

Fund Account

2019-20			2020-21		
£000	£000		Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND					
-106,029		Contributions Receivable	8	-147,634	
-8,910		Transfers in from Other Pension Funds	9	-4,128	
-4		Other Income		-3	
	-114,943				-151,765
126,817		Benefits Payable	10	129,937	
12,556		Payments to and on Account of Leavers	11	3,990	
	139,373				133,927
	24,430	Net Withdrawals / -Additions from Dealings with Members, Employers and Others			-17,838
	15,589	Management Expenses	12		13,187
	40,019	Net Withdrawals / -Additions Including Fund Management Expenses			-4,651
RETURN ON INVESTMENTS					
-30,524		Investment Income	13	-20,665	
186,297		Profit and Losses on Disposal of Investments and Change in Value of Investments	15	-668,983	
	155,773	Net Return on Investments			-689,648
	195,792	NET INCREASE (-) / DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR			-694,299

Net Assets Statement

31 March 2020			31 March 2021	
£000	£000	Notes	£000	£000
INVESTMENT ASSETS				
273,429		Equities	15	387,003
624,790		Bonds	15	48,905
1,814,357		Pooled Investment Vehicles	15	2,941,246
	2,712,576			3,377,154
252		Loans	15	223
		Other Cash Deposits:		
52,716		Fund Managers	15	50,651
32,720		Short Term Investments	15	43,051
15,898		Derivative Contracts	15	3,650
	101,586			97,575
	<u>2,814,162</u>			<u>3,474,729</u>
Other Investment Assets				
1,594		Dividend Accruals	15,18	1,528
725		Tax Recovery	15,18	736
9,030		Other Investment Balances	15,18	1,598
	11,349			3,862
	<u>2,825,511</u>	Total Investment Assets		<u>3,478,591</u>
INVESTMENT LIABILITIES				
-16,378		Derivative Contracts	15	-2,838
-24,998		Other Investment Balances	19	-1,307
	<u>-41,376</u>	Total Investment Liabilities		<u>-4,145</u>
	<u>2,784,135</u>	NET INVESTMENT ASSETS		<u>3,474,446</u>
Current Assets				
8,436		Contributions Due from Employers	18	9,279
1,101		Other Current Assets	18	1,874
	9,537			11,153
Current Liabilities				
-7,425		Current Liabilities	19	-5,053
	<u>-7,425</u>			<u>-5,053</u>
	<u><u>2,786,247</u></u>	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH		<u><u>3,480,546</u></u>

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 24.

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

1. Fund Operation and Membership

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

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

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

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

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

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

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

	2016/17	2017/18	2018/19	2019/20	2020/21
Contributing Members	18,630	19,219	20,116	20,901	21,340
Pensioners in Payment	18,139	18,618	19,404	20,109	20,652
Pensioners Deferred	15,104	15,746	15,987	16,420	16,595

In comparison to the figures reported at 31 March 2020, the number of pensionable employees in the Fund at 31 March 2021 has increased by 439 (2.10%), the number of pensioners has increased by 543 (2.70%) and deferred pensioners have increased by 175 (1.07%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 110 at 31 March 2021), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table. Further detailed information is provided in Notes 10 and 8 accordingly.

2019-20			2020-21	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
93,368	-62,686	Administering Authority	96,890	-96,562
25,785	-34,213	Scheduled Bodies	25,187	-39,354
7,664	-9,130	Admission Bodies	7,860	-11,718
126,817	-106,029		129,937	-147,634

2. Basis of Preparation

The Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (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 Fund available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial valuations of the Fund, which do take account of such obligations, are carried out every three years.

The Actuary completed a valuation during 2019/20, the results of which determined the contribution rates effective from 1 April 2020 to 31 March 2023. Details of the latest valuation are included in Note 23.

3. Accounting Standards issued but not yet adopted

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

No such accounting standards have been identified for 2020/21 that are applicable to the Fund accounts.

4. Statement of 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 accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis). The Fund has a policy of accruing for items of £10,000 or over, unless in exceptional circumstances.

Fund Account

Contributions receivable

Contribution income is categorised and recognised as follows:

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

Transfers to and from other schemes

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

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

Council Pension Fund. Where the transfer value has not been agreed in the year in which the member liability transfers, the transfer will be accounted for in full in the year in which the transfer value is agreed.

Pension benefits payable

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

Management expenses

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

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

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Note 12 provides further information regarding the basis of Investment Managers' fees. Where an Investment Manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

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

Investment Income

Investment income is accounted for as follows:

- dividend income is recognised in the fund account on the date stocks are quoted ex-dividend;
 - income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis using the effective interest rate of the financial instrument as at the date of acquisition;
 - distributions from pooled investment vehicles are accounted for on an accruals basis on the date of issue;
 - income from overseas investments is recorded net of any withholding tax where this cannot be recovered;
 - 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;
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- changes in the net market value of investments are recognised as income or expenditure and comprise all realised and unrealised profits/ losses during the year.

Taxation

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

Voluntary and Mandatory Scheme Pays (VSP, MSP) and Lifetime Allowances

Members are entitled to request the Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension. Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

Net Assets Statement

Valuation of Investments

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

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

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

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

- quoted equity securities and fixed interest securities traded on an exchange are accounted for at bid market price;
 - index linked securities traded on an exchange are valued at bid market value;
 - unitised managed funds are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the Investment Manager's valuation report. Single priced unitised managed funds are valued at the reported price;
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- unitised, unquoted managed property funds are valued at the most recently available net asset value adjusted for cash flows, where appropriate, or a single price advised by the fund manager;
- shares in the Border to Coast Pensions Pool (BCPP) have been valued at cost i.e. transaction price, as an appropriate estimate of fair value. This is reviewed and assessed each year. Relevant factors include that there is no market in the shares held, disposal of shares is not a matter in which any shareholder can make a unilateral decision, and the company is structured as not to make a profit. As at 31 March 2021, taking into consideration of audited accounts for the company at 31 December 2020, there is also no evidence of any impairment in the value of shares held. It has therefore been determined that cost remains an appropriate proxy for fair value at 31 March 2021;
- investments in private equity funds, private credit funds and unquoted infrastructure funds are valued based on the fund's share of the net assets in the private equity fund, private credit fund or infrastructure fund using the latest financial statements published by the respective fund managers, adjusted for cashflows; and
- derivative contracts outstanding at the year-end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

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

Cash and Cash Equivalents

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

Contingent Assets

A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Fund. Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note 22.

Investment Transactions

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

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (Note 24).

Additional Voluntary Contributions (AVCs)

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Fund Accounts, however a summary of the scheme and transactions are disclosed in Note 20 to these accounts.

If, however, AVCs are used to purchase extra years' service from the Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note 8 as additional contributions from members.

Prior Period Adjustments

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

Events After the Reporting Period

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

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

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

5. Critical judgements in applying accounting policies

The preparation of the statements in accordance with the Code of Practice on Local Authority Accounting requires management to make judgements which affect the application of accounting policies. The Fund can confirm it has made no such critical judgements during 2020/21.

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

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

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

Item	Uncertainties	Effect if actual differs from assumptions
Fair Value of Investments	The Accounts are as at 31 March 2021 and all the investments held by the fund are valued as at that date using the best estimate possible of 'fair value', as detailed in 'Significant Accounting Policies - Valuation of Investments'.	The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments could reduce / increase in value during the 2021/22 reporting. The total value of Level 3 investments (explained in Note 16) is £201.419m at 31/3/21 (£193.099m at 31/3/20). This consists of the Fund's unlisted property holding, Private Equity and Private Infrastructure and Private Credit. In line with the market risk section within Note 17, there is a risk that the value of the Fund may reduce / increase during the 2021/22 reporting period by £29.289m at 31/3/21 (£28.172m at 31/3/20), which represents the potential market movement on the value of the above investments.

7. Events After the Reporting Period

There have been no events after 31 March 2021 which require any adjustments to be made to these accounts.

8. Contributions Receivable

2019-20 £000		2020-21 £000
	Employer Contributions:	
-68,437	Normal	-83,814
-2,738	Augmentation	-2,262
-8,662	Deficit Funding	-33,874
	Member Contributions:	
-26,111	Normal	-27,590
-81	Additional Contributions	-94
-106,029		-147,634
-62,686	Administering Authority	-96,562
-34,213	Scheduled Bodies	-39,354
-9,130	Admission Bodies	-11,718
-106,029		-147,634

9. Transfers in From Other Pension Funds

2019-20 £000		2020-21 £000
-8,910	Individual Transfers	-4,128
-8,910		-4,128

10. Benefits Payable

2019-20 £000		2020-21 £000
107,103	Pensions	110,209
22,017	Commutations and Lump Sum Retirement Benefits	20,560
1,999	Lump Sum Death Benefits	3,279
-4,302	Recharged Benefits	-4,111
126,817		129,937
93,368	Administering Authority	96,890
25,785	Scheduled Bodies	25,187
7,664	Admission Bodies	7,860
126,817		129,937

11. Payments To and On Account of Leavers

2019-20		2020-21
£000		£000
332	Refunds to Members Leaving Service	229
72	Payments for Members Joining State Scheme	-1
12,152	Individual Transfers to Other Schemes	3,762
12,556		3,990

12. Management Expenses

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

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

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

2019-20			2020-21	
£000	£000		£000	£000
	1,124	Administration Expenses		999
		Investment Management Expenses		
9,109		Management Fees	5,998	
410		Performance Fees	78	
136		Custody Fees	120	
<u>3,827</u>		Transaction Costs	<u>5,233</u>	
	13,482			11,429
	983	Oversight and Governance Costs		759
	15,589			13,187

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2020/21 of £0.020m (£0.032m in 2019/20). Included in the 2019/20 fee is £0.012m audit fee variations for additional work required. It is possible that additional costs may be incurred relating to the 2020/21 audit. The statutory audit fee does not include fees chargeable to the Fund for pension assurance work undertaken by Mazars at the request of employer auditors. Fees payable for this work in 2020/21 is £0.011m (£0.009m in 2019/20). These fees will be recharged to the employers for whom the information is provided. No fees have been paid to Mazars in 2020/21 in respect of non-audit work.

13. Investment Income

2019-20 £000		2020-21 £000
-2,829	Interest from Bonds	-1,203
-9,197	Dividends from Equities	-6,398
-742	Interest on Cash Deposits	-209
-17,756	Income from Pooled Investment Vehicles	-12,855
-30,524		-20,665

14. Taxation

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

- **United Kingdom Income Tax**

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

- **Value Added Tax**

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

- **Foreign Withholding Tax**

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

15. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2020/21 to manage the Fund's assets:

- AB (Formerly AllianceBernstein Limited)
- BlackRock Investment Management UK Limited (BlackRock)
- CB Richard Ellis Collective Investors Limited (CBRE)
- Mondrian Investment Partners Limited (Mondrian)
- Royal London Asset Management (RLAM)
- Border to Coast Pension Partnership (BCPP)

Durham County Council is one of eleven equal partners in the Border to Coast Pension Partnership Ltd (BCPP) which has been formed as a result of the Local Government

Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require all Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools. BCPP is one of these investment pools.

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

In line with the Fund's strategic asset allocation, during 2020/21, the Fund continued investment into private markets through BCPP and successfully transferred all of its Index Linked Gilt allocation into the pool.

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

31 March 2020	Asset Class	31 March 2021
%		%
40	Global Equities	40
15	Global Bonds	15
13	Global Property	13
10	Private Markets	10
7	Emerging Market Equities	7
15	Sterling Indexed Linked Bonds	15
100		100

Although the strategic asset allocation was reviewed and agreed during 2020/21, the Fund holds assets that have yet to be transferred into BCPP as we await the required product launch. Due to the requirement to pool our assets, asset reallocation has temporarily been suspended and consequently actual allocations vary from the strategic allocation.

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

31 March 2020				31 March 2021			
£000	%	Investment Manager	Asset Class	£000	%		
<u>Investments managed by BCPP asset pool:</u>							
976,643	35.32		Global Equities	1,450,550	42.31		
2,907	0.11		Private Equity	8,610	0.25		
-	0.00		Private Credit	3,255	0.10		
-	0.00		Bonds	458,726	13.38		
3,696	0.13		Infrastructure	10,750	0.31		
983,246	35.56			1,931,891	56.35		
<u>Investments managed outside of BCPP asset pool:</u>							
391,519	14.16	AB	Global Bonds	577,005	16.83		
385,835	13.96	BlackRock	Dynamic Asset Allocation	418,827	12.22		
227,434	8.23	CBRE	Global Property	240,036	7.00		
184,824	6.68	Mondrian	Emerging Market Equities	259,676	7.57		
591,121	21.38	RLAM	Investment Grade Sterling Bonds	-	0.00		
833	0.03	BCPP	Unquoted UK Equity	1,182	0.03		
1,781,566	64.44			1,496,726	43.65		
2,764,812	100.00			3,428,617	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 2021 excludes loans of £0.223m, cash invested by the administering authority of £43.051m, other investment assets of £3.862m and other investment liabilities of £1.307m (£0.252m, £32.720m, £11.349m and £24.998m respectively as at 31 March 2020).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2021, £3,429m (98.68%) is invested through Investment Managers (£2,764m or 99.31% at 31 March 2020).

Reconciliation of Movements in Investments 2020/21

Investment Category	Value at 31 March 2020	Reclassification	Purchase s at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2021
	£000	£000	£000	£000	£000	£000
Equities	276,336	-2,907	208,480	-191,966	97,060	387,003
Bonds	624,790		618,409	-1,227,445	33,151	48,905
Pooled Investment Vehicles	1,811,450	2,907	749,575	-140,952	518,266	2,941,246
	2,712,576	-	1,576,464	-1,560,363	648,477	3,377,154
Derivative Contracts:						
Futures, Margins & Options	2,264		8,412	-6,553	-5,241	-1,118
Forward Foreign Currency	-2,744		41,733	-59,213	22,154	1,930
	2,712,096	-	1,626,609	-1,626,129	665,390	3,377,966
Other Investment Balances:						
Loans	252					223
Other Cash Deposits	85,436				3,591	93,702
Dividend Accruals	1,594					1,528
Tax Recovery	725					736
Other Investment Balances	-15,968					291
Net Investment Assets	2,784,135				668,981	3,474,446

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 2019/20

Investment Category	Value at 31 March 2019	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31 March 2020
	£000	£000	£000	£000	£000
Equities	348,884	144,241	-174,844	-41,945	276,336
Bonds	575,582	2,459,266	-2,430,894	20,836	624,790
Pooled Investment Vehicles	1,962,121	1,432,511	-1,429,090	-154,092	1,811,450
	2,886,587	4,036,018	-4,034,828	-175,201	2,712,576
Derivative Contracts:					
Futures, Margins & Options	1,711	5,622	-7,609	2,540	2,264
Forward Foreign Currency	1,348	55,940	-58,770	-1,262	-2,744
	2,889,646	4,097,580	-4,101,207	-173,923	2,712,096
Other Investment Balances:					
Loans	279				252
Other Cash Deposits	77,843			-12,374	85,436
Dividend Accruals	1,642				1,594
Tax Recovery	639				725
Other Investment Balances	8,728				-15,968
Net Investment Assets	2,978,777			-186,297	2,784,135

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

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Options – premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a net basis as net receipts and payments.

Analysis of Investments

31 March 2020			31 March 2021	
£000	£000		£000	£000
ASSETS INVESTED THROUGH FUND MANAGERS & POOL				
Bonds				
618,905		Government Bonds	39,689	
5,885		Corporate Bonds	9,216	
	624,790			48,905
	273,428	Equities		387,003
Pooled Investment Vehicles				
471,727		Bonds	1,125,587	
1,049,951		Equities	1,523,207	
219,593		Property	222,013	
4,648		Infrastructure	10,750	
12,442		Private Credit	17,405	
4,161		Private Equity	9,760	
51,836		Other	32,524	
	1,814,358			2,941,246
Derivative Contracts				
15,898		Assets	3,650	
-16,378		Liabilities	-2,838	
	-480			812
	52,716	Fund Managers' Cash		50,651
	2,764,812	NET ASSETS INVESTED		3,428,617
OTHER INVESTMENT BALANCES				
32,720		Short Term Investments (via DCC Treasury Management)		43,051
252		Loans		223
11,349		Other Investment Assets		3,862
-24,998		Other Investment Liabilities		-1,307
	2,784,135	NET INVESTMENT ASSETS		3,474,446

Analysis of Derivatives

Objectives and policies for holding derivatives

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

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

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

31 March 2020		Derivative Contracts	31 March 2021	
£000	£000		£000	£000
		Forward Foreign Currency		
8,291		Assets	3,298	
<u>-11,035</u>		Liabilities	<u>-1,368</u>	
	-2,744	Net Forward Foreign Currency		1,930
		Futures		
5,820		Assets	235	
<u>-2,123</u>		Liabilities	<u>-1,469</u>	
	3,697	Net Futures		-1,234
		Options		
1,787		Assets	117	
<u>-3,220</u>		Liabilities	<u>-1</u>	
	-1,433	Net Options		116
	<u>-480</u>	Net Market Value of Derivative Contracts		<u>812</u>

The Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

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

The following tables list all of the forward foreign currency contracts held by the investment managers (BlackRock, CBRE and Royal London) on 31 March 2021 and 31 March 2020.

31 March 2021

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	AUD	6,559,050	EUR	-6,521,263	38	
0 to 1 month	USD	6,321,471	SEK	-6,559,050		-238
0 to 1 month	EUR	38,489,416	EUR	-36,989,173	1,500	
0 to 1 month	GBP	2,556,266	EUR	-2,582,541		-26
0 to 1 month	EUR	10,119,735	USD	-9,969,438	150	
0 to 1 month	USD	164,000,000	JPY	-162,819,120	1,181	
0 to 1 month	GBP	25,759,026	GBP	-26,000,000		-241
0 to 1 month	USD	4,500,000	GBP	-4,536,727		-37
0 to 1 month	USD	4,200,000	USD	-4,254,883		-55
0 to 1 month	ZAR	8,479,646	GBP	-8,620,791		-141
0 to 1 month	ZAR	3,261,402	GBP	-3,365,578		-104
1 to 3 months	GBP	23,865	USD	-33,327		-1
1 to 3 months	GBP	15,867,761	AUD	-28,515,240	125	
1 to 3 months	GBP	57,165,686	USD	-79,616,365		-523
1 to 3 months	GBP	24,724	USD	-34,433		-
1 to 3 months	GBP	1,457,153	EUR	-1,702,898	4	
1 to 3 months	GBP	2,077,085	DKK	-18,050,282	7	
1 to 3 months	GBP	23,118,380	JPY	-3,501,532,931	138	
1 to 3 months	GBP	599,711	AUD	-1,077,714	5	
1 to 3 months	GBP	42,902,983	EUR	-50,138,465	124	
1 to 3 months	GBP	1,137,896	SEK	-13,511,377	14	
1 to 3 months	GBP	1,960,991	JPY	-297,013,590	11	
1 to 3 months	GBP	199,953	USD	-278,481		-2
1 to 3 months	GBP	528,287	EUR	-618,314	1	
					3,298	-1,368
Net Forward Foreign Currency Contracts at 31 March 2021						1,930

Glossary of Terms used in the Accounts

31 March 2020

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	GBP	69,729,236	EUR	-71,855,092		-2,126
0 to 1 month	EUR	5,800,000	SEK	-4,954,002	180	
0 to 1 month	SEK	31,278,994	EUR	-2,566,886		-21
0 to 1 month	SEK	31,244,107	EUR	-2,566,886		-23
0 to 1 month	EUR	54,645,000	USD	-49,296,137		-928
0 to 1 month	GBP	5,610,385	JPY	-5,978,420		-368
0 to 1 month	JPY	1,000,000,000	GBP	-7,566,723		-94
0 to 1 month	USD	4,168,416	GBP	-3,200,000	161	
0 to 1 month	GBP	107,751,242	USD	-113,166,758		-5,416
0 to 1 month	USD	8,330,000	GBP	-6,386,905	329	
0 to 1 month	USD	30,000,000	GBP	-24,201,921		-14
0 to 1 month	USD	7,300,000	HKD	-5,908,844		-23
0 to 1 month	USD	10,500,000	IDR	-7,181,986	1,284	
0 to 1 month	IDR	30,943,500,000	USD	-1,693,138		-159
0 to 1 month	IDR	30,933,000,000	USD	-1,693,138		-160
0 to 1 month	IDR	30,939,300,000	USD	-1,693,138		-159
0 to 1 month	IDR	14,479,500,000	USD	-790,131		-72
0 to 1 month	IDR	17,354,750,000	USD	-947,351		-87
0 to 1 month	IDR	30,071,725,000	USD	-1,648,794		-158
0 to 1 month	USD	8,340,000	JPY	-6,824,278		-100
0 to 1 month	USD	10,500,000	KRW	-8,212,280	253	
0 to 1 month	USD	1,970,000	KRW	-1,574,393	14	
0 to 1 month	USD	2,950,000	KRW	-2,359,310	19	
0 to 1 month	KRW	6,984,675,000	USD	-4,474,747	145	
0 to 1 month	KRW	2,683,800,000	USD	-1,741,523	33	
0 to 1 month	KRW	5,343,537,500	USD	-3,487,078	47	
0 to 1 month	KRW	2,665,735,000	USD	-1,737,492	26	
0 to 1 month	KRW	1,523,970,000	USD	-991,701	16	
0 to 1 month	USD	15,800,000	SGD	-12,426,730	312	
0 to 1 month	USD	1,905,000	SGD	-1,516,009	20	
0 to 1 month	USD	5,430,000	SGD	-4,331,698	46	
0 to 1 month	SGD	3,384,266	USD	-1,866,494	50	
0 to 1 month	SGD	3,360,463	USD	-1,866,494	37	
0 to 1 month	SGD	6,705,621	USD	-3,728,956	69	
0 to 1 month	SGD	3,352,857	USD	-1,864,478	35	
0 to 1 month	SGD	10,038,766	USD	-5,595,450	90	
0 to 1 month	SGD	3,348,995	USD	-1,866,494	30	
0 to 1 month	SGD	3,344,890	USD	-1,864,478	30	
0 to 1 month	USD	26,500,000	TWD	-21,149,396	216	
0 to 1 month	TWD	126,862,106	USD	-3,409,462		-19
0 to 1 month	TWD	120,881,400	USD	-3,241,165		-11
0 to 1 month	TWD	130,867,750	USD	-3,511,263		-14
0 to 1 month	TWD	65,078,300	USD	-1,749,584		-10
0 to 1 month	TWD	120,559,800	USD	-3,241,165		-19
0 to 1 month	TWD	120,399,000	USD	-3,241,165		-24
0 to 1 month	TWD	23,034,150	USD	-616,789		-1
0 to 1 month	TWD	60,380,400	USD	-1,620,583		-7
0 to 1 month	TWD	3,610,800	USD	-96,751		0
0 to 1 month	TWD	23,769,544	USD	-637,964		-3
1 to 3 months	GBP	1,742,031	EUR	-1,891,867	65	
1 to 3 months	GBP	218,056	USD	-260,533	8	
1 to 3 months	GBP	39,409	USD	-47,086	1	

31 March 2020

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value £000	Liability Value £000
1 to 3 months	GBP	278,635	AUD	-555,876	5	
1 to 3 months	GBP	518,707	AUD	-1,034,820	9	
1 to 3 months	GBP	24,411,095	JPY	-3,254,975,453	41	
1 to 3 months	GBP	40,993,265	EUR	-44,519,185	1,524	
1 to 3 months	GBP	21,295	USD	-25,443	1	
1 to 3 months	GBP	1,239,097	SEK	-14,827,034	32	
1 to 3 months	GBP	17,530,144	AUD	-34,972,638	289	
1 to 3 months	GBP	3,313,986	JPY	-441,886,922	6	
1 to 3 months	GBP	68,346,261	USD	-81,660,112	2,588	
1 to 3 months	GBP	2,274,724	DKK	-18,436,640	84	
1 to 3 months	GBP	1,294,123	USD	-1,661,000		-44
1 to 3 months	GBP	7,769,634	EUR	-8,943,000		-155
1 to 3 months	USD	1,646,000	GBP	-1,268,771	57	
1 to 3 months	GBP	1,953,847	EUR	-2,234,000		-26
1 to 3 months	GBP	15,021,579	USD	-19,345,000		-563
1 to 3 months	EUR	3,884,000	GBP	-3,433,275	8	
1 to 3 months	GBP	5,131,124	EUR	-5,643,000	131	
1 to 3 months	USD	1,519,000	GBP	-1,312,668		-89
1 to 3 months	EUR	2,559,000	GBP	-2,409,759		-142
					8,291	-11,035
						-2,744
						-2,744

Net Forward Foreign Currency Contracts at 31 March 2020**-2,744****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 are as follows:

2020-21

Type	Expires	Product Description	Currency	Market Value at 31 March 21	
				£000	£000
Assets					
Overseas Equity	1 to 3 months	MSCI SING IX ETS APR 21	SGD	40	
Overseas Equity	1 to 3 months	EMINI FINANCIAL SELECT SECTOR JUN	USD	22	
Overseas Equity	1 to 3 months	EURO STOXX 50 JUN 21	EUR	151	
Overseas Equity	0 to 1 month	EURO STOXX BANK JUN 21	EUR	22	
Total Assets					235
Liabilities					
Overseas Equity	1 to 3 months	S&P500 EMINI JUN 21	USD	-702	
Overseas Equity	1 to 3 months	IBEX 35 INDEX APR 21	EUR	-56	
Overseas Equity	1 to 3 months	MSCI WORLD INDEX JUN 21	USD	-333	
UK Equity	1 to 3 months	FTSE 100 INDEX JUN 21	GBP	-15	
Overseas Equity	1 to 3 months	NASDAQ 100 E-MINI JUN 21	USD	-338	
Overseas Fixed Interest	1 to 3 months	US 10YR NOTE JUN 21 21/6/2021	USD	-25	
Total Liabilities					-1,469
Net Futures Contracts at 31 March 2021					-1,234

Glossary of Terms used in the Accounts

<u>2019-20</u>					
Type	Expires	Product Description	Currency	Market Value at	
				31 March 20	31 March 20
				£000	£000
<u>Assets</u>					
Overseas Equity	1 to 3 months	EURO STOXX 50 JUN 20	EUR	339	
Overseas Equity	1 to 3 months	CBOE VIX MAY 20	USD	907	
Overseas Fixed Interest	1 to 3 months	US 10YR NOTE JUN 20		1,646	
		19/6/2020	USD		
Overseas Equity	0 to 1 month	CBOE VIX APR 20	USD	2,928	
Total Assets					5,820
<u>Liabilities</u>					
Overseas Equity	3 to 6 months	CBOE VIX AUG 20	USD	-269	
Overseas Equity	3 to 6 months	CBOE VIX JUL 20	USD	-181	
Overseas Equity	1 to 3 months	S&P500 EMINI JUN 20	USD	-690	
UK Equity	1 to 3 months	FTSE 100 INDEX JUN 20	GBP	-983	
Total Liabilities					-2,123
Net Futures Contracts at 31 March 2020					3,697

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, 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.

<u>2020-21</u>					
Type	Expires	Product Description	Currency	Market Value at	
				31 March 21	31 March 21
				£000	£000
<u>Assets</u>					
Overseas Equity	1 to 3 months	MSCI EMERGING MARKETS INDEX JUN	USD	114	
		C @ 1450			
Overseas Equity	0 to 1 month	S&P 500 INDEX APR P @ 3885	USD	3	
Total Assets					117
<u>Liabilities</u>					
Overseas Equity	0 to 1 month	S&P 500 INDEX APR P @ 3690	USD	-1	
Total Liabilities					-1
Net Options at 31 March 2021					116

2019-20					
Type	Expires	Product Description	Currency	Market Value at 31 March 20	
				£000	£000
<u>Assets</u>					
Overseas Equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 C @ 3550.000	EUR	12	
Overseas Equity	1 to 3 months	NASDAQ 100 INDEX ND 01-JAN-2050 19/6/2020 P @ 7200.000	USD	732	
Overseas Equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 4000.000	EUR	11	
Overseas Equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 2900.000	EUR	1,032	
Total Assets					1,787
<u>Liabilities</u>					
Overseas Equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 P @ 2125.000	EUR	-182	
Overseas Equity	1 to 3 months	EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 P @ 2450.000	EUR	-662	
Overseas Equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 3050.000	EUR	-681	
Overseas Equity	0 to 1 month	SPX VOLATILITY INDEX UX 01-JAN-2050 15/4/2020 C @ 37.500	USD	-1,384	
Overseas Equity	1 to 3 months	SPX VOLATILITY INDEX UX 01-JAN-2050 20/5/2020 C @ 45.000	USD	-311	
Total Liabilities					-3,220
Net Options at 31 March 2020					-1,433

Investments Exceeding 5% of the Net Assets available for Benefits

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

At 31 March 2020		Name of Fund	Investment Manager	At 31 March 2021	
£m	%			£m	%
976.64	35.05	GLOBAL EQUITY ALPHA A ACC	BCPP	1450.55	41.68
-	-	STERLING INDEX-LINKED BOND	BCPP	458.73	13.18
391.52	14.05	Diversified Yield Plus	AB	577.00	16.58

16. Financial Instruments

Classification of Financial Instruments

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

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

Glossary of Terms used in the Accounts

2019-20			2020-21		
Fair Value through Profit and Loss £000	Financial Assets at Amortised Cost £000	Financial Liabilities at Amortised Cost £000	Fair Value through Profit and Loss £000	Financial Assets at Amortised Cost £000	Financial Liabilities at Amortised Cost £000
Financial Assets					
273,428			387,003		
624,790			48,905		
Pooled Investment Vehicles:					
471,727			1,125,587		
1,049,951			1,523,207		
219,593			222,013		
4,648			10,750		
12,442			17,405		
4,161			9,760		
51,836			32,524		
15,898			3,650		
	252			223	
	52,716			50,651	
	32,720			43,051	
	11,349			3,862	
	9,537			11,153	
2,728,474	106,574	-	3,380,804	108,940	-
Financial Liabilities					
-16,378			-2,838		
		-32,423			-6,360
-16,378	-	-32,423	-2,838	-	-6,360
2,712,096	106,574	-32,423	3,377,966	108,940	-6,360
2,786,247			3,480,546		
Net Assets at 31 March					

Net gains and losses on financial instruments

31 March 2020 £000		31 March 2021 £000
Financial Assets		
-173,923	Fair Value through Profit and Loss	665,390
-12,374	Financial assets measured at amortised cost	3,591
Financial Liabilities		
-	Fair Value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
-186,297	Total	668,981

Valuation of Financial Instruments Carried at Fair Value

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

Level 1

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

Level 2

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

Level 3

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

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2021 and 31 March 2020, 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 2021	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	3,021,165	158,220	201,419	3,380,804
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	-1,470	-1,368		-2,838
Net Financial Assets at Fair Value	3,019,695	156,852	201,419	3,377,966

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

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
Values at 31 March 2020 (Restated*)	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	2,363,604	171,771	193,099	2,728,474
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	-5,343	-11,035		-16,378
Net Financial Assets at Fair Value	2,358,261	160,736	193,099	2,712,096

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

*Restated due to changes in classification of assets held with Blackrock

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2020/21	Market Value 01 April 2020	Purchases During the Year	Sales During the Year	Unrealised Gains / (Losses)	Realised Gains / (Losses)	Market Value 31 March 2021
	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles	186,495	13,296	-8,693	-12,047	-247	178,804
Private Equity	2,908	4,812	-	890	-	8,610
Infrastructure	3,696	7,367	-	-313	-	10,750
Private Credit	-	3,300	-	-45	-	3,255
	193,099	28,775	-8,693	-11,515	-247	201,419

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2019/20	Market Value 01 April 2019	Purchases During the Year	Sales During the Year	Unrealised Gains / (Losses)	Realised Gains / (Losses)	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles	171,029	23,498	-14,737	3,969	2,736	186,495
Private Equity	-	2,907	-125	126	-	2,908
Infrastructure	-	3,854	-15	-143	-	3,696
	171,029	30,259	-14,877	3,952	2,736	193,099

17. Nature and Extent of Risk Arising From Financial Instruments

Risk and risk management

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

- i. **Market Risk** - the possibility that financial loss may arise for the Fund as a result of changes in, for example, interest rates movements;

- ii. **Credit Risk** - the possibility that other parties may fail to pay amounts due to the Fund;
- iii. **Liquidity Risk** - the possibility that the Fund might not have funds available to meet its commitments to make payments.

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

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 15. Risk is further controlled by dividing the management of the assets between a number of managers and ensuring the Fund's portfolio is well diversified across region, sector and type of security. As different asset classes have varying correlations with other asset classes, the Fund can minimise the level of risk by investing in a range of different investments.

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

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

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

i. Market Risk

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

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

Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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

Other Price Risk – Sensitivity Analysis

In consultation with the Fund's investment advisers, an analysis of historical volatility and implied market volatility has been completed. From this, it has been determined that the potential market movements in market price risk, as shown in the following table, are reasonably possible for the 2021/22 reporting period. The analysis assumed that all other variables remain the same.

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

Manager	Asset Type	Asset Value at 31 March 2021 £000	Potential Market Movements %	Value on Increase £000	Value on Decrease £000
AB	Broad Bonds	577,005	7.0%	617,395	536,615
BlackRock	Dynamic Growth Fund	388,721	10.6%	429,925	347,517
CBRE	Unlisted Property	178,804	14.1%	204,015	153,593
CBRE	Listed Property	41,762	20.5%	50,323	33,201
Mondrian	Emerging Market Equity	257,789	26.3%	325,588	189,990
BCPP	Unquoted UK Equity	1,182	0.0%	1,182	1,182
BCPP	Global Equity	1,450,550	17.5%	1,704,396	1,196,704
BCPP	Private Equity	8,610	24.0%	10,676	6,544
BCPP	Infrastructure	10,750	15.5%	12,416	9,084
BCPP	Private Credit	3,255	10.6%	3,600	2,910
BCPP	UK Index Linked Bonds	458,726	9.8%	503,681	413,771
	Loans	223	0.0%	223	223
	Cash	93,702	0.0%	93,702	93,702
	Net Derivative Assets	812	0.0%	812	812
	Net Investment Balances	2,555	0.0%	2,555	2,555

Total Change in Net Investment Assets Available

3,474,446

3,960,489

2,988,403

Manager	Asset Type	Asset Value at 31 March 2020 £000	Potential Market Movements %	Value on Increase £000	Value on Decrease £000
AB	Broad Bonds	391,518	7.0%	418,924	364,112
BlackRock	Dynamic Growth Fund	349,557	11.9%	391,154	307,960
CBRE	Unlisted Property	186,497	14.2%	212,980	160,014
CBRE	Listed Property	32,952	25.6%	41,388	24,516
Mondrian	Emerging Market Equity	181,549	30.3%	236,558	126,540
RLAM	UK Index Linked Gilts	586,424	9.4%	641,548	531,300
BCPP	Unquoted UK Equity	833	0.0%	833	833
BCPP	Global Equity	976,643	22.6%	1,197,364	755,922
BCPP	Private Equity	2,907	36.5%	3,968	1,846
BCPP	Infrastructure	3,696	17.0%	4,324	3,068
	Loans	252	0.0%	252	252
	Cash	85,436	0.0%	85,436	85,436
	Net Derivative Assets	-480	0.0%	-480	-480
	Net Investment Balances	-13,649	0.0%	-13,649	-13,649

Total Change in Net Investment Assets Available

2,784,135

3,220,600

2,347,670

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 2021 and the effect of a +/- 25 Basis Points (BPS) change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset Type	Asset Values at 31 March 2021 £000	Change in Year in the Net Assets Available to Pay Benefits	
		+25 BPS £000	-25 BPS £000
Cash and Cash Equivalents	93,702	234	-234
Fixed Interest Securities	48,905	122	-122
Total Change in Net Investment Assets Available	142,607	356	-356

Asset Type	Asset Values at 31 March 2020 £000	Change in Year in the Net Assets Available to Pay Benefits	
		+25 BPS £000	-25 BPS £000
Cash and Cash Equivalents	85,436	214	-214
Fixed Interest Securities	63,884	160	-160
Total Change in Net Investment Assets Available	149,320	374	-374

Currency Risk

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

Currency Risk - Sensitivity Analysis

Having consulted with the Fund's independent investment advisers, the likely fluctuation associated with foreign exchange rate movements is expected to be 10% for developed market currencies and 15% in emerging market currencies. This is based upon the

adviser's analysis of long-term historical movements in the month end exchange rates of a broad basket of currencies against the pound. This analysis assumes that all other variables, in particular interest rates, remain constant.

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

Manager	Currency Exposure by Asset Type	Level of Unhedged Exposure	Total Volatility	Asset Value at	Value on	Value on
				31 March 21	Increase	Decrease
				£000	£000	£000
AB	Broad Bonds	0%	0%	577,005	577,005	577,005
BlackRock	DAA	5%	10%	388,721	390,665	386,777
CBRE	Global Property	18%	10%	220,566	224,536	216,596
Mondrian	Emerging Market Equity	100%	15%	257,789	296,457	219,121
BCPP	Unquoted UK Equities	0%	0%	1,182	1,182	1,182
BCPP	Global Equity	88%	10%	1,450,550	1,578,198	1,322,902
BCPP	Private Equity	93%	10%	8,610	9,411	7,809
BCPP	Infrastructure	93%	10%	10,750	11,750	9,750
BCPP	Private Credit	74%	10%	3,255	3,496	3,014
BCPP	UK Indexed Linked Bonds	0%	0%	458,726	458,726	458,726
	Loans	0%	0%	223	223	223
	Cash	22%	10%	93,702	95,763	91,641
	Net Derivative Assets	0%	0%	812	812	812
	Net Investment Balances	0%	0%	2,555	2,555	2,555
Total Change in Net Investment Assets Available				3,474,446	3,650,779	3,298,113

Manager	Currency Exposure by Asset Type	Level of Unhedged Exposure	Total Volatility	Asset Value at	Value on	Value on
				31 March 20	Increase	Decrease
				£000	£000	£000
AB	Broad Bonds	0%	0%	391,518	391,518	391,518
BlackRock	DAA	5%	10%	349,557	351,305	347,809
CBRE	Global Property	15%	10%	219,449	222,741	216,157
Mondrian	Emerging Market Equity	100%	15%	181,549	208,781	154,317
RLAM	UK Index Linked Gilts	0%	0%	586,424	586,424	586,424
BCPP	Unquoted UK Equities	0%	0%	833	833	833
BCPP	Global Equity	86%	10%	976,643	1,060,634	892,652
BCPP	Private Equity	100%	10%	2,907	3,198	2,616
BCPP	Infrastructure	100%	10%	3,696	4,066	3,326
	Loans	0%	0%	252	252	252
	Cash	21%	10%	85,436	87,230	83,642
	Net Derivative Assets	0%	0%	-480	-480	-480
	Net Investment Balances	0%	0%	-13,649	-13,649	-13,649
Total Change in Net Investment Assets Available				2,784,135	2,902,853	2,665,417

ii. Credit Risk

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

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

The Fund has sole responsibility for the initial and ongoing appointment of custodians. Uninvested cash held with the Custodian is a direct exposure to the balance sheet of the Custodian. Arrangements for investments held by the Custodian vary from market to market but the assets of the Fund are held in a segregated client account, and the risk is mitigated by the Custodian's high "tier one" capital ratio, conservative balance sheet management and a high and stable credit rating. As at 31 March 2021, this level of exposure to the Custodian is 1.5% of the total value of the portfolio (1.9% as at 31 March 2020).

Surplus cash is invested by Durham County Council only with financial institutions which meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors' Credit Ratings Services. The council's Investment Strategy sets out the maximum amounts and time limits in respect of deposits placed with each financial institution; deposits are not made unless they meet the minimum requirements of the investment criteria.

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

The cash holding under its treasury management arrangements was £43.377m as at 31 March 2021 (£32.720m as at 31 March 2020). This was held with the following institutions:

	Rating as at 31 March 2021	Balances as at 31 March 2021 £000	Rating as at 31 March 2020	Balances as at 31 March 2020 £000
Bank Deposit Accounts				
Handelsbanken	F1+	6,809	F1+	3,025
Bank of Scotland	F1	1,362		-
Fixed Term Deposits				
Bank of Scotland	F1	-	F1	4,929
Yorkshire Building Society	F1	3,406		-
Close Brothers	F2	3,406	F1	2,464
Nationwide Building Society	F1	4,769		-
Goldman Sachs	F1	4,769	F1	-
Santander UK Plc	F1	4,769	F1	4,929
Landesbank Hessen-Thuringen				
Girozentrale (Helaba)	F1+	-		1,232
Standard Chartered	F1	3,542		-
UK Local Authorities	N/A	10,219	N/A	13,862
Unrated Building Societies	N/A			2,156
Income Bond				
National Savings & Investments	N/A	-	N/A	123
Total		43,051		32,720

iii. Liquidity Risk

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

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

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

Regulation 5 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, gives Durham County Council a limited power to borrow on behalf of the Fund for up to 90 days. The council has ready access to borrowings from the money markets to cover any day to day cash flow need. This facility is only used to meet timing differences on pension payments and as they are of a short-term nature, exposure to credit risk is considered negligible. As disclosed in Note 19, The Fund expects all liabilities to be paid within 12 months of the year end.

18. Analysis of Debtors

2019-20 £000		2020-21 £000
	Included in the Net Assets Statement as:	
11,349	Other Investment Assets	3,862
9,537	Current Assets	11,153
20,886		15,015

All of the £15.015m is due to be received within 12 months after the year end.

19. Analysis of Creditors

2019-20 £000		2020-21 £000
	Included in the Net Assets Statement as:	
-24,998	Investment Liabilities - Other balances	-1,307
-7,425	Current Liabilities	-5,053
-32,423		-6,360

All of the £6.360m is expected to be paid by the Fund within 12 months after the year end.

20. Additional Voluntary Contributions (AVCs)

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

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

The following table refers only to the money purchase AVCs:

	Value at 31 March 2020 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2021 £000
Utmost (formally Equitable Life)	1,440	10	184	169	1,435
Prudential	7,744		TO BE CONFIRMED		
Standard Life	1,601	149	272	278	1,756
Total	10,785	159	456	447	3,191

* Purchases represent the amounts paid to AVC providers in 2020/21

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with

Regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

21. Related Party Transactions

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

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

Related parties of the Fund fall into three categories:

- Employer related
- Member related
- Key management personnel

a) Employer Related

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

Transaction	Description of the Financial Effect	Amount	
		2019/20	2020/21
Contributions Receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£106.029m	£147.634m
Debtors	Amounts due in respect of employers and employee contributions	£8.437m	£9.279m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.830m	£1.535m
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	£1.830m	£1.535m
Investment Income	Part of the Pension Fund's cash holding is invested in money markets by Durham County Council. The average surplus cash balance during the year and interest earned were:	Balance = £38.895m Interest = £0.319m	Balance = £43.059m Interest = £0.061m

b) Member Related

Member related parties include:

- Members and their close families or households;

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

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

As at 31 March 2021 there were 5 Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; 1 further member was a deferred member of the Fund.

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

c) Key Management Personnel

Related parties in this category include:

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

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

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

2019-20		2020-21
£000		£000
103	Short-term benefits	107
15	Post-employment benefits	24
<u>118</u>		<u>131</u>

22. 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, and therefore it is not possible to estimate the value of any future contributions. However, the level of contributions likely to be received by the Fund are unlikely to have a material effect on the Fund Accounts.

b) Foreign Income Dividends (FIDs)

The 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, therefore it is not possible to estimate the value of any reclaims.

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 percent 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.

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

23. Funding Arrangements

In line with Regulation 62 of the Local Government Pension Scheme Regulations 2013 the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 2019.

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 2019 actuarial valuation the Fund was assessed as being 94% funded (81% at 31 March 2016). This corresponded to a deficit of £195.5m (£529.3m at 31 March 2016).

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 aggregate employer future service contribution rate (the primary contribution rate, a weighted average of all employers' primary rates) is 17.9% of pensionable pay.

The aggregate employer total contribution rate (primary plus secondary) required to restore the funding ratio to 100%, using a recovery period of 18 years from 1 April 2020, is 21.8% of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

Across the Fund as a whole, the contributions required to remove the shortfall using a recovery period of 18 years from 1 April 2020 would be £12.5m per annum, increasing at 3.1% per annum. This is equivalent to approximately 3.0% per annum of pensionable pay (assuming the membership remains broadly stable and pay increases are in line with assumptions).

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

	Valuation as at 31 March 2019	Valuation as at 31 March 2016
Financial Assumptions		
Discount rate for periods in service	4.25% pa	4.5% pa
Discount rate for periods after leaving service	4.25% pa	4.5% pa
Rate of revaluation of pension accounts	2.1% pa	2.0% pa
Rate of pension increases on:		
- non Guaranteed Minimum Pensions	2.1% pa	2.0% pa
- post 1988 Guaranteed Minimum Pensions	1.9% pa	1.8% pa
Pensionable pay increase	3.1% pa	3.5% pa
Demographic Assumptions		
Post-retirement mortality assumption (normal health) - base table	Standard SAPS S2N tables with scaling factors for actives and deferreds of 110% (males) and 105% (females) and 100% for pensioners	Standard SAPS S2P tables with scaling factors of 95% for men and 100% for women
Post-retirement mortality assumption - future improvements	CMI 2018 projections with Sk=7.5, A=0.0 long annual improvement rate of 1.5%	CMI 2014 core projections with long annual improvement rate of 1.5%
Retirement cash sum	Each member is assumed to surrender pension on retirement, such that total cash received is 85% of the maximum amount permitted	Each member is assumed to surrender pension on retirement, so total cash received is 80% of the maximum amount permitted

24. 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 23 to these accounts).

The Fund Accounts do not take account of the liabilities to pay pensions and other benefits in the future. Instead, as permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of this note to the accounts.

This requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at triennial valuations only, the most recent being as at 31 March 2019.

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 2016 are provided for comparison purposes.

	Value as at 31 March 2019 £m	Value as at 31 March 2016 £m
Fair value of net assets	2,982	2,321
Actuarial present value of the promised retirement benefits	4,512	3,365
Surplus / -deficit in the Fund as measured for IAS26 purposes	-1,530	-1,044

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

	31 March 2019 (% p.a.)	31 March 2016 (% p.a.)
Discount rate	2.4	3.4
CPI Inflation *	2.2	1.8
Rate of increase to pensions in payment	2.2	1.8
Rate of increase to deferred pensions *	2.2	1.8
Rate of general increase in salaries **	3.2	3.3

* In excess of Guaranteed Minimum Pension increases in payment for members whose State Pension Age is on or before 5 April 2016 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

25. Funding Strategy Statement

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

The purpose of the Funding Strategy Statement is to:

- establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- supports the regulatory requirement of the desirability of maintaining as nearly constant a primary rate of employer contribution rates as possible;

- enables overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks and ensuring that the regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating and admitted bodies;
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met; and
- takes a prudent longer-term view of funding the Fund's liabilities.

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

Investment Strategy Statement

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