

Phil Norrey
Chief Executive

To: The Chairman and Members of
the Devon Pension Board

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

(See below)

Your ref :
Our ref :

Date : 6 April 2016
Please ask for : Rob Hooper 01392 382300

Email: rob.hooper@devon.gov.uk
Fax :

DEVON PENSION BOARD

Thursday, 14th April, 2016

A meeting of the Devon Pension Board is to be held on the above date, at 10.30 am in the Committee Suite, County Hall, Exeter, EX2 4QD to consider the following matters.

P NORREY
Chief Executive

A G E N D A

PART 1 - OPEN COMMITTEE

1 Apologies

2 Election of Chairman

3 Minutes (Pages 1 - 4)

Minutes of the meeting held on 22 October 2015, attached.

4 Items Requiring Urgent Attention

Items which in the opinion of the Chairman should be considered at the meeting as matters of urgency.

5 Membership

County Treasurer to Report

MATTERS FOR CONSIDERATION OR REVIEW

- 6 Devon Pension Board - One Year On (Pages 5 - 8)
Joint Report of the County Solicitor and County Treasurer ([CS/16/17](#)), attached.
- 7 Statutory Statements: Governance Policy & Compliance Statement (Pages 9 - 20)
Report of the County Treasurer (CT/16/40), attached.
- 8 Statutory Statements: Investment Principles (Pages 21 - 38)
Report of the County Treasurer (CT/16/41), attached.
- 9 Annual Internal Audit Report for 2015/16 and proposed Plan for 2016/17 (Pages 39 - 52)
Report of the County Treasurer (CT/16/42), attached.
- 10 Devon Pension Board Budget 2016/17 (Pages 53 - 54)
Report of the County Treasurer (CT/16/38), attached.
- 11 Training Review 2015/16 and Training Plan for 2016/17 (Pages 55 - 62)
Report of the County Treasurer (CT/16/39), attached.

MATTERS FOR INFORMATION

- 12 LGPS Pooling of Investments (Pages 63 - 76)
Report of the County Treasurer (CT/16/36) on progress with 'pooling' arrangements, attached.
- 13 Actuarial Valuation 2016 (Pages 77 - 78)
Report of the County Treasurer (CT/16/37), attached.
- 14 Devon Pension Fund Risk Register (Pages 79 - 92)
Report of the County Treasurer (CT/16/43), attached.
- 15 Peninsula Pensions Administration Performance Statistics (Pages 93 - 96)
Report of the County Treasurer (CT/16/44), attached.
- 16 Investment and Pension Fund Committee (Pages 97 - 106)
Minutes of Investment & Pension Fund Committee held on 20 November 2015 and 2 and 26 February 2016, attached for information.
- 17 Future Work Programme (Pages 107 - 108)
Report of the County Treasurer ([CT/16/45](#)) on future activity relating to Board's oversight of the management of the Scheme, attached.

Dates of meetings of the Board and of the Investment & Pension Fund Committee are published on the County Council's Calendar of Meetings, which is available on the Council's website.

PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF PRESS AND PUBLIC ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED

None

Members are reminded that Part II Reports contain confidential information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Democratic Services Officer at the conclusion of the meeting for disposal.

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership
Devon County Council Councillors J Brook and B Greenslade Fund Employer Representatives Graham Smith (Devon & Cornwall Police) and Carl Hearn (Tavistock Town Council) Fund Member Representatives Andy Bowman, Cheryl Lewis, Heather Keightley and VACANCY Independent Member (non-voting) William Nicolls
Declaration of Interests
Members are reminded that they must declare any interest they may have in any item to be considered at this meeting, prior to any discussion taking place on that item.
Access to Information
Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact Rob Hooper 01392 382300 Agenda and minutes of the Committee are published on the Council's Website.
Webcasting, Recording or Reporting of Meetings and Proceedings
The proceedings of this meeting may be recorded for broadcasting live on the internet via the 'Democracy Centre' on the County Council's website. The whole of the meeting may be broadcast apart from any confidential items which may need to be considered in the absence of the press and public. For more information go to: http://www.devoncc.public-i.tv/core/ In addition, anyone wishing to film part or all of the proceedings may do so unless the press and public are excluded for that part of the meeting or there is good reason not to do so, as directed by the Chairman. Any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting; focusing only on those actively participating in the meeting and having regard also to the wishes of any member of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chairman or the Democratic Services Officer in attendance so that all those present may be made aware that is happening. Members of the public may also use Facebook and Twitter or other forms of social media to report on proceedings at this meeting. An open, publicly available Wi-Fi network (i.e. DCC) is normally available for meetings held in the Committee Suite at County Hall. For information on Wi-Fi availability at other locations, please contact the Officer identified above.
Emergencies
In the event of the fire alarm sounding leave the building immediately by the nearest available exit, following the fire exit signs. If doors fail to unlock press the Green break glass next to the door. Do not stop to collect personal belongings, do not use the lifts, do not re-enter the building until told to do so.
Mobile Phones
Please switch off all mobile phones before entering the Committee Room or Council Chamber

If you need a copy of this Agenda and/or a Report in another format (e.g. large print, audio tape, Braille or other languages), please contact the Information Centre on 01392 380101 or email to: centre@devon.gov.uk or write to the Democratic and Scrutiny Secretariat at County Hall, Exeter, EX2 4QD.



Induction loop system available

DEVON PENSION BOARD

22 October 2015

Present:-

Fund Employer Representatives

Councillors Brook and Greenslade (Devon County Council), Mr Smith (Devon & Cornwall Police) and Mr Hearn (Tavistock Town Council)

Fund Member Representatives

Mr Bowman, Mr Henshaw, (Chairman) and Ms Keightley

Independent Member

Mr Nicholls

Also in Attendance

Dan Harris (Devon County Council, Investment Manager)
Angie Sinclair (Devon County Council, Deputy County Treasurer)
Shirley Cuthbert (Deputy Head of Peninsula Pensions)

Apologies

Ms Lewis

11 **Minutes**

AGREED that the minutes of the meeting held on 2 July 2015 be signed as a correct record.

Arising on Minute 3 (Overview of the Devon Pension Fund), the County Treasurer undertook to ascertain whether the Devon Pension Fund was subsidising the cost of administering the Avon and Somerset Police Pension Scheme in any way.

12 **Investment and Pension Fund Committee: Minutes**

The Board received the Report of the County Treasurer ([CT/15/85](#)) setting out the minutes of the meeting of the Investment and Pension Fund Committee held on 18 September 2015 and highlighting key matters discussed relating to: Performance of the Pension Fund Custodian; the Independent Investment Advisor; and the Pension Fund Risk Register.

AGREED

(a) that in relation to the Investment and Pension Fund Committee's decision that the Devon Pension Fund Custodian's performance should continue to be reported to the Committee by exception, clarification be sought as to what would be regarded as an exception;

(b) that the Board be made aware of the process for considering applications to the Devon Pension Fund for admitted body status;

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(c) that the County Treasurer should report annually on training provided for Investment and Pension Fund Committee members and their attendance at the sessions involved;

(d) that Board members be advised of the process for the appointment of the Independent Investment Advisor.

Devon Pension Board members would as a matter of course be given access directly to the agendas and reports for meetings of the Investment and Pension Fund Committee at the same time as they were published, with Part II papers being made available on request.

13 **Statutory Statements - Communication Policy (Minute 5/2 July 2015)**

The Board considered the Report of the County Treasurer ([CT/15/86](#)) setting out, and inviting comments on, a draft revised policy for the provision of information and publicity about the Devon Pension Fund scheme to Fund members and representatives of members and employing authorities.

The Funding Strategy Statement was one of the four statutory statements that the Pension Fund was required to have in place. Areas covered by the policy including the format, frequency and method of communication, engagement with external organisations, standards and values and professional expertise available to the Fund.

AGREED

(a) that the first sentence of the second paragraph of section 3.2 of the Communication Policy be amended to read "*The Board is due to meet at least twice a year.....*";

(b) that Board members be sent the quarterly newsletter published by Peninsula Pensions for employer organisations of the Devon Pension Fund.

14 **Statutory Statements - Funding Strategy Statement (Minute 5/2 July 2015)**

The Board considered the Report of the County Treasurer ([CT/15/87](#)) setting out the County Council's Funding Strategy Statement for the Devon Pension Fund.

The Funding Strategy Statement was one of the four statutory statements that the Pension Fund was required to have in place. Its purpose was to explain the funding objectives of the Fund and how the costs of the benefits provided under the Local Government Pension Scheme were met through the Fund. The Statement also defined the objectives in setting employer contribution rates and the funding strategy adopted to meet these objectives.

The current Statement had been prepared in conjunction with the Fund Actuary and in consultation with all employers participating in the Pension Fund.

AGREED that the Funding Strategy Statement be endorsed.

15 **External Audit Findings Report 2014/15**

The Board received the Report of the County Treasurer ([CT/15/88](#)) on the findings arising from the external audit of the Devon Pension Fund for 2014/15 and work undertaken by the external auditors to address the risks identified in the approved Audit Plan.

The County Treasurer's Report indicated that the External Audit Findings Report had not identified any control weaknesses and an unqualified opinion had been provided in respect of the Devon Pension Fund's financial statements.

The Board asked that future audit reports include a glossary of terms.

16 Devon Pension Fund Risk Register (Minute 7/2 July 2015)

The Board received the Report of the County Treasurer (CT/15/89) setting out the Risk Register identifying the key risks relating to the Devon Pension Fund, processes in place to mitigate the risk and planned improvements to mitigate risk and provide further assurance.

The Report highlighted changes to the Register involving each risk being assigned to a named risk owner and an additional risk to acknowledge the possibility of Local Government Pension Scheme members transferring their pension rights out of the Fund to obtain a capital sum under the Government's "Freedom and Choice" legislation.

Board members would be notified of the completion of the updated Devon Investment Services procedure manual and of contingency arrangements in the event of a "market crash"; they asked for the timescale for mitigating action in the risk register to be date specific.

17 Knowledge and Skills (Minute 8/2 July 2015)

The Board received the Report of the County Treasurer (CT/15/90) setting out the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework and the proposed action to address training requirements for the Investment and Pension Fund Committee and Devon Pension Board members.

The Report identified six key areas of knowledge and skills, the proposed provision of a self-assessment toolkit and the training session arranged for Friday 20 November 2015.

18 Compliance with the Pensions Regulator's Code of Practice

The Board received the Report of the County Treasurer (CT/15/91) setting out Code of Practice 14 for the Governance and Administration of Public Sector Pension Schemes and action being taken to ensure compliance and best practice.

Discussion focused on the efforts being made by the County Treasurer to ensure the timely distribution of Annual Benefit Statements to all active and deferred members each year and initiatives to reach those members whose email address had changed or was not known.

[NB: The Code of Practice may be viewed at:
<http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx>]

19 Peninsula Pensions Administration Performance Statistics

The Board considered the Report of the County Treasurer (CT/15/92) on the performance of Peninsula Pensions covering team performance since the inception of the new shared service with Somerset, Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking and action to improve performance.

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Peninsula Pensions' main service standard was to complete 90% of its work within 10 working days once all necessary information had been received. In 2014/15 the team had completed 88% of work within target although backlogs were building up in some areas. Monitoring of performance to date for 2015/16 had shown that 81% of work was being completed within target although backlogs had been reduced in most areas. CIPFA benchmarking information for 2014/15 had indicated that the cost per member of administering the service was £13.40 which was well below the average for other Local Government Pension Scheme administration services, although performance in some other work areas was below average.

Action taken to maintain and enhance performance included reviewing and adjusting performance targets, recruiting and training more staff and introducing new ways of working.

AGREED

(a) that the County Treasurer be asked to provide Board members with statistics on the performance and costs specifically relating to the administration of the Devon Pension Fund on a more regular basis to facilitate the monitoring of trends;

(b) that the results of Peninsula Pensions' customer satisfaction survey be made available to Board members.

20

Future Work Programme

The Board considered the Report of the County Treasurer ([CT/15/93](#)) outlining the proposed future work programme for the Board.

AGREED

(a) that the proposed work programme be approved, subject to the addition of the reports on the process for considering applications to the Devon Pension Fund for admitted body status, an annual report on training provided for Investment and Pension Fund Committee members and their attendance at the sessions involved and a comparison of internal and external Fund management costs etc with other authorities;

(b) that the revised work programme be circulated to Board members.

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Dates of Future Meetings

It was noted that the Pension Board would meet at 10.30am on the following dates:

Thursday 14 April 2016

Thursday 20 October 2016

Monday 24 April 2017

The meeting started at 10.00am and finished at 12.40pm

The Minutes of the Committee are published on the County Council's Website at:

<http://www.devon.gov.uk/dcc/committee/minutes.html>

DEVON PENSION BOARD – ONE YEAR ON

Joint Report of the County Solicitor and County Treasurer

Recommendation: that the Board consider this Report.

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1. The Devon Pension Board has now been in existence for just under 12 months and it is therefore timely to review how things have gone in that time and provide an opportunity for Members to discuss and raise any issues about the role and responsibilities of the Board or any operational or procedural matters.
2. Devon's approach was broadly consistent with that adopted in other Authorities and was felt to be a pragmatic, realistic approach to discharging those new responsibilities, ensuring scheme members benefited from the work done on their behalf to ensure their scheme was well managed, without imposing further unnecessary or additional demands or costs upon the Council, the Fund or upon Board Members themselves. That seems to have stood the test of time so far.
3. A number of issues have arisen during the year which are referred to below – which Members may wish to comment upon in more detail - and also attached is a simple summary of the role and responsibilities of both the Board, Members and the Scheme Manager, which may prove to be an helpful aide memoire. Members may themselves have other issues they might wish to raise at the meeting, to obtain clarity or certainty.
4. The Guidance for establishing/operating local Pension Boards recommended that Boards should 'compile' a budget (which the administering authority is required to pay as part of the costs of administering the Fund) to cover the cost of its administration. It was generally accepted at the outset that determining a 'budget' for administrative support, accommodation, training and legal, technical and other professional support would have been difficult without a degree of practical experience upon which to formulate it. In light of the knowledge and experience now gained over the first months of operation and in line with the national guidance that this should be a matter for early consideration by the Board a draft budget has now been prepared for consideration at this meeting, elsewhere under this Agenda, which in the view of the County Treasurer/Scheme Manager is a sound, achievable financial plan based on a reasonable assessment of current workloads.
5. There has been some comment about the frequency of meetings. While, in establishing the Board, the Council opted for the minimum requirement of two meetings a year (to meet normally in April in October) it is of course open to the Board to meet more frequently or schedule further meetings. It is clearly important that should the Board wish to meet, for example, on a quarterly basis as opposed to bi-annually that all meetings should have a clearly defined purpose and warrant members attendance. Additional meetings will of course impact upon the Boards' budget referred to above and the management costs upon the Fund. Should the Board wish to meet more frequently it is strongly suggested that meetings be 'themed' in advance to reflect the primary tasks and objectives it has been asked to undertake, as indicated below.
6. There is of course a difference between the headline *Terms of Reference* of the Board which delineate the broad parameters within which the Board will work and the detailed arrangements and specific tasks set out in Report CS/15/3 (*approved by the Procedures Committee and ratified by the County Council on 19 February 2015, available at: <http://www.devon.gov.uk/cma.htm>*), such as those listed below, which the County Council has asked the Board to undertake and which reflect national guidance, namely:

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- monitor compliance of the Pension Fund with legislation, guidance issued by the Pensions Regulator, and with the policies set out in the Fund's statutory statements;
  - review and scrutinise the performance of the Pension Fund in relation to its governance and administration, policy objectives and performance targets;
  - approve the Annual Internal Audit Plan for the Devon Pension Fund and for Peninsula Pensions;
  - consider the Internal Audit Annual Report and any updates for the Devon Pension Fund and Peninsula Pensions;
  - consider External Audit report on the Pension Fund Annual Report and Statement of Accounts;
  - review the Pension Fund Risk Register, and
  - monitor the Fund's Internal Dispute Resolution Procedures
7. The Pension Board is of course an advisory and not an executive body and does not have direct decision making powers over the management or administration of the Fund. Nonetheless and as indicated above the Board has been tasked to exercise a full role consistent with national guidance. In that sense the Board is still work in progress and while it may take a little time for all concerned to work through any issues and achieve a common understanding good progress has, it is felt, already been made. The rules of procedure and arrangements for meetings of this Board – accompanying its terms of reference – follow those of the County Council, as enshrined in the latter's Constitution. While there may be some minor differences in wording or approach to 'model' terms of reference produced nationally these are not regarded as significant nor would they be at variance from the general principles of law and conduct of meetings.
8. Training and Development of Board Members has and continues to be an important feature of the first 12 months, for obvious reasons, with Members having been involved in a number of discrete and joint sessions (with the Investment & Pension Fund Committee). Members have generally commented favourably on the training provided to date, details of which are set out more fully in the separate Report also to be considered at this meeting. It is important that Members attend such events in order to make a full contribution to the work of the Board.
9. Circulation of information to Board Members, despite some initial teething problems and misunderstanding, has not proven to be an issue. In line with the Council's approach to transparency of its decision making processes, Board Members receive automatically papers for the Investment & Pension Fund Committee and other relevant documents and they may, of course, attend meetings of that Committee - including Part II discussions – to enable them to fulfil their role, to exercise a watching brief and observe proceedings, as a means of satisfying themselves that the governance and administration of the scheme complies with the rules. As a matter of good practice and wherever practicable Officers will also circulate any relevant information, data or statistics direct to Board Members as and when it is available and will not necessarily delay doing so simply to report formally to a future Board meeting, especially if that is some months away. In the same vein, the Scheme Manager would be expected to brief members on any action taken in response to any issues or concerns raised at a Board meeting as soon as was practicable, by electronic means, rather than again delaying that until the next meeting, as a matter of course. Members would of course be able to indicate then that they would like any particular issues to be discussed further at a subsequent meeting.
10. Members of the Board must of course maintain and demonstrate their impartiality at all times and this has been reflected in the training so far provided. Separate and specific guidance on conflicts of interest was agreed for the Board at the time it was established – again in line with national guidance - but if the Board were so minded it would not be inappropriate to endorse formally the principles which are already well established in a number of local authority quasi-judicial, regulatory committees along the lines, say, of:

*'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*

# Agenda Item 6

*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.'*

11. The question of public liability has also been raised and the Board can rest assured that its work and that of individual Board members is covered under the Council's insurance policies, as it is '*undertaking work specifically for or on behalf of the County Council*'.
12. This Report has no specific equality, sustainability, legal or public health implications that have not already been assessed and appropriate safeguards and/or actions taken or included within the detailed policies or practices or requirements relating to the conduct of meetings, to safeguard the Council's position.

JAN SHADBOLT

M DAVIS

[Electoral Divisions: All]

**Local Government Act 1972: List of Background Papers**

Contact for Enquiries: R Hooper

Tel No: 01392 382300 Room: G31

| <b><u>Background Paper</u></b> | <b><u>Date</u></b> | <b><u>File Reference</u></b> |
|--------------------------------|--------------------|------------------------------|
|--------------------------------|--------------------|------------------------------|

Nil

| <b>A Quick Guide to ....</b>                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>The Pension Board ..</b>                                                                                                                                                                                                                                                                    | <b>A Pension Board Member ..</b>                                                                                                                                                                                                                                                                                                                                                        | <b>The Scheme Manager ..</b>                                                                                                                                                                                                                                                                                                                        |
| helps ensure a scheme complies with governance and administration requirements including any requirements of the Pensions Regulator                                                                                                                                                            | should have a knowledge and understanding of relevant pensions law and a working knowledge of the Council's scheme, regulations and documentation                                                                                                                                                                                                                                       | is responsible for the governance and administration and management of the fund                                                                                                                                                                                                                                                                     |
| may review the status of the scheme and associated issues and make appropriate recommendations on, or to improve, standards of scheme governance and administration and may draw to the attention of the Scheme Manager or the Pensions Regulator any potential breach of rules or legislation | will play an important role through scrutinising the governance and administration of public service pension schemes in assisting the scheme manager in ensuring that the governance and administration of the scheme complies with its own rules and legislation                                                                                                                       | is responsible for managing risks, ensuring there are adequate internal controls, keeping records, ensuring the quality of member data, ensuring correct contributions are paid, managing conflicts of interest, publishing information about the Board, communicating information to members, resolving disputes and reporting breaches of the law |
| comment upon Annual Internal Audit Plans for the Devon Pension Fund and for Peninsula Pensions and on any external Audit Reports                                                                                                                                                               | will ensure the Scheme Manager (and those with delegated responsibilities) comply with scheme regulations and legislation, questioning and examining existing arrangements to ensure they are compliant and for purpose and to identify any issues needing examination                                                                                                                  | may delegate any the above responsibilities to a Committee, an Officer of the Council or an Investment Manager, but not to a local Pension Board                                                                                                                                                                                                    |
| scrutinise the overall performance of the Fund and any relevant statutory statements, policies, risk registers and dispute resolution procedures                                                                                                                                               | reviews the findings of internal and external audit reports, including published risk assessments - to identifying any areas or concerns where action may need to be taken by the Scheme Manager                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                     |
| endorse an annual budget and training and development plans or events organised for its benefit or in conjunction with Investment & Pension Fund Committee                                                                                                                                     | should attend meetings of the Board and any training or development events and may attend meetings of the Council's Investment & Pension Fund Committee and must have regard to the Principles of Public Life namely, selflessness, honesty/integrity, objectivity, accountability, openness, personal judgment, respect for others, duty to uphold the law, stewardship and leadership |                                                                                                                                                                                                                                                                                                                                                     |

## STATUTORY STATEMENTS – GOVERNANCE POLICY AND COMPLIANCE STATEMENT

### Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Board before taking effect.

**Recommendation:** that the Board notes the report and considers whether it wishes to make any comments to the Investment and Pension Fund Committee.

#### 1. Introduction

- 1.1. The Governance Policy and Compliance Statement is one of the four statutory statements that the Fund is required to have in place. Its purpose is to explain the governance arrangements for the Devon Pension Fund, as required by regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

#### 2. Governance Policy and Compliance Statement

- 2.1. The Governance Policy sets out the governance arrangements for the Fund, including the make-up of the Investment and Pension Fund Committee and the Devon Pension Board, and an outline of the tasks delegated to the Committee, the Board and to the Fund's officers.
- 2.2. The Compliance Statement sets out an analysis of the Fund's compliance with the latest guidance issued by the Secretary of State for Communities and Local Government. There is currently no reference within the Compliance Statement to the Pension Board, as DCLG have not updated their guidance of what should be included since the requirement for Pension Boards was introduced.
- 2.3. The Statement was approved by the Investment and Pension Fund Committee on 27<sup>th</sup> February 2015, and a copy is attached at Appendix 1.

#### 3. Conclusion

- 3.1. The Board is asked to note the Governance Policy and Compliance Statement.

Mary Davis

Electoral Divisions: All  
Local Government Act 1972  
List of Background Papers - Nil  
Contact for Enquiries: Dan Harris  
Tel No: (01392) 382520 Room G99

## Devon Pension Fund Governance Policy and Compliance Statement



### Introduction

**This policy and compliance statement outlines the governance arrangements for the Devon Pension Fund, maintained by Devon County Council, as required by regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).**

Under that provision all LGPS Funds in England and Wales are required to produce a Governance Compliance Statement, revise it following any material change in their delegation arrangements and publish it. The statement is required to set out:

- (a) whether the administering authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a subcommittee or an officer of the authority;
- (b) if they do so:
  - (i) the terms, structure and operational procedures of the delegation;
  - (ii) the frequency of any committee or sub-committee meetings;
  - (iii) whether such a committee or sub-committee includes representatives of employing authorities (including authorities which are not Scheme employers) or members, and if so, whether those representatives have voting rights.
- (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.

Each administering authority is required to:

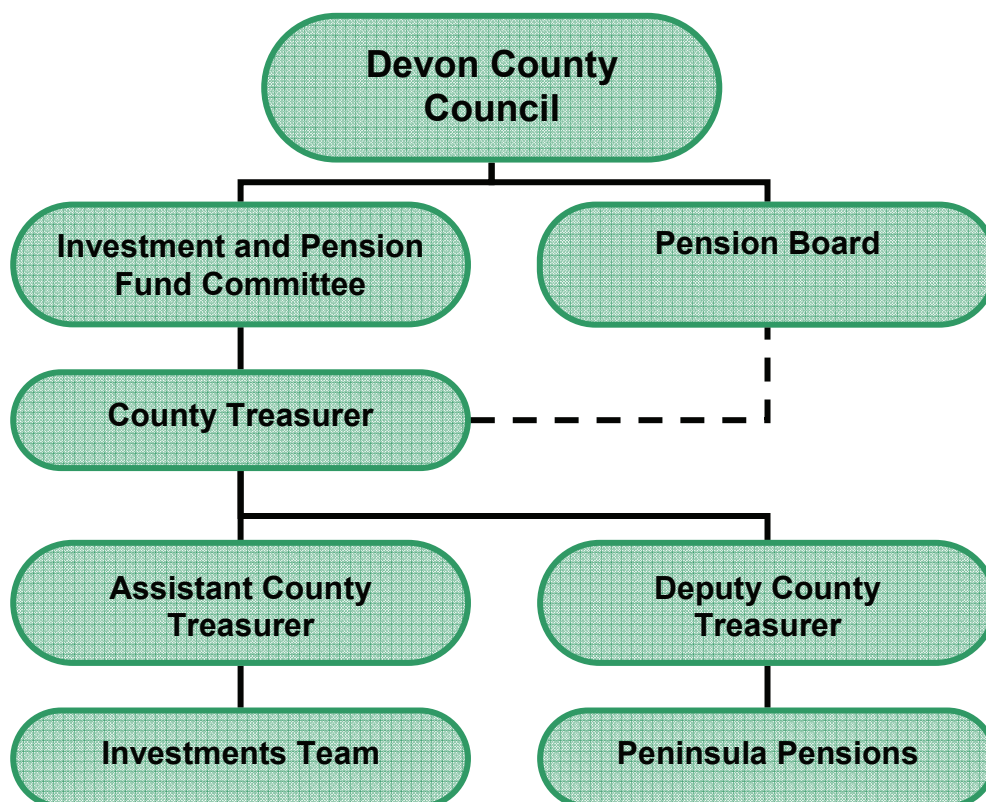
- (a) keep the statement under review;
- (b) make such revisions as are appropriate following a material change in respect of any of the matters mentioned in (a) to (c) above; and
- (c) if revisions are made:
  - (i) publish the statement as revised, and
  - (ii) send a copy of it to the Secretary of State.

In reviewing and making revisions to the statement, the authority must consult such persons as it considers appropriate.

The Governance Policy has been updated to reflect the governance changes required by the Public Sector Pensions Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015.

## Governance Structure

This Devon Pension Fund governance structure is illustrated below. The structure relates to administering authority responsibilities only. Devon County Council is also an employer within the Devon Pension Fund. A separate governance structure and scheme of delegation is in place in relation to Devon County Council's employer responsibilities.



# Agenda Item 7

## The Investment and Pension Fund Committee

The Investment and Pension Fund Committee is composed as follows:

| Representing         | No | Comments                                                  |
|----------------------|----|-----------------------------------------------------------|
| Devon County Council | 6  | Administering Authority representatives                   |
| Unitary Councils     | 2  | One from each of Plymouth City Council and Torbay Council |
| District Councils    | 1  | Nominated by Devon LGA                                    |
| Other Employers      | 1  | Nominated by Employers Forum                              |
| The Contributors     | 2  | Nominated by UNISON / GMB unions (Non-voting)             |
| The Beneficiaries    | 1  | Nominated by UNISON / GMB unions (Non-voting)             |

All members and representatives, with the exception of the representatives nominated by the trade unions, have equal voting rights. The Committee has also agreed that the Unitary and District authorities should be able to nominate substitute councillors to attend committee meetings should the nominated councillors be unable to do so.

The Investment and Pension Fund Committee is supported in the execution of its responsibilities by the following:

- The County Treasurer and staff from the Authority's Investments and Pensions Administration teams.
- An Independent Investment Advisor (currently Steve Tyson of AllenbridgeEpic)
- An Actuary (Currently Graeme Muir of Barnett Waddingham)

The Committee meets quarterly, and also has regular training sessions that all representatives and substitute members are invited to attend, in order to ensure that they are equipped as well as possible to fulfil their obligations.



## Role of the Investment and Pension Fund Committee

The Investment and Pension Fund Committee oversees the operation of the Devon Pension Fund on behalf of Devon County Council. The County Council's Constitution sets out the delegated role of the Investment and Pension Fund Committee as follows:

***To discharge the duties of the Council as Administering Authority of the Pension Fund and to review and approve the annual statement of accounts of the Devon Pension Fund, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from any audit that need to be brought to the attention of the Council. To review and approve the annual statement of the Pension Fund accounts.***

### ***Devon County Council Constitution Part 3 Responsibility for Functions paragraph 9.1***

In fulfilling that role the Committee undertakes the following tasks:

- Monitoring the administration of the Pension Scheme, including the benefit regulations and payment of pensions and their day to day administration, ensuring that it delivers best value and complies with best practice guidance where considered appropriate.
- Exercise of Pension Fund discretions on behalf of the Administering Authority.
- Determination of Pension Fund policy in regard to employer admission arrangements.
- Determination of the Pension Fund's Funding Strategy and approval of its Funding Strategy Statement.
- Receiving periodic actuarial valuation reports from the Actuary.
- Coordination of Administering Authority responses to consultations by Central Government, professional and other bodies.
- Approval and review of the content of the Statement of Investment Principles.
- Approval and review of the asset allocation benchmark for the Fund.
- Appointment and review of Investment Managers, Custodian and Advisors.
- Monitoring the quality and performance of each Investment Manager in conjunction with investment advisors and the Section 151 Officer.
- Setting and reviewing the investment parameters within which the Investment Managers can operate.
- Monitoring compliance of the investment arrangements with the Statement of Investment Principles.
- Assessment of the risks assumed by the Fund at a global level as well as on a manager by manager basis.
- Approval of the Annual Report.

# Agenda Item 7

## The Pension Board

The Pension Board is composed of nine members as follows:

| Representing       | No | Comments                                                                                              |
|--------------------|----|-------------------------------------------------------------------------------------------------------|
| Fund Members       | 4  | Appointed by the Administering Authority from applicants responding to an advertisement.              |
| Fund Employers     | 4  | Two appointed by Devon County Council, plus two elected by employers at an Annual Employers' Meeting. |
| Independent Member | 1  | Appointed by the Administering Authority from applicants responding to an advertisement. (Non-voting) |

All members and representatives, with the exception of the Independent Member will have equal voting rights. The Board will appoint a Chairman and Vice Chairman from among its members. Members of the Investment and Pension Fund Committee are excluded from membership of the Pension Board.

The members of the Pension Board serve for a four year term, subject to the following:

- The representatives of the administering authority shall be appointed annually by the Devon County Council Annual Council Meeting, but with a view to maintaining stability of membership.
- Two member representatives and one employer representative shall serve for an initial six year term, after which a four year term will be served, to promote continuity of experience by reducing the risk of all members being replaced by new members at the same time.
- The independent member shall also serve for an initial six year term, after which a four year term will be served.
- The membership of any member who fails to attend for two consecutive meetings or two consecutive training events shall be reviewed by the Board and shall be terminated in the absence of mitigating factors.
- Arrangements shall be made for the replacement of members who resign or whose membership ceases due to non-attendance in line with the procedures for their original appointment.

The Pension Board requires the support of the Fund's key advisors to support it in the execution of its responsibilities. These will include the County Treasurer and staff from the Authority's Investments and Pensions Administration teams. It will also include staff from the Devon Audit Partnership. The Board will also be able to seek advice from other advisors, such as the Fund Actuary, and the Fund's external auditors.

The Board will meet twice a year, once in the Spring and once in the Autumn. In addition training sessions will be held, which may be joint sessions with the Investment and Pension Fund Committee.

## Role of the Pension Board

The role of the local Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to –

- Assist the Administering Authority as Scheme Manager; –
  - to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
  - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
  - in such other matters as the LGPS regulations may specify.
- Secure the effective and efficient governance and administration of the LGPS for the Pension Fund.
- Provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

The Pension Board will also help ensure that the Devon Pension Fund is managed and administered effectively and efficiently and ensure that it complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

In fulfilling that role the Board undertakes the following tasks:

- Monitor compliance of the Pension Fund with legislation, guidance issued by the Pensions Regulator, and with the policies set out in the Fund's statutory statements.
- Review and scrutinise the performance of the Pension Fund in relation to its governance and administration, policy objectives and performance targets.
- Approval of the Annual Internal Audit Plan for the Devon Pension Fund and for Peninsula Pensions.
- Consideration of the Internal Audit Annual Report and regular update reports for the Devon Pension Fund and Peninsula Pensions.
- Consideration of the External Audit report on the Pension Fund Annual Report and Statement of Accounts.
- Review of the Pension Fund Risk Register.
- Monitoring of the Fund's Internal Dispute Resolution Procedures.

# Agenda Item 7

## Role of the County Treasurer

The County Treasurer is Devon County Council's Section 151 (Local Government Act 1972) Officer and the Proper Officer under s115 of the Local Government Act 1972 responsible for the proper administration of the Council's financial affairs, including the Devon Pension Fund.

The following responsibilities are delegated to the County Treasurer:

- The management, monitoring and reporting to the Investment and Pension Fund Committee of the activities and the performance of the:
  - a. Investment Managers;
  - b. Investment Consultants and Advisors;
  - c. Fund Custodian.
- The management of the Fund's cash assets directly held by the Administering Authority.
- The authorisation of cash or asset movements between the Administering Authority, the Fund Custodian and the investment managers.
- Accounting for all investment transactions in compliance with standard accountancy and audit practice.
- Taking action to rebalance the Fund by moving funds between current managers, where actual asset allocation varies by more than 2.5% from the target allocation.
- Allocating surplus cash of up to £50m to the Fund's investment managers, in consultation with the Chairman and Vice-Chairman, when deemed that such an allocation could be made to the benefit of the Fund.
- The payment of fees to the investment managers and the custodian in accordance with their contractual agreements.
- The Committee has delegated the use of voting rights on the Fund's shareholdings to the investment managers. In exceptional circumstances the County Treasurer may, in consultation with the Chairman and Vice-Chairman, direct the investment managers to vote in a specific way.
- The admission of organisations into the Pension Scheme - in accordance with approved policy.
- Under exceptional circumstances, taking urgent decisions regarding management of funds in the event that existing fund managers are unable to fulfil their responsibilities.
- In consultation with specialist advisors determining, on a risk by risk basis, whether to pursue litigation cases to attempt to recover sums due in relation to taxation issues or class actions.
- Exercising the discretionary powers allowed under the LGPS regulations.

## Governance Compliance Statement

The following table sets out the Devon Pension Fund's level of compliance with the latest guidance issued by the Secretary of State for Communities and Local Government.

As a statutory public service scheme, the LGPS has a different legal status compared with Trust based schemes in the private sector. Governance matters in the LGPS therefore need to be considered on their own merits and with a proper regard to the legal status of the scheme. This includes how and where it fits in with the local democratic process through local government law and locally elected councillors who have the final responsibility for its stewardship and management.

| Principle                                                                                                                                                                                                                                             | Not Compliant | Partially Compliant | Fully Compliant |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------|-----------------|
| <b>A. Structure</b>                                                                                                                                                                                                                                   |               |                     |                 |
| (a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.                                                                             |               |                     | ✓               |
| (b) 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. |               |                     | ✓               |
| (c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.                                                                                                                 |               |                     | N/A             |
| (d) 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.                                                                          |               |                     | N/A             |
| <b>Explanation of level of compliance</b>                                                                                                                                                                                                             |               |                     |                 |
| (c) and (d) No secondary committee has been established.                                                                                                                                                                                              |               |                     |                 |
| <b>B. Representation</b>                                                                                                                                                                                                                              |               |                     |                 |
| (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, eg, admitted bodies)                                                                                                                                                                       |               | ✓                   |                 |

# Agenda Item 7

| Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Not Compliant | Partially Compliant | Fully Compliant |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------|-----------------|
| (ii) scheme members (including deferred and pensioner scheme members);                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |               | ✓                   |                 |
| (iii) where appropriate, independent professional observers; and                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | ✓             |                     |                 |
| (iv) expert advisors (on an adhoc 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |               |                     | ✓               |
| <p><b>Explanation of level of compliance</b></p> <p>(a)(i) Devon's two unitary authorities and district councils are represented on the Investment and Pension Fund Committee. Currently there is no place for a representative of the admitted bodies. The Fund has a significant number of disparate admitted bodies, and it is considered impractical for each body or group of similar bodies to be separately represented on the Committee.</p> <p>(a)(ii) Representatives of scheme members are members of the Investment and Pension Fund Committee, but without voting rights.</p> <p>(a)(iii) The Devon Pension Fund considers that the roles envisaged by CLG for an independent professional observer are already adequately catered for within the Fund's current governance arrangements through the participation of the Fund's Independent Advisor.</p> |               |                     |                 |
| <p><b>C. Selection and Role of Lay Members</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |               |                     |                 |
| (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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |               |                     | ✓               |

| Principle                                                                                                                                                                                                                                                          | Not Compliant | Partially Compliant | Fully Compliant |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------|-----------------|
| <b>D. Voting</b>                                                                                                                                                                                                                                                   |               |                     |                 |
| (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.                                           |               |                     | ✓               |
| <b>E. Training / Facility Time / Expenses</b>                                                                                                                                                                                                                      |               |                     |                 |
| (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, subcommittees, 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.                                                                                                    |               | ✓                   |                 |
| <b>Explanation of level of compliance</b>                                                                                                                                                                                                                          |               |                     |                 |
| (c) Regular training is provided for members. Consideration is to be given to the introduction of annual training plans for members and the maintenance of a log of all such training undertaken.                                                                  |               |                     |                 |
| <b>F. Meetings - Frequency</b>                                                                                                                                                                                                                                     |               |                     |                 |
| (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.                                                                                                     |               |                     | N/A             |
| (c) That an administering authority who 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.                                    |               |                     | ✓               |

# Agenda Item 7

| Principle                                                                                                                                                                                                                                                    | Not Compliant | Partially Compliant | Fully Compliant |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------|-----------------|
| <b>Explanation of level of compliance</b>                                                                                                                                                                                                                    |               |                     |                 |
| (b) No secondary committee has been established.                                                                                                                                                                                                             |               |                     |                 |
| <b>G. Access</b>                                                                                                                                                                                                                                             |               |                     |                 |
| (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.               |               |                     | ✓               |
| <b>H. Scope</b>                                                                                                                                                                                                                                              |               |                     |                 |
| (a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.                                                                                                                          |               |                     | ✓               |
| <b>I. Publicity</b>                                                                                                                                                                                                                                          |               |                     |                 |
| (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. |               |                     | ✓               |



## STATUTORY STATEMENTS - STATEMENT OF INVESTMENT PRINCIPLES

### Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Board before taking effect.

**Recommendation:** that the Board notes the report and considers whether it wishes to make any comments to the Investment and Pension Fund Committee.

#### 1. Introduction

- 1.1. Since July 2000, all pension funds are required to prepare, maintain and publish a Statement of Investment Principles (SIP). This document is designed to explain to fund members, employers and any other interested parties how the assets are managed and the factors that are taken into account in so doing.

#### 2. Statement of Investment Principles

- 2.1. The Devon County Council Pension Fund has had an approved Statement of Investment Principles since February 2000. The latest version is made available on the Council's website and a copy is attached at Appendix 1.

- 2.2. The SIP outlines the Fund's investment strategy, and how the risk and return issues have been managed relative to the Fund's investment objectives.

- 2.3. The SIP is reviewed regularly and covers the following areas:

- 2.4. Decisions Takers

This section sets out the roles and responsibilities of those involved in the running of the Devon Pension Fund. The decision takers include Devon County Council (as the Administering Authority), the Investment and Pension Fund Committee, the Pension Board, the Independent Investment Advisor, the County Treasurer, Investment Managers and the Fund Actuary.

- 2.5. Risk and Reward

In order to generate sufficient returns on investments, Pension Funds are by nature required to take considered risks. This section details the short-term and long-term risks identified by the Fund, and highlights any controls and processes put in place to mitigate the level of risk.

- 2.6. Investment Principles

This section states the types of investments that the Fund is permitted to invest in, including the strategic allocation to asset classes, expected return on investments, realisation of investments and stock lending.

- 2.7. Corporate Governance – Effective Engagement

The Devon Pension Fund is fully supportive of the UK Stewardship Code, published in July 2010, which aims to enhance the quality of engagement between asset managers and companies to improve long-term risk-adjusted returns to shareholders. This section sets out the Fund's policy in respect of the UK Stewardship Code.

# Agenda Item 8

## 2.8. Corporate Governance – Social, Environmental and Ethical Issues

This section sets out the principles that the Fund has adopted in respect of the retention and realisation of investments on the grounds of social, environmental and ethical issues.

## 2.9. Compliance with the Myners Principles

In 2001, Paul Myners was commissioned by HM Treasury to produce a report regarding institutional investors in the UK. The Government was concerned that institutional investors were giving insufficient attention and resources to their holdings in non-listed companies. The report addressed this, in particular concerning pension fund trustees and fund managers. Within the review, Myners set out principles that he believed to be best practice for the governance of pension schemes.

2.10. The Fund has considered the 6 Myners Principles and is compliant with the spirit of these recommendations.

## 3. Conclusion

3.1. The Board is asked to note the Statement of Investment Principles.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

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# **Devon Pension Fund Statement of Investment Principles**

**Updated June 2015**

**Approved by the Investment and Pension Fund Committee**

**On 12<sup>th</sup> June 2015**

## Statement of Investment Principles

### 1. Introduction

Since July 2000, all pension funds have had to prepare and publish a Statement of Investment Principles (SIP). This document is designed to explain to fund members, employers and any other interested parties how the assets are managed and the factors that are taken into account in so doing. The Statement has been prepared in accordance with **Regulation 12 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No. 3093)**.

The Devon County Council Pension Fund has had an approved Statement of Investment Principles since February 2000. The latest version is made available on the Council's website.

The SIP has been prepared, in line with guidance received from the Secretary of State for Communities and Local Government, with reference to the Chartered Institute of Public Finance & Accountancy (CIPFA) Pensions Panel publication, '**Principles for Investment Decision Making and Disclosure in the LGPS in the United Kingdom 2009 – A Guide to the Application of the 2008 Myners Principles to the Management of LGPS Funds**'. It is accepted that these six principles form the code of best practice for LGPS Funds; this SIP reports the extent of compliance with each of the six principles.

In July 2010 the Financial Reporting Council issued the UK Stewardship Code, which sets out seven principles around corporate governance, and the engagement of pension funds and their fund managers with the companies that they have invested in. The Devon Pension Fund supports the code, and policies in relation to the seven principles are set out within the SIP.

The SIP also has to indicate the extent to which social, environmental and ethical issues are taken into account in the management process. These requirements do not oblige the Fund to adopt particular management policies. They are simply intended to allow the reader to understand the extent to which they influence the Investment Principles and, where they are not taken into account, why they are considered inappropriate.

Pension funds are not all the same. There are perfectly valid reasons why their Investment Principles may be different. They have to reflect how well funded the pension fund is and its maturity (the balance between contributors and pensioners). They will, inevitably, also reflect the views of those responsible for its management, particularly their attitude to risk. The objective at the end of the day is to ensure that the fund can meet all its future pension liabilities, but there are different ways of achieving this.

This Statement must be revised from time to time by the Administering Authority in accordance with any material change in policy.

Statement of Investment Principles

**2. Decision Takers**

**Devon County Council** - is the Administering Authority and is responsible for managing the Fund in accordance with the Regulations.

**Investment & Pension Fund Committee** - this County Council Committee, which includes Unitary and District Council representatives and those of the contributors and the pensioners (non-voting) carries out the role of the Administering Authority. It has full delegated authority to make decisions on Pension Fund matters. In particular it:

- decides the Investment Principles;
- determines the fund management structure;
- reviews investment performance;
- appoints and removes investment managers.

**Pension Board** – while not a decision making body, the Pension Board has been set up to assist the Administering Authority in securing compliance with legislation and regulation and the effective and efficient governance of the Fund. The Board can make recommendations to the Investment and Pension Fund Committee or report serious concerns directly to the Pensions Regulator.

**Independent Investment Advisor** - this person is an experienced investment professional who provides independent advice to the Committee on all aspects of its business.

**Devon County Council County Treasurer** - advises the Committee and ensures that it is informed of regulatory changes and new developments in the investment field and implements the Committee’s decisions.

**Investment Managers** - carry out the management brief approved by the Committee, within the agreed risk parameters, to achieve the agreed performance targets.

**The Fund’s Actuary** - calculates the solvency of the Fund and fixes the employers’ contribution rates at a level that will aim to achieve 100% funding in the long-term. As part of this exercise assumptions will be made about future investment returns.

### 3. Risk and Reward

Successful investment involves taking considered risks, acknowledging that the returns achieved will to a large extent reflect the risks taken. There are short-term risks of loss arising from default by brokers, banks or custodians but the Fund is careful only to deal with reputable counter-parties to minimise any such risk.

Longer-term investment risk includes the **absolute risk** of reduction in the value of assets through negative returns (which cannot be totally avoided if all major markets fall). It also includes the risk of under-performing the Fund's performance benchmark (**relative risk**).

Different types of investment have different risk characteristics and have historically yielded different rewards (returns). Equities (company shares) have produced better long-term returns than fixed interest stocks but they are more volatile and have at times produced negative returns for long periods.

At Fund level, investment risk is managed through:

- Diversification of types of investment and investment managers.
- Explicit mandates governing the activity of investment managers.
- The appointment of an Independent Investment Advisor.

The external investment managers can control relative risk to a large extent by using statistical techniques to forecast how volatile their performance is likely to be compared to the benchmark. The Fund can monitor this risk and impose limits.

The ultimate risk is that the Fund's assets produce worse returns than assumed by the Actuary, who values the assets and liabilities every three years, and that as a result, the solvency of the Fund deteriorates. To guard against this the Investment Principles seek to control risk but not to eliminate it. It is quite possible to take too little risk and thereby to fail to achieve the required performance.

The investment managers need to be given appropriate levels of discretion to switch between investments to reduce the risk of under-performance.

Operational risk to the Fund is managed through:

- A strong employer covenant.
- The use of a Global Custodian for custody of assets.
- Having formal contractual arrangements with investment managers.
- Comprehensive risk disclosures within the Annual Statement of Accounts.
- Internal and external audit arrangements.

Statement of Investment Principles

4. Investment Principles

1. Risk

Whilst some monies may be invested in high risk investments from time to time, these will only represent a small part of the Fund. Total fund risk will be monitored and controlled (as far as possible) at a level that is considered appropriate for a pension fund.

2. Types of Investment

The majority of the Fund’s investments will be made in stocks that are quoted on recognised Stock Exchanges and are easily realisable. Where investments are made in other vehicles (e.g. unit trusts or other pooled funds) there must be an effective way of redeeming them. It is recognised, however, that certain stocks may sometimes become illiquid or unrealisable.

Investments should normally be income producing although this income may be automatically reinvested. Non income producing assets, such as gold or works of art will not normally be purchased. The decision whether or not to hold an asset that is considered to be suitable will only be made on investment grounds.

3. The balance between different types of Investment

The Fund will at all times hold a widely diversified portfolio of investments to reduce risk.

Following a review in November 2011, and a further update in June 2013, the Fund has adopted the following strategic asset allocation as an overall benchmark:

- Fixed Interest 16%
- Equities 55%
- Diversified Growth Funds 15%
- Alternatives (Property and Infrastructure) 14%

A core portion of the allocation to equities, 40% of the total Fund, will be managed externally on a passive basis. This portfolio will contain a large number of stocks spread over a wide cross section of markets. Within markets, the Fund’s holdings will closely track the relevant market indices. 20% of the passive allocation (8% of the total Fund) will track alternative indices based on quality, value and low volatility criteria, rather than the market capitalisation of the shares, with the intention of generating outperformance in comparison with the market capitalisation indices.

The remainder of the assets will be managed (both internally and externally) on a more active basis. The external managers will include both specialist managers, who concentrate on specific sectors of the market and diversified growth fund managers, who have considerable discretion over the choice of types of investment. (A list of current managers and the benchmarks to

## Statement of Investment Principles

which they operate is set out in Appendix B).

The use of diversified growth funds, which will include both equities and fixed interest assets, within a wider range of assets, will provide a greater level of flexibility for the Fund in enabling a more active asset allocation to take advantage of market trends.

The target allocation for Property is 10% of the Fund.

Asset allocation varies over time through the impact of market movements and cash flows. The overall balance is monitored regularly, and if the allocations move more than 2.5% away from the target consideration is given to rebalancing the assets taking into account market conditions and other relevant factors.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 impose limits on certain types of investments. The regulations prescribe lower limits which should not be exceeded, unless the Committee decides to adopt a higher limit as provided for by regulation 14 (3). With regard to the limit on investments in any single insurance contract, the Fund has adopted the higher limit of 35% on an open ended basis. This relates to the Life Funds managed by UBS within the passive portfolio, which exceed the lower limit of 25% following the award of a mandate to manage an alternative indexation portfolio within the Life Funds. The decision to invest in the alternative indexation mandate was taken on the basis that it is a separate investment from the longstanding passive mandate with different risk characteristics. Should the fund wish to take further advantage of the higher limits, the Administering Authority has to get specific approval from the Investment & Pension Fund Committee on each occasion, having met certain requirements.

#### 4. The expected return on investments

It is not possible to control the absolute return on investments but over the long-term the Fund seeks to achieve a real return at least as good as that assumed by the Actuary from time to time in his Valuations. In the short term, returns are measured against a bespoke benchmark based on the Fund's strategic asset allocation. As the Fund is not prepared to accept a higher level of overall risk than the average pension fund, it cannot expect to achieve much higher returns. The strategy described above is expected to outperform the benchmark by 0.5% per annum on a consistent basis.

#### 5. The realisation of investments

Only investments that can be realised are considered to be suitable for the Fund. Pension funds are long-term investors and it is not intended that the fund will be very active in the way it manages most of its investments, particularly in the passive portfolio. Historically employer and employee contributions have exceeded pensions in payment. Rising pensions in payment mean that this is no longer the case, but the Fund also receives significant investment income which can also be used to pay pensions as required. Consequently it is unlikely that the Fund



## Statement of Investment Principles

will need to sell assets to pay pensions in the foreseeable future. Any asset sales will therefore be based on investment considerations, such as perceived over-valuation or a desire to adjust investment risks.

### 6. Stock Lending

The Fund participates in stock lending of its segregated assets, as permitted under Regulation 3 (8) and 3 (9) of the LGPS (Management and Investment of Funds) Regulations 2009, and within the limits specified in these regulations.

Stock lending is carried out via the Fund Custodian, who provides security and protection to mitigate risk through an indemnity and the holding of collateral against the stocks lent.

### 7. Changes to Investment Principles

Although the Investment Principles are intended to remain in place over the long-term, there will be occasions when they need to be revised. The Investment and Pension Fund Committee will review them at regular intervals.

### 5. Corporate Governance – Effective Engagement

The Devon Pension Fund is fully supportive of the UK Stewardship Code, published in July 2010, and the Committee accepts the rights and responsibilities that attach to being a shareholder and will play an active role in overseeing the management of the companies in which it invests.

The following section sets out the Fund's policy in relation to the seven principles of the UK Stewardship Code:

1. Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Devon Pension Fund aims to be a supportive, long term shareholder. The Committee will support the latest widely accepted standards of Best Practice in Corporate Governance and will expect the companies in which it invests to comply therewith. It will use its influence as a shareholder to persuade the Directors of any companies that do not already comply to adopt Best Practice.

The Fund will expect its external investment managers to:

- (a) Seek to develop a long-term relationship and an understanding of mutual objectives and concerns with the companies in which we invest.
- (b) Meet regularly with those companies to discuss corporate strategy and objectives, and to make an assessment of management performance.
- (c) Have in place processes in place to ensure access to accurate information regarding companies in which we invest, including the approach to corporate governance adopted by the company.
- (d) Intervene when a company fails to meet expectations in terms of traditional governance inputs (such as board structures) but also the outputs of governance such as acquisitions and operational performance.

The Fund's external investment managers will judge whether to support a company by subscribing to a rights issue, accepting a take-over bid or other similar events purely on investment grounds.

2. Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

External investment managers will be expected to act in the Fund's interests when considering matters such as engagement and voting. The Fund will expect its fund managers to:

- (a) Put in place and maintain a policy for managing conflicts of interest.
- (b) Ensure that any significant conflicts of interest are disclosed.

## Statement of Investment Principles

### 3. Institutional investors should monitor their investee companies.

The Fund will expect its external investment managers to

- (a) Satisfy themselves, to the extent possible, that the investee company's board and committee structures are effective, and that independent directors provide adequate oversight, including by meeting the chairman and, where appropriate, other board members.
- (b) Maintain comprehensive records of governance engagements, votes cast and the reasons for voting against management or abstaining.
- (c) Attend General Meetings selectively when they consider it is of value to our investment to do so.

### 4. Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

The Fund will expect its external investment managers to escalate activities if a company fails to meet expectations. The most important issues for us are:

- Strategy - including acquisitions and the deployment of capital
- Operational performance
- Quality of the Board
- Succession planning
- Health & Safety
- Risk management
- Remuneration
- Corporate social responsibility

The Fund will expect its external investment managers to engage with the board in order to better understand what is behind such concerns. Engagement should be regularly reviewed and its success assessed.

### 5. Institutional investors should be willing to act collectively with other investors where appropriate.

As a general rule we believe the effectiveness of engagement is considerably increased when we find common ground with other shareholders. The Fund will therefore encourage its fund managers to work with collective bodies or collaborate with other shareholders if they believe this will increase the chance of success.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), an association of local authority pension funds who act collectively with a view to achieving the highest standard of corporate governance and corporate social responsibility amongst the companies in which they invest.

## Statement of Investment Principles

6. Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Council will instruct its external investment managers to vote at all meetings of UK companies where they have sufficient information to form a view on the issues involved. Voting will be extended to overseas companies when practicable.

The Council will instruct its external investment managers to vote in favour of all resolutions put forward by the Directors of a company unless they are not in the shareholder's interests (e.g. Long Term Incentive Plans with targets that are not demanding enough or where excessive remuneration is proposed) or expose the company to undue risk or they condone bad practice (e.g. Director's service contracts in excess of one year) in which cases it will instruct them to vote against.

7. Institutional investors should report periodically on their stewardship and voting activities.

The Investment and Pension Fund Committee will monitor the fund managers' engagement with the companies they have invested in, through the regular reporting arrangements in place. In addition the external investment managers will be requested to produce an annual summary of their engagement activity for inclusion within the Devon Pension Fund Annual Report.

## Statement of Investment Principles

### 6. Corporate Governance – Social, Environmental and Ethical Issues

The Committee has considered the extent to which it wishes to take into account social, environmental or ethical issues in the selection, retention and realisation of investments and has adopted the following principles:-

1. Future investments will not be banned nor existing investments sold solely on social, environmental or ethical grounds.
2. Other than the monies set aside for investment in Ethical Unit Trusts (up to 1% of the Fund), investment will not be made in companies solely because of their good record in social, environmental or ethical issues. Many of the Fund's investments would qualify as ethical, however, even though not chosen for that reason.
3. It is recognised, however, that the interests of investors on social etc. grounds may coincide with those solely on investment grounds in which case there will be no conflict of interest. Indeed, the Committee believes that in the long run, socially responsible and fiduciary investment will tend to come together since adverse performance on social, environmental or ethical issues will ultimately be reflected in share prices.
4. The Fund will encourage its Investment Managers to adopt a policy of engagement with companies to make its view known to their management and to seek to change their behaviour where necessary. This is more likely to be successful if the Fund continues to be a shareholder.
5. Although social, environmental and ethical issues rarely arise on the agendas of company Annual General Meetings, where an issue does arise the Council's external investment managers will only vote if it is in the Fund's interest on investment grounds. Some issues may be incorporated into generally accepted Corporate Governance Best Practice (e.g. the inclusion of an Environmental Statement in the Annual Report and Accounts). In this case the Council will instruct its external investment managers to vote against the adoption of the Annual Report, if no such statement is included.

### 7. Compliance with the Myners Principles

Regulations made by the Department for Communities and Local Government (DCLG) require the SIP to comment on the compliance with the Myners principles.

In 2007, the Government asked the National Association of Pension Funds (NAPF) to review the extent to which pension fund trustees are applying the Myners principles. The NAPF made a series of recommendations which included replacing the previous ten Principles with six high level Principles.

The Committee has considered the 6 Myners Principles (set out in Appendix A) and is of the view that the Fund currently complies with the spirit of these recommendations. Further details are given below on each of the 6 principles.

#### 1. Effective Decision Making

The County Council has a designated Committee whose terms of reference are to discharge the duties of the Council as the Administering Authority. There is a training programme for Committee members. They also have external and internal advisers and are supported by an experienced in-house team to oversee the day to day running of the Fund. Representatives of the Fund's contributors and pensioners, although not voting members, advise the Committee on the views of their members. The Administering Authority is supported by a Pension Board, whose role is to assist them in securing compliance with legislation and regulation and the effective and efficient governance of the Fund.

#### 2. Clear Objectives

This document sets out clear objectives in relation to the split of assets between Equities and Bonds, investment in Diversified Growth Funds, and other assets such as Property.

The Committee is aware of the Fund's current deficit and its investment policy is designed to gradually improve solvency whilst keeping employers' contribution rates as constant as possible. A key objective of the Fund's strategy is to manage the fund to ensure a healthy cash-flow for the foreseeable future.

#### 3. Risk and Liabilities

The Committee has considered the mix of assets that it should adopt and the level of risk (volatility of returns) it is prepared to accept. This document sets out current policy, which is designed to improve the Fund's solvency while only accepting moderate risk.

The Committee will regularly review the benefits of using the full range of asset classes.

#### 4. Performance Assessment

In the award of mandates to individual investment managers the Investment and Pension Fund Committee has set benchmarks for

## Statement of Investment Principles

each asset class, as set out in Appendix B. The total fund is measured against a bespoke benchmark based on the Fund's strategic asset allocation.

The Fund engages an investment analytics company to provide an independent measurement of investment returns. These are used for comparison purposes against specific and peer group benchmarks.

The Investment and Pension Fund Committee receive quarterly performance reports and are therefore able to consider the performance of all asset classes and managers on a regular basis. These considerations form the basis of decision making.

### 5. Responsible Ownership

Section 6 of this document, on Corporate Governance – Effective Engagement, sets out the Fund's commitment to responsible ownership. The management agreements with the Fund's investment managers include provision for them to engage with companies in compliance with the terms of the Combined Code and the Council's voting policy as set out in this document. As already noted above the Fund is also a member of the Local Authority Pension Fund Forum (LAPFF). The Fund also has investments in specialist pooled funds that are specifically designed to be activist. This document sets out the Council's policy on voting.

### 6. Transparency and Reporting

This Statement of Investment Principles is available to any interested party on request. The latest version is available on the Council's website.

In accordance with LGPS (Administration) Regulations 2008, the Devon Pension Fund has published a Communications Policy Statement, which can be viewed at:

<https://www.peninsulapensions.org.uk/wp-content/uploads/2013/08/Devon-Pension-Fund-Communications-Policy.pdf>, which describes the Fund's policy on:

- Providing information to members, employers and representatives,
- The format, frequency and method of distributing such information,
- The promotion of the Fund to prospective members and their employing bodies.

The Fund will continue to develop its website, which it considers to be its primary communications channel.

### Appendix A: The 2008 Myners Principles

#### **Principle 1: Effective decision-making**

- Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
- Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

#### **Principle 2: Clear objectives**

- Overall investment objectives should be set for the fund that take account of the scheme's liabilities, the potential impact on local council tax payers, the strength of the covenant of the participating employers, and the attitude to risk of both the administering authority and the scheme employers, and these should be clearly communicated to advisers and investment managers.

#### **Principle 3: Risk and liabilities**

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.
- These include the implications for council tax payers, the strength of the covenant of participating employers, the risk of their default and longevity risk.

#### **Principle 4: Performance assessment**

- Administering authorities should arrange for the formal measurement of the performance of the investments, investment managers and advisers.
- Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

#### **Principle 5: Responsible ownership**

- Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents.
- A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles.
- Administering authorities should report periodically to members on the discharge of such responsibilities.

#### **Principle 6: Transparency and reporting**

- Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Administering authorities should provide regular communication to members in the form they consider most appropriate.



## Statement of Investment Principles

### Appendix B: Current Managers and Mandates

| Manager                                 | Mandate                                   | Target                                                                                          |
|-----------------------------------------|-------------------------------------------|-------------------------------------------------------------------------------------------------|
| Aberdeen Asset Managers Ltd             | Global Equity                             | Outperform FTSE World Index by 3% per annum over rolling 3 and 5 year periods                   |
| Aberdeen Asset Managers Ltd             | Global Emerging                           | Outperform MSCI Emerging Markets Index by 2-4% per annum over rolling 3 year periods            |
| State Street Global Advisors Ltd        | Passive Equities                          | Performance in line with FTSE World market specific indices                                     |
| UBS Global Asset Management (UK) Ltd    | Passive Equities                          | Performance in line with FTSE All Share Index                                                   |
| UBS Global Asset Management (UK) Ltd    | Passive Equities (Alternative Indexation) | Performance in line with FTSE RAFI / MSCI World Quality / MSCI World Minimum Volatility Indices |
| Lazard Asset Management LLC             | Global Fixed Interest                     | Outperform Barclays Capital Global Aggregate Bond Index by 1% per annum                         |
| Wellington Management International Ltd | Global Fixed Interest                     | Outperform Barclays Capital Global Aggregate Bond Index by 1% per annum                         |
| Baillie Gifford and Co.                 | Diversified Growth Fund                   | Outperform Bank of England Base Rate by 3.5% per annum net of fees                              |
| Barings Asset Management Ltd            | Diversified Growth Fund                   | Outperform LIBOR by 4% per annum                                                                |
| Aviva Investors Global Services Ltd     | Property                                  | Outperform the IPD UK PPF All Balanced Funds Index                                              |
| DCC Investment Team                     | Specialist Funds                          | Outperform the median return of the local authority peer group                                  |



## **Annual Internal Audit Report 2015/16 and the proposed Internal Audit Plan 2016/17**

### **Report of the County Treasurer**

Please note that the following recommendations are subject to consideration and determination by the Board before taking effect.

**Recommendation: the Board note the Internal Audit Report for 2015/16 and consider the proposed Internal Audit plan for 2016/17 and consider whether it wishes to make any comments to the Investment and Pension Fund Committee.**

#### **1. Annual Internal Report – 2015/16**

- 1.1. The Head of Devon Audit Partnership is required to provide the Authority with an assurance on the system of internal control of the Fund. It should be noted, however, that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, based on risk-based reviews and sample testing, that there are no major weaknesses in the system of control. In assessing the level of assurance to be given the following have been taken into account:
- all audits undertaken during 2015/16;
  - any significant recommendations not accepted by management and the consequent risks;
  - internal audit's performance;
  - any limitations that may have been placed on the scope of internal audit.
- 1.2. In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.
- 1.3. The final audit reports also include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.
- 1.4. Management are provided with details of Internal Audit's opinion on each audit review carried out in 2015/16 to assist them with compilation of their individual annual governance assurance statements. If significant weaknesses have been identified in specific areas, these have been considered by the Authority in preparing its Annual Governance Statement which will be included with its published Statement of Accounts for 2015/16.
- 1.5. Overall, and based on work performed during 2015/16, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Fund's internal control environment.

# Agenda Item 9

## 2. Internal Audit Plan 2016/17 and the Service Level Agreement

- 2.1. Under the Local Government Act 1972 the Authority, and specifically the Chief Financial Officer (the County Treasurer), has a statutory duty to “make arrangements for the proper administration of their financial affairs”. Assurance that this is the case is given through the reporting of Internal Audit. The audits have been carried out under the terms of Accountancy and Audit Regulations 2011 and in accordance with the Public Sector Internal Audit Standards.
- 2.2. The Internal Auditors for the Pension Fund are responsible for ensuring that all financial systems are operating effectively and in line with the Authority’s financial regulations. This is achieved through the two audit plans: one for the Devon Pension Fund and one for Peninsula Pensions.

### The Aim of the Plans

- 2.3. The plans are reviewed and agreed on an annual basis, incorporating the key risks identified through the risk registers, discussions with senior managers and areas identified by Internal Audit. The plan also incorporates any requirements of the External Auditors in reviewing finance systems.
- 2.4. The main objectives of the plan are to provide assurance to the County Treasurer and the external auditors that all financial systems are:
  - Secure
  - Effective
  - Efficient
  - Accurate
  - Complete
  - Compliant
- 2.5. In order to confirm this risk based reviews, system reviews and compliance testing are completed at the Fund’s administrative offices and at Peninsula Pensions’ offices.

### The Plan

- 2.6. The audit plans for the financial year 2016/17 allows for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsula Pensions.
- 2.7. This covers the financial audit reviews required as part of Internal Audit responsibilities in reporting to the County Treasurer, and also satisfies External Auditors of the security and effectiveness of the financial systems. The Internal Auditors will provide the documentation required by external audit to ensure they are satisfied with operations.
- 2.8. The Internal Auditors will liaise with the Fund’s external auditors to discuss the testing planned to ensure this satisfies their requirements and reduces their need for review of these financial systems. The remainder of the planned days incorporates reviews of specific systems as identified through an audit risk assessment process, the Authority’s risk register and liaison with management.
- 2.9. Any major findings (if applicable) from the previous year’s audit plan will be reviewed to ensure that agreed recommendations have been implemented and are effective.

## **Timetable**

- 2.10. The audits will be completed at specified times of the year through consultation and prior agreement of the Assistant County Treasurer (Investment & Treasury Management) and the Peninsula Pensions management. This will also take into account the timetable of external audit where applicable.
- 2.11. All findings will be reviewed with senior management at the end of each audit programme and prior to the issue of reports.
- 2.12. A copy of all final reports will be forwarded to our External Auditors, Grant Thornton, for their information.

## **Service Level Agreement**

- 2.13. The audit plan for 2016/17 is attached for consideration and will be forwarded for approval of the Pensions and Investment Fund Committee.

## **3. Conclusion**

- 3.1. The Board is asked to note the Internal Audit Report for 2015/16 and consider the proposed Internal Audit plan for 2016/17 and consider whether it wishes to make any comments to the Investment and Pension Fund Committee.

Mary Davis

Electoral Divisions: All

Local Government Act 1972  
Accounts and Audit Regulations 2011

List of Background Papers - Nil  
Contact for Enquiries: Robert Hutchins  
Tel No: (01392) 383000 - Dart Suite, Larkbeare House

## **DEVON PENSION FUND**

### **ANNUAL INTERNAL AUDIT REPORT 2015/16**

**and**

### **PROPOSED INTERNAL AUDIT PLANS 2016/17**

#### **Section 1 - ANNUAL INTERNAL AUDIT REPORT 2015/16**

##### **1 INTRODUCTION**

1.1 The following report sets out the background to audit service provision, review work undertaken in 2015/16, and provides an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.

1.3 This supports the organisation in complying with the Accounts and Audit Regulations 2011 which requires all Authorities to carry out a review at least once in a year of the effectiveness of its system of internal control, and to incorporate the results of that review into their Annual Governance Statement (AGS). The AGS must then be published with the Annual Statement of Accounts.

##### **2 BACKGROUND**

###### **2.1 Service Provision**

2.1.1 The Internal Audit (IA) Service for the Devon Pension Fund (the Fund) is delivered by the Devon Audit Partnership. This is a shared service arrangement between Devon County Council, Torbay Council and Plymouth City Council constituted under section 20 of the Local Government Act 2000.

###### **2.2 Regulatory Role**

2.2.1 There are two principal pieces of legislation that impact upon internal audit in local authorities:

- **Section 6 of the Accounts and Audit Regulations (England) Regulations 2011** which states that ".....a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control ....."
- ".....a larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit ....."
- **Section 151 of the Local Government Act 1972**, which requires every local authority to make arrangements for the proper administration of its financial affairs.

2.2.2 There are also professional guidelines which govern the scope, standards and conduct of Internal Audit, including the Public Sector Internal Audit Standards (PSIAS).



2.2.3 In addition, Internal Audit is governed by policies, procedures, rules and regulations established by the Authority. These include standing orders, schemes of delegation, financial regulations, conditions of service, anti-fraud and corruption strategies, fraud prevention procedures and codes of conduct, amongst others.

### **3 OBJECTIVES AND SCOPE**

3.1 This report presents a summary of the audit work undertaken; includes an opinion on the adequacy and effectiveness of the Fund's internal control environment. The report outlines the level of assurance that we are able to provide, based on the internal audit work completed during the year.

3.2. The Head of Devon Audit Partnership is required to provide the Authority with an assurance on the system of internal control of the Fund. It should be noted, however, that this assurance can never be absolute. The most that the internal audit service can do is to provide reasonable assurance, based on risk-based reviews and sample testing, that there are no major weaknesses in the system of control. In assessing the level of assurance to be given the following have been taken into account:

- all audits undertaken during 2015/16
- any significant recommendations not accepted by management and the consequent risks
- internal audit's performance
- any limitations that may have been placed on the scope of internal audit.

### **4 INTERNAL AUDIT COVERAGE 2015/16**

4.1 Financial management arrangements within the Authority are well established and staff have many years of experience giving them a good understanding and knowledge of the financial controls and requirements of regulations and policies. The audits have been undertaken in the last quarter of the year with all the audit testing completed before year end, however at the time of writing most are at the draft report stage. The opinions are however not expected to be changed as they are based on the testing completed as set out in the audit programmes agreed with management. The individual assurance opinions issued in respect of our assignment work were as follows:

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Key – PF = Pension fund PP = Peninsula Pensions

| Areas Covered |                                                                                                                                                                                                                                                                                                                                                | Stage        | PF or PP | Level of Assurance     |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|----------|------------------------|
| 1             | Governance arrangements for the Pensions Board comply with new regulations                                                                                                                                                                                                                                                                     | Draft report | PF       | Good Standard          |
| 2             | The Investment and Pension Fund Committee are unable to fulfil their responsibilities effectively resulting in: <ul style="list-style-type: none"> <li>• Non-compliance with legislation or best practice</li> <li>• Inability to determine policy, make effective decisions and / or deliver service</li> <li>• Risk to reputation</li> </ul> | Draft report | PF       | High Standard          |
| 3             | Treasury management                                                                                                                                                                                                                                                                                                                            | Final Report | PF       | High Standard          |
| 4             | Accounting standards                                                                                                                                                                                                                                                                                                                           | Draft report | PF       | High Standard          |
| 5             | Communication with Stakeholders                                                                                                                                                                                                                                                                                                                | Draft report | PF & PP  | Good Standard          |
| 6             | Member Self Service                                                                                                                                                                                                                                                                                                                            | Draft report | PP       | Good Standard          |
| 7             | Retirements                                                                                                                                                                                                                                                                                                                                    | Draft report | PP       | Good Standard          |
| 8             | Career Average Revalued Earnings (CARE) scheme                                                                                                                                                                                                                                                                                                 | Draft report | PP       | Good Standard          |
| 9             | Compliance with the new Code of Practice                                                                                                                                                                                                                                                                                                       | Draft report | PP       | Improvements Required* |

\* Management are continuing to address the issues with regard to quality and integrity of Somerset pensioner data which in the main will have been resolved via migrating the payroll to Altair and Peninsula Pensions. An initial data quality check was undertaken in accordance with the Code of Practice which was prior to the Payroll migration project commencing for Somerset data. The data quality checks are to be re-run for Somerset data now that the Payroll migration is complete. (Audit Note: For information the Devon data quality was compliant with the Code of Practice). A backlog of amalgamation cases exist caused by delay in the LGPS regulations though additional temporary staff are being used to address this.

4.2 Our reviews provided sufficient evidence that the Devon Pension Fund and Peninsular Pensions have suitable governance arrangements in place to mitigate exposure to identified risks. Good working practices are in place to meet statutory requirements. The Investment and Pension Fund Committee are kept well informed, concerning the Fund's value and the allocation of assets, and are updated regarding the LGPS Governance scheme.

4.3 We identified some areas where controls could be improved and actions were agreed with management. Executive summaries from our work are shown in Appendix A.



## **5 INTERNAL AUDIT OPINION**

5.1 In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report.

5.2 Our final audit reports also include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans are reviewed during subsequent audits or as part of a specific follow-up process.

5.3 Management are provided with details of Internal Audit's opinion on each audit review carried out in 2015/16 to assist them with compilation of their individual annual governance assurance statements. No significant weaknesses were identified in these reviews, however if any significant weaknesses had been identified in specific areas, these would have been considered by the Authority in preparing its Annual Governance Statement which is included with its published Statement of Accounts for 2015/16.

5.4 Overall, and based on work performed during 2015/16, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Fund's internal control environment.

## **Section 2 - INTERNAL AUDIT PLANS 2016/17**

### **1 INTRODUCTION**

1.1 Under the Local Government Act 1972, the Chief Financial Officer has a statutory duty to make arrangements for the proper administration of the Authority's financial affairs. Assurance that this is the case is given through the reporting of Internal Audit. Audits will be carried out under the terms of Accountancy and Audit Regulations 2011.

1.2 As the Internal Auditors for the Pension Fund it is our responsibility to ensure that all financial systems are operating effectively and in line with the Authority's financial regulations and for Peninsula Pensions it is our responsibility to ensure that we provide an independent, objective assurance service, designed to add value and improve the organisations operations. We help the Pension Fund accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. We achieve this through the two audit plans: one for the Devon Pension Fund and one for Peninsular Pensions

### **2 THE AIM OF THE PLANS**

2.1 The audit plans are reviewed and agreed on an annual basis, incorporating the key risks identified through the Fund's risk register and areas identified by Internal Audit in consultation with management. However recent good practice also recognises that it is advisable for plans to remain flexible, to enable them to be amended according to prevailing risks and changes to the control environment in the organisation, so whilst the annual plan should be approved at an appropriate level, it should also be capable of being flexed as necessary. The plan also incorporates the requirements of the external auditors in reviewing finance systems. The plan is also shared with the external auditors.

2.2 The main objectives of the plan are to provide assurance to the Chief Financial Officer and the external auditors that all financial systems are: -

- Secure
- Effective
- Efficient
- Accurate
- Complete
- Compliant

2.3 In order to confirm this risk-based reviews; system reviews and compliance testing are completed at the Fund's administrative office and at Peninsular Pensions offices.

### **3 THE PLANS**

3.1 The audit plans for the financial year 2016/17 allows for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsular Pensions.

3.2 These include the financial audit reviews required as part of the Internal Audit service's responsibilities in reporting to the Chief Financial Officer, but also satisfy external auditors of the security and effectiveness of the financial systems.



3.3 We liaise with the Fund's external auditors to discuss the testing planned to ensure they can place reliance on the work of internal audit. The remainder of the planned days incorporates reviews of specific systems as identified through an audit risk assessment process, the Authority's risk register and discussion with management.

3.4 Any significant findings from the previous year's audit plan will be reviewed to ensure that agreed recommendations have been implemented and are effective.

3.5 As part of the audit plan we will also provide assistance and advice, and be a central contact point for senior management.

## 4 TIMETABLE

4.1 The audits will be completed at specified times of the year through consultation and prior agreement with senior management. This will also take into account the timetable of external audit where applicable.

4.2 All findings will be reviewed with senior management at the end of each audit programme and prior to the issue of any draft reports.

4.3 A copy of all final reports will be forwarded to your External Auditors for their information.

## 5 2016/17 PLANS

5.1 The following table sets out the planned internal audit work for 2016/17. Other issues and systems are sometimes identified during the course of the audits and if found will be discussed with senior management. These issues may be incorporated into future audit plans dependent upon priority and risk assessment.

### Devon Pension Fund Plan 2016/17

| Audit risk areas                                                                              | Days      |
|-----------------------------------------------------------------------------------------------|-----------|
| 1. Effectiveness of the transition arrangements for the new South West pensions 'Pool'        | 10        |
| 2. Actuarial Valuation - mitigation of risks arising from the forthcoming actuarial valuation | 5         |
| 3. Knowledge and skills of the Pensions Board & Investment & Pensions Committee               | 10        |
| 4. Performance Management                                                                     | 5         |
| 5. Contribution payments from employers                                                       | 5         |
| 6. Planning and contingency                                                                   | 5         |
| <b>Total days</b>                                                                             | <b>40</b> |

5.2 The cost of these days will be £10,600. Additional support will be provided as and when required. Our standard daily rate for this work will be £265, although specialist support may be at a different rate.

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## Peninsular Pension Plan 2016/17

| <b>Audit risk areas</b>                                                                                                                                                                                                                                             | <b>Days</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| 1. Actuarial Valuation - mitigation of risks arising from the forthcoming actuarial valuation (including Peninsula Pensions data)                                                                                                                                   | 5           |
| 2. Amalgamation of pensions                                                                                                                                                                                                                                         | 15          |
| 3. Annual benefit statements: effectiveness of the project                                                                                                                                                                                                          | 7           |
| 4. Performance Management (including: data quality of existing performance indicators - i.e. complete, timely, accurate, relevant, authorised/ compliant with definition and reliable; Are they the right PIs; Is time well spent monitoring and managing these PIs | 5           |
| 5. Audit planning and contingency                                                                                                                                                                                                                                   | 13          |
| <b>Total days</b>                                                                                                                                                                                                                                                   | <b>45</b>   |

5.3 The cost of these days will be £11,925. Additional support will be provided as and when required. Our standard daily rate for this work will be £265, although specialist support may be at a different rate

Robert Hutchins  
Head of Devon Audit Partnership  
April 2016



## Executive Summaries for audits undertaken in 2015/16

### **PF: Treasury Management:**

Testing of the overall control environment within the Treasury Department found that it is sufficiently robust in relation to the inherent risks present. Approved procedures are in place, and a review of a sample of investments placed found these had generally been adhered to. There was no borrowing activity during the year. Pension Fund investment valuations are regularly and independently checked for accuracy, with discrepancies followed up as appropriate. Reconciliations between Logotech and the main accounting system for the Council's funds are effective, and have now started to be undertaken on a more regular basis for relevant Pension Fund investments; resulting in the audit opinion moving from 'Good' to 'High Standard'. Performance targets are monitored appropriately, and the latest reported information shows no areas of concern.

### **PF: Governance arrangements for the Pensions Board comply with new regulations:**

#### DRAFT REPORT

Pensions Boards were required to be set up from 1<sup>st</sup> April 2015 to comply with the Public Services Pension Act 2013. We found the guidance had been followed, it was set up before 1<sup>st</sup> April 2015; the draft Terms of Reference were presented to the Investments and Pensions Committee and approved by the Devon County Council Procedures Committee and the Devon County Council Constitution was updated; the Governance Policy and Compliance Statement were updated to reflect the change in governance.

The Code of Conduct and Register of Interest are well understood, however we noted that one Board Member's Register of Interest has not been published on the website. Training was offered and completed although as noted below the Self-Assessment Tool is awaited.

We found that the information provided to the Board was complete, sufficient and timely to enable informed decisions to be made.

### **PF: Effectiveness of the Investment and Pension Fund Committee:**

#### DRAFT REPORT

Under the Locality Act 2011 and the Authority's Constitution members are required to declare any pecuniary interest within 28 days of coming into office and also declare any new interests within 28 days of becoming aware of them. The majority of Committee members had completed declarations of interest and are reminded at every committee meeting via the agenda. One new committee member, representing non-local authority employers, needs to sign a declaration of interests as soon as possible.

The Investment and Pension Fund Committee was re-formed after the 2013 local elections and induction training was provided to all members on the committee, prior to their first committee meeting. All DCC members were also offered Personal Development Interviews which included a skills matrix based on the CIPFA code of practice on Public Sector Pensions. Action plans are produced as a result of these interviews which then go on to assist in formulating the training plan for the year. The training plan for 2015/16 was approved by the Committee. Members are encouraged to attend training sessions by the Chair of the Committee and good governance recommends that committee members assess themselves to identify further training needs. Self-Assessment tools are currently being updated to incorporate recent changes to legislation but the first module has been completed and sent out to all members, who should be encouraged to complete the assessments promptly to feed into the training plans for 2016/17.

## **PF: Accounting Standards:**

### DRAFT REPORT

Significant changes have been made in recent years in respect of accounting and disclosure standards relating to Pension Funds. The relevant standards are FRS 17, IAS 19 and more recently FRS 102 which is the new financial accounting standard.

Our review has indicated that adequate controls are at present in place to ensure that all the relevant statutory and regulatory accounting and financial reporting standards are in place, and that regular updates and guidance are received in respect of any forthcoming new guidance and legislation. No recommendations need to be made, and is therefore deemed to be a low risk to the Devon Pension Fund.

Compliance with the Accounting Standards is one the audits that Grant Thornton, the External Auditors undertake every year, and their latest review identified full compliance with the Standard with no recommendations. As External Audit now places no reliance on the assurance work undertaken by Internal Audit, and the fact that there are no recommendations, this does raise the issue of whether this audit provides any added value to Devon Pension Fund. The audit has therefore has been omitted from the 2016/17 audit plan.

## **PF & PP: Communication with Stakeholders**

### DRAFT REPORT

We found good communication with pension scheme members through the Portal, Member Self Service, and the website. There is an established framework for managing good communication which includes an up to date communication strategy and policy, customer charter and administration strategy, and these are all published on the website. Some improvements could be made to the website to ensure important information is located in more obvious places, and a link to the Investments and Pensions Committee information may be helpful. As noted above communications with elected Members is considered good in that information is timely and complete. A new Communications Group has been set up and will be taking forward future developments to address areas of improvement and this includes working on stakeholder mapping and increasing the frequency of newsletters to scheme members. Peninsula Pensions management are actively working to meet the target for issuing 100% of the Annual Benefit Statements by 31<sup>st</sup> August. This will be followed up in next year's audit work.

## **PP: Retirements**

### DRAFT REPORT

Peninsula Pensions use the bespoke Altair system supported by 'Heywood' for the administration of pension details for Devon County Council, and also Somerset County Council, Devon and Somerset Fire and Rescue and Devon & Cornwall Civilian Police staff. During the course of our audit we only reviewed details across employers in the Devon LGPS and did not include for example Devon and Somerset Fire in our samples and as such our assurance opinion can only be viewed in relation to the Devon LGPS.

We found the processes are backed up by guidance notes within the Altair system and sample testing showed evidence of documentation being received and checked in accordance with these process guides which enable retirement pensions to be paid promptly. However in testing there were some instances where the anticipated timescales for putting pensions into payment were not met. It was noted that reliance is placed on the prompt receipt of Payroll data from the employer.



Transfer of data from paper records to Altair was found to have been accurate and to a high standard. All pension calculations were found to have been checked by a Senior Team Member and designed to confirm correct documentation had been received. Though documentation has been checked, we found in a few cases that for example an important signature such as an independent medical doctor were missing or that employer's confirmation of the ill health tier was not on record.

Access and use of the Altair system is monitored by the System Team within Peninsula Pensions. A review of system users had not been fully completed at the time of the audit but there were extenuating circumstances for this and the task was carried out immediately and another team member is to be trained on its completion.

Our audit also looked at whether agreed recommendations from previous audits namely Strain Payments, Payroll and Overpayments had been put into place. In discussions there was evidence to show that many of these had been put in place but some are still a "work in progress." We would suggest that a means for management to monitor completion of actions would be helpful in knowing that controls are implemented and risks managed.

The recording of a "Death in Service" for a member of staff or the death of a pensioner was found to be completed correctly and promptly. Overpayments were found to be negotiated effectively and sensitively and recorded within the Altair system. In those cases where an overpayment is not deducted from the monthly pension payment they may be repaid via a standing order payment, and these were found to be monitored and reported to the Assistant County Treasurer, providing a satisfactory control to monitor that repayments are made. It was suggested that where an overpayment reschedule is agreed that a note be made on the pensioner's file and placed in Altair, to enable this to be visible to all users on accessing the pensioner's file for information purposes.

## **PP: Member Self Service**

### **DRAFT REPORT**

The roll out of Member Self Service has been an ongoing project since 2013 when legislation was first introduced. Various communication strategies have been employed to notify members about self-service in line with the protocols laid down in the Legislation.

Whilst every effort has been made to promote self-service, actual take up remains limited, with numerous members receiving an activation key to log in to self-service but failing to activate it within the 3 month life span of the key. In line with legislation there remains one final letter to send out to members to persuade them to sign up to self-service, after which time all future communications will become electronic unless they formally opt out. However, as activation of the user ID appears to be the most significant issue in the current roll out of MSS it is our opinion that this area ought to be targeted before consideration is given to issuing the final letter.

Peninsula Pensions face resourcing issues and self-service currently raises additional workload in the form of queries raised by members as they sign on and gain access to self-service. This will require careful consideration to ensure that self-service does not impact on the everyday workload of the Pensions Team.

We noted that the process was not managed as a project under DCC's "Devon Way" and it is felt that this would have proved useful in rolling out self-service and in the future roll out to Somerset or future projects.



**PP: Career Average Revalued Earnings (CARE) scheme**

**DRAFT REPORT**

Since the introduction of the CARE scheme, Peninsula Pensions have developed good procedures to manage monthly and year end CARE data. This includes procedures for uploading the data onto the Pensions system.

We found in this review, that Peninsula Pensions has provided good communication to employers to inform them of their responsibilities for submitting monthly and annual CARE data.

However we identified a number of employers, including District and City Councils who have not been submitting monthly CARE data in accordance with the instruction issued by Peninsula Pensions in April 2014. We contacted a small number of employers who had not been submitting monthly data, and found that the majority recognised the benefit of submitting monthly data, but had not developed procedures to enable them to do this. It was also evident that Peninsula Pensions had not been active in chasing employers for this data, which may also be a reason as to why not all employers were complying with the requirement.

On review of year-end processes it was evident that Peninsula Pensions are only able to carry out limited checks to assess the accuracy of monthly and year-end submissions received from employers. As such, Devon Audit Partnership (DAP) will consider whether they can provide assurance in this area in respect of the participating employers for which we provide an audit service.

**PP: Compliance with the new Code of Practice**

**DRAFT REPORT**

Whilst we found good practice in many areas there were a number of areas for improvement including gaps in the data protection training log where evidence of training was not on file and the absence of a document retention policy.

Work is ongoing to improve the quality and integrity of the Somerset data and this included a data cleansing exercise in November 2015. This identified a number of issues which are being worked through including for example 180 temporary National Insurance numbers. These were thought to be related to those pensions paid to widows / widowers and children under 16 for whom there would potentially be a valid reason for not having an NI number, but these should be limited numbers. The data cleansing exercise will need to be repeated annually.

Dispute resolution procedures have been considered by management and an action plan was developed in November to ensure compliance. For example the Dispute Resolution Log has been developed to capture all disputes, and the procedures have been documented. We are recommending that the Log could also be used to capture those cases where extensions of time are required and the reasons for the extension, and that the Internal Dispute Resolution Procedures are published on the website.



## DEVON PENSION BOARD BUDGET 2016-17

### Report of the County Treasurer

**Recommendation:** that the Board approves the Devon Pension Board budget for 2016/17.

#### 1. Introduction

1.1. It is appropriate that the Devon Pension Board is given adequate resources to fulfil its task.

1.2. As a minimum, the Board will require:

- allowances and/or expenses for Board members;
- accommodation and administrative support to conduct its meetings and business;
- training;
- legal, technical and other professional advice (where required).

#### 2. Devon Pension Board Budget

2.1. Regulation 106(9) of the Regulations specifies that the expenses of a Local Pension Board shall be regarded as part of the costs of administration of the Fund. These expenses will include, but are not limited to, the cost of secretarial support and any necessary advisory support, overheads attaching to the arranging of meetings and, if the Administering Authority makes provision, payment of allowances and/or expenses to members of the Local Pension Board.

2.2. A indicative budget of the direct costs for the Devon Pension Board for 2016-17 is set out below. The budget has been formed by an analysis of the total estimated costs incurred during 2015-16.

#### **Devon Pension Board Budget 2016/17**

| Estimated<br>Outturn<br>2015/16<br>£ | Proposed<br>Budget<br>2016/17<br>£ |
|--------------------------------------|------------------------------------|
| 1,605 Training                       | 2,000                              |
| 766 Travel and Member expenses       | 1,000                              |
| 3,667 Committee Support              | 4,000                              |
| 19,200 Officer Support               | 20,000                             |
| 350 Printing and Postage             | 350                                |
| <b>25,588 Total Expenditure</b>      | <b>27,350</b>                      |

# Agenda Item 10

## 3. Conclusion

- 3.1. The Board is asked to note the report and to approve the Devon Pension Board budget for 2016/17.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

Contact for Enquiries: Dan Harris

Tel No: (01392) 382520 Room G99

## TRAINING REVIEW 2015-16 AND TRAINING PLAN 2016-17

### Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Board before taking effect.

**Recommendation: that the Board notes the report and considers whether it wishes to make any comments to the Investment and Pension Fund Committee.**

#### 1. Introduction

1.1. In accordance with Section 248A of the Pensions Act 2004, every individual who is a member of a Local Pension Board must:

- Be conversant with the rules of the LGPS;
- Be conversant with any document recording policy about the administration of the Fund which is for the time being adopted in relation to the Fund;
- Have knowledge and understanding of the law relating to pensions;
- Have knowledge and understanding of such other matters as may be prescribed.

1.2. The Pension Board will comply with the requirements of the Pensions Act 2004, including compliance with the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills, the agreement of an Annual Training Plan and shall report on members' attendance at training events.

#### 2. Training 2015/16

2.1. Several training sessions were held during 2015/16 for members of the Investment and Pension Fund Committee and Devon Pension Board.

Dates and a summary of items covered are detailed below:

##### Pension Board Training - June 2015

- Introduction to the LGPS?
- Public Service Pensions Act 2013
- Governance Arrangements
- Investment Fundamentals
- Options for Reform
- Role of the Scheme Advisory Board
- Funding and Investments
- Role of advisors and key persons
- Role and responsibilities of the Administering Authority
- What is an actuary?
- What is the actuary's role in the LGPS?
- Why and how do we do valuations?
- Some current issues - benchmarking
- Outlook for 2016 valuation

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## Joint Training Day with Cornwall Council - October 2015

- Government Expectations re: Asset Pooling
- Practical Steps to Setting Up a Pooled Investment Vehicle
- Private Credit / Illiquid Debt Investment
- Pension Fund Jargon
- LGPS Legislation and Regulation Update
- Outlook for the global economy and LGPS investment returns

## Training Session – November 2015

- Long Term Performance
- 2016 Actuarial Valuation

2.2. In addition to these training sessions, members of the Devon Pension Board have been provided with a self-assessment training tool for section one of the CIPFA Knowledge and Skills Framework. Self-assessment tools covering the outstanding modules will be provided throughout the remainder of 2016-17. The results of these assessments will be used to identify areas of knowledge that require additional training and future training sessions will be designed to incorporate these requirements.

### **3. Training Plan 2016-17**

- 3.1. The 2016/17 Training Plan is attached at Appendix 1 and sets out the training to be provided over the year in order to ensure that both the Investment and Pension Fund Committee and the Pension Board have the knowledge and skills required in accordance with the CIPFA Code.
- 3.2. In addition the Training Plan outlines how the training needs of staff are assessed and implemented, and sets out the requirements on senior officers responsible for the Pension Fund, and the issues that they will need to focus on over the year.

### **4. Training Register**

- 4.1. A register of attendance at each of the training events is maintained by officers.
- 4.2. The attendance register for 2015-16 is shown at Appendix 2.

### **5. Conclusion**

- 5.1. The Board is asked to note the report and to consider whether it wishes to make any comments to the Investment and Pension Fund Committee.

Mary Davis

Electoral Divisions: All  
Local Government Act 1972  
List of Background Papers - Nil  
Contact for Enquiries: Dan Harris  
Tel No: (01392) 382520 Room G99

# Devon Pension Fund Training Plan 2016/17



## 1 Introduction

The Devon Pension Fund has had a longstanding commitment to training for those involved in the governance of the Fund to ensure that they have the skills and understanding required to carry out their stewardship role. This has included regular events to cover the latest developments in the LGPS, investment strategy and performance monitoring. In February 2014, the Investment and Pension Fund Committee adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

Under the Public Sector Pensions Act 2013 and the Local Government Pension Scheme (Amendment) Regulations 2015, a Pension Board has been established, and members of the Board were appointed by Devon County Council in May 2015.

This training plan sets out how levels of understanding will be assessed, and how the knowledge and skills requirement and other regulatory requirements will be supported through training events over the next year.

## 2 Knowledge and Skills Framework

There are six areas of knowledge and skills that have been identified as the core requirements for those with decision making responsibility for LGPS funds. They are:

- Pensions legislative and governance context.
- Pensions accounting and auditing standards.
- Financial services procurement and relationship management.
- Investment performance and risk management.
- Financial markets and products knowledge.
- Actuarial methods, standards and practices.

Members of the Investment and Pension Fund Committee and the Pension Board are expected to have a collective understanding and senior officers are expected to have expertise of these areas of knowledge and skills.

## 3 Pension Board Specific Requirements

Under the regulations the members of the Pension Board are required to have the capacity to take on the role. In addition, in accordance with Section 248A of the Pensions Act 2004, it is expected that every individual who is a member of a Local Pension Board will receive training, and as a result:

- Be conversant with the rules of the LGPS, in other words the Regulations and other regulations governing the LGPS (such as the Transitional Regulations and the Investment Regulations);
- Be conversant with any document recording policy about the administration of the Fund which is for the time being adopted in relation to the Fund;
- Have knowledge and understanding of the law relating to pensions;
- Have knowledge and understanding of such other matters as may be prescribed.

## 4 Committee and Pension Board Training

Training for the Investment and Pension Fund Committee and the Pension Board during the year will focus on the following areas:

1. **The six areas of the Knowledge and Skills framework** – These will continue to be a major area of focus, with training focused on gaps in knowledge identified through an assessment of need. The Fund has taken two approaches to assess the needs of committee members for further training. Work has been undertaken with the Devon County Council Member Development Officer to conduct development interviews with members of the Committee which have addressed the six areas outlined. In addition a self-assessment tool has been made available to members of the Committee, to enable them to measure their understanding and plan their development. The self-assessment tool is being reviewed by officers in order to bring it up-to-date for use with the Pension Board, and those members of the Committee yet to undertake the assessment. Module 1 of the self-assessment tool was made available to members towards the end of 2015. The outstanding modules will be issued during 2016-17.
2. **Investment Pooling** – Training and briefings will be provided on the implications of the investment pooling agenda. This will include the regulatory environment governing the pooled vehicle, along with the requirements in relation to the organisational structure of the pooled vehicles, transition arrangements and implications for the Fund's investment strategy.

3. **Potential new investment opportunities** – Training will be provided on new areas of investment that may be considered by the Committee. Sessions will be provided to keep Committee and Pension Board members up-to-date with the latest market developments, and look at the Fund's long term performance.
4. **Regulatory / Legislative Changes** – Training will be provided on the implications of recent legislative and regulatory changes, for example LGPS regulation changes required by the Government's proposals on capping exit payments for public sector staff and annual and lifetime allowance changes.

Training will be delivered through the following events to be held during the year:

### **Devon Pension Fund Training Day – 27<sup>th</sup> May 2016**

This session will include a discussion on LGPS Pooling. We will review the Government's response and any feedback provided regarding our initial proposal. Representatives from other funds within the Pool have been invited to present. There will be the opportunity for members to ask questions and to feed into the detailed submission required in July.

Training sessions will also include speakers on the role of the Pension Board, Greenfield Infrastructure and Private Debt investments.

### **Joint Training Day with Cornwall Pension Fund – Autumn 2016**

As in previous years a joint training is planned to be held with the Cornwall Pension Fund. This will provide training geared to the Investment and Pension Fund Committees and the Pension Boards of both Funds. The agenda has yet to be agreed with Cornwall, but is likely to focus on governance arrangements, and investment issues, with the opportunity for breakout sessions for each of the two funds. Consideration will be given to inviting other neighbouring funds to participate in the day.

### **Afternoon Training Session – 18<sup>th</sup> November 2016**

A training session will be held on the afternoon of the November Investment and Pension Fund Committee. The agenda for this meeting is still to be finalised, but is likely to include a focus on long term investment performance.

### **Devon Pension Fund Training Day – Spring 2017**

The day will focus further on the six areas of the Knowledge and Skills Framework with an emphasis on any gaps in knowledge that have been identified.

### **Other Training**

In addition members will also be provided with access to "bite-size" tutorials on the six areas of knowledge and skills and other quality assured websites to help boost levels of understanding. Where gaps in individual members' knowledge have been identified that will not be met by the core training described above, then additional training can be accessed to meet those needs.

Specific training can be identified for the Chairman of the Investment and Pension Fund Committee and of the Pension Board to support them in their role if required.

Resources are available to meet all the training requirements outlined above.

## 5 Officer Training

It is important that officers have the required training to carry out the tasks of managing the Fund's investments and administering the payment of benefits. The knowledge and skills required of staff are set out in their job descriptions, including any formal qualifications required. Senior Officers should be familiar with the requirements of the CIPFA Code of Practice on Knowledge and Skills and should have expert knowledge of the six areas of the framework.

Senior officers will attend relevant conferences and seminars during the year to ensure that they remain up-to-date with the latest requirements. In addition they will be expected to keep up to date through use of the internet, and conduct research on relevant issues where required. All staff will have specific training identified to meet assessed requirements. Individual training plans will be put in place and these will be recorded and reviewed as part of the annual appraisal process.

A central training record will be maintained by each of the Investment Team and Peninsula Pensions of the events attended and training received by all members of staff.

For senior officers, there will be a particular focus on the following areas:

1. **Governance** – Understanding the guidance and regulations in relation to local pension boards, and keeping up to date with how other Funds are working with their boards, in order that the Pension Board can be supported effectively and add value to the governance of the Fund.
2. **New Investment Arrangements** – Keeping up to date with the requirements of the Government's investment pooling agenda, understanding how the new pools will operate and the work that will be required. This will include looking at the different options in terms of structure and governance and understanding the potential requirements for regulation by the Financial Conduct Authority.
3. **New Investment Products** – Keeping up-to-date with what the market is offering, in order to assess the validity of new products for investment by the Devon Fund.
4. **Accounting Issues** – Keeping up to date with the latest CIPFA guidance on the format of the Pension Fund Statement of Accounts and the content of the Annual Report.
5. **Pensions Admin Regulations** – Understanding the latest guidance and interpretation of changes to LGPS Regulations and their impact on procedures.
6. **Pensions Admin Systems** - Keeping up to date with updates/new releases to our software system Altair, passing down training to all staff.
7. **Wider Pensions Issues** – Understanding the impact of wider Government reforms to pensions, such as “freedom and choice” on the LGPS.



## 6 Reporting and Compliance

In line with the CIPFA Code of Practice a disclosure will be made in the Fund's Annual Report and Accounts that covers:

- How the Skills and Knowledge framework has been applied.
- What assessment of training needs has been undertaken.
- What training has been delivered against the identified training needs.

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Training Register 2015-16

Appendix 2

| Name                                         | Representing                | Pension Board Training Event<br>05/06/15 | Joint Training Day with Cornwall Council<br>16/10/15 | Post Committee Training Session<br>20/11/15 |
|----------------------------------------------|-----------------------------|------------------------------------------|------------------------------------------------------|---------------------------------------------|
| <b>INVESTMENT AND PENSION FUND COMMITTEE</b> |                             |                                          |                                                      |                                             |
| Edgell, Richard                              | Devon County Council        | -                                        | √                                                    | √                                           |
| Edwards, Peter                               | Devon District Councils     | √                                        | -                                                    | -                                           |
| Fox, Mike                                    | Plymouth City Council       | √                                        | -                                                    | -                                           |
| Franceschini, Roberto                        | UNISON                      | √                                        | √                                                    | √                                           |
| Gilbert, Rufus                               | Devon County Council        | √                                        | √                                                    | √                                           |
| Hannon, Des                                  | Devon County Council        | √                                        | -                                                    | -                                           |
| Healy, Donna                                 | Other Employers             | √                                        | -                                                    | √                                           |
| Hicks, Michael                               | South Hams District Council | √                                        | -                                                    | -                                           |
| Hill, Roy                                    | Devon County Council        | √                                        | √                                                    | -                                           |
| Hosking, Richard                             | Devon County Council        | -                                        | √                                                    | -                                           |
| Lomax, Colin                                 | UNISON                      | √                                        | -                                                    | √                                           |
| O'Dwyer, James                               | Torbay Council              | -                                        | √                                                    | -                                           |
| Parker Delaz Ajete, Lorraine                 | Plymouth City Council       | -                                        | √                                                    | -                                           |
| Radford, Ray                                 | Devon County Council        | -                                        | √                                                    | √                                           |
| Rimron, Jo                                   | GMB                         | -                                        | √                                                    | -                                           |
| <b>PENSION BOARD</b>                         |                             |                                          |                                                      |                                             |
| Bowman, Andy                                 | Member Representative       | √                                        | √                                                    | -                                           |
| Brook, Jerry                                 | Devon County Council        | -                                        | -                                                    | √                                           |
| Greenslade, Brian                            | Devon County Council        | -                                        | √                                                    | √                                           |
| Hearn, Carl                                  | Tavistock Town Council      | √                                        | √                                                    | √                                           |
| Henshaw, Alan                                | Member Representative       | √                                        | -                                                    | √                                           |
| Keightley, Heather                           | Member Representative       | √                                        | √                                                    | -                                           |
| Lewis, Cheryl                                | Member Representative       | √                                        | √                                                    | √                                           |
| Nicholls, William                            | Independent Member          | -                                        | √                                                    | √                                           |
| Smith, Graham                                | Devon and Cornwall Police   | √                                        | -                                                    | -                                           |

## LGPS POOLING OF INVESTMENTS

### Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Board before taking effect.

**Recommendation: that the Board notes the report.**

#### 1. Introduction

- 1.1. The Government announced in the July 2015 budget statement that they intended to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance.
- 1.2. In response to this announcement the Investment and Pension Fund Committee resolved at its meeting in September:
  - (a) that approval in principle be given to the establishment of a South West Collective Investment Vehicle;
  - (b) that the County Treasurer be authorised to continue work with neighbouring funds in the South West to establish proposals for a South West Collective Investment Vehicle;
  - (c) that the Committee remain open to considering alternative pooling options in order to fulfil their obligation to provide best value for fund Members.
- 1.3. On 25<sup>th</sup> November, in conjunction with the Chancellor's Autumn Statement, the Government's criteria for investment pooling were issued, together with a timetable for LGPS administering authorities to respond.

#### 2. Government Timetable and Criteria

- 2.1. Authorities were asked to submit initial proposals to the Government by 19<sup>th</sup> February 2016. The initial submission should include a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities. Authorities could choose whether to make individual or joint submissions, or both, at this first stage.
- 2.2. Refined and completed submissions are expected by 15<sup>th</sup> July 2016, which fully address the criteria set out by the Government, and provide any further information that would be helpful in evaluating the proposals. At this second stage, the submissions should comprise:
  - For each pool, a joint proposal from participating authorities setting out the pooling arrangement in detail. For example, this may cover the governance structures, decision-making processes and implementation timetable; and
  - For each authority, an individual return detailing the authority's commitment to, and expectations of, the pool. This should include their profile of costs and savings, the transition profile for their assets, and the rationale for any assets they intend to hold outside of the pool in the long term.

# Agenda Item 12

2.3. The four criteria are set out in the following paragraphs.

## **Scale of Assets under Management**

2.4. The Government's intention is that the 90 administering authorities in England and Wales should collaborate to establish, and invest through asset pools, each with at least £25 billion of Scheme assets. Informal discussions have suggested that if a pool is nearer to £25 billion than £20 billion, then it is likely to be acceptable. The proposal will need to explain:

- The size of pool once fully operational, and its legal type.
- Assets outside of pool and rationale.
- Internal work and services to be hired.
- Timetable for establishment and asset transition.

## **Strong Governance and Decision Making**

2.5. The governance structure should provide authorities with assurance that their investments are being managed appropriately by the pool, and ensure that risk is adequately assessed and managed, investment implementation decisions are made with a long-term view, and a culture of continuous improvement is adopted. Proposals will need to demonstrate:

- Accountability between pool and elected members, external scrutiny.
- Mechanisms for Authorities to hold pool to account.
- The process for decision making at all stages of investment.
- Resourcing.
- Net performance publication, benchmark usage.

## **Substantial Cost Savings**

The proposal will need to outline the savings that can be achieved by the pool, including:

- An estimate of investment costs for the year to 31<sup>st</sup> March 2013 and the current level of investment costs.
- Detail on cost savings over 15 years.
- Estimate of implementation and transition costs.
- Proposals for reporting against forecasts.

## **Improved Infrastructure Capability**

2.6. Only a very small proportion of Local Government Pension Scheme assets are currently invested in infrastructure. Proposals should explain how infrastructure will feature in authorities' investment strategies and how the pooling arrangements can improve the capacity and capability to invest in this asset class. Authorities should explain:

- The existing proportion of Fund allocated to infrastructure.
- Proposals to acquire capacity and capability to assess infrastructure projects with reduced costs via pooling.
- Future proportion of Fund to be allocated and how derived.

## 3. Brunel Collective Asset Pool

- 3.1. Work has progressed on the proposal to set up a pool based on the South West, under the name of “Project Brunel”. This was initially supported by the eight South West funds - Devon, Cornwall, Somerset, Dorset, Wiltshire, Gloucestershire, Avon (managed by Bath and North East Somerset Council) and the Environment Agency (who are based in Bristol). Since November, Buckinghamshire and Oxfordshire have also joined the Brunel pool. The addition of these funds has increased the total assets of the member funds to approximately £23 billion.
- 3.2. The South West LGPS pension funds have a good record of working together. Officer meetings are held on a regular basis to share best practice, and a number of South West LGPS collaborative frameworks have been set up, for example in relation to actuarial and consultancy services and legal services. The funds are a good fit in terms of community of interest and shared objectives and the region shares many characteristics, such as demography, and would not be dominated by a large metropolitan authority. Buckinghamshire and Oxfordshire are of a similar size, and align well with the eight South West funds.
- 3.3. Appendices 1 and 2 to this report are the covering letter and proposal that were submitted to Government by their initial deadline of 19 February.
- 3.4. The recommendation in our submission is that a Collective Asset Pool (CAP) is our preferred option. The CAP joint committee approach should be easier and quicker to set up than an Authorised Contractual Scheme (ACS), would increase accountability and would be a lower cost overhead compared to an ACS. This approach was informally endorsed at a meeting of the Chairs of the committees of the participating funds at a meeting held in January and then formally endorsed by Committees in February.
- 3.5. Government feedback has encouraged the Brunel pool to review the joint committee approach, expressing the view that a structure regulated by the Financial Conduct Authority would provide significant assurance to local employers, beneficiaries and co-investors. As a minimum they expect to see a single entity at the heart of any proposal, with responsibility for selecting and contracting with investment managers, as well as the employment of staff. Work is now being undertaken by the Brunel pool to align the preferred structure with the Government’s expectations.

## 4. Other Pools

- 4.1. While work within the South West funds has been progressing, officers have also been monitoring other pooling initiatives. There are eight different pooling initiatives being put together across England and Wales. These are:
  - London
  - Lancashire/London Pension Fund Authority (LPFA)
  - Access (Central, East and South)
  - Project Brunel (South West plus Oxfordshire and Buckinghamshire)
  - Midlands
  - Borders to Coast (Surrey/Cumbria/East Riding/Warwickshire/ Lincolnshire)
  - North (Greater Manchester/Merseyside/West Yorkshire)
  - Wales

A map illustrating the latest information on membership of the different pools is attached at Appendix 3.

# Agenda Item 12

## 5. Conclusion

- 5.1. The Government's expectation is that each LGPS Fund should commit to a pool, and every fund has now stated which pool they propose to join. The Investment and Pension Fund Committee has committed in principle to pool its assets with the other founder funds of the Brunel CAP and has endorsed the project proposal at appendix 2 as a joint submission from Project Brunel, including the Devon Pension Fund.
- 5.2. The second stage of our proposal will be discussed at the training day scheduled for 27<sup>th</sup> May 2016, before being finalised at the June meeting of the Investment and Pension Fund Committee.

Mary Davis

Electoral Divisions: All  
Local Government Act 1972  
List of Background Papers - Nil  
Contact for Enquiries: Dan Harris  
Tel No: (01392) 382520 Room G99

**Local Government Pension Scheme: Investment Reform  
Initial proposal to the Department for Communities and Local Government**

**The Brunel Collective Asset Pool**

In your 25 November 2015 document “Local Government Pension Scheme: Investment Reform Criteria and Guidance” you asked for initial proposals to Government from Authorities for pooling investments by the 19 February 2016.

Our initial proposal is a joint submission from Avon, Buckinghamshire, Cornwall, Devon, Dorset, the Environment Agency, Gloucestershire, Oxfordshire, Somerset and Wiltshire to establish a Collective Asset Pool overseen by a Joint Committee. This will deliver a permanent structure, centralising the key investment decisions in a professional operating group, driven by our officers and committed to the highest standards of governance.

In your Criteria and Guidance paper, you stated that proposals will be evaluated against four defined criteria, relating to scale, governance, cost reduction and the capacity to invest in infrastructure. Our initial proposal is structured under these four headings and provides our initial thinking on how the Brunel Collective Asset Pool (“the Brunel CAP”) will meet each criterion. We also append two reports from PricewaterhouseCoopers, supported by Squire Patton Boggs, which have informed our approach.

We look forward to engaging openly and actively with you over the coming months as we work towards completing proposals by 15 July 2016. Early resolution of any matters you wish to raise would enable us to launch the Brunel Collective Asset Pool by April 2017.

*Authorised by the Chairs of Pension Committees for:*

|                    |                           |                                                                                                  |
|--------------------|---------------------------|--------------------------------------------------------------------------------------------------|
| Avon               | Councillor David Veale    | Signature:   |
| Buckinghamshire    | Councillor John Chilver   | Signature:   |
| Cornwall           | Councillor Derek Holley   | Signature:  |
| Devon              | Councillor Rufus Gilbert  | Signature:   |
| Dorset             | Councillor John Beesley   | Signature:   |
| Environment Agency | Mr Clive Elphick          | Signature:   |
| Gloucestershire    | Councillor Ray Theodoulou | Signature:  |
| Oxfordshire        | Councillor Stewart Lilly  | Signature:  |
| Somerset           | Councillor Graham Noel    | Signature:  |
| Wiltshire          | Councillor Tony Deane     | Signature:  |

18 February 2016

## Project Brunel: Initial proposal to DCLG on investment pooling

| A. | Asset pool(s) that achieve the benefits of scale                                                                                                                                                   | Initial proposal, subject to development in the July proposal                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A1 | <p>Anticipated size of the pool</p> <p>Throughout this proposal, we describe the pool proposed by Project Brunel as a Collective Asset Pool overseen by a Joint Committee, or the “Brunel CAP”</p> | <p>Project Brunel aims to achieve the £25 billion scale quickly. At least ten Founder Funds are envisaged: Avon, Buckinghamshire, Cornwall, Devon, Dorset, the Environment Agency, Gloucestershire, Oxfordshire, Somerset and Wiltshire. These Funds had total assets under management of £23 billion at March 2015.</p> <p>For operational efficiency, there would be a maximum of 12 Founder Funds. The pool could, therefore, work with two more like-minded Funds. There is a strong preference for a clear list of Funds at an early stage so that all can input on an equal basis into the detailed July proposal.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| A2 | <p>Assets proposed to be held outside the pool</p>                                                                                                                                                 | <p>Founder Funds are looking to include all assets within the Brunel CAP, but are open to accessing investment opportunities e.g. infrastructure, passive equities using a national initiative.</p> <p>Founder Funds manage some assets internally. These total c£1.0 billion. These will be managed within the pool, with the mechanism for achieving this being confirmed in the July proposal.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| A3 | <p>Type of pool including legal structure</p>                                                                                                                                                      | <p>The structure will be a Collective Asset Pool (“CAP”) overseen by a Joint Committee, to be established under existing legislation. This allows Founder Funds to retain both legal and beneficial ownership of pooled assets. It may be necessary to amend regulations to confirm that the Environment Agency has clear legal authority to delegate investment powers into a Joint Committee. The active support of the relevant Departments is sought for this.</p> <p>The Administering Authorities will delegate most of their investment powers to the Brunel Collective Asset Pool (the “Brunel CAP”), retaining strategic asset allocation decisions in respect of pooled assets. These decisions will be implemented by allocation between approximately 20 Sub-Funds offered by the Brunel CAP. This will allow a wide but clear choice, thus meeting the democratic accountability and strategic asset allocation criteria in the DCLG’s 25 November guidance paper, paragraphs 3.25 and 3.28.</p> <p>Crucially, each Sub-Fund will offer access to a given market or style of investment, with decisions between investment managers held within each Sub-Fund made at the Brunel CAP level. Participating Authorities will not have discretion between investment managers within a Sub-Fund: there may be more than one investment mandate within any given Sub-Fund, but all Participating LGPS Funds will hold mandates in equal ratios within that Sub-Fund. For further information see Sections 3.2 and 3.5 of the PwC Feasibility Report and Section 3 and Appendix 1 of the PwC February Report.</p> |



## Project Brunel: Initial proposal to DCLG on investment pooling

|           |                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|           |                                                                                                                                                       | <p>The Administering Authorities of the Brunel CAP intend to enter into a long term contractual agreement between them. Permanence will be delivered by clauses relating to the pricing of Sub-Funds (in effect unitisation pricing) and withdrawal notice period and terms. These contractual terms will recognise the permanence of the new overall UK pooling structures,</p> <p>The Brunel CAP will monitor other delivery models to ensure that all pooling is conducted in the most advantageous way.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>A4</b> | <p>How the pool will operate, the work to be carried out internally and services to be hired from outside.</p>                                        | <p>Initial thinking on Brunel CAP operation is described in Section 3 of the PwC February Report. See the schematic in section 3.2.7.</p> <p>There will be an Operations Group to carry out much of the work internally. Existing investment teams in the Founder Funds will work together to operate the Brunel CAP, making and managing appointments of Investment Managers within the Sub-Funds.</p> <p>Specialisation will be achieved through the use of five Portfolio Construction Groups. Transfers of employment between Founder Funds are not expected.</p> <p>A custodian will be hired to provide unitisation services. Administration, depositary, audit, tax and legal services will also be hired from outside. Other advisory services may also be required by the Brunel CAP and existing Framework Agreements will be used when applicable.</p> <p>Investment managers will engage with the Participating Funds using clusters of substantially identical Investment Manager Agreements.</p> |
| <b>A5</b> | <p>Timetable for establishing the Brunel CAP and moving assets into the pool. How progress will be reported transparently against that timetable.</p> | <p>The CAP structure can be established within 6-9 months of obtaining approval from DCLG, so Project Brunel proposes a commencement date for the Brunel CAP of April 2017. Asset transition planning will start before this, not least to avoid decisions in 2016 / early 2017 at a Founder Fund level that would complicate the pooling process.</p> <p>A two year period for transferring listed assets is expected, subject to analysis on transaction costs for mandate rationalisation. Efficient transfer of unlisted assets, including those with contractual tie-ins, may reasonably be completed within 10 to 15 years. More detail, including reporting proposals, will be provided in July.</p>                                                                                                                                                                                                                                                                                                    |

## Project Brunel: Initial proposal to DCLG on investment pooling

| <b>B. Strong governance and decision making</b> |                                                                                                                                                                                                           | <b>Initial proposal, subject to development in the July proposal</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>B1</b>                                       | Assurance to individual Funds that their investments are being managed appropriately by the pool, in line with their stated investment strategy and in the long-term interests of their members.          | <p>As indicated in the diagram for the CAP structure in section 3.2.7 of the PwC February Report, the Oversight Group will oversee reporting processes back to the Founder Funds' Pension Committees.</p> <p>Further detail on governance and reporting is being developed, and will be covered in the July proposal.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>B2</b>                                       | At the pool level, adequate assessment and management of risk, a long term view for investment implementation decisions and a culture of continuous improvement is adopted.                               | <p>The Brunel Pool expects to make appropriate use of external advisors and data aggregation techniques at the Oversight Group and Portfolio Construction Group level.</p> <p>Founder Funds are mindful that, just as their existing processes do not require oversight by the Financial Conduct Authority, neither does the CAP structure. Nonetheless, during development of the July proposal, the FCA processes for risk and process control will be reviewed so that the Brunel Pool can operate at the highest level of risk assessment and management, take a long term perspective for investment decisions and establish a culture of continuous improvement. These matters will be covered fully in the July proposal.</p>                                                                   |
| <b>B3</b>                                       | Governance structure for the Brunel CAP, including the accountability between the pool and elected councillors, and use of external scrutiny.                                                             | <p>There will be an Oversight Group with a scrutiny, challenge and ratification of process role. Chairs of Pension Committees, as elected councillors, will normally sit on this Group, on the basis of one seat for each Founder Fund. With no more than 12 Founder Funds, the Group will be a practical working size.</p> <p>There is no legal requirement for political balance or member representation on the Oversight Group, but these issues will be considered further, as will the position of the Environment Agency.</p> <p>The Oversight Group will include a Chair, independent of any of the Founder Funds, appointed from outside, to bring direct investment experience.</p> <p>These arrangements, including external scrutiny, will be considered further in the July proposal.</p> |
| <b>B4</b>                                       | Mechanisms by which the authorities can hold the Brunel CAP to account and secure assurance that their investment strategy is being implemented effectively and their investments are being well managed. | <p>The Oversight Group will provide the primary formal mechanism by which Pension Committees can hold the Brunel CAP to account.</p> <p>The Operational Group will be responsible for providing information to Pension Committees of a quality sufficient to deliver assurance that investment are well managed and that strategy is being implemented effectively. This will include information on the Sub-Funds sufficient to enable Pension Committees and their advisors to make asset allocation decisions that fully allow for liability, deficit and contribution stability</p>                                                                                                                                                                                                                |

## Project Brunel: Initial proposal to DCLG on investment pooling

|            |                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|            |                                                                                                                                                        | considerations. Founder Funds are expected to retain investment advisors but typically with revised roles, focussing on these matters.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>B5</b>  | Decision making procedures at all stages of investment, and the rationale underpinning this.                                                           | These policies and processes will be defined more closely by the July proposal. The Founder Funds share a clear intent that investment manager appointments will be considered and determined by the Operations Group, and its Portfolio Construction Groups. The Oversight Group will be responsible for ratifying the processes used rather than individual investment manager appointments.                                                                                                                                                                                                                                              |
| <b>B6</b>  | Shared objectives for the pool, and any policies that are to be agreed between participants.                                                           | Work has started in these areas and will be reported in July.<br><br>Part of the initial work will focus on practical policies to achieve fair sharing of transaction costs between Founder Funds across the Brunel CAP to effect the mandate rationalisation needed to deliver savings.                                                                                                                                                                                                                                                                                                                                                    |
| <b>B7</b>  | Resources allocated to the running of the pool(s), the governance budget, the number of staff needed and the skills and expertise required.            | These matters will be covered in the July proposal. Between them, the Founder Funds have substantial expertise, and redeployment, of role rather than location or employer, will be the primary mechanism used.                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>B8</b>  | Handling of environmental, social and corporate governance policies by the pool.                                                                       | Project Brunel has begun work on shared investment beliefs to establish common policies to as large an extent as possible.<br><br>Within the Founder Funds, there is considerable experience and recognised global leadership of responsible investment, broadly defined as generating better returns by investing in companies and assets that contribute to the long term sustainable success of the global economy and society, adopting best practice collective governance with appropriate oversight, prioritisation, delegation and decision making at the right level.<br><br>Further detail will be provided in the July proposal. |
| <b>B9</b>  | Individual Funds acting as responsible, long term investors through the pool. Determination and enactment of stewardship responsibilities by the pool. | Substantial commonality has been identified between Founder Funds in terms of being long term investors, investing strategically in productive assets that contribute to economic activity, such as equities, bonds and real assets, thereby aiming to earn sustainable and sufficient returns on their assets.<br><br>The Brunel CAP will provide Sub-Funds for its Founder Funds that enable them to continue this responsible approach. There is recognition that there are some differences between Founder Funds' starting positions on these questions and the development of policies will be mindful of this.                       |
| <b>B10</b> | Public reporting of net performance of each asset class by the Brunel CAP, to encourage the sharing of data and best practice.                         | The Brunel CAP will look to work with other pools to facilitate consistent public reporting of the net performance of each asset class. The Sub-Fund approach will facilitate this. More detail will be provided in July proposal.                                                                                                                                                                                                                                                                                                                                                                                                          |

## Project Brunel: Initial proposal to DCLG on investment pooling

|            |                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>B11</b> | Extent of use by benchmarking by individual Funds to assess their own governance and performance and that of the Brunel CAP, for example by undertaking the Scheme Advisory Board's key performance indicator assessment. | The Brunel CAP will take a fully transparent approach, to facilitate Founder Funds' work in this area. In particular, there is an understanding that overall investment performance will result from a combination of strategic asset allocation decisions taken by Pension Committees and granular Sub-Fund decisions and appointments handled by the Operations Group.<br><br>More detail will be provided in the July proposal. |
|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## Project Brunel: Initial proposal to DCLG on investment pooling

| C.        | Reduced costs and excellent value for money                                                                                                                                                                                                                                  | Initial proposal, subject to development in the July proposal                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>C1</b> | <p>Delivery of savings in investment fees, both in the near term and over the next 15 years, while at least maintaining overall investment performance.</p> <p>Approach to comparison of fees and net performance in each listed asset class compare to a passive index.</p> | <p>Project Brunel is establishing a savings projection model. Net savings are expected after the first 2 years, once the balance between operational savings and transitional costs becomes positive.</p> <p>The estimated predictable savings from mandate rationalisation and fee renegotiation when transition is complete, after 10 – 15 years, is £16 million a year across the ten Founder Funds. Additional operational costs, of approximately £1.5 million, including the provision of a unitisation service by a single external custodian, are expected to reduce this. Section 7 of the PwC February Report details the assumptions underlying the savings model.</p> <p>The Founder Funds are open to seeking further savings from specific sources, such as may be delivered by more internal management or more passive management. These approaches are not yet agreed and may be linked to moving some assets into a regulated environment or into national passive procurement or other national initiatives.</p> <p>More widely, the Founder Funds share an aspiration to make the Brunel CAP work for them, and to deploy long term investment approaches consistent with scale. There is an aspiration to make total improvements in net investment return over the Founder Funds of around £70 million a year. The PwC Feasibility Report comments further on the distinction between predictable savings and aspirational improvements.</p> <p>It should be possible to comment on monitoring processes against passive indices in the July proposal, but Project Brunel will seek to work with other pools to establish a consistent approach.</p> |
| <b>C2</b> | <p>Consideration of setting targets for active managers which are focused on achieving risk-adjusted returns over an appropriate long term time period.</p>                                                                                                                  | <p>The Operations Group will draw on the substantial expertise in this area that already exists in the Founder Funds. Each of the Portfolio Construction Groups will be monitored as to their success in setting risk-adjusted long-term targets for active managers.</p> <p>This question will be addressed further in the July proposal.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>C3</b> | <p>Transparent assessment of investment costs and fees as at 31 March 2013.</p>                                                                                                                                                                                              | <p>Much of this assessment was originally carried out two years ago in order to inform subsequent renegotiations with investment managers of the South West Funds. Further details will be provided in the July proposal.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>C4</b> | <p>Transparent assessment of current investment costs and fees, prepared on the same basis as 2013 for comparison.</p>                                                                                                                                                       | <p>This assessment has been started. It is designed to feed into the cost savings projection model, which considers scope to achieve fee reductions through mandate rationalisation and increased scale.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

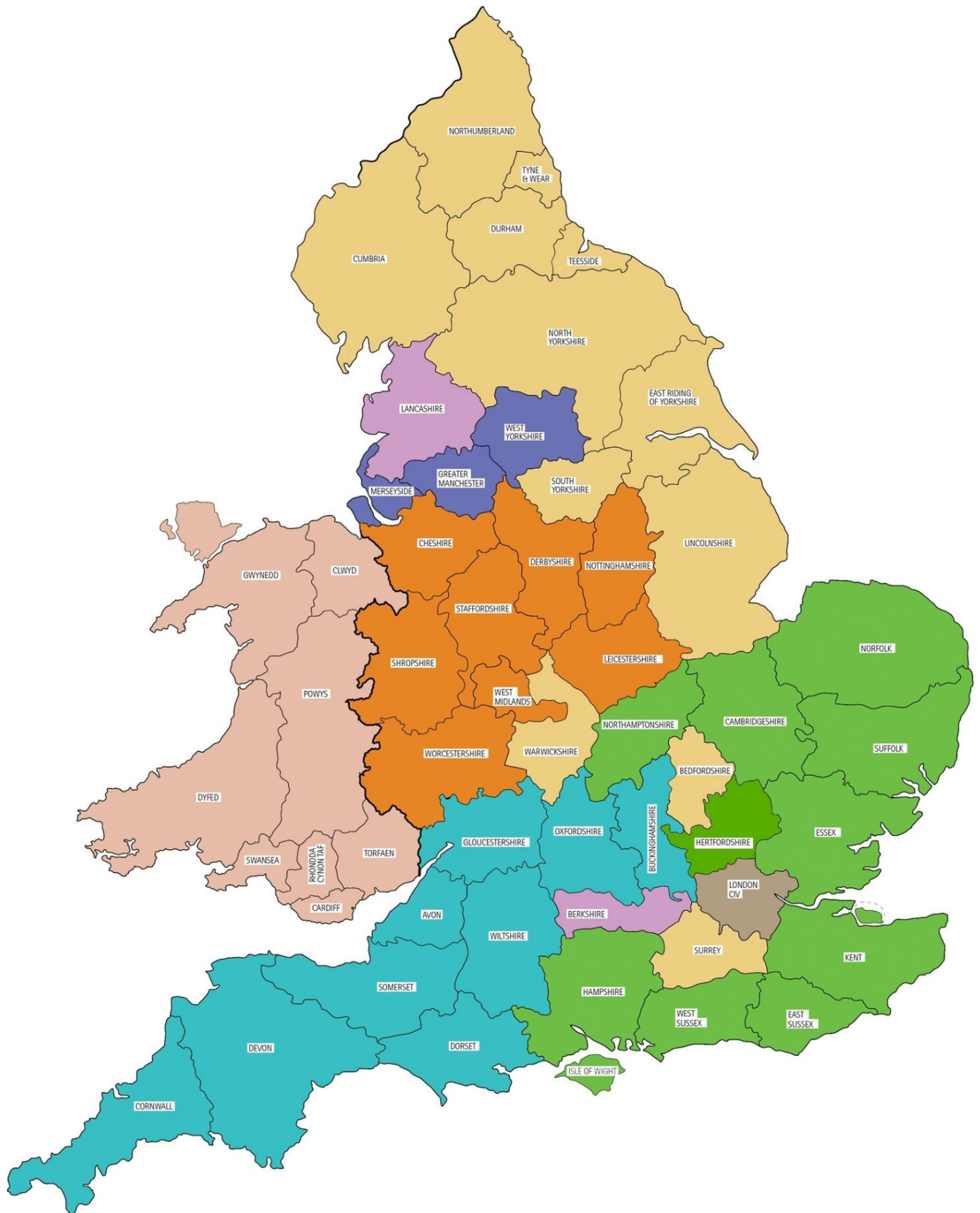
## Project Brunel: Initial proposal to DCLG on investment pooling

|           |                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|           |                                                                                                                                                                                            | Detail will be provided in the July proposal.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>C5</b> | Detailed estimate of savings over the next 15 years.                                                                                                                                       | To be provided in July proposal.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>C6</b> | Detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met. | <p>An assessment of implementation costs has commenced as part of the modelling described in C1. This includes legal, tax, procurement advice and costs arising from detailed design, implementation and asset transition. Detail will be provided in the July proposal.</p> <p>There are some legacy illiquid assets that will have to remain outside the pool for contractual reasons. The governance of the assets will be handled by the Brunel CAP Operations Group. It is anticipated that as these investments are run down over the longer term the proceeds released will be transitioned to the pool.</p> <p>In principle, costs will be divided across Founder Funds, either equally or in proportion to relevant assets.</p> |
| <b>C7</b> | Proposal for reporting transparently against forecast transition costs and savings. Approach to reporting fees and net performance.                                                        | To be provided in July proposal.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

## Project Brunel: Initial proposal to DCLG on investment pooling

| <b>D.</b> | <b>Improved capacity to invest in infrastructure</b>                                                                                                                                                                                                     | <b>Initial proposal, subject to development in the July proposal</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>D1</b> | Proportion of participating individual Funds currently allocated to infrastructure, both directly and through funds, or “fund of funds”.                                                                                                                 | <p>The Founder Funds recognise that infrastructure can be an attractive investment class for pension funds with long term, stable cash flows and controlled risks.</p> <p>Between them the Founder Funds have a total strategic target allocation to infrastructure of approximately £820 million as at 31<sup>st</sup> March 2015. Of this, £580 million is already committed to specific investment and £230 million of this has been drawn down.</p>                                                                              |
| <b>D2</b> | Potential development or acquisition of the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments directly through the pool(s), rather than existing fund, or “fund of funds” arrangements. | <p>We recognise that infrastructure can be an attractive investment class for pension funds with long term, stable cash flows and controlled risks. Funds within the Brunel CAP have been allocating to infrastructure since 2007. To maximise our capabilities in infrastructure we will work within the Brunel CAP to build up the focus and capacity on infrastructure, and also seek to collaborate with other pools to support national infrastructure initiatives. Further detail will be provided in the July submission.</p> |
| <b>D3</b> | Proportion participating individual Funds intend to invest in infrastructure, ambition in this area going forward, derivation of that amount.                                                                                                            | <p>All infrastructure investments will need to be acceptable against fiduciary criteria that meet Founder Funds’ overall investment objectives.</p> <p>Within this criterion, and recognising that strategic allocation decisions will remain the prerogative of Founder Funds, Project Brunel plans to work with Founder Funds between February and July to define a substantial ambition to invest in infrastructure. This will enable development of fuller proposals by July.</p>                                                |

## LGPS Pooling Map





## ACTUARIAL VALUATION 2016

### Report of the County Treasurer

**Recommendation: that the Board notes the planned approach to the 2016 triennial valuation of the Pension Fund.**

#### 1. Introduction

- 1.1. LGPS Regulations require administering authorities to complete an actuarial valuation of their Pension Fund on a three yearly cycle. The next valuation date is at 31 March 2016, and the results must be published by 31 March 2017. The 2016 valuation will set employer contribution levels for the financial years 2017/18, 2018/19 and 2019/20 (the contribution levels for 2016/17 were set at the previous valuation in 2013).
- 1.2. This report summarises the plan for the valuation which has been discussed with the scheme actuary, Barnett Waddingham. Further background to the valuation process was provided in the presentation by Barnett Waddingham at the training session in November 2015.

#### 2. Actuarial Valuation 2016

- 2.1. An actuarial valuation aims to set a suitable level of employer contributions to ensure that the Fund achieves its long-term solvency objective. As part of the valuation the actuary estimates the scheme's long-term liabilities, compares the liabilities with the current value of the Fund's assets and calculates the surplus or deficit. The key factors in calculating the Fund's position will be the experience of the last three years compared with the assumptions made by the Actuary at the 2013 Valuation and the revised assumptions used by the Actuary in calculating future liabilities.
- 2.2. A timetable for the 2016 valuation has been agreed with Barnett Waddingham. The key dates are as follows:

| Date                  | Activity                                                                                                                                                     |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| June/July 2016        | Provision of Data to Barnett Waddingham                                                                                                                      |
| September 2016        | Officer meeting with Actuary – <ul style="list-style-type: none"><li>• Preliminary results understood</li><li>• Final Valuation assumptions agreed</li></ul> |
| Mid/Late October 2016 | Presentation of preliminary results to employer meeting                                                                                                      |
| November 2016         | Presentation of results to the Investment and Pension Fund Committee                                                                                         |
| March 2017            | <ul style="list-style-type: none"><li>• Confirmation of employer contribution rates.</li><li>• Actuary issues Rates and Adjustments certificate.</li></ul>   |

- 2.3. At the 2013 valuation the Devon Fund was assessed to have a funding level of 83%. The experience of the last three years will have an impact on whether the funding level will show an improved or worsening position at the 2016 valuation. Low levels of inflation over those three years will have kept pension increases down and have been below the

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actuary's assumed level of increases. The two year investment return over the 2013/14 and 2014/15 financial years was above the actuary's assumed return. However negative markets during the current financial year to date are likely to result in the total three year return being below the actuary's assumed return. The actuary will also need to assess the number of pensions in payment that have ceased over the period in comparison with previous projections. The impact of these factors is likely to be mixed, and at this stage is unclear.

- 2.4. The actuary will also revise his assumptions looking forward. A detailed assessment of life expectancy will be undertaken to inform any changes in the assumptions on how improvements in mortality will impact on future liabilities. The actuary will also review his assumptions on inflation over the shorter and medium to long terms, and the discount rate he uses to calculate the present value of the liabilities. The discount rate is based on the Fund's investment strategy and the likely returns that can be achieved by each asset class over the longer term.
- 2.5. The key output of the valuation is the schedule of employer contributions for the next 3 financial years. Each employer's individual contribution rate is composed of an element for past service, which will recover any existing deficit, and an amount to cover the future accrual of pension rights in each year. The deficit recovery part of the contribution rate will depend in part on the length of the deficit recovery period, the time allowed for the deficit to be paid off. At the last valuation the Fund deficit recovery period was 25 years, with variations for different employers from 20 years up to 27 years. Ideally the recovery period should reduce at each valuation to indicate progress towards achieving a funding level of 100%. At this valuation it is proposed that an assessment of risk should be used to inform the recovery period set for each employer, i.e. if there is a higher risk that an employer will not be able to meet contribution payments for the longer term, they will be expected to pay off their deficit over a shorter period.
- 2.6. There will be an on-going dialogue with employers over the valuation period to ensure that any concerns they have about the process and the future level of contribution rates. The timetable for the valuation assumes that preliminary results will be available for a proposed employer meeting in October 2016. The plan is for the actuary to be available to meet individual employers at that meeting, although queries can also be addressed separately.
- 2.7. The 2016 valuation is likely to be scrutinised to a greater degree than previous valuations as a result of increased focus on the affordability of the LGPS by the Government and media. Following the valuation conducted by the fund actuary a further exercise will be completed by the Government Actuaries Department (GAD). This will look to compare LGPS funds on a "like for like" basis in order to highlight funds that are poorly funded, and also feed into the cost control mechanisms set up to determine whether changes are required to either pension benefits or employee contribution rates to ensure the affordability of the scheme to the taxpayer.

### 3. Conclusion

- 3.1. The actuary has a duty to ensure the solvency of the Pension Fund, but also to keep contribution levels stable as far as possible. While it would be unwise to prejudge the outcome of the actuarial valuation, it would be prudent to anticipate a small increase in contribution rates over the three years from 2017/18.
- 3.2. The outcome of the valuation will be reported to the Investment and Pension Fund Committee in November. A revised Funding Strategy Statement will then be produced in 2017 to reflect any significant changes to funding assumptions. The results will also feed into future reviews of the Fund's investment strategy.

Mary Davis

## DEVON PENSION FUND RISK REGISTER

### Report of the County Treasurer

Please note that the following recommendation is subject to consideration and determination by the Board before taking effect.

**Recommendation: that the Board notes the Pension Fund Risk Register and the additional actions proposed to mitigate risk.**

#### 1. Introduction

- 1.1. The Pension Board monitors the Risk Register as part of its scrutiny role in relation to risk and compliance, and raise any specific concerns to the Investment and Pension Fund Committee, as necessary. The Board previously considered the Risk Register at its meeting on 22<sup>nd</sup> October 2015.
- 1.2. The Risk Register is attached at Appendix 1 to this report. It highlights the key risks in relation to the Devon Fund, the current processes in place to mitigate the risk, and the planned improvements in place to provide further assurance. This incorporates the risk register of both the Investments Team and Peninsula Pensions.
- 1.3. The Investment and Pension Fund Committee is the ultimate risk owner for the Pension Fund and therefore an updated Risk Register will also be taken to the Committee on an annual basis.

#### 2. Revisions to the Risk Register

- 2.1. The Risk Register is reviewed and updated on an ongoing basis throughout the year. The following changes have been made to the Register since it was last presented to the Board:
  - Risk no. G2 – additional plans completed.

The training plan for 2015/16 was presented at the June meeting of the Investment and Pension Fund Committee and at the July meeting of the Pension Board. A review of the training undertaken during 2015/16 and the proposed training plan for 2016/17 will be presented at this meeting of the Pension Board. The current level of risk identified will not change.
  - Risk no. F6 - additional plans completed.

Hymans Roberston were commissioned to write a report reviewing and making recommendations regarding the Pension Fund's fixed interest strategy.

The report was completed in August 2015 and presented to the Investment and Pension Fund Committee in September 2015. Following this meeting, some changes to the Pension Funds fixed interest strategy have been implemented. The current level of risk identified will not change.

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- Risk no. Cm2 – additional plans completed.

The Communications Strategy was reviewed and approved by the Investment and Pension Fund Committee in November 2015. The current level of risk identified will not change.

- Risk no. I1 – additional plans completed.

A procedure manual for Devon Investment Services is now in place. This sets out the roles and responsibilities of team members, contact details and work instructions for pension fund and treasury management tasks. The procedure manual will continue to be developed on an on-going basis.

Officers have undertaken the CIPFA Knowledge and Skills Framework Self-Assessment previously, and will complete the updated outstanding modules before the end of December 2016.

A formal training record for officers is now maintained centrally.

The current level of risk identified will not change.

- Risk no. P1 – additional plans completed.

The payroll manual has been updated to reflect changes following the introduction of RTI (Real Time Information) and new administration systems. The current level of risk identified will not change.

- Risk no. P5 – additional plans completed.

The 'Tell Us Once' service and overseas mortality screening exercise are currently being undertaken. The current level of risk identified will not change.

- Risk no. P9 – additional plans completed.

The backlog in deferred and amalgamation cases has now been cleared. The current level of risk identified will not change.

- 2.2. Taking account of the revisions above, there remain 28 risks recorded in the Risk Register. The following table summarises the number of risks assigned to low, medium and high risk scores, before and after mitigation.

| Risk Category | Number of Inherent Risks Identified | Number of Risks following mitigation action |
|---------------|-------------------------------------|---------------------------------------------|
| High          | 6                                   | 1                                           |
| Medium        | 16                                  | 4                                           |
| Low           | 6                                   | 23                                          |

### 3. Conclusion

- 3.1. The Board is asked to note the Pension Fund Risk Register, and the additional actions proposed to mitigate risk.

Mary Davis

Electoral Divisions: All  
Local Government Act 1972  
List of Background Papers - Nil  
Contact for Enquiries: Dan Harris  
Tel No: (01392) 382520 Room G99

**Appendix 1 - Devon Pension Fund Risk Register**

| Risk no.                       | Description of Risk and Potential Impact                                                                                                                                                                                                                                                                                                                                                                         | Inherent Risk |            |                | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Current Risk |            |                | Risk Owner               | Additional Plans | Timescale |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|----------------|--------------------------|------------------|-----------|
|                                |                                                                                                                                                                                                                                                                                                                                                                                                                  | Impact        | Likelihood | Combined Score |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Impact       | Likelihood | Combined Score |                          |                  |           |
| <b>Governance Arrangements</b> |                                                                                                                                                                                                                                                                                                                                                                                                                  |               |            |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |              |            |                |                          |                  |           |
| G1                             | <p>The Administering Authority fails to have appropriate governance arrangements, and fails to properly implement the new requirement for a Pension Board, resulting in:</p> <ul style="list-style-type: none"> <li>• Non-compliance with legislation and/or best practice.</li> <li>• Inability to determine policy, make effective decisions and/or deliver service.</li> <li>• Risk to reputation.</li> </ul> | 4             | 2          | 8              | <ul style="list-style-type: none"> <li>• DCC has produced a Governance Policy and Compliance Statement, as required by regulation 31 of the LGPS Regulations 2008.</li> <li>• The Governance Policy and Compliance Statement is reviewed and updated regularly and scheme employers are consulted to ensure that the policy remains appropriate.</li> <li>• The Statement is published on the Devon Pensions website: <a href="http://www.pensinulapensions.org.uk/wp-content/uploads/2013/09/Devon-Pension-Fund-Governance-Policy.pdf">http://www.pensinulapensions.org.uk/wp-content/uploads/2013/09/Devon-Pension-Fund-Governance-Policy.pdf</a></li> <li>• Pension fund stakeholders are made aware of the Statement.</li> <li>• DCC has appointed an Investment and Pension Fund Committee to discharge the duties of the Council as Administering Authority of the Pension Fund.</li> <li>• The Committee review and approve the annual statement of accounts of the Devon Pension Fund, consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from any audit that need to be brought to the attention of the Council.</li> <li>• A Pension Board has been established as required by the Public Service Pension Act 2013, and has had its first meeting. The Board's constitution and terms of reference were confirmed by Full Council in February 2015, and the first meeting took place in July.</li> <li>• Support and training are being provided to ensure that the Board is equipped to undertake its role.</li> </ul> | 4            | 1          | 4              | Mark Gayler / Dan Harris |                  |           |

**Appendix 1 - Devon Pension Fund Risk Register**

| Risk no.                       | Description of Risk and Potential Impact                                                                                                                                                                                                                                                                                                                                      | Inherent Risk |            |                | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Current Risk |            |                | Risk Owner               | Additional Plans                                                                                                   | Timescale              |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|----------------|--------------------------|--------------------------------------------------------------------------------------------------------------------|------------------------|
|                                |                                                                                                                                                                                                                                                                                                                                                                               | Impact        | Likelihood | Combined Score |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Impact       | Likelihood | Combined Score |                          |                                                                                                                    |                        |
| G2                             | <p>The Investment and Pension Fund Committee and Pension Board are unable to fulfil their responsibilities effectively, resulting in:</p> <ul style="list-style-type: none"> <li>• Non-compliance with legislation and/or best practice.</li> <li>• Inability to determine policy, make effective decisions and/or deliver service.</li> <li>• Risk to reputation.</li> </ul> | 3             | 3          | 9              | <ul style="list-style-type: none"> <li>• The Committee has adopted the CIPFA Code of Practice on Knowledge and Skills, and regular training is provided to ensure that members have the level of understanding required.</li> <li>• An Annual Training Plan has been agreed for 2015/16.</li> <li>• A training and induction programme is available for new Committee and Pension Board Members.</li> <li>• The Fund subscribes to relevant bodies (e.g. CIPFA, LAPFF, NAPF) and sends representatives to major conferences.</li> <li>• DCC organises at least two training days per year for Investment and Pension Fund Committee and Pension Board members, including an annual shared training day with Cornwall Council.</li> <li>• Committee and Pension Board members are made aware of and adhere to the Governance Compliance Statement, and are encouraged to identify training requirements.</li> </ul> | 3            | 2          | 6              | Mark Gayler / Dan Harris | The 2015/16 training plan will be taken to the June Committee meeting, and the first meeting of the Pension Board. | 01/07/2015 - Completed |
| <b>Funding and Investments</b> |                                                                                                                                                                                                                                                                                                                                                                               |               |            |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |              |            |                |                          |                                                                                                                    |                        |
| F1                             | <p>The Committee Members and Investment Officers make inappropriate decisions as a result of insufficient knowledge of financial markets and inadequate investment and actuarial advice received, resulting in:</p> <ul style="list-style-type: none"> <li>• Poor Fund performance/financial loss.</li> <li>• Increased employer contribution costs.</li> </ul>               | 4             | 3          | 12             | <ul style="list-style-type: none"> <li>• The Investment Strategy is set in accordance with LGPS investment regulations.</li> <li>• The Investment Strategy is reviewed, approved and documented by the Investment and Pension Fund Committee.</li> <li>• The Investment Strategy takes into account the Fund's liabilities.</li> <li>• DCC employ an external investment advisor who provides specialist guidance to the Investment and Pension Fund Committee regarding the investment strategy.</li> <li>• An Annual Training Plan has been agreed for 2015/16. Training programmes are available for Committee Members and Investment Staff.</li> <li>• Members and Officers are encouraged to challenge advice and guidance received when necessary.</li> </ul>                                                                                                                                                | 4            | 2          | 8              | Mark Gayler              |                                                                                                                    |                        |

**Appendix 1 - Devon Pension Fund Risk Register**

| Risk no. | Description of Risk and Potential Impact                                                                                                                                                                                                                                                                                                                                                                                                | Inherent Risk |            |                | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Current Risk |            |                | Risk Owner  | Additional Plans                                                                                                                                                                                 | Timescale |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|----------------|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
|          |                                                                                                                                                                                                                                                                                                                                                                                                                                         | Impact        | Likelihood | Combined Score |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Impact       | Likelihood | Combined Score |             |                                                                                                                                                                                                  |           |
| F2       | <p>The Pension Fund has insufficient assets to meet its long term liabilities.</p> <p>The Pension Fund's investment strategy and /or Fund Managers fail to produce the required returns, or organisational changes / manager departures at a Fund Manager damage performance, resulting in:</p> <ul style="list-style-type: none"> <li>• Financial loss.</li> <li>• Insufficient funds available to meet future obligations.</li> </ul> | 5             | 3          | 15             | <ul style="list-style-type: none"> <li>• Triennial actuarial valuations provide periodic indications of the growth in assets against liabilities. Employer contribution rates are set in response to this.</li> <li>• The 2013 actuarial valuation includes provision for the fund to achieve full funding over 25 years.</li> <li>• The investment strategy is reviewed annually by the Pension Fund Committee with advice from the External Investment Advisor to determine whether any action needs to be taken to amend the fund's asset allocation strategy.</li> <li>• The Fund's investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets.</li> <li>• Fund-specific benchmarks and targets are set.</li> <li>• Fund assets are kept under regular review as part of the Fund's performance management framework.</li> <li>• Fund managers are thoroughly vetted prior to appointment and performance is reviewed regularly against the benchmark and performance objectives, and this is reported to Committee. Appropriate action may be taken if it is considered that an Investment Manager is underperforming.</li> <li>• The depth of expertise in the fund managers team will be assessed as part of the appointment process.</li> <li>• Performance targets are agreed by the Investment and Pension Fund Committee and are based upon recommendations provided by the DCC in-house Investment Team and our external investment advisor.</li> <li>• The Investment and Pension Fund Committee have the power to terminate a fund manager's contract if it is deemed that the manager has not performed as expected, or there are concerns about future performance due to organisational change / manager departures.</li> </ul> | 5            | 2          | 10             | Mark Gayler | An asset-liability study may be commissioned if there is evidence of a clear shift in the balance between assets and liabilities (e.g. due to changes in membership structure or benefit rules). |           |

**Appendix 1 - Devon Pension Fund Risk Register**

| Risk no. | Description of Risk and Potential Impact                                                                                                                                                       | Inherent Risk |            |                | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Current Risk |            |                | Risk Owner  | Additional Plans | Timescale |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|----------------|-------------|------------------|-----------|
|          |                                                                                                                                                                                                | Impact        | Likelihood | Combined Score |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Impact       | Likelihood | Combined Score |             |                  |           |
| F3       | The fund is exposed to unnecessary risks and avoidable costs due to poorly structured investment arrangements, resulting in: <ul style="list-style-type: none"> <li>Financial loss.</li> </ul> | 5             | 2          | 10             | The Fund attempts to ensure the achievement of best value and minimise exposure to risk via the following: <ul style="list-style-type: none"> <li>The Fund's investments are diversified across a range of different types of assets to minimise the impact of losses in individual markets.</li> <li>IMA disclosure tables are reviewed to ensure best execution by managers.</li> <li>Investment managers are asked to provide invoices for fees, wherever possible.</li> <li>Specialist services (e.g. transitions, currency transfers) are considered where appropriate in order to reduce costs.</li> <li>Banking and custodian arrangements are reviewed and re-tendered when appropriate.</li> </ul>                                                      | 4            | 1          | 4              | Mark Gayler |                  |           |
| F4       | Collapse of a fund manager or negligence, fraud or wilful default committed by a fund manager, resulting in: <ul style="list-style-type: none"> <li>Financial loss.</li> </ul>                 | 4             | 2          | 8              | <ul style="list-style-type: none"> <li>The Fund considers the financial stability of managers during the appointment process and the situation is kept under review.</li> <li>DCC use a global custodian service to ensure that there exists a separation of investment management arrangements from custody of assets.</li> <li>Legal requirements are in place for fund managers and are set out in the investment management agreements.</li> <li>Fund managers are required to be fully compliant with FCA, PRA and other regulatory requirements.</li> <li>The risk that a fund manager cannot provide a service during windup is mitigated by the availability of a transition management service by the Fund's Custodian Bank, Northern Trust.</li> </ul> | 3            | 2          | 6              | Mark Gayler |                  |           |



**Appendix 1 - Devon Pension Fund Risk Register**

| Risk no. | Description of Risk and Potential Impact                                                                                                                                                                                                                       | Inherent Risk |            |                | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Current Risk |            |                | Risk Owner         | Additional Plans                                                                      | Timescale                                      |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|----------------|--------------------|---------------------------------------------------------------------------------------|------------------------------------------------|
|          |                                                                                                                                                                                                                                                                | Impact        | Likelihood | Combined Score |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Impact       | Likelihood | Combined Score |                    |                                                                                       |                                                |
| F5       | Market crash leading to a failure to reduce the deficit.<br><ul style="list-style-type: none"> <li>Financial loss.</li> <li>Increased employer contribution costs.</li> </ul>                                                                                  | 5             | 3          | 15             | <ul style="list-style-type: none"> <li>The fund is well diversified and consists of a wide range of asset classes which aims to mitigate the impact of poor performance from an individual market segment.</li> <li>Investment performance reporting and monitoring arrangements exist which provide the committee and investment officers with the flexibility to rebalance the portfolio in a timely manner.</li> <li>The long term nature of the liabilities provides some mitigation, in that markets tend to bounce back after crashes, such that the impact is significantly reduced.</li> </ul>                                             | 4            | 3          | 12             | Mark Gayler        |                                                                                       |                                                |
| F6       | Pay and price inflation are higher than anticipated.<br><ul style="list-style-type: none"> <li>An increase in liabilities which exceeds the previous valuation estimate.</li> </ul>                                                                            | 4             | 3          | 12             | <ul style="list-style-type: none"> <li>The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases.</li> <li>Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer serving employees.</li> <li>The Fund has recently made new investments in infrastructure funds with inflation linked returns, to act as a hedge against inflation increases.</li> <li>The Committee has received training on understanding liabilities and potential approaches to Liability Driven Investment.</li> </ul> | 3            | 3          | 9              | Mark Gayler        | Commissioning of a Consultant's report on strategy for the fixed interest allocation. | Report to Committee September 2015 - Completed |
| F7       | Increase in number of early retirements due to public service cuts and/or ill health leading to pension liabilities increasing.<br><ul style="list-style-type: none"> <li>An increase in liabilities which exceeds the previous valuation estimate.</li> </ul> | 3             | 3          | 9              | <ul style="list-style-type: none"> <li>Employers are charged the extra capital cost of non ill health retirements following each individual decision.</li> <li>Employer ill health retirement experience is monitored.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                  | 2            | 2          | 4              | Charlotte Thompson |                                                                                       |                                                |
| F8       | The average life expectancy of pensioners is greater than assumed in actuarial assumptions.<br><ul style="list-style-type: none"> <li>An increase in liabilities which exceeds the previous valuation estimate.</li> </ul>                                     | 4             | 3          | 12             | <ul style="list-style-type: none"> <li>Life expectancy assumptions are reviewed at each valuation.</li> <li>Mortality assumptions include some allowance for future increases in life expectancy.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                       | 3            | 2          | 6              | Mark Gayler        |                                                                                       |                                                |

**Appendix 1 - Devon Pension Fund Risk Register**

| Risk no.       | Description of Risk and Potential Impact                                                                                                                                                                                                                                                                                                                                    | Inherent Risk |            |                | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Current Risk |            |                | Risk Owner                         | Additional Plans | Timescale |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|----------------|------------------------------------|------------------|-----------|
|                |                                                                                                                                                                                                                                                                                                                                                                             | Impact        | Likelihood | Combined Score |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Impact       | Likelihood | Combined Score |                                    |                  |           |
| F9             | Scheme employers' contributions to the Fund are not received, processed and recorded completely and accurately<br><ul style="list-style-type: none"> <li>Increased costs across all the remaining scheme employers</li> </ul>                                                                                                                                               | 3             | 3          | 9              | <ul style="list-style-type: none"> <li>The team has procedures in place to monitor the receipt of contributions to the fund.</li> <li>The team communicates regularly with scheme employers to ensure that contributions are made in a timely manner and are recorded accurately.</li> <li>Details of any outstanding and overdue contributions are recorded and appropriate action is taken in order to recover payments.</li> </ul>                                                                                                                                                                                                                                                                                | 3            | 1          | 3              | Mark Gayler/<br>Martyn Williams    |                  |           |
| F10            | An employer ceases to exist with insufficient funding available to settle any outstanding debts, or refuses to pay the cessation value.<br><ul style="list-style-type: none"> <li>Departing employer not fully meeting its liabilities which leads to increased costs across the remaining scheme employers.</li> </ul>                                                     | 3             | 3          | 9              | The risk is mitigated by: <ul style="list-style-type: none"> <li>Vetting prospective employers before admission and ensuring that they fully understand their obligations. Applications for admission to the Fund are considered carefully and a bond or guarantee is put into place if required.</li> <li>Outstanding liabilities will be assessed and recovered from any successor bodies or spread amongst remaining employers.</li> <li>The actuarial valuation attempts to balance recovery period with risk of withdrawal.</li> <li>If necessary, appropriate legal action will be taken.</li> <li>An Employer Covenant Risk Assessment has been undertaken by the Fund Actuary, Barnett Waddingham</li> </ul> | 2            | 2          | 4              | Mark Gayler/<br>Charlotte Thompson |                  |           |
| F11            | A significant number of LGPS members transfer their pension pots to other pensions providers in order to obtain a capital sum under the Government's "Freedom and Choice" legislation, resulting in: <ul style="list-style-type: none"> <li>Significant cashflow out of the Fund.</li> <li>Reduction in assets greater than reduction in the Fund's liabilities.</li> </ul> | 3             | 2          | 6              | The risk is mitigated by: <ul style="list-style-type: none"> <li>Effective communication of the benefits of remaining in the LGPS.</li> <li>Actuarial calculation of transfer value should ensure transfer value does not exceed reduction in liability.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 2            | 2          | 4              | Mark Gayler/<br>Charlotte Thompson |                  |           |
| <b>Custody</b> |                                                                                                                                                                                                                                                                                                                                                                             |               |            |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |              |            |                |                                    |                  |           |
| Cu1            | Failure of custodian leading to losses which results in a failure to reduce the deficit and potential adverse media interest.<br><ul style="list-style-type: none"> <li>Financial loss.</li> </ul>                                                                                                                                                                          | 4             | 2          | 8              | <ul style="list-style-type: none"> <li>The custodian contract is subject to regular review and periodic re-tendering. A new contract was awarded to Northern Trust with a start date of 1 September. The procurement process included an assessment of their financial standing.</li> <li>The custodian must adhere to FCA and PRA financial regulations.</li> <li>Fund assets are protected in the event of insolvency of the custodian</li> </ul>                                                                                                                                                                                                                                                                  | 3            | 2          | 6              | Mark Gayler/<br>Dan Harris         |                  |           |

**Appendix 1 - Devon Pension Fund Risk Register**

| Risk no.             | Description of Risk and Potential Impact                                                                                                                                                                                                                                                                       | Inherent Risk |            |                | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Current Risk |            |                | Risk Owner                       | Additional Plans                                                                                                      | Timescale              |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|----------------|----------------------------------|-----------------------------------------------------------------------------------------------------------------------|------------------------|
|                      |                                                                                                                                                                                                                                                                                                                | Impact        | Likelihood | Combined Score |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Impact       | Likelihood | Combined Score |                                  |                                                                                                                       |                        |
| <b>Communication</b> |                                                                                                                                                                                                                                                                                                                |               |            |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |              |            |                |                                  |                                                                                                                       |                        |
| Cm1                  | Insufficient communication and engagement with the Pension Fund Stakeholders. <ul style="list-style-type: none"> <li>• Non-compliance with legislation and/or best practice.</li> <li>• Inability to determine policy, make effective decisions and/or deliver service.</li> <li>• Reputation risk.</li> </ul> | 3             | 3          | 9              | <ul style="list-style-type: none"> <li>• A communications strategy is in place.</li> <li>• The Devon Investment Services and Peninsula Pensions websites are kept up to date.</li> <li>• Fund Performance is reported to the Investment &amp; Pension Fund Committee on a regular basis.</li> <li>• Meetings are held regularly with the Fund’s Employing Authorities.</li> <li>• Benefit illustrations are sent annually to contributing and deferred Fund members.</li> <li>• The contact list for employers is updated regularly.</li> <li>• Annual forums are held for employers and Trade Unions.</li> <li>• The annual report and accounts are published on the Peninsula Pensions website.</li> </ul>                     | 3            | 2          | 6              | Mark Gayler / Charlotte Thompson | The Communications Strategy is to be reviewed and a revised Strategy brought to the Investment Committee for approval | 01/11/2015 - Completed |
| <b>Accounting</b>    |                                                                                                                                                                                                                                                                                                                |               |            |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |              |            |                |                                  |                                                                                                                       |                        |
| A1                   | Failure to comply with pension fund accounting regulations. <ul style="list-style-type: none"> <li>• Risk of the accounts being qualified by the auditors.</li> </ul>                                                                                                                                          | 3             | 3          | 9              | <ul style="list-style-type: none"> <li>• Staff are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures.</li> <li>• Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the DCC Financial Regulations.</li> <li>• Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers.</li> <li>• Internal Audits are carried out on an annual basis.</li> <li>• External Audit review the Pension Fund’s accounts annually.</li> </ul> | 3            | 2          | 6              | Mark Gayler/ Karlien Bond        |                                                                                                                       |                        |

**Appendix 1 - Devon Pension Fund Risk Register**

| Risk no.               | Description of Risk and Potential Impact                                                                                                                                                                                                                                                                     | Inherent Risk |            |                | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Current Risk |            |                | Risk Owner                         | Additional Plans                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Timescale                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|----------------|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                        |                                                                                                                                                                                                                                                                                                              | Impact        | Likelihood | Combined Score |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Impact       | Likelihood | Combined Score |                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Data Protection</b> |                                                                                                                                                                                                                                                                                                              |               |            |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |            |                |                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                               |
| D1                     | The Pension Fund systems and data may not be secure and appropriately maintained. <ul style="list-style-type: none"> <li>• Loss of sensitive data.</li> <li>• Reputation risk.</li> <li>• Financial loss arising from legal action.</li> </ul>                                                               | 3             | 2          | 6              | <ul style="list-style-type: none"> <li>• It is a mandatory requirement for all DCC employees to undertake Data Protection training and to adhere to DCC's data protection policy.</li> </ul>                                                                                                                                                                                                                                                                                                                                                | 3            | 1          | 3              | Mark Gayler/<br>Charlotte Thompson |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Internal</b>        |                                                                                                                                                                                                                                                                                                              |               |            |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |            |                |                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                               |
| l1                     | Concentration of knowledge in a small number of officers and risk of departure of key staff. <ul style="list-style-type: none"> <li>• The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation.</li> </ul> | 4             | 3          | 12             | <ul style="list-style-type: none"> <li>• The Deputy Investment Manager is able to cover in the absence of the Assistant County Treasurer.</li> <li>• Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff.</li> <li>• Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process.</li> <li>• A procedure manual is in place which sets out work instructions for the majority of crucial tasks undertaken.</li> </ul> | 4            | 2          | 8              | Dan Harris                         | <ul style="list-style-type: none"> <li>• The Devon Investment Services procedure manual is currently in the process of being updated. This will include work instructions for all pension fund investment and treasury management tasks.</li> <li>• Ensure the review of CIPFA's knowledge and skills framework relating to officers results in key outcomes being delivered.</li> <li>• A formal training record for all staff will be implemented in the near future.</li> </ul> | 2015 - As at the end of 2015 a procedure manual is now in place. This will continue to be developed on an on-going basis. Officers have undertaken the CIPFA Knowledge and Skills Framework Self-Assessment previously, and will complete the updated outstanding modules before the end of December 2016. A formal training record for officers is now maintained centrally. |

**Appendix 1 - Devon Pension Fund Risk Register**

| Risk no. | Description of Risk and Potential Impact                                                                                                     | Inherent Risk |            |                | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Current Risk |            |                | Risk Owner  | Additional Plans | Timescale |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|----------------|-------------|------------------|-----------|
|          |                                                                                                                                              | Impact        | Likelihood | Combined Score |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Impact       | Likelihood | Combined Score |             |                  |           |
| 12       | Failure of in-house treasury management practices leading to fraud, corruption or error.<br>• Risk of financial loss & damage to reputation. | 3             | 3          | 9              | <ul style="list-style-type: none"> <li>• Counterparty transactions are authorised by senior staff outside of the investment team.</li> <li>• All staff are covered by fidelity insurance up to £15 million</li> <li>• Sufficient members in the team to cover absence and leave - a weekly planner is produced in order to review cover requirements.</li> <li>• Appropriate separation of duties exists.</li> <li>• Treasury Management Practices are reviewed and updated regularly.</li> <li>• Up to date financial regulations and practices.</li> </ul> | 3            | 2          | 6              | Mark Gayler |                  |           |

**Appendix 1 - Devon Pension Fund Risk Register**

| Risk no.                  | Description of Risk and Potential Impact                                                                                                                                                                                                                                                | Inherent Risk |            |                | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Current Risk |            |                | Risk Owner         | Additional Plans                                                                                                                      | Timescale           |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|----------------|--------------------|---------------------------------------------------------------------------------------------------------------------------------------|---------------------|
|                           |                                                                                                                                                                                                                                                                                         | Impact        | Likelihood | Combined Score |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Impact       | Likelihood | Combined Score |                    |                                                                                                                                       |                     |
| <b>Peninsula Pensions</b> |                                                                                                                                                                                                                                                                                         |               |            |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |              |            |                |                    |                                                                                                                                       |                     |
| P1                        | Pension benefits are not paid.<br><ul style="list-style-type: none"> <li>• Risk of financial loss arising from compensation claims</li> <li>• Damage to reputation.</li> </ul>                                                                                                          | 4             | 2          | 8              | <ul style="list-style-type: none"> <li>• The payroll system is set up to pay pensioners monthly.</li> <li>• Disaster recovery plan in place with Heywoods which will restore data within 7 days in the event of system failure.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                        | 4            | 1          | 4              | Charlotte Thompson | Payroll manual is being revised and updated following the introduction of RTI (Real Time Information) and new administration systems. | 2015/16 - Completed |
| P2                        | Failure of scheme membership data and pension benefit calculation processes leading to fraud, corruption or error.<br><ul style="list-style-type: none"> <li>• Unauthorised payments under the Finance Act 2004.</li> <li>• Risk of financial loss and damage to reputation.</li> </ul> | 3             | 2          | 6              | <ul style="list-style-type: none"> <li>• Information and instructions are only accepted from authorised sources.</li> <li>• Employers and scheme members are required to review and confirm membership records annually.</li> <li>• Benefit calculations are checked by senior colleagues and are subject to independent authorisation.</li> <li>• All transactions comply with DCC financial regulations and are subject to independent authorisation.</li> <li>• All staff are covered by fidelity insurance up to £15 million.</li> <li>• Members approaching 75 are separately identified monthly.</li> </ul> | 3            | 1          | 3              | Charlotte Thompson |                                                                                                                                       |                     |
| P3                        | Failure of employing authority to provide timely and accurate member data resulting in delays or errors with benefit payments.<br><ul style="list-style-type: none"> <li>• Risk of financial loss and damage to reputation.</li> </ul>                                                  | 3             | 3          | 9              | <ul style="list-style-type: none"> <li>• Administration Strategy in place since April 2015, employer duties clearly identified. Ability to fine employers is provided for in strategy and LGPS regulations.</li> <li>• Employing authorities are contacted for outstanding information when it is identified that information is missing or contains errors.</li> </ul>                                                                                                                                                                                                                                           | 3            | 2          | 6              | Charlotte Thompson |                                                                                                                                       |                     |
| P4                        | Non-compliance with legislation and failure to correctly implement new legislation and regulations, resulting in:<br><ul style="list-style-type: none"> <li>• Incorrect payments being made.</li> <li>• Risk of financial loss and damage to reputation.</li> </ul>                     | 3             | 3          | 9              | <ul style="list-style-type: none"> <li>• LGA/External training.</li> <li>• Project work approach to implementation of legislative changes.</li> <li>• In house training for all staff.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                 | 2            | 2          | 4              | Charlotte Thompson |                                                                                                                                       |                     |

## Appendix 1 - Devon Pension Fund Risk Register

| Risk no. | Description of Risk and Potential Impact                                                                                                                                                                                                                                                     | Inherent Risk |            |                | Mitigating Controls                                                                                                                                                                                                                                                                                                                                                                                           | Current Risk |            |                | Risk Owner         | Additional Plans                                                                                                                                                                                                                                                                                            | Timescale                                                                                                   |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|----------------|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
|          |                                                                                                                                                                                                                                                                                              | Impact        | Likelihood | Combined Score |                                                                                                                                                                                                                                                                                                                                                                                                               | Impact       | Likelihood | Combined Score |                    |                                                                                                                                                                                                                                                                                                             |                                                                                                             |
| P5       | Pension benefits continue to be paid to deceased pensioners.<br><ul style="list-style-type: none"> <li>Risk of financial loss and damage to reputation.</li> </ul>                                                                                                                           | 2             | 3          | 6              | <ul style="list-style-type: none"> <li>All pensioners are contacted annually.</li> <li>Pension suspended if post is returned</li> <li>Pensioners are incorporated into National Fraud Initiative.</li> <li>Further targeted checks are conducted with credit reference agencies as appropriate.</li> <li>Monthly mortality screening is undertaken and any positive matches are ceased immediately</li> </ul> | 2            | 2          | 4              | Charlotte Thompson | <ul style="list-style-type: none"> <li>Tell us once service is being rolled out to LGPS. Project dates to be confirmed</li> <li>Mortality screening does not cover overseas pensioners. Western Union pensioner existence service will be undertaken bi annually. First exercise due summer 2015</li> </ul> | 2015 - This is currently in process.                                                                        |
| P6       | System failure.<br><ul style="list-style-type: none"> <li>Loss of sensitive data.</li> <li>Reputation risk.</li> <li>Financial loss arising from legal action.</li> </ul>                                                                                                                    | 5             | 2          | 10             | <ul style="list-style-type: none"> <li>The system is backed-up daily. System is hosted by Heywoods</li> <li>A full disaster recovery plan is in place and tested annually.</li> </ul>                                                                                                                                                                                                                         | 5            | 1          | 5              | Charlotte Thompson |                                                                                                                                                                                                                                                                                                             |                                                                                                             |
| P7       | Employing authorities not fulfilling their responsibilities e.g. not supplying us with correct employee data or not supplying it in a timely manner<br><ul style="list-style-type: none"> <li>Incorrect benefit calculations</li> <li>Delays while we request missing information</li> </ul> | 3             | 2          | 6              | <ul style="list-style-type: none"> <li>Admin strategy details employer responsibilities and timescales</li> <li>Advice and consultancy provided.</li> <li>Yearly checks on data to highlight gaps</li> <li>Employer administration meetings held twice a year</li> <li>Quarterly e-zine with administration updates, plus special editions when required</li> <li>Guidance available on website</li> </ul>    | 3            | 1          | 3              | Charlotte Thompson | Individual employer meetings which will include review of employer performance                                                                                                                                                                                                                              | commencing 2015                                                                                             |
| P8       | Failure to comply with disclosure regulations e.g. the requirement to issue information within a certain timescale after a request/event<br><ul style="list-style-type: none"> <li>Complaints</li> <li>Fines</li> </ul>                                                                      | 3             | 2          | 6              | <ul style="list-style-type: none"> <li>Robust workflow management system in place.</li> </ul>                                                                                                                                                                                                                                                                                                                 | 3            | 1          | 3              | Charlotte Thompson |                                                                                                                                                                                                                                                                                                             |                                                                                                             |
| P9       | Failure to issue Annual Benefit statements to active and deferred members by 31st August:<br><ul style="list-style-type: none"> <li>Reputational risk and complaints</li> <li>Fines</li> </ul>                                                                                               | 2             | 4          | 8              | <ul style="list-style-type: none"> <li>Project management approach</li> <li>Regular contact with employers to get data.</li> <li>Monthly interfacing to reduce workload at year end</li> </ul>                                                                                                                                                                                                                | 2            | 3          | 6              | Charlotte Thompson | Backlogs in deferred and amalgamation cases are being addressed and statements issued to these members at the time of processing their benefits.                                                                                                                                                            | 31.08.16 to have processed all deferred leavers pre 31.03.16. Completed - the backlog has now been cleared. |





## **PENINSULA PENSIONS ADMINISTRATION PERFORMANCE STATISTICS**

### **Report of the County Treasurer**

|                                                                                                                                |
|--------------------------------------------------------------------------------------------------------------------------------|
| Please note that the following recommendation is subject to consideration and determination by the Board before taking effect. |
|--------------------------------------------------------------------------------------------------------------------------------|

**Recommendation:** that the Board notes the report and actions being undertaken by officers to ensure compliance and best practice.

#### **1. Introduction**

- 1.1. At the pension board meeting held on 22nd October 2015, a request for a detailed pension administration report was noted.
- 1.2. Appendix 1 details the position as at September 2015 and 29th February 2016 for both work completed in target and numbers of outstanding cases.
- 1.3. Our main service standard is to complete 90% of work within 10 working days from when all necessary information has been received. This is monitored every month through our task management system (TMS) which is an in-house workflow within our pension database.
- 1.4. We also participate in the CIPFA Benchmarking Club which provides a yearly comparison of performance with other LGPS administration services. Approximately 50 LGPS Funds take part each year.

#### **2. Team Performance**

- 2.1. In 2014/15 the team issued 88% of work within target though backlogs of work in some areas were building up. The performance target for 2015/16 is to improve on last year's performance and see a reduction in the backlogs.
- 2.2. Overall performance to date for 2015/16 is currently 70% of work within target. Some areas of work are ahead of performance targets whilst others remain below.
- 2.3. Additional resources were agreed and a small team was established in October to clear the backlog of deferred benefit calculations. The backlog was cleared by the end of February which is a positive though the clearing of such a large backlog will ultimately result in the overall percentage achieved within target.

#### **3. Conclusion**

- 3.1. It has been agreed that the additional team will be extended until Autumn 2016 to enable the backlog of amalgamations to be targeted. The backlog of amalgamation cases has built up due to a delay in the LGPS regulations and processing of the deferred leavers.
- 3.2. New Preserved benefit cases and amalgamations will revert back to the main benefit teams from April.

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3.3. The new way of working started last September has been reviewed and changes made in January 2016 which has shown an improvement in performance and staff moral.

## 4. Conclusion

4.1. Although the percentage in target has reduced the most important thing was to reduce the backlogs, in turn improving the customer experience. We will need to closely monitor that the work returning to the main benefit teams does not slip. However this is a positive end to a challenging year.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

Contact for Enquiries: Shirley Cuthbert

Tel No: (01392) 383000 Great Moor House

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## Appendix 1

### COMPLETED

|                                          | Sep-15 |      | Feb-16 |      |                                           |
|------------------------------------------|--------|------|--------|------|-------------------------------------------|
| Priority Procedures (84%)*               | 765**  | 76%  | 918    | 70%  | * overall % in target achieved in 2014/15 |
| Non-Priority Procedures (90%)            | 3710   | 82%  | 4049   | 73%  |                                           |
| Combined (88%)                           | 3710   | 81%  | 4967   | 72%  |                                           |
| <b>Priority</b>                          |        |      |        |      | ** Number of cases processed              |
| Death in Service/pensioner (65%)         | 88     | 72%  | 120    | 58%  |                                           |
| Employer retirement estimates (91%)      | 44     | 86%  | 100    | 94%  |                                           |
| Priority General enquiry (               | 366    | 95%  | 399    | 85%  |                                           |
| Retirement from active (58%)             | 264    | 50%  | 188    | 35%  |                                           |
| Retirement from deferred                 | 179    | 36%  | 111    | 65%  |                                           |
| <b>Non-Priority</b>                      |        |      |        |      |                                           |
| Amalgamations                            | 36     | 69%  | 42     | 71%  |                                           |
| Additioanl Voluntary Contributions (73%) | 213    | 69%  | 123    | 89%  |                                           |
| Deferred leavers (80%)                   | 519    | 57%  | 937    | 59%  |                                           |
| Divorce (90%)                            | 43     | 100% | 31     | 100% |                                           |
| Frozen refunds (65%)                     | 110    | 46%  | 409    | 72%  |                                           |
| Non Priority enquires (98%)              | 1799   | 98%  | 1418   | 83%  |                                           |
| Payroll (99%)                            | 267    | 98%  | 325    | 100% |                                           |
| Refunds (73%)                            | 42     | 88%  | 106    | 93%  |                                           |
| Employee estimates (73%)                 | 254    | 73%  | 314    | 67%  |                                           |
| Starters (89%)                           | 80     | 96%  | 42     | 98%  |                                           |
| Transfers in (50%)                       | 111    | 53%  | 188    | 21%  |                                           |
| Transfers Out (77%)                      | 57     | 79%  | 114    | 42%  |                                           |

### OUTSTANDING TASKS

|                      | Total Outstanding | Net Outstanding | Total >10 days old | Total Outstanding | Net Outstanding | Total >10 days old |
|----------------------|-------------------|-----------------|--------------------|-------------------|-----------------|--------------------|
| <b>Priority</b>      |                   |                 |                    |                   |                 |                    |
| Death                | 334               | 91              | 1                  | 322               | 67              | 0                  |
| Employer Est         | 34                | 21              |                    | 31                | 26              | 0                  |
| Priority General     | 190               | 85              | 31                 | 181               | 86              | 54                 |
| Retirements          | 760               | 355             | 63                 | 648               | 286             | 19                 |
|                      |                   |                 |                    |                   |                 |                    |
| <b>Non Priority</b>  |                   |                 |                    |                   |                 |                    |
| Amalgamations        | 1989              | 1433            | 1246               | 6715              | 6087            | 5849               |
| AVC                  | 160               | 47              | 31                 | 163               | 62              | 34                 |
| Deferred Inc Recalcs | 11223             | 9585            | 8887               | 1698              | 431             | 44                 |
| Divorce              | 42                | 12              |                    | 45                | 18              | 0                  |
| Frozen               | 593               | 390             | 281                | 655               | 284             | 99                 |
| NP General           | 521               | 331             | 97                 | 183               | 107             | 10                 |
| Payroll              | 156               | 77              |                    | 95                | 37              | 0                  |
| Refunds              | 114               | 46              | 24                 | 408               | 201             | 43                 |
| Ret estimates        | 498               | 294             | 99                 | 162               | 109             | 32                 |
| Starters             | 26                | 6               | 6                  | 18                | 0               | 0                  |
| TV In                | 897               | 539             | 363                | 651               | 306             | 90                 |
| TV Out               | 304               | 193             | 123                | 325               | 173             | 78                 |
|                      | <b>17841</b>      | <b>13505</b>    | <b>11252</b>       | <b>12300</b>      | <b>8280</b>     | <b>6352</b>        |



## INVESTMENT AND PENSION FUND COMMITTEE

20 November 2015

Present:-

Devon County Council:-

Councillors Gilbert (Chairman), Edgell, Hannon and Radford

Other Employers

Councillor Parker Delaz Ajete (Plymouth City Council)

Councillor Edwards (Exeter – LGA Devon)

Councillor O'Dwyer (Torbay Council)

Ms D Healy (Dartmoor National Park Authority)

Union and Retired Members: Non-Voting Observers:-

Mr Franceschini, Mr Lomax and Ms Rimron

Apologies:-

Councillors Hill and Hosking (Devon County Council)

Also in Attendance

Mr Nicholls and Mr Henshaw (Pension Board)

Councillor Hook (Devon County Council)

**\*101** **Minutes**

**RESOLVED** that the minutes of the meeting held on 18 September 2015 be signed as a correct record.

**\*102** **LGPS Update: Pooling of Investments**

The Committee considered the Report of the County Treasurer (CT/15/104) outlining progress on the proposal to set up a South West Regional pooling arrangement, alternative options, and the impact of the Markets in Financial Instruments Directive from the European Union.

Members discussed the challenge for administering authorities to respond to Government's investment pooling agenda, without the legislation being in place or having guidance available.

The County Treasurer advised the Committee that as pension funds would be obliged to pool their investments, it would therefore be beneficial for the Pension Fund to be proactive and develop pooling investment options at this stage, rather than have an arrangement imposed on them at a later date.

The County Treasurer also advised the Committee that further information regarding the pooling agenda was expected to be released in the next few days and that the Chairman

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INVESTMENT AND PENSION FUND COMMITTEE

20/11/15

might convene a Special Meeting of the Committee in the New Year to agree the Pension Fund's response to the proposals.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Radford and

**RESOLVED** that the work undertaken to date in response to the Government's investment pooling agenda be noted.

## \*103 Pension Board

The Committee received the minutes of the meeting held on 22 October 2015.

## \*104 Communications Strategy

The Committee considered the Report of the County Treasurer (CT/15/105) outlining the revised Communications Policy, which set out the Fund's policies on the provision of information and publicity about the Scheme to members, representatives of members and employing authorities.

Following Members' comments the County Treasurer undertook to amend the Communications Policy to reflect the change in name of the National Association of Pension Funds to the Pensions and Lifetime Savings Association referred to in paragraph 6.5, and to amend the heading of paragraph 4 to better describe the Pension Fund's communication standards.

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

**RESOLVED** that the revised Communications Policy be approved.

## \*105 Treasury Management Strategy

The Committee considered the Report of the County Treasurer (CT/15/106) outlining proposed changes to the Pension Fund's Treasury Management Strategy to bring it in line with the County Council's policy.

Members questioned the reasoning for the need for the Pension Fund's Treasury Management Strategy to be aligned with that of the County Council, sighting the fiduciary duty of the Fund to seek to obtain the best financial return possible for its members, and raising concern over the current credit rating of Barclays Plc.

In response, the County Treasurer advised the Committee that despite the downgrading of Barclays credit rating, the bank was no longer considered a significant risk. Barclays remaining off the Pension Fund's counterparty list raised some difficulties for the Pension Fund, with Barclays also being the Pension Fund's bankers. There were also administration benefits to the County Council and Pension Fund Treasury Management Strategies being aligned, although these were not insurmountable.

It was **MOVED** by Councillor Edgell, **SECONDED** by Councillor Edwards and

**RESOLVED** that the Pension Fund's Treasury Management Strategy be further considered at the next meeting of the Committee alongside any updating of the counterparty list.

**\*106**      **Investment Management**

The Committee considered the Report of the County Treasurer (CT/15/107) on the current Fund Value and Asset Allocation against target. The County Treasurer reported that the last two quarters had seen a negative absolute return of -5.8%, which was significantly below the Fund benchmark, which consequently impacted on the longer term figures meaning that the rolling 3 year return was 1.0% below benchmark and the 5 year return was below benchmark by 0.7%. However, the return for the financial year to date was marginally better than the Local Authority Pension Fund average for the period.

The negative return was in part attributed to wider market conditions including the Greek debt crisis and concerns about the health of the Chinese economy. Diversified growth funds had also underperformed their cash plus benchmarks over the period, contributing over half of the total fund under performance.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Radford and

**RESOLVED** that the Report and compliance with the 2015/16 Treasury Management Strategy be noted.

**\*107**      **Ethical Investment Policy**

In accordance with Standing Order 23(2) Councillor Hook had requested that the Committee consider reviewing its approach to ethical investment, in particular in relation to the Pension Fund's investment in fossil fuels.

A briefing paper (CT/15/108) had been provided by the County Treasurer outlining the Pension Fund's current approach to ethical investment.

Members discussed:

- the possibility of disinvesting Pension Fund monies from fossil fuels and reinvesting in green energy funds, where the Pension Fund's fiduciary duty would still be met;
- the range investments which could be considered unethical, (e.g. tobacco, arms, pharmaceuticals) and about which the Pension Fund is regularly lobbied, recognising that disinvesting in all of these industries would ultimately be detrimental to the Pension Fund;
- the prospect of the fossil fuel industry becoming a less financially viable investment option in the future;
- the importance of consulting with Pension Fund members on ethical investment options;
- the opportunities that investment pooling arrangements may bring for alternative investment opportunities.

**\*108**      **Applications for Admitted Body Status**

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

- (a) Cormac
- (b) Glen Cleaning

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INVESTMENT AND PENSION FUND COMMITTEE

20/11/15

**\*109      Committee Training**

The County Treasurer reported that a training session would be held that afternoon for Members of the Investment and Pension Fund Committee and the Pension Board, including sessions on long term performance and the 2016 Actuarial Valuation.

**\*110      Dates of Future Meetings**

Dates of future meetings of the Committee are published at:

<https://new.devon.gov.uk/democracy/calendar/>

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

The meeting started at 10.00am and finished at 11.20am.

*The Minutes of the Committee are published on the County Council's Website at:*  
<http://www.devon.gov.uk/dcc/committee/minutes.html>



## INVESTMENT AND PENSION FUND COMMITTEE

2 February 2016

Present:-

Devon County Council:-

Councillors Gilbert (Chairman), Hill, Hosking and Radford

Other Employers

Councillor Edwards (Exeter – LGA Devon)

Councillor O'Dwyer (Torbay Council)

Councillor Fox (Plymouth City Council)

Union and Retired Members: Non-Voting Observers:-

Mr Franceschini, Mr Lomax and Ms Rimron

Apologies:-

Councillor Edgell (Devon County Council)

Ms D Healy (Dartmoor National Park Authority)

Councillor Parker Delaz Ajete (Plymouth City Council)

Also in Attendance

Mr Bowman (Devon Pension Board)

\*111

**Minutes**

**RESOLVED** that the minutes of the meeting held on 20 November 2015 be signed as a correct record.

\*112

**Government Consultation: Revoking and Replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009**

The Committee considered the Report of the County Treasurer (CT/16/13) outlining the Government's consultation on the replacement of current investment regulations, recognising that those placed restrictions on certain investments that might constrain authorities considering how best to pool their assets. In abolishing those restrictions, the proposals would also introduce a power to allow the Secretary of State to intervene to ensure that authorities took advantage of the benefits offered by pooling and delivered investment strategies that adhered to regulations and guidance.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Fox and

**RESOLVED** that the proposed response to the Government consultation as set out in Appendix 1 be approved subject to strengthening the response for Proposal 2 to express concerns regarding intervention powers and request that Regulations should be made by the positive procedures, as suggested by the Committee.

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INVESTMENT AND PENSION FUND COMMITTEE

20/11/15

## **\*113      Exclusion of Press and Public**

RESOLVED that the press and public be excluded from the meeting for the following item of business under Section 100(A)(4) of the Local Government Act, 1972 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act, namely information relating to financial or business affairs of another person, other than that of the County Council and disclosure of which would be likely to inhibit the free and frank provision of advice and exchange of views for the purposes of deliberation, 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.

## **\*114      LGPS Pooling of Investment (minute \*90/ 18 September 2015)**

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

The Committee considered the Report of the County Treasurer (CT/16/14) outlining progress on the proposal to set up a South West Regional pooling arrangement to significantly reduce costs whilst maintaining overall investment performance.

In discussing the proposed arrangements which would require approval by all partner authorities, Members acknowledged a number of concerns/issues raised at the meeting as set out below which would be taken into account in formulation of the final submission:

- clear accountability to members of the fund in order to protect the contributions made by both employer and employees;
- regular clear communication and provision of information to Members detailing the functions and operations of the fund;
- any investments distinguishing between funding completed and developing new infrastructure projects;
- there being no compulsion to invest in the development stage of infrastructure projects at national or local level;
- the need to further sub-divide the property sub-fund to reflect investments in completed property developments, new developments or a combination of both;
- guarantees being provided to ensure that payment of pensions would be made on time;
- Assets held as cash outside of the Pool;
- the composition and membership of the Oversight Group.

It was **MOVED** by Councillor Radford, **SECONDED** by Councillor O'Dwyer and

### **RESOLVED**

(a) that approval be given in principle, to the Council 'pooling' its investments with the other founder funds of the Brunel Collective Asset Pool;

(b) that the project proposal as set out at Appendix 1 to Report (CT/16/14) be endorsed as a joint submission from the Brunel Collective Asset Pool, including the Devon Pension Fund;

(c) that the Council be formally recommended to agree, in principle, to the establishment of a Joint Committee with the other Brunel Collective Asset Pool founder funds, subject to the outcome of negotiations with Government and at such time as it is required;

(d) that a training session be arranged for May 2016, in consultation with Members.

**\*115**

**Dates of Future Meetings**

Dates of future meetings of the Committee are published at:

<https://new.devon.gov.uk/democracy/calendar/>

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

The meeting started at 10.00am and finished at 11.23am.

*The Minutes of the Committee are published on the County Council's Website at:*  
<http://www.devon.gov.uk/dcc/committee/minutes.html>

# Agenda Item 16

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INVESTMENT AND PENSION FUND COMMITTEE

20/11/15

## INVESTMENT AND PENSION FUND COMMITTEE

26 February 2016

### Present:-

#### Devon County Council:-

Councillors Gilbert (Chairman), Edgell, Hannon, Hill, Hosking and Radford

#### Other Employers

Councillor Fox (Plymouth City Council Substitute)  
Councillor Hicks (South Hams DC – LGA Devon Substitute)  
Ms D Healy (Dartmoor National Park Authority)

#### Union and Retired Members: Non-Voting Observers:-

Mr Franceschini, Mr Lomax and Ms Rimron

#### Apologies:-

Councillor Parker Delaz Ajete (Plymouth City Council)  
Councillor Edwards (Exeter – LGA Devon)  
Councillor O'Dwyer (Torbay Council)

#### Also in Attendance

Mr Tyson (Independent Investment Advisor)  
Mr Bowman (Pension Board Member)  
Mr Hodgins (Standards Committee Member)

### **\*116**      **Announcements**

The Chairman welcomed Mr R Hodgins who was attending the meeting in his capacity as a co-opted, independent Member of the County Council's Standards Committee to observe and monitor compliance with the County Council's ethical governance framework.

### **\*117**      **Minutes**

**RESOLVED** that the minutes of the meeting held on 2 February 2016 be signed as a correct record.

### **\*118**      **LGPS Update: Pooling of Investments**

The County Treasurer updated Members on progress with the proposal to set up a South West Regional pooling arrangement, the Brunel Collective Asset Pool, advising that, inter alia:

- Hampshire had now joined with the South East Pool;
- the Terms of Reference for the Oversight Group were in the process of being drawn up and a meeting would be held in March with a representative from this Committee attending;

- further briefing on the Pooling of Investments would be provided on the Members training day on Friday 27 May 2016;
- that in order to allow time to approve and submit a proposal to Government the next meeting of the Committee in June would ideally need to be postponed by a week.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Radford and

**RESOLVED** that to allow time to agree and submit a proposal for the Pooling of Investments to Government, the date of the next Committee meeting be moved to Friday 24 June 2016.

**\*119      Actuarial Review 2016**

The Committee received and noted the report of the County Treasurer (CT/16/17) on the planned approach to the 2016 triennial valuation of the Pension Fund.

**\*120      Investment Management Report**

The Committee received the Report of the County Treasurer (CT/16/18) on the current Fund Value and Asset Allocation against target. The County Treasurer reported that the Fund Value at 31<sup>st</sup> December was £3,309.6m. Performance over the financial year to date had seen a negative absolute return of -2.3%, which was significantly below the Fund benchmark, which consequently impacted on the longer term figures meaning that the rolling 3 year return was 1.5% below benchmark and the 5 year return was below benchmark by 0.7%.

**\*121      Treasury Management Strategy**

The Committee considered the Report of the County Treasurer (CT/16/19) outlining the Pension Fund's Treasury Management Strategy for 2016/17.

The County Treasurer highlighted the revised changes to the Treasury Management Policy as set out in the report, which included the reintroduction of the use of money market fund and updated systems to process transactions.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Radford and

**RESOLVED** that approval be given to the revised Treasury Management Clauses, Treasury Management Policy and Treasury Management Practices as set out in report (CT16/19) and the Treasury Management Strategy for 2016/17 be adopted.

**\*122      Applications for Admitted Body Status**

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

- (a) Libraries Unlimited South West
- (b) IMASS

**\*123      Committee Training**

The County Treasurer reported that a training session would be held on Friday 27 May 2016 for Members of the Investment and Pension Fund Committee and the Pension Board,

# Agenda Item 16

G10

INVESTMENT AND PENSION FUND COMMITTEE

20/11/15

with half a day on the progress of Project Brunel (pooling of investments) and a half day on other training requirements of the Committee and Pension Board.

**\*124**      **Dates of Future Meetings**

Dates of future meetings of the Committee are available at:

<https://new.devon.gov.uk/democracy/calendar/>

**\*125**      **Exclusion of Press and Public**

**RESOLVED** that the press and public be excluded from the meeting for the following item of business under Section 100(A)(4) of the Local Government Act, 1972 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Schedule 12A of the Act, namely information relating to financial or business affairs of another person, other than that of the County Council and disclosure of which would be likely to inhibit the free and frank provision of advice and exchange of views for the purposes of deliberation, 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.

**\*126**      **Asset Allocation and Transition to Pool**

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

The Committee received the report of the County Treasurer (CT/16/20) reviewing the current strategic asset allocation and proposals to make new arrangements as the Fund moves toward the collective asset pool.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Councillor Edgell and

**RESOLVED** that the approach outlined in Report (CT/16/20) be agreed as the basis for further work on planning the transition to the collective asset pool and the formulation of the new Investment Strategy Statement.

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

The meeting started at 10.00am and finished at 11.30am.

*The Minutes of the Committee are published on the County Council's Website at:*  
<http://www.devon.gov.uk/dcc/committee/minutes.html>

## FUTURE WORK PROGRAMME

### Report of the County Treasurer

**Recommendation:** that the Board review and approve the future work programme and make suggestions for other areas of consideration going forward.

#### 1. Introduction

- 1.1. The Devon Pension Board will continue to meet at least twice per year to review and discuss issues concerning the Devon Pension Fund. In order to ensure that appropriate areas are covered going forwards it was agreed at the first meeting of the Board to implement a Future Work Programme.

#### 2. Future Work Programme

- 2.1. A proposal for the Future Work Programme of the Pension Board is set out below:

##### Standing Items

- Minutes of the Investment and Pension Fund Committee;
- Devon Pension Fund Risk Register;
- Peninsula Pensions Administration Performance Statistics;
- Future Work Programme.

##### October 2016

- Statutory Statements – Communications Policy;
- Statutory Statements – Funding Strategy Statement;
- External Audit Findings Report;
- Admitted Bodies process.

##### April 2017

- Statutory Statements - Governance Policy and Compliance Statement;
- Statutory Statements – Statement of Investment Principles;
- Results of the Actuarial Review 2016;
- Training Review 2016/17 and Training Plan 2017/18;
- Internal Audit Report for 2016/17;
- Internal Audit Plan for 2017/18.

# Agenda Item 17

## 3. Conclusion

- 3.1. The Future Work Programme aims to set out a clear agenda for future areas of review and discussion for the Pension Board. This will help to provide assurance that the Devon Pension Fund is managed and administered effectively and efficiently, ensuring that it complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- 3.2. The Board is asked to review and approve the future work programme and make suggestions for other areas of consideration going forward.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

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