

INVESTMENT AND PENSION FUND COMMITTEE

3 March 2023

Present:-

Devon County Council

Councillors J Morrish (Chair), P Bullivant (Vice-Chair), Y Atkinson, M Hartnell and H Gent (remote)

Other Employers, Unitary and District Councils

Councillors R Bloxham, J O'Dwyer and A Lugger

Union and Retired Members

R Franceschini and M Daniell

Attending in Accordance with Standing Order 25 (1)

Councillor J Hodgson and C Slade (both remote)

Apologies:-

Councillor G Gribble, Cllr J Pearce and L Parker-Delaz-Ajete

* **97** **Minutes**

RESOLVED that the Minutes of the Meeting held on 25 November 2022 be signed as a correct record.

* **98** **Items Requiring Urgent Attention**

There was no item raised as a matter of urgency.

* **99** **Devon Pension Board**

The Committee noted the Minutes of the Meeting of the Board held on 7 February 2023.

* **100** **Brunel Oversight Board**

The Committee noted the Minutes of the Meetings of the Board held on 15 December 2022 and 26 January 2023.

Arising on Member questions the Head of Investments agreed to circulate to the Committee:

- in regard to Brunel Strategic objectives (Minute 6, 15 December 2022), the paper referred to explaining the terms '*responsible investment and sustainability*' in terms of Brunel's strategic objectives; and

- in regard to Green Revenues (Minute 8, 15 December 2022) the slide presentation referred to on sustainable investment analysis.

* **101** **Internal Audit Plan 2023/24**

The Committee considered the Report of the Director of Finance and Public Value (DF/23/27) on the proposed Internal Audit Plan 2023/24 and the Service Level Agreement for the two audit plans for the Devon Pension Fund and Peninsula Pensions, which would be delivered by the Devon Audit Partnership. The proposed Audit Plans allowed for up to 40 days of internal audit support for the Pension Fund and 45 days for Peninsula Pensions, providing 85 days of internal audit provision overall. The detail was in Appendix 1 of the Report. The Plan had been considered by the Pension Board at its last meeting on the 7 February with no further comment.

At the next meeting the Partnership would report on the completion and outcomes of the current year's audit plans.

Member discussion points with the Head of the Partnership included:

- the cost quoted in the report should be amended to reflect the cost of 85 days (and not 45 days) and the use of specialist support (at additional costs) was not normally needed;
- the audits would be subject to further scoping meetings with senior service management which would include evaluation of compliance with requirements, as appropriate;
- the Climate Risk and Environmental Social Governance reporting audit would be subject to new regulations expected from Government effective from 2023/24; and
- the audit process and arrangements in regard to the Brunel Partnership was reported via the Brunel Oversight Board of which the Chair was a Member.

It was **MOVED** by Councillor Y Atkinson, **SECONDED** by Councillor P Bullivant and

RESOLVED that the proposed Internal Audit plan for 2023/24 be approved.

* **102** **Investment Management Report**

(Councillor J Hodgson attended in accordance with Standing Order 25 (1) and spoke to this item in regard to voting and engagement delegated to the Brunel Pension Partnership, the LAPFF and LGIM; and the number of votes against management recommendations).

The Committee considered the Report of the Director of Finance and Public Value (DF/23/28) on the Fund value and asset allocation, performance

against the benchmark, funding level (which was subject to completion of the triennial valuation), budget forecast 2022/23, cash management, and voting and engagement activity.

The Fund value at 31 December 2022 stood at £5,126.5 million, an increase of around £100 million over the quarter but a decrease of £285m since 31st March 2022.

Members' discussion points with Officers included:

- the number of votes against management recommendation exercised by Brunel Pension Partnership and their views in terms of positive shareholder value and links to company objectives and the positive progress being made in regard to the issues raised;
- other issues on which LAPFF reported in relation to environment human rights and their positive influences; and the Funds' reduced exposure following transition to UK Climate Transition Benchmark Tracker Fund in regard the passive funds; and
- the impact of the current inflation rates and impact on cash flow projections, off-set by long term strategies (and contribution rates).

It was **MOVED** by Councillor J Morrish, **SECONDED** by R Franceschini and

RESOLVED

(a) that the Investment Management Report be noted; and

(b) that the compliance with the 2022-23 Treasury Management Strategy, be noted.

* **103** **Treasury Management Strategy 2023/24**

(Councillor J Hodgson attended in accordance with Standing Order 25 (1) and spoke to this item in regard to the replacement of the FINEST finance system)

The Committee considered the Report of the Director of Finance and Public Value Please (DF/23/29) on the management of the Fund's cash allocation, setting out the strategy and plans to be followed in the coming year (draft Strategy at Appendix 2 of the Report).

It set out the current treasury position, cash investments, prospects for interest rates and the investment strategy. The strategy was broadly consistent to that agreed for 2022/23 and was in relation to the management of cash, not the rest of the Fund's investments. Pension Fund cash balances were kept at a low level with the main purpose being to provide the required level of liquidity. The Bank of England's raised base rates impacted on the rates available for investment, which have gradually increased over the period since December 2021.

Members' discussion points with Officers included:

- the cash represented 1% of the Fund;
- the replacement of the FINEST finance system would not impact on cash management but it would change how cash balances were recorded; and
- no borrowing was normally required by the Fund and only permitted in limited circumstances and any would be very short-term only.

It was **MOVED** by Councillor R Bloxham, **SECONDED** by Councillor A Lugg and

RESOLVED that the Treasury Management Strategy for 2023/24 as set out in Appendix 1.2) be adopted.

* **104** **Funding Strategy Statement**

(Councillor J Hodgson attended in accordance with Standing Order 25 (1) and spoke to this item and referred to the Employer response outlined in the Report and also asked questions about the consultation exercise with fund members carried out last year and production of a quarterly news-letter).

The Committee considered the Report of the Director of Finance and Public Value (DF/23/30) on a revised Funding Strategy Statement (FSS) drafted in conjunction with the Fund Actuary (Barnett Waddingham) (draft set out at Appendix 1).

The FSS document had been revised in order to reflect updated regulations, practice and actuarial assumptions and its purpose was to explain the funding objectives of the Fund and how the cost of the benefits provided under the Local Government Pension Scheme were met through the Fund. It also defined the objectives in setting employer contribution rates and the funding strategy adopted to meet the objectives. It also analysed the risks to the funding strategy and how those risks were managed and it should be read in conjunction with the Investment Strategy Statement. The assumptions had been updated to reflect the 2022 Actuarial Valuation. This included updating the assumed inflation rates, the discount rate used, the demographic assumptions and the maximum recovery period. The other main changes in the revised FSS were set out in the Report which related to

- A revised policy in relation to cessation valuations;
- Further clarification around the approach to town and parish councils;
- Updated wording around the impact of the McCloud age discrimination case and the proposed remedies to be applied; and
- A new section setting out the potential climate change risks that may impact on the funding strategy.

The draft of the revised Funding Strategy Statement had been sent out to employers for consultation on 26th January with a deadline for responses of 17th February and one detailed response from the University of Plymouth had been received. The key issues raised by the University of Plymouth were outlined in the report with officer comment. Officers would have further dialogue with the University of Plymouth regarding their concerns. The Pension Board had considered the draft Statement at meeting on 7 February 2023 (Minute *6 refers).

Following the 2022 Actuarial Valuation, the Fund was required to publish the Valuation Report and Rates and Adjustments Certificate that set out employer contributions for the next 3 years by 31 March 2023.

Approval of the revised Funding Strategy Statement would ensure that the Valuation Report and Rates and Adjustments Certificate were consistent with the funding policy.

Members' discussion points with Officers included:

- the projected increase in employer contributions and in exceptional circumstances the rates could be changed prior to the next triennial valuation; and
- there had been no update from Government on any proposed change from 3 years to four years for the re-valuation period.

The Head of Investments also confirmed that the member survey (referred to by Councillor Hodgson) had been sent to all self-service users or emailed to them and had been available on the website and also promoted through employers; and that the quarterly newsletter was available; and further feedback would be provided at the consultation meeting that afternoon.

It was **MOVED** by Councillor R Bloxham, **SECONDED** by Councillor Y Atkinson and

RESOLVED

(a) that the responses to the consultation with employers and the comments from the Pension Board be noted; and

(b) that the revised Funding Strategy Statement set out at Appendix 1 to this Report be approved.

* 105

Administering Authority Discretions

The Committee considered the Report of the Director of Finance and Public Value (DF/23/31) on discretions available to Devon County Council as the fund Administering Authority in the administration of the Scheme.

Following a review by Officers, it was proposed to amend the current discretions as set out in the Report. Annex A of the report detailed the current discretions and proposed changes.

Since the discretions were last reviewed, Councillors were no longer eligible to become or remain active members of the LGPS and therefore a total of five discretions would be deleted. The discretions numbered 1 – 29 remained exactly as the current discretions log, whilst discretions 30 – 39 were only minor wording changes and not deemed by officers to be a change in the underlying policy. Discretions 44-56 related to the Administering Authority's role in employer decisions where the employer no longer existed. Wording has been updated to reflect the current leadership structure reporting to the Director of Finance and Public Value.

Discretions 40 – 43 detailed the proposed changes to current policy.

The proposed discretions had been presented to the Pension Board at their 7th February meeting for comments and the Board had raised a number of questions (Minute *88 refers).

To address the concerns raised by the Pension Board, Officers proposed to delay the proposed restriction on the ability to transfer in non-public sector pension benefits to apply to new members joining on/after 1 st July 2023. Where members had joined before 1st July 2023, they would still have a 12 month window from their joining date to decide whether they wished to transfer in non-public sector pension benefits.

Members' discussion points with Officers included:

- detailed discussion in regard to discretion 43 which proposed to '*Accept transfers from public sector pension schemes only (including LGPS) for employees who are new to public sector employment (subject to transferring obligations for staff subject to TUPE regulations)*' as this would minimise ongoing liability risk to the pension fund;
- the discussions in relation to discretion 43 related to the need for further clarification (for example deletion of 'new' as former public sector employees could be included); and noting that the proposal was unlikely to act as a disincentive to join the LGPS in Devon, as former private sector pensions could be retained; and the risk to the Fund of transfer values being insufficient to cover the pension costs on a transferring member's retirement due to the current basis for calculating transfer values set by the Government Actuary's Department; and
- confirmation by Officers that any decision on discretion 43 could be delayed without any significant impact.

It was **MOVED** by Councillor J O'Dwyer, **SECONDED** by Councillor Y Atkinson and

RESOLVED

(a) that the proposed Administering Authority Discretions 40 - 42 as detailed in the Report be approved; and

(b) that the wording of Discretion 43 (as detailed in the Report) be reviewed by Officers for consideration at the next meeting of this Committee.

* **106** **Private Markets Investments**

The Committee considered the Report of the Director of Finance and Public Value (DF/23/32) on the medium-term target allocation to private markets of 30%, as stated in the Fund's Investment Strategy.

The current progress towards achieving the target allocations was summarised in the Report. This Report provided further details on the individual private market portfolios and the current position on the commitments made. It also looked at how the private markets allocation could support the UK Government's levelling-up agenda, including the potential for local investment including Infrastructure funds.

Before the set-up of Brunel, the Devon Fund had invested in five infrastructure funds, and would remain invested in those funds until they reached the end of their fund lives and sold off all their assets. In addition, the Fund committed £175 million to Brunel's first infrastructure cycle, £310 million to Brunel's second infrastructure cycle, and £100 million to Brunel's third infrastructure cycle. The Devon Fund's total current commitments were set out in the in the Report.

Members discussion points with Officers included:

- the options for local investments would include devon-wide, across the Brunel partner areas and nationally and subject to proper risk and return analysis as would be the case with any investment and preferably with other investors from the partnership.

It was **MOVED** by Councillor P Bullivant, **SECONDED** by Councillor Y Atkinson and

RESOLVED

(a) that the progress being made on the investment of the Fund's private markets commitment be noted;

(b) that no top-ups be made to Brunel's existing Cycle 3 Infrastructure, Private Debt and Private Equity portfolios; and

(c) that Officers be authorised to engage further with Brunel on the potential options for a local impact fund to be funded from the Fund's private markets allocation.

* **107** **Employer Changes**

The Committee noted:

Employer changes not previously reported to the Committee, as set out below

(a) New admitted bodies - The following application for admitted body status has been approved: On 1st September 2022 Axe Valley (Vector Learning Trust) outsourced their catering to Innovate Services.

(b) New academy conversions and changes:

- On 1 July 2022 St Budeaux Primary (Plymouth LEA) and Whitchurch Primary (Devon LEA) joined First Federation Trust.
- On 1st July 2022 Bolham Community Primary School (Devon LEA) joined Ventrus Academy Trust.
- On 1st July 2022 High View Primary (Plymouth LEA) joined Learning Academy Trust.
- On 1st September 2022 Burlescombe CofE Primary School (Devon LEA) and Webbers CofE Primary (Devon LEA) joined Alumnis MAT.
- On 1st September 2022 King Edward VI Community College (KEVICCS) joined Education South West.
- On 1st September 2022 Brixham College joined Thinking School Academy Trust.

(c) Cessations: on 1st August 2022 staff were insourced from Babcock International to Devon County Council.

* **108** **Annual Consultative Meeting with Staff and Retired Members**

The Committee noted that the Annual Consultative Meeting was being held in the afternoon following the Investment and Pension Fund Committee meeting, commencing at 2.15pm.

Presentations would be made by Faith Ward, Chief Responsible Investment Officer at the Brunel Pension Partnership, Mark Gayler, Head of Investments, Rachel Lamb, Head of Peninsula Pensions, and Councillor Colin Slade, Chair of the Devon Pension Board.

* **109** **Dates of Future Meetings**

16 June, 15 September, 24 November, and 1 March 2024 (followed by the Consultative meeting).

Confirmation of dates and other information available at:

[Browse meetings - Investment and Pension Fund Committee - Democracy in Devon](#)

* 110 **Exclusion of the Press and Public**

RESOLVED that the press and public be excluded from the meeting for the following items of business under Section 100(A)(4) of the Local Government Act 1972 on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act, information relating to the financial or business affairs of an individual other than the County Council and, in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information

* 111 **Brunel Business Plan and Reserved Matters Requests**

(An item taken under Section 100A (4) of the Local Government Act 1972 during which the press and public were excluded).

The Committee considered the Report of the Director of Finance and Public Value (DF/23/33) on three special reserved matters issued by the Brunel Partnership that required a response and given the timing and importance of the issues concerned, these were brought to Committee for endorsement before being signed off by the Director.

They related to: (i) Revised strategic objectives; (ii) Business case and budget for 2023/24; and (iii) Revised remuneration policy and people strategy.

It was **MOVED** by Councillor R Bloxham, **SECONDED** by Councillor Y Atkinson and

RESOLVED

(a) that the Brunel Pension Partnership's revised strategic objectives for approval by the Director of Finance and Public Value under their delegated powers as the shareholder representative for Devon be endorsed;

(b) that the Brunel Pension Partnership's business plan for 2023/24 for approval by the Director of Finance and Public Value under their delegated powers as the shareholder representative for Devon be endorsed; and

(c) that the Brunel Pension Partnership's revised remuneration policy for approval by the Director of Finance and Public Value under their delegated powers as the shareholder representative for Devon, be endorsed.

* **112** **Infrastructure Investment**

(An item taken under Section 100A (4) of the Local Government Act 1972 during which the press and public were excluded).

The Committee considered the Report of the Director of Finance and Public Value (DF/23/34) on an update on the position in regard to the Hermes and Igneo Infrastructure funds.

It was **MOVED** by R Franceschini, **SECONDED** by Councillor Y Atkinson and

RESOLVED

(a) that the current position with the Hermes and Igneo infrastructure investments be noted;

(b) that an investment of £30 million, as detailed in the Report, in a renewable energy fund, as part of the 10% strategic allocation to infrastructure, be approved.

* **113** **Passive Benchmarks**

(An item taken under Section 100A (4) of the Local Government Act 1972 during which the press and public were excluded).

The Committee considered the Report of the Director of Finance and Public Value (DF/23/35) on the benchmarks for passive investments.

It was **MOVED** by R Franceschini, **SECONDED** by Councillor P Bullivant and

RESOLVED that the position set out in the report be noted.

NOTES:

1. *Minutes should always be read in association with any Reports for a complete record.*
2. *If the meeting has been webcast, it will be available to view on the [webcasting site](#) for up to 12 months from the date of the meeting*

* **DENOTES DELEGATED MATTER WITH POWER TO ACT**

The Meeting started at 10.30 am and finished at 12.50 pm