

Phil Norrey  
Chief Executive

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To: The Chairman and Members of  
the Investment and Pension  
Fund Committee

County Hall  
Topsham Road  
Exeter  
Devon  
EX2 4QD

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(See below)

Your ref :  
Our ref :

Date : 8 June 2017  
Please ask for : Stephanie Lewis

Email: [stephanie.lewis@devon.gov.uk](mailto:stephanie.lewis@devon.gov.uk)

## **INVESTMENT AND PENSION FUND COMMITTEE**

Friday, 16th June, 2017

A meeting of the Investment and Pension Fund Committee is to be held on the above date at 10.00 am in the Committee Suite - County Hall to consider the following matters.

P NORREY  
Chief Executive

## **AGENDA**

### **PART I - OPEN COMMITTEE**

- 1 Apologies for Absence
- 2 Minutes (Pages 1 - 4)

Minutes of the meeting held on 24 February 2017.

- 3 Items Requiring Urgent Attention

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

- 4 Internal Audit Report for 2016/17 and Internal Audit Plan for 2017/18 (Pages 5 - 14)

Report of the County Treasurer (CT/17/51).

- 5 Training Review 2016/17 and Training Plan 2017/18 (Pages 15 - 24)

Report of the County Treasurer (CT/17/52).

6 Investment Management Report (Pages 25 - 32)

Report of the County Treasurer (CT/17/53).

7 Funding Strategy Statement (Pages 33 - 44)

Report of the County Treasurer (CT/17/54).

8 Actuarial Services Contract Review (Pages 45 - 48)

Report of the County Treasurer (CT/17/55).

9 Applications for Admitted Body Status

The following applications for admitted body status have been approved since the last meeting of the Committee:

- (a) North Tawton Primary and Holsworthy Primary schools have awarded catering contracts to Compass Contract Services with effect from February 2017. Two separate admission agreements will be entered into in order for a total of four staff to remain in the LGPS. Both admission agreements are on a closed basis.

10 Dates of Future Meetings

The Committee will meet at 10am on Friday 15 September 2017, Friday 17 November 2017 and Friday 23 February 2018.

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

11 Exclusion of the Press and Public

Recommendation: 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, information relating to the financial or business affairs of an individual other than the County Council and, in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

12 Brunel Pension Partnership - Progress Report (Pages 49 - 76)

Report of the County Treasurer (CT/17/56).

13 Private Debt (Pages 77 - 92)

Report of the County Treasurer (CT/17/57).

*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.*

**Membership**Devon County Council

Councillors Y Atkinson, C Channon, A Connett, R Edgell, R Gilbert and R Hosking

Unitary and District Councils

Councillors P Edwards (Exeter - LGA Devon), L Parker-Delaz-Ajete (Plymouth City Council), J O'Dwyer (Torbay Council), M Hicks (Exeter LGA) and M Lowry (Plymouth City Council)

Other Employment Rep

D Healy (Datmoor National Park Authority)

Union and Retired Members: Observers Non-Voting

R Francecshini, C Lomax and J Rimron

**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**

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The nearest mainline railway stations are Exeter Central (5 minutes from the High Street) and St David's and St Thomas's both of which have regular bus services to the High Street. Bus Service H (which runs from St David's Station to the High Street) continues and stops in Wonford Road (at the top of Matford Lane shown on the map) a 2/3 minute walk from County Hall, en route to the RD&E Hospital (approximately a 10 minutes walk from County Hall, through Gras Lawn on Barrack Road).

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**NB**   Denotes bus stops

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Contact Main Reception (extension 2504) for a trained first aider.

## INVESTMENT AND PENSION FUND COMMITTEE

24 February 2017

Present:-

Devon County Council

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

Other Employers

P Edwards, D Healy, J O'Dwyer and L Parker Delaz Ajete

Unison and Retired Members: Non Voting Observers

R Franceschini, C Lomax and J Rimron

Also in attendance

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

Apologies:-

Councillor D Hannon

\* 31

**Minutes**

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

\* 32

**Items Requiring Urgent Attention**

There was no item raised as a matter of urgency.

\* 33

**Brunel Pension Partnership - Progress Report**

The Committee considered the Report of the County Treasurer (CT/17/14) outlining progress with the establishment of the Brunel Pension Partnership including the recruitment of the Company Board, appointment of a Devon Representative on the Oversight Board, appointment of an Administrator to act as a custodian bank to safeguard investment assets and process transactions, and budgeted costs for 2017/18. The Committee noted that all ten administering authorities had now approved the full business case.

The Committee noted that each administering authority would appoint a representative to sit on the Oversight Board and that the final terms of reference had yet to be agreed; however discussions concerning employee representatives on the Board were still ongoing.

It was **MOVED** by Councillor Gilbert, **SECONDED** by Donna Healy, and

**RESOLVED**

(a) that the Devon representative on the Brunel Pension Partnership Oversight Board and the Devon shareholder representative for the Brunel Pension Partnership Limited company be appointed at the Devon County Council Annual Meeting on 25 May 2017;

(b) that the Committee noted the progress with establishing the Brunel Pension Partnership Limited company.

# Agenda Item 2

INVESTMENT AND PENSION FUND COMMITTEE  
24/02/17

\* **34**      **Investment Management Report**

The Committee noted the Report of the County Treasurer (CT/17/15) on the current fund values and asset allocations compared to the target set allocation as at 31 December 2016.

The Committee acknowledged that the value of the fund had increased to £3.777 billion over the period with an absolute return of +13.6% over the year to date, compared to the fund benchmark of +13%. Equities were more than 2.5% over the target allocation; however there were no plans to rebalance pending consideration of the strategic investment review. Whilst the Fund performance was ahead of benchmark, concerns were raised around the performance of the active equity and bond managers who had underperformed their benchmarks.

\* **35**      **Treasury Management Strategy 2017/18**

The Committee received and noted the report of the County Treasurer (CT/17/16) setting out the proposed treasury management strategy for managing the cash held by the Pension Fund for 2017/18. The Committee were advised that the strategy was consistent with that agreed for 2016/17 and the target return for investments would remain at 0.40%, in line with the County Council's target.

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

**RESOLVED** that the Committee adopted the Treasury Management Strategy for 2017/18 as set out within the Report.

\* **36**      **Applications for Admitted Body Status**

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

(a) South West Highways: from 1st April 2017 30 staff currently in the LGPS with Amey will either transfer back to Plymouth or on to South West Highways; the agreement will be on a closed basis.

(b) Ivybridge Academy: from 1st April 2017 one member of staff will transfer under this closed agreement.

(c) Queen Elizabeth Academy from 1st April 2017, 13 members of staff will transfer under this closed agreement.

\* **37**      **Exclusion of the 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, information relating to the financial or business affairs of an individual other than the County Council and, in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

\* **38**      **Strategic Investment Review**

*(An item taken under Section 100A(4) of the Local Government Act 1972 during which the press and public were excluded, no representations having been received to such consideration under Regulation 5(5) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012).*

# Agenda Item 2

INVESTMENT AND PENSION FUND COMMITTEE  
24/02/17

The Committee received the report of the County Treasurer (CT/17/18) looking at the long term investment strategy of the Pension Fund.

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

## **RESOLVED**

(a) that the target allocations for Equities and Bonds be revised as set out in the report;

(b) that in principle, the Fund should look to reduce its overweight to UK equities by reallocating to overseas equities which were underweight. As a consequence the County Treasurer in consultation with the Chairman be authorised to move up to £100m from UK passive equities to overseas passive equities, if market conditions provide an opportunity and the appropriate trigger points are hit;

(c) that the remaining Wellington allocation to global bonds (around £70m) be moved on a phased basis to their multi-sector credit fund;

(d) that Officers explore opportunities to collaborate with other Brunel funds to invest in private markets, and a further report be brought to a future meeting of the Committee;

(e) that the medium to long term proposals set out in paragraphs 3.7 and 3.8 be approved in principle, subject to further review.

### \* 39 **Re-admittance of Press and Public**

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

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

### \* 40 **Investment Strategy Statement**

The Committee received the Report of the County Treasurer (CT/17/17) outlining new requirements for the each LGPS administering authority to have in place a new Investment Strategy Statement by 1 April drawing on the Strategic Review and the requirement to pool investments.

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

**RESOLVED** that the proposed Investment Strategy Statement replacing the Fund's existing Statement of Investment Principles be approved, subject to the removal of the last sentence in point b of the Social, Environmental and Corporate Governance Policy, in line with Environment Agency policy.

### \* 41 **Exclusion of the 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, information relating to the financial or business affairs of an individual other than the County Council and, in accordance with Section 36 of the Freedom of Information Act 2000, by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

### \* 42 **Legal Action against the Royal Bank of Scotland**

*(An item taken under Section 100A(4) of the Local Government Act 1972 during which the press and public were excluded, no representations having been received to such*

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24/02/17

*consideration under Regulation 5(5) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012).*

The Committee noted the Report of the County Treasurer (CT/17/19) on the legal action taken against the Royal Bank of Scotland.

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

The Meeting started at 10.00 am and finished at 11.30 am



## **Annual Internal Audit Report 2016/17 and the proposed Internal Audit Plan 2017/18**

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

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.
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#### **Recommendations:**

- (a) the Committee formally accepts the Annual Internal Audit Report for 2016/17.**
- (b) the Committee formally approves the Internal Audit Plan for 2017/18.**
- (c) members authorise the Assistant County Treasurer Investments to execute the Service Level Agreement relating to the Internal Audit Plan.**

#### **1. Annual Internal Report – 2016/17**

- 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. This is set out in the Annual Report at Appendix 1
- 1.2. Overall, and based on work performed during 2016/17, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Fund's internal control environment. Further explanation of this is provided in the Annual Report.

#### **2. Internal Audit Plan 2017/18 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 are carried out in accordance with the Accounts and Audit Regulations 2015 and in accordance with the Public Sector Internal Audit Standards.
- 2.2. The Internal Auditors for the Pension Fund are responsible for providing assurance that financial and other systems are operating effectively and in line with legislation and the Authority's financial regulations. This is achieved through two audit plans: one for the Devon Pension Fund and one for Peninsula Pensions.
- 2.3. The Internal Audit Service for the Pension 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
- 2.4. The audit plans for the financial year 2017/18 allow for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsula Pensions. Further detail is set out in Appendix 1

# Agenda Item 4

## 3. Other relevant information

- 3.1. The Devon Pension Board has previously considered the above issues (i.e. the Internal Audit Report for 2016/17 and proposed Internal Audit plan for 2017/18) and agreed both reports with no amendment or additions.

Mary Davis

Electoral Divisions: All

Local Government Act 1972  
Accounts and Audit Regulations 2015

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 2016/17**

**and**

**PROPOSED INTERNAL AUDIT PLANS 2017/18**

**Section 1 - ANNUAL INTERNAL AUDIT REPORT 2016/17**

**1 INTRODUCTION**

1.1 The following report sets out the background to audit service provision, review work undertaken in 2016/17, 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 2015 which require 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 2015** 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 2016/17, and prior years
- 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 2016/17**

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.

4.2 Our work in 2016/17 has included completion of the 2015/16 audits that were largely all at draft report stage when we last reported to the Pension Board and the Pensions & Investment Committee. The individual assurance opinions and executive summaries were not changed from that previously reported.

4.3 The majority of audits were undertaken in the last quarter of the year and are now all complete to final report stage at the time of writing this report. The individual assurance opinions issued in respect of our assignment work and, where applicable, the status of the audits is set out in the following table.



Key – PF = Pension fund PP = Peninsula Pensions

Areas Covered		Stage	PF or PP	Level of Assurance
1	Actuarial Valuation - mitigation of risks arising from the forthcoming actuarial valuation	Final	PF	High Standard
2	Treasury Management	Final	PF	Good Standard
3	Reconciliation of Pension records on Altair *	Complete	PP	Not Applicable *
4	Amalgamation of Pensions	Final	PP	Good Standard
5	Contribution Payments from employers	Final	PF	Good Standard
6	Performance Management – monitoring of the fund itself, performance of fund managers, and the Custodian	Final	PF	High Standard
7	Performance Management – monitoring of the Administration Strategy performance expectations	Final	PP	Good Standard
8	Effectiveness of the transition arrangements for the new South West pensions 'pool'	Final	PF	High Standard
9	Actuarial Valuation – collation and submission of data to the Actuary	Final	PP	Good Standard
10	Annual Benefit Statements	Final	PP	Good Standard

\* Following an additional request for Internal Audit input into the reconciliation of member records, we undertook a data matching exercise using specialist software to identify active members without contributions. This identified a potential number of such instances and the arising output was provided to Peninsula Pensions to resolve. We recommended further review of the data output by Peninsula Pensions to identify any 'false positives' to reduce the number identified and then address any actual instances.

4.2 Our reviews this year and in prior years provide 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.

## **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 2016/17 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 2016/17.

5.4 Overall, and based on work performed during 2016/17, Internal Audit is able to provide significant 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 2015.

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 organisation's 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. Our plan will be shared with external audit colleagues to prevent duplication of work, and to minimise audit coverage across systems, including financial systems.

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 2017/18 allows for up to 40 days of internal audit support for the Pension Fund and 45 days of internal audit support for Peninsular Pensions.

# Agenda Item 4



devon **audit** partnership

3.2 We have worked with senior management to determine the key risks to the Fund and from this have developed a plan for the coming year. The plan considers both financial and non-finance based systems, and our work will provide assurance to the County Treasurer and Members on the effectiveness of arrangements. Our working papers are available to external audit colleagues for their consideration in planning their work.

3.3 We liaise with the Fund's external auditors to discuss the testing planned to ensure this supports their requirements. 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 2017/18 PLANS

5.1 The following table sets out the planned internal audit work for 2017/18. 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 2017/18

<b>Audit risk areas</b>	<b>Days</b>
1. New Investment Strategy Statement (effective 1 <sup>st</sup> April 2017) – post project review	10
2. Follow up of Pool and Transition processes	10
3. Preparations for MIFID (Market in Financial Instruments Directive (2))	5
4. Process for Induction of any new Committee / Board Members	7
5. Audit Planning and reporting	3
6. Contingency	5
<b>Total days</b>	<b>40</b>





5.2 The cost of these days will be £11,200. Additional support will be provided as and when required. Our standard daily rate for this work will be £280, although specialist support may be at a different rate.

## Peninsular Pension Plan 2017/18

<b>Audit risk areas</b>	<b>Days</b>
1. Altair – mid contract review	10
2. Pensions Transfers	7
3. Deferred Benefits	10
4. Refunds	7
5. Audit planning, Advice and Guidance	5
6. Contingency	6
<b>Total days</b>	<b>45</b>

5.3 The cost of these days will be £12,600. Additional support will be provided as and when required. Our standard daily rate for this work will be £280, although specialist support may be at a different rate

Robert Hutchins  
Head of Devon Audit Partnership  
April 2017



## TRAINING REVIEW 2016-17 AND TRAINING PLAN 2017-18

### 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 Committee approves and adopts the 2017/18 Training Plan.

#### 1. Introduction

- 1.1. The Devon Pension Fund has had a longstanding commitment to training for Committee members to ensure that they have the skills and understanding required to carry out their stewardship role. In February 2014, the Investment and Pension Fund Committee adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.
- 1.2. In addition Section 248A of the Pensions Act 2004 imposes requirements on members of the Local Pension Board. Under the Act, 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.
- 1.3. This report reviews the training provided to both the Investment and Pension Fund Committee and the Devon Pension Board during 2016/17, and sets out the Training Plan for 2017/18. A draft of the Training Plan was presented to the Pension Board on 10 April 2017, and the Plan was endorsed by the Board.

#### 2. Training 2016/17

- 2.1. Several training sessions were held during 2016/17 for members of the Investment and Pension Fund Committee and Devon Pension Board.
- 2.2. Dates and a summary of items covered are detailed below:

##### Pension Fund Training Event - May 2016

- Guide to the Markets
- Pension Committee and Pension Board – Roles and Responsibilities
- Greenfield Infrastructure
- Brunel Pension Partnership update, including an overview of:
  - High Level Structure and Governance
  - Operations, Roles and Resources
  - Business Model: Investment Policy and Asset Transition
  - Infrastructure and Internal Management

# Agenda Item 5

- Reporting and Monitoring
- Project Management
- Communications

## Pension Fund Training Session - September 2016

- Long Term Performance
- Strategic Asset Allocation Review - Objectives and Methodology

## Brunel Pension Partnership Engagement Day - October 2016

- Regulatory recap
- Format of the business case
- Governance and assurance
- Teckal company
- FCA authorisation
- Company structure
- Portfolio specifications
- Transition costs
- Fee savings
- Performance gains
- Passive internal management
- Services and Reporting
- The Financial Case
- Risks, Issues, Benefits and Success Factors

## Training and Engagement Day – February 2017

- Admission Agreements and risk management of Admitted Bodies
- Transition Management and Costs
- Responsible Investment
- Strategic Investment Review

2.3. In addition to these training sessions, four members of the Investment and Pension Fund Committee and four members of Devon Pension Board have commenced the self-assessment training tool for CIPFA Knowledge and Skills Framework.

2.4. Officers acknowledge that this is an area of work that was given insufficient attention in 2016-17 and will ensure that members are provided with and are encouraged to complete self-assessments during 2017-18. The Pension Board have also recommended that officers give consideration to the use of The Pensions Regulator Trustee Toolkit as an alternative method of self-assessment.

2.5. 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 2017-18**

3.1. The 2017/18 Training Plan is attached at Appendix 1 and sets out a proposal for 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.

# Agenda Item 5

- 3.2. Since the plan was reviewed by the Pension Board in April a couple of changes have been made. It was originally intended to hold a 90 minute briefing session before the first committee meeting following the county council elections as an induction for new members, with a later start time for the formal committee meeting. However, there are only two new members of the committee following the elections, and therefore it was decided to brief the two new members individually, rather than hold a briefing session prior to the committee. The Training Plan has been amended accordingly.
- 3.3. In addition, the Chairman has suggested that the Committee and Pension Board be given the opportunity to visit Peninsula Pensions offices at Great Moor House, and this has been built into the plan. The visit is proposed to take place on the afternoon of the September committee meeting following the conclusion of the meeting.
- 3.4. The Training Plan also 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 2016-17 is shown at Appendix 2.

## **5. Conclusion**

- 5.1. The Investment and Pension Fund Committee is asked to approve the Training Plan for 2017/18.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

Contact for Enquiries: Mark Gayler / Dan Harris

Tel No: (01392) 383621/382520 Room G97/G99

## Devon Pension Fund Training Plan 2017/18



### 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.

It is important that members of both the Investment and Pension Fund Committee and the Devon Pension Board receive appropriate training in order to carry out their roles effectively

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 will be provided to members of the Committee and Board, to enable them to measure their understanding and plan their development. The method of self-assessment is currently being reviewed by officers and will be issued during 2017-18.
2. **Induction for new members of the Investment and Pension Fund Committee and Pension Board following the County Council elections in May 2017** – There will be an initial focus on ensuring that any new members of the Committee or Board receive initial training to enable them to carry out their role.
3. **Brunel Pension Partnership** – Training and briefings will continue to be provided regarding the progress and developments of the Brunel Pension Partnership. This will include the regulatory environment governing the pooled vehicle, along with the requirements in relation to the organisational structure of the pooled vehicles and transition arrangements.

4. **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.
5. **Regulatory / Legislative Changes** – Training will be provided on the implications of any legislative and regulatory changes.

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

#### **Joint Training Day– Summer / Autumn 2017**

A joint training event is planned to be held with other LGPS funds within the Brunel pool to provide a further update on the Brunel Pension Partnership. The timing of this will depend on the progress on the set up of the Brunel company, which will determine when an update session will be the most useful. Other topics could be included within the same agenda.

#### **Visit to Peninsula Pensions – 15<sup>th</sup> September 2017**

It is proposed that the Committee and Pension Board visit the offices of Peninsula Pensions on the afternoon of the September meeting of the Investment and Pension Fund Committee to gain a greater understanding of the work of Peninsula Pensions.

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

Further training will be provided to include the latest regulatory changes, an update on financial markets and products and the composition of the Fund's statutory statements

#### **Afternoon Training Session – 17<sup>th</sup> November 2017**

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 an analysis of long term investment performance.

#### **Devon Pension Fund Training Day – Spring 2018**

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. In addition induction training will be provided for all new members of the Committee and Pension Board.

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 progress in developing the Brunel pooling arrangements, and the contract management skills that will be required to manage the relationship with the Brunel company. There will also be a need to understand the implications of how the Financial Conduct Authority will implement the Markets in Financial Instruments Directive (MiFID2) and what the Devon Fund will need to do to comply.
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.

### Training Register 2016-17

Name	Representing	Joint Pension Fund Training Event 27/05/16	Pension Fund Training Session 16/09/16	Brunel Pension Partnership Training Day 07/10/16	Training and Engagement Day 03/02/17
<b>Investment and Pension Fund Committee</b>					
Channon, Christine	Devon County Council	√	√	√	-
Edgell, Richard	Devon County Council	√	√	√	√
Edwards, Peter	Devon District Councils	-	√	√	-
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	√	√	-	√
Lowry, Mark	Plymouth City Council	-	-	-	-
O'Dwyer, James	Torbay Council	-	-	√	-
Parker Delaz Ajete, Lorraine	Plymouth City Council	√	√	√	√
Rimron, Jo	GMB	√	√	√	√
<b>Pension Board</b>					
Bowman, Andy	Member Representative	-	-	√	√
Greenslade, Brian	Devon County Council	√	√	√	√
Hearn, Carl	Tavistock Town Council	√	√	√	√
Keightley, Heather	Member Representative	√	√	√	-
Lewis, Cheryl	Member Representative	-	√	n/a	n/a
Nicholls, William	Independent Member	√	-	√	√
Randall Johnson, Sara	Devon County Council	n/a	√	√	√
Shipp, Colin	Member Representative	√	√	-	√
Smith, Graham	Devon and Cornwall Police	-	√	√	√

# Agenda Item 5

## INVESTMENT MANAGEMENT REPORT

### Report of the County Treasurer

All recommendations contained in this report are subject to confirmation by the Committee before taking effect.

#### Recommendations:

- (i) That the Investment Management Report be noted;
- (ii) That the Committee note compliance with the 2017/18 Treasury Management Strategy.
- (iii) That the County Treasurer in consultation with the Chairman be authorised to move up to £100m from UK passive equities to overseas passive equities (North America and Japan), if market conditions provide an opportunity and the appropriate trigger points are hit.

### 1) FUND VALUE AND ASSET ALLOCATION

The table below shows the Fund value and the asset allocation for the Fund compared to the target asset allocation as at **31 March 2017**.

#### Fund Value and Asset Allocation

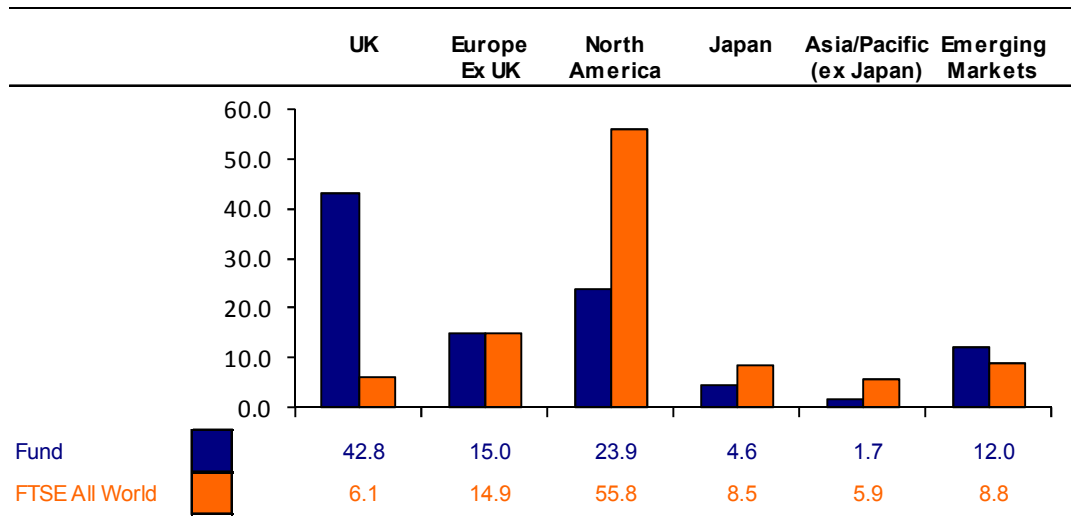
	Fund Value as at 31.03.17	Target allocation 2016/17	Target allocation 2017/18	Fund asset allocation at 31.03.17	Variation from 2017/18 Target
	£m	%	%	%	%
<b>Fixed Interest</b>					
Bonds	429.7	14.0	12.0	11.0	
Cash	86.9	2.0	1.0	2.2	
	<b>516.6</b>	<b>16.0</b>	<b>13.0</b>	<b>13.2</b>	<b>+0.2</b>
<b>Equities</b>					
Passive Equities	1,713.1	40.0	43.0	43.6	
Active Equities	597.5	15.0	15.0	15.2	
	<b>2,310.6</b>	<b>55.0</b>	<b>58.0</b>	<b>58.8</b>	<b>+0.8</b>
<b>Diversified Growth Funds</b>	<b>581.1</b>	<b>15.0</b>	<b>15.0</b>	<b>14.8</b>	<b>-0.2</b>
<b>Alternatives</b>					
Property	363.0	10.0	10.0	9.2	
Infrastructure	157.5	4.0	4.0	4.0	
	<b>520.5</b>	<b>14.0</b>	<b>14.0</b>	<b>13.2</b>	<b>-0.8</b>
<b>Total Fund</b>	<b>3,928.8</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

- The Fund value as at 31<sup>st</sup> March 2017 stood at £3,928.8 million, an increase of £150m over the quarter, and a total increase of £593m over the financial year.

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- The table shows the target allocation for 2016/17, and the revised target allocation for 2017/18 as set out in the Investment Strategy Statement approved at the February committee meeting, following the strategic asset allocation review undertaken by Mercer. Following the revision of the target allocations, the actual allocations are all within 1% of the target and no action is required to rebalance between asset classes.
- The following table gives the geographical split of the Fund's equity allocations against the FTSE World geographical weightings:

## **Geographical Split of Equity Allocation compared to the FTSE All World Index**

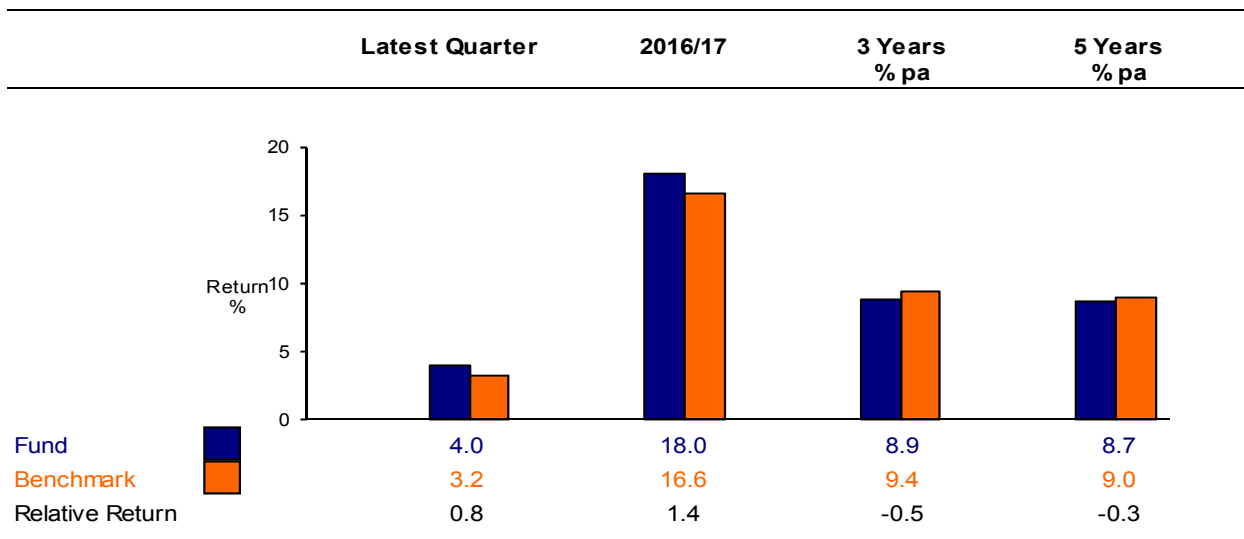


- The table shows that the Fund has an over-exposure to the UK and a significant under-exposure to North America compared to the world market. There is also a smaller under-exposure to Japan, while the exposure to Europe and the combined exposure to Asia/Pacific (ex Japan) and Emerging Markets is about right. It was agreed at the February committee that in principle, the Fund should look to reduce its overweight to UK equities by reallocating to overseas equities, predominantly to US equities with a small proportion to Japanese equities. It was agreed that the County Treasurer in consultation with the Chairman be authorised to move up to an initial £100m from UK passive equities to overseas passive equities, if market conditions provided an opportunity and appropriate trigger points were hit. Market conditions over the last four months have not presented the appropriate opportunity and no action has been taken. It is proposed that the trigger points continue to be monitored over the period up to the next committee, and the County Treasurer retain the authorisation to move up to £100m, with the trigger points being applied to both the North America and Japan markets.

## 2) FUND PERFORMANCE

The performance of the Total Fund over the last quarter, the financial year, and on a rolling three and five year basis are shown in the following chart.

## Longer Term Fund Performance Summary



The performance statistics quoted are net of fees for the current financial year and the last three years, but the five year figures shown combine gross performance up to 31 March 2014 and net of fees performance from 1 April 2014 onwards.

The last quarter has seen a return 0.8% above benchmark. The total absolute return for the year was +18.0%, ahead of the Fund benchmark of +16.6%. The longer term three and five year returns remain below benchmark.

A breakdown of the performance of the Total Fund for the **year to 31 March 2017** and the comparative Index returns are shown in the table below:

### Performance for the year to 31 March 2017

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Fixed Interest	8.3	8.0	BarCap Global Bonds / MSC
Cash (inc Foreign Currency)	1.3	0.2	GBP 7 Day LIBID
Passive Equities	23.9	24.4	Devon Bespoke Passive Index
Active Equities	30.1	33.1	FTSE World
Diversified Growth Funds	10.8	4.2	Devon Multi Asset Benchmark
Infrastructure	14.2	0.2	GBP 7 Day LIBID
Property	4.0	3.7	IPD UK PPF All Balanced Funds
<b>Total Fund</b>	<b>18.0</b>	<b>16.6</b>	<b>Devon Bespoke Index</b>

Key issues over the quarter include:

- Following the outcome of the referendum and the decision to leave the European Union, a major casualty of the result was a significant fall in the value of Sterling. This had a positive effect of increasing the value of the Fund's overseas assets in Sterling terms and pushing up the value of UK shares where companies benefit from overseas earnings. Bond values also rose as a flight to quality and fears about growth and inflation compressed yields yet further, although this has partly reversed over the last six months.
- As agreed at the December meeting of the Committee, additional currency hedging has been put in place. The passively hedged North America, Europe and Japan funds managed by State Street have been changed from a 50% static hedge to a 100% static hedge. The

# Agenda Item 6

dynamically hedged funds remain unchanged. In addition forward currency contracts have been put in place to hedge the currency risk in respect of the Montanaro European Smaller Companies Fund, the RWC European Focus Fund and the First State European Diversified Infrastructure Fund, all of which have significant exposure to the Euro. The additional currency hedging will safeguard the gains made from the fall in the value of Sterling should it strengthen over the coming months, but will reduce the opportunity of further gains should Sterling weaken further. Given the significant fall in Sterling over 2016, the most significant risk to the fund would be a strengthening of Sterling against the Euro and US Dollar.

- Equities delivered a strong absolute return. However the active equity managers have collectively performed below the FTSE World benchmark. This is partly a result of the underweight exposure to the US market which rallied strongly following the election of Donald Trump.
- The diversified growth funds (DGFs) have outperformed their cash plus benchmarks at a time of positive returns in equity and bond markets.
- The infrastructure investments have performed well over the year, also aided by the currency movements, and have also provided significant income distributions to the Fund.
- Property has seen reductions in capital values as a result of uncertainty following the referendum result, but the income yield has resulted in an overall positive return over the year.

### 3) BUDGET FORECAST MONITORING 2016/17 AND 2017/18

Appendix 1 shows the outturn position for 2016/17 against the original budget forecast and the forecast for 2017/18.

#### (a) Contributions and Benefits

- There was a deficit of £6.3m between contributions received and benefits paid out during 2016/17. This was a lower deficit than forecast, partly as a result of some of the Fund's employers deciding to pay in additional contributions in 2016/17 to reduce their deficit and thereby reduce the deficit contributions that will be needed in future years. There was also an increase in transfers in from other pension funds, which is a difficult area to predict.
- The forecast for 2017/18 shows an increase in the employer contributions expected as a result of the new contribution levels set by the triennial Actuarial Valuation. The forecast expenditure on pensions also shows an increase in line with the trend over recent years. The forecast deficit for the year is £12.5m.

#### (b) Investment Income

- Investment income was higher than anticipated. The income received as cash reflects the income from the property mandate, distributions from infrastructure investments and interest on internally managed cash. The growth in income reflects growing distributions from the infrastructure investments and good yields on property. This income is retained to cover the gap between pension benefits payments and the contributions received and also to pay management expenses. The remaining income is from the Fund's segregated equity and bond mandates and is reinvested by the fund managers.
- The forecast for 2017/18 assumes a similar level of income to that achieved in 2016/17.

#### (c) Management Expenses

This heading comprises pension administration costs, investment management expenses and oversight and governance costs.



- The pension administration costs for 2016/17 were slightly higher than anticipated in the budget. There were two main reasons for this. Firstly, additional system costs were required in order to reconcile the Guaranteed Minimum Pension figures with those held by HMRC. Secondly, costs anticipated to occur in 2015/16 slipped into 2016/17.
- Invoiced investment management fees were broadly in line with the forecast, with the increase reflecting the growing value of the Fund over the year. Fee reductions were negotiated with three managers during the year. The increase in the management fees not invoiced largely reflected higher performance fees taken by the infrastructure fund managers, which reflected a positive investment performance. In November it was identified that in 2015/16 an asset purchase of £2.471m had been incorrectly treated as a transaction cost and as a result the transaction costs for that year were overstated. This has been corrected in 2016/17 and has been shown as a separate entry, which has reduced the total investment management costs from that forecast.
- Oversight and governance costs were broadly as forecast with the exception of the cost of the Brunel pooling project, where the legal and consultancy costs were higher than originally allowed for.
- The forecast management costs for 2017/18 show an increase from the costs in 2016/17. For the most part these reflect inflation and the growing value of the Fund. The significant increase in the forecast cost of the Brunel Pension Partnership of £440,000 reflects the fact that the company will be setting up its office, recruiting directors and staff and appointing an administrator during the year as it starts to become fully operational.

#### 4) TREASURY MANAGEMENT STEWARDSHIP 2016/17

- (a) At the February 2016 Committee, members approved a Treasury Management and Investment Strategy for 2016/17. This section of the report provides a review of the unallocated cash managed by the Assistant County Treasurer and his team during 2016/17.
- (b) Interest rates continue to be very low and the Bank of England base rate was reduced from 0.5% to 0.25% following the result of the EU referendum. The rates available from the banks for call accounts and short term deposits have reduced during the year, largely as a result of regulatory issues designed to ensure the safety of bank deposits.
- (c) The Pension Fund maintains a very prudent approach to cash investments. Cash is now being maintained at a low level, and therefore ensuring liquidity of the Fund's cash is a key requirement. Putting safety and liquidity before yield does however impact on the income being generated from these investments but is a necessary position to maintain.
- (d) At 31 March 2017 the unallocated cash on deposit amounted to **£50.1m**. This is summarised in the following table. The cash held is being maintained at a lower level than in the past, and it is therefore necessary to ensure its liquidity for cashflow purposes. However, the return of capital from one of the specialist funds has resulted in £20m being placed into longer 6 month deposits and a further 10m being placed in a 6 month notice account. The additional cash is being held to meet future cashflow requirements, including providing for the drawdown of investment commitments.

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## Cash on Deposit

Type of Deposit	Maturity period	Actual as at 31/03/16	Average Interest Rate	Current as at 31/03/17	Average Interest Rate
		£m	%	£m	%
Call and Notice Accounts	Immediate	39.2	0.41	10.1	0.29
	6 Month Notice	0.0		10.0	0.80
Term Deposits	<30 Days	0.0		10.0	0.60
	>30 Days	0.0		20.0	0.45
<b>TOTAL (at 31st March 2017)</b>		<b>39.2</b>	<b>0.41</b>	<b>50.1</b>	<b>0.55</b>

- (e) The weighted average rate being earned on cash deposits, as at 31 March 2017, was **0.55%**. This reflects the current low interest rate environment and the need to ensure liquidity as a result of the low level of cash being maintained.
- (f) The deposits in place during the year fully complied with the Fund's Treasury Management and Investment Strategy for 2016/17.

Mary Davis

Local Government Act 1972

List of Background Papers Nil

Contact for Enquiries: Mark Gayler

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## Devon County Council Pension Fund Budget / Forecast 2016/17 and Forecast 2017/18

	Actual 2015/16 £'000	Original Forecast 2016/17 £'000	Actual 2016/17 £'000	Variance from Original Forecast £'000	Forecast 2017/18 £'000
<b>Contributions</b>					
Employers	(117,079)	(117,000)	(123,163)	(6,163)	(127,000)
Members	(36,201)	(36,000)	(36,709)	(709)	(37,000)
Transfers in from other pension funds:	(4,766)	(3,000)	(8,205)	(5,205)	(6,000)
	<b>(158,046)</b>	<b>(156,000)</b>	<b>(168,077)</b>	<b>(12,077)</b>	<b>(170,000)</b>
<b>Benefits</b>					
Pensions	132,435	135,000	136,549	1,549	142,000
Commutation and lump sum retirement benefits	30,035	32,000	27,716	(4,284)	30,000
Lump sum death benefits	3,777	4,000	3,751	(249)	4,000
Payments to and on account of leavers	443	200	719	519	500
Payments for members joining state scheme	6,986	6,000	5,684	(316)	6,000
	<b>173,676</b>	<b>177,200</b>	<b>174,419</b>	<b>(2,781)</b>	<b>182,500</b>
<b>Net Withdrawals from dealings with fund members</b>	<b>15,630</b>	<b>21,200</b>	<b>6,342</b>	<b>(14,858)</b>	<b>12,500</b>
<b>Investment Income</b>					
Received as Cash	(19,021)	(19,100)	(23,276)	(4,176)	(24,000)
Reinvested by Fund Manager	(16,722)	(14,300)	(16,576)	(2,276)	(17,000)
	<b>(35,743)</b>	<b>(33,400)</b>	<b>(39,852)</b>	<b>(6,452)</b>	<b>(41,000)</b>
<b>Administrative costs</b>					
Peninsula Pensions	1,523	1,713	2,059	346	2,000
	<b>1,523</b>	<b>1,713</b>	<b>2,059</b>	<b>346</b>	<b>2,000</b>
<b>Investment management expenses</b>					
External investment management fees - invoiced	5,242	5,950	6,182	232	6,900
External investment management fees - not invoiced	2,994	3,000	4,343	1,343	4,400
Custody fees	140	115	107	(8)	115
Transaction costs	3,508	3,510	1,370	(2,140)	1,500
Reversal of accrual			(2,471)	(2,471)	0
Stock lending income & commission recapture	(94)	(85)	(109)	(24)	(100)
Other investment management expenses	50	25	50	25	50
	<b>11,840</b>	<b>12,515</b>	<b>9,472</b>	<b>(3,043)</b>	<b>12,865</b>
<b>Oversight and governance costs</b>					
Investment & Pension Fund Committee Support	85	92	92	(0)	95
Pension Board	21	27	26	(1)	27
Investment Oversight and Accounting	288	283	281	(2)	285
Brunel Pension Partnership		50	146	96	440
Legal Support	43	43	34	(9)	30
Actuarial Services	41	60	69	9	40
Investment Performance Measurement	24	42	38	(4)	0
Subscriptions	38	41	19	(22)	20
Internal Audit fees	13	14	22	8	14
External Audit fees	29	29	29	(0)	29
	<b>582</b>	<b>681</b>	<b>755</b>	<b>74</b>	<b>980</b>
<b>Total Management Expenses</b>	<b>13,945</b>	<b>14,909</b>	<b>12,286</b>	<b>(2,623)</b>	<b>15,845</b>



## FUNDING STRATEGY STATEMENT

### Report of the County Treasurer

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

**Recommendation: That the Committee approves the revised Funding Strategy Statement set out in Appendix 1 to this report.**

#### 1. Introduction

- 1.1. The Local Government Pension Scheme (LGPS) Regulations 2013 require all Pension Administering Authorities to prepare a Funding Strategy Statement (FSS) in consultation with all Employers participating in their respective Fund.
- 1.2. Following completion of the 2016 Actuarial Valuation, a revised FSS has been drafted in conjunction with the Fund Actuary (Barnett Waddingham). The document is set out at Appendix 1. The document has been revised in order to reflect updated regulations, practice and actuarial assumptions.

#### 2. Revised Funding Strategy Statement

- 2.1. The purpose of the FSS is to explain the funding objectives of the Fund and how the costs of the benefits provided under the Local Government Pension Scheme are met through the Fund. It also defines the objectives in setting employer contribution rates and the funding strategy that is adopted to meet these objectives.
- 2.2. The FSS sets out the assumptions used by the Actuary in the actuarial assessment, and how the Devon Fund plans to achieve long term cost efficiency while aiming to maintain contribution rates as stable as possible. It also analyses the risks to the funding strategy and how those risks are managed. It should be read in conjunction with the Investment Strategy Statement. These assumptions have been updated to reflect the 2016 Actuarial Valuation.
- 2.3. The other main changes in the revised FSS are set out below:
  - Section 5 Key parties – scheme members have been added.
  - Section 8 Deficit Recovery/Surplus amortisation periods – largely unchanged but now the deficit recovery period at Fund level is stated.
  - Stepping of employer contribution rates – this provision has been deleted as no stepping is allowed for in the Valuation.
  - Section 10 Cessation Valuations - new second and third paragraphs have been added to reflect the extra experience and expertise that have been added to the approach added during the inter-valuation period.

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- Section 11 – Links with the Investment Strategy Statement – new second paragraph added to tighten the approach.
- Section 12 Risks and counter measures – largely unchanged but Governance now includes a paragraph on the risk review of employers the Fund undertakes with the Actuary on a minimum three-yearly basis along with the communication of results to letting authorities in the event of an adverse result involving an admitted body.

## 3. Consultation

- 3.1. The draft Funding Strategy Statement was considered by the Pension Board at their meeting on 10<sup>th</sup> April. The Board acknowledged it provided an efficient and effective strategy which would be the subject of further consultation with fund employers while also expressing the hope that the Actuary, in making his assumptions, had regard to the impact of 'Brexit' upon fixture interest rates, recognising the longer term nature of the strategy. The Board endorsed the revised statement.
- 3.2. The draft FSS was also sent out for consultation to Fund employers on the 12<sup>th</sup> May, with a request for any comments to be submitted by 31<sup>st</sup> May in order for them to be considered by the Committee. The only response received was from the University of Plymouth. The University suggested that it would be helpful to include more detail on the issues and risks facing the fund, how the strength of covenant is assessed and impacts rates, and the differences in assumptions for different categories of employer. They also suggested it would be useful to see a more comprehensive set of objectives for addressing the solvency and long term efficiency of the pension fund.
- 3.3. In response to the University's comments, and following discussion with Barnett Waddingham, it is considered that the issues raised are covered sufficiently in the FSS. Section 11 of the FSS provides a sufficient overview of the risks and management of those risks. This also includes a section on governance which outlines the way that the strength of covenant is assessed. Section 8 of the FSS gives the criteria for applying different assumptions on recovery periods. It is not therefore proposed to make any changes to the FSS in response to the University of Plymouth's concerns, but officers will address with the University any additional detail they may require in assessing their own position. If that highlights any issues that are of a more general concern then a further report can be brought to the Committee.

## 4. Conclusion

- 4.1. The Board is asked to approve the revised Funding Strategy Statement.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

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# **Devon County Council Pension Fund Funding Strategy Statement**

**Draft presented to the Investment and Pension Fund Committee  
16 June 2017**

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## Devon County Council Pension Fund Funding Strategy Statement



### 1. Introduction

This is the Funding Strategy Statement for the Devon County Council Pension Fund. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and describes Devon County Council's strategy, in its capacity as administering authority, for the funding of the Devon County Council Pension Fund (the Fund).

The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of this Statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS)/Statement of Investment Principles (SIP) and has been prepared with regard to the 2016 guidance issued by CIPFA.

### 2. Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the fund are met; and
- Take a prudent longer-term view of funding those liabilities.

### 3. Aims and purposes of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purposes of the Fund are to:

- Pay pensions, lump sums and other benefits to scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive contributions, transfer values and investment income.



## 4. Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective.

## 5. Key parties

The key parties involved in the funding process and their responsibilities are as follows:

### The administering authority

The administering authority for the Fund is Devon County Council. The main responsibilities of the administering authority are to:

- Operate the Fund;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS/SIP after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme Employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

### Scheme employers

In addition to the administering authority, a number of other Scheme employers, including admission bodies, participate in the Fund.

The responsibilities of each Scheme employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the administering authority within the statutory timescales;

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## Devon County Council Pension Fund Funding Strategy Statement



- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation on the Fund.

### **Scheme members**

Active scheme members are required to make contributions into the Fund as set by the Department of Communities and Local Government.

### **Fund Actuary**

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice to the administering authority on bonds or other forms of security against the financial effect on the Fund of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

## **6. Funding strategy**

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2016. A summary of the methods and assumptions adopted is set out in the sections below.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

### **Funding method**

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an “open” employer – one which allows new recruits access to the Fund, or a “closed” employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date (“past service”) and benefits in respect of service expected to be completed after the valuation date (“future service”). This approach focuses on:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members’ pay for pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as primary rate as defined in Regulation 62(5) of the Regulations) which is the level of contributions required from the individual employers which, in combination with employee contributions is expected to support the cost of benefits accruing in future.

The key feature of this method is that, in assessing the future service cost, the primary contribution rate represents the cost of one year’s benefit accrual.

For closed employers, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

## 7. Valuation assumptions and funding model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

### Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (RPI). The RPI assumption adopted as at 31 March 2016 was 3.3% p.a.

### **Future pay inflation**

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2016 was CPI plus 1.5%, with a short-term assumption in line with CPI for the period to 31 March 2020. An allowance has also been made for promotional increases.

### **Future pension increases**

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 0.9% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2016 was 2.4% p.a.

### **Future investment returns/discount rate**

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is adopted will depend on the funding target adopted for each Scheme employer.

For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate. The discount rate adopted for the 31 March 2016 valuation was 5.5% p.a.

For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected "termination date"), the employer becomes an exiting employer under Regulation 64.

The Fund Actuary will incorporate such an adjustment after consultation with the administering authority.

The adjustment to the discount rate for closed employers may be set to a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a "minimum risk" rather than on an ongoing basis if the Fund do not believe that there is another Scheme employer to take on the responsibility of the liabilities after the employer has exited the Fund. The aim is to minimise the risk of deficits arising after the termination date.

### **Asset valuation**

For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

### **Statistical assumptions**

The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of all of the assumptions adopted are included in the latest actuarial valuation report.

#### **2016 valuation results**

As at 31 March 2016, as calculated at the 2016 valuation, the Fund was 84% funded, corresponding to a deficit of £628m.

The primary rate required to cover the employer cost of future benefit accrual was 14.9% of payroll p.a.

### **8. Deficit recovery/surplus amortisation periods**

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

Deficit contributions required from an employer are expressed as a minimum requirement, with employers able to pay regular contributions at a higher rate, or one-off contributions, to reduce their deficit. Employers should discuss with the Administering Authority before making one-off capital payments.

The average recovery period across the Fund at the 2016 valuation was 22 years. This represents a reduction of three years from the 25 year recovery period set at the 2013 valuation. The ultimate aim is to reach 100% funding, and a reduction of three years in the recovery period since the 2013 valuation demonstrates that the Fund is progressing towards that goal. Recovery periods adopted for the individual employers in the Fund for the 2016 valuation varied from 3 years to 24 years. The period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

### **9. Pooling of individual employers**

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

### **10. Cessation valuations**

When an employer leaves the Scheme and becomes an exiting employer, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as an exit payment, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

In certain circumstances the Fund may agree with an exiting employer that it will continue to be treated as an active employer with deficit contributions being set on an ongoing basis. This will only be permitted where the employer organisation is assessed as having a long term stable financial position, and where security is put in place to cover the full cessation deficit.

A Town or Parish Council may defer their exit if the last member leaves the scheme but the Town or Parish Council is intending to offer the scheme to a new employee. This will be in agreement with the Devon Pension Fund and any deficit payments due by the Town or Parish Council must continue to be paid during the suspension period. Any suspension period will be time-limited and at the discretion of the Fund.

In assessing the financial position on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

### **11. Links with the Investment Strategy Statement (ISS)/Statement of Investment Principles (SIP)**

The main link between the Funding Strategy Statement (FSS) and the ISS/SIP relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the ISS/SIP.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

### **12. Risks and counter measures**

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

### **Financial risks**

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

### **Demographic risks**

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by approximately 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

### **Regulatory risks**

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central Government. The tax status of the invested assets is also determined by the Government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process concerning proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

### Governance

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund will commission an employer risk review from the Fund Actuary on a regular basis, every three years as a minimum, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

### **13. Monitoring and review**

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.



## ACTUARIAL SERVICES CONTRACT REVIEW

### Report of the County Treasurer

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

- Recommendations:**
- (a) That the Committee approves the use of the National LGPS Framework Agreement to secure a new contract for Actuarial Services.**
  - (b) That the appointment process and final decisions be delegated to the County Treasurer in consultation with the Chairman.**

### 1. Introduction

- 1.1. The Devon Pension Fund requires the professional services of an actuary in order to carry out the triennial actuarial valuation of the Fund and a variety of other tasks.
- 1.2. Barnett Waddingham was awarded the contract to provide actuarial services to the Devon Pension Fund for four years from February 2010, with the option to extend for a further two periods of two years. The contract was extended in February 2014 and again in February 2016. The final extension period is due to expire in February 2018, and it is therefore proposed to review and re-tender the contract.

### 2. Actuarial Services

- 2.1. The main function of the Fund Actuary is to carry out the statutory triennial actuarial valuation of the Pension Fund. The actuarial valuation sets out the Fund's assets and liabilities, based on a set of actuarial assumptions, and reviews the financial position of the Fund. It also sets the contribution rates for each employer in the Fund for the following three years.
- 2.2. In addition to the triennial valuation, the Actuary also carries out accounting valuations for the Fund and the Fund's constituent employers on an annual basis. If an employer ceases to have active members in the Fund the Actuary will carry out a closure valuation to calculate an exit payment for the employer to ensure all their future liabilities are covered. The Actuary will also advise on the content of the Funding Strategy Statement, and carry out employer risk assessments, cash flow analyses and assessments of the cost of pension arrangements for any new admitted bodies resulting from Councils outsourcing services.
- 2.3. The cost of providing these services will vary depending on the work required during the year and will be higher in the year of the triennial valuation. The net annual cost to the fund excluding the triennial valuation is around £20,000 - £40,000 depending on the work required during the year, with an additional £53,000 incurred during 2016/17 for the costs of the valuation. In addition, the Actuary does work to the value of between £100,000 and £200,000 for individual employers, which is then recharged to the employers.

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## 3. The National LGPS Framework for Actuarial Services

- 3.1. In the past it would have been necessary to undertake a full OJEU (Official Journal of the European Union) compliant procurement process to award a new actuarial services contract. However, a national procurement framework has now been set up for actuarial services, as one of a number of national LGPS procurement frameworks.
- 3.2. A procurement framework is an agreement put in place with a provider or range of providers that enables customers to place orders for services without running lengthy full tendering exercises. Frameworks are based on large volume buying. Aggregating the potential needs of different buyers means individual buyers can source services at lower prices, or with special added benefits and/or more advantageous conditions.
- 3.3. The national LGPS frameworks are the result of collaboration between a number of funds with procurement, legal and project management support provided by Norfolk County Council and the Norfolk Pension Fund. They are a direct example of funds with shared interests and vision collaborating effectively to deliver benefits both locally and nationally across the entire LGPS. The initiative is supported by the Department for Communities and Local Government and the Local Government Association, and has been presented as good practice in view of the Government's current agenda of reducing the cost of the LGPS to taxpayers.
- 3.4. The national frameworks are multi-provider, allowing several qualified providers to be on the framework. The following actuarial firms have all been awarded contracts to participate in the framework:
  - Aon Hewitt
  - Barnett Waddingham
  - Hymans Robertson
  - Mercer
- 3.5. Agreed terms and conditions are provided so LGPS Funds can simply 'call-off' the framework to meet their own local requirements. When an LGPS Fund opts to buy a service from the framework agreement, they 'call off' the framework by running a mini-competition amongst the providers on the framework, which can take 4-6 weeks. This enables Funds to locally define their requirements.
- 3.6. A one-off joining fee of £1,500 is payable to join the National LGPS Framework for Actuarial Services. This fee provides access to the framework including all contractual documentation, terms and conditions, ceiling prices, shared rebate provision and ongoing support.

## 4. Conclusion

- 4.1. Using the National LGPS Framework can save significant time and money, whilst still delivering a service specified to local requirements, and supporting local decision making and accountability. Benefits for the Devon Pension Fund are as follows:
  - Significant reduction in procurement costs and timescale.
  - Flexibility in the planning and running of the tender process via mini-competition.
  - Robust frameworks resulting from thorough professional due diligence.
  - More money spent via the framework results in better prices for Funds using it.
  - Pre-agreed terms and conditions – Funds simply 'call off' the framework to meet their requirements.
  - Ceiling prices that can be further reduced by competition at call off.
  - Detailed and easy to use guides, support and templates.

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- 4.2. It is therefore proposed that the National LGPS Framework be used to secure a new contract for Actuarial Services, and that the four providers listed in section 3.5 above be invited to take part in a mini-competition exercise, in accordance with the framework agreement.
- 4.3. It is proposed that the appointment process and final decisions be delegated to the County Treasurer in consultation with the Chairman.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted



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