

INVESTMENT AND PENSION FUND COMMITTEE

2 December 2016

Present:-

Devon County Council

Councillors R Gilbert (Chairman), C Channon, R Edgell, D Hannon, R Hill and R Hosking.

Other Employers

Councillors M Hicks and L Parker Delaz Ajete

Unison and Retired Members: Non Voting Observers

C Lomax and J Rimron

Apologies:-

Councillor P Edwards and R Franceschini

Also in attendance

Mr A Bowman and Mr W Nicholls (Devon Pension Board)

* **23** Minutes

RESOLVED that the minutes of the meeting held on 16 September 2016 be signed as a correct record.

* **24** Items Requiring Urgent Attention

There was no item raised as a matter of urgency.

* **25** Devon Pension Board

The Committee received the minutes of the meeting held on 20 October 2016 noting, in particular, the comments of the Board at Minutes 22(b) (Funding Strategy Statement) and Minute 24 (Devon Pension Fund Risk Register) which Officers undertook to address in future Reports, as appropriate.

The County Solicitor also reported, as previously requested (Minute 13/16 September 2016), on the wording of a statement previously adopted by the Devon Pension Board and commended to this Committee, which reflected it's [the Board's] desire to maintain and demonstrate it's impartiality at all times: that notwithstanding the existing guidance on conflicts of interest thereby it should endorse a number of principles that were already well established in a number of local authority quasi-judicial, regulatory committees viz:

'The deliberations of the Board should leave no grounds for suggesting with any justification that a decision has been partial, biased, or not in any way well founded. Whilst Members of the Board may be influenced by the opinions of others, their decisions must not discriminate in favour of any individual, group or area, nor appear to do so, but must be in the best interests of the Fund and Scheme Members. Members of the Board should preserve their role as impartial advisers and it would be unacceptable for any instruction to be given by or on behalf of a political party or of any other body whose principle purpose is to influence public opinion or policy as to how any Member of the Board shall speak or vote on any matter before the Board or for there to be any application or threat to apply any sanction against any Member of the Board should he/she speak or vote in any particular manner.'

The Committee was advised that the purpose of such a statement was simply to be clear and transparent about the way in which it worked and that it would not countenance any interference in or attempt to influence its deliberations or the views or intentions of individual members; operating in the best interests of the Fund and Scheme Members, acknowledging as was the case with Scrutiny Committees, that 'whipping' was incompatible in principle with the work of this Committee.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Parker Delaz Ajete, and

RESOLVED that the Committee endorse the statement of impartiality as commended by the Devon Pension Board and set out above.

* **26** Actuarial Valuation

The Committee received and noted the report of the County Treasurer (CT/16/103) outlining the results at a total Fund level of the 2016 actuarial valuation. The Valuation, had determined that the funding level as at 31 March 2016 had increased from 83% at the previous valuation to 84%. However, the average total contribution rate had increased from 18.8% to 20.9%.

Members noted that the increase would have an impact on employer budgets, which may not be welcome at a time of significant funding pressures. However, it was required to ensure the long term solvency of the fund to meet fund member benefits and to achieve the long term cost efficiency requirement of Section 13 of the Public Sector Pensions Act 2013. The Devon Fund would still be at the lower end of the range of employer contribution rates charged by LGPS funds nationally.

* **27** Investment Management Report

The Committee considered the Report of the County Treasurer (CT/16/104) on the current fund values and asset allocations compared to targets set previously, the impact upon returns and the value of Sterling of the outcome of the EU Referendum and subsequent rebalancing of allocations into equities, in line with the Committee's agreed policy and also the proposal to increase the level of currency hedging.

The Committee acknowledged that fund value had increased over the period with an absolute return of +10.6% in the first six months of the year compared to the fund benchmark of +9.3%.

The matter having been debated and the options and/or alternatives and other relevant factors set out in the Head of Service's Report and/or referred to above having been considered:

It was **MOVED** by Councillor Hannon, **SECONDED** by Councillor Parker Delaz Ajete, and nem com:

RESOLVED

(a) that the action taken to rebalance the asset allocation to within target ranges be noted;

(b) that the County Treasurer be authorised, in consultation with the Chairman of the Committee, to put in place additional currency hedging strategies, as outlined in section 3 of Report CT/16/4, if necessary;

(c) that the Committee note and welcome compliance with the 2016/17 Treasury Management Strategy.

COUNCILLOR CHANNON IN THE CHAIR

* **28**

Applications for Admitted Body Status

(Councillor Gilbert declared a disclosable pecuniary interest in this matter by virtue of his spouse being employed by FUSION and he and Councillor Hicks also declared such interests by virtue of being South Hams District Councillors and both withdrew from the meeting during its consideration).

The Committee noted that the following applications for admitted body status had been approved under delegated powers:

(a) DYS Space Ltd (provider of Devon County Council's Youth Services): approximately 80 staff transferring on 1 February 2017 under an admission agreement on a closed basis;

(b) South Hams District Council and West Devon Borough Council (provider of leisure services to Fusion Lifestyle): 74 current LGPS members transferring from Tone Leisure under an admission agreement on a closed basis.

COUNCILLOR GILBERT IN THE CHAIR

* **29**

Committee Training

The Committee noted the details of a training event to be held on 3 February 2017 (10.00-1600hrs) focussing on the strategic investment review previously agreed by the Committee on 16 September 2016 (Minute 18 refers). The Consultants engaged for that purpose would present their draft report to Members for comment/feedback prior to the final report being submitted to the Committee for consideration on 24 February 2017.

30

Brunel Pension Partnership - Approval of Full Business Case (Minute 15/16 September 2016)

The Committee considered the Report of the County Treasurer (CT/16/105) outlining the process of preparation and content of the full Business Case - and seeking approval thereto - to establish a company called Brunel Pension Partnership Ltd (Brunel company or BPP Ltd), regulated by the Financial Conduct Authority (FCA), incorporating governance arrangements for client side joint shareholder oversight and joint contract management.

The Business Case had been developed as detailed below and set out more fully in the County Treasurer's Report and had been subject to review by the Finance (s151) and Monitoring Officers of each of the 10 constituent administering authorities, throughout the process. It had subsequently been endorsed by the current Shadow Oversight Board, comprising the Chairmen of the 10 funds. It [the business case] had been prepared by Officers of the 10 administering authorities, supported by professional expertise from PwC (operational and financial support), Osborne Clark (legal support), Alpha (FCA expertise), JLT (project support) and Bfinance (investment advice).

The Committee were reminded that, following the Government's announcement in the July 2015 budget statement that it intended to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pooled investments to significantly reduce costs, a considerable amount of work had been undertaken to set up the Brunel Pension Partnership comprising the 10 LGPS Funds.

Members acknowledged that regular reports had been brought to the Committee at all stages of the process with additional engagement events held to afford the opportunity for the Committee to provide input to the proposals. Briefings had also been provided for other Members of the County Council. As had been required, an initial joint submission from the 10 Brunel funds had been approved by the Committee in February and a further more detailed

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response had been approved by the Committee in June (and by the other 9 administering authorities) and subsequently submitted to Government, in July. Members noted that following that 'submission' - which had in effect been an outline business case - work had continued on preparing a full business case for the Brunel Pension Partnership. That was now complete (as now submitted) and would have to be approved by each of the 10 administering authorities to allow the establishment of the Local Authority Company to progress.

The final business case was set out at Appendix A to the County Treasurer's Report and detailed, *inter alia*, the individual costs and benefits for each of the 10 participating funds, copies of which had also been made available to Members of the Devon Pension Board.

The regulatory framework for pooling was clearly set out in the Local Government Pension Scheme (Management & Investment Funds) Regulations 2016 which made pooling mandatory for all LGPS Funds in England and Wales.

Members expressed their support of representations previously made to the Department for Communities & Local Government to waive or suspend stamp duty during the establishment of the new pooling arrangements and/or for any new pooling arrangements to be treated in an equitable manner to collective unit trusts which, it was understood, had been recently exempted from stamp duty.

The Committee acknowledged and endorsed the principle of representations made about the importance of scheme members' involvement in governance of any future arrangements, acknowledging also the Chairman's assurances that there was common cause on that issue within the County Council in that respect. Members were advised that the Partnership was currently investigating how that might be implemented through, for example, observer roles on the Oversight Board. Members also noted that the Local Government Association was looking at this issue and its guidance was awaited which could then be considered alongside the advice already sought from the Partnerships Advisers. The Partnership would then subsequently be in a position to consider formally the representation of fund members and the outcome of those deliberations would be made known to Unions and Scheme Members, in line with the Partnerships approach to transparency.

It was then **MOVED** by Councillor Edgell, **SECONDED** by Councillor Channon, and

RESOLVED that the press and public be now excluded from the meeting during subsequent discussion on this matter under Section 100(A)(4) of the Local Government Act 1972 on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act namely, information about the financial and business affairs of the County Council and its partners in the Brunel Pension Partnership and of the proposed joint local authority owned company and potential provider of goods or services to the 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.

[NB: The following part of the Committee's proceedings on this matter took place, as summarised below, in accordance with the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 during which the press and public were excluded; no representations having been received to such consideration under Regulation 5(5) of the aforementioned Regulations].

The Committee then considered the full, detailed, Business Case for the establishment of Brunel Pension Partnership Ltd (Brunel company or BPP Ltd) (a company regulated by the Financial Conduct Authority), together with all relevant background papers, to be approved by all 10 Brunel Pension partners/constituent administering authorities.

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Following discussion of the business case and having had regard to the information therein, the Committee was of the view that the press and public need no longer be excluded from the meeting during its final determination of the matter and:

It was then **MOVED** by Councillor Gilbert **SECONDED** by Councillor Channon, and

RESOLVED that the press and public be now readmitted to the meeting.

Following further comment and discussion and the matter having been fully debated and the options and/or alternatives and other relevant factors set out in the Head of Service's Report and/or referred to above having been considered, and balancing all of those factors and comments made at the meeting:

It was then **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Hannon, and nem com:

RESOLVED

(a) that, in its capacity as the Administering Authority for the Devon Pension Fund and having received and reviewed the recommendation of the Investment & Pension Fund Committee and the Business Case submitted to it, the County Council be recommended to resolve to enter into investment pooling as part of the Brunel Project with respect to the Devon Pension Fund's investments;

(b) that such resolution be made on and subject to the following terms and conditions:

(i) that the Brunel Pension Partnership investment pool be developed, funded and implemented substantially in accordance with the terms and provisions described in the Business Case considered by the Investment & Pension Fund Committee, and more particularly that:

(ii) that a Financial Conduct Authority (FCA) regulated company to be named Brunel Pension Partnership Limited be established and operated with all necessary and appropriate arrangements as to its ownership, structure, governance and services capability;

(iii) that a new supervisory body comprising representatives of the Council and all other participants in the Brunel Pension Partnership be established to ensure oversight of Devon Pension Fund investments and participation in the Brunel Pension Partnership;

(c) that the Investment & Pension Fund Committee be authorised and granted delegated powers to undertake such tasks as it thinks appropriate to progress implementation of investment pooling and to take such decisions and do all other things deemed necessary in order to promote the interests of the Council with respect to pooling: which without limitation shall include agreeing and authorising any documentation, contracts, terms of reference, financial expenditure or investment that may be required consequential upon the Fund's participation in the Brunel Pension Partnership;

(d) that the County Treasurer and the County Solicitor be similarly authorised and granted delegated powers to undertake such tasks as they think appropriate to progress implementation of investment pooling and to take such decisions and do all things deemed necessary in order to support the Investment & Pension Fund Committee and to promote the interests of the Council with respect to pooling: which without limitation shall include informing and advising the Investment & Pension Fund Committee on the continued viability and suitability of investment pooling in the light of any developments, financial or otherwise, in the period up to the establishment of the Brunel Pension Partnership;

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(e) that subject to the above, all such matters be carried out with the aim of achieving a target date for beginning investment pooling of 1 April 2018, and otherwise subject to such intermediate steps and timescales as may be considered appropriate and necessary by the Investment & Pension Fund Committee;

(f) that, additionally, the County Council be asked to note the continuing discussions around the principle of scheme member involvement in formal oversight arrangements referred to above which the Committee was supportive of and felt should be regarded favourably.

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

The Meeting started at 10.00 am and finished at 11.00 am