGPS officer will confirm in the governance compliance statement that the administering authority has approved the budget required to deliver the pensions function to the required standard.

If the budget is not approved, the senior LGPS officer will declare that in the governance compliance statement, including the impact of that on service delivery as expressed in a reduced business plan.

These statements in the governance compliance statement will be co-signed by the S151 officer where this is not the same person as the senior LGPS officer.

F Compliance and Improvement

F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.

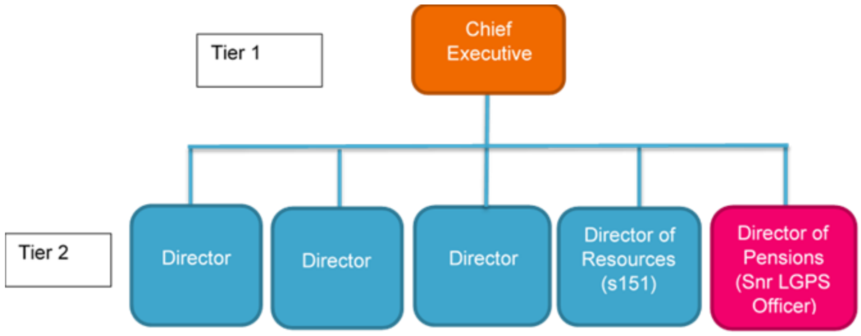
IGR reports to be assessed by a SAB panel of experts.

The Phase 2 report sets out the key features required in the Independent Governance Review. A sample outline for further discussion is included in Appendix 3.

Appendix 1 - Senior officer organisational structures

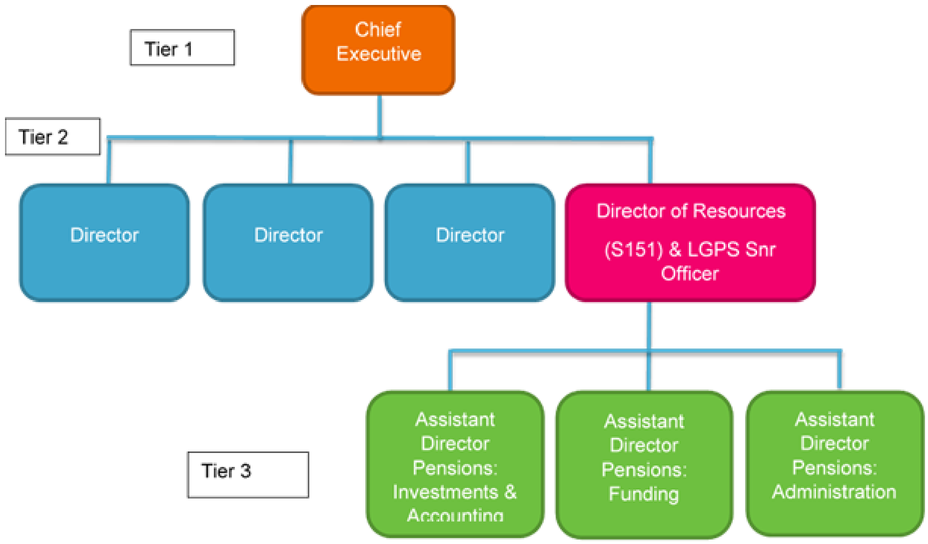
The following organisational structure charts show where the LGPS senior officer role may sit.

Example 1



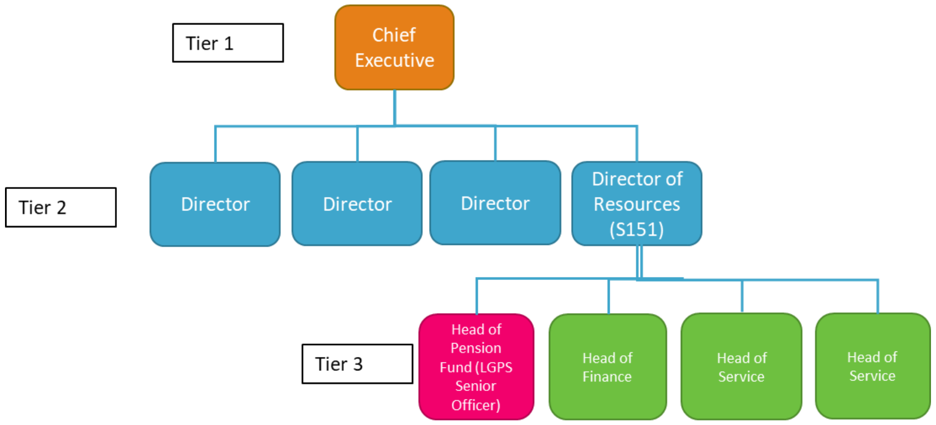
In this structure the LGPS Senior Officer is the Director of Pensions. As a tier 2 officer in the organisation the Director of Pensions will have the appropriate seniority for the role and with only LGPS responsibilities they will have the capacity to focus solely on delivery of the LGPS function.

Example 2



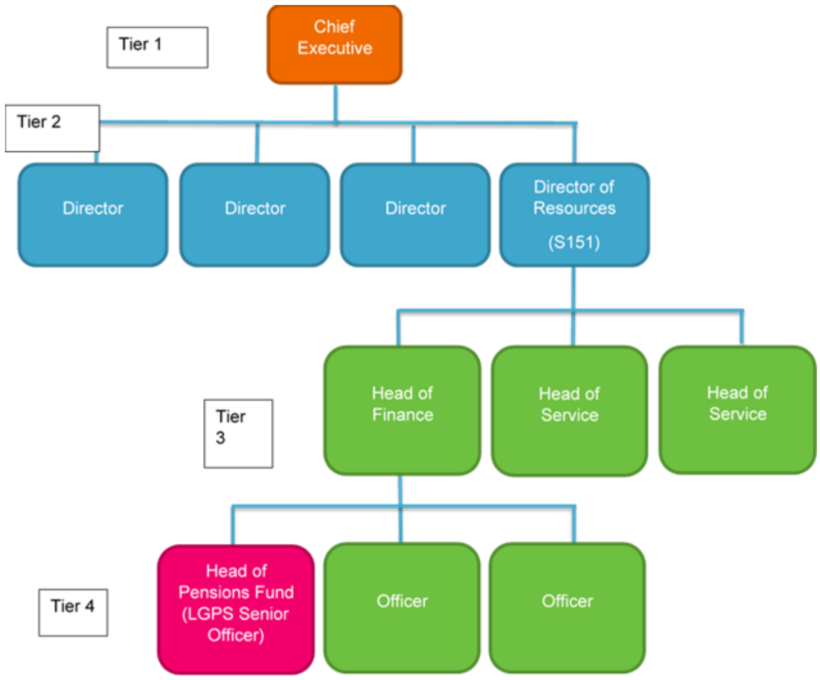
In this model the LGPS Senior Officer is a Tier 2 Director with significant other responsibilities. The diagram shows the LGPS Senior Officer as the Director of Resources and s151 officer, but a similar situation could arise if pension responsibilities lay within another Directorate, for example under a director with responsibility for legal/governance (in which case the LGPS Senior Officer would likely be the monitoring officer as well). Although the Senior officer has other responsibilities in this scenario, they are supported by a senior team of assistant directors, who are themselves tier 3 officers. The strength of the management team in this case is likely to mean that the LGPS Senior Officer has the ability to delegate aspects of LGPS delivery to an appropriately senior team, while retaining the ability to influence the strategic direction of the fund.

Example 3



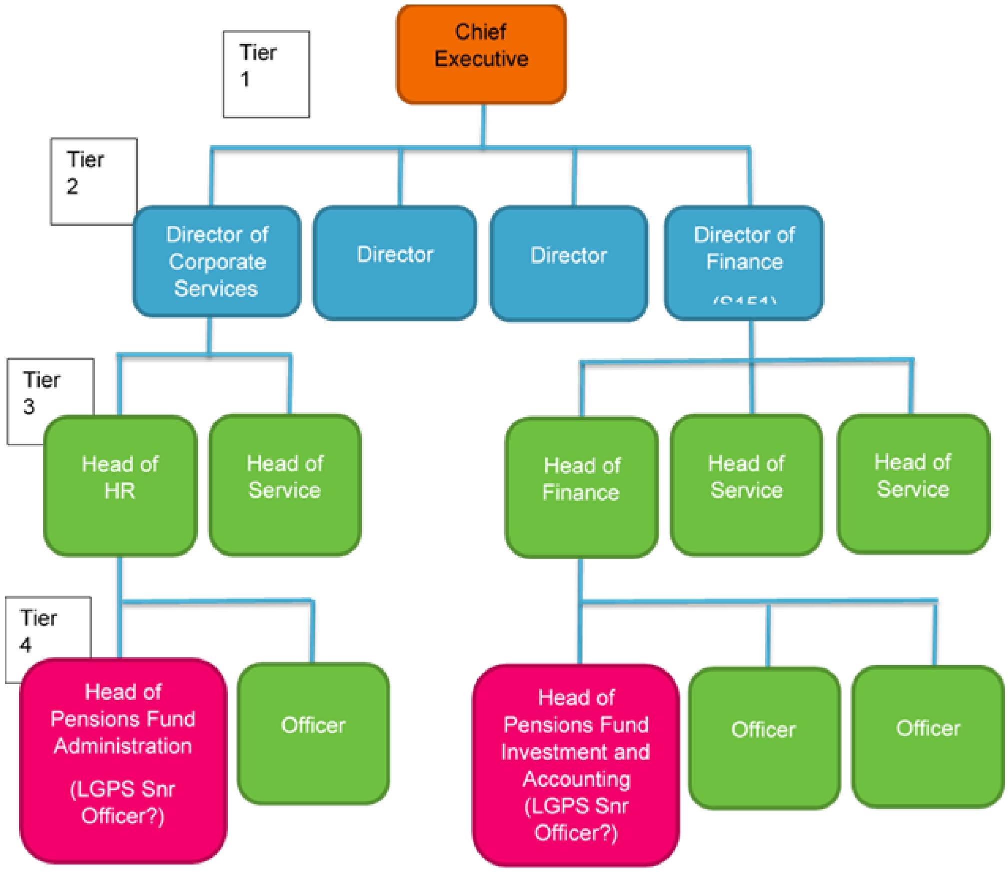
Under this structure the Head of Pensions is a Tier 3 officer reporting to the S151 officer.

Example 4



Under this structure the Head of Pensions sits at tier 4 with a reporting line that runs through the Head of Finance, Director of Resources (s151) and to the Chief Executive. As long as the reporting lines are clear and there is sufficient support for the Head of Pensions from senior officers this structure may provide an appropriate level of seniority and capacity for the Senior officer. However, some members of the working group expressed the view that in order to manage the scope and exert the required influence, the LGPS Senior Officer role should be held by an individual no lower than Tier 3.

Example 5



In this structure it becomes difficult to identify where the LGPS Snr officer should sit. While the investment and accounting functions sit within the function at tier 4, the administration of the fund is delivered by a fourth tier officer in the corporate services directorate who reports to the Head of HR. such an arrangement makes it difficult to for any one person to have full sight of all LGPS functions. Separate reporting lines in this fashion militate against a joined strategy and decision making for the fund.

Appendix 2 - Governance compliance statement

The following is an example of a governance compliance statement. It is recognised that under the current LGPS regulations, administering authorities must prepare, publish and maintain a statement on the following matters;

(a) whether the authority delegates its functions, or part of its functions under the LGPS regulations to a committee, a sub-committee or an officer of the authority;

(b) if the authority does so-

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).

These matters should continue to form part of each administering authority's governance compliance statement.

It is recommended that the new governance compliance statement incorporates the existing requirements alongside the recommendations arising from this review.

A Conflicts of interest

A1. Conflicts of Interest Policy

The Fund has published a conflict of interest policy which sets out:

- How it identifies potential conflicts of interest (including those set out in recommendation B1)
- How it ensures that understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- That the policy applies to officers, elected members, members of the local pension board and advisers and contractors;
- Systems, controls and processes for managing and mitigating conflicts of interest effectively;
- How it reviews the effectiveness of its conflict of interest policy and updates it as required;
- How it embeds a culture which supports the management and mitigation of conflicts of interest.

The Governance Compliance Statement includes a link to this policy.

A2. Conflicts of Interest Process

The fund embeds the management of conflicts of interest into its everyday processes. This includes:

- Providing regular training to members of the pension committee, pension board and officers on identifying and managing potential conflicts of interest;
- Ensuring a record is kept of situations where the Conflict of Interest Policy has been applied to mitigate or manage a potential conflict situation;
- Ensuring that a declaration of interests forms part of the agenda for all pension committee and pension board meetings and that an annual declaration of interests is completed;
- Ensuring actual and potential conflicts of interest are considered during procurement processes; and
- Ensuring that conflicts of interest form part of the Fund's suite of policies for example the Funding Strategy Statement and Administration Strategy.

A3. The Council as administering authority and employer

The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest. It is important that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all of the Fund's employers and scheme members are treated fairly and equitably.

The Fund achieves this in the following ways:

- The Funding Strategy Statement sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund actuary and is opened to consultation with all Fund employers before being formally adopted by the Pension Committee. The approach to contribution setting is based on specific employer characteristics such as its time horizon, strength of covenant and risk profile. This approach ensures a consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.
- The Fund also has an admissions policy which details its approach to admitting new employers to the Fund. This includes it approach to the use of guarantors, bonds and the setting of a fixed contribution rate for some employers. This policy, in conjunction with the Funding Strategy Statement, ensures a consistent approach when new employers are admitted in to the Fund.
- The Fund's administration strategy sets out the way in which the Fund works with its employers and the mutual service standards that are expected. The policy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. On occasions where an employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy also provides for that cost to be recovered from the employer in question. This policy has been opened to consultation with all the Fund's employers and is operated in a consistent fashion across all of the employer base.
- The pension fund is run for the benefit of its members and on behalf of all its employers. It is important therefore that the Fund's budget is set and managed separately from the expenditure of the Council. Decisions regarding pension fund resource are taken to the Pension Committee who then make recommendation to the S151 officer.

B Clarity of Roles and Responsibilities

B.1 Clear decision making

The Council's constitution and scheme of delegation set out the terms of reference for the Pension Committee.

The Pension Board's terms of reference and the membership and terms of reference for any sub-committees are also published.

The scheme of delegation is supported by:

- clearly documented role and responsibilities for the LGPS Senior Officer, S151 and pension fund officers / Head of Pension Fund; and
- a decision matrix which sets out the key decisions that are required to be made in the management of the Fund and the role that the main decision makers have in those decisions. The matrix sets out when an individual or body is responsible for a decision, accountable for a decision or where they must be consulted or informed of a decision.

On a regular basis the Fund's business processes are referenced against the decision matrix, to ensure that they properly reflect the correct responsibility and accountability.

The terms of references for the Committee & Board are publicly available and should be reviewed on a regular basis.

C Sufficiency of resources for service planning and delivery

In order to ensure that the Fund has the appropriate resource to deliver its statutory obligations it has adopted a 3 stage approach.

C.1 Business planning and budget setting

The Fund operates a 3 year business plan which sets out the priorities for the Fund's services. It is comprehensively reviewed, updated and agreed by the Pension Committee before the start of each financial year. If necessary, the plan is reviewed and updated on a more frequent basis. The business plan is publicly available.

The business plan takes into account the risks facing the Fund, performance of the Fund (including backlogs of work) and anticipated regulatory changes.

The business plan also includes the Fund's budget. Resource requirements (including staff recruitment, procurement and other specialist services) are determined by the requirements of the Fund's business plan.

The business plan also sets out the Key Performance Indicators (KPIs) which will be used to monitor progress against the business plan.

Progress against the business plan, including actual spend, is monitored by the Pension Committee on a regular basis and published in the Fund's annual report and accounts.

C.2 Service delivery

The Fund publishes an administration strategy which sets out how it will deliver the administration of the Scheme. The strategy includes:

- details of the structures and processes in place for the delivery of the pension administration function;
- expected levels of performance for the delivery of key Fund and employer functions;
- the Fund's approach to training and development of staff;

- the Fund's approach to the use of technology in pension administration.

C.3 Monitoring delivery and Control environment

The Fund recognises the importance of monitoring and reporting how it delivers progress against the business plan. This is done on the following ways:

- Performance against KPIs is reported to the Pension Committee and Pension Board on a regular and agreed basis. KPI performance is reported in the Fund's annual report. Plans to address any backlogs added to business planning process above.
- Every year the Fund's internal auditors carry out reviews to provide assurance that the Fund's processes and systems are appropriate for managing risks. The areas for review are agreed in advance with the Pension Committee and findings are reported to them.
- This year the internal audit also included an assessment of the Fund's performance against the requirements of The Pension Regulator's Code of Practice 14. The assessment recognised that the Fund is fully compliant in most areas but did make a number of suggestions about how the Fund could improve its internal controls for managing data. These suggestions have been adopted into the Fund's data improvement plan.
- Last year the Pension Board assisted the committee by undertaking an independent review of the sufficiency and appropriateness of the Fund's governance and operational resources. The review found that the Fund was for the most part properly resourced although the use of regular staff to tackle a backlog of aggregation cases was causing the backlog project to fall behind and having an adverse impact on business as usual. The review suggested procuring additional temporary resource in order to address the backlog issue.
- The Fund also participates in national benchmarking exercises which provides information on how costs, resource levels and quality of service compare with other LGPS funds and private sector schemes. The benchmarking did not identify any significant areas of concern.

D. Representation and engagement

The Fund has published a Policy on representation and engagement.

D.1 Representation on the main decision making body

The policy recognises all scheme members and employers should be appropriately represented in the running in the Fund while at the same time ensuring that the Council, as the body with ultimate responsibility for running the Fund, maintains a majority position on the key governance bodies. To this end the Fund's representation policy and the Council's constitution specify that the Council shall maintain a majority of voting members on the Pension Committee. The present Pension Committee is constituted as follows;

Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)

	Administering Authority / Employer / Member representative / Other	*Meeting Date*				Attendance (%)
		MM/YY	*MM/YY*	*MM/YY*	*MM/YY*	
Voting Members						
Cllr A (chair)	**Administering Authority**	**Y**	**N**	**Y**	**Y**	**75%**
Cllr B (vice-chair)	**Administering Authority**	**Y**	**Y**	**Y**	**Y**	**100%**
Cllr C	**Administering Authority**	**Y**	**N**	**Y**	**Y**	**75%**
Cllr D	**Administering Authority**	**N**	**Y**	**Y**	**N**	**50%**
Cllr E	**Administering Authority**	**Y**	**Y**	**Y**	**Y**	**100%**
F	**Employer representative**	**Y**	**Y**	**N**	**Y**	**75%**
G	**Member representative**	**N**	**Y**	**Y**	**Y**	**75%**
Vacancy		**N**	**N**	**N**	**N**	**0%**
Average attendance (including vacancies) %						**78%**
Average attendance (excluding vacancies) %						**69%**
Proportion of voting members not from the Administering Authority						**2 out of 7 (28%)**
Non-Voting Members						
H	**Member representative**	**Y**	**Y**	**Y**	**N**	**75%**
I	**Member representative**	**Y**	**Y**	**Y**	**Y**	**100%**

D.2 Membership of the Local Pension Board

The Local Pension Board is constituted as follows;

- 4 employer representatives comprising;
  - 2 elected members of the Council
  - 1 elected member of the District Council
  - 1 member representing all other employers
- 4 scheme member representatives comprising;
  - 1 member appointed by trade unions
  - 3 members representing active, deferred and pensioner Scheme members (to be appointed by an open election process)
- 1 independent chair

With the exception of the Chair, all members are full voting members.

The Pension Board has an independent adviser.

D.3 Engagement with employers

The Fund carries out a range of activities that are designed to engage employers. These are set out within the Fund's Communication strategy and include:

- An Annual Employer Forum which provides an opportunity for employers to receive an update on the performance of the Fund, provide feedback on the service and receive updates on the LGPS and related issues;

- The Fund engages and consults with employers during the actuarial valuation and specifically on key strategies such as the Funding Strategy Statement;
- A quarterly employer newsletter provides update on technical changes, process reminders and a calendar of key upcoming dates;
- Training sessions which can be provided on request covering the main areas of employer responsibility, for example year end returns, processing ill health cases and internal dispute resolution procedures; and
- The Fund is available to provide support on issues such as outsourcing services or workforce restructuring.

D.4 Engagement with members

The Fund's Communication Strategy sets out how it engages with active, deferred and pensioner scheme members including:

- The Fund maintains a website which provides general advice, information and updates including copies of all current policies.
- Members have secure online access to their own pension records in order to run retirement estimates.
- Member's annual benefit statements are available online or in writing (including large text) on request.
- Scheme members are able to arrange one to one appointments, by phone or at our offices, with members of the pension team to discuss specific matters.

E. Training

E.1 Training Strategy

The Fund has adopted a training strategy which establishes how members of the Pension Committee, Pension Board and Fund officers will attain the knowledge and understanding they need to be effective and to challenge and act effectively within the decision making responsibility placed upon them. The training strategy sets out how those involved with the Fund will:

- Have their knowledge assessed; and
- Receive appropriate training to fill any knowledge gaps identified.

The Fund will measure and report on progress against the training plans.

E.2 Evidencing standards of training

Details of the training undertaken by members of the Pension Committee and Pension Board are reported in the Fund's annual report and in this statement.

Committee and Board members' subject knowledge is assessed on an annual basis. The results are analysed and any gaps identified are addressed as part of the ongoing training plans.

Targeted training will also be provided that is timely and directly relevant to the Pension Committee and Board's activities as set out in the business plan.

Officers involved in the management and administration of the Fund are set annual objectives which will include an element of personal development. These objectives are monitored as part of each individual's annual appraisal.

The CIPFA requirement for continuous professional development for s151 officers now includes a regular LGPS element. This requirement applies to the s151 officer for the Council as well as the district and borough councils within the Fund. The fund has complied fully with this requirement.

Pensions Committee – Training for Financial Year YYYY/YY

Training Completed (hours)		***Subject***				**Total (hours)**
		Governance	***Investment***	***Pensions Administrati***	***Other (specify)***	
Pensions Committee						
Cllr A (chair)		**2**	**5**	**1**	**1**	**9**
Cllr B (vice-chair)		**2**	**4**	**1**	**1**	**8**
Cllr C		**4**	**5**	**2**	**2**	**13**
Cllr D						
Cllr E						
F						
G						
Vacancy						
					Sub-Total	**130**
Pensions Board						
R (chair)		**2**	**5**	**1**	**1**	**9**
S (vice-chair)		**2**	**4**	**1**	**1**	**8**
T		**4**	**5**	**2**	**2**	**13**
U						
V						
W						
X						
					Sub-Total	**100**
Officers						
LGPS Senior Officer		**6**	**8**	**3**	**4**	**9**
X						
Y						
Z						

Appendix 3 - KPI Reporting

This appendix includes example tables for reporting committee structure and training KPIs.

Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)

	Administering Authority / Employer / Member representative / Other	*Meeting Date*				Attendance (%)
		MM/YY	*MM/YY*	*MM/YY*	*MM/YY*	
Voting Members						
Cllr A (chair)	**Administering Authority**	Y	N	Y	Y	75%
Cllr B (vice-chair)	**Administering Authority**	Y	Y	Y	Y	100%
Cllr C	**Administering Authority**	Y	N	Y	Y	75%
Cllr D	**Administering Authority**	N	Y	Y	N	50%
Cllr E	**Administering Authority**	Y	Y	Y	Y	100%
F	**Employer representative**	Y	Y	N	Y	75%
G	**Member representative**	N	Y	Y	Y	75%
Vacancy		N	N	N	N	0%
Average attendance (including vacancies) %						78%
Average attendance (excluding vacancies) %						69%
Proportion of voting members not from the Administering Authority						2 out of 7 (28%)
Non-Voting Members						
H	**Member representative**	Y	Y	Y	N	75%
I	**Member representative**	Y	Y	Y	Y	100%

Pensions Committee – Meeting Content (Governance KPI 7)

			Meeting Date				Number of times item considered
			MM/YY	*MM/YY*	*MM/YY*	*MM/YY*	
		Meeting duration (hours)	3.0	2.5	4.0	2.5	
Governance							
	Declaration of Conflicts of Interest		X	X	X	X	4
	Policies/Strategies			X	X		2
	Business Planning					X	1
	Budget setting					X	1
	Annual report and accounts			X			1
	Governance Compliance Statement			X			1
	Audit matters (internal/external)		X	X	X		3
	Risk Register		X	X	X	X	4
	Business Continuity			X			1
	Data Security				X		1
	Breaches		X	X	X	X	4
	Regulatory Update			X		X	2
	Update from Pension Board		X				1
	Pool Governance issues			X		X	2
	Review of Effectiveness		X				1
	Training		X		X		2
	Other [to be specified]						
Funding							
	Actuarial Valuations		X	X			2
	Funding Strategy Statement		X	X			2
	Interim Funding Update				X	X	2
	Other [to be specified]						
Investment							
	Strategy review				X		
	Policies/Strategy (Investment Strategy Statement, Responsible Investment)				X	X	
	Strategy implementation - Asset Pooling - Investment manager appointments		X		X	X	3
	Monitoring of investments - Market update - Investment managers - Performance		X	X	X	X	4
	Other [to be specified]						
Pensions Administration							
	Administration Strategy					X	1
	Communications Strategy						0
	Performance Indicators		X	X	X	X	4
	Updates on Projects			X		X	2
	Other [to be specified]						

Appendix 4 - Summary of the Independent Governance Review

Annually, each administering authority to produce a governance compliance statement signed by the senior LGPS officer and S151 which demonstrates compliance with LGPS

Biennially, each administering authority to commission an Independent Governance Review (IGR).

IGR reports to senior LGPS officer, pensions committee and pensions board.

IGR report goes to a SAB panel of experts for assessment. Panel could request further details of improvement plans, make recommendations or report to TPR & MHCLG

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Agenda Item 15

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Agenda Item 17

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