

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Committee Room 2, County Hall, Durham on **Tuesday 7 March 2017 at 10.00 am**

Present:

Councillor A Turner (Chairman)

Members of the Committee:

Councillors W Stelling (Vice-Chairman), J Alvey, M Davinson, B Kellett, J Lethbridge, J Lindsay and N Martin

Darlington Borough Council

Councillor S Harker

Admitted Bodies Representative

John Norton

Pensioner Representative

David Ford

Also Present:

John Hewitt – Corporate Director of Resources

Nick Orton – Pensions Manager

Beverley White – Finance Manager – Pensions and Technical

Bryan Smith – Legal Manager – Litigation

Independent Adviser

Sandy Dixon – Mercer

Observers

Councillor A Hopgood – Chair, Local Pension Board

N Hancock - UNISON

Prior to the commencement of business the Chairman explained that this was the last meeting for Councillor Nigel Martin and Admitted Bodies representative John Norton as they were both retiring, and expressed thanks for their valuable contribution to the work of the Committee.

1 Apologies for Absence

Apologies for absence were received from Councillors C Carr and J Maitland.

2 Declarations of Interest

Councillors M Davinson and W Stelling advised that they were Members of the Audit Committee.

3 Minutes

The Minutes of the meeting held on 8 December 2016 were agreed as a correct record and were signed by the Chairman.

4 Overall Value of Pension Fund Investments to 31 December 2016

The Committee considered a report of the Corporate Director of Resources which informed Members of the overall value of the Pension Fund as at 31 December 2016, and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers (for copy see file of Minutes).

Following a question from Councillor Martin, Nick Orton explained that set up costs in relation to the pooling of investments were shared between all authorities in the Partnership and were not reflected in the cash flow position.

Resolved:

That the information contained in the report be noted.

5 Performance Measurement of Pension Fund Investments to 31 December 2016

The Committee considered a report of the Corporate Director of Resources which provided an overview of the performance of the Fund to 31 December 2016 (for copy see file of Minutes).

The report of JP Morgan, the Fund's custodian, informed Members of the performance of the Fund Managers for the quarter, the year to date and since inception.

Resolved:

That the information contained in the report be noted.

6 Short Term Investments for the Period Ended 31 December 2016

The Committee considered a report of the Corporate Director of Resources which provided Members with information on the performance of the Pension Fund's short term investments as at 31 December 2016 (for copy see file of Minutes).

Councillor Davinson was pleased to note that the average return earned for the quarter was above the Bank of England base rate.

Resolved:

That the position as at 31 December 2016 regarding the Pension Fund's short term investments where £9,262 net interest was earned in the three month period be noted.

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

The Committee considered a report of the Corporate Director of Resources which informed Members of the draft revised Funding Strategy Statement (FSS) and the new Investment Strategy Statement (ISS) which were currently out to consultation with Pension Fund employers (for copy see file of Minutes).

Councillor Kellett noted that the report referred to 'undue risks' and asked how this was defined. Whilst there was no clear definition Nick Orton explained that all risks were carefully examined and 'undue' risks were mitigated against on advice from the Independent Advisers.

Resolved:

That

- a) The content of the report be noted and;
- b) the Corporate Director of Resources be authorised to finalise the wording of the FSS and ISS, where appropriate, taking into account any comments received from employers, and to publish the final versions by 31 March 2017.

8 Agreement of Accounting Policies for Application in the 2016/17 Financial Statements of the Pension Fund

The Committee considered a report of the Corporate Director of Resources which informed Members of the accounting policies to be applied in the preparation of the 2016/2017 Final Accounts and sought confirmation from the Committee that appropriate policies were being applied (for copy see file of Minutes).

Resolved:

That having reviewed the accounting policies, the Pension Fund Committee:-

- a) approved the use of the policies in the preparation of the 2016/2017 financial statements for the Pension Fund;
- b) authorised the Corporate Director of Resources to revise the accounting policies as necessary and report any significant changes to the Committee.

9 Internal Audit Plan 2017/2018

The Committee considered a report of the Corporate Director of Resources which presented the proposed Annual Audit Plan for 2017/2018 (for copy see file of Minutes).

The proposed Plan was set out in the report and had been developed following discussions between officers from Internal Audit and officers with responsibility for the Pension Fund using the strategic audit plan as the basis for discussion.

Resolved:

That the proposed Audit Plan for 2017/2018 be approved.

10 Audit Strategy Memorandum for Year Ended 31 March 2017

Consideration was given to the report of the External Auditor which set out the work proposed in respect of the audit of the Council's financial statements and the value for money conclusion for the financial year 2016/2017 in relation to Durham County Council Pension Fund (for copy see file of Minutes).

Sharon Liddle, Assistant Manager, Mazars highlighted key points from the Audit Strategy Memorandum which included the following:-

- Scope of the audit
- Significant risks and key judgement areas
- The Audit Team
- Fees

Resolved:

That the contents of the Audit Strategy Memorandum be noted.

11 Terms of Reference - Annual Review

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

Resolved:

That the Terms of Reference as detailed in Appendix 1 be accepted and reviewed at least on an annual basis.

12 Guaranteed Minimum Pension Reconciliation Exercise Between Pension Fund Records and Her Majesty's Revenue and Customs

The Committee considered a report of the Corporate Director of Resources which informed Members of the requirement for the Pension Fund to carry out an exercise to reconcile its records with those held by HM Revenue and Customs, and to

explain the potential costs and consequences associated with this (for copy see file of Minutes).

Following questions from Councillor Harker and Councillor Lethbridge, Nick Orton confirmed that examining the evidence to resolve discrepancies could potentially involve considerable administrative work. The timescales for completing the reconciliation exercise would depend upon the work involved in resolving the discrepancies.

Resolved:

That the content of the report be noted and the Corporate Director of Resources be authorised to commit additional resource to the GMP reconciliation exercise as necessary, which would be charged as a general Pension Fund administration expense.

13 The UK Stewardship Code and Local Authority Pension Fund Forum (LAPFF) Membership

The Committee considered a report of the Corporate Director of Resources which recommended that the Pension Fund works with its investment adviser and fund managers to ensure that it could become a signatory to the UK Stewardship Code. As part of this process it was also recommended that the Pension Fund pays an annual subscription to become a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative shareholder engagement group for local authority pension funds (for copy see file of Minutes).

Members supported the proposal for membership of the LAPFF, given the benefits of membership which were outlined in the report.

Resolved:

That

- a) approval be granted for the Pensions Manager to work with the Pension Fund's investment adviser and fund managers to ensure the Pension Fund can become a signatory to the UK Stewardship Code;
- b) approval be granted for the Pension Fund to pay an annual subscription to become a member of the Local Authority Pension Fund Forum.

14 Investment Pooling Update

Nick Orton provided an update on progress regarding the pooling of investments. The County Council at its meeting on 22 February 2017 had agreed to:-

- (a) be a member of the Border to Coast Pensions Partnership and to adopt its arrangements;

- (b) enter into the Inter-Authority Agreement between the Council and the Administering Authorities of the other Pool Funds;
- (c) enter into the Shareholder Agreement between the Council and the Administering Authorities of the other Pool Funds and Border to Coast Pensions Partnership Limited;
- (d) the Articles of Association to be adopted by Border to Coast Pensions Partnership Limited;
- (e) the establishment of the Border to Coast Pensions Partnership Joint Committee as a formal Joint Committee under section 102 of the Local Government Act 1972 and to carry out the functions as set out in the Inter-Authority Agreement;
- (f) approve the subscription by the Durham County Council Pension Fund of 1 Class A voting share in the asset management company, Border to Coast Pensions Partnership Limited;
- (g) nominate the Chair of the Pension Fund Committee or such other person determined by the Pension Fund Committee from time to time to vote this shareholding;
- (h) approve the subscription by the Durham County Council Pension Fund for such number of Class B non-voting shares in the Border to Coast Pensions Partnership Limited as shall be necessary to ensure that the Council contributes by way of equity one twelfth of the minimum regulatory capital requirement of the company as determined by the requirements of the Financial Conduct Authority;
- (i) appoint the Chair of the Pension Fund Committee or such other person determined by the Pension Fund Committee from time to time to represent the Council on behalf of the Fund at the Border to Coast Pensions Partnership Joint Committee meetings;
- (j) make the consequential changes required to the Constitution to reflect these new arrangements;
- (k) authorise the Corporate Director Resources in consultation with the Monitoring Officer to finalise the approval and execution, where required, of all legal documents necessary to give effect to the above decisions.

The report was to be considered by the other 11 authorities in the pool by 22 March 2017, and subject to approval by each authority the company should be created towards the end of the month.

Resolved:

That the information given be noted.

15 Feedback from Local Pension Board

Councillor Hopgood, the Chair of the Local Pension Board explained that as part of its Work Plan the Board, at its meeting that day, would be reviewing member and employer communications, and reviewing internal dispute cases and Pensions Ombudsman cases.

At its last meeting the Board had discussed the role of Pension Fund Committee Members, particularly in view of the local elections in May 2017 which may result in a change in membership of the Committee. It was important to consider the technical knowledge, expertise and skills required of Members and the importance of training when appointments were made to the Committee.

Resolved:

That the information given be received.