Durham County Council

Pension Fund Committee

Date	**Thursday 10 September 2015**
Time	**10.00 am**
Venue	**Committee Room 2, County Hall, Durham**

Business

Part A

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 4 June 2015 (Pages 1 - 6)
4. Graphs showing recent movements of the Stock and Share Indices (Pages 7 - 26)
5. Graphs showing recent movements of the major currencies against sterling (Pages 27 - 32)
6. Performance Measurement of Pension Fund Investments to 30 June 2015 (Pages 33 - 42)
7. Overall Value of Pension Fund Investments to 30 June 2015 (Pages 43 - 48)
8. Short Term Investments for the Period Ended 30 June 2015 (Pages 49 - 50)
9. Pension Fund Policy Documents - Funding Strategy Statement and Statement of Investment Principles (Pages 51 - 106)
10. Statement of Accounts for the Year Ended 31 March 2015 (Pages 107 - 166)
11. Self-Assessment of the Pension Fund Committee (Pages 167 - 180)
12. Pooling of LGPS Investments (Pages 181 - 184)
13. Annual General Meeting of the Pension Fund to be held on 5 November 2015 (Pages 185 - 186)

14. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration
15. 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)

16. The Minutes of the Meeting held on 4 June 2015 (Pages 187 - 196)
17. Report of the Pension Fund Adviser (Pages 197 - 204)
18. Report of BNY Mellon Investment Management (Pages 205 - 212)
19. Report of Aberdeen Asset Management (Pages 213 - 278)
20. Report of Mondrian Investment Partners (Pages 279 - 300)
21. Report of AB (Pages 301 - 318)
22. Report of CBRE Global Investment Partners (Pages 319 - 326)
23. Report of Royal London Asset Management (Pages 327 - 380)
24. Report of BlackRock (Pages 381 - 384)
25. Internal Audit Progress Report to 30 June 2015 (Pages 385 - 388)
26. Procurement of Professional Services (Pages 389 - 396)
27. 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
2 September 2015

To: The Members of the Pension Fund Committee

County Council Members:
Councillors A Turner, W Stelling, J Alvey, C Carr, M Davinson, I Geldard, B Kellett, J Lethbridge, N Martin, J Shuttleworth and H Smith

Darlington Borough Council Members
(vacant)

Scheduled Bodies Representative
(vacant)

Admitted Bodies Representative:
J Norton

Pensioner Representative
D Ford

Active Members Representative
(vacant)

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 Williams - P J Williams
R Bowker - P-Solve
D Banks - P-Solve

Investment Managers
BNY Mellon Investment Management
Aberdeen Asset Management
Mondrian Investment Partners
AB
CBRE Global Investment Partners
Royal London Asset Management
BlackRock

Staff Observers

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 **Thursday 4 June 2015 at 10.00 am**

Present:

Councillor A Turner (Chairman)

Members of the Committee:
Councillors J Alvey, C Carr, M Davinson, J Lethbridge, J Shuttleworth and H Smith

Pensioner Representative
D Ford

Also Present:
County Council Advisers
D McLure – Corporate Director, Resources
H Appleton – Strategic Finance Manager – Corporate Finance
N Orton – Team Leader Operations and Data/Pensions

Independent Advisers
P Williams – P J Williams
R Bowker – P-Solve
D Banks – P-Solve

Prior to the commencement of business a minute silence was held as a mark of respect for Councillor Robin Todd who had sadly died recently.

1 Apologies for Absence

Apologies for absence were received from Councillors Ian Geldard and Nigel Martin, and admitted bodies representative John Norton.

2 Declarations of interest

There were no declarations of interest.

3 Minutes

The Minutes of the meeting held on 4 March 2015 were agreed as a correct record and were signed by the Chairman.

4 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).

Philip Williams, Pension Fund Adviser informed the Committee that in the 12 months to 31 March 2015 bond yields had declined steeply around the world which meant that prices were going up. This would influence the discount rate of liabilities. Assets were performing satisfactorily as equity markets performed well. Equity markets were driven by the monetary policies of Central Banks. The latest estimate was for a decline in the current year which was influenced substantially by oil and gas companies and falling energy prices.

Since 31 March 2015 bond markets had been very volatile and yields had risen.

Resolved:

That the information given be noted.

5 Graphs showing recent movements of the major currencies against sterling

Consideration was given to graphs showing recent movements of the major currencies against sterling (for copy see file of Minutes).

Resolved:

That the information given be noted.

6 Performance Measurement of Pension Fund Investments to 31 March 2015

Consideration was given to the report of the Corporate Director, Resources which gave an overview of the performance of the Fund to 31 March 2015 (for copy see file of Minutes).

The report gave details of the Managers' performance against their benchmarks for the quarter, the year to date and since inception of the Fund.

Resolved:

That the information contained in the report produced by J P Morgan be noted.

7 Overall Value of Pension Fund Investments to 31 March 2015

Consideration was given to the report of the Corporate Director, Resources which informed Members of the overall value of the Pension Fund as at 31 March 2015, and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers (for copy see file of Minutes).

Councillor Carr noted that dividend income receivable in 2015/2016 was estimated to be £31m but was concerned that employee contributions may decline. Don McLure, Corporate Director, Resources stated that the assumptions were based on the actuarial valuation of 2013 and had been taken into account in the forecasts at that time. The next actuarial valuation was due in March 2016.

Nick Orton, Team Leader Operations and Data/Pensions clarified that dividend income related to income from Assets and contribution income from scheme membership would be expected to decline if employee numbers reduced. However the Council contributed £22m over and above its membership contribution which would safeguard the position.

By way of information Don McLure advised that the Council had agreed to introduce auto-enrolment whereby employees were automatically enrolled in the scheme but could opt out. This reversed the current arrangements where employees decided whether or not to participate in the scheme at the outset. The implementation of auto-enrolment had been delayed until 2017 but evidence in other areas had shown that a significant number of employees who had been auto-enrolled had not opted out.

Pension Funds across the country would be subject to the same constraints and Philip Williams advised that generally public sector schemes were in a better position than private sector schemes because of their long-term focus. Members could be assured that Durham's scheme was in an above average position in terms of its solvency.

Councillor Davinson referred to Government consultation on the future structure of Local Government Pension Schemes which included proposals to merge Pension Funds. Nick Orton informed the Committee of the outcome of the consultation which had determined that Pension Fund mergers should not be pursued and the focus was now on pooled investment vehicles. Consultation was ongoing in relation to this and the final conclusions were awaited.

Resolved:

That the information contained in the report be noted.

8 Short Term Investments for the Period Ended 31 March 2015

Consideration was given to the report of the Corporate Director, Resources which provided information on the performance of the Pension Fund's short term investments as at 31 March 2015 (for copy see file of Minutes).

Councillor Shuttleworth referred to net interest earned on investments and asked if the rates were likely to increase in the short-term. The Member was advised by Hilary Appleton that this was unlikely. For information Don McLure stated that the Bank of England rate had been fixed at 0.5% for 6 years and the view was that it would remain at this level for at least a further 12 months. As markets were now more buoyant, in line with the Treasury Management Strategy, consideration had been given to extending sound investments beyond 12 months where marginally better rates were secured.

Resolved:

That the position at 31 March 2015 regarding the Pension Fund's short term investments where £60,268 net interest was earned in the three month period, be noted.

9 Pension Fund Policy Documents - Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP)

Consideration was given to the report of the Corporate Director, Resources which informed Members of the review of the FSS and SIP and sought approval to circulate the documents to all relevant parties to consult on their contents (for copy see file of Minutes).

Resolved:

That the contents of the revised FSS and SIP policy documents be approved and circulated to all relevant interested parties to consult on their contents.

In order to keep Members informed the Chairman agreed that consideration be given to the following item of business.

10 Audit Strategy Memorandum - Durham County Council Pension Fund

Consideration was given to the Audit Strategy Memorandum provided by Mazars LLP for Durham County Council Pension Fund for the year ended 31 March 2015 (for copy see file of Minutes).

Catherine Banks, Engagement Senior Manager of Mazars informed Members that the purpose of the document was to summarise their audit approach and highlight any significant audit risks.

The following risks had been identified and were set out in Section 3 of the report together with details of how these would be addressed:-

- Management override of controls
- Valuation of unquoted investments for which a market price was not readily available
- Disclosure of Funding Arrangements

Members were advised of a further two risks identified since the circulation of the memorandum; a new version of Oracle which had been tested with nothing further to report, and the transition of investments between Fund Managers which would be completed this month.

In conclusion she advised of future changes to accounting deadlines which would bring local authorities in line with central Government timescales.

Resolved:

That the Audit Strategy Memorandum for Durham County Council Pension Fund for the year ended 31 March 2015 be received.

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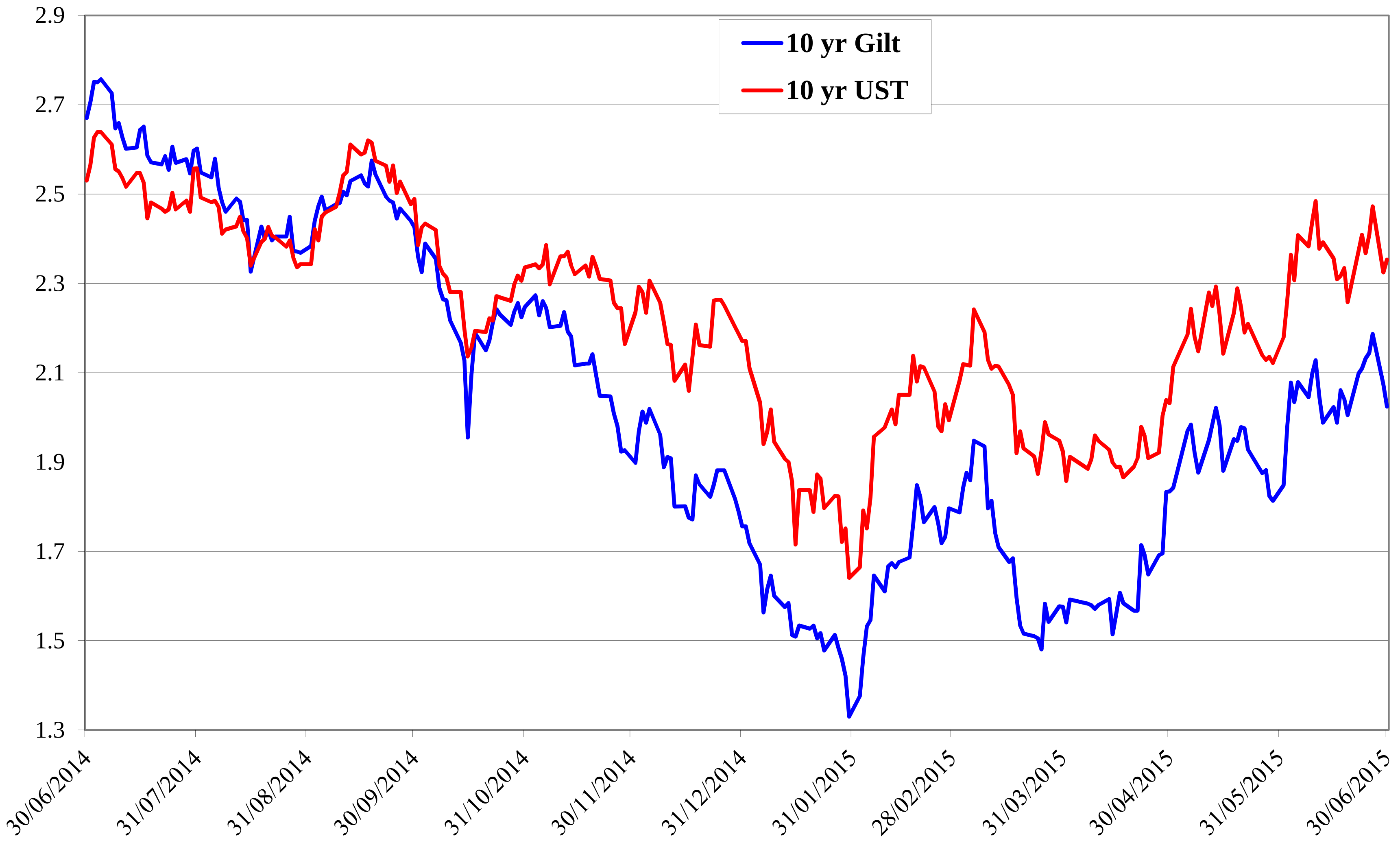

10 yr Gilt
10 yr UST
2.9
2.7
2.5
2.3
2.1
1.9
1.7
1.5
1.3
30/06/2014
31/07/2014
31/08/2014
30/09/2014
31/10/2014
30/11/2014
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31/01/2015
28/02/2015
31/03/2015
30/04/2015
31/05/2015
30/06/2015

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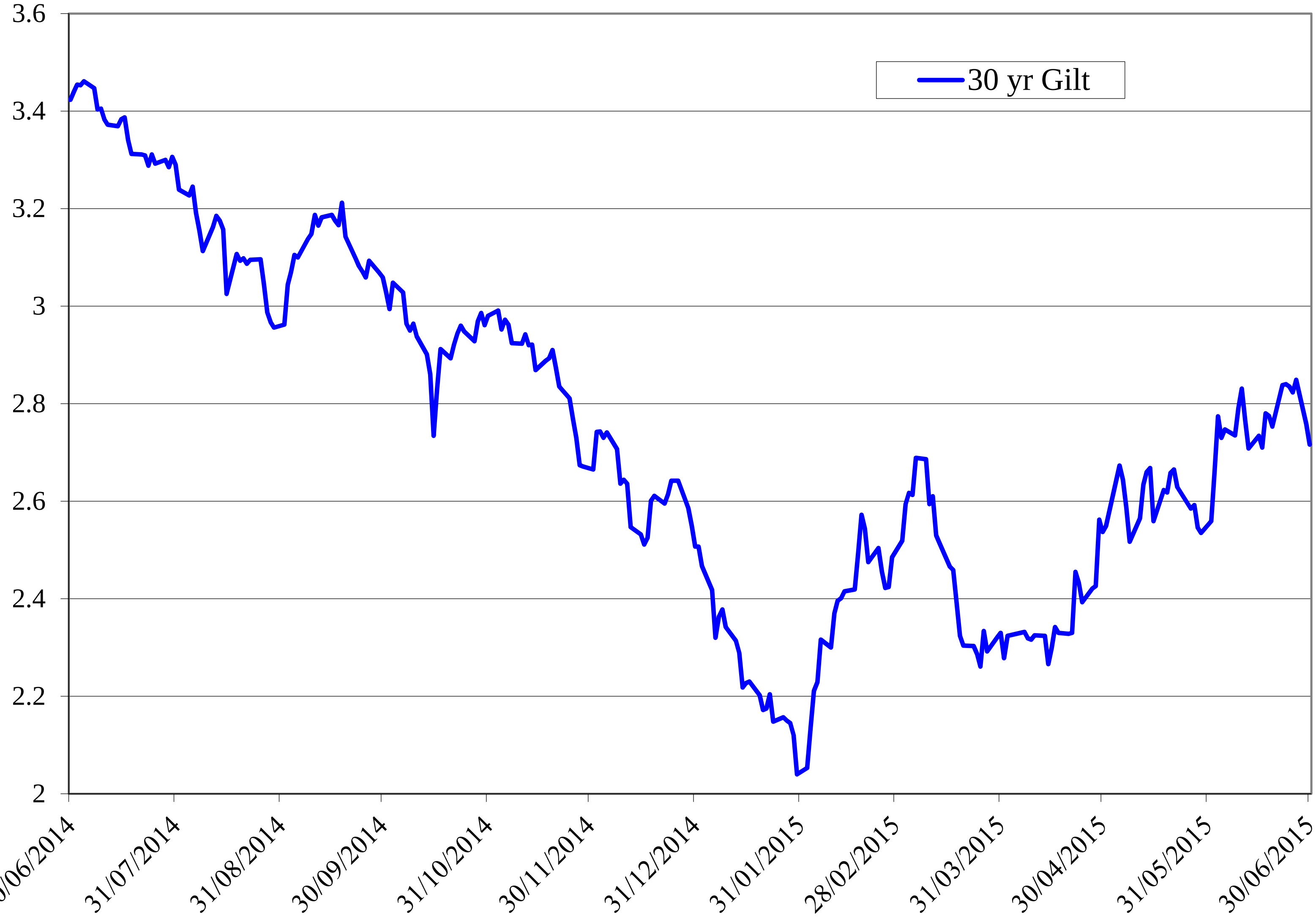

30 yr Gilt
3.6
3.4
3.2
3
2.8
2.6
2.4
2.2
2
30/06/2014
31/07/2014
31/08/2014
30/09/2014
31/10/2014
30/11/2014
31/12/2014
31/01/2015
28/02/2015
31/03/2015
30/04/2015
31/05/2015
30/06/2015

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10 yr Index Linked
30 yr Index Linked
0.4
0.2
0
-0.2
-0.4
-0.6
-0.8
-1
-1.2
30/06/2014
31/07/2014
31/08/2014
30/09/2014
31/10/2014
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28/02/2015
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31/05/2015
30/06/2015

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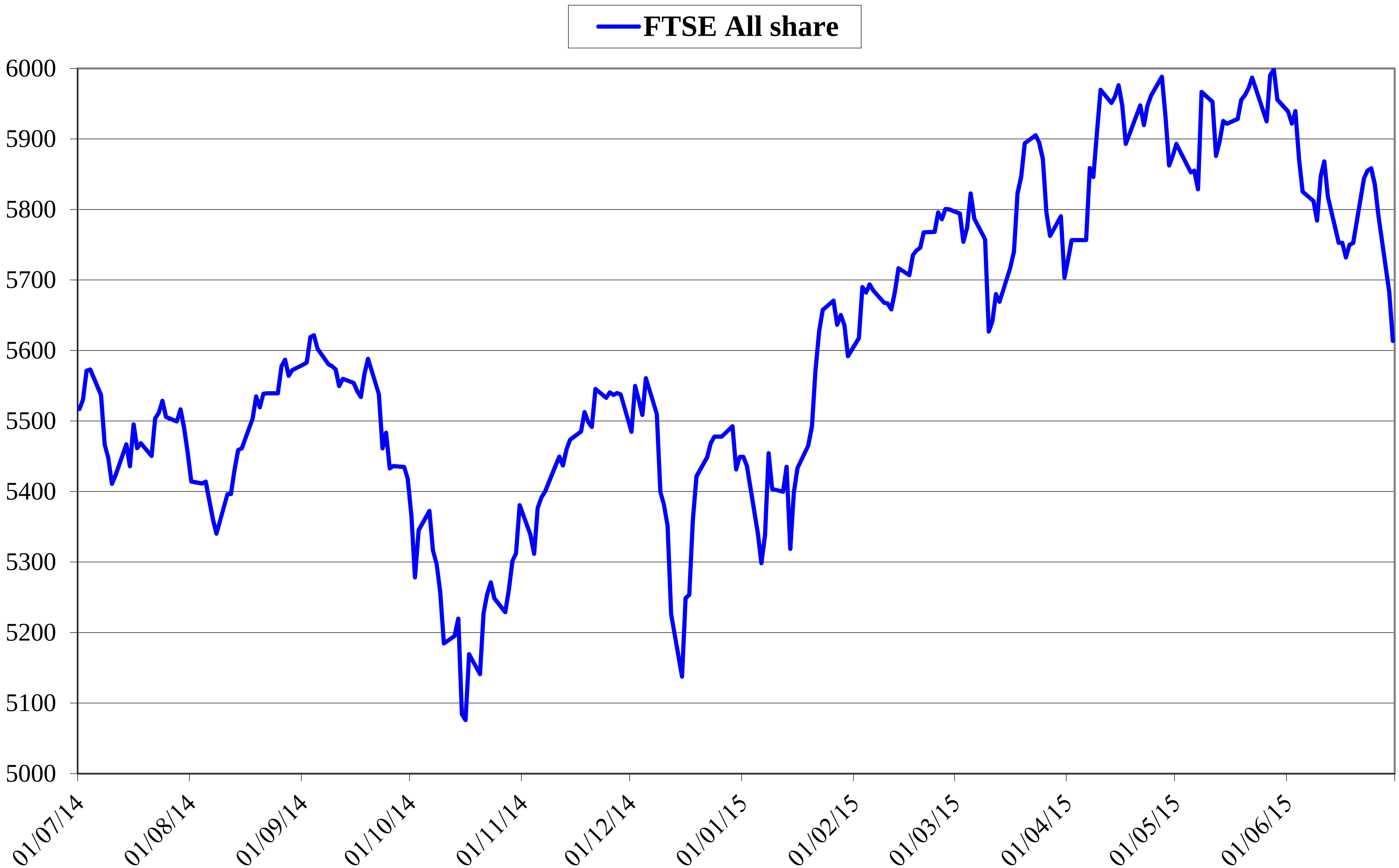
FTSE All share
6000
5900
5800
5700
5600
5500
5400
5300
5200
5100
5000
01/07/14
01/08/14
01/09/14
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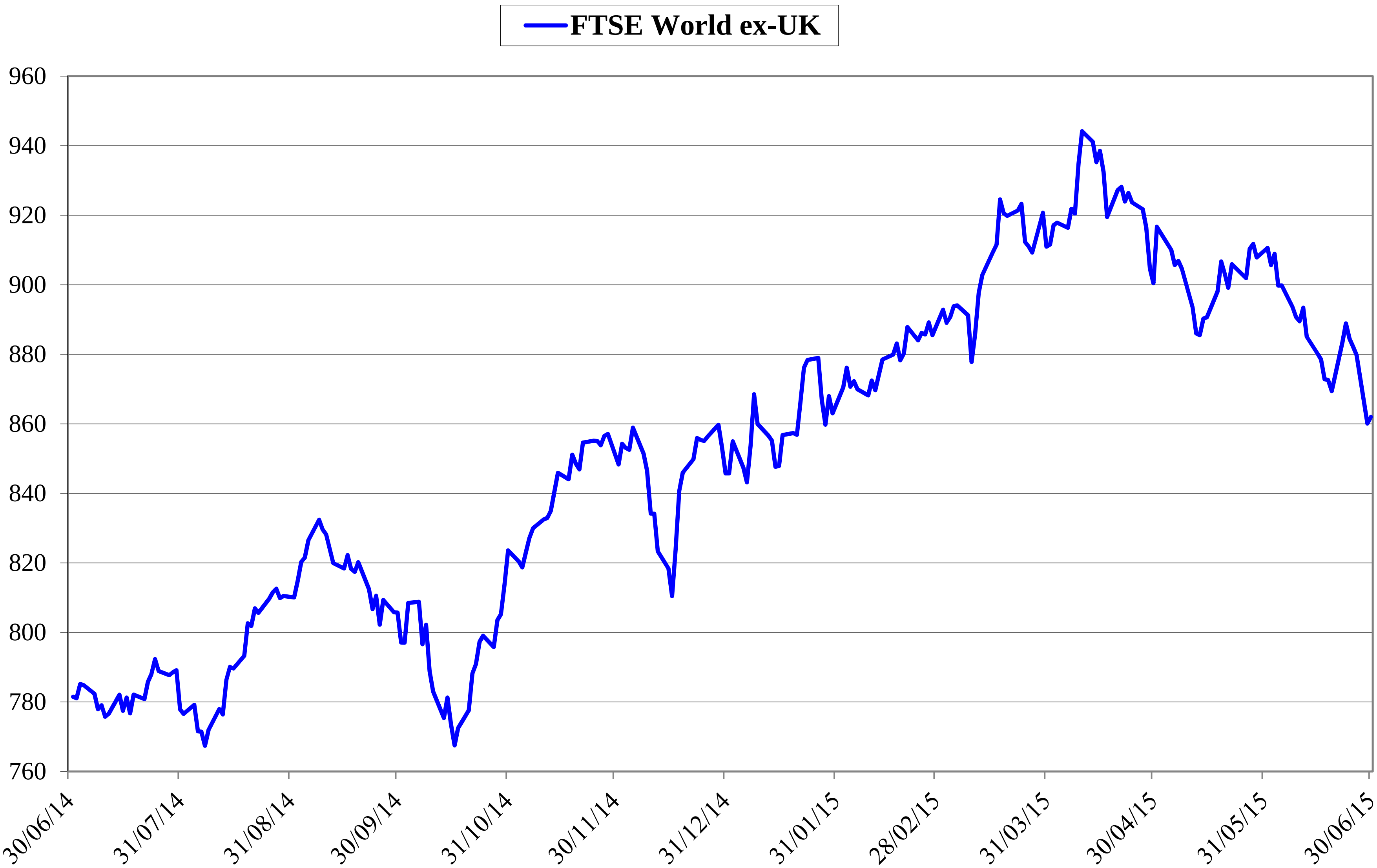
FTSE World ex-UK
960
940
920
900
880
860
840
820
800
780
760
30/06/14
31/07/14
31/08/14
30/09/14
31/10/14
30/11/14
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31/01/15
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30/06/15

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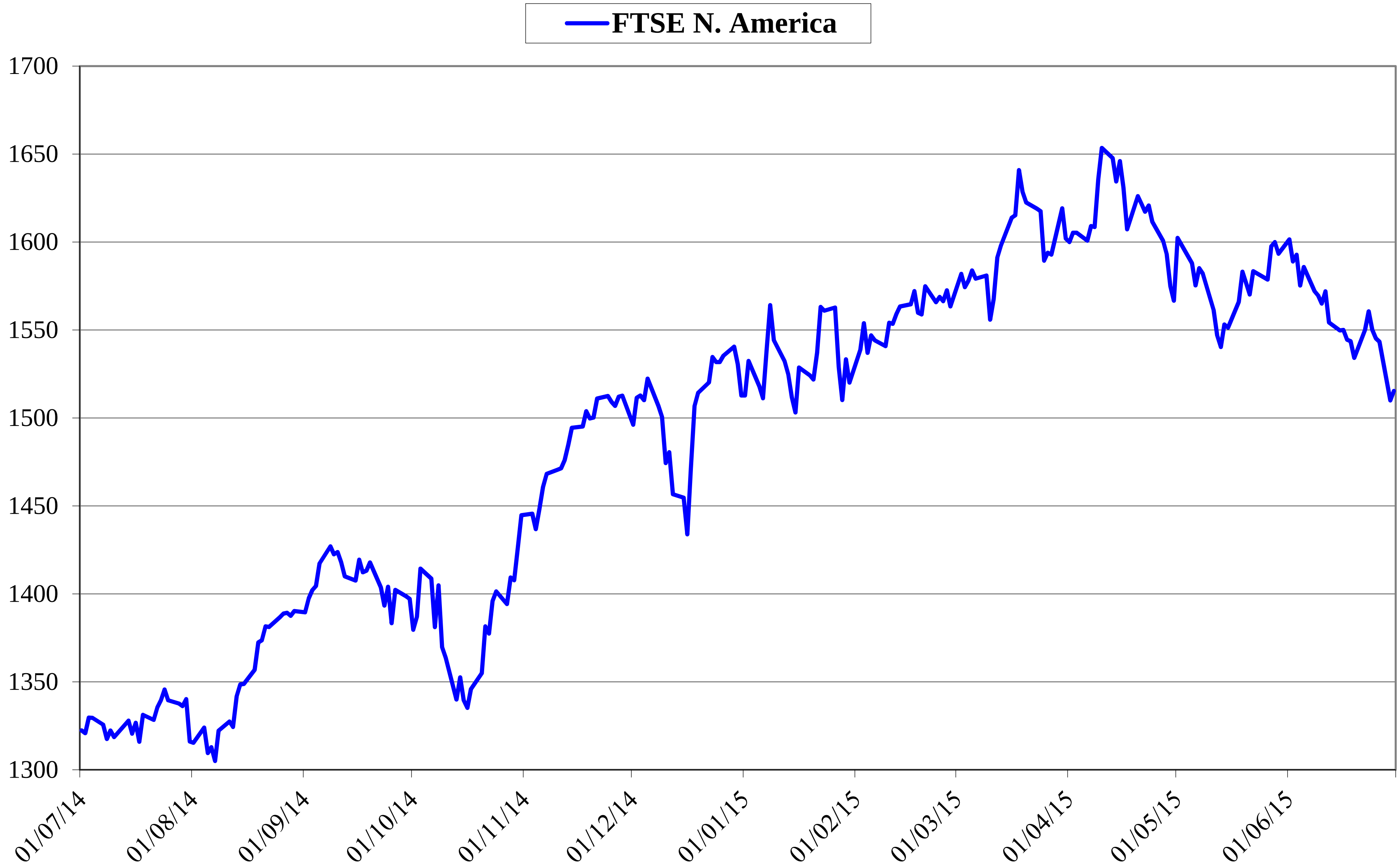
FTSE N. America
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1650
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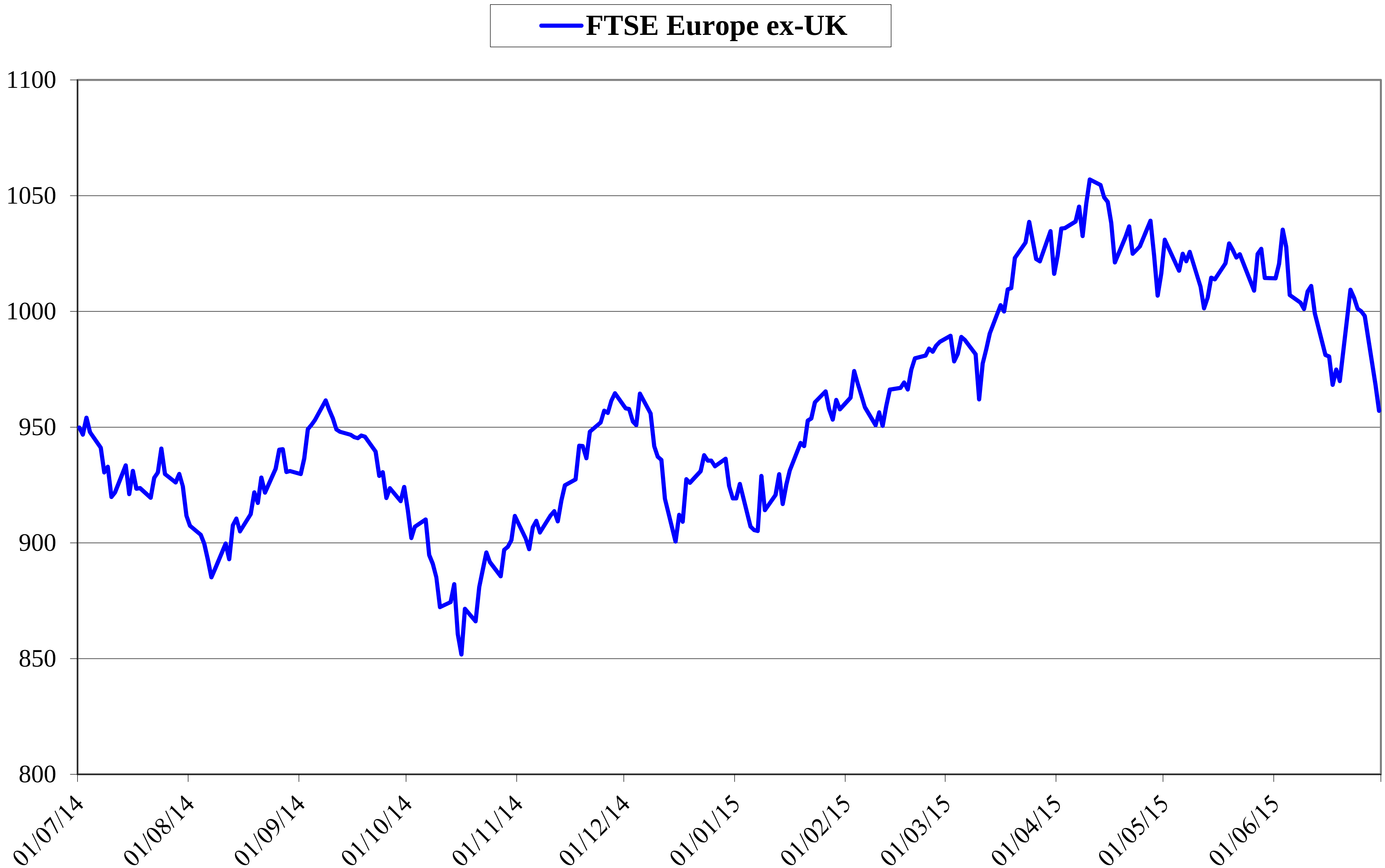
FTSE Europe ex-UK
1100
1050
1000
950
900
850
800
01/07/14
01/08/14
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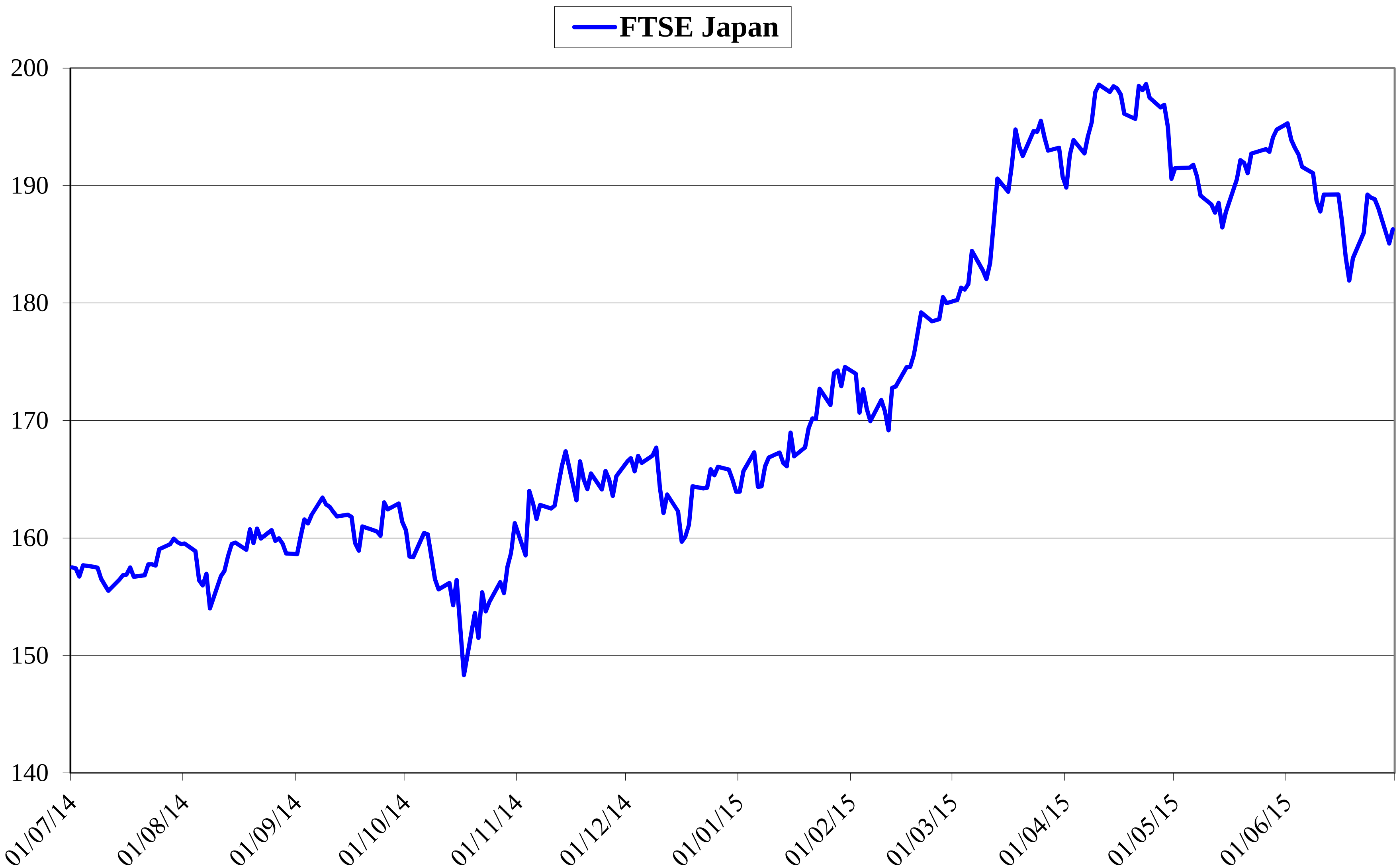
FTSE Japan
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190
180
170
160
150
140
01/07/14
01/08/14
01/09/14
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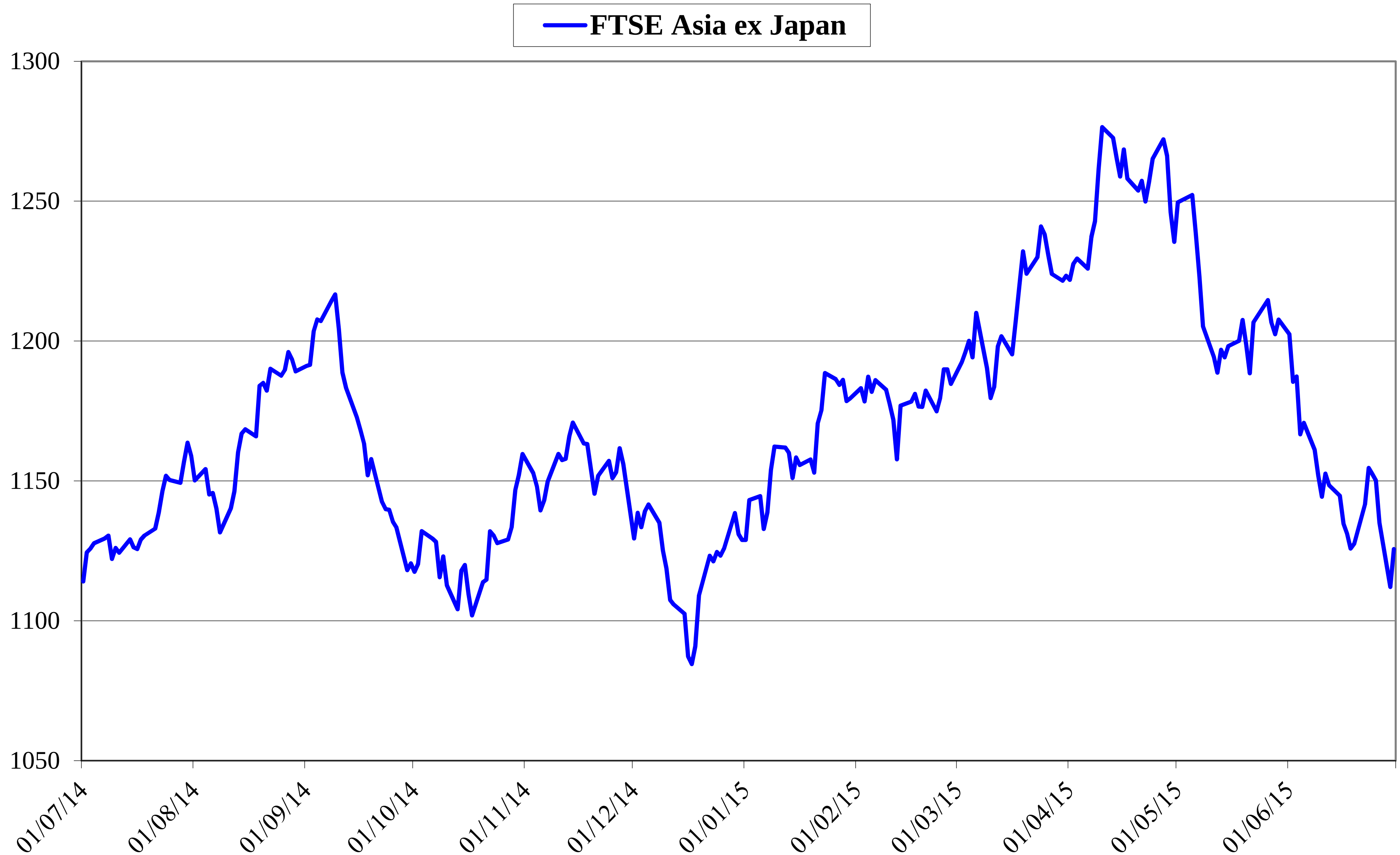

FTSE Asia ex Japan
1300
1250
1200
1150
1100
1050
01/07/14
01/08/14
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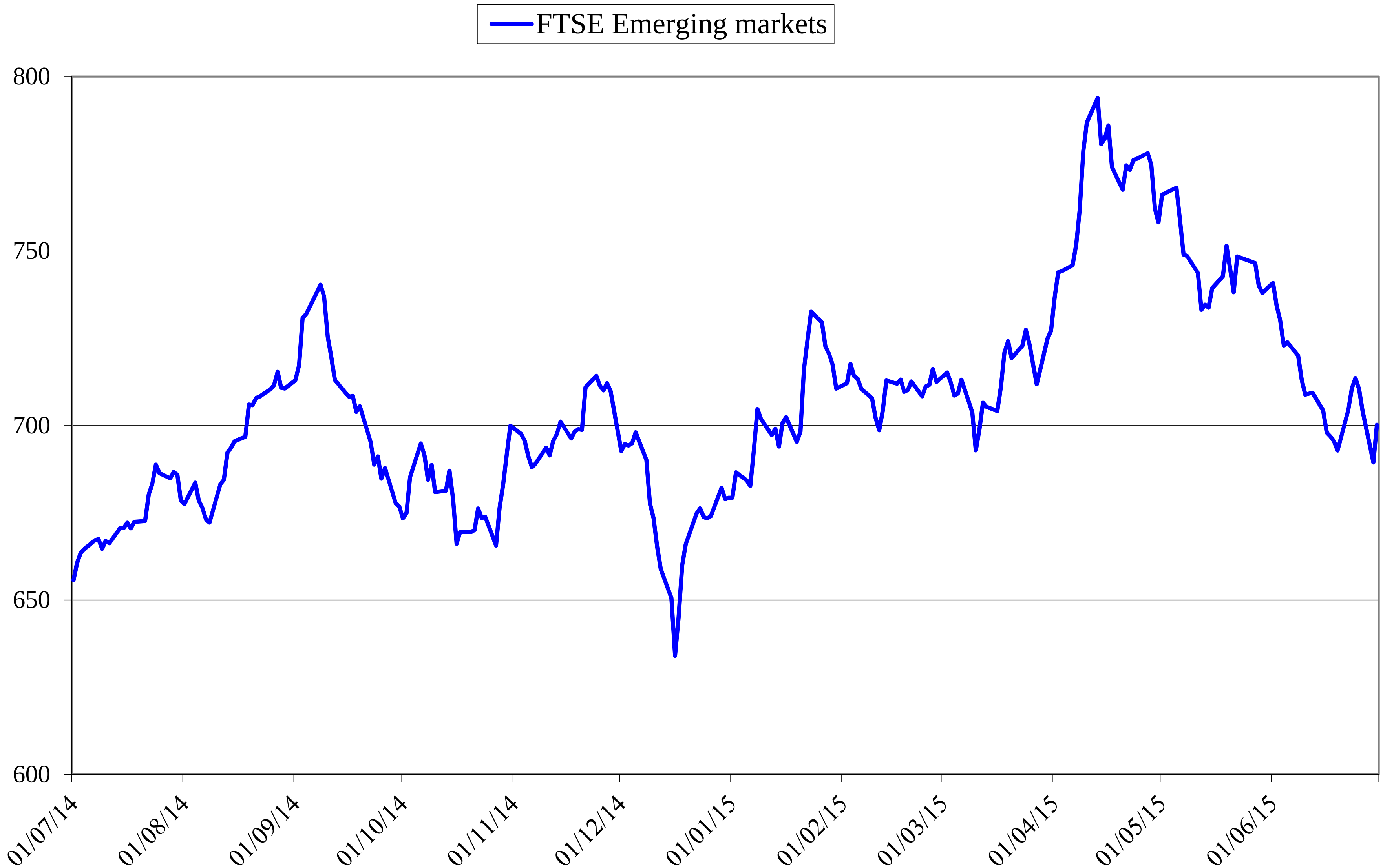
FTSE Emerging markets
800
750
700
650
600
01/07/14
01/08/14
01/09/14
01/10/14
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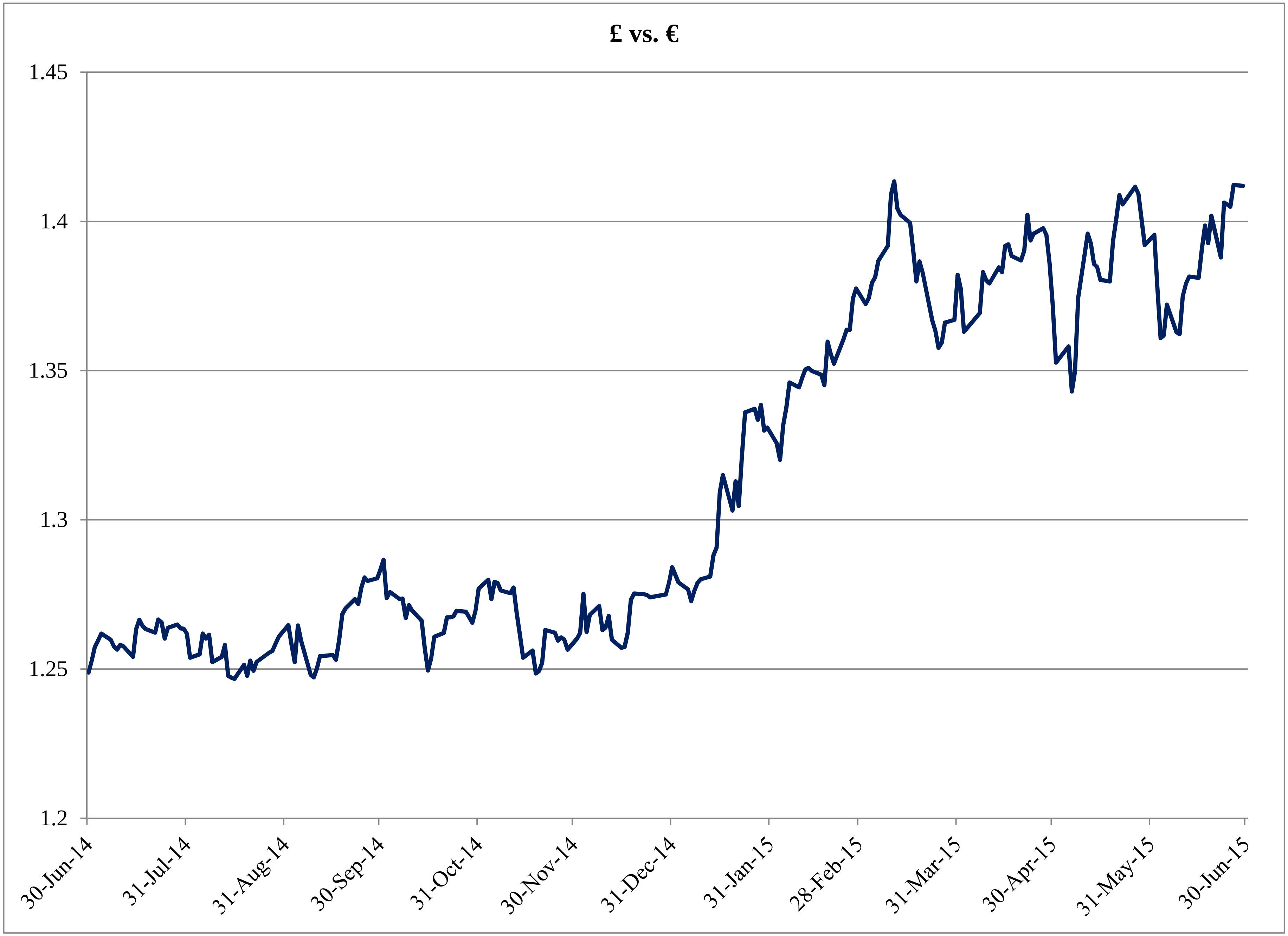
£ vs. €
1.45
1.4
1.35
1.3
1.25
1.2
30-Jun-14
31-Jul-14
31-Aug-14
30-Sep-14
31-Oct-14
30-Nov-14
31-Dec-14
31-Jan-15
28-Feb-15
31-Mar-15
30-Apr-15
31-May-15
30-Jun-15

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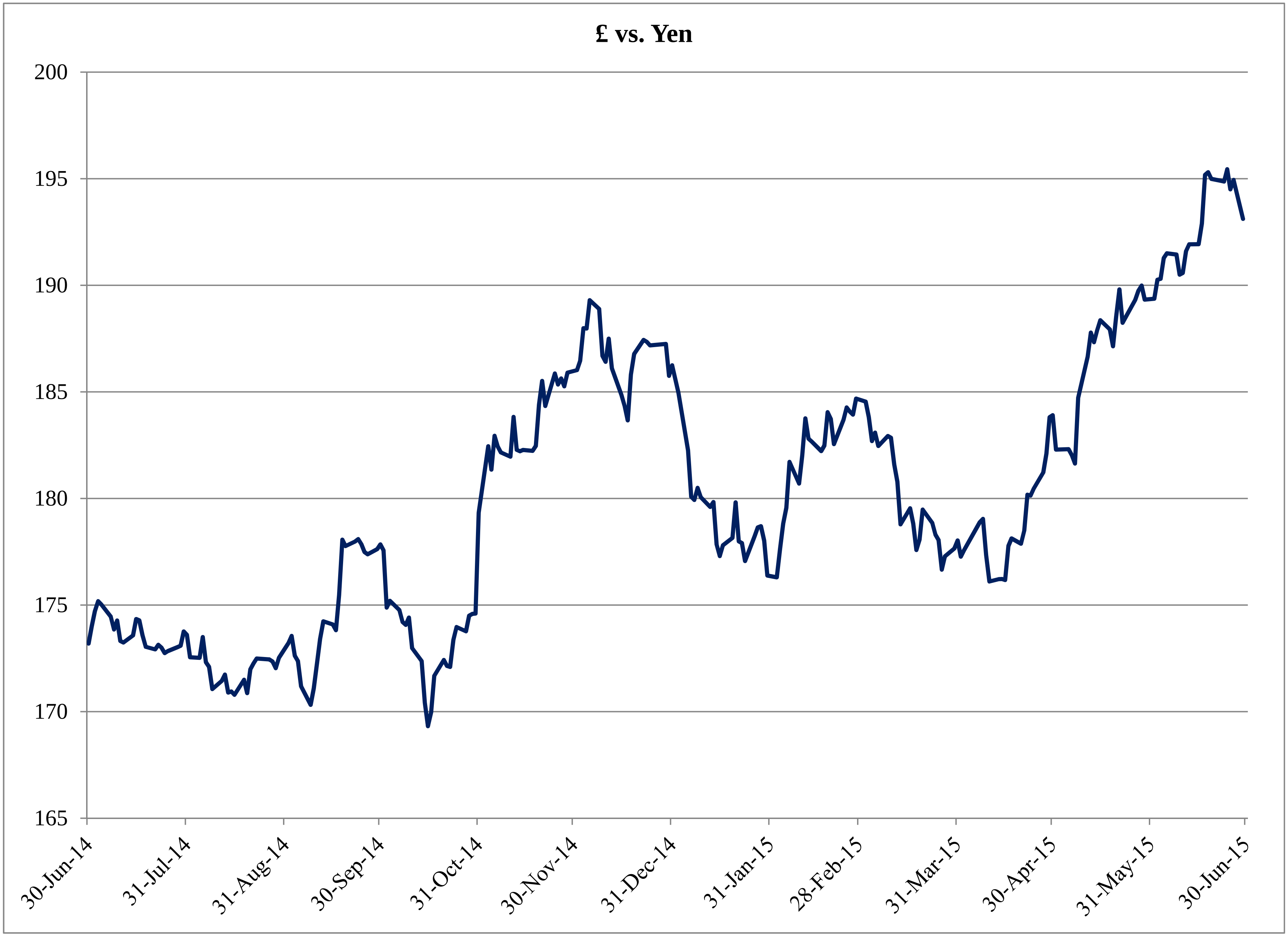
£ vs. Yen
200
195
190
185
180
175
170
165
30-Jun-14
31-Jul-14
31-Aug-14
30-Sep-14
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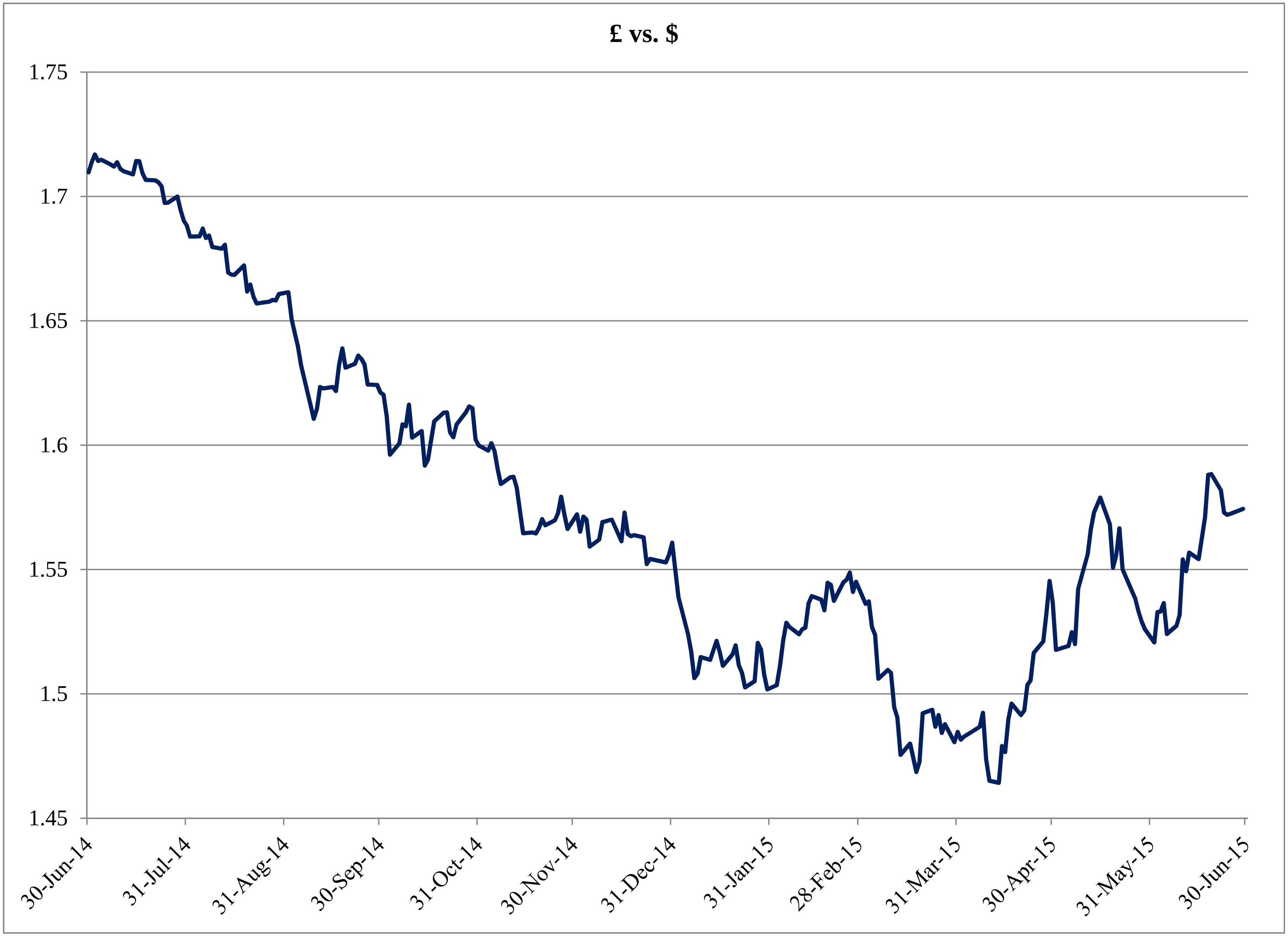
31-May-15
30-Jun-15


£ vs. $
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1.7
1.65
1.6
1.55
1.5
1.45
30-Jun-14
31-Jul-14
31-Aug-14
30-Sep-14
31-Oct-14
30-Nov-14
31-Dec-14
31-Jan-15
28-Feb-15
31-Mar-15
30-Apr-15
31-May-15
30-Jun-15

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Pension Fund Committee
10 September 2015

Performance Measurement of Pension Fund Investments to 30 June 2015

Don McLure, Corporate Director, Resources

Purpose of the Report

1 To provide an overview for Members of the performance of the Fund to 30 June 2015.

Background

2 The performance of the seven Managers is measured against personalised benchmarks chosen at the inception of the Managers' contracts. The attached report from JP Morgan, the Fund's custodian, shows:-

(a) The Managers benchmarks;

(b) The total Fund performance, for the quarter to 30 June 2015, year to date and since inception of the Managers' contracts;

(c) The Managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter to 30 June 2015, year to date and since inception of their respective contracts.

(d) A portfolio comparison for the quarter ended 30 June 2015 and for the period since inception of the Managers' contracts.

Recommendation

3 Members note the information contained in the attached report produced by JP Morgan.

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 June 30, 2015

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Benchmark Association Table

PORTFOLIO	INDEX	TARGET	WEIGHT %
Blackrock	Zero Return - Historically FTSE All Share (Gross)	+3% pa	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	Zero Return - Historically GBP Libor (3 month)	+4% pa	100.00
CBRE 1	Headline RPI	+5% pa	100.00
CBRE 2	Headline RPI	+5% pa	100.00
BlackRock DAA	GBP Libor (3 month)	+4% pa	100.00
Mondrian	MSCI EM (Emerging Markets) (Gross)	+2.5% pa	100.00
Aberdeen	MSCI-Acwi (Gross)	+3% pa	100.00
BNY	MSCI AC World Index (Gross)	+2.5% pa	100.00
Total Plan Composite	Manager Weighted Benchmark	Not Applicable	100.00

Executive Summary of Total Plan as at 30/06/2015

Overview

During the quarter the total market value of the Durham County Council Pension Plan decreased by £78.92m to £2,205.49m. There was a total flow into the plan of £0.90m during the quarter meaning the plan experienced net loss of £79.82m.

The performance return for the Plan over the second quarter of 2015 was -3.49%, compared to the Plan benchmark return of -1.85% The Plan therefore underperformed the benchmark by 164 bps.

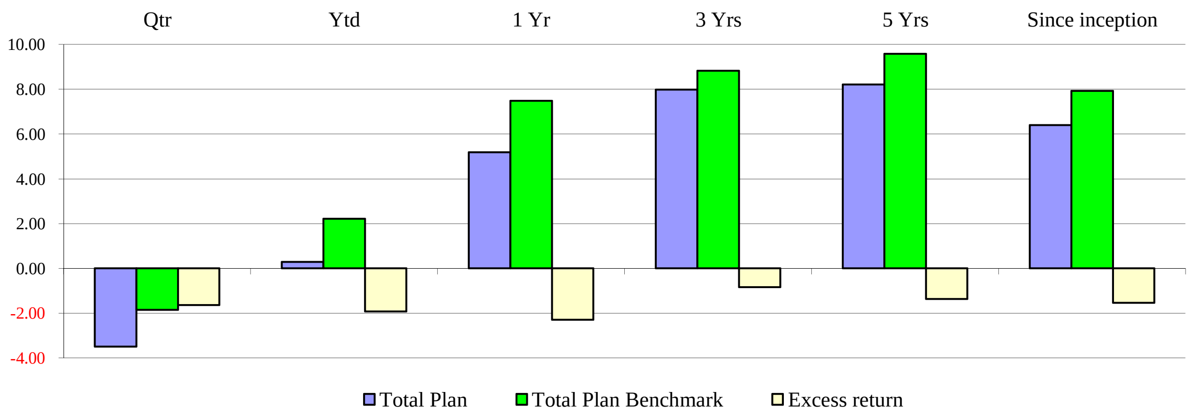
Market Values

	In GBP mil's			
	Qtr 2 - 15	**Qtr 1 - 15**	**Qtr 4 - 14**	**Qtr 3 - 14**
Total Plan	**2,205.49**	**2,284.41**	**2,198.32**	**2,178.58**

Performance

	Performance (%) *					
	Qtr	**Ytd**	**1 Yr**	**3 Yrs**	**5 Yrs**	**Since inception**
Total Plan	-3.49	0.29	5.19	8.0	8.2	6.39
Total Plan Benchmark	-1.85	2.22	7.48	8.8	9.6	7.93
Excess return	*-1.64*	*-1.93*	*-2.29*	*-0.83*	*-1.36*	*-1.54*

Total Plan Performance

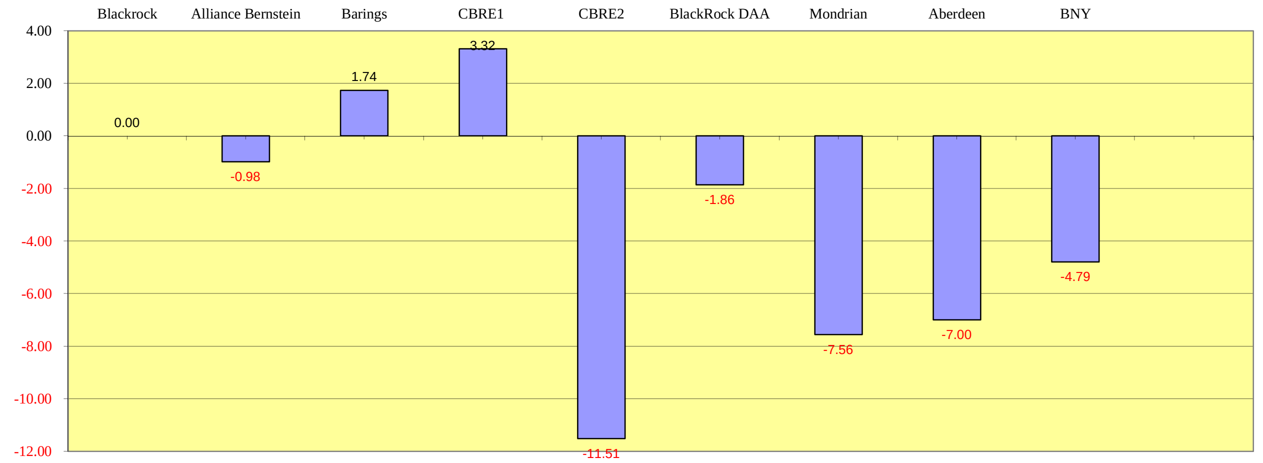


Total Plan Performance Returns as at 30/06/2015

Currency GBP		**Performance (%) ***					
	Mkt. Val. in Mil's	**Qtr**	**Ytd**	**1 Year**	**2 Years**	**3 Years**	**Since inception**
Total Plan	**2205.5**	-3.49	0.29	5.19	6.61	7.99	6.39
Total Plan Benchmark		-1.85	2.22	7.48	7.76	8.82	7.93
Excess return		-1.64	-1.93	-2.29	-1.15	-0.83	-1.54

	Mkt. Val. in Mil's	**Qtr**	**Ytd**	**1 Year**	**2 Years**	**3 Years**	**Since inception**
Blackrock	**0.0**	0.00	0.00	-1.29	6.38	8.65	6.12
Zero Return - Historically FTSE All Share (Gross) +3% pa		0.00	0.00	-3.11	6.38	11.19	8.16
Excess return		0.00	0.00	1.82	-0.00	-2.54	-2.04
Alliance Bernstein	**335.7**	-0.98	0.35	1.32	2.64	3.45	4.05
GBP Libor +3% pa		0.88	1.77	3.58	3.55	3.57	4.32
Excess return		-1.86	-1.42	-2.25	-0.92	-0.11	-0.27
Royal London	**446.8**	-3.18	0.04	15.23	10.14	7.53	8.59
FTSE index Linked >5 years +0.5% pa		-3.17	0.12	16.33	10.43	7.98	8.64
Excess return		-0.01	-0.09	-1.10	-0.29	-0.45	-0.04
Barings	**1.0**	1.74	6.84	10.20	7.90	7.98	7.49
GBP Libor +4% pa		0.37	1.26	3.55	4.04	4.23	5.19
Excess return		1.36	5.58	6.64	3.86	3.75	2.30
CBRE1	**123.2**	3.32	5.86	12.85	10.46	9.61	2.46
Headline RPI +5% pa		1.93	3.02	6.07	6.91	7.41	7.93
Excess return		1.39	2.84	6.78	3.55	2.20	-5.47
CBRE2	**28.1**	-11.51	-4.55	5.17	5.67	8.40	4.59
Headline RPI +5% pa		1.93	3.02	6.07	6.91	7.41	7.93
Excess return		-13.44	-7.57	-0.90	-1.24	0.98	-3.34
BlackRock DAA	**436.2**	-1.86	0.78	-	-	-	0.78
3 Month Libor in GBP +4% pa		1.13	2.13	-	-	-	2.13
Excess return		-2.99	-1.35	-	-	-	-1.35
Mondrian	**150.5**	-7.56	-3.54	-	-	-	-6.97
MSCI EM (Emerging Markets) (Gross) + 2.5%		-4.37	3.33	-	-	-	3.23
Excess return		-3.19	-6.87	-	-	-	-10.19
Aberdeen	**327.1**	-7.00	-2.17	-	-	-	-1.94
MSCI-Acwi (Gross) + 3%		-4.42	3.60	-	-	-	6.60
Excess return		-2.58	-5.77	-	-	-	-8.54
BNY	**341.5**	-4.79	2.08	-	-	-	5.31
MSCI AC World Index (Gross) + 2.5%		-4.53	3.35	-	-	-	6.66
Excess return		-0.25	-1.27	-	-	-	-1.35

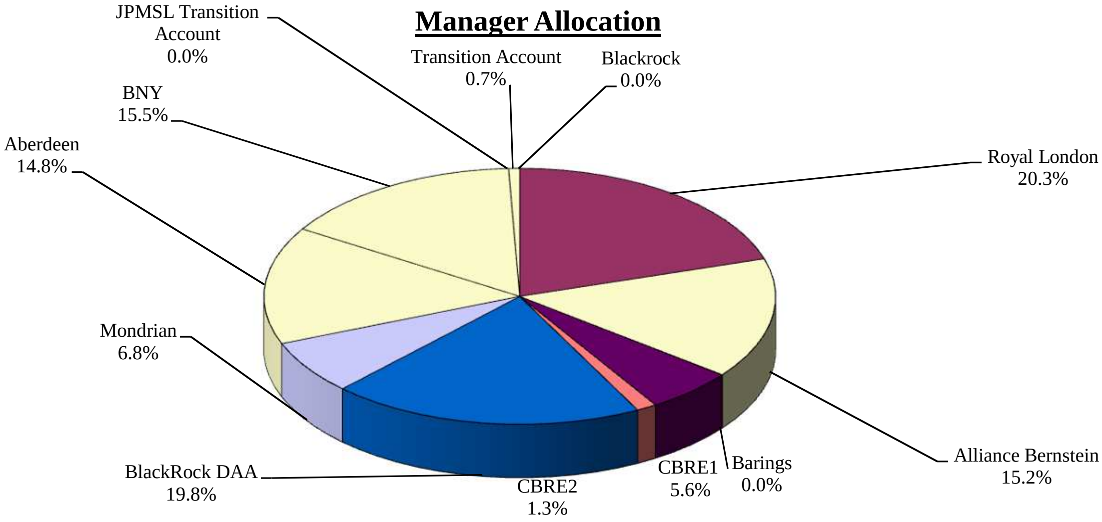
Manager Quarterly Returns



***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 2, 2015

Portfolio Name	Current Market Value	Portfolio Weight	Portfolio Return (%)	Benchmark Return (%)	Excess Return (%)	Current Contribution to Return
Total Plan	**2,205,485,051**	**100.00%**	**(3.49)**	**(1.85)**	**(1.64)**	**(3.49)**
Blackrock	10,318	0.00%	0.00	0.00	0.00	0.00
Royal London	446,845,436	20.26%	(3.18)	(3.17)	(0.01)	(0.65)
Alliance Bernstein	335,675,437	15.22%	(0.98)	1.13	(2.11)	(0.14)
Barings	1,026,584	0.05%	1.74	1.13	0.61	0.01
CBRE1	123,191,529	5.59%	3.32	1.93	1.39	0.17
CBRE2	28,056,759	1.27%	(11.51)	1.93	(13.44)	(0.16)
BlackRock DAA	436,182,148	19.78%	(1.86)	1.13	(2.99)	(0.36)
Mondrian	150,473,801	6.82%	(7.56)	(4.37)	(3.19)	(0.54)
Aberdeen	327,076,687	14.83%	(7.00)	(4.42)	(2.58)	(1.08)
BNY	341,504,114	15.48%	(4.79)	(4.53)	(0.25)	(0.75)
JPMSL Transition Account	179	0.00%	0.00	-	-	(0.00)
Transition Account	15,442,061	0.70%	0.00	-	-	0.00



Portfolio Comparison for Year to Date, 2015

Portfolio Name	Current Market Value	Portfolio Weight	Portfolio Return (%)	Benchmark Return (%)	Excess Return (%)	Current Contribution to Return
Total Plan	**2,205,485,051**	**100.00%**	**0.29**	**2.22**	**(1.93)**	**0.29**
Blackrock	10,318	0.00%	0.00	0.00	0.00	0.00
Royal London	446,845,436	20.26%	0.04	0.12	(0.09)	0.03
Alliance Bernstein	335,675,437	15.22%	0.35	2.13	(1.78)	0.05
Barings	1,026,584	0.05%	6.84	2.13	4.71	0.13
CBRE1	123,191,529	5.59%	5.86	3.02	2.84	0.31
CBRE2	28,056,759	1.27%	(4.55)	3.02	(7.57)	(0.06)
BlackRock DAA	436,182,148	19.78%	0.78	2.13	(1.35)	0.12
Mondrian	150,473,801	6.82%	(3.54)	3.33	(6.87)	(0.26)
Aberdeen	327,076,687	14.83%	(2.17)	3.60	(5.77)	(0.34)
BNY	341,504,114	15.48%	2.08	3.35	(1.27)	0.32
JPMSL Transition Account	179	0.00%	0.00	-	-	(0.00)
Transition Account	15,442,061	0.70%	0.00	-	-	0.00

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Pension Fund Committee

10 September 2015

Overall Value of Pension Fund Investments to 30 June 2015

Don McLure, Corporate Director Resources

Purpose of the Report

1. To inform Members of the overall value of the Pension Fund as at 30 June 2015 and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers.

Value of the Pension Fund

2. Reports from the seven appointed Managers:

   - Aberdeen
   - AB
   - BlackRock
   - Bank of New York (Walter Scott)
   - CB Richard Ellis
   - Mondrian
   - Royal London

   are included in other papers within this agenda. The Value of the Fund at 30 June 2015 was £2 billion, 205.49 million.

3. The value of the Fund as at 31 March 2015 was £2 billion, 284.41million. The value of the fund therefore decreased by £78.92 million in the first quarter of 2015/16. Managers' reports on the agenda discuss performance in the quarter and reasons for this decrease in value.

Allocation of New Investment Money and Withdrawal of Investment Money to Deal with Estimated Deficit

4. New investment money is allocated to Investment Managers when the Pension Fund has cash which is not needed to be available as a working cash balance, for example for the payment of pensioners or fees.

5. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Investment Managers.

6. Appendix 1 details the working cash balance position of the Pension Fund and cash flow for the last four quarters, and an estimated cash flow for the

quarter ending 30 September 2015. This table includes only cash held by Durham County Council Pension Fund Bank Account. It does not include cash balances of £63.43m held by the Managers as at 30 June 2015.

7. In determining the amount of cash to be allocated to Managers as at the quarter ended 30 June 2015, 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.

8. The amount allocated to each Manager is subject to the need to retain enough money in the Durham County Council Pension Fund Bank account to meet the Fund's estimated 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.

Cash Flow Forecast 2015/ 2016

9. Appendix 2 shows the projected cash flow for the Pension Fund for the period September 2015 to September 2016.

10. This table shows that the Pension Fund 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 is forecasted to have a positive cash flow.

11. The quarterly rebalancing exercise is 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.

12. The following assumptions have been used to calculate the cash flow forecast:

- Dividend income receivable in 2015/16 is estimated to be £31m, which is based on the actual figures to 31 March 2014. This income is profiled to be received in the same pattern as then, that is:
    - Quarter ended 31 March 21%
    - Quarter ended 30 June 34%
    - Quarter ended 30 September 27%
    - Quarter ended 31 December 18%

- Increases in contributions in line with the Actuarial Valuation are included.

- ‘Transfer values in’ are estimated at £0.500m per quarter. It is anticipated that transfers in will continue as LGPS will remain relatively attractive to employees.

- Pension increases will be at broadly the same level as 2014/15.

- Payroll Paysheets (payments to pensioners) are forecast to increase by £0.100m per quarter. This figure will alter if there are large numbers of retirements in the employing authorities. It is anticipated, however, that the actual figure will not be materially different to the forecast since the position of the County Council, being the largest employer in the Fund, has been taken into account.

- Payable Paysheets are forecast on the basis of the last year's profile, adjusted for known one-offs, although this can be the most volatile figure as it includes payments of lump sums and fees to Managers. This assumption errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.

13. This is an early indication of the likely impact on the Pension Fund's cash flow forecast over the next 12 months. It will continue to be reviewed each quarter and refined to take into account new information as it becomes available.

Fund Rebalancing

14. Fund rebalancing is the mechanism by which the Pension Fund ensures that the asset allocation to Investment Managers is maintained at the levels agreed by the Pension Fund Committee and set out in the Statement of Investment Principles.

15. There was no rebalancing of the Fund in the previous quarter to allow the impact of the cash placed with the Fund Managers in May to be realised.

16. Appendix 3 shows the cash rebalancing matrix. The rebalancing will reflect the figures shown in the 'Rebalanced column' and will take place 1 month after the Committee meeting.

Recommendation

17. Members are asked to note the information contained in this report.

Contact: Hilary Appleton Tel: 03000 266239

Appendix 1

Cash Flow – Estimated and Actual for the period 30 September 2014 to 30 September 2015

Quarter Ended	**30.09.14**		**31.12.14**		**31.03.15**		**30.06.15**		**30.09.15**
	Estimate	**Actual**	**Estimate**	**Actual**	**Estimate**	**Actual**	**Estimate**	**Actual**	**Estimate**
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	£	£	£	£	£	£	£	£	£
Income									
Contributions - DCC	16,500,000	16,459,409	16,500,000	16,350,731	16,400,000	16,780,619	16,800,000	16,774,877	16,800,000
Contributions - Other	7,400,000	7,164,058	7,400,000	7,616,148	7,400,000	7,411,292	7,400,000	14,475,496	7,400,000
Pensions Increase	1,200,000	1,201,297	1,200,000	1,273,523	1,200,000	1,242,761	1,200,000	1,236,045	1,200,000
Transfer Values	500,000	491,294	500,000	487,359	500,000	323,361	300,000	1,135,147	500,000
Other income	500,000	497,701	500,000	2,000	10,000	265,586	250,000	922,512	250,000
Money recovered from Managers	0	34,100,000	0	-35,000,000					
Interest on short term investments	35,000	29,773	11,000	31,293	30,000	60,268	40,000	60,448	60,000
Total Income	26,135,000	59,943,532	26,111,000	-9,238,946	25,540,000	26,083,887	25,990,000	34,604,525	26,210,000
Expenditure									
Payroll Paysheets	21,500,000	21,967,128	22,000,000	22,150,713	22,200,000	22,084,713	22,300,000	18,712,769	22,300,000
Payables Paysheets (incl. Managers' fees)	8,000,000	34,339,979	7,000,000	7,134,963	7,000,000	5,972,281	9,000,000	8,776,056	10,000,000
Total Expenditure	29,500,000	56,307,107	29,000,000	29,285,676	29,200,000	28,056,994	31,300,000	27,488,825	32,300,000
Surplus / (-) Deficit	-3,365,000	3,636,425	-2,889,000	-38,524,622	-3,660,000	-1,973,107	-5,310,000	7,115,700	-6,090,000

Balance at Bank (opening)	20,697,641		24,421,753		56,156,417		54,689,000		
Balance at Bank (closing)	24,421,753		56,167,417		54,689,000		58,322,978		

Appendix 2

Projected Cash Flow – including forecasted dividends receivable by Fund Managers for the period 30 September 2015 to 30 September 2016

Quarter Ended	**30.09.15**	**31.12.15**	**31.03.16**	**30.06.16**	**30.09.16**
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£	**£**	**£**	**£**	**£**
Income					
Contributions - DCC	16,800,000	16,800,000	16,800,000	16,800,000	16,800,000
Contributions - Other	7,400,000	7,400,000	7,400,000	7,400,000	7,400,000
Pensions Increase	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
Transfer Values	500,000	500,000	500,000	500,000	500,000
Other income	250,000	250,000	250,000	250,000	250,000
Gross Dividend and Interest	60,000	20,000	20,000	20,000	20,000
Total Income	26,210,000	26,170,000	26,170,000	26,170,000	26,170,000
Payroll Paysheets	22,300,000	22,400,000	22,500,000	22,600,000	22,700,000
Payables Paysheets (incl. Managers' fees)	10,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Total Expenditure	32,300,000	30,400,000	30,500,000	30,600,000	30,700,000
Surplus / (-) Deficit	-6,090,000	-4,230,000	-4,330,000	-4,430,000	-4,530,000
Dividends Received by Managers	8,370,000	5,580,000	6,510,000	10,540,000	8,370,000
Net Cash Flow Position	2,280,000	1,350,000	2,180,000	6,110,000	3,840,000

Appendix 3

Cash Rebalancing Matrix – for the period to 30 June 2015

	30 June 2015 Value £m	%	Target %	+/- Allocation £m	Rebalanced £m	Allocation %
Matching Bond Manager						
RLAM	446.80	20.3%	**20.0%**	-0.45	446.35	**20.2%**
Matching Fund sub-total	446.80	20.3%	**20.0%**	-0.45	446.35	**20.2%**
Global Equity Manager						
Aberdeen Asset Management	327.10	14.8%	**15.0%**	7.66	334.76	**15.2%**
Global Equity Manager						
BNY (Walter Scott)	341.50	15.5%	**15.0%**	-6.74	334.76	**15.2%**
Emerging Markets Equity Manager						
Mondrian	150.50	6.8%	**7.0%**	5.72	156.22	**7.1%**
Broad Bond Manager						
AllianceBernstein	335.70	15.2%	**15.0%**	-0.94	334.76	**15.2%**
DAA Manager						
Blackrock	436.20	19.8%	**20.0%**	10.15	446.35	**20.2%**
Global Property Manager						
CBRE 1	123.20	5.6%				
CBRE 2	28.10	1.3%				
Allocated undrawn cash					21.30	
Sub-Total	151.30	6.9%	**8.0%**	0.0	151.30	**6.9%**
Investment Fund sub-total	1,742.30	79.0%	**80.0%**	15.85	1,758.15	**79.8%**
Investments sub-total	2,189.10	99.3%	**100.0%**	15.40	2,204.50	**100.0%**
Cash						
Internal Cash						
Cash at Custodian (Transition Account)	15.40	0.7%		-15.40	0.00	
Cash sub-total	15.40	0.7%	**0.0%**	-15.40	0.00	**0.0%**
Fund Total	**2,204.50**	**100.0%**	**100.0%**	**0.00**	**2,204.50**	**100.0%**

Pension Fund Committee

10 September 2015

Short Term Investments for the period ended 30 June 2015

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 as at 30 June 2015.

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 June 2015 was £68.972m which was held in the institutions listed in the table below alongside their credit rating at 30 June 2015.

Financial Institution	**Short-term Rating**	**Amount Invested £m**
Bank Deposit Accounts		
Handelsbanken	F1+	1.289
Santander UK Plc	F1	6.505
Barclays	F1	8.053
Fixed Term Deposits		
Bank of Scotland	F1	13.805
Nationwide Building Society	F1	8.053
Goldman Sachs	F1	8.053
Natwest	F2	4.602
National Savings & Investments	N/A	0.229
Money Market Funds	N/A	18.383
Total		**68.972**

4. The following table provides information on the net interest earned during the three month period to 30 June 2015, the average daily investment balance and the average return earned in comparison to the average bank base rate. The interest paid to the Pension Fund is based on the London Interbank Bid (LIBID) three month rate and is net of the fees of £2,500 paid for the Council undertaking the Treasury Management function for the Pension Fund.

	Total
Net Interest Earned	£60,448
Average Return Earned	0.45%
Average Bank of England base rate	0.50%
Average Daily Balance of Investments	£56.685m

Recommendation

5. Members are asked to note the position at 30 June 2015 regarding the Pension Fund's short term investments where £60,448 net interest was earned in the three month period.

Contact: Hilary Appleton Tel: 03000 266239

Pension Fund Committee

10 September 2015

Pension Fund Policy Documents – Funding Strategy Statement and Statement of Investment Principles

Report of Don McLure, Corporate Director Resources

Purpose of the Report

1 To inform Members of the outcome of the consultation of the policy documents and to seek approval of these documents.

Background

2 The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 provide the statutory framework from which Local Government Pension Schemes (LGPS) administering authorities are required to have prepared a 'Funding Strategy Statement' (FSS).

3 The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Authority must have regard to :
  i. the guidance issued by the Chartered Institute of Public Finance (CIPFA) for this purpose; and
  ii. their own Statement of Investment Principles (SIP) for the Fund.
  iii. The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

4 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare and review a written statement recording the investment policy of the Pension Fund – the 'Statement of Investment Principles' (SIP).

5 The 2009 regulations also require pension fund administering authorities to state the extent to which they comply with guidance given by the Secretary of State, previously CIPFA's Pensions Panel Principles for Investment

Decision Making in the Local Government Pension Scheme in the United Kingdom.

6 At the last meeting of the Pension Fund Committee, it was agreed that the final versions would be circulated to all relevant interested parties for comment.

Consultation

7 The Administration Regulations require the Administering Authority to consult with such persons that it considers appropriate, and that they ‘have regard’ to the 2004 CIPFA guidance.

8 Although not mandatory, the 2012 CIPFA Guidance requires consultation with the employers, on both the process to revise the FSS and on the revision to the FSS.

9 In line with Regulations, the FSS and SIP have been the subject of consultation with the Fund’s employers before publication.

10 The documents were circulated to all employers in the Pension Fund, the Actuary and external Auditor on 25 June 2015 with a closing date of 31 July 2015.

11 Comments were received on the SIP from our Advisers, and their suggested amendments have been incorporated into the attached documents.

12 Following the consultation, changes were made only to the SIP and are highlighted in the document which is attached at Appendix 2. The main changes were to reflect the change of name from AllianceBernstein to AB and a revision to a maximum regional allocation in North America for CBRE.

13 The FSS remains unchanged from the version reported to Committee in June 2015 and is attached at Appendix 1.

14 It is suggested that the attached versions of the FSS and SIP now be published on the Council’s website.

15 Any further changes to the information contained within the FSS or SIP that emerges before March 2016 will be part of the review of documents reported to the Committee in March 2016.

Recommendations

16 It is recommended that:

- Members approve the contents of the revised Pension Fund's policy documents for publication on the Council's website.

Background papers

(a) Pension Fund Committee - 25 October 2004 – Funding Strategy Statement

(b) Pension Fund Committee – 21 June 2010 – The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

(c) Pension Fund Committee – 6 March 2014 - Pension Fund Policy Documents – Funding Strategy Statement and Statement of Investment Principles

(d) Pension Fund Committee – 5 June 2014 - Pension Fund Policy Documents – Funding Strategy Statement and Statement of Investment Principles

(e) Pension Fund Committee – 11 September 2014 - Pension Fund Policy Documents – Funding Strategy Statement and Statement of Investment Principles

(f) Pension Fund Committee – 4 March 2015 - Pension Fund Policy Documents – Funding Strategy Statement and Statement of Investment Principles

(g) Pension Fund Committee – 4 June 2015 - Pension Fund Policy Documents – Funding Strategy Statement and Statement of Investment Principles

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Appendix 1

Durham County Council Pension Fund

Funding Strategy Statement

2015

Version Updated May 2015

Index

(A) STATUTORY BACKGROUND AND KEY ISSUES

1. The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 came into effect on 1 April 2004. They originally provided the statutory framework from which Local Government Pension Schemes (LGPS) administering authorities were required to prepare a Funding Strategy Statement (FSS) by 31 March 2005. The requirements at the date of writing this Statement are now set out under Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations).

2. Key issues:

- After consultation with such persons as it considers appropriate, the administering authority is required to prepare and publish their funding strategy.

- In preparing the FSS, the administering authority has to have regard to:

    - Guidance published by CIPFA in March 2004 entitled "Guidance on Preparing and Maintaining a Funding Strategy Statement and to the Fund's Statement of Investment Principles" and updated guidance published by CIPFA on 3 October 2012.

    - Its Statement of Investment Principles (SIP) published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations).

- The FSS must be revised and published whenever there is a material change in policy either on the matters set out in the FSS or the Statement of Investment Principles.

- Each Fund Actuary must have regard to the FSS as part of the fund valuation process and the Fund Actuary has therefore been consulted on the contents of this FSS.

- The FSS addresses the issue of managing the need to fund benefits over the long term, whilst at the same time, allowing for scrutiny and accountability through improved transparency and disclosure.

- Until 1 April 2014, the Scheme was a defined benefit final salary scheme. From 1 April 2014, the Scheme is a defined benefit career average revalued earnings scheme. The benefits at the date of writing this Statement are specified in the Regulations. Constraints on the levels of employee contributions are also specified in the Regulations.

- Employer contributions are determined in accordance with the Regulations, which require that an actuarial valuation is completed every three years by the Fund Actuary.

3. This Statement was as part of the triennial valuation as at 31 March 2013, and has been updated in March 2015.

(B) PURPOSE OF THE FUNDING STRATEGY STATEMENT

4. The purpose of this Funding Strategy Statement (FSS) is to document the processes by which the Administering Authority:

- establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- supports the desirability of regulatory requirement of maintaining as nearly constant a common rate of employer contribution rates as possible; and
- takes a prudent longer-term view of funding the Fund's liabilities.

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

(C) PURPOSE AND AIMS OF THE PENSION FUND

5. The purpose of the fund is to:

Invest monies in respect of contributions, transfer values and investment income to produce a Fund to pay Scheme benefits over the long term and in so doing to smooth out the contributions required from employers over the long term.

6. The aims of the fund are to:

- **Comply with Regulation 62 of the Regulations and specifically to adequately fund benefits to secure the Fund's solvency while taking account of the desirability of maintaining as nearly constant employer contribution rates as possible**

  The Administering Authority aims to keep employer contributions as nearly constant as possible, whilst taking account of:

  - the regulatory requirement to secure solvency, which should be assessed in the light of the risk profile of the Fund and risk appetite of the Administering Authority and employers

- the requirement to ensure that costs are reasonable to Scheduled Bodies, Admission Bodies, other bodies and to taxpayers (subject to not taking undue risks), and

- maximising return from investments within reasonable risk parameters

In order to achieve nearly constant employer contribution rates there may be a need to invest in assets that match the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

The Administering Authority currently invests a large proportion of the Fund in equities, which are perceived as having higher long-term rates of return consistent with the requirement to maximise the returns from investments, within reasonable risk parameters. These assets are more risky in nature than fixed interest investments, and this can lead to more volatile returns in the short-term and a failure to deliver the anticipated returns in the long term.

This can have an effect on employer contribution rates as the funding position of the Pension Fund is measured at the triennial valuations. The impact of this can be reduced by smoothing adjustments at each actuarial valuation. Smoothing adjustments recognise that markets can rise and fall too far.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant stability of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for admission bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

- **Manage employers' liabilities effectively**

  The Administering Authority seeks to manage employers' liabilities effectively. In a funding context, this is achieved by seeking actuarial advice and regular monitoring of the investment of the Fund's assets through quarterly meetings of the Pension Fund Committee and appropriate segregation of employers for funding purposes.

- **Ensure that sufficient resources are available to meet all liabilities as they fall due**

  The Administering Authority recognises the need to ensure that the Fund has sufficient liquid assets to pay pensions, transfer values and other expenses. This position is continuously monitored and the cash available from contributions and cash held by Fund Managers is reviewed on a quarterly basis by the Pension Fund Committee.

- **Maximise the returns from investments within reasonable risk parameters.**

  The Administering Authority recognises the desirability of maximising returns from investments within reasonable risk parameters, through investment in unmatched investments. Investment returns higher than those of fixed interest and index-linked bonds are sought from investment in equities, property and other growth assets. The Administering Authority ensures that risk parameters are reasonable by:

  - Taking advice from its professional advisers, e.g. the Fund Actuary, Investment advisers and investment managers
  - Controlling levels of investment in asset classes through the Statement of Investment Principles
  - Limiting default risk by restricting investment to asset classes recognised as appropriate for UK Pension Funds.
  - Analysing the volatility and absolute return risks represented by those asset classes in collaboration with the Investment Adviser and Fund Managers, and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy statement.
  - Limiting concentration risk by developing a diversified investment strategy.
  - Monitoring the mismatching risk, i.e. the risk that the investments do not move in line with the Fund's liabilities.

(D) RESPONSIBILITIES OF THE KEY PARTIES

7. Although a number of parties including investment fund managers and external auditors have responsibilities to the fund, the three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary:

8. The administering authority should:

- Administer the Fund
- Collect employer and employee contributions as set out in the Regulations
- Determine a schedule of due dates for the payment of contributions -

Section 70(1)(a) of the Pensions Act 2004 suggests that Administering Authorities are now required to report breaches as defined in Section 70 (2) of the 2004 Act. This places monitoring of the date of receipt of employer contributions on the Administering Authority and therefore places a duty to report material late payments of contributions to the Pensions Regulator.

- Take action to recover assets from admission bodies whose Admission Agreement has ceased and other bodies whose participation in the Fund has ceased.

- Invest surplus monies in accordance with the Regulations.
-
- Pay from the Fund the relevant entitlements as set out in the Regulations.

- Ensure that cash is available to meet liabilities as and when they fall due.

- Manage the valuation process in consultation with the Fund's Actuary.

- Ensure effective communications with the Fund's Actuary to:

  - Ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement;

  - Ensure reports are made available as required by guidance and regulation;

  - Agree timetables for the provision of information and valuation results;

  - Ensure provision of accurate data; and

  - Ensure that participating employers receive appropriate communications.

- Consider the appropriateness of interim valuations.

- Prepare and maintain an FSS and a SIP, both after proper consultation with interested parties, and

- Monitor all aspects of the fund's performance and funding and amend the FSS and SIP regularly as part of the on-going monitoring process.

- Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.

9. The individual employers should:

- Deduct contributions from employees' pay correctly.

- Pay all contributions, including their own as determined by the actuary, promptly by the due date.

- Develop a policy on certain discretions and exercise discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions.

- Make additional contributions in accordance with agreed arrangements in respect of, for example, additional membership or pension, augmentation of scheme benefits and early retirement strain, and

- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.

- Noting, and if desired responding to, any consultation regarding the Funding Strategy Statement, the Statement of Investment Principles, or other policies.

10. The fund actuary should:

- Prepare triennial valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS.

- Prepare advice and calculations in connection with bulk transfers, individual benefit-related matters, valuations of exiting employers and other forms of security for the Administering Authority against the financial effect on the Fund of the employer's default. Such advice will take account of the funding position and Funding Strategy Statement, as well as other relevant matters when instructed to do so.

- Assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as required by the Regulations.

- In response to a request from the Administering Authority, assess the impact of Regulatory changes on costs.
-
- Ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Administering Authority.

(E) FUNDING TARGETS, SOLVENCY AND NOTIONAL SUB-FUNDS

Risk based approach

11. The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach which gives little idea of the associated risk. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund wants to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the appropriate levels of contribution payable now and, by extension, the appropriate valuation approach to adopt now. Together they measure the riskiness of the funding strategy.

These three terms are considered in more detail below.

Solvency and 'funding success'

12. The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

13. The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

- For Scheduled Bodies, and certain other bodies, of sound covenant whose participation is indefinite in nature, appropriate actuarial methods and assumptions are taken to be measurement by use of the Projected Unit method of valuation, and using assumptions such that, if the Fund's financial position continued to be assessed by use of such methods and assumptions, and contributions were paid in accordance with those methods and assumptions, there would be a chance of at least 80% that the Fund would continue to be 100% funded over a time period considered appropriate at the time of assessment. The level of funding implied by this is the Solvency Target. For the purpose of this

Statement, the required level of chance is defined as the Probability of Maintaining Solvency.

- For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, the required Probability of Maintaining Solvency will be set at a level higher than 80% dependent on circumstances. For most such bodies, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.

Probability of Funding Success

14. The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers.

15. Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk. The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

Funding Target

16. The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. It is a product of the triennial actuarial valuation exercise and is not necessarily the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method. The valuation method including the components of Funding Target, future service costs and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below). The Funding Target will be the same as the Solvency Target only when the methods and assumptions used to set the Funding Target are the same as the appropriate funding methods and assumptions used to set the Solvency Target (see above).

17. Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible:

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the

Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.

- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

Application to different types of body

18. Some comments on the principles used to derive the Solvency and Funding Targets for different bodies in the Fund are set out below.

    - **Scheduled Bodies and certain other bodies of sound covenant**
    The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature.

    - **Admission Bodies and certain other bodies whose participation is limited**
    For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

Full Funding and Solvency

19. The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

20. The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

Recovery Periods

21. The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

22. Where a valuation shows the Fund to be in surplus or deficit against the

Funding Target, employers' contribution rates will be adjusted to reach the solvent position over a number of years. The Recovery Period in relation to an employer or group of employers is therefore a period over which any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable. As noted earlier, the valuation method, including the components of Funding Target, future service costs and adjustment for surplus or deficiency simply serve to set a level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period. For (most) scheduled bodies in the Fund, the Trajectory Period, at the date of reviewing this FSS, is set to be 25 years.

23. The Recovery Period applicable for each employer is set by the Fund Actuary in consultation with the Administering Authority and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

24. The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefits payments over a long period of time. For employers of sound covenant, the Administering Authority is therefore prepared to agree recovery periods that are longer than the average future working lifetime of the membership of that employer. In general for employers that are closed to new entrants and are of sufficient term, the recovery period is set to be the estimated future working lifetime of the active membership (i.e. the estimated period of time until the last active member leaves or retires). The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible.

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25. However, the Administering Authority also recognises the risk involved in relying on long Recovery and Trajectory Periods and has agreed with the Actuary a maximum recovery period of 30 years for both, for employers which are assessed by the Administering Authority as being a long term secure employer. It is the intention of the Administering Authority to agree with employers a Recovery Period of as short a time as possible within this 30 year limit having regard to the affordability of the revised contribution rate in general taking into account the legislative requirements of securing solvency and maintaining as nearly a constant a contribution rate as possible. A period of 18 years has been used for Durham County Council, the largest employer in the Fund. Trajectory and Recovery Periods for other employers or employer groups may be shorter and may not necessarily be the same as each other, in order to suitably balance risk to the Fund and cost to the employer.

26. For each individual employer the following will also be taken into account:

- covenant and strength of any guarantee relating to an employer and hence the risk of default

- length of participation in the Fund

- whether the employer is closed to new entrants or is likely to have a contraction in its membership of the Fund

Stepping

27. The Administering Authority will also consider at each valuation whether new contribution rates should be payable immediately or reached by being stepped over a number of years. Stepping is a generally accepted method of smoothing the impact of rate changes for local authority pension funds. In consultation with the Actuary, the Administering Authority accepts that long term employers may step up to the new rates in equal annual steps. This is in line with the aim of having contribution rates as nearly constant as possible. The Administering Authority usually allows a maximum of three steps however, in exceptional circumstances up to six steps may be used.

Grouping

28. In some circumstances it may be desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

29. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority's policy is to consider the position carefully at initial grouping and at each valuation and to notify each employer that is grouped which other employers it is grouped with and details of the grouping method used. If the employer objects to this grouping, it will be set its own contribution rate.

30. Where employers are grouped together for funding purposes, this will only occur with the consent of the employers involved.

31. All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

Notional sub-funds

32. In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole

between the employers (or group of employers where grouping operates), as if each employer had its own notional sub-fund within the Fund.

33. This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, or ownership of any particular assets or groups of assets by any individual employer or group.

Roll-forward of sub-funds

34. The notional sub-fund allocated to each employer will be rolled forward allowing for all cash flows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cash flows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

35. Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.

- Allowance for any known material internal transfers in the Fund (cash flows will not exist for these transfers). The Fund Actuary will assume an estimated cash flow equal to the value of the liabilities determined consistent with the Funding Target transferred from one employer to the other unless some other approach has been agreed between the two employers.
-
- Allowance for lump sum death in service and other benefits shared across all employers in the Fund (see earlier).

- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

36. In some cases information available will not allow for such cash flow calculations. In such a circumstance:

- Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is of low materiality, estimated cash flows will be used.

- Where, in the opinion of the Fund Actuary, the cash flow data which is unavailable is material, the Fund Actuary will instead use an analysis of gains and losses to roll forward the notional sub-fund. Analysis of gains and losses methods are less precise than use of cash flows and involve calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.

37. Analysis of gains and losses methods will also be used where the results of the cash flow approach appears to give unreliable results perhaps because of unknown internal transfers.

Fund maturity

38. To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

39. In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the Administering Authority will consider requiring defined streams of capital contributions rather than percentages of payroll.

40. Where defined capital streams are required, the Administering Authority will review at future valuations whether any new emerging deficiency will give rise to a new, separate, defined stream of contributions, or will be consolidated with any existing stream of contributions into one new defined stream of contributions.

(F) SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

Interim reviews

41. Regulation 64 of the Regulations provides the Administering Authority with a power to carry out valuations in respect of employers who are likely to become an exiting employer, and for the Actuary to certify revised contribution rates, between triennial valuation dates.

42. The Administering Authority's overriding objective at all times in relation to employers is that, where possible, there is clarity over the Funding Target for that body, and that contribution rates payable are appropriate for that Funding Target. However, this is not always possible as any exit date may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

43. The Administering Authority's general approach in this area is as follows:

    - Where the exit date is known, and is more than 3 years hence, or is unknown and assumed to be indefinite, the Administering Authority will generally not deem it necessary to carry out an interim valuation.

- For Admission Bodies admitted under paragraph 1(d) of Part 3, Schedule 2 of the Regulations falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.

- A material change in circumstances, such as the exit date becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.

- For an employer whose participation is due to cease within the next 3 years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

44. Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) of the Regulations applies.

Guarantors

45. Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an employer exits and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

46. During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Target for the employer, which would probably lead to reduced contribution requirements.

Bonds and other securitization

47. Paragraph 6 of Part 3, Schedule 2 of the Regulations creates a requirement for a new Admission Body to carry out, to the satisfaction of the Administering Authority (and the Scheme Employer in the case of an

Admission Body admitted under paragraph 1(d)(i) of that Part), an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

48. Where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an Admission Body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the admission body.

49. The Administering Authority's approach in this area is as follows:

- In the case of Admission Bodies admitted under Paragraph 1(d) of Part 3, Schedule 2 of the Regulations and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter. The Administering Authority notes that levels of required bond cover can fluctuate and recommends that relevant Scheme Employers review the required cover regularly, at least once a year.

- In the case of:
  - Admission bodies admitted under paragraph 1(e) of Part 3, Schedule 2
  - Admission bodies admitted under paragraph 1(d) of Part 3, Schedule 2 where the Administering Authority does not judge the Scheme Employer to be of sufficiently strong covenant
  - Other Admission bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant;

  the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer to form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body. The Administering Authority notes that levels of required bond cover can fluctuate and will recommend the relevant Scheme Employer to jointly review the required cover with it regularly, at least once a year.

Subsumed liabilities

50. Where an employer is exiting the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

51. In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

Orphan liabilities

52. Where an employer is exiting the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation64 of the Regulations, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

53. The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

54. To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the other employer's notional assets.

Cessation of participation

55. Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64 of the Regulations. That valuation will take account of any activity as a consequence of exit regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

56. In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers.

- For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds.

- For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

57. Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required.

(G) LINKS TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

58. The current investment strategy, as set out in the SIP, is summarised below:

General Principles and diversification

59. The Fund believes that the emphasis of investment over the long term should be on real assets, particularly equities and property. These are most likely to maximise the long term returns. The balance between UK and Overseas equities is, however, a matter of investment judgement. The Fund should also be diversified to include other real assets, such as Index-Linked and 'monetary' assets, such as Bonds and Cash.

60. The neutral benchmark proportions of the various asset classes have been determined by the Fund in consultation with the Investment Advisers and are reviewed at least once every three years to coincide with the Triennial Actuarial Valuation.

61. The active Investment managers are expected to adopt an active asset allocation policy to take advantage of the shorter term relative attractions of the various asset types.

62. The Administering Authority has produced this Funding Strategy Statement having taken a view on the level of risk inherent in the investment policy set out in the Statement of Investment Principles (SIP) and the funding policy set out in this document.

63. The SIP sets out the investment responsibilities and policies relevant to the Fund.

64. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate.

(H) IDENTIFICATION OF RISKS AND COUNTER-MEASURES

65. The Administering Authority seeks to identify all risks to the Fund, will monitor the risks and take appropriate action to limit the impact of them wherever possible.

66. For ease of classification some of the key risks may be identified as follows:

67. Investment

These include:

- assets not delivering the required return (for whatever reason, including manager underperformance)

- systemic risk with the possibility of interlinked and simultaneous financial market volatility

- having insufficient funds to meet liabilities as they fall due

- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon

- counterparty failure

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks

- fixed income - yield curve, credit risks, duration risks and market risks

- alternative assets – liquidity risks, property risk, alpha risk

- money market – credit risk and liquidity risk

- currency risk

- macroeconomic risks

The Administering Authority reviews each investment manager's performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting. The Administering Authority also annually reviews the effect of market movements on the Fund's overall funding position.

68. Employer

These include:

- the risk arising from ever changing mix of employers, from short terms and exiting employers, and the potential for a shortfall in payments and / or orphaned liabilities.

The Administering Authority will put in place a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admission bodies) and other pension fund stakeholders.

The Administering Authority maintains a knowledge base on their employers, their basis of participation and their legal status and will use this information to set a funding strategy for the relevant employers

69. Liability

These include:

- Interest rates being lower than expected
- Pay increases being higher than expected
- Price inflation being higher than expected
- The longevity horizon continuing to expand
- Deteriorating patterns of early retirements

The Administering Authority will ensure that the Actuary investigates these matters at each valuation. Prudent management of the fund should ensure that sound policies and procedures are in place to manage, e.g. potential ill health or early retirements.

70. Regulatory

These include:

- Changes to general and LGPS specific regulations, e.g. more favourable benefits package, potential new entrants to the scheme, e.g. part-time employees
- Changes to national pension requirement and/or Inland Revenue rules

71. Liquidity and maturity

These include:

- An increased emphasis on outsourcing and alternative models for service delivery may result in active members leaving the LGPS
- Transfer of responsibility between different public sector bodies
- Scheme changes which might lead to increased opt-outs
- Spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken into account in previous forecasts.

The Administering Authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

72. Governance

These include:

- Administering authority unaware of structural changes in an employer’s membership (e.g. large fall in employee members, large number of retirements)
- Administering authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond

The Administering Authority requires regular communication with employers to ensure that it is made aware of any such changes in a timely manner.

73. Choice of Solvency and Funding Targets

The Administering Authority recognises that future experience and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made in determining the Funding Target and Solvency Target, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of experience actually matching or being more favourable than the assumed experience, and the lower will be the Funding Target and Solvency Target calculated by reference to those assumptions.

The Administering Authority will not adopt assumptions for Scheduled Bodies and certain other bodies which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success (as defined earlier in this document). Where the probability of funding success is less than 65% the Administering Authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.

The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

74. Smoothing of Assets

These include:

- The utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position

The Administering Authority's policy is to review whether an approach is suitable and if so ensure the impact of this adjustment remains within acceptable limits.

75. Recovery Period

These include:

- Permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements

The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of Recovery Period where appropriate. Details of the Administering Authority's policy are set out earlier in this Statement.

76. Stepping

These include:

- Permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process

The Administering Authority’s policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps as appropriate. Details of the Administering Authority's Policy are set out earlier in this Statement.

(I) MONITORING AND REVIEW

77. The Administering Authority must keep the FSS under review and make appropriate revisions following a material change in policy. The triennial valuation exercise will establish contribution rates for all employers contributing to the fund within the framework provided by the strategy.

Appendix 2

Durham County Council Pension Fund

Statement of Investment Principles

Version Updated August 2015

Table of Contents

Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 consolidate the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the “Regulations”) which require administering authorities to prepare and review a written statement recording the investment policy of the Pension Fund. The 2009 regulations also require pension fund administering authorities to state the extent to which they comply with guidance given by the Secretary of State, previously the Chartered Institute of Public Finance (CIPFA) Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom. The compliance statement is attached at Appendix A.

Durham County Council is the administering authority (the “Authority”) for the Durham County Council Pension Fund (the “Pension Fund”) and the purpose of this document is to outline the broad investment principles governing the investment policy of the Pension Fund, thereby satisfying the requirements of the Regulations.

Investment Responsibilities

The County Council, as Administering Authority, has delegated the investment arrangements of the Pension Fund to the Pension Fund Committee (the “Pension Fund Committee”) who decide on the investment policy most suitable to meet the liabilities of the Pension Fund and the ultimate responsibility for the investment policy lies with it. The Committee is made up of elected representatives of the County Council, Darlington Borough Council, Further Education Colleges, Other Statutory Bodies, Admitted Bodies and Member Representatives.

The Pension Fund Committee has full delegated authority to make investment decisions.

The Pension Fund Committee has responsibility for:

- Determining overall investment strategy and strategic asset allocation and ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the Pension Fund is invested in suitable types of investments;
- Preparing policy documents including the Statement of Investment Principles. Monitoring compliance with the Statement and reviewing its contents following any strategic changes and at least every three years;
- Appointing the investment managers, custodian, the Pension Fund actuary and any independent external advisers felt to be necessary for the good stewardship of the Pension Fund;
- Reviewing on a regular basis the investment managers’ performance against established benchmarks, and satisfying themselves as to the investment managers’ expertise and the quality of their internal systems and controls;
- Reviewing on a regular basis the performance of the independent external advisers;
- In cases of unsatisfactory performance of the investment managers and independent external advisers, taking appropriate action;

- Reviewing policy on social, environmental and ethical matters and on the exercise of rights, including voting rights; and
- Reviewing the funds allocated to investment managers on a regular basis to ensure that the strategic asset allocation is maintained (rebalancing).

The 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 this document 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;
- Assisting the Corporate Director Resources and Pension Fund Committee in the preparation and review of this document; and
- Where specifically instructed, voting in accordance with the Pension Fund's policy.

The Global Custodian is responsible for:

- Its own compliance with prevailing legislation;
- Providing the administering authority with 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.

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 and 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; and
- Providing continuing education and training to the Pension Fund Committee.

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.

The Corporate Director Resources is responsible for:

- Ensuring compliance with this document and bringing breaches thereof to the attention of the Pension Fund Committee;

- Ensuring that this document is regularly reviewed and updated in accordance with the Regulations;
- Exercising delegated powers granted by the County Council to:
    - Administer the financial affairs in relation to the County Council's functions as a pension fund administering authority;
    - Exercise those discretions under the Local Government Pension Scheme Regulations 1997 as appear from time to time in Pension Fund Statements of Policy; and
    - Authorise, in cases of urgency, the taking of any action by an investment manager of the Pension Fund which is necessary to protect the interests of the Pension Fund.
- Managing the cash balances of the Pension Fund which the Investment Managers have not invested.

Authorised Investments

The powers and duties of the Authority to invest monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended from time to time and updated in 2009. The Authority is required to invest any money which is not required immediately to pay pensions and any other benefits and, in so doing, take account of the need for a suitable diversified portfolio of investments and the advice of persons properly qualified on investment matters.

Types of Investment

Investment can be made in accordance with the regulations in a broad spectrum of investments such as equities, fixed interest and other bonds, collective investment schemes, deposits, money market instruments, unquoted equities and property, both in the UK and overseas. The regulations also specify other investment instruments that may be used such as stock lending, financial futures, traded options, insurance contracts, sub underwriting contracts and a contribution to an unquoted limited liability securities investment partnership.

The limits on the amount of money that can be invested in each individual type of investment are specified in schedule 1, column 2 of the Regulations. We do not participate in stock lending or underwriting.

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003 amended the regulations so as to give Authorities the option to increase some of the limits on certain types of investments provided that the Authority complies with the requirements of the Regulations. These requirements include taking proper advice, the suitability of particular investments and types of investments, the limit on the amount of such investment, the reason for such investment and the period for which the increase in the limit of the type of investment will apply. Any increase in the limit must be kept under review.

The 2009 Regulations now prevent the administering authority from investing the Pension Fund’s cash that is not required immediately along with its own cash. The Pension Fund Committee has agreed that as part of its investment strategy it will allow the administering authority to invest, in the short term, on its behalf in line with the administering authority's Treasury Management Strategy.

Investment Managers are instructed to comply with the regulations in respect of the relevant portfolio subject to any specific instructions. The Authority is responsible for oversight of how compliance affects the compliance of the Pension Fund as a whole.

Investment Risk

The investment policy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Pension Fund while achieving a good return on investment.

By dividing the management of the assets between seven investment managers, further controls risk. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the investment manager does not deviate from the Pension Fund Committee's investment strategy.

The setting of specific control ranges and other investment guidelines within which the investment managers must operate also controls risk.

The 2009 Regulations require the Pension Fund to describe how it measures and manages risk.

Risk is measured, in part, by the administering authority's risk management section as part of its assessment of the County Council's risks, and is reviewed as part of the independent Governance review undertaken by the Pension Fund.

Realisation of Investments

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

Approval has been given to investment as follows:

In-house Management

i. **Midland Enterprise Fund for the North East Exempt Unit Trust**

- Small, private and growing companies in the North East of England
- £200,000 invested.

ii. **Capital North East**

- Start up and development capital for businesses in the North East:
- £400,000 invested, up to £500,000 may be invested.

External Investment Management

The Pension Fund Committee has appointed seven investment managers to manage the remainder of the Pension Fund's assets. They have been appointed under the terms of the Regulations and their roles are described in the Investment Policy in Appendix B.

Allocation Strategy

Having considered advice from the Independent Advisers, and also having due regard for the objectives, the liabilities of the Pension Fund and the risks facing the Pension Fund, the Pension Fund Committee have decided upon the following strategic target asset allocation:

Asset Class	Permitted Assets	Benchmark & Performance Target	Proportion of Total Fund *
Conventional Bonds	Investment grade sterling bonds	FTSE Over 5 Year Index-Linked Gilt Index +0.5%	20%
Broad Bonds	Global bonds	UK 3-month LIBOR +3.0%	15%
Global Equities	Global Equities	MSCI All Country World Index (unhedged) in GBP terms +3% MSCI World index +2.5%	15% 15%
Emerging Market Equities	Emerging Market Equities	MSCI Emerging Markets Net Index +2.5%	7%
Dynamic Asset Allocation	All major asset classes with the ability to take derivative positions	UK 3-month LIBOR +3.0%	20%
Global Property	Global property	UK Retail Price Inflation +5.0%	8%

* Excluding in-house managed funds

More detailed definitions of the mandates are given at Appendix B.

The Pension Fund Committee and the Corporate Director Resources, in conjunction with the Independent Advisers, will formally monitor the actual asset allocation of the Pension Fund on a quarterly basis.

Stock Selection

Individual investments are chosen by the Investment Managers with the Pension Fund Committee, Corporate Director Resources and independent external advisers able to question the investment managers on their actions at each quarterly meeting.

Cash Management

The administering authority will invest the short term cash balances on behalf of the Pension Fund. This will be done in line with the administering authority's Treasury Management Policy and interest will be paid quarterly to the Pension Fund.

Investments Requiring Prior Approval

Subject to changes and agreements with Investment Managers, as included at Appendix B, a detailed report must be submitted to and approved by the Pension Fund Committee prior to making investments in the following:

- Private equity/ Venture capital funds and enterprises
- Commodities
- Stock lending
- Currency Hedging - agreed in principle, subject to prior consultation with the Corporate Director Resources.

Socially Responsible Investing

The Pension Fund Committee must act with the best financial interests of the beneficiaries, present and future, in mind. The Pension Fund Committee believes that companies should be aware of the potential risks associated with adopting practices that are socially, environmentally or ethically unacceptable. As part of the investment decision-making process, Investment Managers are required to consider such practices and assess the extent to which this will detract from company performance and returns to shareholders.

Corporate Governance

Investment Managers are required to exercise voting rights on behalf of the Pension Fund when it is in the best interests of the Pension Fund. The quarterly report from investment managers should include details of voting activity.

Fee Structure

The Investment Managers' fees are based on the value of assets under management. In the case of two investment managers, a performance related fee structure is in place based on a base fee plus a percentage of out-performance. In the case of the remaining investment managers an ad-valorem fee is payable.

Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

Any additional work will be subject to a suitable fee arrangement or subject to separate tendering exercises.

The administering authority fee for Treasury Management will be based upon a flat fee for the service provided to the Pension Fund.

Reporting Requirements

The investment managers must report quarterly on matters covered in their individual agreements, but should include common items such as:

- Investment Managers' views on the UK or other relevant economies and the proposed asset allocation for the past, present and future quarter.
- Reports on any new investment policy issues requiring the approval of the Pension Fund Committee.
- Performance during the previous quarter, previous twelve months, three years and five years.
- A Portfolio valuation, including details of individual holdings.
- Investment transactions schedule for the previous quarter.
- Portfolio distribution and the changes in the markets - summarised by:
    - type of investment;
    - sector
    - geographic area as appropriate.
- Performance of any collective investment funds or internal pooled funds in which investments are held.
- Underwriting commitments relevant to the Portfolio.
- The cash position of the Pension Fund.
- Voting actions and forthcoming activity.
- Any material matters reported to the Financial Conduct Authority (FCA) or such other appropriate authority, in respect of the Portfolio or which reasonably might be brought to the attention of the Pension Fund Committee.
- Any material matters in respect of the interface with the Custodian.
- Investment or ancillary activities carried out in relation to the Portfolio where there arose a material risk of damage to the interests of the

Pension Scheme or where a material risk of damage may arise in the future.

- Dealing errors and action taken.
- Any breach of confidentiality.
- Any breach of their Investment Management Agreement.

Quarterly, the Global Custodian must present a detailed report relating to the individual investment managers' fund performance and the combined fund performance.

- Principles

This appendix sets out the extent to which Durham County Council as the Administering Authority of the Durham County Council Pension Fund complies with the six principles of investment practice set out in the document published in November 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy, and called "Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012", in future, compliance with guidance given by the Secretary of State will be reported.

Principle 1 — Effective decision-making

Fully compliant: Investment decisions are made by those with the skill, information and resources necessary to take them effectively. A programme covering investment issues is being developed for new members joining the Pension Fund Committee and training is provided to all members.

Principle 2 – Clear objectives

Fully compliant: The overall investment objective for the Pension Fund is set out in the Funding Strategy Statement.

Principle 3 – Risk and Liabilities

Fully compliant: The overall investment objective is considered by the Fund. The risks associated with the major asset classes in which the Fund's assets are invested is regularly considered. A risk register has been completed for the Pension Fund and reports from Internal and External Audit are considered by the Pension Fund Committee.

Principle 4 – Performance Assessment

Partial compliance: Appropriate benchmarks have been set in consultation with the independent advisers and the actuary. Benchmarks are considered regularly as part of the review of the Strategic Asset Allocation. Performance against benchmarks is considered quarterly at the Pension Fund Committee. Investment Managers' performance is measured quarterly. Separate monitoring of Pension Fund Committee performance and independent adviser performance has yet to be established.

Principle 5 – Responsible Ownership

Partial compliance: The Pension Fund's policy for socially responsible investing is set out in the Statement of Investment Principles.

Explicit written mandates agreed with all investment managers. Investment Managers are required to exercise voting rights on behalf of the Pension Fund when it is in the best interests of the Pension Fund. Normal practice is to allow the Investment Managers to follow their in-house voting policy unless otherwise instructed by the Pension Fund Committee. The mandates do not specifically incorporate the principle of the US Department of Labor Interpretative Bulletin on activism.

Principle 6 – Transparency and Reporting

Fully compliant: The Pension Fund Committee acts in a transparent manner, communicating with its stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives through the publication of Committee reports and Minutes on the County Council website. The Funding Strategy Statement and the Statement of Investment Principles are also available on the internet and are included in the Pension Fund's Annual Report and Accounts. The Annual Report and Accounts includes the statutory documents that the Pension Fund is required to provide.

The Pension Fund provides regular communication to scheme members in a Newsletter and Annual Statements which are considered the most appropriate form.

- Investment Managers

The Pension Fund Commitee currently has appointed seven Investment Managers: Aberdeen Asset Management ('Aberdeen'), AB (formerly AllianceBernstein Limited) ('AB'), BNY Mellon Investment Management Ltd (‘BNY Mellon’), Mondrian Investment Partners Ltd (‘Mondrian’), Royal London Asset Management ('RLAM'), CB Richard Ellis Collective Investors Limited (‘CBRE’) and BlackRock Investment Management (UK) Limited ('BlackRock') to manage the assets of the Pension Fund.

The current long-term strategic allocation is as follows (the actual allocation may vary due to market movements):

Investment Manager	%	Asset Classes	Investment Style
Aberdeen	15	Global Equities	Active
BNY Mellon	15	Global Equities	Active
Mondrian	7	Emerging Market Equities	Active
AB	15	Global Bonds	Active
RLAM	20	Investment grade sterling and non-sterling bonds	Active
CBRE	8	Global Property	Active
BlackRock	20	Dynamic Asset Allocation - all major asset classes with derivative overlay	Active

The investment restrictions detailed in this Appendix form part of the contractual agreement with Investment Managers and will only be varied after consultation with the Investment Managers in accordance with their contracts.

The Investment Manager may hold cash up to the value of 5% of the market value of the portfolio in respect of which the Investment Manager has been appointed, subject to agreements with individual Investment Managers, who may require a different limit to invest their part of the Pension Scheme’s assets. Cash in excess of this value should be returned to Durham County Council as Administering Authority.

The mandates for each Investment Manager, subject to the overall requirements of the Regulations and this Statement of Investment Principles, are as follows:

Aberdeen

The Pension Fund Committee has appointed Aberdeen to manage a portfolio to be invested in active Global Equities.

The Investment Manager's objective is to outperform the benchmark by 3% per annum gross of fees over a rolling three year basis.

The benchmark allocation is as follows:

Asset Class	Benchmark
Global Equity	MSCI All Country World Index (unhedged)

Aberdeen intends to invest in the following to achieve their objective:

Portfolio	%
World Equity Fund	100

The Aberdeen World Equity Fund adopts an unconstrained approach to achieve its objective and as such does not maintain hard restrictions on stock, sector and country exposures. Internal guidelines though are used to assess risk against the benchmark:

	Range
Individual stock exposure	0 - 5% of total portfolio
Deviation in sector exposure	+ / - 15% from the benchmark
Deviation in country exposure	+ / - 35% from the benchmark
Cash holdings	Maximum of 5%

BNY Mellon

The Pension Fund Committee has appointed BNY Mellon to manage a portfolio to be invested in active Global Equities.

The benchmark allocation is as follows:

Asset Class	Benchmark
Global Equity	MSCI World

The Investment Manager's objective is to outperform the Index by 2.5% per annum gross of fees over a full market cycle.

BNY Mellon intends to invest in the following to achieve their objective:

Portfolio	%
Long Term Global equity Fund	100

The BNY Mellon Long Term Global Equity Fund is a UCITS fund and as such is required to adhere to UCITS Investment Guidelines. Additional restrictions imposed by BNY Mellon are:

	Range
Emerging Market equities	Maximum of 20%
Investments in Collective Investment Schemes	Maximum of 10%
Investments in bonds, convertibles, cash and money market instruments	Maximum of 25%
Cash holdings	Maximum of 5%

Mondrian

The Pension Fund Committee has appointed Mondrian to manage a portfolio to be invested in active Emerging Market Equities.

The benchmark allocation is as follows:

Asset Class	Benchmark
Emerging Market Equities	MSCI Emerging Markets Net Index

The Investment Manager's objective is to outperform the Index by 2.5% per annum gross of fees over a full market cycle.

Mondrian intends to invest in the following to achieve their objective:

Portfolio	%
Emerging Market Equities	100

There are limitations that apply with the construction of the Mondrian portfolio. They are as follows:

	Range
Investments in REITS	Maximum of 20% (client to be informed at any greater than 10%)
Individual Securities	Maximum of 5% in single stock
Sector restrictions	Maximum of 25% of portfolio in single industry
Cash holdings	Maximum of 5%

AB

The Pension Fund Committee has appointed AB to manage a portfolio to be invested in Global Bonds.

The Investment Manager's objective is to outperform the benchmark by 3% per annum net of fees over a rolling three year basis, with 5 – 10% volatility.

The benchmark allocation is as follows:

Asset Class	Benchmark
Broad Bonds	UK 3-month LIBOR

AB intend to invest in the following to achieve their objective:

Portfolio	%
Diversified Yield Plus Fund	100

AB can use a wide variety of financial instruments to generate returns within the portfolio.

AB intends to make use of financial derivative instruments and shall employ the Value-at-Risk (VaR) approach to measure risk associated with the use of such instruments. The Diversified Yield-Plus strategy employed by AB anticipates VaR exposure of less than or equal to 5%, as calculated by AB or its delegates. VaR reports will be produced and monitored on a daily basis based on the following criteria:

- 1 month holding period
- 99% confidence level.

The limitations that apply to the investments are detailed below:

Sector	Range
High Yield	0% to 30%
Emerging Markets	0% to 20%
Foreign Exchange	0% to 30% gross, 0% to 15% net
Sovereign	0% to 100%
MBS	0% to 40%
CMBS/ABS	0% to 30%
Investment- Grade Corporates	0% to 75%

Up to 100% of the Portfolio may be invested in Unit-linked Insurance Contracts issued by Associates of the Investment Manager. Direct investment in Collective Investment Schemes (CIS) is subject to prior approval.

RLAM

The Pension Fund Committee has appointed RLAM to manage a portfolio to be invested in Investment Grade Bonds.

The Investment Manager's objective is to outperform the benchmark by 0.5% per annum net of fees over a rolling three year basis.

The benchmark allocation is as follows:

Asset Class	Benchmark
Conventional Bonds	FTSE Over 5 Year Index-Linked Gilt Index

RLAM intend to invest in the following to achieve their objective:

Portfolio	%
Segregated - with a specified range of +/- 2 years duration of the benchmark, mainly index-linked securities	100

RLAM can invest in a wide variety of bonds to generate returns within the Fund. The limitations to the extent of the investments in each classification are detailed below:

Bond classification	Range
UK Government Index Linked Bonds	50% to 100%
Overseas Government Index-Linked Bonds*	0% to 20%
UK Non-Government Index Linked Bonds	0% to 20%
UK Conventional Government Bonds	0% to 20%
UK Investment Grade Corporate Bonds (or equivalent)	0% to 20%
Overseas Conventional Bonds**	0% to 10%
Derivatives***	0%
Cash or cash equivalents (less than 1 year maturity)	0% to 10%

*Includes government and non-government bonds

**Includes government and corporate bonds and Currency hedged into sterling.

***Derivatives may only be used for the purpose of hedging currency risk.

There are limits on the holding of the following asset classes:

Asset Class	Maximum Holding
Collective Investment Schemes (CIS)	0% of the Portfolio or as otherwise advised in writing from time to time
Any single security excluding government bonds	Maximum of 5% of portfolio

CBRE

The Pension Fund Committee has appointed CBRE to manage a portfolio to be indirectly invested in Property. Investment will not be restricted to UK vehicles, but can be invested globally as well as a pan-European basis.

The Investment Manager's objective is to outperform the benchmark by 5% per annum net of fees to be achieved over a five year time horizon.

The benchmark allocation is as follows:

Asset Class	Benchmark
Global Property	UK Retail Price Inflation

CBRE intend to invest in the following to achieve their objective:

Portfolio	%
CB Richard Ellis RPI +5%	100

There are limitations that apply with the construction of the CBRE portfolio. They are as follows:

Restrictions	Range
Collective Investment Schemes (CIS)	0% to 50% until notified in writing and thereafter 0% to 100%
Maximum allocation to any single fund	0% to 15%
Maximum allocation to listed investments	0% to 30%
Maximum allocation to any single country (including the UK)	0% to 25%
Maximum regional allocations:	
Asia Pacific Region	0% to 40%
North American Region	0% to 45%
Other Regions (excluding Europe)	0% to 10%

In the case of Collective Investment Schemes (CIS) taken on at the Effective Date, the requirement shall be that the Investment Manager liquidate these assets at a time that is appropriate in the reasonable opinion of the Investment Manager. There is no long stop date on this process.

BlackRock

The Pension Fund Committee has appointed BlackRock to manage a portfolio to be invested in a fully diversified Global portfolio. It is expected that target return will be delivered using dynamic asset allocation over the market cycle incorporating the full range of global investment opportunities.

The Investment Manager's objective is to outperform the benchmark by 3% per annum net of fees over a rolling three year basis.

The benchmark allocation is as follows:

Asset Class	Benchmark
Multi asset	3-month LIBOR

BlackRock intend to invest in the following to achieve their objective:

Portfolio	%
Dynamic Diversified Growth Strategy	100

BlackRock can use a wide variety of asset classes to generate returns within the Fund.

The objective of the strategy is to deliver long term consistent growth with low volatility and a strong focus on downside protection. The risk profile is typically one third to one half of equity market risk.

The limitations to the extent of the investments in each classification are detailed overleaf:

Sector	Range / Restrictions
Leverage	The fund may not be leveraged through: • The use of borrowing to purchase additional investment; • Gaining aggregate market exposure (physical long positions plus net economic exposure gained through the use of derivatives) in exess of 100% NAV
High Yield Restriction	15% maximum
Property Restriction	15% maximum
Currency	Minimum GBP exposure of 60% of NAV Exposure of the Portfolio should not exceed + / - 30% of NAV to any single non GBP denominated currency
Maximum allocation to equity	65%

BlackRock are not permitted to hold the following Funds:

Fund
Aberdeen World Equity Fund
AB Diversified Yield Bond Plus Fund,
BNY Mellon Long Term Equity Fund

Pension Fund Committee

10 September 2015

Statement of Accounts for the year ended 31 March 2015

Don McLure, Corporate Director Resources

Purpose of the Report

1 To present to Members the Pension Fund Accounts for the year ended 31 March 2015 and raise any significant issues arising from the accounts.

Background

2 In England and Wales, the 'Code of Practice on Local Authority Accounting 2014/15' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires pension fund accounts for the Local Government Pension Scheme (LGPS) to be included in the Statement of Accounts of every authority that administers a LGPS fund.

3 The County Council, as Administering Authority, therefore, includes the Pension Fund Accounts in its 'Statement of Accounts'. These accounts are shown at Appendix 1.

4 The 'Accounts and Audit Regulations 2011' introduced a two stage approval process for the Statement of Accounts; the first stage is in June each year. The Regulations require that the responsible financial officer, by no later than 30 June, signs and certifies that the Statement of Accounts presents a "true and fair view" of the financial position of the Council for the year to 31 March previous, subject to the views of the External Auditor. This stage was completed on 30 June 2015.

5 The second stage, as set out in the Regulations, requires that on or before the 30 September, approval needs to be given to the Statement of Accounts by resolution of a committee, which for Durham County Council is the Audit Committee. This approval will take into account the views of the External Auditor. This is done so that the Statement of Accounts can then be published.

6 The Statement of Accounts is currently subject to audit by Mazars LLP. The audit of the accounts is ongoing. On completion, the Auditor's report will be incorporated into the published version of the document.

7 The full Statement of Accounts has been published on the County Council's website.

Accounting Requirements

8 The Statement of Accounts for the financial year 2014/15 is prepared in accordance with the 'Accounts and Audit (England) Regulations 2011' and the 'Code of Practice on Local Authority Accounting 2014/15' (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

9 The Code is based on approved accounting standards. In England and Wales, the local authority Code constitutes 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003. The Council is therefore legally required to follow this Code of Practice. As a result, the accounts contain detail and are unavoidably technical and complex.

10 The Code confirms that the objective of pension fund accounts is to provide information about the financial resources and activities of the fund that might be useful in assessing the relationships between its benefit obligations and the accumulation of resources available to meet those obligations over time.

11 The Code requires that the following are included in the Pension Fund Accounts:

- a fund account - this will show the changes in net assets available for benefits;
- a net assets statement - showing the assets available at the year end to meet benefits; and
- notes to the accounts.

Key information from the Pension Fund Accounts

12 The Pension Fund accounts show that

- net assets as at 31 March 2015 have increased by £204.120m to £2,334.975m
- there was a net withdrawal of £8.400m as a result of payments to pensioners exceeding the contributions received; and
- there was a £212.520m return on the Pension Fund's investments.

Audit Completion Report

13 The final audit of the Statement of Accounts is now underway. At the end of this process, the Auditor will provide an Audit Completion Report detailing their comments and recommendation for improvements, based on the position at 31 March 2015.

14 The Audit Completion Report will be presented to Members along with an Action Plan, if required, designed to address any Auditor's recommendations at the conclusion of the Audit.

Summary

15 Members are asked to note the contents of this report.

Contact: Hilary Appleton Tel: 03000 266239

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Extract from

Statement of Accounts

For the year ended 31 March 2015

I hope that this document proves to be both informative and of interest to readers. The Council is keen to try to improve both the quality and suitability of information provided. On that basis your feedback would be welcome.

If you have suggestions or comments on either the format of the report or its content, or you would like any further information or further copies of this document, please contact:

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

e-mail: help@durham.gov.uk
Telephone: 03000 260000

Don McLure C.P.F.A.
Corporate Director Resources

LGC Awards 2014 Council of the Year

Durham County Council **Page**

Fund Account

2013-14				2014-15	
£000	£000		Notes	£000	£000
		DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND			
-96,800		Contributions receivable	7	-98,848	
-2,623		Transfers in from other pension funds	8	-2,734	
-5		Other income		-5	
	-99,428				-101,587
96,669		Benefits payable	9	101,419	
32,300		Payments to and on account of leavers	10	8,568	
	128,969				109,987
	29,541	**Net withdrawals/ -additions from dealings with members**			**8,400**
	6,388	**Management expenses**	11		6,869
		RETURN ON INVESTMENTS			
-30,334		Investment income	12	-29,297	
-50,990		Profit and losses on disposal of investments and change in market value of investments	14	-190,092	
	-81,324	**Net returns on investments**			**-219,389**
	-45,395	**NET INCREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR**			**-204,120**

Net Assets Statement

2013-14				2014-15	
£000	£000		Notes	£000	£000
		INVESTMENT ASSETS			
62,934		Fixed interest securities	14	87,417	
500,898		Equities	14	264,293	
384,175		Index linked securities	14	477,348	
1,128,807	2,076,814	Pooled investment vehicles	14	1,362,350	2,191,408
390		Loans	14	375	
		Other cash deposits:			
49,850		Fund Managers	14	111,133	
26,241		Short term investments	14	54,269	
47,205	123,686	Derivative contracts	14	12,111	177,888
	2,200,500				2,369,296
		Other Investment Assets			
4,813		Dividend accruals	14,17	1,815	
378		Tax recovery	14,17	276	
8,931	14,122	Other investment balances	14,17	12,060	14,151
	2,214,622	**Total Investment Assets**			**2,383,447**
		INVESTMENT LIABILITIES			
-40,936		Derivative contracts	14	-12,886	
-18,387		Other investment balances	18	-37,354	
	-59,323	**Total Investment Liabilities**			**-50,240**
	2,155,299	**NET INVESTMENT ASSETS**			**2,333,207**
	1,250	**Long Term Assets**	17		1,042
		Current assets			
6,301		Contributions due from employers	17	9,275	
922		Other current assets	17	864	
	7,223				10,139
		Current liabilities			
-		Unpaid benefits	18	-	
-32,917		Other current liabilities	18	-9,413	
	-32,917				-9,413
	2,130,855	**NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS AT 31 MARCH**			**2,334,975**

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

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

1. Fund Operation and Membership

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

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2009 (as amended)

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

The Corporate Director Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and Strategic Finance teams in his statutory duty to ensure the Pension Fund is administered effectively and remains solvent. The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admitted bodies also participate in the Scheme.

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

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

	2010/11	*2011/12*	*2012/13*	*2013/14*	*2014/15*
Contributing Members	18,526	17,235	16,837	17,454	18,011
Pensioners in Payment	15,341	16,049	16,386	16,700	17,193
Pensioners Deferred	10,595	11,573	12,211	13,040	13,165

In comparison to the figures reported at 31 March 2014, the number of pensionable employees in the Fund at 31 March 2015 has increased by 557, the number of pensioners has increased by 493 and deferred pensioners have increased by 125.

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 116 at 31 March 2015), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table:

2013-14 Benefits	2013-14 Contributions		2014-15 Benefits	2014-15 Contributions
£000	£000		£000	£000
76,488	-65,776	Administering Authority	80,645	-68,386
17,755	-26,962	Scheduled Bodies	17,922	-26,704
2,426	-4,062	Admitted Bodies	2,852	-3,758
96,669	**-96,800**		**101,419**	**-98,848**

Further information about the Fund can be obtained from its separately published Annual Report which is available on the Council's website at durham.gov.uk

2. Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts have been prepared on an accruals and going concern basis.

The financial statements summarise the transactions and the net assets of the Pension Fund available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years. The Actuary completed a valuation during 2013/14, the results of which determined the contribution rates from 1 April 2014 to 31 March 2017. Details of the latest valuation are included in Note 22.

3. Accounting Policies

Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the normal accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis).

Fund Account

Contributions receivable
Contribution income is categorised and recognised as follows:

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

Transfers to and from other schemes
Transfer values represent amounts paid to or received from other local and public authorities, private, occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities. Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

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

Administrative expenses
All administration expenses are accounted for on an accruals basis. All costs of the pensions administration team and a proportion of the costs of the pension fund accounting team are charged to the Pension Fund as administrative expenses.

All investment management fees are accounted for on an accruals basis. Fees of the external Investment Managers are agreed in the respective mandates governing their appointments. Where an Investment Manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

The cost of obtaining independent investment advice from consultants is also included in investment management fees. Independent advisers' fees are based on a retainer for attendance at Pension Fund Committee Meetings and the provision of advice to the

Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.

A proportion of the costs of the pension fund accounting team and treasury management team are charged to the Pension Fund for investment management activities.

Investment income

Investment income is accounted for as follows:

- income from equities is recognised in the Fund Account on the date stocks are quoted ex-dividend;
- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis;
- interest income is recognised in the Fund Account as it accrues;
- income from other investments is accounted for on an accruals basis;
- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
- foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable on the last working day in March, where amounts were still outstanding at the year end;
- changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Taxation

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

Net Assets Statement

Valuation of Investments

Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price for which an asset could reasonably be exchanged, or a liability settled, in an arm’s length transaction. In the case of marketable securities fair value is equal to market value. Market value is the bid price quoted in an active market for securities and unitised investments.

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

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund. The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted equity securities which are traded on an exchange are accounted for on a bid market price basis, where Investment Managers provide valuations in this manner;
- Fixed interest securities that are traded on an exchange are accounted for at bid market price where Investment Managers provide valuations in this manner;
- Index linked securities are valued at bid market value where Investment Managers provide valuations in this manner;
- Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised securities are valued at the reported price;
- Unquoted equity investments are included based on an estimated price of the investments held. Investment Managers use valuation techniques to establish a price at the year end date based on an arm's length exchange given normal business considerations;
- Derivative contracts outstanding at the year end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

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

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

Contingent Assets
A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Pension Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 21.

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

Acquisition costs of investments
Acquisition costs of investments are added to book cost at the time of purchase.

Financial liabilities
The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

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

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

If, however, AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 7 as additional contributions from members.

4. Critical Judgements in Applying Accounting Policies

The preparation of the statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the fair value of unquoted private equities is highly subjective and based upon forward looking estimates and judgements involving many factors. Investment Managers provide the values to be recognised in the Net Assets Statement.
- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

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

Item	Uncertainties	Effect if actual differs from assumptions
Actuarial Valuation	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the salary increase projections, expected changes in retirement ages, mortality rates and returns on pension fund assets. A firm of actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. Note 22 summarises the results of the actuarial valuation.	The Actuary calculated the funding ratio to be 84% as at 31 March 2013 (the last triennial valuation). If the following figures were to differ from the assumptions used in the calculation, there would be a reduction in the funding ratio to: • 79% if life expectancy increases by 3 years • 70% if discount rate falls by 1% • 70% if inflation increases by 1% • 73% if equities fall by 25% • 80% if pensionable pay increases by 1%
Fair Value of investments	The Accounts are as at 31 March 2015 and all the investments held by the fund are valued as at that date using the best estimate possible of ‘fair value’, as detailed in ‘Significant Accounting Policies - Valuation of Investments’.	The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/under-stated in the accounts. The total value of Level 3 investments (explained in Note 15) is £105.2m at 31 March 2015 (£108.7m at 31 March 2014). Every 1% increase/ decrease in fair value would result in an increase/ decrease in the value of the Fund by £1.052m (£1.087m at 31 March 2014).

6. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2015 which require any adjustments to be made to these accounts.

7. Contributions Receivable

2013-14 £000		2014-15 £000
	Employer contributions:	
-45,014	Normal	-47,702
-490	Augmentation	-3,354
-29,630	Deficit funding	-25,313
	Member contributions:	
-21,535	Normal	-22,363
-131	Additional contributions	-116
-96,800		**-98,848**
-65,776	Administering Authority	-68,386
-26,962	Scheduled Bodies	-26,704
-4,062	Admitted Bodies	-3,758
-96,800		**-98,848**

8. Transfers in From Other Pension Funds

2013-14 £000		2014-15 £000
-	Group Transfers	-
-2,623	Individual Transfers	-2,734
-2,623		**-2,734**

9. Benefits Payable

2013-14 £000		2014-15 £000
84,383	Pensions	87,994
15,454	Commutations and lump sum retirement benefits	16,822
1,763	Lump sum death benefits	1,531
-4,931	Recharged benefits	-4,928
96,669		**101,419**
76,488	Administering Authority	80,645
17,755	Scheduled Bodies	17,922
2,426	Admitted Bodies	2,852
96,669		**101,419**

10. Payments To and On Account of Leavers

2013-14 £000		2014-15 £000
4	Refunds to members leaving service	65
-	Payments for members joining state scheme	16
4,579	Individual transfers to other schemes	4,479
27,717	Group transfers to other schemes	4,008
32,300		**8,568**

The Group Transfer figure in 2014/15 of £4.008m is a provision for the transfer value due to be paid to South Tyneside Pension Fund during 2015/16. This relates to the group transfer of staff from the former Wear Valley District Council who are now employed by Gentoo and who transferred out of the DCC Pension Fund on 31 March 2008.

The Group Transfers figure of £27.717m for 2013/14, related to a provision for the transfer value payable to Teesside Pension Fund in relation to the group transfer of Durham Probation Service staff who transferred out on 1 April 2010. This was paid in full during 2014/15.

11. Management Expenses

Administration expenses include the cost of the administering authority in supporting the Fund, plus legal, actuarial and audit fees.

Investment Managers' fees are based on the value of assets under management. A performance related fee, derived from a base fee plus a percentage of out-performance, is paid to three of the Fund's investment managers; an ad-valorem fee is payable to the other managers. All fees are payable in arrears.

Independent Advisers' fees are based on a retainer for attendance at Pension Fund Committee and Annual Meetings and the provision of advice. Fees for any additional work are based on a daily or hourly rate, as agreed in advance.

2013-14 £000		2014-15 £000
1,266	Administration expenses	1,170
5,122	Investment Management expenses	5,699
-	Oversight and Governance Costs	-
6,388		**6,869**

12. Investment Income

2013-14 £000		2014-15 £000
-1,717	Interest from fixed interest securities	-2,449
-3,827	Income from index-linked securities	-2,849
-17,300	Dividends from equities	-14,148
-35	Interest on cash deposits	-283
-7,455	Income from pooled investment vehicles	-9,568
-30,334		**-29,297**

13. Taxation

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

- **United Kingdom Income Tax**
  The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.
- **Value Added Tax**
  As Durham County Council is the administering authority for the Fund, VAT input tax is recoverable on most fund activities.
- **Foreign Withholding Tax**
  Income earned from investments in stocks and securities in the United States, Australia and Belgium is exempt from tax. In all other countries dividends are taxed at source and, where the tax paid at source is greater than the rate of tax under the 'Double Taxation Agreement', the excess tax is reclaimable except in the case of Malaysia.

14. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2014/15 to manage the Pension Fund's assets:

- Aberdeen Asset Management Limited (Aberdeen)
- AllianceBernstein Limited (AllianceBernstein)
- Bank of New York Mellon Investment Management EMEA Limited (BNYM)
- Baring Asset Management Limited (Barings)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Royal London Asset Management (RLAM)

The long-term strategic allocation as at 31 March was as follows:

31 March 2014 %	Investment Manager	Asset Class	31 March 2015 %
15	Aberdeen	Global equities	15
15	AllianceBernstein	Global Bonds	15
15	BNYM	Global equities	15
20	Blackrock	Dynamic Asset Allocation	20
8	CBRE	Global property	8
7	Mondrian	Emerging Market Equities	7
20	Royal London	Investment grade sterling bonds	20
100			**100**

Aberdeen, BNYM and Mondrian gained responsibility for their allocations during the third quarter of 2014/15. Blackrock were the out-going manager for this (i.e. equity) portion of the portfolio.

Blackrock were appointed as a temporary manager of the dynamic asset allocation and assumed responsibility for this part of the portfolio in January 2015. Barings previously managed this part of the portfolio.

The actual market values of investments held by each Investment Manager as at 31 March were as follows (the actual allocations vary slightly from the long-term strategic allocations due to market movements):

31 March 2014			31 March 2015	
£000	%	Investment Manager	£000	%
-	0.00	Aberdeen	343,880	14.95
305,405	14.32	AllianceBernstein	330,169	14.34
-	0.00	BNYM	355,519	15.45
418,159	19.60	Barings	15,251	0.66
864,856	40.55	Blackrock	467,036	20.29
145,432	6.82	CBRE	150,641	6.54
-	0.00	Mondrian	157,684	6.85
71	0.00	Other - NEL	28	0.00
399,010	18.71	RLAM	481,558	20.92
2,132,933	**100.00**		**2,301,766**	**100.00**

The totals in the above table include all assets held by Investment Managers on behalf of the Fund, including cash and derivatives. The total as at 31 March 2015 excludes loans of £0.375m, cash invested by the administering authority of £54.269m, other investment assets of £14.151m and other investment liabilities of £37.354m (£0.390m, £26.241m, £14.122m and £18.387m respectively as at 31 March 2014).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2015, £2.302m (98.65%) is invested through Investment Managers (£2.133m or 98.96% at 31 March 2014).

Reconciliation of Movements in Investments 2014/15

Investment category	Value at 31 March 2014	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2015
	£000	£000	£000	£000	£000
Fixed interest securities	62,934	318,667	-361,257	67,073	87,417
Equities	500,898	471,891	-395,986	-312,510	264,293
Index linked securities	384,175	1,727,246	-1,704,313	70,240	477,348
Pooled investment vehicles	1,128,807	5,008,000	-5,044,956	270,499	1,362,350
	2,076,814	7,525,804	-7,506,512	95,302	2,191,408
Derivative contracts:					
Futures, margins & options	4,716	7,137	-26,855	18,104	3,102
Forward foreign currency	1,553	-	-	-5,430	-3,877
	2,083,083	**7,532,941**	**-7,533,367**	**107,976**	**2,190,633**
Other investment balances:					
Loans	390			-	375
Other cash deposits	76,091			82,116	165,402
Dividend accruals	4,813			-	1,815
Tax recovery	378			-	276
Other investment balances	-9,456			-	-25,294
Net Investment Assets	**2,155,299**			**190,092**	**2,333,207**

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

Reconciliation of Movements in Investments 2013/14

Investment category	Value at 31 March 2013	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2014
	£000	£000	£000	£000	£000
Fixed interest securities	73,341	419,890	-429,646	-651	62,934
Equities	435,804	188,238	-139,693	16,549	500,898
Index linked securities	410,966	2,002,231	-2,010,126	-18,896	384,175
Pooled investment vehicles	1,117,793	41,133	-66,833	36,714	1,128,807
	2,037,904	2,651,492	-2,646,298	33,716	2,076,814
Derivative contracts					
Futures, margins & options	1,340	1,095	-472	2,753	4,716
Forward foreign currency	415	-	-	1,138	1,553
	2,039,659	2,652,587	-2,646,770	37,607	2,083,083
Other investment balances:					
Loans	408			-	390
Other cash deposits	34,973			13,383	76,091
Dividend accruals	4,974			-	4,813
Tax recovery	527			-	378
Other investment balances	1,828			-	-9,456
Net Investment Assets	**2,082,369**			**50,990**	**2,155,299**

Analysis of Investments

2013-14			2014-15	
£000	£000		£000	£000
		ASSETS INVESTED THROUGH FUND MANAGERS		
		Fixed interest securities		
24,899		UK - Public sector - quoted	16,907	
-		UK - other - quoted	-	
38,035		Overseas - Public sector - quoted	70,510	
	62,934			87,417
		Equities		
444,881		UK quoted	35,502	
71		UK unquoted	28	
55,946		Overseas quoted	228,763	
	500,898			264,293
		Index linked securities		
351,857		UK quoted - Public sector	459,206	
1,509		UK quoted - Corporate	18,142	
27,531		Overseas quoted -Public sector	-	
3,278		Overseas quoted -Corporate	-	
	384,175			477,348
		Pooled Investment Vehicles		
27,680		Managed funds - non property - UK - quoted	68,683	
13,095		Managed funds - non property - UK unquoted	-	
68,150		Managed funds - non property - overseas - quoted	828,248	
878,029		Managed funds - non property - overseas - unquoted	330,169	
4,481		Unit Trusts - property - UK quoted	3,059	
28,044		Unit Trusts - property - UK unquoted	24,631	
22,346		Unit Trusts - property - Overseas quoted	27,038	
86,982		Unit Trusts - property - Overseas unquoted	80,522	
	1,128,807			1,362,350
		Derivative Contracts		
47,205		Assets	12,111	
-40,936		Liabilities	-12,886	
	6,269			-775
49,850	49,850	**Fund Managers' cash**	111,133	111,133
	2,132,933	**NET ASSETS INVESTED THROUGH FUND MANAGERS**		**2,301,766**
		OTHER INVESTMENT BALANCES		
	26,241	Short term investments (via DCC Treasury Management)		54,269
	390	Loans		375
	14,122	Other investment assets		14,151
	-18,387	Other investment liabilities		-37,354
	2,155,299	**NET INVESTMENT ASSETS**		**2,333,207**

Analysis of Derivatives

Objectives and Policies for Holding Derivatives

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

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

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

2013-14		Derivative Contracts	2014-15	
£000	£000		£000	£000
		Forward foreign currency		
1,688		Assets	1,192	
-135		Liabilities	-5,069	
	1,553	**Net Forward foreign currency**		-3,877
		Futures		
40,945		Assets	4,391	
-40,800		Liabilities	-4,281	
	145	**Net Futures**		110
		Options		
165		Assets	6,528	
-		Liabilities	-3,536	
	165	**Net Options**		2,992
		Margins		
4,406		Assets	-	
-		Liabilities	-	
	4,406	**Net Margins**		-
	6,269	**Net market value of derivative contracts**		**-775**

The Pension Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

Currency is bought and sold by investment managers (BlackRock, CBRE and Royal London) for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund’s investments.

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	EUR	5,100,000.00	GBP	-3,732,129.00		-42
3 to 6 mths	NZD	17,200,000.00	AUD	-16,585,187.11	132	
1 to 3 mths	USD	2,557,275.54	BRL	-8,260,000.00	12	
3 to 6 mths	GBP	11,256,844.00	EUR	-15,500,000.00	29	
3 to 6 mths	GBP	11,259,448.00	EUR	-15,500,000.00	32	
1 to 3 mths	GBP	3,736,795.50	EUR	-5,100,000.00	42	
3 to 6 mths	GBP	4,162,669.31	JPY	-768,000,000.00		-157
1 to 3 mths	JPY	5,000,000,000.00	GBP	-28,061,902.99	59	
3 to 6 mths	GBP	56,446,618.88	USD	-87,050,000.00		-2,218
3 to 6 mths	GBP	56,436,847.78	USD	-87,050,000.00		-2,227
3 to 6 mths	USD	12,752,563.41	HUF	-3,460,000,000.00	252	
3 to 6 mths	USD	75,800,000.00	JPY	-9,066,134,800.00	94	
3 to 6 mths	EUR	27,078,254	GBP	19,927,681	302	
3 to 6 mths	USD	67,078,960	GBP	44,830,327		-383
3 to 6 mths	JPY	1,178,741,889	GBP	6,647,664	14	
3 to 6 mths	AUD	9,765,023	GBP	5,120,916	117	
3 to 6 mths	MYR	18,020,057	GBP	3,256,833	4	
3 to 6 mths	AUD	1,438,103	GBP	754,161	17	
3 to 6 mths	JPY	429,261,483	GBP	2,420,874	5	
3 to 6 mths	USD	582,557	GBP	389,336		-3
3 to 6 mths	CNY	3,252,057	GBP	350,607		-4
1 to 3 mths	GBP	7,756,376.19	USD	-11,529,000.00		-14
1 to 3 mths	GBP	1,290,150.73	CAD	-2,412,000.00	8	
1 to 3 mths	GBP	1,989,069.18	USD	-2,965,000.00		-9
1 to 3 mths	GBP	2,425,139.39	USD	-3,615,026.76		-12
1 to 3 mths	GBP	4,339,425.44	EUR	-5,887,000.00	73	
					1,192	**-5,069**
Net forward foreign currency contracts at 31 March 2015						**-3,877**

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 mth	GBP	3,483,821	CHF	-5,100,000	19	
1 to 6 mths	GBP	24,009,647	JPY	-4,052,000,000	399	
1 to 6 mths	GBP	52,041,910	USD	-86,700,000	16	
1 to 6 mths	GBP	8,586,510	USD	-14,250,000	36	
1 to 6 mths	GBP	5,756,845	USD	-9,600,000		-4
1 to 6 mths	GBP	1,926,371	USD	-3,178,077	19	
1 to 6 mths	GBP	15,028,380	EUR	-18,000,000	143	
1 to 6 mths	USD	72,050,260	GBP	43,549,110	304	
1 to 6 mths	EUR	25,177,669	GBP	21,127,111	301	
1 to 6 mths	AUD	9,457,448	GBP	5,180,176		-50
1 to 6 mths	JPY	1,127,648,685	GBP	6,724,202	149	
1 to 6 mths	AUD	1,246,853	GBP	674,266		-15
1 to 6 mths	USD	1,217,987	GBP	731,744	1	
1 to 6 mths	JPY	213,182,154	GBP	1,245,441	2	
1 to 6 mths	GBP	8,904,627	EUR	-10,640,000	104	
1 to 6 mths	GBP	6,815,450	USD	-11,255,000	60	
1 to 6 mths	GBP	3,534,268	USD	-5,822,000	40	
1 to 6 mths	EUR	7,953,000	GBP	-6,644,732		-66
1 to 6 mths	GBP	8,717,483	USD	-14,410,000	68	
1 to 6 mths	GBP	8,776,493	USD	-14,576,000	27	
					1,688	**-135**
Net forward foreign currency contracts at 31 March 2014						**1,553**

ii. Futures

When there is a requirement to hold cash assets, but the Investment Manager does not want this cash to be out of the market, index based futures contracts are bought which have an underlying economic value broadly equivalent to the cash held in anticipation of cash outflow required. Outstanding exchange traded futures contracts, held by BlackRock in 2014/15 and Barings in 2013/14, are as follows:

	Expires	Product Description	Currency	Market Value at 31 March 15	
				£000	£000
Assets					
Overseas equity	1 to 3 mths	FTSE CHINA A50 APR 15	USD	4,391	
Total assets					4,391
Liabilities					
Overseas equity	3 to 6 mths	STOXX 600 BAS JUN 15	EUR	-4,281	
Total liabilities					-4,281
Net Futures Contracts at 31 March 2015					110

Type	Expires	Product Description	Currency	Market Value at 31 March 14	
				£000	£000
Assets					
Overseas equity	1 to 3 mths	SGX NIKKEI 225	JPY	8,709	
UK equity	1 to 3 mths	FTSE 100 (LIFFE)	GBP	13,634	
Overseas equity	1 to 3 mths	E MINI INDEX (CME)	USD	8,106	
Overseas equity	1 to 3 mths	EURO STOXX 50	EUR	10,496	
Total assets					40,945
Liabilities					
Overseas equity	1 to 3 mths	SGX NIKKEI 225	JPY	-8,633	
UK equity	1 to 3 mths	FTSE 100 (LIFFE)	GBP	-13,645	
Overseas equity	1 to 3 mths	E MINI INDEX (CME)	USD	-8,047	
Overseas equity	1 to 3 mths	EURO STOXX 50	EUR	-10,475	
Total liabilities					-40,800
Net Futures Contracts at 31 March 2014					145

iii. Options

In order to benefit from potentially greater returns available from investing in equities whilst minimising the risk of loss of value through adverse equity price movements, the Fund, via Blackrock in 2014/15 and Barings in 2013/14, has bought a number of equity option contracts. These option contracts are to protect it from falls in value in the main markets in which it is invested.

Type	Expires	Product Description	Currency	Market Value at 31 March 15 £000
Assets				
Overseas equity	less than 1 yr	SPX VOLATILITY INDEX APR P @ 14.5	USD	98
Overseas equity	less than 1 yr	S&P 500 JUN P @ 2000	USD	161
Overseas equity	3 to 6 mths	EURO STOXX 50 JUN P @ 3550	EUR	235
Overseas equity	less than 1 yr	EURO STOXX UTILITIES	EUR	272
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2075	USD	330
UK equity	less than 1 yr	FTSE 100 INDEX MAY P @ 6800	GBP	532
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2050	USD	615
Overseas equity	1 to 5 yrs	S&P 500 DEC P @ 2000	USD	634
Overseas equity	less than 1 yr	S&P 500 DEC P @ 2000	USD	789
Overseas equity	less than 1 yr	NIKKEI 225 JUN P @ 18500	JPY	821
Overseas equity	less than 1 yr	SPX VOLATILITY INDEX JUN C @ 20	USD	854
Overseas equity	less than 1 yr	EURO STOXX 50 DEC C @ 4000	EUR	1,187
Total assets				**6,528**
Liabilities				
Overseas equity	less than 1 yr	NIKKEI 225 JUN P @ 19500	JPY	-831
Overseas equity	1 to 5 yrs	S&P 500 DEC P @ 1875	USD	-510
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1950	USD	-438
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1875	USD	-343
Overseas equity	less than 1 yr	EURO STOXX UTILITIES	EUR	-319
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1975	USD	-236
Overseas equity	3 to 6 mths	EURO STOXX 50 JUN P @ 3350	EUR	-233
Overseas equity	less than 1 yr	S&P 500 DEC P @ 1900	USD	-187
Overseas equity	less than 1 yr	S&P 500 JUN P @ 1900	USD	-166
UK equity	less than 1 yr	FTSE 100 INDEX MAY P @ 6400	GBP	-155
UK equity	less than 1 yr	FTSE 100 INDEX MAY C @ 7000	GBP	-118
Total liabilities				**-3,536**
Net Options at 31 March 2015				**2,992**

Type	Expires	Product Description	Currency	Market Value at 31 March 14 £000
UK equity	1 to 6 months	FTSE 100 (LIFFE)	GBP	165
Net Options at 31 March 2014				**165**

iv. Margins

There were no outstanding holdings of margins derivatives at 31 March 2015; the following table shows the outstanding holdings of margins at 31 March 2014:

	Product Description	Currency	Market Value at 31 March 15	
			£000	£000
Assets			-	
Net Margins at 31 March 2015				-

Type	Product Description	Currency	Market Value at 31 March 14	
			£000	£000
Assets	UBS	GBP	1,383	
	UBS	EUR	907	
	UBS	JPY	1,196	
	UBS	USD	920	
Net Margins at 31 March 2014				4,406

Investments Exceeding 5% of the Market Value of the Fund

The following three investments individually represented more than 5% of the Pension Fund's total net assets available for benefits at 31 March 2015:

- BNYM Long Term Global Equity Fund - a pooled fund managed by the Bank of New York Mellon, was valued at £355.519m, which equates to 15.23% of the net assets available for benefits;
- AAM L and P World Equity Fund - a pooled fund managed by Aberdeen Asset Management, was valued at £343.880m, which equates to 14.73% of the net assets available for benefits;
- Diversified Yield Plus fund - a pooled fund of broad bonds managed by AllianceBernstein. The value of this investment at 31 March 2015 was £330.169m i.e. 14.14% (£305.405m or 14.33% at 31 March 2014).

15. Financial Instruments

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts (equal to fair value) of financial assets and liabilities by category and Net Assets Statement heading:

2013-14				2014-15		
Fair value through profit and loss	**Loans and receivables**	**Financial liabilities at amortised cost**		**Fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial assets			
62,934			Fixed interest securities	87,417		
500,898			Equities	264,293		
384,175			Index linked securities	477,348		
1,128,807			Pooled investment vehicles	1,362,350		
47,205			Derivative contracts	12,111		
	390		Loans		375	
	49,850		Cash held by Fund Managers		111,133	
	26,241		Short term investments		54,269	
14,122			Other investment assets	14,151		
	8,473		Debtors		11,181	
2,138,141	84,954	-		2,217,670	176,958	-
			Financial liabilities			
-40,936			Derivative contracts	-12,886		
-18,387		-32,917	Creditors	-37,354		-9,413
-59,323	-	-32,917		-50,240	-	-9,413
2,078,818	**84,954**	**-32,917**		**2,167,430**	**176,958**	**-9,413**
		2,130,855	**Net Assets at 31 March**			**2,334,975**

Net Gains and Losses on Financial Instruments

31 March 2014 £000		31 March 2015 £000
	Financial Assets	
37,607	Fair Value through profit and loss	107,976
13,383	Loans and receivables	82,116
	Financial Liabilities	
-	Fair Value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
50,990	**Total**	190,092

Valuation of Financial Instruments Carried at Fair Value

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

LEVEL 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

LEVEL 2

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

LEVEL 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of the investment in private equity are based upon valuations provided by the general partners to the private equity in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2015 and 31 March 2014, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**	
Values at 31 March 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Financial Assets at fair value through profit and loss	1,770,208	342,309	105,153	2,217,670
Loans and receivables	176,958	-	-	176,958
Total Financial Assets	**1,947,166**	**342,309**	**105,153**	**2,394,628**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-37,354	-12,886	-	-50,240
Financial Liabilities at amortised cost	-9,413	-	-	-9,413
Total Financial Liabilities	**-46,767**	**-12,886**	**-**	**-59,653**
Net Financial Assets	**1,900,399**	**329,423**	**105,153**	**2,334,975**

Values at 31 March 2014	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	1,084,715	944,687	108,739	2,138,141
Loans and receivables	84,954			84,954
Total Financial Assets	**1,169,669**	**944,687**	**108,739**	**2,223,095**
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-18,387	-40,936	-	-59,323
Financial Liabilities at amortised cost	-32,917	-	-	-32,917
Total Financial Liabilities	**-51,304**	**-40,936**	**-**	**-92,240**
Net Financial Assets	**1,118,365**	**903,751**	**108,739**	**2,130,855**

16. Nature and Extent of Risk Arising From Financial Instruments

Risk and Risk Management

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

i. **MARKET RISK** - the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;
ii. **CREDIT RISK** - the possibility that other parties may fail to pay amounts due to the Fund;
iii. **LIQUIDITY RISK** - the possibility that the Fund might not have funds available to meet its commitments to make payments.

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

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 14. By dividing the management of the assets between all managers controls risk further. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the Investment Manager does not deviate from the Pension Fund Committee's investment strategy.

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

The Fund also employs a specialised service as an independent check to ensure that all dividends receivable are compared against those collected by the Custodian and that they were received on the due date; any discrepancies are investigated. In line with its Treasury Management Policy, Durham County Council as administering authority, invests the short term cash balances on behalf of the Pension Fund. Interest is paid over to the Fund on a quarterly basis.

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

i. MARKET RISK

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

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis. These risks are managed in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis to ensure that risk remains within tolerable levels;
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Other Price Risk

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

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

The Fund's Investment Managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund's Investment Strategy.

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's investment advisers, an analysis of historical volatility, Investment Manager volatility and expected investment return movements during the financial year has been completed. From this, the Fund has determined that the potential market movements in market price risk, as shown in the following table, are reasonably possible for the 2014/15 reporting period and are consistent with one standard deviation in market prices. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

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

Manager	Asset type	Asset value at 31 March 2015	Potential market movements	Value on increase	Value on decrease
		£000	%	£000	£000
Aberdeen	Global equity	343,880	15%	395,462	292,298
Alliance Bernstein	Broad Bonds	330,169	6%	349,979	310,359
Barings	DAA	371	8%	401	341
BNYM	Global equity	355,519	15%	408,847	302,191
BlackRock	DAA	395,918	8%	427,591	364,245
CBRE	Unlisted property	105,153	12%	117,771	92,535
CBRE	Listed property	30,097	21%	36,417	23,777
Mondrian	Emerging market equity	152,799	23%	187,943	117,655
RLAM	UK Index Linked Gilts	477,474	10%	525,221	429,727
Other	UK Equity	28	23%	34	22
	Loans	375	0%	375	375
	Cash	165,402	0%	165,402	165,402
	Net derivative liabilities	-775	0%	-775	-775
	Net investment balances	-23,203	0%	-23,203	-23,203
Total change in net investment assets available		**2,333,207**		**2,591,465**	**2,074,949**

Manager	Asset type	Asset value at 31 March 2014	Potential market movements	Value on increase	Value on decrease
		£000	%	£000	£000
Alliance Bernstein	Broad Bonds	305,405	6%	323,729	287,081
Barings	DAA	396,025	8%	427,707	364,343
BlackRock	Active UK Equity	350,878	16%	407,018	294,738
BlackRock	Passive UK Equity	508,117	15%	584,335	431,899
CBRE	Unlisted property	96,800	10%	106,480	87,120
CBRE	Listed property	24,433	22%	29,808	19,058
RLAM	UK Index Linked Gilts	395,085	9%	430,643	359,527
Other	UK Equity	71	22%	87	55
	Loans	390	0%	390	390
	Cash	76,091	0%	76,091	76,091
	Net derivative assets	6,269	0%	6,269	6,269
	Net investment balances	-4,265	0%	-4,265	-4,265
Total change in net investment assets available		**2,155,299**		**2,388,292**	**1,922,306**

Interest Rate Risk

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

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

Interest Rate Risk - Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect income to the Fund and the value of the net assets available to pay benefits. The following table shows the Fund's asset values having direct exposure to interest rate movements as at 31 March 2015 and the effect of a +/- 50 BPS change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset type	Asset Values at 31 March 2015	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
	£000	£000	£000
Cash and cash equivalents	165,402	827	-827
Fixed interest securities	87,417	437	-437
Total change in net investment assets available	**252,819**	**1,264**	**-1,264**

Asset type	Asset Values at 31 March 2014	Change in year in the net assets available to pay benefits	
		+50 BPS	-50 BPS
	£000	£000	£000
Cash and cash equivalents	76,091	380	-380
Fixed interest securities	62,934	315	-315
Total change in net investment assets available	**139,025**	**695**	**-695**

Currency Risk

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

Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the Fund considers the likely volatility associated with foreign exchange rate movements will range between 7% and 14% in developed market currency regions and between 10% and 20% in emerging market currency regions. For prudence, the Fund has applied a fluctuation (as measured by one standard deviation) of 14% for developed market currencies and 20% for emerging market currencies, based on the adviser's analysis of long-term historical movements in the month end exchange rates over a rolling 12 month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following table exemplifies, by Investment Manager, to what extent a 14% (or 20% for emerging markets) strengthening/weakening of the pound, against the various currencies in which the Fund holds investments, would increase/decrease the net assets available to pay benefits (a prior year comparator is also provided):

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 15	Value on increase	Value on decrease
				£000	£000	£000
Aberdeen	Global Equity	94%	13%	343,880	388,584	299,176
Alliance Bernstein	Broad Bonds	0%	0%	330,169	330,169	330,169
Barings	DAA	2%	1%	371	375	367
BlackRock	DAA	5%	1%	355,519	359,074	351,964
BNYM	Global Equity	94%	13%	395,918	447,387	344,449
CBRE	Global Property	15%	2%	135,250	137,955	132,545
Mondrian	Emerging market equity	100%	19%	152,799	181,831	123,767
RLAM	UK Index Linked Gilts	0%	0%	477,474	477,474	477,474
Other	UK Equity	0%	0%	28	28	28
	Loans	0%	0%	375	375	375
	Cash	0%	0%	165,402	165,402	165,402
	Net derivative assets	0%	0%	-775	-775	-775
	Net investment balances	0%	0%	-23,203	-23,203	-23,203
Total change in net investment assets available				**2,333,207**	**2,464,676**	**2,201,738**

Manager	Currency exposure by asset type	Level of unhedged exposure	Total Volatility	Asset value at 31 March 14	Value on increase	Value on decrease
				£000	£000	£000
Alliance Bernstein	Broad Bonds	0%	0%	305,405	305,405	305,405
Barings	DAA	20%	3%	396,025	407,906	384,144
BlackRock	UK Equity	0%	0%	350,878	350,878	350,878
BlackRock	Global Equity	90%	13%	508,117	574,172	442,062
CBRE	Global Property	15%	2%	121,233	123,658	118,808
RLAM	UK Index Linked Gilts	0%	0%	395,085	395,085	395,085
Other	UK Equity	0%	0%	71	71	71
	Loans	0%	0%	390	390	390
	Cash	0%	0%	76,091	76,091	76,091
	Net derivative assets	0%	0%	6,269	6,269	6,269
	Net investment balances	0%	0%	-4,265	-4,265	-4,265
Total change in net investment assets available				**2,155,299**	**2,235,660**	**2,074,938**

ii. CREDIT RISK

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

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

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the balance sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account. As at 31 March 2015, this level of exposure to the Custodian is only 4.8% of the total value of the portfolio. Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard and Poor's Credit Ratings Services. The Council's Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

The Fund believes it has managed its exposure to credit risk. No credit limits were exceeded during the reporting period and the Fund does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The cash holding under its treasury management arrangements was £54.269m as at 31 March 2015 (£26.241m at 31 March 2014). This was held with the following institutions:

	Rating	Balances	Rating	Balances
	as at 31	March 2015	as at 31	March 2014
		£000		£000
Bank Deposit Accounts				
Handelsbanken	F1+	1,079		-
Barclays	F1	7,991	F1	4,336
Natwest Bank		-	F1	2,601
Santander UK Plc	F1	7,991	F1	4,309
Fixed Term Deposits				
Royal Bank of Scotland	F1	4,566		-
Bank of Scotland	F1	13,698	F1	10,407
Nationwide Building Society	F1	5,708	F1	4,336
Goldman Sachs	F1	6,849		-
UK Local Authorities		-	N/A	78
Income Bond				
National Savings & Investments	N/A	228	N/A	174
Other				
Money Market Funds	N/A	6,159		-
Total		**54,269**		**26,241**

iii. LIQUIDITY RISK

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

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

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

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, gives Durham County Council a limited power to borrow on behalf of the Pension Fund for up to 90 days. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible.

17. Analysis of Debtors

2013-14 £000		2014-15 £000
1,556	Central government bodies	1,467
5,390	Other local authorities	8,173
15,649	Other entities and individuals	15,692
22,595	**Total debtors**	25,332
	Included in the Net Assets Statement as:	
1,250	Long Term Assets	1,042
14,122	Other Investment Assets	14,151
7,223	Current Assets	10,139
22,595		25,332

The long term assets relate to the portion of the transfer value in from the Ministry of Justice for Magistrates' Courts staff which are repayable more than 12 months after the year end.

18. Analysis of Creditors

2013-14 £000		2014-15 £000
-39	NHS Bodies	-
-742	Central government bodies	-799
-29,132	Other local authorities	-5,378
-21,391	Other entities and individuals	-40,590
-51,304	**Total creditors**	-46,767
	Included in the Net Assets Statement as:	
-18,387	Investment Liabilities - Other balances	-37,354
-32,917	Current Liabilities	-9,413
-51,304		-46,767

Included in the amount due to other local authorities in:

- 2014/15 is a provision of £4.008m for the transfer value due to be paid to South Tyneside Pension Fund. This relates to the group transfer of staff from the former Wear Valley District Council who are now employed by Gentoo;
- 2013/14 is £27.717m relating to the transfer value paid to Teesside Pension Fund for Durham Probation Service staff.

All of the £46.767m is expected to be paid by the Pension Fund within 12 months after the year end.

19. Additional Voluntary Contributions (AVCs)

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

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

The following table refers only to the money purchase AVCs:

	Value at 31 March 2014 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2015 £000
Equitable Life	2,214	31	181	112	2,176
Prudential	3,438	956	791	246	3,849
Standard Life	1,510	362	221	168	1,819
Total	**7,162**	**1,349**	**1,193**	**526**	**7,844**

* Purchases represent the amounts paid to AVC providers in 2014/15.

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with Regulation 5(2)c of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

20. Related Party Transactions

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

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

Related parties of the Pension Fund fall into three categories:

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

a) Employer Related

There is a close relationship between an employer and the Pension Fund set up for its employees and therefore each participating employer is considered a related party.

The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2013/14	2014/15
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£96.800m	£98.848m
Debtors	Amounts due in respect of employers and employee contributions	£7.551m	£10.317m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.356m	£1.370m
Administration & Investment Management Expenses	The administration, and a small proportion of the investment management, of the Pension Fund is undertaken by officers of the County Council. The Council incurred the following costs, including staff time, which have been subsequently reimbursed by the Fund	£1.356m	£1.370m
Long term loans	The Pension Fund made loans to Durham County Council prior to January 1974 which earn interest of between 5.75% and 9.875% pa of the outstanding balance, in addition to capital repayments	Loans outstanding £0.263m	Loans outstanding £0.258m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance and interest earned were:	Balance= £17.448m Interest = £0.068m	Balance= £35.929m Interest = £0.155m

b) MEMBER RELATED

Member related parties include:

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

Durham County Council and Darlington Borough Council have a number of Members who are on the Pension Fund Committee. These Members are subjected to a declaration of interest circulation as with all Durham County Council Members. Each Member of the Pension Fund Committee is also required to declare their interests at the start of each meeting. There were no material related party transactions between any Members or their families and the Pension Fund.

There are three Members of the Pension Fund Committee who are in receipt of pension benefits from Durham County Council Pension Fund; a further four Members are active members of the Pension Fund.

c) KEY MANAGEMENT PERSONNEL

Related parties in this category include:

- Key management i.e. Senior officers and their close families
- Companies and businesses controlled by the key management of the Pension Fund or their close families.

Disclosure requirements for officer remuneration and members allowances can be found in the main accounts of Durham County Council.

There were no material related party transactions between any officers or their families and the Pension Fund.

21. Contingent Assets

a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS

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

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

b) FOREIGN INCOME DIVIDENDS (FIDS)

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain.

Up until 1 July 1997 UK Pension Funds were entitled, under UK tax law, to reclaim tax credits attaching to dividends received from UK resident companies. However, Pension Funds which received dividends designated by UK companies as FIDs, or dividends received from overseas companies, were not entitled to a refundable tax credit. Since UK sourced dividends came with a 20% tax credit, the net investment income return from UK companies paying such dividends was significantly higher than UK companies paying FIDs or dividends from overseas companies, for which no credit was available. As a result there was a disincentive for Pension Funds to invest in such companies.

The UK tax law which gave rise to these consequences was arguably contrary to EU law, notably Article 56EC, in that it treated UK Pension Funds investing directly into overseas companies, or UK companies paying FIDs, less favourably than UK companies paying ordinary dividends.

The legal arguments to support the strongest element of the FID and Manninen type claims (for EU sourced dividends and FIDs) are considered to be very good. The points in issue are currently being considered at the High Court via a Group Litigation Order containing over 65 UK Pension Funds, including Durham County Council Pension Fund.

c) WITHHOLDING TAX (WHT) CLAIMS

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

A test case in the Netherlands on behalf of a number of UK pension funds was successful and in January 2009 notification from the Dutch Tax Authorities was received that the claims brought by the test claimant for the recovery of withholding taxes going back to 2003 had been accepted and would be repaid in the near future. Following the ruling in the Netherlands which essentially states that the Dutch tax authorities should not have levied a “withholding tax” (WHT) on dividend payments to tax exempt bodies (such as UK pension funds) located within the European Union but outside the Netherlands, a similar process for reclaiming WHT in other EU Member States is now on-going.

As a result of a precedent for the change in WHT has been set by the Netherlands, other Member States have now reduced the level of WHT of non-residents; recovery is therefore probable, but the timing and amount of income is uncertain.

22. Funding Arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2013.

The key elements of the funding policy are to:

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

At the 31 March 2013 actuarial valuation, the Fund was assessed as being 84% funded (80% at 31 March 2010). This corresponded to a deficit of £379.2m (£418.1m at 31 March 2010).

The aim is to achieve 100% solvency over a period of 18 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. The required level of contributions to be paid into the Fund by participating bodies (in aggregate) with effect from 1 April 2014 is 13.7% of pensionable pay plus additional monetary amounts of £24.3m in 2014/15 and increasing by 3.9% p.a. thereafter. (In 2013/14 the aggregate employer contribution rate was 13.1% of pensionable pay plus an additional sum of £29.9m).

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

	Valuation as at 31 March 2013	Valuation as at 31 March 2010
Financial Assumptions		
Discount rate for periods in service	5.4% pa	6.8% pa
Discount rate for periods after leaving service	5.4% pa	6.8% pa
Rate of revaluation of pension accounts	2.4% pa	n/a
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.4% pa	3.3% pa
- post 1988 Guaranteed Minimum Pensions	2.0% pa	2.7% pa
Pensionable pay increase	3.9% pa	5.3% pa
Demographic Assumptions		
Post-retirement mortality assumption (normal health) - base table	SAPS normal tables with scaling factors of 105% for men and women	SAPS normal tables with scaling factors of 105% for men and women
Post-retirement mortality assumption - future improvements	CMI 2012 core projections with long annual improvement rate of 1.5%	CMI 2012 core projections with long annual improvement rate of 1.25%
Retirement cash sum	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted	Each member assumed to exchange 80% of their future service pension rights and 60% of their past service pension rights for additional lump sum of the maximum amount permitted

23. Actuarial Present Value of Promised Retirement Benefits

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

The Pension Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Pension Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts. This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2013.

The actuarial present value of promised retirement benefits has been calculated based on projected salaries and is included in the table below. The corresponding fair value of Fund Assets is also shown to indicate the level of deficit within the Fund when the liabilities are valued using IAS 19 assumptions. The figures for 2010 are provided for comparison purposes.

	Value as at 31 March 2013 £m	Value as at 31 March 2010 £m
Fair value of net assets	2,085	1,682
Actuarial present value of the promised retirement benefits	2,905	2,833
Surplus / -deficit in the Fund as measured for IAS26 purposes	-820	-1,151

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

	31 March 2013 (% p.a.)	31 March 2010 (% p.a.)
Discount rate	4.4	5.5
RPI Inflation	3.4	3.9
CPI Inflation	2.4	3.0
Rate of increase to pensions in payment *	2.4	3.9
Rate of increase to deferred pensions *	2.4	3.9
Rate of general increase in salaries **	3.9	5.4

* In excess of Guaranteed Minimum Pension increases in payment where appropriate
** In addition, we have allowed for the same age related promotional salary scales as used in the actuarial valuation of the Fund at the appropriate date

24. Funding Strategy Statement

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 require administering authorities to prepare a Funding Strategy Statement. The Funding Strategy Statement has been adopted by the Pension Fund Committee and is published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the County Council's website at durham.gov.uk. The Funding Strategy Statement has been reviewed and updated by the Pension Fund Committee during 2014/15.

The purpose of the Funding Strategy Statement is to:

- establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- take a prudent longer term view of funding the Fund's liabilities.

25. Statement of Investment Principles

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009, the Pension Fund has prepared and reviewed a written statement of its investment policy. This statement has been adopted by the Pension Fund Committee and is published in the Durham County Council Pension Fund Annual Report, a copy of which is available on the Council's website at durham.gov.uk. The Statement of Investment Principles sets out the principles for investing Fund monies.

Academy School

Academy Schools are directly funded by Government and are independent of the Council's control.

Accounting Period

The period of time covered by the Statement of Accounts, normally a period of 12 months starting on 1 April. The end of the period is the balance sheet date.

Accounting Policies

The principles, conventions, rules and practices applied that specify how transactions and other events should be reflected in the financial statements.

Accounting standards

Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements and accordingly compliance with accounting standards will normally be necessary for financial statements to give a true and fair view.

Accruals

The concept that income, and expenditure are recognised as they are earned or incurred, not as money is received or paid.

ACE

Assistant Chief Executives Service

Actuary

An actuary is an expert on pension scheme assets and liabilities. Every three years, the Actuary for the Local Government Pension Scheme determines the rate of employer contributions due to be paid to the Pension Fund.

Actuarial Basis

The technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements.

Actuarial Gains

These may arise on a defined benefit pension scheme's liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated).

Actuarial Losses

These may arise on a defined benefit pension scheme's liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated).

Added Years

Additional years of service awarded discretionally to increase the benefits to employees taking early retirement.

Admitted Bodies

Organisations that take part in the Local Government Pension Scheme with the agreement of the Pension Fund. Examples of such bodies are housing associations and companies providing services that were once provided by local authorities in the Pension Fund.

Agency Services

These are services that are performed by or for another Authority or public body, where the principal (the Authority responsible for the service) reimburses the agent (the Authority carrying out the work) for the costs of the work.

Annual Governance Statement

The statement gives assurance that appropriate mechanisms are in place to direct and control the activities of the Council.

Amortisation

Amortisation is the equivalent of depreciation for intangible assets.

Apportionment

A way of sharing costs using an appropriate method, e.g. floor area for an accommodation-related service.

Appropriation

The transfer of sums to and from reserves, provisions, and balances.

Assets

An item having a monetary value to the Council, e.g. property, investments or cash.

Assets Held for Sale

Long term assets that are surplus to the Council's operational needs that are being actively marketed for sale with the expectation that disposal will occur within a 12 month period.

Assets Under Construction

Capital expenditure on assets, where the work is incomplete.

Associate

An associate is an organisation over which the Council has significant influence, but not control. An associate cannot be a subsidiary or an interest in a joint venture.

Audit of Accounts

An independent examination of the Council's financial affairs.

Authorised Limit

This is the maximum limit of external borrowings or other long term liabilities.

Available for Sale Financial Instruments Reserve

The reserve carries the valuation surplus on those investments with a quoted market price or otherwise do not have fixed or determinable payments, which under the Code, are classified as available for sale. The surplus is the amount by which fair value exceeds historical cost.

Balance Sheet

This is a financial statement that shows the financial position of the Council at a point in time, the balance sheet date, which for the Council is 31 March. It shows the value of the fixed and net current assets and long term liabilities, as well as the reserves and balances.

Bid Price

In the context of stock trading on a stock exchange, the bid price is the highest price a buyer of a stock is willing to pay for a share of that given stock.

Billing Authority

Durham County Council is the billing authority responsible for the collection of Council tax and non-domestic rates. The Council tax includes amounts for precepting authorities.

Bonds

A type of investment in certificates of debt issued by the government of a company. These certificates represent loans which are repayable at a future specified date with interest.

Borrowing

Loans from the Public Works Loans Board, and the money markets, that finance the capital programme of the Council.

Budget

The Council's plans and policies for the period concerned, expressed in financial terms.

Building Schools for the Future (BSF)

Government investment programme with the aim of rebuilding or renewing every secondary school in England over a 10-15 year period.

Business Improvement District (BID)

BIDs are provided for under Part 4 of the Local Government Act 2003 whereby a levy is collected from Business ratepayers to provide agreed additional services.

Capital Adjustment Account (CAA)

This account accumulates the write down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It also accumulates the resources that have been set aside to finance capital expenditure. The balance on the account represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital Charge

Charges made to local authority services to reflect the ‘cost’ of using non-current assets in the provision of services. The charge comprises the annual provision for depreciation. To ensure that these notional charges do not impact on local taxation they are reversed out in the Movement in Reserves Statement.

Capital Expenditure

Expenditure on the acquisition or construction of non-current assets that have a value to the Council for more than one year, or expenditure which adds to and not merely maintains the value of existing non-current assets.

Capital Financing Costs

These are the revenue costs of financing the capital programme and include the repayment of loan principal, loan interest charges, loan fees and revenue funding for capital.

Capital Financing Requirement (CFR)

This sum represents the authority's underlying need to borrow for capital purposes. It is calculated by summing all items on the Balance Sheet that relate to capital expenditure, e.g. non-current assets, financing leases, government grants deferred etc. The CFR will be different to the actual borrowing of the authority. This figure is then used in the calculation of the Council's Minimum Revenue Provision.

Capital Grants Unapplied Account

Grants that have been recognised as income in the Comprehensive Income and Expenditure Account (CIES) but where expenditure has not yet been incurred

Capital Receipts

The proceeds from the sale of capital assets such as land, and buildings. These sums can be used to finance capital expenditure.

Carbon Reduction Commitment (CRC)

The Council has to account for its obligations in relation to the purchase and surrender of CRC allowances and for the eventual settlement of the liability.

Carrying Amount

The Balance Sheet value recorded of either an asset or a liability.

CAS

Children and Adults Services

Cash Flow Statement

This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The principal accountancy body dealing with local government finance.

CLG

Department for Communities and Local Government

Code

The Code of Practice on Local Authority Accounting. A publication produced by CIPFA constituting proper accounting practice for Local Authorities.

Collection Fund

An account kept by the Council into which Council tax is paid and through which national non-domestic rates pass, and which pays out money to fund expenditure from the General Fund and the precept made by the Police and Fire Authority.

Community Assets

Assets held that are planned to be held forever, that have no set useful life and may have restrictions on how they can be sold or otherwise disposed of. e.g. parks, historic buildings.

Componentisation

The process by which assets are analysed into various components that have significantly different estimated lives. The Council's accounting policy is detailed in paragraph 20 of the Accounting Policies.

Comprehensive Income and Expenditure Account (CIES)

This statement reports the net cost of services for which the Council is responsible and demonstrates how that cost has been financed.

Constitution

The document that sets out how the County Council operates, how decisions are made and the procedures that are followed.

Contingency

This is money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

Contingent Asset

Potential benefits that the Council may reap in the future due to an event that has happened in the past.

Contingent Liabilities

Potential costs that the Council may incur in the future due to something that has happened in the past.

Corporate Democratic Core

The corporate and democratic management costs are the costs of activities that local authorities undertake specifically because they are elected multi-purpose authorities. They cover corporate policy making, representing local interests, services to elected members as local representatives and duties arising from public accountability.

Corporate Governance

The promotion of corporate fairness, transparency, and accountability. The structure specifies the responsibilities of all stakeholders involved and the rules and procedures for making decisions.

Council Tax

This is a tax which is levied on the broad capital value of domestic properties, and charged to the resident or owner of the property.

Council Tax Requirement

This is the estimated revenue expenditure on General Fund services that needed to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves.

Creditors

Persons or bodies to whom sums are owed by the Council.

CSR

Comprehensive Spending Review.

Current Service Cost

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

Curtailment

Curtailments will show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

Debtors

Persons or bodies who owe sums to the Council.

Dedicated Schools Grant (DSG)

A specific grant paid to Local Authorities to fund the cost of running their schools.

Deferred Capital Receipts

These represent capital income still to be received after disposals have taken place.

Deficit

A deficit arises when expenditure exceeds income or when expenditure exceeds available budget.

Defined Benefit Scheme

Also known as a final salary scheme. Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

Defined Contribution Scheme

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employees benefits relating to employee service in the current year and prior periods.

Delegated Budgets

Budgets for which schools or other services have complete autonomy in spending decisions.

DfE

Department for Education

Depreciation

The fall in the value of an asset, as recorded in the financial records, due to wear and tear, age, and obsolescence.

Derecognition

Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

Derivatives

Derivatives are financial instruments that derive their value from the price or rate of some underlying item.

Direct Revenue Financing (DRF)

The cost of capital projects that is financed directly from the annual revenue budget.

Direct Service Organisations (DSOs)

Workforces employed directly by local authorities to carry out works of repair, maintenance, construction etc. of buildings, grounds and roads and to provide catering and cleaning services and repairs and maintenance of vehicles.

Earmarked Reserves

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

Equities

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

Exceptional Items

Material items deriving from events or transactions that fall within the ordinary activities of the Council, but which need to be separately disclosed by virtue of their size and/or incidence to give a fair presentation of the accounts.

External Audit

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

Fair Value

The value for which an asset can be exchanged or a liability can be settled in a market related transaction.

FIDs and Manninen

A claim has been lodged for Durham County Council Pension Fund and other Pension Funds for repayment of tax credits overpaid on Foreign Income Dividends (FIDs) and other dividends, referred to by name of the person whose case set the precedent, Manninen.

Finance Lease

A lease that transfers substantially all of the risks, and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance.

Financial Instrument

A contract that gives rise to a financial asset of one entity, and a financial liability, or equity instrument of another.

Financial Instruments Adjustment Account (FIAA)

This account is an unusable reserve which absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. Transfers are made to ensure that the General Fund records the amount required by the applicable regulations or statutory guidance, the FIAA carries the excluded surplus or deficit.

Financial Regulations

These are the written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set out rules on accounting, audit, administrative and budgeting procedures.

Fitch

Fitch Ratings is a rating agency providing credit ratings research and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Fixed Interest Securities

Investments in mainly government, but also company stocks, which guarantee a fixed rate of interest. The securities represent loans that are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

Formula Grant

The general government grant paid to support the revenue expenditure of local authorities. It comprises Revenue Support Grant and redistributed National Non-Domestic Rates. It is distributed by formula through the Local Government Finance Settlement.

Foundation Schools

Foundation Schools are run by their governing body and they employ the staff. Land and buildings are usually owned by the governing body or a charitable foundation.

Funding Strategy Statement

The Funding Strategy Statement is a clear and transparent fund-specific strategy which identifies how employers' pension liabilities are best met going forward; supports the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and takes a prudent longer-term view of funding the Fund's liabilities. The single strategy for all employers in the Fund is implemented and maintained by Administering Authority.

Futures

A contract made to purchase, or sell an asset at an agreed price on a specified future date.

GAAP

Generally Accepted Accounting Practice.

General Fund

This is the main revenue fund of the Authority and includes the net cost of all services financed by local taxpayers and Government grants.

Going Concern

The assumption that an organisation is financially viable, and will continue to operate for the foreseeable future.

Government Grants

Assistance by Government and inter-government agencies etc., whether local, national or international, in the form of cash or transfer of assets towards the activities of the Council.

Group Accounts

Many local authorities now provide services through partner organisations. Where an authority has material financial interests or a significant level of control over one or more entities it should prepare Group Accounts.

Heritage Assets

This is a separate class of asset (land, building, or artefact/exhibit) that is held principally for its contribution to knowledge or culture and meets the definition of a heritage asset.

Historical Cost

The original purchase cost of an asset.

Housing Benefit

A system of financial assistance to individuals towards certain housing costs administered by Local Authorities and subsidised by central Government.

Housing Revenue Account (HRA)

This is a separate account to the General Fund, which includes the expenditure and income arising from the provision of housing accommodation by the Authority. The HRA is ring-fenced: no cross subsidy is allowed between the HRA and General Fund.

IAS

International Accounting Standard – regulations outlining the method of accounting for activities, currently being replaced by International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

ICT

Information and Communications Technology

IFRIC

Interpretations originated from the International Financial Reporting Interpretations Committee.

IFRS

International Financial Reporting Standards – issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling their financial statements. They have been adapted to apply to local authorities and are consolidated in the Code of Practice on Local Authority Accounting (the Code). The Code applied to the Council's Statement of Accounts for the first time in 2010/11.

Impairment

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a building) or deterioration in the quality of the service provided by the asset (e.g. a school closing and becoming a storage facility). A general fall in prices of a particular asset or type of asset is treated as a revaluation.

Index Linked Securities

Investments in government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to government which can be traded on recognised stock exchanges.

Infrastructure Assets

A fixed asset that cannot be taken away or transferred, and which can only continue to benefit from it being used. Infrastructure includes roads and bridges.

Intangible Assets

Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

Intangible Heritage Asset

An intangible asset with cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events.

Inventory

Items of raw materials, work in progress or finished goods held at the financial year end, valued at the lower of cost or net realisable value.

Investment

An asset which is purchased with a view to making money by providing income, capital appreciation, or both.

Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential rather than for operational purposes, any rental income being negotiated at arm's length.

IPSAS

International Public Sector Accounting Standards Board.

Joint Venture

An entity in which the reporting authority has an interest on a long term basis and is jointly controlled by the reporting authority and one or more entities under a contractual or other binding arrangement.

LAAP Bulletin

CIPFA's Local Authority Accounting Panel (LAAP) periodically issues bulletins to local authority practitioners, providing guidance on topical issues and accounting developments and, when appropriate, clarification on the detailed accounting requirements.

Large Scale Voluntary Transfer (LSVT)

A Large Scale Voluntary Transfer (LSVT) involves the council transferring ownership of its homes with the agreement of its tenants to a new or existing Registered Provider.

Leasing

A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting; the ownership of the asset remains with the lessor and the transaction does not fall within the capital system. A finance lease transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee and falls within the capital system.

Levy

A levy is a charge made by one statutory body to another in order to meet the net cost of its services, e.g. payments to the Environment Agency for flood defence and land drainage purposes.

Liabilities

An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

LGR

Local Government Re-organisation.

Long-Term Investments

Investments intended to be held for use on a continuing basis in the activities of the Council where that intention can be clearly demonstrated or where there are restrictions on the ability to dispose of the investment.

Major Repairs Allowance (MRA)

The MRA was an element of housing subsidy, and represented the capital cost of keeping HRA dwellings stock in its current condition. It largely replaced credit approvals as a means of financing HRA capital expenditure.

Managed Funds

A type of investment where a number of investors pool their money into a fund, which is then invested by a fund manager.

Materiality

An expression of the relative significance of a particular issue in the context of the organisation as a whole.

Market Value

The monetary value of an asset as determined by current market conditions.

Mid-Market Price

The mid-point between the bid price and the offer price for a security based on quotations for transactions of normal market size by recognised market-makers or recognised trading exchanges.

Minimum Revenue Provision (MRP)

The minimum amount, which must be charged to revenue in the year, for the repayment of debt (credit liabilities and credit arrangements). The formula for calculating this amount is specified in legislation and requires authorities to make an annual provision of 4% of its underlying need to borrow. In addition, authorities can choose to make additional provision, known as a voluntary set-aside.

Minority Interest

The interest in a subsidiary entity that is attributable to the share held by, or on behalf of persons other than the reporting authority.

Moody's

Moody's Investor Service is a rating agency, providing credit ratings, research, and risk analysis of financial institutions across the world. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested.

Movement in Reserves Statement

This statement is a summary of the changes that have taken place in the bottom half of the balance sheet over the financial year. It shows the movement in reserves held by the Council analysed into 'usable' reserves and 'unusable' reserves.

MTFP

Medium Term Financial Plan.

Myners' Principles

A set of ten principles issued by Government which Pension Schemes are required to consider and to which they must publish their degree of compliance.

National Non-Domestic Rates (NNDR)

The means by which local businesses contribute, to the cost of providing local authority services. The rates are paid into a central pool which is divided between all authorities as part of Formula Grant.

Net Book Value

The amount at which non-current assets are included in the Balance Sheet. It represents historical cost or current value less the cumulative amounts provided for depreciation or impairment.

Net Cost of Service

The actual cost of a service to the Council after taking account of all income charged for services provided. The net cost of service reflects capital charges and credits for government grants deferred made to services to reflect the cost of employing non-current assets.

Net Debt

Net debt is the Council's borrowings less cash and liquid resources.

Net Expenditure

The actual cost of a service to the Council after taking account of all income charged for services provided.

Net Realisable Value

The expected sale price of stock, in the condition in which it is expected to be sold. This may be less than cost due to deterioration, obsolescence or changes in demand.

Non Current Assets

Tangible or intangible assets that yield benefits to the authority and the services it provides for a period of more than one year. Tangible assets have physical substance, for example land, buildings and vehicles. Intangible assets do not have physical substance but are identifiable and controlled by the authority through custody or legal rights, for example software licences.

Non Distributed Costs

These are overheads from which no service user benefits. They include the costs associated with unused assets and certain pension costs.

Non-Operational Assets

Non-operational assets are those held by an authority but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the authority. Examples include; assets under construction, land awaiting development, commercial property, investment property, and surplus assets held for disposal.

Operating Lease

A lease where the asset concerned is returned to the lessor at the end of the period of the lease.

Operational Assets

Property, plant and equipment held and occupied, used or consumed by the authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Operational Boundary

This is the expected level of debt and other long term liabilities during the year.

Outturn

Actual expenditure within a particular year.

Past Service Cost

The increase in the present value of Pension Fund liabilities related to employees' service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits or other long-term employee benefits. Past service costs may be either positive, where benefits are introduced or improved) or negative (where existing benefits are reduced).

Portfolio

A number of different assets considered and managed as a whole by an investment manager, to an agreed performance specification.

Precept

An amount charged by another Authority to the Councils Collection Fund. There are two major preceptors in Durham County Councils collection fund: the Police and Fire Authorities.

Precept Income

County Councils obtain part of their income from precepts levied on the district councils in their area. Precepts, based on the council tax base of each district council, are levied on a collection fund, administered separately by each district council.

Prior Period Adjustment (PPA)

Those material adjustments relating to prior years accounts, that are reported in subsequent years arising from changes in accounting policies or from the correction of fundamental errors. They do not include minor corrections or adjustments of accounting estimates made in prior years.

Private Finance Initiative (PFI)

A government initiative that enables authorities to carry out capital projects, in partnership with the private sector, through the provision of financial support.

Property, Plant and Equipment (PPE)

Property, Plant and Equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

Provisions

Provisions represent sums set aside to meet any specific future liabilities or losses arising from contractual obligations or as a result of past events. These events are likely or certain to be incurred and a reliable estimate can be made of the amount of the obligation.

Prudential Code

The Government removed capital controls on borrowing and credit arrangements with effect from 1st April 2004 and replaced them with a Prudential Code under which each local authority determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators on an annual basis.

Public Works Loans Board (PWLB)

A government agency providing long and short-term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow.

RED

Regeneration and Economic Development Service.

Related Party

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Remuneration

Includes taxable salary payments to employees less employees' pension contributions, together with non-taxable payments when employment ends (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

Reporting Standards

The Code of Practice prescribes the accounting treatment and disclosures for all normal transactions of a Local Authority. It is based on International Financial Reporting Standards (IFRS), International Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) plus UK Generally Accepted Accounting Practice (GAAP) and Financial Reporting Standards (FRS).

Reserves

Sums set aside to fund specific future purposes rather than to fund past events. There are two types of reserve, 'usable' reserves and 'unusable' reserves.

Revaluation Reserve

The Revaluation Reserve records the accumulated gains on the non-current assets held by the Council arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). The overall balance on the Reserve represents the amount by which the current value of non-current assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

Revenue Contributions

See 'Direct Revenue Financing'

Revenue Expenditure and Income

Expenditure and income arising from the day-to-day operation of the Council's services, such as salaries, wages, utility costs, repairs, and maintenance.

Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure that legislation allows to be classified as capital for funding purposes. However, it does not result in the expenditure being shown in the Balance Sheet as a fixed asset. This expenditure is charged to the relevant Service revenue account in the year.

Examples of this are grants and financial assistance to others, expenditure on assets not owned by the Council and amounts directed by the Government.

Revenue Support Grant (RSG)

A Government grant that can be used to finance expenditure on any service.

RICS

Royal Institution of Chartered Surveyors

Section 151 Officer

The officer designated under Section 151 of the Local Government Act 1972 to have overall responsibility for the administration of the financial affairs of the Council and the preparation of the Council's Statement of Accounts.

Service Reporting Code of Practice (SeRCOP)

The Code of Practice provides guidance to Local Authorities on financial reporting. It details standard definitions of services and total cost, which allows direct comparisons of financial information to be made with other local authorities.

Specific Grant

A revenue government grant distributed outside of the main Local Government Finance Settlement. Some specific grants are ring-fenced to control local authority spending. Others are unfenced and there are no restrictions as to how they are spent.

Statement of Investment Principles (SIP)

The Statement of Investment Principles details the policy which controls how a pension fund invests.

Subsidiary

An entity is a subsidiary of a reporting entity if the authority is able to exercise control over the operating and financial policies of the entity and is able to gain benefits or be exposed to risk of potential losses from this control.

Supported Capital Expenditure (SCE)

SCEs represent the amount of capital expenditure that the Government will support through the provision of revenue grant to cover the cost of borrowing, i.e. repayments of principal and interest.

Surplus

Arises when income exceeds expenditure or when expenditure is less than available budget.

Surplus Properties

Those properties that are not used in service delivery, but do not meet the classification of investment properties or assets held for sale.

Tangible Heritage Asset

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Tenanted Market Value

The transfer price a Registered Provider will pay for the housing stock it acquires through a Large Scale Voluntary Transfer.

Transfer Agreement – Housing Stock Transfer

The Transfer Agreement is the contract which sets out the rights, responsibilities, covenants and requirements of Durham County Council, and County Durham Housing Group (CDHG). It also contains all the necessary arrangements to enable CDHG to receive and manage the properties and the Council to enforce all the promises made to tenants during the consultation period. The Transfer Agreement takes the form of a contract for sale with numerous schedules and annexes containing supporting information.

Transfer Values

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

Treasury Management Policy and Strategy

A plan outlining the Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year and is published annually in the Medium Term Financial Plan document.

Trust Funds

Funds established from donations or bequests usually for the purpose of providing educational prizes and scholarships.

Unit Trusts

A pooled fund in which small investors can buy, and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually.

Unsupported (Prudential) Borrowing

This is borrowing for which no financial support is provided by Central Government. The borrowing costs are to be met from current revenue budgets.

Unusable Reserves

Unusable reserves are reserves that the Council are not able to use to provide services, such as the revaluation reserve that arise from accounting requirements.

Usable Capital Receipts Reserve

Represents the resources held by the Council from the sale of non-current assets that are yet to be spent on other capital projects.

Usable Reserves

Usable reserves are reserves that the Council may use to provide services subject to the need to retain prudent levels of reserves and any statutory limitations to their use. Usable reserves include Earmarked Reserves and the General Reserve.

Useful Life

The period in which an asset is expected to be useful to the Council.

Variance

The difference between budgeted expenditure and actual outturn also referred to as an over or under spend.

Work-in-Progress

The value of rechargeable work that had not been recharged at the end of the financial year.

Pension Fund Committee

10 September 2015

Self-Assessment of the Pension Fund Committee

Don McLure, Corporate Director Resources

Purpose of the Report

1 To review the role of the Pension Fund Committee and summarise the key activities and achievements in 2014/15 that demonstrate how the committee has fulfilled its role in order to be able to complete a self-assessment in line with the Terms of Reference for the 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 In order to effectively carry out their role, the Committee obtains professional advice, as and when required, from officers of the Council, plus suitably qualified persons including external advisers and investment managers.

4 The Terms of Reference attached at Appendix 1, clarify the responsibilities of the Pension Fund Committee and ensure that they are clearly defined and understood.

5 In March, each year, the Pension Fund Committee reviews its Terms of Reference to ensure that they include any changes, particularly with reference to amendments to the authority delegated from the County Council through the Council's Constitution.

6 Section 7 of the terms of reference requires the Pension Fund Committee to assess its own performance on an annual basis.

7 The previous self-assessment was undertaken by PricewaterhouseCoopers in their capacity as Internal Auditors and a report brought to Pension Fund Committee in December 2011.

Review of Committee's work in 2014/15

8 The Pension Fund Committee has responsibility for the strategic management of the Pension Fund, which at 31 March 2015 had a value of £2.335bn and comprised of 18,011 contributing members and 30,358 pensioners, including deferred pensioners. The Committee is responsible for the overall asset allocation of the Pension Fund as well as ensuring the long term ability of the Fund to pay the pensions of past, present and future members. The Pension Fund has considered reports at each of its quarterly meetings which have covered a wide range of issues and have taken a number of key decisions.

9 Appendix 2 details all reports presented to the Pension Fund Committee in 2014/15 and to date. Each report is linked to one of the Pension Fund Committee's Terms of Reference.

10 The Terms of Reference broadly fall into five categories:

Category	Term of Reference
Governance	1 to 7
Investments	8 to 13
Administration	14 to 15 and 18
Accounting and Reporting	16 to 18
Local Pension Board	19

11 **Governance**

The Committee has reviewed the policy documents of the Pension Fund and appropriate changes have been made in conjunction with the Advisers.

In September 2014 the Committee considered the Law Commission's view on the fiduciary duty of the Committee to investment and, in the light of this report, in December 2014 the Committee considered the Fund's approach to ethical and social issues.

The Committee has overseen the movement of assets to three, new Global Equity Managers following their appointment in the previous financial year, as well as the movement of assets from another Manager, following Advisers' concerns over risk and future performance.

In March 2015, the Terms of Reference of the Committee were reviewed and a new action added, necessitated by the introduction of Local Pension Boards.

The Committee has received reports detailing Internal Audit's plan of work for 2014/15 and 2015/16 and Progress Reports which monitored work against their Plan. Consideration was given to reports providing assurance over debt recovery and a review of the arrangements in place to mitigate against the risks associated with Admitted Bodies.

12 **Investments**

At each quarterly meeting the Committee receives extensive reports from each Investment Manager detailing the performance of their part of the Pension Fund's investments over the quarter.

The Pension Fund Adviser reports quarterly on the economic background and market movements throughout the quarter, as well as providing an independent analysis of each Manager's performance.

Each Manager has attended the Committee and discussed their performance with the Committee and provided an opportunity for Members to question Managers directly about their investment strategy and performance.

Each quarter, the Global Custodian's report on the performance of each Manager is also reported to the Committee.

The overall value of the Fund is reported with an assessment, based on the Pension Fund's estimated cash flow, of any additional cash to be allocated to or taken from Managers. A cash flow forecast for the next 12 months is also reported quarterly. This enables the Committee to consider action to remedy any cash shortfalls which may occur in the Fund.

The Committee has also rebalanced the Fund's assets to ensure that the Pension Fund retains its strategic asset allocations.

The Committee has put in place an agreement with the Council for the management of the investment of the Fund's short term cash balances. This agreement is updated annually and the interest received by the Fund as a result of this arrangement is reported to the Committee quarterly.

13 **Administration**

The Committee has been advised of a new admission body into the Fund.

At the Annual Meeting of the Pension Fund, a presentation was given which gave a recap of the changes implemented by LGPS 2014 Regulations and the Future Structure of the LGPS. Updates were given on the Pension Reforms as a result of the 2014 Budget, and an update on the introduction of a new Pension Administration system.

14 **Accounting and Reporting**

The Audit Committee of the Council has responsibility for the approval of the Statement of Accounts for the Council. The Accounts for the Pension Fund are included in this statement.

The Pension Fund Committee considers and approves the Accounting Policies to be used in the preparation of the Pension Fund's accounts.

The draft accounts for the Pension Fund were reported to the Committee in advance of their presentation for approval to the Audit Committee.

The Audit Completion Report provided by the Pension Fund's External Auditors was also reported to Committee. This report gives assurance to the Committee that the Accounts of the Pension Fund present a 'true and fair view' of the transactions of the Pension Fund and that they were properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This report also gave assurance that there were no significant issues to report during the audit.

An Annual Report is also published, which is circulated to all employers in the Fund in advance of the Annual Meeting of the Pension Fund.

15 **Local Pension Board**

In line with the LGPS (Governance) Regulations 2015, the Pension Fund has established a Local Pension Board. The Committee has established the constitutional documents, codes, policies, plans, frameworks and protocols for the Board.

Self-Assessment of the Committee

16 The requirement for self-assessment of the Pension Fund Committee's work is set out in the Terms of Reference for the Committee. It is also necessary in line with the requirement of the LGPS (Management and Investment of Funds) Regulations 2009 for Administering Authorities to state the extent to which they comply with guidance given by the Secretary of State.

17 Appendix A of the Statement of Investment Principles sets out the Pension Fund's compliance statement. Principle 4 covers 'Performance Assessment'. The Pension Fund is only partially compliant with this principle.

18 Although appropriate assessment of the performance of the Investment Managers is in place, the assessment of the Pension Fund Committee and advisers is recorded as 'yet to be established'.

19 This report begins the process of the assessment of the performance of the work of the Committee.

20 The Committee should have a good knowledge of their role and responsibilities in respect of the Pension Fund and understand the implication of their decisions. It is normal practice for the Pension Fund

Committee to refer to the advice of Investment Advisers, Managers or Officers when taking key decisions.

21 Effective decision making requires knowledge and understanding of a range of complex factors, and is promoted by ensuring that Members are well-informed on issues and understand their responsibilities. This also helps to protect the interests of the Fund and its stakeholders. It has been the practice for Members to have training in advance of key decisions, for example, changes to the Strategic Asset Allocation.

22 An assessment of the effectiveness of meetings, as well as the administration of meetings, the quality and format of Committee Reports is also a key consideration.

23 The Committee is responsible for compliance with Regulations, taking advice from Officers and independent advisers, where appropriate. The Committee aims to be compliant at all times, but understands that there could be minor compliance issues. When any such cases are brought to their attention, the Committee will act to resolve the issues.

24 In the future, the introduction of the Local Pension Board will assist the Pension Committee. The Local Pension Board has the responsibility for assisting the administering authority to secure compliance:

- with the Regulations;
- with other legislation relating to the governance and administration of the LGPS; and
- with the requirements imposed by the Regulator in relation to the LGPS.

It also has the responsibility for ensuring the effective and efficient governance and administration of the LGPS.

25 The Committee recognises the main risks of the Pension Fund and has a Risk Register which is updated by officers twice a year and reported to the Committee. Reports to the Committee will supply information to Members when risks are identified and what action is to be taken.

Recommendation

26 Members are asked to consider:

- their effectiveness in fulfilling their role as a Pension Fund Committee
- whether additional information and/or reports are required, and
- whether any training requirement has been identified.

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

(f) Pension Fund Committee – 4 March 2015 – Terms of Reference

(g) Statement of Investment Principles

Contact: Hilary Appleton Tel: 03000 266239

Appendix 1: Pension Fund Committee – Terms of Reference

1. Objectives

1.1. The Pension Fund Committee's objective is to ensure effective stewardship of the Fund's affairs. The Pension Fund is governed by Local Government Pension Scheme Regulations and the Committee will ensure that the Pension Fund is run in accordance with the Regulations.

2. Authority

2.1 The Local Government Pension Scheme is a statutory scheme governed by Regulations. Durham County Council, acting as Administering Authority for the Pension Fund has determined to delegate all functions relating to the maintenance of the Pension Fund to the Pension Fund Committee for its governance, and for prudent and effective stewardship.

2.2 Members act as committee members and not as Trustees. There is no Trust Deed or Agreement as with Private Pension funds. Nonetheless, Members have fiduciary duties to participating employers and scheme members and take decisions with advice from Corporate Director Resources, officers and professional advisors, in accordance with the committee rules and voting procedures.

2.3 Under the terms of the County Council's Constitution, the Pension Fund Committee has been delegated the following terms of reference:

2.3.1. Powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder including:

- approval of applications from bodies seeking admission to the Local Government Pension Scheme;

- appointment of external investment managers and advisers.

3. Composition

3.1. The Myners' first principle states that decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively. In order to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take. The Fund holds training sessions in advance of decisions being taken, in particular when the investment strategy is considered, presentations on topical issues, related to possible choices of future investment. Further training in time for actuarial valuations is also undertaken.

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

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

3.3. The allocation of members to the Committee broadly reflects the number of active members, pensioners and deferred pensioners each of the larger employers has within the Fund. It has appropriate representation for the large employers within the Fund whilst maintaining a manageable governance framework for the size of the committee. The two trade union representatives are invited as observers.

3.4. The representatives from Durham County and Darlington Borough Councils are appointed by decisions of the respective councils. Representatives of the colleges, other statutory bodies, and admitted bodies are selected by the Committee from nominations made by the employers and are appointed for 4 years. The two scheme member representatives are selected by the Committee from applications received from the membership following advertisement in the newsletter: one from active scheme members and one from pensioner members.

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

3.6. All members appointed to the Committee have voting rights. Union observers and advisers do not have voting rights as they do not act as formal members of the Committee.

3.7. The Pension Fund Committee meets four times a year and occasionally holds special meetings when required.

3.8. The quorum for each regular meeting of the Committee is 5.

3.9. Minutes of the Committee are reported under the existing County Council Committee framework.

3.10. Detailed performance reports will remain confidential items on Committee agenda as will any other item deemed as such by the Chairman although the Committee will aim to operate as transparently as feasible.

4. Terms of Reference

Number	Term of Reference	Frequency of Reporting
	The Pension Fund Committee's objective is to ensure effective stewardship of the Fund's affairs. The Pension Fund is governed by Local Government Pension Scheme Regulations and the Committee will ensure that the Pension Fund is run in accordance with the Regulations.	
1	To prepare, monitor and undertake an annual review of policy documents including the: • Funding Strategy Statement • Statement of Investment Principles • Governance Policy • Communications Policy • Administration Strategy (discretionary)	Annually
2	To review policy on social, environmental and ethical matters and on the exercise of rights, including voting rights.	Annually
3	To appoint and terminate, within the procurement and contract rules,: • investment managers • custodian • actuary • independent external advisers • Additional Voluntary Contribution (AVC) providers, and • other contracts related to the management of the Pension Fund	In line with contractual requirements and as and when required
4	To consider the appropriateness of the committee structure to deliver the outcomes required by the Terms of Reference, e.g. the establishment of an investment sub-committee.	Annually

Number	Term of Reference	Frequency of Reporting
5	To be responsible for governance arrangements including regulatory compliance and implementation of audit recommendations	Quarterly
6	To approve the annual internal audit plan and monitor progress on its delivery.	Annually and quarterly monitoring
7	To review and monitor the Pension Fund Risk Register.	Annually
8	To determine the overall investment strategy and strategic asset allocation, ensuring that investments are sufficiently diversified, not over concentrated in any one type of investment and that the pension fund is invested in suitable types of investments;	Minimum of 2 yearly reviews
9	To obtain, and have due regard to, professional advice from the fund managers, investment advisers, officers and the fund actuary as appropriate;	Quarterly and as and when required
10	To monitor and review the investment managers' performance against established benchmarks and to be satisfied of the investment managers' expertise and the quality of their internal systems and controls;	Quarterly
11	To take appropriate and timely action in cases of unsatisfactory performance of the investment managers and independent external advisers;	Quarterly and as and when required
12	To monitor the cash flow forecasts of the fund;	Quarterly
13	To review the resources allocated to investment managers on a regular basis;	Quarterly
14	Ensure appropriate arrangements are in place for the administration of benefits and contributions.	Annually

Number	Term of Reference	Frequency of Reporting
15	To approve, apply and decide upon employers joining and leaving the Fund. To consider, and if appropriate, approve applications of employers to become admitted bodies to the fund.	As and when required
16	To agree an accounting policy for the Fund consistent with IFRS and relevant authoritative guidance in order to prepare and publish a Pension Fund Annual Report including an abstract of accounts.	Annually
17	To review the Annual Report and Accounts of the Pension Fund and report its findings to the Audit Committee, where the Accounts are approved.	Annually
18	To consider all other relevant matters to the investment and administration of the fund.	As and when required
19	To establish constitutional documents, codes, policies, plans, frameworks and protocols connected with the establishment and operation of the Local Pension Board	As and when required

5. Meetings

5.1. The Pension Fund Committee meets four times a year and occasionally holds special meetings when required. The Pension Fund Committee also holds an Annual General Meeting to which all employers are invited. This maintains a manageable governance framework in terms of the frequency of meetings.

6. Programme of Work

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

7. Performance and Review

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

Appendix 2: Pension Fund Committee – Reports received in 2014/15

Committee Report	Reported to Meeting	Term of Reference
PART A		
Graphs showing recent movements of the Stock and Share Indices	June 2014 September 2014 December 2014 March 2015	8, 9
Graphs showing recent movements of the major currencies against sterling	June 2014 September 2014 December 2014 March 2015	8, 9
Performance Measurement of the Pension Fund Investments	June 2014 September 2014 December 2014 March 2015	9, 10
Overall Value of the Pension Fund Investments – including rebalancing	June 2014 September 2014 December 2014 March 2015	12, 13
Short term Investments	June 2014 September 2014 December 2014 March 2015	12
Statement of Accounts	September 2014	17
Pension Boards – Draft LGPS Regulations on Scheme Governance	September 2014 December 2014	19
Pension Fund Policy Documents – Funding Strategy Statement and Statement of Investment Principles	June 2014 September 2014 March 2015	1
Change in Pension Fund Adviser – River and Mercantile Group	June 2014	9
Valuation Report	June 2014	9
County Durham Housing Group – New Admission Body	September 2014	15
Audit Completion Report	December 2014	5
Agreement of Accounting Policies for Application in the Statement of Accounts	March 2015	16
The Requirement to set up a Local Pension Board	March 2015	19
Terms of Reference – Annual Review	March 2015	Para 7
Investment of the Pension Fund's Cash Balances	March 2015	5, 12

Committee Report	**Reported to Meeting**	**Term of Reference**
PART B		
Report of Pension Fund Advisor	June 2014 September 2014 December 2014 March 2015	8, 9, 10
Report of Investment Managers	June 2014 September 2014 December 2014 March 2015	8, 9, 10
Fiduciary Duties of Investment Intermediaries	September 2014	8
Internal Audit Plan	September 2014 March 2015	5, 6, 7
Review of Dynamic Asset Allocation Investments	September 2014	11
Verbal update on Global Equity Transition	September 2014	9
Ethical Investment Policy for Durham County Council Pension Fund	December 2014	2
Internal Audit Progress Report	September 2014 December 2014 March 2015	5, 6
Transition Manager Post Trade Report	March 2015	9

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Pension Fund Committee

10 September 2015

Pooling of LGPS Investments

Don McLure, Corporate Director, Resources

Purpose of the Report

1 To provide Members with an update on Government proposals for pooling of investments in the Local Government Pension Scheme.

Background

2 The Government, in its Summer 2015 Budget on 8 July 2015 announced that it will “work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance.”

3 This announcement represents the next stage of the work to deliver savings from Local Government Pension Scheme (LGPS) investments and follows a process of calls for evidence and consultations on reducing investment management costs in the LGPS.

4 In May 2013, the Government launched a call for evidence on cost saving, which suggested the potential for the merger of all 89 LGPS Funds into a much smaller number of Funds.

5 This suggestion was not taken further, and in 2014 a formal consultation on cost saving was launched. The main proposals in this consultation were:

- greater use of collective investment vehicles;
- better deficit management; and
- the use of passive investments.

6 Local Authorities did not accept the plan to enforce the use of passive investments and the Government planned to publish its final proposals for reform in Autumn 2014.

7 In December 2014, the Government postponed any further announcements until the ‘new year’.

Budget Proposals

8 The Chancellor’s announcement in the Budget 2015 is accompanied by documents which state that “The government will invite local authorities to come forward with proposals to meet common criteria for delivering savings.”

9 A consultation will be published later this year setting out detailed criteria for the proposals, “criteria that will be used to assess the proposals brought forward, including the scale and size of pooled investments and the role of passive management in an investment strategy”.

10 It will also publish “backstop” legislation “which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments”.

11 The National Association of Pension Funds have said that they will engage constructively with the Government on this initiative, but feel that pooled investments work best where they arise from “natural collaboration between funds” rather than where funds are forced to invest together.

12 It is understood that “pooling” is intended to have a wider meaning than setting up collective investment vehicles (CIV). It can include other initiatives, for example, joint procurement.

13 It is likely that the Government wishes to consolidate work already done by local authorities, including the London Collective Investment Vehicle, and collaboration such as the Lancashire Fund and London Pension Fund Authority (LPFA).

14 Although the criteria for proposals have not yet been communicated, commentators suggest that there will be an emphasis on the size of the pools, expected to be in tens of £billions.

15 Although the Government expects high levels of participation in pooled arrangements, there are likely to be some cases where it would not make sense to do this. This may be where a Fund has good performance and industry leading low costs, where moving to pooled arrangements may increase costs.

16 The Government have not expressed a preference for regional pools, or pooling by asset type, although there is an expectation the pooling for investment in infrastructure should feature in proposals that local authorities bring forward.

17 It is suggested that the government may make infrastructure investing more attractive by reforming the LGPS Investment Regulations or by making it easier for Pension Funds to set up special investment vehicles through which they could invest in infrastructure.

18 It is however likely that investment strategy and asset allocation decisions will still remain with LGPS Committees as decision makers, but the hiring and firing of Managers could move to pooled arrangements.

Impact on the Pension Fund Committee

19 The Committee will need to formulate a response to the Government consultation when it is launched later in the year.

20 It will also need to investigate the possibility of collaboration with other LGPS Administering Authorities to respond to the Government's consultation. This may mean working more closely with neighbouring LGPS Administering Authorities.

21 It should be noted that the value of the Pension Funds in the region may not be sufficient to meet the Government's criteria for the size of pools.

Recommendation

22 Members note the information contained in the report.

Background papers

(a) Aon Hewitt – July 2015 – Local Government Newsletter

(b) Hymans Robertson – Briefing Note – Budget proposes LGPS pooling

(c) LGC – 8 July 2015 – Government signals move to force council pension investment pooling.

(d) Room 151 – 8 July 2015 – Budget 2015: LGPS faces mandatory pooling

Contact: Hilary Appleton Tel: 03000 266239

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Pension Fund Committee

10 September 2015

Annual General Meeting of the Pension Fund to be held on 5 November 2015

Don McLure, Corporate Director Resources

Purpose of the report

1 To inform Members of arrangements for the Annual General Meeting of the Pension Fund.

Background

2 Each year the Pension Fund holds an Annual General Meeting and the feedback received from previous meetings has indicated that this is a useful forum for exchanging information and views from stakeholders.

3 Representatives from all of the employing authorities and the trade unions are invited.

4 This year's Annual General Meeting has been arranged for 5 November 2015, at 10.00 a.m.

5 A draft agenda and timetable for the meeting will be circulated to members of the Pension Fund Committee in October 2015.

The Meeting

6 The Agenda for the meeting is likely to include the Advisers to the Pension Fund updating employers on the Pension Fund's new investment managers, as well as the introduction of the Local Pension Board.

7 There will also be a review of the Pension Fund's Accounts for 2014/15 and the Annual Report of the Pension Fund will be circulated to Members and employers in advance the Meeting.

Recommendation

8 Members are asked to note the date of the Annual General Meeting on 5 November 2015 and are invited to attend.

Contact: Hilary Appleton Tel: 03000 266239

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