Pension Fund

Annual Report and Accounts

For the year ended 31 March 2021

The Durham County Council Pension Fund is registered with the Pension Schemes Registry No. 10079166

Durham County Council Pension Fund Page

INTRODUCTION

Welcome to the Annual Report and Accounts of the Durham County Council Pension Fund for the financial year ended 31 March 2021.

These are the key issues:

- Contributing members increased by 439 (2.10%) to 21,340

- Market value of the Fund's assets increased by 24.92% from £2.786 billion to £3.481 billion;

The report provides further information on these issues and on the activities and management of the Pension Fund during the year.

I hope this report provides useful information about your Pension Fund. However, it is important that we try to improve the quality and suitability of information provided within the report and feedback is welcomed.

For further information on Durham County Council Pension Fund or for providing me with your views on this report, contact details are provided at the end of the report.

Paul Darby C.P.F.A.

Corporate Director of Resources (Interim)

30 September 2021

THE LOCAL GOVERNMENT PENSION SCHEME

Durham County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) administered by Durham County Council. It is a statutory scheme governed by regulations made under the Public Service Pensions Act 2013.

The Fund is currently administered in accordance with the following secondary legislation:

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

HOW THE SCHEME PRESENTLY WORKS

The LGPS is required to be funded. Scheme funds, currently surplus to immediate pension benefit requirements, are invested in approved securities. The Fund must be sufficient to sustain future pension entitlements of past and present members. The Fund is financed by members and employers' contributions and earnings from investments.

Until 31 March 2014 the LGPS was classified as a final salary scheme whereby the annual pension and any retirement grant were paid based on the period of membership and (usually) the final twelve months pay. Benefits built up in the LGPS up to and including 31 March 2014 will continue to be calculated on a final salary basis.

With effect from 1 April 2014 the LGPS changed from a final salary scheme to a career average scheme. All benefits built up in the LGPS after 31 March 2014 will be calculated under the rules of the new career average scheme.

An independent actuarial valuation of the Fund is carried out every three years to review the assets and liabilities of the Fund and to determine the rate of contributions which the employers must make to the Fund. The most recent valuation applicable to the period covered by the report was undertaken as at 31 March 2019 and a report of the actuary is provided on page 30. The next review will take place during 2022/23 for the valuation as at 31 March 2022.

From 1 April 2014 contributors to the scheme are required to pay between 5.5% and 12.5% of their pensionable salary to the Fund. The rate they pay depends on which of the nine different salary bands their pay falls into. Employee contributions qualify for income tax relief. Members may have additional voluntary contributions (AVCs) deducted from pay and paid into a personal fund. AVCs can be invested with any of the following companies: Standard Life, Prudential and Utmost Life and Pensions (closed to new investors).

Contributors to the scheme can also choose to pay additional pension contributions (APCs) over a number of years or by a one-off payment to buy additional pension on retirement.

Members who leave the scheme may transfer their accrued benefits to other approved schemes. Members who leave with less than two years membership may choose to receive a refund of their contributions (less income tax) provided they have no other LGPS benefits and, in most circumstances, have not transferred in other pension benefits. New members may transfer benefits accrued with other schemes into the Fund (usually within a deadline of twelve months).

The scheme includes a 50/50 option which allows a member to contribute half of their normal contribution rate into the scheme in return for half of their normal pension. Under this option full life assurance and ill health cover is retained.

PENSION BENEFITS

Scheme members accrue annual pension during each year of membership at a rate of $1/49^{th}$ of the amount of pensionable pay received in that year (or half that rate under the 50/50 option). This annual pension amount is added to a member's pension account and revalued at the end of each year, in line with inflation.

For membership before 2014 pension is determined at a rate of $1/60^{th}$ of final pay for each year of membership between 1 April 2008 and 31 March 2014, and $1/80^{th}$ of final pay for each year of membership before 1 April 2008. Final pay is usually the pensionable pay earned in the year prior to leaving the scheme, however, one of the two previous years' pay can be used, if higher.

Retirement grants are based on $3/80^{th}$ of final pay for each year of membership before 1 April 2008. Although an automatic lump sum is not a feature of the retirement benefits after that date, retirees have the option to take a lump sum from the scheme up to certain limits, getting £12 of tax free lump sum for every £1 of annual (taxable) pension given up.

Where a member dies in service, a lump sum in the form of a death grant would be paid equal to three years' pensionable pay, provided that the member is under age 75 at the date of death.

Survivor's pensions are payable on the death of a scheme member to the scheme member's spouse, registered civil partner, or subject to certain qualifying conditions an eligible co-habiting partner, at an accrual rate of $1/160^{th}$. The survivor pension for an eligible co-habiting partner only takes account of the member's pensionable service after 5 April 1988. Children's pensions are also payable to eligible children of deceased scheme members.

In the main, benefits can be paid upon leaving to a member with at least 2 years qualifying membership in the following circumstances:

- on reaching State Pension Age, without any early retirement reductions applied;

- between the age of 55 and State Pension Age, however early retirement reductions will normally apply where someone draws their pension benefits before State Pension Age. The amount of reduction that applies depends on the individual's age, sex, length of pensionable service and the date they joined the scheme;

- at any age, if the member retires on the grounds of permanent ill-health. Three different levels of ill-health benefit are payable, depending on how soon it is judged that an individual will be able to obtain gainful employment again in future. In the case of death in service, dependants' benefits are paid even if the membership is less than 3 months.

- at the age of 55 and, if the member retires by reason of redundancy or business efficiency. Government is currently analysing consultation feedback on the basis of this provision.

If a member leaves with at least 2 years membership and is not entitled to immediate payment of benefits, and does not choose to transfer out their accrued benefits, deferred benefits are awarded. Deferred benefits are benefits which remain in the Fund and are paid when the member reaches retirement age. Such benefits are subject to inflationary increases between the date of leaving and the date of payment.

PENSION INCREASES

Mandatory increases in pensions and deferred benefits are made in accordance with annual statutory Pension Increase (Review) Orders to help protect pensions against inflation. The pension increase is currently linked to the Consumer Price Index (CPI).

The following table shows the pension increases over the last 5 years:

Effective Date	***% Increase***
10 April 2017	1.0
09 April 2018	3.0
08 April 2019	2.4
06 April 2020	1.7
12 April 2021	0.5

Pensioners must be over the age of fifty five or have retired due to permanent ill-health to receive the increase. Those in receipt of a widow’s, widower’s or dependant’s benefit receive the increase regardless of age.

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

PENSION FUND COMMITTEE MEMBERS, MANAGERS AND ADVISERS

The Constitution of Durham County Council, as administering authority to the Fund, has delegated to the Pension Fund Committee powers and duties arising from the Public Service Pensions Act 2013 and Regulations made thereunder, regarding the administration and investment of funds.

In order to effectively carry out their role, the Committee obtains professional advice, as and when required, from suitably qualified persons, including external advisers, investment managers and officers of the Council. The members of the Pension Fund Committee and contact details of managers and advisers as at 31 March 2021 were as follows:

PENSION FUND COMMITTEE:	Durham County Council Members:	Councillor Mark Davinson (Chair) Councillor Owen Temple (Vice Chair) Councillor Jim Atkinson Councillor Colin Carr Councillor Joanne Carr Councillor Stephen Hugill Councillor John Lethbridge Councillor Bill Kellett Councillor John Shuttleworth Councillor Marion Wilson
	Darlington Borough Council Members:	Councillor Charles Johnson JP, FQI Councillor Scott Durham
	Scheduled Body Representative:	(Vacancy)
	Admission Body Representative:	(Vacancy)
	Pensioner Representatives:	A Delandre J Taylor
	Active Member Representative:	(Vacancy)
	Further Education Colleges Representative:	A Broadbent
STAFF OBSERVERS:	UNISON GMB	N Hancock L Timbey
PENSION BOARD MEMBERS:	Scheme Member Representatives:	Mr N Hancock Mr L Oliver Mr I Densham (Chair until 3rd December 2020)

	Scheme Employer Representatives:	Councillor Amanda Hopgood (Chair from 4th December 2020) Councillor Fraser Tinsley (Vacancy)
ADMINISTERING AUTHORITY MEMBERS:	J Hewitt	Chief Executive (Interim)
	H Lynch	Head of Legal and Democratic Services
	P Darby	Corporate Director of Resources (Interim)
GLOBAL CUSTODIAN:	Northern Trust	50 Bank Street, Canary Wharf, London, E14 5NT
ACTUARY:	Aon Hewitt	40 Queen Square, Bristol, BS1 4QP
INVESTMENT MANAGERS:	AB Ltd	50 Berkeley Street, London, W1J 8HA
	Border to Coast Pensions Partnership	5th Floor, Toronto Square, Toronto Street, Leeds, LS1 2HJ
	Blackrock Investment Management (UK) Ltd	12 Throgmorton Avenue, London, EC2N 2DL
	CB Richard Ellis Collective Investors Ltd	3rd Floor, One New Change, London EC4M 9AF
	Mondrian	10 Gresham Street, London, EC2V 7JD
	Royal London Asset Management Ltd	55 Gracechurch Street, London, EC3V 0UF
INVESTMENT ADVISORS:	Mercer Ltd	1 Tower Place West, Tower Place, London, EC3R 5BU
	MJ Hudson Investment Advisors Ltd – A Fletcher	8 Old Jewry, London, EC2R 8DN
AVC PROVIDERS:	Utmost Life and Pensions	PO Box 177, Walton Street, Aylesbury, Bucks. HP21 7YH
	Prudential	Local Government AVC Department, Stirling, FK9 4UE

	Standard Life	Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH
AUDITOR:	Mazars LLP	Tower Bridge House, St Katherines Way, London, E1W 1DD
BANKER:	Lloyds Bank Plc	PO Box 1000, Andover, BX1 1LT

RISK MANAGEMENT

The Investment Strategy Statement (ISS), a copy of which is included as Appendix 2, sets out the roles of the Fund's investment managers and custodian, who have a responsibility for the management and safekeeping of the Pension Fund's assets. The Funding Strategy Statement (FSS), at Appendix 1, identifies the Fund's key risks and counter measures taken by the administering authority to mitigate those risks. The administering authority takes professional advice from the actuary, custodian and advisers before taking appropriate action.

The Fund's primary long-term risk is that the Fund's assets fall short of its liabilities (i.e. promised benefits payable to members). The Fund's assets are diversified to reduce exposure to market (price, currency and interest rate) risk and credit risk. The assets are divided between seven investment managers to further control risk. Asset allocation benchmarks have been set and performance is monitored relative to these benchmarks to ensure compliance with the Fund's investment strategy.

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The administering authority manages the Fund's liquidity position through a comprehensive cashflow management system to ensure cash is available when needed.

Note 17 of the Pension Fund's Accounts provides more detail on the nature and extent of risks arising from financial instruments and how the administering authority manages those risks.

The Pensions Administration team manages the risk of late payment of contributions by monitoring contribution payments, identifying cases of late payment and contacting employing bodies as appropriate.

Responsibility for the Fund's risk management rests with the Pension Fund Committee. The objective of the risk management strategy is to identify, manage and control the risks faced by the Fund whilst achieving a good return on investment. Risk is measured, in part, by the administering authority's risk management team as part of its assessment of the County Council's risks, and is reviewed as part of the independent governance review undertaken by the Pension Fund.

Performance of investment managers is reported monthly; reviews are carried out by officers on a monthly basis and by the Pension Fund Committee quarterly. A detailed summary of all internal audit reports and all external audit reports are reviewed by the Pension Fund Committee.

The investment managers and custodian are audited by companies outside of the administering authority's control. Their auditors produce Reporting Accountants Reports, which are made available and utilised to provide some level of assurance to the Pension Fund that the managers and custodian have effective internal controls in operation within their organisations.

KEY FINANCIAL INFORMATION

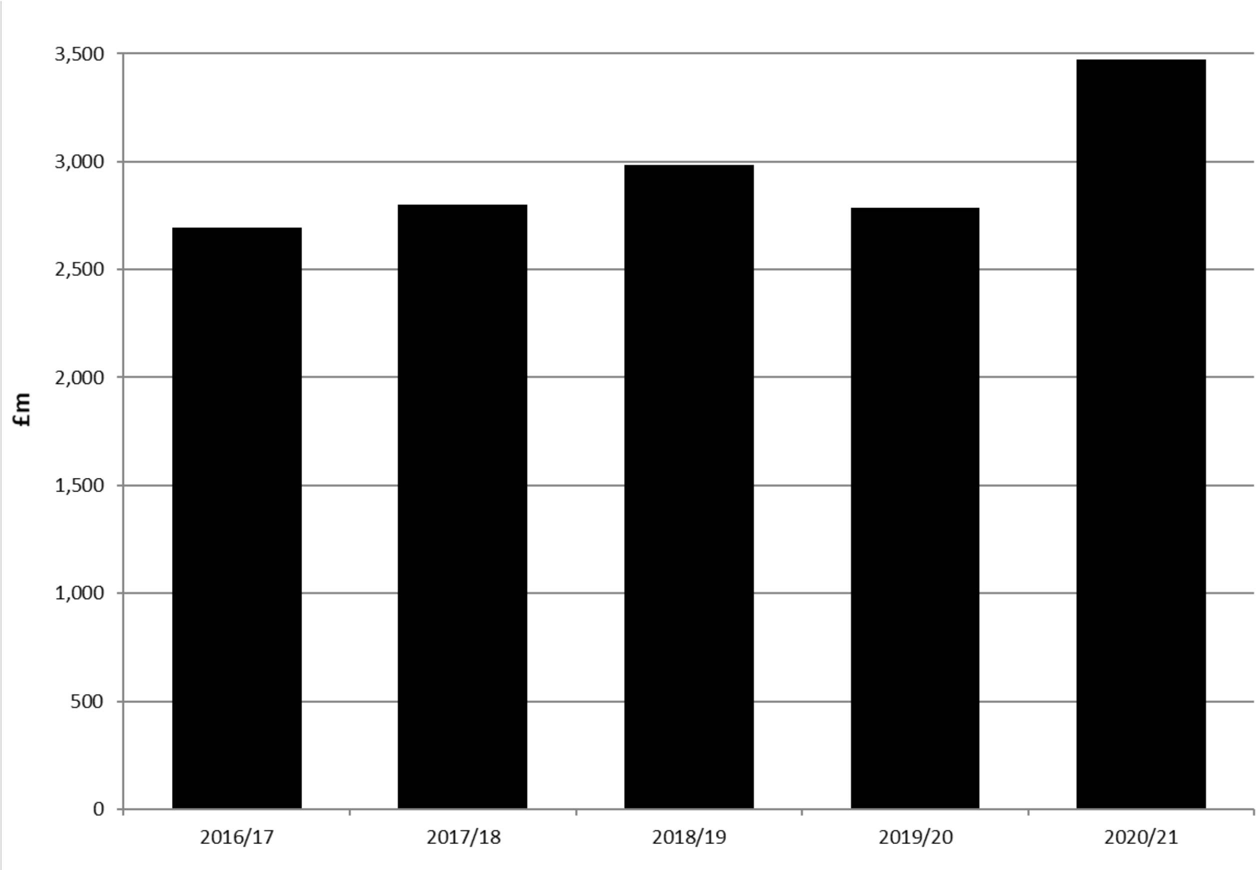
The following table and bar chart provide an overview of the Fund's financial position as at 31 March for the last five years. The key financial information over this time period is summarised below:

- Over this period the market value of the net assets has increased by 24.92% to £3,480.546 million;
- Income from contributions has been gradually increasing in line with a steady increase in the number of contributing members. Contributions received in 2017/18 were significantly higher in comparison to other years due to the premature payment of deficit contributions by two employers. As a consequence of the early receipt of the deficit payment, contributions into the Pension Fund in 2019/20, 2018/19 appear lower than would have been the case if regular contributions had been received. Contributions received in 2020/21 were higher in comparison to other years due to the early payment of deficit contributions by one employer;
- Pension benefit payments have been rising over the 4 year period in line with the increasing number of pensioners in payment;
- The increase in the value of investments of £668.983 million was the main contributor to the increase in the fund value in 2020/21, and was mainly due to favourable market conditions.

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Income					
Contributions	106,715	156,395	99,068	106,029	147,634
Investment and Other Income	31,096	34,549	30,549	39,438	24,796
Total Income	137,811	190,944	129,617	145,467	172,430
Expenditure					
Benefits	114,152	117,788	126,503	126,817	129,937
Other Expenses	21,423	28,403	22,082	28,145	17,177
Net Income	2,236	44,753	-18,968	-9,495	25,316
Increase / -Decrease in Value of Investments	369,002	64,531	199,268	-186,297	668,983
Increase / -Decrease in Fund During the Year	**371,238**	**109,284**	**180,300**	**-195,792**	**694,299**
Net Assets at 31 March	**2,692,455**	**2,801,739**	**2,982,039**	**2,786,247**	**3,480,546**

NET ASSETS OF THE FUND

The following graph shows how the net assets of the Fund have changed over the last five years:



MEMBERSHIP

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 fire-fighters, for whom separate arrangements exist. A number of other bodies also participate in the Scheme. These include Parish and Town Councils, Further Education Colleges, Academy Schools, Police and Fire Authorities (non-uniformed staff only) and Admission Bodies. Admission Bodies are those which are able to apply for membership of the Scheme under the Regulations, or in some circumstances have an automatic right to participate in the Scheme provided they meet certain criteria under the Regulations. If the Pension Fund Committee agrees to the application, or the organisation meets the criteria giving them the automatic right to participate in the Scheme, an Admission Agreement is drawn up admitting the body into the Scheme.

Appendix 4 provides a list of all organisations currently contributing to the Fund. It includes their contribution rates as set by the actuary, expressed as a percentage of employees' pensionable pay, and additional annual payments for those participating bodies which would otherwise have a shortfall in contributions by the end of the recovery period.

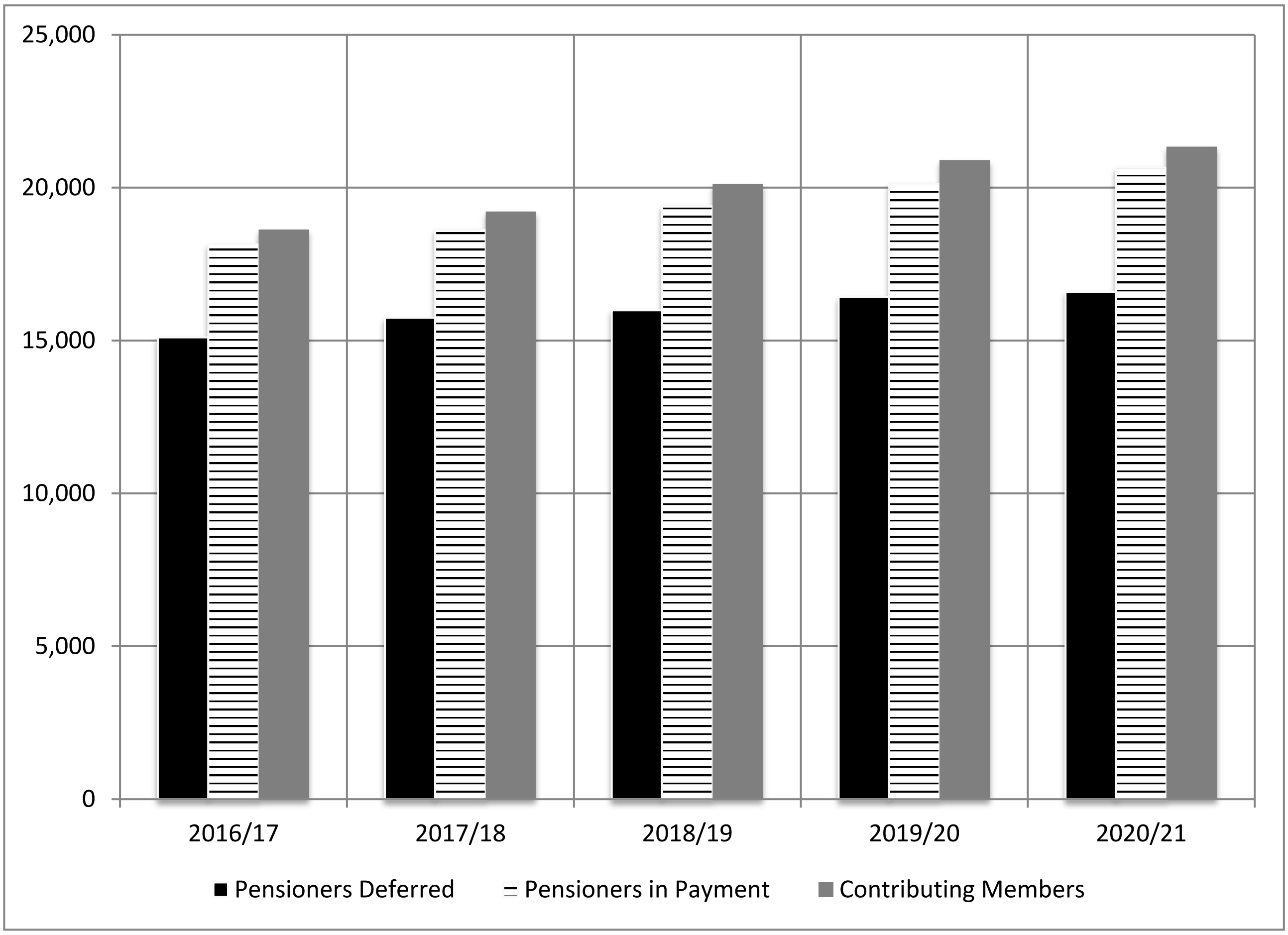
During 2020/21 the number of contributing members within the Pension Fund increased by 2.10% from 20,901 to 21,340.

The number of pensioners in receipt of payments from the Fund increased by 3.63% from 19,404 to 20,109.

The following table and bar chart provide 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

The following graph shows the number of contributing members, pensioners in payments and deferred pensioners over the last five years:



Appendix 5 provides a detailed analysis of the numbers of pensionable employees and pensioners of the scheme at 31 March 2020 and 31 March 2021.

INVESTMENT POLICY AND PERFORMANCE REPORT

INVESTMENT POWERS AND DUTIES

Durham County Council, as administering authority, has delegated responsibility for the investment arrangements of the Fund to the Pension Fund Committee who decide on the investment policy most suited to the meet the liabilities of the Fund. The principal powers to invest are contained within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which permit a wide range of investments in the UK and overseas markets.

Income to the Fund is primarily from the contributions of the Fund members and their employers and from the interest and dividends received from investments. Income to the Fund, which is not required to pay pension and other benefits, must be invested having regard to the need for a suitably diversified portfolio of investments and the advice of appropriately qualified advisers.

FUNDING STRATEGY STATEMENT

The Local Government Pension Regulations 2013 provide the statutory framework from which administering authorities are required to prepare a Funding Strategy Statement. A copy of the Funding Strategy Statement, which was revised during 2020/21 and is line with the Fund's Investment Strategy Statement, is included at Appendix 1.

The purpose of the Funding Strategy Statement is to establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward and to provide a means of supporting the requirement to maintain employer contribution rates at a level which is as constant as possible. The Statement raises the level of transparency and accountability, and provides a helpful context for adopting higher levels of communication with scheme employers.

INVESTMENT STRATEGY STATEMENT

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities, after taking proper advice, to formulate and publish a statement of its investment strategy, namely the Investment Strategy Statement. This document was revised in 2020/21 and is included as Appendix 2.

ASSET ALLOCATION

The medium and long-term strategic target asset allocations have been determined in line with the Fund's Investment Strategy Statement and following the advice of the Fund's investment adviser. The target asset allocations and actual asset allocations at 31 March 2021, split between investment managers, are detailed in the table below.

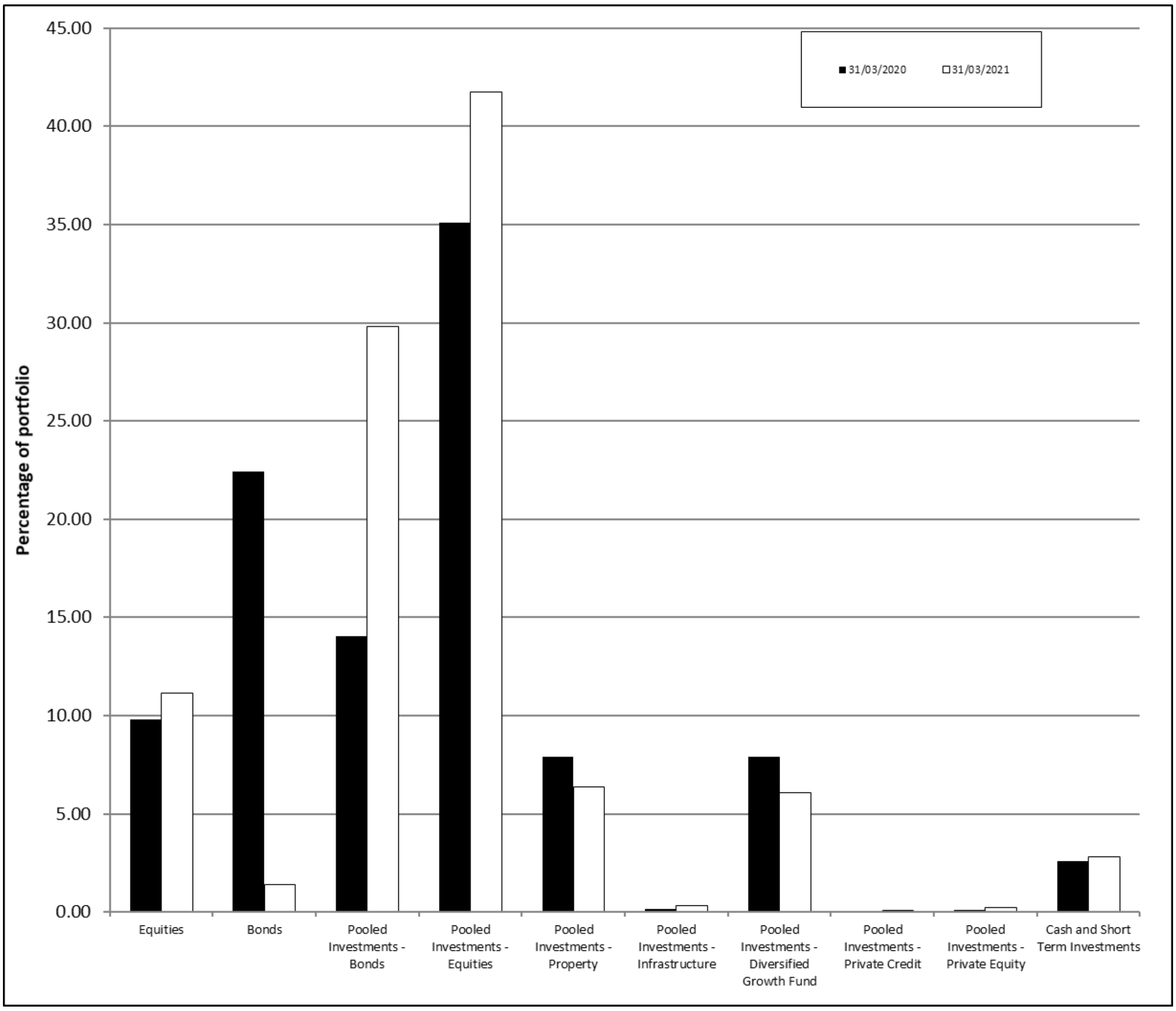
Investment Manager	Asset Class	Investment Style	2020/21 Target %	2020/21 Actual %
AB	Global Bonds	Active	15.00	16.83
BlackRock	Dynamic Asset Allocation - all major asset classes	Active	0.00	12.22
CBRE	Global Property	Active	13.00	7.00
Mondrian	Emerging Market Equities	Active	7.00	7.57
BCPP	Global Equities	Active	40.00	42.31
BCPP	Sterling Indexed Linked Bonds	Active	15.00	13.38
BCPP	Private Markets	Active	10.00	0.69
Totals			**100.00**	**100.00**

Although the strategic asset allocation was reviewed during 2020/21, some funds have yet to be transferred into BCPP as we await the launch of an appropriate pooled fund. Due to the requirement for the Fund to pool its assets, asset reallocation has temporarily been suspended and consequently actual allocations vary from the strategic allocations.

More information on the requirement for all LGPS funds to pool their assets and in particular BCPP, the pool in which Durham County Council Pension Fund will be investing, can be found on pages 24 to 26.

DISTRIBUTION OF INVESTMENTS

The following graph shows the distribution of Fund investments (by market value) as at 31 March 2020 and 31 March 2021. Further details of the distribution are shown in Note 15 to the Pension Fund Accounts.



INVESTMENT MONITORING AND PERFORMANCE STATISTICS

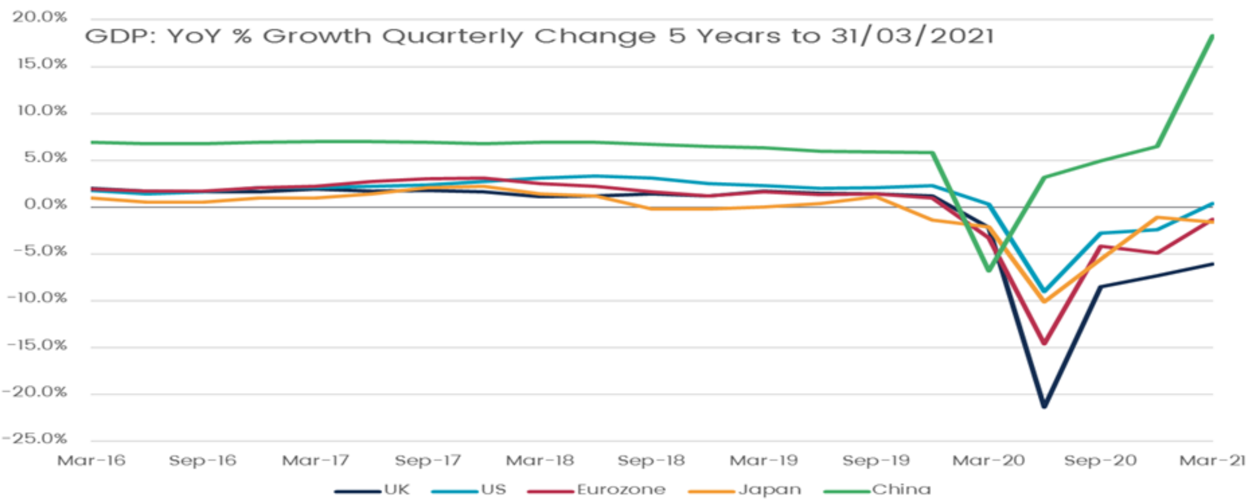
The performance of the investment managers is monitored and reported to the Pension Fund Committee on a quarterly basis, with an annual meeting to consider the full year's performance. At the quarterly meetings of the committee, the investments are reviewed and advice is given by independent advisers. The investment managers submit reports to the meetings giving detailed information on transactions, views on the economy and investment strategy, including any proposed changes in asset allocation and a valuation of the investments and cash under management as at the end of the quarter.

Performance measurement is undertaken by Northern Trust, the Pension Fund's Global Custodian. Performance reports are produced on a quarterly basis, and the results are considered by the Fund's independent investment advisers and reported to the Pension Fund Committee.

MARKET CONDITIONS

The past financial year has been dominated by the coronavirus pandemic and its impacts throughout the world. Once the pandemic was officially confirmed in March 2020, most Governments introduced domestic lockdowns and international travel bans in an attempt to contain the rate of infection. Having switched off major parts of the economy, governments introduced support packages aimed at stabilising domestic incomes. In a co-ordinated response, Central Banks announced sharp cuts in interest rates, immediate support for the interbank system via the injection of almost unlimited liquidity and resumed their Quantitative Easing programmes on an unprecedented scale, with a much broader range of eligible assets including both investment and sub-investment grade bonds. The amount of support provided both in the form of Fiscal and Monetary Policy was far larger than provided during the Global Financial Crisis. Fifteen months later most of these policies remain in place as developed and developing economies are still dealing with the impact of the virus and its new variants.

As can be seen in the below chart, after collapse of economic activity between March and June 2020, GDP saw a sharp "V" shaped rebound as restrictions were eased over the Summer. However, following the easing of restrictions and appearance of of new more infectious variants, as the year moved into Winter 2nd and 3rd waves of infection emerged. In November, the delivery in record time of effective vaccines supported optimism about a way out of the pandemic and return to more normal activity. The differing pace of the roll-out of vaccination programmes and the varied responses of regional governments has led to a slower and more varied rates of growth in the second half of the financial year. UK growth may have also been dampened by the change in policy on the trade in goods with the European Union, which came into effect on 1st January 2021.



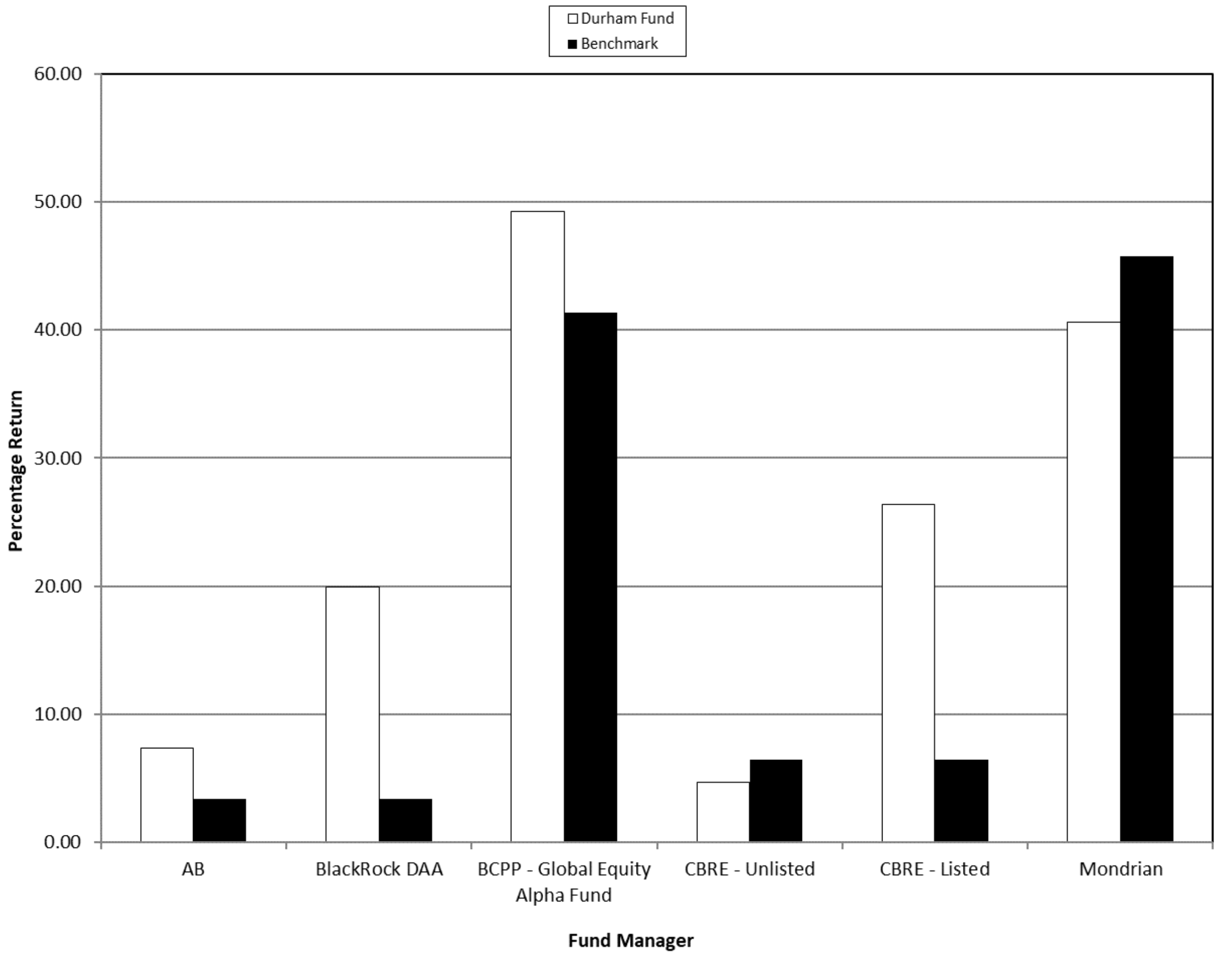
At the end of the financial year, the UK economy was 6.1% smaller than in March 2020, the USA was 0.4% larger whilst the Eurozone and Japanese economies were respectively 1.8% and 1.4% smaller. In China, however, where the pandemic started, the economy was 19.3% larger. This was mainly because China's economy is driven more by production of goods, whereas the developed economies are driven by consumption of goods and services.

Inflation has begun to pick up as economies recover. This is largely due a "base effect" from the sharply lower inflation rates of 12 months ago and the impact of negative oil prices in March 2020. While there have been some increases in inflation, this is related to supply shortages and dis-locations caused by the various lockdown and travel restrictions.

Inflation is expected to be higher in 2021 and 2022, but this is expected to be transitory rather than permanent.

TOTAL FUND PERFORMANCE

The following chart illustrates the performance of the Fund by Investment Manager in comparison to their target (benchmark + outperformance) for the 12 months to 31 March 2021.



The following table shows the actual performance of the total fund compared to the fund's benchmark and target as at 31 March 2021 for the last 1, 3 and 5 year periods.

	Performance (%) to 31 March 2021		
	1 year	**3 years**	**5 years**
Total Fund	**25.6**	**1.7**	**4.2**
Total Fund Benchmark	18.9	3.0	5.6
Relative to Benchmark	***6.7***	***(1.3)***	***(1.4)***
Target (benchmark + outperformance)	20.0	4.1	6.7
Relative to Target	***5.6***	***(2.4)***	***(2.5)***
Funding Target	*4.3*	*4.4*	*4.6*
Relative to Funding Target	***21.3***	***(2.7)***	***(0.4)***

The Fund's value increased by £694.299 million over the financial year. The strong recovery of the Fund was driven by the performance of equity and credit markets which bounced back sharply following the announcements by central banks and governments that they would provide unprecedented levels of support for their respective economies. All investments made a positive contribution to returns over the year.

INVESTMENT MANAGERS' PERFORMANCE

The following tables show performance for each of the Pension Fund's investment managers in turn. In all cases the manager's benchmark and performance target are shown and the benchmark figures quoted include the out-performance objective.

AB

AB manages the global bonds portfolio. It is important to note that the objective for this portfolio, and therefore its composition, is quite different from the matching bonds portfolio and this is reflected in the benchmark index.

The Fund's bonds returned 7.38% over the year, compared to the benchmark return of 3.36%. The main driver of performance was the allocation to non-government bonds as spreads narrowed over government bonds. Alliance Bernstein remain behind the LIBOR +3% benchmark over three years by 1.7% p.a.

		Performance (%)		
Currency GBP	**2020/21**	**3 years**	**5 years**	**Since inception February 2008**
AB	*7.38*	*1.98*	*2.46*	*3.37*
3 Month GBP Libor +3% pa	*3.36*	*3.68*	*3.56*	*3.99*
Relative Performance	*4.02*	*(1.70)*	*(1.11)*	*(0.62)*

BORDER TO COAST PENSION PARTNERSHIP (BCPP)

After a difficult period towards the end of the last financial year the BCPP Global Equity fund significantly outperformed the benchmark and target outperformance objective in the 2020/21 financial year. Sector performance and rotation from growth to value stocks over the period since November 2020 favoured the BCPP Global Equity Alpha fund due to its overall style tilt towards value stocks. This trend is likely to continue as developed economies re-open and as bond yields rise. BCPP were appointed in October 2019, so as yet there are no comparable 3 year returns.

Management of the Fund's Index Linked Gilts (ILGs) was transferred from RLAM to BCPP in October 2020. The BCPP Sterling Index Linked Bond Fund is managed against the over 15 year ILG index whereas the RLAM fund was managed against the over 5 year equivalent. The over 15 year index has much greater interest rate sensitivity than the over 5 year index and to mitigate this the size of the Fund's strategic allocation was reduced to 15%. BCPP slightly outperformed the market since inception. Given that RLAM had a strong track record of outperforming their benchmark, it is likely that the combined track record of this allocation remains positive over longer time periods, which are not yet available for BCPP.

		Performance (%)		
Currency GBP	**2020/21**	**3 years**	**5 years**	**Since inception October 2019**
BCPP – Global Equity Alpha Fund	*49.25*	*N/A*	*N/A*	*15.42*
MSCI AC World index +2% pa	*41.31*	*N/A*	*N/A*	*16.37*
Relative Performance	*7.94*	*N/A*	*N/A*	*(0.96)*
BCPP – Sterling Indexed Linked Bonds	*N/A*	*N/A*	*N/A*	*(4.00)*
FTSE Index Linked 15+ Yrs +0.02%	*N/A*	*N/A*	*N/A*	*(4.34)*
Relative Performance	*N/A*	*N/A*	*N/A*	*0.34*

BLACKROCK

BlackRock manages the Dynamic Asset Allocation (DAA) portfolio. This is a very broad mandate, giving the manager freedom to seek value across asset categories, currencies and commodities.

Over 12 months BlackRock delivered 19.95% compared to 3.36% for the benchmark. The performance of the fund in the last year has gone a long way to mitigating the poor performance of this fund since inception. Over the 3 years to the end of March 2021, the fund has delivered 6.46% p.a. compared to the benchmark of 3.68% p.a. Whilst performing favourably against its benchmark comparator, BlackRock with its greater opportunity set and dynamic asset allocation could arguably have been expected to deliver stronger returns.

		Performance (%)		
Currency GBP	**2020/21**	**3 years**	**5 years**	**Since inception January 2015**
BlackRock	*19.95*	*6.46*	*5.77*	*4.42*
3 month GBP Libor +3% pa	*3.36*	*3.68*	*3.56*	*3.75*
Relative Performance	*16.59*	*2.78*	*2.21*	*0.68*

CB RICHARD ELLIS INVESTORS (CBRE)

CBRE manages the global real estate portfolio. The mandate is subdivided into listed and unlisted holdings.

The performance of property is better measured over longer timeframes than annually because of the illiquid nature of the asset class. Over the three years the total property allocation is behind benchmark but has delivered 6.75% p.a. and over 5 years the absolute performance is 5.8% p.a.

		Performance (%)		
Currency GBP	**2020/21**	**3 years**	**5 years**	**Since inception in February 2008**
CBRE – Unlisted	*4.70*	*5.65*	*5.96*	*4.42*
Headline RPI +5% pa	*6.47*	*7.26*	*7.71*	*7.75*
Relative Performance	*(1.76)*	*(1.60)*	*(1.75)*	*(3.50)*
CBRE - Listed	*26.36*	*7.84*	*5.64*	*5.82*
Headline RPI +5% pa	*6.47*	*7.26*	*7.71*	*7.75*
Relative Performance	*19.90*	*0.58*	*(2.07)*	*(1.92)*

MONDRIAN

Mondrian manages the emerging market equity portfolio. Over the year market returns were in aggregate better than global equity returns. The same broad drivers of sector rotation from growth stocks towards value could be seen in the second half of the financial year. Over the financial year emerging equity returns were stronger than global equity but Mondrian were behind their benchmark. Over 3 years the fund delivered 8.26% p.a. compared to the benchmark of 10.01% p.a.

		Performance (%)		
Currency GBP	**2020/21**	**3 years**	**5 years**	**Since inception in November 2014**
Mondrian	*40.63*	*8.26*	*11.20*	*7.00*
MSCI EM +2.5%	*45.73*	*10.01*	*16.13*	*12.06*
Relative Performance	*(5.11)*	*(1.74)*	*(4.93)*	*(5.06)*

LGPS ASSET POOLING

On 1 November 2016 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force. These regulations and the associated statutory guidance require all of the Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools.

Under the regulations each LGPS administering authority must formulate and publish, having taken proper advice, an investment strategy (as provided in Appendix 2). That investment strategy must include the administering authority's approach to pooling investments including the use of collective investment vehicles, and must be in accordance with guidance issued by the Secretary of State.

The Guidance states that each LGPS administering authority must commit to a suitable pool to achieve benefits of scale and must confirm their chosen investment pool meets the Investment Reform and Criteria issued in November 2015. The Secretary of State has direction and intervention powers if he is not satisfied that an administering authority is complying with its obligations in relation to the regulations.

The Secretary of State approved the Border to Coast Pensions Partnership (‘Border to Coast’) as meeting the requirements of the Investment Reform and Criteria document by letter dated 12 December 2016. At its meeting on 22 February 2017, the County Council agreed to become a member of Border to Coast and adopt its arrangements.

BORDER TO COAST PENSION PARTNERSHIP ('BORDER TO COAST')

Border to Coast was created in 2017 as a wholly owned private limited company registered in England and Wales, authorised and regulated by the Financial Conduct Authority (FCA) as an alternative investment fund manager (AIFM). BCPP has 11 equal shareholders who are the administering bodies of the following 11 partner Funds:

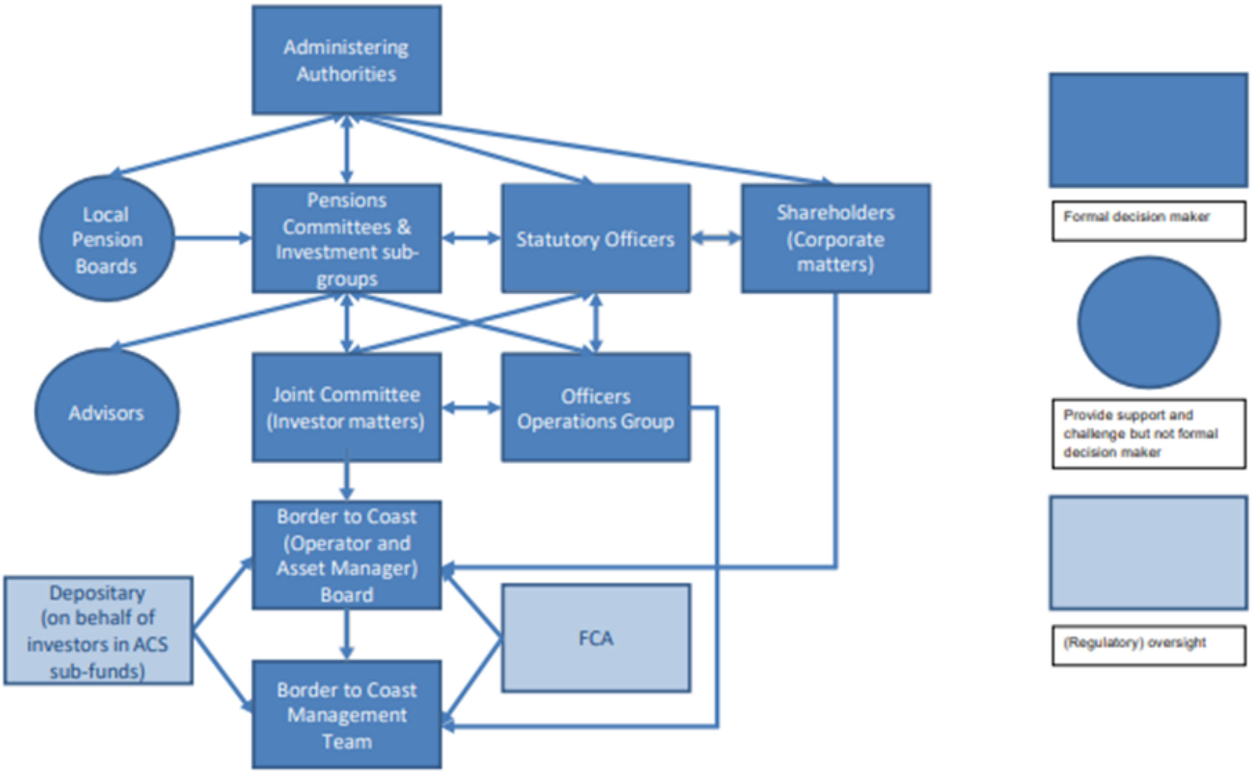
- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The partner Funds submitted their proposal to Government on 15th July 2016 and have received written confirmation from the Secretary of State to confirm that the proposal meets the criteria laid down in the guidance issued in November 2015 and set out below:

a) Asset pool(s) that achieve the benefits of scale;
b) Strong governance and decision making;
c) Reduced costs and excellent value for money; and
d) An improved capacity to invest in infrastructure.

Durham Pension Fund is represented by the Chair of the Pensions Committee or any other person nominated from time to time on the Joint Committee, Border to Coast's oversight body which will focus on investor issues of the partner funds, and in exercising voting rights at shareholder meetings.

The governance structure of Border to Coast is as follows:



Border to Coast will be responsible for managing investments in line with the investment strategy and asset allocation requirements as instructed by the Durham County Council Pension Fund and the other partner funds. While there will be some changes required from the current processes, much will remain as is, for example instead of overseeing a range of external managers, the Pension Fund Committee will oversee a range of sub-funds managed by Border to Coast. The Pension Fund Committee will therefore retain responsibility for setting the investment strategy and asset allocation of the Fund.

The key change is that responsibility for the appointment, monitoring and termination of investment managers will pass from the Pension Fund Committee to Border to Coast. It is generally accepted that over 80% of investment performance is driven by determining the investment strategy and asset allocation, rather than selecting investment managers to implement that strategy.

Border to Coast is an authorised investment fund manager, offering regulated products as an operator of an Authorised Contractual Scheme (ACS). Border to Coast is also a service provider to General Partners managing ten Scottish Limited Partnerships that provide Partner Funds access to Private Markets. During 2020/21 Border to Coast continued to build on the progress made since the company's launch and has predominantly worked remotely over the past year. Despite this, Border to Coast recruited 28 staff remotely, launched its £1.5 billion Sterling Index Linked Bonds Fund and gained FCA approval for its new Multi Asset Credit (MAC) Fund.

As at 31 March 2021 Border to Coast has £21.7 billion of assets under management within the ACS, and a further £3 billion of commitments to Private Markets. Border to Coast has now launched 10 collective investment vehicles and in 2021 was named LAPF Pool of the Year for the second year.

It is Durham Pension Fund’s intention to invest its assets via Border to Coast as and when suitable sub-Funds become available. The key criteria for the Pension Fund’s assessment of a BCPP Ltd sub-funds will be as follows:

- that the sub-Fund enables access to an appropriate investment that meets the objectives and benchmark criteria set by the Pension Fund; and
- that there is financial benefit to the Pension Fund in investing in the sub-Fund offered by BCPP Ltd.

The Fund made its first investment through Border to Coast, which meet the criteria above, in 2019. The Fund transitioned £1.2 billion Global Equity holdings into the pool and began the development of a Private Market portfolio with commitments to BCPP across Private Equity, Infrastructure and Private Credit. During 2020/21 the Fund continued to provide capital to these Private Markets commitments. Border to Coast successfully launched its Sterling Index Linked Bond Fund in October 2020, and the Fund utilised this internally managed investment capability to transition £478 million of index linked gilts into the pool.

The Fund’s remaining assets will be invested into the BCPP pool as and when suitable investment solutions become available. Any assets not invested in BCPP Ltd will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

LGPS POOLING SAVINGS

During 2020/21 Border to Coast has worked with the Partner Funds to gather data, agree assumptions, and build a savings model and process that will enable consistent reporting against this key metric going forward. This supports one of the original objectives of pooling i.e. to reduce costs and deliver value for money. Savings from future launches are not included and the level of savings should grow as we develop and include other funds, such as Real Estate, Listed Alternatives and Emerging Markets Alpha.

To provide for greater consistency across the LGPS Pools, Border to Coast has been asked to lead a project to standardise the 2021 pooling saving report for Ministry of Housing and Local Government.

	Cumulative to 2018/19	2019/20	2020/21
	£m	£m	£m
Total Set up and Operating Costs	(1.43)	(0.54)	(0.96)
Transition Costs	0.00	(1.08)	(0.04)
Total Fee Savings	0.00	0.68	2.61
Net Position	**(1.43)**	**(0.94)**	**1.61**
Cumulative Net Position	**(1.43)**	**(2.37)**	**(0.76)**

Over a six year period, 2016/17 to 2020/21, the Pool has cumulative net costs of £0.76m, however it is anticipated the pool will start to produce net savings during 2021/22.

SCHEME ADMINISTRATION REPORT

Durham County Council is the administering authority for the Durham County Council Pension Fund, and the scheme administration is the responsibility of the Corporate Director of Resources; the costs of administering the scheme are charged to the Pension Fund. A summary of all employers participating in the Fund is included in Appendix 4, and an analysis of the Fund's membership is presented in Appendix 5.

Resources staff assist the Corporate Director of Resources in his statutory duty to ensure that the Pension Scheme remains solvent and is administered effectively, adhering to the Local Government Pension Scheme Regulations in order to meet any current and future liabilities.

The Pensions Administration Team comprises 22.5 full time equivalent staff who provide a wide range of services including:

- administration of the affairs of Durham County Council Pension Scheme and also provision of services in connection with the pensions of teachers and uniformed fire officers;
- calculation of pensions and lump sums for retiring members of the LGPS and provision of early retirement estimates;
- administration of new starters in the Scheme;
- calculation of service credit calculations, outgoing transfer value calculations and divorce estimates for the Scheme;
- collection of employee and employer contributions to be invested into the LGPS;
- preparation of the monthly pensions payroll;
- staffing and running the Pensions Helpline and email inbox;
- provision of annual benefit statements and deferred benefit statements;
- development and maintenance of the Pensions Administration System, online member and employer portals, and Fund website;
- production of newsletters for active and retired members;
- calculation of deferred pensions and refunds for early leavers;
- preparation of Pensions Fund Committee reports relating to benefits related issues;
- recovery of early release costs and recharges from employers;
- undertaking the annual pension increase exercise;
- calculation of widows and dependants benefits for retired and active members;
- dealing with the administration of in-house AVCs and APCs;
- working with Pension Fund employers to assist them in understanding and managing the cost of participation in the LGPS;
- reporting data quality annually to the Pensions Regulator;
- liaison with the Actuary to provide information for the triennial valuation, annual accountancy disclosures and ad hoc costings for employers and prospective employers.

During 2020/21 the Pensions Administration Team processed retirements for 881 new pensioners. The table below breaks these down into retirement types.

Retirement Type	**Status** Active to Pensioner	**Status** Deferred to Pensioner
Ill Health	28	11
Early Reduced	301	194
Redundancy/Efficiency	54	0
Normal	2	197
Late	81	13

Major projects undertaken by the administration team during 2020/21 have included the enhancement of online services for members and delivery of services whilst working remotely. The Fund brought to a conclusion the reconciliation of Guaranteed Minimum Pensions (GMPs) with HMRC and prepared for the rectification stage. The Fund also began work with participating employers in preparation for the impact of the McCloud-Sargeant judgement.

The administration team has continued to develop significant technological enhancements during 2020/21. The Team has continued to develop its web-based communication platform for scheme employers. A number of scheme employers utilise the platform to run benefit estimates, allowing those employers to see the cost of allowing an employee to access benefits early on redundancy or business efficiency grounds. The Team has also rolled out secure information exchange for employers, replacing many paper forms. For larger employers, the availability of Monthly Data Collection (MDC) allows automated data collection each month, significantly reducing the year end burden for both the Team and participating employers.

During 2020/21 Annual Benefit Statements were made available to members for the first time through the Fund's online portal. The portal provides a range of services to members, who are able to access their own pension record online and run estimates of retirement benefits. Scheme members can view and amend Nomination details as well as the personal details held by the Fund.

A team of 3.3 full time equivalent staff in Strategic Finance provide support to the Corporate Director of Resources in his statutory role in relation to accounting and investment related activities for the Fund, including:

- preparation of the Pension Fund Accounts for inclusion in Durham County Council's Statement of Accounts;
- preparation of the Annual Report and Accounts of the Pension Fund;
- liaison with External and Internal Audit;
- day-to-day accounting for the Pension Fund;
- completion of statistical and financial returns for Government and other bodies ;
- co-ordination of the production of FRS102/ IAS19 information for employers;
- preparation of Pension Fund Committee reports relating to investments and accounting issues;
- co-ordination of reports for quarterly Pension Fund Committee meetings and the Pension Fund's Annual Meeting;
- liaison with Investment Managers, Advisers and Actuary;

- appointment of Investment Managers, Advisers and Actuary;
- monitoring and review of Investment Managers, Advisers and Actuary;
- preparation of the Investment Strategy Statement and Funding Strategy Statement;
- allocation of cash to Investment Managers;
- rebalancing of Investment Managers' portfolios to their target asset allocations;
- investment of the Fund's surplus cash balances;
- reconciliation of all Managers' purchases, sales and dividends received.

Internal Dispute Resolution Procedure

The Pensions Advisory Service offers a free service to all members of the Fund who have problems with their pensions. There are set procedures in the Local Government Pension Scheme Regulations for dealing with disputes about the pension scheme, namely the Internal Dispute Resolution Procedure. Under this procedure initial queries should be referred to the employing body or the administering authority's Pension Administration Team, who should be able to explain the reasons behind any decision made.

Following this, if a complainant has a dispute, the first stage of appeal is to refer it to the adjudicator (currently an independent Pensions Officer from another Local Authority Pension Fund). If still not satisfied after that, the complaint must be referred to the administering authority in writing as a second stage appeal. A further referral is available to The Pensions Advisory Service (TPAS) and then the Pensions Ombudsman.

The following table summarises the number of disputes made through the Fund's internal dispute resolution procedure at each stage of appeal.

	2018-19	2019-20	2020-21
First Stage Appeals	**13**	**11**	**8**
Upheld	**6**	**6**	**5**
Declined	**7**	**5**	**3**
Ongoing	**0**	**0**	**0**
Second Stage Appeals	**1**	**2**	**2**
Upheld	**0**	**2**	**1**
Declined	**0**	**0**	**0**
Ongoing	**1**	**0**	**1**

Statement of the Actuary for the year ended 31 March 2021

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Durham County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £2,982.0M) covering 94% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

   - 17.9% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),
     Plus
   - an allowance of 0.9% of pay for McCloud and cost management – see paragraph 9 below,
     Plus
   - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 18 years from 1 April 2020, equivalent to 3.0% of pensionable pay (or £12.5M in 2020/21, and increasing by 3.1% p.a. thereafter), which together with the allowance above comprises the secondary rate.

3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

   Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2020	19.0%	34.0
2021	19.0%	4.4
2022	19.0%	4.4

The high contribution in the year from 1 April 2020 is due to Durham County Council paying the three year deficit contributions in a single lump sum.

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows:

• Discount rate for periods in service	4.25% p.a.
• Discount rate for periods after leave service:	
Scheduled body / subsumption funding target*	4.25% p.a.
Intermediate funding target	3.80% p.a.
Ongoing Orphan funding target	1.60% p.a.
• Rate of pay increases	3.10% p.a.
• Rate of increase to pension accounts	2.10% p.a.
• Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.10% p.a.

** The secure scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.*

In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons™ longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Core Projections Model (CMI2018), with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	**Women**
Current pensioners aged 65 at the valuation date	22.1	24.1
Current active members aged 45 at the valuation date	23.1	25.6

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Actuary, in conjunction with the Administering Authority, monitors the funding position on a regular basis.

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 31 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

   - **Increases to Guaranteed Minimum Pensions (GMPs):**

     The 2019 valuation allows for the extension of the ‘interim solution’ for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. On 23 March 2021, the Government published a response to its consultation on the longer term solution to achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case. The response set out its proposed longer term solution, which is to extend the interim solution further to those reaching SPA after 5 April 2021.

     The results of the 2019 valuation do not allow for the impact of this proposed longer term solution. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

   - **Cost Management Process and McCloud judgement:**

     Initial results from the Scheme Advisory Board 2016 cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS was issued in July 2020.
     The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 0.9% of pay in relation to the potential additional costs of the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the details of the LGPS changes arising from the McCloud judgement and (if applicable) arising from the 2016 cost management process have been agreed.

Work on the 2020 cost management process has now been started, and it is possible that further changes to benefits and/or contributions may ultimately be required under that process, although the outcome is not expected to be known for some time.

- **Goodwin**

  An Employment Tribunal ruling relating to the Teachers' Pension Scheme concluded that provisions for survivor's benefits of a female member in an opposite sex marriage are less favourable than for a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. The chief secretary to the Treasury announced in a written ministerial statement on 20 July 2020 that he believed that changes would be required to other public service pension schemes with similar arrangements, although these changes are yet to be reflected in LGPS regulations. We expect the average additional liability to be less than 0.1%, however the impact will vary by employer depending on their membership profile.

10. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

    This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

    Aon does not accept any responsibility or liability to any party other than our client, Durham County Council, the Administering Authority of the Fund, in respect of this Statement.

11. The report on the actuarial valuation as at 31 March 2019 is available on the Fund's website at the following address:
    https://www.durham.gov.uk/media/32538/LGPS-Valuation-Report-2019/pdf/LGPSValuationReport20191.pdf?m=637215092788270000

Aon Solutions UK Limited

April 2021

GOVERNANCE COMPLIANCE STATEMENT

Durham County Council is the Administering Authority for the Durham County Council Pension Fund.

The Council has delegated to the Pension Fund Committee various powers and duties in respect of its administration of the Fund.

This statement sets out the Fund's scheme of delegation and the terms of reference, structure and operational procedures of the delegation, and the extent of its compliance with 2008 statutory guidance issued by the Secretary of State (CLG) and the provisions of regulation 55 of the Local Government Pension Scheme Regulations 2013.

The following sections set out the principles of governance as prescribed in the guidance and describe the Fund's current arrangements for compliance.

Principle A - Structure	**Fully compliant**
1. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. 2. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. 3. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. 4. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	

The constitution of the Council delegates to the **Pension Fund Committee** "powers and duties arising from Section 7 of the Superannuation Act 1972 and Regulations made thereunder" regarding the administration of the Scheme and investment of funds, including:

1. Approval of applications from bodies seeking admission to the Local Government Pension Scheme;

2. Appointment of external investment managers and advisers

The following function is delegated to the **Corporate Director of Resources** by the Council:

> "To take all necessary actions of a routine nature to properly administer the financial affairs of the Council including … the Council's functions as a pension fund administering authority under the Superannuation Act 1972 and associated regulations."

The structure of the Pension Fund Committee was reviewed in December 2008 and revised with effect from 1 April 2009 to reflect the composition of Durham County Council as a unitary authority from that date. The structure of the Pension Fund Committee is as follows:

Body / category of bodies represented	**Number of Committee Members**
Durham County Council	11
Darlington Borough Council	2
Colleges	1
Scheduled Bodies	1
Admitted Bodies	1
Active Members	1
Pensioners	1
Total	**18**
(plus 2 non-voting union observers)	

The Terms of Reference of the Committee is available at www.durham.gov.uk/lgps. A secondary committee or panel has not been established due to the full extent of representation on the Committee.

The Local Pension Board is established by Durham County Council and will be governed by Durham County Council's Constitution. The Board was established on 1 April 2015 under Regulations 105 to 109 of the Local Government Pension Scheme Regulations 2013 (as amended) and operates independently of the Pension Fund Committee.

The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

a) Secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;

b) To ensure the effective and efficient governance and administration of the Scheme.

The Board consists of six voting members of which three represent Scheme Members and three represent Scheme Employers, and there shall be an equal number of Member and Employer representatives. The Board appoints a chair from its membership.

All members of the Board must declare on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

Knowledge and understanding must be considered in the light of the Board's purposes as set out above. The Board shall establish and maintain a record of training to address the knowledge and understanding requirements that apply to Board members under the Regulations.

The Board meets four times each year and may hold additional meetings if agreed by the Board. The quorum for each meeting is one Scheme Member representative and one Scheme Employer representative. A meeting that becomes inquorate may continue but any decisions will be non-binding.

The Chair shall agree with the Monitoring Officer (the 'Board Secretary') an agenda prior to each meeting which, together with supporting papers, will be issued at least five working days (where practicable) in advance of the meeting to all members of the Board. The Board meetings can be open to the general public.

The Administering Authority may meet the expenses of Board members as agreed by the Corporate Director of Resources in consultation with the Leader and Deputy Leader of the Council. The Administering Authority shall not pay allowances for Board members.

The Board should in the first instance report its requests, recommendations or concerns to the Pension Fund Committee. In support of this, any member of the Board may attend a Committee meeting as an observer.

The detailed terms of reference of the Local Pension Board may be found on the Council's website www.durham.gov.uk/article/6164/Durham-County-Council-Pension-Fund-Local-Pension-Board.

Principle B - Representation	**Fully compliant**
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, iv) expert advisers (on an ad-hoc basis). b) That where lay members sit on a main or secondary committee they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	

The allocation of members to the Committee broadly reflects the number of active members, pensioners and deferred pensioners each of the larger employers has within the Fund.

The two Trade Union representatives are invited as observers.

The Committee does not consider it appropriate to appoint an independent professional observer to the Committee but these governance arrangements have been independently audited by Peter Scales of MJ Hudson Allenbridge on behalf of the Committee.

Investment Consultancy is provided to the Fund by Mercer, and the Committee has appointed Anthony Fletcher of MJ Hudson Allenbridge to provide independent investment advice.

All members of the Committee, union observers and independent advisers are given full access to papers and are allowed to participate in meetings.

Principle C – Selection and role of lay members	Fully compliant
a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	

The representatives from Durham County Council and Darlington Borough Council are appointed by decisions of the respective councils.

The representatives of the Colleges, other Statutory Bodies, and Admitted Bodies are selected by the Committee from nominations made by the employers and appointed for a period of 4 years.

The two scheme member representatives are selected by the Committee from applications received from the membership following advertisement in the newsletter - one from active scheme members and one from pensioner members.

All Committee members are made fully aware of their role and functions as set out in the terms of reference for the Committee and other documentation.

Applicants from the scheme membership are provided with an information pack setting out the duties and responsibilities of a Pension Fund Committee Member together with a description of the type of individual qualities and experience seen as essential or desirable for the role.

All members are also made aware that as well has having legal responsibilities for the prudent and effective stewardship of the Fund, in more general terms they have a clear fiduciary duty to participating employers, local taxpayers and scheme beneficiaries in the performance of their responsibilities.

There is a standing agenda item at the start of each meeting inviting members to declare any financial or pecuniary interest related to specific matters on the agenda. The register of Members' interests is available online at www.durham.gov.uk.

Principle D - Voting	Fully compliant
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	

All members appointed to the Committee have voting rights.

Union observers and advisers do not have voting rights as they do not act as formal members of the Committee.

Principle E - Training/Facility Time/Expenses	Fully compliant
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	

The Committee has established a policy on training, facility time and reimbursement of expenses which applies to all members of the Committee.

Consideration has been given to the adoption of annual training plans and the maintenance of a log of all such training undertaken. The Committee receives specific training before making investment decisions. The training requirements of individual Committee Members is informed by Member self-assessment.

A summary of key training undertaken in the year by the Fund is summarised in Appendix B of the Governance Compliance Statement.

Principle F – Meetings (frequency/ quorum)	Fully compliant
a) That an administering authority's main committee or committees meet at least quarterly. b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. c) That an administering authority which does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	

The Pension Fund Committee meets four times a year and occasionally holds special meetings when required. The Pension Fund Committee also holds an Annual General Meeting each year to which all employers are invited. The quorum for each regular meeting of the Committee is 5.

Attendance at Committee Meetings during the year is summarised in Appendix A of the Governance Compliance Statement.

Principle G - Access	Fully compliant
a) That subject to any rules in the council's constitution all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	

All members of the Committee have equal access to committee papers, documents and advice to be considered at each meeting. Public documents are posted on the website.

Principle H - Scope	Fully compliant
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	

As set out in the terms of reference, the Committee regularly considers “wider issues” and not just matters relating to the investment of the Fund.

Principle I - Publicity	**Fully compliant**
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	

The Governance Compliance Statement is distributed to all employers, is reproduced in the Annual Report, and is published on the Council’s website. The appointment of member representatives was advertised to all members for them to express an interest.

Approved by the Pension Fund Committee

12 March 2020

GOVERNANCE COMPLIANCE STATEMENT – Appendix A, summary of Pension Fund Committee Attendance

Attendance at Pension Fund Committee in the year, 2020/21.

Committee Member	Voting Rights	June 2020	September 2020	December 2020	11 March 2021
Cllr Mark Davinson (Chair)	Yes	✓	✓	✓	✓
Cllr Owen Temple (Vice Chair)	Yes	✓	✓	✓	✓
Cllr Jim Atkinson	Yes	✓	✓	✓	✓
Cllr Colin Carr	Yes				
Cllr Joanne Carr	Yes				
Cllr Stephen Hugill	Yes			✓	✓
Cllr Bill Kellett	Yes	✓	✓	✓	✓
Cllr John Lethbridge	Yes	✓		✓	✓
Cllr John Shuttleworth	Yes	✓	✓	✓	✓
Cllr Watts Stelling	Yes				
Cllr Marion Wilson	Yes		✓		
Cllr Charles Johnson JP, FQI	Yes	✓		✓	✓
Cllr Scott Durham	Yes	✓			✓
John Taylor	Yes	✓	✓	✓	✓
Anne Delandre	Yes	✓	✓		
Andrew Broadbent	Yes	✓	✓	✓	✓

GOVERNANCE COMPLIANCE STATEMENT – Appendix B, Training Review

Key training undertaken by the Committee in the year, 2020/21.

Date	Event	Member Attendees	Officer Attendees
July 2020	Quarterly Investment Strategy Review	11	2
July 2020	Quarterly Markets Upate	11	2
July 2020	Quarterly Pooling Update	11	2
July 2020	Impact of COVID19 Seminar	11	1
Sept 2020	Quarterly Investment Strategy Review	9	3
Sept 2020	Quarterly Markets Update	9	3
Sept 2020	Quarterly Pooling Update	9	3
Oct 2020	Responsible Investment Workshop	1	1
Oct 2020	BCPP Annual Conference	3	2
Oct 2020	UK & Global Property Seminar	6	2
Oct 2020	Mutli Asset Credit Overview	6	2
Oct 2020	Index Linked Gilts Transition Overview	6	2
Nov 2020	Presentation of the Fund Actuary	10	3
Nov 2020	Annual Markets Review	10	3
Nov 2020	BCPP Annual Review	10	3
Nov 2020	Annual Report & LGPS Scheme Update	10	2
Nov 2020	Multi Asset Credit Seminar	9	3
Nov 2020	RI / TCFD Seminar	9	3
Dec 2020	Quarterly Investment Strategy Review	10	3
Dec 2020	Quarterly Markets Update	10	3
Dec 2020	Quarterly Pooling Update	10	3
Mar 2021	Private Markets Annual Review	10	4
Mar 2021	Listed Alternatives Introduction	10	4
Mar 2021	Impact of COVD Update	10	4
Mar 2021	Quarterly Investment Strategy Review	11	4
Mar 2021	Quarterly Markets Update	11	4
Mar 2021	Quarterly Pooling Update	11	4

MJ HUDSON
Allenbridge

INDEPENDENT REVIEW OF GOVERNANCE ARRANGEMENTS

I have undertaken an independent review of the Governance Compliance Statement and other statutory statements relating to the investment and administration of the Durham County Council Pension Fund.

In my opinion, the Pension Fund is compliant with the statutory requirements for the publication and review of a Governance Compliance Statement and, overall, the Pension Fund Committee demonstrates a good standard of governance in the operation of its responsibilities.

I am also satisfied that the Pension Fund complies with the statutory requirements relating to the publication of policy statements, e.g. the Funding Strategy Statement, the Investment Strategy Statement, details of which are reviewed by the Local Pension Board.

In my review I referred to initiatives being developed nationally, e.g. Government guidance on pooling and responsible investment, the Good Governance review, which are likely to change the current regulatory framework. Progress has been delayed due to the working restrictions put in place nationally in response to the Coronavirus epidemic, but progress should be expected over the coming year.

My conclusion is that the arrangements now in place for the Pension Fund regarding independent advice and review provide a robust basis for the Committee to maintain its governance standards in an efficient and effective manner.

Peter Scales
Senior Adviser
MJ Hudson Allenbridge

11th May 2020

Independent auditor's statement to the members of Durham County Council on the Pension Fund financial statements included within the Durham County Council Pension Fund annual report

Report on the financial statements

We have examined the Pension Fund financial statements for the year ended 31 March 2021 included within the Durham County Council Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including the summary of significant accounting policies.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of Durham County Council for the year ended 31 March 2021 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Respective responsibilities of the Corporate Director of Resources and the auditor

As explained more fully in the Statement of the Corporate Director of Resources' Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of Durham County Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Durham County Council.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of Durham County Council describes the basis of our opinions on the financial statements.

Use of this auditor's statement

This report is made solely to the members of Durham County Council, as a body and as administering authority for the Durham County Council Pension Fund, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of Durham County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Durham County Council and Durham County Council's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Mark Kirkham, Partner
For and on behalf of Mazars LLP

The Corner, Bank Chambers,
26 Mosley Street,
Newcastle upon Tyne
NE1 1DF
30 September 2021

Fund Account

2019-20 £000	2019-20 £000		Notes	2020-21 £000	2020-21 £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
	2,814,162				3,474,729
		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
	2,825,511	**Total Investment Assets**			**3,478,591**
		INVESTMENT LIABILITIES			
-16,378		Derivative Contracts	15	-2,838	
-24,998		Other Investment Balances	19	-1,307	
	-41,376	**Total Investment Liabilities**			**-4,145**
	2,784,135	**NET INVESTMENT ASSETS**			**3,474,446**
		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	
	-7,425				-5,053
	2,786,247	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			**3,480,546**

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 Benefits	2019-20 Contributions		2020-21 Benefits	2020-21 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;

- 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;

- 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 £000		2020-21 £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 £000	2019-20 £000		2020-21 £000	2020-21 £000
	1,124	Administration Expenses		999
		Investment Management Expenses		
9,109		Management Fees	5,998	
410		Performance Fees	78	
136		Custody Fees	120	
3,827		Transaction Costs	5,233	
	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 £000	31 March 2020 %	Investment Manager	Asset Class	31 March 2021 £000	31 March 2021 %
		Investments managed by BCPP asset pool:			
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**
		Investments managed outside of BCPP asset pool:			
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	Purchases 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 £000	31 March 2020 £000		31 March 2021 £000	31 March 2021 £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	
-11,035		Liabilities	-1,368	
	-2,744	**Net Forward Foreign Currency**		1,930
		Futures		
5,820		Assets	235	
-2,123		Liabilities	-1,469	
	3,697	**Net Futures**		-1,234
		Options		
1,787		Assets	117	
-3,220		Liabilities	-1	
	-1,433	**Net Options**		116
	-480	**Net Market Value of Derivative Contracts**		**812**

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**

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**
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**

2019-20

Type	Expires	Product Description	Currency	Market Value at 31 March 20 £000	£000
Assets					
Overseas Equity	1 to 3 months	EURO STOXX 50 JUN 20	EUR	339	
Overseas Equity	1 to 3 months	CBOE VIX MAY20	USD	907	
Overseas Fixed Interest	1 to 3 months	US 10YR NOTE JUN 20 19/6/2020	USD	1,646	
Overseas Equity	0 to 1 month	CBOE VIX APR 20	USD	2,928	
Total Assets					**5,820**
Liabilities					
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.

2020-21

Type	Expires	Product Description	Currency	Market Value at 31 March 21 £000	£000
Assets					
Overseas Equity	1 to 3 months	MSCI EMERGING MARKETS INDEX JUN C @ 1450	USD	114	
Overseas Equity	0 to 1 month	S&P 500 INDEX APR P @ 3885	USD	3	
Total Assets					**117**
Liabilities					
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
Assets					
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**
Liabilities					
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 £m	%	Name of Fund	Investment Manager	At 31 March 2021 £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:

2019-20 Fair Value through Profit and Loss	2019-20 Financial Assets at Amortised Cost	2019-20 Financial Liabilities at Amortised Cost		2020-21 Fair Value through Profit and Loss	2020-21 Financial Assets at Amortised Cost	2020-21 Financial Liabilities at Amortised Cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
273,428			Equities	387,003		
624,790			Bonds	48,905		
			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		
15,898			Derivative Contracts	3,650		
	252		Loans		223	
	52,716		Cash held by Fund Managers		50,651	
	32,720		Short Term Investments		43,051	
	11,349		Other Investment Assets		3,862	
	9,537		Debtors		11,153	
2,728,474	106,574	-		3,380,804	108,940	-
			Financial Liabilities			
-16,378			Derivative Contracts	-2,838		
		-32,423	Creditors			-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	**Net Assets at 31 March**			**3,480,546**

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.

Values at 31 March 2020 (Restated*)	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total £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 £000	Purchases During the Year £000	Sales During the Year £000	Unrealised Gains / (Losses) £000	Realised Gains / (Losses) £000	Market Value 31 March 2021 £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 £000	Purchases During the Year £000	Sales During the Year £000	Unrealised Gains / (Losses) £000	Realised Gains / (Losses) £000	Market Value 31 March 2020 £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	Change in Year in the Net Assets Available to Pay Benefits	
		+25 BPS	-25 BPS
	£000	£000	£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	Change in Year in the Net Assets Available to Pay Benefits	
		+25 BPS	-25 BPS
	£000	£000	£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 31 March 21	Value on Increase	Value on 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 31 March 20	Value on Increase	Value on 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-Thueringen 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**

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:

a) Employer related
b) Member related
c) 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 £000		2020-21 £000
103	Short-term benefits	107
15	Post-employment benefits	24
118		**131**

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.

Durham County Council

Pension Fund

Funding Strategy Statement

31 March 2021

TABLE OF CONTENTS

(A) STATUTORY BACKGROUND AND KEY ISSUES

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

2. Key issues:

- After consultation with such persons as it considers appropriate (including officers and elected members and Fund employers), the administering authority is required to prepare and publish their funding strategy.

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

  - ➢ guidance published by CIPFA in September 2016 entitled "Guidance on Preparing and Maintaining a Funding Strategy Statement and to the Fund's Statement of Investment Principles";

  - ➢ the supplemtnary statutory guidance issued by MHCLG; Guidance on Preparing and Maintaining Policies on Review of Employer Contributions, Employer Exit Payments and Deferred Debt Agreements;

  - ➢ its Investment Strategy Statement (ISS) published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations); and

  - ➢ The Administering Authority has also considered the Scheme Advisory Board’s Guide to Employer Flexibilities for Administering Authorities and Employers in developing the FSS.

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

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

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

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

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

3. This Statement was reviewed following xchanges in the regulations to introduce flexibilities around employer contributions and exits, and has been updated in February 2021.

(B) PURPOSE OF THE FUNDING STRATEGY STATEMENT

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

- establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- supports the 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.

(C) PURPOSE AND AIMS OF THE PENSION FUND

5. The purpose of the fund is to:

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

6. The aims of the fund are to:

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

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

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

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

- maximising return from investments within reasonable risk parameters

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

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

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

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

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

- **Manage employers’ liabilities effectively**

  The Administering Authority seeks to manage employers’ liabilities effectively.

  In a funding context, this is achieved by seeking actuarial advice and regular monitoring of the investment of the Fund’s assets through quarterly meetings of the Pension Fund Committee and appropriate segregation of employers for funding purposes.

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

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

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

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

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

(D) RESPONSIBILITIES OF THE KEY PARTIES

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

8. The administering authority should:

   - Administer the Fund
   - Collect employer and employee contributions as set out in the Regulations
   - Determine a schedule of due dates for the payment of contributions - Section 70(1)(a) of the Pensions Act 2004 suggests that Administering Authorities are now required to report breaches as defined in Section 70 (2) of the 2004 Act. This places monitoring of the date of receipt of employer contributions on the

Administering Authority and therefore places a duty to report material late payments of contributions to the Pensions Regulator.

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

- Invest surplus monies in accordance with the Regulations.

- Pay from the Fund the relevant entitlements as set out in the Regulations.

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

- Take measures as set out in the regulations to safeguard the fund against the consequences of employer default

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

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

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

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

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

    - Ensure provision of accurate data; and

    - Ensure that participating employers receive appropriate communications.

- Consider the appropriateness of interim valuations.

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

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

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

- Enable the local Pension Board to review the valuation process as set out in their terms of reference

- Ensure consistent use of policies relating to revising the employer contributions between formal variations, entering into deferred debt arrangements and spreading exit payments and ensure the process of applying those policies as clear and transparent to all Fund employers

9. The individual employers should:

- Deduct contributions from employees' pay correctly.
- Pay all ongoing contributions, including their own as determined by the actuary, promptly by the due date.
- Pay any exit payments required in the event of their ceasing participation in the Fund.
- Develop a policy on certain discretions and exercise discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, additional membership or pension, augmentation of scheme benefits and early retirement strain, and
- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding.
- Noting, and if desired responding to, any consultation regarding the Funding Strategy Statement, the Statement of Investment Principles, or other policies.

10. The fund actuary should:

- Prepare triennial valuations including the setting of employers' contribution rates at a level to ensure solvency and long term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations.
- Prepare advice and calculations in connection with bulk transfers, the funding aspects of individual benefit-related matters, valuations of exiting employers and other forms of security for the Administering Authority against the financial effect on the Fund of the employer's default. Such advice will take account of the funding position and Funding Strategy Statement, as well as other relevant matters when instructed to do so.
- Assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as required or permitted by the Regulations.
- Assist the Administering Authority in relation to any decision by the Administering Authority to put in place a Deferred Debt Arrangement under Regulation 64(7B) or spread an exit payment under Regulation 64B.
- In response to a request from the Administering Authority, assess the impact of Regulatory changes on costs.

- Ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Administering Authority.

(E) FUNDING TARGETS, SOLVENCY & EMPLOYER ASSET SHARES

Risk based approach

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

12. A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives. In practice, three key decisions are required for the risk based approach:

    - what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),

    - the Trajectory Period (how quickly the Administering Authority wants the Fund wants to get there), and

    - the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by modelling carried out by the Fund Actuary, define the discount rate and, by extension, the appropriate levels of contribution payable. Together they measure the riskiness of the funding strategy.

These three terms are considered in more detail below.

Solvency and 'funding success'

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

14. The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%

    - For tax-raising Scheduled Bodies, and certain other bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following the exit of the employer from the Fund, the Solvency Target is set at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period, based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases to pensions and pension accounts.

- For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government bonds after exit.

- For deferred employers it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the Deferred Debt Agreement ends. For most such bodies, the Solvency Target will be set commensurate with assumed investment in Government Bonds at the end of the period of the deferred debt agreement.

Probability of Funding Success

15. The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on modelling carried out by the Fund Actuary.

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

17. At the 2019 valuation, the Trajectory Period used was 25 years, and the probability of Funding Success was set to be 75%.

Funding Target

18. In order to satisfy the legislative requirement to secure long term cost efficiency the Administering Authority’s aim is for employer contributions to be set so as to make provision for the cost of benefit accrual, with an appropriate adjustment for any surplus or deficiency. This is achieved through the setting of a Funding Target.

19. The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method, assumptions and data. The valuation calculations, including future service contributions and any adjustment for surplus or deficiency, set the level of contributions payable, and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).

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

    - Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service (primary) contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.

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

Application to different types of body

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

▪ **Tax-raising Scheduled Bodies and certain other bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following the exit of the Employer from the Fund**

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature. This is known as the Scheduled Body/Subsumption Funding Target.

▪ **Non tax-raising scheduled bodies (in particular colleges)**

Whilst the Administering Authority will adopt a general approach of assuming indefinite investment in a broad range of assets of higher risk, a reduction will be made to the left service discount rate to reflect concerns about the covenant strength of Colleges. This is known as the Intermediate Funding Target.

▪ **Admission Bodies and certain other bodies whose participation is limited**

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

For deferred employers where a deferred debt agreement is in place the funding target will take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the deferred debt agreement is expected to end and any other factors considered to be relevant by the Administering Authority on the advice of the Actuary, which may include, without limitation:

- the agreed period of the deferred debt agreement;
- the type/group of the employer;
- the business plans of the employer;

- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc

Full Funding and Solvency

22. The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers/groups of employers.

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

Recovery Periods

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

25. Where a valuation shows the Fund to be in surplus or deficit against the Funding Target, employers' contribution rates will be adjusted to reach the solvent position over a number of years. The Recovery Period in relation to an employer or group of employers is therefore a period over which any adjustment to the level of contributions in respect of a surplus or deficiency relative to the Funding Target used in the valuation is payable.

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

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

28. However, the Administering Authority also recognises the risk involved in relying on long Recovery Periods and has agreed with the Actuary a maximum recovery period of 30 years for employers which are assessed by the Administering Authority as being a long term secure employer.

    - For employers who are less than 100% funded, it is the intention of the Administering Authority to agree with employers a Recovery Period of as short a time as possible within this 30 year limit having regard to the affordability of the revised contribution rate in general taking into account the legislative requirements of securing solvency and maintaining as nearly a constant a contribution rate as possible.

- For employers who have a surplus, the Administering Authority will aim not to reduce the recovery period from that used at the previous valuation, noting that longer recovery periods lead to a smaller surplus reduction to the contribution rate.

- In line with the desirability of maintaining as nearly constant a contribution rate at this and future valuations, the Recovery Period shall not apply to any employer at a funding level of between 100% - 105%. Those employers will be required to pay the primary rate (i.e. the future service rate) in full, without any adjustment for a surplus. In respect of any employer at a funding level in excess of 105%, the Recovery Period shall only apply to any surplus above the 105% funding level.

A period of 18 years has been used for Durham County Council at the 2019 valuation, the largest employer in the Fund. Recovery Periods for other employers or employer groups may be shorter or longer and may not necessarily be the same as each other, in order to suitably balance risk to the Fund and cost to the employer.

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

- covenant and strength of any guarantee relating to an employer and hence the risk of default
- length of participation in the Fund
- whether the employer is closed to new entrants or is likely to have a contraction in its membership of the Fund
- for deferred employers, the remaining period of the deferred debt agreement

Stepping

30. The Administering Authority will also consider at each valuation whether new contribution rates should be payable immediately or reached by being stepped over a number of years. Stepping is a generally accepted method of smoothing the impact of rate changes for local authority pension funds. In consultation with the Actuary, the Administering Authority accepts that employers may step up (or down) to the new rates subject to this not introducing undue risk to the Fund. This is in line with the aim of having contribution rates as nearly constant as possible. The Administering Authority usually allows a maximum of three steps however, in exceptional circumstances up to six steps may be used.

Advance Funding of Secondary Contributions

31. The Administering Authority may at its discretion, and after considering the advice of the Fund Actuary, permit particular employers to opt to pay early, in lump sum form, the secondary contributions designed to meet a deficit, that would otherwise be payable over the following year (or longer period not exceeding three years). An appropriate discount, as determined by the Fund Actuary, would be applied to the secondary contributions to reflect the early payment.

Grouping / Pooling

32. In some circumstances it may be desirable to group or pool employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include:

    - reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or

    - accommodating employers who wish to share the risks related to their participation in the Fund such as outsourcings which have been carried out on a 'pass-through' approach where it makes sense for the service provider to be given either the same primary contribution rate as the outsourcing body or the fixed contribution rate agreed contractually, or

    - employers have been grouped for practical or commercial reasons.

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

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

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

36. There are a small number of different groups and approaches used and these are set out in the Appendix to this FSS.

Asset shares notionally allocated to employers

37. In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers (or group of employers where grouping operates), as if each employer had its own asset share within the Fund.

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

Roll-forward of asset shares

39. The asset share allocated to each employer will be rolled forward allowing for all cash flows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income. In general no allowance is made for the timing of contributions and cash flows for each year are assumed to be made halfway through the year with investment returns assumed to be uniformly earned over that year. However, where significant one-off employer contributions have been paid, allowance is made for the timing of such contributions.

40. Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cash flows will not exist for these transfers). The Fund Actuary will assume an estimated cash flow equal to the value of the cash equivalent transfer value based on appropriate factors set by the Government Actuary's Department.
- Allowance for death in service and ill-health benefits shared across all employers in the Fund (see earlier).
- An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

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

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

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

Fund maturity

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

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

(F) SPECIAL CIRCUMSTANCES RELATED TO CERTAIN EMPLOYERS

Interim reviews

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

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

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

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

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

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

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

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

Guarantors

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

- If an employer exits and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.

- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

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

Bonds and other securitisation

51. Paragraph 6 of Part 3, Schedule 2 of the Regulations creates a requirement for a new Admission Body to carry out, to the satisfaction of the Administering Authority (and the Scheme Employer in the case of an Admission Body admitted under paragraph 1(d)(i) of that Part), an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

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

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

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

- In the case of:

  - admission bodies admitted under paragraph 1(e) of Part 3, Schedule 2;

  - admission bodies admitted under paragraph 1(d) of Part 3, Schedule 2 where the administering authority does not judge the Scheme Employer to be of sufficiently strong covenant;

  - other admission bodies with no Guarantor or where the administering authority does not judge the Guarantor to be of sufficiently strong covenant;

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

Subsumed liabilities

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

55. In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is taken on by the accepting employer).

Orphan liabilities

56. Where an employer is exiting the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64 of the Regulations, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

57. The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to

enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

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

59. Liabilities in the Fund which are already orphaned will be assumed to be 100% funded on the appropriate funding target at each triennial valuation. This will be achieved by the Actuary notionally re-allocating assets within the Fund as required.

Commencement of Employers

60. When a new employer starts in the Fund, and members transfer from another employer in the Fund, a notional transfer of assets is needed from the original employer to the new employer. The approach used will depend on the circumstances surrounding the commencement of the new employer and some comments are set out below.

61. When a new admission body starts in the Fund due to an outsourcing event, they will usually start as fully funded on the Funding Target appropriate to the new employer. This means that any past service surplus or deficit for the members who are transferring to the new employer remains with the original employer and does not transfer to the new employer.

62. For academies, a prioritised share of fund approach is followed. This involves fully funding the non-active members of the original employer at the previous triennial valuation, and using the residual assets to calculate the funding level applicable to the active members of the original employer. This is rolled forward in line with the progression of the overall funding level of the original employer during the period from the last valuation date to the date of commencement of the academy, to a maximum of 100%. The funding level applicable to the active members is then used to calculate the notional asset transfer to the new employer.

63. In other circumstances the notional asset transfer will often be subject to the agreement between the relevant parties and the Administering Authority (who will take advice from the Fund Actuary). In the event of any dispute the Administering Authority will take make the final decision having taken account of the issues related to the setting up of the new employer.

Cessation of participation

64. The Fund's policy on the following areas are set out in a separate policy document: exit valuations, exit payments and credits, spreading of exit payments, and the way benefit uncertainties (such as the proposed McCloud remedy and the expected changes to GMP indexation) are allowed for in exit valuations.

65. In certain circumstances it may be agreed to enter into a deferred debt agreement rather than require an immediate exit payment. In that case, the employer would

remain a participating body as a deferred employer. Further details are set out in a separate policy.

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

66. The current investment strategy, as set out in the ISS, is summarised below:

General Principles and diversification

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

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

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

70. The Administering Authority has produced this Funding Strategy Statement having taken a view on the level of risk inherent in the investment policy set out in the SIP or ISS and the funding policy set out in this document.

71. The SIP or ISS sets out the investment responsibilities and policies relevant to the Fund.

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

(H) IDENTIFICATION OF RISKS AND COUNTER-MEASURES

73. The Administering Authority seeks to identify all risks to the Fund, will monitor the risks and take appropriate action to limit the impact of them wherever possible. The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework.

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

75. Investment

These include:

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

- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- having insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure
- risks associated with the transition of assets to the pool
- risks associated with climate change

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

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

76. Employer

These include:

- the risk arising from ever changing mix of employers, from short term and exiting employers, and the potential for a shortfall in payments and / or orphaned liabilities.
- the response to COVID-10 pandemic may have adverse consequences in relation to employer finances and their ability to make contributions. The Adminstrering Authority monitors employer payments and expects employers in financial difficulty to engage with the Fund, noting that contributions can be reviewed betweenformal valualtions, if the conditions in Regulation 64A and the terms of the Fund's policy are met.

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

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

77. Liability

These include:

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

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

Where it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation the Administering Authority may consider revising an employer's contributions as permitted by Regulation 64A.

78. Regulatory

These include:

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

There are a number of uncertainties associated with the benefit structure at the current time including:

- How the Government will address the issues of GMP indexation and equalisation for the LGPS beyond expiry of the current interim solution from 6 April 2021;
- The timing of any final regulations in relation to the remedy to compensate members of illegal age discrimination following the outcome of the McCloud / Sargeant cases. As at 31 March 2016;
- The outcome of the cost management process as at 31 March 2016 and 31 March 2020, noting the agreement reached in relation to the 2016 Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to aschieve an additional cost of 0.9% of pay was paused as a result of the MccCloud / Sargeant ruling;

- The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the chief secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed; and

- Redundancy early retirement provisions - with effect from 4 November 2020 a cap on exit payments made by public sector employers came into effect, including the cost of early payment of LGPS pensions for those over aged 55. Whilst MHCLG has consulted on changes to amend the LGPS Regulations to allow for the cap these changes have not yet been implemented so there is an inconsistency between the HMT Regulations and the LGPS Regulations.

In determining how these uncertainties should be allowed for in employer contributions from 1 April 2020, the Administering Authority has had regard to guidance issued by SAB and taken Fund Actuary advice and decided to add 0.9% of pay to each employer contribution rate.

In addition, a consultation document was issued by MHCLG entitled "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk" dated May 2019. This included a proposal to change the LGPS local fund valuations to quadrennial cycles. The Administering Authority will have regard to any changes in the LGPS 2013 Regulations as a result of this consultation and consider any actions required at the 2022 or subsequent valuations, taking account of the Fund Actuary's advice.

79. Liquidity and Maturity

These include:

- An increased emphasis on outsourcing and alternative models for service delivery may result in active members leaving the LGPS

- Transfer of responsibility between different public sector bodies

- Scheme changes which might lead to increased opt-outs

- Spending cuts and their implications

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

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

80. Governance

These include:

- Administering authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements);

- Administering authority not advised of an employer closing to new entrants; and

- An employer ceasing to exist with insufficient funding or adequacy of a bond

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

81. Choice of Solvency and Funding Targets

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

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

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

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

82. Smoothing of Assets

These include:

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

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

83. Recovery Period

These include:

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

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

84. Stepping

These include:

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

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

(I) MONITORING AND REVIEW

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

Issues relevant to all employers

The assets and liabilities for employers will allow for any assets and liabilities the employer has agreed to subsume relating to employers who have exited or have been taken over / merged as a result of reorganisation. This for example includes:

- For Durham County Council the assets and liabilities relating to the District Councils which formed the Durham County Council unitary authority and the assets and liabilities those District Councils originally were responsible for.

- For Multi Academy Trusts (MAT) the assets and liabilities relating to schools or other academies which now form part of the MAT.

Town Council Group

Employers in this group are pooled together for funding and contribution purposes, all risks are shared within the group and they have a single contribution rate.

The active participants of this Group at the date of writing this Statement are:

- Brandon & Byshottles Parish Council
- Chilton Town Council

- Easington Colliery Parish Council
- Easington Village Parish Council
- Esh Parish Council
- Ferryhill Town Council
- Fishburn Parish Council
- Framwellgate Moor Parish Council
- Great Aycliffe Town Council
- Greater Willington Town Council
- Haswell Parish Council
- Healeyfield Parish Council
- Horden Parish Council
- Hutton Henry Parish Council
- Lanchester Parish Council
- Langley Parish Council
- Monk Hesleden Parish Council
- Murton Parish Council
- Murton Welfare Association
- North Lodge Parish Council
- Peterlee Town Council
- Seaham Town Council
- Sedgefield Town Council
- Shildon Town Council
- Shotton Parish Council
- South Hetton Parish Council
- Spennymoor Town Council
- Thornley Parish Council
- Trimdon Foundry Parish Council
- Trimdon Parish Council
- Wheatley Hill Parish Council
- Wingate Parish Council

In addition, there are liabilities related to the following bodies which currently have no active members. These liabilities remain part of the group:

Pelton Parish Council
Central Durham Joint Crematorium Committee

If a Town Council has no contributing members it will become an exiting employer under Regulation 64(1) unless a suspension notice has been issued (a suspension notice can be issued for a period of up to three years if there is a reasonable likelihood an active member will join the Fund within the suspension period (Regulations 64(2A) to 64(2C)).

Given the liabilities are generally small the Administering Authority will not expect an exiting employer from the Group to make an exit payment or receive any exit credit unless the exiting employer has a material impact on the other employers in the Group. The assets and liabilities relating to the exiting employer will remain part of the Group.

Durham County Council

In addition to the subsumption of the assets and liabilities relating to relevant exiting employers and District Councils referred to above, Durham County Council has a pass through contractual arrangement with the following employers who as a consequence have been pooled with Durham County Council and will pay the primary contribution rate relating to the pool:

Investing in Children (195)
Harbour Support Services (206)
Science Museum Locomotion (224)
YS Services (228)

Darlington County Borough Council

In addition to the subsumption of the assets and liabilities relating to relevant exiting employers Darlington Council has a pass through contractual arrangement with the following employers who as a consequence have been pooled with Darlington Council and will pay the primary contribution rate relating to the pool:

Blackwell Grange Golf Club (198)
NECA (199)
Making Space (205)

Pension Fund

Exit Policy

This documents sets out the approach of Durham County Council (the "Administering Authority") as administering authority of the Durham County Council Pension Fund (the "Fund") to exiting employers from the Fund. This revised policy takes into account changes introduced by the Local Government Pension Scheme (Amendment) Regulations 2020.

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

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

3. The exit valuation will assess the assets held as at the exit date in the Fund in respect of the exiting employer, as compared to the liabilities of the Fund in respect of benefits attributable to the exiting employer's current and former employees. The exit valuation will normally conclude that there is either:

   3.1. a deficit, in that the liabilities have a higher value than the assets; or
   3.2. a surplus, in that the assets have a higher value than the liabilities.

4. When calculating the liabilities in the Fund in respect of the exiting employer, an increase of 0.6% will be applied to these liabilities to allow for the potential increase in benefits due to the cost management process and the McCloud[1] judgement. The form and extent of any such increase in benefits is currently uncertain, and so this is an approximate allowance calculated to cover the expected increase in liabilities for an average employer in the fund. The adjustment to apply to liabilities on exit has been calculated consistently with the addition to contribution rates applied at the 2019 valuation (see paragraph **Error! Reference source not found.**).

5. The 0.6% above is calculated as follows:

   5.1. 2.8% of pay increase to active past service liabilities as set out in our advice on McCloud for the valuation (re-attached for convenience), equivalent to 0.35% of total liabilities; plus

   5.2. 0.3% pay increase in contribution rate (0.9% pay allowance made at the valuation in contribution rates vs 0.6% pay calculated in respect of McCloud only in the attached advice) plus the future service cost in respect of McCloud (0.4% pay pa) capitalised over the 3 year period of the current Rates and Adjustments Certificate, equivalent to 0.26% of total liabilities.

6. Where the exit valuation shows a deficit, an exit payment will usually be required from the exiting employer. The administering authority, at its sole discretion, may allow phased payments.

[1] Lord Chancellor and Secretary of State for Justice and another v McCloud and others; Secretary of State for the Home Department and others v Sargeant and others, [2018] EWCA Civ 2844

7. The Administering Authority may, with the consent of the scheme employer in question, allow another employer in the fund to subsume the assets and liabilities of the exiting employer. This may include the Administering Authority agreeing to the other scheme employer accepting ongoing liability for any deficit in substitution of the requirement for an exit payment from the exiting employer.

8. For exits on or after 14 May 2018, where the exit valuation shows that there is a surplus in the Fund in respect of the exiting employer, the Administering Authority will follow the process set out in paragraphs **Error! Reference source not found.** to **Error! Reference source not found.** below.

9. As soon as is practicable after the production of the applicable exit valuation, the Administering Authority will notify the exiting employer and, where the exiting employer has been admitted to the fund as an admission body:

    9.1. any party that has given a guarantee under paragraph 8 of Part 3 to Schedule 2 to the Regulations;

    9.2. (in respect of admissions under paragraph (1)(d) of Part 3 of Schedule 2 to the Regulations) any scheme employer connection with the exercise of whose function the exiting employer was providing a service or assets; and

    9.3. any employer who has provided a subsumption guarantee in respect of the exiting employer.

    of the fact that the exit valuation shows a surplus, that the Administering Authority intends to make a determination of whether this surplus should be passed in whole or in part to the exiting employer, and to request that each party, within 14 days, provides their written representations to the Administering Authority in relation to any factors which, in their view, would influence such a decision and make the payment of a surplus to the exiting employer more or less appropriate.

10. The representations of the parties mentioned in paragraph **Error! Reference source not found.** above may (but need not) detail any risk sharing arrangement agreed between the parties as regards the participation of the exiting employer in the Fund.

11. The Administering Authority will make a determination of the amount of the exit credit (if any) payable to the exiting employer. In reaching this decision the Administering Authority will have regard to the following factors:

    11.1. the extent to which there is a surplus;

    11.2. the proportion of the excess of assets which has arisen because of the value of the exiting employer's contributions;

    11.3. the representations received from the parties under paragraph **Error! Reference source not found.**;

    11.4. where part or all of the surplus relates to an increase in the value of the assets of the Fund as at exit date due to better-than-expected investment growth or returns, the extent to which that increase in asset value can be regarded as a stable and long-term value increase;

11.5. (where the Administering Authority is aware of the same) whether or not the exiting employer has been exposed to the full financial risk of participation in the Fund and the existence of any risk-sharing arrangements in place with third parties;

11.6. the date on which the admission and/or commercial arrangements between the exiting employer and scheme employer came into effect, and whether therefore the parties had the opportunity to deal with the chance of an exit credit in their contractual arrangements; and

11.7. any other relevant factors.

12. No single factor will be conclusive and the Administering Authority will consider all the circumstances in the round in coming to its decision on the correct level of an exit payment. In order to help the parties in formulating their representations, the Administering Authority sets out below the factors it may consider, and some guidance as to the usual implication of those factors:

Factor	The Administering Authority's view on how this may influence the determination
The extent to which there is a surplus	Will not of itself influence the determination in favour or against the exit credit, but the Administering Authority may decide to truncate the determination process where the surplus is so small as to make the full process administratively disproportionate;
The proportion of the excess of assets which has arisen because of the value of the exiting employer's contributions	In general, the Administering Authority considers that where the surplus exceeds the total employer contributions received over the course of the admission, this would weigh against the payment of the full surplus as an exit credit;
The representations received from the parties	Dependent on their content;
Where part or all of the surplus relates to an increase in the value of the assets of the Fund as at exit date due to better-than-expected investment growth or returns, the extent to which that increase in asset value can be regarded as a stable and long-term value increase;	In general, the Administering Authority considers that where the exit took place at a time when the value of assets held by the Fund were unexpectedly high, and subsequently declined, or appear to the Administering Authority reasonably likely to decline in the short or medium term, then this will weigh against the payment an exit credit (either in full or in part dependent on the circumstances). Where the Authority relies on this factor in making a determination, it will provide the parties with details of why it considers that is the case;
Whether or not the exiting employer has been exposed to the full financial risk of	In general, the Administering Authority considers that where the exiting employer has

participation in the Fund and the existence of any risk-sharing arrangements in place with third parties	not been exposed to the usual financial risks associated with admission by reason of its commercial arrangements with third parties (for example the scheme employer), this would weigh against the payment of an an exit credit (either in full or in part dependent on the circumstances of the arrangement in question);
The date on which the admission and/or commercial arrangements between the exiting employer and scheme employer came into effect, and whether therefore the parties had the opportunity to deal with the chance of an exit credit in their contractual arrangements	In general, the Authority considers that where the arrangements pre-date the introduction into the Regulations of the concept of exit credits, this will weigh against the payment of an exit credit (either in full or in part dependent on the circumstances), and where the arrangements post-date the concept of exit credits, this will weigh in favour of the payment of an exit credit (either in full or in part dependent on the circumstances); and
Any other relevant factors.	Dependent on the factor in question.

13. In making a determination under paragraph **Error! Reference source not found.**, the Administering Authority will take such legal and actuarial advice as it considers appropriate.

14. The Administering Authority will notify each of the parties identified in paragraph **Error! Reference source not found.** of the amount of any surplus which it has determined should be returned to the exiting employer, if any (the "**exit credit**").

15. The Administering Authority will, unless otherwise agreed with the exiting employer, pay any exit credit to the exiting employer within 6 months of the later of the exit date and the date when the employer has provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final assets and liabilities on exit.

July 2021

Pension Fund

Investment Strategy Statement

31 March 2021

Table of Contents

1 Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (‘the 2016 Investment Regulations’) require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

This Investment Strategy Statement (ISS) has been designed to be a living document and is an important governance tool for the Durham County Council Pension Fund (‘the Pension Fund’). This document sets out the investment strategy of the Pension Fund, provides transparency in relation to how the Pension Fund investments are managed, acts as a risk register, and has been kept as short in order to be read in as user-friendly manner as is possible. This document replaces the Pension Fund’s Statement of Investment Principles.

This statement will be consulted on at least every three years and reviewed by the Pension Fund Committee (‘the Committee’) more frequently should any significant change occur.

2 Investment Responsibilities

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

The Committee has full delegated authority to make investment decisions.

2.1 The Pension Fund Committee has responsibility for:

- Determining overall investment strategy and strategic asset allocation and ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the Pension Fund is invested in suitable types of investments;
- Preparing policy documents including the ISS and Funding Strategy Statement (FSS). Monitoring compliance with the ISS and reviewing its contents following any strategic changes and at least every three years;
- Appointing the investment managers, and custodian until such time as all of the Fund’s assets are transitioned to Border to Coast Pension Partnership Limited (BCPP);
- Appointing the Pension Fund actuary and any independent external advisers felt to be necessary for the good stewardship of the Pension Fund;
- Reviewing on a regular basis the investment managers’ performance against established benchmarks, and satisfying themselves as to the investment managers’ expertise and the quality of their internal systems and controls;
- Reviewing on a regular basis the performance of the independent external advisers;

- In cases of unsatisfactory performance of the investment managers and independent external advisers, taking appropriate action;

- Reviewing policy on social, environmental and ethical matters and on the exercise of rights, including voting rights; and

- Reviewing the funds allocated to investment managers on a regular basis to ensure that the strategic asset allocation is maintained (rebalancing).

2.2 The investment managers are responsible for:

- The investment of the Pension Fund assets in respect of which they are appointed in compliance with applicable rules and legislation, the constraints imposed by this document and the detailed Investment Management Agreement covering their portion of the Pension Fund's assets;

- Stock selection within asset classes;

- Preparation of quarterly reports, including a review of investment performance;

- Attending meetings of the Committee as requested;

- Where specifically instructed, voting in accordance with the Pension Fund's policy.

2.3 The Global Custodian is responsible for:

- Its own compliance with prevailing legislation;

- Providing the administering authority with quarterly valuations of the Pension Fund's assets and details of all transactions during the quarter;

- Collection of income, tax reclaims, exercising corporate administration and cash management;

- Such other services as the Pension Fund shall procure, for example, in connection with performance measurement and reporting or fund accounting.

2.4 The Investment Advisers are responsible for:

- Assisting the Corporate Director Resources and the Committee in determining the overall investment strategy, the strategic asset allocation and that the Pension Fund is invested in suitable types of investment, and ensuring that investments are sufficiently diversified.

- Assisting the Corporate Director Resources and the Committee in the preparation and review of Policy documents.

- Assisting the Corporate Director Resources and the Committee in their regular monitoring of the investment managers' performance;

- Assisting the Corporate Director Resources and the Committee, where required, in the selection and appointment of investment managers, custodians and Pension Fund Actuary;

- Advising and assisting the Corporate Director Resources and the Committee on other investment related issues, which may arise from time to time; and

- Providing continuing education and training to the Committee.

2.5 The Actuary is responsible for:

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

- Carrying out its responsibilities as set out in the FSS.

- Undertaking the statutory triennial valuation of the Pension Fund's assets and liabilities.

2.6 The Corporate Director Resources is responsible for:

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

- Ensuring that this document is regularly reviewed and updated in accordance with the 2016 Investment Regulations;

- Exercising delegated powers granted by the County Council to:
    - Administer the financial affairs in relation to the County Council's functions as a pension fund administering authority;

    - Exercise those discretions under the Local Government Pension Scheme Regulations 2013 as appear from time to time in Pension Fund Statements of Policy; and

    - Authorise, in cases of urgency, the taking of any action by an investment manager of the Pension Fund which is necessary to protect the interests of the Pension Fund.

- Managing the cash balances of the Pension Fund which the Investment Managers have not invested

3 Investment Beliefs and Objectives

The Pension Fund has the following investment beliefs which help to inform the investment strategy derived from the decision making process:

- Funding, investment strategy and contribution rates are linked

- The strategic asset allocation is the key factor in determining the risk and return profile of the Pension Fund's investments

- Investing over the long term provides opportunities to improve returns

- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Pension Fund to produce a smoother return profile due to returns coming from a range of different sources

- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Pension Fund's objectives.

- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term.

- Value for money from investments is important, not just absolute costs.

- Asset pooling will help reduce costs whilst providing more choice of investments and will therefore be additive to Pension Fund returns.

- High conviction active management can add value to returns

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term. The Solvency Target is the amount of assets which the Fund requires to hold to meet its objective of paying all benefits arising as they fall due.

4 Investment strategy and the process for ensuring suitability of investments.

The Pension Fund's objective is to pay benefits as they fall due. The Pension Fund is currently assessed to have a deficit in respect to previously accrued liabilities, and so the strategy is focused on recovering this deficit as well as maintaining affordable contributions for future benefit accrual, without taking undue risks. Having a thorough understanding of the risks facing the Pension Fund is crucial and these are covered later in the statement.

The Pension Fund's asset strategy, along with an overview of the role each asset plays is set out in the table below:

Asset class	Allocation %	Benchmark & Performance Target	Role(s) within the strategy
Global Equities	40.0	MSCI All Country World Index +2%	Long term growth in excess of inflation expected; Generate investment income i.e. dividends.
Emerging Market Equities	7.0	MSCI Emerging Markets Net Index +2.5%	

Asset class	Allocation %	Benchmark & Performance Target	Role(s) within the strategy
Index Linked Gilts	15.0	FTSE Over 5 Year Index-Linked Gilt Index +0.5%	Provide protection from changes in inflation both in terms of capital value and income
Global Bonds / Multi Asset Credit	15.0	UK 3-month LIBOR +3.0%	Diversified source of income and provides a degree of protection from changes in interest rates. Some growth above gilts expected
Dynamic Asset Allocation	0.0	UK 3-month LIBOR +3.0%	Diversification and Tactical Asset Allocation
Property	13.0 (8.0% Global / 5.0% UK)	UK Retail Price Inflation +5.0%	Diversification; Generate investment income; Provide some inflation-sensitive exposure; Illiquidity premium
Private Markets	10.0 (equally split between Private Credit / Infrastructure / Private Equity)	IRR of 6% / 8% / 10% (Private Credit / Infrastructure / Private Equity)	Long term growth in excess of inflation expected; Diversification; Illiquidity premium

The Committee is responsible for the Pension Fund's asset allocation which is determined via a triennial strategy review as part of the valuation process. The review is both qualitative and quantitative and is undertaken by the Committee in conjunction with the actuary, officers and investment adviser. The review considers:

- The required level of return that will mean the Pension Fund can meet its future benefit obligations as they fall due

- The level of risk that the Pension Fund can tolerate in absolute terms, and in relation to its funding level and deficit

- An analysis of the order of magnitude of the various risks facing the Pension Fund is established in order that a priority order for mitigation can be determined

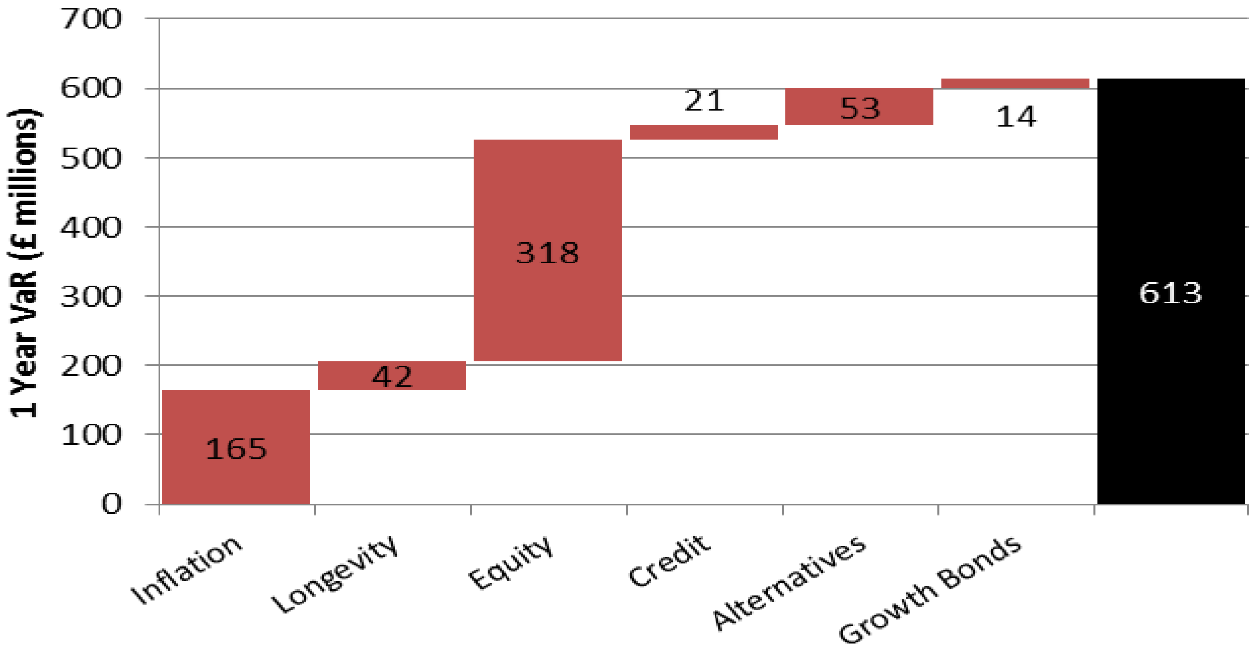
- The desire for diversification across asset class, region, sector, and type of security.

5 Risk measurement and management

The Committee assesses risks both qualitatively and quantitatively, with the starting point being the triennial strategy review. Risks are considered, understood and then prioritised accordingly.

(a) Investment risks

The Committee uses Risk Attribution Analysis to determine the order of magnitude of the main investment risks the Pension Fund is facing. The chart below shows the VaR (Value at Risk, essentially the minimum losses that would occur in a 1-in-20 event) facing the Pension Fund, split into major risk categories.



As an additional illustration of risk, the table below shows how a range of events (in isolation) could impact the Pension Fund:

Event	Event movement	Estimated Impact on Deficit
Fall in equity markets	30% fall in equities	£395m
Rise in Inflation	0.5% increase in inflation	£250m
Fall in discount rate	0.5% fall in the discount rate	£296m
Active Manager underperformance	3% underperformance from all active managers	£84m

As shown in both the Value-at-Risk attribution chart and the table above, the most significant risk that the Pension Fund is running is in relation to equities. Whilst not immaterial the risks being run by the use of active management is far smaller.

Equities

The largest risk that the Pension Fund is running is in relation to its equity holdings. Should equity market conditions deteriorate significantly this will have a negative impact on the funding level. The Pension Fund holds equities in order to provide the necessary returns to ensure that the Pension Fund remains affordable. The Committee believes that the extra returns that are expected to be generated by equities compensates the level of risk equities bring to the Pension Fund, but does believe in diversification, and looks to mitigate equity risk by investing significantly in bonds and alternatives. The Pension Fund is a long term investor but does require income over and above contributions received in order to pay pensions.

Inflation

Another significant risk that the Fund faces is in relation to inflation. The Pension Fund's liabilities are impacted by inflation both explicitly and implicitly. The Pension Fund will seek to invest in a range of assets that provide returns in excess of inflation and in some cases provide an inflation linked income, subject to a tolerable level of volatility.

Alternatives

The Pension Fund has a significant amount of assets allocated to a range of alternatives; previously via a dynamic asset allocation fund, but also through property. Going forward, the Fund will have a strategic allocation to Private Markets. The level of diversification these assets provide helps to reduce the Funds reliance on returns from equities. Illiquid assets such as property can also be a valuable source of income.

Active Manager Risk

Investment Managers are appointed to manage the Pension Fund's investments on its behalf, until such time as all of the Fund's assets are transitioned to BCPP. This risk is small relative to other risks; however the Pension Fund still addresses this risk. Extensive due diligence is used before managers are selected, with a number of different managers chosen to prevent concentration risk The investment managers are also monitored regularly by the Committee, Officers and by the Pension Fund's investment adviser.

The Pension Fund's portfolio is well diversified across asset classes, geography and asset managers. As different asset classes have varying correlations with other asset classes, the Pension Fund by investing in a range of different investments can minimise the level of risk run to a degree.

(b) Demographic Risks

The Pension Fund is subject to a range of demographic risks, but with particular reference to investment strategy, the Committee is aware of the potential for the Pension Fund to mature over time as the pensioner liability increases. A mature pension fund is likely to take less investment risk over time and this is considered at each strategy review. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Pension Fund is not in that situation at present as income from contributions and investments are greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

(c) Cashflow Management Risks

The Pension Fund is becoming more mature and although it is cashflow positive after taking investment income into account, managing cashflow will become an increasingly important consideration in agreeing the investment strategy. Should this position change and cash outflows exceed cash inflows, mitigating actions would be taken such as investing in assets which produce cashflows.

(d) Governance Risks

The Pension Fund believes that there is a benefit to the Pension Fund to be gained from good governance in the form of either or both of an increased return and/or decreased risk. Poor governance could lead to opportunities and risks being missed, and have a detrimental effect on the funding level and deficit.

(e) Environmental, Social and Governance ('ESG') Risks

The Committee believes that ESG risks should be taken into account on an ongoing basis and are an integral part of the Pension Fund's strategy and objective of being a long term investor.

The Committee believes that engagement is key in relation to strong corporate governance, which in turn will enhance returns. Details of the Pension Fund's policies can be found later in this statement.

6 Approach to asset pooling

In order to satisfy the requirements of the Local Government Pension Scheme: Investment Reform and Guidance issued by the Department for Communities and Local Government (DCLG) in November 2015, the Administering Authority has elected to become a shareholder in BCPP Limited. BCPP was created in 2017 as a wholly owned private limited company registered in England and Wales, authorised and regulated by the Financial Conduct Authority (FCA) as an alternative investment fund manager (AIFM). BCPP has 11 equal shareholders who are the administering bodies of the following 11 Funds:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The partner Funds submitted their proposal to Government on 15th July 2016 and have received written confirmation from the Secretary of State to confirm that the proposal meets the criteria laid down in the guidance issued in November 2015 and set out below:

a) Asset pool(s) that achieve the benefits of scale;
b) Strong governance and decision making;
c) Reduced costs and excellent value for money; and
d) An improved capacity to invest in infrastructure.

Assets to be invested in BCPP Ltd

The Pension Fund's intention is to invest its assets via BCPP Ltd as and when suitable sub-funds become available. An indicative timetable for participating administering authorities to invest through BCPP Ltd was set out in the July 2016 submission to Government.

The key criteria for the Pension Fund's assessment of a BCPP Ltd sub-funds will be as follows:

- that the sub-fund enables access to an appropriate investment that meets the objectives and benchmark criteria set by the Pension Fund; and
- that there is financial benefit to the Pension Fund in investing in the sub-fund offered by BCPP Ltd.

The Fund made its first investment through Border to Coast, which meet the criteria above, in 2019. The Fund transitioned £1.2bn Global Equity holdings into the pool and began the development of a Private Market portfolio with commitments to BCPP across Private Equity, Infrastructure and Private Credit. During 2020/21 the Fund continued to provide capital to these Private Markets commitments. Border to Coast successfully launched its Sterling Index Linked Bond Fund in October 2020, and the Fund utilised this internally managed investment capability to transition £478m of index linked gilts into the pool.

The Fund's remaining assets will be invested into the BCPP pool as and when suitable investment solutions become available. Any assets not invested in BCPP Ltd will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

The Pension Fund will retain the decision making powers regarding asset allocation and will delegate the investment management function to BCPP Limited.

Structure and governance of BCPP Ltd

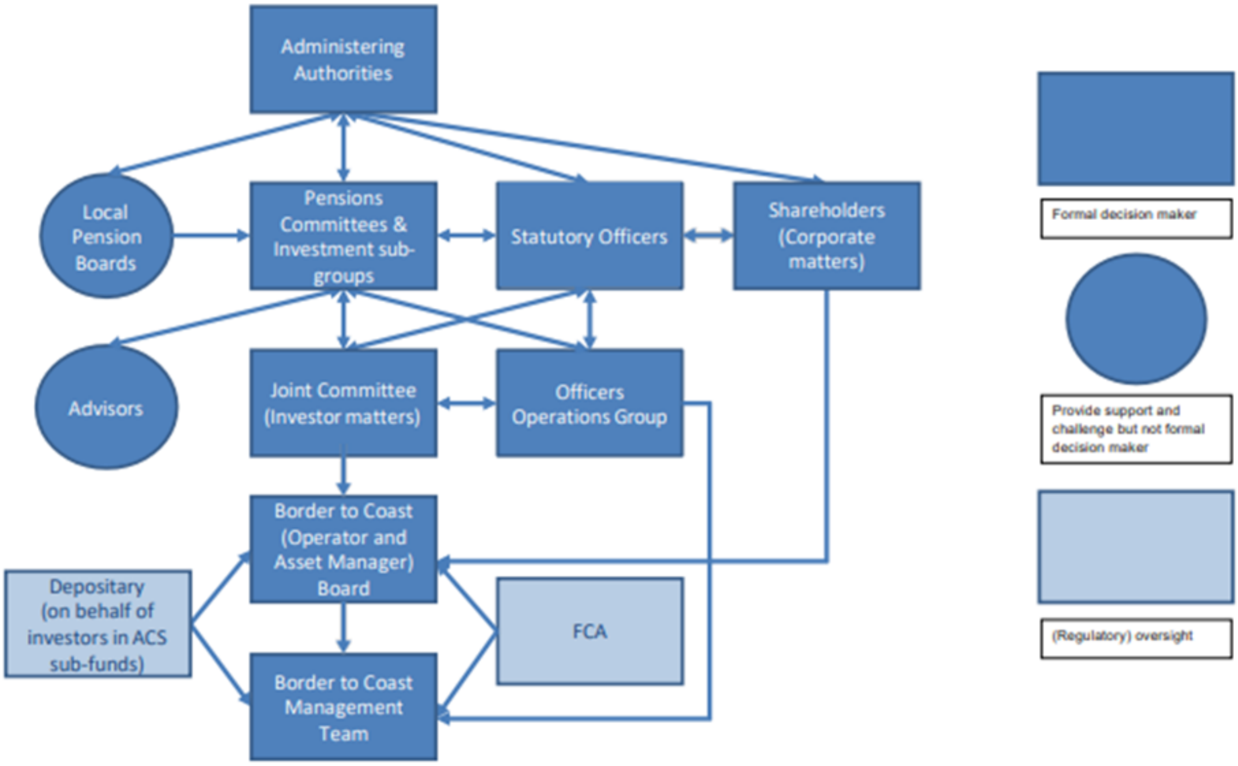
The 11 Partner Funds and BCPP work collaboratively to build the investment capabilities required to ensure that the Partner Funds are able to efficiently and effectively deliver their Strategic Asset Allocations in line with the following guiding principles:

- Meeting central Government's aims for governance, responsible investing, infrastructure and value for money
- One fund, one vote
- Funds retaining governance role and ownership of asset allocation
- Generating improved net-of-fees risk adjusted performance
- Border to Coast internal management capability
- Improved resilience and capacity over existing structures

- A shared team in one location

In order to hold BCPP to account, and to meet FCA requirements for a regulated asset manager, the Partner Funds stand at arms-length to Border to Coast during implementation and ongoing management of the sub-funds. The investment performance and capability of BCPP is overseen on a day to day basis by senior officers at each partner fund, and more formally on a quarterly basis by the Joint Committee, which is constituted of elected members from each partner fund. BCPP's performance as a company is overseen by shareholder representatives from the twelve administering authorities both on an ongoing basis and formally once a year at its AGM

The governance structure of BCPP is as follows:



The following groups support the governance of BCPP:

- **Joint Committee** – the Joint Committee is constituted from the 12 Pension Fund Chairs and will meet quarterly now that BCPP is established and functioning. It is the collaborative vehicle through which the individual Partner Funds provide collective oversight of the performance and direction of BCPP. Its remit includes oversight of progress towards the pooling of Partner Fund assets as a whole.

- **Officer Groups** - The Joint Committee is supported by the respective Authority s151 and Monitoring Officers and the Officer Operations Group (OOG), constituted from the 12 Senior Pension Fund Officers. These groups meet to discuss issues and give input to both Elected Members and BCPP as required. It is anticipated that the OOG will meet monthly, part of the meeting being attended by Border to Coast, part in closed session. The OOG work collaboratively together to ensure that due diligence over BCPP investment capabilities is carried out effectively on behalf of the Pension Committees.

- **Local Pension Boards** - In line with their role in other administrative and governance matters, the local pension boards provide support and challenge to the Pension Committee's decisions and decision-making process in relevant investment areas, and look to ensure appropriate governance is in place to provide effective monitoring.

- **Advisers** - Regulations require that Pension Funds take professional advice in respect of any investment decisions, and this is generally provided through Funds appointing Independent Investment Advisors and/or Investment Consultants. They will work with the Pension Committee and Officers to ensure that the strategic asset allocation can be effectively implemented through the use of the sub-funds available at BCPP.

7 Environmental, Social and Corporate Governance policy and policy of the exercise of rights (including voting rights) attaching to investments

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

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

The Pension Fund has never sought to implement a policy that explicitly excludes certain types of investments, companies or sectors except where they are barred by UK law. The Pension Fund believes that its influence as a shareholder is better deployed by engaging with companies, in order to influence behaviour and enhance shareholder value. The Pension Fund believes that this influence would be lost through a divestment or screening approach. The Pension Fund actively engages with companies through its investment managers.

Ultimately the Pension Fund will always retain the right to disinvest, where it is possible to do so, from certain companies or sectors in the event that all other approaches are unsuccessful and it is determined that the investment is no longer aligned with the interests of the Pension Fund or that the issue poses a material financial risk.

Myners Principles

Although not specifically referenced in the Regulations, the Committee feels that assessment of compliance with the Myners Principles is a valuable governance tool. A copy of the Pension Fund's Myners Compliance Statement can be found in Appendix 1.

8 Responsible Investing with BCPP

The purpose of BCPP is to make a difference to the investment outcomes for partner funds through pooling, by creating a stronger voice and investing responsibly now and into the future to enable sustainable performance. The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with individual Funds. Stewardship, day-to-day administration and implementation is delegated by the Fund to BCPP for any assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with the Fund's requirements.

To leverage scale and for operational purposes, BCPP has, in conjunction with partner funds, developed a Responsible Investment Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of partner funds. The Pension Fund Committee and the committees of all 11 partner Funds of BCPP agreed to adopt BCPP's Responsible Investment (RI) Policy into their ISS. The policy is monitored with regular reports to BCPP's Chief Investment Officer (CIO), Investment Committee, Board, Joint Committee and partner funds. It is reviewed at least annually, or whenever revisions are proposed and updated as necessary.

BCPP believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. ESG issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

BCPP is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to RI is communicated in BCPP's UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, BCPP will therefore, hold companies and asset managers to account regarding ESG factors that have the potential to impact corporate value. BCPP will incorporate such factors into investment analysis and decision making, enabling long-term sustainable investment performance for partner funds. As a shareowner, BCPP has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

BCPP's full approach to sustainability, including Voting and Engagement, Responsible Investment Policies, Collaborations, and Corporate Policies can be found online at https://www.bordertocoast.org.uk/sustainability/.

9 Advice Taken

In creating this statement, the Pension Fund has taken advice from its Investment Adviser. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, the Pension Fund has taken advice from its Investment Adviser, Mercer, and the Scheme Actuary, Aon Hewitt. In providing investment advice, Mercer is regulated by the Financial Conduct Authority.

Appendix 1 – Myners Principles

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

Principle 1 - Effective decision-making

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

Principle 2 - Clear objectives

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

Principle 3 - Risk and Liabilities

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

Principle 4 - Performance Assessment

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

Principle 5 - Responsible Ownership

Partial compliance: The Pension Fund's policy for socially responsible investing is set out in the Statement of Investment Principles and (from April 2017) the Investment Strategy Statement. Explicit written mandates agreed with all investment managers. Investment Managers are required to exercise voting rights on behalf of the Pension Fund when it is in the best interests of the Pension Fund. Normal practice is to allow the Investment Managers to follow their in-house voting policy unless otherwise instructed by the Committee. The mandates do not specifically incorporate the principle of the US Department of Labor Interpretative Bulletin on activism.

Principle 6 - Transparency and Reporting

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

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

COMMUNICATIONS POLICY STATEMENT

Durham County Council is the administering authority for the Durham County Council Pension Fund. This Communication Policy Statement has been drawn up to comply with regulation 61 of the Local Government Pension Scheme Regulations 2013 and to ensure the Council offers clear communication to stakeholders of the Local Government Pension Scheme.

Who we communicate with

- Scheme members (active members, pensioners and deferred members);
- Representatives of scheme members;
- Prospective scheme members;
- Employers participating in the scheme;
- Advisers (for example actuaries, investment advisers, Local Government Pensions Committee);
- Other bodies (for example prospective employing authorities and their representatives).

Key objectives

- To ensure communication is clear, factual and concise;
- To ensure communication is designed and delivered in a manner appropriate to its audience;
- To ensure that the correct information reaches the right people at the right time.

COMMUNICATING WITH SCHEME MEMBERS

Scheme members need access to detailed information about the scheme and their own benefits to allow them to make informed choices about their own pension benefits.

The Council provides:

- **Scheme literature**
  The pension section produces a summary guide to benefits in the scheme along with specific guides for certain circumstances, such as how divorce can affect scheme benefits or on the internal dispute resolution procedure.

- **Annual benefit statements**
  All active members are sent a benefit statement each year setting out the benefits they have earned in the scheme up to 31 March that year. All deferred members are sent a benefit statement each year setting out the current value of their deferred benefits payable at the earliest date on or after age 60 that unreduced benefits can be paid to them. The statement also sets out the effect of pension increases on their benefits since they left service.

  Benefit Statements will be made available online for all members. A paper copy will be provided to members who opt-out of online receipt.

- **Newsletters**
  All active members and pensioners are sent a copy of each issue of the relevant newsletter.

- **Telephone helpline**
  All communications contain contact telephone numbers for general enquiries. Active members, pensioners and deferred members can contact the Pension Administration Team by telephone between 8:30am and 4:30pm on weekdays. Bulk communications also contain the email address where general enquiries can be submitted.

COMMUNICATING WITH EMPLOYERS PARTICIPATING IN THE SCHEME

Employers need to be kept up to date with developments in the scheme and need to be informed of consultation exercises that could influence the future of the scheme.

Employers are sent information on scheme developments as and when changes are proposed to the scheme. Employers are often sent copies of circulars provided by the Employers' Organisation or are directed to copies of these circulars via web-links. Where possible this is provided by email.

Meetings with individual employers are arranged as necessary or as requested to deal with any significant pension issues that arise. Support is provided to employers who want to provide further pension information to their employees - this includes pre-retirement seminars and mid-life seminars.

All employers are invited to attend the Annual Meeting of the Pension Fund Committee. Copies of the annual report and accounts for the Pension Fund are distributed at this meeting and are also sent to all employers in the scheme.

COMMUNICATING WITH PROSPECTIVE MEMBERS

The Pension Administration Team issues pension packs to prospective members. These contain a summary of the benefits of scheme membership, information comparing the scheme with other pension options, a nomination form, an opt-out form and an authorisation form for investigating potential pension transfers into the scheme.

COMMUNICATING WITH REPRESENTATIVES OF SCHEME MEMBERS

The Pension Administration Team produces a summary guide to benefits in the scheme along with specific guides for certain circumstances, such as how divorce can affect scheme benefits or on the internal dispute resolution procedure. This information is available to representatives of scheme members.

The Pension Administration Team telephone helpline is also available between 8:30am and 4:30pm on weekdays for any queries representatives of scheme members may have.

The main local government unions are represented on the Pension Fund Committee. This means they are sent agenda items and minutes from the meetings as well as being able to attend the meetings (in a non-voting capacity). Scheme members are represented on the Local Pensions Board.

FUND PUBLICATIONS

COMMUNICATION DOCUMENT	AVAILABLE TO	WHEN PUBLISHED
Starter Packs	Prospective members	When required
Summary scheme guide	Prospective members Active members	When required
Newsletter: Pensions News	Active members	When required
Annual benefit statement	Active members Deferred members	Once per year
Newsletter: Years Ahead	Pensioners	When required
Payslips	Pensioners	Once a year or upon a change to net pension of more than £5
P60s	Pensioners	Once per year
Pension Increase Information	Pensioners	Once per year
Update letter on changes to regulations and other issues	Employers	When required
Valuation report	Employers	Every three years
Report and accounts	All stakeholders	Once per year – distributed to all employers and available on the DCC website and on request to all

PARTICIPATING BODIES AND CONTRIBUTION RATES

The contribution rates of participating bodies for 2020/21, as set by the Fund's actuary, are shown below, expressed as a percentage of employees' pensionable pay and an additional annual payment where applicable:

Employer	Employer Contributions		Employer	Employer Contributions	
	% of pensionable pay	Additional Annual Payment (£)		% of pensionable pay	Additional Annual Payment (£)
Advance Learning Partnership	23.70%		King James I Academy	19.70%	
Apollo Studio Academy	22.80%		Laidlaw	22.90%	
Aramark	19.30%		Lanchester Parish Council	18.90%	
Ascent Academies Trust/Hopewood	20.00%		Lingfield Education Trust	20.70%	
Barnard Castle School	33.80%	33,000	Livin Housing Limited	21.30%	
Barnard Castle Town Council	18.90%		Making Space	18.40%	
Believe Housing (County Durham Housing	21.60%	837,000	Mears	33.00%	TBA
Bishop Auckland College	19.30%	39,000	Mellors Catering Services Limited (NCDA	19.20%	
Bishop Auckland Town Council	18.90%		Melrose Learning Trust	27.40%	
Bishop Chadwick CET	25.70%		MITIE	37.50%	
Bishop Hogarth CET	20.40%		Monk Hesledon Parish Council	18.90%	
Bishop Wilkinson CET	22.80%		Murton Parish Council	18.90%	
Blackwell Grange Golf Club Ltd	18.40%		Murton Welfare Association	31.20%	
Bowes Museum	2.70%		New College Durham	20.40%	262,000
Brandon & Byshottles Parish Council	18.90%		New College Durham Academies Trust	19.20%	
Bulloughs (Police Contract)	19.20%		New Seaham Academy	20.30%	
Bulloughs (Swift)	32.60%		North East Learning Trust	20.70%	
Cestria Housing (Karbon Homes)	27.90%		OCS Group Ltd	23.10%	
Chilton Town Council	18.90%		Orion Solutions	33.30%	570
Churchill Contract Services Limited	36.00%	2,360	Park View Academy	22.00%	
Churchill Contract Services (St Johns Cle	26.60%		Peterlee Town Council	18.90%	
Cleves Cross Academy Trust	21.90%		Pioneering Care Partnership	16.70%	
Co Durham & Darlington Fire & Rescue Ser	17.90%	60,000	Queen Elizabeth Sixth Form College	20.70%	
Darlington Borough Council	18.40%	263,000	Reed in Partnership	22.20%	
Darlington College	19.90%	37,000	Reid Street Primary School	19.00%	
Derwentside College	20.20%	84,000	Ribbon Academy Trust	21.50%	
Derwentside Homes (Karbon Homes)	25.00%		SaGE MAT	20.60%	
Dove Academy Trust	24.70%		Science Museum Group	18.50%	
Durham City Parish Council	18.90%		Seaham Town Council	18.90%	
Durham County Council	18.50%	12,463,467	Sedgefield Town Council	18.90%	
Durham Diocesan MAT	19.70%		Shildon Town Council	18.90%	
Durham Police & Crime Commissioner	17.00%		Shotton Parish Council	18.90%	
Easington Colliery Parish Council	18.90%		South Hetton Parish Council	18.90%	
Easington Village Parish Council	18.90%		Spennymoor Town Council	18.90%	
East Durham College	19.50%	76,000	St Aidan's CE Academy	14.80%	
Eden AcademyTrust (Bluebell Meadow)	21.60%		Stanley Learning Partnership	24.40%	
Eden Learning Trust	23.20%		Stanley Town Council	18.90%	
Education Village	18.60%		Swift Academies	19.10%	
Framwellgate School /Excel Academy Pa	19.50%		Taylor Shaw Primary	4.80%	
Federation of Mowden Schools Academy Trust	18.60%		Teesdale Housing Association	21.50%	

Employer	Employer Contributions: % of pensionable pay	Employer Contributions: Additional Annual Payment (£)	Employer	Employer Contributions: % of pensionable pay	Employer Contributions: Additional Annual Payment (£)
Ferryhill Town Council	18.90%		The Federation of Abbey Schools Academy Trust	20.90%	
Firthmoor Primary School	21.20%		The Forge	30.30%	
Fishburn Parish Council	18.90%		The Hermitage Academy (NELT)	21.10%	
Framwellgate Moor Parish Council	18.90%		Thornley Parish Council	18.90%	
Future Leisure in Coxhoe	0.00%		Trimdon Parish Council	18.90%	
Great Aycliffe Town Council	18.90%		Tudhoe Learning Trust	22.50%	
Greater Willington Town Council	18.90%		UTC South Durham	17.90%	
Haswell Parish Council	18.90%		Waldridge Parish Council	18.90%	
Horden Parish Council	18.90%		West Park Academy	17.80%	
Hummersknott Academy Trust	20.50%		Wheatley Hill Parish Council	18.90%	
Hutton Henry Parish Council	18.90%		Wingate Parish Council	18.90%	
Investing in Children CIC	18.50%		Winston Parish Council	18.90%	
Jigsaw Learning Trust	27.50%		Woodard Academies/Polam Hall	19.20%	
Keepmoat	16.00%		Wyvern Academy (Consilium Academies)	22.00%	
			YS Services (Embracing Care)	18.50%	

MEMBERSHIP STATISTICS

The following table provides details of the number of pensionable employees in the scheme and the number of pensioners.

	Number of Pensionable Employees		Number of Pensioners	
	at 31/03/2020	as at 31/03/2021	at 31/03/2020	as at 31/03/2021
Scheduled Bodies				
Advanced Learning Partnership	151	202	28	30
Apollo Studio Academy	7	7	5	5
Ascent Academies Trust (Hopewood)	75	78	6	8
Bishop Auckland College	246	211	99	107
Bishop Ian Ramsey @ DDMAT	16	21		
Bishop Wilkinson CET		125		1
BrandH Academy @ DDMAT	33	38	6	8
Carmel Education Trust	165	140	25	29
Central Durham J. Crem Comm			7	6
Cleves Cross Academy Trust	36	42	5	6
Co Durham & Darlington Fire and Rescue	124	126	74	77
Darlington Borough Council	1,831	1,826	2,091	2,173
Darlington College	232	246	145	151
Derwentside College	109	100	108	120
Durham County Council	12,572	12,559	15,119	15,361
Durham Police and Crime Commissioner	1,040	1,121	507	541
East Durham College	265	264	135	145
Eden Academy Trust (Bluebell Meadow School)		33		
Eden Learning Trust	72	138	2	3
Education Village	172	176	17	20
Esh C.E. Primary (Melrose Academy)		15		
Federation of Mowden Schools Academy Trust	35	36	3	5
Firthmoor Primary	18	16	2	3
Hummersknott Academy	110	111	30	34
Investing in Children	2	1	3	4
IT Systems and EVAT Partnership	6	5	2	2
Jigsaw Learning Trust	20	18		2
King James I Academy	61	63	12	15
Laidlaw	10	78		
Lingfield Education Trust	140	151	24	22
New College Durham	448	451	205	215
New College Durham Academies Trust	77	84	32	31
New Seaham Primary School	11	12	1	1
North East Learning Trust	167	168	20	23
Northern Saints (Now Bishop Chadwick)	30	50	1	3
Parish Councils	62	62	45	46
Park View Academy	54	55	9	9
Queen Elizabeth Sixth Form College	62	75	31	33
Reid Street Primary School	24	25	6	7
Ribbon Academy Trust	52	56	9	9
St Aidans CE Academy	20	17	14	15
St Bedes Catholic School & Sixth Form College	56	54	4	10
St Bedes RC Primary	8	22	8	6
St Chad's (Bishop Hogarth)		5		
St George CE Academy	33	38	2	3
St Johns Catholic School & Sixth Form College	75	70	10	14
St John's CE Primary School	22	21	1	3
St Teresa's R.C. (Carmel College)		25		1
St William's R.C. (Carmel College)		18		
Stanley Learning Partnership	75	75	1	6
Swift Academies Trust	174	140	19	36
The Dove Academy Trust	35	30	1	3
The Durham Martyrs Multi Academy Trust	35	40	6	7
The Excel Academy Partnership	59	70	6	7
The Federation of Abbey Schools Academy Trust	62	66	4	7

	Number of Pensionable Employees		Number of Pensioners	
	at 31/03/2020	as at 31/03/2021	at 31/03/2020	as at 31/03/2021
The Hermitage Academy	46	55	15	15
Town Councils	191	190	141	146
Tudhoe Learning Trust	163	158	12	15
UTC South Durham	31	23		1
West Park Academy	40	44	4	9
Woodard Academies Trust	99	55	4	11
Woodham Academy			7	8
Wyvern Academy (formerly DSMS)	31	34	10	7
Admission Bodies				
Aramark Limited		2		
Barnard Castle School	23	21	48	50
Blackwell Grange Golf Club	2	2		1
Bowes Museum	3	3	15	15
Bulloughs (NCD)				1
Bulloughs (SWIFT)		15		
Bulloughs Cleaning Services (Police Contracts)	31	17	5	7
Burley				1
Carillion	1		7	6
Carillion NCD				1
Catering Academy Ltd				
Cestria Community Housing	100	98	51	49
Churchill (St John's)		1		
Churchill Contract Services Ltd	1	1	1	1
Compass Group UK			5	6
County Durham Housing Group	493	515	54	74
Creative Management			1	2
Dale and Valley Homes			22	22
Derwentside Homes	136	130	135	137
Durham City Homes			8	8
East Durham Homes Ltd			110	114
Future Leisure in Coxhoe	3	3		
Harbour Support	2	2		
Keepmoat	4	4	15	15
Leisureworks			25	28
Livin	118	123	52	57
Making Space	16	14	12	12
Marchbank School		10		
Mears	34	32	59	61
Mellors	2	2	1	1
Mitie Cleaning	1		1	1
Mitie PFI		1	3	3
Morrisons Facility Services Ltd	2		43	44
Murton Welfare Association	2	1	1	1
North East Council of Addiction	1			
OCS Group Ltd		5		
Orian Solutions	1	1	1	1
Reed In Partership		3		1
Science Museum Group	16	16		
Taylor Shaw	26	21	20	23
Teesdale Housing Association	4		4	6
The Forge	1	1		
YS Services	88	61	10	10
Former Employers			317	308
Totals	**20,901**	**21,340**	**20,109**	**20,652**

GLOSSARY OF TERMS

Accounting Period

The period of time covered by the Statement of Accounts, normally 12 months starting on 1 April. The end of the period is the Balance Sheet/ Net Assets Statement date.

Accounting Policies

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

Accounting Standards

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

Accruals

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

Actuary

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

Actuarial Basis

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

Actuarial Gains

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

Actuarial Losses

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

Added Years

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

Additional Voluntary Contributions (AVCs)

An option available to individuals to secure additional pension benefits by making regular payments in addition to the contributions payable to the Pension Fund on basic earnings.

Admitted Bodies

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

Annual Governance Statement

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

Amortisation

Amortisation is the equivalent of depreciation for intangible assets.

Apportionment

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

Appropriation

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

Asset Allocation

The distribution of the Fund's assets between asset classes and/ or world markets.

Audit of Accounts

An independent examination of the Pension Fund's financial affairs.

Balanced Management

A type of multi-asset management where a manager is responsible for all asset classes. A fund using this style is a "balanced" fund.

Benchmark

A yardstick against which the investment policy or performance of a fund manager can be compared.

Bonds

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

BPS (Basis points)

One basis point is a unit equal to one hundredth of a percentage point.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The principal accountancy body dealing with local government finance.

Code

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

Contingent Asset

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

Contingent Liabilities

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

Corporate Governance

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

Creditors

Persons or bodies to whom sums are owed by the Pension Fund.

Custody

Safe-keeping of securities by a financial institution. The Custodian keeps a record of client investments and may also collect income, manage cash, process tax claims and provide other services according to client instructions.

Debtors

Persons or bodies who owe sums to the Pension Fund.

Deferred Pension

The inflation-linked retirement benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the pension scheme before normal retirement age.

Defined Benefit Scheme

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

Depreciation

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

Derivative

Contracts that derive their value from an underlying financial asset. Often used as a hedge against changes in value.

Dividend

Part of a company's after tax earnings, distributed to shareholders in the form of cash or shares.

Equities

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

Fair Value

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

Financial Instrument

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

Fitch

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

Fixed Interest Securities

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

FIDs and Manninen

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

Futures

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

GAAP

Generally Accepted Accounting Practice.

Gilts

The familiar name given to sterling, marketable, fixed interest securities or bonds issued by the British Government.

Impairment

Impairment of an asset is caused either by a consumption of economic benefits e.g. physical or deterioration in the quality of the service provided by the asset. A general fall in prices of a particular asset or type of asset is treated as a revaluation.

Index Linked Securities

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

Investment

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

Investment Properties

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

Investment Strategy Statement (ISS)

The ISS details the policy which controls how a pension fund invests.

LAAP Bulletin

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

Liabilities

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

Managed Fund

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

Market Value

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

Materiality

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

Mid-market price

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

Minority Interest

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

Moody's

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

Myners' Principles

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

Net Realisable Value

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

Non Current Assets

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

Passive Management

A style of management that seeks to achieve performance equal to market or index returns.

Pooled Fund

A pooled fund pools investors' money and invests in a portfolio of shares, bonds and cash.

Portfolio

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

Prior Period Adjustment

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

Provisions

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

Prudential Code

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

Public Works Loans Board (PWLB)

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

Return

The total gain from holding an investment over a period, including income, and increase or decrease in market value.

Risk

Risk is the variability of returns. Investments with a greater risk usually promise higher investment returns.

Scheduled Bodies

County and Borough Councils and other similar bodies whose staff automatically qualify to become members of the Pension Fund.

Section 151 Officer

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

Statements of Recommended Accounting Practice (SORP)

A publication produced by CIPFA, recognised by the Accounting Standards Board (ASB), that provides comprehensive guidance on the content of the County Council's Statement of Accounts.

Transfer Values

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

Treasury Management Policy and Strategy

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

Unit Trusts

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

CONTACTS FOR FURTHER INFORMATION

For further information on issues relating to the Pension Fund, please contact the Corporate Director of Resources.

Telephone	03000 260 000
Email	help@durham.gov.uk

or you can write to:

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

or visit Durham County Council's website at www.durham.gov.uk