



Pension Fund Committee

Date **Tuesday 4 December 2012**
Time **10.00 am**
Venue **Committee Room 2, County Hall, Durham**

Business

Part A

1. Declarations of interest (if any)
2. The Minutes of the Meeting held on 4 September 2012 (Pages 1 - 6)
3. Graphs showing recent movements of the Stock and Share Indices (Pages 7 - 14)
4. Graphs showing recent movements of the Major Currencies against Sterling (Pages 15 - 20)
5. Performance Management Report (Pages 21 - 30)
6. Pension Fund Investments (Pages 31 - 36)
7. Record Keeping - Pensions Regulator Best Practice Guidelines (Pages 37 - 40)
8. Terms of Reference (Pages 41 - 50)
9. Local Government Pension Scheme: Investment in Partnerships - CLG Consultation (Pages 51 - 82)
10. Short Term Investments for the Period Ended 30 September 2012 (Pages 83 - 84)

11. Annual Governance Report for the Year Ended 31 March 2012 (Pages 85 - 116)
12. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration
13. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)

14. The Minutes of the Meeting held on 4 September 2012 (Pages 117 - 126)
15. Report of the Pension Fund Advisor (Pages 127 - 136)
16. Report of BlackRock (Pages 137 - 150)
17. Report of AllianceBernstein (Pages 151 - 166)
18. Report of CBRE Global Investors (Pages 167 - 174)
19. Report of Royal London Asset Management (Pages 175 - 230)
20. Report of Barings Asset Management (Pages 231 - 238)
21. Transition Manager Post Trade Report (Pages 239 - 256)
22. Verbal Update on the Review of Pension Fund Arrangements
23. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Colette Longbottom
Head of Legal and Democratic Services

County Hall
Durham
26 November 2012

To: The Members of the Pension Fund Committee

County Council Members:

Councillors Andy Turner, N Martin, C Carr, J Chaplow, A Hopgood, P Jopling, J Lethbridge, D Morgan, R Ord, G Richardson and R Todd

Darlington Borough Council Members

Councillor I G Haszeldine
(vacancy)

Scheduled Bodies Representative

Mr D Sanders

Admitted Bodies Representative:

Mr K Tallintire

Pensioner Representative

Mrs O Brown

Active Members Representative

(vacancy)

Further Education Colleges Representative

(vacancy)

Advisers:

County Council Officers

Chief Executive	G Garlick
Corporate Director, Resources	D McLure
Head of Legal and Democratic Services	C Longbottom
Strategic Finance Manager – Corporate Finance	H Appleton

Independent Advisers

P J Williams
R Bowker

Investment Managers

BlackRock
AllianceBernstein
CBRE Global Investors
Royal London Asset Management
Barings

Staff Observors

UNISON	N Hancock
GMB	

Contact: Jill Errington

Tel: 03000 269703

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Committee Room 2 - County Hall, Durham on **Tuesday 4 September 2012 at 10.00 am**

Present:

Councillor N Martin (Chair)

Members of the Committee:

Councillors C Carr, J Chaplow, A Hopgood, P Jopling, J Lethbridge, D Morgan, R Ord, G Richardson and R Todd

Apologies:

Apologies for absence were received from Councillors Andy Turner and Olive Brown

Admitted Bodies Representative

Mr K Tallintire

Also Present:

H Appleton – Strategic Finance Manager – Corporate Finance

B Smith – Litigation Manager

N Orton – Payroll and Pensions Manager

A Wallage – Internal Audit and Risk Manager

R Auty – PwC

Independent Advisers:

P Williams – P J Williams

R Bowker – PSolve

D Banks - PSolve

1 Declarations of interest (if any)

Councillor Carr declared a personal but not prejudicial interest in Agenda item numbered 10 as he was a Member of Audit Committee.

2 The Minutes of the Meeting held on 14 June 2012

The Minutes of the Meeting held on 14 June 2012 were agreed as a correct record and were signed by the Chairman.

3 Graphs showing recent movements of the Stock and Share Indices

Consideration was given to graphs showing recent movements in the Stock and Share Indices (for copy see file of Minutes).

Resolved:

That the information given be noted.

4 Performance Management Report - Quarter Ended 31 March 2012

Consideration was given to the report of the Corporate Director, Resources which provided an overview of the Pension Fund up to 31 March 2012 (for copy see file of Minutes).

The report gave details of the performance of the Investment Managers against benchmarks.

Resolved:

That the information given be noted.

5 Performance Management Report - Quarter Ended 30 June 2012

Consideration was given to the report of the Corporate Director, Resources which provided an overview of the Pension Fund up to 30 June 2012 (for copy see file of Minutes).

The report gave details of the performance of the six Investment Managers against benchmarks.

Resolved:

That the information given be noted.

6 Pension Fund Investments

Consideration was given to the report of the Corporate Director, Resources which gave details of the overall value of the Pension Fund as at 30 June 2012, of the additional sums available to the Managers for further investment or amounts to be withdrawn from Managers (for copy see file of Minutes).

Members were advised of amendments to the figures relating to the Value of the Fund; as at 30 June 2012 the Value of the Fund was £1,827,960,000. At 31 March 2012 it was £1,862,810,000 a decrease of £38,850,000 in the quarter.

For the reasons outlined in the report it was recommended that no money be added to the sums to be allocated to the Managers for investment in the quarter. Normally Fund Rebalancing took place on a quarterly basis but it had been suspended until the results of the Strategy Review were put into operation.

The report also gave details of the forecasted cash flow for the Pension Fund for 2012/2013 and the assumptions used to calculate this.

In response to a question, Members were advised that whilst information relating to projected retirements for other employing Authorities was not available Durham County Council as the largest employer would have the greatest impact on the Fund's spend.

Resolved:

That the information given be noted and no further allocation of cash be made to Managers.

7 Pension Fund Policy Documents - Funding Strategy Statement and Statement of Investment Principles

Consideration was given to the report of the Corporate Director, Resources which informed Members of the results of the consultation on the policy documents for the year ended 31 March 2012 (for copy see file of Minutes).

Members were advised that as the review of the Pension Fund's arrangements continued and due to changes in Regulations, the documents would be updated further as required.

In response to a question Members were advised that to date no admission bodies had given notice however Members would be informed if action was to be taken to recover assets when any admitted bodies ceased to exist.

Resolved:

That the comments from the consultees be noted and the revised Funding Strategy Statement and Statement of Investment Principles be accepted for publication on the Council's website.

8 Local Government Pension Scheme (Miscellaneous) Regulations 2012

Consideration was given to the report of the Corporate Director, Resources which gave details of changes to be made to the regulations governing the Local Government Pension Scheme by the latest set of amending regulations, the Local Government Pension Scheme (Miscellaneous) Regulations 2012 (for copy see file of Minutes).

In response to a question Nick Orton advised that the accrued pension contributions from those NHS employees who joined the Local Government Pension Scheme would be transferred to the Durham Fund.

Resolved:

That the information given be noted.

9 Local Government Pension Scheme 2014

Consideration was given to the report of the Corporate Director, Resources which provided an update on the latest position on proposals to reform the Local Government Pension Scheme (for copy see file of Minutes).

Nick Orton advised that since the report had been circulated all Trade Unions had voted to accept the proposals.

A Member stated that the main provisions of the scheme should be publicised with particular reference made to the percentage of full time and part time employees who would benefit from the proposals.

Resolved:

That the information given be noted.

10 Statement of Accounts for the Year Ended 31 March 2012

Consideration was given to the report of the Corporate Director, Resources which presented the Pension Fund Accounts for the year ended 31 March 2012 and advised of any significant issues arising from the accounts (for copy see file of Minutes).

The Audit Commission produced an Interim Governance Report for the Pension Fund and this was attached to the report for information.

The Statement of Accounts would be submitted to Audit Committee for approval at the end of September 2012.

Resolved:

That the information given be noted.

11 Short Term Investments for the Year Ended 31 March 2012

Consideration was given to the report of the Corporate Director, Resources which gave details of the Pension Fund's short term investments for the period ended 31 March 2012 (for copy see file of Minutes).

Resolved:

That the year end position of the Pension Fund's short term investments for 2011/2012 be noted.

The Chairman agreed that in order to seek the views of the Committee the next item of business could be reported.

12 National Association of Pension Funds

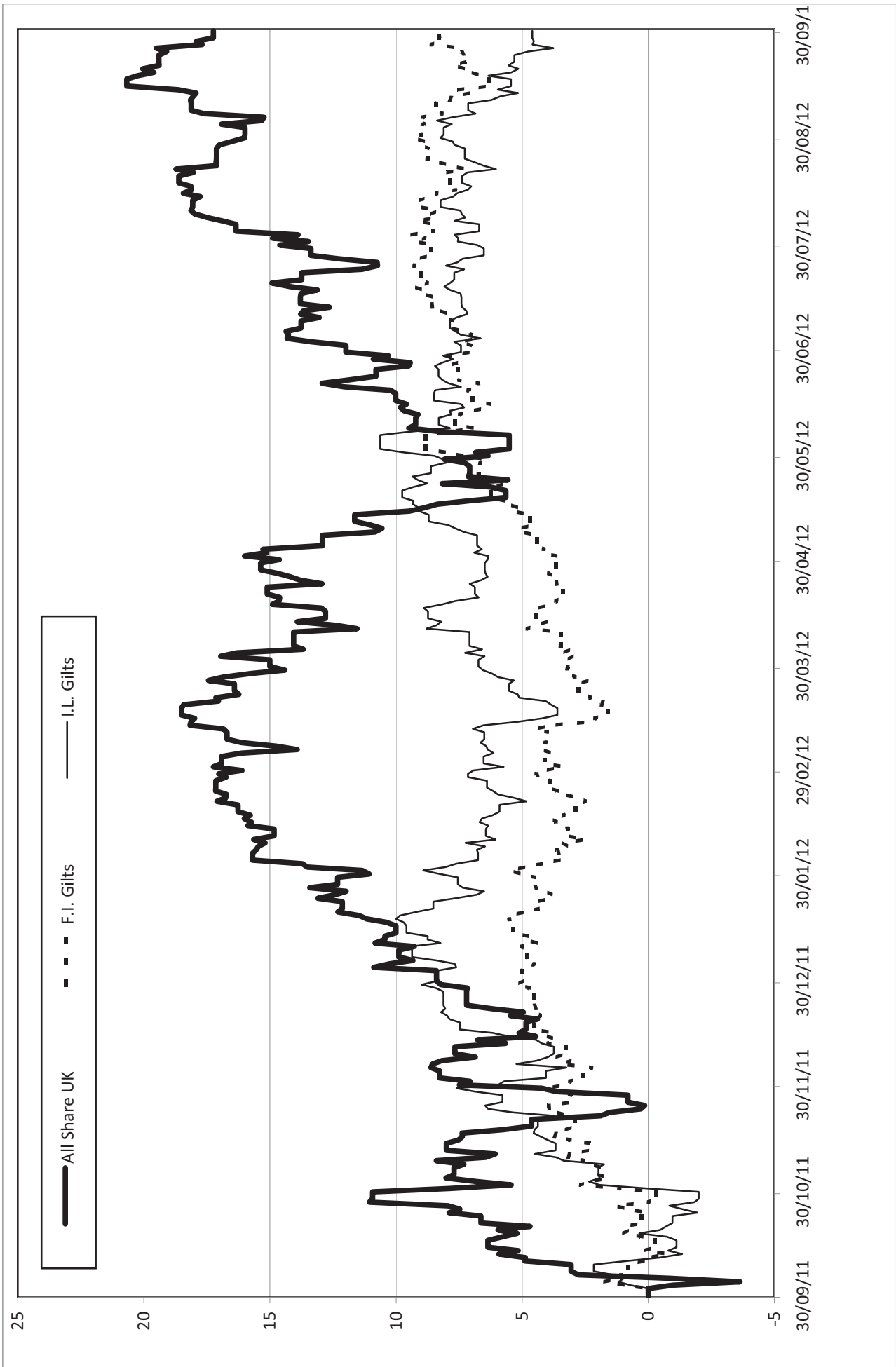
The Chairman reported that in his capacity as Vice-Chair of the Pension Fund Committee the National Association of Pension Funds had communicated with him directly on matters within the remit of the Pension Fund Committee.

Resolved:

That the Vice-Chair of the Committee be authorised to respond to correspondence from the National Association of Pension Funds as appropriate.

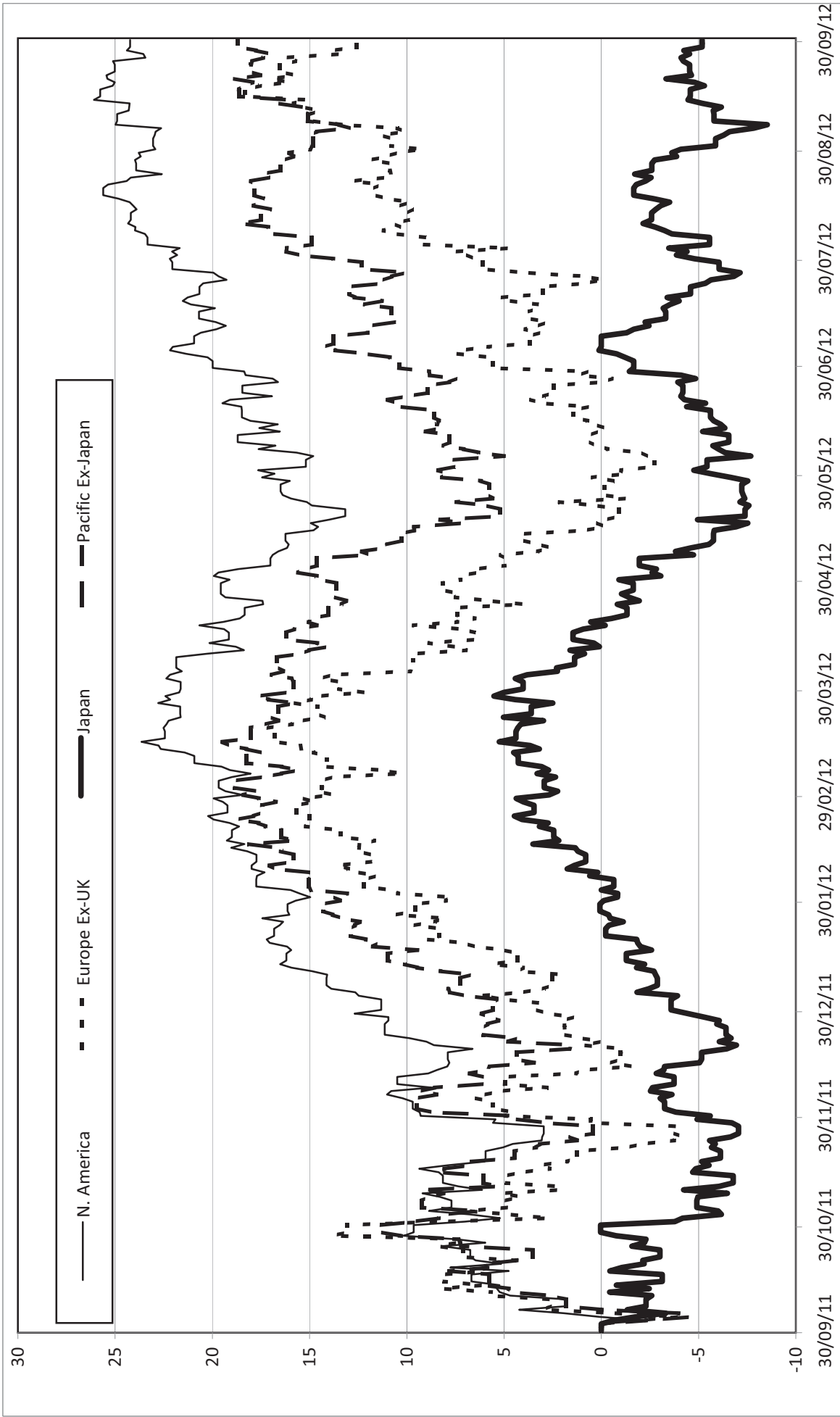
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UK Markets



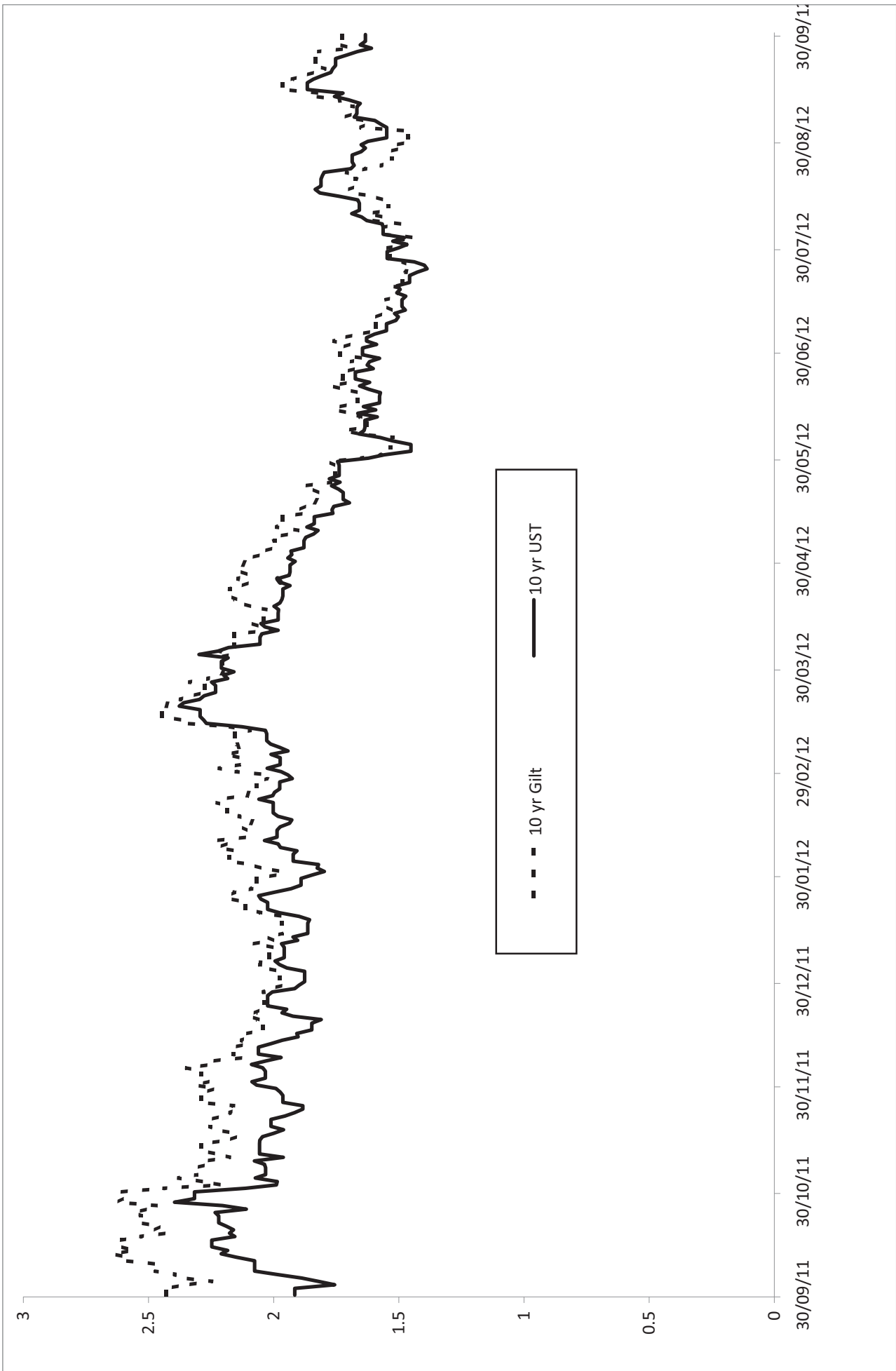
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Overseas Equity Markets



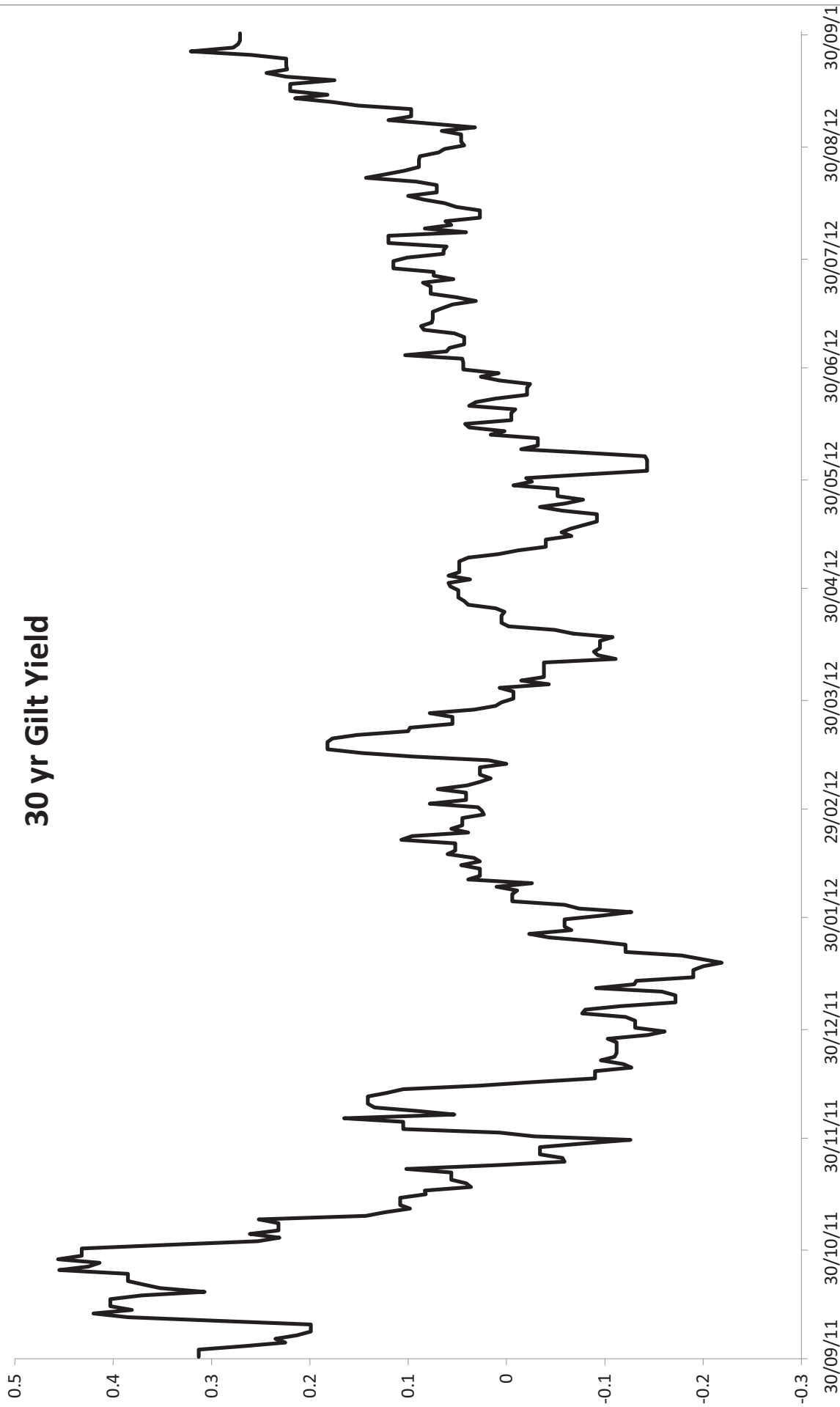
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10 Year Govt. Bond Yields

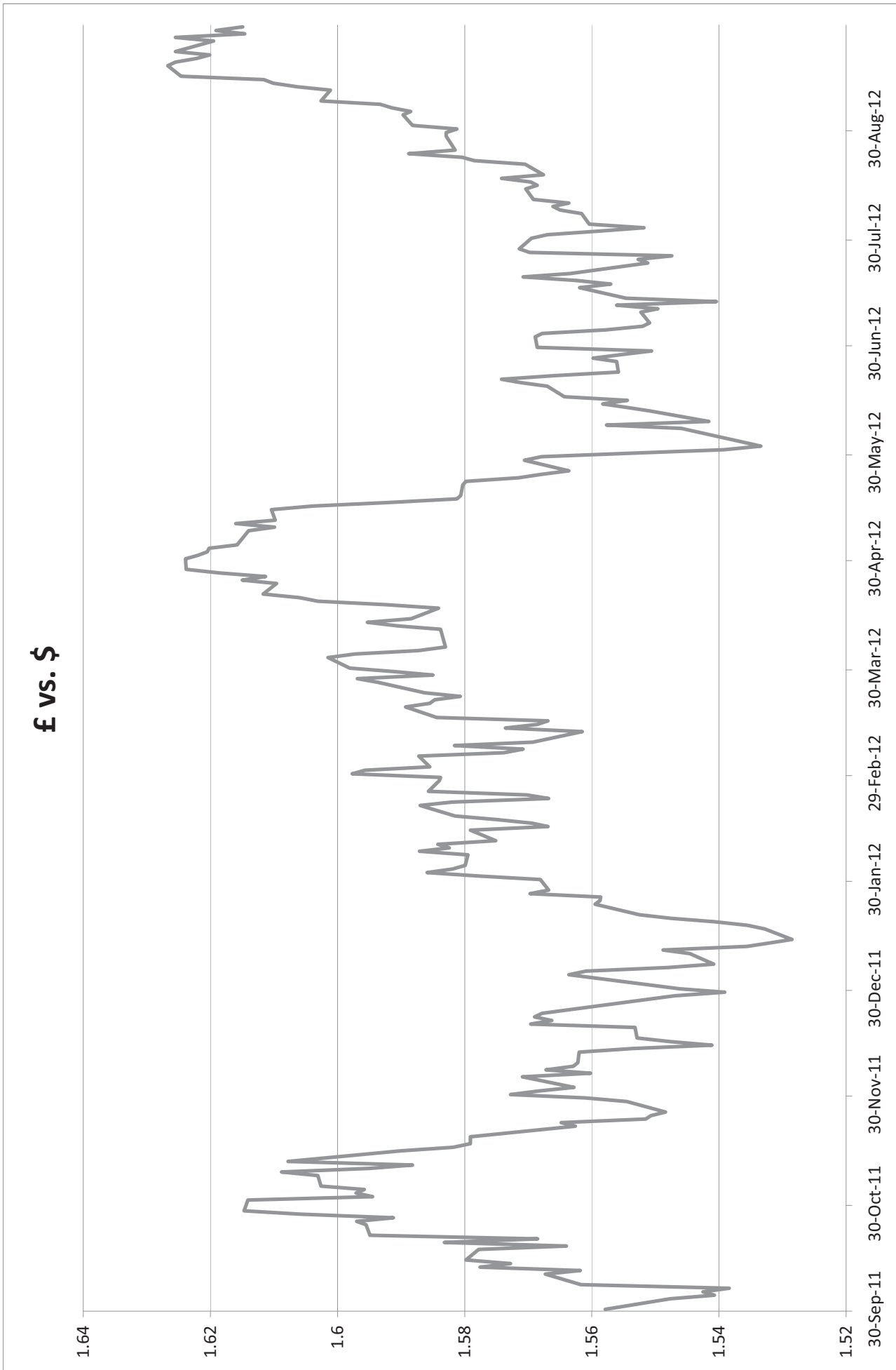


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30 yr Gilt Yield

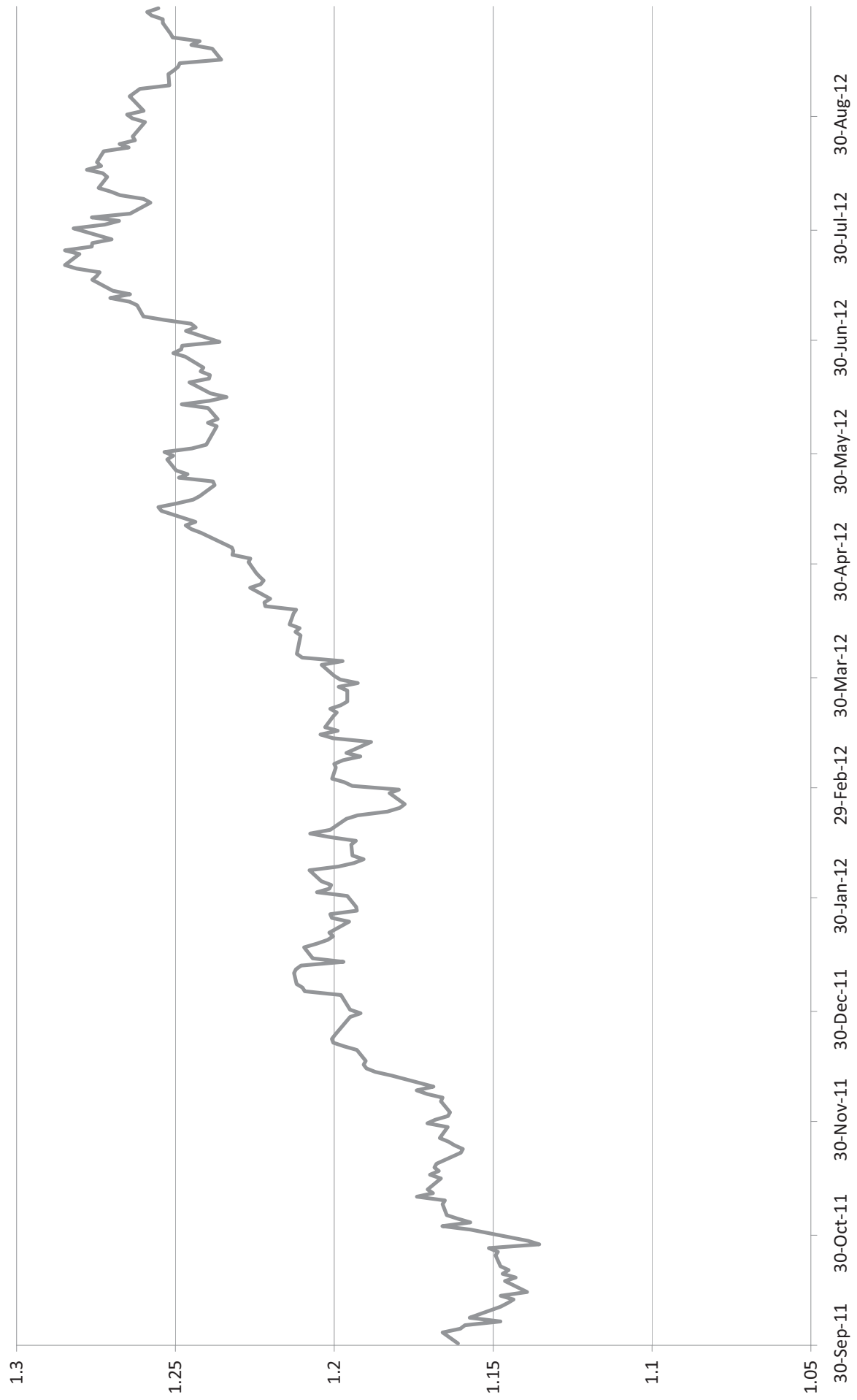


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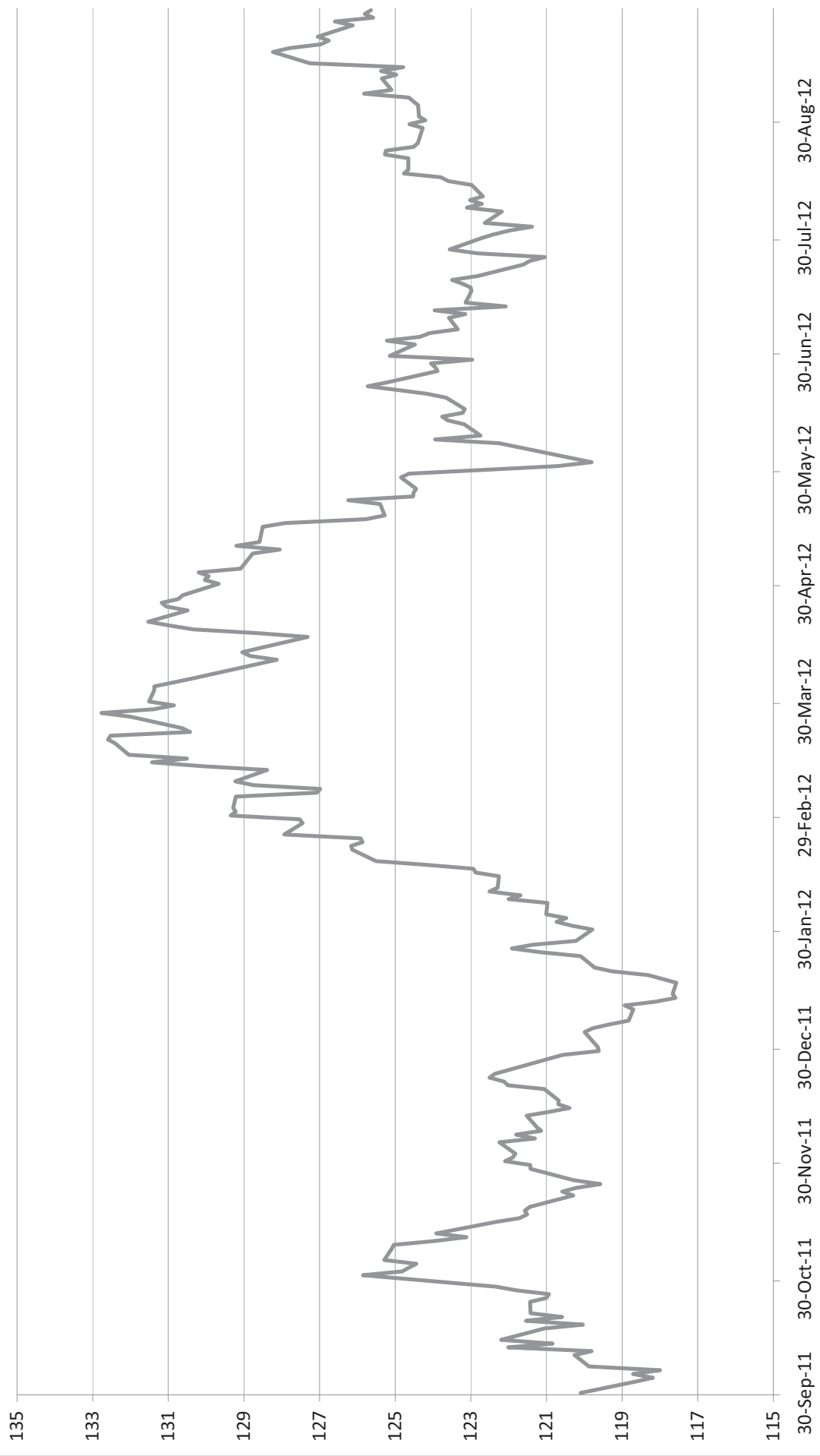
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£ vs. €



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£ vs. Yen



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Performance Management Report

Don McLure, Corporate Director Resources

Purpose of the Report

- 1 The purpose of the report is to provide an overview for Members of the performance of the Fund up to 30 September 2012.

Background

- 2 The performance of the five Managers is measured against personalised benchmarks chosen at the inception of the Fund. The attached report from JPMorgan, the Fund's custodian, shows:-
 - (a) The Managers benchmarks.
 - (b) The total Fund performance, for the quarter, year to date and since inception.
 - (c) The Managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter, year to date and since inception.
 - (d) A portfolio comparison for the quarter ended 30 September 2012 and for the period since inception.

Recommendation

- 3 Members note the information contained in this report.

Contact: Hilary Appleton Tel: 03000 266239

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J.P.Morgan

Worldwide Securities Services

**Performance Measurement Report
for
Durham County Council Pension Fund**

*for period ending
September 30, 2012*

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Benchmark Association Table

PORTFOLIO	INDEX	TARGET	WEIGHT %
Edinburgh Partners	MSCI AC World Index (Gross)	+3% pa	100.00
Blackrock	FTSE All Share (Gross)	+3% pa	100.00
Blackrock Passive Equity	FTSE-Ftse Aw Developed (Gross)	Not Applicable	100.00
Alliance Berstein	GBP Libor (3 month)	+3% pa	100.00
Royal London	FTSE index Linked >5 years	+0.5% pa	100.00
Barings	GBP Libor (3 month)	+4% pa	100.00
CBRE 1	Headline RPI	+5% pa	100.00
CBRE 2	Headline RPI	+5% pa	100.00
Re Alliance Berstein PPIP	GBP Libor (3 month)	+3% pa	100.00
Total Plan Composite	Manager Weighted Benchmark	Not Applicable	100.00

Executive Summary of Total Plan as at 30/09/2012

Overview

During the quarter the total market value of the Durham County Council Pension Plan increased by +£30.7m to £1,858.65m. There were no significant contributions or withdrawals from the plan.

The performance return for the Plan over the third quarter of 2012 was +1.67%, compared to the Plan benchmark return of +1.59%. The Plan therefore outperformed the benchmark by +0.08%.

Equity markets were up over this quarter with the FTSE All Share (+3% pa) rising +5.48% and the FTSE Aw Developed also up by +3.86% in Sterling terms. Index Linked bonds were down with the FTSE index linked over 5 years index (+0.5% pa) decreasing by -3.04%.

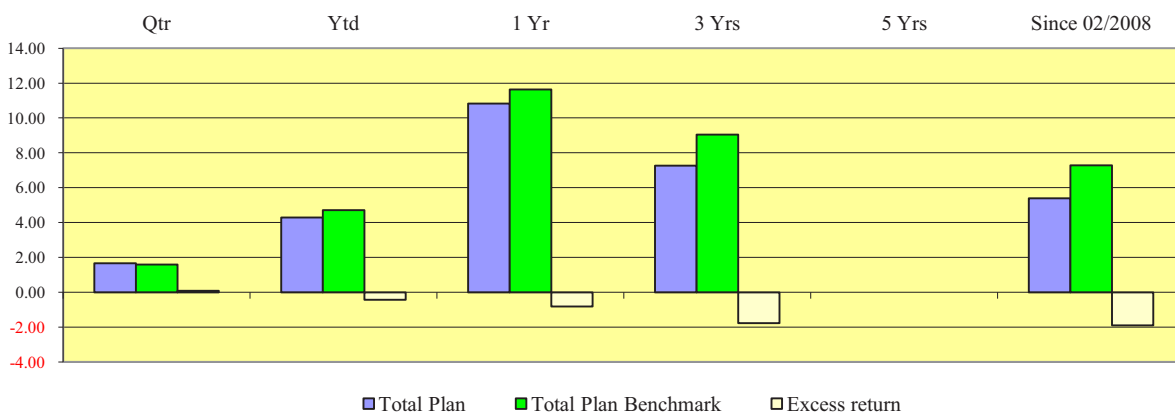
Market Values

	In GBP mil's			
	Qtr 3 - 12	Qtr 2 - 12	Qtr 1 - 12	Qtr 4 - 11
Total Plan	1,858.65	1,827.96	1,862.81	1,796.67

Performance

	Performance (%) *					
	Qtr	Ytd	1 Yr	3 Yrs	5 Yrs	Since 02/2008
Total Plan	1.67	4.28	10.83	7.3	-	5.39
Total Plan Benchmark	1.59	4.71	11.64	9.0	-	7.28
<i>Excess return</i>	<i>0.08</i>	<i>-0.43</i>	<i>-0.81</i>	<i>-1.78</i>		<i>-1.89</i>

Total Plan Performance

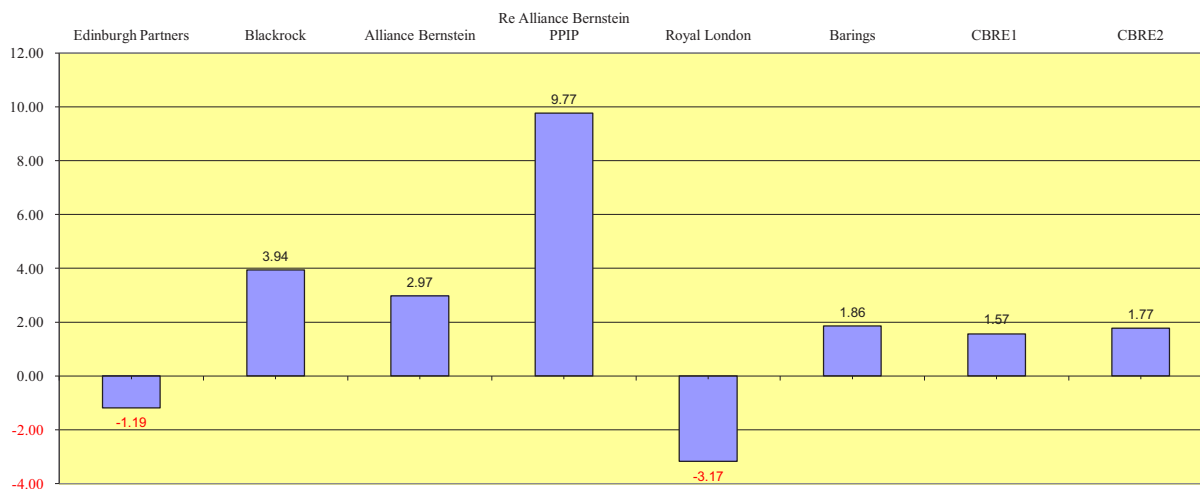


Total Plan Performance Returns as at 30/09/12

Currency GBP	Mkt. Val. in Mil's	Performance (%) *					
		Qtr	Ytd	1 Year	2 Years	3 Years	Since 02/2008
Total Plan	1858.7	1.67	4.28	10.83	5.74	7.26	5.39
Total Plan Benchmark		1.59	4.71	11.64	8.00	9.04	7.28
<i>Excess return</i>		0.08	-0.43	-0.81	-2.25	-1.78	-1.89

	Mkt. Val. in Mil's	Qtr	Ytd	1 Year	2 Years	3 Years	Since 02/2008
Edinburgh Partners	0.3	-1.19	0.89	7.51	-0.32	0.61	2.14
Zero Return - Historically MSCI AC World Index (Gross) +3% pa		-0.35	6.22	15.10	6.43	8.86	7.16
<i>Excess return</i>		-0.84	-5.33	-7.59	-6.75	-8.25	-5.02
Blackrock	397.3	3.94	8.45	18.26	6.62	11.01	5.04
FTSE All Share (Gross) +3% pa		5.48	10.86	21.06	9.31	11.45	7.00
<i>Excess return</i>		-1.54	-2.40	-2.80	-2.69	-0.44	-1.96
Blackrock (Passive Equity)	526.2	3.89	-	-	-	-	2.26
FTSE-Ftse Aw Developed (Gross)		3.86	-	-	-	-	2.43
<i>Excess return</i>		0.03	-	-	-	-	-0.17
Alliance Bernstein	290.3	2.97	6.91	8.27	4.73	6.17	4.88
GBP Libor +3% pa		0.92	2.95	3.97	3.89	3.82	4.79
<i>Excess return</i>		2.05	3.96	4.29	0.84	2.35	0.09
Re Alliance Bernstein PPIP	0.6	9.77	32.45	24.88	11.15	-	16.26
GBP Libor +3% pa		0.92	2.95	3.97	3.89	-	3.83
<i>Excess return</i>		8.85	29.50	20.90	7.26	-	12.43
Royal London	363.4	-3.17	-3.91	5.74	9.63	9.90	8.04
FTSE index Linked >5 years +0.5% pa		-3.04	-3.96	5.55	9.87	9.93	7.85
<i>Excess return</i>		-0.13	0.05	0.19	-0.24	-0.03	0.19
Barings	152.0	1.86	4.46	6.85	4.95	6.86	7.18
GBP Libor +4% pa		1.17	3.70	4.98	4.90	4.83	5.80
<i>Excess return</i>		0.69	0.77	1.87	0.05	2.03	1.37
CBRE1	101.0	1.57	5.51	7.67	8.34	9.26	-1.76
Headline RPI +5% pa		2.23	5.80	7.78	9.30	9.48	8.34
<i>Excess return</i>		-0.66	-0.29	-0.11	-0.96	-0.23	-10.11
CBRE2	26.7	1.77	12.86	19.41	3.58	7.93	2.31
Headline RPI +5% pa		2.23	5.80	7.78	9.30	9.48	8.34
<i>Excess return</i>		-0.45	7.06	11.63	-5.72	-1.55	-6.03

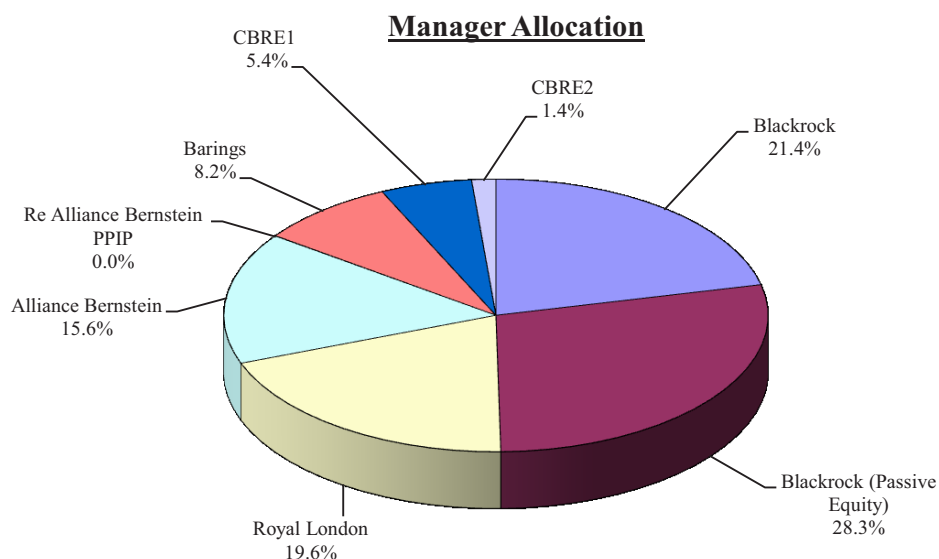
Manager Quarterly Returns



*All Portfolio and Composite returns are Gross of Fees. For time periods in excess of 1 year the performance returns are annualised.

Portfolio Comparison for Quarter 3, 2012

Portfolio Name	Current Market Value	Portfolio Weight	Portfolio Return (%)	Benchmark Return (%)	Excess Return (%)	Current Contribution to Return
Total Plan	1,858,653,220	100.00%	1.67	1.59	0.08	
Edinburgh Partners	259,240	0.01%	(1.19)	(0.35)	(0.84)	(0.26)
Blackrock	397,277,277	21.37%	3.94	5.48	(1.54)	0.82
Blackrock (Passive Equity)	526,232,986	28.31%	3.89	3.86	0.03	0.87
Royal London	363,418,522	19.55%	(3.17)	(3.04)	(0.13)	(0.65)
Alliance Bernstein	290,342,385	15.62%	2.97	1.17	1.80	0.43
Re Alliance Bernstein PPIP	643,629	0.03%	9.77	0.92	8.85	0.10
Barings	152,047,336	8.18%	1.86	1.17	0.69	0.15
CBRE1	101,030,533	5.44%	1.57	2.23	(0.66)	0.09
CBRE2	26,656,565	1.43%	1.77	2.23	(0.45)	0.03
JPMSL Transition Account	714,605	0.04%	(5.75)	-	-	(0.28)
Transition Account	30,142	0.00%	8.88	-	-	0.37



Portfolio Comparison for Year to Date, 2012

Portfolio Name	Current Market Value	Portfolio Weight	Portfolio Return (%)	Benchmark Return (%)	Excess Return (%)	Current Contribution to Return
Total Plan	1,858,653,220	100.00%	4.28	4.71	(0.43)	
Edinburgh Partners	259,240	0.01%	0.89	6.22	(5.33)	0.56
Blackrock	397,277,277	21.37%	8.45	10.86	(2.40)	1.62
Blackrock (Passive Equity)	526,232,986	28.31%	-	-	-	0.73
Royal London	363,418,522	19.55%	(3.91)	(3.96)	0.05	(0.87)
Alliance Bernstein	290,342,385	15.62%	6.91	3.70	3.21	0.99
Re Alliance Bernstein PPIP	643,629	0.03%	32.45	2.95	29.50	0.33
Barings	152,047,336	8.18%	4.46	3.70	0.77	0.37
CBRE1	101,030,533	5.44%	5.51	5.80	(0.29)	0.27
CBRE2	26,656,565	1.43%	12.86	5.80	7.06	0.19
JPMSL Transition Account	714,605	0.04%	-	-	-	(0.28)
Transition Account	30,142	0.00%	-	-	-	0.37

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Pension Fund Committee

4 December 2012

Pension Fund Investments



Don McLure, Corporate Director Resources

Purpose of the Report

1. The purpose of the report is to inform Members of the overall value of the Pension Fund as at 30 September 2012 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.

Value of the Fund

2. Reports from the six appointed Managers:
 - Alliance Bernstein
 - Barings
 - Black Rock
 - CBRE
 - Edinburgh Partners and
 - Royal London

are included in the papers, but for information, the Value of the Fund as at 30 September 2012 was £ 1,858,700,000 . The Value of the Fund at 30 June was £1,827,960,000, an increase of £ 30,740,000 in the quarter.

Allocation of New Money

3. Table 1 details the working cash balance position of the Fund, cash flow for the last four quarters, and an estimated cash flow for the quarter ending 31 December 2012. This table includes only cash held by Durham County Council Pension Fund Bank Account. It does not include cash balances held by the Managers of £18,877,602.
4. In determining the amount of cash to be allocated to Managers at the quarter ended 30 September, the un-invested cash balance at the end of the previous quarter, together with interest received in that quarter, is considered. This does not include cash currently held by Fund Managers.
5. The amount allocated to each Manager is subject to the need to retain money, in the Durham County Council Pension Fund Bank account to meet the Fund's net cash outflow. After taking these issues into account, it is recommended that no money be added to the sums to be allocated to the Managers for investment in the quarter.

Fund Rebalancing

6. Normally Fund Rebalancing takes place on a quarterly basis, but, it has been suspended until the results of the Strategy Review are put into operation.

Cash Flow Forecast 2012/13

7. Table 2 shows the forecasted cash flow for the Pension Fund for 2012/13.
8. The table shows that the Pension Fund Bank Account is estimated to be in deficit in each quarter of the year. However, it should be noted that this is only in respect of the bank account held by the Pension Fund; income received from investments is currently held by Managers. When this is taken into account, the Pension Fund has a positive cash flow.
9. The quarterly rebalancing exercise will be the mechanism by which cash can be moved from Managers to the Pension Fund if the assumptions that have been used in calculating the forecasted cash flow are realised.
10. The assumptions which have been used to calculate the cash flow forecast are:
 - Income for 2012/13 estimated at £35m based on last year's actual figures to March 2012.
 - Income is profiled to be received in the same pattern as last year i.e.
 - Quarter ended 30 June 34%
 - Quarter ended 30 Sept 27%
 - Quarter ended 31 Dec. 18% and
 - Quarter ended 31.Mar. 21%.
 - Increases in contributions in line with the Actuarial Valuation are included.
 - 'Transfers in' estimated at £1m per quarter. It is anticipated that transfers in will continue as LGPS will remain relatively attractive to employees.
 - Pensions increase will be at broadly the same level as 2011/12.
 - Payroll Paysheets are forecast to increase by £100,000 per quarter. This is the line that records payments to pensioners. This line will alter if there are large numbers of retirements in the employing authorities, but it is anticipated that as the County Council's position has been taken into account, as the largest employer in the Fund, this should not be materially different to forecast.
 - Payable Paysheets are forecast at a constant level throughout the year, but this can be the most volatile line. Included in this line are Fund Managers' fees and payments of lump sums. The assumption

here errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.

11. This is an early indication of the likely impact on the Pension Fund's cash flow forecast which will be reviewed each quarter and refined to take into account new information as it becomes available.

Recommendation

12. Members are asked to note the information contained in this report and it is recommended that no further allocation of cash be made to Managers.

Contact: Hilary Appleton Tel: 03000 266239

Cash Flow – Estimated and Actual for the period 31 December 2011 to 31 December 2012

Quarter Ended (1)	31.12.11		31.03.12		30.06.12		30.09.12		31.12.12
	Estimate (2)	Actual (3)	Estimate (4)	Actual (5)	Estimate (6)	Actual (7)	Estimate (8)	Actual (9)	Estimate (10)
	£	£	£	£	£	£	£	£	£
Contributions - DCC	16,653,000	16,562,149	16,600,000	16,011,611	16,600,000	14,486,382	18,306,382	18,136,224	16,400,000
- Other	6,500,000	6,945,284	8,600,000	8,682,517	6,900,000	6,818,377	6,700,000	7,038,163	6,800,000
Pensions Increase	1,130,000	1,210,532	1,200,000	1,230,612	1,200,000	1,215,541	1,200,000	1,210,577	1,200,000
Transfer Values	1,500,000	2,698,949	2,000,000	2,302,354	1,200,000	1,317,438	1,000,000	1,607,552	1,000,000
Month end uncleared items	300,000	446,666	900,000	1,422,165	900,000	866,934	1,000,000	1,338,851	1,000,000
Gross Dividend & Interest	40,000	39,745	36,000	36,007	60,000	60,013	60,000	0	120,000
Total Income	26,123,000	27,903,325	29,336,000	29,685,266	26,860,000	24,764,685	28,226,382	29,331,367	26,520,000
Payroll Paysheets	19,000,000	19,229,113	19,300,000	19,394,550	19,400,000	20,200,100	20,200,000	20,428,758	20,500,000
Payables Paysheets (incl. Managers' fees)	10,000,000	7,087,332	8,000,000	9,971,636	8,000,000	7,433,343	10,000,000	8,269,280	9,000,000
Total Expenditure	29,000,000	26,316,445	27,300,000	29,366,186	27,400,000	27,633,443	30,200,000	28,698,038	29,500,000
Surplus / (Deficit)	(2,877,000)	1,586,880	2,036,000	319,080	(540,000)	(2,868,758)	(1,933,618)	633,329	(2,980,000)
Net Capital payments/(receipts)		7,033,969		0		0		110,000	
Balance at Bank (opening)		14,341,669		7,444,969		26,395,763		15,386,952	
Balance at Bank (closing)		7,444,969		26,395,763		15,386,952		14,024,338	
Money paid/(recovered) to/(from Manager)		0		(15,000,000)		0		0	

Projected Cash Flow – including dividends received by Fund Managers for the period 31 December 2012 to 31 December 2013

Quarter Ended	31.12.12	31.03.13	30.06.13	30.09.13	31.12.13
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Contributions - DCC	16,400,000	18,800,000	20,000,000	20,000,000	20,000,000
- Other	6,800,000	7,100,000	7,250,000	7,250,000	7,250,000
Pensions Increase	1,200,000	1,100,000	1,100,000	1,100,000	1,100,000
Transfer Values	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Month end uncleared items	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Gross Dividend & Interest	120,000	60,000	60,000	60,000	60,000
Total Income	26,520,000	29,060,000	30,410,000	30,410,000	30,410,000
Payroll Paysheets	20,500,000	20,600,000	20,700,000	20,800,000	20,900,000
Payables Paysheets (incl. Managers' fees)	9,000,000	12,000,000	11,000,000	11,000,000	11,000,000
Total Expenditure	29,500,000	32,600,000	31,700,000	31,800,000	31,900,000
Surplus / (Deficit)	(2,980,000)	(3,540,000)	(1,290,000)	(1,390,000)	(1,490,000)
Dividends Received by Managers	6,300,000	7,350,000	11,900,000	9,450,000	6,300,000
Net Cash Flow Position	3,320,000	3,810,000	10,610,000	8,060,000	4,810,000

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Pension Fund Committee

4 December 2012

**Record-keeping – Pensions Regulator
best practice guidelines**



Report of Don McLure, Corporate Director, Resources

Purpose of the Report

- 1 The purpose of the report is
 - To advise Members of best practice guidelines issued by the Pensions Regulator on record-keeping and the extent to which the Council currently complies with those guidelines, and;
 - To ask Members to agree to the Pension Fund commissioning a tracing agency to trace deferred members who have changed address without informing the pension scheme, and to compare the pensions database against the national register of deaths.

Background

- 2 The Pensions Regulator is the UK regulator of work-based pension schemes and is empowered by the government to regulate work-based pensions.
- 3 One of the Pensions Regulator's objectives is to promote the good administration of work-based pension schemes, and as part of this it has set targets for pension schemes to improve their 'common' data records this includes data such as name, address, date of birth and National Insurance number. For new data created or amended after June 2010, the target to be met is 100% of common data to be in place; and for data created before June 2010, the target is 95%
- 4 The Pensions Regulator expects schemes to have assessed their data quality by 2012 and to put in place measures necessary to ensure the quality targets on common data are met.

Analysis of Common Data

- 5 Appendix A shows a summary of the results of an analysis of the current data quality of the Durham County Council Pension Fund. This shows that 8 out of the 11 data quality items are 100%

complete for data created both before and after June 2010. The three areas with less than 100% are as follows:

National Insurance Number

57 out of 45,662 records do not have a valid National Insurance Number. These are all dependants and are either widows or widowers who have not provided a valid National Insurance number, or individuals in receipt of a children's pension who have recently reached age 16 and not informed us of their National Insurance Number. We have recently contacted HM Revenue & Customs to ask for the correct National Insurance Numbers for all these individuals and expect to receive this information within the next month or so.

Post Code

Only 93.09% of pre-June 2010 records and 99.39% of post-June 2010 records have a post code. Where we have a valid address this issue can be resolved through using the Royal Mail's postcode finder function on its website. This approach is underway now and over the coming weeks we expect to have complete postcode information for all records with UK addresses.

Address

Only 96.64% of pre-June 2010 records and 99.39% of post-June 2010 records have address information. There are a total of 1,319 individuals who have left employment and the pension scheme and have subsequently changed address without informing the pension scheme of their new address.

Tracing Addresses

- 6 Our current approach in cases where a scheme member has moved and not advised the pension scheme is to trace the member's address using a tracing agency shortly before they reach age 60. This allows us to write to them with details of the benefits payable to them at 60. An alternative approach would be to undertake an exercise to trace all the addresses now and write to the individuals to advise them to inform us if they move again in future.
- 7 An advantage of this approach is that it would improve the quality of data held by the scheme. Depending on the exact type of analysis carried out it would also be possible to combine this with a comparison of our entire database with the national register of deaths, so potentially identifying cases of overpayment which may not have been picked up by the National Fraud Initiative.

- 8 Possible disadvantages include the cost of such an exercise (which is estimated to be in the low thousands) and the fact that there would be nothing to stop these individuals losing touch with the pension scheme again should they move again before retirement. However, on balance it is felt worthwhile to undertake a combined exercise to trace missing addresses for deferred members and to also compare the whole database against the national register of deaths.

Recommendation

Members are asked to note this report and to agree to the Pension Fund commissioning a tracing agency to trace deferred members who have changed address without informing the pension scheme, and to compare the pensions database against the national register of deaths.

Contact: Nick Orton Tel: 0191 383 4429

Appendix A – Common Data Report

Numerical information:

Membership statistics (November 2012)	
Total active members	16,838
Total deferred members	12,429
Total pension in payment members	16,395 of which:
Member pensioners	13,716
Spouse/dependant/civil partner/ child pensioners	2,679
Total Membership	45,662 of which:
Pre-June 2010 data	37,897
Post-June 2010 data	7,765

Common data checking:

Data item	Pre-June 2010 data	Fails	% Complete	Post-June 2010 data	Fails	% Complete
NI Number	37,897	51	99.87%	7,765	6	99.92%
Surname	37,897	0	100%	7,765	0	100%
Forename/initials	37,897	0	100%	7,765	0	100%
Sex	37,897	0	100%	7,765	0	100%
Date of birth	37,897	0	100%	7,765	0	100%
Date started pensionable service/policy/contributions	37,897	0	100%	7,765	0	100%
Expected retirement / maturity/target retirement date	37,897	0	100%	7,765	0	100%
Membership status	37,897	0	100%	7,765	0	100%
Last status event	37,897	0	100%	7,765	0	100%
Address	37,897	1,272	96.64%	7,765	47	99.39%
Postcode	37,897	2,620	93.09%	7,765	47	99.39%
Total		3,943			100	

Total number of records failing one or more tests: 2,724 = 5.97% failed

Pension Fund Committee

4 December 2012

Terms of Reference



Don McLure, Corporate Director Resources

Purpose of the Report

- 1 To inform Members of the progress in determining terms of reference for the Pension Fund Committee.

Background

- 2 The Pension Fund Committee has responsibility delegated from the Council to discharge the powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made following from this, including:
 - approval of applications from bodies seeking admission to the Local Government Pension Scheme;
 - appointment of external investment managers and advisers.
- 3 An Internal Audit report considering the Governance and Funding of the Pension Fund was presented to this committee on 6 December 2011 by the Internal Auditor in order to provide assurance over the governance arrangements in place for the Pension Fund. The report recommended that a review should take place to clarify that the responsibilities of the Pension Fund Committee were clearly defined and understood.
- 4 The audit approach involved reviewing documentation provided by the Fund, as well as interviews with County Council officers and members of the Pension Fund Committee
- 5 This report gave the committee only limited assurance and stated:

Our review has highlighted a number of areas that we believe officers and members should consider. These are as follows:

- *There is a lack of clarity regarding the roles and responsibilities of the Pension Fund Committee, reflected in the lack of a formal terms of reference for the Committee;*

- *The level of engagement with external audit and, until recently, internal audit has been low;*
- *Meeting agenda items tend to be heavily weighted towards investments, whilst the meeting minutes do not always cover all relevant information;*
- *Members are not always seen as providing appropriate challenge within Pension Fund Committee meetings;*
- *The level of training of members and attendance at Committee meetings is not always seen as adequate;*
- *There is no process for the approval of the Pension Fund accounts and annual report by the Committee; and*
- *There should be greater oversight of funding risks around bodies in the Fund defaulting.*

6 The establishment of clear Terms of Reference for the Committee was a recommendation of the report and this is considered to be necessary as a precursor before all the other recommendations of the Internal Auditor's report are to be implemented.

Delegated Authority

7 The delegation of authority from the County Council is wide-ranging and covers the management of all of the Pension Fund's activities. Any changes to this delegation would require the consideration and agreement of the Constitution Working Group.

8 No changes are suggested to be made to this delegation.

Terms of Reference

9 In order to discharge the functions delegated to the Pension Fund Committee, Operational Terms of Reference should be established.

10 The Operational Terms of Reference should provide clarity to the members of the Pension Fund Committee in a number of areas:

- Roles and Responsibilities of Members
- High level objectives of the Committee
- Authority of the Committee
- Composition of the Committee
- Detailed Terms of Reference to achieve the High Level Objectives
- Meetings
- Programme of work
- Performance and Review

A draft Terms of Reference is attached at Appendix 1.

Actions

- 11 Before formally agreeing the Terms of Reference, it would be beneficial for Committee members to review the draft and consider amendments. The information requirements of members need to be considered and documented in the Terms of Reference so that Members can gain assurance that the functions of the committee are being addressed.
- 12 As the Terms of Reference will determine the future programme of work of the committee, it is recommended that a workshop session is arranged to enable members to review the draft terms of reference and develop a final document that can then be agreed by the County Council.

Recommendations

- 13 It is recommended that:
 - Members note the draft operational Terms of Reference
 - A workshop session is arranged to agree the Terms of Reference and the information requirements of the Committee for the future.

Background papers

- (a) Pension Fund Committee – 6 December 2011 – Internal Audit Progress Report
- (b) Durham County Council Constitution
- (c) CIPFA – Pensions Finance – Knowledge and Skills Framework: Technical Guidance for Pensions Practitioners in the Public Sector
- (d) CIPFA – Pensions Finance – Knowledge and Skills Framework: Technical Guidance for Elected Representatives and Non-executives in the Public Sector
- (e) CIPFA – Investment Decision Making and Disclosure in the Local Government Pension Scheme: A guide to the Application of the Myners Principles

Contact: Hilary Appleton Tel: 03000 266239

Pension Fund Committee Operational Terms of Reference

1 Authority

- 1.1. Durham County Council, acting as Administering Authority for the Pension Fund has determined to delegate all functions relating to the maintenance of the Pension Fund to the Pension Fund Committee.
- 1.2. Under the terms of the County Council's Constitution, the Pension Fund Committee has been delegated the following terms of reference:
 - 1.2.1. Powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder including:
 - approval of applications from bodies seeking admission to the Local Government Pension Scheme;
 - appointment of external investment managers and advisers.
- 1.3. In order to deliver the terms of reference delegated, further detailed functions of the committee need to be identified. These will be the Operational Terms of Reference for the Committee.

2 Composition

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

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

- 2.2. 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.

- 2.3. The representatives from Durham County and Darlington Borough Councils are appointed by decisions of the respective councils. Representatives of the colleges, other statutory bodies, and admitted bodies are selected by the Committee from nominations made by the employers and are appointed for 4 years. 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.
- 2.4. All members of the Committee, union observers and independent advisers are given full access to papers and are allowed to participate in meetings.
- 2.5. 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.
- 2.6. The Pension Fund Committee meets four times a year and occasionally holds special meetings when required. The Pension Fund Committee also holds an Annual General Meeting to which all employers are invited.
- 2.7. The quorum for each regular meeting of the Committee is 5.
- 2.8. Minutes of the Committee are reported under the existing County Council Committee framework.
- 2.9. Detailed performance reports will remain confidential items on Committee agenda as will any other item deemed as such by the Chairman although the Committee will aim to operate as transparently as feasible.

3 Background

- 3.1. Each LGPS Administering Authority should have a designated group of elected members appointed to a committee which has been assigned the responsibility for the management and administration of the pension fund.
- 3.2. The committee should be governed by specific terms of reference and operational procedures that define those responsible for taking decisions.
- 3.3. The committee should review its structure and composition regularly and provide each member with a copy of the terms of reference and operational procedures.

- 3.4. The committee may consider establishing sub-committees and/or panels where necessary to take responsibility for progressing significant areas of activity between meetings of the committee.
- 3.5. The committee should obtain proper advice at reasonable intervals from suitably qualified persons, including officers and external investment managers. The chief finance officer should assess the need for proper advice and recommend to the committee when such advice is necessary from an external adviser. The committee should ensure that it has sufficient internal resources, and where necessary external resources to carry out its responsibilities effectively.
- 3.6. The chief finance officer should have responsibility for the provision of a training plan for members to help them to make effective decisions, and to ensure that they are fully aware of their statutory and fiduciary responsibilities, and regularly reminded of their stewardship role.
- 3.7. Papers and related documentation should be clear and comprehensive and circulated to members of the committee sufficiently in advance of the meeting to allow them to be read and understood.

4 Operational Terms of Reference

- 4.1. To prepare, monitor and review policy documents including the:
 - Funding Strategy Statement
 - Statement of Investment Principles
 - Governance Policy
 - Communications Policy
 - Administration Strategy
- 4.2. To appoint and terminate:
 - investment managers
 - custodian
 - actuary
 - independent external advisers
 - Additional Voluntary Contribution (AVC) providers, and
 - other contracts related to the management of the Pension Fund
- 4.3. To determine the overall investment strategy and strategic asset allocation, ensuring that investments are sufficiently diversified, not over concentrated in any one type of investment and that the pension fund is invested in suitable types of investments;

- 4.4. To review the resources allocated to investment managers on a regular basis;
- 4.5. To monitor and review, on a quarterly basis, the investment managers' performance against established benchmarks and satisfy themselves on the investment managers' expertise and the quality of their internal systems and controls;
- 4.6. To take appropriate action in cases of unsatisfactory performance of the investment managers and independent external advisers;
- 4.7. To obtain, and have due regard to, professional advice from the fund managers, investment advisers, officers and the fund actuary as appropriate;
- 4.8. To monitor the cash flow forecasts of the fund on a quarterly basis;
- 4.9. To review policy on social, environmental and ethical matters and on the exercise of rights, including voting rights.
- 4.10. To approve, apply and decide upon employers joining and leaving the Fund. To consider, and if appropriate, approve applications of employers to become admitted bodies to the fund.
- 4.11. To review the Annual Report and Accounts of the Pension Fund and report its findings to the Audit Committee, where the Accounts are approved.
- 4.12. To approve the annual internal audit plan and monitor progress on its delivery.
- 4.13. To review and monitor the Pension Fund Risk Register.
- 4.14. To consider all other relevant matters to the investment and administration of the fund.

5 Key Responsibilities

- 5.1. **The Pension Fund Investment Managers are responsible for:**
 - The investment of the Pension Fund assets in respect of which they are appointed in compliance with applicable rules and legislation, the constraints imposed by the Statement of Investment Principles and the detailed Investment Management Agreement covering their portion of the Pension Fund's assets;
 - Stock selection within asset classes;

- Preparation of quarterly reports, including a review of investment performance;
- Attending meetings of the Pension Fund Committee as requested.

5.2. The Global Custodian is responsible for:

- Its own compliance with prevailing legislation;
- Providing the administering authority with monthly or quarterly valuations of the Pension Fund's assets and details of all transactions during the quarter;
- Collection of income, tax reclaims, exercising corporate administration and cash management;
- Such other services as the Pension Fund shall procure, for example, in connection with performance measurement and reporting or fund accounting

5.3. The Independent Advisers are responsible for:

- Assisting the Corporate Director, Resources and Pension Fund Committee in determining:
 - the overall investment strategy
 - the strategic asset allocation
 - that the Pension Fund is invested in suitable types of investment and ensuring that investments are sufficiently diversified.
- Assisting the Corporate Director, Resources and Pension Fund Committee in the preparation and review of Policy documents;
- Assisting the Corporate Director, Resources and Pension Fund Committee in their regular monitoring of the investment managers' performance;
- Assisting the Corporate Director, Resources and Pension Fund Committee in the selection and appointment of investment managers, custodians and Pension Fund Actuary;
- Advising and assisting the Corporate Director, Resources and the Pension Fund Committee on other investment related issues, which may arise from time to time;
- Providing continuing education and training to the Pension Fund Committee.

5.4. The Actuary is responsible for:

- Providing advice as to the structure of the Pension Fund's liabilities, the maturity of the Pension Fund and its funding level in order to aid the Pension Fund Committee in balancing the short term and long-term objectives of the Pension Fund
- Undertaking the statutory triennial valuation of the Fund's assets and liabilities.

5.5. The Corporate Director Resources has delegated authority:

- To exercise the County Council's function as administering authority relating to the Local Government Pension Scheme.
- To exercise those discretions under the Local Government Pension Scheme Regulations as appear from time to time in Pension Fund Statements of Policy;
- To authorise, in cases of urgency, the taking of any action by a Manager of the Pension Fund this is necessary in order to protect the interests of the Fund.
- To take any decision relating to the investment or management of the Pension Fund that cannot reasonably await the next meeting of the Pension Fund Committee.
- To maintain all necessary accounts and records in relation to the Pension Fund, including the calculation of and payment of benefits, reconciliation and investment of contributions, preparation of the Annual Accounts and preparation of membership data for actuarial valuation purposes.
- To maintain the system of internal control.
- To manage the triennial valuation of the Pension Fund.
- To accept for admission into the Pension Fund employees of authorities and bodies as prescribed in Regulations including transferee and community Admissions which are considered as 'exceptional circumstances', subject to an approved Admission Agreement, and subject to any necessary indemnities as appropriate.
- To be the local referee for disputes under the Local Government Pension Scheme
- To set the appropriate funding target for the Fund under the rules of the Local Government Pension Scheme.
- To carry out, in consultation with the Pension Fund Committee, the requirement to monitor and review the investments made by

the Fund Managers and report to each meeting of the Pension Fund Committee on the exercise of this delegation.

- To manage cash flow, allocate funds between investment managers in order to ensure that the Fund's asset allocation is maintained and invest the residual cash balances.
- To arrange and authorise the provision of appropriate Member training, including the attendance at conferences and other similar pension fund related events by Members of the Pension Fund Committee.
- To prepare and submit the necessary Policy Statements to Pension Fund Committee and to arrange for the implementation and review of those statements, strategies, policies and procedures, as required. These include the Funding Strategy Statement
- To prepare and submit the necessary plans and principles to the Pension Fund Committee and to arrange for the implementation and review of those plans and principles, as required. These include the Pension Fund Annual Report and the Statement of Investment Principles.
- To produce as part of the Funding Strategy Statement, an assessment of all the specific risks that can be identified in relation to the management of the Pension Fund.

6 Meetings

- 6.1. The Pension Fund Committee meets four times a year and occasionally holds special meetings when required. The Pension Fund Committee also holds an Annual General Meeting to which all employers are invited.

7 Programme of Work

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

8 Performance and Review

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

Pension Fund Committee

4 December 2012



**Local Government Pension Scheme:
Investment in Partnerships – CLG
Consultation**

Don McLure, Corporate Director Resources

Purpose of the report

- 1 The purpose of this report is to inform Members of a consultation by the Department for Communities and Local Government (CLG).

Background

- 2 Following the publication of the Government's 'Blueprint for Technology' and the signing of a memorandum of understanding between pension industry representatives and the government on examining the way in which pension funds could invest in infrastructure projects, it was felt that the existing Local Government Pension Scheme (Investment and Management of Funds) Regulations 2009 (the Regulations) may be placing a restraint on investment in this area.
- 3 The existing Regulations are attached at Appendix 1.
- 4 On 6 November 2012 CLG issued a consultation paper, attached at Appendix 2.
- 5 This consultation is to seek views on "whether any amendment is necessary to remove specific barriers preventing Scheme funds from being invested in infrastructure investment vehicles designed to control risk exposure and provide both future income stream to funds and necessary capital input into projects intended to stimulate growth."
- 6 The consultation paper acknowledges that the primary responsibilities of local authority pension funds are to deliver the returns needed to pay Scheme members the pensions they have worked hard to earn, and to protect local taxpayers and employers from high pension costs.
- 7 The Regulations are designed to enable effective investment strategies that meet these goals. The Regulations help to minimise risk and protect the interest of taxpayers by requiring that funds and risks are spread across a number of different types of investment, and by setting limits on the proportion of funds that can be invested in each type of investment

Response to the Consultation

- 8 The consultation is aimed principally at Local Government and has been circulated to all local authorities.
- 9 The consultation period is six weeks, with a closing date for responses of 18 December.
- 10 The County Council as Administering Authority intends to respond to CLG. It is considered that the appropriate response in the interests of the Pension Fund is in favour of increasing the limit on investments in partnerships from 15% to 30% - Option A on page 12 of the consultation.
- 11 This option allows more freedom for the Pension Fund to invest in partnerships of all types. Although Option B limits the risk of concentration in a particular type of investment, under Option A this could be achieved by amendment to the Statement of Investment Principles, and by the Committee monitoring with the advice of its Advisers that the higher limit were not used in a way that would increase the risk of the Pension Fund through concentration of investments in particular categories or individual investments.
- 12 In order to respond to other questions in the consultation, it would be necessary to define a new investment class. After taking our Advisers' advice, it would seem that almost any definition would invite the creation of investment vehicles designed to get round the spirit of the definition, whilst observing the letter of it.
- 13 On balance, the option to increase the limit on investment in partnerships to 30% would avoid the problem of defining a new category whilst allowing flexibility to invest funds in infrastructure investment vehicles.

Recommendation

- 14 Members are asked to note the consultation and it is recommended that the Corporate Director Resources be delegated authority to respond to CLG on behalf of the Pension Fund as suggested in paragraphs 10 to 13.

Contact: Hilary Appleton Tel: 03000 266239

 STATUTORY INSTRUMENTS

2009 No. 3093

PENSIONS, ENGLAND AND WALES

**The Local Government Pension Scheme (Management and
Investment of Funds) Regulations 2009**

Made - - - - 24th November 2009
Laid before Parliament 1st December 2009
Coming into force - - 1st January 2010

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These Regulations are made in exercise of the powers conferred by section 7 of, and Schedule 3 to, the Superannuation Act 1972⁽¹⁾.

In accordance with section 7(5) of that Act the Secretary of State has consulted (a) such associations of local authorities as appeared to the Secretary of State to be concerned; (b) the local authorities with whom consultation appeared to the Secretary of State to be desirable; and (c) such representatives of other persons likely to be affected by the Regulations as appeared to the Secretary of State to be appropriate.

The Secretary of State makes the following Regulations:

Preliminary

Citation, commencement and application

1.—(1) — These Regulations may be cited as the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and shall come into force on 1st January 2010.

(2) These Regulations apply in relation to England and Wales⁽²⁾.

General definitions

2.—(1) In these Regulations—

“the 2000 Act” means the Financial Services and Markets Act 2000⁽³⁾;

“administering authority” means a body required to maintain a pension fund under the Administration Regulations;

“the Administration Regulations” means the Local Government Pension Scheme (Administration) Regulations 2008⁽⁴⁾;

“fund money” means money in the pension fund maintained by an administering authority;

“proper advice”, in relation to an administering authority, means the advice of a person whom the authority reasonably believes to be qualified by their ability in and practical experience of financial matters (including any such person who is an officer of the administering authority);

“recognised stock exchange” has the same meaning as in section 1005(1) of the Income Tax Act 2007⁽⁵⁾;

“securities” includes shares, stock and debentures;

“statement of investment principles” means the statement referred to in regulation 12(1) or any revision of it, as appropriate;

“stock lending arrangement” means an arrangement such as is mentioned in section 263B of the Taxation of Chargeable Gains Act 1992⁽⁶⁾; and

⁽¹⁾ 1972 c.11.

⁽²⁾ The Secretary of State’s functions under section 7 of the Superannuation Act 1972 in so far as they were exercisable in relation to Scotland were devolved to Scottish Ministers by section 63 of the Scotland Act 1998 (c.46) and article 2 of, and Schedule 1 to, the Scotland Act 1998 (Transfer of Functions to Scottish Ministers etc) Order 1999 (S.I. 1999/1750).

⁽³⁾ 2000 c.8.

⁽⁴⁾ S.I. 2008/239, amended by S.I. 2008/1083, 2008/2425, and S.I. 2008/3245.

⁽⁵⁾ 2007 c.3; section 1005(1) was amended by paragraph 1 of Schedule 26 to the Finance Act 2007 (c.11).

⁽⁶⁾ 1992 c.12; section 263B was inserted by paragraph 5(1) of Schedule 10 to the Finance Act 1997 (c.16).

“sub-underwriting contract” means a contract with a person who is underwriting a share issue to acquire the shares from that person if that person requires it.

(2) Paragraphs (5) to (7) of regulation 3, paragraphs (2)(a) and (2)(b) of regulation 6, regulation 7 and item 4 of the table and the definition of “relevant institution” in Schedule 1, must be read with—

- (a) section 22 of the 2000 Act (classes of activity and categories of investment);
- (b) any relevant order under that section; and
- (c) Schedule 2 to that Act⁽⁷⁾ (regulated activities).

Definition of “investment”

3.—(1) In these Regulations “investment” and related expressions have their normal meaning.

(2) But the following provisions of this regulation specify things which count as investments for these Regulations, although they might not otherwise do so, and exclude things which might otherwise count.

(3) A contract entered into in the course of dealing in financial futures or traded options is an investment.

(4) Prior to 1st April 2010, if the administering authority uses fund money for any purpose for which it may borrow money, that use is an investment.

(5) A contract of insurance is an investment if it is a contract of a relevant class, and is entered into with a person within paragraph (6) for whom entering into the contract constitutes the carrying on of a regulated activity within the meaning of the 2000 Act.

(6) The persons within this paragraph are—

- (a) a person who has permission under Part 4 of the 2000 Act (permission to carry on regulated activities) to effect or carry out contracts of insurance of a relevant class;
- (b) an EEA firm of the kind mentioned in paragraph 5(d) of Schedule 3 to the 2000 Act⁽⁸⁾ (EEA passport rights), which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule⁽⁹⁾) to effect or carry out contracts of insurance of a relevant class; and
- (c) a person who does not fall within sub-paragraph (a) or (b) and who, because that person’s head office is in an EEA State within the meaning of the 2000 Act other than the United Kingdom, is permitted by the law of that State to effect or carry out contracts of insurance of a relevant class.

(7) A contract of insurance is of a relevant class for the purposes of paragraphs (5) and (6) if it is—

- (a) a contract of insurance on human life or a contract to pay an annuity on human life where the benefits are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified); or
- (b) a contract to manage the investments of pension funds, whether or not combined with contracts of insurance covering either conservation of capital or payment of a minimum interest.

(8) A stock lending arrangement is an investment if, and only if, in respect of it, the conditions in rules 5.4.4R and 5.4.6R, modified as specified in paragraph (9) of this regulation⁽¹⁰⁾, in the

⁽⁷⁾ Amended by section 1 of the Regulation of Financial Services (Land Transactions) Act 2005 (c.24), and paragraph 1 of Schedule 2 to the Dormant Bank and Building Society Accounts Act 2008 (c.31).

⁽⁸⁾ Amended by S.I. 2004/3379.

⁽⁹⁾ Amended by S.I. 2007/126, S.I. 2007/3253.

⁽¹⁰⁾ The Department for Communities and Local Government has produced a document setting out rules 5.4.4R and 5.4.6R of the Collective Investment Schemes Sourcebook, modified as specified

Collective Investment Schemes Sourcebook made by the Financial Services Authority⁽¹¹⁾ are fulfilled in relation to that arrangement.

(9) The modifications mentioned in paragraph (8) are that—

- (a) in rules 5.4.4R and 5.4.6R references to the depositary must be read as if they were references to the administering authority;
- (b) in paragraph 1 of rule 5.4.4R for the words “An ICVC, or the depositary at the request of the ICVC, or the trustee at the request of the manager, may enter into a repo contract, or” there shall be substituted the words “The administering authority may enter into”;
- (c) in paragraph 1(a) of rule 5.4.4R, the words “for the account of the ICVC or by the trustee,” and the words “or to the trustee” shall be omitted;
- (d) sub-paragraphs 1(b) (iii) and 1(b) (iv) of rule 5.4.4R shall not apply;
- (e) paragraph 1A of rule 5.4.6R shall not apply;
- (f) in paragraph 5 of rule 5.4.6R the words “under COLL 6.3 (Valuation and pricing) or this chapter,” shall be omitted, and the reference to the authorised fund must be read as if it were a reference to the pension fund; and
- (g) in paragraph 6 of rule 5.4.6R references to scheme property must be read as if they were references to fund money, and the words in sub-paragraph (a) “for the purposes of COLL 6.3 or this chapter” and in sub-paragraph (b) “of this chapter” shall be omitted.

(10) It is an investment to contribute to a limited partnership in an unquoted securities investment partnership.

(11) A sub-underwriting contract is an investment.

(12) For the purposes of this regulation—

“limited partnership ” means a partnership where the partners are not liable for the debts or obligations of the partnership beyond the amount which they contributed at the time of becoming a partner;

“traded option” means an option quoted on a recognised stock exchange or on the London International Financial Futures Exchange; and

“unquoted securities investment partnership” means a partnership for investing in securities which are normally not quoted on a recognised stock exchange when the partnership buys them.

Management of pension fund

Management of pension fund

4.—(1) This regulation is about the sums which an administering authority must pay or credit to and may pay from the pension fund which it administers.

(2) An authority must pay or credit to its pension fund, in addition to any other sum the Benefits Regulations, the Transitional Regulations or the Administration Regulations specify must be paid or credited to the fund—

- (a) the amounts payable by it or paid to it for the credit of the fund by any other authority under regulations 39 to 41 of the Administration Regulations (employers’ contributions and payments);

in regulation 3(9). A copy of this document may be obtained by contacting the Department’s Workforce Pay and Pensions Division (tel. 0303 444 2184 or email robert.holloway@communities.gsi.gov.uk).

⁽¹¹⁾ The Collective Investment Schemes Sourcebook (known as COLL) is made by the Financial Services Authority by virtue of Part X and sections 247 and 248 of the 2000 Act and S.I. 2001/1228, see <http://fsahandbook.info/FSA/html/handbook/COLL>.

- (b) all members' contributions including those made by virtue of the Transitional Regulations, except contributions payable under regulation 25 of the Administration Regulations (additional voluntary contributions and shared cost additional voluntary contributions);
- (c) all income arising during the year from investment of the fund;
- (d) all capital money deriving from such investment; and
- (e) all additional payments received by the authority under the Benefits Regulations, the Transitional Regulations or the Administration Regulations.

(3) In the case of an administering authority which maintains more than one pension fund, as respects sums which relate to specific members the references in paragraph (2) to an authority's fund are to the fund which is the appropriate fund for the members in question in accordance with Schedule 4 to the Administration Regulations (appropriate funds).

(4) Interest under regulation 44(1) of the Administration Regulations (interest) must be credited and paid to the fund to which the overdue payment is due.

(5) Any costs, charges and expenses incurred administering a pension fund may be paid from it except those costs and charges prescribed by regulations made under section 23 (supply of pension information in connection with divorce etc), 24 (charges by pension arrangements in relation to earmarking orders) or 41 (charges in respect of pension sharing costs) of the Welfare Reform and Pensions Act 1999⁽¹²⁾ which the administering authority is enabled to recover by or under any such regulations.

(6) In this regulation—

“member” means any active or deferred member or any pensioner but does not include a person who has rights to future benefits under the scheme which are attributable (directly or indirectly) to a credit under section 29(1)(b) of the Welfare Reform and Pension Act 1999⁽¹³⁾ or corresponding Northern Ireland legislation;

“the Benefits Regulations” means the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007⁽¹⁴⁾; and

“the Transitional Regulations” means the Local Government Pension Scheme (Transitional Provisions) Regulations 2008⁽¹⁵⁾.

Power to borrow

5.—(1) Except as provided in this regulation, an administering authority must not borrow money where the borrowing is liable to be repaid out of its pension fund.

(2) An administering authority may borrow by way of temporary loan or overdraft from a bank or otherwise any sums which it may require for the purpose of—

- (a) paying benefits due under the scheme, or
- (b) to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment.

(3) An administering authority may only borrow money under paragraph (2) if, at the time of borrowing, the authority reasonably believes that the sum borrowed and interest charged in respect of such sum can be repaid out of its pension fund within 90 days of the date of the borrowing.

Separate bank account

6.—(1) On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation—

⁽¹²⁾ 1999 c. 30; sections 23 and 24 were amended by the Civil Partnership Act 2004 (c.33), Schedule 27, paragraphs 157 and 158 and Schedule 30.

⁽¹³⁾ 1999 c.30.

⁽¹⁴⁾ S.I. 2007/1166, amended by S.I. 2008/1083, 2008/2425, 2009/1025.

⁽¹⁵⁾ S.I. 2008/238, amended by S.I. 2008/1083, 2008/2425.

- (a) all monies held by the authority on that date; and
- (b) all monies received by it on or after that date

for the purpose of its pension fund.

(2) “Deposit-taker” for the purposes of paragraph (1) means—

- (a) a person who has permission under Part 4 of the 2000 Act (permission to carry on regulated activities) to accept deposits;
- (b) an EEA firm of the kind mentioned in paragraph 5(b) of Schedule 3 to the 2000 Act (EEA passport rights) which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule⁽¹⁶⁾) to accept deposits;
- (c) the Bank of England or the central bank of an EEA state other than the United Kingdom; or
- (d) the National Savings Bank.

(3) The deposit-taker shall not, in relation to the account referred to in paragraph (1), exercise any right of set-off it may have in respect of any other account held by the administering authority or any party connected to the administering authority.

Investment managers

Definition of “investment manager”

7. For the purposes of regulations 8 to 10, an “investment manager” is—

- (a) a person who has permission under Part 4 of the 2000 Act (permission to carry on regulated activities) to manage investments and may lawfully manage the assets of occupational pension schemes;
- (b) an EEA firm of the kind mentioned in sub-paragraph (a), (b) or (c) of paragraph 5 of Schedule 3 to that Act⁽¹⁷⁾ (EEA passport rights), which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule⁽¹⁸⁾) to manage investments and may lawfully manage the assets of occupational pension schemes; or
- (c) a person—
 - (i) who does not carry on regulated activities (within the meaning of the 2000 Act) from a permanent place of business maintained by that person in the United Kingdom;
 - (ii) whose head office is situated in an EEA State (within the meaning of the 2000 Act) other than the United Kingdom;
 - (iii) who is recognised by the law of that EEA State as a national of that or another EEA State;
 - (iv) who is authorised under that law to carry on one or more regulated activities (within the meaning of the 2000 Act); and
 - (v) who is not prevented by that law from managing the assets of occupational pension schemes or assets belonging to another person.

Choice of investment managers

8.—(1) Instead of managing and investing fund money itself, an administering authority may appoint one or more investment managers to manage and invest fund money, or any part of such money, on its behalf.

(2) But the authority may only appoint an investment manager if the authority complies with paragraphs (3) to (6).

⁽¹⁶⁾ Amended by S.I. 2007/126, S.I. 2007/3253.

⁽¹⁷⁾ Amended by S.I. 2003/1473, S.I. 2007/126, S.I. 2006/3221.

⁽¹⁸⁾ Amended by S.I. 2007/126, S.I. 2007/3253.

(3) The authority must reasonably believe that the investment manager's ability in and practical experience of financial matters makes that investment manager suitably qualified to make investment decisions for it.

(4) The investment manager must not be its employee.

(5) The authority must be satisfied—

- (a) that the fund, or the relevant part of it, is managed by an adequate number of investment managers; and
- (b) that where there is more than one investment manager, the value of fund money to be managed by any one of them will not be disproportionate in comparison with the value of fund money managed by other investment managers.

(6) The authority must have taken proper advice in relation to the appointment.

Terms of appointment of investment managers

9.—(1) An investment manager must be appointed on the terms set out in paragraphs (2) to (7).

(2) The administering authority must be able to terminate the appointment by not more than one month's notice.

(3) The investment manager must report to the administering authority at least once every three months on the action the investment manager has taken on behalf of the authority.

(4) The investment manager must comply with all the administering authority's instructions.

(5) In managing the fund the investment manager must take into account—

- (a) that fund money must be invested in a wide variety of investments;
- (b) the suitability for the fund of particular types of investment, or of any particular investment; and
- (c) the administering authority's statement of investment principles.

(6) But paragraph (5)(a) does not apply where the investment manager only manages part of the fund and the terms of the investment manager's appointment provide that it does not apply.

(7) The investment manager must not make investments which would contravene the administering authority's statement of investment principles or regulation 14 (restrictions on investments).

(8) In determining the investment manager's terms of appointment, the administering authority must take proper advice.

Review of investment manager's performance

10.—(1) Where an administering authority has appointed an investment manager it must keep the investment manager's performance under review.

(2) At least once every three months the authority must review the investments the investment manager has made for the fund and any other action that has been taken by the manager in relation to it.

(3) Periodically the authority must consider whether or not to retain the investment manager.

(4) In reviewing an investment manager's decisions and appointment, the authority must take proper advice—

- (a) if regulation 9(5)(a) applies, about the variety of investments the investment manager has made; and
- (b) about the suitability of those investments for the fund generally and as investments of their type.

Investment policy and investment of pension fund money

- 11.**—(1) An administering authority must formulate a policy for the investment of its fund money.
- (2) The authority's investment policy must be formulated with a view—
- (a) to the advisability of investing fund money in a wide variety of investments; and
 - (b) to the suitability of particular investments and types of investments.
- (3) The authority must invest, in accordance with its investment policy, any fund money that is not needed immediately to make payments from the fund.
- (4) The authority may vary its investments
- (5) The authority must obtain proper advice at reasonable intervals about its investments.
- (6) The authority must consider such advice in taking any steps in relation to its investments.

Statement of investment principles

- 12.**—(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain (in accordance with paragraph (5)) and publish a written statement of the principles governing its decisions about the investment of fund money.
- (2) The statement must cover its policy on—
- (a) the types of investment to be held;
 - (b) the balance between different types of investments;
 - (c) risk, including the ways in which risks are to be measured and managed;
 - (d) the expected return on investments;
 - (e) the realisation of investments;
 - (f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
 - (g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and
 - (h) stock lending.
- (3) The statement must also state the extent to which the administering authority complies with guidance given by the Secretary of State, and, to the extent the authority does not so comply, the reasons for not complying.
- (4) The first such statement must be published no later than 1st July 2010.
- (5) The statement must be reviewed, and if necessary, revised, by the administering authority from time to time and, in the case of any material change in the authority's policy on the matters referred to in paragraphs (2) and (3), before the end of a period of six months beginning with the date of that change.
- (6) A statement revised under paragraph (5) must be published.

Investments under section 11(1) of the Trustee Investments Act 1961

13. An administering authority may invest, without any restriction as to quantity, in any investment made in accordance with a scheme under section 11(1) of the Trustee Investments Act 1961⁽¹⁹⁾ (which enables the Treasury to approve schemes for local authorities to invest in collectively).

⁽¹⁹⁾ 1961 c. 62.

Restrictions on investments

14.—(1) The table in Schedule 1 and the exceptions specified below that table (“the exceptions”) shall have effect for the purpose of limiting the making of investments of the types described in the table⁽²⁰⁾.

(2) Subject to paragraph (3), and, where relevant, the exceptions, a percentage listed in Column 1 of the table in relation to a type of investment so described is the limit on the proportion of fund money which may be invested in that type of investment.

(3) An administering authority may, in accordance with regulation 15, decide to increase the limit in relation to a particular type of investment so described, but only where a percentage is shown in relation to that type of investment in Column 2 of the table, and may not exceed that percentage.

(4) The percentages mentioned in paragraphs (2) and (3) are percentages of the total value of all existing investments of fund money immediately before the making of the investment concerned.

(5) Paragraph (2) and, if applicable, paragraph (3) apply only at the time the investment is made.

(6) The definitions set out below the exceptions shall have effect for interpreting the table.

Requirements for increased limits

15.—(1) An administering authority which decides to increase limits under regulation 14(3) must comply with the requirements of this regulation.

(2) The authority must have taken proper advice.

(3) The authority must take account of the matters set out in regulation 11(2).

(4) Where there is a decision to use the increased limits under regulation 14(3) in relation to item 13 of the table in Schedule 1, the additional risks of the increased limit must have been taken into account in addition to those matters set out in regulation 11(2).

(5) The decision must specify—

- (a) the description of investment to which it applies;
- (b) the limit on the amount of the investment;
- (c) the reason for that decision;
- (d) the period for which the decision will apply;
- (e) if the authority intend to review the decision before the end of the period in (d), the date when the decision will be reviewed; and
- (f) that the decision complies with these Regulations.

(6) Where the period for which the decision will apply comes to an end, the limits will be those set out in Column 1 of the table unless before the end of that period the administering authority reviews the decision in accordance with this regulation.

(7) A decision following a review to continue to use limits increased under regulation 14(3), whether or not the increased limits have been altered, must—

- (a) take account of the matters set out in paragraphs (2)-(4); and
- (b) specify the matters set out in paragraph (5).

(8) Before a decision under regulation 14(3) or under paragraph (7) of this regulation can take effect, the administering authority must revise and publish the written statement of investment principles which it is required to maintain under regulation 12 so as to include the matters specified in paragraph (5).

⁽²⁰⁾ The Occupational Pension Schemes (Investment) Regulations 2005 (S.I. 2005/3378, amended by S.I. 2007/814 and S.I. 2009/615) which, in particular, prescribe certain investments as employer-related investments in addition to those specified in section 40(2) of the Pensions Act 1995, set out restrictions on employer-related investments and make provision as regards the application of the restrictions to schemes in relation to which there is more than one employer, may further restrict or limit investment of fund money.

Use of fund money by an administering authority

16.—(1) An administering authority must pay interest on the total from day to day of any fund money used under regulation 3(4) and not repaid.

(2) That interest may not be paid at a rate lower than the lowest rate at which the authority could have obtained a commercial loan of that amount at 7 days' notice (otherwise than by bank overdraft).

Supplementary

Revocations

17. The instruments listed in Column (1) of the table in Schedule 2 are revoked to the extent stated, in relation to each, in Column (3) of that table.

Signed by authority of the Secretary of State for Communities and Local Government

Rosie Winterton
Minister of State

24th November 2009

Department for Communities and Local Government

SCHEDULE 1

Regulation 14(1)

TABLE OF LIMITS ON INVESTMENTS

<i>Investment</i>	<i>Column 1 Limits under regulation 14(2)</i>	<i>Column 2 Increased limits under regulation 14(3)</i>
1. Any single sub-underwriting contract	1%	5%
2. All contributions to any single partnership.	2%	5%
3. All contributions to partnerships.	5%	15%
4. The sum of—	10%	—
(a) all loans (but see paragraph 1 below); and		
(b) any deposits with—		
(i) any local authority; or		
(ii) any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.		
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding (but see paragraphs 2 and 3 below).	10%	—
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	—
8. All sub-underwriting	15%	—

contracts.		
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below).	25%	35%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%	35%
11. All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 3 below).	25%	35%
12. Any single insurance contract.	25%	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35%

EXCEPTIONS TO LIMITS IN THE TABLE

1. The restriction in item 4 of the table does not apply to a Government loan.
2. The restriction in item 6 of the table does not apply if—
 - (a) the investment is made by an investment manager appointed under regulation 8; and
 - (b) the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme.
3. The restrictions in items 6, 9 and 11 do not apply to—
 - (a) National Savings Certificates;
 - (b) fixed-interest securities issued by Her Majesty’s Government in the United Kingdom, the Government of Northern Ireland or the Government of the Isle of Man and registered in the United Kingdom or the Isle of Man or Treasury Bills;
 - (c) any securities the payment of interest on which is guaranteed by Her Majesty’s Government in the United Kingdom or the Government of Northern Ireland; or
 - (d) a deposit with a relevant institution.

INTERPRETATION

“Collective investment scheme” has the meaning given in section 235 of the 2000 Act.
 “Companies” includes companies established under the law of any territory outside the United Kingdom.

“Government loan” means a loan—

- (a) to Her Majesty’s Government in the United Kingdom; or
- (b) to the Government of the Isle of Man.

“Listed securities” means securities quoted on a recognised stock exchange.

“Loan” does not include—

- (a) investing money in registered securities to which section 1 of the Stock Transfer Act 1963⁽²¹⁾ applies (transfer by stock transfer forms) or in listed securities; or
- (b) depositing money with a relevant institution,

and “lent” must be understood in that way.

“Open-ended investment company” means an open-ended investment company as defined in section 236 of the 2000 Act which is an undertaking for collective investment schemes to which Council Directive No. 85/611/EEC co-ordinating the laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, as last amended by European Parliament and Council Directive No. 2001/108/EC⁽²²⁾ applies.

“Relevant institution” means—

- (a) a person who has permission under Part 4 of the 2000 Act (permission to carry on regulated activities) to accept deposits;
- (b) an EEA firm of the kind mentioned in paragraph 5(b) of Schedule 3 (EEA passport rights) to that Act⁽²³⁾ which has permission under paragraph 15(1) of that Schedule⁽²⁴⁾ (as a result of qualifying for authorisation under paragraph 12 of that Schedule) to accept deposits; or
- (c) a person who is an exempt person in respect of accepting deposits as a result of an order made under section 38(1) of that Act (exemption orders);

“Single holding” means investments—

- (a) in securities of, or in loans to or deposits with, any one body;
- (b) in units or other shares of the investments subject to the trust of any one unit trust scheme; or
- (c) in transactions involving any one piece of land or other property.

“Unlisted securities” means securities which are not quoted on a recognised stock exchange.

⁽²¹⁾ 1963 c.18.

⁽²²⁾ S.I. 2003/2066.

⁽²³⁾ Amended by S.I. 2003/1473 and S.I. 2006/3221.

⁽²⁴⁾ Amended by S.I. 2007/3253.

SCHEDULE 2

Regulation 17

REVOCATIONS

<i>(1) Regulations revoked</i>	<i>(2) References</i>	<i>(3) Extent of revocation</i>
The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998	S.I. 1998/1831	The whole Regulations
The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 1999	S.I. 1999/3259	The whole Regulations
The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 2000	S.I. 2000/2552	The whole Regulations
The Local Government Pension Scheme (Pension Sharing on Divorce) Regulations 2000	S.I. 2000/3025	Regulation 4
The Financial Services and Markets Act 2000 (Consequential Amendments and Repeals) Order 2001	S.I. 2001/3649	Regulations 574 to 578
The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 2002	S.I. 2002/1852	The whole Regulations
The Collective Investment Schemes (Miscellaneous Amendments) Regulations 2003	S.I. 2003/2066	Regulation 13(3)
The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 2003	S.I. 2003/2719	The whole Regulations
The Local Government Pension Scheme (Management and Investment of Funds)(Amendment) Regulations 2005	S.I. 2005/2004	The whole Regulations
The Local Government Pension Scheme (Miscellaneous) Regulations 2008	S.I. 2008/2425	Regulations 11-14

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations consolidate the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (S.I. 1998/1831) with subsequent amending instruments. In addition to minor and drafting amendments, the following changes of substance have been made.

Paragraph (4) of regulation 3 (definition of “investment”) provides that the use of pension fund money for any purpose for which the local authority may borrow money shall count as an investment for the purposes of these Regulations prior to 1st April 2010 whereupon it will cease to count as an investment.

Regulation 5 (power to borrow) sets out the circumstances in which the administering authority may borrow money for the purposes of its pension fund and the rules applying to the repayment of any such borrowing.

Regulation 6 (separate bank account) provides that pension fund money must be kept in a separate bank account held by the administering authority for that purpose by 1st April 2011.

Other provisions provide for: general definitions (regulation 2), what counts as an investment (regulation 3), the sums which an administering authority must pay to and may pay from its pension fund (regulation 4), the power to appoint an investment manager including the terms of such appointment and the requirement to keep the performance of any such manager under review (regulations 7-10), general provisions concerning investments (regulation 11) including the requirement to prepare and maintain an investment policy (regulation 12), the limits which apply to certain types of investments and the requirements which apply if such limits are to be increased (regulations 14 and 15) and the requirement to pay interest on fund money used by the administering authority (regulation 16). Regulation 17 and Schedule 2 revoke the instruments and provisions which these Regulations replace.

An impact assessment has not been produced for this instrument as it has no impact on the costs of businesses, charities or voluntary bodies and it does not have a significant financial impact on any public bodies.

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Department for
Communities and
Local Government

Local Government Pension Scheme: Investment in Partnerships

Consultation

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This document/publication is also available on our website at www.communities.gov.uk

If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

November 2012

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The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	Local Government Pension Scheme - Investment in Partnerships
Scope of this consultation:	This consultation seeks views on whether any amendment is necessary to remove specific barriers preventing Scheme funds from being invested in infrastructure investment vehicles designed to control risk exposure and provide both future income stream to funds and necessary capital input into projects intended to stimulate growth.
Geographical scope:	England and Wales.
Impact Assessment:	Not required as no impact on business or individuals

Basic information

To:	This consultation is aimed principally at local government.
Body responsible for the consultation:	The Department for Communities and Local Government is responsible leading on the policy and the consultation exercise.
Duration:	6 weeks, with a further consultation period if it is then necessary to introduce amending statutory provisions
Enquiries and how to respond	<p>For enquiries and to respond to this consultation. Please e-mail sandra.layne@communities.gsi.gov.uk</p> <p>When responding, please ensure you have the words “Investment in Partnerships” in the email subject line.</p> <p>Alternatively you can write to: Local Government Pension Scheme - Investments Department of Communities and Local Government 5/F6 Eland House Bressenden Place London SW1E 5DU</p> <p>For more information, please see www.communities.gov.uk</p>

Compliance with the Code of Practice on Consultation:

This consultation complies with the Code and it will be for 6 weeks. We are seeking views from the following parties with an interest in the Local Government Pension Scheme:

The Welsh Assembly

The Chief Executives of:

County Councils (England)
District Councils (England)
Metropolitan Borough Councils (England)
Unitary Councils (England)
County and County Borough Councils in Wales
London Borough Councils
South Yorkshire Pension Authority
Tameside Metropolitan Borough Council
Wirral Metropolitan Borough Council
Bradford Metropolitan City Council
South Tyneside Metropolitan Borough Council
Wolverhampton Metropolitan Borough Council
London Pension Fund Authority
Environment Agency

Town Clerk, City of London Corporation
Clerk, South Yorkshire PTA
Clerk, West Midlands PTA
Fire and Rescue Authorities in England and Wales
Police Authorities in England and Wales
National Probation Service for England and Wales
Local Government Association (LGA)
Employers' Organisation
LGPC

ALACE
PPMA
SOLACE
CIPFA
ALAMA

Association of Colleges

Association of Consulting Actuaries
Association of District Treasurers
Society of County Treasurers
Society of Welsh Treasurers
Society of Metropolitan Treasurers
Society of London Treasurers
Association of Educational Psychologists

NAPF
NALC

	<p>Society of Local Council Clerks</p> <p>Trades Union Congress GMB UCATT UNISON Unite</p> <p>NAEIAC NAPO</p> <p>MOCOP Members Equal Opportunities Commission</p>
--	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Background

Getting to this stage:	Subsequent to the publication of the Government's <i>Blueprint for Technology</i> and the signing of a memorandum of understanding between pension industry representatives and the Government on examining ways pension funds could invest in infrastructure projects, concern has been expressed that extant provisions of the LGPS (Investment and Management of Funds) Regulations 2009 may be placing an unintended bar on authorities seeking to invest in this particular area.
Previous engagement:	See above

How to respond

1. Responses to this consultation must be received by **18 December 2012**.
2. You can respond by email to sandra.layne@communities.gsi.gov.uk or write to:

Local Government Pension Scheme - Investments
Department of Communities and Local Government
5/G6 Eland House
Bressenden Place
London SW1E 5DU

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at www.communities.gov.uk

Confidentiality and data protection

6. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

7. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. 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, in itself, be regarded as binding on the department.

8. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

10. Questions about the policy issues raised in the document can be sent to the address given at paragraph 2 above.

11. A copy of the consultation criteria from the Code of Practice on Consultation is at www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator,
Zone 8/J6,
Eland House,
Bressenden Place
London SW1E 5DU

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Chapter 1 - Introduction

- 1.1 The primary responsibilities of local authority pension funds are to deliver the returns needed to pay Scheme members the pensions they have worked hard to earn, and to protect local taxpayers and employers from high pension costs. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations) are designed to enable local fund managers to pursue effective investment strategies that meet these goals. By requiring that funds and risks are spread across a number of different types of investment, and setting limits on the proportion of funds that can be invested in each type of investment, the Investment Regulations help to minimise risk and protect the interest of taxpayers.
- 1.2 Within this framework, it is important that local fund managers have appropriate levels of flexibility to maximise their investment opportunities. In this context, concerns have been expressed that local authority pension funds have not been in a position to diversify their investments into vehicles established to take advantage of potential returns from investment in infrastructure. It has been suggested that this is as a result of certain investment category limits within the Investment Regulations, particularly where investments which use Limited Liability Partnerships have to be considered under the overall restriction applying to partnerships. This consultation, therefore, seeks views on whether there is merit in amending the Investment Regulations to provide further flexibility in the area relating to partnerships.
- 1.3 The consultation will close on 18 December 2012 and details of how to respond are set out at the beginning of the document. Importantly, this consultation should not be seen as an endorsement by Government of any particular investment vehicle. Those decisions remain properly as ones for individual local pension authorities, in the light of their own analysis. Rather, this consultation is seeking to identify and remove any unnecessary barriers to investments which can form an integral part of a local investment portfolio and can also assist in stimulating growth.

Chapter 2 - Setting the context

Framework for local investment decisions

- 2.1 Local pension authorities must ensure that their funds will provide a consistent and known income stream over the long term. This will help minimise the impact of managing pension costs, stabilise the level of employer contribution rates and limit local taxpayers' exposure over the medium to long term. In developing their investment strategies, local fund managers must operate within the framework set by the Investment Regulations. These require funds to be invested across a spread of different types of investment to minimise risk, and limit the proportion of funds that can be invested in each type of investment. A copy of the Investment Regulations can be found at: www.legislation.gov.uk/ukxi/2009/3093/contents/made .
- 2.2 All local authority pension funds are required to have in place a Statement of Investment Principles which will describe the Fund's investment objectives, the types of investments held and the Fund's attitude to risk. Any local investment decision must comply with the Fund's Statement of Investment Principles, must be supported by a clear business case and must have been made in the light of appropriate and proper advice. Final investment decisions rest, in the main with locally elected councillor members of investment committees, although such committees may include other co-opted representative, and the committee will have given due regard to the available professional advice and the appropriate use of public funds.

Investing in infrastructure

- 2.3 In November 2010, the Government published its *Blueprint for Technology*¹ which set out the Government's aim to make the UK the most attractive place in the world to start and invest in innovative technology companies. The blueprint highlighted the role that pension funds, both in the private and public sector, can play in filling gaps in the provision of growth finance and equity funding for small businesses. Whilst recognising that decisions whether or not to invest in any particular product or sector will remain entirely a matter for individual pension funds, the blueprint encouraged local authorities to consider doing more to match the investment strategies of local authority pension funds with the needs of UK start-ups.
- 2.4 In November 2011, HM Treasury, the National Association of Pension Funds and the Pension Protection Fund signed a Memorandum of Understanding². All parties agreed that there is the potential for mutual

¹ www.bis.gov.uk/assets/biscore/innovation/docs/b/10-1234-blueprint-for-technology.pdf

² www.hm-treasury.gov.uk/d/foi_memorandum_of_understanding.pdf

benefit for the Government and pension funds to facilitate investment in infrastructure. The parties agreed to work together to help establish the arrangements necessary for efficient and appropriate investment in UK infrastructure assets. This work has included the development of the Pension Investment Platform, which will seek to raise funds from both public and private sector pension schemes.

- 2.5 More recently, in July 2012, Professor John Kay published his independent review of UK Equity Markets and Long Term Decision Making³. The review posed several challenges to the relationship between pension funds and markets. Overall, the report recommends that there should be a shift in the culture of the stock market, with the intention of promoting more long term decision making both with a view to improving cash flow returns for pension funds and to provide a source of long term capital investment in businesses to enable them to grow.

The case for change

- 2.6 Within this context of debate about the role of pension schemes within infrastructure investment, some - including the National Association of Pension Funds - have expressed concern that local authority pension funds have not been in a position to diversify their investments into vehicles established to take advantage of potential returns from investment in infrastructure. In particular, it has been suggested that difficulty is caused by the 15% limit set by the Investment Regulations on investment in partnerships.
- 2.7 Commentators argue that, in common with other types of investment with a similar degree of risk, infrastructure investment vehicles are usually organised as limited partnerships. This means that any investment in vehicles such as the Pension Investment Platform (see paragraph 2.4) must be taken together with existing investments in other limited partnerships, including limited partnerships and the use of private equity via a partnership, in considering whether a fund's investment strategy fits within the permitted limits. It has been suggested that, in view of this, the current 15% limit is too low and would put some local authority pension funds at risk of exceeding this limit, and so unable to pursue infrastructure opportunities. It has been argued that this, in effect, limits diversification by constraining access to an asset class that may be well suited to a local authority pension fund's long term needs.

³ www.bis.gov.uk/assets/biscore/business-law/docs/k/12-917-kay-review-of-equity-markets-final-report

- 2.8 In September 2012, the Smith Institute published a report on local authority pension funds and investing for growth⁴, which arrived at similar conclusions. Among its proposals it recommended that Government should consider reviewing and exploring potential changes to the restrictions on investments as currently set out in the Investment Regulations. In particular questions were posed in relation to limits for investment in limited liability partnerships which fall under the general definition of partnerships.

⁴ www.smith-institute.org.uk/file/local%20authority%20pension%20funds%20-%20investing%20for%20growth.pdf

Chapter 3 - Proposals for consultation

- 3.1 As indicated, by virtue of this consultation, Government is not endorsing any particular type of investment or investment vehicle. Those decisions remain properly as ones for individual local pension authorities, in the light of their own analysis, with final decisions resting with locally elected councillors. Similarly, the Government is not proposing to fundamentally change the framework for investment provided by the Investment Regulations. Those regulations provide necessary and effective protections for local council tax payers, the principle of which must remain.
- 3.2 However, in light of the context described in the previous chapter, this consultation seeks views on whether action is necessary to amend those regulations to remove any unnecessary barriers to investments in infrastructure. If action is considered necessary, the Government would welcome views on what steps it should take.
- 3.3 The Government considers that there are two clear options for change:

A) Increase the limit on investments in partnerships from 15% of a local authority pension fund to 30%.

Such an increase could facilitate investment in infrastructure investment vehicles along side other existing arrangements organised as limited partnerships. However, there would be no direction for funds to spread investment in limited liability partnerships between different classes of investment. For example, a fund could use this higher limit to increase the proportion of funds that could be invested in other investment opportunities such as private equities. In addition, any increase to the proportion of funds invested in partnerships must be considered within the increased risk potentially involved in such vehicles.

B) Create a new investment class for investment in infrastructure (including via limited liability partnerships), with an appropriate investment limit of 15% of an overall fund.

Again, this approach would need to be considered in the context of increases in risk associated with investment in limited liability partnerships. However, it may help to protect against concentration of investment in a particular type of investment. In considering this option, respondents are asked in particular to offer views on how this might best be defined in regulation.

- 3.4 In the light of the options set out above, the Government would welcome views on the following questions:
- Q1. How best could the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 be amended to enable local authority pension funds to invest more easily in infrastructure vehicles?
 - Q2. What would be the most appropriate limit on investments in partnerships contained within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009?
 - Q3. Should a new investment class for investment in infrastructure (including via partnerships or limited liability partnerships) be created and be inserted into the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009? If so, what would be an appropriate limit for such a class? How might this be best defined in regulation?⁵
 - Q4. Are there other ways, not specifically raised in this consultation document, that the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 could be amended to increase flexibility for local authority pension funds to invest in infrastructure projects?
 - Q5. Are there ways in which the Regulations could be amended to facilitate investment in infrastructure specifically in the United Kingdom, where local funds believe that appropriate rates of return can be achieved?

⁵ By way of illustration consultees may wish to look at s.2(3) of the Housing and Regeneration Act 2008

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Pension Fund Committee



4 December 2012

Short Term Investments for the period ended 30 September 2012

Don McLure, Corporate Director Resources

Purpose of Report

1. To provide the Committee with information on the performance of the Pension Fund's short term investments for the 6 month period ended 30 September 2012.

Short Term Investments

2. Durham County Council (DCC) invests the short term cash balances on behalf of the Pension Fund; this is done in line with DCC's Treasury Management Policy and Annual Investment Strategy. This investment strategy sets out the maximum amounts and time limits in respect of deposits which can be placed with each financial institution.
3. The Pension Fund's surplus cash holding as at 30 September 2012 was £14.024m which was held in the institutions listed in the table below alongside their credit rating at 30 September 2012.

Financial Institution	Rating	Amount Invested £m
Bank Deposit Accounts		
The Co-operative Bank	BBB+	0.963
Natwest Bank	A	3.415
Fixed Term Deposits		
Barclays	A	1.452
Royal Bank of Scotland	A	1.707
Bank of Scotland	A	5.121
Nationwide Building Society	A+	1.281
National Savings & Investments	N/A	0.085
Total		14.024

4. The following table provides information on the interest earned during the 6 month period, the average daily investment balance and the average return earned in comparison to the average bank base rate:

	Total
Interest Earned	£85,551
Average Return Earned	0.895%
Average Bank of England base rate	0.500%
Average Daily Balance of Investments	£19.125m

Recommendation

5. Members are asked to note the position at 30 September 2012 regarding the Pension Fund's short term investments.

Contact: Hilary Appleton Tel: 03000 266239

Pension Fund Committee

4 December 2012

**Annual Governance Report for the year
ended 31 March 2012**



Don McLure, Corporate Director Resources

Purpose of the Report

- 1 To inform Members of the completion of the audit of the Pension Fund Accounts and to present the Annual Governance Report for the financial year ended 31 March 2012.

Background

- 2 A report to the Pension Fund Committee on 4 September 2012 included the Pension Fund Statement of Accounts and the Interim Governance Report for the Pension Fund. At that time, the Accounts were subject to audit by our external Auditor, the Audit Commission.
- 3 The Statement of Accounts has now been approved by the Audit Committee and the External Auditor has expressed his opinion on the County Council and Pension Fund Accounts.
- 4 The Annual Report and Accounts of the Pension Fund, which contains the audited Statement of Accounts, was circulated to Members and was presented to the Annual Meeting of the Pension Fund on 1 November 2012 and is available on the County Council's [website](#).

Annual Governance Report

- 5 The Annual Governance Report has now been completed and is attached at Appendix 2 for Members' information.
- 6 Appendix 1b to the Annual Governance Report gives the Auditor's unqualified opinion on the Pension Fund's Financial Statements and the Annual Report:

"In my opinion the pension fund's financial statements:

- *give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and*

- *have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.*

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.”

- 7 Appendix 2 to the Annual Governance Report details the uncorrected errors. These errors found in the accounts have not been corrected due to uncertainty over the amount of the amendment to be made and the error does not materially affect the financial statements.
- 8 Appendix 3 to the Annual Governance Report details the changes made to the Accounts as a result of the audit of the accounts.
- 9 It is pleasing to note that the Auditor in his Audit Letter to the County Council also stated that:

“ the quality of the Pension Fund financial statements also improved this year with fewer errors identified than in previous years.”

Summary

- 10 Members are asked to note the contents of this report.

Contact: Hilary Appleton Tel: 03000 266239

Annual governance report

Durham County Pension Fund

Audit 2011/12



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Key messages

This report summarises the findings from my 2011/12 audit of the Pension Fund financial statements which is substantially complete.

As at 18 September, my work is now substantially complete. Subject to the completion of our work on the Pension Fund Annual Report and my final review my audit is substantially complete. I plan to issue an audit report on the Council's financial statements that includes an unqualified opinion on the pension fund financial statements. I also plan to issue an unqualified opinion on the financial statements included in the pension fund annual report. Appendix 1a contains a copy of my draft audit report on the financial statements of the Council. Appendix 1b contains a copy of my draft audit report on the pension fund annual report.

The draft financial statements were submitted for audit by the due date and were substantially complete. The pension fund's financial statements have been amended to correct a number of errors identified during the audit. None of these errors had a material impact to the reported performance of the fund, and most related to classification errors. In addition, officers have identified a £13 million material error in the disclosure of derivatives in the financial statements. This had no impact on the overall financial position of the fund and has now been corrected.

I identified further errors which I have not asked the pension fund to amend, due to the nature of the uncertainties. I also identified a small number of disclosure errors and non trivial errors, all of which the pension fund has agreed to amend, Overall I have not identified any significant weaknesses in the pension fund's internal controls.

There are no other significant matters that I need to bring to your attention.

Before I give my opinion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

I ask the Audit Committee to:

- take note of the adjustments to the financial statements included in this report (Appendices 2 and 3); and
- approve the letter of representation (Appendix 4), on behalf of the Pension Fund before I issue my opinion.

Financial statements

The Pension Fund’s financial statements are an important mechanism for the Pension Fund to account for its stewardship of public funds. As Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

Subject to satisfactory clearance of a small number of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. My opinion will be included within the Council’s Statement of Accounts and the financial statements included within the Pension Fund Annual Report. Appendices 1a and 1b contain copies of my draft audit reports.

My work to review the Annual Report is ongoing. I expect to complete all my work, including my final review procedures, before the Audit Committee on 27 September 2012. I will update the Committee as necessary as part of my oral report.

Uncorrected errors

I have detailed the small number of uncorrected errors and uncertainties at Appendix 2. All of these items are uncertainties rather than errors and as such have not been adjusted for.

Corrected errors

My work identified a number of errors in the statements presented for audit. None of these have a material impact on the financial position of the Pension Fund at 31 March 2012. These have now been amended. A schedule of the changes is included at Appendix 3. I also agreed a number of changes to disclosures and supporting narrative. The most significant amendments are:

- Material understatement identified by officers of derivative assets and liabilities by an equal amount of £13.784 million in the Net Assets Statement and corresponding notes.
- Material misclassification of the investment in the Aquila Fund for an amount of £123.263 million in Note 13. This was included as a quoted investment but should have been included as unquoted.

- Material misclassification of PIV vehicle purchases of £17.8 million as overseas equity purchases in Note 13.
- Material misclassification of PIV vehicle sales of £27.1 million as overseas equity sales in Note 13.
- Material misallocation of 'other investment assets' of £29.176 million to loans and receivables instead of fair value through profit and loss in Note 14.
- Material misallocation of investment liabilities of £16.552 million to loans and receivables instead of fair value through profit and loss in Note 14.

Significant risks and my findings

My audit plan, dated February 2012, set out the significant risk that I expected to give particular attention as part of my audit. This related to the value of unquoted investments in Alliance Bernstein. Following the planning phase of this year's audit, the Audit Commission recommended that auditors should explicitly report their work on the areas where 'management bias' could impact on the accounts. Table 1 describes my findings in these two areas.

Table 1: **Significant risks and findings**

Significant Risk	Finding
<p>Value of Unquoted Investments</p> <p>The value of unquoted investments with Alliance Bernstein may be incorrect. The value of unquoted funds in the accounts will be the value calculated by the Fund Manager as in previous years. Last year, officers did not get any assurance before the audit to support the valuation applied by Alliance Bernstein.</p>	<p>I worked with officers to ensure that they obtained accounts and other appropriate supporting documents to verify the valuation by the Fund Manager of unquoted investments before submission of the accounts for audit.</p> <p>My testing has not identified any significant issues to bring to your attention.</p>
<p>Management Bias</p> <p>In any organisation, management may be in a position to override the financial controls it has put in place. This does not imply that I suspect actual or intended manipulation but that I approach the audit with professional scepticism.</p>	<p>I evaluated the design and implementation of controls to mitigate the risk of manipulation and performed procedures to satisfy myself that, taking account of materiality, no manipulation has occurred. In particular, I tested:</p> <ul style="list-style-type: none"> ■ material year end adjustment journals; ■ recognition of income and expenditure; and ■ the reasonableness of estimations and liabilities. <p>My testing has not identified any material issues beyond those that are reflected in the</p>

Significant Risk

Finding

proposed adjustments to the draft accounts.

Other risks and my findings

My audit plan, dated February 2012, also set out a small number of other risks that would be considered as part of this year's audit. Table 2 describes my findings in these areas.

Table 2: Other risks and findings

Other Risk

Finding

Completeness of Related Party Transactions

Disclosure of related party transactions may be incomplete. There have been problems in previous years in obtaining written declarations promptly, particularly from members of the Pension Fund Committee who are not Durham County Council members.

I reviewed the management controls in place for the identification and disclosure of related party transactions and undertook substantive testing to satisfy myself that all related party transactions have been accounted for. All written declarations have been received.

My testing has not identified any significant issues to bring to your attention.

Compliance with Code of Practice on Local Authority Accounting (the Code)

The Pension Fund accounts may not fully comply with, or include all of the information required by, the Code

I reviewed management controls in place to ensure that the Pension Fund accounts are Code compliant and undertook substantive testing once the accounts were received.

My testing has not identified any material issues beyond those that are reflected in the proposed adjustments to the draft accounts.

Significant weaknesses in internal control

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Pension Fund only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control.

In my interim governance report to members in April 2012 I did not identify any weaknesses in controls that could lead to a material misstatement of the financial statements. I did however identify that contributions receivable from smaller bodies are not separately identified and so could be incorrectly posted to the ledger. I do not intend to repeat those weaknesses in this document.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including the following:

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

Table 3: Other matters

Issue	Finding
Pension Fund - Disclosure issues	<p>I have considered the overall presentation of the Pension Fund financial statements, including the related notes. I have checked to ensure that they are in accordance, where appropriate with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Pensions Statement of Recommended Practice (SORP). I have brought several omissions, presentational issues and errors to the attention of officers. For example:</p> <ul style="list-style-type: none"> ■ The basis of preparation and measurement policy states that accounts are prepared in compliance with PF SORP, which they are not.; ■ Page 125 includes a statement that no investments are impaired. This is not a judgement, but an assumption. ■ Certain accounting policy notes were omitted: <ul style="list-style-type: none"> – Cash and cash equivalents. – Contingent assets.

- Events after the balance sheet date.
 - Financial Instruments.
- Where appropriate the accounts have been amended.

Pension Fund Annual Report

The Pension Fund prepared its draft Annual Report on 23 August 2012. I have not yet completed my review and report on the financial statements included in the Annual Report. I expect to report on the financial statements included in the Annual Report by 27 September 2012. I will provide an oral update on my work on the report to the Audit Committee on 27 September 2012.

Fees

I reported my planned audit fee in the February 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 4: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	42,551	42,551
Non-audit work	0	0
Total	42,551	42,551

The Audit Commission has paid a rebate of £3,404 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £39,147.

Appendix 1a – Draft independent auditor’s reports for the financial statements of the Council

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF DURHAM COUNTY COUNCIL

Opinion on the Authority financial statements

I have audited the financial statements of Durham County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. 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 2011/12.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources’ Responsibilities, the Corporate Director Resources is responsible for the preparation of the Statement of Accounts, which includes the 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, and for being satisfied that they give a true and fair view. My

responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception¹

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources' Responsibilities, the Corporate Director Resources is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Durham County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

[Cameron Waddell

District Auditor

Nickalls House

Metro Centre

GATESHEAD

NE11 9NH

28 September 2012

Appendix 1b – Draft independent auditor’s report for the Pension Fund Annual Report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF DURHAM COUNTY COUNCIL

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.

This report is made solely to the members of Durham County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director Resources and auditor

As explained more fully in the Statement of the Corporate Director Resources Responsibilities, the Corporate Director Resources is responsible for the preparation of the pension fund’s financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

[Signature]

Cameron Waddell
District Auditor Nickalls House Metro Centre GATESHEAD NE11 9NH

28 September 2012

Appendix 2 – Uncorrected errors

I identified the following errors during the audit which management have not addressed in the revised financial statements.

Item of account	Nature of error	Fund Account		Net Assets Statement	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Contributions receivable	Difference between contributions received per DCCPF GL and records maintained in pensions section	307			
Change in market value			307		
Change in market value	Difference between DCCPF download from Resourcelink (RL) and auditors download from RL	146			
Benefits payable				146	
Change in market value	Difference between contributions receivable per employer records and DCCPF GL	130			
Contributions receivable			130		
Change in market value	Difference between commutations payable per DCCPF GL and per report from pension administration system	122			
Benefits payable				122	
Dividend income	Uncertainty relating to balance brought forward	2,240			
Change in market			2,240		
					2,240

		Fund Account	Net Assets Statement
value			
Note 14 Investments	Uncertainty regarding allocation between derivatives sales proceeds and change in market values. £1,068k	-	-

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Item of account	Nature of error	Fund Account		Net Assets Statement	
		Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Derivative assets	Grossing up of derivatives				
Derivative liabilities				13,784	13,784

As well as the numerical errors within the primary statements highlighted above, there were a number disclosure notes which were not amended. Only the most significant ones have been summarised in the next table.

Amended disclosure notes		
Disclosure	Nature of adjustment	Amendment
Note 13 - analysis of investments by assets type.	Misallocation between quoted and unquoted: Aquila Fund £123,263k	Note has been amended.
Note 13 – Reconciliation of Movements in investments	Misclassification of PIV vehicle purchases as overseas equity purchases £17,751k	Note has been amended.
Note 13 – Reconciliation of Movements in investments	Misclassification of PIV vehicle sales as overseas equity sales £27,092k	Note has been amended.
Note 14 – Financial Instruments	Misallocation of 'other investment assets' to loans and receivables column – should be in FVPL £29,176k	Note has been amended.
Note 14 – Financial Instruments	Misallocation of investment liabilities to loans and	Note has been amended.

receivables column – should be in FVPL £16,552k

Note 19 Related party transactions Amendment to the key management personnel note to reflect the financial relationship of all employees, together with the financial relationship of members of the Pension Fund Committee who are active members of the scheme, expressed as cash equivalent transfer values. Note has been amended.

Appendix 4 – Draft letter of management representation

Durham Pension Fund - Audit for the year ended 31/03/2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Officers and Members of Durham pension Fund the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Pension Fund, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Pension Fund and the reasons for not correcting these items are as follows.

- **** pension fund to insert text here*****

Supporting records

I have made available all relevant information and access to persons within the Pension Fund for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Pension Fund.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Pension Fund has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Unfunded pension liabilities

I confirm that all unfunded pension liabilities e.g. discretionary added years awarded to staff in the LGPS and discretionary benefits awarded to teachers under the Teachers Pension scheme are included within the IAS 19 liability figures.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For accounting estimates relating to unquoted Private Equity and Hedge Funds valuations, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Pension Fund, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Pension Fund to adjust the accounting estimate and related disclosures included in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of the Pension Fund's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Durham Pension Fund

I confirm that the this letter has been discussed and agreed by the Audit Committee on 27 September 2012

Signed

Name

Position

Date

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Pension Fund after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Audit Commission

Annual governance report

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Pension Fund is required to prepare, which report the financial performance and financial position of the Pension Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Pension Fund Annual Report

The annual report, including financial statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Significance

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.

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0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



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