

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Committee Room 2 - County Hall, Durham on **Thursday 14 March 2019 at 10.00 am**

Present:

Councillor M Davinson (Chairman)

Members of the Committee:

Councillors O Temple (Vice-Chairman), J Atkinson, C Carr, J Carr, S Hugill, J Shuttleworth and M Wilson

Also Present:

Scheme Member Representatives

Anne Delandre and John Taylor

Also Present:

Council Advisers:

John Hewitt – Corporate Director of Resources

Paul Cooper – Pensions Manager

Beverley White – Finance Manager – Corporate Finance

Independent Advisers:

Catrina Arbuckle and Sandy Dickson – Mercer

Anthony Fletcher – MJ Hudson

Observers:

Neville Hancock – UNISON and Local Pension Board member

Ian Densham – Local Pension Board member

David Clegg - GMB

1 Apologies for Absence

Apologies for absence were received from County Councillors J Lethbridge and S Zair, Darlington Borough Councillor S Harker, Pensioner representative John Taylor and Further Education Colleges representative Andy Broadbent.

The Chairman welcomed newly appointed Pensions Manager Paul Cooper and Independent Investment Adviser Anthony Fletcher.

2 Declarations of interest

There were no declarations of interest.

3 Minutes

The Minutes of the meeting held on 6 December 2018 were agreed as a correct record and were signed by the Chairman.

Matter Arising from the Minutes

Pension Fund Committee Independent Investment Adviser

Members were informed that Anthony Fletcher of MJ Hudson had been appointed as Independent Investment Adviser following the procurement process. The appointment was confirmed by the Corporate Director of Resources in consultation with the Chair and Vice-Chair of the Committee.

4 Feedback from Local Pension Board

Paul Cooper reported that at the last meeting the Board had agreed its Work Programme for the year ahead and would produce an Annual Report for 2018/2019 which would be submitted to Pension Fund Committee.

Ian Densham advised that the Board had also discussed at its last meeting the importance of the Pension Fund Committee process keeping pace with any pooling decisions required between the ordinary cycle of meetings.

5 Overall Value of Pension Fund Investments to 31 December 2018

The Committee considered a report of the Corporate Director of Resources which provided an update on the overall value of the Pension Fund's investments at 31 December 2018, the movement in the cash balance during the last four quarters and the projected cash flow position up to 31 March 2020 (for copy see file of Minutes).

Following a question from Councillor Shuttleworth regarding Brexit, the Member was informed that it was difficult at this point to forecast the impact of Brexit on the markets. However, in terms of the cash flow position the potential through the Fund's approach to global investment.

Resolved:

That the information contained in the report be noted.

6 Performance Measurement of Pension Fund Investments to 31 December 2018

The Committee considered a report of the Corporate Director of Resources which provided an overview of the performance of the Pension Fund to 31 December 2018 (for copy see file of Minutes).

Resolved:

That the information contained in the report produced by the Fund's custodian JP Morgan be noted.

7 Short Term Investments for the Period Ended 31 December 2018

The Committee considered a report of the Corporate Director of Resources which provided information on the performance of the Pension Fund's short-term investments as at 31 December 2018 (for copy see file of Minutes).

Councillor Shuttleworth referred to the net interest earned and was advised that the short term cash balances were invested in line with the Council's Treasury Management Policy and Annual Investment Strategy which set out maximum time limits and amounts for investment. The Member was assured that every effort was made to maximise rates of return in line with the Policy.

Resolved:

That the position at 31 December 2018 regarding the Pension Fund's short-term investments where the Pension Fund's surplus cash holding was £45,870 million and £65,169 net interest was earned in the three month period, be noted.

8 Investment of the Pension Fund's Cash Balances

The Committee considered a report of the Corporate Director of Resources which provided an update regarding the Treasury Management Service provided to the Pension Fund and reviewed the charges for the services and the calculation of interest on short term investments administered by Durham County Council for 2019/20 (for copy see file of Minutes).

Resolved:

That with effect from 1 April 2019:

- (a) the Pension Fund continues to invest its cash balances with the Council in line with the Council's Treasury Management Strategy;
- (b) interest be paid quarterly to the Pension Fund at a rate based on the daily cash balance and the 3 month rate of return earned by the Council on its own short term investments;
- (c) an administration fee of £2,650 per quarter be paid to the Council for Treasury Management services; and
- (d) in the event of the loss of an investment, the Pension Fund will bear the loss in proportion of the value of cash balances held at the time of the investment with Durham County Council.

9 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 revised Investment Strategy Statement (ISS) which was currently out to consultation with Pension Fund employers (for copy see file of Minutes).

Resolved:

- a) the report be noted and;
- b) the Corporate Director Resources be authorised to finalise the wording of the ISS, where appropriate taking into account any comments received from employers, and to publish final versions by 31 March 2019.

10 Agreement of Accounting Policies for Application in the 2018/19 Financial Statements of the Pension Fund

The Committee considered a report of the Corporate Director of Resources which provided an update on the accounting policies to be applied in the preparation of the 2018/2019 financial statements of the Pension Fund and sought confirmation from the Committee that appropriate policies were being applied (for copy see file of Minutes).

The Committee, having reviewed the accounting policies **Resolved:**

That

- a) their use in the preparation of the 2018/19 financial statements for the Pension Fund be approved; and
- b) the Corporate Director of Resources be authorised to revise the accounting policies as necessary and report any significant changes to the Committee.

11 Internal Audit Progress Report to 31 December 2018

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work carried out by Internal Audit during the period 1 April 2018 to 31 December 2018 as part of the 2018/2019 Pension Fund Internal Audit Plan (for copy see file of Minutes).

A summary of the status of each audit was included in the report. Councillor Temple noted that the number of substantial opinions issued was pleasing.

Resolved:

That the work undertaken by Internal Audit during the period ending 31 December 2018 be noted.

12 Draft Audit Plan 2019/20

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which presented the proposed Audit Plan for 2019/20 for approval (for copy see file of Minutes).

Resolved:

That the proposed Audit Plan for 2019/20 be approved.

13 Local Government Pension Scheme (LGPS): Review of Pension Fund Risks

The Committee considered a report of the Corporate Director of Resources which provided an update on the revisions to the LGPS Pension Fund Risk Register, following a review with the Principal Risk and Governance Officer in February 2019 (for copy see file of Minutes).

The Committee, having reviewed the proposed revisions to the LGPS Pension Fund Risk Register **Resolved:**

That the report provided assurance that the Pension Fund risks were being effectively managed within the risk management framework across the Council.

14 Cost Management in the LGPS

The Committee considered a report of the Corporate Director of Resources which provided an update on the Cost Management mechanisms in the LGPS, and the current pause on the process (for copy see file of Minutes).

Councillor Carr referred to the implications of an increase in employer contributions as a result of a change in the design of public sector pension schemes, and was advised that this had been identified as a risk to the Fund and reflected in the MTFP.

Councillor Temple advised that the Actuary would take cognisance of the potential risks as part of his review, and asked that the Committee be informed of the outcome of the legal case.

Neville Hancock stated that the Shadow Advisory Board had discussed employer contribution rates and Government assumptions regarding factors such as longevity of members and pay awards had been incorrect. Running costs of the scheme were lower than moderate resulting in available funds for a package of member benefits. This may change the cost of the scheme through the cost cap mechanism, impacting upon employer contributions.

Resolved:

That the information contained in the report be noted, and the Committee be informed of the outcome of the legal case.

15 Any Other Business

External Audit – Audit Strategy Memorandum for the Year Ended 31 March 2019

Consideration was given to the report of the External Auditor which informed Members of the Audit Strategy for the year ended 31 March 2019 (for copy see file of Minutes).

Sharon Liddle of 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
- Consideration of threats and safeguards

Following a question, Councillor Shuttleworth was assured that audit fees were lower but the same level of service was provided.

Resolved:

That the contents of the Audit Strategy Memorandum be noted.

16 Exclusion of the Public

Resolved:

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

17 Minutes

The Minutes of the meeting held on 6 December 2018 were agreed as a correct record and were signed by the Chairman.

Matter Arising from the Minutes

BCPP Asset Allocation

At the last meeting Members had agreed that a Special meeting be called to consider asset allocation to the BCPP. Paul Cooper advised that this had not been

necessary and recommendations regarding asset allocation was included at item numbered 19 on the Agenda for this meeting. The Officer confirmed that other decisions required as pooling progressed would coincide with the cycle of Pension Fund Committees.

18 Report of the Pension Fund Adviser

The Committee considered a report of the Independent Advisers, Mercer (for copy see file of Minutes).

Following discussion it was **Resolved:**

That the information given be noted and Officers, in consultation with the Chair and Vice-Chair of the Committee discuss with the Advisers whether performance measurement for all the Fund's Managers could be standardised.

19 Investment Strategy Review Update

The Committee considered a report of Mercer which set out the proposed asset allocation as part of the review of the Investment Strategy (for copy see file of Minutes).

Resolved:

That the recommendations set out in the report be agreed.

20 Investment Strategy - Implementation Considerations

The Committee considered a report of the Independent Advisers which summarised Mercer's advice to the Committee on the Fund's investment strategy and proposed how the implementation was likely to proceed (for copy see file of Minutes).

Resolved:

That proposals for implementation be noted and the Corporate Director of Resources and Pensions Manager, in consultation with the Chair and Vice-Chair of the Committee be authorised to undertake the actions specified in the report.

21 Report of Aberdeen Standard

Consideration was given to a report from Aberdeen Standard which included:

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

Resolved:

That the information given be noted.

22 Report of AB

Consideration was given to a report from AB which included:

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

Resolved:

That the information given be noted.

23 Report of BlackRock

Consideration was given to a report from BlackRock which included:

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

Resolved:

That the information given be noted.

24 Report of BNY Mellon (Walter Scott)

Consideration was given to a report from BNY Mellon (Walter Scott) which included:

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

Resolved:

That the information given be noted.

25 Report of CBRE Global Investment Partners

Alice Wilcox and Moritz Valeriano were in attendance to discuss the performance of the portfolio and give their views on the economy and future outlook (for copy see file of Minutes).

Resolved:

That the information given be noted.

26 Report of Mondrian Investment Partners Ltd

Andrew Miller and Russell Mackie were in attendance to discuss the performance of the portfolio in the year and give their views on the economy and future outlook (for copy see file of Minutes).

Resolved:

That the information given be noted.

27 Report of Royal London

Consideration was given to a report from Royal London which included:

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

Resolved:

That the information given be noted.